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Industrial Sector Review of Afghanistan

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Industrial Projects Department

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CURRENCY EQUIVALENTS

Free Market Average Rate 1974/75

US$1	=	56.9 Afghanis
1 Afghani	=	US$0.0176

Note: The official rate of Afghanis 45 per dollar is used only for transactions with the IMF

ACRONYMS

CSO	.....	Central Statistics Office
FDPIL	.....	Foreign and Domestic Private Investment Law
IDBA	.....	Industrial Development Bank of Afghanistan

YEARS

The Afghan year is March 21 to March 20. The year 1355 started on March 21, 1976 and is referred to as 1976/77.

BASIC DATA

Area

635,000 km^2

Population (1975/76)

16.7 million
of which urban: 2.4 million

GNP per Capita (1975) a/

$130
Rate of growth 1965-74 1.4%

Labor Force (1974/75)

	Millions
Agriculture	3.29
Handicrafts	0.31
Manufacturing	0.09
Services	0.41
Construction and Mining	0.13
Unallocated	0.70
Unemployed	0.38
	5.31

Recorded Foreign Trade in 1974/75 b/
(in million $)

Export f.o.b.	230.1
Final Industrial Products	24.2
of which: Carpets	(19.5)
Products for processing abroad	73.9
of which: Raw Cotton, Lint and Waste	(34.7)
Hides, Skins, Furs	19.3
Licorice Root	7.1
Sheep Wool	5.8
Imports c.i.f.	242.4
Commercial Industrial Products	154.2
Monopoly Industrial Products	11.8
Loan and Grant Financed Industrial Products	30.0

a/ World Bank Atlas 1976

b/ See Annex A

INDUSTRIAL SECTOR REVIEW OF AFGHANISTAN

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This report is based on the findings of an industrial mission which visited Afghanistan in April 1976. The mission consisted of Messrs A. Edwards (Consultant, Chief of Mission), K.H. Imam (Bank), D. Madan (Consultant) and M. Al-Ali (UNIDO-Bank CP).

SUMMARY OF CONCLUSIONS AND MAIN RECOMMENDATIONS

Industry in the Afghan Economy

i. The industrial sector in Afghanistan is still at an early stage of development, and its contribution to domestic employment and output is small compared to the country's size and resource endowment. Despite the early establishment of a few larger manufacturing units by private enterprise before World War II, and the more recent emergence of a number of industrial ventures in the public sector, the bulk of industrial employment is still largely confined to handicrafts and small-scale manufacturing operations. The latter also contribute more to domestic value of output and the export of industrial products than the organized larger-scale industries.

ii. Due to the lack of adequate national accounts in Afghanistan and the scarcity of reliable statistical data, the relative position of industry can only be somewhat sketchily indicated. Official (CSO) data suggest that out of a total labor force of over 5 million in 1974/75, some 300,000 were engaged in handicrafts, and organized manufacturing industries accounted for about 90,000 persons. Industrial employment thus comprised less than 8% of the labor force. Handicrafts and small-scale industries contribute approximately 8-10% to GDP and manufacturing and mining another 5-7%.

iii. The early stage of industrial development in Afghanistan is also reflected in the country's foreign trade. In 1974/75 only about 10% of recorded exports were industrial products, essentially carpets and other handicraft items. A further 32% of the 1974/75 exports were raw and intermediate products, which had undergone some simple preliminary processing in Afghanistan. On the other hand, industrial products constitute the bulk of recorded imports, about 80% in 1974/75. Details of Afghanistan's recorded foreign trade in industrial products are shown in Annex A of this report.

iv. Industrial employment in Afghanistan depends essentially on domestic raw materials, mainly cotton, wool, hides and skins, and fruits. The role of imported raw materials and intermediates has increased during the past 10-15 years, however, as manufacture of rayon, plastics and metal products has been developed. At the same time the use of some non-agricultural domestic raw materials for manufacture of cement, construction materials, nitrogeneous fertilizers, etc., has also been developed.

v. Substantial constraints work against any rapid broadening of the industrial sector in Afghanistan. Most of these are linked to the country's income level, and to its landlocked situation and mountainous terrain. Transport is costly and slow, and the domestic market is fractionated and traditional. Traders and money lenders dominate the handicraft and small-scale industries. There is no long-standing tradition in Afghanistan in managing large-scale organizations; there is also a scarcity of technical skills; and the performance of existing industrial enterprises, particularly in the public sector, needs considerable improvement. On the other hand,

Afghanistan offers favorable conditions for industry through comparatively low labor cost, modestly priced factory space and potentially substantial supplies of agricultural raw materials and mineral resources.

Development Planning for Industry

vi. The draft Seven-Year Plan, covering the period 1976/77 - 1982/83, reflects an increased emphasis on industrial expansion, notably through the establishment of relatively large import susbstituting industries based on domestic raw materials and a few even larger capital-intensive projects that would process mineral resources for export. The latter would require advanced technologies and relatively long gestation. Public investment for industry during the plan period is tentatively estimated to amount to US$674 million in 1975/76 prices; including mining projects, the total would rise to an estimated US$816 million. On an annual basis, this is almost three times the volume of public sector investment outlays in industry and mining in the past four years. Around 60% of the envisaged public industrial investments are for import-substitution industries such as sugar, cotton, cement, fertilizers, and food. Over 20% is allocated for two large metallurgical projects, the Ainak copper smelter and the Hajigak iron and steel project, both of which would start operations only after the current plan period. The remainder of new public investments envisaged are for petroleum refining, pipelines, and geological exploration. Details of planned public investments in industry and mining are shown in Tables 4-7 of the report (paras 2.4 - 2.9).

vii. The Plan is essentially a seven-year public investment program. Little attention has been devoted to private sector investment in industry; the Plan envisages private sector investment in industry to the extent of about US$140 million over the seven-year period; but this is only an indicative goal in general terms and no specific projects or breakdown by sub-sectors are mentioned in the Plan. Small-scale industry and handicrafts have not attracted any consideration either.

viii. With respect to public sector investments in industry also, the underlying assumptions are largely tentative. For as much as 40% of envisaged public sector investment, projects are still at feasibility or prefeasibility study stages; and the economic analysis necessary to establish their benefits to the economy has not yet been undertaken. Prima facie, project selection appears to be biased in favor of large, capital-intensive projects requiring modern technology but contributing relatively little to employment generation (paras. 2.16 and 2.17). It also appears that intersectoral inconsistencies in the Plan could adversely affect many of the larger public sector projects (paras. 2.18 to 2.20). On the whole, there is a clear need to improve the procedures and quality of planning, project preparation and coordination for industrial development. In this context, it is particularly important to improve the liaison between the government departments that share direct control over industry (the Ministries of Mines and Industry, Commerce, Public Works, and Planning, among others), and to rationalize their respective responsibilities.

Tax Policy

ix. Except for the incentives provided to new private sector industries under the Foreign and Domestic Private Investment Law (FDPIL), fiscal policy is not really used as instrument of industrial promotion. This is mainly due to the government's heavy dependence for revenue on indirect taxes, the structure of which, however, is unduly complex. Returns on direct taxes, mainly income taxes, are of minor fiscal importance. Returns on corporate income taxes could be expanded if accounting standards at company level can be improved and clear guidelines established for tax assessments.

Public Sector Industry

x. The public sector has since the 1960's become increasingly involved in industrial operations, and it controls now, directly or indirectly, most of the country's larger manufacturing enterprises. This increasing involvement is partly the result of take-overs of ailing or abandoned enterprises of the private sector and of the nationalization of banks, which made the government a majority shareholder of some of the largest previously private manufacturing firms. Other public sector enterprises came into existence as the result of bilateral aid projects. The most important public sector enterprises are in the processing of cotton and wool, in construction materials, fertilizers and food products (including sugar, which is a state monopoly).

xi. Government control of public sector enterprises is exercised in a variety of ways; this makes effective coordination difficult, and does not help the development of effective management functions at enterprise level. Some enterprises are controlled through majority shareholdings and representation on Boards of Directors: others are operated as branches of a ministry or under the administrative form of a Tasady. The latter is a blanket form of organization covering productive enterprises as well as government services and parastatal organizations of all types. Altogether there are about 40 such enterprises, controlled by ten different ministries. The Minister concerned controls all essential operations of a Tasady, and there is only limited delegation of management functions to the staff of the enterprise itself (para. 4.8). In spite of the fact that control is exercised at government rather than the enterprise level, individual enterprises in the same industry operate in the main as separate entities rather than as a coordinated group.

xii. Reliable information on the financial performance of public sector enterprises is largely not available since accounting procedures have serious deficiencies (paras. 4.15 - 4.17) and some Tasadys are several years behindhand in submitting accounts. On the whole it appears that public sector enterprises make little, if any, net contribution to the government budget. An exception is the Afghan Textile Company which accounts for much of the financial surplus of all public industrial enterprises. A tentative estimate places the annual profit of public sector industries in the order of US$4 million (para. 4.17). At the technical level, operations of some public

sector industries are reasonably satisfactory, but even these lack market orientation and the basic elements of forward planning. Many existing public sector enterprises are working below capacity, and priority should be given to resolving their problems. This is particularly important in view of the very substantial expansion of public sector industrial activities envisaged for the current Seven-Year Plan.

Private Sector Industry

xiii. Little emphasis has been given to private sector industry, and measures in support of handicrafts and small-scale industrial operations have been minimal. The capabilities of private sector entrepreneurs could be more effectively harnessed for planned development if they were to be more fully recognized by the government. Past support of private industry has been essentially limited to fiscal incentives provided under the Foreign and Domestic Private Investment Law (FDPIL) as formulated in 1967 and improved in 1974 (For details of the FDPIL provisions see Chapter V). Until mid-1974 the authorities had approved a total of 100 private industrial projects under the FDPIL. The projects envisaged an average original investment of about US$210,000, and were mainly import-substituting industries such as rayon weaving, plastic products including footwear, and metal fabrication (para. 5.6). Most of the new entrepreneurs came from the trading class. In recent years, however, there has been a substantial decline in FDPIL approvals; only 14 new projects have received final approval since 1974 (para. 5.8), and even of these few projects, some are not expected to be implemented.

xiv. There has been a notable deterioration of the climate for private investment in recent years. There is an apparent connection between this and the lack of a clearly defined role for private sector industry in Afghanistan's economy. The absence of a clear policy statement defining the spheres of activities that would be available to private entrepreneurs continues to delay the restoration of confidence, and has contributed to a widespread feeling in the private sector that the government is not basically in favor of a larger role for private enterprise in industry. Although recent government statements have indicated its positive attitude to the private sector, more specific measures are apparently needed to generate confidence.

xv. The prevailing investment climate has contributed to the fact that the Industrial Development Bank of Afghanistan, which was founded in 1973, has not been able to provide any significant financial assistance to the private sector (para. 5.20). Instead, activities of IDBA have concentrated on management and other technical support to private entrepreneurs, earning a good reputation in this respect. Paucity of managerial and technical skills in private industry and the absence of adequate training facilities, particularly for small enterprises, are among the major constraints to development of private industrial enterprises. Training in accountancy, production planning and marketing may, therefore, be an effective way of promoting private industrial activities.

Main Recommendations

xvi. Owing to the scarcity of reliable statistical data and the deficiencies in current accounting procedures, the findings and recommendations made in this report are necessarily more general than specific. Also what is said about planning of industry is largely based on the draft Seven-Year Plan and a project list made available to the mission.

Planning and Coordination

xvii. It is proposed that an Industrial Planning Unit be established to unify and strengthen the planning function for the industrial sector. This unit could be established within the Ministry of Mines and Industry to take advantage of the fact that this ministry has statutory control over the most important industrial enterprises of the country; and it could build its operations on the work already being done by the UNIDO Industrial Services Project. The proposed activities of the Unit would, after gradual build-up, include project identification, participation in prefeasibility and feasibility studies, coordination of all planning efforts for industry, and training of Afghan staff in industrial planning techniques (para. 3.34). For the Unit to become successful in its activities, the support and cooperation it receives from other ministries, specially the Ministry of Planning, would be of great importance.

xviii. Improvement of statistical data is of key importance to adequate planning for industrial development. To this end, it is suggested that the work of the Central Statistical Office be reorganized and priority given to the elaboration of statistics on industrial production and material inputs of industry (para. 3.35).

Manpower Development

xix. It is further proposed that a Management Development Center be established to cater primarily, but not solely, for public sector industry (para. 3.36). It should offer courses and training in enterprise management, accounting and financial management to appropriate levels of staff. In determining the requirements for facilities and staff, account should be taken of existing institutions, particularly the ILO Training Project.

xx. In addition, the government should consider wider use of the services of a recognized firm or firms of accountants to establish proper accounting procedures for public enterprises and for auditing the accounts of these enterprises until adequately trained Afghan staff can assume these functions (para. 3.37).

State Industrial Enterprises

xxi. Public sector enterprises in industry should be given an appropriate structural and organizational framework in which they can operate with a greater degree of management responsibility, specially for day-to-day operations

(para. 4.30). Details of the future structural and organizational set-up of public sector enterprises will have to be determined after careful study of the specific conditions affecting these industries in Afghanistan, and the relevant experience gained abroad with different forms of state enterprise organization.

xxii. Pending reorganization, efforts should be made to improve accounting procedures and operational efficiencies at the enterprise level (para. 4.32).

Private Sector Industry

xxiii. In view of the importance, capabilities and potential of small-scale and handicrafts industries in Afghanistan, it is essential to initiate a systematic program of support and development for them. It is suggested that the Afghan Handicrafts Promotion Center, IDBA and other relevant government agencies should collaborate to develop handicraft skills and technologies, encourage their development through better management of production and marketing, and channel financial assistance to them through appropriate agencies (para. 5.33).

xxiv. In addition, a management consultancy operation should be established for private industry, to advise and assist in matters such as appraisal of investment projects, operations, accounting and financial problems, and marketing. These services could be provided under IDBA's guidance and responsibility (para. 5.35).

I. INDUSTRY IN THE AFGHAN ECONOMY

A. The Present Position of Industry in Afghanistan

1.1 For the purpose of this report industry is defined to include all processing activities, on whatever scale, but to exclude mining and utilities. Enterprises that are controlled by Government or fall under the Law of Tasadys are considered public sector enterprises. Private sector industry is comprised of industries approved under the Foreign and Domestic Private Investment Law (FDPIL), industries established under the Commercial Code without FDPIL approval, and all handicraft activities.

1.2 Although reliable statistics are lacking it is clear that industry plays a considerably less important role in the domestic economy of Afghanistan than in other countries of comparable size and level of development. Central Statistics Office data suggest that out of a total labor force of 5.31 million in 1353 (1974/75) over 300,000 were engaged in handicrafts while manufacturing industries accounted for about 90,000 persons. Industrial employment thus comprised less than 2% of the labor force and handicrafts approximately 6%.

1.3 Handicrafts and small scale industries are believed to account for around 8-10% of estimated GDP in Afghanistan while organized manufacturing and mining together contribute a further 5-7%. These data are approximations only since an adequate national accounts system has not yet been established.

1.4 In 1353 (1974/75) final industrial products comprised only 10.5% of recorded exports; nearly all were handicraft items, notably carpets (8.5% of the total). A further 32% of exports were raw and intermediate products for industrial processing abroad; most of these had undergone simple processing in Afghanistan. 1/ Details of Afghanistan's recorded exports are shown in Annex A. It should be pointed out that trade figures are under-recorded as there is considerable smuggling.

1.5 In 1974/75 about 80% of total recorded imports were industrial products (Annex A). Again, absolute figures are under-recorded since many imports are declared at less than their commercial value. Only around 10-15% of recorded industrial product imports are for processing in Afghanistan; textile yarns account for most of these. There is greater freedom to import industrial goods - particularly consumer goods - into Afghanistan than in many other comparable developing countries.

1/ Due to a ban on textile exports none were recorded in 1353; in the past there have generally been significant exports of yarn and grey cloth.

1.6 Import duties accounted for 58% of government tax revenue and 34% of total government revenue in 1975/76; nearly all of these were duties on industrial products. Export duties on industrial products are relatively unimportant as a source of government revenue.

1.7 A feature of the industrial sector in Afghanistan is the small number of medium-sized industrial undertakings. A recent pilot study by the UNIDO Industrial Services Project in the Ministry of Mines and Industry indicates a total employment of 13,700 in 16 public sector industrial enterprises - an average of around 850 per enterprise; other public sector industrial enterprises are typically rather smaller but the average is still over 500. Table 1 gives some information on large industrial establishments in Afghanistan. At the other extreme, about 300,000 persons employed in handicrafts and small-scale industries are spread over 80,000 establishments. In between are only about 100 industrial enterprises approved under the FDPIL (July 1975 position), which employ around 10,000 or 100 per enterprise; in practice, the figure is lower as many are working well below capacity.

1.8 Sketchy though these data on employment by size of enterprise are, they reflect firstly, the failure to convert any large part of the substantial handicrafts employment into production on a semi-industrial or medium-sized scale; and secondly, the lack of many of the medium-sized import substitution industries which are present in other comparable developing countries.

Table 1 Main Industrial Establishments in Afghanistan

	Name	Location	Status	Total Employment	Main Products
1.	Afghan Textile Co.	a) Gulbahar b) Pul-i-Khumri c) Jabul-i-Seraj	Company with banks holding majority of shares (now effectively public sector)	4000 a/ 2250 a/	cotton yarns and cloth, including finished products
2.	Fertilizer factory and thermal power plant	Mazar-i-Sharif	Part of Ministry of Mines & Industry	3950 a/	urea, electricity
3.	Bagrami Textile Factory	Kabul	Tasady	2850 a/	cotton yarns and cloth (including finished products)
4.	Spinzar Co.	Kunduz	Company - Govern. Majority Shareholding	2250 a/	ginned cotton, oil oilcake and soap
5.	Prefabricated Concrete Plant	Kabul	Tasady	2200 a/	prefabricated housing
6.	Jangalak	Kabul	Company - Govern. Majority Shareholding	1200 a/	Engineering Workshops
7.	Balkh ginning, pressing and oil extraction	Mazar-i-Sharif and Balkh	Tasady	1100 a/	ginned cotton and oil
8.	Kabul Silo	Kabul	Part of Afghan Food Dept., itself a Tasady	1000 b/	Flour and Bread
9.	Balkh Textile Factory	Balkh	Tasady	800 b/	Cotton
10.	Cement Factory	Ghori	Tasady	600 a/	Cement
11.	Woolen Industries, Puli Chakri	Kabul	Tasady	550 a/	woolen cloth, carpets
12.	Afghan Mobil Carpentry	Kabul	Tasady	500 b/	Furniture and other Wood Products

Table 1 Main Industrial Establishments in Afghanistan
(Continued)

Name	Location	Status	Total Employment	Main Products
13. Ahu Leather and Shoe Factory	Kabul.	Private Sector Company (49% Swiss)	500 a/	Shoes, Pickled Skins
14. Helmond Cotton and Vegetable Oil	Lashkargah	Tasady	500 b/	Oil and Soap
15. Baghlan Sugar Factory	Baghlan	Public	450 b/	Beet Sugar
16. Kabul Textile	Kabul	Private Sector Company	350 a/	Synthetic Fabrics
17. Nawrozi Socks	Kabul	Private Sector Company	300 a/	Socks
18. Hoechst	Kabul	Private Sector Company (48% German)	250 a/	Pharmaceuticals
19. Watran Plastics	Kabul	Private Sector	200 a/	Plastic Shoes

a/ Data given to Mission on Visit to Establishment.

b/ Source: UNIDO Industrial Services Project, Ministry of Mines and Industry.

1.9 There is no firm information on the total value of private foreign investment in Afghanistan; indeed, since several of the firms are long-established, and accounts systems rarely extend to the revaluation of assets, an adequate assessment would be impossible. In terms of original investment, foreign investment in FDPIL firms amounts to Afs 312 million (US$5.5 million) - see Annex E. Only two of the larger industrial enterprises listed in Table 1 are noted as having substantial foreign shareholdings; there are 19 smaller FDPIL industrial enterprises with foreign interests - but the average foreign investment in these is only around Afs 8 million per project. For a country of Afghanistan's population and size, in spite of low income per head, this level of foreign investment is exceptionally small. The reasons probably lie to some extent in the not very attractive investment climate (see paragraphs 5.8 and 5.31) but mainly in the freedom of import into Afghanistan. Under such circumstance, a foreign firm usually prefers to serve a relatively small market by exports from a larger manufacturing base than by establishing a small-scale high cost production facility within that market.

1.10 Large and medium-scale industry in Afghanistan is linked primarily to the processing of local agricultural produce, whether for domestic use or for export rather than to import substitution. The most important non-handicraft sectors are cotton ginning and cotton textiles, food processing (notably flour milling, vegetable oils and sugar), and leather products (including pickled hides). In the handicrafts sector, carpets, cloth, leather goods, pottery, metal-working and fur and skin clothing are predominant. This emphasis is a natural one. A Directory of Industrial Enterprises in Afghanistan, compiled by the UNIDO Industrial Services Project in the Ministry of Mines and Industry, lists the following sectoral breakdown of industry by number of enterprises:

	Private	Public	Total
Textiles	37	4	41
of which: cotton	(19)	(3)	(22)
wool	(2)	(1)	(3)
rayon/silk	(12)	(-)	(12)
thread	(6)	(-)	(6)
Knitted Products	7	-	7
Metal Products, Machinery (Including Repairs)	23	2	25
of which: vehicle repair	(6)	(1)	(7)
Plastic Products	16	-	16
Leather Products and Shoes	12	-	12
Chemicals and Pharmaceuticals	6	-	6
Food Products and Processing	23	1	24
of which: raisin processing	(8)	(1)	(9)
sausage casings	(5)	(-)	(5)
Cotton-ginning, Oil Extraction and Soap	6	3	9
Construction Materials	7	2	9
Printing	5	1	6
Ice Plants, including Ice-Cream and cold stores	8	-	8
	150	13	163

This classification does not distinguish between large and small enterprises. Moreover, several of the "industries" would usually be considered service activities, while some enterprises which are not listed might reasonably be considered industrial. Four of the public sector industries listed in Table 1, do not feature in this list. Firms are in principle listed under their main, but not subsidiary, activities. In spite of all these qualifications, the classification gives some idea of the sectoral composition of industry.

1.11 Adequate data on industrial output or employment by sector are lacking. Central Statistics Office data covering apparently only public sector enterprises and FDPIL approved private firms gave for 1352 (1973/74) a total of 29,000 employed persons. Of the 29,000 employed persons 44% were in textiles and cotton-ginning, 24% in food processing, while coal-mining and briquet, auto repairs and metal products, electricity, and printing and publishing accounted for 4-6% each. It would appear that CSO industrial output data have a similar coverage. It is evident that many industries operating in small individual units are seriously underrepresented in official statistics (examples are bricks, wooden building components, furniture, leather products, and cooking pots and utensils).

1.12 Although there are deficiencies in both production and trade statistics, it is clear that the great majority of clothing needs are produced either in households or on a handicrafts basis; building materials and components, and furniture are predominantly on a handicrafts or very small industrial basis; cooking and tableware, household utensils, and all types of hardware are almost all produced either on a handicrafts basis or are imported; and, dried fruits apart, the processed foodstuffs industry is small. Even considering the low income per head in Afghanistan, in relation to population, there is a lack of common import substitution industries. Paragraphs 1.24 and 1.28 discuss types of industry in which there appear to be greater opportunities for development.

1.13 In spite of the emphasis on processing of local agricultural produce, an important proportion of this is still exported, either unprocessed or having undergone only very simple processing. Raw cotton and lint and waste, wool, hides, skins and furs, licorice root, and oil seeds and oil seed flour and meal, are the most important items.

1.14 Handicrafts and small-scale industry are spread throughout the country, though carpet-weaving is predominantly in the North and West. FDPIL-approved private projects are, however, heavily concentrated in the Kabul area (figures in Annex F suggest that 86% of investment is there, while no other city listed showed shares of over 4%). Public sector industry is more widely spread as appears from Table 1, but this follows from its raw material processing character.

B. Considerations of Comparative Advantage

1.15 The sectors of industry which any country seeks to develop have to be those which emphasize its economic advantages and minimize its economic disadvantages. Probably the largest single advantage which Afghanistan enjoys is its comparatively low labor cost. In public sector industries the monthly wage for an unskilled worker starts at around Afs 900 (US$15). The average wage for all workers, both skilled and unskilled, is estimated at around Afs 1700 (US$30). To this should be added between 20% to 40% for other wage cost elements, including usually a subsidized allowance of flour, free lunch, transport to and from work, and medical care. Average costs vary according

to the type of industry involved and the skilled/unskilled mix. Wages in Kabul appear only fractionally higher than elsewhere. The non-wage elements are generally higher in large firms developed under private enterprise, than in those which have been public sector from the beginning. Wage rates in the larger private industrial firms are generally similar to those in the public sector (though there is a wider divergence between the best and the worst); non-wage elements are typically less generous, though. In small industry and handicrafts, as in other sectors of the economy, wage costs are far lower. Although the prevailing low labor costs in industry have to be seen in the context of the predominance of unskilled labor and the resulting lower levels of productivity, it has been observed by the mission that Afghan workers are capable of achieving adequate rates of productivity.

1.16 At present the great majority of industry in Afghanistan purchases electric power at Afs 1 per kwh (US$0.02) irrespective of amounts used. 1/ Power rates were fixed 20 years ago and are below the cost of supply 2/. The government has now agreed, pending the establishment of a new tariff system to an average increase of at least 20%. Even after this increase, the normal industrial rate is unlikely to be much above Afs 1.20 per kwh. It should be pointed out, however, that several existing industries have established their own power generating facilities, generally on a stand-by basis, in view of the absence of assured supplies from the National Power Authority, in periods of drought.

1.17 Factory space is modest in cost. A 525 square meter serviced factory on a 2500 square meter plot in the new Kabul industrial park is to cost around Afs 3425 per square meter (US$60) to purchase on attractive terms (see paragraph 5.26), and elsewhere Afs 2500-3000 per square meter is normal for factory space. Water is also relatively inexpensive. In the Mazar-i-Sharif area, natural gas could be made available for process heat, and there are also several coal deposits in the North of the country. Diesel oil sells in Kabul at Afs 8000 (US$141) per ton. Finally Afghanistan can make available to its industry substantial supplies of a limited range of raw materials at prices which are competitive in relation to quality. These include: cotton, wool, hides and skins, various fruits, natural gas, and salt. There are mineral resources, but in many cases it is not yet proven whether they can be economically exploited and sold to local industry at prices which would give that industry comparative advantage. It is evident that considerably more needs to be known about the availability of these resources as well as on other conditions of industrial production before industrial opportunities can be established with an adequate degree of certainty.

1/ This is the rate throughout the greater Kabul and Gulbahar area, in Pul-i-Khumri, Kunduz, and Jalalabad; in the Mazar-i-Sharif area the rate is Afs 1.5 per kwh., in the Kandahar area it is Afs 1.87 per kwh, while in most other areas with electricity it is Afs 5 per kwh. Rates depend on the system of power generation.

2/ See World Bank Appraisal of a Power Project in Afghanistan, April, 1976 - Report No. 1140 - AF.

1.18 There are a number of disadvantages which industry has to overcome in Afghanistan. These include: the lack of an industrial tradition, and consequently the lack of management and technical skills, and the high cost and slowness of transport. To these "natural" problems should be added the fact that the policy environment in Afghanistan has put industry at a comparative disadvantage.

1.19 Afghanistan's historical role as a nation of traders has stemmed from its geographical position and its mountainous terrain. Its traders have never diversified into manufacturing on any significant scale, partly because they have been too small, and partly because past government policies made trade a more profitable outlet for their activities. There are few Afghans with the technical or management skills which modern industry demands. This problem is discussed further in Chapter III, paragraphs 3.3 to 3.10.

1.20 The other basic disadvantage which has to be overcome is that of transport cost and time. At present a high proportion of both exports and imports move via the USSR. It costs US$120 per ton for trans-shipment of packaged consignments to London, or US$90 per ton for raisins in bulk. But slowness and unreliability of transport are often even more serious problems than the cost. Transport through the USSR sometimes takes up to six months. This makes it impossible to guarantee export deliveries, and affects the price received. It also imposes an additional financing cost. On the import side, exceptionally large stocks have to be held in Afghanistan, creating another financing burden. Almost every industrial undertaking the mission visited held around one year's stocks of spare parts and imported chemicals used in production processes. Large stocks are also held, for instance, of imported rayon yarns. Moreover, many enterprises have capital and labor tied up in machine tools used on an intermittent basis to manufacture spare parts not held in stock. Even with the exercise of considerable ingenuity by enterprises, it is not unusual for production to be interrupted for months at a time for lack of certain components or spares which cannot be made locally.

1.21 Within Afghanistan the lack of an adequate road transport system limits the effective market, making it difficult for industry to sell its products in all parts of the country. Of course, the Afghan market is small in any case; the large geographical area over which it is spread, its division by mountain ranges and inadequate transport facilities make it smaller, in effect.

1.22 It has been suggested that another basic problem of industrialization in Afghanistan is a lack of private funds which can be mobilized for industrial investment. In the context of large scale industry, this is certainly true. But for a reasonable number of smaller projects, creating about 50 to 100 jobs each, this is probably not true. General economic developments in Afghanistan in recent years - good harvests, reasonable export growth, and only limited recorded import growth - point to the likelihood of there being considerable unmobilized private sector savings though firm evidence to demonstrate this

is lacking. It is evident that many small traders hold stocks worth up to US$100,000, yet have a small turnover in terms of sales, making profits through big markups and capital appreciation of stock (this is most obviously true of carpet traders) - and mostly because of the appreciation of the Afghani. In economic terms this capital is underutilized, and efforts should be made to encourage it into more productive sectors of the economy. Private sector interests are probably capable of generating quite significant funds for industrial development. However, what is frequently lacking is the willingness of private interests to assume the risks of an industrial enterprise. This is not suprising given the rather limited experience that is available in the country in setting up and operating a modern industrial plant. Fear of possible government interventions also has contributed to discourage the private sectors for investing in new industrial ventures.

1.23 The weakness of the financial sector makes it difficult to combine the savings of individuals into amounts large enough to finance fair-sized industrial developments. But neither lack of private funds, nor the deficiencies in financial organization, appear to be a significant constraint on the creation of smaller scale projects involving investments of up to perhaps Afs 20 million (US$350,000) each.

C. Types of Industry with Growth Potential

1.24 It follows from paragraphs 1.15 to 1.23 above, and the general lines of government policy, that the types of industry from the development of which Afghanistan could draw the greatest economic benefits are those which, combine as many as possible of the following characteristics:

(a) labor-intensive, rather than capital-intensive;

(b) export industries based on the maximum utilization of indigeneous agricultural and raw material resources;

(c) import substitution industries, based on local resources introducing new products to Afghan consumers;

(d) import substitution industries, or industries based on imported resources, where the technologies involved are suitable for production for a limited market;

(e) industries which do not involve complex technologies, for which skills would have to be imported, and those that do not pose complex management problems;

(f) export industries, based on Afghanistan's international reputation for carpets (and to a lesser extent other handicrafts), hides and skins, and fruits and nuts:

(g) industries putting handicraft production for local use on a more organized basis.

It may be noted that (a), (d), (e) and (g) above, are all characteristics normally associated with small industrial units. Other characteristics are typically not associated with units of any particular size.

1.25 The mission was able to draw on some work done by the Industrial Development Bank of Afghanistan (IDBA), by the UNIDO Industrial Services Project, by Indian industrial estate advisors and by specialists in particular fields, to develop some general conclusions on types of industry which meet the criteria of paragraph 1.24 and which appear to be either totally absent in Afghanistan, or which exist there on an insufficient scale. These conclusions appear in paragraphs 1.27 to 1.28.

1.26 IDBA has drawn up a list of about 100 potential manufacturing projects, most of them appearing suitable for small to medium-scale operations. Of these 24 are in food and related industries; 17 in textiles and clothing, 13 in chemicals, plastics, and rubber; 10 in stone, clay and glass products; 8 are primary metal industries and 10 are for metal products, simple machinery and electrical equipment. Many of the projects on the list would aim at substitution for significant imports into Afghanistan. Many too, are industries which are present in other developing countries of a similar economic size and at a similar stage of development. Much the same applies to the more selective lists of possible projects prepared by other organizations, of which the most significant ones were drawn up by Indian industrial estate advisors.

1.27 Table 2 lists a range of potential new industries which appear to warrant further investigation. The list is illustrative of types of new industries, rather than comprehensive. It is based on the criteria noted in paragraph 1.24, taking into account in particular the statistics on recorded international trade, Afghanistan's main agricultural and raw material products, and minimum viable production technologies for a country of Afghanistan's economic size and stage of development. It must be emphasized that these are not recommendations for new projects, but illustrative examples of types of projects, which would require detailed economic and technical study. The viability of many would, moreover, be dependent on the creation of an appropriate investment climate.

1.28 From Table 2 it can be concluded that:

(a) A high proportion of the potential new industries listed are medium scale (to employ between 50 and 250 employees), rather than large-scale or small scale. The subsectors involved are also in most cases those that many would consider suited to private sector investment and management.

(b) Many of the industries are linked to Afghanistan's production of raw cotton, wool, and hides and skins.

(c) There appears to be scope for a wide range of medium or small import substituting industries, particularly in respect of clothing, footwear, plastic products, metal products and certain food products.

(d) Some of the industries envisage increased local production of items for which Afghanistan now both exports the prime raw materials and imports the finished products, such as processed oils and textiles.

(e) Most of the export-oriented industries envisage increased local added value to Afghan raw materials, or put existing handicrafts production onto an industrial scale.

Table 2 - Illustrative Examples of Potential New Industries in Afghanistan

I. Industries based primarily on import substitution, or processing of local produce for domestic use

	Scale of Indiv. Projects	Notes
Biscuits	Small	
Butter	Small	A
Processed Oils	Large	PM,R,I
Confectionary	Medium	P,I
Fruit and vegetable canning, jellies and preserves	Medium	A,P, (also II)
Bottled soft drinks and mineral water		
Sugar	Medium	A,P
Cigarettes manufacture	Medium	I
Cotton textiles (especially finished fabrics)	Large	P,M,R,I
Wollen textiles (especially finished fabrics)	Large	P,M,R
Synthetic Fabrics	Large	P,I
Textile bags and sacks	Medium	I
Underwear (mens and womens)	Medium	M,I
Shirts	Medium	M,I
Women's outerwear	Medium	M
Knitted outerwear (pullovers, etc.)	Medium	P,I
Socks	Medium	P,I
Clothing accessories (ties, handkerchiefs, etc.)	Small	M,I
Furniture, doors, and window frames	Medium	P,M
Paper, board, and paper products	Large	I,A
Dyestuffs and dying extracts	Medium	I
Caustic soda and salt-based chemicals	Medium	I
Selected pharmaceutical products	Medium	P,I
Paints	Medium	P,I
Soap	Medium	P,A,I
Plastic products (plastic shoes, P.V.C. pipe, Misc. injected and Setruded products)	Medium	P,M,I
Tire retreading	Medium	P,I
Tanned skins	Medium	P,M,R,E (also II)
Bricks and tiles (for building and refractory use)	Large	P,M
China and ceramics	Medium	P,I
Glass tableware and bottles	Medium	P,I
Cast iron foundry and forging	Medium	M,I
Nails, hand tools, plumber's ware, and similar products	Medium	P,I
Locks	Small	I
Cooking utensils	Medium	M,I
Cooking stoves	Small	I

Table 2 (Continued)

	Scale of Indiv. Projects	Notes
Wire netting and fencing	Small	I
Primary battery manufacture	Medium	I
Lighting fixtures and fittings	Small	M,I
Costume jewelry	Small	M
Matches	Medium	I
II. Industries primarily for export		
Canned or bottled fruit and vegetable juices and concentrates	Medium	P,M,A (also I)
Olive preserves and olive oil	Medium	A
Processed licorice	Medium	P,R
Dried fruit processing	Medium	P,M,A,E
Carpets and rugs (non-handicraft)	Medium	P,M,E
Textile handicraft items	Medium	E
Fur and leather garments	Medium	R
Leather shoes	Medium	P,R
Leather gloves, bags, purses, belts, etc.	Medium	M,R
Sausage casings	Medium	P
Tanned skins	Medium	P,M,R,E (also I)

*Notes

General: Several of these industries are of course given a high priority in the Plan. No reflection is intended on Plan projects which do not feature in this illustrative list.

P - Industrial production already exists in Afghanistan, but additional facilities may be needed. For many other items there is handicraft production.

I - Significant imports into Afghanistan at present.

R - Significant exports of the necessary raw materials from Afghanistan; hence, possible scope for additional locally added value.

A - Depends on agricultural developments.

M - More than one additional production facility may be needed.

II. DEVELOPMENT PLANNING FOR INDUSTRY

A. The Seven-Year Plan - Nature and Composition

2.1 The figures quoted in this chapter are based on the draft Plan document received from the Government after the mission had completed its fieldwork.

2.2 In essence, the Plan for industry appears to be a collection of individual public investment projects, linked in principle as between sectors and to funds available. For the private sector there seems to be little more than a statement of general expectations. Given the lack of information on all but the FDPIL private sector, and indeed the absence of national accounts, this may be largely unavoidable: the statistical tools for adequate overall planning are lacking. However, as private sector industry, including handicrafts, far exceeds public sector industry in terms of output and employment at present, the Plan should be regarded, in respect of industry, as essentially a seven-year public investment program, related only roughly to the wider economic context.

2.3 The Seven-Year Plan suggests total public investment expenditure of Afs 38.4 billion (US$674 million) in 1975/76 prices for industrial development; including mining expenditure it is Afs 46.5 billion (US$816 million). The total, including mining, would represent 27% of the entire public investment program of around Afs 174 billion. Included in the Afs 46.5 billion are carry-over projects from the previous plan periods (i.e. those already started), amounting to Afs 4.0 billion for industries and Afs 5.2 billion for mining. At an average annual expenditure of Afs 6.6 billion, the total is in current price terms nearly three times the volume achieved over the past 4 years. In real terms, the increase is, of course smaller, but the non-availability of an appropriate deflator precludes the possibility of a measurement in terms of constant prices. What information does exist suggests, however, that relative to other countries, inflation in Afghanistan in recent years has been quite modest and it is clear that a very considerable acceleration in public industrial investment is planned.

Table 3 Public Sector Investment Expenditures, 1957/58 to 1975/76
(In billion afghanis, at current prices)

	First Plan 1957/58-1961/62	Second Plan 1962/63 - 1966/67	Third Plan 1967/68 - 1971/72	Annual Plans 1972/73 - 1975/76 a/	Seven-Year Plan b/ 1976/77 - 1982/83
Industry	...	...	5.5	1.8	38.4
Mining	...	...	3.7	5.4 c/	8.1
Total	2.6	8.4	9.2	7.2	46.5

Note: The sub-sector breakdowns up to the Second Five-Year Plan are not available.

a/ The component figure for 1975/76 is an estimate.

b/ At 1975/76 prices. Preliminary.

c/ Includes the Mazar-i-Sharif Fertilizer Plant.

Source: Ministry of Finance, Kabul

2.4 The public sector industrial investment plan envisages a rapid acceleration during the first half of the Plan period, peaking in 1978/79 and 1979/80 (see Table 4); expenditure is expected to fall during the succeeding year, but pick up again over the next two years. This pattern reflects both the completion of carry-over projects during the first half of the Plan period and the maturing of new projects into active status after 1978/79. The indicated phasing is based on the Government's presumption that there will be a dramatic increase in the number of new projects being started. It also reflects fairly optimistic expectations as to the time required for new projects to mature from the stage of conception to that of implementation. Even the low 1976/77 figure would represent an increase of about 150%, in current price terms, over estimated actual 1975/76 expenditure.

Table 4 Phasing of Public Sector Investment Expenditures in Industry and Mining
(In billions Afs.)

Years	Amount
1976/77	4.3
1977/78	7.3
1978/79	8.3
1979/80	8.3
1980/81	5.7
1981/82	5.9
1982/83	6.7
Total:	46.5

Source: Ministry of Planning, Kabul

2.5 It is envisaged that several of the projects to be undertaken during the present plan period would extend into the next plan period. Of major importance is the metallurgical sub-sector for which currently an investment of Afs. 72.3 billion (US$1.3 billion) is contemplated during the present and the next (i.e., 1983/84 to 1989/90) seven-year plan period, for the hoped-for iron and steel and copper smelting plants. Of this sum, only about Afs. 9.7 billion are envisaged during the current plan period. These very big projects are at a preliminary stage of study. Total investments expected to be carried forward into the next seven year plan period amount to Afs. 72.5 billion, of which industries should constitute around Afs. 72.1 billion and mining about Afs. 0.4 billion.

2.6 In private sector industry an investment of about Afs. 8 billion (US$140 million) is envisaged. This total excludes very small firms (employing less than 5 people) and handicrafts. Investments by these do not feature in the Plan. It is expected that 60% or more of the Afs. 8 billion would be self-financed. The expected private sector industrial investment of Afs. 1.1 billion a year represents a very substantial increase over past rates of investment and a short-fall on the implied annual rate seems inevitable in the earlier years. It will require a considerable improvement in the "climate" for private industrial investment, as perceived by private industrial investors.

2.7 As indicated in paragraph 2.3 the plan estimates are based on 1975/76 price levels. The actual costs are, however, likely to be significantly higher on account of escalation in domestic costs and costs of imported equipment and services.

Sectoral Composition

2.8 The broad product composition of the Afs 46.5 billion of public investment planned in industry and mining is shown in Table 5. The areas of concentration are metallurgy (20.9 percent), cotton ginning and cotton textiles (12.0 percent), sugar (13.3 percent), cement (7.7 percent), fertilizers (7.5 percent) and food industries (4.8 percent). Details on project composition are shown in Table 6, while Table 7 shows the resulting increases in capacity by sector.

Table 5: Product Composition of Public Sector Investments in the Industry and Mining Sector a/
(In billion Afs.)

A. Industries	Carry-Over	New	Total	(% of Total)
1. Cotton:				
a. Ginning	-	2.1	2.1	4.5
b. Textiles	0.8	2.7	3.5	7.5
2. Woolen Textiles	0.1	0.4	0.5	1.0
3. Sugar	-	6.2	6.2	13.3
4. Cement	-	3.6	3.6	7.7
5. Fertilizers	0.7	2.8	3.5	7.5
6. Machinery and Equipment	-	1.7	1.7	3.7
7. Metallurgy	-	9.7	9.7	20.9
8. Food Industries	0.1	2.2	2.3	4.8
9. Other Chemicals	-	0.7	0.7	1.5
10. Paper	-	0.3	0.3	0.9
11. Others b/	2.3	2.0	4.3	9.2
Sub-total	4.0	34.4	38.4	82.5
B. Mining				
12. Coal	-	1.4	1.4	3.0
13. Natural Gas Pipeline	-	1.0	1.0	2.2
14. Others c/	5.2	0.5	5.7	12.3
Sub-total	5.2	2.9	8.1	17.5
GRAND TOTAL	9.2	37.3	46.5	100.0

a/ Preliminary.

b/ Includes gas de-sulphurization plant.

c/ Mainly exploration and surveys.

Source: Ministry of Planning, Kabul

Table 6: Project Composition by Major Sub-sectors
(Data based on preliminary plan document)

Sub-sectors/Projects	Amount (in Afs.m.)	Annual Capacity	Completion Date
1. Cotton Textile			
a. Herat	570.0	12.0 million meters	1978/79
b. Extension to Balkh	272.0	11.5 million meters	1976/77
c. Kunduz	679.0	40.0 million meters	1980/81
d. Kandahar	1710.0	40.0 million meters	1978/79
e. Extension of Pul-i-Kumri	266.0	12.0 million meters	1980/81
Sub-Total	3497.0		
2. Cotton Ginning and Pressing			
a. Extension of Balkh Ginning Plant	456.0	15.0 thousand tons	1981/82
b. Kunduz I	453.0	15.0 thousand tons	1979/80
c. Kunduz II	453.0	15.0 thousand tons	1982/83
d. Badghis 1/	245.0	5.5 thousand tons	1978/79
e. Extension to Helmond Ginning Plant 2/	489.0	10.0 thousand tons	1978/79
Sub-Total	2096.0		
3. Sugar			
a. Replacement and extension at Baghlan	2055.0	27.0 thousand tons	1979/80
b. Herat	2055.0	24.0 thousand tons	1981/82
c. Jalalabad	2055.0	31.0 thousand tons	1981/82
Sub-Total	6165.0		

1/ Actual cost estimates for the Badghis Ginning Plant amount to Afs. 217 million capital cost, plus a peak working capital requirement of Afs. 274 million. The capacity will be 4,340 tons of ginned cotton (14,000 tons of seed cotton) per years.

2/ The capacity increase is actually estimated at 14,750 tons of ginned cotton (47,600 tons of seed cotton) per year.

Table 6: Project Composition by Major Sub-sectors
(Continued)

4.	Cement			
	a. Kandahar	2180.0	480.0 thousand tons	1979/80
	b. Herat	1420.0	210.0 thousand tons	1978/79
	Sub-Total	3600.0		
5.	Fertilizers			
	a. Power turbine and auxillary facilities at the existing Plant	700.0	-	1978/79
	b. Second Fertilizer Plant	2800.0	300.0 thousand tons	1984/85
	Sub-Total	3500.0		
6.	Other Chemicals			
	a. Caustic Soda (location uncertain)	700.0	20.0 thousand tons	1981/82
7.	Metallurgy			
	a. Ainak copper smelter	9700.0	Not known	Not known
	b. Hajigak Iron and Steel			
8.	Miscellaneous			
	a. Petroleum Refining	810.0	200.0 thousand tons	1979/80
	b. Tanneries at Herat and Ghazni	410.0	600.0 thousand tons	1979/80
	c. Gas desulphurization plant (Replacement)	1000.0	-	1979/80
	d. Food Industries	2300.0	-	1982/83
	e. Geological Exploration and Surveys	5800.0	-	-
	f. Others	6922.0	-	-
	Sub-Total	17242.0		
	GRAND TOTAL	46500.0		

Source: Ministry of Planning, Kabul

Table 7: Annual Capacity in Major Public Sector Industries

A. Industry	1975/76	1982/83	Increase (%)
1. Cotton			
a. Ginning (1000 tons)	60	115	91.7
b. Textiles (million meters)	100	200	100.0
2. Woolen Textiles (1000 meters)	270 a/	770	185.2
3. Sugar (1000 tons)	11	81	636.4
4. Cement (1000 tons)	160	870	443.8
5. Fertilizers (1000 tons)	105	105	-
6. Petroleum refining (1000 tons)	-	200	inf.
7. Metallurgy b/	-	-	-
B. Mining			
8. Coal (1000 tons)	170	350	105.9
9. Natural Gas (Billion cubic meters) c/	3.1	3.1	-

a/ Total installed capacity 600 thousand tons. The figure above represents the current capacity limit.

b/ Refers to copper and iron ore and steel-making; no production is expected by 1982/83.

c/ Proposed investment is for balancing and modernization of existing equipment.

2.9 It will be observed that while many planned investments are related to specific projects in known locations (some of them for plant modernization or replacement), large sums are envisaged for the still very tentative plans of the copper smelter, the iron and steel plant, for geological work in connection with these, as well as for a second fertilizer plant and for a caustic soda plant. Indeed as much as 40% of the total investment might be regarded as tentative. This is, of course, unavoidable in any plan covering a seven-year period. Though entirely new projects may come up during the Plan period, it implies that the very big increase envisaged in public sector investment in the Plan might prove overestimated. Some projects may prove non-viable, or hoped-for investment funds from abroad may not materialize; others may be unavoidably delayed.

Strategy of the Plan

2.10 Emphasis on the completion of carry-over projects, on import substitution in consumer goods and maintenance inputs, and a move into relatively advanced technology and capital intensive projects (such as copper-smelting, steel-making through a gas-reduction process, a second fertilizer plant, and an oil refinery) appear as the major features of the industrial sector plan.

The peaking of investments noted in paragraph 2.4 is largely due to completion of carry-over projects and projects such as the Kunduz I, Helmond and Badghis cotton ginning plants, and the replacement of Baghlan sugar plant machinery. Around 60% of the investments is intended for import-substitution (e.g., cotton textiles and sugar) and maintenance inputs (e.g., ginned cotton, petroleum, cement, coal, fertilizers, chemicals, etc.). Roughly 10% of the investments are intended for balancing and modernization (e.g. a power turbine at the existing fertilizer plant, a new gas desulphurization plant to replace existing facilities, replacement of existing machinery at the Baghlan sugar plant), and around 9% of the investments are for consumer goods (e.g., bakery, grain storage, etc.). In contrast, around 21% of the investments are for the preparation of the two big projects in the metallurgical sector.

2.11 In general, the emphasis on resource-based industries, and import substitution industries appears reasonable, and the balancing and modernization investments are probably appropriate too. There may, however, be more scope for export-oriented resource-based industries. A major reservation must, however, be expressed in regard to the inadequacy of economic analysis to demonstrate the value of projects to the economy as a whole (see paragraphs 2.13 to 2.17); and there are problems of intersectoral consistency as indicated in paras. 2.18 to 2.20. In general terms, it seems reasonable to assume that projects in such fields as cotton ginning and textiles, sugar, cement and food products would be shown to be economically justifiable. This may very well not be the case for the iron and steel project and for copper, and perhaps, for the second fertilizer plant. It is appreciated that much of the cost envisaged for these during the Plan period is simply for further study. On the basis of what is known about these projects, and general considerations of comparative advantage (see paragraphs 1.15 to 1.23), they might not prove to be worthwhile investments. Their inclusion in the Plan is, therefore, more a statement of possible budgetary needs than a statement of positive intention. It would be helpful if a clear distinction would be made between a) projects which will require certain expenditures; b) projects which are likely to require certain expenditures, but which are still under study; c) provision for technical and economic feasibility studies for projects (such as the iron and steel plant and the copper project) still in an early stage of preparation; and d) provisions for studies designed to help identify possible future projects. During the course of plan implementation projects would then progress from one category of certainty to the next.

2.12 Detailed studies may show these large capital-intensive projects to be soundly based and in Afghanistan's long-term economic interests. But it is important that the appraisal techniques used recognize the limited availability of investment funds, of foreign exchange and of skilled manpower in Afghanistan. If they do not, resources could be misallocated. Undue emphasis on them, at this stage, may only dissipate Afghanistan's limited investment capacity, and technical and managerial manpower, to the detriment of growth possibilities in short-gestation projects with more immediate effects on domestic output and relaxation of foreign exchange constraints.

B. General Economic Criteria and the Plan

2.13 There is an impression of a lack of adequate reference to economic criteria in the process of selection of projects. Technical feasibility seems to have been the dominant consideration. The Plan as it stands now is a collection of projects, for most of which even technical feasibility has been established only in a preliminary way. Although major projects in cotton ginning and textiles (e.g, Kunduz I and II, and Balkh) have had their technical feasibilities assessed only in a very rudimentary manner, as have the Herat sugar mill and the cement plants at Kandahar and Herat, this is not too serious in the context of the plants themselves. Provided raw material supply is adequate, there is unlikely to be any technical reason (though there may be economic ones) why they should not be viable. However, in some cases raw material supply is questionable. The sugar mill at Herat, for example, is dependent on the creation of irrigation facilities by constructing a dam on the Hari Rud and a presumed shift of the cropping pattern. Similarly, for the cement plants, inadequate attention seems to have been paid to the availability of the main energy source, coal, to be transported from the mountains beyond Herat. The latter project is liable to be a very difficult one and its technical feasibility does not seem to have been assessed. These are significant uncertainties.

2.14 With regard to economic criteria, such basic considerations as capital labor substitution, and desired economic rates of return seemed to have been hardly observed. The mission sought and failed to obtain any clear idea of intra-sectoral priorities. The impression one gathers is that no prior directive was issued in this regard to guide the investment priorities within the industrial sector. Accordingly, the employment potential of the sector, both direct and indirect, is unknown. It is possible, of course, that except for the projects in the metallurgical, natural gas and machinery sectors, employment generation could be substantial. However, it is important to note that in the absence of clear directives, project designs in the various subsectors could be unnecessarily capital-intensive.

2.15 On the question of incremental capital-output ratios determining the economic viability of the projects, the Plan is equally vague. The stated expectation is that the coefficients would vary between 2.5 and 3.1. This latter is not substantiated by details available on the projects, and there appears to be a general bias towards quite capital-intensive installations.

2.16 At the individual project level too, the failure to use standard economic criteria in project appraisal may have led to wrong conclusions. Shadow pricing or equivalent analytical procedures appear not to be used at all, except occasionally as "theoretical exercises", and the concept of discounting is appreciated by only a few. Some do not consider loan service as part of the cost of a project. Without establishing a suitable project appraisal framework there is an obvious danger of:

(a) emphasis on capital-intensive projects and inadequate stress on employment creation;

(b) emphasis on large, long-term projects, rather than those which bring quick benefits; and

(c) too little emphasis on income creation or distribution.

2.17 Leaving aside broad economic considerations, there is insufficient analysis of individual projects to establish whether they would be even commercially viable. Problems of raw material supplies have already been referred to. Market or manpower studies are often carried out, if at all, only after a decision has been taken to go ahead on the project. In contrast, when private sector projects come up for final approval under the FDPIL, they do have to demonstrate their viability - and indeed their impact on the economy as a whole.

Some possible sectoral inconsistencies

2.18 Cotton ginning and cotton textiles. As Table 7 indicates, 55,000 tons p.a. additional ginning capacity is envisaged (a 92% expansion), while cotton textile output is expected to rise by a 100%. Increased absorption of ginned cotton by the textile mills would take around 57 thousand tons of the total ginning capacity, so that the exportable surplus in the terminal year of the Plan would be around 58 thousand tons, compared to around 38 thousand tons in 1975/76. The projected supply of raw cotton is, however, 180 thousand tons or an increase of 106 percent, so that there could be a possible shortage of ginning capacity (compared to a slight surplus capacity today). In view of the variability of crops, it is probably best to plan for a surplus of ginning capacity in an average crop year. In cotton textiles, the aim is toward complete self-sufficiency and elimination of current imports conservatively estimated at around 40 million meters. Afghanistan today lacks an adequate import control system, and it is unlikely that such a system could be instituted in the near future. Consequently a significant volume of imports for reasons of "product differentiation" as well as smuggled imports and imports as a vehicle of capital flight from neighboring countries has to be reckoned with. In view of the above, some reconsideration of the investment priorities in this sub-sector would be worthwhile, taking into account export possibilities.

2.19 Sugar. The question of inter-sectoral inconsistency is particularly acute in relation to sugar. The estimated increase in production of 59 thousand tons has been envisaged as follows: (i) replacement of existing machinery at Baghlan (annual capacity 11 thousand tons) as well as expansion in capacity to 27 thousand tons per annum; (ii) establishment of a sugar factory at Herat with annual capacity of 24 thousand tons; and (iii) replacement of the present machinery at Jalalabad sugar factory (capacity 1 thousand tons annually) plus additional capacity of 30,000 tons. In each case, the crucial variable is the required increase in the raw material production, sugar beet in Baghlan and Herat and sugar cane in Jalalabad and all that it implies in terms of shift of acreage, irrigation, supply of fertilizer and extension services, and agricultural relative prices. The Baghlan and Herat sugar

plants would require around 180 and 160 thousand tons of sugar beet respectively. This would require a 160% increase in output in the Baghlan area. No sugar beet is currently grown in the Herat area except for a small experimental plot and the viability of the proposed investment is dependent on irrigation facilities following the construction of the Salma Dam on Hari Rud; a firm schedule for this is lacking. Finally, for the Jalalabad sugar factory, the requirement is for around 300 thousand tons of cane, while current production is only around 50 thousand tons. Such increases in agricultural output are possible, but much will need to be done to achieve them. It can be doubted whether plans are sufficiently advanced to match the timing of the planned factory completions at Herat and Jalalabad.

2.20 Similar examples of possible sectoral inconsistencies may exist in other sectors also. It could be questioned whether, for instance, it is economically more worthwhile to establish three relatively large public sector bakeries, requiring significant resources of capital and management skills, instead of continuing to rely on traditional private small-scale labor-intensive units. It is not clear whether in determining the need to establish a second fertilizer plant, sufficient regard has been paid to agronomic research considering the optimum mix of fertilizer types for different soil conditions in Afghanistan. The abiding impression is one of the very hastily drawn-up list of projects, and not really a plan that would meet a reasonable set of objective criteria. Very substantial parts of the plan appear not to have progressed beyond project concept and it will be some time before an assured view of the various sub-sector possibilities and priorities becomes possible. A certain lack of consistency is to be expected in any development program. Nevertheless, the limited investment capacity of the country makes a considerable improvement of the planning process most desirable. To this end, a revamping of the facility for project preparation and evaluation is necessary.

C. Organization of Planning for Industrial Development

2.21 Apart from the role which the Ministry of Planning and the Ministry of Finance play in relation to industry as to every other branch of the economy, responsibility for industry is divided between the Ministry of Mines and Industry (most public sector enterprises, and industrial parks), the Ministry of Finance (financial control of Tasadys), the Ministry of Planning (the Private Investment Department controls FDPIL - approved private enterprises), the Ministry of Commerce (handicrafts, small industries, and industrial exports), and the Ministry of Public Works (certain construction materials, notably prefabricated housing units). Three other Ministries are responsible for operations which are partly industrial in character. There is also a need for considerable liaison: with the Ministry of Agriculture on linking output of agricultural raw materials to industrial needs, with the Ministry of Education on vocational, technical, and management training; with the Central Statistics Office; and, with the Power and Water Authority.

2.22 Though this division of responsibilities for industry is not without a certain logic, it is obvious that it does not facilitate the planning of industry as a whole. Both civil servants and foreign experts work primarily in a departmental context and rarely consider industry as a whole; indeed departmental jealousies, and undue secrecy are occasionally obstacles to effective planning and implementation. Knowledge and understanding of the private sector is very limited outside the Ministry of Commerce and the Private Investment Department, and few seem to appreciate the scope for developing small industry and handicrafts into a relatively modern industrial sector integrated with and complementing larger-scale industry.

2.23 The deficiencies of industrial planning procedures are appreciated within the Ministry of Planning, the Ministry of Mines and Industry, and elsewhere. But those concerned are already under much work pressure, and feel moreover, that they lack the technical skills required.

2.24 It is very difficult, and certainly costly in terms of manpower, to carry out adequate economic feasibility or prefeasibility studies without greatly improved statistics. The few statistics which exist on the industrial sector in Afghanistan, are regarded by many as being of little value, and liaison between the Central Statistics Office and the Ministries concerned appears poor; indeed access to quite normal statistical detail is difficult. A contributory problem is that few statistics are available in English, while many of the potential users of the data are at present foreign experts.

2.25 Recommendations for improved industrial planning are made in Chapter III (para. 3.34).

III. GENERAL PROBLEMS AND POLICIES FOR MORE RAPID INDUSTRIAL GROWTH

Principal Problems and Constraints

3.1 In this chapter, some general problems of industrial development are considered in relation to the types of industry which appear to have growth potential (see paragraphs 1.24 and 1.28).

3.2 There are five main problem areas:

(a) The lack of management and technical skills, and the related problem of insufficient delegation of responsibility in the public sector;

(b) The complexities of the import tariff, export duty and taxation system and their use primarily as the means of raising revenue, and hardly at all as policy instruments;

(c) The lack of any clearly defined role for the private sector, and the somewhat negative ambience for private industrial investment;

(d) The confused structure of public sector enterprises, in relation to both state control and to one another, and the lack of clear objectives to which their managers are held responsible;

(e) The inadequacies of industrial planning procedures, stemming perhaps in part from divided control.

The first two of these are discussed in this Chapter. Point (c) is covered in Chapter V, point (d) in Chapter IV, and point (e) in Chapter II.

Problems of Management and Technical Skills

3.3 A recent quantitative assessment of the manpower situation in 16 public sector enterprises by the UNIDO Industrial Services Project in the Ministry of Mines and Industry suggests that existing needs and the expansions envisaged under the Seven-Year Plan imply the following additional manpower requirements:

(a) 76% more management, administrative and clerical staff;

(b) 223% more engineers and technologists (450% more than the existing number of Afghan engineers and technologists);

(c) 184% more technicians and foremen (202% more than the existing number of Afghans in this group);

(d) 34% more skilled and unskilled workers.

Further details appear in Annex B.

3.4 The implications of the anticipated additional manpower requirements are even greater than indicated above if the manpower deficiencies in existing public sector industries, notably with respect to training and experience, are considered. No doubt many individuals are carrying out jobs for which they lack training, and in some cases adequate experience too. But reliance on such improvisations also involves considerable risks. Afghanistan cannot afford major development projects to fail for such reasons. Serious qualitative deficiencies prevail both at the engineer/technologist level and in management and administrative functions. There is a marked lack of practical experience among engineers, and those who have acquired such experience abroad have normally stayed there. In management and administration, the deficiencies are notably in (a) accounting, financial control and budgeting; (b) marketing and market research, and (c) forward planning and planning for new product lines.

3.5 The problems of private industry in respect of management and technical skills are probably less acute than those in the public sector. The main reasons are:

(a) private sector enterprises are generally much smaller and therefore make fewer management demands;

(b) in general, private sector firms employ fairly simple technologies;

(c) because of their greater freedom of action, and also because they are more committed to achieving financial success, managements of private sector enterprises tend to act in response to perceived needs.

However, while the few large private sector enterprises generally have superior accounting, marketing, and planning systems to any found in the public sector in Afghanistan (apart from Afghan Textile Co. which only recently became public sector), they have even greater difficulty in getting technical staff. This seems to be largely because, in spite of higher private sector pay, many Afghans prefer the prestige and security of a government job. Moreover, public sector firms have readier, and cheaper, access to foreign technicians, than do private sector undertakings. Consequently, in the past large private firms themselves financed the education abroad of appropriate Afghans, keeping them under contract on return.

3.6 Small private sector enterprises rarely have recognizable accounts or other management tools. Nor do they commonly recognize any need for these. Because of their size, their concentration on few product lines, and the generally simple technologies applied that involve relatively small amounts of fixed capital, these deficiencies have been less serious than might be expected. They have, however, been an important factor in preventing these firms from growing.

3.7 It should be pointed out that in relatively simple enterprises such as exist in Afghanistan, skill development needs to be fairly broad, and the training of engineers in management techniques is normally as important as technical knowledge.

3.8 The lack of Afghans with the skills of modern management, notably accountancy and marketing, or with practical experience of working in modern business enterprises, whether in Afghanistan or abroad is probably the largest single immediate obstacle to building up a viable industrial sector, public or private, in Afghanistan. It is probably even more crucial than the shortage of engineers and technicians, because:

(a) while there are limited numbers of Afghans with adequate technical training, there are hardly any in the management sciences;

(b) it is less problematic to use foreign technicians or engineers than foreign managers;

(c) the skills take longer to develop, because practical experience has to be grafted onto the basic academic groundwork to an ever greater extent than in technical fields.

3.9 Related to the lack of management and technical skills is the problem of sufficient delegation of responsibility in the public sector. Executives cannot be expected to ensure the overall viability, and seek to develop further the operations with which they are entrusted, if relatively minor aspects of their day-to-day operations have to be vetted by supervisors. It is evident that Presidents of Enterprises commonly spend so much time approving relatively minor matters of detail - purchases, staff problems, etc. that they are unable to consider the major long-term problems facing these enterprises. It also appears that the operational effectiveness of enterprises is greater the more the delegation of responsibility. It is appreciated that a major reason for the lack of delegation of responsibility is the poor calibre of many in middle management. But in addition, the system of control of many enterprises requires Presidents to take far too many day-to-day decisions, and indeed responsibility often shifts from the President to the Ministry. Hence even when a President can trust his subordinates to take correct and responsible decisions, their development as potential senior executives is affected by the fact that they cannot be made fully responsible. It will be interesting to see to what extent the new system in Jangalak Industries, introduced on ILO advice, will succeed in coping with the managerial problems of that enterprise.

3.10 The problem of insufficient management and technical skills is a formidable one in the context of the Seven-Year Plan. The Government's new educational policy could be an important step in the right direction, particularly in the context of developing technical expertise. The aim is to increase the vocational and technical proportion of those going into secondary education from 6% in 1975/76 to half. The policy implies that in educational

planning, programs should be job-oriented and should be related to the country's general socio-economic development. Measures to give effect to this policy, are still in the early stages of development, though. Moreover, it must be pointed out that:

(a) In spite of increased emphasis, educational spending is still accorded a relatively low priority in government spending (only 3% of 1975/76 investments, for instance, in spite of the lack of physical facilities in many areas);

(b) The effects of the new policy can only be felt in small part, as far as higher technical and management skills are concerned, during the Seven-Year Plan period;

(c) While the policy recognizes the need for training in accounting at secondary level, management training and the development of accountancy skills to higher levels get insufficient recognition.

Annex C gives some details on training facilities for industrial development in Afghanistan.

The Indirect Tax System

3.11 One of the most important single policy instruments in seeking to establish an industrial base is normally the establishment of efficient protective tariffs. In Afghanistan, however, tariff policy has long been oriented to revenue raising. In view of the importance of import duties as a source of government revenue (see para. 1.6) it is natural, though perhaps not unavoidable, that it should be seen primarily in this light.

3.12 The current customs tariff structure and other levies are often identified as one of the major impediments constraining private investment activity in Afghanistan. Interviews with local industrialists revealed a common dissatisfaction with the customs tariff structure and other indirect taxes.

3.13 The Customs Tariff. The present tariff structure was promulgated in June 1974 and has since then been modified in the annual budgets. The present customs tariff supplanted a twenty-year old structure. The commodity classification in the present tariff schedule is significantly more detailed, with increased commodity coverage. The classification is also linked with the SITC and BTN systems through cross-coding of the tariff numbers. The new tariff schedule contains a number of increases in tariff rates for revenue purposes, particularly on luxury items (e.g. automobiles, chocolate, etc.). It also attempted to extend and rationalize tariff protection for domestic manufacturing industries, particularly those at an early stage of development, through a system of graduated tariffs depending on the degree of processing. Simultaneously with the introduction of the new tariff, the list of prohibited

imports was restructured; the prohibited list was further modified by the inclusion of another 74 items in 1975/76 to encourage import substitution. Actual tariff rates vary considerably - between 20% and 35% on stated specific values, being fairly typical for finished products.

3.14 Service Charges, Red Crescent Charges and Fixed Tax. Closely related to the import tariff are these three charges. Service charge is assessed at 2% of the import duty payable, while Red Crescent charges are assessed at 1% of the total of import duty plus service charge. Fixed tax is assessed at 6% of the total of ex Kabul c.i.f. value plus all the above duty and charges payable. The application of the Fixed Tax is, however, different for goods classified as a Monopoly and a Monopoly Tax is payable on such imports. The procedure for the calculation of the tax liability in this case is quite complicated and makes perceptible demands on the limited manpower trained for that purpose. The procedure is still more complex for goods classified as luxury.

3.15 Monopoly Tax. Monopoly tax is charged on the total of the ex-Kabul c.i.f. value, import duty, Service Charge and Red Crescent Charge plus a Commission Charge assessed at 2% of the total. The Monopoly Tax is then assessed at 15% of this total. Finally, at the end of this trail, comes the Fixed Tax at 6% of the c.i.f. value of the good in question plus all the above taxes and charges.

3.16 Luxury Tax. For this there are two additional twists in the form of a flat rate special charge called an Authorization Charge and a variable rate (according to the country of origin of the goods in question), called Privilege Charge. The Authorization Charge, is assessed at 5% of the total of import duty, Service Charge, Red Crescent Charge, Monopoly tax (if applicable) and the ex-Kabul c.i.f. value of the good in question. The Fixed Tax is then assessed at 6% of the total. The calculation of the Privilege Charge and the consequent Luxury Tax exclude, however, the Fixed Tax. The base price for Privilege Charge is calculated as the sum of the ex-Kabul c.i.f. value fo the goods and all charges payable as described above but other than the Fixed Tax, and the Privilege Charge is then calculated on the basis of the following rate structure:

Country of Origin	Privilege Charge (%)
Asia	8.0
Europe	12.0
America	13.0

The rate structure makes no allowance either for the type of good or its country of origin within a bloc. Nor does it mention Africa and Australia; rates for these presumably depend on the uncertain interpretation of the rules by the customs authorities. The Luxury Tax is assessed at 5% of the base price as described above plus the Privilege Charge.

3.17 Consumer Goods Tax. This tax was promulgated in April 1974 and is a single stage tax on consumer goods produced and sold domestically. The tax is collected from manufacturers. The tax rates are specific but are generally fixed to amount to around 6% of the ex-factory price. For a few items the rate is assessed at 10%. Very few products are exempted altogether; only books, newspapers and other items printed in Afghanistan are so treated.

3.18 Turnover Tax. Domestic manufacturing establishments are also subjected to a flat-rate (2%) turnover tax on sales made. There are very few exemptions, the most notable being pharmaceuticals.

3.19 Total Indirect Tax Incidence. One of the ways in which relative tax incidence in the present context can be viewed is by deriving an aggregate measure of the various taxes and charges described in the preceding paragraphs and comparing this with the tax incidence on competing imports (including all additional charges). The approach here is reminiscent of the 'effective protection' type in the sense that all indirect taxes and charges on inputs and finished products and not just the customs tariff on the raw material are taken into consideration. The basic data were obtained on the basis of a representative sample of the major private sector industries in the Kabul area enjoying FDPIL concessions in eight subsectors. Wherever specific tariffs are prevalent, ad valorem equivalences at current prices have been obtained. The approach is best explained by an illustrative example. On imports of Afs. 1.5 million, the product concerned which enjoys FDPIL concessions is subject to a total of Afs. 295,000 in duties - a tax incidence of 11.8% on an output of Afs. 2.5 million.

Taxes and charges payable

a.	Customs duties at 7.99% ad valorem	Afs.	120,000
b.	Fixed duties on raw materials and spares	Afs.	97,000
c.	Red crescent and service - charges	Afs.	3,000
d.	Turnover tax at 2% of value produced	Afs.	50,000
e.	Consumers' tax amounting to 1% ad valorem of the output produced	Afs.	25,000
	Sub-Total	Afs.	295,000
Corresponding Value of Output produced		Afs.	2,500,000
Effective Tax - Incidence			11.8%

This compares with a 28% nominal tax incidence on competing imports. If the firm were to pay import duties at the normal non-FDPIL import duty applicable (20% ad valorem) on similar substances (i.e. customs tariff - June 1974, Government of Afghanistan, AG Code No. 3404), the above charges would have

been enhanced by about Afs. 193,000. Effective tax-incidence would then have been about 19.5%.

3.20 Table 8 shows the results of the calculation for the eight selected sub-sectors.

Table 8: Comparative Tax Incidence in Private Sector Industry (in %)

Sub-sectors	Total indirect tax incidence on domestic produce enjoying FDPIL concessions	'Nominal' tax incidence on competing import
1. Textiles		
a. Rayon	33.0	68.0
b. Knitting	14.2	68.0
2. Leather and footwear	4.3	108.0
3. Pharmaceuticals	15.8	18.0
4. Detergents	11.8	28.0
5. Lubricants	12.1	43.0
6. Automobile batteries	21.5	43.0
7. Plasticware	8.3	35.0
8. Paints and dyestuff	40.4	28.0

It is demonstrated that, except in paints and dyes, these industries enjoy significant, indeed in some cases very substantial, protection. Any firms which did not have FDPIL status in these sectors would have considerably less protection.

3.21 Competition from Unrecorded and Undervalued Imports. Nonetheless, the arguments of domestic manufacturers that they face discriminatory taxation vis-a-vis imports have some validity, although by its very nature the extent of any such discrimination cannot be proven. Many imported consumer goods enter through illegal channels without payment of tariffs and other charges. For those imports coming through legal channels, there is also widespread under-invoicing with or without the connivance of customs officials, as a vehicle of tax evasion. Many private industrialists consider this more important than the alleged formal tariff discrimination. Undoubtedly domestic manufacturers also sometimes underdeclare the values of imported raw materials, but their size and identifiability and the requirements of the FDPIL to give details on their anticipated operations to qualify for tax-privileges restrains the scope for such tax evasion. Finally, it seems that certain competing imports are under-invoiced vehicles of capital flight from neighboring countries into Afghanistan, where funds can then readily be converted into major international currencies; such imports sometimes sell at a discount within Afghanistan and put local industry at a further disadvantage.

3.22 Scope for Simplification. The indirect tax system on imports described above is clearly unnecessarily complex, and could easily be simplified without affecting revenues. Thus at current rates, the various import taxes and charges on lubricants come to about 31% ad valorem. Considerable procedural simplicity could be obtained if a single tax of such magnitude

were to be imposed. Tax administration is a skill-intensive operation and Afghanistan could use these skills better than in the present indirect tax structure with its procedural complexity. Similar simplification need also be sought by consolidating the turnover tax and consumer tax into a single excise. This would constitute a considerable improvement from the viewpoint of tax administration and would be easier for industry to handle and understand, too. Corresponding changes would be needed to maintain effective FDPIL protection at current levels.

Export Tariffs

3.23 These, generally around 15% to 30% on a wide range of export products, are a feature of Afghanistan's economy. Certain industries are exempt, as are most handicrafts. In principle such duties should not apply to the products of FDPIL-approved enterprises. But in practice it seems that they are sometimes levied. And there appear to be examples where the industrial products, if exported, would bear a higher duty than does the exported raw material.

Quantitative Restrictions on Foreign Trade

3.24 In addition to tariff restrictions, Afghanistan also has some quantitative restrictions on certain imports. Indeed, in 1975/76, 74 items were put on the 'banned' list, and currently some 100 items (e.g., alcoholic and non-alcoholic beverages, firearms, etc.) are on the list. The prohibitions are generally on religious or other public policy grounds, but some are intended to stimulate import substitution. There are, however, a few potentially quite significant imports on the list. They include Pakistani cottons, cotton and rayon blankets, furniture, and carpets, rugs and embroidered cloth. There are also certain export bans -- of which the most important are on textiles -- though limited volumes are permitted. The reason for export bans appears to be to ensure that all, or nearly all, of local textile output goes to the local market to stem the inflow of foreign textiles. One of the reasons for such trade are the price controls on local textiles, while there are no such controls on imported textiles; it thus pays producers to export as much as possible. However, the textile exports which have been cut back are predominantly medium quality cotton yarns and grey cloth, while the imports have been low quality finished products. Afghanistan was probably a net beneficiary from such trade, and managements of both public and private sector firms believe they could export more, if permitted. The need to keep domestic prices down is cited as the justification for the export ban. It should be asked, however, firstly, whether it is really impossible to control prices of imported textiles as well as those of local goods; and secondly whether the lower prices for local textiles are really being passed on by traders to consumers.

3.25 The scope for an import tariff, export duty and foreign trade control policy geared more towards building up local industry is limited by government revenue needs. In total, taxes on foreign trade accounted for 45% of government revenue in the 1354 (1975/76) budget (provisional actuals).

It would be difficult to introduce a development-orientated foreign trade taxation and control system which is sufficiently selective and flexible while the government's freedom of action is constrained by the need to maintain revenues from taxes on foreign trade. It would obviously be easier if revenue from direct taxes and internal indirect taxes could be stepped up. But this would be very difficult, perhaps impossible, without more adequate accounting standards being enforced on all types of businesses. Besides, personal and corporate incomes may just be too low at the country's current stage of development to seriously consider any measurable shift from indirect to direct taxation. Note, however, that while the company income tax rate, at 20%, remains below the effective rate of duty on most imports, the incentive to traders to understate import values remains (for most imports the tax saved through this understatement more than offsets the additional income tax to which the trader should in principle be subject); in many countries company income tax rates are three times or more the typical import duty rates.

General Recommendations

Note: Recommendations specific to the public sector appear in Chapter IV, while those specific to the private sector appear in Chapter V.

3.26 For a variety of reasons, it seems quite likely that the large investments envisaged in public sector industry in the Plan will not be realized in full. For some projects it may be impossible to obtain finance. Further study may show others to be either technically or economically unfeasible. The implementation of yet others may be unavoidably delayed. With or without this shortfall, there should be increased emphasis on the development of private sector industry, which is capable of playing a more important role than the Plan envisages. Specific measures to give expression to this general recommendation are discussed further below and in Chapter V.

3.27 Within the planned development of public sector industry, the present emphasis on resource-based projects appears correct. There are, however, certain individual elements which should be re-examined, particularly those which will involve heavy capital investment and advanced technologies. In particular, the potential economic benefits from the iron and steel project and the copper project should be determined as a matter of urgency.

3.28 As handicrafts and small-scale industry are around 25 to 30 times the size of FDPIL-approved private sector industry in terms of employment, and perhaps up to 5 times as important in terms of contribution to GDP, a 5% per annum growth in handicrafts and small-scale industry would at present contribute more to national incomes, than would a much larger annual increase in the output of FDPIL industry (or indeed of public sector industry). So within the private sector, particular emphasis should be placed on the development of handicrafts and small industries into more efficient units, with due regard to maintaining employment levels. So far only the first steps have been taken towards what is bound to be a long process. (See paragraphs 5.33 to 5.34 for specific recommendations).

3.29 To develop larger-scale private sector industry (in essence the FDPIL sector), the main step which needs to be taken is the creation of confidence and of a more positive ambience (see paragraph 5.31 for specific recommendations). Substantial private sector projects are impossible without foreign funds, and there is scope for more foreign investment which the Private Investment Department should seek to encourage.

3.30 There seems to be rather more scope than the Plan envisages for:

(a) Medium-scale import substitution industries and those introducing new products to Afghan consumers (e.g. processed foods);

(b) Medium-scale industries based on increased processing for export of products of local agricultural origin (e.g. leather and woolen goods).

Such industries appear particularly suitable for the FDPIL private sector, with smaller enterprises being mostly wholly Afghan in ownership, and the larger ones involving foreign participation.

3.31 It needs to be recognized that, unless there are political or social considerations of a quite exceptional nature, no major industrial project should go ahead unless it can be demonstrated that it will be to Afghanistan's economic advantage. While, so long as protection is not excessive, this would normally be the case for any private sector project from which the entrepreneur can expect to make a commercial profit, careful appraisal is needed of public sector projects, particularly in the context of intersectoral linkages and the pricing of inputs and outputs where these are from or to the public sector, or where they are determined in intergovernmental deals. It is also important to ensure that when the benefits from a project are shared between Afghanistan and a foreign entrepreneur or government, Afghanistan gets a fair share of those benefits. Paragraph 3.34 makes specific recommendations for the establishment of a Planning Unit for industry, but it also needs to be recognized by the government that the recommendations of such a unit would not be mere theoretical exercise, and should normally form the basis for government decisions.

3.32 The government's new educational policy puts considerably more emphasis on the development of vocational and technical training. This is to be welcomed, and its success is of key importance to the development of a really significant industrial sector in Afghanistan. But within this policy, there is need for a greater emphasis on developing management and accounting skills, and for programs specifically orientated towards the strengthening of the handicrafts sector. Attention also needs to be devoted to ensuring that appropriate students are attracted to be trained in these skills. And vocational and technical training in general should be linked, as is planned, to the development of industry as a whole.

Planning and Coordination

3.33 The divided control of industry between the Ministry of Mines and Industry (most public sector enterprises, pre-FDPIL private sector, and industrial parks), the Ministry of Commerce (handicrafts and small industries), the Ministry of Planning (FDPIL approved private industry, and overall economic coordination), the Ministry of Finance (financial control of Tasadys), and for certain individual industries, four other Ministries, should be rationalized. In particular, public sector, FDPIL private sector and small industry and handicrafts should be planned for as a coordinated whole, though the institutional support and control functions obviously need to be different. It is important to ensure that any new system grouping all types of industry under a single Ministry recognizes that handicrafts and small industry constitute the bulk of the industrial sector whether in terms of output, employment or exports, and will continue to do so for some years to come. It should also recognize the potential for new FDPIL-approved industries, particularly in respect of import substitution. The Ministry of Mines and Industry is at present not equipped to take these considerations into account adequately.

3.34 Planning and coordination for the industrial sector should be strengthened. This may best be achieved by establishing an Industrial Planning Unit in the Ministry of Mines and Industry which has statutory control over the most important public sector enterprises. The unit could build on the work already being done by the UNIDO Industrial Services Project. The functions of the proposed Planning Unit for industry should include:

(a) coordination of development among public sector industrial enterprises, the private sector and to the extent possible, small industry and handicrafts, with agricultural and other raw materials output, and with vocational and technical training;

(b) responsibility for the economic aspects of pre-feasibility studies on public sector industrial projects, and/or review of feasibility studies on public sectors industrial projects;

(c) identification, in consultation with IDBA, of potential new industrial projects, suitable either for the public sector or for private investment; this list should be based primarily on pre-feasibility studies;

(d) advice to the Private Investment Promotion Department in the Ministry of Planning on the acceptability of applications for FDPIL approval which involve an investment in excess of, say, Afs. 50 million; and

(e) development and training of Afghan staff in economic planning for industry.

This Planning Unit should be headed by a person of "President" status. In addition to Afghan professional staff, employment of international experts may be needed for some time.

3.35 A considerable improvement of statistical support is of key importance to adequate planning for industrial development. To this end, the work of the Central Statistical Office (CSO) needs to be reorganized and improved. In relation to industry, priority should be given to production of statistics on all types of industrial output, material inputs and consumption patterns. Liaison between the CSO and other government departments apparently needs improving. It should also be recognized that at present many of the potential users of such statistics within Afghanistan cannot read Dari, and seem unaware of what figures are available. Suitable translation facilities should be provided.

Manpower Development

3.36 While measures are in hand to develop skills at the engineer, technician and skilled worker levels, urgent steps are necessary to improve deficiencies in management, control, and administration. A Management Development Centre should be established. Though intended primarily for the public sector, it should be open also to the private sector; indeed the private sector should be encouraged to use it. Accounting courses should be of particular value to them. Though funded by government and possibly including an international assistance element, it should operate outside any Ministry. It would need to cooperate closely with the Ministry of Education and the proposed Industrial Planning Unit. The detailed work program should be determined following completion of a feasibility study, and the planning of required facilities and staff should take into account existing institutions, particularly the ILO Training Project.

3.37 A competent organization or firm of accountants is required to:

(a) establish proper accounting procedures for the public sector enterprises and instruct staff in these procedures;

(b) audit the accounts of public sector enterprises (see paragraph 4.32);

(c) train suitable Afghan personnel to fully professional levels to take over functions a) and b) above.

The organization or firm could probably operate within the framework of the Management Development Centre, or in association with IDBA, 4 or 5 qualified accountants would initially be needed for the functions listed above. Though there is a need for a recognized firm of accountants to carry out audits of commercial firms on commercial terms as well, the demand for these services is unlikely to be large until audit requirements for tax purposes are stiffened.

3.38 The above-mentioned recommendations cannot fully meet the trained management gap within existing and planned public sector enterprises. An additional possibility might be to establish management teams with external

assistance for individual (or groups of) state enterprises similar to the ILO team now operating within Jangalak. Their functions would combine day-to-day management with on-the-job training for the Afghan staff, who would eventually take full control. Such teams could also be related institutionally to the Management Development Centre. The precise needs would depend on the character of the industry involved and the skills already existing in it. For enterprises where existing management teams are inadequate, typical needs might include:

- a team head (working alongside the Chairman);
- a chief engineer/production coordinator;
- a marketing coordinator;
- a chief accountant/financial planner;
- a training and staffing coordinator.

It is obvious that a project of this kind would be expensive, partly because of the number of corporations involved. With the right people working in the right framework, it could, however, be very cost-effective, particularly in view of the government's commitment to an expansion of industry for which the required management skills are seriously lacking.

The Tax System and Related Problems

3.39 It appears from paragraphs 3.19 and 3.20 that in a formal sense, the import tariff and indirect tax system do not in general discriminate against domestic manufacturers; indeed the formal protective margins are quite high. There is, therefore, no case for another revision of the import tariff on these grounds alone. Certain anomalies, where there is negative protection, as in paints and dyestuffs, should be eliminated by reduction in duties on the relevant raw materials. There is, nonetheless, a very real absence of protection to local manufacturers stemming from smuggled and under-invoiced imports, which appear to be of considerable economic significance in Afghanistan. However, increase of formal protection to manufacturers could well increase the incidence of malpractices. Rather, steps should be taken to try and eliminate them. A better system of customs inspection and minimum values for tariff assessment may have to be introduced to make it more difficult for importers to understate import values. Heavy fines should be imposed on those found to be doing so, and customs officials conniving in such practices should be punished.

3.40 The system of indirect taxes should be rationalized. There should be a single import tariff combining the present Customs Tariff, Service Charges, Red Crescent Charges, Fixed Tax, Monopoly Tax, Authorization Charge, Privilege Charge, and Luxury Tax. Adjustment would be needed to ensure that FDPIL protection is maintained at present levels. The Consumer Goods Tax and the Turnover Tax might also be combined. Apart from combining these taxes, the protective structure should be recast to ensure that the effective rate of protection is broadly similar on all types of industrial products, so that market forces play a more effective role in resource allocation.

3.41 Export taxes on industrial products should be eliminated, except where it is clear that Afghanistan enjoys a sufficient comparative advantage for taxes to have a less than corresponding effect on the value of exports. Where products can be manufactured locally from semi-finished products now

exported, with greater net economic benefit to Afghanistan, export taxes on the semi-finished product might be increased to encourage local manufacture. Leather products are a possible example.

3.42 The existing export bans or controls on certain industrial products, notably textiles, should be reconsidered to determine whether they really act in Afghanistan's economic interests.

3.43 The system of taxation within Afghanistan needs strengthening -

(a) To increase revenue yields; this should eventually permit import tariffs to be set at lower levels and would reduce the inflationary effects of present tariffs.

(b) To make it fairer in operation as between those few firms which keep adequate books, those on which some information is available, and those on which there is none. (Foreign investors and all sizeable private industrialists are penalized now and this discourages traders from putting funds into industry.)

3.44 To achieve these ends the company tax rate should be increased; in time it should be set above the effective rate of the combined duties levied on typical imports (this should help to eliminate the incentive to understatement of import values); and the consumer goods tax should be cut at the same time. Most important of all, the system of income tax assessment needs to be clarified and applied in practice with equal vigor on all types of business according to clearly specified rules. It needs to be less arbitrary in nature. The formulation of a "statute of limitations" on income tax assessments would remove one major deterrent to investment of existing and prospective enterprises. A key step to making this possible is the improvement of accounting standards and knowledge both within Afghan industry generally, and with the income tax authorities. Additional specific measures which might be considered are:

(i) acceptance of accounts audited by a government-approved auditor as a basis for income tax assessment;

(ii) in the context of i) above, a clear statement is needed of what expenses are tax-deductible and what allowances are permitted;

(iii) firms which do not have audited or otherwise reasonably adequate accounts pay tax on the difference between their turnover (assessed if necessary by the tax authorities) and the total of expenses and allowances for which they can produce adequate documentary evidence;

The difference between i) and iii) above in the amount of tax payable should be a powerful incentive to produce adequate accounts.

3.45 To advise on the rationalization of tariffs, indirect taxes and business taxes, there would be need for the assignment of two or three tariff and revenue specialists to Afghanistan. The subject would have to be considered in the context of an overall study of the country's public finances.

IV. PUBLIC SECTOR INDUSTRY

Background and Characteristics

4.1 Public sector industry in Afghanistan has two origins: enterprises set up as private firms which have subsequently come under government control; and enterprises established as state ventures. The former category, mostly long established operations, includes some of the largest public sector enterprises in Afghanistan: Afghan Textile Co. became a state enterprise only through the recent nationalization of the banks, that were majority shareholders; in Spinzar, the government acquired a majority shareholding; the government was forced to take over the four units which now constitute Balkh Ginning, Pressing and Oil Extraction because of their increasing debt to the government; and Woolen Industries of Puli Chakri is a former German-owned operation which closed down a few years ago, and has now been reopened by the government. The enterprises established as state ventures are generally more recent in origin, dating mostly from the 1960's. The failure of private enterprise to develop significant new industries since the Second World War was one reason for the government initiative, while some of the new operations were based on Soviet assistance. The Seven-Year Plan represents a major step forward in the planned development of new state industries.

4.2 The main public sector industrial enterprises were listed in Chapter I, Table 1. The remaining public sector industries are relatively small. There are about 6 significant ones, most featuring in the list of Tasadys which appears in Annex D. The most important public sector industry is based on cotton: Afghan Textiles (three factories); Bagrami Textile and Balkh Textile; Spinzar, Balkh and Helmond Cotton ginning and Oil. Other major products are construction materials (Ghori Cement, and the prefabricated concrete plant), urea fertilizer, and various food products. Locationally, most public sector industries are tied to the areas from which agricultural and other raw materials come. Some are in Kabul. Afghan Textiles' plants are midway between the ginning plants in the North and Kabul. Among the advantages of this resource-based locational structure of industry is that it has facilitated exports to the USSR - notably of ginned cotton and urea. Quantitatively, however, intersectoral linkages have been poor. A major aim of the Plan is to improve this situation.

4.3 As discussed in Chapter II, the Seven-Year Plan envisages a substantial expansion of public sector industry, with particular emphasis on projects linked to the agricultural and mineral sectors. In some cases such developments are planned as expansions of existing industrial undertakings. Most are, however, entirely new projects, many of them in areas where the industry concerned is not at present producing on a significant scale. These plans, even if only partly implemented, would create problems of an entirely different magnitude to those which public sector industry now faces, and which are discussed in this Chapter. Unless solutions to these problems are found and implemented, successful implementation of the planned public sector industrial projects may well be in jeopardy.

The Control of Public Sector Industries

4.4 There are four different types of public sector industry in Afghanistan: enterprises that are parts of Ministries; Tasadys, government majority shareholdings; and majority shareholdings by organizations themselves under government control (possibly in conjunction with government's own holdings). Even in the case of those within government it is not always clear into what category particular enterprises fall, and the differences in government control procedures are often less marked in practice than they appear in principle.

4.5 The only important industrial enterprises which form part of a Ministry, and operate as a branch of the government service, are the fertilizer factory and thermal power plant at Mazar-i-Sharif; these are part of the Ministry of Mines and Industry.

4.6 The largest group of public sector industrial enterprises are the Tasadys. Altogether there are 41 of these at present, falling under 10 different ministries. They are listed in Annex D. All also report to the Ministry of Finance on budgets and accounts. However, only about 11 of these are clearly industrial enterprises, 10 of them under the Ministry of Mines and Industry, and one (the prefabricated housing unit factory) under the Ministry of Public Works. Six of the remainder are partly industrial in character: the Mint (Ministry of Finance); the Government publishing house (Ministry of Information and Culture); the educational publishing house (Ministry of Education); carpentry, stone and concrete-making for the armed forces (Ministry of National Defense); wood enterprises (Ministry of Commerce); and the Afghan Food Department (Ministry of Finance) of which Kabul Silo, which produces flour and bread, is part. Other Tasadys include mining and exploration, construction units, three port authorities, the domestic airline, a cooperative for issue of food coupons, the hotel industry, the department for firms in liquidation, the government monopoly (sugar, oil products, etc.), a film producer, an advertising agency, a press club, Nindaz (travelling shows), various medical and health insurance organizations, welfare and social organizations, and a slaughterhouse.

4.7 There are two important public sector companies, in which the government has a majority shareholding -- the Spinzar Company at Kunduz, and Jangalak Industries. The largest single manufacturing company in Afghanistan -- Afghan Textile -- is controlled by banks, which themselves, following nationalization, have come under government control. Afghan Textile, has, however, a large number of small private shareholders, and is itself the main majority shareholder in Spinzar and Jangalak.

4.8 As is evident from paragraph 4.6, the Tasady is a blanket form of organization covering productive enterprises, service functions within government, and parastatal organizations of all types. Each Tasady is headed by an Amer-i-Omuni (in practice the Minister of the department concerned), who determines policy, approves annual plans and budgets, supervises the internal management of the Tasady, and appoints all except junior staff. The Management, headed by a President, is therefore on paper essentially the executive arm of

the Amer-i-Omuni. In addition, there is a Board of Supervisors, drawn from within government, who report to the Amer-i-Omuni and are supposed to carry out 6-monthly operational and financial audits of the Tasady's affairs.

4.9 In practice, however, Ministers are unable to devote as much time to the detailed control of individual Tasadys as the job functions of the Amer-i-Omuni imply. The Board of Supervisors frequently fails to make the required reports; indeed in view of the lack of adequate accounts in many Tasadys, it is impossible for them to do so. Financial control tends to be exercised primarily by the President of Tasadys in the Ministry of Finance, but with some Tasadys years behind in their submission of accounts, and in view of the direct relationship between the Minister and the President of the individual enterprise, it is difficult for this control to be effective.

4.10 In addition to the need for government approval for all new investments, regular control over the operations of industrial Tasadys is exercised in four main ways:

(a) Managements are unable to make purchases of supplies, spares, replacement equipment, etc. in excess of, generally, between Afs 200,000 and Afs 500,000 (US$3,500 to US$9,000) without the authority of the Minister responsible.

(b) The annual budgets (for all expenditure items) have to be approved (see para. 4.11 below).

(c) Only quite junior management appointments lie within the discretion of the Management.

(d) Prices and markups are in principle fixed by the Minister; though he can delegate this power, in practice managements feel themselves tied in their pricing policies.

Ministerial authorizations are often granted readily and rapidly. But the need for such authorization deters Management from acting in a genuinely managerial capacity; many of those the mission met seem to regard themselves as not having any real responsibility either for the immediate viability of the enterprise or for its long-term development. While in principle it appears very reasonable that the government should control pricing policies, the practice in some enterprises has led to a situation where it is impossible to make profits on home market sales, without it being generally appreciated that this is the case. The lack of adequate accounts often makes it difficult to determine whether price increases are needed.

4.11 Each Tasady has two budgets: an administrative budget for wages and overhead expenses corresponds to what the internal costs of a government department would be; and an operating budget, to cover the operating costs (including materials purchases) of the enterprise. Both budgets should be approved by the Minister responsible for the individual Tasady, though in practice this has been done by the budget department of the Ministry of

Finance (however, from 1355 on, it no longer does this for operating budgets). To arrive at the overall profits or losses of a Tasady, expenditure under the administrative budget is subtracted from net revenue (total revenue less operating costs). The balance, if a profit, should be transferred to the government, partly as tax and partly as a dividend. It should be noted, moreover that:

(a) an amount equivalent to the annual depreciation provision is supposed to be deposited with the government's account to finance future investment spending. (In practice enterprises need this for working capital and they normally are allowed to retain most or all of it; sometimes, too, they don't transfer the whole of the profit).

(b) Tasadys are not normally debited with service charges on loans.

(c) revenue for sales to government is often simply credited to the account of an enterprise, rather than being paid.

(d) as the administrative budget expenditure for Tasadys appears as an item of general government expenditure as well as in the Tasady's budget, a consolidating adjustment has to be made to the transfers from Tasadys to put the accounts into budgetary terms.

4.12 The system of control of Tasadys may be appropriate to an organization of an essentially service or welfare nature, as many Tasadys are; but a potential higher management gap is opened up when it is applied to productive industrial enterprises operating in a market environment. Ministers cannot devote the time necessary to control operations in detail; senior officials in Ministries lack both authority and staff resources to do so, and some managements are either unwilling or incapable of performing effective management functions. In many cases, this potential gap is largely filled by the Minister (in practice) allowing more freedom of operation to managements than the Law of Tasadys implies; he approves management recommendations fairly automatically. But this does not always happen. An absence of detailed government control may well be advantageous, so long as the managements assume true responsibility for the enterprises' viability and long-term development. At present, though, even the best cannot or do not do this; and some seem only too keen to abdicate almost all responsibility.

4.13 The control of non-Tasady public sector industrial enterprises generally differs in practice from that applied to Tasadys in matter of degree and formal mechanism, rather than in where the true decisions are taken. This does not, however, apply to Afghan Textile. Because it has only recently come under government control and its future status appears uncertain, and partly because it is so much larger and more complex an operation than other public

sector industrial enterprises, Afghan Textile remains in its day-to-day operations essentially what it was under private enterprise; government intervention, via the Board, appears to be limited to policy and long-term matters. In other public enterprises with company status, though formally channelled through the Board, decisions on spending and pricing in the main are taken by the government. Indeed, the government's responsibility is sometimes as complete as in any Tasady.

4.14 In spite of the system by which control is exercised at government rather than enterprise level, public sector enterprises operating in the same industry work in the main as individual units, rather than as a coordinated group. This is most obviously the case in cotton textiles, where public sector enterprises are in direct competition for markets with one another, with private enterprise, and with imports. In principle, it might help efficiency for them to operate independently and in competition. But in practice the position is less than efficient. Some coordination is evident; but the real problems will come with the creation of new industrial units. It is not clear whether these are to come under the managements of existing enterprises, or if entirely new enterprises are to be set up.

Profitability of Industrial Enterprises

4.15 Though some Tasadys are several years behind in submitting accounts, and though accounting procedures have several serious deficiencies, it seems probable that, overall, public sector industrial enterprises do make profits. Among Tasadys as a whole, some three-quarters are expected to have made profits in 1355 (1976/77), though the concept of "profit" is somewhat artificial in relation to several of the non-industrial Tasadys included as "profit-makers". Of the enterprises visited, including non-Tasadys, the managements of all except one indicated that they had made profits in 1354 (1975/76), or 1353 where 1354 internal accounts were not yet completed, and in most cases had been made in previous years as well. Most of their estimates are based on internal management accounting data; nevertheless, the total of estimated profits, less the one loss-maker, is around Afs 550 million (US$9.6 million) per annum.

4.16 Many adjustments should be made to put such figures on a basis which reflects more accurately the true position. The most important is loan service. No firm information on the total involved, both internal and external, could be obtained. On an arbitrary 8% of identifiable debt, probably around Afs 200 million per annum should be subtracted from the profit figures quoted above. Other important adjustments may be necessary in the context of:

(a) depreciation rates (typically 6 to 8% on machinery and 2% on buildings) which take no account of inflation; and

(b) valuation of stocks (both raw materials and finished products) at historic values; this is in some instances a less conservative procedure than might be assumed, as certain enterprises have significant unsaleable finished product stocks.

Assets are rarely, if ever, revalued, and it is sometimes difficult even for the management to check what stocks are actually held, as against those which exist on paper. This is a consequence of the system, still common in Afghanistan, of the "bonded storekeeper", who in return for a personal bond has total responsibility for the stores.

4.17 Though there was no opportunity to examine in any detail the books and accounting procedures of any public sector industrial enterprise in Afghanistan, it was clear from what the mission did see and its discussions with management that probably only 2 or 3 keep reasonably adequate financial and cost accounts. In others, procedures are rudimentary and managements are not very clear themselves what is, or is not, included in "profit" figures. It seems quite likely that a more realistic overall annual profit figure for public sector industries might be in the area of Afs 250 million (US$4.4 million), which is quite small. Much of this is by Afghan Textile. Because of non-revaluation of assets, it is not possible to relate any such figure to capital employed; indeed the distinctions between asset value, original investment, share value and loans outstanding are not generally appreciated.

Internal Management and Operational Problems

4.18 The paragraphs which follow note briefly some of the most common and important problems found in the operations of the nine public sector industrial enterprises visited by the mission. Deliberately, comments are not related to individual enterprises, as their implications are general.

4.19 It will be noted that most of the comments are not on technical aspects of the operations of enterprises, or the use of the resources at their disposal. In general, the mission was quite impressed by the levels of competence in these areas. The comments stem in the main from problems of planning (both before the enterprise was set up, and for its subsequent development), market orientation, and control (both within the enterprise and from government downward). It is these problems which, above all, must be solved if public sector industry is to achieve planned targets.

4.20 The largest single problem of Afghanistan's public sector industry is its lack of management skills. Indeed, there is a widespread lack of understanding of the need to apply modern management sciences. This problem has been discussed in relation to both public and private sectors in Chapter III, para. 3.3 to 3.10. The lack of adequate accounts noted in paras. 4.15 to 4.17 above is a major aspect of the problem; it deprives managements at one stroke of their most important single tool of analysis and control. Another major aspect, which emerges in the paragraphs which follow is the insufficient orientation of many enterprises to the market and the lack of any long-term planning at the level of the enterprise.

4.21 Related to the lack of management skills is that of insufficient delegation of responsibility. It impedes the development of junior and middle management into responsible senior executives. And it means that

senior management becomes so involved in minor matters of detail (on purchases, contracts, staff appointments, etc.) that it is unable to devote sufficient time to strategic and long-term matters. The problem is of course related to that of ministerial control of operations (paras. 4.4 to 4.13).

4.22 Of the nine enterprises visited only two were operating at good levels of capacity utilization. In one case, the plant was still in the build-up phase. Two plants could not work at full capacity because of a lack of sufficient supplies of their main raw material, cotton, though their situation in this respect has considerably improved in the recent past. In another, the main problem is a technical one, with a raw material whose quality is such that the plant has to be frequently closed for servicing; it also has problems with water supply. In the remaining three, the main problem appears to be that of market insufficiency, in respect to either part or all of their operations, though technical problems exist as subsidiary reasons. However, in only one enterprise was overall capacity utilization below 50%, while in another three it was around 60%. In general, levels of capacity utilization appear to have improved in recent years. Methods of calculating utilization vary considerably, and calculated rates should not be taken at face value.

4.23 It is worth noting that the plants affected by insufficient demand for their products are all old-established; it is not a question of waiting for demand to catch up with the capacity of a recently established project. Only one of them is actively seeking new markets for its output, and attempting to introduce new products to replace those for which demand is insufficient. Although one of the others has long operated far below capacity, a doubling of capacity is planned.

4.24 A lack of awareness of market factors is widespread in public sector industry in Afghanistan, with the partial exception of cotton spinning and weaving. Managements rarely have any factually-based view of how fast Afghani-stan's market for their products is likely to grow. In some cases they appear to feel that it is up to government to assure them adequate markets. All the plants visited by the Mission, which were working below capacity mainly because of an insufficient market, have the technical capacity to make products which could be sold to the private sector; only one of them has made any real attempt to do so, and that on a limited scale. Indeed, apart from export sales to the USSR on terms negotiated by government, the great majority of sales of public sector industry in Afghanistan, other than cotton textiles, are to government. In some cases the nature of the sector makes this unavoidable. In others, it does not.

4.25 In few of the enterprises is there evidence of management planning to overcome current problems. In even fewer do potential new or long-term problems appear to be identified. Nor do managements appear to have devoted attention to devising plans, for submission to government, for the long term development of the enterprise. Such questions are too frequently regarded as being for the government alone to consider.

4.26 The problems of insufficient raw materials which have prevented the cotton ginning industry working at full capacity stemmed from the insufficient inducement to farmers to grow cotton rather than wheat. Price increases in 1352 and 1353 (1973/74 and 1974/75) have greatly improved the supply situation, though this still falls short of ginning capacity. Further increases relative to wheat may well be needed if ginning capacity is doubled as the Plan envisages. (This should not be taken as implying that it is necessarily in Afghanistan's economic interest to build up cotton production at the expense of wheat).

4.27 In some industries government price controls have created problems. The most important are cotton and cotton textiles; in these, low market prices have been held down to two-thirds or three-quarters of those realizable for exports. It was this situation which led to an export surge and the subsequent restriction on exports (see para. 3.24). In several other industries administered prices for home market sales have pared down margins to the point at which profits are very small even according to the enterprise's own accounts; if put on a more realistic basis, they would be shown to be loss-making. (One example was an industry whose prices were linked to an assumed full capacity operation which market insufficiency and technical problems make it impossible to even approach).

4.28 At the technical level, as already noted, public sector enterprises in Afghanistan seem to be reasonably well-conceived, well-organized, and well run, though there are exceptions. A general tendency is, however, poor manpower utilization. This exists to some extent in production problems (e.g. in terms of looms per worker); however, training needs and the implications of modest wage rates explain this high labor utilization in part. The ratios of non-productive to productive staff are frequently very high. In some plants only around half the total manpower is directly involved in production process with a quarter each in 'administration' and as auxillary personnel (guards, gardeners, messengers, etc). And in several plants, only about two-thirds of the manpower were direct production workers. In contrast, in one enterprise over three-quarters of total manpower is productive and under 5% is involved in administration; this small, high calibre, management staff was particularly efficient.

4.29 Afghanistan's geographical position and the limited level of industrial development to date means that individual enterprises cannot rely on assured supplies of imported materials and parts, and in other ways have to be largely self-sufficient. In particular:

(a) most enterprises have to hold eight months' to a year's supply of spares and chemicals and other imported materials used in the production process. This obviously imposes a financing burden.

(b) most enterprises have established workshops to make many parts themselves, as and when needed. These are equipped with machine tools and other equipment, and need to be staffed by skilled workers, yet use is only intermittent.

Partly because of geographical dispersal, there is only limited scope for shared facilities of this type (though there probably is unnecessary duplication at present).

(c) in spite of the precautions noted in (a) and (b) above, lack of some quite simple spare part or imported raw material does on occasion delay production processes for months on end. It may be worthwhile considering using air freight in such circumstances.

(d) most enterprises have established in-house training schemes for workers. These appear to have worked successfully; but they impose a significant cost on the enterprise.

(e) several enterprises have their own power plants. Many have transport facilities for workers. And some have invested heavily in housing, medical care and other facilities normally provided by the State.

In general these arrangements appear to work reasonably well. All, however, involve costs to the enterprise which competitors in other countries are less likely to face.

Recommendations

4.30 Public sector enterprises should be freed from the system of control associated with the Law of Tasadys and be given the structural and organizational setting in which they can operate with a greater degree of management responsibility and improve the efficiency of their operations. Under the general supervision of the relevant ministry under which they function (para. 4.6), public sector enterprises should have direct responsibilities for:

(a) management, supervision and coordination of plant operations;

(b) marketing;

(c) preparation of periodic (monthly/quarterly) operational management information and annual financial accounts;

(d) financial management and profitability;

(e) staffing, except for chief executives and directors;

(f) training of staff (in liaison with the Ministry of Education and the proposed Management Development Center, para. 3.36).

4.31 Details of the future structural and organizational set-up of public sector industrial enterprises or groups of enterprises should be determined after careful study of the prevailing conditions in these industries in Afghanistan. No specific suggestions are, therefore, made in this report. One possibility, under consideration in the Ministry of Finance, which would have to be assessed, envisages State Corporations, each covering a particular industry or group of industries. The principal objectives of reorganization, however, would be:

(a) a clear definition of the responsibilities of enterprise level management and the controlling ministry respectively; and

(b) a substantial improvement in inter-ministerial cooperation in matters affecting the functions of public sector industrial enterprises.

4.32 It is recognized that it would take some time for the current organization of public enterprises to be replaced by a new corporate system that would give state industrial enterprises essential freedom from government control over day-to-day operations. In the meantime, the strongest possible pressure should be put on the managements of existing public sector enterprises to improve their accounting procedures and to submit their outstanding accounts for all years up to and including 1354 (1975/76), as most are required to under the Law of Tasadys. Where it is not possible to submit accounts in the prescribed form, provisional accounts should be submitted. Particular attention should be devoted to problems of cost analysis and control, capacity utilization and pricing. It is recognized that only slow progress in these directions will be possible with the accounting and management skills which most enterprises now have. Paras. 3.36 to 3.38 contain recommendations for necessary improvement of managerial capabilities.

4.33 While emphasis should be placed on improving current accounting procedures rather than measuring past profits and losses, it is also important for revenue purposes to determine how much each enterprise is earning or losing. Given the accounting skills available, it will probably be easier to do this through a series of annual accounts prepared by the existing rather crude methods than by drawing up a full reconciliation including revaluation of assets.

4.34 Managements of existing public sector industrial enterprises should also be urged to develop plans to put non-viable (parts of their) operations on a profitable basis where this is at all possible. Where losses result from government pricing policies, these should be specifically identified and covered by subventions.

4.35 Attention should finally be drawn to the importance for public sector industry of certain of the specific recommendations made in Chapter III, notably:

(a) the recommendation for rationalization of responsibilities for industry (para. 3.33);

(b) the recommendation for the establishment of an Industrial Planning Unit (para. 3.34) and its suggested functions in the context of industrial coordination and project appraisal; and

(c) the recommendations to establish a Management Development Center (para. 3.36) to develop accounting services (para. 3.37), and possibly to establish management teams with external assistance for individual (or groups of) state enterprises (para. 3.38).

V. PRIVATE SECTOR INDUSTRY

Background and Present Status

5.1 Despite the emergence of important public sector industries the bulk of Aghanistan's industrial employment continues to be provided within the private sector. Handicrafts and small-scale industries contribute more to employment, output and the export of final industrial products than the organized industrial sector, both public and private. Employing about 300,000 persons, this segment of Afghanistan's industry continues to meet a significant proportion of domestic demand, supplying a wide range of consumer goods and construction materials. Handicraft products, above all carpets and rugs but also fur clothing, including pustinchas and posteens, embroidered textile products, leather goods, stonework, and jewelry are important export items. Carpets and rugs alone accounted for US$20 million or about 9 percent of Afghanistan's recorded exports in 1974/75. In addition, a considerable volume of carpets and rugs found their way through unofficial channels to neighboring Iran. Details of the recorded trade in handicraft items are shown in Annex A.

5.2 Production techniques in handicraft industries are simple and non-mechanized; they have barely changed for generations. Apart from carpets and rugs, the quality of handicraft items produced in Afghanistan is generally not very high. Often labor-intensive work such as embroidery is put into inadequately prepared sheepskin coats and leather goods. Leather is poorly cured, kilns are too small for proper firing of pottery, and jewelry makers have no proper polishing equipment. Afghanistan has not yet improved its techniques of handicraft production. Consequently, in spite of low wage costs Afghan handicraft products are often not competitive in export markets.

5.3 Being dispersed throughout the country, in probably more than 80,000 establishments, and lacking any form of association, handicrafts and small-scale industries are generally inelastic in volume and scope of production. These are determined either by the immediate local market they serve or the trader who in many instances provides production materials and the operating capital needed. Kept within these bounds, management skills remain at fairly low levels and any move into larger scale of production and the application of improved techniques is generally precluded. It is evident that handicrafts and small-scale industries have the potential to play a more signficant role in the development of the industrial sector than has been hitherto realized. There is considerable scope for technological improvement while preserving traditional skills, organizing procurement of materials and equipment and better marketing of products. This, however, has as yet not been recognized by the government, and the support given to these activities has remained marginal.

5.4 Private sector industry, other than handicrafts and small-scale industry, emerged in Afghanistan prior to World War II but has developed on a broader scale only after 1967, mainly in response to the incentives provided under the Foreign and Domestic Private Investment Law (FDPIL).

Although comprehensive information on this group of industries is not available, it is understood that the group currently comprises about 130 establishments, which together employ around 10,000 persons. Even taken as rough indicators, these data suggest that the average size of a private manufacturing enterprise in Afghanistan is rather large if compared to other countries at a similar stage of development. This feature would have been even more pronounced had not several of the largest, originally private enterprises, such as the Afghan Textile Company and the Spinzar Textile Company, come under public ownership (para. 4.1)

5.5 The partial list of industrial enterprises shown in Table 1 shows five private sector companies, each with an employment of 200 or more persons. The largest, a skin pickling plant and a shoe factory (AHU) employed about 500 persons. The other four included a hosiery factory (Nowrozi) with about 300 employed persons, a pharmaceutical plant (Hoechst) with 250, and a plastics shoe factory (Watran) with about 200 employees. Two of these large private manufacturers had minority foreign capital participations.

5.6 The following characteristics appear to distinguish the private industrial establishments approved under the FDPIL until about mid-1974 (for more details see Annex E):

(a) heavy concentration of import-substituting industries. With 72 out of 100 approved projects these industries accounted for 80 percent of the total original investment. The principal industry groups represented were rayon weaving (18 projects), plastic products including footwear (12 projects), and metal fabrication (8 projects).

(b) among the 28 export-oriented industries the most important were leather and tanning (10 projects), raisin processing (9 projects), and animal casings (2 projects).

(c) about 86% of the total estimated original investment was concentrated in the Kabul area, with no other city participating with more than 4% each.

(d) although there were 21 projects involving foreign investment, the total foreign investment was given as only Afs 312 million (US$5.5 million). There were only two firms with substantial (minority) foreign capital participation. In the remaining 19 projects approved, foreign investment averaged just Afs 8 million (US$0.14 million) per project.

5.7 Since private industry established prior to 1967 is now relatively insignificant the above features are fairly representative for the private manufacturing sector. Moreover, except for very small industries, there are probably only few private manufacturing units that have no FDPIL status.

5.8 Information on private industries that have begun operations since 1974 is very scanty. It is, however, clear that private industrial investment was adversely affected by the uncertainties following the 1973 change in government and the lack of a clearly defined policy toward the private sector's role in industry. According to the records of the Industrial Development Bank of Afghanistan (IDBA) only 14 new industrial projects have received final approval since 1974; of these, three are likely to be abandoned by the investors concerned and more may yet drop out. The total investment envisaged in all the approved projects would not exceed US$10 million or about Afs 570 million.

5.9 The few entrepreneurs establishing projects under the FDPIL are people from the trading class, with considerable knowledge of markets within Afghanistan and (to a limited extent) abroad, but with little knowledge of industry as such or of the management skills it requires. Some entrepreneurs are young, educated Afghans, who have previously worked in the public sector and are seeking a more challenging and potentially more profitable outlet for their energies. But these are the exceptions. On the whole, the small educated segment of society prefers the greater security and status of government employment in spite of the meager levels of official salaries.

5.10 The lack of industrial tradition and direct experience has involved considerable shortcomings in the development of private industries which has obviously contributed to discourage potential investors from new private industrial ventures. It is evident that a significant number of projects were misconceived. Small enterprises using simple technology sought to compete with larger operations able to produce at lower unit prices. The implications of simultaneously establishing a number of competing enterprises in the same field were often disregarded. Market research and project appraisal had rarely been undertaken before an industry was set up. As a result, enterprises found themselves competing with cheaper imports, which in many cases were anyway favored over domestically produced items. All these are factors explaining the persistently low utilization in manufacturing plants and the pile up of large stocks of unsold merchandise. Of the seven private firms the mission visited, two were operating at only 20% of capacity, and another two at around 50%. Some of the factories were carrying six-months' stocks of finished products.

5.11 The paucity of management and technical skills or indeed of any real understanding of the nature of the problems likely to arise in an industrial undertaking are probably the largest weaknesses of private sector industry in Afghanistan, as also of most public sector enterprises. Although the private sector generally has a good grasp of desirable product characteristics, and acceptable prices, there is little appreciation of the need to determine how large the market is. There are also cases of technical deficiencies in production planning, and inappropriate machinery. However, it should be stressed that the best private sector firms are stronger in these respects than are the majority of public sector enterprises.

Government Control and Support of Private Industry

Registration under the Commercial Law

5.12 Under the Commercial Law of 1334 (1954), every person who as an individual or as a member of a Corporation, possesses a legal commercial capacity and is engaged in one or more commercial activities is required to be registered. This Law lays down provisions governing the conduct of commercial business by individuals, partnerships and by corporations. It regulates Commercial Documents and Commercial Agencies. The Chapter on Companies and Corporations contains the usual provisions regarding election of Directors and Board Supervisors of the Company by stockholders. However, registration under the Commercial Law is probably far from comprehensive, in particular with respect to handicrafts and small industries.

The FDPIL System

5.13 In June 1974, the Government of Afghanistan promulgated a new Foreign and Domestic Private Investment Law in replacement of the old FDPIL of 1967. A summary comparison of the major provisions of the old and the new laws appears in Annex F. The main provisions of the 1974 FDPIL are:

(a) Four years' income tax holiday (six years outside Kabul) from the date of the "Final Approval" of a project;

(b) permanent exemption of duties on import of capital goods and a maximum 10% rate of duty on imports of spare parts (but full rates of duty apply to transport equipment, construction materials and office furniture);

(c) a maximum rate of duty on raw materials of 20% (in practice, however, many of the duties are set at under 10%);

(d) permanent exemption from export taxes;

(e) exemption from certain direct taxes on capital and legal fees;

(f) after five years, profits may be remitted in annual installments of up to 20% of the original investment;

(g) the share of foreign investment in the total must not exceed 49%;

(h) expropriation would be carried out only in the public interest, and after compensation, according to the pertinent legislation;

(h) Government departments and agencies are required to grant a 15% price preference over imports to FDPIL approved industries.

The limitation of foreign shareholdings to 49% creates potential problems in that it may be difficult for Afghan private interests to put up 51% of the capital requirement for any large project or indeed for a fair number of medium-sized ones. It is understood, however, that this rule may be waived.

5.14 There is a two-stage procedure for approving applications under the FDPIL. The first involves submission of a fairly simple form. The second requires a more elaborate application incorporating very detailed information about the project and its impact on the economy. At each stage the application has to be approved by the Investment Committee, composed of the Ministers of Planning, Mines and Industry, Finance, Commerce, and Agriculture and Irrigation. Applications are submitted through the Private Investment Promotion Department in the Ministry of Planning, which acts as a secretariat for the Investment Committee. In practice the Private Investment Promotion Department has to guide and aid investors in completing their applications; IDBA also helps in this. The quite considerable changes in composition of individual projects between preliminary approval and final approval stages (the majority of projects, particularly the smaller ones, are substantially expanded -- sometimes tripled or more -- in their stated investment requirements) may imply that this process is a useful one in permitting the only well-founded projects to come to fruition. On the other hand it probably sometimes means that the investor is persuaded to try and mount a project which is beyond his management capabilities, and one which also requires new sources of finance.

5.15 It takes on average only about two months from the date of submission of the preliminary application to the final approval of the project, which is quite satisfactory. There are, nevertheless, some weaknesses in the current procedural practice of the FDPIL system which should be remedied. One is an apparently built-in rigidity of the system to even minor changes in project characteristics as described in the final approval. For example, one rayon weaving plant claimed it could not change the type of yarn imported under tariff concessions to another one required by changed market conditions without losing the relevant privileges. Another plant, a skin processing operation, claimed it could step up its exports beyond the level stated in the project approval, but would have to pay export duty. It seems that even such changes require separate approval of the Investment Committee.

5.16 Other problems are related to the competence of the Private Investment Promotion Department. While rather complex project data have to be provided by the potential investor, the Department appears ill-equipped to adequately assess these. It also appears that the role of the Department is perceived as being one of control of private industrial investment rather than to stimulate it and to promote new investment.

5.17 Since the Private Investment Promotion Department does not usually accept applications involving investments of less than Afs 2 million, small-scale industry and handicrafts are in practice excluded from the benefits of the FDPIL system, although the FDPIL status is legally open to all industries, regardless of size.

Financing and Other General Support

5.18 Until a few years ago, there were only three banks in Afghanistan. Da Afghanistan Bank is the central bank and does not normally do any commercial banking. Pashtany Tejaraty Bank is a government bank, which provides financial assistance primarily for trading activities. Bank Mellie was started as a commercial bank in 1930 but later moved into establishing large industrial ventures for which it acted as a holding company. Three new banks have been established in recent years, namely, the Agriculture Development Bank (AgBank), the Industrial Development Bank of Afghanistan (IDBA), and the Mortgage and Construction Bank. All of these banks became government owned under the Bank Nationalization Law promulgated in May 1975. Operationally this nationalization is not yet fully effective and certain important features of the new arrangements have still to be announced. In April 1976, the Government announced the decision to establish an Export Promotion Bank.

5.19 In the past the banks gave mainly short-term commercial loans, and were not very active in providing finance for industry. The development of the private industrial sector in recent years has been financed mainly by the savings and accumulations of the investors themselves, together with foreign capital and loans from foreign partners, suppliers' credits and to a limited extent, bank loans.

5.20 IDBA was founded in March 1973 with a share capital of 240 million Afs (US$4.2 million), 60% of which has been contributed by Afghan interests and 40% by IFC and five other foreign banks. In addition IDBA can draw on a credit of US$2 million from IDA for providing a line of credit for private industry. The bank can provide loans to private industry for both fixed assets and working capital. It can also participate in the equity (and has in fact done so in the Yakoob Tannery Company along with Jenisco from the USA). In practice, though, IDBA has not been able to provide any significant financial assistance to private industry, as only a few new private sector industries have been established since 1973.

5.21 IDBA's staff do, however, maintain regular contacts with present and prospective investors in the private sector, helping them in appraising their financial requirements for existing and new projects, and seeking to interest them in utilizing assistance available from IDBA. At the request of the Government of Afghanistan IDBA has also carried out some prefeasibility studies, appraisals of projects, studies on customs tariffs, etc. With a view to identifying industrial opportunities, IDBA over a two-year period carried out preliminary investigation of more than 100 projects for possible investment in the private sector but no projects materialized as a result. In general, though, IDBA has been fairly successful in these ancillary activities and has established a core of mainly young Afghan staff with competence in these areas. In the absence of financing opportunities, the day-to-day activities of IDBA have thus taken on a management consulting character.

5.22 Apart from these activities of IDBA, and limited occasional advice on financial matters by other banks, there is a lack of institutional or significant private enterprise facilities from which private industry can get

management or technical support. There are no adequate accountancy firms operating in Afghanistan (though Cooper and Lybrand are approved under the FDPIL they are not at present operating). There are no management consulting or research operations. However, limited support on a personal contact basis was sometimes made available from within public sector industry and the few private sector enterprises with technical backup facilities. Experts working within the public sector on technical assistance programs also occasionally give informal advice to individual private industrialists.

Industrial Parks

5.23 Private sector industry in the Kabul area is concentrated in a large industrial zone a few miles away from the city center, and it is not in practice possible to acquire land and put up an industrial building elsewhere in Kabul. Within this zone an Industrial Park is being established, with technical and financial aid from India. It is intended primarily for small and medium-sized industries, and is at present the only such facility in Afghanistan. A four-stage project is eventually envisaged within the Seven-Year Plan, as follows:

Stage	Completion date	Total area (sq. meters)	No. of sheds	No. of plots without sheds
I	June 1976	88,750	10	14
II	June 1976	51,250	-	12
Expansion	March 1977	200,000	-	41
Later Dev.	March 1983	500,000	..	..

5.24 Each shed is of 525 sq. meters on a 2500 sq. meter plot and well constructed. The unbuilt plots are also of 2500 sq. meters each. Sites are serviced with electricity and water and there is to be a common facilities center, including machine tool facilities, foundry, laboratory, etc. There is, however, no provision for sewerage or drainage. The price for purchase is about Afs 1.8 million for each shed and Afs 55,000 for unbuilt plots; only a 10% downpayment is required, the balance being paid over 13 years with a 2-year grace period, and bearing 6% interest. This appears to be a little more than Afghan small industrialists are accustomed to pay for much inferior facilities.

5.25 Apart from connection of electricity and water, which is said to be imminent, the park is ready for occupation. This has apparently been the situation for about 2 years. The Industrial Area Development Authority, part of the Ministry of Mines and Industry, which is responsible for the park, stated that they had received 88 applications for the first 24 vacancies (Stage I), and that applicants have been selected for all of these on the basis of criteria such as management competence, motivation, import substitution, and new rather than relocated existing industries. Other sources suggested that there are only a few firm takers; this appears consistent with known progress of FDPIL final approvals.

5.26 A proposal to entrust the management of the Industrial Park to an autonomous Authority or Corporation is being considered by the Government. There are also proposals for setting up similar industrial parks at Mazar-i-Sharif, Herat and Kandahar; a preliminary report on these projects has been submitted by Indian experts to the Government.

Handicrafts

5.27 In spite of the importance of handicrafts in the economy, clear policies of government to develop the sector have been conspicuously lacking. Practical steps in support of handicraft production have been minimal and limited to traditional export items such as carpets.

5.28 The main assistance which the handicrafts sector receives from Government is in securing export orders through the Export Promotion Department, established in the Ministry of Commerce four years ago. It has been quite successful in developing export markets for Afghan carpets, and locating producers to execute orders. It does not, however, prefinance export orders to allow an increase in output if foreign demand exceeds current production capabilities.

5.29 The only other direct support to handicrafts is provided by the Afghan Handicrafts Promotion Center. This is a Public Association (Company) with a total share capital of Afs. 2 million (US$35,000), subscribed by the Ministry of Finance, the Ministry of Commerce, the Ministry of Mines and Industry, the General Department of Civil Aviation and Tourism, and the Chamber of Commerce and Industries. While the charter of activities of this Center is quite wide and includes technical and commercial assistance to producers, its present activity is confined to the management of the Afghan Handicraft Emporium. Indeed its very small capital clearly precludes it from doing much more. The Emporium was set up in Kabul by the Export Promotion Department in December 1975 for promoting sales of handicraft products to the tourist market. Both producers and traders leave products with it for sale. Prices are fixed by the Emporium in consultation with them, and they are paid when the products are sold. The Emporium charges commissions varying from 6% to 20% depending on items concerned.

The Future Role of Private Sector Industry

5.30 Apart from the general and persistent problems of Afghan industry such as the critical shortage of management skills, design and marketing capabilities, there are a number of constraints that specifically affect private industry.

5.31 The most important of these constraints which has effectively contributed to retard private sector activities is the lack of intention on the part of the government to clearly define what role private sector industry is expected to play in the country's economic development and to determine spheres of activities that would be available to the private entrepreneur.

The absence of such policy statement continues to delay the restoration of confidence and has contributed to a widespread feeling in the private sector that the government is discriminatory and basically against private enterprise. Although recent government statements do indicate a more positive attitute to the private sector, it is necessary to take more specific measures to generate confidence. In addition to defining the activities in which private sector investments and operations would be welcome, the government would have to spell out and stress the guarantees it offers against expropriation. Measures to reduce or to waive current restrictions on foreign equity participation under the FDPIL system would also be conducive to restoring private sector confidence.

5.32 As is also reflected in the draft Seven-Year Plan, there is as yet no adequate official appreciation of the importance and potential of handicrafts and small-scale industry for the development of Afghanistan's economy. This important segment of the Afghan economy should have a major role in industrial development strategy, and it is suggested that high priority be given to the establishment of effective support facilities.

Recommendations

5.33 It is suggested that in consultation with the Afghan Handicrafts Promotion Center, IDBA and other concerned government agencies, an appropriate institutional framework be developed to strengthen the capabilities of the handicrafts sector, with particular attention to the following areas:

(a) training of handicrafts workers, to improve their skills, technologies employed, quality control and the suitability of products to market needs;

(b) training in bookkeeping procedures, and advice on financial and management problems;

(c) partial mechanization of production processes, where appropriate. Care will need to be exercised to cushion possible adverse employment effects and, where relevant, to maintain "hand-made" quality or status;

(d) testing facilities for raw materials and finished and semi-finished products with a view to improving quality;

(e) organizing common processing facilities for groups of producers, where appropriate on a cooperative basis -- e.g., bleaching and dying of yarn or woven fabrics, carpet washing, leather chroming, kilns for ceramics, etc;

(f) organizing cooperatives for purchasing, and/or marketing, where appropriate;

(g) market research and development; establishing market outlets in selected foreign countries if the scale of potential orders justifies this;

(h) arranging finance on reasonable terms for machinery and equipment and working capital.

5.34 If the necessary support for handicrafts development is to be provided by the Afghan Handicrafts Promotion Center, its capabilities will have to be considerably strengthened. Alternatively, another agency may have to be developed to provide support for handicrafts in respect of functions not covered by the Promotion Center. In any case, it may be appropriate to begin with a limited number of pilot projects. An initial task would be to select and train key personnel for the various functions. International assistance may be usefully employed for this purpose.

5.35 In paragraphs 3.36 to 3.38 the establishment in Afghanistan of a Management Development Center has been suggested. It is noted there that private sector industries should be encouraged to make maximum use of these facilities, and liaison with IDBA is suggested to this end. In addition, a management consultancy operation could with advantage be established to advise and assist Afghan private sector industry in:

(a) appraisal of investment projects and preparation of FDPIL submissions;

(b) establishing and operating adequate costing, accounting, materials management and inventory control functions;

(c) advising on financial problems;

(d) selection of appropriate plant locations, production techniques and machinery, and advising on production problems;

(e) advising on procurement procedures;

(f) training of staff in appropriate skills;

(g) organizing marketing, and continuing market research.

IDBA with its background, organization and experience, is well suited to providing these consultancy services through a Consultancy Division. The potential conflict of interest argument is outweighed by the success that IDBA has had in building up a nucleus of young Afghan staff competent to carry out these functions. Initially, services may have to be provided free of charge, or at nominal charges, implying a need for a subsidy from the government. It would be necessary to check with IDBA what additional foreign experts would be required to establish such a management consultancy operation; possibly only one or two persons would be needed.

5.36 The system of approving new projects under the FDPIL should differentiate between major enterprises likely to have a significant effect on the economy, and lesser ones. Projects could be divided into two categories:

Category A: Projects with a total estimated investment in fixed assets including land, building, machinery and equipment of Afs 50 million ($900,000) or more.

Category B: Projects with a total estimated investment in fixed assets including land, building, machinery and equipment of less than Afs 50 million.

5.37 For projects of Category A, the current two stage procedure of preliminary approval and final approval may continue. For projects of Category B, a simplified form combining only the essential requirements of the present forms for preliminary approval and final approval should be used; and a one stage approval system would be more appropriate.

5.38 When a company wishes to effect changes in its operations as against the terms of its original FDPIL submission (e.g., a change in raw material inputs, or in the ratio of home market to export output), it should inform the Private Investment Promotion Department of this. If no objection is received within, say, 60 days, the change should be assumed to be acceptable. Only if the Department and the investor are unable to agree, should the matter go to the Investment Committee. The requirement that the maximum permissible foreign shareholding is 49% should be formally withdrawn, at least for larger projects, though possibly with provisions for offering shares to Afghan interests after, say, 10 years.

5.39 The Private Investment Promotion Department will need to be strengthened to deal effectively with the growing number of applications for private investment which should materialize, if the recommendations of this report are implemented. It should become more promotion- and development-oriented. When projects suitable for private industry have been identified by the proposed Industrial Planning Unit (see paragraph 3.34), the Department should take the initiative, together with IDBA, in seeking to establish these by alerting private interests in Afghanistan as to the potential and attracting appropriate foreign interests.

Annex A: Trade in Industrial Products[1/]

Exports from Afghanistan of Industrial Products and Products For Processing Abroad in 1353 (1974/75)

Tariff Nos. Raw and Intermediate products*	Description	Value (Afs. m.)	Value ($ m.)	Main outlets % by Value of Total			
211-2	Hides, Skins, furs	1,120	19.3	UK	65	Pakis.	8
2111	Cattle hides	(164)	(2.7)	Pakis.	56	Iran	15
2114-9	Sheep & goat skins, etc.	(225)	(3.8)	Italy	26	USA	24
2120005-15	Karakul skins	(730)	(12.7)	UK	94	Fr.	2
212002-5	Furs	(7)	(0.1)	UK	96		
2215, 221808, 221801-4	Seeds for Oil	167	2.9	USSR	75	Pakis.	20
2215	Linseed	(125)	(2.1)	USSR	100		
221801-4	Caraway seed	(41)	(0.7)	Pakis.	81	India	17
2219	Flour and Meal of oil seed	41	0.7	Denmark	91	UK	9
262	Wool and Hair	385	6.5	USSR	91	USA	4
26201	Sheep wool	(350)	(5.8)	USSR	100		
262074	Animal hair, n.e.s	(34)	(0.6)	USSR	100		
263	Raw Cotton, Lint & Waste	2,062	34.7	USSR	84	Czech.	6
276	Minerals, Crude, n.e.s.	9	0.2	USSR	95		
2911	Bones, etc.	19	0.3	Pakis.	95		
2911	Sausage Casings	105	1.8	Lebanon	96		
292403	Licorice root	420	7.1	USA	46	Italy	19
292406	Medicinal Plants	24	0.4	USSR	48	India	19
Total of above		4,352	73.9				

1/ The figures in this Annex are officially described as provisional; data do not fully reflect the value of Afghanistan's external trade, and are shown here principally for illustrative purposes.

Tariff Nos. Final products	Description	Value (Afs. m.)	Value ($ m.)	Main outlets % by Value of Total
657501-2	Carpets	1162	19.5	Switz. 42 Germ. 24
657505-6	Rugs	22	0.4	Saudi A. 77 USA 7
6612	Cement	105	1.8	USSR 100
831	Handbags, wallets purses, suitcases, etc.	4	0.1	Germ. 36 Nethl. 18
8411-84144	Clothing (except from skins and furs)	6	0.1	France 29 UK 19
84149	Textile handicrafts	46	0.8	USA 33 UK 18
84201	Fur Clothing, incl. Pustinchas and Pustins	52	0.9	France 34 UK 29
89606	Antiques, Various	30	0.5	Germany 42 Switz. 11
Misc. (30 diff. nos.)	Other Manufacturers	13	0.2	
Total of Above		1,440	24.2	

* Products which it can be presumed will be processed abroad. Many other products may also be processed abroad (e.g., in manufactured foodstuffs).

Commercial Imports into Afghanistan of Industrial Products in 1353 (1974/75)

Tariff Nos.	Description	Value (Afs. m.)	Value ($ m.)	Main Suppliers % by Value of Total			
023, 024, 048, 062,073,099	Food Products	20	0.3	USSR	60	Nethl.	9
	Confectionary, etc.	(11)	(0.2)	USSR	99		
1123, 1124 121, 122	Beer, Alcohol, Tobacco, and products	95	1.6	USA	64	Pakis.	28
1222	Cigarettes	(93)	(1.6)	USA	65	Pakis.	29
2639	Cotton, Synthetic, n.e.s.	144	2.4	UK	51	Japan	49
26701	Used Clothing	244	4.2	USA	45	Nethl.	21
332, 3412	Petroleum Products	621	10.4	Iran	82	UK	6
3322	Kerosene, etc.	(521)	(8.7)	Iran	96		
332502	Lubricating oils	(89)	(1.5)	UK	39	Nethl.	21
33261	Petroleum jelly	(8)	(0.1)	Nethl.	80	Germ.	12
4310	Animal Veg. oils, processed	399	6.7	Nethl.	32	Sing.	29
5	Chemicals, and Pharmaceuticals	826	14.0	Germ.	21	Pakis.	12
5136	Caustic Soda	(6)	(0.1)	Germ.	66	India	27
5321	Dyeing extracts	(45)	(0.8)	Germ.	34	Switz.	16
5333	Prepared paints	(20)	(0.3)	Pakis.	66	Iran	13
5417	Medical preps. n.e.s	(374)	(6.4)	Switz.	37	Germ.	25
553	Toilet articles	(21)	(0.3)	UK	30	H.Kong	27
5541	Soaps	(205)	(3.5)	USSR	33	Pakis.	31
581	Plastics and products	(49)	(0.9)	Japan	51	Iran	11
5995	Prepared glues and powder	(5)	(0.1)	Germ.	38	Italy	20
5997	Organic Chemical products, n.e.s	(18)	(0.3)	USA	92		
5999	Chemical products, n.e.s.	(103)	(1.7)	Germ.	61	USA	15
61, 62	Leather, rubber & Products	686	11.6	Japan	92		
611	Leather	(9)	(0.1)	Pakis.	81	India	17
6123	Prepared parts of footwear	(4)	(0.1)	Italy	45	Iran	35
629101, 629102	Bicycle tires & tubes	(14)	(0.2)	India	83	Japan	9

Tariff Nos.	Description	Value (Afs. m.)	Value ($ m.)	Main Suppliers % by Value of Total			
629103-8	Car, truck, etc. tires & tubes	(655)	(11.1)	Japan	96		
63	Wood Products	4	0.1	Italy	52	Pakis.	38
6314	Particle or fiber board	(3)	(0.1)	Italy	68	Pakis.	25
64	Paper, paperboard & products	121	2.1	Pakis.	19	Neth.	18
6412	Uncoated printing & writing paper	(29)	(0.5)	Pakis.	48	Nethl.	27
6413	Kraft paper & board	(16)	(0.3)	Sweden	54	India	35
6421	Paper bags, boxes & containers	(43)	(0.7)	Nethl.	33	Germ.	22
6422	Envelopes & other stationery	(15)	(0.2)	Pakis.	19	China	17
6424	Exercise books, notebooks	(10)	(0.2)	India	79	Pakis.	10
6429	Paper & Board articles, n.e.s.	(6)	(0.1)	Germ.	91		
65	Textiles	3610	61.1	Japan	69	India	9
6511-2	Yarns of fine hair	(14)	(0.3)	Japan	35	UK	30
6513-4	Cotton yarn & thread	(82)	(1.4)	Pakis.	86		
6515	Hemp yarn & thread	(648)	(10.9)	Japan	60	India	9
6516-9	Other yarns & thread	(41)	(0.7)	Japan	50	Germ.	18
652	Cotton fabrics	(463)	(7.9)	Pakis.	42	USSR	24
6531-2	Woollen & silk fabrics	(44)	(0.7)	UK	58	Lebanon	21
6533	Linen & hemp fabrics	(706)	(11.9)	Japan	62	India	25
6535	Synthetic fabrics	(1222)	(20.7)	Japan	96		
65399	Fabrics, n.e.s	(309)	(5.2)	Japan	91		
6450	Ribbons, lace, embroidery	(15)	(0.3)	India	84	Pakis.	8
6556	Ropes, cords, etc.	(4)	(0.1)	Pakis.	80	Switz.	6
6561	Bags and Sacks	(48)	(0.8)	Singapore	73	India	27
6569	Curtains, towels	(3)	(0.1)	India	92		
661-3	Building Materials (excl. glass)	9	0.2	Germ.	29	India	23
664-5	Glass	109	1.8	France	42	USSR	25
6643	Sheet glass	(29)	(0.5)	USSR	76	China	9
6651	Glass bottles	(13)	(0.2)	Pakis.	58	India	17
6652	Glass tableware, etc.	(61)	(1.0)	France	76	USSR	8
6664	China & Porcelain	69	1.2	China	43	H.Kong	19

Tariff Nos.	Description	Value (Afs. m.)	Value ($ m.)	Main Suppliers % by Value of Total			
67	Iron and Steel	180	3.0	USSR	40	Japan	32
674	Plates & Sheets	(76)	(1.3)	Japan	67	USSR	29
677	Wire	(12)	(0.2)	Germ.	67	USSR	15
678	Pipes	(8)	(0.1)	India	52	Japan	33
679	Unworked Casings, etc.	(78)	(1.3)	USSR	62	Germ.	30
68, 691	Non-ferrous Metal	20	0.3	Pakis.	68	Japan	15
692-698	Metal Products	246	4.1	UK	20	Pakis.	16
6933	Wire netting, fencing, steel	(7)	(0.1)	Japan	25	India	24
6941	Nails & tacks, steel	(14)	(0.2)	China	25	India	21
695	Hand tools	(13)	(0.2)	Italy	31	Germ.	22
69603	Safety razors & blades	(44)	(0.8)	UK	98		
6971	Stoves, boilers, and parts	(4)	(0.1)	USSR	55	Sweden	32
6972	Domestic utensils	(36)	(0.6)	Pakis.	66	Iran	19
6979	Metal household equip.	(31)	(0.5)	Hong K.	45	China	29
69811	Locks and keys n.e.s.	(23)	(0.4)	Hong K.	62	China	11
69812	Hardware, metal, n.e.s	(9)	(0.1)	Germ.	44	China	18
6985	Needles, pins, clasps, hooks, eyes	(16)	(0.3)	Germ.	36	USSR	25
69899	Articles of base metals, n.e.s.	(39)	(0.7)	Pakis.	27	China	19
71	Non-electric machinery & equipment	201	3.4	Germ.	21	India	13
712	Agricultural machinery	(24)	(0.4)	USSR	44	UK	26
714	Office Machinery	(4)	(0.1)	Japan	49	Switz.	21
7171	Textile machinery & parts	(17)	(0.3)	Germ.	44	China	19
7173	Sewing machinery & parts	(46)	(0.8)	India	38	Japan	32
7182	Printing & binding machinery	(3)	(0.1)	UK	69	Germ.	17
7183	Food processing machinery	(8)	(0.1)	Czech.	60	USA	31
7191	Heating & Cooling equipment	(16)	(0.3)	UK	32	Kuwait	32
7192	Pumps & parts	(20)	(0.4)	Neth.	42	Germ.	21
7199	Machinery & parts, n.e.s.	(52)	(0.9)	Germ.	48	Czech.	17
7233	Electric machinery & equipment	64	1.0	Germ.	54	Neth.	10
7221	Electric power machinery & parts	(5)	(0.1)	USSR	68	USA	26

Tariff Nos.	Description	Value (Afs. m.)	Value ($ m.)	Main Suppliers % by Value of Total			
7231	Insulated wire	(4)	(0.1)	Germ.	63	India	19
72329	Electric equip. n.e.s	(46)	(0.8)	Germ.	63	Neth.	13
724	Radio & Telephone Equipment	117	2.0	Japan	89	Germ.	7
7242035	Radio-tape recorders	(65)	(1.1)	Japan	97		
724204	Radio receivers, n.e.s.	(36)	(0.6)	Japan	96		
72491	Telephone equipment	(10)	(0.2)	Germ.	85	UK	12
7256	Electric appliances	39	0.6	Germ.	30	Neth.	19
72501	Refrigerators & parts	(14)	(0.2)	Neth.	41	Italy	19
725052	Flat irons	(7)	(0.1)	Japan	37	H.Kong	22
725056	Water heaters	(7)	(0.1)	Germ.	98		
7291	Batteries	79	1.3	Japan	48	Germ.	15
72911	Primary batteries	(60)	(1.0)	Japan	62	H.Kong	15
729122	Storage batteries, auto.	(18)	(0.3)	Germ.	66	UK	16
7292	Electric bulbs & tubes	12	0.2	USSR	50	Neth.	18
7295-9	Other Electrical Machinery & Apparatus	13	0.2	Germ.	71	Iran	11
7321	Passenger Vehicles	64	1.1	Germ.	36	Japan	33
7322	Buses	73	1.2	Germ.	94		
7323-5	Lorries & other commercial vehicles	161	2.6	USSR	62	Japan	16
7328	Motor vehicle parts	270	4.6	UK	54	Germ.	10
7329	Motorcycles & parts, etc.	12	0.2	Japan	48	India	20
7331-5	Bicycles & parts, etc.	41	0.7	India	55	UK	14
81-83	Central heating apparatus, lighting fixtures, mattresses, furniture, suitcases, etc.	34	0.5	Germ.	58	H.Kong	27
8124	Lighting fixtures & parts	(29)	(0.5)	Germ.	58	H.Kong	28

Tariff Nos.	Description	Value (Afs. m.)	Value ($ m.)	Main Suppliers % by Value of Total			
84	Clothing	116	2.0	India	34	Japan	29
84115	Outerwear, not knit	(9)	(0.2)	Lebanon	34	H.Kong	29
8412	Handkerchiefs, ties & other accesories	(97)	(1.6)	India	42	Japan	32
84142	Stocking & socks	(3)	(0.1)	Japan	59	Taiwan	20
84144	Knitted outer wear	(4)	(0.1)	Kuwait	30	UK	26
85	Footwear	131	2.2	USSR	64	Iran	21
851012	Rubber footwear	(35)	(0.5)	Iran	75	USSR	25
851014	Plastic footwear	(76)	(1.3)	USSR	98		
851073-6	Leather footwear	(6)	(0.1)	Germ.	39	Lebanon	31
851078	Used footwear	(13)	(0.2)	Neth.	36	Belgium	28
86	Optical, Medical & measuring equipment	28	0.5	Switz.	29	Germ.	14
8617	Medical & dental equipment	(6)	(0.1)	Germ.	41	USA	39
86192	Balances	(5)	(0.1)	USSR	37	India	31
864	Watches, clocks, & parts	(11)	(0.2)	Switz.	81	H.Kong	11
89	Musical Equipment	21	0.4	Japan	67	USA	7
8911	Tape recorder & parts	(9)	(0.1)	Japan	88	Neth.	5
8912	Recorded tapes, etc.	(12)	(0.2)	Japan	60	Lebanon	14
892	Books, etc.	6	0.1	Pakis.	49	India	33
893-899	Other Manufactures	201	3.4	USSR	26	India	25
893	Plastic articles	(8)	(0.1)	Japan	69	H.Kong	12
894204	Playing cards	(5)	(0.1)	USA	96		
89431	Firearms, non-military	(23)	(0.4)	USSR	67	Poland	13
89521	Pens	(7)	(0.1)	Lebanon	47	Italy	41
897	Imitation jewelry	(32)	(0.5)	India	67	Czech.	19
89932	Matches	(39)	(0.7)	USSR	95		
8994	Umbrellas	(4)	(0.1)	Japan	53	H.Kong	47
8999	Manufactures, n.e.s.	(64)	(1.1)	India	39	H.Kong	15
Total of commercial imports		8,987	154.2				
Monopoly imports							
332	Oil Products	699	11.8	USSR	93	Iran	7

Tariff Nos.	Description	Value (Afs. m.)	Value ($ m.)	Main Suppliers % by Value of Total			
Loan or grant financed imports							
431	Animal and Veg. Oil	112	1.9	USSR	100		
554	Soap	31	0.5	USSR	100		
561	Fertilizers	519	8.8	USSR	68	Saudi.A.	21
931	Project Loan or grant imports /1	1110	18.7	USSR	75	USA	19
Total of loan/grant imports		1772	29.9				
All indistrial product imports		11458	195.9				

/1 assumed all are industrial products -- no breakdown available.

Source: Central Statistics Office

MANPOWER DEFICIENCIES IN PUBLIC SECTOR ENTERPRISES

1. A recent quantitative assessment of the manpower situation in 16 public sector industrial enterprises by the UNIDO Industrial Services Project in the Ministry of Mines and Industry suggests that existing needs and planned expansion (under the Seven-Year Plan) imply a requirement for the additional manpower as indicated in the table which follows.

Additional Manpower Requirements of Public Sector Enterprises (nos.)

Excluding expansion plans	Management Admin. & Clerical	Engineers Technologists	Technicians Foremen	Skilled Workers & Others
Ghori Cement Factory	... (161)	... (4)	... (18)	... (477)
Kabul Porcelain Factory	16 (9)	3 (-)	- (3)	- (78)
Jangalak Industries	4 (126)	7 (18)	- (30)	4 (843)
Afghan Bicycle Factory	- (26)	2 (-)	19 (1)	26 (38)
Afghan Carpentry factory	- (53)	- (2)	- (3)	- (443)
Baghlan Sugar Factory	... (51)	...(7)	... (8)	... (379)
Kandahar Fruit Industries	- (17)	- (1)	- (21)	- (9)
Including expansion plans				
Fertilizer Factory	448 (297)	237 (157)	140 (93)	2,980 (1,975)
Afghan Woollen Industry	97 (39)	16 (1)	78 (15)	409 (545)
Bagrami Textile Factory	- (151)	10 (7)	15 (147)	470 (2,532)
Balkh Textile Factory	166 (46)	59 (-)	73 (-)	2240 (745)
Helmond Stone and Carpentry	20 (50)	1 (-)	- (3)	100 (46)
Kabul Silo	- (177)	5 (12)	3 (52)	941 (783)
Balkh Ginning, Pressing & Oil	627 (209)	98 (3)	338 (93)	494 (646)
Spinzar Sherkat	77 (606)	23 (2)	140 (42)	211 (1,545)
Helmond Cotton and Oil	121 (103)	20 (2)	142 (26)	571 (356)
Total of above figures	1,576 (2,121)	481 (216)	948 (555)	8,446 (11,440)
of which foreign staff:	(1)	(109)	(50)	(345)

Note: Figures in brackets show existing employment
Source: Industrial Services Project, Ministry of Mines and Industry

2. When the additional needs in this table are put against existing staff, large deficiencies emerge, particularly in respect to the engineer/technologist and the technician/foreman groups, and particularly when the present number of foreign workers, notably in the fertilizer factory, is taken into account. Note, too, some obvious individual gaps: 4 of the enterprises have no engineers or technologists at all; one of these also lacks any technicians or foreman; and several need to at least quadruple their staff in these categories. These numerical deficiencies, particularly in the management and engineer groups, may be exaggerated. Note in particular the large indicated deficiencies relative to existing staff at Balkh Ginning, Pressing and Oil, and at the Fertilizer Factory.

3. The survey did not assess deficiencies in any qualitative sense. However, it is clear that:

(a) At both administrative/managerial and technical levels those in Afghan industry have rather inadequate formal skills; this probably stems partly from the deficiencies of the general educational system in Afghanistan, and the fact that higher level education is frequently in a foreign language;

(b) The deficiencies are particularly marked in management and administrative functions (in which training facilities in Afghanistan are most wholly absent), notably in:

i) accounting, financial control and budgeting

ii) marketing and market research

iii) forward planning and planning for new product lines.

PRESENT FACILITIES
TRAINING FOR INDUSTRIAL DEVELOPMENT

1. At present 14 different institutions in Afghanistan give training relevant to industrial development. Only four of these give degree level courses. They are:

(a) The Kabul University, Faculty of Economics, which gives a 4-6 year first degree level course; in 1353 there were 66 graduates from this;

(b) The Kabul University, Faculty of Engineering, which gives a 5-year first degree level course. In 1354 the intake was of about 200 students; 12% of total enrollment that year was in electrical or mechanical engineering;

(c) Kabul Polytechnic (Kabul University), which gives a 5-year first degree level course; it had 148 final-year students in 1353, of which 11 were studying chemical technology;

(d) Institute of Industrial Management's four-year management course has an annual output of 50-60 students; it is a general course, at rather below unveristy first degree level.

The remaining institutions are essentially of technical high school level; typically taking eight to ninth grade students for three to four-year courses. Their combined annual intake is around 1,350 students. About 350 of these are taking commercial courses appropriate to upper grade clerical jobs. Most of the remainder are taking courses which would suit them to technical posts in industry, rather than engineer or technologist positions, though some go on to take degree courses at one of the institutions listed above.

2. It should be noted that though simple bookkeeping does feature as a quite minor part of some of the courses at technical college or technical high school level, and accounting subjects also feature in minor roles in the Faculty of Economics and the Institute of Industrial Management's courses, there are no courses which devote sufficient attention to these subjects to develop adequate bookkeepers or cost accountants, let alone auditors, or senior financial management. The deficiencies in the other management sciences are only slightly less marked.

3. The degree-level courses do not produce graduates of a particularly high standard. An important reason for this is that much of the tuition is in English, Russian, or German, and the courses given in these languages cannot give the students sufficient grasp of them to take full advantage of the tuition in the main subject areas. Moreover, many courses have to be of a very general nature, in order to make good the deficiencies of the secondary

education system. Both numbers of qualified and suitable students and teaching facilities are inadequate to offer second degree courses, and these have to be taken abroad; it is probably more difficult for Afghans to take full advantage of education abroad than nationals of many other developing countries because the language barrier is greater.

4. There are no formalized facilities for enabling those with one or more degrees to develop additional skills once in full-time employment, though some employers do offer in-house schemes and the ILO project is proposing management development courses. Courses are urgently needed to equip existing as well as potential industrial managements at all levels with the major tools of modern management science - accountancy, financial planning, marketing, investment appraisal, quality control, stock control, etc.

5. The expansion planned in training facilities obviously needs to be linked to the planned development of individual sectors of the economy. However, past assessments which have been carried out on the demand for particular types of expertise, show big variations. Much more work is needed in this area.

6. Some of the technical training facilities available in Afghanistan are not being fully utilized. The reasons for this are not very clear, but are probably at least partly motivational, reflecting the not very high status of the technical professionals in Afghanistan. It is clearly necessary to ensure that working in industry, whether as an engineer, a technician, an accountant or a manager is sufficiently attractive.

ENTERPRISES UNDER THE LAW OF TASADY

A. Ministry of Mines & Industry

1. National Oil Company
2. Afghan Mobil Carpentry
3. Balkh Ginning, Pressing and Oil Extraction
4. Coal Industry and Coal Brickets
5. Kandahar Fruit Industries
6. Balkh Textile
7. Bagrami Textile
8. Woollen Industry, Puli-Chakri
9. Afghan Bicycle (current products: ceramics, glass and plastics)
10. Helmond Cotton & Vegetable Oil
11. Ghori Cement
12. Helmond Stone Cutting & Carpentry

B. Ministry of Finance

1. Civil Service Cooperative (food coupons, etc.)
2. Liquidation Dept. (firms in liquidation)
3. Hotel Industry
4. Government Monopoly (sugar and petroleum)
5. Afghan Food Department (Kabul Silo is part of this)
6. The Mint

C. Ministry of Information and Culture

1. Afghan Show Business (Nindaz)
2. Afghan Film
3. Government Printing House
4. Afghan Advertising Agency
5. Afghan Press Club

D. Ministry of Public Health

1. Malaria Injection Institute
2. Blood Bank
3. Civil Service Insurance
4. General Medical Depot

E. Ministry of Public Works

1. Pre-fabricated Concrete Plant
2. Afghan Construction Unit (Kabul)
3. Banaiy Construction
4. Water Supply and Canalization Enterprise

F. Ministry of Commerce

1. Wood Enterprises
2. Port Authority, Turghardi
3. Port Authority, Hairatan
4. Port Authority, Shirkhan

G. Ministry of Education

1. Afghan Women's Society
2. Educational Press

H. Ministry of Defense

1. Carpentry, Stone and Concrete-making Enterprises
2. Kabul Slaughterhouse

I. Ministry of Justice

1. Religious Trust

J. Afghan Air Authority and Tourism

1. Bakhtan Airline

PRIVATE INDSUTRIAL PROJECTS ESTABLISHED UNDER FDPIL

BY TYPE OF INDUSTRY

Oriented towards Domestic Market

Rayon Weaving	18
Rayon Spinning	1
Knitted goods	2
Steel re-rolling	2
Printing	3
Edible oil	1
Metal fabricating (furniture, bus bodies, etc.)	8
Plastic products, bags	7
Plastic footwear	5
Building tiles	1
Soap	1
Detergents	1
Lubricants blending	1
Paint, insecticides	1
Pharmaceuticals	2
Ice Plants	3
Foam rubber/mattresses	1
Leather shoes /d	2
Storage batteries	1
Accounting	2
Developing Bank	1
Dry Cleaning /a	4
Sausage mfg. /a	1
Cardboard containters /a /c	1
Coca-Cola/Fanta /a	1
Data processing /a	1
Total	72

Export-Oriented

Animal Casings /b	2
Raisin processing	9
Leather and tanning	10
Honey processing	2
Bone meal	1
Fur raising and processing	1
Wine making	1
Nut processing	2
Total	28

Note: Of the total 100 firms, 6 were temporarily closed, and 5 were ready to operate, though not actually doing so.

/a much of the output or services of these firms are sold to foreigners in Afghanistan.
/b excludes 3 leather firms also exporting casings (counted under leather)
/c eventually included as exports (packaged raisins)
/d the largest of these firms is also a major exporter of skins

Source: Checchi Report, September, 1974

PRIVATE INDUSTRIAL PROJECTS ESTABLISHED UNDER FDPIL
BASIC STATISTICS (all figures rounded)

Type of Project	Total	Export Market-Oriented	Domestic Market Oriented
Number of projects	100	28	72
Estimated investment /a (millions of Afs.)	1,204	236	968
Percent of investment	100	20	80

Geographic Location	Kabul	Jalalabad	Mazar	Kandahar	Herat	Charikar	Aqucha
Number of projects	82	4	3	6	2	2	1
Estimated investment (millions of Afs.)	1,037	48	16	41	27	15	20
Percent of investment	86	4	1	3	2	1	2

Nationality of Investment /b	Afghanistan	Pakistan	India	USA	UK	Germany	Swiss	Italy	Iran	Turkey
Number of projects /c	92	7	3	3	2	2	1	1	1	1
Estimated investment (millions of Afs.)	892	69	10	38	15	128	35	5	2	10
Percent of investment	74	6	1	3	1	11	3	0	0	1

/a Excluding IDBA, Hayat, Akary and projects under construction. Includes Afs. 15 million for AHU Show under exports since the company exports leather as well as making shoes for the domestic market.

/b According to FDPIL applications.

/c Projects with any foreign investment are counted under the foreign country as well as Afghanistan. For value of investment figures, the percentage of investment from each country is used.

Source: Checchi Report, September 1974

COMPARISON OF

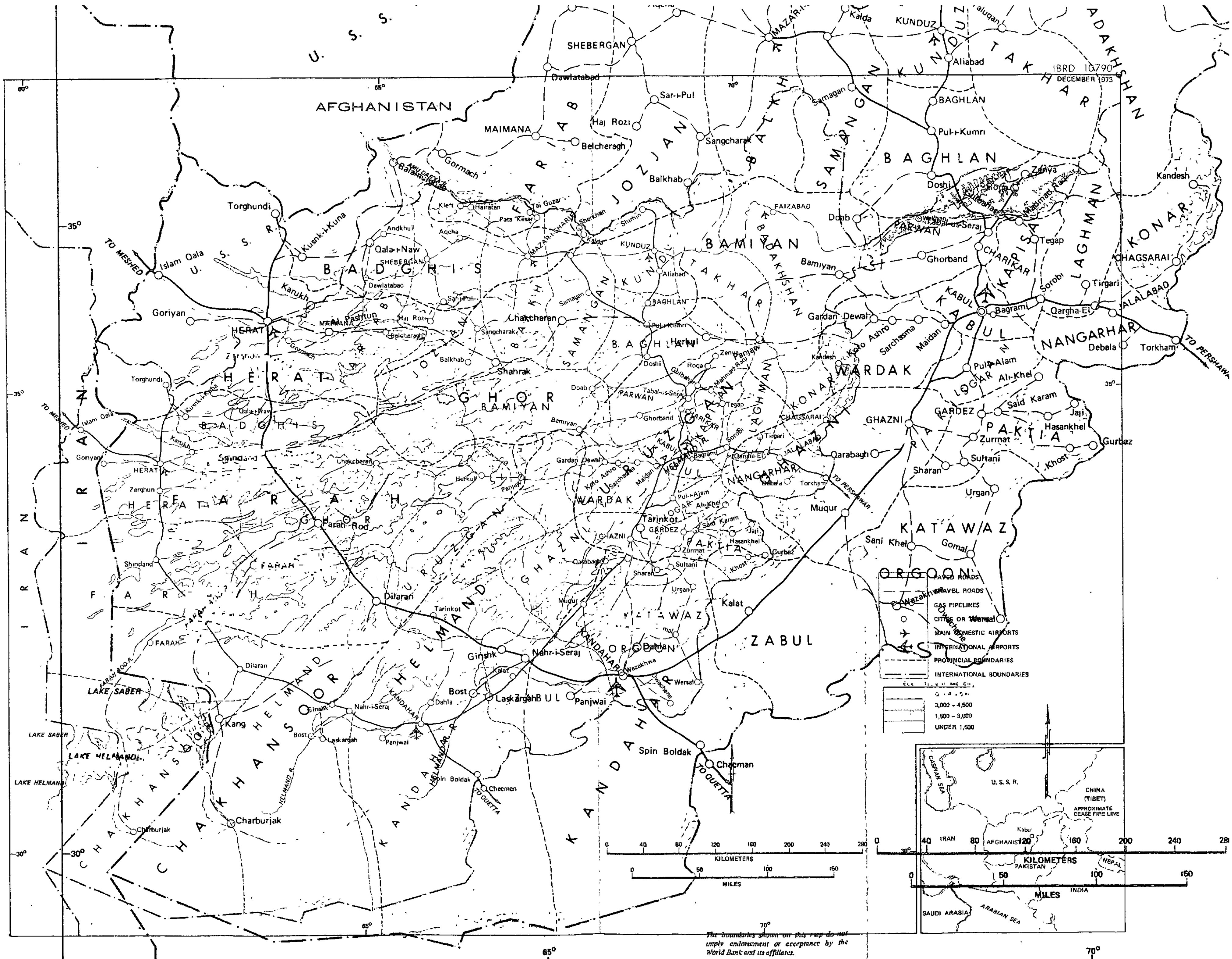
1967 AND 1974 FOREIGN AND DOMESTIC PRIVATE INVESTMENT LAWS

	FDPIL 1345 (1967)	FDPIL 1353 (1974)
Aim	To encourage and protect new private investment by both foreign and Afghan nationals so as to promote economic development and to advance the standard of living in Afghanistan.	To encourage, protect, guide and control private investment for the creation and expansion of industries, and to provide necessary collaboration between public and private investment for the purpose of the progress, coordination, and balanced development of the national economy.
Type of industry qualifying	All new private investments in any of these fields of activity: (a) industry; (b) mineral exploitation; (c) agriculture; animal husbandry or the processing of agricultural or animal products; (d) tourism; (e) any service industry or priority enterprise not included in the above categories which the Investment Committee may designate by regulation pursuant to this law.	Those based on: (a) maximum use of Afghan raw materials; (b) maximum use of Afghan manpower; (c) import substitution; (d) increase in quality and value of exports; (e) satisfaction of the consumer needs; (f) use of Afghan industrial products; (g) maximum value added.

	FDPIL 1345 (1967)	FDPIL 1353 (1974)
Benefits	(a) Exemption from taxes on income for five years. (b) Exemption from import duties on capital goods, for five years beginning the date of approval. (c) Exemption from import duties on replacement parts for five years. (d) Exemption from import duties on raw materials of semi-finished goods for five years. (e) No import duty exemption on passenger automobiles. (f) Exemption from taxes on dividends for five years from the year in which a divident is first declared, provided that it shall in no event extend beyond eight years from the date of FDPIL approval. (g) Exemption of all export duties for ten years from the date of approval of the investment. (h) Special benefits outside Kabul. (i) No exemption from sukuk (a tax on capital) and other levies.	(a) Exemption from taxes on income for four years only. (b) Capital goods exempted (in accordance with Article 26 of the Customs Law) with no time limitation. (c) Ten percent duty (on the basis of the invoice or the unit price) on replacement parts with no time limitation. (d) Maximum twenty percent duty on raw materials with no time limitation. Detailed schedule provides many duties in 5-10 percent range. (e) No import duty exemption on passenger automobiles, trucks, construction material and office furniture. (f) This is for four years and in no event will it extend beyond seven years from the date of approval. (g) No time limitation on export tax exemption, provided that the products are permitted to be exported. (h) For projects outside Kabul, exemptions from income taxes and taxes on dividends are increased by two years. (i) Exemption from payment of some, but not all, sukuk taxes, registration fees, and other legal fees levied by the court in connection with documents and deeds. Fixed court service fees.

	FDPIL 1345 (1967)	FDPIL 1353 (1974)
Repatriation of profits, interest, capital and salaries	(a) Registered foreign capital and such reinvested profits may not be repatriated after five years at an annual rate not to exceed 25 percent of the investment. (b) Repatriation of salaries up to 70% of total.	(a) Such foreign capital may be repatriated after five years at an annual rate not to exeed 20 percent. (b) Up to 60 percent of salaries may be repatriated.
Right to dispose of shares	(a) Shares may be sold to any Afghan or foreign national but not to any foreign government or agency . (b) The proceeds of the sale of shares can be transferred abroad through Da Afghanistan Bank.	(a) The same with the limitation that the sale of shares to foreign investors cannot exceed 40 percent of the total. (b) The same.
Agreements concluded by the Investment Committee	Separate arrangements on the sale of shares, management contracts, capacity, training, can be made between the Investment Committee and the foreign investor.	No provision of this sort unless the procedures for establishing regulations and administering the law set up according to Article 20.
Joint ventures	Its encouragement is among the objectives. No limitation of foreign equity.	The share of foreign investment cannot exceed 49 percent.

	FDPIL 1345 (1967)	FDPIL 1353 (1974)
Government purchase of local products	All government agencies and departments are required to purchase from enterprises under this law, provided that they are similar in quality and price with importable equivalents.	The same provided that the price of the local goods and services shall not be more than fifteen percent higher than importable equivalents.
Expropriation	Property is protected against government expropriation (Article 29 of the Constitution).	Expropriation can be carried out only in the public interest and after compensation made according to the law.
Special agreements	In the field of mineral exploitation or basic industry, whether foreign or domestic investors, with greater or lesser benefits or obligations are allowed.	No equivalent provisions.
Abrogation of former law and retroactivity	Repealed (a) the Foreign Investment Law, and (b) the Law Encouraging Indsutries. Foreign investments made under the FIL of 1958, the legal provisions applicable thereto shall continue until they expire.	Will be controlled by the Investment Committee. In case of proof that an investor abuses the exemptions and prerogatives, the Investment Committee has the authority to withdraw these benefits partially or entirely.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DECEMBER 1973
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AFGHANISTAN
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KUNDUZ
Aliabad
BAGHLAN
Pul-i-Kumri
Doshi
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FARIAB
JOZJAN
BALKH
SAMANGAN
TAKHAR
BADAKHSHAN
BAGHLAN
BAMIYAN
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Ghorband
Chakcharan
CHARIKAR
KAPISA
LAGHMAN
KONAR
CHAGSARAI
Tegap
Tirgari
Sorobi
KABUL
Bagrami
Qargha-El
JALALABAD
NANGARHAR
Debala
Torkham
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Koto Ashro
Sarchasma
Maidan
WARDAK
Pul-i-Alam
LOGAR
Al-i-Khel
Said Karam
Jaji
GARDEZ
PAKTIA
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Girishk
Nahr-i-Seraj
Bost
Laskargah
Panjwai
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ZABUL
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LAKE SABER
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CHAKHANSOR
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PAVED ROADS
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PROVINCIAL BOUNDARIES
INTERNATIONAL BOUNDARIES
3,000 - 4,500
1,500 - 3,000
UNDER 1,500
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KILOMETERS
0 50 100 160
MILES
CASPIAN SEA
CHINA (TIBET)
APPROXIMATE CEASE FIRE LINE
Kabul
NEPAL
INDIA
SAUDI ARABIA
ARABIAN SEA
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