

THE AGA KHAN DEVELOPMENT NETWORK  
AFGHANISTAN

**“U.S. PROMOTION OF THE AFGHAN ECONOMY: IMPEDIMENTS AND OPPORTUNITIES”**

**TESTIMONY TO THE SUBCOMMITTEE ON NATIONAL SECURITY AND FOREIGN  
AFFAIRS, 14<sup>TH</sup> JULY 2009:**

On behalf of the Aga Khan Development Network (AKDN), I thank the Subcommittee on National Security and Foreign Affairs for the opportunity to share with you our experience and thoughts about the Afghan economy, and the private sector in particular. I also wish to acknowledge and commend the considerable effort and assistance made by the US Government to bring about peace and stability in a country that has been ravaged by more than 20 years of war.

**The Aga Khan Development Network (AKDN)** is a group of development agencies operating within three primary pillars: economic, social and culture, with mandates ranging from health and education to architecture, culture, microfinance, rural development, disaster reduction, the promotion of private-sector enterprise and the revitalisation of historic cities. AKDN agencies conduct their programmes without regard to faith, origin or gender.

In Afghanistan, AKDN programmes include large-scale rural development that impact 1.2 million people; construction, management, human resource development and capacity building in health care including operating two major hospitals that are linked to the Aga Khan University Hospital in Pakistan; providing teacher training, school construction, and early childhood development in education; promoting and nurturing civil society and the rehabilitation of historic neighbourhoods in Kabul and Herat. AKDN is engaged in generating economic enterprise, wherein more than USD \$100 million has been disbursed to microfinance borrowers (61,000 clients); a rapidly growing mobile phone network with approximately 3.5 million customers and coverage across Afghanistan's 34 provinces, representing 41% of the market share; and the renovation and management of a five-star hotel in Kabul. With the support of its donors and partners, more than **US\$700 million** has been channelled through AKDN for Afghanistan's reconstruction. AKDN is one of, if not the largest, single private investor in the country, and its telecommunication network, Roshan, is the largest single tax payer contributing approximately 5% of total domestic Government revenues since 2003.

**Enabling Environment for Private Sector development – Definitions, Impediments and Recommendations:**

As a part of AKDN's interest in creating a conducive environment for the Private Sector in Afghanistan, **The Enabling Environment Conference** was convened by the Government of the Islamic Republic of Afghanistan and AKDN, in partnership with The World Bank, the United Nations Development Programme and the Asian Development Bank to foster significantly greater private sector participation in Afghanistan's development, and took place in Kabul on 4-5 June 2007. Twelve months of research prior to the conference - with extensive consultation with stakeholders - and the deliberations at the Conference, underlined some of the key impediments to enabling a healthy private sector to flourish:

**Definitions:**

Private sector – The private sector not only includes for-profit business but also not-for profit civil society and encouraging both is essential to Afghanistan's progress. While improving Afghanistan's state apparatus is essential for the country's development, experience from elsewhere demonstrates that contributions from private initiative are equally needed to make effective use of the country's human potential, generate material resources, and develop a vibrant and robust socio-economic base engaging Afghan citizens and diaspora as investors, volunteers, managers, employees and entrepreneurs, and thus creating a strong constituency for growth and development. In the form of both business and a diverse and engaged civil society, the private sector brings entrepreneurial energy

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and problem-solving capabilities, and the capacity to reach marginal and under-served populations quickly and effectively. In this way, contributions from the private sector can complement and make possible the Government's development agenda, spur economic and social development and strengthen governance.

Civil Society is committed to the public good and is powered by **private voluntary energies**. It is an array of institutions which operate on a private, voluntary basis, but are equally driven by public motivations. They include institutions dedicated to education, to culture, to health, and to environmental improvement; they embrace commercial, labour, professional and ethnic associations, as well as institutions of religion and the media. National Programmes in Afghanistan, such as the National Solidarity Programme have given rise to nascent civil society structures in rural Afghanistan. However, these institutions need to be harnessed, protected, and charged with responsibility and decision making that enables them to serve their society's needs and aspirations. During the Berlin Conference on Afghanistan in 2004, His Highness the Aga Khan drew attention to the role of civil society:

“Civil society makes an enormous contribution to human development, filling the gaps between government, the business sector, and the family. It does things the state cannot, and thus supports citizens in nation building. Most important, civil society underwrites human progress. Its acts as a stabilizer or buttress in times of economic slowdown or social stress. When democracies are failing, or have failed, it is the institutions of civil society that can carry an added burden to help sustain improvements in quality of life.”

### **Impediments:**

- Lack of a basic legal and regulatory framework and the capacity to interpret and enforce new legislation.
- Need to strengthen the governance and operations of civil society organisations
- Poor capacity and leadership in public and private sectors
- Increasing insecurity
- Fragmented land and property rights frameworks
- The need for a broad range of financial services
- The lack of adjudication mechanisms to find resolution to disputes
- Weak culture of social responsibility and philanthropy
- A lack of consensus about the Private Sector's role
- Failure to empower the Private Sector in the reconstruction and development of the country and over-reliance on Government to deliver services:
- Young and weak Government institutions

### **Opportunities:**

Afghanistan has the opportunity to move from a climate of fragility to creating an enabling environment leading to economic development and job creation, social progress and improved quality of life of the Afghan people that upholds its pluralistic nature as a source of strength, and a vibrant and engaged civil society. An enabling environment is characterised by political stability; confidence in the future; mutual trust, understanding, dialogue and collaboration amongst stakeholders; rule of law; protection of the rights of citizens; a diversity of stable, democratic institutions; and a streamlined legal, fiscal, regulatory, and administrative framework governing all spheres of private initiative, which is predictably, consistently and impartially applied.

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### **In response to the impediments identified, the Enabling Environment Conference recommended to:**

- Enact and implement key laws and amendments to establish the basic legal and regulatory framework that will encourage Private Sector involvement in social and economic development in Afghanistan. The laws and regulations should: (i) be clearly specified and transparent; (ii) be further streamlined, involving the minimum necessary steps, bureaucratic processes and institutions; (iii) reduce discretionary decision-making; and (iv) be predictably, consistently, competently and impartially applied;
- Establish a framework to strengthen the governance and operations of civil society organisations to enhance their contributions to social and economic development in Afghanistan through, among other measures, the revision and clarification of laws governing civil society as well as the establishment of independent certification bodies for civil society organizations;
- Establish programmes (both privately and publicly-led) to build capacity to alleviate the binding constraints facing the private and public sectors;
- Involve the Private Sector in the provision of public services through Public-Private Partnerships (PPPs) and other modalities in areas such as power generation and distribution, water supply, transportation infrastructure, and social development;
- Implement measures to facilitate access to land by clarifying property rights, simplifying procedures for the transfer of titles, and allowing for longer-term leases;
- Work to expand significantly the outreach of a broad range of financial services throughout the country;
- Build the structures, systems and capacity of mediation and arbitration tribunals to ensure the efficient, effective and impartial resolution of disputes; and
- Instill an active practice of social responsibility and philanthropy which leads to the institutionalisation of private (business and individual) support for economic and social development through civil society.

### **AKDN experiences and best practices:**

The AKDN's investments have demonstrated how the Private Sector, both business and civil society, can catalyse processes of stability: in creating and nurturing community development councils; facilitating self help groups; enabling group microfinance borrowing for impoverished women; and enabling community meetings to educate and empower them to safeguard and protect their urban environment. Roshan has pioneered corporate social responsibility programmes that link private business to community. As a commercial institution, it has endeavoured to establish best practices in the telecoms sector. From building parks in rural provinces and feeding street children, to providing business start-up opportunities for women, setting up public call offices and providing telemedicine opportunities to harness communications technology that now links Afghan hospitals to medical facilities around the world, Roshan has endeavoured to impact positively the society within which it operates. Similarly, the Kabul Serena Hotel has sought to revitalise the hospitality industry by not only creating the space for international visitors, but also training more than 700 staff, setting building

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and quality standards and bringing a new face to a city with pride and dignity that has suffered decades of war.

### **Wider Recommendations:**

The approaches of the Afghan Government, and to an extent those of the international community to create an enabling environment for the Private Sector will have a bearing on the trajectory of peace and stability in the months and years ahead. Development experience from around the world has demonstrated that a framework for Governance calls for a mosaic of investments: participation of people and communities; delivery of perceived real benefits to the population through social services; encouraging and building civil society institutions and capacity which give people the ownership of processes, projects and decision making; collecting communities and people to come together for common cause both economic and social; preserving culture that enhances pride and dignity; and lastly but not least, connecting the poor to growth and growth to the poor.

The AKDN recommends:

1. More concentrated effort and resources be made available to address the priorities emerging from the Enabling Environment Conference;
2. In the wake of a worsening security environment, attention be centred on the impediments affecting indigenous Afghan businesses and address ways to encourage their growth;
3. While investments are made to build and enable the institutions of the Government of Afghanistan, equal attention must be centred at the rural grass-root communities to build and encourage civil society institutions which underpin people's participation in governance, especially in remote and highly marginalized areas;
4. Assistance be provided to the Government of Afghanistan to address corruption, counter-narcotics and criminality which is stifling progress;
5. Wider investments in energy, water management and regional co-operation are pursued so as to allow for investment and access to regional market opportunities; and
6. That development aid be undertaken in a fair and equitable manner. To date, the most insecure areas of Afghanistan have received the most amount of aid where as those provinces that present the conditions for successful development have received relatively little.