



Doing Business in Afghanistan: 2011 Country

Commercial Guide for U.S. Companies

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Chapter 1: Doing Business in Afghanistan

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Market Overview

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- Afghanistan continues to rebuild after nearly 30 years of conflict and is transitioning from a state-based model to a free market economy.
- The Government of Afghanistan is improving the country's physical infrastructure with significant donor help and is committed to providing more basic services and humanitarian assistance to a growing population with some of the most challenging social indicators in the world. The Kabul Conference in July 2010 recommitted Afghanistan and its international donors to improved development, governance and stability.
- Corruption remains a persistent problem which increases costs.
- A multi-billion dollar international effort to help reconstruct Afghanistan is ongoing, led by the United States and other international donors. Many, if not most, current business opportunities are linked to these reconstruction efforts.
- The Government of Afghanistan has taken steps to create attractive conditions for foreign investment, however, there is still much more to be done, particularly in completing the process of reforming the legal and regulatory framework.
- Doing business in Afghanistan, however, is more difficult than in other countries in the region. In the [World Bank's Doing Business Index 2011](#), Afghanistan ranks 167 out of 183 economies in the ease of doing business.
- Afghanistan has enjoyed mostly favorable macroeconomic conditions, with a historically high GDP growth (22.5 percent) and declining prices in 2009/10, according to the World Bank. Since 2002/03, Afghanistan has seen average growth rates in the double digits, but with significant volatility due to the heavy reliance on agriculture which is subject to weather fluctuations. Afghanistan's growth outlook for 2010/11 is cautiously optimistic, with anticipated GDP growth of 8.5-9.0 percent, and inflation around 5 percent, according to the World Bank.
- Currency reform was completed in early 2003, resulting in a stable exchange rate. Since then, inflation has been relatively low and the nominal exchange rate stable. The tax code was restructured and clarified in 2005. Customs tariffs have been rationalized, existing trade agreements are being renewed and new agreements entered into force.

- The economy is dominated by small-farm agriculture and approximately 80 percent of all economic activity remains informal. Illicit opium production remains a major activity and accounts for an amount equivalent to nearly a third of total licit GDP.
- Comprehensive foreign direct investment (FDI) statistics for Afghanistan are unavailable. Figures, which are available, are not reliable because of inconsistencies in data collection. The United Nations 2010 World Investment Report estimated 2009 FDI flow into Afghanistan at USD 185 million and total FDI stocks at USD 1,550 million, representing 10.3% of GDP.
- Significant investment in Afghanistan comes from United Arab Emirates, Canada, the United States, Turkey, Iran, China, Pakistan, India, and the United Kingdom.
- According to the World Bank, trade as a share of GDP declined significantly in 2009/10. Since 2006, exports as a percent of GDP declined from 23 percent to 15 percent, while imports declined from 87 percent to 64 percent. This partly reflects growth in the domestic economy, but the official trade statistics show a 25% and 45% declines respectively in the value of exports to Pakistan and India that does not appear to reflect the actual trade flows.
- Afghanistan's top export markets are India, Pakistan, Iran, Saudi Arabia, Central Asian Republics and the European Union. Imports primarily come from China, Japan, Pakistan, Iran, the Central Asian Republics and the European Union.
- Afghanistan's history and location give it the potential to develop into a vital trade and transit hub for the region.

Market Challenges

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- Poor infrastructure, including power, transport and telecommunications.
- A weak legal framework, regulatory enforcement, and dispute resolution mechanisms.
- Corruption is a serious challenge to doing business in Afghanistan.
- Foreign legal persons may not own land, and securing clear title to land is a long, time-consuming, expensive process.
- The commercial banking system provides limited commercial financing.
- Customs regulations and procedures are neither transparent nor consistent.
- A shortage of skilled labor and trained personnel in both the government and the private sector.
- A critical threat security situation.

Market Opportunities

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- Business opportunities are largely driven by Afghanistan's need to renovate its infrastructure which was weakened by years of war and neglect. Substantial opportunities for U.S. firms are linked to military spending, donor and international finance institutions (IFIs), including the World Bank and Asian Development Bank, that fund reconstruction efforts. Companies are advised to monitor donor and IFI programs for potential opportunities.
- The security economy generates significant demand for goods and services, equipment and operations and maintenance of the national army and police forces.
- Agriculture remains a strong market driver with significant opportunities in agri-business and agriculture distribution and infrastructure. Dried fruits, nuts and seeds have overtaken carpets to account for half of total exports, but the export of fresh produce accounted for just 6 percent of trade due to limited infrastructure (cold and dry storage facilities.)

In the past 5 years, services have contributed about half of GDP output. The most dynamic services subsectors have been Information & Communications Technology, Finance & Insurance, Transport and Construction. Although Extractive Industries growth has been minimal, recent estimates of mineral deposits and natural resources ensure that this sector will play a prominent role in Afghanistan's future economic growth. Afghanistan has set the target of acceding to fully compliant status in the Extractive Industries Transparency Initiative (EITI) by February 2012 and has established a Secretariat in the Ministry of Finance funded by the World Bank to run the process. The Ministry of Mines plans to offer 24 tenders for various mineral deposits for bidding by investors over the next two years.

Market Entry Strategy

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- Strong local knowledge is a vital part of business development in Afghanistan.
- Be familiar with key players both in business and in government.
- Visit the country, get to know your potential partners and their capabilities to do business with U.S. firms, and meet with local Chambers of Commerce, the Afghanistan Investment Support Agency (AISA) and the Export Promotion Agency of Afghanistan (EPAA). Many U.S. firms may find it beneficial to partner with a local firm which knows the region and can advise on security, and other issues of doing business in the region.
- Expect high costs associated with doing business in an insecure and volatile region.
- Before travel, U.S. citizens should review the Consular Information Sheet (Country Specific Information) and Travel Warning for Afghanistan. These documents can be found at: http://travel.state.gov/travel/cis_pa_tw/cis/cis_1056.html and http://travel.state.gov/travel/cis_pa_tw/tw/tw_2121.html
- Personal relationships are especially important in Afghanistan, and with the legal and regulatory framework still in a nascent stage, businesses are built almost entirely on trust.

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Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

<http://www.state.gov/r/pa/ei/bgn/5380.htm>

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Using an Agent or Distributor

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Many international companies find it invaluable to hire an Afghan individual or company as a local agent or partner. In many cases, local connections prove essential in navigating the business world. When looking for a partner, a good start is to contact the various trade associations that operate in Afghanistan, including the [American Chamber of Commerce in Afghanistan](#) (AmCham Afghanistan), the [Afghanistan Chamber of Commerce and Industries](#) (ACCI) and its U.S.–based affiliate, the [Afghan-American Chamber of Commerce](#) (AACC), the [Afghan-California Business Council](#) (ACBC) and the [Afghanistan Builders Association](#) (ABA).

The NGO [Peace Dividend Trust](#) (PDT) maintains a [business portal](#) with approximately 6,500 licensed, screened and verified Afghan-owned businesses. PDT services also include business matchmaking activities; tender distribution by e-mail, SMS alerts and office visits; training on procurement processes and market information and advocacy in support of the Afghan First initiative.

AACC, in conjunction with ACCI, the trade associations listed above and various Afghan government ministries, holds an annual matchmaking conference in the fall in the Washington, DC area. These organizations all have a wealth of local knowledge and contacts. The [Afghanistan Investment Support Agency](#) (AISA), a quasi-government agency focused on investment promotion, can also help make recommendations.

Establishing an Office

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Afghanistan ranks an impressive 25 out of 183 countries in ease of starting a business, according to the [World Bank's Doing Business Index 2011](#). The [Afghanistan Investment Support Agency](#) (AISA) is a “one-stop shop for investors”, foreign and domestic, for

registering and establishing a business in Afghanistan. AISA is mandated to carry out the legal processes (ie. license) all private businesses and investments in Afghanistan as well as provide investors with assistance and the most up-to-date information on Afghanistan business and investment opportunities.

To operate a business legally in Afghanistan requires a business license. This license is awarded through AISA and is to be renewed annually. Certain industries, e.g. the health sector, require an additional license from the responsible ministry. Both need to be obtained prior to starting business operations. AISA's website provides detailed information on both the AISA license as well as all other additional licenses.

AISA's Investor Support Department will assist the investor in determining whether or not a business requires an additional license and with the following procedures, which are necessary to obtain a business license:

1. Completion of the Investment Application Form and Application Form for Tax ID Number
2. Registration of the Investment Application Form
3. Provision of guidance on the requirements for submission of a business plan and review of the project documents to ensure it is within the country's legal framework
4. Registration of investment documents in commercial court and announcement of investors' business/investment details in a reputable Afghan newspaper
5. Payment of License Fee and Issuance of Investment License. (Fees are based on the type of business and are commensurate with the amount invested.)

To register, a company must first proceed to the [Ministry of Foreign Affairs](#) (MoFA) with an introductory letter from its embassy. The U.S. Embassy's Economic/Commercial Section can provide this letter upon provision of the following:

- Federal Tax ID Number on IRS Letterhead;
- Articles of Incorporation from the U.S. State the company is registered with;
- Short (one sentence) description of the business;
- Copy of Passport ID Page of President; Vice-President; and/or Country Representative

The MoFA then sends the information to AISA to license the entity. Once the AISA forms are completed, information on the organization is also sent to the [Afghanistan Central Business Registry](#) (ACBR) for registration. The ACBR is a "one stop shop" to register businesses, combining all of the functions previously performed by the Commercial Court, the [Ministry of Justice](#) (MoJ) and the [Ministry of Finance](#) (MoF). The ACBR facilitates the registration process for all businesses. The ACBR issues the partner a tax identification number (TIN), registers the business and publishes the information in the Official Gazette of the MoJ. The partner receives a registration number from the ACBR which then allows AISA to issue the license.

The entire process takes about one to two weeks. Licensing fees range from USD \$100 to \$1000, depending on the size of initial investment.

If a business intends to engage in import/export, additional steps are required. In addition to the Investment License, the [Ministry of Commerce & Industries](#) (MoCI) will also issue an Export License. To obtain an Export License, the Ministry requests businesses to provide a bank statement and police verification from their country of domicile.

Other types of licenses may require this police verification (sometimes referred to as a “criminal background check”) that verifies that the police have done a criminal records check and there are no records indicating that an individual has been charged or convicted of a crime.

These are common and most police agencies in the U.S. are familiar with these requests. You should contact your local police department where you reside or last resided in the United States, request that the police conduct a criminal records search and provide you with a document reflecting that there is no history of a criminal record.

For more information on criminal records checks, please see:

http://travel.state.gov/travel/tips/emergencies/emergencies_1201.html

Non-profit/non-governmental organizations must also register with the Government of Afghanistan. To register, a non-profit must first proceed to the [Ministry of Foreign Affairs](#) (MoFA) with an introductory letter from its embassy. The U.S. Embassy’s Economic/Commercial Section can provide this letter upon provision of the following:

- Federal Tax ID Number on IRS Letterhead;
- Articles of Incorporation from the U.S. State the non-profit is registered with;
- Short (one sentence) description of the organization;
- Copy of Passport ID Page of President; Vice-President; and/or Country Representative

That letter is then taken to the [Ministry of Economy](#) (MoEC) for registration of the non-profit/non-governmental organization.

There are no separate licensing procedures for joint ventures.

While AISA has the mandate to host business, trade and investment events and conferences, as well as refer companies to potential partners, sources of finance and opportunities in industrial parks, its services in these areas are lacking.

Establishing a physical office in Afghanistan can be challenging. Potential investors face an overheated real estate market with rents comparable to large U.S. or European cities. Renters are also required to pay a 20% renters tax, which they must personally withhold from their monthly rent payment and remit to the Afghan Government. Foreign investors are not permitted to purchase real estate in Afghanistan (see Chapter 6 for more details). Basic infrastructure, such as electricity, heating and telecommunications, remains a constant challenge.

Under the Afghan government-launched Industrial Park Program, established industrial parks offer clear land title, reliable power and water supply, and security. The industrial park in Bagrami (near Kabul) is expanding due to the large demand for land. Parks in Mazar-e-Sharif and Kandahar are in the process of securing occupants and overcoming

infrastructure challenges. The privately-owned industrial park in Herat is host to nearly 200 companies and is growing rapidly. The [Industrial Park Program](#) is administered by AISA.

Franchising

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While the establishment of brand-name businesses in Afghanistan could make a significant impact on improving the investment climate, U.S. and international franchises are currently entering Afghanistan only in limited cases. When those large firms do choose to enter this market, they will seek franchisees possessing high integrity, business experience in the market, a history of success, ability to work well with a franchisor, retail experience, knowledge of the real estate market, and significant capital. This value chain experience is critical to maintaining brand quality.

Small and medium size franchise concepts may be more adaptable to the Afghan market. The U.S. Embassy encourages potential Afghan franchisees to contact the [International Franchise Association](#) to learn about franchise opportunities, attend trade shows such as the International Franchise Expo and to take advantage of their training programs.

Selling to the Government

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The Government of the Islamic Republic of Afghanistan (GIROA) has established a procurement agency to facilitate the purchase of goods and services for the Government. This agency, the [Afghanistan Reconstruction and Development Service \(ARDS\)](#), uses internationally recognized procurement procedures. Companies that wish to receive procurement notices can do so by registering through email at ards.procurement@ards.org.af. Notices on new procurements are sent electronically to all companies registered with ARDS. ARDS also maintains a list of suppliers.

Distribution and Sales Channels

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Formal distribution and sales channels are not well developed in Afghanistan. Most commerce is confined to small store fronts, markets and informal roadside trading although some major distribution centers are Kabul, Herat, Mazar-e-Sharif, Jalalabad, and Kandahar. Many commercial goods destined for Afghanistan are shipped through ports in Karachi or Port Qasim, Pakistan, moved overland by rail or truck and enter the country via the Torkham (Nangarhar province) or Chaman (Kandahar province) border crossings. In addition, a significant amount of Afghanistan's imports pass through Hairatan, the country's third largest port, in northern Afghanistan. In January 2010, construction of a 75 km rail link from Uzbekistan to Marzar-e-Sharif was launched and completion is planned for June 2011. Goods are currently distributed throughout Afghanistan by truck. Another major overland route is through Iran via Bandar-i-Abbas, entering Afghanistan at the border with Herat province. U.S. law prohibits transshipment through Iran by American companies or individuals without written approval by the [U.S. Department of Treasury's Office of Foreign Assets Control](#). There is no internal rail network in Afghanistan. Though a growing number of air cargo companies are offering their services, this sector is still undeveloped and expensive.

Selling Factors/Techniques

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Due to limited understanding of English among Afghans, sales materials should be in Dari and/or Pashto. Direct marketing is a relatively unused sales technique because the postal system is largely defunct and land-line telephone connections are limited. Due to the low literacy rate, businesses may want to consider using radio or television advertising to reach potential clients. With a growing population of cellular users, currently reaching over four million, direct marketing via cellular phone could likely become more widespread in the near future. Electronic commerce is not common in Afghanistan due to still developing telecommunications infrastructure, however, it is growing rapidly and several telecommunications companies have undergone large-scale expansions. Surveys shows that only 15% of businesses use email to communicate with their clients and 9% have websites.

The [United Nations Development Program](#) has conducted a Market Sector Assessment of small and medium size enterprises in Afghanistan that includes information on existing marketing practices in some sectors. The study as well as other useful information can be found at: <http://www.undp.org.af/>

Trade Promotion and Advertising

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The [Afghanistan Investment Support Agency](#) (AISA), the quasi-government agency responsible for investment promotion, organizes trade promotion events. The [Export Promotion Agency of Afghanistan](#) (EPAA), the quasi-government agency responsible for export promotion, organizes export promotion events. The [Afghanistan Chamber of Commerce & Industries](#) (ACCI) also has a Trade and Investment Promotion Office.

Businesses in Afghanistan spend limited resources on advertising. Only a handful of Western-style advertising agencies exist. Commercial advertising is available through major television and radio outlets such as [Tolo TV](#), [Ayna TV](#), [Shamshad TV](#), [Ariana TV](#), [1 TV](#), [Radio Television Afghanistan](#), [Radio Arman](#), [Radio Khillid](#), [Radio Salam Wastandar](#). Advertisements in newspapers reach a limited audience.

Pricing

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Factors to consider in pricing are as follows:

- Corporate income tax of 20%; low by regional standards. Personal income tax ranges from 0 – 20%.
- Business Receipts Tax ranging from 2 – 10%, based on sector, revenue and billing.
- Import tariffs in the range of 0 – 25%.
- High transport costs.
- Competition from cheap, low-quality goods and services from Pakistan, China and Iran.

Sales Service/Customer Support

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Customers in Afghanistan are not accustomed to a high degree of sales service and customer support, with the possible exception of those who use mobile and internet service providers. However, appreciation for higher levels of service is increasing as the general population becomes more market savvy.

Afghanistan currently has no laws enforcing intellectual property rights. Investors should have no expectation of protection (see Chapter 6 for more information.)

Several general principles are important for effective management of intellectual property (“IP”) rights in Afghanistan. It is important to have an overall strategy to protect your IP. Your U.S. trademark and patent registrations will not protect you in Afghanistan. There is no such thing as an “international copyright” that will automatically protect an author’s writings throughout the entire world. Protection against unauthorized use in a particular country depends, basically, on the national laws of that country. However, most countries do offer copyright protection to foreign works under certain conditions, and these conditions have been greatly simplified by international copyright treaties and conventions.

Registration of patents and trademarks is on a first-in-time, first-in-right basis, so you should consider applying for trademark and patent protection even before selling your products or services in the Afghan market. It is vital that companies understand that intellectual property is primarily a private right and that the U.S. Government generally cannot enforce rights for private individuals in Afghanistan. It is the responsibility of the rights’ holders to register, protect, and enforce their rights where relevant, retaining their own counsel and advisors. Companies may wish to seek advice from local attorneys or IP consultants who are experts in Afghan law. The U.S. Embassy provides a list of local lawyers on its [website](#).

While the U.S. Government stands ready to assist, there is little which can be done if the rights holders have not taken these fundamental steps necessary to securing and enforcing their IP in a timely fashion. Moreover, in many countries, rights holders who delay enforcing their rights on a mistaken belief that the USG can provide a political resolution to a legal problem may find that their rights have been eroded or abrogated due to legal doctrines such as statutes of limitations, laches, estoppel, or unreasonable delay in prosecuting a lawsuit. In no instance should U.S. Government advice be seen as a substitute for the obligation of a rights holder to promptly pursue its case.

It is always advisable to conduct due diligence on potential partners. Negotiate from the position of your partner and give your partner clear incentives to honor the contract. A good partner is an important ally in protecting IP rights. Consider carefully, however, whether to permit your partner to register your IP rights on your behalf. Doing so may create a risk that your partner will list itself as the IP owner and fail to transfer the rights should the partnership end. Keep an eye on your cost structure and reduce the margins (and the incentive) of would-be bad actors. Projects and sales in Afghanistan require constant attention. Work with legal counsel familiar with Afghanistan laws to create a solid contract that includes non-compete clauses, and confidentiality/non-disclosure provisions.

It is also recommended that small and medium-size companies understand the importance of working together with trade associations and organizations to support efforts to protect IP and stop counterfeiting. There are a number of these organizations, both Afghan or U.S.-based. These include:

- The U.S. Chamber and local American Chambers of Commerce

- National Association of Manufacturers (NAM)
- International Intellectual Property Alliance (IIPA)
- International Trademark Association (INTA)
- The Coalition Against Counterfeiting and Piracy
- International Anti-Counterfeiting Coalition (IACC)
- Pharmaceutical Research and Manufacturers of America (PhRMA)
- Biotechnology Industry Organization (BIO)

IP Resources

A wealth of information on protecting IP is freely available to U.S. rights holders. Some excellent resources for companies regarding intellectual property include the following:

- For information about patent, trademark, or copyright issues -- including enforcement issues in the US and other countries -- call the STOP! Hotline: **1-866-999-HALT** or register at www.StopFakes.gov.
- For more information about registering trademarks and patents (both in the U.S. as well as in foreign countries), contact the US Patent and Trademark Office (USPTO) at: **1-800-786-9199**.
- For more information about registering for copyright protection in the US, contact the US Copyright Office at: **1-202-707-5959**.
- For more information about how to evaluate, protect, and enforce intellectual property rights and how these rights may be important for businesses, a free online training program is available at www.stopfakes.gov.
- For US small and medium-size companies, the Department of Commerce offers a "SME IP Advisory Program" available through the American Bar Association that provides one hour of free IP legal advice for companies with concerns in numerous countries including Brazil, China, Egypt, India and Russia (but not Afghanistan). For details and to register, visit: http://www.abanet.org/intlaw/intlproj/iprprogram_consultation.html
- For information on obtaining and enforcing intellectual property rights and market-specific IP Toolkits visit: www.StopFakes.gov This site is linked to the USPTO website for registering trademarks and patents (both in the U.S. as well as in foreign countries), the U.S. Customs & Border Protection website to record registered trademarks and copyrighted works (to assist customs in blocking imports of IP-infringing products) and allows you to register for Webinars on protecting IP.

Due Diligence

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It is essential to conduct adequate due diligence on potential local partners before entering into business in Afghanistan. As the country currently has no contracts law in place and the commercial court system is inadequate, businesses should tread carefully when entering into commercial agreements or partnerships. The Afghan Government

enacted arbitration and mediation laws in January 2007. The Ministries of Commerce, Interior, AISA, The Afghan National Police, and the courts have all played roles in recent disputes involving Americans. If involved in a commercial dispute, hiring an Afghan attorney early can be beneficial. Visiting the country to learn more about the business environment and the potential partner is recommended.

The [Afghanistan Chamber of Commerce & Industries \(ACCI\)](#) and the [Afghanistan Investment Support Agency \(AISA\)](#) can be helpful in providing background on a potential partner. In addition, there are a few local attorneys who specialize in business and commerce that can be contacted for assistance. Please contact the U.S. Embassy Commercial Section for that listing. Additionally, the U.S. Embassy provides a list of local lawyers on its [website](#).

Local Professional Services

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The Embassy of Afghanistan in Washington, DC has developed a resource listing services available to facilitate investment. The guide can be downloaded at: <http://www.embassyofafghanistan.org/resourceguide.html>

Working as a Contractor

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The legal foundation for taxation in Afghanistan (Article 42 of the Constitution and Article 2 of the Income Tax Law) stipulates that any individual or company that makes a profit in Afghanistan must pay taxes in accordance with the law. There are a number of bilateral agreements in place that provide tax and other exemptions for U.S. Government (USG) personnel, contractors, and subcontractors. USG contractors are required to follow Afghan official registration procedures for companies operating in Afghanistan (see “Establishing an Office” section earlier in this chapter.)

Although the registration requirements are generally uniform for all entities operating in Afghanistan, tax exemptions differ depending on which USG agency is the contracting entity and whether there is an agreement with the Afghan Government applicable to the activities of that USG department or agency. The general information provided here is only a guide and cannot substitute for specific registration and tax advice pertaining to each firm. The U.S. Embassy is prohibited from giving direct tax advice to private firms. The U.S. Government expects each of its implementing partners, including contractors and subcontractors, to comply fully with the laws of the Government of the Islamic Republic of Afghanistan. It is important to note that no firm is exempt from all tax requirements. Even firms exempt from taxation due to development assistance-related contracts must register for the exemption with the [Ministry of Finance](#).

Non-profit/non-governmental organizations (NGOs) working in Afghanistan may want to consider if Afghanistan’s NGO Law provides tax or other exemptions for their operations. The [NGO Department of the Ministry of Economy](#) has responsibility for all NGOs operating in country. Article 30 of the [NGO Law](#) relates to tax exemptions.

Questions related to tax exemptions and problems encountered with registration and the collection or payment of taxes when exemptions apply should be brought to the attention of contracting officers immediately.

Tax Exemptions for U.S. Department of Defense (DoD) Contractors: An exchange of diplomatic notes concluded in 2003 constitutes the Status of Forces Agreement (SOFA) applicable to the U.S. Department of Defense (DOD), including U.S. Forces-Afghanistan (USFOR-A). It establishes exemptions for contractors and subcontractors carrying out work for U.S. Forces-Afghanistan. The SOFA provides that DOD “its military and civilian personnel, contractors and contractor personnel shall not be liable to pay any tax or similar charge assessed within Afghanistan.” It also provides that DOD “contractors and contractor personnel may import into, export out of, and use in the Republic of Afghanistan any personal property, equipment, supplies, materials, technology, training or services required to implement this agreement. Such importation, exportation and use shall be exempt from any inspection, license, other restrictions, customs duties, taxes or any other charges assessed within Afghanistan.” Further, the SOFA provides that “[a]cquisition of articles and services in the republic of Afghanistan by or on behalf of the [DOD] in implementing this agreement shall not be subject to any taxes, customs duties or similar charges in Afghanistan.” DOD contractors, subcontractors and their employees making acquisitions and providing services to or on behalf of DOD are exempt from all Afghan taxes on such articles and services.

International Security Assistance Forces (ISAF) Contractors: NATO’s ISAF contractors operate under the Military Technical Agreement (MTA), which provides some exemptions. Please note that the MTA is not the same as the bilateral U.S.-Afghanistan SOFA and therefore provides a different exemption framework. A U.S. company contracting with ISAF would receive the benefit of the MTA’s exemptions.

Tax Exemptions for USAID Contractors: USAID has four over-arching Strategic Objective Grant Agreements (SOAGs) with the Government of Afghanistan that encompass all of the programs USAID finances in Afghanistan. For detailed information on USAID-related tax policy, please refer to:
<http://afghanistan.usaid.gov/en/about/legal/taxation/>.

Tax Exemptions for Department of State (DoS) Contractors: The State Department’s Bureau of International Narcotics and Law Enforcement (INL) has negotiated agreements on tax exemption. Contractors should consult their contracting officer to determine applicable tax exemptions.

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American Chamber of Commerce in Afghanistan (AmCham)
[af.org/](http://www.amcham-af.org/)

<http://www.amcham-af.org/>

Afghanistan Chamber of Commerce and Industry (ACCI)

<http://www.acci.org.af/>

Afghan-American Chamber of Commerce (AACC)

<http://www.a-acc.org/>

Afghan-California Business Council (ACBC)

<http://www.acbconline.org/>

Afghanistan Builders Association (ABA)

<http://www.aba.af/>

Peace Dividend Marketplace Afghanistan

<http://afghanistan.buildingmarkets.org/>

Afghanistan Investment Support Agency (AISA) <http://www.aisa.org.af/>

World Bank Doing Business 2011 Report
<http://doingbusiness.org/data/exploreeconomies/afghanistan>

Afghan Ministry of Foreign Affairs (MoFA) <http://www.mfa.gov.af/>

Afghanistan Central Business Registry (ACBR) <http://www.acbr.gov.af/>

Afghan Ministry of Justice (MoJ) <http://www.moj.gov.af/>

Afghan Ministry of Finance (MoF) <http://www.mof.gov.af/>

Afghan Ministry of Commerce & Industries (MoCI) <http://www.commerce.gov.af/>

Afghan Ministry of Economy (MoEC) http://www.moec.gov.af/index_eng.aspx

International Franchise Association (IFA) <http://www.franchise.org/>

Afghanistan Reconstruction and Development Service (ARDS) <http://www.ards.gov.af/>

Office of Foreign Assets Control (OFAC) <http://www.treasury.gov/about/organizational-structure/offices/Pages/Office-of-Foreign-Assets-Control.aspx>

United Nations Development Program (UNDP) <http://www.undp.org.af/>

Export Promotion Agency of Afghanistan (EPAA) <http://www.epaa.org.af/>

Embassy of Afghanistan in Washington, DC
<http://www.embassyofafghanistan.org/index.html>

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Chapter 4: Leading Sectors for U.S. Export and Investment

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- [Opportunities and Resources](#)

Afghanistan is predominantly an agricultural country; agriculture represents nearly 50% of licit GDP and supports 85% of its people. At one time, high quality Afghan agricultural product exports such as dried fruits, nuts, almonds and pistachios occupied a prominent share of the world market. Following almost three decades of conflict, farmers in Afghanistan have recently made great strides in reviving agro business in the country. Development of the agricultural sector is a high priority of the government and is the focus of international donor efforts to revive rural economic activity. Improvements in irrigation systems, fertilizer use and extension services have increased production and reduced input prices.

The domestic market potential for agricultural products is huge and demand is increasing with a rise in population and income across the country. Currently, most processed food is being imported. With rapidly improving supply conditions for agricultural products, there is a large potential for import competition and early entrants stand to benefit as the first domestic suppliers of their products. In addition, Afghan agricultural products represent a potentially valuable export product for investors, particularly in regional markets such as India and Pakistan. There are also significant opportunities in cold and dry storage, processing, particularly cleaning and packaging, or in other elements of the value chain such as testing and certification for both international and domestic markets.

Dried Fruits and Nuts

The world market for raisins, pistachios, dried apricots, almonds and walnuts is over \$2.2 billion, of which Afghanistan currently claims less than 3%. Many of these products were formerly produced on a large scale and continue to enjoy international recognition for quality. Raisins, for example, are Afghanistan's primary agricultural export commodity and once accounted for 60% of the world's market. Pakistan, India and Russia offer large, nearby markets in which Afghan products could begin regaining market share. Existing raisin processors are ripe for new investment to increase and improve production. Ideal growing conditions exist for almonds, pistachios and apricots. The world's largest importers of these products - India for almonds and Russia for dried apricots – are natural regional markets. Low productivity of existing orchards and production facilities as well as a lack of machinery for sorting, drying and packaging, are issues facing the industry.

Juices, Pastes, Jam

Local demand for fruit juices, jams and tomato paste is high. Industrially processed products available on the local market are almost entirely imported, primarily from Iran and Pakistan. The abundance of local fruits and tomatoes offers substantial business opportunities in import substitution. Afghan pomegranates are among the best in the world, so production of pomegranate concentrate for export has very good prospects.

Dairy Products

Most industrially processed and packaged dairy products are imported. Many regions in Afghanistan have a well-established dairy production tradition, particularly in yoghurt, but lack the infrastructure to expand beyond local consumption. U.S. investments in collection, processing, packaging, and a cold storage and transportation chain have good prospects.

Skins and Leather

Karakul skins were formerly one of Afghanistan's major exports. With the number of livestock increasing, this industry has rebounded. Investment opportunities and potential for U.S. exports of machinery exist in skin processing and leather manufacturing.

Meat Processing

Existing meat processing facilities do not meet international standards. Given the increase in livestock, good opportunities exist for U.S. exports and investment in the upgrade of these facilities and equipment.

Cotton and Sugar

Afghanistan formerly produced substantial quantities of cotton and sugar (beet and cane) crops well suited to the climate of some regions of the country. Foreign investment has been involved in the rehabilitation of former state-owned enterprises in these areas as well as in greenfield operations. The Spinzar plant in Kunduz and the Balkh Gin and Press in Mazar-e-Sharif were privatized under a long term leasing agreement with cotton specialist Dagrif of France. KWS of Germany has successfully invested in a joint venture sugar factory in Baghlan. Similar opportunities exist for interested investors.

Mills and Baking

Most baking and wheat processing activities currently are carried out on a very small scale. However, in large cities such as Kabul, Herat, Kunduz, Mazar-e-Sharif and Kandahar, medium-scale commercial wheat mills are operating. There remain, however, substantial opportunities for expansion of the industry.

Non-traditional Products

Afghanistan has a number of native plants with unrealized commercial potential. Ideal climatic and ground conditions for many natural ingredients for the flavor, fragrance, and pharmaceutical industries exist. For example, conditions are ideal for the cultivation of roses and the production of rose oil. A number of spices, rare herbs and medicinal plants can also be found. Various market studies have demonstrated substantial possibilities in these areas.

Processing and Packaging

Most processing and packaging facilities currently in use for agricultural goods are technologically outdated. This sector represents attractive opportunities for investment and U.S. export of technology and equipment to crush, press, pasteurize, filtrate, dry, sort, grade, fill, and package a variety of agricultural products.

Cold Storage and Transportation

There are few cold storage facilities in Afghanistan. As the agro business sector strengthens and power and fuel supplies become more reliable, cold storage and cold transportation represent one area where U.S. investment and technology could achieve strong export growth and returns on investment.

Demand for all types of materials is booming and will remain strong over the next several years given the magnitude of the reconstruction process, a growing population and rising income. Projects range from large scale reconstruction of transportation, power and water infrastructure to small scale retail and residential construction. International donor demands for high quality and quantity represent opportunities for both the export market and local investment. This sector offers perhaps the highest potential for both U.S. investment and exports.

Most available construction materials are currently imported and are of poor quality. Cement, for example, is primarily imported from Pakistan and Iran and is reportedly of such poor quality that it is considered not saleable in those countries. Afghanistan has high-quality limestone deposits, but just one active cement plant, and production does not begin to meet domestic demand.

High transportation costs, an abundance of raw materials, and a supply of local workers with adequate skills in this sector combine to offer promising opportunities for investment in local production that could under-price foreign rivals. The national market for materials is well integrated, with competitive wholesaling and retailing and established distribution channels. There is medium-term potential for local production for export as well, particularly in the marble and marble cutting industry, as Afghanistan's wealth of natural resources offers it a comparative advantage over neighboring countries. Profitable investment opportunities also exist in the manufacture of final construction inputs, such as doors or windows. Often these activities are carried out on a small scale, but many opportunities exist to expand to mass production.

Cement and Concrete Block

Afghanistan is in an earthquake prone region. Demand for quality cement is high and is forecasted to remain strong, both in Afghanistan and in regional countries where industries are operating at capacity levels. Local conditions for the production of cement (i.e., adequate limestone) exist. Given the high transportation costs for this product, investment in locally produced cement has potential.

Concrete blocks are a popular local construction material. Upgrading and expanding existing production facilities or establishing new facilities offers good investment potential.

Bricks

Baked and unbaked bricks are used for construction in Afghanistan. Both are produced by small, local enterprises. Given high transportation costs, there are business opportunities in the expansion and upgrade of local production facilities.

Doors and Windows

Current local production of doors and windows uses obsolete technology and does not meet local demand. Investment opportunities exist in the improvement and expansion of this process.

Marble and Natural Stone

There are substantial marble deposits within Afghanistan. Only a small fraction of what is mined is processed locally for construction or handicrafts. Most is exported to

Pakistan, where it is cut into blocks and slabs. Investment in the local cutting process has high profit potential. The abundance of natural stone also offers potential in mining and processing. Some of Afghanistan's natural marble deposits are damaged by mining techniques such as blasting, which creates micro-cracks throughout the deposit. Extraction of marble by diamond blade cutting, the best practice, has begun, but it is still extremely limited.

Tiles

The raw materials for the production of ceramic tiles and other ceramic products can be found in Afghanistan. High demand and prohibitive transportation costs represent great potential for investment in local production facilities.

Sand, Gravel and Aggregate

Many production sites for sand, gravel and aggregate are present. However, quality is mixed. Investment and U.S. export opportunities exist in upgrading the quality of production, equipment sales, and exploitation of new mining sites.

Asphalt

Local asphalt production capacity does not meet the booming demand from large scale road construction and reconstruction activities. High profit potential exists in expansion of local production.

Four mobile telecommunications service providers currently supply the Afghan market with increased competition and price pressures. By early 2010, the number of mobile telephone subscriptions was estimated to be about four million, and the mobile telephone networks cover about 80 percent of the population. Forecasts suggest that by the end of 2011 subscriptions will reach 19 million. The reach of mobile telephony – where more than half of Afghan households have at least one mobile telephone – was achieved through private sector participation. The telecommunications revolution in Afghanistan has been one of the success stories of the country's recent past.

While there are still growth opportunities for mobile service providers, significant market opportunities exist in the other supply and service areas of the telecommunication sector, including data processing, basic business-processing operations, information and communication technology, data transfer and process control. Internet users are only about five percent of the population and services are limited to major urban areas, such as Kabul, Herat, and Mazar-e-Sharif.

Investments in the IT sector are particularly attractive as they often do not depend on the overall infrastructure of Afghanistan such as roads and airports, but investors can develop and rely on their own infrastructure such as satellite communication equipment.

Afghanistan has long been a trade hub connecting Asia, Europe and the Middle East. A landlocked country bordering Iran, Turkmenistan, Uzbekistan, Tajikistan, China and Pakistan, it is considered a “land bridge” connecting trading partners and offering a point of access to an expanded regional market of more than two billion people. In addition, this sector represents a vital support industry to other sectors which will not be able to achieve growth without an upgraded transportation and logistics industry.

Inadequate transportation infrastructure is a major obstacle to increased commerce. Road construction is a focus of the reconstruction effort. Major highway projects have been ongoing since 2002, including a nearly complete 2,400 km ring road circling the country and 700 km of links with neighboring countries. The reopening of the Salang Tunnel in 2002 was a major step forward in opening road links with northern Afghanistan. Bridges connect Afghanistan to Uzbekistan and Tajikistan, and rail lines are under construction from the Uzbek border to Mazar-i-Sharif and from Iran to the western suburbs of Herat.

Transportation is a high-growth sector and the demand for transport services is expected to remain strong in the medium to long term. Transport of commercial goods is expected to rise as the commercial infrastructure improves and domestic production of products with strong export potential, such as carpets and dried fruits and nuts, increases.

The market for logistics and transportation services offers first mover advantage to prospective investors with little competition and steady demand. Early investors have reported modest start-up costs, relatively low overhead and high profit margins.

Opportunities exist in areas such as:

- Cold cargo and perishables storage
- Overland transportation
- Truck maintenance
- Customs facilitation
- Air freight and cargo services
- Package and document delivery
- Procurement and supply
- Warehousing.

The mining industry offers considerable growth potential for U.S. investment and export of technology. Afghanistan has a large quantity of known mineral resources as well as vast areas where the potential is unknown. Early exploration work indicates that Afghanistan possesses substantial mineral wealth (\$1 – 3 trillion dollars based on exploration of 10% of the country), but much work remains to be done to determine the economic feasibility of extraction. There is no doubt that the sector will play a leading role in the economy in years to come, as the government proceeds with ambitious plans to develop and market tenders. More information on Afghanistan's natural resources can be found at <http://afghanistan.cr.usgs.gov/documents>

Afghanistan's mineral resources include copper, iron, coal, uranium, chromite, zinc, lithium, gold, lead, silver and marble. The country's known precious and semi-precious minerals include lapis lazuli, emerald, ruby, tourmaline, sapphire, quartz, alabaster, amethyst, and beryl. While some of these materials are used in the handicrafts market, few of the reserves are being commercially exploited and there is room for expansion of this industry. A reconstruction boom is generating significant local demand for mineral-based construction materials, including marble, paving stones, cement and concrete blocks, bricks, gravel, wood, steel, sand, glass and tile. High transportation costs provide an advantage to locally produced products. Domestic energy needs remain unmet, despite coal deposits and natural gas. Afghanistan has producing oil and natural gas fields, but there is potential for much more as studies show significant geological upside potential in these producing areas.

This sector represents medium to long term potential. Privatization of Afghanistan's State-Owned Enterprises (SOE), which control some of the country's mining resources, such as coal, is not complete. The government of Afghanistan is making progress to improve capacity to effectively regulate its mineral and hydrocarbon resources sectors. Afghanistan is an Extractive Industries Transparency Initiative (EITI) candidate country and an EITI Secretariat has been established in the Ministry of Finance to oversee the EITI compliance process.

The market for U.S. technology, equipment and expertise in this sector will be substantial.

Afghanistan is eager to establish a low-cost, labor-intensive manufacturing sector which can employ many Afghans. Industries suitable for investment are those which can first supply the local market and later become export products. The following manufactured products are all imported into Afghanistan which indicates that there currently exists a market within the country:

- Bicycles
- Consumer goods
- Industrial and automotive tools and supplies
- Textiles, apparel and footwear.

Carpets

Carpets are still among Afghanistan's most important exports. The industry has a centuries-old tradition that enjoys world renown. Afghan carpets are internationally competitive, even with the challenges of a post-war economy—a reflection of the capabilities of generations of skilled Afghan weavers. The government places a high priority on the development of the carpet sector, particularly because of its importance as a source of income for the rural population, including women and refugees.

Production is concentrated in several regions of the country. While some carpet factories have been established in urban centers over the last two years, production remains primarily home-based and fragmented. A lack of available and appropriate land has inhibited the development of consolidated production sites.

As few local post-weaving facilities exist, most Afghan carpets destined for overseas markets are exported as unfinished products to Pakistan to undergo the final steps of washing, trimming, and drying. The carpets are then exported from Pakistan as Pakistani products to overseas markets. This process amounts to millions of dollars in lost revenue for Afghanistan.

Hand-knotted Afghan carpets enjoy preferential access to important overseas markets. No customs duty is levied on their import into the United States, Canada or the European Union.

The Afghan carpet industry offers high potential for investment, particularly in re-establishing those elements of the production chain which now take place outside the country. It is estimated that the value of sector exports could increase two to five times if goods were sold directly to foreign markets rather than through intermediaries.

Post Weaving Facilities: Washing, Trimming, Finishing

Facilities for washing, trimming, and finishing carpets are scarce in Afghanistan. The absence of such facilities has created a major bottleneck in the development of direct access to overseas markets. As a result, the carpet industry is dominated by Pakistan-based middlemen. The establishment of such facilities in Afghanistan represents the largest investment potential in this sector.

Carpet Factories

While a few carpet factories exist, the industry is still largely dependent on home production. The establishment of additional factories means increased productivity and increased quality control.

Wool Scouring and Spinning

Quality carpets require quality wool and yarn. While most producers of high quality carpets strive to exclusively use local, handspun wool, supply is insufficient to meet demand. Growing numbers of livestock in Afghanistan have created the potential for investment in additional wool scouring facilities. Spinning of high quality yarn, either from local or imported wool, also represents substantial opportunities.

This chapter draws largely on research, market evaluations and case studies conducted by the organizations listed below. Complete materials can be found on their websites.

The Afghan Investment Support Agency <http://www.aisa.org.af/english/resources.html/>
Investment opportunity brochures and market studies

The Multilateral Investment Guarantee Agency <http://www.miga.org/>
Investment Horizons: Afghanistan study

The World Bank <http://www.worldbank.org/>
Afghanistan Economic Update and World Bank Doing Business 2011 reports

Afghanistan Research and Evaluation Unit <http://www.areu.org.af/>
Market case studies in raisins, carpets and construction materials

Donors and international financial institution-funded activities in the sectors discussed in this chapter generate business opportunities for interested companies. Please consult the Project Financing section in Chapter 7 for more details on the activities of organizations such as USAID, World Bank and the Asia Development Bank and how firms can receive notification on procurements and contracting.

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Chapter 5: Trade Regulations, Customs and Standards

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Import Tariffs

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Afghanistan maintains the lowest import tariffs in the region. A new tariff regime (dated March 21, 2010 and amended in December 2010) reduced tariff rates for 18 tariff lines (covering beverages and textile items) and increased tariff for 177 tariff lines (mostly on fruits and vegetables, timber, ceramic tiles and some steel products.)

The simple average tariff in 2009 was 5.86% and in 2010, 5.61%. In 2009 the average weighted rate was 6.4% and in 2010, 7.5%.

The total number of tariff bands was simplified to the following 11 categories:

- essential food and non-food products, 2.5%;
- raw materials, 1%;
- fats and oils, 3.5%;
- food and textile, metals, 10%;
- kerosene, oil products and articles from leather, 8%;
- gasoline for vehicles and jet fuel, 12%;
- machinery equipment 0%;
- petroleum products, 5%;
- other import goods, 16%;
- marble, 20%;
- luxury and non-priority products, 25%.

Even at these revised tariff rates, Afghan tariffs will remain the lowest in the region, compared with average tariff rates in Pakistan of 15%, India, 13% and Tajikistan, 11%.

Trade Barriers

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Afghanistan has few trade barriers for imported products. However, deficient infrastructure, a still evolving legal and commercial regime, high levels of corruption and a volatile security situation act as de facto trade barriers.

Import Requirements and Documentation

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All imported goods and products must have an original bill of lading and inventory documents. Transit permission is required for shipments transiting through Pakistan; the Central Board of Revenue's Customs Division in Islamabad, Pakistan, oversees transit permission. Importers and exporters must consider whether supporting documentation should be sought from 'interested' Ministries prior to Customs declaration; e.g., armored vehicles require Ministry of Interior certification; communication equipment requires Ministry of Communications approval; medicines require Ministry of Public Health certification, etc.

U.S. Export Controls

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In June 2002, the U.S. lifted most restrictions on exports and re-exports to Afghanistan. Such transactions are now subject to export control policies applicable to most countries who are not members of multilateral export control regimes. The majority of everyday commercial goods does not require specific U.S. Government authorization for export or re-export to Afghanistan. However, certain items on the Commerce Control List do require a license from the [U.S. Department of Commerce's Bureau of Industry and Security](#) (BIS). These include items controlled for chemical and biological weapons, nuclear nonproliferation, national security, and missile technology reasons. There are also foreign policy controls in place for regional stability and crime control reasons. These requirements can be found in Part 742 of the [Export Administration Regulations](#) (EAR).

The U.S. Government generally reviews license applications to export controlled goods to Afghanistan on a case-by-case basis. Note that a license is required to export an item subject to the EAR even when one would not otherwise be necessary, if you know, have reason to know, or are otherwise individually informed by BIS with respect to a specific transaction that the item will be used in activities related to nuclear, chemical, or biological weapons or missile delivery systems as defined in part 744 of the EAR. In addition, certain restrictions administered by the [U.S. Department of the Treasury's Office of Foreign Assets Control](#) (OFAC) continue in effect with respect to transactions involving members of the Taliban. Detailed information on U.S. export policies can be found at the BIS website at <http://www.bis.doc.gov/index.htm>. Specific guidance on U.S. export controls with respect to Afghanistan can be found at <http://www.bis.doc.gov/policiesandregulations/afghanfacts.html>. You may also contact the BIS Export Counseling Division at (202) 482-4811 for specific guidance.

On July 1, 2010, President Obama signed into law a sweeping new Iran sanctions bill - the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010 (CISAD) which strengthens U.S. sanctions against Iran by restricting that country's access to, among other things, gasoline and other petroleum products, petroleum-related investment, credit and financial services; and by otherwise tightening the U.S. trade embargo against Iran. Significantly, CISAD authorizes sanctions not only on those

entities conducting Iran-related business but also on those that own or control such entities.

OFAC administers and enforces the Iran Transactions Regulations (ITR), 31 C.F.R. Part 560. Under the previous Iran sanctions legislation, the transshipment of Afghan carpets and foodstuffs to the U.S. through Iran has been done pursuant to a general license (31 C.F.R. sec. 560.534(a)), but section 103 of CISAD prohibits imports into the United States of goods and services of Iranian origin. The new Act preserves OFAC's ability to make exceptions using licenses, but revokes the existing general license for Afghan transshipment through Iran to the United States. For more information on Iran sanctions, go to: <http://www.treasury.gov/resource-center/sanctions/Programs/pages/iran.aspx>

Temporary Entry

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Article 114 of the Afghan Customs Code states that temporary entry goods will be taxed at 3% of the monthly total customs duty if the goods were being imported. Personal belongings, luggage and samples are exempt from payment of duty if they have no commercial purposes.

Labeling and Marking Requirements

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Afghanistan currently has no laws or regulations governing labeling and marketing requirements for products.

Prohibited and Restricted Imports

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The following items are prohibited from entry in Afghanistan:

- firearms, explosives, daggers
- obscene and subversive literature
- alcohol and pork

Although not prohibited from entry into Afghanistan, Pakistan currently maintains an extensive list of items on its Negative List -- that are barred from transiting its territory for import into Afghanistan.

Customs Regulations and Contact Information

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Although there is a focused Afghan and donor country effort to improve governance, practices, and facilities at the major border crossing points, the customs regulations and procedures in Afghanistan are neither transparent nor consistent. Coordination between customs and other government authorities is minimal though improving. Customs officials have received basic training on the customs code, and will have increased opportunities for training and development in the coming years through the new Afghanistan National Customs Academy (ANCA) which was inaugurated in January 2010. Basic communications and support for automated processes are hindered by lack of reliable electricity at major crossing points. Several border crossing facilities have been upgraded in recent years, including Torkham Gate (East), Shir Kan Bandar and Hairatan (North), Islam Qalah (West); plans for infrastructure improvements at several

other border crossing points are underway. Traders face unclear procedures at the borders as well as extra-legal duties and bureaucratic obstructions.

Customs reform is a priority of the Afghan Government. Large-scale reform efforts are underway to establish standardized fees and procedures for incoming goods, as well as streamlined procedures for exports, and a trained cadre of professional staff. In December 2003 the Customs Department introduced a Single Administrative Document (SAD) system pilot program, based on the European Union customs regime, for five key provinces and is now implemented nation-wide. In March 2005, implementation of the Automated System for Customs Data (ASYCUDA) system began on a limited scale and its Import/Export Declaration Processing Module has now been implemented in six locations, with expansion to four more expected soon. Simplified exemptions processing documentation is being introduced and amendments to the Customs Code have been drafted and are moving through Afghanistan's legislative process. A system of Licensed Customs Brokers was launched in 2003, requiring an examination, but due to high levels of illiteracy in the provinces, has been difficult to enforce (Licenses are issued without taking the exam). Improved conditions on cross-border trade are expected with ratification of the South Asian Free Trade Area (SAFTA) agreement and the newly ratified Transit Trade Agreement between Afghanistan and Pakistan (APTTA). Adoption of both agreements will require outreach to the business community and Customs Officers responsible for implementation.

The [Afghan Customs Department](#), a division of the [Ministry of Finance](#), can be contacted at:

Telephone: +(93) 752 004 199

Email: <http://www.customs.gov.af/contactus.php>

Standards

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Afghanistan is currently in the process of developing a national standards regime. The Afghan National Standards Authority (ANSA) is an independent agency under the Ministry of Commerce and Industries and was established in 2005. ANSA is responsible for the establishment, maintenance, dissemination and enforcement of national standards and technical regulations. ANSA can be contacted at:
Telephone: +(93) 799 079 258.

ANSA was originally established based on Presidential Decree 952 in 2004 under the Ministry of Commerce and Industries. At that time, it had only a symbolic role within government. In August 2007, the Council of Ministers approved ANSA as an independent entity and the Parliament of Afghanistan ratified this decision in February 2008. Soon after that, ANSA obtained membership in the Economic Committee of the Council of Ministers.

ANSA's overall goal is to develop essential national standards and to enhance technical infrastructure for testing. The U.S. Trade and Development Agency helped draft a Standard Law, which was enacted by Presidential Decree 77 dated September 16, 2010. A five year strategy was developed by ANSA and will be expected to be launched at the end of February 2011. ANSA's website at www.ansa.gov.af is currently under construction.

In October 2010, one of the most important trade agreements in decades was signed by the Governments of Afghanistan and Pakistan. The Afghanistan-Pakistan Transit Trade Agreement (APTTA), which enters into force February 2011, will strengthen commercial ties across the region and promote global trade as well as contribute to greater regional security as Afghanistan and Pakistan dismantle trade barriers and work together to reduce the cost and difficulties of trade in transit.

Under APTTA, Afghan trucks will be allowed to carry Afghan exports up to the borders of India and China as well as to the rest of the world through the seaports of Karachi, Port Qasim and Gwador. The new transit regime increases the number of transport routes available to trucks from both countries lowering the cost of imports and making exports of both countries more competitive. Pakistan will benefit from easier trade into Central Asia and beyond and improved access to important raw materials for its industries. Afghanistan will gain from increased speed and efficiency in exporting its goods.

Under APTTA, there will be no customs charges for trucks in transit, and customs procedures will be simplified and harmonized to reduce costs and delays. It will also have a multiplier effect, creating jobs along transit corridors, including lodging, food services, repair shops, and service stations.

Afghanistan is a member of the [Economic Cooperation Organization](#) (ECO) and the [Central Asia Regional Economic Cooperation](#) (CAREC). It became a full member of the [South Asian Association for Regional Cooperation](#) (SAARC) in the spring of 2007.

In January 2011, Afghanistan's President signed the Agreement for the South Asia Free Trade Area (SAFTA), which will go into effect 90 days after official notification to the SAARC Secretariat. At that time, under SAFTA, Pakistan, India and Sri Lanka will be required to lower tariffs immediately on many Afghan exports, with the other SAFTA countries (Bangladesh, Bhutan, Maldives, and Nepal) to follow suit over a five year period. Afghanistan has also signed bilateral Trade and Economic Cooperation Agreements with Russia and Turkey, a bilateral Reciprocal Promotion and Protection of Investments Agreement with Turkey, a bilateral Preferential Trade Agreement with India and a bilateral Investment Treaty with Germany.

Afghan products enjoy duty free and quota free access under an LDC Market Access Initiative with Canada and a Generalized Preferences Treatment agreement with Japan. Afghan products also enjoy an "Everything But Arms" (EBA) agreement with the European Union.

As a least-developed country, Afghanistan is eligible for duty-free access to the U.S. market for approximately 5,700 products under the Generalized System of Preferences (GSP) program. Afghanistan has signed a bilateral Investment Incentive Agreement with the United States to encourage and protect investment activities in Afghanistan through the provision of insurance and investment guarantees under the OPIC program.

In 2004, a Trade and Investment Framework Agreement (TIFA) was signed with the United States which institutionalized economic relations between the U.S. and Afghanistan. Since that time, there have been annual meetings of the U.S. – Afghanistan Council on Trade and Investment, established under the auspices of the

TIFA, to further the bilateral cooperation needed to achieve Afghanistan's goals of creating an environment conducive to economic reform, private sector development and trade expansion.

Afghanistan became an observer to the [World Trade Organization](#) (WTO) in December 2004 and established a Working Party (WP) to begin membership negotiations. The WTO Secretariat scheduled the first meeting for Afghanistan's Working Party for January 31, 2011 as the Afghan Government had replied to all questions submitted by WTO members on the Afghan Memorandum on Foreign Trade Regime (MFTR). This Memorandum, which Afghanistan submitted on March 31, 2009, outlines all aspects of a country's trade and legal regime, and is among the first steps in the accession process. The U.S. Government, through USAID's Trade and Accession Facilitation for Afghanistan (TAF) project, has been providing technical assistance for such trade regime reform. USTR estimates accession negotiations will take a number of years, though should be somewhat less contentious since Afghanistan is a Least Developed Country (LDC), which can limit concession requests during negotiations.

Web Resources

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U.S. Department of Commerce's Bureau of Industry and Security (BIS)

<http://www.bis.doc.gov/>

U.S. Department of Treasury's Office of Foreign Assets Control (OFAC)

<http://www.treasury.gov/about/organizational-structure/offices/Pages/Office-of-Foreign-Assets-Control.aspx>

Afghan Customs Department (ACD)

<http://www.customs.gov.af/>

Afghan Ministry of Finance

<http://www.mof.gov.af/>

Afghan National Standards Authority (ANSA)

<http://www.ansa.gov.af/>

World Trade Organization (WTO)

<http://www.wto.org/>

Afghan Ministry of Finance

<http://www.mof.gov.af/>

Economic Cooperation Organization (ECO)

<http://www.ecosecretariat.org/>

Central Asia Regional Economic Cooperation (CAREC)

<http://www.adb.org/carec/>

South Asian Association for Regional Cooperation (SAARC)

<http://www.saarc-sec.org/>

Office of the U.S. Trade Representative

<http://www.ustr.gov/>

Canadian Department of Foreign Affairs and International Trade

<http://www.dfait-maeci.gc.ca/>

United Nations Conference on Trade and Development (UNCTAD)

<http://www.unctad.org/>

Turkish Ministry of Foreign of Affairs

<http://www.mfa.gov.tr/>

Japanese Ministry of Foreign Affairs

<http://www.mofa.go.jp/>

Gateway to the European Union

http://europa.eu/index_en.htm/

Indian Ministry of Commerce

<http://www.commerce.nic.in/>

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Chapter 6: Investment Climate

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The Government of the Islamic Republic of Afghanistan (GIROA) recognizes that the development of a vibrant private sector is crucial to the reconstruction of an economy ravaged by decades of conflict and mismanagement. As such, it has taken concrete steps toward fostering a business-friendly environment for both foreign and domestic investment. Security threats sometimes limit investors' opportunities to develop businesses in some regions, and certain sectors (such as mining and hydrocarbons) still lack a regulatory environment that fully supports investment. In the face of these challenges, Afghanistan's investment climate has shown surprising levels of dynamism in recent years. The following chart summarizes well-regarded indexes and rankings (MCC refers to the Millenium Challenge Corporation):

Measure	Year	Index or Rank
TI Corruption Index	2010	176/178
Heritage Economic Freedom	2010	N/A (not ranked)
World Bank Doing Business	2011	167/183
MCC Gov't Effectiveness	2010	-0.52 (23%)
MCC Rule of Law	2010	-1.12 (2%)

MCC Control of Corruption	2010	-0.86 (5%)
MCC Fiscal Policy	2010	-2.8 (34%)
MCC Trade Policy	2010	69.6 (62%)
MCC Regulatory Quality	2010	-0.95 (8%)
MCC Business Start Up	2010	0.965 (83%)
MCC Land Rights Access	2010	0.383 (5%)
MCC Natural Resource Mgmt	2010	22.55 (0%)

Openness to Foreign Investment

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Official support for open markets and private sector participation is stated in the Afghanistan National Development Strategy (ANDS), which President Karzai and the international donor community endorsed in June 2008. The Law on Private Investment of Afghanistan of 2005 specifically prohibits discrimination against foreign investors, as does the Constitution. According to the Afghan Investment Support Agency (AISA), discussions are underway to improve regulations under the law; these will be submitted to the Parliament and President for promulgation once completed. Investment in certain sectors, such as non-banking financial activities, insurance, natural resources, and infrastructure (defined to include power, water, sewage, waste-treatment, airports, telecommunications, and health and education facilities) is subject to special consideration by the High Commission on Investment (HCI), in consultation with relevant government ministries. The HCI is the Government's focal point for investment policy-making and is composed of the Ministers of Commerce, Agriculture, Foreign Affairs, Finance, the Afghan Investment Support Agency (AISA), and Da Afghanistan (Central) Bank.

Investments can be 100 percent foreign-owned. Under the Afghan Constitution and the Private Investment Law, foreigners may not own real estate, but they may lease it for periods up to 50 years for arable land or longer for non-arable land. Some leases have been negotiated with an automatic renewal clause for terms of up to 99 years. Many businesses cite access to land as one of the biggest impediments to investment in Afghanistan. Foreign investors are not required to secure an Afghan partner, but due to the restriction on land ownership, they almost always choose to work with one. Private investors have the right to transfer their capital and profits out of Afghanistan, including for debt service for off-shore loans.

The government has adopted economic reform programs and these rely heavily on foreign experts who base their initiatives on international best practices. The government has also adopted progressive policies to foster trade and investment, including currency reform, rationalized customs tariffs, and a simplified tax code. It has also set up structures to help promote investment and investment-friendly policies. AISA, a quasi-government agency under the Ministry of Commerce, operates a streamlined

business registration process ("one-stop shop") and conducts a host of business and investment promotion and facilitation activities.

The Afghanistan Chamber of Commerce and Industries (ACCI), which engages actively in the process of establishing a legal framework for private business in Afghanistan, represents the business community to leading government officials, and provides services to members. ACCI took its current form as a private chamber of commerce in 2008, and since that time, ACCI has elected its leadership and established offices in 21 provinces of Afghanistan. ACCI also has affiliations and partnership agreements with investors and associations in the United States, Tajikistan, Iran, Pakistan, the United Arab Emirates, Italy, and many other countries. ACCI works with Parliament, the Office of the President, and the Ministries of Finance, Commerce, Interior, Transport, Justice (among others) to bring about reform and encourage investment in Afghanistan.

The rebuilding of Afghanistan's legal system is only just beginning. Much of the framework necessary for encouraging and protecting private investment is not yet in place, and the existence of three overlapping systems (the Sharia-Islamic Law, the Shura-traditional law and practice, and the formal legal system instituted under the 2004 Constitution) can be confusing to both investors and legal professionals. Major commercial laws currently in effect cover partnerships, corporations, arbitration, mediation, copyrights, and patents. A new telecommunications law (replacing the previous law enacted by decree) has been approved by the Parliament and Presidential signature is pending. A related ICT Law (Information & Communications Technology) is under consideration that will update the legal framework for ICT. Parliament also passed a Labor Law in 2008. Laws modernizing legislation on trademarks, transportation, agency, and competition await the President's signature. Anti-hoarding and contract laws are under consideration. Accounting and standards regimes have yet to be set up.

Although most senior Afghan government officials express strong commitment to a market economy and foreign investment, many businesses maintain that this attitude is not always reflected in practice. Many government officials -- some of whom demand bribes, levy unofficial taxes, and inflict bureaucratic delays -- are out of step with official government policy. Commercial regulatory bodies are often understaffed.

While not sanctioned by law or official policy, small groups of businessmen, many of whom are alleged to have connections with current or former warlords and militias, dominate the trading market in many areas. These individuals, because of their wealth and insider access to land, credit and contacts, and their ability to manipulate prices, enjoy excessive advantages that result in a non-competitive environment in some fields, notably gem-mining, fuel transport, and construction. In addition, some industries, including money changing and carpet production, have well-organized guilds which protect existing firms and prevent newcomers from establishing themselves.

The World Bank's 2011 Doing Business Report ranks Afghanistan at 167th out of 183 economies for the ease of doing business overall. This ranking reflects the reality that the legal and regulatory frameworks and enforcement mechanisms are in a nascent stage. USAID, through its Economic Growth and Governance Initiative (EGGI), has launched a "Doing Business Indicators (DBI) Project focused on improving the business-enabling environment in Afghanistan. Five working groups to be facilitated by USAID will be created to study and make recommendations for improving Afghanistan's rating on the following selected World Bank index indicators: 1) Starting a business; 2)

Registering property; 3) Protecting investors; 4) Trading across borders; and 5) Closing a business.

Conversion and Transfer Policies

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There are no restrictions on converting, remitting, or transferring funds associated with investment, such as dividends, return on capital, interest and principal on private foreign debt, lease payments, and royalties and management fees, into a freely usable currency and at a legal market clearing rate. Afghanistan does not maintain a dual exchange-rate regime, currency controls, capital controls, or any other restrictions on the free flow of funds abroad.

However, in practice, particularly in the provinces, many banks may not have the capacity to deal with foreign exchange. The large, informal foreign-exchange markets in major cities and provinces such as Kabul, Mazar-e Sharif, Jalalabad, Kandahar, and Herat, where U.S. dollars, British pounds, and Euros are readily available, are slowly starting to become formal markets. As of October 2010, Da Afghanistan Bank had issued 209 licenses for money service providers (MSPs) and 271 licenses for money exchange dealers in Kabul. It has licensed 88 MSPs and 396 money exchange dealers in the provinces. Despite these licensed service providers and exchange dealers, there are thousands of unlicensed money changers that continue to practice their trade. Non-official money service providers (i.e. hawaladars, many of whom also often perform currency exchange) often cite the lack of enforcement in the currency exchange area and the resulting competitive disadvantage to licensed exchangers as a reason not to get MSP licenses. U.S. investors should only use licensed hawaladar money service providers, who are listed on the website of Da Afghanistan Bank.

The only requirements placed on the outflow of funds are to prevent money laundering (and the financing of terrorism). The transport of more than AFS 1,000,000 or equivalent in cash across the border of Afghanistan into another country must be reported in advance to Afghan Customs.

Expropriation and Compensation

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The Private Investment Law states, "The State can expropriate an investment or assets only for the purposes of public interest and on a non-discriminatory basis." It further states that the "State shall provide prompt, adequate and effective compensation in conformity with the principles of international law, equivalent to the fair market value." The State may confiscate private property in order to settle bad commercial debts. The law allows a majority investor to challenge the expropriation, but this right does not extend to minority shareholders. There have been no reports of State expropriation of foreign assets, "creeping" or otherwise.

Dispute Settlement

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While a commercial court system exists, the lack of a law on Commercial Agency is a significant impediment to the arbitration of commercial matters. In addition, there is a shortage of qualified legal practitioners, and corruption in the judicial system is endemic.

The enactment in January 2007 of Arbitration and Mediation laws established the foundation for an alternative dispute settlement system. Afghanistan is a party to the Convention on the Settlement of Investment Disputes Between States and Nationals of Other States and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. The Private Investment Law provides for dispute resolution under these mechanisms, under United Nations Commission on International Trade Law (UNCITRAL) rules, or under any mechanism that the investor has specified in a contract with another investor. The international donor community is supporting the development of an Afghanistan Center for Dispute Resolution.

Under these conditions, the legal system plays a limited role in adjudicating commercial disputes and most businesses use informal mechanisms to resolve disputes and enforce property rights. AISA, for example, has some capability to assist investors in the mediation of certain disputes.

Investment disputes are common in the areas of land titling and contracts. The lack of a comprehensive land titling database means that several individuals may hold deeds to the same property. Real estate agents are not reliable. Those foreign investors seeking to work with Afghan citizens to purchase property are advised to conduct extensive and painstaking due diligence. The Embassy maintains a list of legal advisors that businesses may consult.

Performance Requirements and Incentives

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Afghanistan has no formal regulations or laws governing performance requirements. There are no separate investment incentives or special treatment accorded to foreign investors. There are no government-imposed conditions on investment, beyond the procedures required for establishing or acquiring a business. The government does not impose offset requirements on its procurements.

The government does not apply discriminatory or excessively onerous visa, residence or work permit requirements for foreigners, but bureaucratic processing of visas can be time-consuming and there have been reports of bribes being solicited for faster processing. There are no discriminatory or preferential export and import policies affecting foreign investors. As noted above, the HIC may choose to apply terms that are different from those generally applied to investments for certain restricted sectors.

Right to Private Ownership and Establishment

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Under the Private Investment Law, foreign and domestic private entities have equal standing and may establish and own business enterprises, engage in all forms of remunerative activity and freely acquire and dispose of interests in business enterprises.

Protection of Property Rights

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Property rights protection is weak due to a lack of property registries or a comprehensive land titling database, disputed land titles, incapacity of commercial courts, and widespread corruption. The acquisition of a clear land title to purchase real estate or a registered leasehold interest is complicated and cumbersome. The World Bank estimated in its 2011 "Doing Business Report" that it takes an average of 250 days and

entails legal fees of five percent of property value to register property. According to Da Afghanistan Bank and ACCI, there is no law in force that deals specifically with bankruptcy, although the subject is discussed in some of the articles of the Banking Law. The Corporation Limited Company Law, Mediation Law and Partnership Law also discuss bankruptcy. The Law on Mortgage and Secured Transactions was approved by Parliament and signed by the President in 2009.

While Afghanistan has laws on Patents and Copyright, there is no enforcement. A Law on Trademarks is awaiting Presidential signature. Afghanistan is not a member of the WTO Trade Related Intellectual Property Rights (TRIPS) Agreement or the World Intellectual Property Organization (WIPO) Internet Treaties. Pirated DVDs and software are sold throughout the country. Counterfeit pharmaceuticals and building materials are common.

Transparency of Regulatory System

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In general, the Afghan government promotes transparent policies and effective laws to foster competition, establish "clear rules of the game" and promote, rather than hinder, foreign investment. The inadequacy of the regulatory system, and corruption among those working-level officials who administer it, are larger obstacles to investors than the transparency of the regulations.

Procedures for obtaining a business license were streamlined in 2003 with the establishment of AISA, which serves as a "one-stop shop" for investors, and which has greatly facilitated the process of establishing a business. Afghanistan now ranks an impressive 25th out of 183 economies in ease of registering a business, according to the World Bank's 2011 "Doing Business Report." There are no informal regulatory processes managed by non-governmental organizations or private sector associations. Parliament must approve all legislation, except that when Parliament is in recess, the President can issue decrees that have the force of law. However, in these cases, Parliament has the right to review and amend the decrees.

Efficient Capital Markets and Portfolio Investment

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Finance is Afghanistan's second largest service industry (behind telecommunications) and contributes to private investment and economic growth. The sector has grown rapidly since the end of Taliban rule. Today, 17 commercial banks operate in Afghanistan, with total assets of \$4.1 billion (compared to assets of less than \$300 million in 2004). However, despite the boom in banking, most Afghans remain "unbanked," with only 5 percent currently holding deposits. Moreover, many Afghans continue to rely on money service providers (or hawalas) to access finance and transfer money, due to unfamiliarity with a functioning banking system and limited access to banks in rural areas. Banking remains highly centralized, with more than 75% of total loans made in Kabul Province. Bank lending is also undermined by a deficient legal and regulatory infrastructure that impedes the enforcement of property rights and development of collateral. The difficulty of accessing credit through banks and other formal financial institutions makes existing firms dependent on family funds and retained earnings, limits opportunities for entrepreneurialism, and reinforces dependence on the informal credit market.

The recent exposure of massive fraud at the country's largest bank, Kabul Bank, laid bare the underlying weaknesses in banking regulation and supervision. Despite technical assistance received, Da Afghanistan Bank has been unable to match the pace of the banking sector's growth with requisite improvements in monitoring and supervision. These weaknesses have been compounded by a lack of clear action to date by the Afghan government more broadly to enforce laws against those suspected of wrong doing in the financial sector.

Credit to the private sector stands at less than ten percent of GDP, significantly lower than other countries in the region. Afghanistan ranks 128th out of 183 countries for ease of obtaining credit in the World Bank's 2011 "Doing Business Report." In response to this situation, investment funds, leasing, micro-financing, and SME-financing companies have begun to enter the market.

Competition from State Owned Enterprises

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In principle, government policies and regulations apply the standard of competitive equality to private enterprises in competition with public enterprises with respect to access to markets, credit and other business operations. However, working-level government officials have in some instances exhibited anti-competitive and protectionist bias in some sectors in which state-owned enterprises (SOEs) are active.

Under Presidential Decree No. 103 (December 2005), the Ministry of Finance has sole responsibility for assessing the economic viability of State-owned enterprises (SOEs). Since passage of the Decree, the Ministry of Finance has determined that eight of 64 enterprises should remain state-owned for the time being, while the other 56 should be divested-either through privatization, liquidation, corporatization or other mechanisms. The Afghan government has identified for divestment more than 1,400 SOE land parcels/buildings, from 44 SOEs evaluated. The Afghan government has approved 29 SOE liquidations, restructuring, and corporatization proposals. As of December 2010, 118 successful public auctions have taken place with assets worth \$12,607,075 devolving to the private sector. Foreign and domestic investors enjoy equal treatment under ongoing privatization programs.

Corporate Social Responsibility

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The Afghan government is working with large companies and foreign investors to encourage corporate social responsibility (CSR). Large mining contracts include stipulations for environmental protection and community inclusion. Afghanistan law prohibits mining that would result in the destruction of antiquities unless the mining company has prior approval from the Ministry of Information and Culture. Two competing cell-phone providers in the country have well-developed CSR outreach programs that include health, education, job creation, environmental protection, and outreach to refugees. Some Afghan charities are also benefiting from CSR funds from companies outside of the country (for example, a Japanese cosmetic company contributed CSR funds to UN Women Afghanistan, and a European trade organization donated a factory to make medicines in Afghanistan.) The newly-formed American Chamber of Commerce in Afghanistan (AmCham Afghanistan) has identified CSR as one of its core areas of focus.

Political Violence

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Afghanistan is struggling toward political stability, but anti-government violence has constrained economic activity. The parliamentary elections of September 18, 2010, were marred by violence, voter intimidation, and fraud. The government is taking steps to extend its reach into the provinces, but the risk of violence continues to be high in many areas, and security remains a primary concern for most investors. In Kandahar a targeted assassination campaign against Afghan government officials has slowed political and economic progress. Foreign firms operating in country report spending a significant percentage of their revenues on security infrastructure and operating expenses. The U.S. Department of State continues to warn Americans against travel to Afghanistan. U.S. citizens should review the Consular Information Sheet and Travel Warning for Afghanistan for the most up-to-date information on the security situation and possible threats.

Corruption

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Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities overseas for U.S. companies and the broader business climate. It also deters international investment, stifles economic growth and development, distorts prices, and undermines the rule of law.

It is important for U.S. companies, irrespective of their size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance program or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in foreign markets should take the time to become familiar with the relevant anticorruption laws of both the foreign country and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by requiring them to uphold their obligations under relevant international conventions. A U. S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

U.S. Foreign Corrupt Practices Act: In 1977, the United States enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: <http://www.justice.gov/criminal/fraud/>

Other Instruments: It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental to the expansion of the international

framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Antibribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements. Afghanistan is party to the UN Convention, but generally all countries prohibit the bribery and solicitation of their public officials.

OECD Antibribery Convention: The OECD Antibribery Convention entered into force in February 1999. As of December 2009, there are 38 parties to the Convention including the United States (see <http://www.oecd.org/dataoecd/59/13/40272933.pdf>). Major exporters China, India, and Russia are not parties, although the U.S. Government strongly endorses their eventual accession to the Convention. The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. The United States meets its international obligations under the OECD Antibribery Convention through the U.S. FCPA. Afghanistan is not a party to the OECD Convention.

UN Convention: The UN Anticorruption Convention entered into force on December 14, 2005, and there are 143 parties to it as of December 2009 (see <http://www.unodc.org/unodc/en/treaties/CAC/signatories.html>). The UN Convention is the first global comprehensive international anticorruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The UN Convention goes beyond previous anticorruption instruments, covering a broad range of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, trading in influence to the concealment and laundering of the proceeds of corruption. The Convention contains transnational business bribery provisions that are functionally similar to those in the OECD Antibribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery. Afghanistan is a party to the UN Convention.

OAS Convention: In 1996, the Member States of the Organization of American States (OAS) adopted the first international anticorruption legal instrument, the Inter-American Convention against Corruption (OAS Convention), which entered into force in March 1997. The OAS Convention, among other things, establishes a set of preventive measures against corruption, provides for the criminalization of certain acts of corruption, including transnational bribery and illicit enrichment, and contains a series of provisions to strengthen the cooperation between its States Parties in areas such as mutual legal assistance and technical cooperation. As of December 2009, the OAS Convention has 33 parties (see <http://www.oas.org/juridico/english/Sigs/b-58.html>) Afghanistan is not a party to the OAS Convention.

Council of Europe Criminal Law and Civil Law Conventions: Many European countries are parties to either the Council of Europe (CoE) Criminal Law Convention on Corruption, the Civil Law Convention, or both. The Criminal Law Convention requires criminalization of a wide range of national and transnational conduct, including bribery, money-laundering, and account offenses. It also incorporates provisions on liability of legal persons and witness protection. The Civil Law Convention includes provisions on compensation for damage relating to corrupt acts, whistleblower protection, and validity of contracts, inter alia. The Group of States against Corruption (GRECO) was

established in 1999 by the CoE to monitor compliance with these and related anti-corruption standards. Currently, GRECO comprises 46 member States (45 European countries and the United States). As of December 2009, the Criminal Law Convention has 42 parties and the Civil Law Convention has 34 (see www.coe.int/greco.) Afghanistan is not a party to the Council of Europe Conventions.

Free Trade Agreements: While it is U.S. Government policy to include anticorruption provisions in free trade agreements (FTAs) that it negotiates with its trading partners, the anticorruption provisions have evolved over time. The most recent FTAs negotiated now require trading partners to criminalize “active bribery” of public officials (offering bribes to any public official must be made a criminal offense, both domestically and trans-nationally) as well as domestic “passive bribery” (solicitation of a bribe by a domestic official). All U.S. FTAs may be found at the U.S. Trade Representative Website: <http://www.ustr.gov/trade-agreements/free-trade-agreements>.

Local Laws: U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department’s U.S. and Foreign Commercial Service can provide assistance with navigating the host country’s legal system and obtaining a list of local legal counsel.

Assistance for U.S. Businesses: The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of the company’s overarching compliance program when choosing business partners or agents overseas. The U.S. Foreign and Commercial Service can be reached directly through its offices in every major U.S. and foreign city, or through its Website at www.trade.gov/cs.

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department’s Advocacy Center and State’s Office of Commercial and Business Affairs. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. Government officials, including local embassy personnel and through the Department of Commerce Trade Compliance Center “Report A Trade Barrier” Website at tcc.export.gov/Report_a_Barrier/index.asp.

Guidance on the U.S. FCPA: The Department of Justice’s (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department’s present enforcement intentions under the anti-bribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ’s Fraud Section Website at www.justice.gov/criminal/fraud/fcpa. Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel, U.S. Department of Commerce, Website, at http://www.ogc.doc.gov/trans_anti_bribery.html. More general information on the FCPA is available at the Websites listed below.

Exporters and investors should be aware that generally all countries prohibit the bribery of their public officials, and prohibit their officials from soliciting bribes under domestic laws. Most countries are required to criminalize such bribery and other acts of corruption by virtue of being parties to various international conventions discussed above.

Corruption is pervasive in Afghanistan. In 2010, the country ranked 176th out of 178 countries in Transparency International's Corruption Perception Index. Based on the Penal Code, corruption is a serious criminal act; articles 260 to 267 state that anyone accepting or giving a bribe can be charged with criminal acts. While these anti-corruption laws exist, enforcement has been very limited. Afghan President Hamid Karzai created the High Office of Oversight for the Implementation of Anti-Corruption Strategy ("HOO") to coordinate anti-corruption measures for the government; this office does not control penalties, however.

Afghanistan acceded to the United Nations Convention against Corruption in August 2008 but is not a party to the OECD Convention on Combating Bribery of Foreign Public Officials. U.S. firms identify corruption as one of the biggest obstacles to foreign direct investment and routinely report being asked for a bribe, called "sherini" or "baksheesh." Although official working-level government salaries have recently risen, many officials take small bribes for government services. U.S. companies are expected to comply with the Foreign Corrupt Practices Act, which prohibits the bribery of foreign officials.

Anti-Corruption Resources

Some useful resources for individuals and companies regarding combating corruption in global markets include the following:

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a "Lay-Person's Guide to the FCPA" is available at the U.S. Department of Justice's Website at: <http://www.justice.gov/criminal/fraud/fcpa>.
- Information about the OECD Antibribery Convention including links to national implementing legislation and country monitoring reports is available at: http://www.oecd.org/departement/0,3355,en_2649_34859_1_1_1_1_1,00.html. See also new Antibribery Recommendation and Good Practice Guidance Annex for companies: <http://www.oecd.org/dataoecd/11/40/44176910.pdf>
- General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: http://www.ogc.doc.gov/trans_anti_bribery.html.
- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at: http://www.transparency.org/policy_research/surveys_indices/cpi/2009. TI also publishes an annual *Global Corruption Report* which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major

corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. See <http://www.transparency.org/publications/gcr>.

- The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 212 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See http://info.worldbank.org/governance/wgi/sc_country.asp. The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at: <http://go.worldbank.org/RQQXYJ6210>.
- The World Economic Forum publishes the *Global Enabling Trade Report*, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See <http://www.weforum.org/en/initiatives/gcp/GlobalEnablingTradeReport/index.htm>.
- Additional country information related to corruption can be found in the U.S. State Department's annual *Human Rights Report* available at <http://www.state.gov/g/drl/rls/hrrpt/>.
- Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators for 92 countries with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: <http://report.globalintegrity.org/>.

Bilateral Investment Agreements

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Afghanistan has Bilateral Investment Treaties (BITs) with Turkey and Germany. Afghanistan acceded to the South Asia Free Trade Area (SAFTA) in August 2008, but needs to bring its terms into force through ratification by Parliament or Presidential decree. Most products originating in Afghanistan can be imported into the U.S. duty-free under the Generalized System of Preferences (GSP) Program, and EU tariffs on Afghan products are also very low. Afghanistan is a member of the South Asian Association for Regional Cooperation (SAARC) and Central Asian Regional Economic Cooperation (CAREC).

The Afghanistan Pakistan Transit Trade Agreement (APTTA) was signed in Kabul by the two countries' respective Ministers of Commerce in October 2010. Once fully ratified, APTTA should cut down on transportation costs and promote trade within the region.

Afghanistan signed a Trade and Investment Framework Agreement (TIFA) with the United States in 2004, but a BIT has not been negotiated. There is no Bilateral Taxation Treaty with the United States.

OPIC and Other Investment Insurance Programs

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The Overseas Private Investment Corporation (OPIC) has an active and expanding portfolio of political risk insurance and provides both direct and indirect financial support to private business investments in country. OPIC makes direct loans of up to 60% of long-term investments that are at least 25% owned by a U.S. investor. OPIC provides political risk insurance coverage for the U.S. equity component, as well as reinsurance support for insurance that is written in-country.

Afghanistan is a member of the Multilateral Investment Guarantee Agency (MIGA).

Labor

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There is a critical shortage of skilled labor in Afghanistan. Only an estimated 28 percent of the population over the age of 15 can read and write. Decades of war, a low level of education and lack of training facilities have resulted in a serious scarcity of skilled technicians, qualified managers and educated professionals.

U.S. companies that establish training programs for their employees should expect significant returns in enhanced productivity, but there is a risk of high turnover as skilled employees chase higher paying opportunities.

Labor-management relations are undeveloped. While there are major and smaller trade union organizations in the country, there is little knowledge or practice of collective bargaining.

The new Labor Law, which was intended to be in accordance with International Labor Organization (ILO) standards, went into effect in 2009. The law bans forced labor and child labor. It sets terms for working hours, overtime and leave, and calls for employers to provide a wide array of benefits, but there is little awareness of its provisions in either the government or the private sector. There are no implementing regulations, and the Ministry of Labor, Social Affairs, Martyrs and Disabled lacks the capacity to enforce the law. Private sector employers report they have not been affected by the law.

A regulation pertaining to foreign workers was published in 2005. While allowing for the employment of foreign workers, it requires that priority be given to Afghan workers when they are equally qualified.

Foreign-Trade Zones/Free Ports

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Afghanistan has no duty-free import zones or ports. However, Afghanistan is considering the establishment of Trade Facilitation Zones and/or Export Processing Zones to enhance export potential. Legislation currently under consideration in the U.S. Congress would establish special import-tax status for certain categories of goods made in Reconstruction Opportunity Zones (ROZs).

Foreign Direct Investment Statistics

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Comprehensive foreign direct investment (FDI) statistics for Afghanistan are unavailable. Available figures are not reliable because of inconsistencies in data collection. The United Nations Conference on Trade and Development (UNCTAD) 2010 World

Investment Report estimates FDI flow into Afghanistan in 2009 at USD 185 million and total FDI stocks at USD 1.55 billion, representing 10.3% of GDP. According to a 2008 report by AISA, the top FDI destination sectors were, in descending order, services, construction, agriculture, and miscellaneous "industry." The four largest investors were Turkey, the United Arab Emirates, Canada, and the United States. AISA's data track approved, rather than actual, investment.

Web Resources

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- Transparency International (Corruption Index) <http://www.transparency.org/>
- Heritage Foundation (Index of Economic Freedom) <http://www.heritage.org/index/>
- World Bank Doing Business 2011 Report
<http://doingbusiness.org/data/exploreeconomies/afghanistan>
- Millennium Challenge Corporation (MCC) <http://www.mcc.gov/>
- Afghanistan Investment Support Agency (AISA) <http://www.aisa.org.af/>
- Afghan Ministry of Commerce & Industries (MoCI) <http://www.commerce.gov.af/>
- Afghanistan Chamber of Commerce and Industry (ACCI) <http://www.acci.org.af/>
- Da Afghanistan Bank <http://www.centralbank.gov.af/>
- UN Commission on International Trade Law (UNCITL)
<http://www.uncitral.org/uncitral/en/index.html/>
- World Trade Organization (WTO) <http://www.wto.org/>
- World Intellectual Property Organization (WIPO)
<http://www.wipo.int/portal/index.html.en/>
- Afghan Ministry of Finance (MoF) <http://www.mof.gov.af/>
- American Chamber of Commerce in Afghanistan (AmCham) <http://www.amcham-af.org/>
- Department of State Consular Information Sheet and Travel Warning for Afghanistan.
http://travel.state.gov/travel/cis_pa_tw/cis/cis_1056.html/
http://travel.state.gov/travel/cis_pa_tw/tw/tw_2121.html/
- Department of Justice – Foreign Corrupt Practices Act (FCPA)
<http://www.justice.gov/criminal/fraud/fcpa/>
- Organisation for Economic Cooperation and Development (OECD)
<http://www.oecd.org/>
- Organization of American States (OAS) <http://www.oas.org/>

Council of Europe (CoE)

<http://www.coe.int/>

U.S. Trade Representative (USTR)

<http://www.ustr.gov/>

Overseas Private Investment Corporation (OPIC):

<http://www.opic.gov/>

Multilateral Investment Guarantee Agency

<http://www.miga.org/>

UN Conference on Trade and Development (UNCTAD)

<http://www.unctad.org/>

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Chapter 7: Trade and Project Financing

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How Do I Get Paid (Methods of Payment)

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Most local businesses operate on a cash basis. Import and export letters of credit are available at several banks as well as electronic funds transfer. Due to wide mistrust and general underdevelopment of the banking system, many local businesses depend on the informal *hawala* system to make payments and transfer funds. The *hawala* system is an informal value transfer system whereby money is transferred through a network of brokers, or *hawaladars*. Promissory instruments are not exchanged; the transaction is based on the honor system.

How Does the Banking System Operate

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Finance is Afghanistan's second largest service-based industry (behind telecommunications) and contributes to private investment and economic growth. The sector has grown rapidly since the end of Taliban rule. Today, 17 commercial banks operate in Afghanistan, with total assets of \$4.1 billion (compared to assets of less than \$300 million in 2004). However, despite the boom in banking, most Afghans remain "unbanked," with only 5 percent of Afghans currently holding bank deposits. Moreover, many Afghans continue to rely on money service providers (or hawalas) to access finance and transfer money, due to the unfamiliarity with a functioning banking system and limited access to banks in rural areas. Banking remains highly centralized, with 75% of total loans made in Kabul Province. Bank lending is also undermined by a deficient legal and regulatory infrastructure that impedes the enforcement of property rights and development of collateral. The difficulty of accessing credit through banks and other formal financial institutions makes existing firms dependent on family funds and retained earnings, limits opportunities for entrepreneurialism, and reinforces dependence on the informal credit market.

Access to credit has been identified as one of the largest obstacles to investment in Afghanistan and credit to the private sector, according to 2008 data, stands at only around 9% of GDP (low relative to other developing countries). Afghanistan ranks 128th out of 183 countries for obtaining credit in the World Bank's 2011 "Doing Business Report." In response to this situation, investment funds, leasing, micro-financing, and SME-financing companies have begun to enter the market.

Afghanistan has a small public debt market. The Central Bank issues Capital Notes (akin to U.S. Treasury Bills) with maturities of one and six months. Interest rates on both

maturities have stabilized at around 6 percent. Licensed commercial banks, money service providers, and foreign exchange dealers are eligible to participate in the primary auction of these securities and the Central Bank is currently working on a plan to encourage development of a secondary market for Capital Notes.

Afghanistan's Central Bank, the [Da Afghanistan Bank \(DAB\)](#), has taken important steps to improve banking regulation and supervision in recent years. However, serious challenges remain, including lack of capacity, limited operational transparency, a weak legal framework, and further need for improvements in supervision. The Central Bank is now conducting both on- and off-site supervision of all 17 commercial banks. Most bank loans have traditionally been structured as lines of credit rather than term loans, which tends to obscure the true level of non-performing loans. Under the guidance of the DAB, banks are converting lines of credit to term loans.

Foreign-Exchange Controls

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Exchange rate policy is determined by the Central Bank, and is implemented through a weekly foreign exchange auction of U.S. Dollars. No foreign exchange restrictions or multiple currency practices are currently in place.

U.S. Banks and Local Correspondent Banks

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There are currently no U.S. banks operating in Afghanistan. However, in October 2010, Citi entered into a banking agreement with the [Afghanistan International Bank \(AIB\)](#) to serve as Citi's correspondent bank in Afghanistan. AIB is also an ING-affiliated enterprise with American equity.

Project Financing

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Project financing is available from the following organizations:

The Overseas Private Investment Corporation (OPIC) is an independent agency of the U.S. Government that offers specialty insurance (stand alone terror/sabotage and political risk coverage), loans and guarantees to help U.S. businesses of all sizes invest and compete in more than 140 emerging markets and developing nations worldwide. A \$100 million line of credit is available for projects that demonstrate substantial U.S. participation, promise significant benefits to the economic and social development of Afghanistan, and foster private sector competition in Afghanistan. OPIC is active in Afghanistan and gives preferential consideration to projects that significantly involve U.S. small businesses. For a list of current OPIC projects in Afghanistan, go to: <http://www.opic.gov/projects/current-opic-projects> and select *Afghanistan*.

The International Finance Corporation (IFC) promotes sustainable private sector investment in developing countries and is the largest multilateral source of loan and equity financing for private sector projects in the developing world. IFC provides loans, equity finance and quasi-equity. It also offers financial risk management products and intermediary finance. For information on IFC's Afghanistan portfolio, go to: <http://www.ifc.org/ifcext/mena.nsf/Content/Afghanistan>.

The U.S. Trade and Development Agency (USTDA) advances economic development and U.S. commercial interests in developing and middle-income countries. The agency funds various forms of technical assistance, feasibility studies, training, orientation visits and business workshops that support the development of a modern infrastructure and a fair and open trading environment. USTDA moved quickly to establish its program and has provided more than \$9 million in funds for projects benefiting Afghanistan since 2002. USTDA has financed projects in telecommunications, civil aviation, oil and gas, higher education, private sector development, and power.

The Export-Import Bank of the United States (Ex-Im) provides financing for the sale of U.S. products and services overseas. Although Ex-Im is currently not open for business in Afghanistan, it will continue to survey future opportunities.

Many business opportunities are connected to the reconstruction effort. The following agencies have large programs through which opportunities for interested businesses are available.

U.S. Agency for International Development (USAID)

USAID has taken a leading role in Afghanistan's reconstruction effort, focusing on health clinics and basic health services, school construction and education programs, revitalizing agriculture through irrigation systems, farm-to-market roads, market centers, SME development and infrastructure, including the Kabul-Kandahar-Herat highway. USAID is also funding programs that enhance the central Government's capacity and provide it with the tools and technical assistance to govern effectively. Between 2006 and 2010, USAID received \$8 billion for Afghanistan assistance, of which \$4.4 has been disbursed as of September 30, 2010. USAID's Afghanistan web site, <http://afghanistan.usaid.gov/en/home>, has information on procurement opportunities and doing business with USAID. U.S. firms interested in bidding on USAID projects in Afghanistan can review requests for applications, proposals, quotations and invitation for bids on this website. U.S. firms should also review the main portal for U.S. Government procurements at <http://www.fedbizopps.gov>.

World Bank

World Bank projects primarily focus on improving rural livelihoods by rebuilding infrastructure and providing employment opportunities, education and basic health services. It is the largest international donor to the Government's flagship National Solidarity and National Emergency Employment Programs, which, respectively, channel block grants through elected community councils to around 17,000 villages and offer cash-for-work on infrastructure projects. In addition, the World Bank administers the multi-donor [Afghanistan Reconstruction Trust Fund \(ARTF\)](#), which provides coordinated financing of unfunded priority expenditures in Afghanistan's reconstruction program as well as supporting the recurrent costs of government. The World Bank's website includes an information portal for the business community seeking to participate in opportunities that are generated from World Bank-financed projects at <http://www.worldbank.org>. Afghanistan-specific projects, programs and results can be found at: <http://www.worldbank.org.af/external/default/main?menuPK=306016&pagePK=141155&piPK=141124&theSitePK=305985>. Projects can also be tracked at <http://www.dgmarket.com/>.

Asian Development Bank (ADB)

As of December 31, 2009, ADB had provided Afghanistan with \$2.1 billion in loans, grants, guarantees, technical assistance, ADB-administered co-financing, and private sector investments. Afghanistan is ADB's 18th largest borrower.

ADB projects focus in the areas of agriculture and natural resources, energy, gender, governance, financial and private sector development, transport and communications. A detailed description of ADB's Afghanistan strategy and programs can be found at <http://www.adb.org/Afghanistan/main.asp> and <http://www.adb.org/Documents/CSPs/AFG/2005/default.asp>. Projects can be also be tracked at <http://www.dgmarket.com/>.

In addition, there are also opportunities to bid on donor-funded projects administered by Afghanistan. **The Afghanistan Reconstruction and Development Service (ARDS)** manages the purchase of goods and services on behalf of the Afghan Government. Companies that wish to receive procurement notices can do so by registering through email at ards.procurement@ards.org.af.

Political risk insurance is available both through [OPIC](#) and the Afghanistan Investment Guarantee Facility, a program of the World Bank's [Multilateral Investment Guarantee Agency \(MIGA\)](#).

Web Resources

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Export-Import Bank of the United States (Ex-Im): <http://www.exim.gov/>

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

Overseas Private Investment Corporation (OPIC): <http://www.opic.gov/>

U.S. Trade and Development Agency (USTDA): <http://www.ustda.gov/>

U.S. Small Business Administration (SBA) Office of International Trade:
<http://www.sba.gov/oit/>

U.S. Department of Agriculture (USDA) Commodity Credit Corporation:
<http://www.fsa.usda.gov/cc/default.htm/>

U.S. Agency for International Development: <http://www.usaid.gov/>

Afghanistan Central Bank, Da Afghanistan Bank <http://www.centralbank.gov.af/>

International Finance Corporation <http://www.ifc.org/>

The World Bank <http://www.worldbank.org/>

Asian Development Bank <http://www.adb.org/>

Afghanistan Reconstruction and Development Services <http://www.ards.gov.af/>

Multilateral Investment Guarantee Agency <http://www.miga.org/>

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Business Customs

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Business meetings are conducted in Dari, Pashto or English. Green or black tea, nuts and raisins are typically served. The form of greeting is “Asalam Aleikum” (Peace be with you), followed by a firm handshake and then, for courtesy and to pay homage to the host (you don’t necessarily have to), briefly place your right hand over your heart. It is best to take a few minutes initially to engage in pleasantries about each other's country, rather than going straight to business. Afghan interlocutors may appear vague and non-committal during meetings. In order to build trust and "get to yes," be patient, share meals and other social events and discuss matters other than business. Capture the essence of your business meetings and agreements in a follow up letter to your Afghan interlocutor. Be clear about what you have committed yourself or your U.S. firm to do, or in many cases, have not committed to do. A promise to "look into" or "research" an issue, quote, or pricing policy may be interpreted as a firm commitment.

Do not rely heavily on email and the internet when doing business in Afghanistan. Most Afghan businesspeople do not have access to the internet outside of work hours, and many are only able to log on once or twice a week. Afghans prefer to meet in person, or to talk over the phone when a face-to-face meeting is impractical.

DOs and DON'Ts in Afghan Culture

Do greet everyone when entering a room. Shake hands with the men, but not with a woman unless she extends her hand first.

Do eat with your right hand as much as possible.

Do dress modestly. At a minimum, women in Afghanistan typically cover their head with a scarf, wear long sleeves and either slacks and a tunic or a floor-length skirt,

Do accept a chair if someone brings you one to sit on, even if you would rather stand. This is a sign of respect.

Do read about the country's history, culture, and people before you come, as this will be treated as a sign of respect for Afghanistan.

Don't show impatience if your interlocutor isn't giving you direct answers. Afghans like to elaborate and want to be clear in communicating.

Don't panic. The Afghan Government can be bureaucratic. It may take you several days to get a simple authorization signed. Keep in mind that the Afghan Government is undergoing a reform process.

Don't call an Afghan "Afghani." Afghani is the currency; Afghans are the people of Afghanistan.

Don't drink alcohol in front of an Afghan.

Travel Advisory

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While the U.S. Embassy in Kabul encourages U.S. companies to review business opportunities in Afghanistan, it is important to keep in mind the volatile security situation in the country. Travelers should consult the State Department Travel web site <http://travel.state.gov> prior to any travel and review both the Consular Information Sheet and Travel Warning for Afghanistan. These documents can be found at http://travel.state.gov/travel/cis_pa_tw/cis/cis_1056.html. U.S. citizens should register with the U.S. Embassy through the State Department's Smart Traveler Enrollment Program (STEP) at <https://travelregistration.state.gov/ibrs/ui/>. Enrolling in STEP will allow the U.S. Embassy to more easily communicate with you in the event of an emergency.

Visa Requirements

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A passport and valid visa are required to enter and exit Afghanistan. Afghan entry visas are not available at Kabul International Airport. American citizens who arrive without a visa are subject to confiscation of their passport and face heavy fines and difficulties in retrieving their passport and obtaining a visa, as well as possible deportation from the country.

For the most updated requirements to obtain an Afghan visa, please contact the Embassy of Afghanistan located at 2341 Wyoming Ave. NW, Washington, D.C. 20008, phone 202-483-6410, fax 202-483-6488, <http://www.embassyofafghanistan.org>.

U.S. companies that require travel of foreign businesspersons to the United States should know that it can take an average of between 60 and 90 days for an Afghan citizen to receive a visa to visit the United States due to a lengthy clearance process. The visa application process, including the appointment request must now be completed on-line. Please see the U.S. Embassy website at: <http://kabul.usembassy.gov/visas.html> for instructions.

State Department Visa Website: <http://travel.state.gov/visa/>

U.S. Embassy in Afghanistan: <http://kabul.usembassy.gov/>

Telecommunications

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There are approximately 50,000 fix-line telephones, provided by state-owned Afghan Telecom (AfTel). The vast majority of Afghanistan's 12 million telephone users subscribe to mobile service. Cellular service is available in Kabul and all 34 provinces, and subsidized rural access programs have improved coverage in remote areas. Eighty percent of the population lives within a coverage area. There are currently four nationwide GSM wireless service providers: Roshan, owned by an international consortium led by the Aga Khan Fund for Economic Development; Afghan Wireless Communications Company (AWCC), a joint venture between U.S.-based Telephone Systems International and the Afghan Ministry of Communications; MTN (also known as Areeba), a subsidiary of South Africa-based MTN Group and a subsidiary of UAE-based Etisalat, and AfTel, which serves approximately 10,000 CDMA wireless customers. The country has multiple internet service providers, assisted by a new fiber-optic cable that connects to Pakistan, Iran, Uzbekistan and Tajikistan and link Afghanistan's major population centers.

Transportation

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Several commercial airlines serve Afghanistan at Kabul International Airport, primarily through Dubai, U.A.E. Afghan carriers KamAir, Pamir Air, and Safi Airways operate daily flights between Dubai and Kabul. Pakistan International Airlines has three weekly flights to and from Islamabad and Peshawar. Azerbaijan Airways has twice weekly flights to and from Baku. Indian Airlines flies four times a week to and from Delhi. The U.S. Embassy does not recommend use of Ariana Afghan Airlines or Pamir Air to any destination because their maintenance and operations do not meet international aviation standards. Please see the State Department's Consular Information Sheet at http://travel.state.gov/travel/cis_pa_tw/cis/cis_1056.html for more information.

Taxis around Kabul should range between AFS 50 to 100 (\$1 or \$2, depending on where you are going) per trip, but a dedicated car and driver are recommended. For travel within Kabul, a car and driver (no English) will run up to \$15 to \$50 per day, depending on the model of car. Some international firms employ expat drivers and security personnel which run approximately \$400 a day or \$12,000 a month, depending on the vehicle and experience of the security personnel. Public buses are not recommended.

Language

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Dari and Pashto are the official languages of the country. Few native Afghans speak English, but many returning expatriate Afghans speak English or German. A reliable interpreter fluent in English, Dari and Pashto may earn between \$150 - \$2,000 per month.

Translation of names and words from Arabic script to the Latin/Roman alphabet can have several variations. Accordingly, a company's name may appear slightly differently on different documents.

Health

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The climate in Afghanistan is dry. Summer temperatures reach into the 100s Fahrenheit and winter lows dip into the 20s Fahrenheit, with snow. Kabul is very dusty, and shoes and clothes are difficult to keep clean.

Well-equipped medical facilities are few throughout Afghanistan. European and American medicines are available in limited quantities and may be expensive or difficult to locate. There is a shortage of standard medical supplies. Basic medicines manufactured in Iran, Pakistan, and India are available, but their quality can be questionable. Travelers should bring all necessary medications, both prescription and over-the-counter. A couple of western-style private clinics have opened in Kabul recently: the DK-German Medical Diagnostic Center (<http://www.medical-kabul.com>) and CURE International Hospital (ph. 0799-883-830) offer a variety of care; Americans seeking treatment should request American or Western health practitioners. American travelers may seek emergency medical services at the International Security Assistance Forces (ISAF) medical facilities in the Kabul area, but routine care is not available. The ISAF Hospital and the combined forces ISAF clinic, adjacent to Kabul International Airport, may provide medical care to American citizens who can show appropriate ID and who request emergency care, but payment must be made at the time of service in USD or Euros (credit card not accepted). Shino Zada Private Hospital located in Microrayon 4, opposite the central heating center, provides general surgery, maternity care, ambulance and pharmacy facilities 24 hours a day. Imran Clinic, across from the Ministry of Interior, has limited laboratory and x-ray facilities. Contact information for medical providers in Kabul can be found on the Embassy's website: http://kabul.usembassy.gov/medical_information2.html/

Afghan public hospitals should be avoided. Individuals without government licenses or even medical degrees often operate private clinics; there is no public agency that monitors their operations. Travelers will not be able to find Western-trained medical personnel in most parts of the country outside of Kabul, although there are some international aid groups temporarily providing basic medical assistance in various cities and villages. For any medical treatment, payment is required in advance. Commercial medical evacuation capability from Afghanistan is limited and safe pick-up and transport of a patient, when available, can take 30-60 hours to accomplish. Information on vaccinations and other health precautions, such as safe food and water precautions and insect bite protection, may be obtained from the Centers for Disease Control and Prevention's hotline for international travelers at 1-877-FYI-TRIP (1-877-394-8747) or via the CDC's Internet site at <http://wwwn.cdc.gov/travel/destinationAfghanistan.aspx>. For information on outbreaks of infectious diseases abroad consult the World Health Organization's website at <http://www.who.int/en>. Further health information for travelers is available at <http://www.who.int/ith>.

Local Time, Business Hours, and Holidays

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Local time is GMT +4.5 hours. Afghanistan government officials observe a five and a half day workweek; Thursday afternoon and Friday are off. Business hours are typically 7:30 AM to 4:30 PM, Saturdays to Thursdays. Commercial shops keep longer but varying hours, usually from 7 AM to 11 PM. Religious Holidays follow the lunar cycle and are determined by the Islamic calendar, based on the lunar cycle and the visibility of the lunar crescent. Variable Holidays include three days for Eid-ul-Qurban, three days for Eid-Al-Fitr, and one day for the Prophet's Birthday; 10th of Maharam, March 21

(Nawrooz - New Year) and August 18 (Independence Day) are fixed in the solar calendar.

Temporary Entry of Materials and Personal Belongings

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Article 114 of the Afghan Customs Code states that temporary entry goods will be taxed at 3% of the monthly total customs duty. Personal belongings, luggage and samples are exempt from payment of duty if they have no commercial purposes.

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State Department Travel web site

<http://travel.state.gov/>

Embassy of Afghanistan

<http://www.embassyofafghanistan.org/>

State Department Visa Website:

<http://travel.state.gov/visa/>

U.S. Embassy in Afghanistan:

<http://kabul.usembassy.gov/>

U.S. Embassy's website – medical providers:

http://kabul.usembassy.gov/medical_information2.html/

U.S. Embassy's website – lawyers: http://kabul.usembassy.gov/judicial_services.html/

Centers for Disease Control

<http://wwwn.cdc.gov/travel/destinationAfghanistan.aspx/>

World Health Organization

<http://www.who.int/ith>

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Chapter 9: Contacts, Market Research and Trade Events

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- [Market Research](#)
- [Trade Events](#)

Contacts

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U.S. GOVERNMENT CONTACTS

U.S. Embassy Kabul

Great Massoud Road

Tel: +1 (301) 490-1042; +93 (20) 230-0436; +93 (0) 700-108-001/002

<http://kabul.usembassy.gov/>

Karl W. Eikenberry, Ambassador

Ambassador William E. Todd, Coordinating Director for Development and Economic Activity

Economic/Commercial Section

Jim Boughner, Economic Counselor

Robyn Kessler, Senior Commercial Officer, robyn.kessler@trade.gov;

KesslerRF@state.gov; Ext. 8498

Feraidoon Zaki, Commercial Specialist, ZakiFX@state.gov; Ext. 8536

<http://kabul.usembassy.gov/economicsection.html>

Consular Section – American Citizen Services

Tel: +93 (0) 700-108-499

Email: usconsulkabul@state.gov

http://kabul.usembassy.gov/information_for_travelers.html

Consular Section – Visa Services

Email: Afghanvisainfo@state.gov

<http://kabul.usembassy.gov/visas.html>

U.S. Department of Commerce

Afghanistan Investment and Reconstruction Task Force

Susan H. Mann, Director

1401 Constitution Avenue, N.W.

Washington, DC 20230

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Fax: +1 (202) 482-0980

Email: AfghanInfo@ita.doc.gov

<http://trade.gov/afghanistan/>

The Advocacy Center
1401 Constitution Avenue, N.W., Rm. 3814-A
Washington, DC 20230
Tel: +1 (202) 482-3896
Fax: +1 (202) 482-3508
Bryan Lopp, Country Manager, Afghanistan
Tel: +1 (202) 482-4519
Email: Bryan.Lopp@trade.gov
<http://www.export.gov/advocacy>

U.S. Agency for International Development (USAID) - Afghanistan

Great Massoud Road
Earl W. Gast, Mission Director
Robert Hellyer, Senior Deputy Mission Director
Tel: +1 (202) 216-6288
Email: kabulusaidinformation@usaid.gov
<http://afghanistan.usaid.gov/en/Index.aspx>

USAID/Washington Headquarters

Robyn Melzig, Afghanistan Desk Officer
1300 Pennsylvania Avenue, N.W.
Ronald Reagan Building
Washington, DC 20523-1000
Tel: +1 (202) 712-0518; +1 (202) 712-0316
Email: rmelzig@usaid.gov

Overseas Private Investment Corporation (OPIC)

John Aldonas, Managing Director, Small & Medium Enterprise Finance
1100 New York Avenue, N.W.
Washington, DC 20527
Tel: +1 (202) 336-8400
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Email: John.Aldonas@opic.gov
<http://www.opic.gov>

U.S. Trade & Development Agency (USTDA)

Scott Greenip, Country Manager, Afghanistan
1000 Wilson Boulevard, Suite 1600
Arlington, VA 22209
Tel: +1 (703) 875-4357
Fax: +1 (703) 875-4009
Email: sgreenip@ustda.gov
<http://www.ustda.gov/>

Export-Import Bank of the U.S. (Ex-Im)

811 Vermont Avenue, N.W.
Washington, DC 20571
Tel: +1 (202) 565-3946 (EXIM); +1 (800) 565-3946 (EXIM)
<http://www.exim.gov>

INTERNATIONAL FINANCIAL INSTITUTIONS CONTACTS

World Bank

House 19, Street 15, Wazir Akbar Khan
Kabul, Afghanistan
Contact: Abdul Raouf Zia
Tel: +93 (0) 702-80-800
Email: azia@worldbank.org
<http://www.worldbank.org/af>

U.S. Commercial Service Liaison to World Bank – Washington, DC
David Fulton, Senior Commercial Officer
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Email: David.Fulton@trade.gov

Asian Development Bank

Afghanistan Resident Mission
Robert Gordon Rinker, Country Director
P. O. Box 3070
Kabul, Afghanistan
Tel: +93 (20) 210-3602; +63 (2) 632-5535
Email: afrm@adb.org
<http://www.adb.org/Afghanistan/main.asp>

U.S. Commercial Service Liaison to Asian Development Bank – Manila, Philippines
Joel Fischl, Senior Commercial Officer
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Email: Joel.Fischl@trade.gov

AFGHAN GOVERNMENT CONTACTS

Afghanistan Investment Support Agency (AISA)

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Email: info@aisa.org.af, invest@aisa.gov.af
<http://www.aisa.org.af>

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Mr. Naseem Akbar
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Embassy of Afghanistan

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Economic, Trade and Investment Department
2341 Wyoming Avenue, N.W.

Washington, DC 20006
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Fax: +1 (202) 483-6487
Email: bahrami@afghanistanembassy.org, commerce@embassyofafghanistan.org
<http://www.embassyofafghanistan.org>

Afghanistan Reconstruction and Development Services (ARDS)

Email: ards.procurement@ards.org.af
<http://www.ards.gov.af>

Ministry of Commerce & Industry

Dr. Anwar ul-haq Ahady, Minister of Commerce
Abdul Hamid Rahimi, Secretary to the Minister
Tel: +93 (20) 250-0356
Email: info@commerce.gov.af
<http://www.commerce.gov.af>

Ministry of Finance

Dr. Omar Zakhilwal, Minister of Finance
Abdul Razaq Vahidi, Acting Chief of Staff
Tel: +93 (20) 210-3272
Email: info@mof.gov.af
<http://www.mof.gov.af>

Export Promotion Agency of Afghanistan (EPAA)

Mr. Ahmad Jawaid, CEO
Tel: +93 (0) 700 211 135
Email: ahmad.jawaid@epaa.org.af

Mr. Fazel Wasit, Deputy CEO

Tel: +93 (0) 787 381 150
fwasit@epaa.org.af
<http://www.epaa.org.af>

Afghan National Standards Authority (ANSA)

Dr. Mujiburrahman Khateer, Technical Deputy Director General
Tel: +93 (0) 752-045-158; +93 (0) 700-215-246
Email: admin.ansa@gmail.com
<http://www.ansa.gov.af>

PRIVATE SECTOR CONTACTS

American Chamber of Commerce in Afghanistan (AmCham Afghanistan)

Mr. Dom LaVigne, Executive Director
Tel: +93 (0) 702-032-323
Email: Dom@amcham-af.org
<http://www.amcham-af.org>

Afghanistan Chamber of Commerce & Industries (ACCI)

Mr. Mohammed Qurban Haqjo, CEO/President

Tel: +93 (0) 752-025-854; +93 (0) 707 644 482
Email: ceoacci@acci.org.af

Mr. Atiqullah Nusrat, Chief Operating Officer
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<http://www.acci.org.af>

Afghan-American Chamber of Commerce (AACC)

Mr. Sulaiman Lutfi, Chairman
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8201 Greensboro Drive, Suite 103
McLean, VA 22102
Tel: +1 (703) 442-5005
Fax: +1 (703) 442-5008
Email: info@a-acc.org
<http://www.a-acc.org>

Afghan California Business Council (ACBC)

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Market Research

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To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/mrktresearch/index.asp> and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, and is free.

Trade Events

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Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents/index.asp>

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Chapter 10: Guide to Our Services

The President's National Export Initiative aims to double exports over five years by marshaling Federal agencies to **prepare U.S. companies to export successfully, connect them with trade opportunities** and **support them once they do have exporting opportunities**.

The U.S. Commercial Service offers customized solutions to help U.S. exporters, particularly small and medium sized businesses, successfully expand exports to new markets. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers
- Gain access to the full range of U.S. Government trade promotion agencies and their services, including export training and potential trade financing sources

To learn more about the Federal Government's trade promotion resources for new and experienced exporters, please click on the following link: www.export.gov

The **U.S. Commercial Service in Afghanistan** is represented by a Commercial Officer and Commercial Specialist, but does not currently offer the standard U.S. Commercial Service services such as matchmaking, due diligence and market research. The **Economic/Commercial Section of the U.S. Embassy** can assist U.S. firms seeking information about business opportunities in Afghanistan or provide advocacy. In addition, the **U.S. Department of Commerce's Afghanistan Investment and Reconstruction Task Force** is available to help U.S. firms answer questions about doing business in Afghanistan and operates a website with useful resources and a listserv of procurement notices. The **U.S. Department of Commerce's Advocacy Center** coordinates U.S. Government resources and authority that can help level the playing field on behalf of U.S. business interests as they compete against foreign firms for specific international contracts or other U.S. export opportunities. (Please see Chapter 9 for all contact information.)

U.S. exporters seeking general export information/assistance or country-specific commercial information can also contact the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRAD(E)**.

We value your feedback on the format and contents of this report. Please send your comments and recommendations to: Market_Research_Feedback@trade.gov

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct

their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.

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