

New sites for expanded carpet and textile operations

Investors in the carpets and textiles sector have more options to consider in locating their factories, warehouses and other facilities. Afghanistan is providing investors access to developed land to set up in professionally managed industrial estates. These modern parks offer investors the benefits of high-quality infrastructure and reliable power supply in “build to suit” sites, strategically located in several key industrial areas. Designed to accommodate small, medium and large-size firms, the parks help investors to avoid costly title disputes, and to reduce risks and delays associated with land acquisition, zoning and permitting.

The first phase of construction initiated by the Industrial Parks Development Authority is for three parks: Bagrami, 24 hectares, 7 km east of central Kabul; Mazar-e-Sharif, 26 hectares 7 km north of downtown; and a 15-hectare park 10 km east of the city of Kandahar. The second phase of larger parks, in progress, includes 120-hectare Kamari near Kabul, 120-hectare Sinjet Dara south of Charikar and 750-hectare Deh Sabz, just north of Kabul Airport.



Afghan carpets—a world-famous trade, heritage and art

Afghanistan’s thriving carpets and textiles trade is a legacy of the country’s rich commercial history and diverse culture. World-renowned for their intricate designs, Afghan carpets reflect the heritage of cottage-based craftsmanship passed through generations of families. Afghanistan produces several types of handmade carpets, including felted wool carpets (namads), flat non-pile fabric woven carpets (kilims), and pile and knotted carpets made from wool, silk, and cotton. Although carpet weaving by far dominates this sector, other textile items of cotton, wool, silk and cashmere are also made in Afghanistan.

The manufacture of carpets is largely accomplished by a huge network of weavers working on individual carpets throughout Afghanistan’s countryside. As testament to the meticulous nature of the art, one large carpet typically takes six to nine months to weave. Numerous dealers or traders contract upfront with the weavers, or purchase the carpets prior to final finishing for eventual sale to retail and wholesale customers on a global basis. In their role, the traders perform a variety of functions related to production and sale.



A “one-stop shop” ” to support investors

AISA, the Afghan Investment Support Agency (www.aisa.org.af) was established in August 2003 with the support of the Federal Ministry for Economic Cooperation and Development, Germany. Its comprehensive line of services to attract and assist investors includes the registration of all new investments in Afghanistan. AISA acts as a centralized point of contact for investors within the Afghan government, streamlining business licensing and other procedures to facilitate the investment process. In particular, AISA assists investors with:

- Licensing—necessary permits, licenses and clearances
- Information—on investment opportunities, including details on investment, tax, labor, insurance and environmental laws and regulations; social/ecological standards; financial information on banking and credit, labor costs and investment incentives; donor-led support programs
- Land support—the acquisition and leasing of land, including sites in industrial parks
- Customs clearance—for investment-related capital goods
- Online services—ask a question or file a license application online at www.aisa.org.af
- Investment opportunities—announcements via foreign missions and Afghan Embassies
- Conferences—sponsored by AISA and geared to investors

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In Afghanistan, visit AISA’s offices opposite the Ministry of Foreign Affairs in Kabul.

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Invest in Afghanistan

Opportunities in
Carpets & Textiles



“The state protects and promotes private investment based on a free market economy”

– Article 10, Afghanistan’s Constitution

A high-growth economy and dynamic business climate

Afghanistan’s climate for business has vastly improved to the advantage of new and returning investors in many sectors. Afghanistan is a fully functioning, free market economy. The promise of political stability and a more secure operating environment for companies signal that the environment is ripe for forward-looking investments. This is especially true in key export-driven sectors that are critical foundations of Afghan commerce, such as carpets and textiles. For the past three years, economic growth has averaged about 20% per year, with minimal inflation since early 2003. The rapidly growing economy is bolstering demand for goods and services among Afghanistan’s relatively young population of 28 million—a potentially sizable consumer market. The government’s commitment to developing a competitive, export-oriented private sector, in conjunction with the current, 3-year infusion of US\$8.4 billion in international assistance, is setting a rapid pace for expansion and fueling opportunities in construction and manufacturing. Afghanistan is poised for a new era of economic growth. New and returning investors not only have the opportunity to support the rebuilding of Afghanistan’s economy, but also to benefit from rapid growth, a pro-business environment, and the country’s strategic location.

The Afghan government’s sweeping program of reforms is enabling the private sector to become the country’s engine for growth. Investors from 25 countries—including major multinationals in transport and logistics, trade, banking, tourism and food processing—have set up Afghan operations. The improved climate for foreign and domestic investment is shaped by several key initiatives:

- **Proposed investment law**—“investor friendly” and regionally competitive
- **AISA, the Afghan Investment Support Agency**—“one-stop shop” to assist investors
- **Financial sector reform**—Central Bank and leading foreign banks open for business
- **Investment insurance**—available through MIGA and others
- **Industrial estates**—development of six modern industrial parks
- **Improved infrastructure** in telecommunications, roads and bridges, and water supply
- **Trade reform**—streamlined customs administration and reduction in tariffs
- **Preferential trade** with the EU, US, Canada, Japan, India and Iran
- **Trade agreements** with Iran and India, and other neighboring countries
- **Transit agreements** including Iran, India, Pakistan, Uzbekistan and Turkey



STUDY RESULTS AT A GLANCE

All Surveyed Companies

These highlighted results reflect the findings from all investors surveyed for the recent Afghanistan Enterprise Benchmarking Study.

Company Sample

While many of the 32 interviewed companies began operating in the last year, they frequently are not new to operating in Afghanistan. Their perspectives reflect day-to-day business and in some cases, years of experience in their sectors.

Motivation

One third mentioned “a desire to help Afghanistan,” or “patriotism” as at least part of their motivation in operating in Afghanistan; 15% said it was their only reason.

Security

Personal safety received above average marks—a score of 3.3 out of a best score of 5—among both Afghans and expatriates.

Nearly half of the companies reported no extraordinary security expenses; the others spent an average of more than US\$23,000 beyond normal security measures, such as guards and alarm systems.

Local and Afghan expatriate investors reported fewer safety precautions than foreign investors; however, foreign investors with formal safety measures and audits indicated that these were required by their headquarter offices outside Afghanistan.

Site Selection

On average four sites were considered before the current site was chosen.

Personnel

Managers are often either partners, own stock in the firm, or are paid in some combination of base salary and profit sharing.

All companies rated unskilled labor as abundant and available. Local investors consistently rated qualified personnel (managers, professionals, technicians and skilled workers) as more readily available than did foreign investors, likely due in part to their existing network of informal contacts.

Annual turnover of employees among firms interviewed is low.

Telecommunications

Almost all companies gave mobile phone services a better rating than landlines, scoring a 3.5 out of a possible best score of 5. Although internet access by satellite is offered by three providers, internet usage is not yet common among the firms interviewed, except in logistics and transportation.

Utilities

Most of the interviewed firms drilled their own wells and pump free water, purchase water from another well, or located near a natural source of water. Across all sectors, there is little dependence on the municipal or state electric power infrastructure.

Transport

Air travel is seen as the most reliable of modes with an average of 74% of goods arriving on time according to interviewed investors. Commercial goods tend to be shipped by road, rail and sea, and “duty exempt” goods tend to go by air.



An insiders' perspective from current investors

The results of a recent study* help prospective investors consider Afghanistan's general investment climate, and the actual costs and conditions of operating in specific sectors. The study analyzed information collected through desktop and in-country research and interviews with companies in four sectors—carpets and textiles, logistics and transportation, food and beverage processing, and mining. Located in Kabul and its vicinity, the 32 interviewed companies reflect a new breed of investors and the dynamic landscape of investment in Afghanistan. Highlights of the study's findings from all interviewed companies are shown here (at left), and just those from companies in carpets and textiles (at right).

* *The Afghanistan Enterprise Benchmarking Study, conducted by the Multilateral Investment Guarantee Agency of the World Bank Group in December 2004 in cooperation with AISA, and funded through a grant from the Federal Ministry for Economic Cooperation and Development, Germany.*

A resilient sector based in traditional strengths

The carpets and textiles sector in Afghanistan offers investors the strengths of an enduring trade that has proved resilient over time. As a diffuse sector with widespread activity, production is decentralized across many regions within Afghanistan, and business activities are centered around no fewer than five key cities—Mazar-e-Sharif, Kunduz, Kandahar, Kabul and Herat. Carpet production is based on traditional expertise and techniques, and the originality of designs—often of ethnic or regional origin—that have enjoyed lasting appeal in global markets.

Investors in the sector benefit from an ample and increasing supply of skilled weavers as Afghans return to their homes and the household business that most typically supplements family income. In addition, carpet manufacture is easy to start up and sustain, given its relatively low utility costs and basic technology requirements. As one of Afghanistan's top exports, carpets are easy to ship, store and stockpile, and air transport is becoming more feasible in terms of availability and cost.

Strong market potential for Afghan carpets

For centuries, Afghan carpets have enjoyed strong “brand recognition” in world markets, one associated with quality craftsmanship and a range of distinctive designs. The market for Afghan carpets is dynamic and expected to grow, given Afghanistan’s strong export base—estimated at up to US\$40 million—improving infrastructure, and expanding trade routes. In addition, investors benefit from international interest in the culture and products of a country that has captured the world’s attention. As authentic handicrafts, traditional carpets are particularly well positioned to be sold as high-end home furnishings.

Investors can take advantage of both broad and niche markets for Afghan-made carpets and textiles. The world market for all handmade carpets is US\$1.5 billion, and Afghanistan currently ranks twenty-first among global carpet exporters behind regional rivals, Iran, Pakistan, India, China and Nepal. The market for high-quality Afghan exports is historically strong and potentially ripe with latent demand. In Europe and the US, handmade Afghan carpets receive preferential, duty-free trade access, enabling a competitive pricing advantage for Afghan producers. Afghanistan is also proximate to the vast markets of China, India, Pakistan, and the Middle East. Within Afghanistan, carpets and textiles are traditional wedding gifts. In addition, the international community living in Afghanistan and an estimated 4 million expatriate Afghans worldwide present ready-made niche markets for direct sales, and channels for disseminating the Afghan brand all over the world.



The opportunity—add value and quality in production

Wide opportunity exists for investors to add value to their products by controlling the highly profitable activities closest to the end customer. It is estimated that the value of Afghanistan’s entire carpet industry would increase between two and five times if companies finished goods in country and sold directly to overseas markets, rather than exporting through intermediaries. Handling all aspects of production within Afghanistan would allow for enhanced quality and a revitalized, “Made in Afghanistan” brand of carpets marketed for export worldwide. In several important aspects of production, investors can capitalize on expressed demand for in-country services and supplies as the sector expands. Along the supply chain, investment opportunities include: wool production, dye manufacture, carpet finishing, international marketing services, and transport and logistics.

This sector can also take advantage of modern technology to increase output and improve quality. For example, increased use of the internet would improve marketing and sales. Investment in more carpet factories would enable extended working hours, improved skills through sharing of technical information and expertise among weavers, and greater monitoring of quality. In addition, the use of computer-aided drafting (CAD) software could improve efficiency in creating designs and allow customers to contract with traders for made-to-order carpets.

STUDY RESULTS AT A GLANCE

Carpet & Textile Manufacturers and Traders

These highlighted results reflect the findings from carpets and textiles companies surveyed for the recent Afghanistan Enterprise Benchmarking Study.

Company Sample

The study reflects interviews with 10 carpet manufacturers and traders that are all formally registered and currently exporting. Some rank among the country's largest in the sector.

Investment

The surveyed companies are owned entirely by local Afghans; the companies that handle the final processing, marketing and shipping of the carpets to export markets are largely owned by Pakistanis or Afghans, and are located in Pakistan. The surveyed companies report start-up investment from US\$8,333 to US\$12 million.

Motivation

Although many of the firms interviewed successfully operated in Pakistan during recent years and maintain export and distribution offices there, most of these said they were highly motivated to return to their home country. 3 out of 10 interviewed companies indicated that cost was about 50% of their reason for being in Afghanistan.

Operations & Facilities

Among surveyed companies, several have an office in Pakistan for final processing and exports; some have agents overseas to market Afghan carpets; others have sales arrangements with established carpet shops abroad. Carpet and textile firms tend to lease offices, warehouses and showrooms. An average of 42% of the equipment for this sector is imported from overseas.

Inputs

An average of 53% of the raw materials for this sector—wool, cotton, and dyes—is imported. Some firms reported difficulty in finding regular and affordable supplies.

Personnel

Among surveyed companies, full-time employment ranges from 5 to 180 persons. Company management and direct employees tend to be relatives in the same extended family. A vast team of weavers in villages is not considered in the employee headcount.

Investors report an average 54-hour workweek.

Incentives

Some interviewed firms said they received subsidized land from the government, and that they have a 3- to 5-year corporate income tax holiday.

Transportation

Among firms interviewed, average transport costs are 22% of overall operating costs.

Customs

Customs administration, while imperfect, is regarded as improving.

Utilities

One half of the surveyed companies have public electric power, but they also rely on generators.

Telecommunications

One half of companies interviewed report having landlines for telecom access and also have internet access in their offices.