



ENODO  
GLOBAL



AFGHANISTAN: A POST-CONFLICT / PRIVATE  
SECTOR ECONOMIC DEVELOPMENT MODEL

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SPECIAL ECONOMIC ZONE (SEZ) ROAD MAP

# SITUATION

The Brussels Conference on Afghanistan united 75 countries and 26 international organizations to endorse an agenda for peace, security, sustainable development, and prosperity. They collectively committed \$15.2 billion USD for continued international political and financial support for Afghanistan over the next four years.



“Afghanistan’s history, geography, and diverse ethnic, cultural, and tribal dynamics, combined with its current security environment present significant challenges for any economic development efforts.”

# PROBLEM

International aid has merely buttressed the Afghan economy. Over a decade of foreign donor funding and development initiatives have failed to transform Afghanistan’s post-conflict environment into a self-sustaining economy. Moreover, it is not integrated into a coherent strategy that synchronizes investments to create demand-driven, domestic markets. Continued donor funding applied to existing development models will result in outcomes similar to those experienced over the past 15 years: a subsistence level service-based economy dependent on well-intentioned, top-down foreign-led development initiatives. Afghanistan’s unique conditions require a novel private-sector approach to facilitate an economic transformation to a sustainable domestic economy.

# SOLUTION



Afghanistan needs investments that directly align with market demand and leverage its competitive advantages in agriculture, minerals, and Operation Resolute Support (RS) infrastructure to ensure development is both profitable and sustainable. Private sector initiatives reduce dependency on international donor funding, establish organic domestic market growth, diversify the existing service-based economy, create enduring stability, and accelerate the transition to a knowledge-based economy (KBE). While there is a role for the Government of the Islamic Republic of Afghanistan (GIROA), international donor funding, and development initiatives, efforts based upon private sector business models, grounded in profit and market demand, must lead the effort to transform the economy.



# THEORY TO REALITY

“Afghanistan, unlike other ‘post-conflict’ nations, has an opportunity to transform its economy through Special Economic Zones.”

The creation of Special Economic Zones (SEZs) in Afghanistan delivers the most effective means to implement immediate, sustainable initiatives that accelerate economic, social, and political transformation. SEZs contribute significantly to growth in foreign direct investment (FDI), exports, and employment, as well as playing a catalytic role in integration into global trade and structural transformation.<sup>1</sup> They provide a viable alternative to existing development models that overcome market and coordination failures.<sup>2</sup> Moreover, SEZs grant investors corporate and other tax incentives that lower market entry costs and spur the capital investments required to accelerate Afghanistan’s transition to a self-sustaining economy. Figure 1 illustrates the proposed incentive structure for SEZs in Afghanistan.

## PROPOSED INCENTIVE STRUCTURE FOR AFGHAN SEZs

- Complete foreign ownership of businesses in the SEZs (100% ownership)
- Flat fee of \$500 USD per year for Zone Employment Certifications
- Expedited licensing, permitting, official approvals, et cetera via the Special Economic Zone Authority
- No import or export duties
- No direct or indirect taxes

**INITIAL INCENTIVE AGREEMENT IS FOR 50 YEARS**

Figure 1. Proposed Incentive Structure for Afghan Airfield SEZs

Afghanistan’s customized SEZ model delivers demand-driven, economic development initiatives designed to increase Gross Domestic Product (GDP). The model simultaneously expands domestic production and labor supply chains through collaboration between SEZ investors, domestic businesses, the labor force, and GIRoA. Sustainable growth is achieved through a phased approach: incremental investments by SEZ businesses result in an exponential increase in demand for domestic raw materials and skilled and unskilled labor. Investments begin in labor-intensive industries that provide basic needs for the population. It shifts to industries where the supply

of raw materials already exists and ultimately transitions to sectors where the domestic economy holds a competitive advantage but lacks required infrastructure and supply. Domestic consumption increases when local businesses and the labor force integrate into the SEZ supply chain, expanding domestic markets and GDP. The government enters to establish a tax system and provides spending on vocational training and infrastructure to accelerate investment into new sectors. Figure 2 provides an illustration of the Afghan SEZ development model, with each phase defined in the Kandahar Use Case.

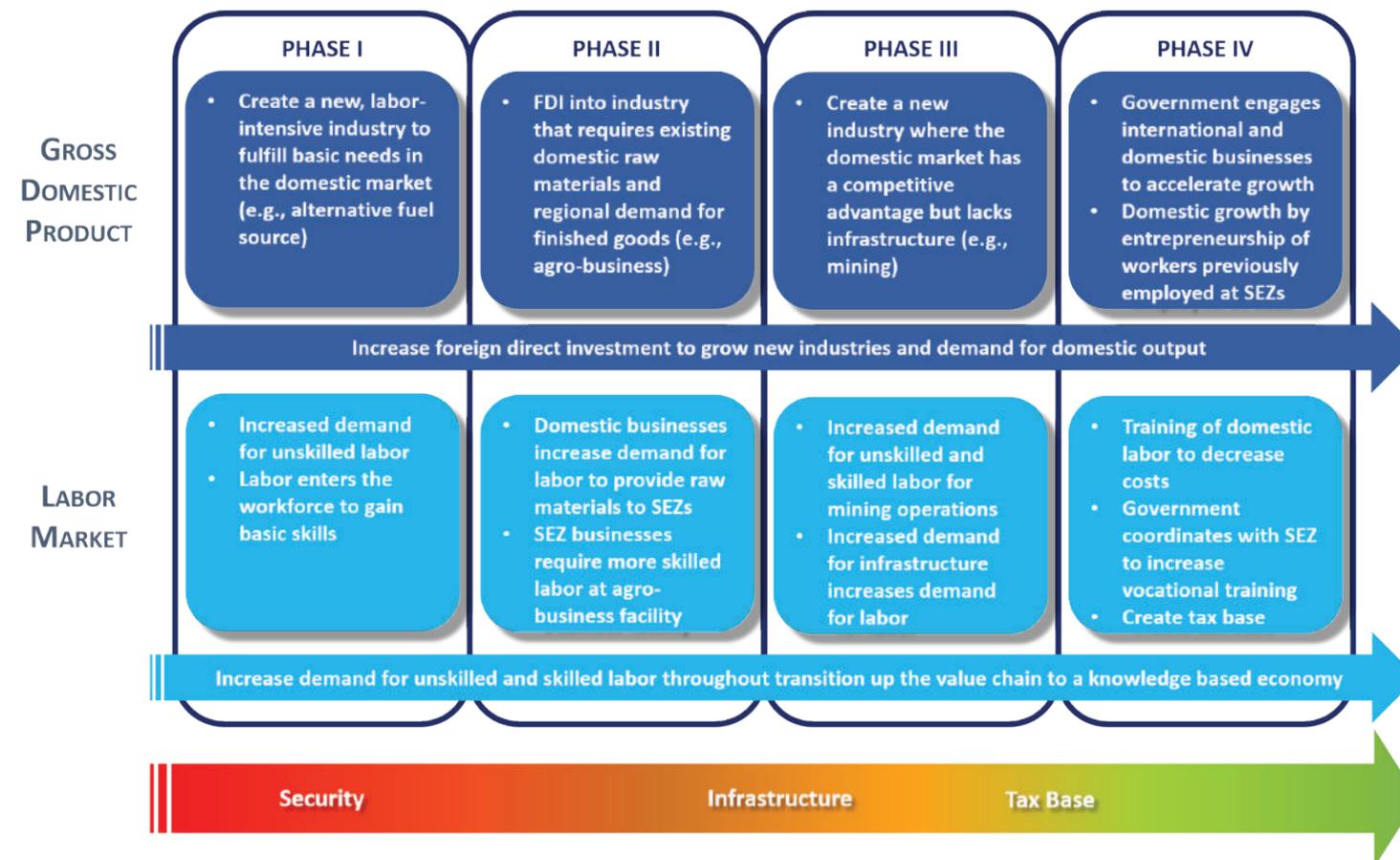


Figure 2. Phased SEZs Economic Development Model

<sup>1</sup> Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience, Farole, Thomas. The International Bank for Reconstruction and Development / The World Bank. 2011

<sup>2</sup> Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience, Farole, Thomas. The International Bank for Reconstruction and Development / The World Bank. 2011

# THEORY TO REALITY (CONT)



Operation Resolute Support bases: Proposed ASEP locations

Afghanistan has a distinct advantage not present in other post-conflict environments or traditional SEZ initiatives. The eight major RS bases provide a key enabler for GIRoA to establish Airfield Special Economic Zones (ASEZs). The RS airfield infrastructure (e.g., electricity, water purification, cold storage, housing, and transportation) outperforms most existing Afghan infrastructure and provides a fertile environment to launch new economic endeavors. ASEZs also present an excellent opportunity to incrementally transition the Afghan economy—one currently based on low-skilled, low productivity, manual labor—to an economy that cultivates technical skills through organic training and employs a skilled workforce.

Research-based estimates show that eight (8) jobs are created in the local economy for every one (1) job created in a SEZ.<sup>3</sup> This delivers a solution for the widespread unemployment currently plaguing Afghanistan. By establishing SEZs at strategic locations throughout Afghanistan, GIRoA promotes private sector access to regional competitive advantages in agriculture, natural resources and transportation. Operating agreements with GIRoA limit SEZs to export activities only, thus allowing Afghan businesses, with skills gained from SEZ employment, to supply domestic demand. The immediate (direct) benefit of greater employment is supplemented by secondary (indirect) benefits realized when Afghan businesses become suppliers to SEZ firms. This creates the required organic growth in local markets to ensure sustainable development.

Each ASEZ must be considered a standalone economic development initiative that leverages regional infrastructure as well as Afghanistan's competitive advantages. Advantages include: the existing infrastructure contained within RS airfield bases; its strategic location as a natural path between Europe, the Middle East, and Asia; its abundant natural resources such as minerals and agriculture; and its large, unskilled labor force. The SEZ matrix in Figure 3 illustrates regional differences and competitive advantages that

can be used to prioritize SEZ implementation. A standalone approach also encourages GIRoA to create regional economic hubs that introduce gradual increases in labor productivity and domestic business specialization up the value chain. As ASEZs mature and domestic demand increases, local businesses, regional supply chains and markets become interconnected, creating a robust national economy that is independent from international donor funding.

	INFRA-STRUCTURE			NATURAL RESOURCES	ETHNICITIES	EXISTING INDUSTRY	SECURITY
	ROAD / RAIL	WATER	ELECTRICITY				
HERAT	FAIR	FAIR	FAIR	GOOD	TAJIK PASHTUN	FAIR	FAIR
KANDAHAR	POOR	POOR	POOR	GOOD	PASHTUN	POOR	POOR
MAZAR-E-SHARIF	POOR	POOR	FAIR	GOOD	TAJIK HAZARA PASHTUN TURKMEN	POOR	FAIR
KABUL	POOR	POOR	FAIR	FAIR	TAJIK PASHTUN HAZARA	FAIR	POOR

Figure 3. SEZ Matrix

<sup>3</sup> Afghan Airfield Economic Development Commission (AAEDC) Implementation Plan, Chord Group, 2015.

# KANDAHAR USE CASE

The Kandahar Use Case provides a micro-level example of how ASEZs can shape socioeconomic conditions in a specific region. It is designed to align available infrastructure and resources with private and public sector activities. It demonstrates how to maximize private sector investments to benefit communities, enhance the local labor market, and spur domestic industry growth. It aligns ASEZ private sector investments with domestic production, distribution, and commodity sales to expand access to regional and international markets. Benefits include immediate employment opportunities, increased GDP, enduring stakeholder relationships, and permissive security environments, while simultaneously addressing the basic needs of local communities and creating conditions for a KBE to mature.

Findings from ENODO's Kandahar social impact assessment revealed abundant natural resources, favorable attitudes within local communities, a semi-permissive security environment, and adequate existing infrastructure and logistics in the areas surrounding the proposed ASEZ. A population-centric approach, detailed market research, and findings from previous successful private sector investments in Afghanistan inform the design of a multi-phased economic development model tailored to leverage Kandahar's abundant and diverse natural resources.

**“Focus strategic resources on the rapid development of Ink Spots of Success where our efforts will deliver the best return on investment, provide a tax base, and deny vital ground to the advances of the insurgents.”**

James, David. “Ink Spots of Success: The Smart Power Approach to Our Endgame in Afghanistan” Small Wars Journal, May 21, 2012

The ASEZ development model is broken into four (4) phases customized to the areas' natural resources, investors' industries, and communities' needs. Phase 1 implements immediate, labor-intensive, small-scale projects to establish direct linkages between the ASEZ and the community, which enable permissive security environments to form. Phase 2 leverages an existing industry—Kandahar's large agrarian-based workforce and agricultural supply chain—to harvest and process raw materials, while simultaneously improving infrastructure to increase capacity. Phase 3 establishes a new market: a large-scale mining enterprise that creates demand for development of domestic Afghan suppliers and labor. Phase 4 links government programs with private sector ASEZ investments to establish GIRoA's regulatory role, create enduring public-private partnerships, establish taxes as the source of government revenue, reduce graft and corruption, and establish the conditions for knowledge and technology transfers.

## Phase 1: Community-Based Small Business Enterprise (2-6 months)

Phase 1 is the most critical phase to the ASEZ program's overall success. Strong community stakeholder relations established early on in the project lifecycle set conditions for future success, help establish a permissive security environment, and mitigate future security challenges. The ASEZ developer, working with local government and community leaders, designs and implements a series of community-based, small business enterprises. The enterprises are designed to deliver immediate employment opportunities and address the basic needs of communities surrounding the ASEZ. Moreover, the objective of each enterprise is to establish a profitable, self-sustaining, labor intensive employment project that forms positive linkages between the ASEZ developer and local communities.

**“Empirical data indicates successful development projects in Afghanistan require local labor and village-level support.”**



# KANDAHAR USE CASE (CONT)



Community leaders and the ASEZ developer identify four (4) locations to establish briquette production facilities; typically located near an ASEZ entry/exit point to facilitate raw material delivery. The ASEZ developer provides funding for each project through a micro-loan to the community representative and supplies paper or cardboard waste to the facility operators once the briquette facility becomes operational. The cost to fund each production facility is approximately \$1,500 USD, depending on local material costs. A dedicated community representative is responsible for purchasing equipment, constructing the briquette press, hiring employees, managing the project, and repaying the loan. Each facility requires approximately fifteen (15) employees since briquette production is labor intensive. Briquettes are sold at the bazaar or directly to consumers at a fixed price until the micro-loan is repaid.

Biomass fuel projects are both economically and culturally advantageous. They provide immediate employment opportunities, align with existing gender norms, raise the quality of life for individuals and communities, decrease reliance on high-cost heating and cooking fuels, and reduce deforestation. They can be implemented quickly, require minimal training, and deliver a low-cost, low-tech business enterprise. An initial investment of \$6,000 USD employs 60 Afghans and fulfills an essential basic need for Afghan families in areas where ASEZs operate. When integrated into the ASEZ developer's existing community engagement strategy, the projects create interdependencies that ensure enduring relationships between the community and ASEZ, which provide an additional layer of stability in Afghanistan's complex social environments.

## Project Description

The Kandahar ASEZ developer provides community leaders micro-loans to develop a series of biomass fuel briquette projects. Heating and cooking fuels are among the most expensive commodities for Afghans. Biomass fuel briquettes deliver a low-cost, alternative fuel source for cooking and heating. Biomass fuel projects recycle organic waste materials (e.g., paper, cardboard, leaves, and agriculture by-products) into fuel briquettes. Each briquette provides 20 to 45 minutes of fuel at a less expensive price point than traditional cooking and heating fuels (e.g., wood, kerosene, and diesel). Fuel briquettes introduce a profitable micro-industry and competitive alternative that satisfies a common basic need. Moreover, the demand for low-cost fuel is constant throughout the year, which guarantees business viability and year-round employment.

Production of biomass fuel briquettes is relatively simple. The process begins when individuals obtain paper, cardboard, and organic materials including leaves, saw dust, and agricultural waste by-products to produce fuel briquettes. Materials are soaked in water, which exposes fibers to make them better binding agents with agricultural by-products. Ingredients are combined into a slurry, placed in a sieve, and compacted with a simple piston and lever mechanism. The water is pressed out of the slurry, and the briquettes are then laid out to dry in the sun for 2-5 days. Once dry, they are ready for sale and use. The equipment required to support the project includes a basic, non-electric press and customized accessories. All equipment is procured from local bazaars and manufactured locally, which injects money directly into the economy and creates an immediate positive impact within the community.



# KANDAHAR USE CASE (CONT)

## Phase 2: Light Industry (6-9 months)

While the small business briquette enterprise is being implemented, the ASEZ developer simultaneously solicits agribusiness investors to construct a fruit and vegetable processing facility within the ASEZ. Construction of the processing facility occurs during Phase 1 as the briquette enterprise matures and relationships with community and government officials are established. Once the agribusiness facility becomes operational, the ASEZ developer leverages these relationships to identify employees for the processing facility. Biomass briquette employees that received formal and informal training are used to fill positions at the agribusiness processing facility, which creates openings at the briquette facility. This establishes an informal labor supply chain where unskilled workers receive training as they move up the value chain. This process is formalized in later phases as demand for skilled labor increases.

The agribusiness facility is designed to process pomegranates, grapes, melons, raisins, and figs into juices, jellies, and other finished products for sale to international markets. Solicitations advertise the infrastructure capabilities and capacity of the Kandahar ASEZ and promote Kandahar's strong agricultural identity and heritage, naturally good soil, abundant water supply, and strong demand for commodities in India, Pakistan, and other international markets. Abdul Baqi, deputy chairman of the Kandahar chamber of commerce, said that up to 7,000 tons of pomegranates worth \$1.5 million USD were exported in 2015. This is in addition to the grapes, melons, almonds, raisins and figs grown in the province and sold abroad.<sup>4</sup>

“Private investment directed toward Kandahar’s agrarian-based population will increase agricultural production, establish local and regional supply chains, augment security initiatives, and enhance local governance.”

Currently, most farmers see the majority of their harvest spoil in local markets due to the lack of infrastructure to store and distribute products beyond them. According to Baqi, there are no facilities to store and transport pomegranates. He added that cold storage is necessary to keep pomegranates between seasons. Further, if such facilities existed, revenues would be much higher.<sup>5</sup> The processing facility, combined with the ASEZ infrastructure (e.g., stable electric and water supply and refrigeration and storage capacity), provides the resources required to increase production. The ASEZ opens a new market and enables farmers to sell products to the processing facility, which generates revenues that are reinvested in to the community. Investments are directed toward transportation infrastructure improvements needed to move raw materials to the ASEZ.



## Project Description

Local farmers transport their crops to the production facility located within the ASEZ where Afghan workers sort and grade the products into categories for pricing and processing. Pricing is based on quality, local market supply, and international market demand. The highest quality products are washed and packaged for immediate export using the ASEZs civil aviation capability. Lesser quality crops are used to produce juices, jellies, and other products for export. Agricultural by-products

along with paper and cardboard waste are transported to the biomass fuel briquette facilities established in Phase 1 to increase briquette production. Operating the facility initially requires approximately 250 employees, depending on size and capacity, with the ability to increase operations and number of employees to 500. The agribusiness also provides an opportunity for women to enter the workforce. Afghan women comprise approximately 35 percent (35%) of the workforce in a similar production facility in Kabul.

<sup>4</sup> Pomegranate Boom in Kandahar, Global Voices Asia, <https://iwpr.net/global-voices/pomegranate-boom-kandahar>

<sup>5</sup> Pomegranate Boom in Kandahar, Global Voices Asia, <https://iwpr.net/global-voices/pomegranate-boom-kandahar>

# KANDAHAR USE CASE (CONT)



## Phase 3. Heavy Industry (12-36 months)

Phase 3 establishes a labor-intensive, green field industry. With little existing infrastructure, Kandahar's mining sector requires skilled labor, mechanization, and transportation infrastructure improvements to facilitate domestic industry growth. Kandahar's mines simultaneously provide the opportunity for outsized returns to tenants and an impetus for growth of domestic suppliers to support mining operations.

## Project Description

The ASEZ developer identifies a mining concession with an interest in Afghan minerals, metals, and gemstones (e.g., emeralds, lapis lazuli, red garnets, and rubies). The ASEZ mining tenant employs a business model that leverages independent Afghan miners to extract raw materials from sites outside the ASEZ and transport them to the ASEZ for processing. This business model does not require significant initial capital expenditures to develop a single extraction site or rely on large numbers of foreign workers to maintain operations. Moreover, it avoids impinging on local cultural views of land use, communal territory, or land grabs by externally funded companies. Cost savings from the low capital expenditures are reallocated to transportation infrastructure improvements that enable local Afghan miners to transport raw materials to the ASEZ. Road investment costs are shared with the ASEZ agribusiness tenants since upgrades allow both enterprises to transport raw materials to the ASEZ.

As the mining industry evolves over time, new techniques and technology are gradually introduced to increase production, while maintaining employment opportunities. Small-scale independent mining operations eventually mature to large-scale mechanized operations as

profits are re-invested. Training and education in mining techniques, safety, and operations improves efficiency, increases output, and creates demand for additional business sectors to develop indigenously. For example, ASEZ mining tenants may employ local groups that previously engaged in illicit narcotics trade to augment transportation and security roles—ensuring that materials are moved safely to the processing facility in the ASEZ. It also serves as a conduit to bring more local Afghans into the ASEZ employment supply chain, further increasing community integration and support.

Socioeconomic benefits to the community are compounded when new, domestic companies integrate into the investors' economic and intellectual value chains. ASEZ tenants are incentivized to invest in their workforce in order to lessen their dependence on expensive foreign workers and reduce labor costs. At this point, formal education and vocational training for Afghan workers are incorporated into the tenants' business models. When combined with Phases 1 and 2, Phase 3 lengthens the workforce supply chain from low-skilled, labor intensive employment to trained Afghans employed in skilled labor roles within various industries and sectors.



# KANDAHAR USE CASE (CONT)

## Phase 4: Public-Private Partnership (On-going)

Phase 4 formally establishes GIRoA's role with regard to industry regulation, Afghan worker protection, and tax collection. This begins the transition from an economy dependent on international donor funding to a tax-based system, and further enables the transfer of knowledge and technology. Phases 1-3 build the physical and economic structures necessary to establish domestic Afghan businesses, external to the ASEZ, that eventually supply products and deliver services to the ASEZ tenants. They also allow GIRoA to observe the effectiveness of current laws, regulations, and key performance indicators to develop more informed plans to adjust regulations and institute revenue collection once a viable tax base (e.g., sales and property) develops.

In addition to safeguarding Afghan culture, GIRoA's primary role is to protect Afghan people from unfair labor practices and establish standards aimed at ensuring a reputation for reliable quality among Afghan products in international markets. When Afghan businesses supporting the ASEZ tenants are sustainable and operating at Afghan standards, GIRoA will tax them in accordance with Afghan regulations and laws. However, this is only successful if laws and regulations allow for a consistent anticipation of tax burdens by private enterprises and the taxable parties are mature enough to make taxing them worthwhile for GIRoA, while not creating undue hardships for young businesses.

Once GIRoA establishes a consistent and sustainable tax base, it can pursue publicly funded programs designed to accelerate and solidify economic gains experienced as a result of Phases 1-3. Within this tax-based economic model, funding for education, vocational training, and development programs comes from Afghans and not international donors. GIRoA can implement economic development efforts that are for Afghans, by Afghans, and not simply the well-intentioned but poorly designed efforts often employed by international donor organizations.

As a way to ensure the sustainability of economic gains made through Phases 1-3, GIRoA will coordinate with ASEZ tenants to identify required skills, trades, and degrees within the light and heavy industries in each region. GIRoA oversees that education and vocational training meet national or international standards and are codified across institutions accredited by the government or licensed to award diplomas or certifications. Moreover, GIRoA uses its influence to direct the creation of vocational training programs, pertinent coursework and curriculum, and relevant degrees at Afghan public education institutions. These measures ensure access to greater productivity and more financially rewarding employment is spread throughout the country, not cloistered around each ASEZ. As the abilities of the labor force improve, ambitious and newly educated Afghans can take advantage of Afghanistan's readily available workforce and accessible raw materials to establish Afghan owned and operated businesses to supply products and services to



ASEZ tenants or the local economy. In this way, GIRoA promotes the growth of Afghan owned and operated industries in conjunction with the economy and not only sees knowledge and technology transferred from foreign businesses, but begins to see it develop domestically.

Phase 4 continues for the remainder of the ASEZ program and expands to areas outside the ASEZ. GIRoA must continue to monitor not just the positive and negative results of the ASEZ operation, but also key performance indicators of the economy as a whole. Once Phases 1-3 are well under way, GIRoA will be in a position to utilize newly available funds to assist in spreading the positive gains in each ASEZ region to areas beyond the immediate vicinity of ASEZs.

**“Targeted private sector initiatives reduce dependency on international donor funding, establish organic domestic growth, diversify the existing service-based economy, create enduring stability, and accelerate the transition to a knowledge-based economy.”**

# CONCLUSION

Airfield Special Economic Zones located at Operation RS bases provide the most effective and immediate means for GIRoA to transform Afghanistan's economy. ASEZs provide economic incentives and robust infrastructure which lower barriers to market entry for private sector investors. They generate immediate markets for Afghans to sell products (e.g., agricultural goods), and create demand for Afghan goods and services (e.g., raw materials and labor). Moreover, ASEZs facilitate domestic business growth and improve employment supply chains. ASEZs deliver a private sector development model characterized by sustainable, long-term growth that can be tailored for other post-conflict environments.



**“Success is not the defeat of the Taliban, it is the building of the viable positive alternative.”**

James, David. “Ink Spots of Success: The Smart Power Approach to Our Endgame in Afghanistan” Small Wars Journal, May 21, 2012



The Kandahar Use Case delineates a phased implementation plan predicated on local community integration. It demonstrates how ASEZs (1) provide investors access to Afghan natural resources, (2) create interdependencies between businesses and communities, (3) deliver essential infrastructure improvements, (4) generate new domestic markets, and (5) provide access for local businesses to export goods. At the same time, it provides a roadmap to address infrastructure shortfalls, grow light and heavy industries, and spur domestic growth up the value chain. The Kandahar Use Case also details how ASEZs facilitate long-term, sustainable economic development and a transition to a knowledge-based economy.

Any ASEZ execution plan must apply a population-centric approach to achieve optimal results. Given Afghanistan's post-conflict status,

FDI is not adequate to spark sustainable, domestic development of industry, infrastructure, and education. Communities must be integrated into the strategy to stimulate support for investments and develop interdependencies that simultaneously create the supply of, and demand for, Afghan goods and services. This requires tailored engagement strategies, including baseline assessments, before each ASEZ comes online and investors begin operations outside of the ASEZ. The challenge will be for GIRoA to coordinate with all stakeholders, particularly the affected communities, to maximize the positive impacts of the ASEZs on the population and engender support by the population for private sector investments. A population-centric approach enables GIRoA to initiate an economic transformation that provides better jobs, greater security, and more opportunity for all Afghans.



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Published October 23, 2016 in the United States of America  
by ENODO Global Inc.