

Developed land in new industrial parks

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.

Logistics and transportation—a critical growth sector

Logistics and transportation services are fundamental to both Afghanistan’s rebuilding efforts and its future economic growth. Increased government spending is targeted at transit trade, linking the country to major markets. Expansion of the sector supports the reconstruction’s massive influx and distribution of materials and goods, and a return to increasing export volumes of products made in Afghanistan. The tradition of private transport services continues with new momentum as investors set up ventures to take advantage of several new and existing airlines and a private truck fleet estimated at about 50,000 or more. Air transport is robust, driven by both commercial and “duty-exempt” goods, and overland transport is benefiting from progress on road conditions and customs. The efficient movement of goods—by land, air and sea—will link the country’s major commercial centers to fully serve the domestic economy, the region and global markets in Europe, the US and worldwide. Specialized sub-sectors for investment include:

- Small package and document handling
- Land, air and sea transport
- Warehousing and distribution, and provision of “duty-exempt” supplies
- Freight forwarding, customs clearance, and travel agency services
- Construction/improvement of road infrastructure





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
Logistics and Transportation



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

– Article 10, Afghanistan’s Constitution

A transforming economy

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 sectors, such as logistics and transportation, which provide the foundations of Afghan commerce. 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, banking, tourism, trade 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 – logistics and transportation, food and beverage processing, carpets and textiles, 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 logistics and transportation (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 trade crossroads and strategic transit hub

For centuries Afghanistan has been the hub connecting Asia, Europe, and the Middle East. Today, Afghanistan is ideally situated to again function as a strategic gateway, serving landlocked countries to the north and the Iranian and Pakistani seaports to the south. For the Central Asian republics and Russian industrial centers of western Siberia, Afghanistan is potentially the shortest route to the open sea. For Pakistan, Afghanistan offers a primary route for trade with Central Asia.

In fact, Afghanistan shares borders with six neighbors—Iran, Turkmenistan, Uzbekistan, Tajikistan, China and Pakistan—and is considered a “land bridge” connecting proximate country markets, as well as potentially large trading partners, such as Iran and India. Afghanistan offers a point of access to an extended regional market of more than 2 billion people, linking the Middle East to Southern, Central and Southeast Asia.



New and expanding trade routes

The improving transport infrastructure supports Afghanistan's trade nexus, both in country and across its borders. It is estimated that 60% of overland transportation comes to or from Pakistan, 30% to or from Iran, and a combined 10% through borders with the Central Asian republics. To the north, in Turkmenistan, Uzbekistan and Tajikistan, goods and commodities flow on main transit routes (and by rail in Turkmenistan and Uzbekistan) south through Afghanistan to the ports of Bandar-e 'Abbas and Chah Bahar in Iran, and Gwadar and Karachi in Pakistan. A planned bridge will link Afghanistan and Tajikistan over the Amu Darya (Oxus) River, which carries barge traffic along the borders with Turkmenistan, Uzbekistan and Tajikistan. Within Afghanistan, the main roads connecting Kabul to Kandahar and Herat in the south, and the "Ring Road" in the north and east form a developing major network of highways that links the country's key commercial centers, and extends to the border crossings with Iran, Pakistan and other neighboring countries.

A large, accessible market with strong expected demand

Commercial transport is a high-growth sector in Afghanistan. Among both commercial markets and the donor community, demand for transport services is expected to remain strong in the medium to long term. Afghanistan has immediate, almost unlimited demand for both industrial materials and consumer products. Transport volumes for commercial goods, which are almost double that of donor materials, are expected to rise as Afghanistan's commercial infrastructure continues to improve. In addition, numerous products made in Afghanistan have strong potential as exports, from fruits and spices shipped to regional buyers to Afghan-branded carpets destined for European and US markets. Finally, improving infrastructure and security is resulting in increased transshipment of goods through Afghanistan.

The opportunity in logistics and transportation

Afghanistan's large and growing market for basic logistics and transportation services presents a ground-floor opportunity for new providers. This opportunity is open to domestic and foreign firms of all sizes and origins, including entrepreneurs. While investment in the sector is increasing, the field is virgin territory for many services. The timing is right to cultivate customers and establish a "first mover" advantage. Early investors in the sector report modest start-up costs and relatively low overheads, and even smaller operators are moving large volumes of freight.

Opportunity also exists in specialized services, such as cold cargo and perishables storage, overland transportation, truck maintenance, and customs facilitation. Agents sourcing raisins report the need for appropriate storage facilities, and carpet exporters are looking for reasonably priced cargo space. The requirement for customs agent certification in the new customs code also provides opportunity for companies willing to train and certify customs agents on a large scale. In addition, Afghanistan's rapidly developing telecom infrastructure—including internet links via satellite—enables enterprising investors to upgrade and expand in logistics. Logistics providers are expected to quickly move to offer their customers the advantages of new technologies and capabilities.

STUDY RESULTS AT A GLANCE

Logistics and Transportation Companies

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

Company Sample

The study reflects interviews with 12 logistics and transport companies—including many recent start-ups—in freight forwarding, air, sea and land transport, package and document delivery, procurement and supply, and warehousing and distribution.

Investment

The sector is dominated by foreign (mostly US) and joint venture investment.

The average investment for starting up was the lowest of all 4 sectors, reflecting great flexibility among investors in providing full services from a room or small office.

Motivation

Only one-quarter said that cost was a motivating factor in their investment decisions; in all cases, cost was less important than quality factors, such as the general business environment, especially perceived new political stability and a more manageable bureaucracy.

Trade Access

Afghanistan's lack of a seaport is considered either an advantage or of no impact by one-half of the interviewed companies.

Costs

Among the surveyed firms, most major operating costs could be captured in four categories to create a representative average cost structure: 39% property; 34% labor; 20% utilities; 7% annualized construction costs. (Property includes lease expenses.)

Facilities

Firms in logistics and transport tend to lease their offices and warehouses; computers and other equipment are typically imported from overseas.

Personnel

Logistics and transport companies tend to be well integrated into the global economy, requiring more multilingual, skilled workers than the other surveyed sectors. Investors still report some difficulty in finding managers, professionals and technicians, and to a degree the language skills necessary to do business with foreign clients.

The proficiency of the local workforce in English and other Western languages was rated above average—2.8 out of a best score of 5.

Investors report an average 50-hour workweek.

Utilities

8 of 12 companies have government-supplied electric power, but they also rely on generators.

Telecommunications

One quarter of companies interviewed have landlines for telecom access; three quarters have internet access in their offices and, as service providers, used the highest bandwidth.