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Putting the Cart Before the Horse?
Privatisation and Economic Reform in Afghanistan

Anna Paterson and James Blewett with Asif Karimi **November 2006**

Contents

About the authors

At the time of writing, **Anna Paterson** was a researcher on political economy and markets at AREU. She now researches Russian-Afghan relations at University College London. She was previously a research analyst with the UK Foreign and Commonwealth Office. **James Blewett** works for Adam Smith International as the senior private sector development adviser at the Afghan Ministry of Commerce and Industries. He first worked in Afghanistan on a privatisation preparation project in 2002.

Overview

Privatisation, or the transfer of state assets and industries to private actors, has been the subject of much discussion since the early days of the Afghan transitional government. Consistent with the current consensus on development held by the donor community and international financial institutions (IFIs), the privatisation process has gained increased momentum in Afghanistan. The government has committed to the privatisation agenda in its Interim Afghanistan National Development Strategy (IANDS) and in the Afghanistan Compact agreed upon with the international community in January 2006. This followed the November 2005 approval by the Cabinet to amend the State-Owned Enterprise Law, allowing for the divestment of state enterprises by various means. Fifty-four fully state-owned enterprises (SOEs) have been slated for privatisation as going concerns or through liquidation by the end of 2009.

While pundits in the Afghan press have accused the Afghan privatisation process of proposing to sell the "family jewels", a glance at the list of SOEs slated for privatisation (see figure on page 7) shows that this is not the case. The estimated net asset value of the 44 enterprises valued so far is US$614 million, a relatively small amount compared to privatisations in other developing and transition economies. Although it appears small by comparison with other countries, this figure is larger than the total commercial investments in Afghanistan since 2003.[1] The figure of US$614 million is itself not a guide to the potential revenues from sales of enterprises, as there is no experience of how the market will respond to these sales, and as some assets may be retained.

The general investment climate in Afghanistan is challenging and the same obstacles that inhibit green field investment in the country may deter potential investors in SOEs. According to the World Bank's "Doing Business in 2006" report, Afghanistan was ranked at the very bottom of the 155 countries assessed for capacity to protect investors.[2] It may be difficult to find investors with the capacity or intention to run and develop SOEs as going concerns, when the field of potential investors is limited by a difficult investment environment.

The Afghan government's overarching economic policy strategy views privatisation as one component of a broad spectrum of economic reform and restructuring aimed at building an enabling environment in order to promote private-sector–driven growth. However, there appears to be inconsistent sequencing of the privatisation policy compared to progress on wider economic reform, the latter of which has been slow by any standards. Indeed, the current privatisation agenda may well be putting the economic-reform cart of before the horse.

Before embarking on the privatisation of enterprises that are not doing much harm in fiscal terms, the government should address other structural reforms to ensure adequate investment legislation, improved security and infrastructure and streamlined and strengthened regulation. Many would argue that improvements in key public goods, such as rule of law, security, better regulation and infrastructure will add value to SOEs over time and that the government should prioritise these before rushing into a privatisation agenda. Other components necessary to implement such an agenda include:

[1] The Afghanistan Investment Support Agency (AISA) figure of US$1.3 billion records intended and not actual investments. AISA staff are making valiant efforts to track approved intended investments to see if they are operating. As the World Bank notes, "only a fraction" of the approved investments have actually occurred. (World Bank, December 2005, *The Investment Climate in Afghanistan: Exploiting Opportunities in an Uncertain Environment*.)

[2] World Bank, 2006, *Doing Business in 2006*.

Clarification of ownership of enterprises is needed to avoid deterring investors. This is complicated by the absence of clear title documents in many cases and the lack of an accessible public register of land or share ownership. Where there is no clear title, privatisation ordinarily requires some type of restitution mechanism for the resolution of disputes. Potential investors may be deterred by the lack of legally reliable title and the absence of a defined and effective mechanism for resolving asset-ownership disputes.

Transparency is crucial in an economy where certain sectors are influenced by powerful economic actors with little interest in opening up markets. This is according to the government's stated aim of "assuring that transfers take place in an open, fair and transparent manner with the objectives of maximising sales revenues balanced against employment preservation and creation and encouragement of investment and technological development".

Public information is needed on all levels to illustrate how privatisation fits into Afghanistan's overarching economic policy aims. Privatisation in other countries has attracted criticism for failing to achieve the consent and active participation of national actors, from civil servants to politicians or the public. Many privatisations have hence given the impression of being imposed by external forces. The privatisation process in Afghanistan has the appearance of a donor-driven, top-down affair. This will limit the real commitment of civil servants and other national actors to thoroughly and transparently implement the policy.

Finally, **more strategic thought** should be applied to the sequencing of key economic reform and restructuring. Policies to improve the investment climate in Afghanistan will be far more significant in promoting growth and investment than the privatisation process. Those measures that are most urgent for Afghan economic development, such as the drafting of legislation enabling investment and the resolution of difficult issues of infrastructure and land access, should arguably be prioritised over policies that are not quite so fundamental to achieving private sector driven growth, such as privatisation. At the very least, these policies should be pursued alongside privatisation in a synchronised fashion and with equal determination.

I. Afghan State Enterprises: An Historical Perspective

The history of SOEs in a given country has significant implications for the privatisation process in that country. For example, in the former Soviet Republics of Central Asia, SOEs have a generally homogeneous history; most state industry did not predate the Soviet era. Many enterprises were 100 percent owned by the state from the outset and hence there was little risk of confusion over ownership structure and damaging claims by previous owners or shareholders when some were privatised. By contrast, many Afghan public-sector enterprises have a history of layered ownerships, reflecting the complex modern history of the Afghan state.

The state's active involvement in the Afghan economy dates back to the early attempts to "modernise" the country, under Nadir Shah (1929–33). The typical format for this intervention was for the king to grant a monopoly, known at the time as a *sherkat*, to the enterprise of a favoured businessman and for the state to then take a minority shareholding in this enterprise. What is now the major commercial bank, Milliebank, was established in 1934 and became the main lender for many enterprises. One of Milliebank's first investments was in the cotton ginning enterprise located in Kunduz Province, one of the only "privatised" SOEs in today's Afghanistan.[3]

A truly state-planned and guided approach to economic development began in the decade from 1953–63, under Prime Minister Daoud. During this period, a number of wholly state-owned enterprises were set up with foreign loans and technical assistance, producing textiles, cement, sugar and wheat products. This period included the construction of silos in Kabul and Pul-i-Khumri with loans from the USSR. By the mid-1960s, public-sector industry was experiencing losses and in 1967 a Foreign and Domestic Private Investment Law was initiated to promote private investment and enterprise. The return to power of Daoud in 1973, in the role of President, saw a significant reorientation toward the public sector. All banks, including Milliebank, were nationalised in 1975. As a result, all enterprises in which Milliebank had a majority shareholding became part of the public sector.[4]

After the assumption of power of the communist Peoples' Democratic Party of Afghanistan (PDPA) in 1978 and the Soviet intervention in 1979, state sector industry became the focus of economic development, with Soviet loans and technical help. In 1982, Chairman of Ministers Sultan Ali Keshtmand outlined 170 existing and planned national economic projects in cooperation with the USSR. These included searching for and exploiting mineral deposits, developing a gas processing plant at the Khwoja Gogertak gas field (now operated by Afghan Gas Enterprise but barely functioning) and a major enterprise to service Kamaz trucks.[5] By 1986, the Kabul government proclaimed that Afghan–Soviet cooperative projects accounted for 75 percent of state industry and 60 percent of the country's production of energy. More than 90,000 experts and skilled workers had been trained in these projects or in the USSR itself.[6]

The PDPA government from 1979 resisted earlier calls within the party for the nationalisation of trade. There were no moves to nationalise all industries at any point between 1979 and 1992, and enterprises with mixed state-private ownership maintained this structure. However, there was a strong focus on the public sector until the Najibullah regime, which from 1986 made some overtures to the private sector in line with its attempts to introduce some measure of liberalisation into the economy. In 1987, Najibullah called for private,

[3] World Bank, 1978, *Afghanistan: The Journey to Economic Development*, Vol. 1, 25.

[4] World Bank, 1978, *Afghanistan: The Journey to Economic Development*, Vol. 1, 11.

[5] Cited in Syed Rifaat Hussain, November 1993, Dissertation for the faculty of the Graduate School of International Studies, University of Denver, *From Dependence to Intervention: Soviet-Afghan Relations During the Brezhnev Era*, 117-18

[6] Barnett Rubin, 2003, *The Fragmentation of Afghanistan*, 169.

public and mixed sectors to participate together in economic growth, and hoped that the public sector would not monopolise the economy.[7] In 1991, as the Soviet Union was collapsing, and amid a financial crisis, the government announced plans to privatise some state corporations and to abolish most state monopolies.[8] These plans, whatever their intention, were overtaken by the end of Soviet military aid to the Najibullah regime and the latter's collapse in 1991-92.

> "The complex history of Afghan state-owned and mixed-ownership enterprises makes it difficult to assess who owns what and therefore who should be compensated when the enterprise is divested. This poses significant problems for privatisation."

During the Mujahideen period from 1992 to 1996, the collapse of the central state and in many cases, capital neglect and physical damage, led many SOEs to cease or significantly reduce operations. During the Taliban period, from 1996 to 2001, there was little reconstruction of commercial operations or industry and enterprises continued to be idle or to operate at reduced capacity. The Mujahideen and Taliban periods added significantly to the confusion over ownership of wholly state-owned and mixed-ownership enterprises, as the running of many enterprises was taken over by self-appointed "managers". The mixed-ownership Hoechst pharmaceuticals enterprise in Kabul, for example, intermittently produced small amounts of medicines during the Mujahideen and Taliban periods, although the original German investor in this factory (which opened in 1968) had withdrawn all its representatives in 1991. Thus in 2002 the factory, which has now been partially privatised, had a "board of directors" that had been running the enterprise and hence had a strong vested interest, but lacked legitimacy because it had not been appointed by the enterprise's legal owners.[9] Ownership of SOEs was further clouded during the Mujahideen and Taliban periods as an unknown amount of land belonging to SOEs was used for informal settlement or appropriated for other purposes.

The complex history of Afghan state-owned and mixed-ownership enterprises makes it difficult to assess who owns what and therefore who should be compensated when the enterprise is divested. This poses significant problems for privatisation. Many enterprises have been through several incarnations in terms of ownership, management and relationship to the state, leaving the door open for numerous claims for compensation in any sale. Compounding these problems is the absence of legal ownership documents in many cases, and inadequate financial reporting showing the activities of SOEs over time. Moreover, there is no accessible public register of share ownership in Afghanistan, which makes it even more difficult to ascertain who owns what in SOEs. It is unclear what, if any, specific provisions there are for dealing with disputes over ownership as part of the privatisation process.

[7] State Printing House, 1987, *Nationwide Conference of Private Entrepreneurs: Documents* and *Mutually Beneficial Relations for Economic Growth Ensured: Najib's Address to the First Private Sector Conference, Kabul*.

[8] Barnett Rubin, 2003, *The Fragmentation of Afghanistan*, 170.

[9] Interview for AREU paper *Understanding Markets: A Case Study of the Market for Pharmaceuticals*, October 2005.

II. The Current Privatisation Agenda in Afghanistan

Privatisation of Afghan SOEs has been discussed since the establishment of the Afghan Transitional Authority in 2002. Most major donors have had a privatisation-related project at one stage or another since 2003.[10] However, until late 2005 there had been no substantive progress toward implementing a privatisation programme. Then, with the strong encouragement of donors, the government adopted a privatisation policy, which contains little detail and is merely one page long. The government committed to implementing this policy in the Afghanistan Compact agreed upon with the international community in January 2006.

According to this policy, a number of state enterprises that include commercial services, industry, agricultural and educational services are to be sold to private actors. There are two government approaches to privatisation that are feasible in Afghanistan.[11] The government can either sell SOEs through liquidation and asset sale to legitimate purchasers willing to buy the enterprise assets and land; or the government can sell SOEs as going concerns to strategic investors. The Afghan government will adopt both methods on a case by case basis, selling the real estate and building structures on certain SOE properties, and others — likely only a few — as going concerns. The term "divestiture" is being used to describe this combination of privatisation methods.

Which enterprises will be privatised?

SOEs are legally defined in Afghanistan as 100 percent state-owned enterprises and are covered by the State Owned Enterprise Law (Tassady Law) of 1991, administered by the Ministry of Finance (MoF). SOEs are controlled by their respective line ministries, but the shares are owned by the MoF, which collects the proceeds of any privatisation. There has been some confusion over the number of fully state-owned enterprises in Afghanistan. A 2003 consultation document by the Adam Smith Institute estimated that there were more than 140 SOEs; the World Bank's Managing Public Finances report mentions 73 SOEs.[12] The current list used by the MoF SOE Department contains 65 SOEs, the number having been reduced after some enterprises proved not to be fully state-owned or to have merged with other enterprises.

Of the 65 SOEs, 19 are to be liquidated, 37 potentially privatised as going concerns and nine retained by the state for the time being. The criteria being used by the MoF for deciding to dissolve an enterprise are: obsolete equipment, non-operational status, absence of a business plan, no real significance to the Afghan economy and absence or poor quality of management. Of the 37 enterprises to be privatised, seven are considered potentially attractive for foreign direct investors and will be prepared for international tender.

The Afghanistan Compact commits to the complete divestiture of SOEs by the end of 2009. According to an MoF presentation, 16 enterprises were slated for divestiture in 2006, eight by asset sale and eight through seeking strategic investors.[13] In the event, one enterprise, the Ghori Cement Enterprise, has been privatised by means other than the stated MoF procedure for divestment (see box on page 10). In May 2006, the Cabinet of Ministers approved proposals for the liquidation of three enterprises — Samoon Dried Fruit, Afghan Fertilizer and Agro Services and Medical Plant Export — none of which were functioning. A further nine enterprises are set to be considered for privatisation.

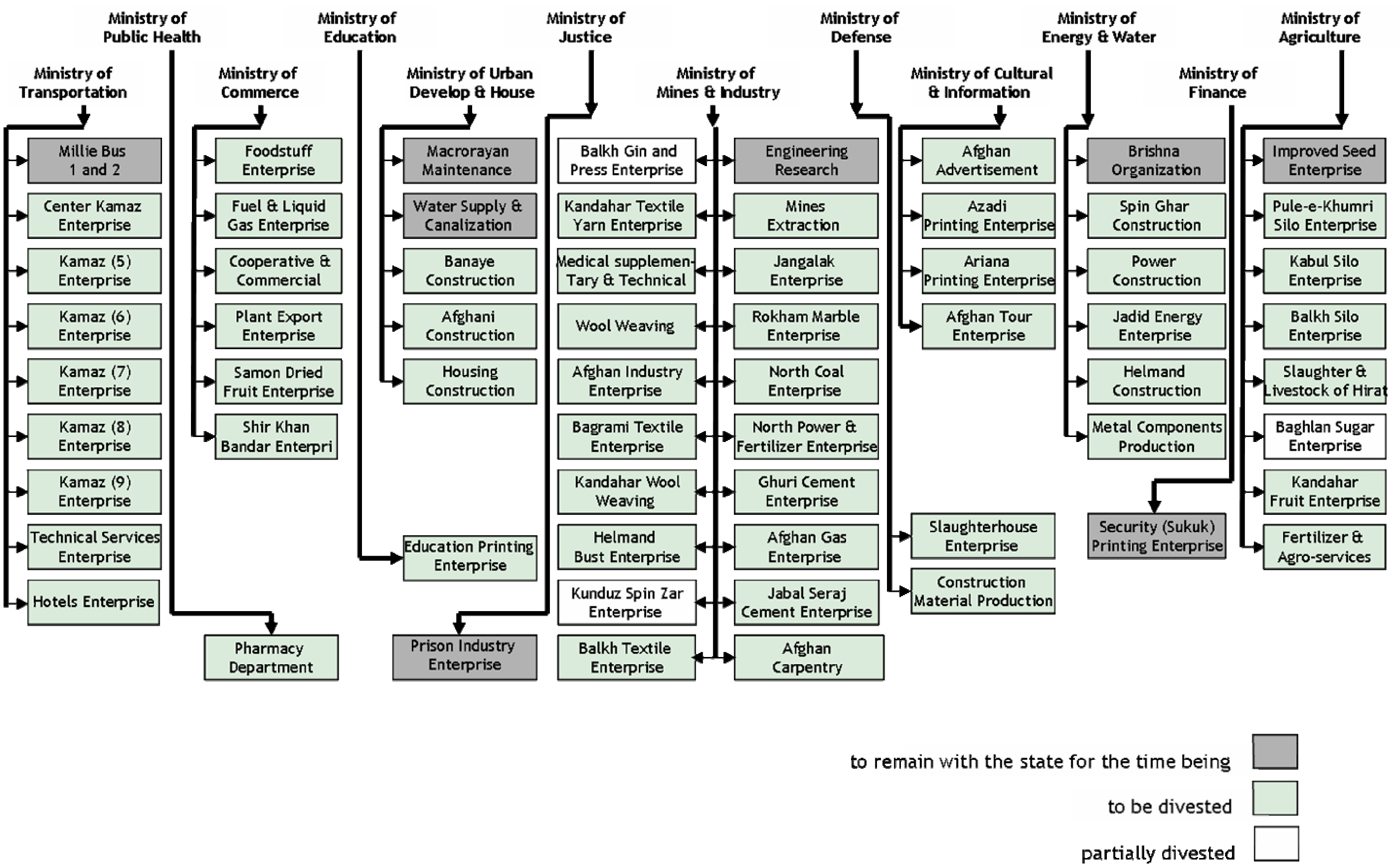
[10] These include DfID in 2002-03, GTZ, USAID-funded privatisation projects under BearingPoint, from February 2004, transferred to EMG in December 2004.

[11] Issuing shares to the public or to employees is not a feasible option in Afghanistan, which lacks a stock market or other means of trading such shares.

[12] Adam Smith Institute, April 2003, "Consolidated Plan for State Owned Enterprise Reform in Afghanistan"; and World Bank, December 2005, *Managing Public Finances for Development*, Vol. 3, chapter 4.

[13] Land Titling and Economic Restructuring of Afghanistan (LTERA), Privatisation Component presentation, www.developmentwork.org.

Figure: State-Owned Enterprises by Ministry



The procedure for privatisation in Afghanistan

Institutionally, the privatisation process belongs to the MoF. There is a team of USAID-funded advisors on Land Titling and Economic Restructuring (LTERA) housed in the MoF, whose work includes privatisation. There is no specific privatisation law in Afghanistan, only a series of amendments to the abovementioned SOE Law (Tassady Law) of 1991. This law was amended by presidential decree, and approved by the Cabinet in November 2005, granting the MoF authority to recommend methods of divestiture of SOEs and to implement the divestiture under the oversight of an SOE Evaluation Commission. This commission consists of the Ministers of Finance, Commerce, Economy and the Senior Economic Advisor to the President. Advisors have consistently recommended the creation of an independent agency to oversee the privatisation process, but this recommendation has been rejected by the MoF. Independent commissions arguably reflect best practice in terms of impartiality, but ministerial commissions to implement and oversee privatisation processes are not uncommon. The public bodies created for implementing privatisations in other developing countries have differed. Some countries, such as Russia, Bangladesh and the Philippines have created independent commissions, whereas Malaysia, Morocco and Tunisia have opted for ministerial commissions, similar to that chosen by Afghanistan. In Chile, Jamaica and Mexico, privatisations were implemented on an ad hoc basis by decentralised bodies.

Based on the amendments to the SOE Law, when an enterprise is to be divested, the MoF submits a proposal to the Cabinet for its liquidation or privatisation as a going concern. After approval, the MoF appoints a committee to implement the process.

What are the assets worth?

At the time of research, valuations had been conducted of 44 SOEs. The figure released in the public domain estimated the net asset value (asset value minus liabilities) of these enterprises at US$614 million.[14] This is a small amount in comparison with privatisation processes in other countries. However, this is not a reliable forecast of the likely revenues that will be earned by the sale of these assets, as there is little experience of how the market will respond to the offer of sale and some assets may not be sold, and. The IANDS suggests that revenues from the sale of SOEs can be put in a separate government fund to promote economic development projects, but the Afghan government's agreement with the IMF may contradict the establishment of a separate fund. While the global tendency has been to reinsert privatisation funds into the national budget, it is not clear that this is the most efficient use of such funds.

It is very difficult to accurately value enterprises and assets in the Afghan context. There is no established market for the disposal of land, which makes up the largest assets of SOEs to be privatised. Likewise there is no reliable way to quantify the impact of risk on investment in Afghanistan.[15] Some enterprises may not be as viable as going commercial concerns as initial assessments suggest. The risk of undervaluation is that the Afghan state does not receive the full value of the enterprise, whereas the risk of overvaluation is that no investors want to buy the enterprise as a going concern and it ends up being sold off only as assets, in which case the state may also receive less than the estimated value of the going concern.

[14] Land Titling and Economic Restructuring of Afghanistan (LTERA), Privatisation Component presentation, www.developmentwork.org.

[15] The viability of an investment project depends on the net present value of future cash flows. The net present value is a function of a discount rate which is applied to project income to be received in the future. The discount rate is normally a combination of the interest rate and a risk factor. In Afghanistan there is no interest rate and general risk (as opposed to project specific commercial risk) is impossible to predict with any certainty. Therefore any discount rate applied to an investment project in Afghanistan is likely to be very high and imprecise.

Some 63 SOEs for which land information has been gathered have an estimated combined total of 9,775 hectares (22,072 acres) of land, accounting for up to 70 percent of the total assets of these enterprises. Land and buildings combined account for an even larger proportion of total assets by value. The overwhelming majority of the land (7,624 hectares or 17,215 acres) contained in these SOEs is rural.[16] The same issues affecting land ownership in Afghanistan generally also affect the land owned by SOEs, namely the absence of documents showing clean and undisputed titles in many cases and also widespread illegal settlement and appropriation of land. Confusion over who owns land will have a particular impact on liquidations, where the principal asset is land.

The LTERA team in the MoF has emphasised the importance of establishing a clear chain of title for enterprises, going back a minimum of 37 years. In five pilot due-diligence exercises, LTERA has found that "secondary sources" will be important as SOEs "generally lack title documentation". In cases where there is no documentation, "court procedures" are to be used. Although the MoF insists that land will not be sold without clear title, it is unclear what is meant by "secondary sources" in this context, or how lack of judicial capacity might affect the process of establishing title by "court procedures". There is some confusion on the question of whether foreign companies are allowed to own Afghan land (foreign individuals are not allowed to own land) which also will impact upon deals potentially involving foreign investors.

Ultimately, the assets of Afghan SOEs to be privatised are worth only what investors are prepared to pay for them at a given time. As elaborated below, this will be influenced by a number of factors, especially the prevailing investment climate.

SOEs already privatised

At the time of research for this paper in the first half of 2006, three SOEs had been partially privatised. AREU researchers visited all three. Two of

[16] Land Titling and Economic Restructuring of Afghanistan (LTERA), Privatisation Component presentation, www.developmentwork.org.

these enterprises, the Kunduz Spinzar Gin and Press and the Balkh Gin and Press, are part of the same company, the French DAGRIS Group.

The DAGRIS Group founded the **New Afghan Project for Cotton and Cooking Oil Development (NAPCOD)** in 2003 after the Afghan government, via the Ministry of Mines and Industries (MoMI, now simply the Ministry of Mines), asked the French government for assistance in regenerating cotton processing in the north of Afghanistan. The DAGRIS Group was approached as this company had worked in the cotton sector in Mazar, Baghlan and Kunduz provinces in the 1970s. The DAGRIS Group is owned in part by the French government and received a grant of €10m (US$13 million) from the government's development agency to cover most of the initial investment. The project, initiated in 2003, was assisted by the LTERA team in the MoF.

NAPCOD signed an agreement with the Afghan government to lease some of the buildings and all of the ginning and oil pressing equipment of two SOEs, the Balkh Gin and Press and Kunduz Spinzar Gin and Press in northern Afghanistan. In the case of Kunduz Spinzar, the site in question has many different commercial operations and assets, of which the cotton gin and oil seed pressing factories, leased to NAPCOD, are a fraction. The leased factories produce and package cotton fibre and the Mazar factory also manufactures by-products of the gin process, refined from cotton seeds, such as cooking oil and animal fodder. Processed cotton will mostly be exported to customers in Central Asia. NAPCOD has trained and deployed 45 extension workers to assist more than 5,000 private farmers, under contract, to sow, irrigate, properly fertilise and harvest 15,000 tonnes of cotton. NAPCOD purchased an additional 15,000 tonnes or more of cotton from farmers not under contract.

One problem facing this enterprise is securing sufficient inputs from farmers to make the running of the processing machinery commercially viable. Since the government liberalised the cotton sector in 2004, farmers are free to sell to any number of private buyers. Since the sector was liberalised, a number of small private gins producing low-grade cotton products for use in mattresses have flourished; these have lower overhead costs and are able to offer farmers a slightly higher price.

The **New Baghlan Sugar Company Ltd.** is a private–public partnership, a partial privatisation which was negotiated by the LTERA team. Four Afghan investors are providing €8 million of capital and working capital to upgrade equipment and maintain operations. The Afghan government will provide the land and buildings from the old state-owned Baghlan Sugar Enterprise. German seed company KWS SAAT AG will invest €1 million and will supply seeds of high yielding sugar beet varieties together with technical assistance in modern sugar beet cultivation. The German government, through the FAO trust and equity participation of the German finance and investment company DEG, will provide an additional €2.5 million for the operation of the company, the procurement of farm inputs, management expertise and the recruitment and training of local extension officers.

Mid-term plans foresee the expansion of the present production capacities and the enterprise has the very optimistic aim of ultimately supplying around 25 percent of Afghanistan's total sugar consumption. However, similar to the cotton enterprises, this company faces the problem of securing sufficient inputs of sugar beet from farmers, now that farmers are no longer instructed to grow sugar. Sugar beet competes with melons, cotton, wheat, rice and other crops. Maximising profit also depends upon the price of sugar on the world market, currently at record highs.

"These partial privatisations suggest that making SOEs commercially viable could be an uphill struggle, involving significant long-term investments."

It is too early to tell whether these partial privatisations will be a good vehicle for reinvigorating the cotton and sugar processing industries. They do suggest that making SOEs commercially viable could be an uphill struggle, involving significant long-term investments. Many enterprises may find it difficult to operate on a commercial basis in a deregulated market, where they cannot secure the inputs or customers that were guaranteed when the enterprises were opened. Securing reliable inputs is a serious problem facing many enterprises in Afghanistan. A more fundamental point is that both enterprises were granted capital investments from donors, with no payback required, and in the case of NAPCOD, such funds represented the majority capital investment. Thus, in market terms, these two enterprises are not traditional privatisations. Partial privatisations, where the government retains a stake, also pose their own problems, potentially contributing to continued government interference and inefficient running of enterprises.

State-owned corporations and other state assets: On the list for privatisation?

There are many enterprises with full or partial government ownership and other government agencies engaged in commercial activities that are not covered by the SOE Law. The IANDS and other policy documents are not entirely clear on the question of when and how these enterprises and agencies will be divested. IMF documents indicate an understanding that the Afghan government has committed to preparing and implementing a strategy for the divestiture of these enterprises and agencies.[17] However, it is not clear how much is being done, and by whom, toward this aim.

Among these enterprises are state-owned corporations, of which there are 13, including the national airline Ariana Afghan Airlines, Afghanistan National Insurance Company (ANIC), Intercontinental Hotel, Afghan Textiles Enterprise, Afghan Telecom and Afghan Wireless Communications Company. State-owned corporations are governed by the Commercial Code and are owned by both private and state shareholders, with the state shares sometimes owned by more than one ministry.

As indicated above, the agenda for divestiture of state shares in these enterprises is unclear. The Intercontinental Hotel and the Afghan Textiles Enterprise are slated for privatisation, according to some sources, while it appears that Ariana and ANIC are set to retain their current ownership structure for the time being. Ariana's extremely complicated ownership structure, with a large number of reported private shareholders, is believed to be a significant obstacle to privatisation. Ariana, established in 1955, was originally a private enterprise, but in 1957 became a limited liability company with a 51 percent stake owned by "various entities of the Afghan government" and the remaining 49 percent by Pan American Airways, a partnership that was terminated in 1985.

In addition to the state-owned corporations, there is an undefined number of other commercial activities of the state, which may eventually be brought into the private sector. The government also owns a sizable amount of urban and rural land that is not tied up in SOEs, which represents a significant state asset not addressed by the current privatisation process. The government intends to survey its urban land with a view to selling lots in open competitive bids, and providing incentives for the private sector to develop low cost housing. There are also plans to allocate or lease state-owned agricultural land to poor cultivators or to large farms for high-value horticulture.[18]

Private investment in mineral resources: A separate process

Much is being made of the exploration and development of Afghanistan's mineral resources, including rare metals, oil, natural gas, precious and semi-precious stones, industrial minerals and precious metals, as a potential source of growth in the long term. The World Bank estimates that the annual value of Afghanistan's minerals reserves could reach at least US$253 million up from the current US$60 million.[19]

The current round of privatisations involves five enterprises involved with mining and extractive

[17] IMF, July 2006, Islamic Republic of Afghanistan: Seventh Review Under the Staff-Monitored Program and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility - Staff Report; Staff Supplement; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Islamic Republic of Afghanistan, www.imf.org/external/pubs/ft/scr/2006/cr06251.pdf.

[18] IANDS, 84.

[19] World Bank cited in AISA Priority Sector Profile: Energy and Mining.

industries, namely Ghori Cement Enterprise 1 and 2 (see box), Northern Fertiliser Plant, Northern Coal, Afghan Gas Enterprise and Rokham Marble Enterprise. All of these enterprises suffered heavy damage during the years of conflict and decades of operational neglect. The privatisation of these enterprises will include only land and buildings and will not include any reserves.

Private investment in minerals and extractive resources will be a separate process, governed by the Hydrocarbons Law of December 2005 and the Minerals Law of July 2005 which provide for mine and quarry licences, oil and gas concessions and contracts. Afghanistan has estimated proven reserves of gas exceeding 30 billion m^3 and considerable reserves of good quality coal, the extent of which are yet to be confirmed.

Gemstones and iron ore will also provide opportunities for private investors. The untapped Aynak, Darband and Jawkhar copper prospects in south-eastern Afghanistan, explored by the Soviet Geological Mission before work ceased in 1989, represent a world class copper deposit.[20] A transaction advisor employed by the government will prepare tender documents for the Aynak copper deposit, which is likely to be a US$1 billion investment and potentially a US$30 billion enterprise that could generate tens of thousands of direct and indirect jobs, but will not be fully functional for a minimum of seven years after start-up.[21]

The Afghanistan Compact established two targets for private sector investment in mineral resources, namely:

- An enabling regulatory environment for profitable extraction of Afghanistan's mineral and natural resources will be created by end-2006, and
- By the end of 2010 the investment environment and infrastructure will be enhanced in order to attract domestic and foreign direct investment in this area.

Although this is not part of the privatisation process under discussion, the same priorities of ensuring transparency in tender processes for mineral rights will be vital if Afghanistan is to secure the maximum benefits from development of its mineral resources.

The privatisation of Ghori Cement Enterprise

During the preparation of this report, in June 2006, the Ghori Cement Enterprise, which is on the list of SOEs to be privatised by the MoF, was tendered and leased to a private investor. This process was conducted outside the tender process that the MoF has proposed for the SOEs on its list for divestment. Rather, the Ministry of Mines and Industries (MoMI), which managed Ghori Cement, developed its own tender, published a notice, received two bids and selected one on 25 June 2006. The development of this tender and the selection of the winning bid was approved by the Economic Council, including the Minister of Finance. This privatisation, in which the MoMI and not the MoF took the lead, indicates that the stated procedure for privatisation may operate differently in practice. The danger is that accountability for and transparency of deals will suffer if a consistent procedure cannot be enforced.

Source: Notice of Tender, Request for Bids, Pul-i-Khumri Construction of Greenfield Plant and Leasing of Ghori 1 and 2 Cement Plants, Ministry of Mines, June 2006

[20] Afghanistan Geological Survey, Minerals in Afghanistan, www.bgs.ac.uk/afghanminerals/docs/Aynak_A4.pdf

[21] Mary Louise Vitelli, Esq., Senior Energy Advisor, Ministry of Mines, Government of Afghanistan.

III. Privatisation and Implications for Development in Afghanistan

Before the 1980s, international policy and government choices in developing countries favoured state planning and state ownership to mobilise investment and capital accumulation.[22] In the 1980s the tide turned and privatisation programmes, some small scale and some comprehensive, were launched in developing countries such as Malaysia, the Philippines, Mexico, Chile, Bolivia, Jamaica, Ghana, Morocco and Tunisia. Transitioning countries in the former Soviet Union and Eastern Europe began privatising state industries, to varying extents, throughout the 1990s.

The scale of the SOE sector in Afghanistan in absolute and proportional terms is much smaller than in other developing and transition economies where privatisation has taken place. In addition, the privatisation process in Afghanistan differs from those in other developing countries in two important ways.

First, in many developing countries, sprawling public sector enterprises, often loss-making, become a significant burden on the national budget. This drain on fiscal and human resources is one justification underpinning privatisation. In Afghanistan, as acknowledged in a World Bank report on public finances, SOEs do not currently represent a significant budgetary burden.[23] Although 11 line ministries whose portfolios include SOEs reported allocation of subsidies to those enterprises, official subsidies to SOEs from the ordinary national budget in 2004-05 had been "insignificant" — probably as a result of government policy controlling transfers to SOEs. The report also looked for "hidden subsidies", notably in the field of salaries to SOE staff, who may be included on ministry payrolls, but found only two cases of salary transfers through the ordinary budget. Afghan SOEs may pose hidden costs to the government in terms of employment benefits like pensions that ultimately become the state's liability, but the overall conclusion is that SOEs are neither helping nor significantly harming state revenues.

The second difference is that privatisation of utilities, arguably the most controversial aspect of privatisations in other developing countries, is not on the agenda in Afghanistan for the time being. The Afghan government is committed to strategic investments in public infrastructure such as roads, electricity and water in the longer term to improve the delivery of services. These investments are to take place within a public sector framework and privatisation of utilities such as the Water Supply and Canalisation enterprise and the electricity provider, Brishna, is not envisaged in the medium term.

Brishna, as the conduit for Ministry of Energy and Water (MoEW) generation, transmission and distribution, has been the recipient of US government funds to subsidise diesel fuel totalling more than US$70 million in 2004–05. Brishna is also in receipt of a US$10 million World Bank assistance programme aimed at commercialising and corporatising Brishna operations throughout the country. In the case of Brishna, this process is expected to take at least three years, after which private investment will be sought.

The aim of commercialisation and corporatisation of utilities is to transfer assets, liabilities and operations currently operating within line ministries into state-owned separate legal entities. As one scholar has pointed out, where utilities are concerned, "private providers are never going to make any money out of the poor, because the poor cannot afford to pay".[24]

[22] Olivier Bouin, OECD 1992, *Privatisation in Developing Countries: Reflections on a Panacea*, Policy Brief No.3.

[23] World Bank, December 2005, *Managing Public Finances for Development*, Vol. 3, 94.

[24] John Lane, September 2002, Chairman of Business Partners for Development at the World Summit on Sustainable Development in Johannesburg.

Privatisation and overall economic policy

Privatisation for its own sake is not a sufficient argument for its promulgation in the developing world. It should be seen as a means of economic development rather than an end in itself. In developed economies, the main objective of privatisation is to increase economic efficiency — raising productivity and reducing costs of production. In the developing world, "obtaining maximum output from scarce resources, while remaining an important objective, is joined by two priority goals, namely poverty reduction and sustained economic development".[25]

In Afghanistan, it is important to look at privatisation within the context of wider economic policy. The overriding aim of Afghanistan's economic policy, as detailed in the IANDS, is the achievement of sustainable, private sector-led growth at high levels. Privatisation in Afghanistan could contribute to this aim, were it to achieve a) the opening up of markets to competition, b) the more efficient use of resources and c) the increases in productivity that conventional rationale suggests it can deliver.

Privatisation, growth and the general investment climate

It is important to assess whether privatisation can promote productivity and growth in Afghanistan. Many studies of other privatisation processes have attempted to ascertain whether privatisation, in practice, increases the productivity of enterprises and hence boosts economic growth. In many cases, it has been difficult to identify whether it is privatisation that has made the difference, or the other structural economic reforms that tend to accompany privatisation processes. Studies (both econometric and case studies) of the effectiveness of privatisations found that "if privatisation is to improve performance over the longer term, it needs to be complemented by policies that promote competition and effective state regulation, and that privatisation works best in developing countries when it is integrated into a broader process of structural reform".[26]

> "Privatisation for its own sake is not a sufficient argument for its promulgation in the developing world. It should be seen as a means of economic development rather than an end in itself."

Both Afghan and international investors have reported in published sources and in interviews with AREU researchers that Afghanistan is a difficult environment in which to do business. The recent World Bank survey *The Investment Climate in Afghanistan: Exploiting Opportunities in an Uncertain Environment* gives a comprehensive and up-to-date account of the significant obstacles to investment in Afghanistan. The main findings of this report were that in spite of positive steps by the government, including in the sphere of tax reform, a number of significant constraints remain. The survey on which this report is based found that the five largest reported obstacles were: lack of electricity, lack of access to land, corruption, lack of access to finance and anti-competitive practices.[27]

In addition to these infrastructural obstacles, Afghanistan has far from completed its reform of the legal and regulatory environment for investment. The government is in the process of transforming the entire legal and regulatory environment, including drafting a contract law, arbitration law, company law and partnership law, all of which are currently absent, inadequate, or require extensive revision. These laws are expected to be in place by 2010. It may be unrealistic to expect many investors, especially foreign investors, to express interest in SOEs before these laws are in place.

[25] A review of a selection of studies on privatisation objectives in developing countries is available in David Parker, Aston University and Colin Kirkpatrick, July 2003, *Privatisation in Developing Countries: A Review of the Evidence and the Policy Lessons*, Working Paper Series, Paper No.55, University of Manchester, Centre on Regulation and Competition.

[26] David Parker, Aston University and Colin Kirkpatrick, July 2003, *Privatisation in Developing Countries: A Review of the Evidence and the Policy Lessons*.

[27] David Parker, Aston University and Colin Kirkpatrick, July 2003, *Privatisation in Developing Countries: A Review of the Evidence and the Policy Lessons*, iv.

In a climate where overall investment across the board is limited, lack of broad-based growth can become a vicious circle, making it difficult for many enterprises to achieve sustained increases in productivity. A new owner of a former SOE could struggle to find suppliers, distributors and customers. Even those SOEs that are currently operational could struggle in the absence of the government contracts which currently account for much of their production. Finding or training skilled employees in Afghanistan could be a problem, especially for enterprises that have been functioning at reduced capacity or with very outdated or damaged technology. In cases where enterprises are bought as going concerns, there is a risk that privatisation could merely transform a handful of struggling enterprises in the public sector into a handful of struggling enterprises in the private sector. Moreover, a potential risk of failed privatisations, especially partial privatisations in which the government retains a stake, is that the enterprise is removed from government control in theory, but could continue to demand government support and intervention in the event of a financial crisis.

As mentioned above, in the government's overarching economic policy strategy, privatisation is seen as one component of a broad spectrum of economic reform and restructuring aimed at building an enabling environment in order to promote private sector-driven growth. However, there appears to be inconsistent sequencing of the privatisation policy compared to progress on wider economic reform, the latter of which has been slow by any standards. In other words, the current privatisation agenda may well be putting the economic-reform cart before the horse. Arguably, other structural reforms to ensure adequate investment legislation, improved security and infrastructure and streamlined and strengthened regulation should be addressed adequately before embarking on the privatisation of enterprises that are not doing much harm in fiscal terms. Another argument against a rushed privatisation agenda is that hoped-for improvements in key public goods, such as rule of law, security, better regulation and infrastructure will add value to SOEs over time. Thus, privatisation at a later date could bring greater revenues.

Alternatively, if privatisation is to proceed according to its current timetable, the process should be more realistic over its stated aims of "maximising sales revenues balanced against employment preservation and creation and encouragement of investments and technological development".[28] This wording holds out hope that privatisation will bring investment and technological upgrading to SOEs, whereas the likelihood is that most SOEs will be interesting to investors only as packages of real estate, and not as going concerns. The MoF is searching for "strategic investors" — investors whose existing core commercial activities are closely aligned with those of the target enterprise — for a selection of SOEs, in the hope of developing them as going concerns.[29]

The difficult investment climate detailed above will limit the field of quality investors interested in these enterprises. If strategic investors cannot be found, these enterprises will be dissolved and their assets sold, after which these assets (mostly land and buildings) will be used for different purposes. There are cases in other countries, such as Bangladesh, where privatised enterprises were successfully turned over to different types of business, in which they generated growth and employment. However, there is no way to guarantee that the assets are put to productive and employment-generating use.

Social impact of privatisation

According to the IANDS, Afghan economic policy aims to promote "pro-poor" or "broad-based" growth. Although the precise implications of this pro-poor emphasis are rarely elaborated in great detail, the promotion of domestic, labour-intensive production is certainly consistent with this aim. The World Bank and the IMF's Poverty Strategy Reduction Paper (PRSP) process for offering debt relief and concessional loans to poor countries is the basis for the development of the Afghanistan National Development Strategy (ANDS) currently un-

[28] Government of Afghanistan Privatisation Policy, January 2006

[29] Land Titling and Economic Restructuring of Afghanistan (LTERA), Privatisation Component presentation, www.developmentwork.org/download_center.htm

derway in Afghanistan. The PRSP development process includes a strong emphasis on pro-poor policies and programming; this dimension of the process are still being developed in Afghanistan.

Successful privatisations enabling regeneration and expansion of Afghan industries could arguably support the aim of broad-based growth. However, the prevailing poor investment climate may mean that a rushed privatisation agenda fails to deliver the optimum outcomes for SOEs. Certainly, if the process is to increase unemployment, its strategic advantages to sustainable Afghan economic development need to be clearly demonstrated.

The total number of employees in the 65 SOEs is estimated to be 25,406. LTERA estimates that 14,550 will be made redundant through privatisation.[30] With the assistance of the German Agency for Technical Cooperation (GTZ) and the World Bank, a Social Safety Net (SSN) had been added to the privatisation provisions in the amendments to the SOE Law. The SSN was approved by the Cabinet in November 2005. This SSN, developed in conjunction with the Independent Administrative Reform Civil Service Commission, is designed to provide monetary benefits such as severance payments and non-monetary compensation such as retraining and redeployment, business support services, counselling and job search assistance to employees of SOEs who are made redundant as part of the privatisation process. Some US$2 million was allocated in the SY1385 (2006–07) budget to cover monetary and non-monetary costs of the SSN.[31] Severance payments will be calculated on the basis of years of public service, including military service, current salary, and a three percent pension contribution deduction made from the payment.

There is no clearly outlined and outward strategy on social impacts in the government's one-page privatisation policy. There is no detailed assessment of social impact in the public domain and no assessment of whether environmental and social protection institutional support is in place. Privatisations in other countries suggest that the majority of employees are unlikely to be kept on after divestment. The number of job losses in Afghanistan may exceed 14,000 — especially if fewer enterprises are sold as going concerns than is hoped. AREU research on urban livelihoods has shown that unemployment due to factory closure or restructuring can have significant impact on the incomes of families and their ability to rise above poverty.[32]

> "Privatisations in other countries suggest that the majority of employees are unlikely to be kept on after divestment. The number of job losses in Afghanistan may exceed 14,000."

Transferring regulatory functions

Afghanistan aims to streamline and strengthen government regulation of the private sector, especially in key areas such as enforcing basic standards. A very small number of the SOEs that will be divested currently have inappropriate regulatory roles such as responsibility for issuing licences to private entrepreneurs in their sector, and also for testing and quality control. The Fertilizer and Agro-Services Enterprise in the Ministry of Agriculture, Animal Husbandry and Food, for example, has a quality control function which is inappropriate for an enterprise that operates in the sector which it also regulates. The Fuel and Liquid Gas Enterprise in the Ministry of Commerce similarly has a function in measuring and testing the quality of fuel imports and also charges a three percent in-kind charge for use of government storage facilities and other services that are sometimes not rendered. Similarly, the Afghan Tour Enterprise in the Ministry of Culture and Information charges US$2,000 per year to businesspeople running guesthouses or restaurants.

[30] Land Titling and Economic Restructuring of Afghanistan (LTERA), Privatisation Component presentation. Available at www.developmentwork.org/download_center.htm

[31] Land Titling and Economic Restructuring of Afghanistan (LTERA), Privatisation Component presentation. Available at www.developmentwork.org/download_center.htm

[32] Steffan Schutte, March 2006, *Dwindling Industry, Growing Poverty: Urban Livelihoods in Pul-e Khumri*, Kabul: AREU, 16.

Regulatory functions housed within SOEs involve significant conflicts of interests and rent-seeking opportunities, especially as most of the testing and quality control functions of SOEs are not carried out in reality due to lack of capacity. Legitimate regulatory roles will be re-housed in appropriate departments of line ministries as part of privatisation. However, it is not technically necessary to divest SOEs merely in order to strip them of inappropriate regulatory roles, which could have been removed independently of the privatisation process. Moreover, the capacity to carry out regulatory functions will not be resolved simply by re-housing these functions in different departments; this will require much wider capacity-building and institution-strengthening.

Privatisation and competition

It is interesting to consider in the Afghan context the premise that privatisation opens the playing field by removing state dominance in the sectors where state enterprises dominate or in some cases have a monopoly.

Although a few operational Afghan SOEs retain small-scale contracts from government ministries, many SOEs that have a monopoly in theory, or a fixed share of different markets, in reality have long since lost these monopolies. Thus, while the Fertilizer and Agro-Services Enterprise has a theoretical monopoly on fertiliser distribution, in reality almost all trade in fertiliser has been in the private sector for some time. Similarly, the Fuel and Liquid Gas Enterprise has long since lost its position as the largest importer of petroleum fuels to private sector actors. On the positive side, this means that privatising these enterprises will not have detrimental effects upon supplies of the goods which they provided. However, this also means that SOEs in Afghanistan are not acting to "close" the playing field in their respective market sectors.

In other countries, privatisation has been accused of achieving the opposite of its intention, damaging rather than promoting competition in the economy. This can happen because the process appears merely to transform government monopolies into private monopolies, as in parts of the former Soviet Union. Even when the process does not create private monopolies, there is still a risk of reinforcing entrenched political–economic interest groups that have no interest in opening up markets to competition. As one study of privatisation in developing countries has noted:

> The very many situations where there is no competition in developing countries make the positive impact expected from privatisation on economic efficiency subject to the parallel implementation of measures aimed at stepping up competition.[33]

This risk is amplified in Afghanistan, where there may not be a broad range of potential investors and where competition in the economy is generally weak. Studies have shown that anti-competitive and monopolistic practices by private business actors with powerful political connections regionally and nationally are acting to "close" some markets. Such practices may be stronger in specific regions. One study notes that in Mazar-e-Sharif, "deeply entrenched local business interests that use their close ties to powerful political patrons to restrict competition".[34]

Effective regulatory institutions, such as judicial capacity, a competition authority and a competition law — all absent in Afghanistan — need to be in place to protect against anti-competitive practices and to regulate any private monopolies that may result from privatisation.

[33] Olivier Bouin, *Privatisation in Developing Countries: Reflections on a Panacea*.

[34] World Bank, December 2005, *The Investment Climate in Afghanistan: Exploiting Opportunities in an Uncertain Environment*, Washington, D.C.: World Bank, http://siteresources.worldbank.org/INTAFGHANISTAN/Resources/AF_ICA_Report.pdf

IV. Who Owns the Privatisation Process?

The government

The extent to which politicians, civil servants and the public buy in to the privatisation process, and to economic reforms and restructuring generally, has significant implications for the successful implementation of these policies. With some exceptions, such as Chile and Mexico, most privatisation processes in developing countries have been forced upon governments, often to satisfy the requirements of international financial institutions. In Afghanistan, the promotion of privatisation has been a very top-down affair, supported by the President and by donor governments, but initially experiencing resistance from ministers and ministries.

There are two types of resistance to privatisation in Afghanistan. The first emanates from those who believe in principle that privatisation is inappropriate in Afghanistan and will be difficult to implement. The solution to this type of resistance is consensus-building. The technical advisors working on privatisation in the MoF have carried out significant education drives within the MoF and the line ministries involved in privatisation, and to a lesser extent with the press and the public. As a result, there appears to be more support for the privatisation process within the MoF than was previously the case. However, numerous interviews by AREU researchers in line ministries suggested that levels of support within other ministries vary. The only way to build consensus on privatisation is genuinely to convince those involved of the benefits of the process and its feasibility in Afghanistan. Those who have been brought on board merely on the basis that privatisation "will happen anyway" may not be committed to its thorough and transparent implementation.

The other type of resistance comes from interest groups who fear that they will fail to benefit from privatisation. Studies of privatisation in other countries have shown repeatedly that senior and middle-ranking civil servants can fear a reduction in their influence and power base as state intervention in the economy is reduced. Private rent-

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seekers can also fear the ending of the "lucrative sphere of public contracts and artificial situations of non-competition".[35] This type of opposition can have a serious stalling effect on the implementation of individual privatisations, especially in a situation where the agencies promoting and implementing privatisation may not be in a position to fully uncover the network of relationships that have been running SOEs during and after the period of civil conflict in Afghanistan. The real risk in Afghanistan is that by accepting poor quality investors, privatisation may end up perpetuating this nexus of private-rent seekers seeking subsidies from the state in the form of contracts or other types of favouritism.

The National Assembly and public opinion

Public information has targeted international investors and government leaders; as a result, the Afghan public remains virtually unaware of the privatisation process. The process has attracted some

[35] World Bank, December 2005, *The Investment Climate in Afghanistan: Exploiting Opportunities in an Uncertain Environment*, Washington, D.C.: World Bank, http://siteresources.worldbank.org/INTAFGHANISTAN/Resources/AF_ICA_Report.pdf

attention in the press. A February 2006 article for Pajhwok News surveyed the opinions of a group of Afghan experts, including the chairman of Kabul University's Economics Department, on the privatisation process. Some of these experts argued that a free market system was inappropriate given the realities of the Afghan economy and that privatisation amounted to "selling off the family jewels". According to these critics, a mixed economy is the most appropriate economic framework for Afghan economic development. Others, such as the former governor of Afghanistan's National Bank, Abdul Qayyum Arif, argued that the government should create proper conditions before implementing a privatisation programme, asking: "What use is a privatisation plan when there is no one to invest in Afghanistan?" Another economist, Haji Hafiz Khan, feared that privatisation would merely increase the concentration of economic and political benefits for the existing economic elite. Some commentators were supportive of privatisation, but suggested that only loss-making enterprises should be sold. Finally, one economics professor from Kabul University argued that state ownership inhibited initiative and competition, and hoped that privatisation would increase productivity and improve the quality of goods.[36]

Some of the comments in this wide range of views may not be consistent with the current international consensus on economic development and the desired involvement of the state in the economy. Certainly, there are no enterprises slated for privatisation on the current list that can really be described as "the family jewels". Nonetheless, in a sovereign democratic country, the opinions of academics and other national pundits on specific economic policies, and on the overall direction of economic policy, need to be taken into consideration.

Reports from the Afghan media do not contain much discussion of privatisation specifically, but they do contain repeated references to the perception of the Afghan public that the reconstruction effort is not concentrating sufficiently on the building and renovation of factories. For example, a June 2006 editorial in the Kabul Weekly newspaper argued that:

> The people will not be satisfied with small projects, such as cleaning a canal or rehabilitation of a road or school. The international community has to invest in long-term projects and the country's infrastructure. The people regard the exploitation of mines, the launch of big factories and other infrastructure projects to be the priority.[37]

Such expectations indicate that certain parts of the Afghan public may not look kindly on a privatisation process that, while it may lead to more investment in factories and other enterprises, will also lead to the liquidation of some SOEs and to unemployment for an unspecified number of SOE staff. In the few public arenas where official information about privatisation is available, there is significant over-optimism regarding the number of staff that will be kept on when SOEs are privatised and the amount of investment that the process may bring.

The Parliamentary Committee on the Economy, NGO, Rural, Agriculture and Livestock Affairs is currently at the stage of organising its priority issues for examination. The National Assembly will review presidential decrees, including those affecting private investment, and may also review the 2004 amendments to the SOE Law that allow for divestiture of these enterprises. In theory, the National Assembly could also review every individual privatisation. It is unclear what affect the role of the National Assembly could have on the privatisation process in Afghanistan.

[36] "Afghan experts split over introduction of market economy" Pajhwok Afghan News Website, Kabul, 3 February 2006.

[37] Voice of the Islamic Republic of Iran, Mashhad, in Dari, 13:30 GMT 6 June 2006, cited in BBC Monitoring Alert Afghanistan report 7 June 2006.

VI. Ways Forward

More strategic thought should be applied to the sequencing of key economic reform and restructuring. Policies to improve the investment climate in Afghanistan will be far more significant in promoting growth and investment than the privatisation process. Measures that are urgent for Afghan economic development — such as the drafting of legislation enabling investment and the resolution of issues of infrastructure and land access — should be prioritised over policies that are not quite so fundamental to achieving private sector driven growth, such as privatisation. At the very least, these measures should be pursued alongside privatisation in a synchronised fashion and with equal determination.

Public information is needed on all levels. There is a real need to outline how privatisation fits in to Afghanistan's overarching economic policy aims. This reflects a general weakness of many aspects of Afghan economic policy to show to the public a clear and consistent overarching strategy. For example, how is the IANDS aim of pro-poor economic growth affected by a privatisation policy that will add to unemployment figures?

Ensuring transparency in the privatisation process will be key to its success. This includes devising clear processes for proving land titling as well as restitution mechanisms for resolving disputes over land titles or challenges by reported private shareholders in an enterprise. Transparency and accountability may suffer if the set procedure for privatisation is not approved or followed by line ministries. That the privatisation of Ghori Cement was lead by the MoMI, and not the MoF, suggests that line ministries are not committed to the stated MoF-led procedures. Many enterprises currently slated for privatisation as going concerns may require further investigation to assess their economic viability. Restructuring certain enterprises before proceeding to privatisation may be a more appropriate approach.

Policy makers need to be realistic and honest about the likely levels of post-privatisation employment and investment. Privatisation is unlikely to lead to great improvements in employment and industry. The stated privatisation policy aim of "maximising sales revenues balanced against employment preservation and creation and encouragement of investments and technological development" holds out the hope that privatisation will bring significant investment and technological upgrading to Afghan industries, but in reality most SOEs will be interesting to investors as packages of real estate rather than as going concerns.

The proposed eventual privatisation of utilities should be the subject of considerable debate and investigation. There are deep concerns about the privatisation of such services in poor countries. Private providers will never make money in this area, because the poor cannot afford to pay.

The **Afghanistan Research and Evaluation Unit** (AREU) is an independent research organisation that conducts research that informs and influences policy and practice. AREU also actively promotes a culture of learning by strengthening analytical capacity in Afghanistan and by creating opportunities for analysis, thought and debate. Fundamental to AREU's vision is that its work should improve Afghan lives.

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Flower Street (corner of Street 2), Shahr-i-Naw, Kabul

phone +93 (0)799 608 548 **website** www.areu.org.af **email** areu@areu.org.af