



Speech by His Excellency Hedayat Amin Arsala

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Excellencies

Distinguished Delegates

Ladies and Gentlemen

On behalf of the Government and **all** the citizens of Afghanistan – men, women and children - I would like to convey our collective thanks to the international community for the support they have provided over the past year. Without such support, the overall reform agenda, established in Bonn, Tokyo and last year in Berlin, can not be successful. Our vision of a stable, secure, democratic and prosperous Afghanistan based around the principles of the rule of law and respect for human rights, underpinned by a dynamic and productive private sector, remains on track.

Approximately one year ago, I had the pleasure of delivering the closing speech at the 2004 Afghanistan Development Forum. Last year's conference struck an optimistic note regarding our reconstruction partnership. I am happy to report that we have delivered on many of the reforms including those in the area of trade and investment.

Today I am here to speak to you on perhaps the key theme of this year's ADF; the centrality of the private sector as the vehicle and engine of growth, employment, poverty reduction and enhanced equity, between both men and women. I am here to talk to you about trade, about Afghanistan's position as a land-bridge linking central and south Asia, linking people, markets and products. I am here to report to you about the progress that we have made, both in terms of creating an enabling environment and in terms of enhancing the much needed regulatory capacities of government to support the development of a strong formal sector.

The people of Afghanistan, whom we represent, are looking for a government that creates an enabling environment for the private sector, whilst providing support for those who fall below the poverty line – through social protection programs. They are looking for security, for better access to finance, for better infrastructure, services and equity – all of which are important aspects of shaping our economic future. Whilst there are areas of the economy where the government has little control – such as rainfall – in most other areas, a well informed policy, underpinned by effective national institutions and budget execution, will greatly assist in addressing the constraints that many people face day in and day out.

The theme of this year's forum "Accelerating Economic Development" indicates the direction for the work that lies ahead of us. The early stages of our reconstruction program are largely complete and we will now shift our focus to the creation of a self-sustaining and inclusive growth process.

The source of Afghanistan's "accelerated economic development" has been recognized from the beginning of our work. I want to reiterate that the private sector is our engine of growth – this economic vision is laid out in the agreements of the Bonn Conference and is enshrined in our new constitution. The Government of Afghanistan is committed to a program of private sector led development in a socially responsible, open economy.

The question that faces us is how can **we** accelerate the emergence of a dynamic, competitive and inclusive private sector, by going beyond the gains already made in the previous years?

The answer to this question is quite straightforward: the response of the private sector will be determined by a combination of the overall incentives framework and the "enabling environment" that Government creates to foster growth. If either the incentive or regulatory system is restricted, growth too will be negatively affected.

After two decades of state control, war and insecurity, the reform and restructuring of the private sector environment will require sustained effort on the part of government and the support of our partners in the donor community. Whilst we have already accomplished a great deal, **we need** to look towards accelerating economic development in the future – **we need** to focus on the implementation and development of policies and programs to stimulate investment and trade and to make it profitable to do business in Afghanistan. Moreover, we need to strengthen our public sector management to enhance our policy making and regulatory capabilities.

### **LET ME OUTLINE OUR STRATEGIES AND GOALS**

To begin, I would like to provide you with a brief overview of the Government's strategic framework and our overall goals, our accomplishments in the last few years, and the challenges we continue to face. Our priorities are:

**First**, the government sets out to develop and implement policies to increase foreign and domestic investment;

**Second**, the Government will facilitate the development of a diverse economic base for Afghanistan that ONE, builds traditional areas of comparative advantage and expands into new sectors of competitive advantage; and TWO, diminishes the trade deficit and increases foreign exchange earnings by enhancing the productive capacity for both exports and the domestic market.

**Third**: the Government will actively participate in global and regional trade and transit initiatives.

Under the national Priority Investment Program for Trade, Investment and private sector development we have targeted our programs in three areas

### **AREA 1: THE LEGAL, REGULATORY AND INSTITUTIONAL FRAMEWORK**

The legal, regulatory and institutional framework based on the principles of a free market economy forms the basic parameters of the enabling environment for the private sector and will ensure that the benefits of the market system are realized for all Afghans. Our goal is to build a transparent and simple framework throughout all policy fields and to develop effective institutions to implement this framework.

#### **DOMESTIC LEGAL AND REGULATORY FRAMEWORK**

Domestically, the development of a modern legal and regulatory framework based on international standards is critical to the ability of Afghanistan to attract investment, promote exports, ensure the safety and efficacy of goods in the marketplace and to ensure adequate levels of competition necessary for the equitable operation of the marketplace.

We have established legislation in critical areas such as Banking, Customs and Taxation. Successful reforms in commercial regulation have been introduced for business and investment licensing and import procedures. However, these measures only constitute a beginning.

While the revised law for private investment is expected to be considered by the cabinet soon, the process of legislation has been slow. Other basic provisions of the commercial framework have yet to be passed. The major constraints include a lack of capacity within the government ministries themselves and a lack of coordination in priorities and efforts among government agencies and with the donor community.

As we move ahead, we must develop a systematic approach to addressing administrative barriers to trade caused by cumbersome, outdated regulations. We must work to develop stronger systems of inter-ministerial cooperation in implementing reforms as many commercial procedures involve multiple ministries and agencies.

## **AREA TWO: INTERNATIONAL FRAMEWORK**

Our international economic ties are a critical component of our enabling environment. As has often been iterated by my colleagues, we are not a land-locked state – we are a land bridge linking the region. Our economic potential will expand with greater regional and global outreach. Linkages with world and regional markets will ensure the competitiveness of domestic industries and enhance investment possibilities. With the development of an effective system for international trade and transit, a large portion of future investments will aim to capitalize on Afghanistan’s strategic position as the key ‘land-bridge’ binding Central and South Asia region together.

We have accomplished much in the past three years to strengthen these linkages and secure meaningful market access for the products of Afghanistan. We have actively participated in regional economic initiatives, initiated bilateral negotiations with neighboring countries, negotiated for the modernization and expansion of our transit agreements, and have been granted preferential market access for the markets of the EU, US, Canada, Japan and India.

In December 2004, Afghanistan was granted observer status in the World Trade Organisation (WTO) and we are now committed to achieving the full membership which will send a strong signal to international investors regarding the parameters and stability of our trade regime.

We have also enhanced our international investment ties – becoming a member of the Multilateral Investment Guarantee Agency and negotiating investment framework agreements with the US and Germany.

Sweeping reforms have been introduced into our customs and trade facilitation systems which have allowed us to establish an open trade regime and reduce and modernize border procedures.

In the years ahead, as we look to expand our ties to the regional and global economy our priorities will include:

Completing the process of WTO Accession.

Increasing the strength of our regional trade and investment agreements.

Making market access meaningful through policy coordination and the strengthening of our transit agreements and our capacity for trade facilitation.

### **AREA 3: BUILDING INSTITUTIONS THAT SUPPORT MARKETS EFFECTIVELY**

Effective institutions for supporting the market system are at the core of the efforts to create an enabling environment for the private sector. We must continue to develop the capacity of both public and private sector institutions to enhance our enabling policy framework.

Across the government, the Civil Service Reform process is enhancing the capacity, efficiency and effectiveness of government institutions. For this, we are now speeding up the Civil Service Reform in all ministries. As the lead Ministry for foreign and domestic trade, investment, transit as well as private sector development programs, the reform of the Ministry of Commerce is a high priority for private sector initiatives. The reform process at the Ministry of Commerce represents a fundamental change in its mission: from a state control to policy enabler. While we are nearing the completion of our planning for restructuring and reform, the focus must shift towards implementing the reform agenda and building capacity within the Ministry.

As we work to redefine the role of government in the economy, we must also look to the development of institutions which can effectively deliver services to support private sector development. We consider the development of semi-autonomous agencies which can provide these services and implement our policies and programs as critical.

The successful Afghanistan Investment Support Agency (AISA) provides a model for such agencies in the area of investment promotion. This one-stop-shop for investors has substantially streamlined the investment process and provides a central location for all domestic or foreign investors with questions about investing in Afghanistan or in case they need any assistance.

Using this model, we are currently developing a roadmap for the establishment of a National Export Promotion Agency which will be the central implementing agency for export promotion policies and activities. The Afghanistan Standards, Metrology and Quality Authority will address the quality and efficacy of goods in the domestic market in high priority areas such as fuel, pharmaceuticals and construction materials. It will also ensure that Afghan exports meet standards required by world markets.

Finally, we must also work to facilitate the development of effective private sector institutions such as the Chambers of Commerce which will provide the voice for the private sector and increase their capacity to engage in productive dialogue with the government.

#### **FACILITATING THE DEVELOPMENT OF PHYSICAL INFRASTRUCTURE REQUIRED BY THE PRIVATE SECTOR**

The government programs to rehabilitate essential infrastructure such as water, power and roads will have far reaching impacts on the development capacity of the private sector. To sustain high growth rates and increased investment, we will also need improved commercial infrastructure for our future investors.

Ideally, commercial infrastructure should be financed and managed by the private sector. However, under the special circumstances of Afghanistan, to promote investment the government must play an important role in helping to provide such infrastructure.

The Industrial Parks Authority has initiated the development of industrial parks in three locations throughout the country. The further development of this program by the establishment of additional sites throughout the country will be a key factor in attracting investment to Afghanistan. Under this program, eventually, this process will be self-financing and the private sector will step by step take over the construction and management of the parks.

Building on this example, a similar approach is planned for the renovation and rehabilitation of our Trade Fairs and Exhibition Centers and for the rehabilitation of our border facilities.

## **FACILITATING BUSINESS CREATION AND DEVELOPMENT**

In order to strengthen the competitiveness of the private sector, the Government is facilitating training and capacity building initiatives in key areas such as: the enhancement of the enabling environment for Small and Medium Sized Enterprises (SMEs), the facilitation of a market for Business Development Services, support to business associations and the promotion of exports and investments. The Afghan Business Centre is an example of initiatives targeted at facilitating the delivery of services to the private sector. But support for such investments has not been forthcoming. In looking towards the future we need to move forward on these initiatives.

In this area, financial sector services are a high priority for the private sector.. The legal reform of the financial sector has led to an emerging private banking sector. The Government's long term objective is the establishment of a financial services industry that is able to offer a full range of services to the business community including: commercial banking services throughout Afghanistan, micro-finance programs (such as MISFA) and the full range of non-banking services including insurance, leasing and venture capital.

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## **CLOSING REMARKS**

Across the government we have charted an ambitious course for our development in the years ahead as we work towards the achievement of the Millennium Development Goals and the attainment of an average growth rate of about 9 percent over the next few years.

Our efforts must now focus on creating an environment in which a dynamic, competitive private sector will be the engine of growth for our economy. But growth must be broad based and consistent with social responsibilities. This will remain the central philosophy of our National Development Strategy. As the Minister of Commerce, my Ministry will work hard over the coming years to meet our targets, with your close partnership and support.

I would now like to hand over the floor to my colleague, H.E Dr. Farhang, and encourage you to engage fully in the panel discussion.

Thank you

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