

The Provincial Economic Development Project (PEDP)

1. The Project

The Private Sector Development Directorate initiated the Provincial Economic Development Project (PEDP) in February 2007. A focus on provincial economic development from within the Ministry of Commerce and Industry is particularly important since *balanced growth* is needed in the economy over the long-term. The Directorate is actively contributing to sub-national economic development through understanding the issues and problems faced by Provincial business communities, and by devising policy solutions for those issues.



The PSDD team in a meeting with key private sector development stakeholders in the Afghanistan National Chamber of Commerce and Industry (ANCCI) in Herat city

2. Goals

- Establish relationships between the Ministry of Commerce and Industry and key Private Sector Development stakeholders at the provincial level.
- Identify key economic policy issues and problems faced by the private sector in Provincial economies
- Develop policy responses to overcome the key issues faced by the private sector in the Provinces.
- Share selected policy initiatives being developed by the PSDD with provincial private sector stakeholders and seek constructive feedback from them.
- Understand the work various governmental and non-governmental agencies are undertaking on economic development in the Provinces, and identify avenues for the PSDD to support the process of Provincial economic growth.

3. The Approach

Preliminary work has been undertaken in Herat, Balkh and Nangrahar Provinces as a pilot phase of the PEDP. Provincial Economic Profiles have

been prepared for these Provinces, based on pre-existing information sources. The profiles will subsequently be used as a quick reference for each Province, as well as a base for analysis of the market situation and economic potential in each.

On completion of the Provincial Profile Issues Papers, based on information collected during the visits to the Provinces will be prepared and shared with provincial stakeholders for review and comments. Subsequently, common policy issues will be presented in a Policy Working Paper prepared covering all the pilot Provinces visited..The Policy Paper will include specific recommendations for government actions on key Provincial matters.

4. The Directorate in action: Herat and Balkh provinces 2007

The PEDP team visited the first two pilot Provinces in June, October and December 2007. The team was assisted by the ASI Technical Assistance office's international advisor Saurabh Naithani and national counterparts. It was led by the PSDD Director, Mr. Hafizullah Wali Rahimi. As a result of these visits the Directorate made considerable strides both in terms of building the confidence and technical capacities of its staff, and established a presence for the MoCI in the Provinces. The PSDD teams identified crucial issues in the pilot Provinces and brought them to the attention of the government in Kabul.



The Pamir Zam-Zam Company's Beverage/Bottling Plant in the Herat Industrial Park. The owner has installed a quality-control laboratory equipped with relatively expensive instruments but, in the absence of a government attestation/quality-control system, sees limited benefits in having done so

Private Sector Development in the Provinces today: Issues, problems and the way forward

Some of the key issues that have emerged are highlighted below. PSDD staff has been undertaking structured efforts to help resolve those issues that fall within MoCI's mandate, and engaged with other government agencies to find solutions in the areas for which they are responsible.

- **CUSTOMS AND TAXES** Concerns about additional paperwork and charges over and above those required by Customs were raised. These additional requirements are raised outside of Customs by other agencies and appear to be illegal. PSDD is gathering information on the situation in relation to Customs and, in particular, information on paperwork and charges levied by agencies other than Customs, including MoCI/EPAA, AISA and the Chambers of Commerce. A recommendation to the Central Government will be formulated when information collection is completed.
- **THE NEED FOR INFORMATION** There is a general lack of readily-available and accurate information, and/or a coordinated system to provide information about government rules and regulations for private sector activities. This matter is being addressed in the PSDD, with a focus on a sustainable outreach effort to meet the needs of the Provinces.

- **SERVICES NEEDED** Constraints on business activity occur because government services are concentrated in Kabul – licensing and laboratory (quality) testing are of particular concern.

The first matter will be addressed in PSDD’s work on the streamlining of business licensing. It has also held meetings with line ministries that need to be involved with the setting-up of laboratories in the provinces, as well as with the recently established Afghanistan National Standards Agency (ANSA).



The Provincial Economic Development Project team in Herat Industrial Park.

- **PROCUREMENT** Opportunities to gain procurement contracts are limited by poor information dissemination at provincial level, and some agencies, such as MoCI, tend to advertise only in Kabul. This issue was discussed with the Procurement Policy Unit in MoF and with the Director of PSDD for possible action within MoCI. This concern will be conveyed to the Procurement Unit in the Ministry of Finance and, through the Director of the PSDD to the Minister, MoCI.

- **NORMS AND STANDARDS** The lack of official controls on product standards was raised by both the Herat and Balkh business communities. This will ultimately be the responsibility ANSA. The PSDD team has discussed this issue with relevant ANSA officials. In most cases low quality products are a reflection of consumer demand in a country, such as Afghanistan, that is typified by low incomes. Over time, patents and laws on copyright will assist Afghan producers. Currently, however, cheaper but lower quality products are largely a reflection of market demand.

The PSDD, through the ground-breaking work that the Provincial Project is undertaking, is currently exploring possibilities to assist provinces in the preparation of economic growth strategies. Discussions are under way in Kabul and in the Provinces (through the PSDD visits) with relevant stakeholders, and areas are being identified, such as technical assistance and training for provincial directorates, where the PSDD can help. This work, along with the need to engage more strongly with the provinces, necessitates a permanent staff presence in the Provinces and the Directorate will actively pursue and meet this need in 2008.



Biscuit producing/packaging unit at the Herat Industrial Park

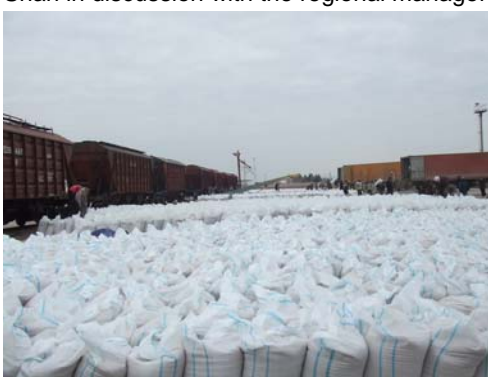


The marble processing plant, Herat Industrial Park, brought up the issue of local procurement, suggesting that government offices and, in due course, private establishments and international agencies, should be given incentives to purchase locally rather than look to other countries

The PEDP team in Mazar-e-Sharif, Balkh Province



An Afghan businessman raises a point in a meeting with members of the Afghanistan Investment Support Agency (AISA) in Mazar-e- Sharif. **On the right**, Directorate staff Parwaiz Hafizi and Ali Shah in discussion with the regional manager of AISA in Mazar.



Seen on the left is the off-loading and loading of imported wheat at the border post of Hairaton in Balkh province. This wheat is being imported from Uzbekistan. The rail-wagons (seen on the left-hand side) carry the wheat from Uzbekistan, off-load, and return empty. In the absence of facilities in Hairaton, these wagons could be utilized to export/transit goods from Afghanistan to Uzbekistan and beyond. However, there is no formal arrangement between the two countries to allow such exports or transit of goods through Uzbekistan. **On the right**, the PEDP team on the premises of the Customs House in Hairaton border post, Balkh province.



The team seen here with the steering committee of the Carpet Union in Balkh. The Union requested government incentives and waivers to reinvigorate a sector that has progressively lost out to carpet export enterprises in Pakistan where Afghan carpets go for finishing and branding – the high-end of the value-chain. **On the right**, the team in a shoe-making unit in Balkh Industrial Park. Notice the very basic nature of facilities and infrastructure available to this enterprise. This was also evident by the fact that the rubber boots had a “Made in Iran” stamp on the sole; the team was told that the casting equipment had been brought over from Iran and hence the stamp. There was no affordable alternative other than to use this machinery.

The PEDP team in Mazar-e-Sharif, Balkh province (December 2007)



The PEDP team with the Afghanistan National Chamber of Commerce and Industry (ANCCI) in Mazar-e-Sharif, Balkh Province. **On the right**, the team is seen with the Governor of Balkh Province, H.E. Mohammad Atta Noor