AFGHANISTAN: Investment climate improving – World Bank
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KABUL, 27 February (IRIN) - A World Bank report released on Saturday said that the investment climate in Afghanistan was improving, but identified key constraints to capital inflows. The report called on the government to do more to promote private-sector development.

Based on a survey of 338 companies in five Afghan cities, the report said the most serious constraints for private-sector developments were reliable mains electricity, access to land and finance and the scourge of corruption. According to the study, the key challenge is to broaden participation in the market by removing barriers to new investors and creating conditions that will encourage those already active in the economy to invest more.

The report emphasises the need to improve government's capacity to formulate and implement private-sector development policies and programmes. "Enterprises need a variety of business services to help them enter, operate, grow and manage risks," said Samuel Munzele Maimbo, World Bank Senior Financial Sector Specialist and co-author of the report.

"These services are best provided by the private sector but the government needs to put in place a policy and regulatory framework to facilitate private entry."

The report notes that the Afghan government has taken a number of steps to improve the business environment and attract investment. It has established the Afghanistan Investment Support Agency (AISA) designed specifically to promote and facilitate investment. There has also been significant progress in developing the financial sector, as well as reform in labour regulation and the nation's tax regime.

"The government has made important strides toward creating an enabling investment climate," said Jean Mazurelle, World Bank Country Manager for Afghanistan. "But much more remains to be done. Private-sector activity is still carried out in an environment dominated by informal practices. These arrangements may be useful for many investors in the short run but will have negative effects for longer-term investment growth."

Some 80-90 percent of economic activity in Afghanistan is informal and potential investors who do not have established contacts with influential figures find these informal arrangements daunting and are often discouraged from investing, the report argues.

Afghanistan has witnessed a sharp increase in private-sector investment since the demise of the Taliban in late 2001, but it is well below its potential, the report says. For example, AISA has registered...
nearly US $1.3 billion in new investment (excluding telecom firms) over the past two years, but only a fraction of these commitments have actually been disbursed.

While investment accounts for nearly 22 percent of Gross Domestic Product (GDP), the bulk of it is public money financed through international aid.

Nearly 50 percent of the new investment approved by AiSA has been in construction and construction materials. "This reflects the massive inflows of external aid and the need to rebuild infrastructure," said Syed Mahmood, World Bank Private Sector Development Specialist.

"In the risky environment of Afghanistan, foreign investors prefer government and donor-funded reconstruction projects or services through which they can quickly recover their investment, to the longer-term process of building markets for manufactured goods."

The World Bank has contributed over $900 million to post-war Afghanistan since 2002, the major component being soft loans.