AFGHANISTAN’S NATIONAL EXPORT STRATEGY
RESPONSE PAPER
This response paper presents the business case for developing Afghanistan’s National Export Strategy (NES). The findings are based on comprehensive research and outputs from the first NES Stakeholders consultation held in Kabul on February 2017. This paper reveals the identification of key competitiveness issues that are impeding the country’s exports. It also suggests a strategic process and framework for overcoming the obstacles to export development and provides direction for the design of the NES. This response paper was developed under the co-leadership of the Ministry of Commerce and Industry (MOCI), Afghanistan Chamber of Commerce and Industry (ACCI), in close collaboration with the Ministry of Agriculture, Irrigation and Livestock (MAIL), and the Afghanistan National Standards Agency (ANSA). The International Trade Centre (ITC) provided technical support to the development of this paper.
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The Government of Afghanistan is developing a National Export Strategy (NES) under the leadership of the Ministry of Commerce and Industry and Afghanistan Chamber of Commerce and Industry. The NES initiative falls under the auspices of the EU-funded ‘Advancing Afghan Trade’, and aims to assist Afghanistan in improving the conditions to use trade as a lever for enhanced regional cooperation, economic and human development and poverty reduction. The International Trade Centre provides technical assistance to the Ministry of Commerce and Industry.

The principal output of NES Afghanistan design initiative will be an endorsed, coherent and comprehensive export strategy document with a 5-year plan of action and implementation management framework. Interim outputs include:

- Governance structures established and export strategy preliminary audits conducted.
- Completed analyses of the country’s supply side, institutional framework, exports, imports and investment performance, main markets and competitors over the past five years.
- Defined scope and principal objectives of the export strategy and identification of priority sectors and cross-sectoral functions to enable the country to allocate scarce resources effectively.
- Elaborated detailed sectoral and cross-sectoral strategies complete with corresponding plan of action and implementation framework.
- Export strategy documents aggregating sectoral (e.g. fresh and dried fruits & nuts, saffron, carpets) and cross-sectoral strategies (e.g. quality management incl. TBT/SPS, trade facilitation).
- Endorsement of the export strategy by stakeholders and the national government.
- A formal public-private dialogue platform focusing on export development and competitiveness established (or reinforced) and operationalized.
- NES priority activities implemented and key project proposals elaborated.

Recent activities conducted under MOCI leadership with ITC technical assistance:

A Donor Round-table meeting was held mid-February to secure alignment and coordination. Major development partners such as EU, USAID, DFID, GIZ, IADC and FAO recognized that the NES provides an appropriate implementation plan and framework for their trade-related initiatives as well as favorable conditions for operation (i.e. political endorsement, private sector buy-in and collaboration with other IOs and donors). Discussions and planning were initiated on joint project development resulting from the NES strategic plans of action.

A NES provincial consultation was held in Mazar-e-Sharif in May 2017. Public and private stakeholders were given the opportunity to raise specific regional concerns and challenges impending the export development of the Balkh province. Consensus was obtained on key competitiveness constraints and related priority activities.

In order to tackle quality management and food safety highly sensitive issues during the design phase of the NES, a series of consultations and a capacity-building workshop was conducted in collaboration with ANSA and MAIL. Special emphasis was put on standards development and promotion; technical regulations; conformity assessment and certification.

Factory visits were conducted in May 2017 during which supply chain assessments were carried out to further investigate issues raised during NES’ consultations and workshops. Subjects covered: quality process/procedures, HACCP compliance, ISO certification, technical and managerial skills, access to raw materials, packaging, in market-support and trade across borders.

Structured interviews of regional and international buyers working in strategic sectors for Afghanistan were conducted throughout Q1 of 2017. Objective was to understand their requirements (in terms of buying cycles, quality standards, food safety, packaging, prices etc.) and the most critical areas of improvement for Afghan products. Strategic market intelligence and insights were collected to feed the NES design process from prominent players such as McCormik, Ducros, Nobersasco, Aromatica, Rumi Spice, Frontier Coop and Kefayat group.

*This project aims to assist the Government of Afghanistan to improve the conditions for regional cooperation and trade as a lever for economic and human development and poverty reduction. The project will contribute to developing trade competitiveness of key productive economic sectors and reduced transaction costs by strengthening institutional capacity for trade policy and strategy formulation and implementation.
EXECUTIVE SUMMARY

Trade is rapidly becoming a necessary conduit of growth for Afghanistan, rather than simply an option. Trade and private sector development are now an integral part of the country’s development agenda, and increasingly, both the Government and economic actors are seeking to position export competitiveness as a mean of fostering overall growth.

There are certainly high expectations stemming from encouraging prospects for Trade-led-growth in Afghanistan. Yet, the trajectory remains uncertain, as the overall potential has not yet translated into reality amidst the myriad of challenges balancing current export development ambitions and initiatives.

To spur export-oriented development while also reducing dependence on imports, Afghanistan requires a coherent and comprehensive National Export Strategy (NES) that will bring about policy convergence, institutional alignment, and strategic private sector support. The NES must design strategic paths towards activities that achieve faster economic results and build confidence, with special emphasis on SME development, productivity gains, market demand and social dividends. Similarly, the NES will aim at turning the national budget and international assistance into instruments that concretely boost economic activity, reinforce trust and stimulate the engine of reforms.

Such initiative will require drastic prioritization as one cannot dissipate efforts when resources are limited, in a time of economic emergency. The NES is an opportunity for Afghans to set their own priorities for economic development rather than be at the mercy of the sometimes-conflicting agendas of foreign countries. In other words, think creatively and organically.

UNITED BEHIND A COMMON VISION AND STRATEGIC OBJECTIVES

Following the first NES large stakeholders’ consultation, the Afghan public and private sector are both united by the following vision which serves as a beacon and a rallying cry as the nation proceeds on the road to trade led growth, development, and ultimately peace.

‘Peace through Prosperity, Prosperity through Trade’

In order to fulfil this ambitious vision, the following strategic pillars have been identified as cardinal for the NES. These objectives provide a framework for developing solutions over the next five years timeframe. The strategic objectives agreed on by stakeholders to uphold the vision are as follows:

1. Nurture emergence of a productive, resilient private sector known for quality and innovative products

Afghan enterprises currently encounter a number of challenges while trying to develop and sustain export relationships overtime, leading to increased volatility, limited participation to global value chain and damaged reputation. This strategic objective addresses the pressing need to strengthen the capacity of firms to comply with regional and international market requirements while also shifting domestic market demand towards local supply. The aim is to strengthen traditional sectors while reducing the dependence on imports and gradually diversifying towards a products basket with increased value-addition.
In order to achieve this, the strategy will work towards improvements in three areas—fostering skills development for enabling productivity gains, increasing compliance with international standards, and improving coordination throughout sector value chains. Additional vital components of export success such as quality management, packaging and branding will be implanted to help enterprises position, differentiate and sell their products.

2. Foster the development of a conducive business and investment climate

A conducive policy and regulatory environment, sustained by robust and efficient institutional support is a critical requisite for both trade and investment, as part of the confidence building efforts prominently required in Afghanistan. In-depth analysis of the trade barriers reveals that Afghan exporters are at a significant disadvantage when compared to regional counterparts due to the high cost and time of cross-border trade as well as unfavorable regulations.

Improvements in capacities of institutional development will be core considerations for the NES exemplified by the specific intended focus on building capacity of agencies on Trade Policy, Trade Facilitation, Quality Management and in the SPS area as well as Access to Finance. Likewise, ensuring institutional coordination will become increasingly important, as the New Development Planning system requires strong inter-ministerial and -agency linkages.

This objective will contribute to turn Afghanistan into a regional leader on trade facilitation sustained by an efficient trade support network of institutions that stimulates private sector development, regional integration and investment attraction.

3. Enhance in-market support and strengthen enterprise capabilities to harness information and market intelligence

Afghan enterprises have in theory preferential access to most international markets. Yet, they currently fail to connect and compete as they—among other things—lack market information, have insufficient knowledge of trends and buyer expectations, and encounter intense competition from international players. Private sector will not be organic and markets will continue to shape key sectors. NES interventions will devote significant attention to improve business and trade promotion decision-making through accurate, timely and targeted intelligence, ultimately improving access to foreign markets.

In-market networking and business development options such as B2B matchmaking sessions and brokerage workshops to facilitate relationships between prospective partners will be pursued strategically. Recommendations for improving access—particularly through Trade Attachés—to competitive intelligence, emerging trends in target markets, and networking opportunities will be prioritized. Focus will also be on building enterprise level capabilities for translating trade information into concrete business decisions.

Parallel matchmaking and marketplace development initiatives will aim at turning local procurement ambitions to fruition, especially for sectors with high import substitution potential such as Dairy, Livestock, and Cereal.

4. Support state- and peace-building through inclusive and equitable economic growth

In its march towards economic and social prosperity, there is an important need for the export sectors to generate benefits for a large number of citizens of different social groups, ethnic origins and geographical areas.

Activities will focus on facilitating integration of youth in economic activities through entrepreneurship and demand-driven skills alignment. Similarly, inclusive growth will be made possible through the meaningful involvement of women in productive economic activities and the integration of returnees’ skills and competences.

Afghanistan is an important regional hub for Asia, and its private sector and traders are the arteries, carrying immense potential for regional integration, and cross-border movement of goods, services and people. Strong linkages with neighbors will go a long way in contributing to peacebuilding within Afghanistan, by association.

PRIORITY SECTORS AND TRADE SUPPORT SERVICES

The NES priority sector selection exercise demanded focus on a number of quantitative and qualitative analytical parameters. It also required attention to the specific political, developmental and diplomatic contexts at the country as well as regional level.

The following priority sectors have been identified:

1. Dried Fruits and Nuts: Dried fruits and nuts occupies the top position on the exports leader-board. This is a resilient sector of historical significance, marked by a higher per unit value for its products and possessing international recognition for their unique taste and high quality.
2. Fresh Fruits and Vegetables: Afghanistan’s dry and warm climate especially favors production of high quality produce and the country enjoys the benefit of proximity to large, growing export markets such as India, Pakistan and the Middle East as well as the domestic market.

3. Saffron: Saffron is one of the strongest growing export sector and subsequently brings economic opportunities but also enables social advancement by providing female employment as women currently dominate around 80% of production activities. It also provides an alternative to poppy and opium farming.

4. Marble and Granite: Recent studies have estimated that there are significant deposits of untapped marble and granite throughout Afghanistan. A number of recently established factories and companies involved with marble and granite have contributed to first steps towards growing the sector. These pioneers also create various jobs in mines and factories, and brought light into an untapped area of production and export potential.

5. Carpets: Indigenous Afghan designs based on traditional weaving methods lead to a comparative advantage when sold to world markets especially in European and US markets. With a sufficient injection of resources and exposure, the sector – already established as the second biggest export sector in Afghanistan – can make significant gains through exports.

6. Handicrafts: Afghan handicrafts serve as a symbol of traditional Afghan culture and offer an important medium for boosting the local economy and empowering women. After agriculture, handicrafts are the largest employment provider for women, especially in the provinces. The sector also holds potential for providing employment for returning migrants.

7. Domestic market-oriented sectors (Cereal, Dairy and Livestock): Self-reliance and reduction of the trade deficit are two important considerations for policy makers, and focus on the domestic market for certain sectors is essential. Afghanistan’s production of cereal, dairy and livestock currently does not meet domestic demand, and consumers are instead dependent on imports from geographically close countries such as Pakistan, Iran and India. With predictions that cereal, dairy and livestock production will steadily increase in the future, these sectors offer high potential for domestic market led growth.

8. Professional and business services: There is a need to focus on organizational and people performance, in areas such as general management, human capital management, business processes, sales etc. across the board. Additionally, this sector has high potential in Afghanistan owing to the heavy presence of donor and technical agencies active across a variety of thematic areas constitutes a GATS mode 2 market in the country that constantly seek out Afghan professionals.

In addition to the priority sectors, five trade support functions have been identified: Quality Management, Trade Facilitation, Access to Finance, Skills Development, Trade Information and In-market support. These functions offer critical support across the value chain and are essential towards development of the sectors. These functional strategies will also ensure that the NES spill-over effect takes place beyond just the priority sectors.

IN SPIRIT, AND IN ACTION
No country has gone from poverty to prosperity solely through development aid and external assistance. The political leadership is acutely aware of this and the NES is seen as a crucial instrument to architect a home-grown blueprint for unleashing the true potential of the country. It will result in the strengthening of Afghanistan’s competitive export sector through the definition of clear priorities, detailed 5-year plan of actions, and an integrated implementation management framework.

In spirit, and in action, the NES will be aligned to the policy priorities and national goals established by the Cabinet and the High Economic Council in areas related to socioeconomic growth, private sector development, investment promotion, economic diversification and others.

Equally important, the NES initiative already accommodates budgeting for supporting implementation of critical pilot activities that will be identified and developed through the design process. This will ensure that impact and momentum are generated from early on, and success stories can be used for further resource mobilization and confidence building all around.
Afghanistan Rising: Peace through Prosperity, Prosperity through Trade

1. Nurture emergence of a productive, resilient private sector known for quality and innovative products
2. Foster the development of a conducive business and investment climate
3. Enhance in-market support and strengthen enterprise capabilities to harness information and market intelligence
4. Support state-building and peace-building through inclusive economic growth

Dried fruits and nuts  Fresh fruits and vegetables  Saffron  Carpets  Marble and Granite  Handicrafts  Cereal, dairy and livestock  Professional services

- Quality management
- Trade information and in-market support
- Trade facilitation
- Access to finance
- Skills development
IS TRADE LED GROWTH A Viable Proposition for Afghanistan?

**Trade can be a conduit for growth**

Trade is rapidly becoming a necessary conduit of growth for Afghanistan, rather than simply an option. Trade and private sector development are now considered an integral part of the country’s development agenda, and increasingly, both the public and private sectors are seeking to develop export competitiveness as a means of fostering overall growth.

Consider the following:

1. **Afghanistan is strategically positioned to derive a competitive advantage through trade.**

   Among other ambitions, the Government seeks to position the country as a strategic land bridge, and transit-transfer hub that connects Central and South Asia (and regions beyond).

   Towards this end, the country has partnered and co-invested in regional infrastructure development projects such as the Lapis Lazuli Corridor, CASA 1000, TAPI and Charbahar port. It is also an active partner in mechanisms ranging from CAREC, SAARC, RECCA, ECO, SCO to the economic confidence building measures of the ‘Heart of Asia’ Istanbul Process.

   Additional strides in the trade sphere have included the signing of Free Trade Agreements (FTAs) and increased activity of Afghanistan in regional trade organizations. The recent WTO Accession and TFA ratification are also important milestones. These developments pave the way forward for greater integration of Afghanistan in the international trading system and leverage the country’s strategic location.

2. **As regional economies grow and diversify, Afghanistan must formalize and strengthen linkages within the regional value chains.**

   Although small, Afghanistan’s export basket contains a number of products with high international demand, particularly in the region. These include traditional sectors such as Carpets, Fresh/Dry Fruits and Vegetables, marble, saffron among others that have a revealed comparative advantage. With the right injection of investment capital, knowhow, and exposure, this ‘reservoir’ can be further developed.

   Private Sector Growth in Afghanistan will not necessarily be organic but rather based on market-led solutions, and the neighborhood offers many options. The strategic advantage derived by Afghanistan based on geography is further heightened by the fact that several economies in the region are growing at relatively rapid rates. These include UAE, Iran, India, China, Uzbekistan and others. Regional value chains have lower barriers to enter than global ones as they tend to be less consolidated and demand less rigorous certification. This should be leveraged as these regional economies offer more complementarities than competition, given that they are actively seeking suppliers and linkages for sourcing.

   Afghanistan has theoretically access to many markets including traditional (primarily in the neighborhood), OECD and emerging ones. Whereas it is clear that there is a need to build on existing trade corridors in neighboring markets such as Pakistan, Uzbekistan, Tajikistan, Iran or Turkmenistan, serving the growing Indian and Chinese middle class must be part of Afghanistan’s growth trajectory. If current political and trade policy related challenges with Pakistan – the leading destination for Afghan exports – are resolved, a significant trade route will be reopened. Similarly, Afghanistan can be well positioned to develop connections to the Gulf food markets while also leveraging the access offered by OECD countries. The domestic market also will be a critical part of the growth equation with supply capacities strengthened to shift local demand towards Afghan products.

   The above does not mean that Afghanistan can compete head-on with peers. Rather, Afghan exporters must find – through a process of deliberation and experience – their positioning in the regional value chain, and then exploit synergies and build linkages. As regional markets grow, there will be tremendous hunger to build supplier bases for these economies.
3. Afghanistan’s local market offers significant opportunities to shift demand towards domestic supply. For other sectors, a parallel track for exports development is required.

For certain sectors including dairy, livestock, wheat, fruits and vegetables and other consumable products, the domestic market can be the ramp that facilitates lift for the private sector. The private sector is not currently well positioned to satisfy the domestic market – almost 90 percent of the consumption goods are imported in the country rather than being supplied through domestic companies. The domestic market typically affords an important growth medium for firms to gain experience, revenue and overall capabilities and is a necessity for Afghan businesses.

These sectors are also where a significant percentage of the employed Afghans make their living. The socio-economic benefits can be significant if these sectors thrive. There is political will demonstrated by government in the form of 25% of procurement of necessary goods and services to be sourced from the domestic sector (particularly by the ministries of Interior, Defense and Education), if prerequisite conditions allow.

For other sectors such as Saffron, Carpets and Marble, the conditions in the domestic market ranging from purchasing power of consumers to inadequate market demand/size are impediments which negate the opportunity for positioning the domestic market as a stepping stone. For these sectors, the international markets are a necessary growth medium to be pursued right from the start.

4. Trade constitutes an important medium to attract and absorb productive investments in Afghanistan

What is good for trade is good for investments (and vice-versa). Trade and investment are increasingly intertwined and development efforts for one will benefit the other. Inward investments facilitate access to efficient infrastructure services, access to global supply chains, and access to knowledge and technology and complementarily, necessary reforms for developing a conducive trading climate such as tax and public administration reforms benefit investments as well. In Afghanistan, Investments are an important mechanism that can bring in much needed productive capital, technology and accompanying technical knowhow, and efforts to develop trade competitiveness may also benefit investments.

Complementarily, Trade competitiveness helps to build confidence in the economy as well as for companies and investors, which will in turn serves as a prerequisite for improving investment promotion efforts. This virtuous cycle indeed feed off each other.

5. The aid landscape will be further consumed by rising security and civilian needs, exerting further pressure for generating budgetary fiscal space through other means (including trade)

Afghanistan is a country bolstered by development aid, with national accounts and aid being inextricably linked since 2001. Approximately 70% of the national budget is funded by International donors fund since 2001 as well as 40% of the trade deficit. This aid support, however, can be seasonal and highly contested – both factors rendering reliance on this mechanism over the long term unsustainable.

There is recognition that additional avenues of growth for Afghanistan’s economy are required, because baseline, and best-case scenarios do not point favorably to high growth rates (based on modeling done until 2030). Given that high security costs, expected costs due to high population growth rates and uncertainty for aid remain as consistent factors, new avenues for growth need to be found, possibly through exports serving as one channel.

According to the World Bank, the annual financing gap – the external resources that Afghanistan will require to finance all on and off-budget civilian and security expenditures – will average 34.5% of GDP through 2030 under a baseline scenario of projected 3.8% growth. Security commitments alone will absorb more than half of the government’s revenue over 2017-2020. Remaining domestic revenues will be insufficient to meet basic operational costs of Government.

In this scenario, the government will need to generate fiscal space available to address both civilian and security costs to address the expected deficit. Enhanced trade competitiveness – with its spillover effects on tax collection, formalization of businesses/transactions etc. – can contribute to solid revenue generation.

6. Afghanistan must embrace trade in order to reap its nascent peace-building effects

Reciprocity and dependence are intertwined in the relationship of economies trading together. Despite disagreements and positioning, and as long as the trading relation is not too skewed or complicated by political/security factors, the broader goal between governments (and the private sector) is to facilitate the trading relationships as much as possible and to maintain stability in these relationships. The case of Afghanistan-Pakistan is illustrative – despite political challenges that have now spilled over to the trade arena, the private sector on both sides is vociferous in their support for reopening borders, swiftly resolve APPTA challenges among others. In the medium-long term, this continued dialogue may
With consideration to the above, GoIRoA has firmly integrated Trade and Private Sector Development as a central pillar in its growth strategy and the National Development Planning System.

In the transformation decade (2015-2024), trade is firmly positioned as a policy focus and priority area in Afghanistan, and there is indeed evidence at the policy level on strengthened reflection amongst GIRoA and donors alike on incorporating trade in the national development agenda with the aspirations that trade-led growth can indeed lead to socio-economic gains in addition to the purely economic dimension.

This is reflected in the ANPDF and the latest NPP on Private Sector Development programme launched recently. This ambition is also reflected in emerging themes on trade and private sector development within the strategic plans of line ministries such as MOCI, MAIL, MOF, MFA and relevant technical agencies including ANSA. The increased focus on self-reliance is also prominent as evidenced through reform agendas such as “Realizing Self-Reliance: Commitments to Reforms and Renewed Partnership” put forward by the government. This agenda for instance recognizes ‘bolstering private sector confidence and creating jobs’ as one of the key pillars, to be realized in part through regional integration, trade, and private sector growth.

While trade-led-growth is a viable proposition, the path towards making this a reality will be challenging at times. A number of complex considerations face Afghan policy makers as they attempt to solidify the prospects of trade as a growth medium for the country, discussed below.
THE CAVEAT: TRADE IS NOT A PANACEA, AND THERE ARE COMPLEX CONSIDERATIONS

In order for Trade competitiveness to genuinely and sustainably result in economic and socioeconomic growth for the country, careful assessments into internal (the structure and fundamentals of the economy) and external (regional competition and political considerations) must be made. These include, and are not limited to, the following factors:

1. The economy is currently stagnating and vulnerable to external shocks particularly due to overall economic slowdown, and the dependency on select few product-market combinations.

The economy is experiencing sluggish growth with stagnating growth rates averaging 1.5 percent, and the short-term forecast remains relatively bleak, with the IMF estimating best case scenarios not to exceed 3.6 percent by 2018. All three economic segments: Services, Agriculture, and Industries have been affected. Services have led the retreat, owing to drawdown and departure of NATO/ISAF forces leading to a slowdown in spending and investments. Low levels of Industrial and manufacturing activity, coupled with the sluggish (and sometimes negative) pace of Agriculture have adversely affected value addition, innovation, and livelihoods.

The exports portfolio is small and precariously perched—the exports basket reflects modest growth for traditional commodity based sectors (carpets, fruits & vegetables etc.) that nevertheless reflect growing global demand, but the dependency on the limited products and associated value addition also exposes the sectors to external shocks.

This holds true also for markets—exporters have managed to increase market penetration to some extent, however overall market and product diversification remain limited to traditional markets (primarily Pakistan, India and UAE).

2. Economic distortion and an anticipated cash-flow shortage in the medium term serve as alarm signals.

A major economic distortion occurred due to NATO functioning as the largest economic actor between 2001 and 2014, and this is especially reflected in the construction and transportation sectors. With the withdrawal of forces, there is an anticipated cash-flow problem with looming long-term structural deficit, especially as ODA and government revenues come under increasing strain due to security and civilian expenditure needs in the future.

3. Afghanistan’s strategic positioning as a transit trade point will remain untapped until important challenges can be overcome.

Before this potential can be realized, a range of problems will need to be addressed. These include trade policy challenges with the implementation of APPTA, security challenges at the Afghanistan-Pakistan border (which has affected trade), and delays with the much heralded infrastructure projects including CASA 1000 and TAPI. Afghanistan will need to work with regional partners to facilitate transport connectivity, visa regimes etc.

4. The business and investment climate is in dire need of improvement, exemplified in the low domestic investment rates, which betray structural weaknesses in business confidence.

- The trajectory of deteriorating business and investment climate does not bode well for the private sector which is already reeling unless a wide variety of challenges. Afghanistan now ranks 183 of 190 economies assessed under the Doing Business reports, and a wide variety of enterprise surveys (ACCI’s Business Tendency report, WB’s Enterprise Surveys) etc. all note that the business environment is declining.
- Investment led support for Job creation and improved livelihoods, SME development, technology and knowledge absorption, increase in value addition of developed products is key, however this is not happening in the country. The number of new investment activities—already at a low base, has declined by 50% between 2012 and 2015. FDI amounts to .7 percent of GDP, less than $150 Million. Due to limited access to new technologies (as a consequence of weak investment levels), combined with weak human capital development, no gradual shift towards higher value products is seem to be emerging, and the overall result is weak integration in global supply chains.
- The informal economy employs 9 of 10 employed Afghans, and accounts for a large percentage of unreported trade, as well as loss of government revenue in the form of taxes and levies. For the private sector—there is very little incentive to become organized.
5. All development efforts have to account for the ever-present scourge of corruption and security challenges in the country.

- These are both long-term challenges with the potential to significantly undermine development efforts. While efforts to spur trade development will not address these directly, they must account for them, and design mitigation measures as much as possible.

- Lack of transparency continues to be a significant challenge that has depreciated trust in official institutions. This is reflected in Transparency International's 2016 Corruption Perceptions Index (CPI) rankings in which Afghanistan is ranked 169 of 176 countries. This is also borne out in WB's 2014 Enterprise Survey in which corruption emerged as the #2 obstacle for firms.

- The reach of public institutions and capacity to support the private sector in provinces areas remains weak due to continuing insecurity. Additionally, the state's weak capacity has a ripple effect on the universal enforcement of institutions in the provinces.

6. Fairly uncoordinated and complex Trade Support Network provides ad-hoc private sector support.

Institutional capacities, especially in the public sector, are weak resulting in even greater reduction of the private sector's ability to manage risks. Trade Support Institutions – responsible for supporting the private sector along a wide range of areas including policy, finance, skills-development – have been severely weakened by decades of ongoing conflict and relative neglect in the post-2000 aid landscape. The lack of a common export vision has also contributed to the weak institutional focus on trade.

Both individual capacities as well as institutional coordination within the Trade Support Network (TSN) are weak. The role of institutions is especially important in the post-WTO Accession implementation phase. Despite the number of bilateral and multilateral trade agreements that have been signed by Afghanistan and partners, operational understanding (within technical staff within relevant public sector institutions) and the private sector (in terms of commitments and requirements) is weak. Part of the reason is that Trade is a relatively new focus area for the public sector and this capacity needs to be built to further integrate in the national development agenda.

The overall impact is weak implementation of the national development agenda, inadequate support to the private sector across and within value chains. This has adversely impacted the business and investment climate, and strengthening of trust with and within the development partner community.

7. Cash gains are primarily sourced from ODA and remittances rather than being productivity related.

An important need exists to review the desire, commitment and capabilities of the private sector for productivity gains. Almost 90 percent of imports relate to consumption goods (rather than import of inputs for value-added activities), and this highlights both the scale of stagnation afflicting the Afghanistan's private sector engine as well as the opportunity to be exploited.

8. Weak enablers and competitiveness drivers in areas including Access to Finance, Quality Management, Trade Facilitation/Transit Trade

On both the institutional and enterprise levels throughout the value chain, essential cross-cutting supporting functions are weak. These include:

- **The Quality Management Infrastructure** in the country requires significant upgrading and alignment with international standards. Inaction in this thematic area has led to wide-ranging weaknesses within the Quality Management infrastructure, especially related to sanitary and phytosanitary technical infrastructures.

- **Access to credit and insurance finance** prevents businesses from scaling up productive capacities and trading. This situation has the ultimate consequence of reducing the competitiveness of Afghan businesses in comparison to their competitors. The lack of a fully functioning banking and insurance inhibits supports for international trade, prevents Afghan businesses for expanding operations, and make necessary investments, and extend favourable/ flexible credit terms to their customers. Most businesses function under the informal hawala systems, which have served well to enable transactions in a largely solution-less environment, but this option is not scalable for large scale trading activity, especially with advanced economies.

- **Skills development** is a prominent challenge. Technical skills required to operate in SMEs in Afghanistan are often passed on through informal ways rather than through an institutionalized approach. TVET providers are limited outside the capital, and there are significant gaps related to institutional capabilities.

- **Competitive market intelligence**, in market support, and branding – is a weak area of support for Afghan companies. Opportunity costs are incurred given that companies have inadequate capacities and support to opportunities and intelligence in international target markets.
Trade Facilitation and Transit Trade are both ironically areas of competitive advantage for Afghanistan given its strategic location, but both currently serve as inhibitors for physical goods movement due to political and technical challenges.

9. Alongside the high access facilitated through the WTO accession and FTAs, a market-guided approach will be required to further understand markets’ dynamics, buyers’ requirements and compliance related implications (e.g. quality and SPS requirements)

While focus on traditional markets must continue, product and market diversification is required over the medium-long term to reduce vulnerabilities. This requires a strong analytical, structured, forward-thinking approach among policy makers, enterprises as well as supporting actors including development partners.

10. For most sectors, the domestic market is an important stepping-stone. For certain sectors, this domestic market is a critical lifeline

Trade competitiveness will take time to develop. Until then, enterprises will depend on a stable domestic market, at least for particular sectors. The high trade deficit and the skewed imports of consumption goods are indicative of weak private sector capabilities for satisfying domestic demand.

For certain sectors such as dairy, livestock, cereal and others, the domestic market indeed serves as a critical avenue for economic activity considering the skewed import/local supply ratio (in favor of imports), for consumable goods. These sectors can adopt an import-substitution strategy and compete with imported goods on the basis of short distance to market, fresher produce, direct interface with customers as well quality and other critical requirements through capabilities developed over the short-medium term.

11. Misalignment between donors and government’s agendas must be corrected

Driven by concerns about absorptive capacity and spending transparency, donors have traditionally opted for off-budget development activities rather than the on-budget route through the government and line-ministries. This preference has persisted over the years and apart from the natural funding challenges, line ministries and technical agencies have been unable to cultivate the virtuous cycle of ‘learning and applying’. In many ways, institutions remain as weak as they were in the early 2000s.

As the above analysis indicates, expectations for realizing potential for Trade-led-growth in Afghanistan are high. Despite the potential however, the trajectory for trade-related-export growth in Afghanistan remains uncertain as indicated by the caveats. The overall potential for trade has not yet translated into reality amidst the dense and myriad challenges facing both the government and the private sector.

On balance though, the consensus among policy makers, businesses and international partners remains that if properly nurtured, trade competitiveness will drive economic and socio-economic growth for the country. However, the above considerations will serve as essential guard-rails on Afghanistan’s development path, helping to guide and mitigating challenges along the way.

A methodological and structured approach is required to map this growth path. As proposed below, the NES can serve as the ideal instrument to accomplish this.
The business case and overall vision of trade competitiveness is clear, however the execution of vision into reality remains uncertain. The NES can be a powerful tool for realizing this vision, provided that the following guiding principles are respected:

1. Hard choices and frequently drastic prioritizations may be necessary given the intensely competitive (external), and resource constrained (internal) operating climate

A realistic scenario based assessment for trade development in the backdrop of competing priorities and multidimensional constraints is crucial. Sectors and products with the greatest potential for export diversification will need to be identified. Some sectors may have to be prioritized over others based on their current performance, assessed future potential, current stage of maturity and other factors. This is a hard, but a necessary precursor step for developing winners (sectors) in a resource constrained environment.

Based on this assessment, appropriate sequencing of strategic actions involving investments, sector value chain development, institutional support mechanisms, and regulatory climate among others can take place.

One cannot dissipate efforts when resources are limited (and when there is a state of economic emergency). Instead there is a need to shift funding and assistance towards activities that achieve faster economic results and build confidence (productivity gains, labour intensity, social benefits, RoI etc.). Likewise, the need exists to turn the budget into an instrument that boost economic activity, reinforce trust and stimulate the engine of reforms.

The NES design process will provide the opportunity to examine value chains for specific products and sectors as well as identify their potential fit at regional and international levels. Sectors will be comprehensively examined along various lens including the VC, 4-gear and the SMECO analytical frameworks. Based on this assessment, national stakeholders will reach consensus on the top priority sectors to focus on for the next 5 years (the effective duration of the strategy).

2. Political unity and a joint public-private sector vision will be paramount

As important as the content of the strategy is the process by which it is reached. The key to this process is ownership. Those responsible for managing and monitoring the strategy, those who implement it and those who stand to benefit from it need to be involved in its formulation. If not, there is no commitment and limited interest.

This collective effort will be galvanized through strong high-level political leadership to ensure that the government responds in a unified manner throughout the NES’ design and implementation phases.

The NES should not be the strategy of any specific institution rather it is the strategy of Afghanistan and to ensure its success, it is necessary to create the adequate environment and framework to enable its design and implementation.

The umbrella of stewardship provided through the HEC, Core Team will enable this unified approach.

3. A ‘magnet’ is required to galvanize national (and international) action towards a unified vision of trade competitiveness

Consensus building and unification of perspectives has been hitherto weak – among and between donors, government institutions as well as the private sector. The dialogue and alignment between development partners and the public sector is recently emerging, although the pace is slow. The consensus at the private sector is also gradually emerging through associations such as ACCI and Afghanistan women chamber of commerce and industries, ICCI, sector associations, and through the efforts of lead firms.

In order to develop a common direction where efforts can be directed and concentrated, a ‘magnet’ is required. This will help to secure alignment from organizational perspectives to a national vision as well as align personal motivations of individual actors involved in the export value chain towards a collective mobilization. The NES can play this role.
A coherent and comprehensive National Export Strategy brings about policy convergence, institutional alignment, and strategic private sector support. Alignment with the New Development Planning System delineated in the ANPDF is a priority. This includes structural alignment within the system as well as positioning vis-à-vis NPPs. Beyond the technical aspects of NES design, the initiative contributes to the resolution of a longstanding challenge in Afghanistan – that of misalignment between government and donor initiatives involved in TRTA. The NES contributes to the development of a virtuous cycle of applying lessons learned to the development Process by helping to formalize Donor-Govt as well as donor-donor relations in the TRTA sphere. The NES attempts to shift and further align donor country policies with the national development agenda, which calls for alignment of off-budget TRTA while supporting a progressive on-budget increase.

4. A conventional approach for stimulating and developing confidence for the private sector will not be sufficient.

In conventional cases, improving certain fundamental drivers of competitiveness such as institutional strengthening, fostering labour-intensive growth, export promotion, improved access to finance etc. are sufficient to drive trade competitiveness, however due to the severe constraints facing Afghanistan, this business as usual approach may need to be complemented with careful prioritization accompanied by creative ’out of the box’ solutions development. The solutions will be tightly tailored to the country context, keeping in mind what can work given the challenging capacity and resource gaps, while employing the best practices developed for fragile and conflict afflicted states across the world.

The NES enables this through the structured, consultative problem solving approach as well as leveraging innovative mechanisms such as Diaspora/patriotic bonds, remittances and others where relevant. The NES approach utilized in other post-conflict and fragile states provides a tailored and flexible approach that be employed in Afghanistan.

The process also takes into account national characteristics, initial conditions and special circumstances while avoiding a ‘one size fits all’ approach.
5. Without addressing Institutional capacity and coordination gaps, trade competitiveness will be delayed, or worse regress.

With the government expected to take a larger role in the transformation decade for managing the national development agenda, capacities of public institutions (line ministries and technical agencies) need to be strengthened to manage the implementation. However, there exists an unfortunate dichotomy - the capacity and absorptive power of national institutions to implement the national development agenda is currently weak and further weakened by the preference among development partners opting for the off-budget route approach. This is with the motive of ensuring efficiency levels, however this approach has also served to stymie the long-term capacity development of ministries and technical institutions (continuing to the present). The challenge in terms of the absorptive capacity of government line-ministries and agencies is real, however there is a theme of excessive bypassing in favor of off-budget projects, which has further exacerbated the capacity gap.

Institutional capacity building – through public private dialogue and a comprehensive assessment of the national trade support network – is an essential pillar of the NES considering the strong need for ensuring clarity of mandate and robust execution within Afghan institutions. This is especially important given that NES implementation will rest on the shoulders of key public institutions such as line-ministries and technical agencies.

6. While implementing development plans, focus on strong monitoring & evaluation (M&E) will be essential in tracking, assessing progress levels and taking corrective action where required.

A recurrent critique of development strategies in Afghanistan has been the weak monitoring and evaluation of implementation. The root causes are diverse and include problems of funding, technical capacities, coordination and competing priorities, among others. In order to drive results and action, this trend must be broken and best practices for M&E must be employed to ensure that a constant feedback loop is operational. The government has indicated the importance of deploying M&E systems - critical in fragile states - and has called for considerable reflection in their design and deployment.

Focused prioritization through focused and well-designed programs effectively implemented with good governance is a cornerstone for the NES. Additional stress will be placed on establishing SMART indicators and measurable targets, with effective and clear champion/leaders for related activities. The objectives and targets of the NES plans of action not just focus on quantifiable threshold targets, but also in terms of quality based targets. Education and knowledge management are clear examples on this issue. This approach blends well with the recently agreed-upon SMAF indicators at the national level.

7. Early and robust implementation of strategy plans is essential.

Inordinate delays in the implementation of development plans can lead to the strategies becoming outdated/irrelevant. Implementation needs to be addressed at an early stage: Finalization of the strategy will not be sufficient to create sustainable trade development. Implementation will need to be coordinated and initiated at an early stage to retain the momentum and to ensure the quality of implementation.

In this regard, the design and implementation of the strategy proceeds in lockstep. In this regard, a budget for implementation, tailored capacity building, advisory support is available, and specialized tools for implementation management will be deployed.

8. Syncing sectors and cross-sector requirements.

A NES by its nature will involve many sectors, cross sectors (such as access to Finance, Skills development). A national export strategy with its deep vertical (sectoral) as well as horizontal (cross-sectors) will ensure that individual sector value chain develop in lockstep and with tight linkages to each other, and essential cross-sector functions improve in a balanced way relative to the priority sectors.

The development of sector and cross-functional strategies in tandem ensures that the cross-cutting issues will include not only the specific requirements of each priority sector, but will indeed provide spillover benefits for other sectors as well.
9. For trade competitiveness to develop, markets – domestic, regional and international – will lead the identification of opportunities to be leveraged and constraints to be necessarily overcome.

However, this is a challenging and highly analytical task that must consider a variety of parameters including buyer requirements, associated NTMs, trade policy and facilitating aspects, ease of transportation and establishing distribution channels etc. With the added complexity of dealing with multiple sectors. This requires the rigor that is brought about by the NES design process involving sector stakeholders, investors, buyers, and policy makers. Initiatives aimed at building exporter capacities, trade facilitation infrastructure among other themes involved in the NES will allow Afghan businesses to better utilize the available market access.

In tandem with market development, The NES will attempt to steer greater value addition within Afghanistan for important product sectors, which have traditionally fed regional markets with raw/unprocessed (and therefore cheaper) products. This capacity-diversification will occur over time and allow Afghan companies to command better prices and eventually move up the value-chain ladder.

In spirit, and in action, the NES is aligned to the policy priorities and national goals established by the Cabinet and the High Economic Council in areas related to socio-economic growth, private sector development, investment promotion, investor protection, economic diversification and others. The methodology, specifically customized to the requirements of Afghanistan, ensures that this overarching and incontrovertible principle is followed throughout the NES design and implementation process.

In practice, the NES strictly adheres with the principles and instruments of the New Development Planning System that has been established by GIRoA through the aegis of the ANPDF. This includes structural alignment within the system as well as positioning vis-à-vis the NPPs. The NES contributes in real and significant terms to the Private Sector Development NPP that is being shepherded by the HEC. This has the potential to not only reduce the design time for the overall NPP (resulting in an early start to the implementation), but also ensure robust depth and quality of the multi-year NPP.

Ultimately, the NES represents a home-grown blueprint for unleashing the true potential of the country and strengthening its competitive export sector (encouraging greater value-addition) through the definition of clear priorities, detailed 5-year plan of actions, and an integrated implementation management framework.

The cornerstones of the NES is the overarching vision, accompanied by the following strategic objectives.
MARCH TO ACTION: STRATEGIC ORIENTATIONS

The Afghan public and private sector are both united by the following vision which serves as a beacon and a rallying cry as the nation proceeds on the road to trade led growth, development, and ultimately peace.

‘Peace through Prosperity, Prosperity through Trade’

In order to fulfill this ambitious vision, the following strategic pillars/objectives have been identified as cardinal for the NES. These objectives provide a framework for developing solutions over the next five years timeframe. The strategic objectives agreed on by stakeholders to uphold the vision are as follows.

1. Nurture emergence of a productive, resilient private sector known for quality and innovative products

The strategy aims to strengthen the traditional sectors while reducing the dependence on imports and gradually diversifying towards a products basket with increased value-addition.

In order to achieve this, the strategy will work towards improvements in four areas – fostering skills development, enabling productivity gains, increasing compliance with international standards, and improving coordination and organization levels in the private sector.

In the future, the Afghan private sector will produce products in high demand with regional and international markets. Sourcing of inputs, equipment/technology, and human capital will be strengthened, and knowledge in terms technical know-how and standard industry best practices will be upgraded. Supply side performance will be boosted in areas including the ability to maintain quality standards based on Afghan and international benchmarks. Coordination within sector stakeholders will improve, and sector associations will be strengthened to better advocate for the needs of their constituents as well as provide value added services.

Through these improvements, companies will be able to sustain on-time delivery of customer orders, quality levels, on-time delivery/reliability, and gradually develop capabilities to expand scale, and value-addition levels. Enterprise capacities for identifying appropriate linkages within regional and international value chains based on their capabilities will be ultimately expanded.

2. Enhance in-market support and strengthen enterprise capabilities to harness information and market intelligence

Markets will continue to dictate and shape key sectors, and with this in mind, NES interventions will devote significant attention to promote Afghan products internationally, and provide adequate levels of in-market support for export.

Focus will be on three areas of concentration: Availability and access to up-to-date market intelligence to comprehensively understand market dynamics and buyers requirements; Enterprise capabilities to adjust product lines through appropriate use of labelling, packaging and marketing; and in market support.

In-market networking and business development options such as B2B missions will be actively pursued and performance of Trade Attaches will be improved. Recommendations for improving the access to Trade Information – including competitive market intelligence, emerging trends in target markets, and networking opportunities – will be prioritized. Focus will also be on building Enterprise level capabilities for accessing and utilizing trade/market intelligence, as well as conduct business development.

The focus on the domestic markets will be developed, especially for sectors with high import substitution potential such as Dairy, Livestock, Cereal, and Fruits/Vegetables.
The increased market access in conjunction with TRTA initiatives aimed at building exporter capacities and trade facilitation infrastructure will allow Afghan businesses to utilize the increased market access that accompanies the WTO accession and the ratification of the TFA. Ultimately, the Afghan Brand will be established and will be known for its impressive value proposition and resiliency.

3. Support state- and peace-building through inclusive and equitable economic growth

Equity and economic growth will need to be complementary principles in the transformation decade, as the people of Afghanistan seek to make a collective march towards prosperity and peace.

The NES will seek to facilitate integration of youth in economic activities through entrepreneurship and demand driven skills alignment of the labor market. With the same token, inclusive growth will be made possible through the meaningful involvement of women in productive economic activities. Growth will also be equitable – meaning that no particular segment of society is left out in the overall trade development agenda of the country and this will include marginal groups including returning migrants/refugees and disparate ethnic communities.

The job creation and entrepreneurial thrust will undoubtedly have a positive impact on peace building and state building efforts as well, given that economic disparity and financial challenges at the individual level are contributing drivers of conflict.

Regional cooperation will be essential. For instance, the vociferous support of the Afghan and Pakistan private sectors to further cooperation while resolving disputes at the political level separately is an example of the impact trade cooperation can have on lingering challenges. Along these lines, forging strong linkages with neighbors will go a long way in contributing to peacebuilding within Afghanistan, by association.

4. Foster the development of a conducive business and investment climate

An enabling policy and regulatory environment, accompanied by robust and efficient institutional support is a critical precursor for trade, and this is prominently required in Afghanistan. The NES will contribute to resolving some of the key protracted business and investment environment challenges, based for a concrete understanding of the problems faced by sector enterprises.

The NES will drive Access to Finance reforms in support of the private sector. Financial sector reforms are overall an important priority for Afghanistan and efforts so far have mainly focused on helping the central bank in strengthening banking regulation and supervision. In addition, banking ties between Afghanistan and neighbouring countries (such as Iran) need to be developed/restored. Access to credit and insurance finance – tailored to the needs of MSMEs, sectors, women owned enterprises, among other specific cases – must be improved in depth and breadth to help businesses scale up productive capacities and trading activity. Additionally, the implementation of recent reforms instituted in the area of tax and banking etc. will need to be sustained.

Strengthening of Institutional support to exporters will be another area of concern. Comprehensive analysis on coordination related issues between line ministries and technical agencies will be undertaken. Coordination will become especially more important as the New Development Planning system requires strong inter-ministerial and -agency linkages. Capacities at most technical and managerial levels are weak, and an important need exists for identifying solutions for expanding the network reach of TISIs outside of Kabul. The capacity gaps are especially critical given that ministries including MOCI have to plan for WTO post-Accession and TFA Implementation. Special attention will be paid to ensuring that the merger between MOCI, AISA and EPAA continues smoothly given the relevance of these institutions to Trade. Improvements in capacities of Institutional development will be core considerations for the NES exemplified by the specific intended focus on building capacity of institutions on Quality Management and in the SPS area, Trade Policy and Trade Facilitation as well as NES implementation management. The NES will recommend solutions aimed at bridging capacities gaps of select Afghan TISIs including line ministries (such as MOCI, MAIL) and technical agencies (such as ANSA) involved in trade and private sector development.

In support of trade facilitation, the NES will focus on improving enterprise level preparedness for understanding and meeting the documentary requirements for customs, and other agencies involved in the exporting process.

Investments will also be a broad area of focus, involving institutional building support for investment related activities, identifying critical investment needs to boost productivity facilitating much needed injection of resources and technology in key sectors, as well as promoting for development of robust post-investment care/support packages for investors,

In consideration of the endemic challenge of corruption in the public sector, the NES will assist by illuminating specific problems faced at the sector level, and bringing these to the notice of decision makers in the government.
The following schematic captures the NES vision and strategic objectives:
DEFINING A SECTOR: AN IMPORTANT NUANCE

For the NES, a sector may be considered as a product, cluster or family of products that share common production, supply, marketing and consumption patterns. A sector denotes a product, a sub-set of a family of products, or a cluster of products depends on a variety of factors both endogenous (including maturity levels, linkages with other sectors, prominence of a particular product, priority for the government etc.) and exogenous (demand trends in prominent regional/international markets, emerging trends vis-à-vis competitors etc., resources available/forecasted for supporting sector development). All of these factors are considered through the value chain analytical framework which is helpful for methodologically rationalizing the scope of the priority sector down to the HS code(s) level.

SECTOR SELECTION CRITERIA

The NES priority sector selection exercise demanded focus on a number of quantitative and qualitative analytical parameters. It also required attention to the specific political, developmental and diplomatic contexts at the country as well as regional level. In Afghanistan, this was achieved through a mix of consultations and research. The following parameters were considered.

EXPORT POTENTIAL INDICATORS (EPI)

ITC’s EPI analysis was the starting point in a decision-making process and need to be complemented with further research and stakeholder consultations. The EPI identifies products already competitively exported with good prospects of export success (in specific target markets).

Quantitative and Qualitative data involved in the analysis included:

- Current/past export performance
- Global Import demand
- Market access conditions (tariffs, distances)
- Percentage of unused potential (per specific markets)
- Stability of export revenue (qualitative)
- SME presence in the sector (qualitative)

ADDITIONAL CRITERIA

In addition to the EPI, additional indicators assessed whether the products meet certain policy and socio-economic objectives. These factors included:

- Prioritization of the sector within the government’s development agenda,
- Potential for attracting investment/technology upgrading and value addition
- Current state and anticipated improvements in important cross-sectoral functions including:
  - Trade Facilitation
  - Infrastructure including: Power, water, transport, roads, ICT
  - Access to Finance
  - Skills Development
  - Opportunities for import substitution
- Food security, and considerations stemming from returning migrants
- Geographical positioning vis-à-vis prominent markets relevant for stability in export revenues (such as India and Pakistan)
- Environmental Sustainability
- Gender employment and entrepreneurship
- Youth integration in productive economic activities
- Potential for Diaspora involvement
- Sector’s potential impact on ongoing Peace-building efforts
- Potential for import substitution
- Linkages with other priority sector value chains
Figure 1: NES Priority sector selection variables

- Export performance
- Import demand in target markets
- Market access conditions (tariffs/distances)
- Export potential indicator (EPI)
  - Identifies products already competitively exported
  - Good prospects of export success (in specific target markets)
- Current state and future development of cross sector functions
  - Trade facilitation
  - Infrastructure: power, water, roads, transport, and ICT
  - Skills development
  - Access to Finance
- Opportunities for import substitution
- Potential for attracting investment/Options for technology content upgrading and value addition
- Geographical positioning vis-à-vis prominent markets relevant for stability in export revenues
- Youth integration and entrepreneurship
- Food Security and considerations stemming from returning migrants
- Linkages with other priority sector value chains
- Environmental factors
- Favoring female employment and entrepreneurship
- Remittances conditions
- Potential for diaspora involvement
- Unique ranking of most promising sectors/products for trade competitiveness
KEY CONSIDERATIONS FOR PRIORITY SECTOR SELECTION

In addition to the above parameters, a final filter involved review of the following select considerations:

1. Selecting current leaders and first-movers is imperative for collective scaling up

Economic planners have to act decisively in terms of selecting sectors that have the optimum combination of growth potential, resilience, enterprise level absorptive capacities, socio-economic relevance, and spillover-impact on linked value chains. This will ensure focused support to these sectors for the next 5 years of the strategy timeframe.

In the context of limited resources for sector-support and the low base at which many of the sectors are currently positioned, planners have the unenviable task of conducting a drastic prioritization of sectors to be included in the NES. Some sectors are already poised for rapid improvements once technical support is initiated. These ‘first movers’ can help linked sectors gain ground for a ‘collective scaling up’.

2. Non-selection does not imply de-prioritization

Comprehensive cross-sector support will ensure that the scope of the NES goes beyond the priority sectors. Functional areas including skills development, access to finance, trade information and in-market support are necessary support areas that go across the board and impact every enterprise. The interventions stemming from the strategies for these technical areas will ensure that other sectors also benefit. With increasing capabilities over time, these sectors will be well positioned to be included in further iterations of the NES, as current priority sectors ‘graduate’.

3. Socio-economic considerations and peace-building potential are key parameters

Meaningful job creation remains a central tenet of the government’s growth agenda, and by association, a pillar of the NES as well. This is due to the fact that for long term economic and security based sustainability, unemployment has to be severely curtailed. Sectors that have a high potential for job-creation, integration of women and youth in productive economic activities, apart from the obvious potential for trade are prioritized.

4. Strategy implementation timeframe also dictates the sectors to be included

The NES constitutes a long-term strategy as far as the vision and strategic objectives are concerned, but the strategic plans for action are limited to 5 years and must be revised after 3 years. The next 5 year timeframe will allow other developing sectors that are ripe for growth to be included in the revised NES iteration.

5. Institutions must evolve in parallel

Institutions will remain fundamental to the success of any sector. Sectors that are better organized through unions, cooperatives and other forms of organizations, stand a better chance of absorbing the benefits of NES interventions. The presence of such organized representations also typically serves as evidence/proxy for debates, discussions, consensus building activity taking place in the sector Therefore, this is a natural parameter in sector selection.

PRIORITY SECTOR AND TRADE SUPPORT FUNCTION SNAPSHOTS

SECTORS

The sectors have been identified as NES priority sectors:

- Dried Fruits and Nuts
- Fresh Fruits and Vegetables
- Saffron
- Marble and Granite
- Carpets
- Handicrafts
- Professional Services
- Cereal, Dairy, and Livestock (Import Substitution)

Dried Fruits and Nuts

Afghanistan produces significant volumes of dried fruits and nuts, which are in high demand in global markets. The dried fruits and nuts sector is a resilient industry where Afghanistan possesses international recognition owed to the unique taste and quality of its products.

The global market for dried fruits and nuts is expected to continue growing to reach 4.7 and 62.6 million tons, respectively in 2022, driven by a growing awareness regarding the health benefits of their nutrient contribution. The sector is
Afghanistan’s leading export, with a value of approximately USD 100 million exports (2015) and the country’s favourable climate for producing and processing fruits and nuts has even made it possible for some varieties to reach world market shares of 60%. The vast variety of fruits and nuts creates a wide range of opportunities in niche markets all around the world. Moreover, the historically good reputation enjoyed by Afghan dried fruits and nuts, particularly raisins, can be revived by improving its quality offering and branding. However, Afghan exports are concentrated in regional markets, where Pakistan, India and Russia are the main destinations. Hence, significant potential exist for the country to increase its global market share beyond the region.

Being a labour-intensive sector marked by a small-scale production, this industry also offers high potential for employing returning migrants and internally displaced Afghans. Moreover, the dried fruits and nuts sector is an industry with prominent productive participation of women, particularly in the early stages of the value chain. Prioritization of the dried fruits and nuts sector can thus translate into important socio-economic returns.

Despite the high potential of the industry, the Afghan productive and export capacity is limited by a low availability of raw materials and low capability to upgrade processing methods to meet international quality and food safety requirements. Approximately 75% of farms’ produce sells on the fresh market bringing higher prices, while the rest is dried or consumed at home. Main nuts production regions are Nagahar, Paktya, and Ghanzi. Fruits are produced and dried all over the country. Addressing some of the production challenges at the input level will create spillovers in other value chains, such as the fresh fruits sector.

On other hand, greater export performance can be realized by upgrading processing methods to overcome obstacles in fulfilling buyer requirements (e.g. packaging and certification schemes). Challenges related to food safety issues and Aflatoxins have resulted in limited penetration in the first-tier markets. The products’ excellence combined with increased quality and effective marketing to further international destinations would support greater international recognition.

Fresh Fruits and Vegetables

A long tradition in horticulture and production of high quality and unique indigenous varieties of fruits and vegetables are among the main competitive advantages of Afghanistan in the fresh fruits and vegetables sector.

The global market is expected to grow at a rate of 2.88% between 2016 and 2021, driven by an increased health awareness among consumers and trends towards vegetarianism. Afghanistan fresh fruits and vegetables sector presents significant growth and export potential. The fresh sector reached an export value of USD 40 million in 2015, and most Afghan exports are concentrated in a few neighbouring countries, such as Pakistan, India, and Tajikistan. Untapped opportunities exist in current markets to increase profit margins by optimizing the time of entry of products and adding value by sorting, grading and packing produce. Additionally, Afghanistan produce benefits of proximity to large, growing markets such as Russia and the Middle East. In these markets, Afghan fruits and vegetables have an excellent reputation based on the unique taste and availability of indigenous varieties. Exports to India – and more distant locations – are expected to increase once the Afghan-India air cargo becomes operational.

While Afghanistan fresh fruits and vegetables sector presents great exporting potential, the domestic market also offers a near and significant customer base that has ample space for utilization and growth. Albeit a strong national production of fruits and vegetables, Afghanistan relies heavily on imports of processed products such as juices, and tomato sauce. Both of which for example require low investment and minimum processing. Therefore, remarkable opportunities for import substitution lie on further processing of produce with relatively low investment requirements.

The country’s dry and warm climate especially favours production of high quality produce. The sector possesses significant growth potential as only 13% of arable land area is used for horticultural crop cultivation. Fresh crop production operates as one of the most important drivers for growth of the Afghan economy and for job creation, particularly women who are largely employed in the lower stages of the value chain.

There is a large potential to increase productivity, in the sector, linked also to dried fruits. The main producers of fresh goods are small, traditional farms run by families, and large producers only exist for fruit but rarely for vegetable production. Crops are usually contracted before harvesting based on an estimate of the yield. Farmers’ bargaining power is however restricted. Moreover, many farmers have only limited access to inputs such as fertilizers and pesticides, as well as high-quality seeds. When fresh crops are sent to the market, a lack of cold chain facilities and proper packaging for shipping affects quality and generates significant post-harvest losses. To leverage on first-tier market opportunities for key Afghan exports, such as grapes, production must comply with international safety and quality standards, a current obstacle faced by Afghan exporters.
Saffron

Saffron, the most expensive spice in the world is produced in Afghanistan, where owed to the well-suited climatic conditions, there is significant potential for the country to become a high-quality global producer and exporter. In fact, saffron from Afghanistan has already been recognized and certified as one of the best in the world.

The saffron global market is estimated at more than USD 600 million (2015) and its value is expected to grow in a wide array of sectors from food applications to the medical sector. Significant untapped potential for export of saffron exists, as Afghan exports reached USD 3.3 million (2015), exhibiting an impressive annual growth rate of 8% between 2011 and 2015. This high value export sector established its strong performance based on high international reputation for its superb quality and unique taste, and high unit value, estimated at USD 2,000 per kilogram. Afghanistan can leverage on the proximity of important and growing regional markets for saffron, such as India. Additionally, the recognition of Afghan saffron as the best in the world by the International Taste and Quality Institute is a gate opener for trade in first-tier markets, such as France, USA and China. In a landlocked country, such as Afghanistan, the high value/low weight ratio and consequently relatively smaller transportation costs of exporting saffron constitutes an additional ground to prioritize exports of this product.

Afghanistan’s well-suited, dry climate supports expansion of saffron production. Production is concentrated in Herat due to the region’s particularly suitable climate for saffron cultivation. Saffron does not obstruct other crop cycles including food-security relevant cereals such as wheat and barley, and is seen as an equally lucrative alternative to poppy production. Saffron not only brings economic opportunities, but also enables social advancement being largely labour-intensive sector, which provides significant opportunities for female employment. Currently, women dominate around 80% of production activities.

There is potential to short-circuit the distributions and sales stage by employing e-solutions and retailing channels. The sector is especially promising vis-à-vis product diversification opportunities related to foodstuffs, dying, and other uses for by-products. Nevertheless, certain aspects of production related to volume consistency, adequate packaging and quality assurance will have to be addressed to improve the access and positioning of Afghan saffron in global markets.

In addition to Saffron, several herbs that are already being exported from Afghanistan will be provided support in areas like quality management, trade facilitation, branding, packaging and in-market promotion. These include Cumin, Asafoetida, Sesame, and Licorice root.

Marble and Granite

Afghanistan possess large reserves and a distinctive variety of granite and marbles, among which the white Chest marble has been compared to Italian Carrara marble, one of the best quality marbles in the world. Moreover, studies estimate that there are significant deposits of untapped marble and granite throughout Afghanistan.

Led by the European market, the global market of marble is forecasted to reach USD 52.7 billion in 2017. Given the large deposits of marble and granite in the country and opportunities to reduce value leakage by introducing further processing stages currently taking place outside the country, Afghanistan shows significant potential to increase its exported value. Moreover, the value of potential exports from this sector is predicted to reach up to USD 700 million, which is equal to around 6% of current GDP. Currently, the sector predominantly serves domestic demand. Export of marble and granite are worth USD 2.5 million, and USD 330,000 respectively.

Iran, China, USA and Pakistan were initial investors, tapping into Afghanistan’s still under-exploited high-potential sector. Unique, high quality products bring opportunities to expand to further export destinations. For instance, white Afghan marble is particularly highly prized by builders and sculptors from Italy, and it could attract further interest from other European countries.

Most marble and granite is produced in provinces around Kabul, Kandahar and Herat. Each region supplies different colored varieties, which contribute to Afghanistan’s comparative advantage. Poor security measures and an uncertain transportation infrastructure are holding the sector back from realizing their untapped potential. Afghanistan’s lack in knowledge about high-value mining locations and its poor investment in R&D also negatively affected the development in mining and processing. There are also low hanging fruits for improving the methods for extracting the marble and granite.

Nevertheless, a number of recently established factories and companies involved with marble and granite have contributed to first steps towards growing the sector. These pioneers also create various jobs in mines and factories, and brought light into an untapped area of production and export potential.
The extractive sector is expected to lead investments with almost $1 Trillion worth of mineral deposits according to studies conducted by entities including the US Geographical Survey. According to the Santander group, Afghanistan’s mining sector will represent 42-45% of its GDP by 2024 and will generate USD 4 Billion in revenues in 2024.

In-spite of the underlying potential of the Mining sector, there is an important need to treat it carefully. The extractive sector involves a long gestation time spanning decades, and as such, the NES’ relatively short timeframe (5 years) and focus on productive sectors does not make it an ideal vehicle for developing a comprehensive strategy dedicated to mining. However, the NES can focus on the following areas involved in the Mining sector ecosystem development.

Ultimately, the process for extractive sector development will be long and detailed. The NES can assist in themes including advocating for best practices and exposing key issues influencing the sector.

1. **Local content requirement (LCR):**

These involve appropriate provisions in concessionaire agreements that focus on utilizing products, businesses, human capital and other resources from the geographical/sub-national region close to the mining areas. Appropriate rules and regulations aimed at incentivizing and encouraging companies to buy and source local will contribute to ensuring that local and sub-national development also takes place in tandem with mining activities.

2. **Synergy in infrastructure development:**

Road, rail, air network development for mining activity should be accessible to local communities which stand to potentially absorb these services. The NES will advocate for this important consideration for the government while negotiating with concessionaires.

3. **Adherence to mandatory and voluntary standards:**

Mining operations must adhere with private and voluntary standards that will respect the sustainability dimensions (social, environmental and cultural) in the country. This is especially important in the context of Afghanistan as a post-conflict/fragile state where impropriety by large companies can lead to the resurgence of conflict. This includes exacerbating existing fragility drivers such as corruption, ethnic rivalries, income inequality etc.

### Carpets

Afghanistan’s handmade carpets are globally recognized as high-value items of high-quality, uniqueness and laborious design.

The carpets sector offers remarkable potential for exports with rising demand in regional and several international high-income markets, particularly the European market (43% of world imports in 2016). Germany for instance has shown high interest in hand-made carpets from Afghanistan, where the finesse of Afghan carpets was recognized and granted the Carpet Design Award in 2008, 2009 and 2014 at Domotex. Establishing a high reputation in a market such as Germany provides opportunities for Afghan exporters for market diversification into neighbouring European countries.

Afghanistan produces around two million square meters of carpets annually, while the majority is exported to the international markets in Europe, the USA and Asia. Afghan export trend for carpets showed an upward slope since 2012, and reached a value of USD 90 million with an export of 960,000 square meters in 2015. Main export destinations in 2015 were Pakistan (USD 77.6 million), Germany (USD 4.2 million), and Turkey (USD 2.6 million). Export to foreign markets usually happens through the trading system around the city Andkhoy.

Indigenous Afghan designs based on traditional weaving methods lead to a comparative advantage when sold to world markets and thus, increasing the competitiveness of the carpet sector can have positive effects in related value chains, such as the handicrafts sector. Further, the carpet industry in Afghanistan holds significant economic and also social and cultural importance, as traditional weaving methods are transmitted from one generation to another. Moreover, most of the Afghan weavers are home-based female producers. Hence, carpet production contributes significantly to female employment.

The limited pre and post-weaving processing capacity hinders gains for the sector through trade. Foreign suppliers are frequently relied on for the provision and processing of critical inputs. Further, semi-finished Afghan carpets are sent to Pakistan for the final stages of production (particularly, washing and cutting), which is not available domestically. This process explains the great export share of Afghan carpets to Pakistan. Afghanistan’s lack of production facilities hurts the reputation of unique, hand-weaved Afghan products, because they are branded as foreign rugs after finalization in Pakistan, where many carpets are machine-made. Despite shortages of production facilities, the Afghan carpet sector holds tremendous promise regarding its positive export growth and high reputation of Afghan carpets in European and US markets. With a sufficient injection of resources and exposure, the sector – already established as the second biggest export sector in Afghanistan – can make significant gains through exports of these traditional goods.
Handicrafts

Afghan handicrafts is a highly diversified industry, which serves as a symbol of traditional Afghan culture and offers an important medium for boosting the local economy and empowering women.

Afghanistan’s handicrafts’ uniqueness and comparative advantage rely on the international appreciation for high-quality, traditionally hand-made products, in a global industry with an estimated of over USD 100 million. Afghan women participating at the handicraft exhibition launched in Kabul in March 2017 confirmed this view. As Afghan carpets – the most well-known Afghan handloom product – enjoy high international recognition, so can other Afghan handicraft products with adequate support and supply. Therefore, when handicraft producers can find markets for their fine products, they can compete with imported goods, while bringing great employment creation, production and export opportunities to Afghanistan.

Professionalism of the handcraft and precious quality of these noble Afghan treasuries establishes on indigenous knowledge. Typical handicraft products include collars, scarves, saddlebag, felt carpet, needlework, embroidery, traditional floors, rugs, hats, silk clothes, saddler and other items. Being widely diversified, the handicraft sector has potential spill-overs on the carpet and even the marble sector, where marble wastage can be used by handicraft manufacturers.

High-skilled Afghan women produce high quality, traditional products, which are locally promoted and sold on bazaars and markets. Moreover, after agriculture, handicrafts are the largest employment provider for women, especially in the provinces. Women play leading roles in promotion of handicrafts while supporting their families. The sector also holds potential for providing employment for returning migrants. Therefore, the Afghan handicraft industry holds prominent economic opportunities, as well as social returns.
However, falling prices and declining demand have burdened handicraft production in Afghanistan. Lack of governmental support, increase of input prices and substitution through foreign, machine-made products were mentioned as reasons for the declining trend of the sector’s performance. Further assistance is as well needed on market intelligence (e.g. trends) and to facilitate the participation of Afghan handicrafts exporters in international exhibitions to gain further recognition in global markets.

**Professional Services**

The professional and business services sector has high potential in Afghanistan owing to the heavy presence of donor and technical agencies active across a variety of thematic areas constitutes a GATS mode 2 market in the country that constantly seek out Afghan professionals. Additionally, there is a need to focus on organizational and people performance, in areas such as general management, human capital management, business processes, sales etc. across the board for other sectors, and this is also why the professional and business services sector derives high potential.

As the sector and the economy scales up, the demand and supply of consultants and service providers will increase, and with time, companies can transition to the more challenging mode 3 level which involves overseas expansion, and mode 4, which involves professionals traveling to the client country for assignments. Afghan consultants will have the added benefit of leveraging the post-conflict context as well as provisions for ease of movement of persons afforded through bilateral agreements with countries such as India.

The following segments – Business consulting/management consulting, Education and training services, Staffing services, Accounting, translation and interpretation services – have been identified as having especially high potential.

**Domestic-market oriented sectors (Cereal, Dairy, and Livestock)**

Self-reliance and reduction of the trade deficit are two important considerations for policy makers, and focus on the domestic market for certain sectors is essential. Across a number of segments, production supply currently does not meet domestic demand, and consumers are instead dependent on imports from geographically close countries such as Pakistan, Iran and India. These goods are diverse and include cereal, dairy, livestock, cement, leather, honey, wool, cashmere, amongst others. With predictions that supply from segments such as cereal, dairy and livestock production will steadily increase in the future, products from these sectors offer high potential for domestic market led growth.

The NES does not propose a blanket ‘import substitution’ approach. Rather, it proposes a case by case approach that limits the importation of goods based on a comparative advantage analysis, and supported by a combination of temporary selective protectionist incentives (such as favouring local suppliers for government procurement), innovation, governmental support, human capital development amidst other factors – all this as part of an effective export-driven master plan.

Most small farmers heavily rely on cattle to enable crop and cereal production, as tractors and other modern technologies are scarce. Therefore, increasing the number of cattle does not only increase dairy and livestock production, but also creates positive spill-overs to boost agricultural production. Moreover, they bring additional produce in form of meat and milk, which is primarily used for household consumption. Only very small surpluses (if any) are sold or bartered. Because of the various functions of cattle, the sector serves as the most important source for food security and income of farmers.

Many aid projects have already supported Afghan’s cereal, dairy and livestock industry, while others are ongoing. With sufficient provision of resources and exposure the cereal, dairy and livestock sector will flourish. Greater production would lead to higher food security, and export opportunities in the long term.

**CROSS-CUTTING FUNCTIONS**

In addition to a sector-based focus, essential cross-cutting functions must be considered as well. Priority Cross sectors have been identified as follows:

- Quality Management
- Trade Facilitation
- Access to Finance
- Skills Development
- Trade Information and In-market support

**Quality Management**

In the present environment of increased globalization, standardization and quality management play an ever growing role in technological progress, productivity and trade. “Quality” and compliance with international standards is paramount for competitiveness and development.

Afghanistan could derive far more benefits from its international trade opportunities than it does at present if the quality of its products is improved in sectors with great export potential such as agriculture, carpets and gemstones. Afghanistan has goodwill in the market and customers are willing to pay a premium for higher quality of some commodities as is the case with Afghan saffron, dry fruits, nuts and carpets.
Agriculture and agri-business sector can tap into their potential if priority is given to generating value, increasing good practices and storage capacity, improving packaging, strengthening confidence in the quality controls. There is potential in the carpet sector, through the development of a cut and wash industry, and in gemstones through the development of cutting and polishing services. The marble sector can become a driver of SME development.

For Afghanistan to access more lucrative markets, it is essential to develop a sound and well-designed quality infrastructure including Sanitary and Phytosanitary Measures (SPS) capacities based on internationally accepted standards and best practices. The concept of “quality” standards was not well defined in Afghanistan’s legal framework until recently and was often confused as limited to safety and protection of health. Afghanistan has to honor the WTO commitments on TBT and SPS but can derive great opportunities from their applications.

In the quality context, the major challenges faced by exporters include among others: inadequate understanding of the quality (voluntary) versus safety (mandatory) requirements, regulatory framework of target markets; limited access to phytosanitary certificates recognized and accepted in EU and US markets; lack of appropriate management system and facilities for producing, processing, packaging; lack of access to recognized and/or accredited conformity assessment bodies namely testing and certification services; inadequate coordination between public and private sector; inadequate extension services to farmers to ensure safe products in pre-market (farming) stage such as for use of fertilizers and chemicals, harvesting, storage procedures; lack of good quality raw materials; inadequate technical human resources; lack of creativity and innovation.

As a result, Afghanistan export is limited to a few products to a few markets, while bulk of exports are raw material or semi-processed products which are further processed and packaged in neighboring countries and sent to global markets by the name of these countries. Afghan exporters suffer from rejections from markets in EU and US such as lack of ISPM 15 certification for wood packaging, or high level of contaminants such as aflatoxin or ochratoxin in dry resins raisins and dried fruits.

Expansion in secondary processing of materials such as marble, cotton, saffron, food, beverages, cement, mining, and natural gas has been limited. Exports have a better potential to expand once investments in agriculture and transport reach their full potential. Afghanistan has the opportunity to build a conducive technical quality environment that ensures compliance with mandatory requirements, support value addition for products in high demand in most lucrative and sustainable markets while building trust and reputation of its quality products in the international environment.

1. Food safety, plant and animal health
Trade Facilitation

In July 2016, Afghanistan acceded to the World Trade Organization (WTO) as its 164th member after making a number of commitments and passing laws to comply with the preconditions of joining the multilateral system. They will also be obliged to implement any WTO agreements that enter into force after their accession process, such as the WTO Trade Facilitation Agreement (TFA), which entered into force in February, 2017. Afghanistan has already ratified it as they submitted the instrument of acceptance during the accession process.

During the last few decades, the rapid growth in international trade can be attributed to enhanced trade liberalization resulting in a reduction in tariff protection. While international trade soared to previously unseen levels, there has also been a rise in trade obstacles related to non-tariff barriers which undermine the impact of falling tariffs. Evidence suggests that procedural inefficiencies result in high transaction costs for businesses and impedes their competitiveness to participate in the global economy. The WTO TFA seeks to address these trade barriers and procedural inefficiencies by creating conditions to expedite the movement, release and clearance of goods across borders and reduce trade transaction costs.

The Government of Afghanistan recognizes trade as a lever of economic growth and its accession to the WTO as an opportunity for domestic reforms and transformation to an effective and functioning market economy that attracts investment, creates jobs and improves welfare of citizens. A deeper analysis of the trade barriers prevalent in Afghanistan reveals that the exporters in Afghanistan are at a significant disadvantage when compared to its regional counterparts due to the high cost and time of cross-border trade. According to World Bank’s Doing Business report, Afghanistan currently ranks 175 out of 189 countries in the World Bank’s Trading Across Borders index. The cost to export is over 44% higher than the LDCs and SAARC average and the time to export is even higher at almost 60%. Therefore, implementation of trade facilitation reforms are much needed in Afghanistan to boost exports and achieve a “quick-win” towards larger national development objectives. Additionally, the country will also be able to benefit from the special flexibilities in the TFA for developing countries and LDCs in terms of implementation timelines and dependence on technical and financial assistance.

Afghanistan is destined to improve its business environment through the implementation of WTO TFA which will streamline customs procedures, reduce the time and cost of cross-border trade and make exporting and importing more transparent and predictable. The ambitious nature of Afghanistan’s commitment to the implementation is clearly apparent from the initial categorization of TFA measures done by the policy makers with the support of ITC. As per the results, Afghanistan is already compliant with 12 of the 36 technical TFA measures (Category A) and in the near future, will be implementing another 19 of them on its own (Category B). The remaining 6 have been marked as Category C for which Afghanistan will require technical and/or financial assistance to implement. This implies that there will be many trade facilitation reforms that will be implemented in the country in the near future which are much needed to resolve Afghanistan’s cross-border challenges in the areas of transparency, predictability and cross-border inefficiencies. These include TFA measures such as: Risk management (Article 7.4); Separation of release from final determination of customs duties, taxes, fees and charges (Article 7.3); Enquiry points (Article 1.3) among others which are particularly effective reforms to reduce bottlenecks at the border and resolve key trade obstacles prevalent in Afghanistan.

Afghanistan’s firm commitment towards the implementation of TFA (and other WTO obligations) is also confirmed by the proactive approach taken to establish an Inter-Ministerial Committee on World Trade Organization and Trade Facilitation Agreement (IMCWT). As per Article 23.2 of the WTO TFA, all members are required to establish (or maintain) a National Trade Facilitation Committee to facilitate domestic coordination and implementation of the Agreement. IMCWT will serve as Afghanistan’s NTFC and composes of high-level (Minister, Deputy-Minister level) officials from all ministries and agencies involved in international trade processes as well as the private sector.

The next step for Afghanistan is to develop a comprehensive strategy to implement trade facilitation reforms and incorporate it into the country’s National Export Strategy. The strategy will enable Afghanistan to design, implement and monitor the WTO TFA in such a way that all stakeholders take full advantage of the benefits. The IMCWT will need to be strengthened to ensure successful implementation of the TFA by sequencing reforms to maximize potential benefits and save costs, engaging in improved inter-agency coordination and factoring in private sector perspective through public-private dialogue.

Access to Finance

Access to finance is a major barrier to success for Afghan SMEs. Financial intermediation helps allocate resources in an economy, as it makes private savings accessible to investors and entrepreneurs. According to the World Bank 80-90 percent of the economic activity and almost all credit and other financial transactions are carried out occurs in informal sector (including hawala) in Afghanistan. Time consuming and costly loan procedures (15-45 days), high interest rates (18-20 percent), short term loans and collateral requirements as well as lack of experience within financial
institutions are among the main reasons that prevent SMEs raising funds from the formal financial sector.

No clear understanding of banking lending requirements, weak business and management skills, and opacity in financial statements make SMEs risky and thus less attractive to investors.

SMEs growth can create a tremendous positive social and financial impact. By supporting the local SMEs accessing finance, ITC expects to enhance export competitiveness of Afghanistan. The NES will focus on financing instruments and sources that can support the value chains selected by the NES. The team will review and compare existing financial instruments and sources available in the Country and its peers group. ITC will also assess the opportunity to include new instruments that already benefit micro and SMEs in the region and/or other Islamic countries. The work will consider the followings:

1. Debt finance (microfinance, bank and private loans, mezzanine);
2. Grant finance (matching grants, full grants, etc.); develop specific products to help micro enterprises to grow and become large enough to export
3. Equity Finance (business angels and diaspora financing, venture capital, private equity) – develop networks of local and international business angels/VCs (including Afghani based abroad)
4. Guarantees and insurance (credit guarantee schemes, political risk insurance coverage, etc.) – assessing suitability of specific products to be channeled either through public or private sector
5. Islamic finance (particularly looking at the experience of UAE, Indonesia, Malaysia, and Pakistan) – developing specific instruments focusing on Islamic finance principles
6. Trade finance – assess local offer and study options that could include e-payments to facilitate formal low-cost international trade transactions
7. Another opportunity for TA for business development service providers that can provide pre-, and post-finance mentoring and coaching to SMEs. In addition, training for bank officers to better assess creditworthiness of SMEs can be considered.

Skills Development

Afghanistan’s skills development infrastructure – schools, universities, TVET institutions – have been devastated by years of conflict and relative neglect. A robust pipeline of human capital is essential for economic growth, and in Afghanistan, this pipeline is not operational. There are certain challenges related to skills-mismatch between the private sector and training institutions. Significant brain drain of trained professional due to migration has occurred, and the processional that do stay in the country are lost to the better paying development partner community. In sectors such as Agriculture and Carpets, where vocational training is essential, the weakness of Extension Services as well as experts who can serve as Master trainers is a significant challenge.

Building human capital in a demand and responsive manner is a challenging endeavor. No country has been able to transition from poverty to prosperity through grant and aid, and ultimately country ownership will dictate to its future (that cannot be grasped for now).
The NES will place impetus on identifying the skills-development based challenges of each sector, and proposing solutions to build overall capacity within this thematic area – while realistically considering the absorptive power of enterprises and the capabilities of national institutions. Especially for the public sector, capacity building for topics including Investment promotion and investor servicing, Trade policy analysis, Trade statistics, Trade remedies, Dispute settlement, Consumer protection, Trade negotiations (bilateral, regional and multilateral), and quality management will be undertaken.

Overall, the educational system will be better synchronized with the needs of industry, in a phased, realistic and comprehensive manner and with full consultation of relevant sectors and stakeholders.

Trade Information and In-market support

As reiterated throughout previous sections, markets will dictate to a large extent the type and scope of interventions that the NES will propose for each priority sector. Apart from the supply side and the business environment dimensions, the market side challenges and opportunities must be addressed as well. Critical market side areas include Trade information/market intelligence and in-market support. This is especially important in order to capitalize the market access afforded by the WTO accession and TFA ratification.

Exporters must develop cognizance of emerging market trends at the domestic, regional and international level in order to make sound strategic decisions regarding targeting markets and making investments. They must better understand the markets trends and buyer requirements (mandatory and non-mandatory), before they can make strategic decisions and investments related to the market. Additionally, in-market support such as facilitated B2B networking sessions, regular support from trade attaches, participation in trade fairs and exhibitions are essential.

Inclusion of this functional area in the NES will ensure that exporters and potential exporters receive adequate support in their efforts to penetrate, maintain a foothold in, and eventually expand in international markets.

Box 1: Trade Policy

In February 2017, in the context of the Advancing Afghanistan Project, MoCI has requested ITC for technical assistance in developing a national trade policy document. A previous draft was considered not sufficient, hence the request by the MoCI for the assistance of ITC.

ITC recommended and subsequently gained the approval for the methodology/timeframes for the development of the national trade policy document in the course on 2017 (completion by around July 2017). ITC’s unique approach looks at how trade policy instruments affects each stage of the traders supply chain, and subsequently how “right” policy choices can be implemented to enhance its functioning and thus increase export competitiveness.

In the specific case of Afghanistan, the approach outlined also ensures the drafting of trade policy document is occurring in parallel with the development of the country’s National Export Strategy (NES). This is since the two processes are complementary to one another. Moreover, the NES consultations will be utilized so as to bring out key finding which can be incorporated in the trade policy draft. The NES consultations are being designed in such a way so to ensure such key information is obtained.

Finally, further trade policy specific consultations (May/June) will also occur to validate/adjust the findings that will be presented to Afghan stakeholders in the form of a draft national trade policy document.

Complementarities between NES and NTP approach

Basically, the NES will diagnose all kind of issues (including policy related), some being sector specific, which impede export competitiveness of Afghanistan. It will then suggest a number of recommendations to address these issues.

While the policy related measures will not be addressed in specifics in the NES, the NTP will respond to the NES focusing on the policy dimension of the diagnostic. It specifically identifies the policy related measures/instruments, which need to be designed and implemented to address the overarching constraints identified by the NES. The NTP brings coherence as it screens simultaneously policy instruments/measures which need to be implemented at the border/beyond the border/behind the border in view of ensuring export competitiveness.
The NES initiative accommodates budgeting for supporting implementation of critical pilot activities that will be identified and developed through the strategy design process. This will ensure that impact and momentum are generated from early on, and success stories can be used for further resource mobilization and confidence building all around. Domains of intervention will range from SMEs and institutional strengthening, quality management to trade facilitation and promotion. The following activities are among some of the priorities already identified:

- Develop capacity on Standards Development and Promotion as well as on Technical Regulation
- Support SMEs to apply and monitor quality management, processes and procedures
- Assist the ANSA Standard Information and Training Centre
- Deliver strategic and customized advisory services to SMEs and trade institutions on packaging and branding while testing the feasibility of the establishment of Packaging Service Centre
- Build SMEs’ knowledge of how to manage national cross-border procedures and compliance with regional and/or global market requirements
- Strengthen TSI and Trade Attaché’s competences in market research and analysis

A key success criterion for success of a NES is the country’s ability to coordinate activities, monitor progress and mobilize resources for the implementation of the NES. Coordination and implementation stewardship will be essential as well.
Coordination Structures

- It is proposed that the High Economic Council will provide high-level strategic oversight and shepherding of the NES design and implementation. This is to ensure overarching reach and leverage, and to avoid the perception that the NES is a ministry line initiative.

- The NES Core team will provide operational oversight during (at least) the NES design phase under the leadership of the Navigator.

- The NES secretariat will attend to daily operational work required for the successful implementation of the NES. The Secretariat works under the direct supervision and responsibility of the Navigator and Core Team.

Implementation and Implementation Support

Integral areas of support from the project will include donor coordination (for ensuring TRTA and Aid-For-Trade alignment of development actors in the country), resource mobilization (involving facilitation, leveraging and strengthening the impact of diverse sources of finance to support sustainable and inclusive implementation, including national resources, development aid and private investment), Sensitization and strengthening of implementing institutions and tools deployment (including the web-based, multi-faceted SIMT tool to monitor and evaluate implementation progress and developmental impact generated by NES at the global, regional, and country-specific level).

Box 2: The New Development Planning System (Excerpt from the ANPDF)

Aligning the Cabinet, policy priorities, and the budget is at the heart of our national development strategy. This will overcome the fragmentation by using a holistic approach to turning policies into expenditures. The machinery for achieving this has been approved by the leadership of the National Unity Government.

Political leaders set national goals, the President, Chief Executive, and Cabinet set the country’s overall development objectives through a consultative Cabinet process.

Inter-ministerial Councils will set development priorities, oversee policymaking, eliminate fragmentation of mandates, monitor progress and facilitate measures for development in their respective sectors. They will be responsible for overseeing national priority programs. The Councils formulate and manage development policy and programming and negotiate competing budget proposals. The High Economic Council serves as the umbrella forum for making national decisions on economic policy and budgetary allocations. Inter-ministerial committees will make policy recommendations and monitor their implementation.

National Priority Programs (NPPs) are outcome focused thematic programs that guide ministries towards collective problem-solving. Most involve more than one ministry. Inter-ministerial working groups will synchronize timetables, budgets, and shared resources. Investments proposed under an NPP umbrella should be national in scope and pay careful attention to ensuring geographic and ethnic balance. All NPPs should articulate their approach to reducing poverty and supporting policies on gender. NPPs should be technically sound and follow rules on incorporating accurate forward cost estimates. Funding allocations will be negotiated in respective councils before a national review by the High Economic Council, after which they can be entered into the development budget.

The national budget process will allocate resources to NPPs and review their performance annually.

Ministries execute activities. Each minister is responsible for implementing policies, programs, and projects related to his/her ministry. When necessary, a minister will coordinate with other ministries and organization to implement programs. Each minister will periodically review progress on implementation and report to the relevant council and the Cabinet.

Source: ANPDF, Page 14
The following key milestones for 2017 are subject to the review and endorsement of the NES’ Response Paper by the Government of Afghanistan:

- **May-June 2017**: Second Stakeholders Consultation in Kabul, Mazar-e-Sharif, Kandahar, Herat, and Jalalabad to (1) complete participative value-chain analysis of prioritized sectors and (2) to draft plan of actions.

- **June 2017**: Mapping and assessment of the institutional trade support landscape, including a review of quality and SPS infrastructures. This activity comprises an online survey of all trade and investment support institutions.

- **June-August 2017**: Interviews/meetings with international and regional buyers to best understand market’s dynamics, quality standards, consumption trends as well as labelling and packaging requirements for priority sectors.

- **July-August 2017**: Refine strategic orientations and confirm action plan for the priority sectors and trade support functions.

- **August-September 2017**: Support the Ministry of Commerce and Industry and other Ministries/Agencies in the development of project proposals and concept notes based on NES’ priorities together with the donor coordination group.

- **September-October 2017**: Consolidate, finalise and translate the National Export Strategy document (consolidation, editing, formatting) and its plans of action.

- **November 2017**: Organise Launching event for official endorsement of the National Export Strategy by the Government of Afghanistan

- **November**: Kick-start implementation of priority interventions identified throughout the National Export Strategy design process.

- **October 2017-December 2018**: Support the Ministry of Commerce and Industry and other stakeholders with capacity-building trainings, direct support and tools on NES implementation planning, management techniques and resource mobilisation.
"I Can See Pakistan From My House"

Photo: oddwick_afghanistan_72157868786702937, i-can-see-pakistan-from-my-house_3010357355_o.jpg
It is tempting to dismiss Afghanistan’s potential for utilizing trade as a lever of growth. The unrelenting security issues, rising civilian welfare and infrastructural demands are exerting significant fiscal pressure on the government’s budget, and this is in the context of stagnating economic growth across the board, apart from certain segments.

Yet, the comprehensive research and analysis undertaken by the ITC has determined that there exist high potential sectors that can become beacons of flourishing growth and contribute to economic and socio-economic progress, the latter contributing to ongoing peace building progress in the country. The net prognosis is positive, despite the challenges.

This will not be easy, but with the concerted and coherent effort expended through NES design and implementation, such growth is feasible. Planners must be able to count on political leadership and private sector’s buy-in. Clear ownership and leadership will be a major encouraging factor in progress. Likewise, the implementation phase has to be supported by a fully articulated and institutionally embedded approach, with strong and aligned support from development partners.

In a nutshell, the NES aims to shift demand towards domestic supply (to spur export-oriented development while also reducing dependence on imports) through matchmaking and marketplace development as well as increased local procurement, while developing and strengthening domestic performance (via incubators/accelerators/consortium mechanisms) in terms of productivity, quality and compliance. All this will be conducted over the 5 year timeframe with the aim to extend to neighbouring markets at later stage (for certain sectors).

With unwavering political and technical leadership, Afghanistan can yet become a successful case study for trade-led-growth.
ANNEX 1: FACING THE EVIDENCE

MACROECONOMIC INDICATORS POINT TO AN ECONOMY UNDER SIEGE

Afghanistan’s economy surfed a relatively strong growth wave between 2010 and 2014, averaging growth rates of 6.8 percent per annum. Since then, a marked slowdown has affecting the economy with recent year rates averaging 1.5 percent. The short-term forecast remains bleak and below 2010-2014 levels, with the IMF conservatively estimating that the growth rate by 2018 will not exceed 3.6 per cent, even in best-case scenarios. All three economic segments, services, industries and agriculture are experiencing the slump.

The Services bubble has burst

The Services segment, typically accounting for more than 50 percent of the GDP, has been severe impacted by the drawdown and departure of NATO/ISAF forces leading to a slowdown in spending and investments. Although the drawdown occurred in later-2014, construction based investment activity started stalling since early part of the 2010 - 2015 transition period.

The economic impact of the war-economy on Afghanistan cannot be underestimated. According to a report, 11.5 million people lived within a 5-km radius of at least one military base or facility that provided economic support to the local population. Among the sectors that Afghanistan’s military economy depended on are construction; food, fuel, and other supplies; logistics; security; transportation and trucking. FDI numbers were boosted by the presence and involvement of international forces in construction and related areas. 500+ bases/military complexes were commissioned and built since 2001, employing more than 10,000 construction firms. Relative to goods trade, Services have exhibited a significantly higher BoP percentage in favor of net-earnings. This economic distortion owing to NATO procurement in services has balanced out.

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2.– http://foreignpolicy.com/2014/06/09/the-afghan-war-economy-collapses/
3.– http://foreignpolicy.com/2014/06/09/the-afghan-war-economy-collapses/
4.– The extent of the distortion can be assessed by the fact that of these 10,000 firms, only 3000 remained in business in 2012, after the pullout was announced. http://www.nytimes.com/2012/11/05/world/asia/as-nato-nears-exit-afghan-construction-dries-up.html
Low levels of Industrial and manufacturing activity is a cause for concern

Industries, typically accounting for 20 per cent of the GDP, are stagnating. The negligible growth of the manufacturing sector, contraction in the domestic market, security and business-environment related challenges, coupled with insignificant investment levels has undermined confidence of manufacturers and industrial houses.

Sluggish pace of Agriculture has adversely affected economic growth and livelihoods

Agriculture, usually accounting for 30 percent of the GDP value addition, has been a highly cyclic sector due to periodically unfavorable weather rotations as well as structural challenges in the value chain (among other factors). The cereal sub-segment has been especially impacted over the last decade — growth rates have slowed significantly, and even drifted into negative territory in recent years. Horticulture segment has been less vulnerable and has grown despite the challenges.

The sluggishness of the Agriculture sector not only poses challenges for the economy, but also in terms of employment and food security. 85–90 percent of the Afghan population lives in rural areas, of which almost 3/4th is engaged in agriculture based activities. Any downward pressure on the sector directly affects this highly vulnerable population in terms of food-security and employment, in addition to revenue losses.

While all economic segments are impacted by security based challenges, Agriculture is especially so due to the weak control of the government in many of the agricultural nodes of the country.
High unemployment levels undermine socio-economic stability

Unemployment levels in Afghanistan provide a good gauge of economic headwinds. Based on the available data, migration flows seem to have resulted in lower than expected unemployment figures. Significant population growth over the past 20 years, however, has resulted in an increase in male unemployment levels and notable levels of female unemployment. This has exerted significant pressure on the government’s public welfare spending.

As discussed earlier, high unemployment levels have a broad impact on socio-economic (purchasing power, poverty levels, female empowerment) as well as security concerns (disenfranchised youth being recruited by non-state actors for illegal activity). Therefore, job-creation has emerged front and center in the government’s agenda.
A MODEST TRADING PORTFOLIO

1. Afghanistan’s exports basket is small reflecting modest growth for traditional sectors that produce relatively low-technology goods, but nevertheless reflect growing global demand.

Horticulture, Vegetables, and Carpets are the leading export sectors for Afghanistan. These traditional sectors have served as the mainstay of the country’s exports at least since the last few decades. The Agriculture and Carpets sectors have benefited from comparatively high degree of technical support from the government and donors.

The common theme across the list of products exported is the low-value-addition. As indicated in the below figure, Afghanistan mainly exports commodities such as fresh/dried fruits and unfinished carpets to neighbouring countries because of a host of internal and extraneous factors. The country relies heavily on a few export commodities that are generally produced with low levels of skill. Only 5% of its exports are classified as medium or high technology, compared with almost 37% of exports in other developing economies.

While the exports basket is small, there are a number of products with high demand in the markets, particularly in the region. These include traditional sectors including Carpets, and Fresh/Dry Fruits and Vegetables which are leaders in Afghanistan’s export basket, and also experiencing relatively high demand in global/regional markets. Analysis has shown that Afghanistan has a comparative advantage (in theory at least) for sectors including fruits/vegetables, carpets and Marble which can be leveraged for gain.

5. Please see the competitiveness constraints (4-gears) section for further details.
2. Regional markets remain key, particularly in the short-medium term

Exporters have managed to increase penetration to some extent, however overall market and product diversification remain limited. Physical proximity, established distribution channels/relationships with buyers, and relative ease of buyer requirements (legal and non-legal) have all contributed to the essential importance of regional markets for Afghanistan’s export portfolio. Pakistan and India together constitute ~75% of all Afghan exports, with Iran, UAE, Russia, Turkey and Iraq as the other prominent but much smaller importers.

Afghanistan’s market penetration is today heavily dominated by the relationship with Pakistan and India, and in addition to access developed through the natural geographical proximity, Afghan Government has placed a strong emphasis on trading with its immediate region.

Despite political challenges with this trading relationship, Pakistan remains Afghanistan’s major transit route to the sea making it a key-trading partner, representing a share of 47% of exports and 14.2% of imports. India will remain immensely important as well in short through to the long term. Both markets offer relatively flexible quality requirements which is important from a perspective of stability.

It is anticipated that this leader-board will stay stable at least in the short-medium term, as Afghanistan struggles to shore up private sector capabilities, support infrastructure, institutional support to export to the geographically farther, and more demanding EU and other Western markets.
3. The private sector is unable to satisfy domestic consumer demand contributing to a high trade deficit.

The Afghan private sector is largely unable to satisfy domestic market demand, even with recent contractions in the market. As a result, more than 90 percent of consumer goods are imported from regional countries and beyond, and the bulk of these imports are constituted of consumption goods rather than imports of inputs for value-added activities. The bottom line is that Afghanistan imports almost three times in dollar value than it exports. Increased competition expected post-WTO Accession, along with potential slowdown in exports might result in an even higher deficit, which does not bode well for a struggling economy.

4. Exporters have managed to increase market penetration to some extent, however overall market and product diversification remain limited to traditional markets, and there is also evidence regarding poor survivability levels of export relationships.

A dichotomy exists relating to the country’s survivability of export relationships:

On one hand, trade data shows that the main channel of export growth for Afghan exporters has been market penetration. Exporters have managed to dig deeper in existing markets through existing products. The other forms of growth – product diversification, market diversification and full (product + market) diversification have been scarce, and will require a longer term approach to materialize.

On the other hand, despite the increase in market penetration, ITC analysis finds the sustainability of Afghanistan’s export flows to be in the bottom half among its regional neighbors (including Iran, Pakistan, Kazakhstan), with an average export spell duration of only 2 years. This directly correlates to the persistent intermittency of Afghan exports found when looking at the country’s market reach.

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6. – when exploring the relational aspects of Afghan exports at the level of country-product combinations,
In terms of market reach, the overall situation can be characterized by an increasing number of destinations reached by each product, along with a high mortality rate of export flows and a high number of products. This suggests a high degree of irregularity in terms of export flows, which itself may be a sign of inherent problems of maintaining volume consistency, on-time delivery and/or quality related issues.

Unsuccessful attempts to make exports competitive point to deeper structural weaknesses in individual sectors as well as the overall economy.

The Central Bank has been active in using the monetary policy tools at its disposal to stimulate growth. It has served to increase the country’s import bill, yet currency devaluation has not led to the expected boost in Afghan exports, including both goods and services. This is in spite of a depreciating currency (vis-à-vis the dollar), which should ordinarily render exports more competitive. Rather the import bill has increased. The key takeaway is that the core issues leading to weak export competitiveness lie elsewhere in areas such as Quality Management, trade facilitation, productivity gaps at the supply sides, access to finance, and others.
KEY TAKEAWYS

1. All three segments – Services, Industries and Agriculture – have been impacted resulting in severely restricted growth.

2. The common denominator across Afghanistan’s deteriorating economic performance indeed is the loss of investment, income and jobs as a result of the NATO/ISAF withdrawal from the country. However, the multifaceted challenge faced by the economy has other root-causes as well. For instance, the government’s ambitious reform agenda has yet to fully gain traction, amid a weakening business environment and Investor/private sector confidence. Political uncertainties and ongoing security challenges coupled with severe value chain weaknesses have further if not equally served to undermine private sector confidence and consequently private sector activity.

3. Conducted Trade Analysis reveals that:
   a. Growth in all three economic segments – Agriculture, Industries, and Services – has slowed down
   b. The exports basket is small, with growing international demand for products exported from Afghanistan
   c. Exporters have managed to increase penetration to some extent, however overall market and product diversification remain limited
   d. Market diversification opportunities exist in the medium/long term
   e. Survivability of new export relationships is low, although exporters have managed to hold to existing relationships
   f. Imports are mainly consumables which cannot be supplied by the private sector
   g. Domestic market cannot be overlooked or neglected
   h. ‘Convergence’ between production networks has occurred: Participation in regional and international VCs seems to be declining
   i. Capital inflows have declined to negligible levels (especially investment) reflecting confidence loss in the economy*
   j. A valuable resource that should be engaged: Afghan Diaspora*
   k. Economic growth has translated to well-being to some extent
   l. Demographic pressures are expected to compound Afghanistan’s job challenge

SPOTLIGHT ON NES

1. While issues of political governance and security cannot be tackled under the scope of the NES, they will be duly considered while assessing the mapping, interrelationships and constraints of individual sector value chains.

2. The NES will explore technical options that can be applied for economic revitalization – especially within the Industries and Agriculture segments through a value chain based approach. This will involve a comprehensive analysis of actors, operations, and governance structures across the value chain.

3. Inter-linkages and commonalities across different sector value chains will be explored in detail in order to leverage commonalities relating to constraints, opportunities.

4. The NES will impart and maintain focus on:
   a. Exploring options for economic revitalization in Industries and Agriculture segments
   b. Nurturing existing sectors, and exploring options for developing value addition inside the borders
   c. Spurring further market penetration while helping exporters with market and product diversification.
   d. Reducing the trade deficit by a renewed focus on import substitution
   e. Developing import-substitution mechanisms as a means of spurring the domestic markets
   f. Pinpointing opportunities within the regional/global VC where Afghan enterprises cab get integrated
   g. Targeting unemployment and encourage integration of women in the economy.
   h. Maintaining social/socio-economic considerations firmly in centre of the design process

* Discussed separately in following sections
IMPORTANCE OF INVESTMENTS FOR PRODUCTIVE CAPACITY BUILDING AND SUSTAINABLE DEVELOPMENT

A TREND OF DETERIORATING BUSINESS AND INVESTMENT CLIMATE

The following trends have been observed regarding Afghanistan’s Investment Climate and performance.

1. Investment is stagnating, and the trajectory of deteriorating business and investment climate does not bode well for future investments.

The WB reports that the number of new investment activities – already at a low base, has declined by 50% between 2012 and 2015. FDI amounts to .7 percent of GDP, less than $150 Million. Significant loss of FDI has occurred also due to the departure of ISAF/NATO forces, particularly in the transportation + construction sectors.

These are alarming albeit unsurprising trends given the prevailing political and security uncertainty coupled with weak institutions, and perceptions that state institutions are corrupt, partisan, and predatory. The investment climate has deteriorated to the extent that the IMF has stopped forecasting revenue increases attributable to extractives due to a poor investment climate and the government’s own capacity constraints.

There are deep structural issues that need to be resolved as well. At present, Afghanistan’s legal and regulatory frameworks and enforcement mechanisms remain underdeveloped and irregularly implemented. Much of the framework necessary for encouraging and protecting private investment is not yet in place, and the existence of three overlapping legal systems Sharia (Islamic Law), Shura (traditional law and practice), and the formal statutory system instituted under the 2004 Constitution can be confusing to both investors and legal professionals. These views are echoed by Santander - political violence, weak regulations regarding property protection, a substantial lack of skilled labourers, under-developed financial markets and insufficient infrastructure limit the country’s potential for attracting foreign investors.

The extractive sector is expected to lead investments with almost $1Trillion worth of mineral deposits according to studies conducted by entities including the US Geographical Survey. According to the Santander group, Afghanistan’s mining sector will represent 42-45% of its GDP by 2024 and will generate USD 4 billion in revenues in 2024. However security challenges coupled with the country’s dysfunctional business environment and the long gestation time of the investments may serve to dissuade investors.

If the trends continue, the investments in labor-intensive and productive sectors such as agriculture etc. will be severely impacted. Without investment-led support, these sectors will be hard-pressed to grow and develop knowledge-based expertise.

Table 1: FDI Flows (Afghanistan)

<table>
<thead>
<tr>
<th>Year</th>
<th>FDI Inflows</th>
<th>FDI Outflows</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>211</td>
<td>72</td>
</tr>
<tr>
<td>2011</td>
<td>83</td>
<td>76</td>
</tr>
<tr>
<td>2012</td>
<td>94</td>
<td>65</td>
</tr>
<tr>
<td>2013</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>54</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>58</td>
<td></td>
</tr>
</tbody>
</table>

Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Table 2: Value of announced greenfield FDI projects (Afghanistan)

<table>
<thead>
<tr>
<th>Year</th>
<th>World as destination</th>
<th>World as Investor</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>37</td>
<td>303</td>
</tr>
<tr>
<td>2011</td>
<td>-</td>
<td>308</td>
</tr>
<tr>
<td>2012</td>
<td>13</td>
<td>227</td>
</tr>
<tr>
<td>2013</td>
<td>-</td>
<td>320</td>
</tr>
<tr>
<td>2014</td>
<td>33</td>
<td>-</td>
</tr>
<tr>
<td>2015</td>
<td>-</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: ©UNCTAD, based on information from the Financial Times Ltd. fDi Markets (www.fDimarkets.com).
2. ODA – a mainstay of the economy- is projected to decline/allocated away from productive sectors of the economy, lending urgency for investments-led growth.

Figure 1 highlights the declining trend of ODA since 2012. As indicated, the ODA levels register a rather sharp decrease, while FDI levels are close to negligible and flat.

Following the Brussels conference, donor commitments may materialize, and other sources of funding may bolster the ODA levels. Over the medium term timeframe though, it is projected that increasing security costs, recurrent/increasing civilian aid (owing in part to increasing population levels) will require increasing share of the available aid. This means that potentially, the aid available for economic development activity such as value chain development may be adversely affected. In this context, Investment-led growth could address this important fiscal gap.

3. For investments, as in trade, regional partners are key:

China has emerged as the largest investment partner for the country mainly involved with Oil & Gas investments, followed by India which has invested in the Mining sector. In line with its strategic goals of positioning itself as a strategic land bridge/transfer point between Central-Asia + Europe and South + East Asia, Afghanistan has also partnered in flagship cross-border infrastructure projects such as CASA-1000, TAPI, involving regional partners.

4. The Afghan Diaspora serves as a compelling yet unleveraged resource for investments attraction

One potential avenue to be considered is the role of the Afghan diaspora in attracting and/or generating inward investment opportunities. Because official remittance statistics fail to capture the largely informal nature of the Afghan remittance market, their role in attracting capital inflows has not been regularly examined in depth. The Afghan Diaspora is estimated at 4–6 million worldwide, and the Majority resides in Pakistan (2.9m) and Iran (2m), while 300k settled in the US and 150k in the United Arab Emirates.

Countries including Philippines, India, and Mexico offer compelling case studies on how policy and organic developments can effectively remittances as an investment option.

There has been significant growth in the Afghan remittance market over last decade (Net remittances amounted to USD 325 million in 2011), largely enabled by investments in the formal financial infrastructure. Although a number of players participate in this growing market, the large majority of remittances are channeled through what are known as Money Service Providers (MSP). The most well-known and used of these is the hawala system, which goes back a number of generations in Afghanistan. The informal nature of the Hawala system has traditionally been self-regulating, trust-based and both time- and cost efficient for the consumer. As such, it is not adequately captured by official remittance statistics, thus explaining why remittances are often overlooked when discussing the topic of investment.

Remittances can play an essential role in supporting recipient household through periods of economic turbulence, particularly as, while the overall incidence level of remittance receiving is low (7%), remittances often account for a significant portion of income in recipient households. Remittance-receiving households were also not only found in mostly rural areas (45 %), but were noted as being self-employed in an own business and less in paid work. This suggests that remittance receipt enables investment in entrepreneurial activities.

### Key factors inhibiting investments
- Security challenges
- Partial criminalization of the economy and transparency issues
- Weak regulations regarding property protection
- Substantial lack of skilled labourers
- Under-developed financial markets and
- Insufficient infrastructure
Based on this evidence it is clear that when discussing solutions for attracting and generating FDI inflows, developing channels or mechanisms which leverage the Afghan diaspora represents an innovative avenue for the NES to explore further.

**Box 3: Food for Thought for Policy Makers while Considering Investment Promotion**

The UNCTAD World Investment Reports are indispensable for understanding the evolving implications in the investment space. Key trends and considerations are indicated below and will be utilized throughout the NES design.

1. Services account for almost two-thirds of all FDI stock. In 2014, Services accounted for 64 per cent of global FDI stock, followed by manufacturing (27 per cent) and the primary sector (7 per cent), with 2 per cent unspecified.

2. Recent depreciations in commodity prices have begun to impact FDI flows within the primary sector – specifically the oil, and extractive industry (minerals, ores and metals) sectors. The implication for Afghanistan is that investors in the extractive sectors will be doubly wary of concluding deals and/or reduce spending for the near future.

3. According to results of the UNCTAD Business Survey in which MNE executives were polled to identify factors that they believe will lead to an increase or decrease in FDI flows, Terrorism and Geo-political Insecurity emerged as sharp negative factors that will impact FDI flows (73% and 74% of executives voting respectively for the two factors). The implications for Afghanistan are clear – increased investor uncertainty in the face of an insecure security climate.

4. The developmental contribution from intentional participation in GVCs can result in rewards and at the same time pose risks. Therefore, a balanced and careful strategic approach is required by policy makers.

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**Source:** UNCTAD World Investment Report 2013: Global Value Chains: Investment and Trade for Development
THE BOTTOM LINE

1. An improved investment climate accompanied by successfully executed investments will drive confidence in the Afghan economy, and vice versa. Ultimately, Afghanistan requires a virtuous cycle of successful investments leading to improved confidence amongst investors which lead to further investments, all under the umbrella of a conducive investment environment. In post-conflict economies, confidence building is the operative term, reflecting an iterative, tedious and hard journey that policy-makers, investment-seekers and investors have to make together. Alternating successes as well as setbacks (inevitable due to the fragile security and institutional situation) will be encountered along the way, and once a minimum conducive investment environment has been established, reconstruction efforts for the country will be boosted.

2. Concerted efforts by the government to enable synergistic trade and investment policies and institutions to emerge forth are required. This will involve a robust and strategic thinking exercise on the part of policymakers to identify a concrete vision of investment-led growth and then developing an ecosystem of regulations, institutional support, investment promotion efforts around the vision.

3. An important need exists to ensure that future investment promotion efforts are not only directed at the extractive industry sectors but also balanced with other sectors such as agriculture and services. With limited national capacities and political pressures/international private sector vying for Afghanistan’s resources, it may be tempting for policy makers to direct focus on these sectors, however investment promotion efforts will need to diversified to include sectors such as agriculture and services which are more labor intensive and involve improved socio-economic contributions to a wide strata of society.

How will NES design consider Investment?

The NES design will involve a broad-based approach that will have multiple touch-points with the facilitation of a conducive investment and business environment.

First, at the national level, the NES will review and address select structural impediments to attracting and mobilizing investments.

Second, a comprehensive analysis of individual sector value chains will be undertaken. This analysis results in the identification of important actors and linkages in the value chain. The mapped value chain also serves as the basis for analyzing the current state of the value chain and deliberating on options (including investments led upgrading) for a future value chain.

Third, human capital development and technology upgrading will be integral horizontal components of the NES, and each sector strategy will involve dedicated analysis and recommendations in these areas, which have a natural alignment with Investments.

Fourth, The NES will examine mechanisms for mobilizing and engaging the Diaspora in national development.

Strategic solutions may include the following:

- Comprehensive review of the overall investment policy, and specifically the regulatory and legal landscape related to investments in the country.
- Investment targets – with due regard for the labor intensive and productive sectors that have high socio-economic implications – will need to be set.
- Broad-based investment promotion efforts including development of attractive investment packages that builds confidence and provides security for the investors.
- Institutional strengthening will be essential to adequately support investors. Robust support to institutions having a bearing on investments, such as AISA/MOCI will need to be provided in order to help them fulfill their mandates.
- Innovative approaches towards attracting investments will need to be utilized. These include harnessing the collective strength of the diaspora through examination of instruments such as diaspora and patriotic bonds, as well as encouraging remittances through regulatory adjustments and incentives. Options for gradual development of the private equity space as an investment financing option will also be considered for support. Finally, successful case studies in other countries will be developed.
AID FOR TRADE: A REORIENTATION VIS-À-VIS AFGHANISTAN

Afghanistan is one of the largest global recipients of development aid, and Aid-for-Trade has emerged as an important priority in the last decade, especially as the country progressed towards the goal of WTO Accession. ODA in 2013 amounted to USD 5.2 Billion, representing an increase of 43% over the 2006-08 figure. Of this, USD 1.2 Billion constituted for Aid-for-trade figures, accounting for an increase of 29% over 2006-08 figures. Trade Policy, and Regional integration have emerged as two of the top three aid-for-trade priorities in Afghanistan in recent years.

In terms of thematic focus, the bulk of the AfT development assistance has been provided to improvements in transportation Infrastructure, Energy, and Agriculture. Assistance towards business services, trade policy/regulations, trade facilitation have been relatively minor in comparison, although these are expected to rise as the focus on implementing WTO post-implementation and TFA implementation begins. This bears out through increased focus of donors such as the EU on Trade facilitation.

The US has been the largest provider of AfT disbursements over the last decade and this support continues. Other prominent donors in this thematic area include UK, Germany, Japan and the EU as an emerging donor.

Table 3: Aid topline numbers

<table>
<thead>
<tr>
<th>External Financing Flows</th>
<th>2006/08</th>
<th>2013</th>
<th>Δ</th>
</tr>
</thead>
<tbody>
<tr>
<td>ODA</td>
<td>3633.4</td>
<td>5191.8</td>
<td>5191</td>
</tr>
<tr>
<td>Of which, TRTA</td>
<td>944.0</td>
<td>1214.1</td>
<td>1214.1</td>
</tr>
</tbody>
</table>

Source: WTO Aid-for-Trade Factsheet, OECD DAC-CRS Aid Database

11. – Because trade is a broad and complex activity, Aid for Trade is broad and not easily defined. It includes technical assistance – helping countries to develop trade strategies, negotiate more effectively, and implement outcomes. Infrastructure – building the roads, ports, and telecommunications that link domestic and global markets. Productive capacity – investing in industries and sectors so countries can diversify exports and build on comparative advantages. And adjustment assistance – helping with the costs associated with tariff reductions, preference erosion, or declining terms of trade. (WTO: https://www.wto.org/english/tratop_e/devl_e/a4t_e/a4t_factsheet_e.htm)

12. – Source: OECD/WTO Partner Questionnaire. The third priority is Network Infrastructure (power, water and telecoms).

KEY TRENDS

1. Highly competitive Aid landscape

As indicated earlier, the aid landscape in Afghanistan will become even more contested in the coming decades with the implications that funds available for trade related activities will remain limited, and there is an important need to spend the available funds efficiently across the board.

2. Increased on-budget aid (and capacity building assistance to ministries for improving their absorptive capacities) will be required to meet the government’s commitments

The importance of on-budget aid for Afghanistan will only increase in the future, in line with continuing security costs, projected low growth rates and growing civilian costs with rise in population levels.

Additionally, given the typical preference of donors towards off-budget project activities, capacity gaps are widely prevalent in line-ministries and agencies and there is doubt whether the ministries will be able to develop the absorptive capacities for utilizing this increase on-budget support in an efficient fashion. This is borne out by recent criticism aimed at ministries for not being able to adequately plan and spend development aid allocated to them. Capacity building at MOCI, MOF, MAIL and other line-ministries is therefore essential.

3. Focus on trade facilitation and WTO post-accession

Afghanistan will certainly require assistance in these two areas given the recent WTO-accession and ratification to the TFA, and also keeping in line with the trade and private sector development related direction set forth for the transformation decade. The line ministries do not have sufficient capacity to undertake these initiatives to completion, and therefore this has been cited as an important requirement for development assistance. It is expected that these areas will receive considerable attention going forward through development projects.

4. Dichotomy between security and development goals

International aid to Afghanistan has totaled more than USD 100 Billion since 2001 when security costs are included. Led by the US and a coalition of international partners, massive reconstruction aid has poured into the
country for both security and non-security purposes, although the former has understandably absorbed more than 70% of the allocated aid. Even within the latter bucket there are competing interests between trade and other development priorities. For instance, given that fact that development and security remains inextricably linked, projects that focus on short-term provision of services and employment in unstable areas tend to get priority over longer-term TRTA projects.

5. Lessons on sustainability from previous development initiatives must be applied, especially in the case of institutional building initiatives

A number of high visibility donor-supported projects in Afghanistan have suffered setbacks related to sustainability. These include the establishment of The Afghanistan Investment Climate Organization Facility (Harakat) with support from DFID’s initial 30 million pounds grant, which funds various projects related to easing barriers to the country’s business environment and promotion investment. Harakat’s promising work has run into challenges with decline in funding.

Similarly, the Export Promotion Agency of Afghanistan (EPAA), which was established and resourced with GIZ support has also run into challenges and currently remains operational with limited staff and capacities. The central lesson to be absorbed is the need for development partners and national authorities to plan for multi-year funding implications beyond the short-term donor assistance. Human capital is another factor – a strong cadre of officers across the ranks of the institutions must be developed as a means of strengthening the backbone of the institution.

NES ALIGNMENT

The NES will be firmly aligned with existing AfT and TRTA initiatives ongoing in the country. This alignment is already taking shape: During the recent mission, a donors’ roundtable meeting took place during which the scope of the NES was discussed in detail. Each representative provided current updates on their current/upcoming projects. Linkages with the NES were discussed in detail. Donors noted that within the Trade area, a wide range of activities are ongoing, however prioritization and donor coordination has been limited. In this regard, agreement was secured to formalize the donors group and hold regular meetings during the NES design phase and beyond. With the understanding that a significant number of donor driven projects are either ongoing or soon coming online, the NES team in Geneva and Afghanistan will keep in close contact with the other projects to ensure complementarities and synergies are maintained.
TRADE COMPETITIVENESS CONSTRAINTS

Key issues constraining the sector’s ability to compete/connect/change

Based on SME Competitiveness Grid, challenges across the three levels and three dimensions of competitiveness of Afghanistan export were analysed.

Compete

The competitiveness capacity of exporting sectors in Afghanistan is undermined by several factors related to the firms’ capabilities, institutional support and national environment.

Limited availability of critical inputs. One of the main challenges affecting enterprises competitiveness is the limited availability to critical inputs. In some cases, inputs that could be produced in Afghanistan are being imported from neighbouring countries, generating a value loss and high dependency on foreign suppliers. This applies, for example, to the carpet sector, where dyed yarn is largely imported from Pakistan, albeit Afghanistan being a wool producer. In addition to this, lack of organization among small-scale producers also encumbers the efficient distribution of inputs, particularly in rural areas. Moreover, inconsistency of volume and quality of raw materials, particularly in agriculture, often constrain production of dependent industries. This occurs for example, in the dried fruits and nuts sector, which is constrained by low levels and inconsistent volumes of fruit production for processing.

Outdated production methods restrain productivity. In turn, low production levels in agriculture are partially explained by a heavy reliance of producers on outdated production methods, creating inefficiency and limitations in terms of productivity. Explanatory factors behind this are the limited reach and quality of extension services at the national level, the limited offering of women-to-women extension services and substantial post-harvest losses caused by a weak national cold chain infrastructure. These issues are insofar evident in prioritized sectors such as saffron, fresh fruits and vegetables and dried fruits and nuts. In a fashion manner, outdated processing methods are a major issue reducing the value of Afghan products. Such is the case for the drying of fruits and saffron, two key industries in the country. Lack of knowledge of better processing methods, and a weak basic infrastructure (e.g. electricity shortages, access to water) hamper enterprises ability to improve traditional practices.

<table>
<thead>
<tr>
<th>Value chain segment</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severity</td>
<td>● ● ● ● ○</td>
</tr>
</tbody>
</table>

Low awareness of buyer requirements and international standards. Moreover, companies have a low awareness of buyer requirements and lack of understanding of international quality and food safety standards. Further, at the institutional level, the overall national infrastructure and technical capacities for quality and food safety control are weak and have a low outreach, severely affecting the entry of Afghan product to first-tier markets.

<table>
<thead>
<tr>
<th>Value chain segment</th>
<th>All segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severity</td>
<td>● ● ● ● ●</td>
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</table>

Weak national infrastructure. A challenging national infrastructure raises the costs of doing business in Afghanistan, as most products are exported by road through neighbouring countries. Deficiencies in transport infrastructure and inefficient cross-border procedures hinder the competitiveness of domestic companies, as they constrained their ability to deliver products to overseas markets in a timely manner. Additionally, cumbersome administrative procedures exacerbate costs for enterprises.

<table>
<thead>
<tr>
<th>Value chain segment</th>
<th>Marketing and distribution</th>
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<tbody>
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<td>Severity</td>
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Connect

Critical factors constrain the ability of Afghanistan export sector to connect and maintain commercial relationships.

Limited dialogue and coordination with custom authorities in neighbouring countries. At the regional level, a marked absence of coordination with custom authorities in neighbouring countries results in frequent and disruption and delays of cargo, as burdensome official procedures and multiple export controls provoke damages in goods.

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<tr>
<th>Value chain segment</th>
<th>Marketing and distribution</th>
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</table>
Adulteration of origin of Afghan products. The above-explained context allows for frequent incidences of corruption and smuggling of products across borders. This results in Afghan products being smuggled into neighbouring countries, particularly Pakistan, where they are afterwards, labelled as foreign. The fact that enterprises have limited access to packaging services and materials facilitates the adulteration of the denomination of origin of Afghan products. The latter is as well partially because some finishing processes are carried out in neighbouring countries. For example, cut and wash services of Afghan carpets in Pakistan, which allows for these products to be later on branded as Pakistani.

Change

The Afghan export sector presents a limited capacity to innovate and to tap into emerging trends and markets.

Low availability of skilled labour. One of the main reasons behind this is the low availability of skilled labour in the country. Low levels of adult literacy (approximately 38%)13 coupled with a general low rate of enrolment in training and educational institutions constrain the pool of skilled labour available in the country. A combination of factors, such as security issues and poverty, contribute to persistent figures of low literacy and enrolment. Moreover, Afghanistan has experienced a striking drain of skilled workers in the past years. At the institutional level, there is absence of formal coordination mechanisms between educational institutions and the private sector, resulting in national curricula which is largely supply driven rather than based on the markets demand. The nature of the production in Afghanistan is prominently at a small-scale level and therefore, entrepreneurial training should accompany technical training in relevant educational institutions. However, this type of training is yet to be considered and incorporated. Furthermore, weak infrastructure in education institutions and outdated or inadequate teaching methods are a challenge in TVETs, including agriculture institutions, across the country.

Insufficient access to credit. On the other hand, enterprises’ capabilities to upgrade production processes are constrained by the limited access to finance available in the country. Since Afghanistan’s production in prioritized sectors is largely done at a small-scale and at the provincial level, commercial banks face difficulties to reach and serve enterprises. Moreover, cultural and religious factors need to be further addressed by financial institutions in order to appeal producers and exporters through the offering of Islamic-compliant financial products.

Low levels of investment. An unconducive investment environment hinders the capacity of the exporting sector to innovate and upgrade production and processing methods. Several factors contribute to low levels of investment, such as security reasons, but also a general lack of confidence

and clarity on the domestic system and regulations for investment protection.

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<tr>
<th>Value chain segment</th>
<th>All segments</th>
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Limited access to land. In addition, lack of available land is constantly alluded as a hindering factor to invest in productive sectors of the economy. There is a perceived legal ambiguity regarding the leasing and ownership of land, which translates in onerous procedures for land acquisition and weak property right protection.

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<thead>
<tr>
<th>Value chain segment</th>
<th>All segments</th>
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<tr>
<td>Severity</td>
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</table>

Summary - main constraints affecting Afghanistan’s exports at the national level

<table>
<thead>
<tr>
<th>Firm capabilities</th>
<th>Institutional and trade support</th>
<th>National environment, policy and regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compete</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limited support to agricultural sector from extension services (women-to-women extension services, e.g. saffron/fruits and vegetables)</td>
<td>Challenging infrastructure increases the costs of doing business (Landlocked, poor road infrastructure), and also the ability to deliver products to markets in a timely manner</td>
<td></td>
</tr>
<tr>
<td>Electricity shortages and cost of fuel is expensive (e.g. carpets)</td>
<td>Lack of transparency/corruption in customs procedures, taxation system</td>
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<tr>
<td>Weak cold chain infrastructure (e.g. agricultural products)</td>
<td>Weak infrastructure and technical capacities for quality and food safety controls</td>
<td></td>
</tr>
<tr>
<td>Cumbersome administrative procedures</td>
<td>Insufficient in-market support and dissemination of market intelligence across sectors</td>
<td></td>
</tr>
<tr>
<td>Limited dialogue and coordination between quality management and other relevant institutions</td>
<td>Weak dissemination of benefits of signed trade agreements, GSP etc.</td>
<td></td>
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<tr>
<td><strong>Connect</strong></td>
<td></td>
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<tr>
<td>Challenges meeting buyers, contracting sales and maintaining commercial relationships</td>
<td>Absence of coordination with neighbouring customs authorities.</td>
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<tr>
<td>Limited adequate packaging available for processed products, which affects also the branding/reputation of sectors at the international level.</td>
<td>Cargo is frequently delayed and disrupted due to burdensome official procedures</td>
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<tr>
<td>Promotion of Afghan products in local and foreign markets is limited</td>
<td>Insufficient efforts to support companies to obtain visas to participate in foreign fairs and exhibitions</td>
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<tr>
<td>Traceability is largely absent in production (e.g. dried fruits and nuts/small-scale production)</td>
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<tr>
<td>Often trade attached positions in key markets are not filled. They provide limited services</td>
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<tr>
<td>Insufficient in-market support and dissemination of market intelligence across sectors</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Change</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limited access to finance. Afghanistan production in prioritized sectors is largely done at a small-scale and in a decentralized manner. Producers are not sufficiently reached by commercial banks</td>
<td>Insufficient financial tools/not adequate to Islam beliefs</td>
<td></td>
</tr>
<tr>
<td>Insufficient business management skills at various levels of the value chain</td>
<td>Limited access to land</td>
<td></td>
</tr>
<tr>
<td>Low skills levels, low levels of literacy and general low rate of enrolment in training and educational institutions</td>
<td>Unconducive investment environment (security reasons, but also lack of confidence in investment protection system, sense of lawlessness)</td>
<td></td>
</tr>
<tr>
<td>Marked drain of skilled workers</td>
<td>Lack of education, skills and cultural barriers hinder women’s participation and access to support services across VOs (e.g. saffron, dried fruits)</td>
<td></td>
</tr>
<tr>
<td>Socio-economic context dispose the prevalence of child labour in certain sectors</td>
<td>Insufficient measures to integrate returning migrants into productive employment (e.g. carpets)</td>
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[ANNEX 1: FACING THE EVIDENCE]
ITC IN PRACTICE

Some of the countries that have used (or are using) ITC’s methodology and technical support in export strategy design and management are noted below. The ITC portfolio includes aspects of regional integration (Kyrgyzstan, Tajikistan, Iran etc.), post-conflict and complex environments which will serve as best practice learning and application as well as for benchmarking.

- Vietnam
- Qatar
- Botswana
- Dominica
- Laos
- Palestine
- Afghanistan
- Romania
- Myanmar
- Cambodia
- Grenada
- Rwanda
- Uganda
- Mauritius
- Jordan
- Cameroon
- Jamaica
- Sri Lanka
- Zimbabwe
- Fiji
- Nepal
- Ukraine
- Ethiopia
- Kenya
- Kyrgyzstan
- Côte d’Ivoire
- Tanzania
- Tajikistan

GOVERNANCE STRUCTURE TO SUPPORT DESIGN OF THE STRATEGY

Trade development cuts across Ministries, government agencies, sector associations, and other private sector organizations. As a theme of national development its performance is influenced by the functioning of other national development pillars, such as transport, education, heath, telecoms, and more. In terms of private sector development, it is considered important that private actors collaborate within coalitions that defend the same industry or preferences, and that they have links to other actors across the private sector spectrum to encourage the emergence of trust, coordination and communication.

National trade development therefore requires effective collaboration as a key condition for expanding a country’s competitiveness. An adequate trade governance mechanism ensures clarity of roles, maximizes utilization of limited resources, assigns responsibilities and accountability, and provides transparency and efficiency through the effective participation of national public institutions and private sector operators.

It is proposed that the High Economic Council will provide high-level strategic oversight and shepherding of the NES design and implementation. This is to ensure overarching reach and leverage, and to avoid the perception that the NES is a ministry line initiative. The NES Core team will provide operational oversight during (at least) the NES design phase under the leadership of the Navigator.

HIGH ECONOMIC COUNCIL
- Provide high-level guidance to the Navigator and the core team relating to the overall NES design process.

NES CORE TEAM:
- Play a thought leadership role throughout the design of the strategy under the championship of the Navigator;
- Conduct targeted, focused group meetings to review strategy design progress and provide regular feedback to NES secretariat and ITC through the line of the Ministry of Industry and Commerce;
- Review and confirm the intermediary assessment and strategic orientations comprised in the strategic response paper;
- Contribute to the organization of the 1st, 2nd and 3rd stakeholders’ consultations by mobilizing key public and private sector stakeholders;
- Play a key role in the peer review exercise and ensure that the final strategy document encapsulates the interests of all value chain stakeholders, as a mechanism to promote sustainability;
- Create visibility for, and champion the strategy, at the national level throughout the process;
- Consult national stakeholders and interact with high level authorities, as a mechanism of getting the required buy-in of stakeholders and Government;
- Support targeted advocacy and resource mobilisation efforts for strategy endorsement and implementation;
NAVIGATOR:

- The NES Navigator is crucial to the success of the NES. The role and responsibility includes:
  - Lead the process of NES design and provide thought leadership
  - Leading the establishment and work of the National Core Team
  - Being the key point of liaison between ITC and the export strategy makers
  - Ensuring the process is highly consultative with continued communication with all relevant stakeholders
  - Securing the engagement of the public sector, private sector and civil society representatives
  - Coordinating and leading consultations to ensure substantive output is produced
  - Taking corrective action in cases of non-performance

NES SECRETARIAT

In order to complete the daily operational work required for the successful implementation of the NES, a NES Secretariat is put in place. The Secretariat works under the direct supervision and responsibility of the Navigator and Core Team.

EPAA has been identified as the NES Secretariat.

Select functions that the NES Secretariat has to fulfil in order to effectively manage the NES implementation process can be categorized as follows.

- Support functioning of the core-team by performing the administrative work of the core-team and supporting it as required.
- Monitor progress and impact of NES implementation: Monitoring the day-to-day progress of NES implementation vis-à-vis milestones and objectives agreed by the core-team and with implementing partners.
- Coordination of Aid for Trade partners along NES implementation: act as national coordination hub for all Aid for Trade and TRTA interventions by national or international partners.
- Resource Mobilisation to implement the NES: Provide inputs to the elaboration of projects proposals by partners for NES implementation, including advice on budget and logframe, and liaise continuously with national and international donors and development partners.
- Trade intelligence hub: collect up-to-date trade and widely agreed indicators so as to enable measuring impact of NES implementation
- Policy Advocacy & Communication: Advocate in favour of the NES to public and private partners at the national and international level.