



**STATEMENT FOR HOUSE COMMITTEE ON OVERSIGHT AND REFORM**  
*Subcommittee on National Security and Foreign Affairs*  
Hearing on U.S. Promotion of the Afghan Economy: Impediments and Opportunities  
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**I. OVERVIEW**

In 2008, Afghanistan faced a greater level of conflict, insurgency, civilian casualties, corruption, and poppy production since the fall of the Taliban in 2001. These indicators are real and they represent a great threat to efforts to stabilize the country so that U.S. and other foreign troops can eventually withdraw. How can such trends have happened after seven years of U.S. and other donor involvement in the country? It is due to the fact that during that period of time, sufficient resources and attention were not paid to economic development and building rule of law. These two pillars go hand in hand in providing for the foundation for a society to function.

Warlordism, narcotics production, human trafficking, and other forms of illegal behavior thrive in areas in which there is little economic development and weak rule of law. Thus, security cannot be achieved without economic development and rule of law. Although training of the Afghan National Army and Police are important, focusing on that pillar as the primary solution to security in Afghanistan could potentially only create a “military/police” state whose powers could go unchecked without a strong judicial branch and robust private sector.

As Congress contemplates re-authorization of the Afghanistan Freedom Support Act (“AFSSA”), legislation to authorize “Reconstruction Opportunity Zones,” as well as budgetary and supplemental support for reconstruction effort and military efforts in Afghanistan, a critical juncture has been reached. The U.S.’s strategy needs to shift from one focused on military and security spending to one that provides greater support for economic and social development.

Even military commanders have recognized that the solution to the challenges we face in Afghanistan cannot be a military one alone. The security component is important, but the long-term solution must be political and economic. While a counterinsurgency strategy has been identified as the key, funding for assistance for programs that would implement counterinsurgency objectives remain relatively low in comparison to the bulk of funding that continue to support military operations.

Although the “portfolio” of U.S. spending should be readjusted to meet counterinsurgency objectives, what should also be recognized is that Afghanistan cannot be rebuilt through donor funds alone. Afghanistan Advocacy Group member Rex Pingle, President of PMD International, has written “Private investment, particularly in small and medium enterprises, is the fastest way to create permanent jobs in post-conflict countries.” It has become more apparent that for a great number of insurgents, it is a job, more so than an ideology. Many young men are recruited into the Taliban and other insurgent groups by offers to pay for services. Without alternatives to survive, these young men take that offer.

Taking steps to build the capacity of the private sector in Afghanistan to provide services so that they can operate in these areas is the key to allowing for withdrawal of military and/or military/civilian teams and for stabilization to take hold. This statement provides concrete recommendations for programs that can achieve that goal.

In addition, this statement supports efforts such as the Afghanistan-Pakistan Security and Prosperity Enhancement Act. This legislation proposes to create Reconstruction Opportunity Zones (ROZs) in Afghanistan and the Northwest Frontier Provinces of Pakistan, by which non-trade sensitive exports would be permitted to enter the United States duty-free. ROZs are vital to achieving counterinsurgency policy goals. Although some provisions of this legislation were included in the Pakistan Enduring Assistance and Cooperation Enhancement (PEACE) Act, Afghanistan requires special consideration given its enormous challenges and separate legislation should address those needs.

Afghanistan is in the lowest tier of the least developed countries and is in need of a ROZ Act that will encourage investment and job creation needed to combat narcotics and address security. The NWFP of Pakistan is also in need of such assistance and in order to promote investment in these areas, the geographic area of inclusion in Pakistan should not extend beyond 100 miles from the Afghan border. Naturally, retail associations and businesses who manufacture in areas outside of the NWFP of Pakistan would like to benefit from this legislation and have called for expansion of the ROZ provisions to include all of Pakistan. However, those are not the areas which for policy and security reasons need the assistance at this time. By extending it to such areas, it would hurt those areas that desperately need investment and jobs and benefit those that are relatively stable and already seeing economic gains.

Lastly, a key component of the U.S. economic assistance to Afghanistan is not just more focus and resources to programs that support economic and counterinsurgency objectives, but focus on how such funds are utilized. Since 2002 when the first legislation authorizing funding for Afghanistan's reconstruction was provided by Congress, positive steps have been taken, such as the establishment of the Special Inspector General for Afghanistan Reconstruction program. However, this program is relatively small compared to the needs that exist. While the SIGAR program is rolled out, another solution is to provide for third-party monitoring and evaluation of U.S. assistance programs, which are "embedded" into each program. Thus, although the possibility of an audit does provide for some deterrence, the levels of waste, fraud and abuse and the separate issue of effectiveness and outcomes of implementation should be a priority that is addressed by regular performance assessment and monitoring that is included in the design of each program.

The mechanisms for funding would greatly improve the impact of the use of U.S. funds in Afghanistan. Thus, it is not merely a resource issue, but how those resources are spent and accounted for which is also important. The key objective should be to obtain results that leads to progress for Afghans. By providing "peace dividends" to Afghans, it will show that there is a benefit to participating in the new democratic process and we will not lose the goodwill that the Afghan people have given to the U.S. for many years. Especially in light of rising civilian casualties, getting assistance to Afghans and to the "village level" is increasingly crucial if we are to continue to enjoy the support of the Afghan population. History has shown that when that support is absent, that even the greatest military powers can fail in Afghanistan.

## **II. CONTEXT**

This year provides an opportunity for Congress to reassess U.S. foreign policy in Afghanistan and address key challenges. With modifications in programs and approach, greater success is

achievable. The investment made thus far with U.S. funds, resources, and lives over the past five years simply cannot go to waste. It should be recognized that great achievements have been made. Thus, it should not be concluded that because the positive aspects of U.S. engagement are not covered, that AAG does not recognize there to have been success in many areas.

### **A.Challenges**

While some progress has been made, recent reports show that conditions remain grave and it is clear that we have reached a critical stage in the mission. Last year was the worst for casualties since the Taliban were overthrown in late 2001. More than 8,000 died, including 1,500 civilians, according to the UN. Reports issued by the International Crisis Group, the Center for the Study of the President, the Atlantic Council and the National Defense University have all resonated with the theme that greater benefits to the Afghan population needs to be delivered or we stand to lose the significant achievements that have been made.

While we are winning at the tactical level against the Taliban, we are starting to lose the support of the Afghan people, who trusted us to provide security and reconstruction. We have won the war, but we need to provide “peace dividends” to secure the peace. In polls conducted by CARE, the majority of Afghans still believe that the U.S. engagement in Afghanistan is overall positive and seek continued cooperation. This provides the opportunity to build upon gains already made, but we must now shift from a military to a counterinsurgency strategy that addresses the root causes of conflict in Afghanistan.

### **B. Poverty Breeds Insecurity**

The biggest social problem in Afghanistan is poverty. Afghanistan has been ranked the poorest country in Asia. AAG believes that with continued levels of poverty, even the best Afghan government will not succeed. Poverty leads to greater insecurity. The majority of U.S. funds spent are allocated towards U.S. military operations. However, it is essential that economic and social development be addressed with adequate resources. This includes poverty eradication, employment programs, health care, education, landmine removal and assistance to repatriating refugees and internally displaced persons.

The statistics are still dire. For example:

- 6.6 million Afghans (or more than a fifth of the population) do not meet their minimum food requirements each day.
- Almost half of the children in Afghanistan are underweight.
- More than 70% of Afghan's citizens do not have access to clean drinking water.

In parts of Afghanistan, particularly in the Southern and Eastern Afghanistan, young boys fall victim to terrorism because the Taliban and Al-Qaeda offer them money to either set off bombs or to become suicide bombers. They are hired by foreigners and terrorists to bring more insecurity in their own nation. There is no economic opportunity for the youth and they are often employed by the Taliban for cash or other financial incentives. Poverty and unemployment are thus leading them to join terrorists, not ideology.

Families sell their children, force their daughters to marry at young ages, or are forced to give away their daughters to rid themselves of debt – these are problems linked to poverty and create serious human rights that lead to violations of national, international and Islamic laws. While millions of children have returned to schools, poverty is forcing children to quit so that they can work to support their families. Support for economic development thus addresses the

key roots of conflict and will create an environment of stability that will lead to less dependence on U.S. foreign assistance long-term.

### **C. Invest Now or Pay More Later**

Achieving success in Afghanistan is a bipartisan issue. AAG believes that the issue of U.S. policy towards Afghanistan and the overall war on terror is important to voters. Many Americans may wonder why Congress should address social concerns in Afghanistan when there are so many social problems that need attention in the U.S.

AAG would venture to respond that the two are not mutually exclusive. Although as a nation we must be careful about the expenditure of taxpayer dollars, the amounts of spending on military operations is costing billions each month. We can either pay hundreds of times more to address the symptoms later or we can address the need for a plan to address the root causes of conflict- poverty, lack of education, weak political institutions, and lack of economic development. Addressing these issues now will allow our troops to come home sooner, saving more US. taxpayer dollars in the long-term.

We have been spending billions of dollars in military assistance, but how much are we spending to help reconstruct Afghanistan--- by some estimates, it has been less than 1% of the amount appropriated for Afghanistan. Afghanistan still remains one of the lowest per capita post conflict countries. More was spent per person in foreign assistance for Kosovo than for Afghanistan.

What did not assist in achieving stability and security in Afghanistan in a shorter period of time was our shift to the war in Iraq. Unfortunately, the Iraq invasion of 2003 left the south of Afghanistan under the control of the Taliban, warlords and drug dealers, the ramifications which are now being seen. In October 2007, Secretary Gates told a group of U.S. House lawmakers that the multinational mission in Afghanistan is suffering from a lack of resources, citing the war in Iraq and the reluctance of U.S. allies to contribute more troops. Gates also acknowledged the Pentagon has made mistakes in prosecuting both wars and pledged to work with Congress to remedy the errors. Thus, it is now being acknowledged that the effort in Afghanistan has been understaffed and underfunded and we began seeing the results of that in 2007.

This year, we must turn the tide by committing greater attention and resources to economic and social development, support for building of Afghan political and security institutions, and assisting in the establishment of rule of law.

### **III. RECOMMENDED ECONOMIC DEVELOPMENT PRIORITIES**

After a 25-year period of conflict, Afghanistan's infrastructure, institutions and human capacity were largely destroyed. Although the U.S. and international community have been involved in the reconstruction effort in Afghanistan for the past seven years, that assistance has been slow, underfunded as compared to military spending, and has not leveraged private sector capital to allow Afghanistan to become a stable and prosperous country. Even though donor pledges from different countries were made at several conferences, including Tokyo, Berlin, London, and Paris, many of those pledges did not turn into commitments or get disbursed.

A funding program that targets critical needs, reaches a large portion of the population, is high-impact, and shows immediate progress would greatly improve the lives of the people in Afghanistan. This would also help strengthen the image of the international community in its efforts to help rebuild Afghanistan.

This statement covers economic, trade and investment policy issues, as well as ways in which the United States can improve assistance to Afghanistan. The assistance will help build

Afghanistan's legal economy and create jobs, which in turn will help in demobilization and help in the battle against narcotics. The programs being suggested focus on developing the country's private sector and economy so that Afghans have the tools to become self-sufficient. Improving the environment for business, trade and investment is what is needed to create and sustain alternative livelihoods, one of the components of Afghanistan's and donors' anti-narcotics strategy. ***Growth in Afghanistan's legal economy is needed to ensure that there is visible economic and social progress, while eliminating the drug economy over time.*** In order to enable this growth, programs to support private sector capacity building and public infrastructure investments must be increased.

Afghans are entrepreneurial, hard working and are seeking opportunities for education, training and jobs. The focus of projects should be to build a new generation of business leaders, not just political and military leaders, so that Afghans can take ownership of their own economy and future. In order to achieve that goal, incentives are needed to attract foreign direct investment and create public-private partnerships, which will create job opportunities and further economic development. ***Creating employment opportunities will assist in the demobilization of soldiers, combat narcotics and lead to less dependence on foreign aid.*** If we can provide jobs for the Afghan people with an income that will enable them to survive, they will be convinced that peace dividends pay off.

Another area of discussion in this Statement is on critical trade-related infrastructure investments. Investing in the public sector in Afghanistan will help set the foundation for private sector investments. ***We must leverage private investments by first providing public sector assistance.*** Private investment in Afghanistan should be encouraged because long-term economic stability in Afghanistan will benefit both Afghanistan and donors. It will also reduce the amount of future public assistance that is needed.

AAG believes that Congress can achieve greater security by addressing the root causes of instability and conflict by:

- Authorizing and appropriating a **greater level of funding** for economic and social development as part of the counterinsurgency strategy.
- Supporting a **Business Incubator Program** that would address needs through one program which would include entrepreneurship training, business development services, access to credit and marketing and export assistance. Although there have been several business development services and credit programs, they are implemented by different organizations and companies and located in different places, making it difficult to access. This program can be the “software” that can be coupled with the “hardware” of industrial park development. We can then measure output by way of greater jobs, production of licit products, and exports. The effort thus far has been on input, which has been training focused programs which have had some, but limited, results.
- Expanding **Industrial Parks**, which provide for the solutions to infrastructure and regulations in one place, removing barriers to investment that can be focused area by area since solving Afghanistan's problems nationwide at once is not feasible.
- Continue to provide for **Trade Capacity Building and Public-Private Partnerships** to continue successful efforts achieved thus far by USAID in this area, including greater support for USAID's **Global Development Alliance** for Afghanistan.
- Funding a **National Technical & Vocational Program** to provide for training centers to absorb young men into positive programs, rather than being recruited for training camps for terrorist activities. This provides training centers to improve the local labor pool, which lowers the cost of reconstruction programs since importing foreign labor is more costly. The training should be at least three month programs, not just a few days that has been the norm with other “capacity building” projects.

Significant progress has been made in Afghanistan after the defeat of the Taliban due to the partnership of the U.S. and other donors with the Afghan people and government. However, we cannot maintain the goodwill without showing tangible signs of progress on the ground. The recommendations in this Statement thus focus on programs that can address the concerns that many Afghans have expressed in key areas related to economic development.

#### **IV. ENTERPRISE DEVELOPMENT**

The United States is undertaking enterprise development activities to improve prosperity and reduce global poverty around the world. The U.S. has supported the implementation of many enterprise development or “trade capacity building” (TCB) projects, including trade facilitation (consisting of lowering costs of engaging in international trade), support for workforce skills development and labor standards, financial sector development, trade-related infrastructure development, agricultural development, support to services sectors, and governance.

Key coordination agencies include USAID, USTR, State Department, USTDA, and the Commercial Law Development Program of the Department of Commerce. U.S. TCB activities are strengthened by the technical expertise of specialized agencies, including the Departments of Agriculture, Energy, Interior, Justice, and Transportation. These U.S. agencies can deploy a range of tools that allow them to respond quickly in areas of high demand. These areas include quantitative economic and trade analysis, customs and trade facilitation, SPS (food safety, animal health, and plant health) issues, and commercial and institutional reform. Other tools have included a Commercial Law Diagnostic Tool, a Customs Valuation Training Manual, and the International Trade Centre’s TradeMap to provide access to trade data and analysis.

The U.S. also has an Integrated Framework (“IF”) approach to TCB efforts. The primary goal of IF is to mainstream least developed countries into the global trading system. For example, in Senegal, these funds supported projects in critical areas such as international negotiations, export promotion, marketing of agricultural products, and the modernization of telecommunications infrastructure.

USAID has carried out successful initiatives as part of Trade Capacity Building (“TCB”) programs in Afghanistan since 2003, but further assistance is needed from Congress in order to expand upon these successes and to utilize expertise from other agencies. The USAID Economic Governance program (begun in 2003) tackled many of the issues needed in order to build public administration capacity in Afghanistan. The next step was the Afghanistan Small and Medium Enterprise Development (“ASMED”) program, which started in 2007 and has focused upon improving trade facilitation and capacity building.

Examples of TCB private sector development programs include supporting business development services, assisting with standards development, providing credit and/or grants to Afghan companies, and supporting feasibility and market assessment studies. During the past two years since ASMED has been implemented, the capacity of local companies who have benefited from the services, has improved.

AAG recommends that the next step to success in this progression is to fund a Business Incubator Program, through which programs such as ASMED and others already underway can be linked and new assistance channeled to focus efforts and measure output, not just input.

##### **A. Public Sector Institutional Capacity Building**

As USAID has stated, “The strength and performance of institutions, particularly as evidenced in the quality of governance and rule of law, are the primary determinants of development. Resource transfer in the absence of institutional capacity does not yield sustainable outcomes.”

However, for the most part, US Government assistance has been channeled mainly through consulting firms that fund advisors and technical assistance.

Afghanistan needs institutions, not just advisors. As part of the civilian surge that is underway, the effort should be to utilize that program to build institutional capacity by undertaking mentorship and training programs for the Afghan civil service, civil society and private sector. This can be done with an agreement with the Afghan government, civil society and private sector associations regarding what benchmarks are to be achieved with the assistance of these advisors in exchange for the technical assistance provided.

An example of how this approach can work is the German experience. Germany's GTZ helped start AISA, an institution that is now functioning well in a short period of time. AISA received several international awards in just two years after its creation. It has since expanded services and is one of the most successful Afghan institutions that will last and will be remembered as a German contribution to the reconstruction process in Afghanistan. AISA is self-funded through fees generated from services provided and AISA employees thus receive competitive salaries. This has resulted in very low levels of reported corruption when companies have dealt with AISA, in stark contrast to services needed from other Afghan government agencies. Such a model should be replicated.

The focus of this Statement, however, is on assistance to the private sector and it is assumed that there are programs being considered to assist in the capacity building of the Afghan government and to programs that can reduce regulatory barriers to business and investment, reduce corruption, and extend the reach of the public sector to rural areas of the country in order to deliver services.

## **B. Business Incubators**

Business incubators have been used as an instrument for economic and employment development in many countries. According to the U.S. National Business Incubation Association, a business incubator is "a business support process that accelerates the successful development of start-up and fledging companies by providing entrepreneurship with an array of targeted resources and services." This tool could successfully be utilized to support the establishment and growth of businesses in Afghanistan. Now that basic training and microfinance programs have been in place for many years in Afghanistan, the next linkage in the development of Afghan-owned businesses- that of small and medium enterprises that can serve at least domestic demand- must be developed.

Due to infrastructure issues and perceptions regarding security in Afghanistan, risk mitigation is extremely important to attracting investment. Experience from other post-conflict situations needs to be utilized- what was risk assessment in other post-conflict countries? Public-private partnerships are instruments that have worked well in the past. Due to the lack of resources, knowledge and technology, special programs are needed to provide Afghan entrepreneurs with the skills and support they need to succeed. A ***Business Incubator Program ("BIP")*** for Afghan entrepreneurs would be a public-private partnership that would help to achieve that goal. It would provide a practical, hands-on, and market-oriented structure that would produce tangible results in a relatively short period of time.

A BIP would synergize the job skills training, credit, vocational education, and leadership components already being supported through U.S. initiatives. What a BIP would do is to provide these services at a core area, as well as targeting industries and geographic locations that need to be developed. It would also provide not only the information and training that Afghan entrepreneurs need, but the day-to-day business facilitation that is necessary for Afghans to actually start or expand sustainable businesses.

Training and technical assistance programs that have or are being implemented provide useful information. However, for the most part, Afghan entrepreneurs have not been able to translate the information into substantial business opportunities. A BIP would help the entrepreneurs to apply the information that they learn in a practical setting and support the creation of businesses that will contribute to Afghanistan's economy.

What an incubator does is not simply to provide the entrepreneurs with advice and information on how to run a business—in essence, it helps them to run and expand their business for a specific period of time and provides an incentive for them to operate on their own. It is helpful to assess the success of programs by the results achieved, not merely the inputs provided. The success of a BIP could be measured by how many businesses are started or expanded, the linkages created to domestic and foreign companies, the number of jobs created by new “graduates,” and the revenue generation of companies that have participated in the program before, during and after they participate.

#### 1. Supporting Business Development Services

There have been marked improvements since 2001 and many of the success stories in providing services to the Afghan people have been through the private sector. Although Afghans are entrepreneurial by culture, they lack access to basic information and skills to build a private market economy that can compete with international markets. For this reason, ***a main component of a BIP program would be to provide business development services (BDS) to Afghan owned companies.***

There are already programs that have included BDS and they have shown results. USAID's ASMED has shown great success and continued support for programs such as ASMED are important.

However, in order to build even more capacity of local Afghan companies, such BDS services should be done through a BIP, so that other services can be coupled with BDS services and can create larger scale enterprises that can in turn create more jobs. Thus, the seeds for BDS were provided through the ASMED program and linking this program through a Business Incubator Program would allow the fruits of that investment to be sown.

#### 2. Identifying Sources of Credit for Afghan Producers

***Access to capital is one of the major constraints on development of the private sector in Afghanistan.*** Currently, banks in Afghanistan provide limited lending services. With additional capital, businesses can expand and grow. AAG recommends that a credit program that was coupled with the Business Incubator Program would provide the management oversight and assistance to companies needed to leverage the loan being made to them. When repaid, such funds could be utilized to seed or expand additional local companies, creating a cycle of prosperity to replace cycles of poverty.

#### C. Global Development Alliance

The Global Development Alliance (“GDA”) is a USAID program that allows USAID to match private sector investments in developing countries. The GDA and other alliance-building mechanisms can also help foster a more vibrant and effective private sector, which provides for public sector accountability and responsiveness.

The GDA facilitates agreements between companies, nonprofits, and government agencies that maximize the benefit of USAID assistance dollars. ASMED includes a GDA component, which

has already catalyzed a number of enterprises. ***Congress should consider expanding support for GDA in Afghanistan as it is a public-private partnership that leverages U.S. economic assistance to Afghanistan and shows real return on investments made.***

#### **D. Attracting Diaspora Capital**

Many of the largest investments in Afghanistan have been through joint partnerships with Afghan expatriates. Steps should be taken to identify ways to attract this capital back into the country. One of the greatest resources that the United States has in its efforts to rebuild Afghanistan is its Afghan-American population. They have received training and education in the U.S., but understand the culture, history and language of Afghanistan.

***The expatriate community will take greater risk in doing business in Afghanistan and provide for an “Afghan face,” which addresses security concerns.*** To date, there has been no specific program or effort by the U.S. to utilize this resource. One possible initiative is to have one specific focus of the Global Development Alliance allocated to attracting diaspora capital.

The GDA model would not simply provide benefits to expatriates, but would require them to put equity in their proposed business plan. This increases the likelihood that such a program will become sustainable and successful.

#### **E. Section 8A Designation for Afghan-Americans**

Section 8A designation (minority or disadvantaged status) should be granted for Afghan-Americans. This would allow Afghan-Americans to qualify to receive consideration among other minorities contracting with large companies. Currently, Indian-Americans, who have one of the highest income earnings of foreign-born Americans, receive such designation and Afghan-Americans do not.

Section 8A designation would allow Afghan-Americans to participate more fully in the reconstruction process, a group that serves as a bridge between the U.S. and Afghanistan. Congressional authority is needed to make this happen.

### **V. INFRASTRUCTURE DEVELOPMENT**

Infrastructure is a basic and essential element of development. Business can't be conducted without infrastructure, even if the best policies and procedures are established. AAG believes that Congress can deliver the reconstruction assistance that was promised to Afghanistan by:

- Authorizing **more funding for infrastructure, including budget for quality control and maintenance** for such infrastructure project so that they are not short-term failed investments of U.S. funding.
- Increase **support for alternative energy projects** such as solar and microhydro in order to address needs for electricity in rural areas.
- Provide for **sewage treatment and water distribution**, which is essential for agriculture and health reasons.
- Provide for **low-cost housing programs** as people are more likely to protect their own property and return to a normal way of life if they are settled.
- The focus of this Statement is for increased **industrial parks**, which can provide “zones” where businesses can operate given that the broader infrastructure issues will take time to address.
- Support for **agricultural production** as part of the counterinsurgency effort.

## **A. Expanding Industrial Parks**

Due to the destruction of infrastructure and time it will take to provide the infrastructure in many parts of the country, support for industrial parks would provide the land, sewer, water, electricity and support needed to attract investment in one place. USAID has had success in its support for industrial parks in Kabul, Mazar, Herat and Jalalabad. Such parks should be expanded in other areas of the country in order to “jump start” enterprise and job creation, as well as foreign direct investment in Afghanistan.

Industrial parks are an investment that would generate revenue. They are not charitable projects that are not self-sustaining. In order to promote additional local ownership of companies in industrial parks, the Business Incubator Program can provide the “software” needed, while industrial parks solve the “hardware” issues. ***A BIP, combined with an industrial park development program, can provide a very strong approach to support enterprise development and foreign direct investment promotion for Afghanistan. Taking it a step further, if the rules, regulations, permitting, and taxing procedures of these parks can be determined through the already existing Afghanistan Industrial Parks Development Authority (in essence providing for a “one stop shop” for all regulatory needs for businesses in these parks), and by way of a public-private commission that oversees the management of the park, this could become one of the most successful models of post-conflict private sector development can be implemented.***

## **B. Counter Narcotics**

Given that the majority of Afghanistan’s economy continues to be from illicit activities, primarily poppy production, this issue is critical to economic development efforts. Afghanistan is an agricultural country. Farming and livestock are the main activities and business for over 85% of the population. Over 75% of the Afghan people live in rural areas where agriculture is the primary activity, but only 12% of the country’s 65 million hectares of land is available for agriculture and only 40% of agricultural land is irrigated.

Development of new infrastructure and the reconstruction of existing systems is the goal to increased production and growth. An efficient use of cultivated land and water will enable Afghanistan to be self-sufficient as it was during 1970-1975. ***Improved agricultural development will have a direct effect on bringing peace to the country.*** AAG believes that, once a destroyed home or farm village is rebuilt, farmers will feel encouraged to put down their weapons and pick up their shovels.

To enable faster economic growth and reduce rural poverty, agriculture needs to grow at least 5% per year for the next several decades. Unfortunately, the main drivers of growth – technology, roads, irrigation, and education – have all deteriorated due to conflicts, lack of infrastructure maintenance, and frequent droughts.

Unfortunately, the prospects for agricultural development have been thwarted by rising poppy production. Poppy production, which provides significant funds for the insurgency, increased last year and accounts for more than half of Afghanistan’s GDP. ***There's a correlation between instability and increased poppy production and thus programs that address this sector are key to stabilization and security.***

The majority of the anti-narcotics funding since 2002 has been for law enforcement and interdiction activities. The last supplemental included more funding to assist Afghan farmers with production of licit crops, which is the right counterinsurgency shift that is needed. AAG recommends that Congress consider:

- Providing greater assistance for **agricultural production capacity**. Providing additional inputs such as seeds, fertilizer and tools, technical assistance, water management, marketing assistance and credit will assist Afghan farmers and will provide the production capacity assistance to provide for alternatives to poppy production. During the past few years, the focus of U.S. efforts had been support for *marketing* of products. However, this approach has not worked as production must exist at a certain level first in order for marketing to be possible.
- **Providing support for irrigation projects**. Irrigation projects need to be funded in order to improve acreage of arable land, which is important to counter narcotics efforts.
- Addressing timing issues. **Eradication should only be utilized when a viable alternative livelihood is in place first** before crops are eradicated.
- **Focus on high value targets**. The farmers are not the ones that we want to go against, but rather, the traffickers and corrupt government officials involved in the trade. The immediate focus has to be on preventing the corrosive effect of drug-financed corruption seeping deeper into the Afghan government — to prevent Afghanistan from becoming a narco-state.
- **Provide support for border and airport trafficking interdiction** systems. This can be done through military assistance funding or State INL funding.
- Including an **agricultural rural credit program**. This can promote agribusiness enterprises, which will add value and create employment. Poppy is not just a crop, but a financing mechanism.

## VI. HUMAN CAPACITY DEVELOPMENT

A free market economy cannot function without a skilled and trained pool in the labor force that includes all groups in the population.

### A. Vocational Training

There is currently a need for technical education to train a skilled workforce. ***Vocational training programs in business, management, accounting, finance, and technology-related areas will help attract investment.*** In the past, there was an *Afghan Institute of Technology*. However, this no longer exists and could be re-established. Such programs can be revitalized within the university system or outside as a private institutions.

There are now several vocational training programs in Afghanistan, supported through a World Bank program. In order to better coordinate efforts, the Congress can consider allocating funds to that program or funding a program for USAID to support such programs.

### B. Women's Entrepreneurship

Afghan women make up a majority of the Afghanistan's population and women serve as heads of households. ***The inclusion of Afghan women in the business and trade sector is important to the survival of Afghan families.*** Afghan women have proven in the past few years that they can learn quickly, they are driven and that given opportunities, they can succeed. In the area of economic development, women have also benefited from micro-lending programs and a segment of Afghan women now have the skills to borrow larger sums of money to run businesses. Afghan women have one of the highest repayment rates (98%) in micro-lending programs worldwide.

Although there has undoubtedly been progress, gender inequality is still widespread particularly in rural areas. Some of the indicators include:

- The estimated literacy rate for women is only 12.6%, down from 15% in 2001.
- Child marriages and forced marriages are widespread.
- Female enrollment rates at the primary, secondary and tertiary levels are about half those for males.
- Women and girls in rural areas have particularly limited educational opportunities, partly because of the lack of female teachers, who comprise only 28 percent of the teaching force.
- Although there has been improvement in the decrease of maternal mortality rates, 1,600 women still continue to die per 100,000 births. This is still one of the highest maternal mortality rates in the world.

All enterprise development program should include special attention to the needs of Afghan women entrepreneurs. One ***proposed program could be an Afghan Women's Enterprise Program, which could provide grants or low interest loans to Afghan women to start or expand their own business.*** Because women are a disadvantaged group in Afghanistan, special attention must be focused on providing the tools that Afghan women need not only to rejoin the labor force, but also to become leaders and business owners.

### C. **Disabled Persons Enterprise Program**

There are approximately 1 million disabled persons in Afghanistan that are faced with unique challenges. Since this group is also disadvantaged, special attention needs to be paid in order to level the playing field. A program modeled after the Afghan Women's Enterprise Program could be a ***Disabled Person's Enterprise Program, which could provide grants or interest free loans to disabled persons that want to start or expand businesses.***

## VII. EFFICIENCY OF U.S. FUNDING

There are problems with current allocation of assistance. It is not the amount, but how it is used. There must be accountability not just by Afghan institutions, but by U.S. contractors who are in large part expending U.S. taxpayer funds for projects that are supposed to help the U.S. government meet its objectives.

Congress can achieve great efficiency and effectiveness of U.S. funds spent for Afghanistan by:

- **Tying performance of contractors to indicators.** Contractors should be required to provide reports on outputs in capacity building, levels of mentoring provided and assessment of impact (which would be ascertained through the monitoring process recommended). AAG recommends that such "Progress Reports" by contractors be provided at least every ninety (90) days and that the reports be posted on a centralized Afghanistan Reconstruction website. This itself will provide for a level of monitoring, as those who are working in Afghanistan will know what contractors are claiming they did in the country.
- Requiring U.S. agencies to use the "**Afghan First**" Initiative as a model for expenditure of U.S. funds. This means changing incentives to provide for **greater inclusion of Afghans** by requiring a greater percentage of subcontracts to be made to Afghan owned companies or organizations and requiring the training of Afghan staff on management, finance, and technical skills during project implementation.
- **Support Afghan Expat Mentorship Programs.** The policymaking and transparency in the GoA can be significantly improved by bringing qualified Afghan expatriates to serve in advisory roles. There is a successful program in place, the Afghan Management

Program, and AAG encourages Congress to consider authorizing funding for this program.

- Appropriating greater amounts of funding for national priority programs that have been planned by the Afghan government such as the successful and proven **National Solidarity Program** in order to better reach the “village level”.
- Further **resourcing the Special Inspector General for Afghanistan program**, but also appropriate funds for a **comprehensive anti-corruption program** and tying further non-humanitarian assistance with benchmarks to be met by GoA in this program. The Special Inspector General program is a step in the right direction and provides for greater accountability of U.S. spending. However, an anti-corruption program would provide assistance to the GoA to address systematic corruption issues that are causing citizens in Afghanistan to lose trust in government.
- Requiring **third party independent monitoring of U.S. funded projects**.
- Providing technical assistance to the GoA to establish a **Project Management and Monitoring System**, which would allow the GoA to link projects with its development objectives and to manage, monitor and assess the impact of programs funded not only with U.S. funds, but other donors.

Addressing such priority programs does not necessarily mean that the funds have to be appropriated to the Afghan government. However, appropriating funds through US contractors has proven to be inefficient and in many cases, has not achieved the level of results that could otherwise be achieved. It has also led to lack of coordination with other donor assistance. An alternative middle ground is appropriating funds through mechanisms such as the Afghanistan Trust Fund, managed by the World Bank. US contractors could still bid for work through this mechanism, but it would help to better coordinate efforts. Benchmarks and performance measures could still be required.

#### **A. Levels of U.S. Funding**

Most post-conflict countries rely on donor aid to stabilize its economy—how is that aid channeled? ***The levels of funding for Afghanistan have not been sufficient to meet needs as compared to other post-conflict situations.*** The majority of U.S. funds go to support U.S. military operations, and not economic and social development. However, as is evident, bringing stability would decrease need for security.

The second issue within this framework is how the funds are being allocated. Most of the funds that are committed are not spent through Afghan institutions or national plans. AAG commends lawmakers for addressing in AFSSA the need to create programs that meet the Afghanistan Compact and the Afghanistan National Development Strategy. This is a step in the right direction.

One of the issues with current contracting mechanisms is that a great percentage of the funds for a project are used to provide security for foreign companies and NGOs. This is understandable given security concerns, but is not an efficient use of the funds. If funds were spent through programs like the NSP and through support of grants and loans to local NGOs and companies, the need to spend such portions of the budget would decrease. Basically, Congress would get more “bang for its buck.”

An important component of the recommendations in this statement is that Congress should focus on programs that can get money to the “village level.” With the right oversight and planning, programs such as the National Solidarity Program show that \$1 dollar spent through these programs are more efficiently spent than through the usual contracting mechanisms or PRT spending. U.S. assistance can be different based on the security situation and needs of a province or area of the country.

***A successful transition is one that moves from primarily military, to PRT assistance, to greater involvement from local civil society and the private sector.*** In many areas, the first shift has been made, but we are still relying mainly on PRTs to allocate U.S. assistance for development and have not been able to shift to the last and crucial phase. Funding towards this program would help reach many more villages in Afghanistan, assisting in state-building and improving the outreach of the central government.

## VIII. REGIONAL SOLUTIONS

### A. Regional Integration

Afghanistan has been reintegrating in the region by joining regional organizations such as ECO and SAARC. U.S. assistance can also help Afghanistan develop regional mechanisms to address economic issues, which can help create political stability.

The Afghan government has sought to advance transit relations and cooperation within the region and simplify transparency of border policies through bilateral and multilateral transit agreements. Afghanistan has entered transit agreements with the following countries: Iran (Chabahar), Uzbekistan, India, Iraq, Pakistan and Turkey. U.S. assistance to improve customs infrastructure and processing in Afghanistan should be a priority as it will increase the region's ability to engage in international trade and generate revenue.

The Obama Administration's new strategy towards Afghanistan has included what was long needed- a strategy that includes Pakistan. Pakistan also needs assistance in building of its capacity to integrate the tribal areas into the country's political and economic system. If the US does not deal with the sanctuary problem, it will not likely succeed in Afghanistan as the war on terror is a regional problem. One area in which the U.S can make a significant impact on regional barriers is:

- Improving transit trade between Afghanistan and Pakistan. AAG recommends that the U.S. assist in addressing **AfPak transit relations**. A step in the right direction was achieved when Pakistan finally allowed goods to transit from Afghanistan through Pakistan to India. However, ***Pakistan still does not allow Indian goods to transit from India through Pakistan to Afghanistan, hurting the Afghan economy. Removing this barrier should be an expectation in order for funding under the PEACE act for Pakistan.*** Otherwise, bad policies that hurt the U.S.'s efforts in the region will have been rewarded.

### B. Reconstruction Opportunity Zones

Programs such as the Reconstruction Opportunity Zones are keys to greater development in Afghanistan and the NWFP of Pakistan. It is evident that poverty, lack of rule of law, and weak institutions create an environment in which terrorism and extremism thrive.

Building physical road infrastructure and customs facilitation to remove barriers to transit, supporting Reconstruction Opportunity Zones legislation and requiring Afghanistan and

Pakistan to provide for reciprocal trade transit rights are some of the priority measures that can be taken by the U.S. These will pay off as it will help create jobs in the region and improve trade, reducing need for continued large amounts of U.S. foreign assistance.

### 1. Background

The lack of infrastructure, under-educated population and illicit narcotics industry necessitate special consideration for Afghanistan and for the NWFP of Pakistan. Tariff reduction and trade capacity building are important policy tools that can be used to assist Afghanistan.

While there are 5,700 items that are technically eligible for duty-free treatment under the Generalized System of Preferences ("GSP"), it has not been enough to spur foreign direct investment in Afghanistan. Most goods already available in Afghanistan, mainly agricultural and raw materials are already eligible and the GSP program did not lead to increases in export of those legal products.

The fact that Afghan exports to the U.S. continued to be negligent last year shows that additional measures must be taken to increase exports. Textiles (cotton, wool, karakul are some examples), apparel, leather and shoes are some of the items that are not eligible under GSP, but that are being produced in Afghanistan. ***Because GSP has not been enough, Afghanistan and the NWFP of Pakistan needs a flexible Reconstruction Opportunity Zone program.***

A ROZ for Afghanistan and the NWFP of Pakistan must have flexible eligibility requirements as well as training so exporters in Afghanistan will know how to use the program. The rules of origin should not be defined too narrowly. The time span of a ROZ for Afghanistan/Pakistan is also important. It would be more effective if it is a multi-year enactment instead of recurrent yearly renewals. Since these areas have suffered from conflict for over 23 years, it will need at least that much time, if not more, to be on the level playing field with even other Least Developed Countries in the region.

Afghanistan and the NWFP of Pakistan do not produce at a quantitative level that would pose a competitive threat to US domestic products in the near or long-term.

### 2. ROZ is Important in Building Security and Counter-Narcotics

A ROZ for Afghanistan and the NWFP of Pakistan will assist with security and counter-narcotics efforts. Similar to the Andean Trade Preference Act, a ROZ's primary goal should be to promote export diversification and broad based economic development that provides sustainable economic alternatives to insurgency and drug-crop eradication. A comprehensive act that provides broader access to the U.S. market will help provide the foreign direct investment needed to create jobs in legitimate economic activities.

### 3. A ROZ Should be Tied to a Trade Capacity Building Program

A trade preference program in itself would not make a big impact on the Afghan economy due to infrastructure and facilitation issues. A program that focused not only on tariffs, but also included assistance for business and trade facilitation would make a bigger impact. ROZs should be tied to a Trade Capacity Building ("TCB") program. Problems with infrastructure, training, logistics and other factors limit the development of legal exports. Despite decades of underdevelopment, Afghanistan and the NWFP of Pakistan still produce a range of tradable goods that could provide the basis for the development of an export sector. The most promising export commodities include agricultural produce, textiles (including carpets), stone and marble, and leather products.

There is precedent for trade preference acts to be closely tied to trade capacity building programs. For example, current U.S. TCB activities help developing countries take advantage of opportunities created by a specific trade preference act. In support of the African Growth and Opportunity Act (AGOA), for example, the U.S. Government assists qualifying countries to obtain textile visas, improve food safety, conduct pest risk assessments, identify markets, and establish direct business-to-business linkages with American firms.

The trade preference act granted for the Andean countries in the early 1990s has proven to be successful in reducing those country's reliance on drug production. Now is the time to put something in place for Afghanistan and the NWFP of Pakistan to combat security and narcotics problems.

## IX. CONCLUSION

A comprehensive approach is needed to jump-start the Afghan economy in order to create alternative livelihoods –needed for demobilization, counterinsurgency, and anti-narcotics efforts. There is no “magic bullet” that will solve these three critical issues- rather, setting the foundation for the infrastructure and institutions needed to support public-private partnerships is the key, along with strong rule of law.

***A Business Incubator Program coupled with Industrial Park Development and support of Reconstruction Opportunity Zones, which can include those two programs, can provide for a strong “prescription” to these problems. It will lessen Afghanistan’ future dependency on aid.*** The choice is either to make the investment now or pay more later, with the unfortunate cost of additional U.S. and Afghan lives.