
NATIONAL BUSINESS AGENDA GUIDEBOOK



Case Study:

Afghanistan National Business Agenda and Provincial Business Agendas



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The Center for International Private Enterprise is a non-profit affiliate of the U.S. Chamber of Commerce and one of the four core institutes of the National Endowment for Democracy. CIPE is currently undertaking 113 projects in 64 countries. CIPE works in developing countries, involving the private sector in policy advocacy and institutional reform, improving governance, and building understanding of market-based democratic systems. CIPE provides management assistance, practical experience, and financial support to local organizations to strengthen their capacity to implement democratic and economic reforms.

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BACKGROUND

Under the Taliban's rule prior to 2001, the business community in Afghanistan was particularly repressed. All associations and chambers of commerce were disbanded, with the exception of one shell organization run to the government's orders. After the Taliban were ousted from power, Afghan businesses slowly began to regain their footing. However, there were almost no organizations existing at that time to unite and amplify the voice of the business community. In an effort to unify the private sector and give businesses a voice in policymaking, the Center for International Private Enterprise (CIPE) worked with the Afghanistan Chamber of Commerce and Industry (ACCI) to develop a 2011 National Business Agenda (NBA) and subsequent Provincial Business Agendas, which included specific policy recommendations to improve the business climate, promote transparency, and create new jobs.

One of the measures of a strong democracy is the quality of policy discussion taking place between the government and its citizens. In Afghanistan, which has struggled to build democratic institutions, the concept of public-private dialogue was relatively new when CIPE began to work in the country. As a result, the country did not have the institutions in place to bring forward the essence of democracy – governance with input from citizens. CIPE's goal in Afghanistan has been to foster an enabling business environment capable of fueling Afghanistan's democracy.

Prior to the NBA process, CIPE had supported Afghanistan's democracy-building efforts through the Tashabos program that educated high school youth. Beginning in 2005, Tashabos helped legitimize, increase awareness of, and provide opportunity within a burgeoning private sector and cultivate the sense of citizenship among youth. The goal was to expand the private sector, provide employment opportunities, and empower young people to become active in their communities. This prior experience helped inform the NBA efforts that began in 2011. In tandem, CIPE worked with the country's newly elected members of parliament (MPs) and provincial council members (PCs) to help them gain better understandings of market economics and democratic development to allow for the emergence of successful platforms for dialogue between the private sector and the public sector.

Additionally, CIPE created a field office to ensure that its programming was demand-driven; feasible, given Afghanistan's unpredictable security environment; and appropriate for the cultural, economic, and political moment. Although CIPE's typical engagement model is through local partners, CIPE could not employ this approach given the challenging security situation as well as lack of potential local partners with ability to run programs across the country. The field office was instrumental in supporting the NBA.

THE NBA PROCESS

To initiate the process, CIPE met with several Afghan business associations to assess the needs and policy priorities of the business community. Based on this feedback, CIPE developed a plan for conducting a broader survey of businesses in Afghanistan to gauge the priorities and needs of the business community. CIPE conducted a survey of over 700 businesses in major cities: Kabul, Herat, Kandahar, Mazar, Khost, and Jalalabad. According to the responses, the three main issues negatively affecting private sector growth were: a lack of security, corruption, and an unreliable supply of electricity. The results of the survey provided a framework for the NBA process where CIPE endeavored to work with business associations to develop specific policy recommendations and priorities that they could present to the policymakers.

With CIPE's support, and led by the ACCI, a coalition of 11 business associations formed a task force to guide the NBA process and approve the final set of recommendations. The associations that comprised the task force represented the major sectors of the formal Afghan economy and included women entrepreneurs. In order to ensure that the NBA comprehensively reflected the views and needs of the Afghan business community, the task force conducted five meetings with over 1,300 businesspeople in Afghanistan's major cities to explain the NBA process and gather feedback on the key issues faced by local businesses. At each meeting, private sector representatives, divided into sectoral committees reflecting the major commercial sectors of their regions, discussed the obstacles facing businesses in Afghanistan and proposed possible policy recommendations. Based on the input from these meetings, the task force synthesized the recommendations into a final set for inclusion in the NBA document.

The Afghanistan NBA was officially released at a launch event in March 2011 in Kabul. The launch was a major accomplishment for the business community in Afghanistan, as it gave the private sector a voice in the policymaking process through offering policy recommendations to the government to improve the overall business environment of the country. A coalition of businesses, with CIPE's assistance, then began advocating the adoption of the policy recommendations. Advocacy efforts included activities such as distributing more than 2,000 copies of the NBA to MPs and securing a meeting between the Vice-Chairman of the ACCI and then-President Hamid Karzai to discuss the NBA recommendations.

NBA REFORM PRIORITIES & OUTCOMES

The Afghanistan NBA was broken down into seven broad categories of policy reform (with 42 detailed recommendations): taxation; tariff policy; lack of land and high rent for business; trade facilitation; lack of credit and banking reform; burdensome laws, regulation, and administration; and lack of infrastructure.

Taxation

One of the biggest challenges facing Afghan businesses has been tax policy and liability. The business community recommended that Article 75 of the Tax Law be amended due to confusing language. Instead of submitting balance sheets and paying an annual income tax based on net profits, the NBA recommended a fixed tax rate for small businesses. Furthermore, the NBA recommended a tax holiday that would exempt new businesses from tax liabilities during their first few years of operation, while new investors would be provided with land free of cost and enjoy a tax holiday for ten years.

Tariff Policy

In order to promote domestic industries, the NBA called for national tariff policies that would reduce, if not eliminate, tariffs on the raw materials (such as textiles and minerals) that many key Afghan industries need to survive and be competitive. The business community also recommended that tariff policy should not be solely left to the discretion of the Customs Office but be jointly determined and reviewed by a committee consisting of members of the Ministry of Commerce and Industry, the ACCI, and the Customs Office. Furthermore, the private sector strongly recommended that any new tariff policy should support domestic industry and production. As a result, the government increased tariffs on carpets and furniture that were produced outside and imported into Afghanistan, while raw materials and machinery were charged a low rate or entirely exempted from tariffs.

Lack of Land and High Rent for Businesses

Unaffordable rents and short leases hampered the ability of many Afghan businesses to become sustainable. The NBA recommended that the government provide more affordable land to industry and urged that governmental land leases were of sufficient length to allow for private sector growth. The government implemented several of the priority NBA recommendations including extending the validity of business licenses from one to three years, reducing the amount of time required to obtain a business license from one month to two days, and allowing land contract terms to be extended without renewed bidding every three years.

Lack of Credit and Banking Reform

In Afghanistan, obtaining loans is a difficult process due to very high interest rates and collateral requirements. As a result, few businesses sought to borrow money, which was a serious impediment to economic growth. The NBA called for reforms in the banking sector that would lessen the financial burden of bank guarantee requirements on businesses looking to expand. As a result, the Afghan Central Bank drafted a new Islamic bank law and an industrial banking law, which would lower interest rates to allow for greater access to credit as well as reform the collateral registry to accept moveable property, such as inventory and equipment, as a guarantee for establishing credit.

Trade Facilitation

The NBA urged the government to take steps in making the trade facilitation process more efficient and transparent. As a result, the government established the Afghan National Customs Academy, which trains customs officials on management skills and the use of new border crossing technologies. The Academy has increased the efficiency of customs and has enhanced the infrastructure at border crossings.

Burdensome Laws, Regulations, and Administration

The NBA highlighted the need to rid Afghanistan of burdensome laws and regulations that were impediments to business, proposing the extension of the validity of business licenses. Moreover, the processing time for business licenses was reduced and the procedure for obtaining such licenses was simplified from 32 to eight steps. Likewise, the process for issuing export licenses was revamped so that only six required signatures were needed, rather than the arduous 45 that were formerly required.

Lack of Infrastructure

While Afghanistan suffers from many infrastructural challenges, the business community's primary concern expressed in the NBA was the need for reliable and affordable electricity and water. The government has since invested significantly in the development of industrial parks across the country. To increase the supply of reliable and affordable electricity across Afghanistan, the Ministry of Power and Water decreased the price of electricity for industrial parks. In addition, the management of the industrial parks has greatly improved, as the two administrative units that previously managed them (Ministry of Commerce and Industry and the Afghanistan Investment Support Agency) were merged together in an effort to streamline decision-making.

PROVINCIAL BUSINESS AGENDAS

Following the withdrawal of foreign troops from provinces in late 2014 and subsequent reduction of development spending by the international donor community, many provinces outside of Kabul began to experience economic hardships such as business closings, increased unemployment and a reduction in commerce and investment. After consulting with key Afghan business association leaders, CIPE and its local partners decided to focus attention on improving the business climate of Afghanistan's major economic hubs outside of Kabul, adapting the NBA to the provincial level to develop private sector coalitions and Provincial Business Agendas (PBAs). CIPE efforts focused in four provinces – Balkh, Herat, Nangarhar, and Kandahar – that were the country's hubs for economic and business development.

The NBA coalition organizations reached down to their provincial level chapters and affiliates to ensure similar diversity of interest and voice at the local level. The PBAs would become a pillar of CIPE programs in Afghanistan to counteract national-level gridlock, build sustainable democratic dialogue, and produce tangible results for local communities.

In 2015, CIPE established advocacy task forces (ATFs) consisting of local business associations to organize summit meetings, to identify and prioritize areas for needed reform. These initiatives resulted in Provincial Business Agendas for each province. Since 2016, following the release of the four PBA reports, the focus of the project shifted to supporting a sustained advocacy effort by the local business communities on the policy recommendations outlined in each PBA report. CIPE created PBA tracking matrices that ATFs relied on to prioritize and focus advocacy work.

CIPE's work supporting the Afghan business community at the provincial level has produced considerable change in the local business communities. The ATFs have successfully advocated without direct CIPE assistance for tariff policy reforms, land provisions, industrial park resourcing, and bettering the business environment for women, among many other reforms. PBA ATFs have also taken on a concrete role as the voice of local business by serving in times of political turmoil to address political-economic challenges facing the community. For example, the Kandahar ATF has worked with government officials to resolve the repeated border closures with Pakistan in order to protect the exports of the local fresh fruit industry.

In Balkh province, the ATF members advocated construction of cold storage facilities for agricultural products. Existing facilities only addressed 20 percent of the province's needs. The ATF recognized that the government needed to ensure access to all traders and farmers. Ultimately, the Ministry of Agriculture and Livestock approved construction of five additional cold-storage facilities in the region, increasing capacity to cover 75 percent of the province's agricultural products. The need for better cold storage facilities is listed in several PBAs, including Balkh's, and has become a unified advocacy issue at the national level as well.

Another example comes from Herat where PBA advocacy focused on improving the operations of Herat City Industrial Park. The ATF met with ministers, governors, and private sector investors to secure electricity, clean water, new laboratories, and a greenery program for the industrial park. The officials pledged to build new water wells to provide 5,000 cubic meters of clean water per day, and to provide land to a local investor to build a quality control lab in the park to test locally produced medicines.

IMPACT

The Afghan government enacted major reforms as a result of the private sector's advocacy following publication of the NBA. Over the course of several years, the Afghan parliament passed a series of laws that were crucial to reforming the business climate and improving democratic governance and were directly related to reforms called for in the NBA. Such reforms included: new competition law, anti-monopoly law, mortgage law, norms and standards law, banking reform law, and land leasing reform law. The legitimacy established by this participatory process also helped to strengthen the credibility of the business community as it conducted its subsequent advocacy efforts.

CIPE has also received positive feedback from members of the business community and elected officials regarding the PBA advocacy work and resulting implementation of policy reforms. Government officials in Kabul have repeatedly praised the PBA ATFs for raising local-level concerns at the national level. Locally, the PBA ATFs have received praise from businesspersons and chamber heads alike for their ability to resolve local issues. Such feedback demonstrates a unified perception that the PBA and its associated ATFs are effective in both identifying and addressing necessary policy reforms.

Through its work in Afghanistan, CIPE has learned that institutionalizing sustainable and meaningful democratic change, improving citizen-government relations, and stimulating economic growth are only possible through intensive and patient grassroots interventions. The overarching result is the improved participation and influence of the private sector in the governance process and strengthened voices for economic reforms to improve the business-enabling environment in Afghanistan.

The NBA development process helped leading private sector representatives reach consensus on priority economic issues and collectively advocate that the government implement their recommendations. The PBA development process brought local voices of business on local issues to the forefront of policy discussions. The ATFs that were formed to lead advocacy of the PBAs continue to advocate their needs and push for results with increasing recognition among civil society, politicians, and local Afghans alike. CIPE training and engagement with public officials enabled dialogue with the business community on crucial economic issues and improved their understanding of market economic and democratic principles.

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