



## Doing Business in Afghanistan: 2010 Country

### Commercial Guide for U.S. Companies

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## Chapter 1: Doing Business In Afghanistan

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### Market Overview

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- Afghanistan continues to rebuild after nearly 30 years of conflict and is transitioning from a state-based model to a free market economy.
- The government is improving the country's physical infrastructure with donor help and is committed to providing more basic services and humanitarian assistance to a growing population with some of the most challenging social indicators in the world.
- Corruption remains a persistent problem under these efforts which increases costs.

- A multi-billion dollar international effort to help reconstruct Afghanistan is underway, led by the United States and other international donors. Many current business opportunities are linked to these reconstruction efforts.
- The Government has taken steps to create attractive conditions for foreign investment, however, there is still much more to be done, particularly in completing the process of reforming the legal and regulatory framework.
- The security situation was particularly challenging in late 2009 and early 2010 due to a sharp increase in violence in the capital and some provinces. Chiefly because of the drop in agricultural production brought on by drought, real GDP growth dropped significantly from 11.5% in 2007 to an estimated 3.4% in 2008. A rebound in agricultural production and an influx of assistance from donors in 2009 aided in the country's recovery which was reflected in a GDP growth rate of 15.66%. We estimate GDP growth of 8.6% in 2010 as growth stabilizes near its decade average.
- Currency reform was completed in early 2003, resulting in a stable exchange rate. Since then, inflation has been relatively low and the nominal exchange rate stable. The tax code was restructured and clarified in 2005. Customs tariffs have been rationalized, existing trade agreements are being renewed and new agreements entered into force.
- The economy is dominated by small-farm agriculture and 80-90% of all economic activity remains informal. Illicit opium production remains a major activity and accounts to an amount equivalent to nearly a third of total licit GDP.
- Comprehensive foreign direct investment (FDI) statistics for Afghanistan are unavailable. Available figures are not reliable because of inconsistencies in data collection. The United Nations 2009 World Investment Report estimated FDI flow into Afghanistan at USD 300 million and a total FDI stocks at USD 1,365 million, representing 11.3% of GDP.
- Significant investment in Afghanistan comes from United Arab Emirates, Canada, the United States, Turkey, Iran, China, Pakistan, India, Kenya and the United Kingdom.
- The IMF estimates Afghan exports fell to \$752 million and imports fell to \$7.67 billion in 2009 but are expected to increase again in 2010 as a result of increased donor participation.
- Afghanistan's top export markets are India, Pakistan, Iran, Saudi Arabia, Central Asian Republics and the European Union. Imports primarily come from China, Japan, Pakistan, Iran, the Central Asian Republics and the European Union.
- Afghanistan's history and location give it the potential to develop into a vital trade and transit hub for the region.

- Poor infrastructure, including power, transport and telecommunications.
- A weak legal framework, regulatory enforcement, and dispute resolution mechanisms.
- Corruption is a serious challenge to doing business in Afghanistan.
- Foreign legal persons may not own land and securing clear title to land is a long, time-consuming, expensive process.
- A commercial banking system which provides limited commercial financing.
- Customs regulations and procedures that are neither transparent nor consistent.
- A shortage of skilled labor and trained personnel in both the government and the private sector.
- A critical threat security situation.

## Market Opportunities

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- Market opportunities are largely driven by Afghanistan's need to renovate its infrastructure which was weakened by years of war and neglect. Substantial opportunities for U.S. firms are linked to donor and international finance institutions (IFIs), including the World Bank and Asian Development Bank, that fund reconstruction efforts. Companies are advised to monitor donor and IFI programs for potential opportunities.

### *Short-Term Opportunities*

- Agricultural chemicals, machinery, equipment and services
- Agro-processing
- Irrigation planning and technologies
- Architectural, construction, and engineering services
- Building materials for both residential and commercial properties
- Computer hardware, software and peripherals (to include Dari language capability)
- Logistics and consulting services
- Telecommunications services and equipment
- Diesel generators and fuel delivery for independent power supply
- Education/training/vocational services
- All consumer products
- Heavy equipment, including trucks, trailers and buses, motor graders, concrete mixers, heavy-duty dumpers, paver finishers, and bull-dozers
- Security and safety equipment and services
- Automobiles/light trucks/vans and development of dealerships for 4x4 vehicles (sales, parts, and service)
- Translation services, including simultaneous, conference-style translation products
- Office furniture

- Printing and publishing services

#### *Medium-Term Opportunities*

- Aircraft and aircraft parts
- Airport/ground support equipment
- Electrical power systems
- Oil and gas field machinery, oil, gas, and mineral exploration, extraction and production services
- Road upgrades, lighting, and signage
- Transportation services
- Carpets, textiles and other handicrafts
- Leather and leather processing
- Precious and semi-precious stones
- Marble and natural stone
- Cold and dry storage facilities

#### **Market Entry Strategy**

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Strong local knowledge is a vital part of business development in Afghanistan.

- Be familiar with key players both in business and in government.
- Visit the country, get to know your potential partners and their capabilities to do business with U.S. firms, and meet with local chambers of commerce, the Afghan Investment Support Agency (AISA) and the Export Promotion Agency of Afghanistan (EPAA). Many U.S. firms may find it beneficial to partner with a local firm which knows the region and can advise on security, and other issues of doing business in the region.
- Expect high costs associated with doing business in an insecure and volatile region.
- Before travel, U.S. citizens should review the Consular Information Sheet and Travel Warning for Afghanistan. These documents can be found at: [http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_1056.html](http://travel.state.gov/travel/cis_pa_tw/cis/cis_1056.html)
- Personal relationships are everything in Afghanistan, and with the legal and regulatory framework still in a nascent stage, businesses are built almost entirely on trust.

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## **Chapter 2: Political and Economic Environment**

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

<http://www.state.gov/r/pa/ei/bgn/5380.htm>

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### **Using an Agent or Distributor**

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Many local companies find it invaluable to hire an Afghan individual or company as a local agent or partner. In many cases, local connections prove essential in navigating the business world. When looking for a partner, a good start is to contact the Afghan Chamber of Commerce and Industry (ACCI) and its U.S.–based affiliate, the Afghan American Chamber of Commerce. With over 4,000 members representing 24 different business associations, the ACCI has a wealth of local knowledge and contacts. The Afghan Investment Support Agency (AISA), a quasi-government agency set up to assist potential investors in registering their business, can also help make recommendations.

### **Establishing an Office**

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Afghanistan ranks an impressive 23 out of 168 countries in ease of starting a business, according to the World Bank’s 2010 “Doing Business Report.” The Afghan Investment Support Agency (AISA) is every foreign and domestic investor’s one-stop-shop for registering and establishing a business in Afghanistan.

AISA’s Investment Managers will assist the investor with the following procedures, which are necessary to obtain a business license:

1. Completion of the Investment Application Form and Application Form for Tax ID Number
2. Registration of the Investment Application Form

3. Provision of guidance on the requirements for submission of a business plan and review of the project documents to ensure it is within the country's legal framework
4. Registration of investment documents in commercial court and announcement of investors' business/investment details in a reputable Afghan newspaper
5. Payment of License Fee and Issuance of Investment License. (Fees are based on the type of business and are commensurate with the amount invested).

The Ministry of Foreign Affairs also asks that each company provide an introduction letter from its embassy. The U.S. Embassy can provide this letter upon provision of the company's Articles of Incorporation and evidence of an IRS Tax ID number. Please contact the U.S. Embassy's Commercial Section for more details (see Contacts section of this report).

The entire process takes about seven days. Licensing fees range from \$100 to \$1,000, depending on the size of initial investment.

If the business intends to engage in import/export, additional steps are required. In addition to the Investment License, the Ministry of Commerce will also issue an export license. To obtain an export license, the Ministry requests businesses to provide the following information:

1. Bank statement
2. Police Certificate (Clean Records Certificate) from their country of domicile.

There are no separate licensing procedures for joint ventures.

While AISA has the mandate to host business, trade and investment events and conferences, as well as refer companies to potential partners, sources of finance, and opportunities in industrial parks, its services in these areas are lacking.

Establishing a physical office remains more of an art than a procedure. Potential investors face an overheated real estate market, with rents comparable to large U.S. or European cities. Renters are also required to pay a 20% renters tax, which they must personally withhold from their monthly rent payment and remit to the Government of the Islamic Republic of Afghanistan (GIROA). Foreign investors are not permitted to purchase real estate in Afghanistan (see Chapter 6 for more details). Basic infrastructure, such as electricity, heating, and telecommunications, remains a constant challenge.

Under the Afghanistan Government-launched Industrial Park Program, established industrial parks offer clear land title, reliable power and water supply, and security. The industrial park in Bagrami (near Kabul) is expanding due to the large demand for land. Parks in Mazar-e-Sharif and Kandahar are in the process of securing occupants and overcoming infrastructural challenges. The Industrial Park in Herat is host to nearly 250 companies and is growing rapidly. The Industrial Park Program is administered by AISA. More information can be found at <http://www.aisa.org.af/ipda/index.html>.

The Government of the Islamic Republic of Afghanistan has established a procurement agency to facilitate the purchase of goods and services for the Government. This agency, the Afghanistan Reconstruction and Development Service (ARDS), uses internationally recognized procurement procedures. Companies that wish to receive procurement notices can do so by registering through email. Notices on new procurements are sent electronically to all companies registered with ARDS. ARDS also maintains a list of suppliers. ARDS can be contacted at <http://www.ards.org.af> or [ards.procurement@ards.org.af](mailto:ards.procurement@ards.org.af) or [procurement@afghanistangov.org](mailto:procurement@afghanistangov.org).

### **Distribution and Sales Channels**

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Formal distribution and sales channels are not well developed in Afghanistan. Most commerce is confined to small store fronts, markets and informal roadside trading although some major distribution centers are Kabul, Herat, Mazar-e-Sharif, Jalalabad, and Kandahar. Many commercial goods destined for Afghanistan are shipped through ports in Karachi or Port Qasim, Pakistan, moved overland by rail or truck and enter the country via the Torkham (Nangarhar province) or Chaman (Kandahar province) border crossings. In addition, a significant amount of Afghanistan's imports pass through Hairatan, the country's third largest port, in northern Afghanistan. In January 2010, construction of a 75 km rail link from Uzbekistan to Mazar-e-Sharif was launched. Completion is planned for June 2011. Goods are currently distributed throughout Afghanistan by truck. Another major overland route is through Iran via Bandar-i-Abbas, entering Afghanistan at the border with Herat province. U.S. law prohibits transshipment through Iran by American companies or individuals without written approval by the U.S. Department of Treasury's Office of Foreign Assets Control (<http://www.ustreas.gov/offices/enforcement/ofac>). There is no internal rail network in Afghanistan. Though a growing number of air cargo companies are offering their services, this sector is still undeveloped and comparably expensive.

### **Selling Factors/Techniques**

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Due to limited understanding of English among Afghans, sales materials should be in Dari and/or Pashto if your market is primarily in the south of the country. Direct marketing is a relatively unused sales technique because the postal system is largely defunct and land-line telephone connections are limited. Due to the low literacy rate, businesses may want to consider using radio or television advertising to reach potential clients. With a growing population of cellular users, currently reaching over four million, direct marketing via cellular phone could likely become more widespread in the near future. Electronic commerce is not widespread in Afghanistan due to still developing telecommunications infrastructure, however, it is growing rapidly and several telecommunications companies have large-scale expansions planned for 2010. Surveys show that 15% of businesses use email to communicate with their clients and 9% have websites.

The United Nations Development Program has conducted a Market Sector Assessment of small and medium size enterprises in Afghanistan that includes information on existing marketing practices in some sectors. The study as well as other useful information can be found at <http://www.undp.org/afghanistan>.

### **Trade Promotion and Advertising**

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The Afghan Investment Support Agency (<http://www.aisa.org.af>), the quasi-government agency responsible for investment promotion, organizes trade promotion events. The Export Promotion Agency of Afghanistan, the quasi-government agency responsible for export promotion, organizes export promotion events (<http://www.epaa.org.af>). The Afghan Chamber of Commerce and Industry also has a Trade and Investment Promotion Office (<http://www.acci.org.af>).

Businesses in Afghanistan spend limited resources on advertising. Only a handful of Western-style advertising agencies exist. Commercial advertising is available through major television and radio outlets such as Tolo TV (<http://www.tolo.tv>), Ayna TV, Ariana TV (<http://www.e-ariana.com>), 1 TV ([www.1tvmedia.com](http://www.1tvmedia.com)), Radio Television Afghanistan (<http://rtakabul.tripod.com>) and Radio Arman, (<http://www.arman.fm>). Radio Khillid, Radio Salam Wastandar. Advertisements in newspapers reach a limited audience.

## **Pricing**

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Factors to consider in pricing are as follows:

- Corporate income tax of 20%, low by regional standards. Personal income tax ranges from 0-20%.
- Business Receipts Tax ranging from 2-10% based on sector, revenue and billing.
- Import tariffs in the range of 0-25%.
- High transport costs.
- Competition from cheap, low-quality goods and services from Pakistan, China and Iran.

## **Sales Service/Customer Support**

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Customers in Afghanistan are not accustomed to a high degree of sales service and customer support, with the possible exception of those who use mobile and internet service providers. However, appreciation for higher levels of service is increasing as the general population becomes more market savvy.

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Afghanistan currently has no laws enforcing intellectual property rights. Investors should have no expectation of protection (see Chapter 6 for more information).

## **Due Diligence**

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It is essential to conduct adequate due diligence on potential local partners before entering into business in Afghanistan. As the country currently has no contracts law in place and the commercial court system is inadequate; businesses, therefore, should tread carefully when entering into commercial agreements or partnerships. The Afghan Government enacted arbitration and mediation laws in January 2007. The Ministries of

Commerce and Interior, AISA, the Afghan National Police, and the courts have all played roles in recent disputes involving Americans. If involved in a commercial dispute, hiring an Afghan attorney early can be beneficial. Visiting the country to learn more about the business environment and the potential partner is recommended. The Afghan Chamber of Commerce and Industry (ACCI) and the Afghanistan Investment Support Agency (AISA) can be helpful in providing background on a potential partner. In addition, there are a few local attorneys who specialize in business and commerce that can be contacted for assistance. A list of attorneys is available on the U.S. Embassy website at [http://kabul.usembassy.gov/judicial\\_services.html](http://kabul.usembassy.gov/judicial_services.html).

### Local Professional Services

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The Afghan Embassy in Washington, D.C. has developed a resource listing services available to facilitate investment. The resource can be downloaded at <http://www.embassyofafghanistan.org/resourceguide.html>.

### Web Resources

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The Afghan Investment Support Agency at <http://www.aisa.org.af>

The Afghan Chamber of Commerce and Industry <http://www.acci.org.af>

World Bank 2010 Doing Business Report: <http://www.doingbusiness.org>

Afghanistan Reconstruction and Development Service <http://www.ards.org.af>

U.S. Department of Treasury's Office of Foreign Assets Control  
<http://www.ustreas.gov/offices/enforcement/ofac>

United Nations Development Program <http://www.undp.org/afghanistan>

Tolo TV <http://www.tolo.tv>

Radio Television Afghanistan: <http://rta.org.af/>

Ariana TV: <http://www.arianatelevision.com/>

Pajhowak News Agency <http://www.pajhwok.com>

Afghan Scene [www.afghanscene.com](http://www.afghanscene.com)

Quqnoos News Agency <http://quqnoos.com>

U.S. Embassy in Afghanistan <http://kabul.usembassy.gov>

Afghan Embassy in Washington, D.C.  
<http://www.embassyofafghanistan.org/resourceguide.html>

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## Chapter 4: Leading Sectors for U.S. Export and Investment

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### Construction Materials

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Demand for all types of materials is booming and will remain strong over the next several years given the magnitude of the reconstruction process, a growing population and rising income. Projects range from large scale reconstruction of transportation, power and water infrastructure to small scale retail and residential construction. International donor demands for high quality and quantity represent opportunities for both the export market and local investment. This sector offers perhaps the highest potential for both U.S. investment and exports.

Most available construction materials are currently imported and are of poor quality. Cement, for example, is primarily imported from Pakistan and Iran and is reportedly of such poor quality that it is considered not saleable in those countries. Afghanistan has high-quality limestone deposits and a small number of active cement plants (some state-owned), but production does not meet domestic demand.

High transportation costs, an abundance of raw materials, and a supply of local workers with adequate skills in this sector combine to offer promising opportunities for investment in local production that could under-price foreign rivals. The national market for materials is well integrated, with competitive wholesaling and retailing and established distribution channels. There is medium-term potential for local production for export as well, particularly in the marble and marble cutting industry, as Afghanistan's wealth of natural resources offers it a comparative advantage over neighboring countries.

Profitable investment opportunities also exist in the manufacture of final construction inputs, such as doors or windows. Often these activities are carried out on a small scale, but many opportunities exist to expand to mass production.

### Opportunities in Construction

#### Cement and Concrete Block

Afghanistan is in an earthquake prone region. Demand for quality cement is high and is forecasted to remain strong, both in Afghanistan and in regional countries where industries are operating at capacity levels. Local conditions for the production of cement (i.e., adequate limestone) exist. Given the high transportation costs for this product, investment in locally produced cement has potential.

Concrete blocks are a popular local construction material. Upgrading and expanding existing production facilities or establishing new facilities offers good investment potential.

### **Bricks**

Baked and unbaked bricks are used for construction in Afghanistan. Both are produced by small, local enterprises. Given high transportation costs, there are business opportunities in the expansion and upgrade of local production facilities.

### **Doors and Windows**

Current local production of doors and windows uses obsolete technology and does not meet local demand. Investment opportunities exist in the improvement and expansion of this process.

### **Marble and Natural Stone**

There are substantial marble deposits within Afghanistan. Only a small fraction of what is mined is processed locally for construction or handicrafts. Most is exported to Pakistan, where it is cut into blocks and slabs. Investment in the local cutting process has high profit potential. The abundance of natural stone also offers potential in mining and processing. Some of Afghanistan's natural marble deposits are damaged by mining techniques such as blasting, which creates micro-cracks throughout the deposit. Extraction of marble by diamond blade cutting, the best practice, has begun, but it is still extremely limited.

### **Tiles**

The raw materials for the production of ceramic tiles and other ceramic products can be found in Afghanistan. High demand and prohibitive transportation costs represent great potential for investment in local production facilities.

### **Sand, Gravel and Aggregate**

Many production sites for sand, gravel and aggregate are present. However, quality is mixed. Investment and U.S. export opportunities exist in upgrading the quality of production, equipment sales, and exploitation of new mining sites.

### **Asphalt**

Local asphalt production capacity does not meet the booming demand from large scale road construction and reconstruction activities. High profit potential exists in expansion of local production.

## **Agro Processing**

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Afghanistan is predominantly an agricultural country; agriculture represents nearly 40% of licit GDP. At one time, high quality Afghan agricultural product exports such as dried fruits, nuts, almonds and pistachios occupied a prominent share of the world market. Following almost three decades of conflict, farmers in Afghanistan have recently made great strides in reviving agro business in the country. Development of the agricultural sector is a high priority of the government and is the focus of international donor efforts to revive rural economic activity. Improvements in irrigation systems, fertilizer use and extension services, and a land titling reform program have increased production and reduced input prices.

The domestic market potential for agricultural products is huge and demand is increasing with a rise in population and income across the country. Currently, most processed food is being imported. With rapidly improving supply conditions for agricultural products, there is a large potential for import competition and early entrants stand to benefit as the first domestic suppliers of their products. In addition, Afghan agricultural products represent a potentially valuable export product for investors, particularly in regional markets such as India and Pakistan. There are also significant opportunities in cold and dry storage, processing, particularly cleaning and packaging, or in other elements of the value chain such as testing and certification for both international and domestic markets.

## **Opportunities in Agro Processing**

### **Dried Fruits and Nuts**

The world market for raisins, pistachios, dried apricots, almonds and walnuts is over \$2.2 billion, of which Afghanistan currently claims less than 3%. Many of these products were formerly produced on a large scale and continue to enjoy international recognition for quality. Raisins, for example, are Afghanistan's primary agricultural export commodity and once accounted for 60% of the world's market. Pakistan, India and Russia offer large, nearby markets in which Afghan products could begin regaining market share. Existing raisin processors are ripe for new investment to increase and improve production. Ideal growing conditions exist for almonds, pistachios and apricots. The world's largest importers of these products - India for almonds and Russia for dried apricots – are natural regional markets. Low productivity of existing orchards and production facilities as well as a lack of machinery for sorting, drying and packaging, are issues facing the industry.

### **Juices, Pastes, Jam**

Local demand for fruit juice, jams and tomato paste is high. Industrially processed products available on the local market are almost entirely imported, primarily from Iran and Pakistan. The abundance of local fruits and tomatoes offers substantial business opportunities in import substitution. Afghan pomegranates are among the best in the world, so production of pomegranate concentrate for export has very good prospects.

### **Dairy Products**

Most industrially processed and packaged dairy products are imported. Many regions in Afghanistan have a well-established dairy production tradition, particularly in yoghurt, but lack the infrastructure to expand beyond local consumption. U.S. exports, local production for import competition, as well as investment in collection, processing, packaging, and a cold storage and transportation chain have good prospects.

### **Karakul Skins and Leather**

Karakul skins were formerly one of Afghanistan's major exports. With the number of livestock increasing, this industry has rebounded. Investment opportunities and potential for U.S. exports of machinery exist in skin processing and leather manufacturing.

### **Meat Processing**

Existing meat processing facilities do not meet international standards. Given the increase in livestock, good opportunities exist for U.S. exports and investment in the upgrade of these facilities and equipment.

### **Cotton and Sugar**

Afghanistan formerly produced substantial quantities of cotton and sugar (beet and cane) crops well suited to the climate of some regions of the country. Foreign investment has been involved in the rehabilitation of former state-owned enterprises in these areas as well as in greenfield operations. The Spinzar plant in Kunduz and the Balkh Gin and Press in Mazar-e-Sharif were privatized under a long term leasing agreement with cotton specialist Dagrif of France. KWS of Germany has successfully invested in a joint venture sugar factory in Baghlan. Similar opportunities exist for interested investors.

### **Mills and Baking**

Most baking and wheat processing activities currently are carried out on a very small scale. Substantial opportunities for expansion of the industry exist.

### **Non-traditional Products**

Afghanistan has a number of native plants with unrealized commercial potential. Ideal climatic and ground conditions for many natural ingredients for the flavor, fragrance, and pharmaceutical industries exist. For example, conditions are ideal for the cultivation of roses and the production of rose oil. A number of spices, rare herbs and medicinal plants can also be found. Various market studies have demonstrated substantial possibilities in these areas.

### **Processing and Packaging**

Most processing and packaging facilities currently in use for agricultural goods are technologically outdated. This sector represents attractive opportunities for investment and U.S. export of technology and equipment to crush, press, pasteurize, filtrate, dry, sort, grade, fill, and package a variety of agricultural products.

### **Cold Storage and Transportation**

There are few cold storage facilities in Afghanistan. As the agro business sector strengthens and power and fuel supplies become more reliable, cold storage and cold transportation represent one area where U.S. investment and technology could achieve strong export growth and returns on investment.

## **Carpets and Textiles**

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Carpets are Afghanistan's most important export. The industry has a centuries-old tradition that enjoys world renown. Afghan carpets are internationally competitive, even with the challenges of a post-war economy—a reflection of the capabilities of generations of skilled Afghan weavers.

The government places a high priority on the development of the carpet sector, particularly because of its importance as a source of income for the rural population, including women and refugees. Government policy is directed to the benefit of the industry.

Production is concentrated in several regions of the country. While some carpet factories have been established in urban centers over the last two years, production remains primarily home-based and fragmented. A lack of available and appropriate land has inhibited the development of consolidated production sites.

As few local post-weaving facilities exist, most Afghan carpets destined for overseas markets are exported as unfinished products to Pakistan to undergo the final steps of washing, trimming, and drying. The carpets are then exported from Pakistan as Pakistani products to overseas markets. This process amounts to millions of dollars in lost revenue for Afghanistan.

Carpets are transported to foreign markets via land, sea or air, primarily through Pakistan. A growing number of air freight companies serve Kabul, and exporters are turning to this faster and more reliable freight carrier. To support the carpet industry, President Hamid Karzai has decreed that Ariana Afghan Airlines transport Afghan carpets at cost.

Hand-knotted Afghan carpets enjoy preferential access to important overseas markets. No customs duty is levied on their import into the United States, Canada or the European Union.

The Afghan carpet industry offers high potential for investment, particularly in re-establishing those elements of the production chain which now take place outside the country. It is estimated that the value of sector imports could increase two to five times if goods were sold directly to foreign markets rather than through intermediaries. Investment in information technology offers the potential to develop niche markets for customized, made-to-order carpets for foreign buyers. Improvements to wool and yarn inputs and consolidation of production facilities promise increased efficiency, quality and profitability.

## **Opportunities in the Carpet Industry**

### **Post Weaving Facilities: Washing, Trimming, Finishing**

Facilities for washing, trimming, and finishing carpets are scarce in Afghanistan. The absence of such facilities has created a major bottleneck in the development of direct access to overseas markets. As a result, the carpet industry is dominated by Pakistan-based middlemen. The establishment of such facilities in Afghanistan represents the largest investment potential in this sector.

### **Carpet Factories**

While a few carpet factories exist, the industry is still largely dependent on home production. The establishment of additional factories means increased productivity and increased quality control.

### **Wool Scouring and Spinning**

Quality carpets require quality wool and yarn. While most producers of high quality carpets strive to exclusively use local, handspun wool, supply is insufficient to meet demand. Growing numbers of livestock in Afghanistan have created the potential for investment in additional wool scouring facilities. Spinning of high quality yarn, either from local or imported wool, also represents substantial opportunities.

### **Design Technology**

Most carpet designs are currently sketched and plotted by hand. Investment in Computer Aided Design (CAD) technology and associated training that would improve the efficiency of production and facilitate the niche market for custom ordered carpets has reasonable profit potential.

Afghanistan has long been a trade hub connecting Asia, Europe and the Middle East. A landlocked country bordering Iran, Turkmenistan, Uzbekistan, Tajikistan, China and Pakistan, it is considered a “land bridge” connecting trading partners and offering a point of access to an expanded regional market of more than two billion people.

Inadequate transportation infrastructure is a major obstacle to increased commerce. Road construction is a focus of the reconstruction effort. Major highway projects have been ongoing since 2002, including a nearly complete 2,400 km ring road circling the country and 700 km of links with neighboring countries. The reopening of the Salang Tunnel in 2002 was a major step forward in opening road links with northern Afghanistan. Bridges connect Afghanistan to Uzbekistan and Tajikistan, and rail lines are under construction from the Uzbek border to Mazar-i-Sharif and from Iran to the western suburbs of Herat.

Transport is a high-growth sector and the demand for transport services is expected to remain strong in the medium to long term. Transport of commercial goods is expected to rise as the commercial infrastructure improves and domestic production of products with strong export potential, such as carpets and dried fruits and nuts, increases. Improving security has also resulted in increased transshipment of goods through Afghanistan.

The market for logistics and transportation services offers first mover advantage to prospective investors with little competition and steady demand. Early investors have reported modest start-up costs, low overhead and high profit margins.

Opportunities exist in areas such as:

- Cold cargo and perishables storage
- Overland transportation
- Truck maintenance
- Customs facilitation
- Air freight and cargo services
- Package and document delivery
- Procurement and supply
- Warehousing

The mining industry offers considerable growth potential for U.S. investment and export of technology. Afghanistan has a large quantity of known mineral resources as well as vast areas where the potential is unknown. These resources include copper, iron, coal, uranium, chromite, zinc, gold, lead, and silver. The country’s known precious and semi-precious minerals include lapis lazuli, emerald, ruby, tourmaline, sapphire, quartz, alabaster, amethyst, and beryl. While some of these materials are used in the handicrafts market, few of the reserves are being commercially exploited and there is room for expansion of this industry. A reconstruction boom is generating significant local demand for mineral-based construction materials, including marble, paving stones, cement and concrete blocks, bricks, gravel, wood, steel, sand, glass and tile. High

transport costs provide an advantage to locally produced products. Domestic energy needs remain unmet, despite coal deposits and natural gas.

This sector represents medium to long term potential. Privatization of Afghanistan's State-Owned Enterprises (SOE), which control some of the country's mining resources, such as coal, is not complete. A Minerals Law was passed in 2009, however, and some of the regulations have recently been promulgated.

The market for U.S. technology, equipment and expertise in this sector will be substantial.

## Opportunities and Resources

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This chapter draws largely on research, market evaluations and case studies conducted by the organizations listed below. Complete materials can be found on their websites.

The Afghan Investment Support Agency <http://www.aisa.org.af>  
*Investment opportunity brochures and market studies,*

The Multilateral Investment Guarantee Agency <http://www.miga.org>  
*Investment Horizons: Afghanistan Study*

The World Bank <http://www.worldbank.org>  
*Doing Business in Afghanistan Report 2010*

Afghanistan Research and Evaluation Unit <http://www.areu.org.af>  
*Market case studies in raisins, carpets and construction materials*

Emerging Markets Group, <http://www.emergingmarketsgroup.com>  
*Privatization of State Owned Enterprises Project*

Ministry of Finance, Privatization <http://privatization.mof.gov.af/EN>  
*Privatization of State Owned Enterprises website*

**Donors and international financial institution-funded activities in the sectors discussed in this chapter generate business opportunities for interested companies. Please consult the Project Financing section in Chapter 7 for more details on the activities of organizations such as USAID, World Bank and the Asia Development Bank and how firms can receive notification on procurements and contracting.**

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## Chapter 5: Trade Regulations and Standards

- [Import Tariffs](#)
- [Trade Barriers](#)
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- [U.S. Export Controls](#)
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## **Import Tariffs**

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Afghanistan maintains the lowest import tariffs in the region. A new tariff regime has significantly reduced and simplified the customs duty rates to six major categories: essential food and non-food products, 2.5%; raw materials, 1%; machinery equipment 0%; petroleum products, 5%; other import goods, 16%; and luxury and non-priority products, 25%. Further, planned customs rationalization will decrease the number of rates from six to four, increase the tariff rate charges on the bulk of imported products, and increase the weighted average tax rate from 3.9% to 6.9%. Even at these revised tariff rates, Afghan tariffs will remain the lowest in the region.

## **Trade Barriers**

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Afghanistan has few trade barriers for imported products. However, deficient infrastructure, a still evolving legal and commercial regime, high levels of corruption and a volatile security situation act as de facto trade barriers.

## **Import Requirements and Documentation**

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All imported goods and products must have an original bill of lading and inventory documents. Transit permission is required for shipments transiting through Pakistan; the Central Board of Revenue's Customs Division in Islamabad, Pakistan, oversees transit permission.

## **U.S. Export Controls**

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In June 2002, the U.S. lifted most restrictions on exports and re-exports to Afghanistan. Such transactions are now subject to export control policies applicable to most countries who are not members of multilateral export control regimes. The majority of everyday commercial goods does not require specific U.S. government authorization for export or re-export to Afghanistan. However, certain items on the Commerce Control List do require a license from the Department of Commerce's Bureau of Industry and Security (BIS). These include items controlled for chemical and biological weapons, nuclear nonproliferation, national security, and missile technology reasons. There are also foreign policy controls in place for regional stability and crime control reasons. These requirements can be found in Part 742 of the Export Administration Regulations (EAR) ([http://www.access.gpo.gov/bis/ear/ear\\_data.html](http://www.access.gpo.gov/bis/ear/ear_data.html)).

The U.S. Government generally reviews license applications to export controlled goods to Afghanistan on a case-by-case basis. Note that a license is required to export an item

subject to the Export Administration Regulations even when one would not otherwise be necessary, if you know, have reason to know, or are otherwise individually informed by the Department of Commerce's Bureau of Industry and Security (BIS) with respect to a specific transaction that the item will be used in activities related to nuclear, chemical, or biological weapons or missile delivery systems as defined in part 744 of the Export Administration Regulations. In addition, certain restrictions administered by the U.S. Department of the Treasury's Office of Foreign Assets Control continue in effect with respect to transactions involving members of the Taliban. Detailed information on U.S. export policies can be found at the BIS website at [www.bis.doc.gov](http://www.bis.doc.gov). Specific guidance on U.S. export controls with respect to Afghanistan can be found at <http://www.bis.doc.gov/policiesandregulations/RegionalConsiderations/Afghanistan.pdf>  (2.3MB PDF only)

You may also contact the BIS Export Counseling Division (<http://www.bis.doc.gov/licensing/ExporterFAQ.html>) at (202) 482-4811 for specific guidance.

### **Temporary Entry**

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Afghanistan currently has no laws or regulations governing products entering the country temporarily.

### **Labeling and Marking Requirements**

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Afghanistan currently has no laws or regulations governing labeling and marketing requirements for products.

### **Prohibited and Restricted Imports**

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The following items are prohibited from entry in Afghanistan:

- firearms, explosives, daggers
- obscene and subversive literature
- alcohol (2 liter exception for personal use for commercial air passengers)

Although not prohibited from entry into Afghanistan, Pakistan currently maintains an extensive list of items on its Negative List -- that are barred from transiting its territory for import into Afghanistan.

### **Customs Regulations and Contact Information**

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Although there is a focused Afghan and donor country effort to improve governance, practices, and facilities at the major border crossing points, the customs regulations and procedures in Afghanistan are neither transparent nor consistent. Coordination between customs and other government authorities is minimal though improving. A benchmark of the current IMF program with the government is to "adopt and implement a business model of border controls clarifying the role of each ministry (MOF, MOCI, MOI) at the border consistent with internationally accepted best practices in consultation with other stakeholders for better customs controls at the border." Customs officials have received basic training on the customs code, and will have increased opportunities for training

and development in the coming years through the new Afghanistan National Customs Academy (ANCA) which was inaugurated in January 2010. Basic communications and support for automated processes are hindered by lack of reliable electricity at major crossing points. Several border crossing facilities have been upgraded in recent years, including Torkham Gate (East), Shir Kan Bandar and Hairatan (North), Islam Qalah (West); plans for infrastructure improvements at several other border crossing points are underway. Traders face unclear procedures at the borders as well as extra-legal duties and bureaucratic obstructions.

Customs reform is a priority of the Afghan Government. Large-scale reform efforts are underway to establish standardized fees and procedures for incoming goods, as well as streamlined procedures for exports, and a trained cadre of professional staff. In December 2003 the Customs Department introduced a Single Administrative Document (SAD) system pilot program, based on the European Union customs regime, for five key provinces and is now implemented nation-wide. In March 2005, implementation of the Automated System for Customs Data (ASYCUDA) system began on a limited scale and has been implemented in five locations. Simplified exemptions processing documentation is being introduced and amendments to the Customs Code have been drafted and are moving through Afghanistan's legislative process. A system of Licensed Customs Brokers was launched in 2003, requiring an examination, but due to high levels of illiteracy in the provinces, has been difficult to enforce (Licenses are issued without taking the exam). Improved conditions on cross-border trade are expected with ratification of the South Asian Free Trade Area (SAFTA) and negotiation of a new Transit Trade Agreement between Afghanistan and Pakistan (APTTA). Adoption of both agreements will require outreach to the business community and Customs Officers responsible for implementation.

The Afghan Customs Department, a division of the Ministry of Finance, can be contacted at:

Telephone:     +(93)(75)200-4199  
Email:           <http://www.customs.gov.af>

## **Standards**

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Afghanistan is currently in the process of developing a national standards regime. The Afghan National Standards Authority (ANSA) is an independent agency under the Ministry of Commerce and was established in 2005. ANSA is responsible for the establishment, maintenance, dissemination and enforcement of national standards and technical regulations.

ANSA can be contacted at:

Telephone:     +(93)(799)079-258  
Email:           [ansaafg@gmail.com](mailto:ansaafg@gmail.com)

## **Trade Agreements**

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Afghanistan is a member of the Economic Cooperation Organization (ECO) and the Central Asia Regional Economic Cooperation (CAREC). It became a full member of the South Asian Association for Regional Cooperation (SAARC) in the spring of 2007.

Afghanistan has signed bilateral Trade and Economic Cooperation Agreements with Russia and Turkey, a bilateral Reciprocal Promotion and Protection of Investments Agreement with Turkey, a bilateral Preferential Trade Agreement with India and a bilateral Investment Treaty with Germany. Afghanistan also has an Afghanistan Transit Trade Agreement (ATTA) agreement with Pakistan. This agreement, signed in 1965, is supposed to govern the routes, transport modes and customs transit procedures for transit of goods to and from Afghanistan through Pakistan. An updated version of the treaty is currently under negotiation.

Afghan products enjoy duty free and quota free access under an LDC Market Access Initiative with Canada and a Generalized Preferences Treatment agreement with Japan. Afghan products also enjoy an "Everything But Arms" (EBA) agreement with the European Union.

As a least-developed country, Afghanistan is eligible for duty-free access to the U.S. market for approximately 5,700 products under the Generalized System of Preferences (GSP) program. Afghanistan has signed a bilateral Investment Incentive Agreement with the United States to encourage and protect investment activities in Afghanistan through the provision of insurance and investment guarantees under the OPIC program. In 2004, a Trade and Investment Framework Agreement (TIFA) was also signed with the United States.

Afghanistan became an observer to the World Trade Organization in December 2004 and has announced its intention to complete the WTO accession process within the next five years.

## Web Resources

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Department of Commerce's Bureau of Industry and Security [www.bis.doc.gov](http://www.bis.doc.gov),  
<http://www.bis.doc.gov/policiesandregulations/RegionalConsiderations/Afghanistan.pdf>  
 (2.3MB PDF only) <http://www.bis.doc.gov/licensing/ExporterFAQ.html>

Export Administration Regulations [http://www.access.gpo.gov/bis/ear/ear\\_data.html](http://www.access.gpo.gov/bis/ear/ear_data.html)

Ministry of Finance <http://www.mof.gov.af>

South Asian Association for Regional Cooperation (SAARC) <http://www.saarc-sec.org>

Economic Cooperation Organization (ECO) <http://www.ecosecretariat.org>

Central Asia Regional Economic Cooperation (CAREC) <http://www.carec.kz>

U.S. Department of Commerce <http://www.doc.gov>

Office of the U.S. Trade Representative <http://www.ustr.gov>

Overseas Private Investment Corporation <http://www.opic.gov>

Canadian Department of Foreign Affairs and International Trade  
<http://www.dfait-maeci.gc.ca>

United Nations Conference on Trade and Development (UNCTAD)  
<http://www.unctad.org/Templates/Page.asp?intlItemID=2344&lang=1&print=1>

Turkish Ministry of Foreign Affairs <http://www.mfa.gov.tr/MFA>

Japanese Ministry of Foreign Affairs <http://www.mofa.go.jp>

Gateway to the European Union <http://www.europa.eu.int>

Indian Ministry of Commerce <http://www.commerce.nic.in>

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## Chapter 6: Investment Climate

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### **Openness to Foreign Investment**

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The Government of the Islamic Republic of Afghanistan (GIROA) recognizes that the development of a vibrant private sector is crucial to the reconstruction of an economy ravaged by decades of conflict and mismanagement. As such, it has taken significant steps toward fostering a business-friendly environment for both foreign and domestic investment. Security threats sometimes limit investors' opportunities to develop

businesses in some regions, however, and certain sectors (such as mining and hydrocarbons) still lack a regulatory environment that fully supports investment. The following chart summarizes well-regarded indexes and rankings:

Measure	Year	Index or Rank
TI Corruption Index	2009	179/180
Heritage Economic Freedom	2009	N/A
World Bank Doing Business	2010	160/183
MCC Gov't Effectiveness	2009	-0.5 (22%)
MCC Rule of Law	2009	-1.15 (1%)
MCC Control of Corruption	2009	-0.75 (3%)
MCC Fiscal Policy	2009	-1.3 (49%)
MCC Trade Policy	2009	73.2 (72%)
MCC Regulatory Quality	2009	-1.03 (8%)
MCC Business Start Up	2009	0.926 (66%)
MCC Land Rights Access	2009	0.346 (6%)
MCC Natural Resource Mgmt	2009	23.71 (0%)

The Law on Private Investment of Afghanistan of 2005 specifically prohibits discrimination against foreign investors, as does the Constitution. According to the Afghan Investment Support Agency (AISA), discussions are underway to improve regulations under the law; these will be submitted to the Parliament and President for promulgation once completed. Investment in certain sectors, such as non-banking financial activities, insurance, natural resources, and infrastructure (defined to include power, water, sewage, waste-treatment, airports, telecommunications, and health and education facilities) is subject to special consideration by the High Commission on Investment (HCI), in consultation with relevant government ministries. Investments can be 100 percent foreign-owned. Foreign investors are not required to secure an Afghan partner, but due to land-owning restrictions (see paragraph 16) foreign investors almost always choose to work with an Afghan partner. Private investors have the right to transfer their capital and profits out of Afghanistan as well as debt service for off-shore loans. Foreign and domestic investors enjoy equal treatment, including under ongoing privatization programs, except as noted in the sectors above. Foreigners may not own real estate, but they may lease it for periods up to fifty years for arable land or 90 years for non-arable land. The Income Tax Law allows accelerated depreciation for capital assets and deduction of most business losses.

Major commercial laws currently in effect cover partnerships, corporations, arbitration, mediation, copyrights, and patents. A new telecommunications law (replacing the previous law enacted by decree) has been approved by the Parliament and Presidential signature is pending. A related ICT Law (Information & Communications Technology) has been passed by the lower House and full promulgation is expected by February 2010 (it will foster a new industry in electronic commerce and cybersecurity). Parliament has also passed a Labor Law. Laws on trademarks, transportation, agency, and competition await the President's signature. Anti-hoarding and contract laws are under consideration.

The government has adopted progressive policies to foster trade and investment, including currency reform, rationalized customs tariffs, and a simplified tax code. It has also set up structures to help promote investment and investment-friendly policies. The High Commission on Investment (HCI), composed of the Ministers of Commerce,

Agriculture, Foreign Affairs, Finance, the Afghan Investment Support Agency (AISA), and Da Afghanistan (Central) Bank, coordinates policy making. AISA, a quasi-government agency under the Ministry of Commerce, operates a streamlined business registration process ("one-stop shop") and conducts a host of business and investment promotion and facilitation activities.

The Afghanistan Chamber of Commerce and Industries (ACCI) engages actively in the process of establishing a legal framework for private business in Afghanistan, represents the business community to leading government officials, and provides services to members. In the two years since its establishment in 2008, ACCI has elected leadership, endorsed the new commerce law, and established ties with investors and associations in the United States, Tajikistan, Iran, Pakistan, the United Arab Emirates, Italy, and other countries. ACCI works with parliament, the office of the Second Vice President, and the ministries of Finance, Commerce, Interior, Transport, Justice (among others) to bring about reform and encourage investment in Afghanistan.

Although officials express strong commitment to a market economy and foreign investment, many businesses maintain that this attitude has not yet trickled down to the staff level in some ministries. Many government officials -- some of whom reportedly demand bribes, levy unofficial taxes, and inflict bureaucratic delays -- are out of step with official government policy; official support for open markets and private sector participation is stated in the Afghanistan National Development Strategy (ANDS) which was endorsed by President Karzai and the international donor community in June 2008. A reform-minded Minister of Commerce and Industries between late 2008 and 2009 streamlined the ministry and fired a number of allegedly corrupt officials. An acting Minister assumed duties in early 2010, with the change of the Cabinet.

## **Conversion and Transfer Policies**

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There are no restrictions on converting or transferring funds associated with investment into a freely usable currency and at a legal market clearing rate. The Private Investment Law states that an investor may freely transfer investment dividends or proceeds from a sale of an approved enterprise abroad. Afghanistan does not maintain a dual exchange-rate regime, currency controls, capital controls, or any other restrictions on the free flow of funds abroad.

Access to foreign exchange for investment remittances is not restricted by any law or regulation. However, in practice, particularly in the provinces, many banks may not have the capacity to deal with foreign exchange. The large, informal foreign-exchange markets in major cities and provinces such as Kabul, Mazar-e-Sharif, Jalalabad, Kandahar, and Herat, where U.S. dollars, British pounds, and euros are readily available, are slowly starting to become formal markets. Da Afghanistan (Central) Bank has issued 158 licenses for money service providers and 234 licenses for money exchange dealers in Kabul. The Central Bank has licensed 279 money service providers and 276 money exchange dealers in the provinces. Despite these licensed service providers and exchange dealers, there are thousands of unlicensed money changers that continue to practice their trade. Money service providers (i.e. hawaladars, many of whom also often perform currency exchange) continually cite the lack of enforcement in the currency exchange area and the resulting competitive disadvantage to licensed exchangers as a reason not to get money service provider licenses. U.S.

investors should only use licensed hawaladar money service providers, who are listed on the web site of Da Afghanistan Bank.

There is no legally mandated delay period for remitting investment returns such as dividends, return of capital, interest, and principal on private foreign debt, lease payments, and royalties and management fees through normal, legal channels.

The government does not limit the inflow and outflow of funds for remittances of profits, debt service, capital, capital gains, returns on intellectual property, or imported inputs, provided that applicable taxes have been paid. The only requirements placed on the outflow of funds are to prevent money laundering. For example, any transfer abroad that equals or exceeds AFS one million (USD 20,000) or equivalent must be carried out through a duly authorized or permitted banking organization or licensed money service provider. The transport of more than AFS one million or equivalent in cash across the border of Afghanistan into another country must be reported in advance to the Financial Intelligence Unit (aka FinTRACA) of Da Afghanistan (Central) Bank.

### **Expropriation and Compensation**

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The Private Investment Law states, "The State can expropriate an investment or assets only for the purposes of public interest and on a non-discriminatory basis." It further states that the "State shall provide prompt, adequate and effective compensation in conformity with the principles of international law, equivalent to the fair market value." The State may confiscate private property in order to settle bad commercial debts. The law allows a majority investor to challenge the expropriation, but this right does not accrue to "minority shareholders". Both the Afghan constitution and the Private Investment Law prohibit foreigners from owning real estate. There have been no reports of State expropriation of foreign assets, "creeping" or otherwise.

### **Dispute Settlement**

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Afghanistan's legal system is only just beginning to rebuild itself. Much of the framework necessary for encouraging and protecting private investment is not yet in place, and the existence of three overlapping systems (the Sharia-Islamic Law, the Shura-traditional law and practice, and the formal legal system instituted under the 2004 Constitution) can be confusing to both investors and legal professionals. While a commercial court system exists, the lack of a law on Commercial Agency (under consideration) is a significant impediment to the arbitration of commercial matters. In addition, there is a shortage of qualified legal practitioners, and corruption in the judicial system is endemic.

The enactment in January 2007 of Arbitration and Mediation laws established the foundation for an alternative dispute settlement system. Afghanistan is a party to the Convention on the Settlement of Investment Disputes Between States and Nationals of Other States and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. The Private Investment Law provides for dispute resolution under these mechanisms, under United Nations Commission on International Trade Law (UNCITRAL) rules, or under any mechanism that the investor has specified in a contract with another investor.

Under these conditions, the legal system plays a limited role in adjudicating commercial disputes and most businesses use informal mechanisms to resolve disputes and enforce property rights. The Afghan Investment Support Agency (AISA), for example, has some capability to assist investors in the mediation of certain disputes.

Investment disputes are common in the areas of land titling and contracts. The lack of a comprehensive land titling database means that several individuals may hold deeds to the same property. Real estate agents are not reliable. Those foreign investors seeking to work with Afghan citizens to purchase property are advised to conduct painstaking due diligence. The Embassy maintains a list of legal advisors that businesses may consult. (As noted above, the Afghan constitution limits land ownership to Afghan citizens.) For this reason, U.S. investors almost always require an Afghan citizen as a partner in establishing an enterprise.

## **Performance Requirements and Incentives**

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Afghanistan has no formal regulations or laws governing performance requirements.

The Private Investment Law prohibits discrimination against foreign investors, except in certain sectors, as noted above. Afghanistan's constitution restricts foreigners from owning real estate. There are no separate investment incentives or special treatment accorded to foreign investors. There are no government-imposed conditions on permission to invest, beyond the procedures required for acquiring a business.

The government does not impose offset requirements on its procurements, and foreign firms are accorded equal treatment before the law with national firms, except as noted.

The government does not apply discriminatory or excessively onerous visa, residence or work permit requirements for foreigners, but bureaucratic processing of visas can be time-consuming and there have been disputes in 2009 over visas for employees of large contracting firms. There are no discriminatory or preferential export and import policies affecting foreign investors. The Investment Commission under the Private Investment Law may choose to review and apply terms that are different from those generally applied to investments pursuant to this law for certain restricted sectors such as:

- non-banking financial activities;
- insurance activities; and
- investments in natural resources and infrastructure (energy related, airports etc.)

## **Right to Private Ownership and Establishment**

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Under the Private Investment Law, foreign and domestic private entities have equal standing and may establish and own business enterprises, engage in all forms of remunerative activity and freely acquire and dispose of interests in business enterprises. The only exception is in real estate; foreigners may not own land but they may lease it for periods of up to fifty years. Some leases have been negotiated with an automatic renewal clause for terms of up to 99 years.

In principle, government policies and regulations apply the standard of competitive equality to private enterprises in competition with public enterprises with respect to access to markets, credit and other business operations. However, working-level

government officials have in some instances exhibited anti-competitive and protectionist bias in some sectors in which SOEs are active.

While not sanctioned by law or official policy, small groups of businessmen, many of whom are alleged to have connections with former warlords and militias, dominate the trading market in many areas. These individuals, because of their wealth and insider access to land, credit and contacts, and their ability to manipulate prices, wield an excessive advantage that results in a non-competitive environment in some fields, notably gem-mining, fuel transport, and construction. In addition, some industries, including money changing and carpet production, have well-organized guilds which protect existing firms and prevent newcomers from establishing themselves.

## **Protection of Property Rights**

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Property rights protection is weak due to a lack of property registries or a comprehensive land titling database, disputed land titles, incapacity of commercial courts, and widespread corruption.

The acquisition of a clear land title to purchase real estate or a registered leasehold interest is complicated and cumbersome. The World Bank estimates in its Doing Business Report that it takes an average of eight months and entails legal fees of almost 4 percent of property value to register property. Many businesses cite access to land as one of the biggest impediments to investment in Afghanistan.

According to the Central Bank and ACCI, there is no law in force that deals specifically with bankruptcy, however, in some of the articles of the Banking Law bankruptcy is discussed. The Corporation Limited Company Law, Mediation Law and Partnership Law also discuss bankruptcy. The Law on Mortgage and Secured Transactions was approved by Parliament and signed by the President in 2009.

While Afghanistan has laws on Patents and Copyright, there is no enforcement. A Law on Trademarks is awaiting Presidential signature. Afghanistan is not a member of the WTO Trade Related Intellectual Property Rights (TRIPS) Agreement or the World Intellectual Property Organization (WIPO) Internet Treaties. Pirated DVDs and software are sold throughout the country. Counterfeit pharmaceuticals and building materials are common.

## **Transparency of Regulatory System**

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In general, Afghanistan promotes transparent policies and effective laws to foster competition, establish "clear rules of the game" and promote, rather than hinder, foreign investment. The inadequacy of the regulatory system, and corruption among those working-level officials who administer it, are larger obstacles to investors than the transparency of the regulations.

Procedures for obtaining a business license were streamlined in 2003 with the establishment of AISA, which serves as a one-stop shop for investors, and which has greatly facilitated the process of establishing a business. Afghanistan now ranks an impressive 23rd out of 183 economies in ease of registering a business, according to the World Bank's 2010 "Doing Business Report." While starting a business is a relatively

quick process – now reduced to 1-2 days at the Central Business Registry -- the same report ranks Afghanistan at 160th out of 183 economies for the ease of doing business overall.

There are no informal regulatory processes managed by non-governmental organizations or private sector associations.

Parliament must approve all legislation, except that when Parliament is in recess, the President can issue decrees with the force of law. However, in these cases, Parliament has the right to review and amend the decrees.

Legal, regulatory, and accounting systems are inconsistent with international norms. The legal framework for investment is inadequate, accounting and standards regimes have yet to be set up, and regulatory bodies are often understaffed, weak, and corrupt. Reform programs, however, are in progress and rely heavily on foreign experts who base their initiatives on international best practices.

## **Efficient Capital Markets and Portfolio Investment**

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Finance is Afghanistan's second largest service-based industry (behind only telecommunications) and an important driver of private investment and economic growth. The sector has grown rapidly since the end of Taliban rule. Today, 17 commercial banks operate in Afghanistan, with total assets of \$2.6 billion (compared to assets of less than \$300 million in 2004). However, most Afghans remain "unbanked" despite the boom in banking – with only 3 percent of Afghans currently holding bank deposits. Moreover, many Afghans continue to rely on money service providers (or hawalas) to access finance and transfer money, due to the novelty of a functioning banking system and limited access to banks in rural areas. Banking in Afghanistan remains highly centralized, with 83% of total loans made in Kabul province. Bank lending is also undermined by a deficient legal and regulatory infrastructure that impedes the enforcement of property rights and development of collateral. The difficulty of accessing credit through banks and other formal financial institutions makes existing firms dependent on family funds and retained earnings, limits opportunities for entrepreneurialism, and reinforces dependence on the informal credit market.

Access to credit has been identified as one of the largest obstacles to investment in Afghanistan and credit to the private sector stands at only 10 percent of GDP (low relative to other developing countries). Afghanistan ranks 127th out of 183 countries for obtaining credit in the World Bank's 2010 "Doing Business Report." In response to this situation, investment funds, leasing, micro-financing, and SME-financing companies have begun to enter the market.

Afghanistan has a small public debt market. The Central Bank issues Capital Notes (akin to US Treasury Bills) with maturities of one and six months. Interest rates on both maturities have stabilized at around 6 percent. Licensed commercial banks, money service providers, and foreign exchange dealers are eligible to participate in the primary auction of these securities and the Central Bank is currently working on a plan to encourage development of a secondary market for Capital Notes.

Afghanistan's Central Bank, the Da Afghanistan Bank (DAB), has taken important steps to improve banking regulation and supervision in recent years. However, serious

challenges remain, including lack of capacity, limited operational transparency, a weak legal framework, and further need for improvements in supervision. The Central Bank is now conducting both on- and off-site supervision of all 17 commercial banks. Non-performing loans are about 1 percent of the total loan portfolio of AFS 53 billion. However, most bank loans have traditionally been structured as lines of credit rather than term loans, which tends to obscure the true level of non-performing loans. Under the guidance of DAB, banks are converting lines of credit to term loans.

## Political Violence

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Afghanistan is struggling toward political stability, but anti-government violence has constrained economic activity. The presidential and provincial council elections of August 20, 2009 were marred by violence and voters were subjected to intimidation. There was significant electoral fraud which was discounted from the vote total. The government is taking steps to extend its reach into the provinces, however, the risk of violence continues to be high, and security remains a primary concern for investors. Foreign firms operating in country report spending a significant percentage of their revenues on security infrastructure and operating expenses. The U.S. Department of State continues to warn Americans against travel to Afghanistan. U.S. citizens should review the Consular Information Sheet and Travel Warning for Afghanistan for the most up-to-date information on the security situation and possible threats.

## Corruption

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**U.S. Foreign Corrupt Practices Act:** In 1977, the United States enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: <http://www.justice.gov/criminal/fraud/docs/dojdocb.html>.

**Other Instruments:** It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental to the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Antibribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements.

**OECD Antibribery Convention:** The OECD Antibribery Convention entered into force in February 1999. As of December 2009, there are 38 parties to the Convention including the United States (see <http://www.oecd.org/dataoecd/59/13/40272933.pdf>). Major exporters China, India, and Russia are not parties, although the U.S. Government strongly endorses their eventual accession to the Convention. The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international

business. The United States meets its international obligations under the OECD Antibribery Convention through the U.S. FCPA. Afghanistan is not part of the OECD Convention.

**UN Convention:** The UN Anticorruption Convention entered into force on December 14, 2005, and there are 143 parties to it as of December 2009 (see <http://www.unodc.org/unodc/en/treaties/CAC/signatories.html>). The UN Convention is the first global comprehensive international anticorruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The UN Convention goes beyond previous anticorruption instruments, covering a broad range of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, trading in influence to the concealment and laundering of the proceeds of corruption. The Convention contains transnational business bribery provisions that are functionally similar to those in the OECD Antibribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery. Afghanistan is a party to the UN Anticorruption Conventions.

**Local Laws:** U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department's U.S. and Foreign Commercial Service can provide assistance with navigating the host country's legal system and obtaining a list of local legal counsel.

**Assistance for U.S. Businesses:** The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of the company's overarching compliance program when choosing business partners or agents overseas. The U.S. Foreign and Commercial Service can be reached directly through its offices in every major U.S. and foreign city, or through its Website at [www.trade.gov/cs](http://www.trade.gov/cs).

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department's Advocacy Center and State's Office of Commercial and Business Affairs. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. government officials, including local embassy personnel and through the Department of Commerce Trade Compliance Center "Report A Trade Barrier" Website at [tcc.export.gov/Report\\_a\\_Barrier/index.asp](http://tcc.export.gov/Report_a_Barrier/index.asp).

**Guidance on the U.S. FCPA:** The Department of Justice's (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department's present enforcement intentions under the antibribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ's Fraud Section Website at [www.justice.gov/criminal/fraud/fcpa](http://www.justice.gov/criminal/fraud/fcpa). Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel, U.S.

Department of Commerce, Website, at [http://www.ogc.doc.gov/trans\\_anti\\_bribery.html](http://www.ogc.doc.gov/trans_anti_bribery.html). More general information on the FCPA is available at the Websites listed below.

Exporters and investors should be aware that generally all countries prohibit the bribery of their public officials, and prohibit their officials from soliciting bribes under domestic laws. Most countries are required to criminalize such bribery and other acts of corruption by virtue of being parties to various international conventions discussed above.

**Post Input:** Corruption is rife at all levels of the government. In 2009 the country ranked 179 out of 180 in Transparency International's Corruption Perception Index. While anti-corruption laws exist, and the practice of giving or taking a bribe is illegal, there is limited enforcement. President Hamid Karzai has created an Anti-Corruption Commission to investigate corruption cases and refer suspects to the appropriate authorities; however, the Commission has brought only one significant case to prosecution, which was later dismissed.

U.S. firms identify corruption as one of the biggest obstacles to foreign direct investment and routinely report being asked for a bribe, called *sherini* or *bakshesh*. With working level government salaries ranging from \$80 - \$300 per month, many officials see small bribes for government services as a necessary means of survival. U.S. companies are expected to comply with the Foreign Corrupt Practices Act, which prohibits the bribery of foreign officials.

### **Anti-Corruption Resources**

Some useful resources for individuals and companies regarding combating corruption in global markets include the following:

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a "Lay-Person's Guide to the FCPA" is available at the U.S. Department of Justice's Website at: <http://www.justice.gov/criminal/fraud/fcpa>.
- Information about the OECD Antibribery Convention including links to national implementing legislation and country monitoring reports is available at: [http://www.oecd.org/departement/0,3355,en\\_2649\\_34859\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/departement/0,3355,en_2649_34859_1_1_1_1_1,00.html). See also new Antibribery Recommendation and Good Practice Guidance Annex for companies: <http://www.oecd.org/dataoecd/11/40/44176910.pdf>
- General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: [http://www.ogc.doc.gov/trans\\_anti\\_bribery.html](http://www.ogc.doc.gov/trans_anti_bribery.html).
- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at: [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2009](http://www.transparency.org/policy_research/surveys_indices/cpi/2009). TI also publishes an annual *Global Corruption Report* which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major

corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. See <http://www.transparency.org/publications/gcr>.

- The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 212 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See [http://info.worldbank.org/governance/wgi/sc\\_country.asp](http://info.worldbank.org/governance/wgi/sc_country.asp). The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at: <http://go.worldbank.org/RQQXYJ6210>.
- The World Economic Forum publishes the *Global Enabling Trade Report*, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See <http://www.weforum.org/en/initiatives/gcp/GlobalEnablingTradeReport/index.htm>.
- Additional country information related to corruption can be found in the U.S. State Department's annual *Human Rights Report* available at <http://www.state.gov/g/drl/rls/hrrpt/>.
- Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators for 92 countries with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: <http://report.globalintegrity.org/>.

## **Bilateral Investment Agreements**

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Afghanistan has Bilateral Investment Treaties (BITs) with Turkey, Germany and Pakistan. Afghanistan acceded to the South Asia Free Trade Area (SAFTA) in August 2008, but needs to bring its terms into force through ratification by Parliament or Presidential decree. Most products originating in Afghanistan can be imported into the U.S. duty-free under the Generalized System of Preferences (GSP) Program, and EU tariffs on Afghan products are also very low. Afghanistan is also a member of the South Asian Association for Regional Cooperation (SAARC) and Central Asian Regional Economic Cooperation (CAREC).

Afghanistan signed a Trade and Investment Framework Agreement (TIFA) with the United States in 2004, but a BIT has not been negotiated. There is no Bilateral Taxation Treaty with the United States.

## **OPIC and Other Investment Insurance Programs**

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The Overseas Private Investment Corporation (OPIC) has an active and expanding portfolio of political risk insurance and provides both direct and indirect financial support to private business investments in country. OPIC makes direct loans of up to 60% of long-term investments that are at least 25% owned by a U.S. investor. OPIC provides

political risk insurance coverage for the U.S. equity component as well as reinsurance support for insurance that is written in country.

Afghanistan is a member of the Multilateral Investment Guarantee Agency (MIGA).

## **Labor**

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There is a critical shortage of skilled labor in Afghanistan. Only 28 percent of the population over the age of 15 can read and write. Decades of war, a low level of education and lack of training facilities have resulted in a scarcity of skilled technicians, qualified managers and educated professionals.

U.S. companies that establish training programs for their employees should expect significant returns in enhanced productivity, but there is a risk of high turnover as skilled employees chase higher paying opportunities.

Labor-management relations are undeveloped. While there are major and smaller trade union organizations in the country, there is little knowledge or practice of collective bargaining. Existing employee associations function as advocates and service organizations, lobbying for the rights of workers, attempting to shape legislation, and developing business skills and technical capacity.

The new Labor Law, which is intended to be in accordance with International Labor Organization (ILO) standards, was passed by Parliament in 2007. According to the ILO, the new law incorporates all ILO Conventions to which Afghanistan has acceded except ILO Conventions 138 and 182 concerning minimum age of employment and hazardous work, respectively.

A regulation on foreign workers was published in 2005. While allowing for the employment of foreign workers, it requires that priority be given to Afghan workers when they are equally qualified.

At present, the government has neither sufficient capacity nor political will to enforce labor regulations.

## **Foreign-Trade Zones/Free Ports**

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Afghanistan has no duty-free import zones or ports. Under Afghan law, foreign-owned firms have the same investment opportunities as host country entities. However, Afghanistan is considering the establishment of Trade Facilitation Zones and/or Export Processing Zones to enhance export potential. Legislation currently in the U.S. Congress would establish special import-tax status for certain categories of goods made in Reconstruction Opportunity Zones (ROZs).

## **Foreign Direct Investment Statistics**

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Comprehensive foreign direct investment (FDI) statistics for Afghanistan are unavailable. Available figures are not reliable because of inconsistencies in data collection. The United Nations (2009 World Investment Report) estimates FDI flow into Afghanistan in 2008 at USD 300 million and total FDI stocks at USD 1,365 million,

representing 11.3% of GDP. According to AISA, the top FDI destination sectors were, in descending order, services, construction, miscellaneous “industry”, and agriculture; the largest investors were the Turkey, United Arab Emirates, Canada, the United States, Iran, China, Pakistan, India, Kenya, and the United Kingdom. It is important to note that AISA's data track approved, rather than actual, investment.

## Web Resources

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Afghan Investment Support Agency <http://www.aisa.org.af>

Afghan Ministry of Commerce <http://www.commerce.gov.af>

Afghan Ministry of Finance <http://www.mof.gov.af>

World Bank 2008 Doing Business Report <http://www.doingbusiness.org>

United Nations Commission on International Trade Law <http://www.uncitral.org>

U.S. Department of State Travel Website  
[http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_1056.html](http://travel.state.gov/travel/cis_pa_tw/cis/cis_1056.html)

Transparency International  
[http://www.transparency.org/publications/publications/gcr\\_2007](http://www.transparency.org/publications/publications/gcr_2007)

U.S. Department of Justice, Foreign Corrupt Practices Act  
<http://www.usdoj.gov/criminal/fraud/fcpa>

Overseas Private Investment Corporation <http://www.opic.gov>

Multilateral Investment Guarantee Agency <http://www.miga.org>

International Monetary Fund <http://www.imf.org>

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## Chapter 7: Trade and Project Financing

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- [How Does the Banking System Operate](#)
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### How Do I Get Paid (Methods of Payment)

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Most local businesses operate on a cash basis. Import and export letters of credit are available at several banks as well as electronic funds transfer. Due to wide mistrust and general underdevelopment of the banking system, many local businesses depend on the informal *hawala* system to make payments and transfer funds. The *hawala* system is an informal value transfer system whereby money is transferred through a network of brokers, or *hawaladars*. Promissory instruments are not exchanged; the transaction is based on the honor system.

## How Does the Banking System Operate

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Finance is Afghanistan's second largest service-based industry (behind telecommunications) and an important driver of private investment and economic growth. The sector has grown rapidly since the end of Taliban rule. Today, 17 commercial banks operate in Afghanistan, with total assets of \$2.6 billion (compared to assets of less than \$300 million in 2004). However, most Afghans remain "unbanked" despite the boom in banking – with only 3 percent of Afghans currently holding bank deposits. Moreover, many Afghans continue to rely on money service providers (or *hawalas*) to access finance and transfer money, due to the novelty of a functioning banking system and limited access to banks in rural areas (banking in Afghanistan remains highly centralized, with 83% of total loans made in Kabul province). Bank lending is also undermined by a deficient legal and regulatory infrastructure that impedes the enforcement of property rights and development of collateral. The difficulty of accessing credit through banks and other formal financial institutions makes existing firms dependent on family funds and retained earnings, limits opportunities for entrepreneurialism, and reinforces dependence on the informal credit market.

Access to credit has been identified as one of the largest obstacles to investment in Afghanistan and credit to the private sector stands at only 10% of GDP (low relative to other developing countries). Afghanistan ranks 127th out of 183 countries for obtaining credit in the World Bank's 2010 "Doing Business Report." In response to this situation, investment funds, leasing, micro-financing, and SME-financing companies have begun to enter the market.

Afghanistan has a small public debt market. The Central Bank issues Capital Notes (akin to US Treasury Bills) with maturities of one and six months. Interest rates on both maturities have stabilized at around 6 percent. Licensed commercial banks, money service providers, and foreign exchange dealers are eligible to participate in the primary auction of these securities and the Central Bank is currently working on a plan to encourage development of a secondary market for Capital Notes.

Afghanistan's Central Bank, the Da Afghanistan Bank (DAB), has taken important steps to improve banking regulation and supervision in recent years. However, serious challenges remain, including lack of capacity, limited operational transparency, a weak legal framework, and further need for improvements in supervision. The Central Bank is now conducting both on- and off-site supervision of all 17 commercial banks. Non-performing loans are about 1 percent of the total loan portfolio of AFS 53 billion. However, most bank loans have traditionally been structured as lines of credit rather than term loans, which tends to obscure the true level of non-performing loans. Under the guidance of the DAB, banks are converting lines of credit to term loans.

## Foreign-Exchange Controls

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Exchange rate policy is determined by the Central Bank, and is implemented through a weekly foreign exchange auction of U.S. Dollars. No foreign exchange restrictions or multiple currency practices are currently in place.

## U.S. Banks and Local Correspondent Banks

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There are currently no U.S. banks operating in Afghanistan. However, Afghanistan International Bank is an ING-affiliated enterprise with American equity.

## Project Financing

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Project financing is available from the following organizations:

**The Overseas Private Investment Corporation (OPIC)** is an independent agency of the U.S. Government that offers specialty insurance (stand alone terror/sabotage and political risk coverage), loans and guarantees to help U.S. businesses of all sizes invest and compete in more than 140 emerging markets and developing nations worldwide. A \$100 million line of credit is available for projects that demonstrate substantial U.S. participation, promise significant benefits to the economic and social development of Afghanistan, and foster private sector competition in Afghanistan. OPIC gives preferential consideration to projects that significantly involve U.S. small businesses. OPIC is active in Afghanistan. Some examples include up to \$60 million in financing and political risk insurance for construction of a five-star international hotel in Kabul, and a direct loan of approximately \$3 million to support construction of 1,200 homes near Kandahar by a small American company.

**The International Finance Corporation (IFC)** promotes sustainable private sector investment in developing countries and is the largest multilateral source of loan and equity financing for private sector projects in the developing world. IFC provides loans, equity finance and quasi-equity. It also offers financial risk management products and intermediary finance.

**The U.S. Trade and Development Agency (USTDA)** advances economic development and U.S. commercial interests in developing and middle-income countries. The agency funds various forms of technical assistance, feasibility studies, training, orientation visits and business workshops that support the development of a modern infrastructure and a fair and open trading environment. USTDA moved quickly to establish its program and has provided more than \$9 million in funds for projects benefiting Afghanistan since 2002. USTDA has financed projects in telecommunications, civil aviation, oil and gas, higher education, private sector development, and power.

**The Export-Import Bank of the United States** provides financing for the sale of U.S. products overseas. Although Ex-Im is currently not open for business in Afghanistan, it will continue to survey future opportunities.

**Many business opportunities are connected to the reconstruction effort. The following agencies have large programs through which opportunities for interested businesses are available.**

## **U.S. Agency for International Development (USAID)**

USAID has taken a leading role in Afghanistan's reconstruction effort, focusing on health clinics and basic health services, school construction and education programs, revitalizing agriculture through irrigation systems, farm-to-market roads, market centers, SME development and infrastructure, including the Kabul-Kandahar-Herat highway. USAID is also funding programs that enhance the central Government's capacity and provide it with the tools and technical assistance to govern effectively. Total appropriations for FY2009 were 2.15 billion with total disbursement of 1.5 billion. The USAID Web site, <http://www.usaid.gov>, has a business and procurement link that lists upcoming procurements including solicitation documents, announcements, and other resources. This site is updated daily and offers e-mail notification when a new solicitation has been uploaded to the site. U.S. firms interested in bidding on USAID projects in Afghanistan can review requests for applications, proposals, quotations and invitation for bids on this web site. U.S. firms should also review the main portal for U.S. Government procurements at <http://www.fedbizopps.gov>.

## **World Bank**

World Bank projects primarily focus on improving rural livelihoods by rebuilding infrastructure and providing employment opportunities, education and basic health services. It is the largest international donor to the Government's flagship National Solidarity and National Emergency Employment Programs, which, respectively, channel block grants through elected community councils to around 17,000 villages and offer cash-for-work on infrastructure projects. In addition, the World Bank administers the multi-donor Afghanistan Reconstruction Trust Fund (ARTF), which provides coordinated financing of unfunded priority expenditures in Afghanistan's reconstruction program as well as supporting the recurrent costs of government. The World Bank's website includes an information portal for the business community seeking to participate in opportunities that are generated from World Bank-financed projects at <http://www.worldbank.org>. Projects can also be tracked at <http://www.dgmarket.com/>

## **Asian Development Bank (ADB)**

ADB's latest Country Strategy and Program update for Afghanistan was released in August 2005, covering the period 2006-2008. As of March 2009, ADB has approved public sector loans totaling USD 1.8 billion.

ADB projects focus in the areas of agriculture and natural resources, energy, gender, governance, financial and private sector development, transport and communications. A detailed description of its programs can be found at <http://www.adb.org/Documents/CSPs/AFG/2005/default.asp>. The ADB website, <http://www.adb.org>, offers detailed information for companies interested in participating in upcoming procurements. Projects can be also be tracked at <http://www.dgmarket.com>

In addition, there are also opportunities to bid on donor-funded projects administered by Afghanistan. **The Afghanistan Reconstruction and Development Service (ARDS)** manages the purchase of goods and services on behalf of the Afghan Government. Companies that wish to receive procurement notices can do so by registering through

email. ARDS can be contacted at <http://www.eafghanistan.gov.af/procurement> or [procurement@afghanistangov.org](mailto:procurement@afghanistangov.org).

Political risk insurance is available both through OPIC and the Afghanistan Investment Guarantee Facility, a program of the World Bank's Multilateral Investment Guarantee Agency (MIGA).

## Web Resources

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Export-Import Bank of the United States: <http://www.exim.gov>

Country Limitation Schedule: [http://www.exim.gov/tools/country/country\\_limits.html](http://www.exim.gov/tools/country/country_limits.html)

OPIC: <http://www.opic.gov>

Trade and Development Agency: <http://www.tda.gov/>

SBA's Office of International Trade: <http://www.sba.gov/oit/>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/cc/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

(Insert a link to the applicable Multilateral Development Bank here and any other pertinent web resources.)

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### Business Customs

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Business meetings are conducted in Dari, Pashto or English. Green or black tea, nuts and raisins are typically served. The form of greeting is "Asalam Aleikum" (Peace be with you), followed by a firm handshake and then, for courtesy and to pay homage to the host (you don't necessarily have to), briefly place your right hand over your heart. It is

best to take a few minutes initially to engage in pleasantries about each other's country, rather than going straight to business. Afghan interlocutors may appear vague and non-committal during meetings. In order to build trust and "get to yes," be patient, share meals and other social events and discuss matters other than business. Capture the essence of your business meetings and agreements in a follow up letter to your Afghan interlocutor. Be clear about what you have committed yourself or your U.S. firm to do, or in many cases, have not committed to do. A promise to "look into" or "research" an issue, quote, or pricing policy may be interpreted as a firm commitment.

### **DOs and DON'Ts in Afghan Culture**

Do greet everyone when entering a room. Shake hands with the men, but not with a woman unless she extends her hand first.

Do eat with your right hand as much as possible.

Do dress modestly.

Do accept a chair if someone brings you one to sit on, even if you would rather stand. This is a sign of respect.

Do read about the country's history, culture, and people before you come, as this will be treated as a sign of respect for Afghanistan.

Don't show impatience if your interlocutor isn't giving you direct answers. Afghans like to elaborate and want to be clear in communicating.

Don't panic. The Afghan Government can be bureaucratic. It may take you several days to get a simple authorization signed. Keep in mind that the Afghan Government is undergoing a reform process.

Don't call an Afghan "Afghani." Afghani is the currency; Afghans are the people of Afghanistan.

Don't drink alcohol in front of an Afghan.

### **Travel Advisory**

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While the U.S. Embassy in Kabul encourages U.S. companies to review business opportunities in Afghanistan, it is important to keep in mind the volatile security situation in the country. Travelers should consult the State Department Travel web site <http://travel.state.gov> prior to any travel and review both the Consular Information Sheet and Travel Warning for Afghanistan. These documents can be found at [http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_1056.html](http://travel.state.gov/travel/cis_pa_tw/cis/cis_1056.html).

### **Visa Requirements**

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A passport and valid visa are required to enter and exit Afghanistan. Afghan entry visas are not available at Kabul International Airport. American citizens who arrive without a visa are subject to confiscation of their passport and face heavy fines and difficulties in

retrieving their passport and obtaining a visa, as well as possible deportation from the country.

For the most updated requirements to obtain an Afghan visa, please contact the Embassy of Afghanistan located at 2341 Wyoming Ave. NW, Washington, D.C. 20008, phone 202-483-6410, fax 202-483-6488, <http://www.embassyofafghanistan.org>.

U.S. companies that require travel of foreign businesspersons to the United States should know that it can take an average of between 60 and 90 days for an Afghan citizen to receive a visa to visit the United States due to a lengthy clearance process. The U.S. Embassy in Kabul began issuing business, tourist and student visas in 2009. The visa application process, including the appointment request must now be completed on-line. Please see the U.S. Embassy website for instructions.

State Department Visa Website: <http://travel.state.gov/visa/index.html>

United States Visas.gov: <http://www.unitedstatesvisas.gov>

U.S. Embassy in Afghanistan: <http://kabul.usembassy.gov>

## Telecommunications

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There are approximately 50,000 fix-line telephones, provided by state-owned Afghan Telecom (AfTel). The vast majority of Afghanistan's 12 million telephone users subscribe to mobile service. Cellular service is available in Kabul and all 34 provinces, and subsidized rural access programs have improved coverage in remote areas. Eighty percent of the population lives within a coverage area. There are currently four nationwide GSM wireless service providers: Roshan, owned by an international consortium led by the Aga Khan Fund for Economic Development; Afghan Wireless Communications Company (AWCC), a joint venture between U.S.-based Telephone Systems International and the Afghan Ministry of Communications; MTN (also known as Areeba), a subsidiary of South Africa-based MTN Group and a subsidiary of UAE-based Etisalat, and AfTel, which serves approximately 10,000 CDMA wireless customers. The country has multiple internet service providers, assisted by a new fiber-optic cable that connects to Pakistan, Iran, Uzbekistan and Tajikistan and will link Afghanistan's major population centers.

## Transportation

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Several commercial airlines serve Afghanistan at Kabul International Airport, primarily through Dubai, U.A.E. Afghan carriers KamAir, Pamir Air, and Safi Airways operate daily flights between Dubai and Kabul. Safi also flies to Frankfurt, Kuwait and Doha. Pakistan International Airlines has three weekly flights to and from Islamabad and Peshawar. Azerbaijan Airways has twice weekly flights to and from Baku. Indian Airlines flies four times a week to and from Delhi. The U.S. Embassy does not recommend use of Ariana Afghan Airlines or Pamir Air to any destination because their maintenance and operations do not meet international aviation standards. Please see the State Department's Consular Information Sheet at [http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_1056.html](http://travel.state.gov/travel/cis_pa_tw/cis/cis_1056.html) for more information.

Taxis around Kabul should range between AFS 50 to 100 (\$1 or \$2, depending on where you are going) per trip, but a dedicated car and driver are recommended. For travel within Kabul, a car and driver (no English) will run up to \$15 to \$50 per day, depending on the model of car. Some international firms employ expat drivers and security personnel which run approximately \$400 a day or \$12,000 a month, depending on the vehicle and experience of the security personnel. Local security runs approximately \$600 a month. Public buses are not recommended.

## Language

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Dari and Pashto are the official languages of the country. Few native Afghans speak English, but many returning expatriate Afghans speak English or German. Rates vary widely; a reliable interpreter fluent in English, Dari and Pashto may earn between \$150 - \$2,000 per month.

## Health

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The climate in Afghanistan is dry. Summer temperatures reach into the 100s Fahrenheit and winter lows dip into the 20s Fahrenheit, with snow. Kabul is very dusty, and shoes and clothes are difficult to keep clean.

Well-equipped medical facilities are few and far between throughout Afghanistan. European and American medicines are available in limited quantities and may be expensive or difficult to locate. There is a shortage of standard medical supplies. Basic medicines manufactured in Iran, Pakistan, and India are available, but their quality can be questionable. Travelers should bring all necessary medications, both prescription and over-the-counter. A couple of western-style private clinics have opened in Kabul recently: the DK-German Medical Diagnostic Center (<http://www.medical-kabul.com>) and CURE International Hospital (ph. 0799-883-830) offer a variety of care; Americans seeking treatment should request American or Western health practitioners. American travelers may seek emergency medical services at the International Security Assistance Forces (ISAF) medical facilities in the Kabul area, but routine care is not available. The ISAF Hospital and the combined forces ISAF clinic, adjacent to Kabul International Airport, may provide medical care to American citizens who can show appropriate ID and who request emergency care, but payment must be made at the time of service in USD or Euros (credit card not accepted). Shino Zada Private Hospital located in Microrayon 4, opposite the central heating center, provides general surgery, maternity care, ambulance and pharmacy facilities 24 hours a day. Imran Clinic, across from the Ministry of Interior, has limited laboratory and x-ray facilities.

Afghan public hospitals should be avoided. Individuals without government licenses or even medical degrees often operate private clinics; there is no public agency that monitors their operations. Travelers will not be able to find Western-trained medical personnel in most parts of the country outside of Kabul, although there are some international aid groups temporarily providing basic medical assistance in various cities and villages. For any medical treatment, payment is required in advance. Commercial medical evacuation capability from Afghanistan is limited and safe pick-up and transport of a patient, when available, can take 30-60 hours to accomplish.

Information on vaccinations and other health precautions, such as safe food and water

precautions and insect bite protection, may be obtained from the Centers for Disease Control and Prevention's hotline for international travelers at 1-877-FYI-TRIP (1-877-394-8747) or via the CDC's Internet site at <http://www.cdc.gov/travel/destinationAfghanistan.aspx>. For information on outbreaks of infectious diseases abroad consult the World Health Organization's website at <http://www.who.int/en>. Further health information for travelers is available at <http://www.who.int/ith>

### Local Time, Business Hours, and Holidays

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Local time is GMT +4.5 hours. Afghanistan government officials observe a five and a half day workweek; Thursday afternoon and Friday are off. Business hours are typically 8 AM to 4 PM. Commercial shops keep longer but varying hours, usually from 7 AM to 11 PM. Religious Holidays follow the lunar cycle and are determined by the Islamic calendar, based on the lunar cycle and the visibility of the lunar crescent. Variable Holidays include three days for Eid-ul-Qurban, three days for Eid-Al-Fitr, and one day for the Prophet's Birthday; 10th of Maharam, March 21 (Nawrooz - New Year) and August 18 (Independence Day) are fixed in the solar calendar.

### Web Resources

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U.S. Department of State Travel Website <http://travel.state.gov>

U.S. Department of State Consular Information Sheets and Travel Warnings [http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_1056.html](http://travel.state.gov/travel/cis_pa_tw/cis/cis_1056.html)

U.S. Department of State Visa Website <http://travel.state.gov/visa/index.html>

United States Visas <http://www.unitedstatesvisas.gov>

U.S. Embassy in Afghanistan <http://kabul.usembassy.gov>

Embassy of Afghanistan in the U.S. <http://www.embassyofafghanistan.org>

Center for Disease Control <http://www.cdc.gov/travel/destinationAfghanistan.aspx>

World Health Organization <http://www.who.int/en> and <http://www.who.int/ith>

Afghanistan Customs Department <http://www.customs.gov.af>

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## Chapter 9: Contacts, Market Research, and Trade Events

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- [Market Research](#)
- [Trade Events](#)

## Contacts

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### U.S. Government Contacts:

#### U.S. Department of Commerce

Susan Hamrock  
Afghanistan Investment and Reconstruction Task Force  
Washington, D.C. 20230  
Tel: (202) 482-1812  
Fax: (202) 482-0980  
Email: [afghaninfo@ita.doc.gov](mailto:afghaninfo@ita.doc.gov)  
<http://www.export.gov/afghanistan>

#### U.S. Embassy Kabul

Great Masood Road  
Tel: +93 (20) 230-0436, +93 (0) 700-108-001, +93 (0) 700-108-002  
<http://kabul.usembassy.gov>

Karl Eikenberry, Ambassador  
Amy Wilson, Commercial Officer, [KabulEconAmericans@state.gov](mailto:KabulEconAmericans@state.gov), Ext. 8120  
John Hill, Economic/Commercial Officer (estimated date of arrival, September 2010)  
Feraidoon Zaki, [zaki@state.gov](mailto:zaki@state.gov)

Consular Section  
Great Masood Road  
Tel: +93(0)700-10-8377  
Email: [afghanvisainfo@state.gov](mailto:afghanvisainfo@state.gov)  
[http://kabul.usembassy.gov/information\\_for\\_travelers.html](http://kabul.usembassy.gov/information_for_travelers.html)

#### U.S. Agency for International Development

Great Masood Road  
Tel: +93 (0) 700-234-236  
William Frej, Mission Director  
Rebecca Black, Assistant Director  
[http://www.usaid.gov/locations/asia\\_near\\_east/countries/afghanistan/](http://www.usaid.gov/locations/asia_near_east/countries/afghanistan/)

#### USAID Washington Office

1300 Pennsylvania Avenue, NW  
Ronald Reagan Building  
Washington, D.C. 20523-1000  
Caroline Brearley, Afghanistan Desk Officer  
Tel: (202) 712-0518 or (202) 712-0316  
Email: [CBrearley@usaid.gov](mailto:CBrearley@usaid.gov)

#### U.S. Trade & Development Agency (USTDA)

Scott Greenip  
Regional Director for Europe and Eurasia

Suite 1600  
1000 Wilson Boulevard  
Arlington, VA 22209  
Tel: (703) 875-4357  
Fax: (703) 875-4009  
Email: [sgreenip@ustda.gov](mailto:sgreenip@ustda.gov)  
<http://www.ustda.gov>

**Overseas Private Investment Corporation (OPIC)**

John Aldonas  
1100 New York Avenue NW  
Washington, D.C. 20527  
Tel: (202) 336-8400  
Fax: (202) 408-9859  
Email: [John.Aldonas@opic.gov](mailto:John.Aldonas@opic.gov)  
<http://www.opic.gov>

**Export-Import Bank (ExIm)**

811 Vermont Avenue, N.W.  
Washington, D.C. 20571  
Tel: (202) 565-3946 (EXIM) or (800) 565-3946 (EXIM)  
Grayson Wolfe  
Tel: (202) 565-3450  
Email: [grayson.wolfe@exim.gov](mailto:grayson.wolfe@exim.gov)  
<http://www.exim.gov>

**International Financial Institutions**

**World Bank**

Nick Krafft, Country Director for Afghanistan  
House 19, Street 15, Wazir Akbar Khan  
Kabul, Afghanistan  
Contact: Abdul Raouf Zia  
Tel: +93 (0) 70280800  
Email: [azia@worldbank.org](mailto:azia@worldbank.org)

**Asian Development Bank**

Afghanistan Resident Mission  
Craig Steffenson, Country Director  
126, Street 2, Haji Yaqoub Roundabout  
Shahar-e-Now,  
P. O. Box 3070  
Kabul, Afghanistan  
Tel: +93 (20) 210-3602  
Email: [afm@adb.org](mailto:afm@adb.org)  
<http://www.adb.org/afm>

**Afghan Government Contacts**

**Afghan Investment Support Agency (AISA)**

Tel: +93 (20) 210 3404  
Email: [info@aisa.org.af](mailto:info@aisa.org.af), [invest@aisa.gov.af](mailto:invest@aisa.gov.af)  
<http://www.aisa.org.af>

Mr. Noorullah Dalawari  
President & CEO  
Cellular Phone: +93 (0) 799 322-735  
Email: [delawari@aisa.org.as](mailto:delawari@aisa.org.as)

Mr. Nassem Akbar  
Vice President  
Cellular Phone: +93 (0) 070 288 -304  
Email: [naseemA@aisa.org.af](mailto:naseemA@aisa.org.af), [invest@aisa.gov.af](mailto:invest@aisa.gov.af)

vacant  
Executive Assistant to the President  
Cellular Phone: +93 (0) 799 803124  
Email:

Mr. Salam Zahed  
Head of Investment Support Department  
Cellular Phone: +93 (0) 799 336-527  
Email: [ZahedA@aisa.org.af](mailto:ZahedA@aisa.org.af)

Mr. Zakri Ahmadi  
Head of Licensing Department  
Cellular Phone: +93 (0) 0799336609  
Email: [Ahmadi.z@aisa.org.af](mailto:Ahmadi.z@aisa.org.af)

Mr. Fazel Wasit  
Head of Investment Promotion Department  
Cellular Phone: +93 (0) 799-219-019  
Email: [fwasit@aisa.org.af](mailto:fwasit@aisa.org.af)

### **Embassy of Afghanistan**

Mr. Murtaza Bahrami, Commercial Attaché  
Economic, Trade and Investment Department  
2341 Wyoming Avenue, NW  
Washington, D.C. 20006  
Tel: (202) 483-6410  
Fax: (202) 483-6487  
Email: [contact@afghanistanembassy.org](mailto:contact@afghanistanembassy.org), [commerce@embassyofafghanistan.org](mailto:commerce@embassyofafghanistan.org)  
<http://www.embassyofafghanistan.org>, <http://www.afghanistan.business-gateways.com>

### **Afghanistan Reconstruction and Development Service (ARDS)**

Email: [procurement@afghanistangov.org](mailto:procurement@afghanistangov.org)  
<http://www.eafghanistan.gov.af/procurement>

### **Ministry of Commerce**

Tel: +93 (20) 2100-394  
Email: [info@commerce.gov.af](mailto:info@commerce.gov.af)

<http://www.commerce.gov.af>

**Ministry of Finance**

Tel: +93 (20) 210-3272

Email: [info@mof.gov.af](mailto:info@mof.gov.af)

<http://www.mof.gov.af>

**Other Useful Contacts**

**Afghanistan Chamber Of Commerce and Industry (ACCI)**

Mr. Shir Khan Farnoon, Chairman

House #91, Street 2, Shash Darak

Kabul, Afghanistan

Tel: +93 (0) 799-323-577/752-025-854,

Email: [chairmanaicc@yahoo.com](mailto:chairmanaicc@yahoo.com)

<http://www.info@acci.org.af>

**Afghan-American Chamber of Commerce (AACC)**

Mr. Ajmal Ghani, President

8201 Greensboro Drive, Suite #103

McLean, VA 22102

Tel: (U.S) (703) 658-2929

Fax: (U.S.) (703) 658-9103

<http://www.a-acc.org>

**Afghanistan Builders Association (ABA)**

Mr. Naeem Yassin, President

Tel: +93 (0) 70-224-822

Email: [yasincc@aol.com](mailto:yasincc@aol.com)

<http://www.aba.af>

**Market Research**

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To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/marketresearch.html> and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

**Trade Events**

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Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents.html>

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## Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

USFCS is currently represented by the **U.S. Embassy Economic and Commercial Section**. The Economic and Commercial Section can assist U.S. firms seeking information about business opportunities in Afghanistan or provide advocacy. In addition, the **U.S. Department of Commerce's Afghanistan Investment and Reconstruction Task Force** is available to help U.S. firms answer questions about doing business in Afghanistan and operates a list serve of procurement notices. The **U.S. Department of Commerce's Advocacy Center** provides advocacy services that can help level the playing field on behalf of U.S. business interests as they compete against foreign firms for specific international contracts or other U.S. export opportunities.

### **U.S. Embassy Kabul**

Great Masood Road

Tel: +93 (20) 230-0436, +93 (0) 700-108-001, +93 (0) 700-108-002

<http://kabul.usembassy.gov>

Michael Spangler, Economic Counselor

Amy Wilson, Commercial Officer, Ext. 8399, [KabulEconAmericans@state.gov](mailto:KabulEconAmericans@state.gov)

### **U.S. Department of Commerce**

Susan Hamrock

Afghanistan Investment and Reconstruction Task Force

Washington, D.C. 20230

Tel: (202) 482-1812

Fax: (202) 482-0980

Email: [afghaninfo@ita.doc.gov](mailto:afghaninfo@ita.doc.gov)

<http://www.export.gov/afghanistan>

The Advocacy Center

14th Street & Constitution

Avenue, NW, Rm. 3814-A

Washington, D.C. 20230

Office No.: (202) 482-3896

Fax No.: (202) 482-3508

<http://www.export.gov/advocacy>

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.