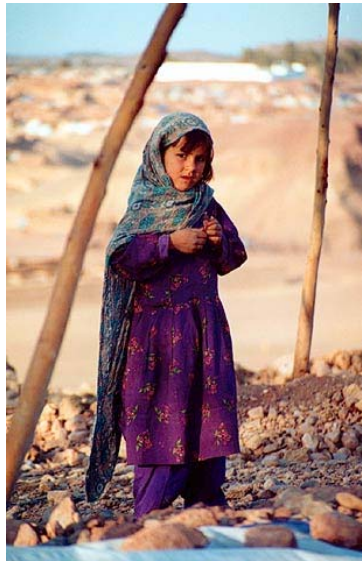


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The Role of Private Sector in the Development of Afghanistan



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A Message from the Editor

We hope that you are intrigued by the ideas presented in this edition of the SAE Journal through the written work of many dedicated scholars. We are pleased to see such contributions and look forward to many more value-added articles in the prospective editions from Afghan and non-Afghan professionals and academicians throughout the world. The articles presented in this document attempt to shed light on some prospective opportunities related to *The Role of the Private Sector in the Reconstruction and Development of Afghanistan*. Many of the authors are basically scratching the surface as they provide conceptual and some practical recommendations in the form of what can be done to progressively move in the right direction toward a brighter Afghanistan. Overall, scholars have offered ideas on business, governance, economics, electricity and energy development, as well as many other topics, as can be seen from the table of content, in order to assist in the idea generation for rebuilding and progressive growth of Afghanistan.

The role of the private sector in rebuilding Afghanistan cannot be over emphasized. It must be acknowledged that a greater role by the private sector in developing the country does not necessarily mean transferring the control of state-owned enterprises to private shareholders; and further, it does not mean that Afghan leaders should not focus on the public sector. Afghanistan needs immediate and continuous progress and development in both areas—public and private sectors. The trend toward a greater role by the private sector and general privatization is a reality for most developed and developing countries. However, privatization is not always the right “prescription” since there is a right time and a right industry to privatize without losing control or negatively impacting the working groups or the poor sectors of the population. Countries without a strong government must focus on building and strengthening the public sector first before taking drastic steps toward privatization of major state-owned enterprises.

The public sector officials need to use the strength of each citizen in the rebuilding process. The people of Afghanistan have gone through many struggles in their lives that they need to see more “light” and move forward toward a better and safer economy using their accumulated knowledge and strengths by being and following just rules. Academic studies show that privatization is not a panacea for a country’s economic ailments. The proceeding “blind peer reviewed” papers in this “refereed” document explore some of the foundational literature regarding the role of the private sector in Afghanistan, privatization as well as the relevant concepts and capacity building skills needed for jointly developing the Afghan economy. It is our hope that you too think of Afghanistan and document your ideas, research the best practices that will help the Afghan workforce become better, and submit your scholarly work for inclusion in the future publications of SAE Journal. Thank you for reading the articles of your interest, and we look forward to receiving your contributions in the rebuilding process while remaining hopeful for a more peaceful, economically prosperous and brighter Afghanistan!

Sincerely,
Bahaudin.

Acknowledgment of Contributions

The old proverb states: “Sow a thought, and you reap an act; Sow an act, and you reap a habit; Sow a habit, and you reap a character; Sow a character, and you reap a destiny.” Many of the Afghan volunteers, elders and leaders have sown the seeds of wisdom and thus created powerful destinies for themselves and other Afghans through their involvement in paving the way toward a better Afghanistan. Thus, we would like to take a few minutes and dedicate this page to their contributions.

Many of the papers included in the volume were presented at the SAE/SAAE’s 2005 international conference held at the Kabul University in Afghanistan. Conference organizers, paper peer reviewers, committee members, and many other volunteers and organizations from around the world contributed physically, mentally, and financially to make this conference a reality. The following are the various committees, and some of the volunteers who served in one or more committees.

1. *Fundraising/Seminar Expenses Coordination Sub-committee!* Hadi Rakin, Yasin Khosti, Yaqub Munir, Quasem Kadir, Bahaudin G. Mujtaba, Rashid Joyaa, Jamal N. Noorzaie, Naseer, Jatender Kaushal.
2. *Invitations and Guest List Coordination Sub-committee!* Aziza Tarin, M. Najib Poya, Quasem Kadir, Yasin Khosti, Jatender Kaushal, Naseer, Sayed Maqbool, Bashir Ahmad.
3. *Speakers and Paper Review Coordination Sub-committee!* Tamim Noorzay, Ghulam Mujtaba, Zabi Mojaddidy, Zabi Eltezam, Yasin Khosti, Aziza Tarin, Quasem Kadir, Hadi Rakin, Bahaudin G. Mujtaba, Jamal N. Noorzaie, Mary L. Vitelli.
4. *Publicity Coordination Sub-committee!* Tamim Noorzay, M. Najib Poya, Yacub Munir, Quasem Kadir, Aziza Tarin, Zia H. Raffiq, Malik Murtaza, M. Ismail Sipaas, Sayed Faridullah.
5. *Program Coordination Sub-committee!* Yasin Khosti, Najib Poya, Quasem Kadir, Wahed Fekrat, Bashir Ahmad, Hawa Miskinyar, M. Ismail Sipas, Sayed Faridullah.
6. *Post Conference Activity!* Bahaudin Mujtaba, Sayed Maqbool, Jatender Kaushal, Bashir Ahmad, Hawa Miskinyar, Sayed Faridullah, Mary L. Vitelli.

Imam Ali said that you must “persist in your action with a noble end in mind..Failure to perfect your work while you are sure of the reward is injustice to yourself.” A reporter once stated that “It was long ago in my life as a reporter that I decided that facts must never get in the way of truth” (James Cameron, 1911-1985). All the SAE/SAAE volunteers have made contributions with a noble end in mind...to improve Afghanistan. Christopher Morley had stated that “there are three ingredients in the good life: learning, earning, and yearning.” The conference volunteers have done, and are doing, all three as they yearn for a peaceful and developed Afghanistan.

Hopefully, we have accurately captured the names of all individuals that have contributed...we all know that it takes a village to raise a child. As such, it has required the contributions of many individuals besides this core team, mentioned above, to make such opportunities and material available to everyone. SAE would like to extend it gratitude and appreciation to all individuals and organizations that have sponsored the conference, made themselves available to speak at the conference, and those who have assisted toward the existence and continuation of these non-profit organizations with their love, membership and generous contributions. Thank you!

“Only one life the soon will pass – Only what is done with love will last”

Table of Contents

1- The Role of the Private sector in the Development of Afghan Economy	1
<i>Zabioullah A. Eltezam, Rio Salado College and Chandler-Gilbert College</i>	1
2 – Outsourcing versus Self-Reliance	17
<i>Mohammad Yasin Khosti, President - Society of Afghan Architects and Engineers</i>	17
3 - Privatization: A New Approach to Economic Development	25
<i>Pedro F. Pellet, Nova Southeastern University</i>	25
<i>Behruz A. Aslani, California Polytechnic State University-Pomona</i>	25
<i>Benjamin Burgos, Nova Southeastern University</i>	25
<i>Michael M. Fathi, Georgia Southwestern State University</i>	25
<i>Syrous K. Kooros, Nicholls State University</i>	25
4 - Creating a Suitable Environment for Developing Private Sector in Afghanistan	29
<i>Nazar M. Karyar, Kabul University</i>	29
5 - Market-Based Leadership Skills for Public and Private Sector Capacity Development in Afghanistan	39
<i>Bahaudin G. Mujtaba, Nova Southeastern University</i>	39
6 - A Review of Pest Management Strategies in Resources-Limited Agriculture: Applicability to Afghanistan	52
<i>Nadir Sidiqi, New Mexico State University</i>	52
7 - Roadmap to an Industrialized Afghanistan	59
<i>Rahim Raufi, Kabul University</i>	59
8 - Privatization of Irrigation Systems	66
<i>Hashim M. Rayek, Kabul University</i>	66
9 - Rehabilitation of TVET in Afghanistan	70
<i>Najib K. Omary, Ministry of Education</i>	70
10 - The Importance of the Private Sector in the Free Market Economy and its role in Securing National Economic Aspirations	75
<i>Hamidullah Farooqi, Kabul University</i>	75
SAE Journal Paper Submission Guidelines	80
SAE Journal Objectives	82
Society of Afghan Engineers	82

1- The Role of the Private sector in the Development of Afghan Economy¹

Zabioullah A. Eltezam, Rio Salado College and Chandler-Gilbert College

Abstract

The presidential election in Afghanistan has been a milestone. Young men and women and elderly went to the poll and elected Mr. H. Karzai as their president. With democracy usually comes economic liberty. His Excellency Mr. Karzai encourages the Afghan people to take their economic affairs in their own hands more than before. His Administration has been striving to expand the role of the private sector.

Economic growth, saving and investment are interrelated with each other. All of these must move to higher levels in order for the living standard of the Afghan people to rise. Macro-economic policies including monetary policy, budgetary policy and trade policy need to improve consistently. Institutional changes in the area of administration, courts, property right regulation and enforcement to eradicate market distortions are needed as well.

President Karzai has done a fabulous job of attracting vast sums of foreign aid albeit the allocation of foreign financial assistance has come under fire by some critics. A country cannot, however, rely on foreign aid indefinitely. Afghanistan must stand on her own feet and must do so fast. The flow of foreign aid in excess of the country's absorptive capacity may cause problems like inflation and exchange rate appreciation that must be checked through a workable balance between domestic resources and foreign capital inflow.

Reallocation of resources via the privatization of public enterprises has been suggested by some as a way to attenuate inefficiency. This trend has been pervasive in the developed countries of the West as well as in the socialistic economies of the old Eastern Europe. In Afghanistan the public sector is not large enough to justify fragmentation notwithstanding that the sector is riddled with corruption and inefficiency that must be overcome. Privatization is also viewed by some as the transfer of national control of resources to foreign investors. Afghans

have traditionally been jealous of their political and economic freedom.

Introduction

Afghanistan, a marvelous and resourceful country in the heart of Asia, is struck by a dire poverty. Data on its economy are scanty and whatever information is available cannot be vouched upon its authenticity. A reliable US agency claimed that in 2003 fifty three percent of Afghan population lived under the poverty line. The golden age of development under former King Mohammad Zahir was ended by subsequently unabated turbulent political upheavals. Only recently positive changes have resumed albeit at a slow and uneven pace mixed with rising prices, regional diversity and other disturbing anomalies. The forces unleashed by President Karzai's fragile democratic regime have brought Afghanistan to the brink of development. There are still barriers to be smashed in order to alleviate unemployment, inequity, inflation and to remove a host of other barriers now choking Afghanistan's potential progress.

A number of resisting elements plague prosperity in Afghanistan. Inadequate saving, undeveloped and underdeveloped capital market, the poor quality of financial services, high risk premium, market distortion, limited ability to enforce laws and regulations when it comes to property right and contracts, corruption at official levels mostly at lower echelons, vague commercial and investment laws, lack of access to information and technology, inadequacy of infrastructure, limited export diversification, concentration of communication facilities in only a few large cities, lack of education and skill to the extent needed to make Afghanistan internationally competitive, and many other factors are some of the features that characterize the current situation. Steps must be taken to improve savings and to

¹ - Reprinted with permission from the textbook entitled "Privatization and Market-Based Leadership in Developing Economies: Capacity Building in Afghanistan" by Llumina Press and Publications; Chapter 5, 2006; pages 115-138. FL. USA. ISBN: 1-59526-551-1. Website: www.llumina.com

channel them to investment activities in order to insure that growth can occur not only in a more pro-poverty fashion but also in a sustainable manner. To achieve success, not only the public sector enterprises should be improved, modified or perhaps partially but not wholly privatized, but more importantly, the private sector should be strengthened and made consistently more reliable.

The Private sector

Afghanistan is no longer in the grip of repressive regimes that once were determined to enhance the role of the inefficient government in people's economic life. President Karzai with the help of a US led coalition has made a milestone by launching democracy and is making efforts to wash away an intractable series of woes such as corruption, inflation, uncertainty as well as making great stride to keep the country in the side of a market-based economy in which the private sector continues its lead and the majority of people would forge their way toward a higher and more equitable standard of living.

The Asian Development Bank rightly claims the private sector to be the engine of growth. The Private sector is not just one economic sector such as an agricultural sector or a service sector; the private sector encompasses practically all and every aspect of the economy including agriculture, manufacturing, transport, service, finance, trade, infrastructure and the informal economy. The informal economy embraces every unincorporated producer of goods and services such as masons, carpenters, bakers, fishers, barbers, tailors, porters, iron smiths, shop keepers, petty traders, street vendors, restaurant workers, taxi drivers, trash collectors, owners of repair shops, and so on.

The private sector is now responsible for nearly ninety percent of the value-added produced by farm and non-farm activities in Afghanistan. However, the relatively slow

pace of growth of the private sector is of great concern. While improving the performance of Afghanistan's public sector is well warranted, it is much more important to catalyze resources for the growth of the private sector in an attempt to create additional and more decent and productive jobs for the vast majority of Afghan bread winners. The private sector displays certain impressive characteristics that public sector is lacking. The private sector responds to unbalances quicker; it is much more resilient, more flexible and more capable of correcting itself compared to the government sector - and the greater the flexibility, the greater is the chance to adjust. The government sector usually being infected with red-tape and corruption takes too long to adjust itself to new conditions when adjustments become necessary. When the economy suffers from shocks, the market forces moderate them faster within a competitive environment. Competition within the private economy is conducive to innovation and changes, whereas the conservative public sector is too slow to replace obsolescent technology and or to modify production and marketing devices while speed is of the essence. The private sector is motivated by profit, and whenever opportunities for profit arise, the number of firms in an industry increases, quality improves due to enhanced competition, and larger quantities of output would be made available to consumers at alternative prices. In the private sector consumers are the king and they help allocate resources with their pocket books. While government enterprises hesitate to accept risks because of vague accountability that haunt them, private entrepreneurs accept risky activities in the hope of making money. Public services are, as a rule, low-risk activities to the government but not to the officials running them. Private entrepreneurs, being their

own bosses, are in a better position to disburse risk. The private sector's advantages would dwindle, however, if too much regulation creates market distortions; too much regulation impedes efficiency and competitive behavior. If competition within the private sector is promoted and protected, joint consumer and producer surplus would raise the level of social benefit.

The private market could fail under certain circumstances, however. Market fails when it does not allocate resources efficiently to produce an optimal mix of output. This will establish a basis for the government to intervene. Market failure is caused by the presence of monopolistic powers in the economy, the existence of either positive or negative externalities, the need for public goods and services as market fails to provide them, and the overriding inequality of income and opportunity among individuals as some people are enriched abundantly while others are left behind. In these circumstances the economy requires the State to help overcome these market imperfections hoping that government itself does not create its own imperfections. Anti-trust regulations if properly implemented will reduce if not totally eliminate noncompetitive behaviors; taxation may partly take care of negative externalities while subsidies may encourage the expansion of activities producing social benefits in excess of private benefits; the unequal distribution of income may be corrected to a certain extent, again, by tax and transfer schemes; and public goods and services could be produced by the government either within its own enterprises or by contracting with private firms to deliver a part or the entire quantity demanded. Unfortunately, government enterprises may be riddled with managerial inefficiency and political corruption.

Aside from laws and regulations being vague and incomplete, the lack of a proven criteria on the basis of which

recruitments, promotions, demotions and or dismissals be regulated has impeded efficiency in the Afghan bureaucracy. Nepotism, favoritism, bribery and sheer conservatism coupled with indifference have attenuated fairness and impeded the pursuit of quality improvement. Not only high level officials, but also low-ranking functionaries have to a certain extent been appointed without possessing proper qualifications for the assignments they handle. Managers and workers of public enterprises cannot be exceptions. Practically all appointments are politically motivated. The sad consequence of this is the failure of public enterprises to compete with the private sector internally or internationally, and to operate profitably. Public enterprises in Afghanistan are generally a drag on the government budget; many of them fail to produce even their annual balances on time; some of them have been behind for several years in this respect.

One of the basic difficulties with the public enterprises is the absence of a definite objective, and the other is that objectives conflict with each other in a situation where the enterprise pursues several objectives at the same time. The goal of a private firm is simple and straight forward: to maximize profit. This goal is set by the private firm by itself and for itself. The goal of a public enterprise, on the other hand, is defined by the government ministers to whom the business does not belong. Ministers are making choices on behalf of someone else. Naturally, they are lacking the natural incentive to pursue the interest of the people they are asked to serve. Instead, they are primarily interested in pursuing their own interest. Usually, the goal of a public enterprise is vague and complex referring to such things as protecting "national interest" - an ill-defined term-, producing with efficiency,

avoiding discrimination, keeping costs and prices down, supporting government's budget by realizing profit, and supplying the market in a balanced fashion by keeping the interest of various regions in mind. Ironically, profit does not constitute one of the objectives at all in many instances. Moreover, these objectives sometimes conflict with each other as a consequence of which implementation of some of them will not materialize, and the enterprise may fall victim of harsh investigations by government prosecutors who most often lack proper prosecutorial background, a phenomenon which causes the enterprise to become more timid, and its cost and the progress to come to a halt.

Public enterprises generally operate in areas where the economies of scale pay off. If government decides to break down the enterprise into two or three parts each of which to operate at a different location in the country for the sake of income equality and political considerations, the benefits of the economies of scale will be lost and efficiency will dwindle. By the same token, if government decides to discriminate price-wise by supplying output to certain regions at subsidized and political prices, profitability will clash with equity. Profitability and macroeconomic policy too may be at cross with each other in situations where government prefers stable prices at the same time that costs are rising. Some times government enterprises are expected to realize a certain predetermined fixed rate of return. When the public firm is subject to increasing returns to scale - in the case of a natural monopoly - efficiency can be compromised by pursuing this objective. Allocative efficiency requires the level of output to be set where price equals marginal cost; yet, marginal cost pricing forces the firm to take a loss because the marginal cost curve lies below the average cost curve over

the relevant range of output in a decreasing-cost industry.

It can also be argued that if government enterprises gear their output toward a planned target, quality could be sacrificed for the sake of quantity. The quality issue goes even beyond the product that firms produce. In order to reduce cost managers may overlook the cost of protecting the environment. If the firms lack the incentive to reduce pollution, social cost would rise as the quality of air and the environment deteriorates. It is also argued that the managers of the public enterprises are not generally sympathetic to workers who attempt to engage in collective bargaining or strike in an effort to ameliorate working conditions. Even consumers' complaints may go unheard or unanswered because public enterprises often operate under strict rules, plans and standards that lack flexibility. Under these circumstances productivity and quality both can be jeopardized and the growth of the economy will be affected adversely.

Economic growth

Real GDP in Afghanistan is rising but not rapidly enough. The greatest part of output is produced in the private sector of the economy, especially on farms where perhaps eighty percent of people live, where land has been significantly exhausted due to extensive use over decades, and where the application of rudimentary tools and equipment that result in low productivity is still in vogue. The contribution to GDP by large manufacturing enterprises, largely in the public sector may not exceed five percent. The value of marginal capital-output ratio for the economy appears to be small, perhaps below two, leading to a five percent annual growth of GDP assuming saving to constitute a mere ten percent of the GDP on average. At this rate of growth

it will take nearly a quarter of a century for the current per capita GDP of roughly \$800 to be doubled based on a two percent annual increase in the size of population.

Afghanistan needs to alleviate poverty by accelerating economic growth via higher labor skills, improved management of the economy, and more importantly by the employment of more capital goods coupled with improved technology that can make the use of better capital equipment and products possible and pervasive. Reallocation of resources from the less-efficient public enterprises to the presumably more efficient private sector may improve the situation to a certain extent but it is extremely difficult to guarantee this and to quantify the outcome.

Investment and economic growth

American workers in the USA receive higher wages than resident Afghan workers inside Afghanistan (\$9.00 per hour on average vs. \$0.20 respectively). Americans are more efficient having higher productivity resulted from higher labor skills, improved management, and more importantly from the application of more abundant capital goods and advanced technology. According to Professor Robert Solow of MIT, a one percent increase in capital per hour of labor in the USA brings a one third percent increase in labor productivity assuming no change in human capital and technology. Applying this principle to Afghanistan, if she manages to increase capital per hour of labor by six percent per year, and assuming labor productivity (growth rate of total output less the growth rate of labor force) to rise by three percent, then according to this "one third rule," capital growth will contribute one third of six percent which is two percent. The remaining one percent rise in labor productivity comes from better technology (use of new and improved capital and improved management techniques), and human capital growth. Of course,

Afghanistan is not USA. The effect of education and technology in Afghanistan is considered dwarfed by the contribution made by equipment in this capital-starved country at this stage of her development. In Afghanistan the illiteracy rate is high and vocational education which is disparately needed to improve workers' skill and dexterity is in short supply.

The existence of a strong correlation between gross domestic investment and long-run economic growth is now a common knowledge within the world community. The effect of the composition of investment (structures vs. equipment) is a matter of debate. The consensus is that equipment investment contributes more to growth and construction investment contributes less. The private sector in Afghanistan has leaned more toward the latter and has therefore failed to capture the maximum benefit of investment because the bulk of money is currently used to improve land, build office buildings, apartments and rental dwellings, commercial complexes and small shopping centers. The amount of fund invested in plant and equipment by Afghan entrepreneurs has been relatively small, even negligible. It is also observed that in many countries capital accumulation in public sector, due to economies of scale, has contributed to economic growth more compared to the investment made in the private sector. Moreover, public investment, largely in infrastructure such as telecommunication and transport, has had significant positive effect (creating positive externalities) on the performance of the private sector in many parts of the world. In Afghanistan where the paucity of financial resources has been a matter of deep concern, government expenditures on public enterprises have not only been somewhat misappropriated due to miscalculations but also have produced crowding-out effect because budget deficits

have made low-cost funds and some inputs, namely professional people, less available to the private sector. When government “crowds out” the financial and factor markets already in trouble, investment in the private sector will suffer.

Investment is considered to be the engine of growth if funds are properly allocated in the private sector. In places where a low priority is assigned to social benefit when investment decisions are made, investment may not prove to be very productive; it might even be counter-productive. This will be the case where more emphasis is placed on low productivity prestigious buildings and plants (white elephants) and less emphasis on productive projects which could emanate positive externalities. In situations where activities produce positive externalities, the private sector tends to under-invest; and in situations where investment produces negative externalities, the private sector tends to over-invest. In either case market will fail and resources will be misallocated. Public enterprises in Afghanistan such as the Government Monopoly Department, Food procurement Department, the General Department of Transport, and the Civil Aviation Authority, to name a few, are examples of investment projects whose profitability and performances have been dubious. In certain cases, government activities have lead to market distortions. This is particularly visible in the area of foreign trade where licensing practices, high tariffs and export taxes have created barriers to market forces.

It is known with near certainty that investment is positively correlated with economic growth although it is not so clear which of the two is the cause and which one is the effect. Some people believe that in the short-run investment stimulates growth, but in the long-run capital accumulation itself is the by-product of economic growth because

the country’s propensities to save and invest move together with income.

Although investment is affected by the rate of growth of real GDP, there are several other factors which determine the level of investment in the short-run. For instance, the interest rate (although to a small extent), the marginal efficiency of investment, the sale outlook, the rate of capacity utilization, the availability of complementary inputs and repair facilities, enter the calculation when one makes investment decisions.

The paucity of cheap natural resources has hindered economic growth in Afghanistan, but this should not be a critical factor in the long-run. As the economy leaps forward, increasingly more of her resources would be tapped. The role of capital formation in Afghanistan, especially during the transition to steady growth, is very critical. In the long-run the need for additional advanced technologies will be more pronounced. New and technologically advanced capital equipment require skilled and educated workers as complements in which Afghanistan is not well endowed at present. Afghanistan has a generous supply of highly educated professionals now residing mostly in the Western World, but as yet only a handful of them have managed to be of direct service in their native land. The society’s stock of knowledge, in turn, depends on cumulative gross investment and on “learning by doing.” New technologies also require skilled entrepreneurs who are now in short supply in Afghanistan and who can become more abundant if the private sector of the economy undergoes improvement and the propensity to save increases. Countries such as Hong Kong, Singapore and Japan that are short of natural resources have managed to boost their economies very rapidly by saving nearly 30 percent of their incomes for capital formation and by encouraging the growth of entrepreneurial skills.

Saving and Growth

Investment plays a crucial role in economic development. Interaction between saving and investment is therefore important. In *ex-post* terms, saving is always equal to investment. *Ex-ante*, saving may or may not equate investment. Savers and investors are different groups of people each having their own motives and plans, a phenomenon which does not guarantee that people's extra saving be automatically translated into extra investment. Factors which determine the volume of saving are primarily wealth and income whereas investment is largely a function of the expected rate of profit and the sale outlook. A reduction in interest rate, or income or both may bring saving and investment to an equality in a closed economy in which capital does not cross the borders. In an open economy like that of Afghanistan capital does not have to stay in; it may be invested abroad given the difference between internal and external rates of return. If the real rate of interest is higher in Pakistan or Germany than Afghanistan, domestic saving would move to Pakistan or Germany everything else equal. If the opposite is true with respect to the real rate of return, then domestic saving would stay at home and additional capital may move into Afghanistan. In the past, money has flown out of Afghanistan because of higher reward elsewhere. Afghan merchants, who traditionally keep their assets primarily in liquid form, tend to keep their money in foreign countries where both return and safety play major roles. If corporation is the major form of business enterprise, a substantial portion of the retained profit may stay at home to be reinvested. This is not the case in Afghanistan, however.

Studies done in some countries do point to the existence of a positive correlation between domestic saving and investment. This is observed primarily in the

industrialized countries even in the face of strong capital mobility. If saving curve shifts, interest rate will change and investment will move to the direction of saving. The impact of domestic saving on private domestic investment in Afghanistan is hard to trace. It is likewise difficult to measure the volume of private saving in Afghanistan and its relation with the country's economic growth. One has to rely on the experiences gained by other countries in this connection and then to draw some conclusions thereof. In recent years, Thailand, Singapore and Korea have been saving 20 percent of their disposable incomes, Taiwan 30 percent, and China 35 percent. China has been growing at ten percent per year while the other countries growth rates too have been impressive albeit lagging China. The experience of many Latin American, African and Asian countries also suggest that the growth rate of per capita GDP and gross domestic saving are strongly correlated with each other. The direction of causation is not, however, clear. Does growth precede saving or vice versa? Answer to this question is mixed.

Some familiar theories like Professor Milton Friedman's "permanent income hypothesis" dictate that, at least in industrial countries, consumption depends on permanent incomes; consequently, domestic saving is negatively affected by the rise in income. In Afghanistan employment is hardly a permanent and predictable phenomenon for the vast majority of population who are either at the mercy of the vagaries of nature (farming population), or are petty workers employed largely on daily basis, or are government employees faced with unpredictable future. People can scarcely predict the future streams of their incomes let alone determining the effect of those streams on their future consumption. The meager

current incomes that Afghans earn are almost totally spent on consumption. It is still a very long way for the Afghans to go to satisfy their basic necessities. The number of rich people who can save is small; so is the number of those who lie above the subsistence levels of living and are able to save a bit. Many people spend most of their additional incomes conspicuously on imported products as a way of showing off (the "demonstration effect"). Some individuals save for their future and the future of their children; and few others who equate saving to wealth also build up their savings but not necessarily in cash that can be accessed with ease by investors via financial institutions. There is a great preference on the part of richer people to invest in real estate, jewelries (primarily gold), carpets, and other durable consumer items. Banks are only found in a small number of larger cities and have managed to bypass smaller towns, thus having deprived the rural population of financial services and incentives needed to foster saving with confidence. The popular mistrust toward the banking institutions coupled with a rampant inflation that constantly threatens the purchasing power of money have provided disincentives to savors. Withdrawals from bank accounts are usually costly as well as time consuming especially for those clients who live outside the towns and who are not sufficiently familiar with the banking community. Nonetheless, if it can be established that saving impacts investment positively, and that investment, in turn, influences economic growth, then the major goal of the Afghan government should be to encourage private saving not only by expanding the saving base (stimulating the private sector) but also by improving the activities of financial institutions in order to enable them to reach potential customers in far reaching areas; to assist these institutions to offer and to negotiate a multitude of

financial products; and also to restore popular confidence in the country's banking institution.

The Afghan government has been running a budget deficit continuously. Therefore, public saving is negative. Government's tax policy has primarily focused on raising the level of public spending by taking portions of the saving away from the private sector even though a part of the tax collected has generally been transferred to corrupt tax collectors and rent seekers. Therefore, changes in public saving through taxation have been partially offset by losses in private saving. This is particularly relevant with respect to custom duties, land and livestock taxes, property tax, and sales tax which is assessed once a year on the basis of estimated total sales by the shops. The method of tax evaluation is arbitrary and obscured, varying from appraiser to appraiser, from city to city and from district to district within the cities and rural communities. By creating distortions in the market, government's tax policy and the collection procedures have impacted the private sector negatively and have noticeably hampered private saving and investment.

Schemes such as individual retirement arrangements (IRAs), Keogh plan for self-employees and or K401 instruments that aim at raising the private saving levels in the USA for future consumption have never been introduced in Afghanistan. There is no such thing as term life insurance either. With the exception of the Retirement Fund (a pension fund) within the Ministry of Finance to benefit government retirees only meagerly, no social security measures have ever been adopted for the benefit of employees in the private sector. Old, sick, homeless, disabled and destitute private individuals are on their own. Portfolio capital market that can be an added source of saving for potential savers

is still unknown. No company's stocks are traded in the market, and no bond is issued or bought and sold in the open. Other instruments such as certificate of deposit (CD), annuities, mutual funds and the like are equally missing in Afghanistan. Only foreign currency transactions are common in some large cities, principally in Kabul. Banks, even in the capital city of Kabul, have not yet initiated ATMs, banking stores, supermarket banking, online banking, banking by mail, direct bill payment instrument, debit cards and other services that are made available elsewhere in the banking communities of the World. As long as the private sector remains rudimentary, and security and protection against fraud remain unavailable, the range of banking activities is bound to remain very narrow.

Private banking began during the Administration of Professor Rabbani due to Dr. Zabioullah Eltezam's initiative as the then Governor of Da Afghanistan Bank. This type of banking reform which has been pursued subsequently has reversed capital flight and raised measured domestic saving to a small extent. In the past, the Central Bank was supervised by its Supreme Council headed by the Minister of Finance, a scheme which had limited the free operation of that institution. Again, based on Dr. Eltezam's initiation, the Governor of the Bank earned an active membership to the Supreme Council with voting right. During the President Karzai's interim administration, Dr. Eltezam proposed that the Central Bank's Supreme Council be eliminated and the bank be placed directly under the jurisdiction of the office of the President. Fortunately, the Da Afghanistan Bank now answers directly to the President and is supervised by His Excellency's office, thus obviating the need for various ministers to intervene with the bank's affairs, each of whom usually keeps a specific agenda in mind. With these changes in the quality of Central Bank's supervision,

it is hoped that future regulations, financial deepening, geographical density of financial institutions and the range of financial instruments will change the environment for private saving favorably.

In Afghanistan where Islamic tenants are highly endorsed in financial matters, changes in interest rate are of limited consequences. Islamic Laws promote equity and forbid usury. Muslims hesitate to charge interest on loans given to people in need. This attitude produces a positive effect on consumption. On the other hand, leaving bequests which is an admirable habit of the Afghans promotes private saving, particularly in viewing that gift tax, estate tax and inheritance tax do not exist in Afghanistan. With the future rise in banking loans to consumers as well as a rise in the price level, private saving will decline in relative terms. By the same token, capital flight in pursuit of higher interest rates elsewhere in the world causes private saving to shrink unless foreign currency inflow is encouraged by better regulations to offset the reduction in domestic saving provided that Afghani appreciates vis-à-vis other currencies and not vice versa.

Capital Inflow

Foreign capital compensates the shortage of domestic saving if there is a strong conversion of foreign capital to domestic capital. Afghanistan has been a net borrower for decades and her trade deficit has been growing. Foreign currency inflow has been mostly in the form of foreign loans and grants provided by rich countries and international institutions. Afghan currency has not been convertible internationally, nor has Afghanistan had any access to international capital market. Inside Afghanistan certain currencies such as US dollar and Pakistani Rupee are bought and sold freely in the market. The

relative rise of the interest rate in Afghanistan does not impact capital inflow whereas a sharp rise in interest rate elsewhere (adjusted for depreciation) relative to the rate in Afghanistan stimulates capital flight. Capital outflow due to the lack of internal investment opportunities coupled with political uncertainties and the restrictions imposed on capital movement in the past had damaged economic growth in Afghanistan. The lack of governmental control over the disbursement has exacerbated further the effect of foreign aid received. Non-resident Afghan workers hired by foreigners, for instance, receive remunerations up to fifty times more than the resident Afghans performing similar tasks for the Afghan government or the domestic private employers. Aside from a deep frustration on the part of the resident workers, this causes much of the foreign currency to leave Afghanistan back as soon as is received. Commercial banks lending, foreign direct or portfolio investment are practically nil thus far. The Afghan government motivates foreign direct investment by encouraging the import of new technologies, reducing market distortions, introducing market-oriented reforms and creating an environment conducive to income repatriation and unrestricted capital movement in general. The Central Bank of Afghanistan is attaching sufficient weight to a somewhat restrictive monetary policy and foreign exchange stabilization scheme in an effort to attract more equity capital for the private sector. All being said and done, foreign capital inflow cannot take the seat of domestic saving permanently.

Foreign currency inflow as a complement to domestic saving though appreciated warmly in Afghanistan is nevertheless potentially troublesome if took place in excess. Too much inflow makes it difficult for the Central Bank to maintain a stable exchange rate. If relative prices rise in

Afghanistan, and real interest rate falls faster there compared to elsewhere, and if demand for traded imports is on the rise due to rising incomes, the Afghan currency will lose value in terms of other currencies. If the government embarks upon reforming its trade policy in the hope of enhancing its integration into the world economy and if it works toward a real exchange rate depreciation, excessive foreign capital inflow could work at cross purposes with that reform policy.

Excessive capital inflow tends to lower interest rate and raise the level of demand for both tradables and nontradables alike. The increased demand for tradable will be satisfied with increased import and the resulted trade deficit will be eliminated with imported capital. However, increased demand for nontradables causes prices of nontradables to rise leading to exchange rate appreciation. This appreciation will make tradables cheaper and the allocation of resources toward nontradables more attractive. Ultimately, the nontradable sector expands and trade deficit becomes larger as the tradable sector shrinks. This outcome would frustrate the export-oriented and import-competing sectors of the economy.

Afghanistan's policy makers are becoming increasingly more conscious of the inflationary trend currently being caused by the expansion of high-powered money that may beset the economy. Continuing capital inflow exacerbates government's anti-inflationary policy. Moreover, as the volume of deposits increases in the banks, banks will be bound to increase lending to risky customers. This creates a potential problem for the private banks whose deposits remain uninsured. Currently, the major source of capital inflow into Afghanistan is the aid pledged by friendly countries (primarily the U.S.A.) and international organizations. How long

this process continues in Afghanistan's favor is any body's guess. Should the inflow slow down or stop totally, readjustment would not be easy and costless.

To mitigate the adverse effects of excessive capital inflow, the Da Afghanistan Bank can (a) require commercial banks to hold minimum reserves on foreign currency deposits, (b) require foreign currency recipients to pay a surcharge on interest incomes, (c) increase foreign currency purchases, (d) impose a ceiling on total loans that can be advanced to commercial banks customers, specially on consumer loans, (e) impose on commercial banks to increase capital requirements and (f) lean toward a more flexible exchange rate policy and avoid pegging Afghani to other currencies. In addition, the Ministry of Finance may reduce fiscal deficit by lowering government expenditures and improving the revenue collecting apparatus; the Ministry of Economy could postpone the implementation of some inflation-producing programs and to divest in money-losing public enterprises; the Ministry of Commerce could further liberalize trade by eliminating export tax, increase governmental non-subsidy supports to exporters, remove import licensing restrictions, and reduce or totally eliminate tariffs on capital goods and on inputs used in manufacturing.

Traditionally, small and very temporary partnerships have been the dominant form of business enterprise in Afghanistan, especially in trade activities which allow greater room for asset liquidity and capital flight in the event businesses confront confiscation and or stiff regulations. Businesses are generally faced with great difficulties hiring employees, borrowing money from banks and raising capital from the partners. Corporations, in contrast to proprietorships or partnerships, have the advantage of increasing their capitalization with greater ease. The greatest source of

stagnation of the private sector investment in corporations has been the lack of sound regulations to protect property and the lack of strong apparatus to implement the regulations fairly. A sound property rights regulation will not only mitigate the gravity of inefficient structure of control rights over assets but also the problem of poor contract enforcement.

The importance of property rights

A private enterprise owned and operated by its motivated owners is said to be more efficient than a state enterprise that is managed by individuals who do not own it but are nonetheless motivated by their own well-being. A private business owner wants maximum profit; a manager of a state enterprise wants better salary, more bonuses, high status and job security. The difference in efficiency between these two types of enterprises essentially lies in the type of ownership, assuming that the private sector is characterized by competition. Whereas property can be transferred among individuals in the private sector, it cannot be done so in the public sector. If stockholders in a private firm are not happy with the management the way it performs, they can sell off their shares and invest elsewhere. Taxpayers who in fact are the owners of a public enterprise lack the power to transfer their shares in the event they are displeased with the operation of the firm. While management in the private sector is more responsive to shareholders' expectations, politicians who manage public enterprises, are not so responsive. Ownership and its protection are therefore of great importance notwithstanding that competition plays probably an even greater allocative role.

One reason why public enterprises in Afghanistan show poor performances in terms of profitability is that government has excessive control rights, the reduction of

which is somewhat possible if enforceable property right regulations are put in place. A legal property right is a residual control right over assets that enjoys legal protection. Private owners who employ their own properties generally use those properties efficiently. Bureaucrats, on the other hand, exercise control over other people's properties. This would be the case of physical control in contrast to legal control. Other times a person encroaches upon another person's property, or uses a common property in such a way as to limit its use to others. In such cases resources are frequently used inefficiently. If contracts are properly enforced, efficiency will rise provided that enforcement is not too costly or too limited.

During King Zahir Shah's reign enforcement of property rights was strong enough. Late president Daoud was equally up to the task. Under communism property right was abused and government did not hesitate to confiscate some private properties. During the Taliban regime when Islamic tenants were strictly enforced private property was relatively safe from pilferage. During Professor Rabbani's administration the properties of many absentee owners were grabbed illegally by people of privilege, though not necessarily by the government itself or by its consensus. Now-a-days, with the advent of democracy property right has become more protected notwithstanding that some people's legal properties have been illegally challenged by persons who are void of legal claims over those properties, and where courts have not been adequately functional to provide recourse. It is not the Administration that violates individual property rights but rather some armed criminals who show no respect to laws. The brief historical comparisons do not imply that a brutal government is preferred to a constitutional government, but they do make the point that in Afghanistan, in this particular context, religion has protected

private property more effectively than the Administration under the communist dictatorship or under the loosely-defined Islamic regime instituted by the Mujahideen. Until and unless the constitutional government gathers enough momentum to be in full charge and to become sufficiently responsive and accountable to people and capable of removing the control rights from the bureaucracy, many individuals may continue to resort to such mechanisms as peer pressure, arbitration, bribery or even violence and organized crime in order to enforce property rights.

Perhaps, privatization would be another mechanism through which control right could shift from the politicians to shareholders but in that case the resulted rise in efficiency would be confined to the public enterprises being privatized. The smaller the share of public enterprises in the country's GDP, the more limited would be the scope and the effect of privatization in reducing control rights.

Privatization

Privatization (also called disinvestment or denationalization) goes hand in hand with property right. The term privatization was coined in 1948 and gained wide circulation in public around 1980's when conservative governments were in power in the U.S.A and U.K. By privatization it is meant the transfer of assets or service delivery from the public sector to the private sector. Privatization may take several forms. The government may competitively contract with private entities to provide services in full or in part; public services may be opened up to competition; the management may be contracted out; government may stop operation totally and allow the private sector to take over the activity; government may provide exclusive right to certain private firms to provide the required

services; government may issue vouchers; or government may sell the assets of its enterprises entirely to private firms.

It is believed that the inefficiency and poor performance of most public enterprises have impelled governments to resort to privatization in an effort to provide a budgetary relief to the State, to alleviate poverty, to enhance competition and to speed up the process of growth. Privatization has gathered momentum not only in advanced countries but also in the developing nations. Recently, Japan's Lower House approved the privatization of the postal system in Japan. The Ukraine government decided to privatize the colossal steel industry. Britain has privatized non-combat defense activities. Italy has sold 35% of its largest electricity producing enterprise and is considering privatizing its art galleries; Canada has privatized air traffic control; Spain has privatized pension plans; EU has privatized postal services; Mexico has sold a number of its airports and so did Russia; Argentina privatized its oil company. Zambia, Tunisia, Togo, Gambia, Tanzania, and several other developing countries have had hundreds of privatization transactions in the last two decades; and so on. Since 1990's more than one hundred countries utilized privatization as a way to reallocate resources. The US government response to Katrina hurricane disaster could cost the country \$200 billion and the US government delegates most of the work to private contractors. The World Bank assists countries to embark on structural adjustment by reducing the role of governments in people's economic lives and to soften private investment activities. If it takes, international organizations even twist arms in an effort to encourage privatization.

Privatization is not simply a policy movement based on some ideology, but it is essentially a demand process. Rising demand for goods and services require efficiency to improve in the face of relatively inelastic

supply of inputs that mostly characterize the developing nations. It is believed that not only public enterprises in the developing nations are riddled with inefficiency, but also bloated corruptions are a burden to tax payers because many of state enterprises are money losers. Privatization partially means bailing out the losing public enterprises. Essentially, government does not have many incentives to offer to its enterprises. The goal of public enterprises generally is to improve *social welfare*, a concept which is not well defined. The definition of social welfare is basically a political one. Government usually improves the service to the public if it only becomes political; likewise, it may not improve the services if it becomes political; hiring and firing take place if the issue becomes political. In the late seventies the Kabul Silo, a part of the Food Procurement Administration, became a hotbed for anti-government movement fueled by leftist workers who were either trained in the former Soviet Union or were agitated by their leaders who had studied under communists. The refusal of the late Mossa Shafique's government to budge ultimately affected efficiency of operation adversely but the enterprise did survive the crisis. In the last analysis it is the failure of government enterprises that calls for privatization.

Is privatization necessary in Afghanistan and can it be considered a panacea for her economic malaise? This is a question with no clear answer to it. Afghanistan is home for millions of poor but very proud and freedom-loving individuals. They love autonomy in their economic lives but at the same time a vast majority looks up to the government for help. Most people love private endeavors because they want to be self-employed and independent; they prefer to bring up their children to do what they have been doing;

they are pleased with the simple living they are making without being too ambitious in material life; they are very sociable and love to have their friends and clients to chat with them and enjoy a cup of tea with them while at work - an attitude that cannot be practiced by government employees; they prefer to embrace the convenience of business liquidation whenever solvency is deemed urgent; they generally do not have access to government jobs and even if they do have such an access they do not see safety and security for themselves in a bureaucracy riddled with corruption and whims. The majority of people therefore prefer to be their own boss and own all what they make without sharing it with others. The spirit of free enterprise is very strong in Afghanistan, so strong in fact, that communists with all their determination and atrocity could not weaken it.

Late president Da'oud advocated a "guided" economic system for Afghanistan in which heavy industries and mines would run by the government. The author believes that approach sets well with the people of Afghanistan. The few public enterprises that currently exist are not resented deeply enough to justify their elimination despite the fact that corruption is endemic in the public sector. Correction seems to be preferred to privatization.

Privatization in the form of public assets' transfer to the private sector requires a fair and just valuation of those assets. A number of public enterprises have not been able to produce their balance sheets and income statements to reflect their worth and profitability. It is always better to help enterprises to turn losses into profit before being ready for auction. Moreover, somebody needs to make decisions regarding the type of potential buyers (workers, other public corporations, foreign vs. domestic investors), and the mode of payment (cash vs. credit or coupon). Furthermore, an answer

should be provided in relation to the displaced workers in the aftermath of privatization. The experience of many countries, including highly advanced countries such as Germany, shows that as a result of privatization a number of workers are laid off and their benefits are somehow misplaced or even lost in the process. In the fragile democracy of Afghanistan workers' dissatisfaction leaves much to be desired. The public resentment grows further if public assets are transferred to foreign investors who are usually seen capable of manipulating officials and of out-buying domestic investors, who cannot compete with rich foreign bidders. Needless to say that the Afghan public is already suspicious of the bureaucracy and lacks confidence in those who are in charge of selling government assets. The lack of transparency in this case outweighs the lack of transparency when enterprises are still owned and operated by the State. Privatization creates uncertainty in the mind of consumers who have for years relied on government goods and services at subsidized or below-market prices. The private sector does not recognize "free riders"; yet there are many people who rely on government delivery. What kind of a relation does government expect to keep with the private sector or with its former workers and customers in the aftermath of privatization is another open question. Exasperation would rise further if communities that have cherished government economic support for too long are now being abandoned by the government.

Ordinarily, private sector is admired on the ground that private firms engage in risky ventures in pursuit of profit. Government enterprises are usually low-risk ventures, and by transferring them to the private sector, the amount of financial resources needed to be invested in risky but

highly profitable activities is bound to diminish. Moreover, the advantage of private sector over public sector is that the former nourishes competition which in turn gives birth to innovation and efficiency. Public enterprises centering mostly around public utilities are normally natural monopolies. Privatization in such cases implies that the State legally transforms competitive behavior into monopolistic behavior and by doing so it overlooks the fact that the primary interest of public should lie in preserving competition and not monopoly in the private sector. Last, but not the least, is the direct pecuniary cost involved in privatization. Considering the magnitude of the sale, government needs to hire foreign consultants, accountants, legal minds, expert auctioneers, advertisers and public relation experts, bankers, investors in large number and different types of logistics that are needed to support the entire operation decently. The process costs a great deal of money, demands preparedness and takes time. It is not clear whether Afghan government at this stage of its competency is in a position to handle this complicated task without the approval of a legislative body that should be capable of assessing and properly measuring Afghanistan's interest.

Conclusions

Afghanistan's need for rapid economic growth is an established fact. Physical investment is a necessary condition for growth although human capital investment, technological development and sound economic policies are required to accompany capital formation. Where to get the needed saving is an unsolved question. In Afghanistan incomes are low and propensity to consume is relatively high, a phenomenon which leaves a narrow room for saving to grow. A proper synthesis of fiscal and monetary policies must be applied to help remove the saving constraint to a certain extent. Government has been running a

budget deficit and has therefore a negative saving balance. Currently foreign capital inflow has been adopted as the instrument of reconstruction. Excessive capital inflow gives birth to its own problems, namely inflation and foreign exchange appreciation. The Central Bank may find it advantageous to adopt a floating exchange rate policy. The problem, however, becomes significantly serious in the event capital inflow which is generously accommodated by the rich countries and international organizations comes to a halt.

In the face of capital scarcity it is wise to allocate the existing sources more efficiently. It is a largely accepted notion that the private sector in a competitive environment and in a situation where property right is honored will lead to an efficient use of resources provided that market failures which are inherent in a decentralized economy are attenuated. Reducing State's monopolistic activities - save the natural monopolies which enjoy the economies of large scale such as public utilities and heavy industries and mines; correcting certain market distortions caused by import tariffs, export taxes, licensing, and an arbitrary property tax schedule; and providing incentives to private investors in the form of easy loans and professional guidance, are some of the instruments with which growth can become sustainable.

At this stage of development state enterprises are few and relatively small. Their privatization would clash with people's political and nationalistic aspirations while their improvement to make them more competitive, transparent and accountable is adamantly justified. Privatization that is taking place worldwide, notably the recent attempts by Japan to privatize the postal service and Ukraine to privatize the steel industry, proves that the transfer of certain public assets to the private sector is not without merits.

Afghanistan, however, is not one of the advanced or formerly socialistic countries to have huge and innumerable public enterprises that have become surmountable liabilities to the public. Private sector has always been by far the most predominant sector of the economy in Afghanistan. What government needs is to focus on how to improve the existing public enterprises and the private sector simultaneously and to make both sectors more competitive.

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2 – Outsourcing versus Self-Reliance

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Executive Summary

Free trade and private industry have been part of the economy of Afghanistan for years. Included among the hundreds of private investments were pharmaceutical production, soft drink manufacturing and distribution, the textile industry and much more.

Since late December 2001, the world community with the participation of the Afghan leadership, recognized this and provided economic and technical support to refurbish and reconstruct this nation.

President Karzai and his government, through various conferences on strategies and planning to lift the country out of the ruins of wars, have confirmed and supported the Nation's reconstruction.

The author of this proposal, looking at the directions set forth as above, has identified a few shortcomings in the current effort, and is providing proposals targeted at reducing poverty, increasing the personal finances of employees and reducing the political fallout in the country due to PRR.

In short, the present status of the private sector and some alternative solutions will be presented. Also this proposal considers the shortcomings of the government in terms of the world grants, their technical support and their professional assistance. The objectives of this proposal are to discuss these alternatives for reconstruction in detail. Importantly, this document offers solutions for those employees who will not qualify for PRR and provide training suggestions to teach these non-PRR employees to become productive and replace the foreign skills that are currently flooding Afghanistan. A summary of the proposal can be found at the end of this document.

Background

On December 5th, 2001, Mr. Kofi Annan, the Secretary General of the United Nations, sent a letter to the President of the Security Council informing that the following was signed and wished to bring this historic moment to the attention of the UN members.

“Agreement on Provisional Arrangement in Afghanistan pending the Re-Establishment of Permanent Government Institution”²

The announcement helped to lay a foundation of a new government based on the acceptable Afghan political settlements of the past. Upon organization of the new government, several documents had emerged that in turn laid the foundation for the economic recovery of this great nation. The National Development Framework (NDF) and the National Budget Framework (NBF) were among these important documents.³ President Karzai had stated that:

“We have set our vision for Afghanistan's future in our National Development Framework (NDF) articulated our priorities through 12 national programs and laid down broad strategies in each program area.”⁴ In the same statement President Karzai said: “The third pillar is the development of a comprehensive private sector, which becomes both the engine of our growth and the instrument of social inclusion through creation of opportunity.”⁵

In September 2002 the Ministries of Reconstruction and Finance provided the following proposal to the Council of Ministers for the National Development Budget:

“It is essential that the Government strengthens financial coordination mechanisms to enhance the effectiveness of development. The Government can be supported financially by one of three

² UN Security Council S/2001/1154

³ These documents were developed at the office of Afghan Assistance Coordination authority, Kabul, Afghanistan.

⁴ Afghanistan: Rebuilding Our Nation, Afghanistan's National Program for Reconstruction, published in 2002 by AACA.

⁵ Afghanistan: Rebuilding Our Nation, Afghanistan's National Program for Reconstruction, published in 2002 by AACA.

mechanisms – direct contribution to the Ministry of Finance; through Trust Funds administered by international organizations before being contributed to the Ministry of Finance; or by direct support to private sector organizations to carry out government identified priority projects.”⁶

In time, offices were established, banks were opened, road construction design and constructions started, schools opened and children male and female started attending schools, hospitals started treating male and female patients.

Mr. Karzai, defining his vision, said:

“We are looking forward to partnering with development institutions and the private sector in translating this process into a comprehensive development framework. We will co-host a conference a few months from now with the developmental agencies and the private sector to present an assessment of Afghanistan's needs for the next ten years.”⁷



The author has been associated with most of the developments in Afghanistan since April 2002. The association of the author with the development of some of the educational programs such as capacity

⁶ Ministry of Reconstruction, Ministry of Finance: National Development Budget SY(1381-82).

⁷ Vision Statement of Mr. Karzai: as Chairman of the Interim Administration of Afghanistan in January 2002 in Tokyo.

building and being an adviser to the development of the restructuring of some departments has provided him and his associates with insights to alternative viewpoints and solutions. It seems reasonable, therefore, to start with the challenges and present alternative solutions in consideration of the economics of the time, the availability of trained personnel, and the willingness of the decision makers in the government to take action.

Some challenges:

Studies of the documents from WB, ADB, USAID and many experts, including the author's observations involved in the reconstruction efforts reveal the following challenges and opportunities within the transport sector (which in the author's opinion is representative of most of the government institutions):

- ⇒ Heritage of outdated systems
- ⇒ Senior positions held by non-qualified civil servants (patronage)
- ⇒ Outdated classifications of functions and grades
- ⇒ Lack of delegation of functions and resources
- ⇒ Low work ethic, morale, disorder, motivation and integrity
- ⇒ Unstructured decision-making processes
- ⇒ Weak policy development, legislation and service delivery
- ⇒ Weak or no consultation (departments and stakeholders)
- ⇒ Weak leadership reform processes and strategic advice
- ⇒ Weak middle management (contributes to poor policy development, legislation, and program implementation)
- ⇒ Weak administrative skills at lower levels of staff
- ⇒ Need to implement process management techniques and team based project work
- ⇒ Need to implement program development and project cycle management
- ⇒ Need to implement budget process, procurement, asset management and financial management
- ⇒ Need to implement quality management and performance management

- ⇒ Need to implement application of information technology in the work processes
- ⇒ Need to implement information and knowledge management
- ⇒ Need to implement public policy consultation and communication
- ⇒ Need to increase English language proficiency
- ⇒ Need to work with international donor agencies

In 2003, the new democratically elected President of Afghanistan, Mr. Karzai, signed a decree to improve productivity and to reduce poverty. Based on this decree, the Civil Service Commission was formed. It is believed that more than 750 million U.S. Dollars have been donated by friendly nations and banks and was spent during the last three years in support of capacity building throughout Afghanistan. While some Afghan government officials are questioning the results, indications are that much of the funds spent were actually utilized to resolve security issues. Much of the remaining funds were spent on duplicate studies. Thousand of pages of documents were prepared, but implementers were lacking the knowledge to implement the proposals in the documents.

The author and his associates looked into the reports of ineffective use of donated funds and studied some of the causative factors. The following reasons are cited for the reported failures:

1. The decision makers
 - a. had limited knowledge of the subject.
 - b. were over worked
 - c. relied on the expertise of the advisers
2. The “advisers”
 - a. were not completely familiar with the Afghan culture
 - b. Some advisers presumed the Afghans as educated as themselves.

- c. Some advisors remained in Afghanistan only for short time periods. This time was too short to effectively examine and understand the challenges.
3. The implementation groups:
 - a. Were not qualified personnel for the positions they held.
 - b. Nepotism had replaced the “qualified person for the job”
 - c. There was a lack of proper tools for most jobs.
 - d. Unfamiliarity with modern tools for the job.
 - e. Corruption
 - f. Mistrust of the workers and citizens of the system and government agencies
4. Lack of coordination between the international organizations:
 - a. Duplication of services for the same job through several organizations: There were and still are several Capacity Building activities in each ministry.
 - b. Duplication of resources. For example, every donor institution believed that there was a need for computers. As a result computers were purchased and brought to the Government institution, only to be stored, unable to be utilized. Some because there were no electricity available to power them. And some because there were no qualified teacher available to teach modern computer techniques. The author also noticed that in some cases, DOS (an archaic computer operating system no longer in use, and not in use for over ten years) was still being taught because what few existing teachers were available did not

- have experience with current technology.
- c. English classes were taught by high school graduates who themselves needed to learn English.
 - d. Some teaching institutions received inadequate systems of computers. For example the Computer Institute of Kabul Engineers School had computers while the total storage capacity of the server was only ten gigabits, probably less than 1% of actual need.
5. Unskilled personnel usually provided skill training.
 6. Training material even now is almost non-existing.
 7. Lab facilities are still very limited.
 8. Educational systems were considered so generic and simplistic, that it was obsolete before it was put to use.
 9. Lack of coordination among the Government Institution.
 10. No clear job distinction between the Government Institutions.
 11. Although the NDF laid foundations of the new government, the political climate and power grabbing made it impossible to be implemented.
 12. Budgeting by donor organizations did not consider the cost of the advisers and producing the proposed documents. Sustainability of the project needed to be factored into the cost. For example a new graduate from Kabul University College of Engineering became an instructor at the same place without further training due to lack of trained teachers.
 13. Political bickering of the political portion of the government as to who should be in charge of what functions. This stems from the lack of understanding of the larger issue of

national unity and prosperity being sacrificed for personal interests.

Some changes introduced by the offices of the Civil Service Commission have taken charge of some of these challenges and issues. There again, the commission is facing challenges similar to the rest of the country as described above.

Present needs of the country

While the documents from the NDF and NDB provide the country with much needed direction for the development and restructuring of Afghanistan, modifications in some areas are in order. For example each sector needs different products to become effective, efficient and productive. In each sector there are areas that can be specified for that ministry in this sector.

While training programs in certain fields are generic, the majority have to be tailored to each specific need. For example, to some extent the English language and computer classes can be taught in generic terms, but courses like quality control and quality assurance will have to be crafted for each sector. Project management can start with a beginner's overview, and then specific modules need to be developed for each Agency. One may think business administration is "business administration" regardless of where it is practiced, but if not designed for each specific line of business, a vague approach to implementation will cause confusion. Cost effectiveness is a major issue and will have to be addressed in that context. Training the trainers should not be limited to Universities. Continuing education needs to be a part of continuous learning and specific education within each ministry.

While the international community proposed the PRR as a solution for Capacity Building and building a government, it may become part of a major disappointment for

both the Government of Afghanistan and the international community should the corrections fail to be made while the opportunity is at hand.

The creation of the new ministry of business administration is a great idea. The author is not confident if the following had been considered during the formation of this valuable asset. During the PRR, usually a quarter of the employees of each ministry qualify. The remaining three fourths are given salary for two years and they have to report to the Ministry of Social Affairs. The following questions come to mind: (to clarify this situation an example is provided below):

A large ministry that goes through PRR may have on the average 1,330 employees. Once the PRR population is chosen there are still approximately 1,000 employees who go in to non-PRR that the author considers very important. Consider the socio-economics of Afghanistan where usually there is one person with earnings to support an average family of 6 people. The result will be taking the job and food away from a population of 6,000 per ministry. For ease of calculation, if there were only 30 ministries this amounts to 180,000 people affected (6,000 x 30).

For the same token, if you send the non-PRR employees of a Ministry of Labor and Social Affairs - it had bloated this ministry to the largest welfare organization in the Country. This job seems next to impossible. Let us look at the issues that such change is going to cause:

1. If the ministries that existed for half a century are not able to handle 1,000 staff, why do we think that the Ministry of Social Affairs can handle 30 times as much?
2. While the Ministry of Social Affairs is being assisted by International organizations, do they have:
 - a. The trained personnel

- b. Tools to meet this need
- c. Equipment to comply with all of the standards of the same organization
- d. A specified time limit of complying with this task, etc.?
3. How would this new organization cope with privatization and its effect in the development and restructuring of the country?
4. Is there any relationship between this ministry and the Civil Service Commission, the ministries of education and higher education, health, etc?

Some alternative solutions with available resources

In order to introduce privatization and obtain an effective and efficient government, each government ministry adopted a draft of the PPR. In accordance with this program, the government plans to reduce the number of employees within each ministry. Those people who remain will receive training to become more qualified in their respective fields.

Although highly qualified personnel are heading these departments for educating the PRR employees, the author has a reservation about the success of the program in the allotted time. This reservation is due to the shortage of qualified trainers, shortage of training supplies and providing specifics and justifications of the requirements to each ministry. For example, the needs of a technical ministry in engineering and the needs of a technical ministry in security or other field will have to be clearly specified and presented.

The author's own observations, supported by the Chancellor of Kabul University in June of 2005, were that most trainers in Afghanistan are under-trained and require further training themselves.

Training the trainers will be a first step in this process.

Consequently, the author and his team, while supporting the Ministry of Public Works, identified such training and developed a plan with the Kabul University. This plan was approved by the Kabul University Chancellor in June.⁸

In the opinion of the author, once the PRR program begins, a second program becomes an absolute essential: a new and comprehensive plan to train the non-PRR employees.

A pilot project is being introduced that is a newly tailored capacity building project in the form of vocational training. The purpose of this program is to provide the non-PRR employees with talents and trades that will allow them to find independent work and go on to become productive members of Afghan society. These people, who are no longer the employees of a ministry, may become contractors with this and other governmental and non-governmental jobs. This project envisions possible outsourcing through privatization to the individuals who received the vocational training.

The author proposes a program that will address the vocational and educational needs of Afghanistan. As per World Bank reports⁹, it is understood that the economic development of Afghanistan is among the highest growth (rate) in the world. Such growth requires labor resources that at present are being met by internationals rather than Afghan nationals. This can be readily observed on current road building projects and vertical buildings in the market place in Afghanistan.

This imbalance can be corrected by establishing a Vocational Program that will be tailored to the needs of the country based on geographical and political realities in

each ministry. A vocational program of this nature will end the people's fear that they will become unemployed once the PRR is introduced. Instead, training will provide these employees with the confidence they need in themselves, in their new government, and in the future of their country.

The objectives include:

1. Training employees who do not qualify for the PRR but are trainable for existing and new skills required in the work force. A suggested list of the vocational training may be seen in the plan offered by the author.¹⁰
2. Hire qualified trainers for specific purpose as defined by the project. Qualified trainers will include qualified local talents and imported expatriates.
3. Increase the knowledge of the students to market standards.
4. Reduce political fallout of the PRR process.
5. Provide qualified people to meet the current needs of Afghanistan.
6. Increase self-reliance and self-esteem for all involved.
7. Fill the work force gaps between private and government workers.
8. Provide opportunities for a better future through further education.
9. Alleviate poverty for thousands of families.
10. Promote peace and improve the development within communities one by one.
11. Provide a useful transition over two years instead of a wasteful two years for both the employees and government's salary payments.

⁸ Prof. Ashraf Ghani, Chancellor of Kabul University signed an agreement in this effect through the author.

⁹ World Bank Report 2004

¹⁰ Capacity Building in Transport Sector, For non PRR employees, Prepared by: M. Yasin Khosti and Assadullah Oriakhel, September 2005 V6

It is proposed that income (government salaries) be compensated for at least an additional six months after completion of training but for no longer than two years as required in the PRR schedule. It is also proposed that each retrained employee receive a free kit of related tools and supplies (list to be developed later) upon the successful completion of training.

In the Transport Sector, each training group in Capacity Building in the government of Afghanistan may be divided into three categories:

1. The political ranks,
2. The implementation groups, and
3. The field labor and workers.

The political branch will be beyond the means of this paper's discussion and will be addressed separately at a later date.

World bodies such as Asian Development Bank, World Bank, USAID, and the UN organizations have considered the implementation groups. Funding has been provided, experts have presented their views and some implementation has started with success while some others are still facing challenges. Some such challenges come from the inexperience of the political ranks, while other challenges are the trainees and the not so qualified trainers. Still another factor is that the government as a whole needs to understand the concept of "privatization."

Training for this group may include but is not limited to the following:

1. Technical and other professionals:
 - These personnel would be trained in their technical fields including:
 - a. Project supervision
 - b. Quality assurance and quality control
 - c. Management and leadership
 - d. Project management
 - e. Administration
 - f. Computer knowledge

- g. English as a second language. Encouragement of some of the more ambitious students to establish their own businesses in their respective fields may be a start leading to privatization in many newly created opportunities.
2. Inspectors: This category includes staff that has received a high school diploma and also has adequate site or field experience. They also will receive training as assistant professionals, and/or engineers. Computer training and English as a second language may assist in their future contacts with the outside world.
3. Operators: The existing mechanics and machine operators will be trained in operating heavy-duty machinery and will also receive training in maintenance of the same. These groups have the potential to become contractors and seek employment with contractors in the private sector.
4. Workers: The following staff may include the semi skilled labor that can be trained after completing an aptitude interview in any of the following categories and much more:
 - a. Masonry
 - b. Carpentry
 - c. Welding
 - d. Bar-bending and fixing
 - e. Engine repair
 - f. Vehicle body repair
 - g. Tailoring
 - h. Bricklaying
 - i. Electrical and telephone line repair
 - j. Painters
 - k. Building Maintenance
 - l. Plumbing, and
 - m. Much more
5. Administrative staff: This staff supports other staff such as the administrators, finance assistants, planners, contract

managers, procurement, etc. Accordingly, their training will be tailored to specific needs and will include computer training and English as a second language.

The result of the above training envisions that all of the employees going through the training will be assets to Afghanistan with increased knowledge, self-esteem, optimism, and honor. The economic future will improve and political stability increased.

Each proposed training class would last for six months. Upon completion of this project, the following tangible results will be achieved: Low cost of operations, excellent infrastructure facilities and ongoing support of local government. SAAE inspired the growth of industry in Afghanistan. Therefore, the recommendation in this area may be summarized in the recommendations as follows.

Recommendations

Electronic development in this area will enhance the process of privatization and bring the industry closer for better utilization of the goods and services that are so badly needed for the development and restructuring of the country.

Bringing information technology together with trained professionals,

particularly those with the Afghan background will produce the highest results for Afghanistan.

Pool of trained talents can only be accomplished with professionals who know their subject and know how to operate with the least of supervision and produce the most efficient and highest quality products.

Employees of the old school will have to be brought up to speed with today's ideals, management skills and understanding of the issues - before they can tackle them.

Employee obligations to one another and to their inner and outer circles are of the essence; lack of such is their liability.

Advantages for employers outsourcing specific aspects of their business are not well understood at present, and official trainers will have to educate them on this subject.

For example, employer motivations for outsourcing include a need to focus on core business. The fact that certain services and products could be provided more efficiently by other specialist companies could cut labor cost. This is an important aspect. The typical areas of a business that may be outsourced presently are cleaning, catering, security, IT, printing, HR/IR, training, and marketing.

3 - Privatization¹¹: A New Approach to Economic Development

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Abstract

Privatization experts proclaim the ability of private enterprises to produce goods and services more efficiently than government. Privatization advocates are examining the formula that would avoid past mistakes. There is a widespread agreement that governments will continue to put their corporations up for sale in the stock market rather than selling them to individual buyers, to avoid the one-on-one deals that have led to corruption allegations. A final salient lesson from privatization is that competition is an important companion of privatization. Private or non-pure monopolies are not generally better providers of low cost service than public monopolies. In sectors such as energy and telecommunications, achieving greater productivity may require a break-up of public monopolies, not just their privatization, to create a competitive sector. Moreover, no system is the panacea in imparting prosperity and economic growth.

Introduction

During the past fifteen years, many governments throughout the world have announced intentions to dispose some of their enterprises by selling them to the private sector, or by liquidating them. These countries are in all sizes and conditions, ranging from United Kingdom and France to Bangladesh and Sri Lanka. Even countries that were organized on socialist principles or centrally-planned economies, including the former Soviet Union and the People's Republic of China, took measures to move in the direction of loosening the ties that bound

their enterprises to the apparatus of government. Skeptics nevertheless insist that the movement so far has represented much ado about very little, more talk than action. Yet, the sheer number and diversity of the countries involved suggest that the movement is more than a rash of children's crusades. Besides, the record indicates that substantial steps toward privatization have already been taken in a few countries, including Chile, Bangladesh, the United Kingdom, Iran (during the Shah), France, Turkey, the Philippines, New Zealand, and several others. In addition, state-owned shares have been divested on a modest scale in a good many more countries, including Mexico, Ecuador, Italy and Senegal.

The push toward privatization seems even to have survived the trauma in the financial markets experienced on "Black Monday." Some governments postponed their plans for the sale of state-owned enterprises. And some buyers of privatized companies saw their shares fall in value below their original purchase prices. But in the months following, there was no evidence of governments abandoning their privatization objectives.

Conceptual and Definitional Problems

As both concept and process, privatization possesses ambiguous connotations. *Privatism* is defined as "a noncommittal attitude or un-involvement in anything beyond one's immediate interests." Another associated noun, *privacy* denotes a state of "withdrawal from society or the public interest." If government is a means of providing a wide range of collective goods, which do not necessarily lend themselves to market exchange, the public sector is naturally a highly visible target. At the same time, unrestrained public-sector expansion inevitably leads to public policy failure, as problems of communication; coordination, effective cost-benefit control,

¹¹ - Reprinted with permission from the textbook entitled "Privatization and Market-Based Leadership in Developing Economies: Capacity Building in Afghanistan" by Llumina Press and Publications; Chapter 4, 2006; pages 95-101.

and revenue satiation accumulate. Privatization represents a logical reaction.

As a process, privatization denotes reducing the roles of government, while increasing those of the private sector, in activities or asset ownership, especially in products that are not public. In practice, privatization may include "load shedding" or divestiture, the replacement of budgeted public activity by private market mechanisms such as consumer cooperatives, co-production, variously structured public/private-sector partnerships, state management contracts such as monopoly franchises for the private supply of public services, user charges, lease-purchase arrangements, and even tax reduction, intended to stimulate private-sector investment.

The concepts of the public and private sectors are not mutually exclusive, static, or one-dimensional. First, some aspects of government may grow as others remain static or even decline. Second, private-sector productivity growth depends significantly on public capital investment in basic infrastructure, such as airports, highways, and waterworks. Without these services by the government, including the administration of justice, transfer payments, taxation (especially tariffs), international trade regulations and subsidies, the private sector can not flourish. Third, the private sector is highly differentiated along several dimensions. To the notion of the formal profit-making, private sector (with the wide variation in ownership and scale) must be added to the informal for-profit and nonprofit private sectors, as well as private professional associations and the private household economy sector. Fourth, the principal-agent problem persists in both the private and the public sectors. This problem, especially as it pertains to billions of dollars of financial abuses have now become prevalent in the Corporate America. Transfer

pricing and other monopolistic and oligopolistic practices are not benefiting the consumer. Think about a pair of Nike's shoe costing \$4.80, and sold between \$50-80 in the United States. Management does not necessarily act in the best interests of either widely diffused shareholders or taxpayers, so that effective performance monitoring remains problematic. When either the private sector or the public sector functions effectively, it does not matter which sector should operate in the economy. The contrary arguments here parallel those of pro-choice and anti-abortion groups. The ineffective individuals are not manna from heaven which only falls in the government sector.

The Major Economic Arguments

The expected economic benefits of privatization include increased productivity, quality and reduced unit costs, expanded employment, as well as, growth opportunities over the longer term, and the introduction of new technologies. When accompanied by liberalization, privatization encourages the emergence of managers who are willing to champion an entrepreneurial, risk-taking culture. Corporations then become more results-oriented, displaying such new attribute as aggressive marketing styles, improved management information systems, and reduced overhead costs.

Privatization can assist in balancing the national budget, reducing government expenditure, increasing financing capital investment programs, decreasing foreign debt, lowering consumer prices, broadening share ownership across a society, and altering public attitudes toward business. Employee stockholding can improve motivation and productivity. Decentralized decision making can empower local governments and create new opportunities for small-scale regional firms. Even when

proposals for private contracting are not implemented, the associated analysis and scrutiny can result in improved public sector performance. Most goods and services produced by government might more economically originate in the private sector.

Indeed, many contend that money should be competitively provided by private sector banks: efficiency would then dictate that just a few kinds of money (perhaps any one) would become universally accepted. The underlying premise is that government should concentrate on monitoring the quality of private sector output, providing only agreed public goods and services, including a legal framework for production and trade.

Constraints and Impact

There is ample evidence to support the view that privatization has been heavily conditioned by one constraining factor or another in the cross-section of countries in the developing world and in Eastern Europe. The macroeconomic factors reflect the developmental status of the economy. It is fair to say that it is in this respect that the background for privatization varies between being conducive in the developed market economies, and being restrictive in developing and centrally planned economies in transition.

Attitudinal factors. Political, social and enterprise/managerial attitudes have an important bearing on the pace of privatization and its success.

Policy formulation and implementation. A clear statement of policy—its connotation, objectives, options, techniques, implications and sequencing—smoothes the process as well as prepares the relevant constituencies for a common understanding of what to expect. This condition is necessary, but not sufficient for successful privatization has not been satisfied in many countries.

One of the constraints of privatization

is the uncertainty of impacts. There is, on the whole, far too inadequate an attempt to estimate the multifarious impacts that may be expected of privatization. Apart from the lack of technical skills needed for the exercise, there seems to be some unwillingness on the part of governments to enter into such an exercise, lest it should lead them to doubt, indecision and inaction. Yet, the fear is in the policy makers' subconscious and implementers, and it contributes to delays in privatization decisions and actions.

The Impact

The privatization impacts are results directly traceable to the event of privatization. Identifying results distinct from the results which may have emanated from other economic circumstances is paramount. For example, increased profitability of a privatized enterprise might result from a sudden increase in demand for the product or the use of idle capacities. Privatization as such might not have anything to do with these developments. Likewise, improved performance may have resulted from a windfall rise in exports as a sequel to a trade agreement or inter-government aid and not from privatization itself.

It is not easy to isolate the origins of recorded macro development results, but establishing the degree of responsibility that can be attributed to privatization should be emphasized. Third, the impacts have to be identified, not only in respect to divestitures, but in the context of non-divestiture options. Fourth, certain impacts pertain to individual enterprise, while certain others are related to the scale and coverage of privatization in the country. Finally, the impacts discovered in major instances of privatization or in the context of the cross-section of all privatized enterprises cannot invariably be deduced as

representing the full potential of privatization. The impacts might be under the severe constraint of the state of parallel requisites in the economy. If these are not adequately in place, the full potential of privatization impacts would not be in evidence.

For analytical convenience, impacts are distinguished between micro and macro. The former refer to the input and output results of individual privatized enterprises, the latter to impacts on the rest of the economy in general.

Global Impact

With the passage of the North American Free Trade Agreement in 1993, opportunities for the private sector participation in infrastructure development along US-Mexico border have expanded. Rapid economic and population growth along the border has required increased infrastructure services in transportation, sanitation, housing, and power supply.

This increased demand for private investment from the part of some governments, has resulted in what one might call "two faces." The first one being the investment of foreign capital into the country. Large Japanese and South Korean companies are taking a significant interest in Latin America resources, particularly oil and energy; also, transport links have been created as a result of code-sharing among privately owned transportation companies. Also, foreign direct investment not only brings capital into a cash-stripped industry but, it brings a different approach of how to run a business. It can also be new thinking which might be more effective than the one currently being implemented.

Summary

Economic development cannot be solely dependent on the market system- which has no exclusivity on creating prosperity for a nation. Governments can also hire someone as with Lee Iacocca, who can then set up a modern automobile factory to produce the latest technologically designed automobiles. Privatization is not a new philosophy. The fact that the former Soviet Union and China failed to effectively run government enterprises is not tantamount to the piety of the free market system. In fact, in the absence of perfect competition, and the emergence of collusive price setting among the oligopolies and monopolistic competitive firms, the market can exploit the consumers. The success or failures of an enterprise is dependent on its leadership and the attitude of the consumers and the government. No system is the panacea in imparting prosperity and economic growth.

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4 - Creating a Suitable Environment for Developing Private Sector in Afghanistan

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Abstract

The objective for this paper is to highlight all necessary steps, factors, visions and technological standards that directly enable us to outline a strategic plan for the developing of Private Sector environment, which is most feasible for the current situation of Afghanistan.

1. Introduction

Before considering the private sector initiations in Afghanistan, we must realize that we do not have an existing specific model in the outside world that can fit at the current situation in Afghanistan. Moreover, it will be difficult to find an alternative model that is developed elsewhere that can be directly applied in Afghanistan. Therefore, Afghan professionals must develop such a model in the first place. Socio-economical and technical advancement is most fruitful for the societies whenever it is developed in light of the people's cultural and social values. Afghan Professionals and Scholars should be given chances to contribute most effectively to promote policies for directing their societies toward a privatization system that will be essential for Afghans as well as for all people of the world in this century.

Developing a system for the technological advancement through the private sector system in Afghanistan requires more thoughts and thorough feasibility studies of the workforce within the country. The studies regarding training opportunities in self-employment skills require a complete revision of the curriculums for the technical institutions and schools. The expansion of vocational technical education curricula countrywide, the availability and accessibility of resources of Energy are most essential as well as the

production of sufficient quantity of electrical Energy in different parts of the country. Because electric motor is the basic prime mover for the bulk numbers of industries in mass production process. Without sufficient electric power most of the private enterprises will not operate economically and effectively.

This paper highlights the concept of developing a Private Sector in Afghanistan from the Afghan's perspectives, which is actually a shift in a style of earning for living from one way to another. Adopting a new method of earning for living for a society with a low-level of employment skills/education and a relatively scattered management system is not easy to achieve. Therefore, the key issues to be referred to is to recommend that this process be exposed in Afghan society with varieties of options, cautions and step by step procedure. One must keep in mind that Afghans have experienced centralized systems of governments with different parameters of living standards for a very long time. Common people in Afghanistan may resist any social changes without the evidence of relevant case studies. Some may think that the previous centralized systems under the government political umbrella of that time worked well enough for the society. Therefore, this shift now demands and needs more awareness programs and more pre-preparation schemes in order to convince people for shifting from one system to another. In addition to the above key issues, in the absence of proper law enforcement institutions in a society that shifts from central system to privatized system will induce many more counter-problems against the technical advancement. Capitals will be accumulated by few families because, of ill-management system that the Afghans are facing in the current situation. A stronger government under the Rule of Law enforcement is vital and necessary to evaluate and monitor private sectors for reliability and accountability. Afghans have lived longer in societies where they have experienced

relatively very slow technological advancements, with few self-employment skills and opportunities, and very limited sources of energy for living. In light of the above references that has been made, we need to lay down many recommendations to adopt new *Norms and Standards*¹² in technology, institutions are needed to implement Norms and Standards of the technical Trades, develop sub-rules and laws in quality control system and finally breakdown the chapters of our constitution into measurable objectives that will guide us in order to establish more measurable objectives in technology. Capacity building efforts of certain ministries need to be upgraded in order to adapt new technology in the government.

2. History of private sector and privatization in Afghanistan

1. Privatization is a new concept in Afghanistan for, in pre-war time 1357 (1978) most of the firms, industries, educational institutions, factories, energy sector, mines and industries were running under the central authority of the government. Very limited small-scale firms existed under the umbrella of privatization. The examples of such firms' car repairing garages, small selling shops, some house-based woolen and cotton firms.
2. During the time of late Sardar M.. Dawoud Khan (1352-1357), few industrial plots were allocated for some private factories in the major cities like Kabul (Pulicharkhi industrial park) for nourishing the private sector. However, this sector did grow up¹³

¹² National Electric Codes, Codes for other Technical Trades, Tax revenues of the private products, Revenues collections from firms and industries

¹³ The partial private sector (very limited firms) during the war (1992-2000), in the middle of the conflicts, (The faction fighting in big cities) inflicted considerable damages and negatives effects on private sectors. Considerable damages completely misplaced the private sector initiations, for example: in the year 1976, the net products of Textile Industry were estimated annually as 6.5 million meter while it

because of war and instabilities. The private sector has been gradually phased out because of the unstable governments during the war time (see table 1 and table 2). Centralized marketing by the government monopoly was the only option. Even basic commodities as Petroleum, Sugar and Silo (bread-backing), cement factories and the products of all Afghan mines (coal, natural gas, minerals, marble and others) were under the monopoly of the government. Most of the textile factories (with small percentage private partnerships) were under the government authority as well. The following factories were operative with very limited partnerships from private investors throughout the country:

1. The Afghan textile Enterprise:
2. Weaving factory of Kabul
3. Jabal Saraj Textile factory
4. Gul bahar Textile factory
5. Puli- Kkhumry Textile Factory
6. Bulkh Textile Enterprise
7. Herat Textile factory
8. Kandahar Textile Factory
9. Small house-based Woolen factories
10. Kandahar woolen Factory
11. Woolen factory of Puli-Charkhi
12. Public (state) sector's products

Some of the above factories were in partnerships from the private investors with the government on the basis of less than 50% shares. Cooking oil factories were under the government monopoly too; however, these factories were running on the raw materials from farmers inside the country. Certain subsidies were allocated in order to maintain a fair price for the farmers' products as an incentive to encourage the farmers for growing more cotton and sugarcane for textiles and sugar

dropped to zero in the year 1993. All textile industry came to a complete closure operation. Refer to Table 1

factories. Civil Aviation authority of Afghanistan was the first firm in the country who started incorporation with a foreign firm of Pan-American airline. In pre-war time, Ariana air line was the only airline that had established partnership with Pan American Air Line from USA.

2.1. Public (state) sector's products (Textiles)

The analysis and evaluation at pre-war time had shown that national gross income amounted to 3.3% which has used 13% manpower of the country. The public firm's productivities reached to 197 million meters, out of which 64.5 million meters had met the domestic demands and the remaining 22.5 million meters had been exported abroad. The total consumption of mythically products amounts to 32.6 million meters where 93% had been provided from the internal firms.

2.2. Woolen Products

In average figure, an annually domestic woolen product amounted to 6.5 thousand MT (Metric Ton) out of which 20% exported abroad. The total grand woolen productivities in the country during 1978-2002 are shown in table 1.

The preview of table one indicates that the public sector products had dropped considerably, lately near to zero.

2.3. Evaluating the textile industry in private sector

This type of industry has a long history in Afghanistan. However, the private sector has been totally phased out from this industry because of the war. At the same time, the promotion of private sector was a new experience for most Afghans during the

conflict. People had to produce their needs at their homes.

Under the prevailing condition this sector has stalled because all the machinery have been destroyed, looted or broken into pieces. The late surveys had shown that at least 100 million US\$ is needed to rehabilitate this sector to its normal situation.

2.4. Current Situation Analysis

It is huge challenge to revitalize this industry; some of the main challenges are highlighted as follows:

- The scattered management
- No access to proper communications means/media with investors
- Non-availability of records
- Data evaluation and analytics and research
- Constraints in firm planning, absence of banks for money circulation
- Absence of Insurance companies within the country
- Lowest work capacity of the Governmental Institutions
- Lack (insufficient) of Electrical energy in the country
- Damaged irrigation systems in the country and many more could have serious problems and to be considered the main impediments for mobilizing the private sector.

All evidences now shows that the private sector production within the last two decades have come to almost zero figure.

Table 3 indicates that the private sector production in the late years had come to almost zero. The above figures had not been registered in official documentations so far.

2.3. Evaluation and analysis of the Textile Industry Marketing

The domestic demands for the textile use for clothing, curtains, mattresses, cotton home-made blankets have increased dramatically. If we assume that the need is 10 meters for a pair of cloths per person; the total demand will be $(230)10^6$ meters per year. This amount of cloth either be produced inside the country or, be imported from outside. If we are not able to have access to this amount in our local markets then, we are not providing people's basic needs in our markets. Numerical data shows that the price of specific types of cloths such as local cotton and non-cotton products, Tafta, foreign Organdie, local Guldar cotton, foreign sanduf guldar, and foreign titron, in the year 2002 had been respectively increased at 12%, 34%, 16.67%, 36.36%, 26.80% respectively. This increase is a

relevant indicator (factor) showing that the domestic demands are continuously increasing, which will give us clear clues that either we import more textile products from abroad or increase the local productivity of the textile industry. In the late years, because of the absence of the private sector of the textile industry in the country, the import of foreign cloths had increased considerably. This lack of internal potential had encouraged many other foreign countries to enter cloths markets. Immediate action is needed to rehabilitate the textile industry. Table 3 shows market cost of the Textile industry products (private sector) cost effective the year 1357 (1978-9).

Table 1 – Public Sector Productivity

Index	Unit (measure)	1978	2000	2001	2002
Cotton	Thousand MT	41.5	5.57	---	1,989
Cotton looms out of cotton for sale	MT	897.4	123.2	---	6.3
Cotton clothing	Million meters	88	0.02654	----	-----
Woolen items	Thousand meters	259.5	-----	-----	-----

Table 3

Index	Unit cost, per unit production (Afs). (2002)	1978	2000	20001	2002
Cotton and synthesis industry products	Per meter 30	31	----	-----	-----
Germany type clothing	meters 180	----	----	-----	-----
Woolen items	meters 303.1	44	----	-----	-----

Table 4 shows the price of cloths imported from abroad during 1381(2002 – 2003).

Table 4

No	Items of import to Afghanistan	Country Imports	Unit (Yard)	Total cost
				(US\$)
1	Cloths	Hong Kong	520,000	262,000
2	Cloths	Pakistan	330,000	21,000
3	Cloths	Dubai	#####	679,275
4	Cloths	Iran	65,640	31,296
5	Cloths	Indonesia	355,000	188,900
6	Cloths	Korea	#####	#####
7	Cloths	Taiwan	952,865	583,817
8	Cloths	India	15,640	3,794
9		China	#####	#####

Reference: Foreign office Ministry of Commerce, Islamic Transitional State of Afghanistan

The following table indicates the cloth imports of different countries effective for year 1381(2002 – 2003):

Table 5

No	Items of exports	Country exports	Unit (Yard)	Total cost
				(US\$)
1	Cloths	Korea	#####	#####
2	Cloths	Thailand	55211	41568
3	Cloths	Indonesia	4,098	679,275
4	Cloths	Japan	63,000	94,500
5	Cloths	United Arabic Emirate	2878442	1192031
6	Cloths	Iran	50,000	24,500
7	Cloths	India	#####	#####
8	Cloths	China	#####	#####

2.5 Textile Industry and its related factors for productions

The scope for the textile industry in the country depends on several factors which are the raw materials like cotton, wool, silk, etc; skilled and professional manpower, and power sources such as electrical energy and coal. The means of transportation to markets and access to markets are also essential.

As most of the infrastructure at the agriculture sector in the country within the last decades had been destroyed, the cotton farming in the country had also been minimized and very limited cotton field farming exists in the whole country. Numerous data from year 2001 indicates that a total of 15.8 thousand MT of cotton was produced in the country out of which 13.3 thousand MT had been sold to the country's limited textile firms. The 1.0 thousand MT cotton had been utilized in local private sectors of small scale craft works. The actual production of cotton pre war time was 50 thousand MT where 10 thousand MT was used in local industry and the remaining 40 thousand MT was ready to be exported.

The other main sector where the raw materials for the textile industry come is the livestock industry in the country. The outcome products of this sector had considerably declined because, of the consecutive droughts in the country, the decline from year 1998 until 2002 had reached to 60% decrease in livestock productivities in the country.

The lack (insufficient) of electrical energy for textile industry is also a severe problem in the country. The lack of qualified and skilled workforce is another major problem for this industry. Out of the total population, around 3 millions are unskilled workforce; they need some sort of training programs to be

employed. The remaining 11 million workers are having some sort of semi-killed experiences. Around 30% of the women are busy in agricultural activities with their family members in small farms that they own. These figures indicate that majority of the unskilled workforce constitutes the women of the country. Therefore, small scale industry at house-level should also be introduced to the country along with the factories.

Reconstruction of irrigation systems, electrical hydro power plants are the main motives behind the plans to develop the textile industry. The demands for cotton and woolen products in the country are rapidly increasing. Demands for cotton looms for carpet making and other handcrafts are continuously increasing. All families want cotton looms for weaving and carpet and craft making at their homes.

2.6 Investing in the sector of Textile Industry

The government under the prevailing situation cannot fund any of the sectarian activities in textile; there are chains of links among the developmental elements and components of this industry: agricultural products, roads, transportation training of workforce and many others, all these sub-sectors have very related and cohesive effects for the main development in this sector. At present, the government is not in a position to invest in such projects; on the other hand the scattered investments of the private sectors are not coordinated in the country and cannot invest enough to develop the whole chain of commands for this huge and vast sector. Therefore, a commission of internal investors (national traders) and international donors, investors in combine efforts must work to invest enough for this huge and vast volume of

activities. New and updated technology for efficient production is the prime factor in this textile industry.

3. CONCLUSION

The previous discussions, references, data and relevant information being presented in this document, it reveals that “Textile Industry” has been one of the major components of our socio-economic activities in the country. This sector was supporting other sectors in terms of investing more assets, agriculture, trade, marketing and specifically our exports’ balance. In the past years (pre-war time) the exports of textile products were the main items of our market economy. This country has many years of experience in textile factories in terms of availability of local manpower, experiences in importing textile products to central Asia countries and European countries. On the other hand, the provision of sufficient raw materials from the country’s farming seems most feasible as Afghanistan is an agricultural country.

It is not far from reality that with the import of modern technology, and facilitating most efficient planning, it is possible to resume the operation of large factories for boosting our far behind economy very quickly. In the absence of textile industry in the country, the cultivation of cotton will decrease considerably as a result; more and more farmers may opt for cultivating illegal crops.

The exports of the unique textile products of our country contribute as the major supportive assets of our national economy. On the other hand, the restoration of our textile industry may lead to the situation to provide more jobs’ employment opportunities for masses and more skilled workers. This particular technology enhances other sectors in terms of market economy inside the country and more jobs will be

created in trades, transportation and local markets for the people. Local markets will be expanded for, the local textile products are most appropriate for domestic use, as they will be pure quality cotton rather than higher percentage of synthetic threads. By resuming the textile industry with developed agricultural activities, demands and market economy/distribution will be strengthened/expanded. If we restore the textile industry with new and updated technology, the provision of the raw materials will also be demanded to promote agricultural activities as a result; more and more jobs will be created in the country.

3.1. Impediments for Private Sector in Afghanistan

The following issues are pre-requisite for private sector:

- The lack of Electrical Energy in the country (Kabul City demands = 600MW, available =100 MW).
- The lack of educational institutions to train the manpower for heavy technology.
- The absence of norms and Standards for technical trades in the country.
- The absence of institutions in the government to establish and reinforce norms/standards in workmanships.
- The lack of energy sources developed within the country.
- Slow transportation across the country.
- The absence of competent vocational education system in the education institutions.
- The absence of career centers school systems.
- The absence of workers unions to manage the technical laws, norms, technical codes.
- The quality control in the private sector, or skilled-trades groups.

- There is low capacity with government to arrange and collect the tax revenues from the private sector.
- Short supply of agricultural products in the country to produce the raw materials for the factories.

3.2. Recommendation

Prior to free Marketing and plan for private sector in the country, the items mentioned in the “conclusion” of this paper must be considered in a parallel move with any efforts in this direction. Second, we need standards, norms, codes for all trades that define the basic requirements, the responsibilities of different firms, factories and the method of characterizing the power quality so that every one can work under the rule of law.

Proposals

- To be able to restore the main productive textile industry, all the related factors including damage inflicted to the existing factories, future operational capacity, duration of the repair/replacements of factories’ parts, financial cost of repairs / replacements, new parts or, updated machinery costs, manpower estimation, space requirements, should be all prepared and arranged.
- As the present government is not in a position to fund this huge sector, it is recommended to attract and encourage national and international investors to contribute in the restoration of these heavily damaged factories.
- To facilitate the management and other managing factors, it is recommended to restore the textile related foundations: i.e. transportations, trades, agriculture and electrical power provision for efficient textile activities.
- The government along with other related activities establishes training and technical centers for the training of the workforce.
- Workshops and numerous well planned seminars should to be arranged and presentations from economical and technical experts are to be presented.
- Updated and new modern technology with higher efficiency should be imported.
- The government must be consistent in its commitments with industry rules and related laws for finding international markets for the Afghan textile products.
- The government shall be facilitating all the provisions and easy access to credit systems, short and long terms loans and taxes access for the exported and imported items that support the industry promotion.
- Private sectors should be motivated to contribute greater percentage of the investment for this industry.
- The government should make every effort to develop the agriculture sector: specifically encourage the farmers by all means for cultivating maximum cotton plants in their farms and land that they own.
- The government must facilitate more opportunities for women employments under equality and gender sensitivity implications.
- Private small and large firms (factories) must be encouraged and given permission to produce necessary cotton and woolen looms for the larger textile factories.
- For those who want to establish new firms in textile industry, the government should provide electrical power, water and land for the factory’s construction.
- There should be an active central coordination body type organization, “Textile Coordination Firm” to be able to keep linkages in terms of evaluating, monitoring, finding and seeking funding among local and international aid agencies like: UNIDO, WTC and other related Agencies.
- For better and smooth operation, the government will make all efforts to seek contracting firms for the textile products

and necessary synthetic raw materials inside and outside of the country.

- The government under national and international conventions (ILO) and other related manpower development's rules should adopt a clear and suitable standard policy for workers' employment in the textile industry.
- Government and private enterprises for common goals should be established and encouraged to invest jointly.
- Organizational or administrative chart be drafted for approval to stock holders.
- Experiences of other countries most suitable for Afghanistan should be adopted through foreign advisory councils, workshops or other means.

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5 - Market-Based Leadership Skills¹⁴ for Public and Private Sector Capacity Development in Afghanistan

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Abstract

Leadership is the process of influencing an individual or a group of individuals while providing an environment where personal, professional, or organizational objectives can be successfully achieved.

Many Afghan scholars agree that effective leadership, both in the public and private sector, is the key to development and a speedy recovery from the injuries caused by war and years of animosity among the people of Afghanistan. While there are many concepts related to capacity development, this manuscript discusses situational leadership and its application to progressively develop the workforce starting with their level of readiness.

The Need for Development

Immigration has become one avenue for many individuals from developing countries as the thought of coming to the developed countries becomes more attractive. Perhaps people are drawn to the free way of living and independence of the courts, the social security system, developed schools and education systems, as well as the thriving “gray market” or “shadow economy” (Dougherty, 2004; Dastoor *et al*, 2005). Irrespective of their education, immigrants often initially find employment in low-paying jobs that are unattractive for the local population. Oftentimes, immigrants from developing countries are able to take whatever jobs are available to them and eventually, through hard work and continuous improvement, turn this job into an opportunity of a life time. For example, a person who is not able to fluently speak the

local language might begin working as a dishwasher at a local restaurant or bakery, and within a few years acquire the ability, or begin, to manage the entire department. Such progress is partially so because these individuals often have a higher level of tolerance for hard work and long hours since they are likely to be goal-oriented. Many Afghans have fallen in this category over the past few decades while working as immigrant and professionals in various industries around the world. Another industrial change or trend in many industries has been the outsourcing of jobs which has created growth, entrepreneurship and promotion opportunities for experts of all professions. Outsourcing trends across industries and cultures impact people of all cultures and countries since it can mean major changes, i.e. loss of jobs for some and opportunities for others. Afghan immigrants and expatriates certainly have learned much from around the world and should now help in the development of their county.

The late Peter Drucker, in his article entitled “Sell the Mailroom” that appeared in the November 15, 2005 issue of *Wall Street Journal*, states that “More and more people working in and for organizations will actually be on the payroll of an independent outside contractor.” Drucker continued to explain that “Businesses, hospitals, schools, governments, labor unions--all kinds of organizations, large and small--are increasingly “unbundling” clerical, maintenance and support work.” This “unbundling” process, which is becoming common in Afghanistan, provides many promotion opportunities for blue-collar workers of all fields. Peter Drucker writes that:

The most important reason for unbundling the organization, however, is one that economists and engineers are likely to dismiss as “intangible”: The productivity of support work is not likely to go up until it is possible to be

¹⁴ - For more information, see “Privatization and Market-Based Leadership in Developing Economies: Capacity Building in Afghanistan” by Llumina Press, 2006. Website: www.llumina.com

promoted into senior management for doing a good job at it. And that will happen in support work only when such work is done by separate, free-standing enterprises. Until then, ambitious and able people will not go into support work; and if they find themselves in it, will soon get out of it. Forty years ago, service and support costs accounted for no more than 10% or 15% of total costs. So long as they were so marginal, their low productivity did not matter. Now that they are more likely to take 40 cents out of every dollar they can no longer be brushed aside (Drucker, 2005).

According to experts, in-house service and support activities are de facto monopolies where the motivation to improve are often low. Oftentimes, workers of monopolized industries, in-house service departments, and state-owned enterprises have little incentive to improve their performance or invent new processes for getting the job done efficiently. Drucker explains that in the “typical organization, business or government, the standard and prestige of an activity is judged by its size and budget -- particularly in the case of activities that, like clerical, maintenance and support work, do not make a direct and measurable contribution to the bottom line.” Therefore, for most workers and managers, “to improve the productivity of such an activity is thus hardly the way to advancement and success” (Drucker, 2005).

Similar to the conditions of state-owned enterprises, it is assumed that the workers and managers who are running in-house support services and departments are unlikely to do the “hard, innovative and often costly work” that is required to make service work productive. Thus, globally, there is a trend toward privatization of even state-owned enterprises that often do not have much competition. Peter Drucker, who died in early November 2005, suggests that if clerical, maintenance, and support work is done by an outside independent contractor and entrepreneurs it can offer opportunities, respect and visibility for all white- and blue

collar workers. Drucker used the example of how blue collar employees of a college, for example workers and managers of student dining, may never be anything more than “subordinates.” However, these individuals working in an independent catering company can rise to be senior managers and vice presidents in charge of feeding the students in a dozen schools. According to Drucker, these blue collar employees might even become CEOs of their firms as they find specific niche markets to serve as per their interests and skills. Another example that Drucker mentioned in his article is how in “one large hospital-maintenance company, some of the women who started 12 or 15 years ago pushing vacuum cleaners are now division heads or vice presidents and own substantial blocks of company stock.” However, as hospital employees, these blue collar workers would have still been pushing vacuum cleaners (Drucker, 2005). Such industry trends and cultural changes toward outsourcing and privatization mean threats to some workers and opportunities for others. Accordingly, responses to these development and major changes would vary from person to person and from culture to culture. Therefore, Afghan leaders should assess each industry, each organization, and each person before prescribing the solutions to their challenges and development opportunities.

According to research and experts, while total privatization of state-owned enterprises (SOEs) is not for every developing economy, studies confirm that political, cultural, and organizational leaders should be focused on the establishment of a healthy balance “between the state and market, economic growth and human development, the public and private sector, autonomy and accountability, national and international interests, economic growth and social

justice, economic development and environmental conservation, privatization and democracy” and other such relevant factors in their strategic plans toward economic prosperity. Privatization is not a panacea for a country’s economic ailments. Each country should choose a proper path for its development toward a market-based economy, while maintaining an appropriate level of control to make sure disadvantaged populations are not affected negatively. Afghan leaders, as well as leaders of all recovering and advanced economies, must work interdependently with their international counterparts and developed economies to make a healthy progress in the continuum toward a market-based economy.

While the trend toward privatization is a reality for many nations, it is not for every economy. Countries without a strong government must initially focus on building and strengthening the public sector before taking drastic steps toward privatization of major state-owned enterprises. While Afghanistan can benefit from privatization, Afghan leaders must proceed cautiously since most people depend on the government to protect and to “look out” for them. The government is expected to take a paternalistic role in collectively building the workforce and the appropriate infrastructure before transferring major state-owned enterprises to the private sector.

Researchers seem to agree on the fact that for the past two centuries, privatization efforts have been initiated and controlled most by the two conservative governments of the United States and Britain. Consequently, these two governments have been able to heavily influence and dictate to developing nations that they need to reform in order to favor globalization efforts and the corporate elite which can exist in any part of the world. Ali Farazmand (2001) writes that:

Through the World Bank, International Monetary Fund (IMF), and World Trade Organization

(WTO), these global elites and their governments—United States, Britain, and others—have been instrumental in pushing the privatization globally and forcing less developed nations to adapt to this policy even through it may hurt them badly. Privatization is used as a global strategy of globalization by global corporate elites. It should be resisted by all governments around the world in order to protect their people, their resources, and their environment from the onslaught of globalizing firms whose main interest is to extract as much profit as possible at any cost, and to run planet earth over to a “global pillage” (Farazmand, 2001, p. 199).

Like many other experts, Ali Farazmand emphasizes that privatization is not a cure-all strategy for an economy’s ills; privatization is one of many policy options that can be considered by governments as they reform, rebuild, and improve their economy. It must also be emphasized that a government’s responsibility does not end when public enterprises are privatized. As a matter-of-fact, the government’s responsibility may very well increase in the “forms of regulation, control of negative externalities, provision of basic public goods, and contract management” (Farazmand, p. 199). Farazmand concludes by stating:

Maintaining a balance between social equity and fairness on the one hand, and efficiency and effectiveness, on the other, is critically important for effective governance and administration...Reforming public enterprise management, rather than sweeping privatization, is a policy option that should be considered before any action is taken in order to meet the challenge of maintaining that balance (2001, p. 199).

It must be remembered that a strong government is essential for creating regulatory rules and policies and for increasing the private sector's role in the development of a country’s economy. While privatization efforts should be considered by all developing economies,

the present circumstances in Afghanistan are not yet “ripe” for its total integration; thus, there is a need for a stronger government and high ethical standards. According to colleagues within the country and expatriate Afghans that have visited Kabul, “the capacity of the Afghan government is not very strong yet, and sadly there are few people in the government who can appreciate the role of the private sector” (Personal Communication with an Anonymous Colleague on September 26, 2005). An Afghan colleague who spent over a month of his personal time, during August / September 2005, in Kabul working with various officials said that “There are people inside and outside the government who do not respect law and may use private enterprises for their own personal gains” without following the stated or established guidelines, policies, and ethical standards. This colleague further commented that “To my knowledge, the people who truly understand the objectives of privatization in Afghanistan are very limited at the present time.” Therefore, he continued to say that “there should be a strong government first, then, the rest will come along, not the other way around.” Many Afghan experts continue to believe that the capacity building of government organizations in Afghanistan should be the main focus of public and private sector officials. While a move toward a market-based economy or privatization may be inevitable in the coming decades if Afghanistan is to glean maximum benefits from its rebuilding efforts, it is recommended that capacity building skills and government infrastructure development should come faster in order for the public sector officials to effectively work on such transitions with high ethical standards, pride and integrity. Therefore, capacity building skills should be a priority for Afghan leaders and managers. The concepts covered in this document focus on the application of situational leadership to

prepare Afghanistan’s public and private sector workforce for effective management and leadership development.

Leadership

According to the Center for Leadership Studies, “Today’s work place is characterized by constantly changing dynamics. Now, more than ever, responsive leadership is a critical factor in organizational success. To be effective, leaders need to adapt their styles to fit a broad range of individual and team situations” (Situational, 2004). In the Situational Leadership workshop attended by the author, Dr. Paul Hersey on July 12th 2004 stated that “Leadership is an attempt to influence, and effective leadership is adapting one’s behavior to the performance needs of the individual or group.” Dr. Hersey further stated that the three main components of effective leadership are diagnosing, adapting and communicating with the right individuals at the right times and in the right ways. Being able to identify the right tasks first and then the readiness of the associate performing them, in each situation, are the initial steps toward becoming an effective (situational) leader. With the task clearly identified, or diagnosed, determining the needs of the individual or group becomes the next step. According to Dr. Hersey, “A person’s readiness level is their ability and willingness to perform the given task.” Without knowing a person’s readiness level, effectively adapting leadership style becomes impossible. Situational leadership applies to professionals in business and government. Furthermore, it also applies to community leaders, volunteers, religious leaders, parents, children, and other caretakers. As such, situational leadership theory is a viable concept for the Afghan workforce to understand and apply in order

to effectively lead the rebuilding process in the country of Afghanistan.

Nearly a quarter century of war has brought incomprehensible destruction throughout the country from various sources and many resources and ideas are needed from all angles to physically rebuild the country, and develop the workforce mentally, psychologically, and spiritually. Due to the circumstances beyond the control of ordinary citizens, the country of Afghanistan has endured many long-lasting and painful injuries in the past 25 years and, as a result, it is still suffering from lack of resources, mismanagement of the workforce, water pollution, air pollution, unhealthy learning environment, animosity among people, and perhaps hundreds of other such elements that threaten and hinder the speedy progress of the country and its youth. So, while there is a huge need to help Afghans with their physical and economical needs, time is of essence in meeting the educational needs of the growing population which will complement and replace the current workforce in the rebuilding process. As such, relevant literature and assistance about the rebuilding process is in demand since the current and next generation of Afghan scholars and the workforce are ready to learn and implement. This readiness must be met in each situation by proper leadership and effective management in order to bring the latent talents into fruition.

As can be seen from the a brief history of what Afghans have gone through, it becomes clear that the people of Afghanistan are suffering the devastating impact of both internally and externally caused turmoil. As such, they need effective leadership to rebuild the infrastructure and develop the workforce for speedy and sustainable progress. Thus, situational leadership ideas and suggestions can be of immediate assistance for Afghan managers in dealing with the education of the workforce,

the development of youth, and the problematic issues blocking progress in the country. Afghan managers must go beyond managing in order to maximize their efforts since management is about getting tasks done with and through others efficiently. However, leadership is about directly and indirectly influencing the efforts of others toward organizational goals. Dr. Hersey (1997) stated that "Effective leaders make things happen. They don't sit around watching other people and waiting to react to whatever situations occur. They know what ought to happen, plan ways to make it happen, and take steps to see that it does happen." This manuscript attempts to shed light on some prospective leadership opportunities related to education and workforce development in Afghanistan. Many of the suggestions are basically scratching the surface as they provide practical recommendations in the form of what can be done to progressively move in the right direction toward a brighter Afghanistan through effective leadership. Rebuilding Afghanistan is a race without a finish line and every Afghan and other relevant professionals should participate in leading this rewarding process. This should not be much of a challenge since the Afghan culture has always encouraged hard work and commitment to one's society.

The Situational Leadership Style

Situational leadership theories, often categorized as contingency theories in academia, teach that there is no one best way of leadership since effectiveness depends on the situation. Two of the most influential situational theories are those by Fred Fiedler (Contingency Leadership), and Paul Hersey and Ken Blanchard (Situational Leadership). *Contingency Leadership Theory* was the original situational leadership theory initiated by

Fred Fiedler. Fiedler defines the "situation" with three factors: First, leader-member relations: how are the leader and followers getting along? Second, position power: how strong is the leader's power? Third, task structure: is the task stable and structured or dynamic and changing? Depending on the situational favorableness, Fiedler states that one needs either a task oriented leadership style or a people oriented leadership style. The theory concludes that if the situation is highly favorable or highly unfavorable one needs a "task-oriented" style to lead. On the other hand, if the situation is moderately favorable or unfavorable, one needs a "people-oriented" style to lead. As such, when things are very bad, one needs a take-charge, goal-oriented leadership style before one goes out of business. On the other hand, most situations are somewhat in the middle and might demand someone with human relations skills. The secret according to Fiedler is to match the person to the situation. Analyze the situation and hire or promote the right type of leader. Leadership style, according to Fielder, is very much a matter of personality and hard to change.

Based on personal discussions and conversations with Drs. Paul Hersey and Dr. Ken Blanchard, effective leaders adapt their styles to fit a broad range of individuals and variables impacting their situations. Dr. Paul Hersey, on July 13th 2004 at his week-long Situational Leadership Workshop in Escondido, stated that "leadership is any attempt to influence the behavior of another person or persons," and effective leadership is adapting one's behavior to the performance needs of the person or persons. Effective leaders diagnose, adapt and communicate based on the readiness of their followers in the workforce and other situational variables. Dr. Hersey defines a person's *readiness* level as their ability and willingness to perform the task at hand and this definition considers two types of

readiness: job and psychological. Knowing a person's (follower's) readiness level and effectively adapting one's leadership style to match the readiness level is an important element of making sure the job gets done successfully. As such, situational leadership applies to professionals in business, government, the community, to volunteers, to religious leaders as well as to parents, and others who have a need to influence the effort of others.

Situational Leadership Theory (SLT) proposes that individuals can change their leadership style (behavior) depending on the situation and the readiness of the follower. In this model, the "situation" is defined by the "readiness" of the followers to successfully complete the job. A person who is high on job readiness and willingness is likely to have the necessary knowledge, abilities and motivation to perform the job without much direction from the leader. The situational leadership theory or model is based on the interactive interplay among direction (task behavior) provided by the leader, socio-emotional support (relationship behavior) provided by the leader and the readiness of the follower on the specific task that needs performing. According to the model, there are four readiness levels (R1, R2, R3, and R4):

1. R1- followers are unable and unwilling to perform the task.
2. R2- followers are unable but willing to perform the task.
3. R3- followers are able but unwilling to perform the task.
4. R4- followers are able and willing to perform the task.

Situational leadership model attempts to keep a balance between high tech (task behaviors) and high touch (relationship behavior). Once the followers' readiness is determined, a manager or a leader can choose from the four leadership styles suggested by Hersey and Blanchard's model that focus to some

extent either on task behavior or relationship behavior. *Task behavior* is the extent to which leaders engage in top-down communication by explaining what the follower is to do, as well as when, where, and how each function is to be accomplished. *Relationship behavior* is the extent to which leaders engage in joint communication with followers while providing socio-emotional support. The four corresponding leadership styles that match these readiness (R) levels are as follows:

1. *R1- matches best with "Telling," high task-low relationship.* The manager or the leader defines the roles needed to do the job and tells followers what, where, how, and when to do the tasks.
2. *R2- matches best with "Selling," high task-high relationship.* The manager or leader provides step-by-step and disciplined guidelines to get the job done while being supportive.
3. *R3- matches best with "Participating," low task-high relationship.* The managers, or the leader, along with followers (employees and/or colleagues) jointly decide how to get the job done with the required quality standards.
4. *R4- matches best with "Delegating," low task-low relationship.* The manager or leader provides little directions and little support to the followers since they know how to get the job done and they are very willing to do it independently.

Of course, there are perhaps thousands of situations that could use many different leadership styles. The situational leadership model has four leadership styles to keep it simple and easy to understand so it can be applied by individuals of different skill levels and competencies. In each situation, the model encourages managers to match the style with the followers' level of readiness thus providing the most appropriate amount of task behavior and relationship behavior for the specific task on hand. Hersey provides the following recommendations for each of the four leadership styles:

- Style one or *telling* is best when attempting to influence low levels of readiness. Alternative words that describe the telling style are guiding, directing, and establishing.
- Style two or *selling* is best when attempting to influence low to moderate levels of readiness. The leader attempts to get the follower to buy into doing the task psychologically. Alternative words that describe the selling style are explaining, clarifying and persuading.
- Style three or *participating* is best when attempting to influence moderate to high levels of readiness. The key is to encourage the follower to participate and get involved. Alternative words that describe the participating style are encouraging, collaborating and committing.
- Style four or *delegating* is best when attempting to influence high levels of readiness. This is where the follower has almost all of the decisions for both decision-making and implementation of the activities to get the job done. Alternative words that describe the delegating style are observing, monitoring and fulfilling.

As the readiness of the follower (person performing the specific task) increases in terms of performance, the leader should adapt by reducing task behavior and increasing relationship behaviors. As the follower becomes totally ready by showing successful performance, the leader should reduce both task and relationship behaviors to the lowest level possible. Overall, managers apply this model similar to medical practitioners who deal with patients that complain about a pain in parts of their bodies. The medical doctor must first diagnose the cause of the problem and then prescribe the right medication to alleviate the problem or pain. Dr. Hersey, on the week of July 11-18 in 2004, said that a prescription without diagnosis can basically amount to malpractice. Similarly, a manager or a leader must first diagnose the follower's level of readiness with each person in his/her team which can include many

personalities and then act with an appropriate leadership style. Diagnosis, or assessing ability and willingness of the follower to see what leadership style is needed, should be followed by matching an appropriate leadership behavior and then implementation of the leadership style to make sure the job gets done with the required quality in the allotted timeframe. This is why diagnosing is so important in developing others.

Diagnosing can serve many functions including the assessment of individuals. Diagnosing must be done carefully to make sure the follower is honest in expressing ability and attitude (willingness) so one can deduce the right conclusions. When monitoring one's own pulse (or another person's pulse) using the left wrist area, pushing too hard on the hand can block the circulation of blood and eliminate the pulse which can lead to the wrong conclusion. So, in this case one must reduce the force to an appropriate level and allow for the natural flow of blood in order to be able to count the pulse. So, external variables controlling behavior should also be taken into consideration when diagnosing one's level of readiness. Nonetheless, situational leadership concept requires diagnoses before prescription in order to make sure the leader uses the right leadership style with the follower.

The concept of Situational Leadership, according to Dr. Hersey (2004), applies equally well with/and by both men and women, and can apply with the same level of effectiveness across different cultures. To provide an example, let us say that an Afghan manager has been experiencing some difficulties with one of her employees named Mustafa. Mustafa has become somewhat lazy, laid-back, relaxed, and only completes tasks under close supervision, direction and constant nagging by the manager. Because of past experience with Mustafa and the integration of new

technology in the department, the manager suspects he may not have all the expertise needed to complete a high-priority task which must be completed soon by Mustafa. So, which of the following leadership styles is most appropriate for this manager?

- A. Continue to direct and follow up on Mustafa's efforts to complete the task.
- B. Continue to supervise Mustafa's work and try to draw out his attitudes and feelings concerning the task assignment.
- C. Involve Mustafa in problem solving with his task, offer support, and use his ideas in the task completion.
- D. Let Mustafa know what this is an important task, he can complete it successfully and ask him to contact you if he has any questions, problems or when done.

Situational leadership experts (such as Paul Hersey and Ken Blanchard) state that the selling style of leadership (response B) is the most effective way of dealing with Mustafa in this high-priority task since he seems to have a motivation problem. Furthermore, based on recent performance evidence and records, he does not seem to be knowledgeable about how to get the job done. Of-course, the least effective style would be to use a delegation style which is demonstrated in the last response (D). Each task would need to be analyzed similarly in every given situation because the level of readiness of the follower (employee) may vary so the leadership style must also be adjusted appropriately.

According to observations and personal discussions, Afghans are eager to set their country on an irreversible course to stability and democracy. In order for this turnaround to be successful, all political parties, provincial leaders, independent tribal leaders, business experts, educators, and outside agencies must be able to create a safe working environment where all Afghans take pride in their work toward progress in each unique situation. Then, and only then, can professional leaders in the

work environment begin to effectively and progressively develop their own leadership skills as well as the needed skills of their employees.

Afghan professionals leading the development of Afghanistan are facing a workforce generation that has largely been living in a war-torn environment for over a quarter of a century. Many of the workers are not well educated or even functionally literate beyond the basic levels which require the use of appropriate situational leadership styles to help them successfully complete tasks and progressively develop. As such, entrepreneurs and government managers need to gradually develop their employees to take on more responsibilities as they become more prepared and more confident with their tasks and jobs. Situational leadership skills and styles must be practiced by current managers if they are to effectively coach their employees toward becoming independent performers. Since many working individuals live in the rural areas are lacking access to the basic knowledge and technologies, situational leadership becomes even more important as managers attempt to simplify technology and operational processes to match the needs of their followers.

Education Needs

It is acknowledged that situational leadership skills are best for new and incoming managers in both the public and private sectors. However, these skills can be used in any capacity, including with young children as well.

Joe Stephens and David B. Ottaway, in their Washington Post article on November 20, 2005 (A01) entitled "A *Rebuilding Plan Full of Cracks*," wrote that "Within the government there have been sobering private reassessments about the effort." They further stated that "The schools and clinics program has been marked by a

series of missteps and miscalculations that resulted in a flawed business model, inadequate supervision and poor execution." Some of this is probably due to the lack of comprehensive plans or sufficient number of inspectors. Stephens and Ottaway (2005) mentioned that "USAID did not, at the outset, have a quality assurance plan or adequate staff to monitor performance." Experts have concluded that "Poor program design lay at the heart of the problems that have dogged this program." Others have said that the reconstruction effort have been "a highly successful program" that suffered from overly ambitious expectations (Stephens and Ottaway, 2005). In other cases, the international community's aid to Afghanistan has fallen short of what was promised or expected, and this has dramatically slowed down progress in educating Afghans.

Margaret Coker and Anne Usher from Cox New Service, on November 2005, mentioned one example where international military officials contracted a firm to build a school but said that "no one from the military came back to inspect the quality of materials or the company's work." The next time that the villagers had seen the soldiers was weeks later at a ribbon-cutting ceremony. The military officials from the United States supposedly took pictures of the new building and then left (Coker and Usher, 2005). According to Coker and Usher (2005), "Two years and \$20,000 later, the locally made mud bricks crumble to the touch, and termites have infested the roof beams, leaving villagers with the morbid pastime of guessing when the ceiling will fall." It is reasonable for the local people to assume that the officials only care about photographs and marketing their achievements regardless of the workmanship quality. Coker and Usher (2005) report that the "Use of inferior

construction materials is just one of myriad complaints lodged by auditors and aid workers who are critical of U.S. efforts to rebuild Afghanistan.”

According to research, “the U.S. Government Accountability Office (GAO) cited bureaucratic squabbles, poor planning, and a lack of coordination and oversight in the spending of U.S. reconstruction money in Afghanistan” for the slow progress (Coker and Usher, 2005). Coker and Usher concluded that the building and public works projects by the State Department and the Pentagon have had little impact on improving the country's long-term reconstruction. Afghanistan is ranked among the world's worst in terms of poverty, literacy and infant mortality, and the slow reconstruction endangers short- and long-term stability of the administration and the country. The reality is that it might have been easier to import skilled Afghan and non-Afghan workers from abroad and to train local people through situational leadership skills so they can take on more jobs. This is a skill that all Afghans can use both in the workplace and in schools as they situationally develop their workers to take on more responsibility. Coker and Usher (2005) state that “Improving primary education, by building schools, revamping inadequate curricula and training teachers, is a goal embraced by all international agencies working in Afghanistan.” However, some of the U.S. government's most abysmal reconstruction results came in education. Coker and Usher mention that from 2002 till 2005, about 3,500 schools have been built or refurbished. Yet, according the Education Ministry, another 2,000 schools will be needed if all children are to attend school. Initially, the USAID had projected that it would refurbish or build 286 schools by the end of 2004, but according to Coker and Usher (2005), USAID “contractors had only completed eight by that deadline and refurbished about

77 others, with a coat of paint sometimes counting as a refurbished school.” Building the schools is important in preparing the new generation for strengthening both the private and public sectors.

Some international lending agencies such as the World Bank and nonprofit organizations have demonstrated better results than USAID (Coker and Usher, 2005). According to Coker and Usher (2005), “CARE International, which has worked in Afghanistan for 44 years, built 40 schools in 2004, which in most cases cost between \$10,000 and \$20,000 less than U.S.-sponsored projects.” Typically, the schools which have been constructed by USAID contractors tend to cost between \$60,000 and \$80,000.

Coker and Usher conclude that “CARE's faster pace was possible in part because it already had relationships with Afghan villages and businesses with which to organize and build.” Perhaps, building strong relationships with the local community, current Afghan workers, and the new generation of Afghans is a must if situational leadership is to be practiced effectively in the educational and economical development of the country. Situational leadership is about being patient, persistent, and looking forward toward a brighter future.

Despite the challenges and obstacles, Afghans and their friends should keep moving forward through proper planning and effective leadership since better and brighter seasons are forthcoming for those who remain persistent in their efforts to develop Afghanistan. Patience is a virtue and one should not judge others based on outward appearances or one or two incidents in their life, since who one is and who one becomes is a function of one's life's actions. According to a story, there was a wise and experienced man who had four sons; he wanted his sons to learn not to

judge things too quickly. So he sent them each on a quest, in turn, to go and look at a pear tree that was a great distance away. The first son went in the winter to visit the pear tree; the second went in the spring; the third in summer; and the youngest son went in the fall to visit the tree.

When they had all gone and come back, he called them together to describe what they had seen. The first son said that the tree was ugly, bent, and twisted. The second son said no it was covered with green buds and full of promise. The third son disagreed; he said it was laden with blossoms that smelled so sweet and looked so beautiful, it was the most graceful thing he had ever seen. The last son disagreed with all of them; he said it was ripe and drooping with fruit, full of life and fulfillment.

The man then explained to his sons that they were all right, because they had each seen but only one season in the tree's life. He told them that you cannot judge a tree, or a person, by only one season, and that the essence of who people are and the pleasure, joy, and love that come from that life can only be measured at the end, when all the seasons are up. If you give up when it's winter, you will miss the promise of your spring, the beauty of your summer, fulfillment of your fall.

The moral of this story is that one should not let the pain of one season destroy the joy of all the rest. It is best to not judge life by one difficult season or one challenge obstacle. One should persevere through the difficult patches since better times are sure to come some time soon or later. When there is a will, there is always a way; effective leaders search for "the way," while waiting patiently for the next season.

Summary

Not everyone learns leadership skills and lessons the same way as others. However, most individuals know what their

priorities are once they enter into the workforce and they tend to have a pretty good idea of what is important in life. People find a purpose for their lives through socialization, conditioning, and through searching for enlightenment while developing certain leadership skills. Leadership is not only about how one acts but it is, also, about understanding how one's actions affect others.

Many organizations today in Afghanistan are lacking resources and do not provide effective training and orientation programs to assist employees develop their leadership skills. An initial starting place could be the development of a comprehensive situational leadership training program for all Afghan leaders and their organizational managers in order to educate and develop the workforce based on the local norms, customs and levels of readiness. This document presented some of the basics of situational leadership model as taught by its original authors and champions, Drs. Paul Hersey and Ken Blanchard who are consultants to executives and leaders. It is hoped that all Afghan leaders are granted the wisdom to use the right leadership style and lead by doing the right things at the right times and for the right reasons as they rebuild their country toward a new vision of peace and economic prosperity. May they have the hindsight to use the right leadership styles with each person and group, the foresight to know where they should lead their followers, and the insight to know how far each follower can go in getting the job done right!

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6 - A Review of Pest Management Strategies in Resources-Limited Agriculture: Applicability to Afghanistan

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Abstract

Agriculture is the main sector sustaining life in Afghanistan and over 80 percent of the population is dependent on agriculture production. The total land area of Afghanistan is 65 million hectares (ha) and only 12% is arable (FAO/WFP 2003). Therefore, almost 30% of the total arable and permanent cropland was irrigated in 1999 mostly for wheat, maize, barely and fruit orchards. However, since 1978 wars have divested the country's ability to produce sufficient amount of crops. This is due to large -scale destruction of irrigation networks and the loss of commercial agriculture which are leading to decline in the annual yields per hectare.

Introduction

The main crop that Afghanistan produces is wheat, and although wheat production was increased up to 58% in 2002, the country still needed to import roughly one million tones of wheat to meet required needs. Millions of people, “especially in rural area remained dependent on food aid” (U.S Department of State, December 2004). Maize, rice and barley are the main other cereal grains cultivated in Afghanistan. Potatoes, onions and several fruit crops including melons, watermelons, apricot, pomegranates, grapes, and almonds are grown in the country. Due to the current needy situation of Afghanistan, this is an excellent opportunity to enhance the knowledge of agriculture producers in crop production, especially pest and disease management. This increased knowledge will improve the quality of life and help build a self- sufficient way of life. The author's goal is to inform the Afghanistan Agricultural Professionals about *Integrated Pest Management Strategies* (IPM): Integrated

pest management that emphasizes ecological- based systems for prevention and control of pests and diseases, or their damage through a combination of techniques such as biological control, habitat manipulation, modification of cultural practices, use of resistant varieties, and the judicious use of pesticides with the goal of reducing only target organisms, and minimizing hazard to human health, nontarget organisms, and to the environment.

2. What is Resources Limited Agriculture?

The issues playing a significant role in crop production include: (a) lack of pesticides and fertilizers (b) lack of machinery and equipments (c) lack of knowledge and training to the farmers (d) lack of well developed water resources management (e) lack of access to rural credit for provision of improved farm inputs (f) low level on- farm productivity (g) weakened community and farmer organizations (h) lack of industrial investment (i) absence of environmental protection system (Securing Afghanistan's Future Natural Resources Technical Annex January 2004).

3. Pest problems faced by Afghanistan Farmers:

The following locations are the names of province or district in which serious pest and disease problems are observed. The locust was observed mainly in Baghlan (North-East), Balkh (North), Samangan (North), Kunduz (North-East), Juzjan (North), Nangarhar (East), Faryab (North), Saripul (North), Kabul (Central), Wardak (Central) and Ghor (west). Similarly, sunn pest was found in Jawzjan (North), Faryab (North), Saripul (North), Badghis (North West), Hirat (West),

Kunduz (North), Khost (South), Ghor (West) (especially in Charsada district), Paktiya (South), Balkh (North), Samangan (North) and Helmand (West). Sunn pest infestation is increasing annually and causing a severe damage due to the absence of mechanical and chemical control. A surge of melon fly- mainly attacking melons, watermelons and other host fruits. This melon fly has been observed in various parts of the country. The most infested area has been observed in Faryab (North), Jawzjan (North), Saripul (North), Balkh (North), and Kunduz (North). A prominent problem is that of the cicadas (especially in vineyard) in central regions of Kabul, Parwan and Kapisa. There has been observed a type of aphid damaged caused to pistachio in Badghis (North-West) and Hirat (West).

Infestation of cutworm has been seen in some vegetable fields in Takhar and Baghlan but with very insignificant damage. This year due to the incidence of rust disease in wheat crop infected in north, north-east and south-west regions of the country. Rust has been found from Surobi (Kabul) and Turkham (Nangarhar East) areas. In Balkh (North) province three varieties of wheat- Lalmi-3, Takhar-96 and Heart-99- were found to be seriously affected by rust. Therefore, sporadic cases of rust symptoms were found in Nangarhar (East), Nimroz (West), and Bamyan (West Central particularly in Waras and Panjab) Also in Nuristan (East Basous village) and in Imam Sahib in Kunduz (North).

However, Smut has been observed mainly in Parwan and Kapisa (Central) area and also found in some fields in Nakpai, Quiche, Daulatyar, Gultipa villages in Char Dara district of Kunduz (North). Rodents are causing damage in all over the country. (Agriculture Prospects Report June/July 2005 FAAHM).

4. The challenges of pest management:

Pest management must be based on understanding of the interrelationships among the environmental conditions, cultural practices, crop biology, pest biology and beneficial organism ecology. The following are the components of pest management strategies (a) education (b) research (c) technology (c) regulation (d) personal liability (e) public perception. (IPM in practice University of California publication #3418).

- ⇒ (a) education: Afghan agriculturists must be educators as well as educated, in order to keep farmers informed, through discussions, reports and training.
- ⇒ (b) research: Research facility is one of the main sources of pest management strategy. Research should be focused on issues such as pest resistant crops, transgenic crops, pest detection tools, manipulation of cultural practices, monitoring practices, treatment thresholds, biological control agents and as well as use of environmentally safe pesticides.
- ⇒ (c) technology: Lack of farm machinery and equipments leads to minimum crop production.
- ⇒ (d) regulation: Regulations and coordination of Afghanistan government and Afghan agriculturists have a direct impact on integrated pest management. However, regulations affect control methods, pest eradication and plant quarantine efforts.
- ⇒ (e) personal liability: Afghanistan Agriculturists and farmers should be informed of their responsibility to practices that provide no risks to people and their environment.
- ⇒ (f) public reception: Afghanistan agriculturists should reach up to the level of knowledge and practice, that they can play leading role in educating

the public about integrated pest management.

5. Future of Afghanistan Farmers and their IPM Strategies:

Future of Afghanistan's farming and integrated pest and disease management depend on combination of several compatible strategies such as host resistance or tolerance, biological approaches, cultural control, non-chemical controls, and chemical control.

5.1. Host resistance or Tolerance: The ability of plant cultivar to resist attack by pests that damages other cultivars of that plant species. For example sunn pest is the most destructive pest of wheat and barely in Afghanistan, but it can be managed through the use of resistant cultivars as demonstrated in Iran where cultivars such as Falat, Azadi, Gholestan and Gafghaz were shown to be the most tolerant cultivars to the pest infestation (M. Rezabeigi 1998 Iran). Similarly, corn cultivars are available with resistance to disease such as common rust, Fusarium ear rot, Fusarium stalk rot, head smut and maize dwarf mosaic virus. Disease resistance in small grain/ barley and wheat are available or needed for diseases such as yellow dwarf virus (BYDV) leaf rust of wheat and barely, stem rust of wheat and barley, septoria tritici blotch, stripe rust and powdery mildew (barley and wheat). Plant breeders are playing a significant role and must consider the need for resistance to important pests, diseases and improved yield and quality. To develop resistance cultivars researchers must first identify plants with suitable resistance characteristics, from wild variants of the same species or closely related species.

There are several approaches for developing resistant cultivars:

(1). Classical plant breeding: (simple selection, pure line selection and

backcrossing) In order to identify a new resistant cultivar, putative resistant materials are identified by challenging them with disease causing organisms and selecting the least susceptible individuals, with desirable agronomic attributes through sexual reproduction. Offspring are screened for effectiveness of resistance and other desirable qualities.

(2). Rootstock and Scion Selection: The scion is short piece of twig or bud that is grafted on to a rootstock. Scion determines the harvested crop variety and pest resistance above the graft. Similarly rootstocks are needed to be chosen to control tree vigor and improve fruit or nut size, quality, resistance or tolerance to insects, diseases, nematodes and adaptability to climate and soil condition (e.g. almond Marianna 2624 some resistant to phytophthora crown and root rot, but resistance to root knot nematode).

(3). Tissue culture and genetic engineering: The two key techniques to obtain a rapid development of useful varieties are tissue culture and genetic engineering. Through tissue culture techniques breeders can propagate entire plants from a single cell or group of cells (clonally propagation). Similarly, using genetic engineering techniques genetic material (DNA) can be transferred from one organism to another. DNA transfer technology has opened up vast new resources of pest resistant genetic materials. Transgenic pest resistant cultivars are derived from the transfer of desirable resistance traits from one organism to another. Genetics engineering encompass a group of tools for manipulation of genetic information. These tools can be used to derive transgenic materials. Moving genetic material mainly DNA inserted in to the host

(example introduction of gene from the bacterium *Bacillus thuringiensis* (Bt) in to a host plant:

Non-Host Plants: Non-host plants can be used in crop rotations to reduce pest numbers. 5.2 Biological Control: Any activity of one species that reduces the adverse effect of another species. The following consist the types of Biological Control Agents (Predators, Parasites, Herbivores, Antagonists, Competitors). (a) Predators: Is an animal that attacks, feeds on and kills more than one prey during its lifetime (e.g. convergent lady beetle *Hippodamia convergent*). (b) Parasites: Is a small organism that lives and feeds in or on a larger host organism for all or most of its life. (c) Herbivores: Animals that feed on plants. Antagonists: The secretion of enzymes by one organism that inhibit vital processes of other organism (e.g. *Agrobacterium radiobacter* K-84) can prevent infection by damaging strains of *Agrobacterium tumefaciens*, the pathogen that causes crown gall disease. (d). Competitors: When two organisms compete for limited resources, such as food in case of animals and water, nutrients and light in case of plants.

Approaches to use of Biological control

Agents: The effectiveness of biological control relies on the following three approaches such as Importation, Conservation and Enhancement and Augmentation. Importation (Classical): The introduction and establishment of natural enemies into areas, where they did not exist and employed against pests of foreign origin. Several steps are required in order to implement importation programs. First, the pest organism and its native area must be identified. Next, searches for natural enemies are conducted in the native area and ship the accurate identification of species back for testing under strict quarantine facility. Conservation and Enhancement: Any

activities that improve survival, dispersal, and reproduction of natural enemies (e.g. reduction and selective use of pesticides etc). Augmentation: Supplementing the numbers of naturally occurring biological control agents with releases of laboratory-reared or field collected natural enemies. Inoculative release: a release of biological agent in which the agent is expected to reproduce in the field and build up its population so that its progeny provide control for several generations. Inundative releases: is a release of BCA with the goal of achieving immediate control, though the activities of the released individuals are not expected to reproduce e.g. *Aphytis* parasites against California red scale *Trichogramma* against codling moth.

5.2. (a) Biological control of insects and mites:

Predators and parasites are among the best known enemies of insects and mites, others such as entomopathogenic nematodes, bacteria, fungi and viruses. Also vertebrates such as bird, bats and fish play a significant impact on some insect populations. Example of predatory arthropods, are green and brown lacewings, syrphid flies, aphids flies, robber flies, damsel bugs, big-eyed bugs, assassin bugs, minute pirate bugs, lady beetles, soldier beetles predaceous ground beetles, wasps, ants, predaceous mites and spiders. Parasitic insects, most insects that parasitize other insects belong to the order Hymenoptera (wasps) and Diptera (flies) this parasitization relationship could be applied in case of sunn pest which has been parasitoid by natural enemies *Trissolcus semistriatus* (Muhgan Kivan, Nihal Kilic Turkey, 2005). Similarly, application of biopesticide such as *Metarhizium anisopliae* and hymenopterans egg parasitoids *Scelio* spp which are used in Africa could be applied on locust which caused a lot of damaged to wheat and

barley in Afghanistan (Annual Review of Entomology January, 2001). *Beauveria bassiana* is the fungus species is highly toxic to sunn pest in eggs and larval stage (ICARDA, May, 2003) Nematodes, an unsegmented roundworm (phylum Nemata) found in soil, water or plant or animal tissues. Entomopathogenic nematode belongs to the family Steinernematid and *Herterorhabditid*. Pathogens, caterpillar species are kept under control by natural outbreaks of pathogen such as *Lophocampa argentata*.

5.2. (b) Biological control of weeds: Insects, pathogens, Vertebrates, allelopathy and competition can play a significant role in reducing the number of weeds. Examples include a cochineal insect, *Dactylpius opuntiae* to control two species of prickly pear cactus and also the control of European native Klamath weed with the imported European leaf-feeding beetles *Chrysolina quadrigemina*. With regard to the concerned weeds problems in Afghanistan, there are abundant manifestation of weeds problems present in the country. However, the author did not come across a specific report on weeds management as related to Afghanistan, except such as jointed goat grass (*Aegilops cylindrical*), (North American Plant Protection Organization, June, 2003) Hoary cress, white weed (*Cardaria draba*) (State of Victoria, Department of Natural Resources and Environment, 2002) and quackgrass (*Agropyron repens*), (Batcher, 2002, Hulton, 1968, University of Alaska Museum) Vertebrate fish, the sterile triploid grass carp, *Ctenopharyngodon* played significant control of hydrilla in Imperial county California, geese, are used in cotton field to manage grasses and sedge mammal, such as cattle, sheep and goats can be used for weed control on rangeland. Allelopathy, the release of chemical by one plant that inhibited the

growth of anther plant species (e.g. black walnut tree that inhibit growth of most plant species around the base of tree other include barely, rye and sudangrass) Competition weed decreases crop yields by competing for light, water and nutrients (e.g. tilting, managing water and nutrient)

5.2. (c) Biological Control of Plant

Pathogens: An organism that kills or inhibits growth of plant pathogens or other microorganism is called antagonists. The wheat leaf rust (*Puccinia triticina* (formerly *recondite* f.sp) (NDSU Extension Service July, 2002) is worldwide disease of wheat crop. In Pakistan, a case study has been done against wheat leaf rust and has been controlled by poisonous phanergamic plants such as *Narium odorum*, *Calotropis gigantean*, *Azadirachta indica* and *Datura strimomium* (Control of Wheat Rust by Leaves Extract of Poisonous Phanergamic Plants, by Muhammad Ayoub and Aman Ullah Niazi Ayub Agriculture Research Institute Faisalabad, Pakistan, Asian Network for Scientific Information 2001). This could be applied against leaf rust of wheat in Afghanistan as a result of environmental and economical feasibility. (E.g. the competitive bacterium *Pseudomonas fluorescens* A506 has been used with antibiotics to control fireblight disease of pears in California). Suppressive soils: the low incidence of disease in suppressive soils is due to the antagonistic effects of soil microorganism (e.g. soils suppressive to *Fusarium* wilt and take all decline of wheat). However, fireblight disease of pears and apples are common disease through out the world, but I did not find a report on these diseases in Afghanistan. Possibility of the above example could be applied in Afghanistan because pears and apples orchards exist with limited productivity.

5.2. (d) Biological Control of Plant

Parasitic Nematodes: the best example is fungi that capture nematodes in various forms of trap such as *Arthrobotrys brochopaga* and *A. dactyloides*.

5.3. Cultural and Non Chemical Control:

The key components of cultural and non-chemical control include a Site selection, Sanitation, Destruction of Alternate hosts, Habitat modification, Smother crops and cover crops, intercropping, crop rotation, Planting and harvesting dates, Irrigation and water management, and Fertilizers and soil amendments:

- ⇒ (a). Site Selection: It is important to choose a crop, plant species that is particularly well suited to the site.
- ⇒ (b). Sanitation: Removal of all residues from previous crops can limit future infestations (e.g. mummy nuts from almond trees eliminate the overwintering sites of the navel orangeworm, *Amyelois transitella*).
- ⇒ (c). Destruction of alternate hosts: The destruction of weeds that are alternate hosts (e.g. curly top virus in sugar beet, beet leafhopper *Circulifer tenellus*, lettuce root aphid overwinter in galls on poplar trees).
- ⇒ (d). Habitat modification: Is very important in vertebrate control (e.g. weeds, ground cover and litter provide food and shelter for meadow mice, draining areas containing standing water reduces breeding sites for mosquitoes).
- ⇒ (e). Smother crops and Cover crops: They are used in crop rotations to suppress weeds for cash value such as cereals, sorghum, safflower, field corn and sunflowers.
- ⇒ (f). Intercropping: Growing more than one crop in a field at the same time (e.g. in cotton a trap crop alfalfa can be planted in strips to keep *Lygus* bugs out of the cotton).
- ⇒ (g). Crop rotation: is the intentional planting of specific crop sequences to improve crop health (e.g. small grain reduced nematode and soil pathogens, flooded crop like rice or alfalfa help to reduce a pest species).
- ⇒ (h). Planting and harvest date: Choose a planting time that favors germination of the crop over key weed species (e.g. planting late cotton to reduce the chance of *Thielaviopsis basicola* and *Pythium ultimum* infection) Early harvest can reduce the number of generations of nematodes, early harvest of alfalfa hay can eliminate need for treating alfalfa weevil.
- ⇒ (i). Irrigation and water management: Application of proper irrigation is very important element in the sequence of IPM. Excess soil moisture excludes oxygen as result of root and crown disease such as *Phytophthora* root rot, underwater may cause wilting, sunburn and sunscald. Drip irrigation systems play a significant role in deliver water only to sites where it is needed and also reducing root disease and weeds problems.
- ⇒ (j). Mechanical and Physical Control: Mechanically destroy pests or present a physical barrier to pest infestation by creating unfavorable condition for their entry, dispersal, survival and reproduction. Such as land preparation, soil tillage, mowing, flaming, burning, mulches, soil solarization.
- ⇒ (k). Fertilizers and soil amendments: Are applied to promote healthy plants and increase yield. In some cases excess of nitrogen on nectarine leads to increase brown rot (*Monilinia fructicola*) as well as aphid's infestation.

5.5. Chemical Control: Pesticides, any substance or mixture of substances intended

for preventing, destroying, repelling, or mitigating any insects, rodents, nematodes, fungi, or weeds or any other forms of life declared to be pests; and any substance or mixture of substances intended for use as a plant regulator, defoliant, or desiccant. Pesticide use is one component of an integrated best crop management, along the consideration of other necessary factors such as decision of client, the location and the commodity, and the pesticide (mode of action, site of action, persistence, selectivity and pesticide toxicity). Mode of action: The mechanism by which a pesticide kills the target organism. Site of action: is the primary location of the enzymatic, metabolic, that physical reaction taken place by the pesticide. Persistence: indicate the amount of time it takes for a pesticide to degrade. Selectivity: the range of organisms and life stages of organisms affected by pesticide; a selective pesticide is toxic to only a single or group of related pests. Pesticide toxicity: is the ability of a material to cause injury to organisms. Example Deltamethrine, 20,000 liters has been spread by airplane to control sunn pest in Afghanistan. (Agriculture Prospects Report June/July 2005 FAAHM) (IPM in practice University of California publication #3418).

6. Conclusions: The productivity of Afghanistan's agriculture depends upon the integrated sequences of team work efforts between the Afghan people, government and foreign agencies in order to achieve goals of the best crop management. Afghan people and their land have a great potential toward green and self sufficient way of life. The ultimate approaches are sustainable agriculture and precision farming. There is a need to emphasize these factors such as (a) Availability of agriculture resources and technology (b) Knowledge and training. (c) Cooperation of public and government or private agencies. (d) Laws and regulations

pertaining to agriculture and environmental security.

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7 - Roadmap to an Industrialized Afghanistan

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Abstract:

In order to get Afghanistan back on its feet and to revitalize the country's economy, several immediate actions need to be taken by implementing five crucially important and vital steps. These include:

- *Enhancing the Electric Power Generation and Water Supply Systems;*
- *Introducing the Process of Industrialization, and the development of light & heavy industries;*
- *Setting up an Online Global Gateway to Afghanistan Marketplace;*
- *Providing Broadband Internet Access to every corner of the country; and*
- *Creating a Software Development Association, and promoting the ITO, and BPO outsourcing capabilities;*

1. Electric Power and Water

Electricity and water are the sources of prosperity and we have to make our utmost efforts to make the electricity and water available to every Afghan home and business within the next five years.

It is vitally important for the economic growth of Afghanistan that water, electricity, transportation systems and roads, as well as management and investment to be at the forefront of any development agenda.

Building electric power generation plants through conventional practices have proven to be difficult and economically unfeasible. We need to be real frugal and make sure to spend the funds allocated for this purpose more wisely.

There are many different technologies available to generate the electric power namely through solar, wind turbines, natural and diesel gas, biomass, coal, hydro generators, geothermal, etc.

Since the costs of natural gas and diesel fuel are unaffordable for most

Afghans, and the other options have financial limitation, we need to concentrate on how to use the biomass technology, utilizing the agricultural wastes as fuel for these generators. This would allow farmers to make money not just by harvesting, but also generating additional income by selling the residue of trees, and plants that otherwise might have been wasted.

By setting up electric power generation in rural and urban areas, and utilizing biomass and agricultural wastes as fuel, we could provide the electricity to every corner of Afghanistan in a very short time. In the meantime it will enable the agriculture industry of the country to thrive, as more trees need to be planted throughout the country.

There is turbine engine technology available that can be utilized for producing Electric Power with efficiencies, and economies, that far surpass any existing technology of GE or others presently available. Allowing for the production capabilities of lower costs, more affordable Electric Power in Afghanistan,

This is a revolutionary, patented process for electric power generation, which has the following unparalleled characteristics.

- 70% - 80% constant thermal efficiency;
- Multi-fuel capability;
- PURE water is a natural by-product;
- The system is capable of using any and all types of fuel (coal, natural gas, petroleum, waste, and biomass).

This power generation technology alone is capable of providing the electric power and pure drinking water throughout Afghanistan, with minimal cost.

This technology is a panacea for Afghanistan's electricity and water problems.

2. The Process of Industrialization

Once the electric power generations are in place, we need to introduce initially the light manufacturing industry. This would allow the country to become self-sufficient and be able to sustain an export economy, exporting finished products to the neighboring countries, and internationally.

It is an undeniable fact that industrialization is the bedrock of development in all its ramifications. It is a major index of measuring national development, and for Afghanistan to become self-sufficient and have a healthy economy, as well as healthy society; the time is NOW to start thinking about its industrialization process.

Industry drives sustainable development, productivity as well as income growth. Many factors affect industrialization, but a major one is access to relevant, reliable and timely information.

The natural resources and raw materials in Afghanistan are enormous and enough to make the country great. But the resources are poorly managed and often undiscovered to the detriment of the teeming masses.

Afghanistan is the only country in the world to have an abundance of natural resources, and yet imports every single finished industrial product. The common expression "scarcity in the midst of plenty" fits well with the current situation in Afghanistan.

Ethnic suspicion, corruption and fear also militate against an enabling environment for development. The different ethnic groups and factions in the country are suspicious of one another and this has a damning consequence on the rate of development. A successful industrialist from one part of the

country would not want to establish in some other parts of the country due to security problems. Life and property are unsafe and it takes a "man" of real courage to invest in activities aimed at developing Afghanistan.

Unless national security problems are resolved, most domestic and foreign investments that could potentially be vital to the economic growth of the country might not take place, as industrial outfits won't commit a great part of their resources, due to the lack of adequate security to protect their investments, both human and material.

In this era of global economic order and e-business, Afghanistan is still tackling with the problems of cash economy. It operates an import-export economy with very little industrialization and access to the global marketplace. There was a great hope seen in taking the reconstruction grants from donor countries to turn the economy around. But without a concise master development plan and roadmap, the industrial growth and development in the country unfortunately is not going to be possible, at least in the near future.

Once the security problems have been resolved, efforts have to be made to develop local capabilities in skills, infrastructure, and technology. Afghanistan needs to have a strategy to combine external drivers and local development.

2.1 Information Networks

We need to make our utmost effort to ensure that Afghanistan is not left behind in the Information Superhighway. Information Networks and their interconnectivity are controlling the world and it is imperative that Afghanistan must get connected.

Computers must become an integral part of people's daily life, and widely available in all homes and businesses throughout Afghanistan.

A major portion of the computer cost is from the software and operating systems that runs the hardware. Due to the high cost of the Microsoft windows operating systems, Afghanistan should consider the deployment of "Linux" operating system, which is free, and could ultimately save the businesses and governmental agencies tremendous amount of money. Brazil is currently in the process of transforming their entire country's computer operating systems from those of Microsoft Windows to the free Linux operating systems. Afghanistan should also consider switching to either Linux or Unix Solaris which is also being provided for free through Sun Micro Systems.

There is currently free word processor software available on the web, which allows anyone with an e-mail address to register and use its capability, which surpass the Microsoft Word and MS Office software.

Many private entrepreneurs have entered the business of providing information network services for individuals and organizations. As noble as these efforts are, the result is yet to reach a vast area of the country.

More efforts have to be made to encourage and entice the entrepreneurship, and support systems ought to continuously provide financial and technical assistance to projects of viable global potential. These could be in the form of setting up "incubators" in major cities, such as Kabul, Herat, Mazar-e Sharif and Kandahar, similar to the ones in the U.S.

These facilities house a number of start up companies in one location and provides them with shared resources such as copy and fax machines, fixed phone lines, broadband internet access, financial assistance and technical support until the project gets developed and operates independently. Angels or VC's must provide funding for these companies, in return for an equity share.

Additionally, industrial development institutions must be created in order to oversee the operations, management, and must implement guidelines and policies to these organizations

2.2 Industrial Development Institute

Afghanistan needs to establish an industrial development research institute called the Afghanistan Institute of Industrial Research and Development (AIIRD). Afghanistan must join the World Association of Industrial and Technological Research Organizations (WAITRO), which is an international organization for scientific and industrial development.

2.2.1 AIIRD

Afghanistan Institute of Industrial Research and Development (AIIRD), must be an independent institution with the following functionalities:

- ⇒ To conduct applied research on Afghanistan raw materials and to discover their potential industrial uses;
- ⇒ To develop processes to most effectively convert these raw materials into finished products;
- ⇒ To assess the feasibility of such processes on a commercial scale;
- ⇒ To develop import-substituting products; and
- ⇒ To operate based on a Joint Venture Scheme, which supports individual investors (Angels), or group of investors, Venture Capital (VC) firms.

AIIRD should have wide engineering capabilities such as design, detailed engineering, fabrication, installation, trouble-shooting down to component level, and maintenance. It also must collaborate and interacts with many

manufacturing sub-sectors through technical services.

3. The Global Gateway to Afghanistan Marketplace

AfghanMART.com is the Global Gateway to Afghanistan Marketplace, which allows buyers globally to tap into the Afghanistan's low cost goods and services. The website is currently in English and can get instantly translated to eight other major languages. The Dari and Pashtu version of the website will be launched in the near future. This e-Commerce site will open the door to many small businesses and would enable the country's finished goods, raw material, handicrafts and tremendous amount of natural resources to be introduced and sold to the rest of the world.

AfghanMART is planning to open stores primarily in Kabul, Mazar- e Sharif, Kandahar, Herat, Bamiyan and Jalalabad. The stores will be equipped with a number of computer systems, broadband Internet access, as well as scanners, printers and digital cameras.

AfghanMART is similar to eBay, where buyers will bid upward on an increasing incremental bidding format. This format is referred to as forward or normal auction, which allows sellers to post goods, or services they want to sell and allows buyers to compete for the best prices they are willing to bid for those goods or services. Sellers' benefits include: leveraging a new sales channel, reaching new buyers who are not under contract, reducing inventory costs, and increasing profits and improving margins.

Additionally, AfghanMART provides reverse auction capabilities, which allows buyers to source goods or services, and invite sellers to bid interactively online for the best price they are willing to offer for goods or services.

Reverse Auctions are a specialized auction format that allows individuals or businesses to buy goods and services at the lowest possible price. Featuring decreasing incremental bidding format that lets potential seller to submit a bid and the seller with the lowest price will win. In other words, prospective buyers can list any items that they wish to buy, and then sellers bid to provide the best price.

Marketing efforts will be made to get the site recognized globally, so global buyers base of Afghan goods and services will provide the needed revenue stream for Afghan merchants and individual entrepreneurs. The AfghanMART is expected to create thousands of jobs for Afghans throughout the country.

Up to 50% of the revenue generated will be donated to build schools, hospitals, and to provide micro-credit loans with zero percent interest to individual entrepreneurs and small businesses. People throughout the country would have the opportunity to open an AfghanMART authorized store, and reap the benefits not just by making a margin on total sales volume and earning a great income, but by empowering their communities to grow economically as well.

Afghanistan consumers, entrepreneurs or small business owners could post an item themselves and save the costs related with the store fees, or stop by any AfghanMART store with the item(s) they would like to sell or buy.

Customers bring in items they would like to sell. A detailed listing and digital pictures will be placed on AfghanMART.com site. The store tracks the auction, answers questions from prospective buyers, processes payment, package the item, and ship it to the winner when the auction closes. After the item sells, AfghanMART collect payment and professionally ship the item(s) to the winning bidder. Once the transaction is

complete, the customer will be contacted to receive their money minus a percentage as a small fee to cover the store's overheads and cost of doing business.

AfghanMART is a strategic partner of PayPal and utilizes its capability to send and receive payments for Afghan merchants. PayPal is a global organization with over 86 million clients in 56 countries.

AfghanMART handles all the PayPal transaction activities, and if the customer opts to post the items themselves, all they have to do is to open a bank account with a national bank recognized by PayPal, or use their credit card number, and link the numbers with their e-mail addresses via PayPal website. The e-mail address will be the only piece of information needed in order to send or receive payments.

This would enable Afghan people to produce any valuable product, post it online, sell it to a prospective buyer, and get paid via PayPal. This enablement is a key factor in the development of industry, which allows finished products "Made in Afghanistan" to be sold to over 56 countries.

Additional features such as SMS Gateway will be added to the site, which would allow anyone, anywhere in the world, with a cell phone to download the auction information or bid on any item they wish to buy, without the need to use a computer.

4. Broadband Internet Access

In order to get Afghanistan industrialized, broadband internet services needs to be at its core of any development agenda, and should be widely available throughout the country. There are several ways to offer web access. DSL provided by local telephone companies. Cable modems promote speeds in excess of DSL but are not available in Afghanistan. Fixed wireless, delivered over radio networks, fiber and satellites are other means of providing broadband. These solutions however, are

only sparsely used and each has financial limitations.

Efforts have to be made to provide this to virtually 100% of the homes and industrial facilities in Afghanistan.

One of the latest solutions is the ability to provide "Broadband over Power line" (BPL), or "Power line Communication" (PLC).

BPL allows broadband Internet access via power lines to existing power outlets in the homes, office buildings and industrial facilities. It would be less expensive than satellite internet access, and could be delivered to homes and businesses in Afghanistan, once the infrastructure is largely in place.

Additionally, BPL technology in Afghanistan, would provide national security through the installation of special IP cameras on power lines for real-time surveillance to sensitive areas. This would enable the country to vigorously market the tourism industry. It provides tourists a level of assurance concerning their safety, which is another important step forward towards the globalization of Afghanistan.

The broadband service must be available to every school, Public libraries and other places of business. Incentives must be given in the form of free access, to the families who allow their children to go to school and achieve high Grade Point Average (GPA). Also for individual entrepreneurs with a viable project of global potential, free access should be available.

5. Software Developments and Outsourcing

Many organizations in the industrialized countries are now realizing that they need to take the necessary step to re-engineer the fundamental, core processes of their organizations and find new ways to gain control over their core costs and

delivery standards. They are increasingly recognizing that they do not have sufficient capacity, experience or expertise to achieve this magnitude of service transformation on their own.

Afghanistan is in a great position to establish the infrastructure for software development and outsourcing capabilities, capable of handling various projects from industrialized countries, and become a strategic quality outsourcing partner.

Afghanistan based outsourcing companies need to be an outstanding outsource partner that can also bring to the table economies of scale, additional investment and expertise in areas such as IT Outsourcing services (ITO), Application Management Outsourcing services (AMO), and Business Process Outsourcing services (BPO).

The significant benefits and resulting profitability of outsourcing has become an indispensable tool for best-of-class enterprises, allowing organizations to return to their core competencies, improving efficiencies, lowering costs and gaining the advantage to access external expertise and skills.

Afghanistan outsourcing companies should be capable of absolving the client's initial investment in IT equipment, infrastructure and ongoing management costs. They should also have the ability to blend and utilize resources that are multi skilled, turning cost centers into profit centers impacting the bottom line of their client organizations.

Organizations and Government agencies who are looking to outsource to an outsourcing company in Afghanistan want someone who has the ability to understand their unique needs, who is reliable and trustworthy, flexible and willing to share risk and rewards, and of course, an outsource partner that is able to provide a value for money solutions

Conclusion:

The end result of all these is that physical location will cease to matter. More and more human activities will take place online. This will provide access to information for development in all spheres of people's life in Afghanistan.

There is currently a gap between industrialized countries and Afghanistan as a non-industrialized country. To ensure Afghanistan's development this gap has to be bridged. The focus must, therefore, be on community enablement rather than individual connectivity.

The developing countries are aware of what needs to be done for Afghanistan to keep pace with global development. They are aware and know what to do. At the planning stage, very good proposals are designed, but things just go wrong at the implementation stage. This need not be so.

The constraints impeding successful implementation of laudable projects have been highlighted. Hope seems to be rising in the developing of Afghanistan with the efforts being put in to ensure that industrial development, which is crucial to social and economic development, is pursued.

The power of global information systems in the development process has been acknowledged. As reiterated earlier, AIIRD and software development organizations must be established in Afghanistan to assist in the various activities requisite to industrial development.

Global Information Systems facilitated by Information Technologies make possible all sorts of new activities and new ways of doing old activities.

The primary goal of AfghanMART is equal access to resources by all Afghans who need them. It is anticipated that when this is achieved people of Afghanistan will put aside vengeance and see themselves as

partners in progress with little or no suspicion of one another.

An industrialized Afghanistan facilitated by AfghanMART will let us build a global community in which the people of Afghanistan with different ethnic race and background view each other not as potential enemies, but as potential partners, as citizens of the same country, and members of the same family in the vast, increasingly global interconnected human family.

8 - Privatization of Irrigation Systems

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Abstract:

In January of 2001, eight years after the World Bank released its water policy, the Asian Development Banks Board of Directors approved a comprehensive water policy of its own. Among others it recognized the Asia and Pacific regions need to formulate and implement integrated, cross-sectoral approaches to water management and development. Generally, ADB seeks to promote water as a socially vital economic good that needs increasingly careful management to sustain equitable economic growth and reduce poverty. It all starts with proper water conservation and usage, minimizing water waste and over-usage. In Afghanistan with its vast water resources, better management of water ways, with local input and ownership, will ensure and enable farmers to take ownership of their resources. Such ownership promotes accountability, fair practices and minimizes red-tape. With the proper help and oversight from the proper governmental agencies Farmers have the capacity to control their own futures.

Introduction:

The reasons claimed for undertaking the privatization of waterworks and irrigation water system is to transfer rights and responsibilities for management of irrigation systems from government agencies to private or local persons or organizations, increasing user participation in management of irrigation system as means to reduce pressures on government finances, improve performance of irrigation agriculture, and ensure sustainability of irrigation systems. Permitting farmers to play a greater role in the country represents a major shift away from the idea that the government is responsible for taking care of farmers.

The Philippines, Indonesia, China and Sri Lanka in Asia, Mexico and Colombia in Latin America, and others such as New Zealand and Turkey have made major efforts in this direction. Transferring responsibilities

has come to be seen as a way to reduce pressures on thinly stretched government and ensuring the long term sustainability of irrigation systems. The intention is to encourage efforts by individuals to take responsibility for the management of resources in belief that individuals have greater stake and better information for making efficient resource allocations.

The water privatization goal is the same all over the world but its application and procedure depend on different factors: In Thailand, the government gives licenses to private companies, with concessions being allotted for each of the country's provinces. Under the Waterworks Enterprise law, a company that receives a license would become a monopolistic enterprise with a concession to private waterworks service in a province. Meanwhile, the government continues to subsidize the privatization of waterworks. There is a contract between government and private companies on water purchase, a minimum volume of water to be purchased is guaranteed by the government.

Since 1980 the government of India has supported various moves toward irrigation management and privatization. There are many successful case studies on the role of water privatization; which are successful. Government policy is expressed in the Cooperative Water User's Association Guidelines. The Irrigation Department has adopted policies:

- Create Water Users' Association (WUA) at minor canal levels.
- Transfer O&M responsibilities for the minor and smaller channels to WUA.
- Locate water to WUAs through 5 year agreements.

In addition, they encourage NGOs and Irrigation Department officer to help farmers create WUAs.

The WUA takes the responsibilities of water management, O&M of irrigation system and payment of irrigation fees. It is typical for the banks to require steps in approaching privatization:

- Decentralizing
- Unbundling
- Passage of water-related laws
- Promulgation of new regulations
- Introduction of full cost pricing.
- Launching public information campaigns
- Grant subsidies for corporations and /or poor consumers.
- Commercial or political guarantees to private lenders and investors.

In Afghanistan the art of irrigation and agriculture has deep historical roots. Afghan farmers for decades have dealt with troubles of obtaining water for their crops, water rights, protection and maintenance of waterways, and their establishments. With rudimentary tools at their disposal, Afghan farmers for centuries have built their own canals, dams, wells (Arads) and underground water-ways (Kaarez) manage water for their crops. Canals such as Zarkan and Zorkan in Zaranj, Karaj in Helmand and the Mosa Qalla Kaarez and hundreds of other canals and kaarezes in others parts of the country are examples of such practices.

With insignificant annual rainfall, Afghan farmers have managed to sustain their water needs and irrigate their crops with traditional, yet proven techniques. Rarely, though, have Afghan farmers agreed on a fare system of distribution and usage.

Taking into account amounts of water available for irrigation of cultivated land, it is evident that having an infrastructure is needed for effective management of water resources to prevent water-waste. Improved usage would show that there is enough water for irrigation in the country. Currently a large amount of usable water is leaving the

Afghan borders without efficient use. Although, Afghan farmers have traditional and deep- rooted experience in irrigation systems, there still seems to be wide-spread water loss and misuse throughout the country.

Most farmers still believe that frequent watering leads to better crop yield. It has been shown, however, that lands closer to the intake of the canals with better water access are often water-logged and have poor crop yield. In most cases the crop zone and air pockets in the land are all filled with water and crops fail to obtain their proper nutrition and resources from the land. With excess water in the field, and without a proper drainage system present, whether it is a hard impervious layer of earth or no drainage canals, there seems to be excess leaching of the land. Most nutrients are destroyed and the PH balance of the soil is compromised with harmful salts and chemicals rising to the surface, especially in temperate and warm climates.

In comparison lands further down from the intake of the canals have low crop yield because of lack of water and poor management of water upstream.

It has been shown that irrigation should be a round-the clock, 24 hour process. In Afghanistan, however, irrigation is mostly performed during the day and water is either not used or routed to drainage canals during the night; in itself a significant loss.

More loss is observed in the canal systems and water-ways that require immediate attention and monitoring. Better monitoring of water waste and loss is more manageable and preventable by farmers themselves than by government employees. This goal is easily achievable by privatization of water-systems in the country. When farmers feel that they have ownership of the system and resources, it

enables them to take better care of the system and to better its management usage.

As most of us are aware, the main resources of water in Afghanistan are precipitation related. In the rainy seasons strong rains and downpours cause floods to fill the rivers without control. In the higher elevations this precipitation is in the form of snow. These snows serve as a form of reservoirs at these elevations and during the year with gradual melting serve as a major source of water in most areas of the country.

Prior to the war in Afghanistan, only a small percentage of cultivated land was irrigated with modern irrigation systems with guaranteed water supply. The rest was irrigated with traditional irrigation systems native to the area. In most cases farmers would build their own intake systems and secure water for their crops. During rainy season most of these intakes would either be destroyed or sustain heavy damage and would be re-built the following year. Most intakes were built and later maintained by the farmers as a joint community project called Hashar. We hope that the wars of the past few years have not erased this spirit of cooperation and community work. Hashar, in itself is the basis for the privatization of water-works as intended by this paper.

Fortunately, the basics and essential factors in water privatization are present in Afghanistan. For the process of water privatization, to be implemented in Afghanistan, the following issues need to be addressed by the governmental agencies:

- Establishment of bylaws and regulations, by the government, of Water Users' Association (WUA)
- Ensuring financing for construction and maintenance loans through WUAs
- Establishing Water Laws for irrigation
- Establishment of units of uniform measurement for land and water

- Training farmers in new systems and technologies and crop patterns
- Assisting in the construction of intakes and water-ways with WUAs through technical expertise and construction equipment
- Repair and maintenance of main infrastructures, such as dams and main canals
- Proposals for obtaining loans from the World Bank and Asian Development Bank.

WUAs must in turn observe the following regulations:

- Based on the bylaws provided by the government, each locality must establish their own association
- Each association is mandated to officially undertake the responsibility to distribute water, take over maintenance and repairs
- Appointing a person in charge of water distribution-Water Master (Mirab)
- Establishing bylaws for fair distribution of water based on the government regulations
- Establishment of maintenance code based on irrigation program
- Membership dues, collection and distribution
- Overseeing progress meetings, complaints and enforcing
- Ensuring contracts for usage of heavy equipment and tools from the proper government or construction agencies.

Conclusion:

Better management of water resources starts with the establishment and promoting of systems to privatize water usage and increase local input.

Establishment of local WUAs with proper government oversight would ensure accountability with proper local control that would minimize over-usage and water waste. In turn better usage of water resources would ensure sustainability, less land damage, better crop yield and eventual economic prosperity.

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9 - Rehabilitation of TVET in Afghanistan

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Abstract:

Skilled workers, technicians and experts are the main driving force in modernization of industry, agriculture improvement and economical development. Therefore, private sector can play a very crucial role in human resource development as current requirement in the reconstruction process of Afghanistan. It is one of the main and necessary issues, because:

- 1- *Technical and vocational education system is seriously damaged during several years of war.*
- 2- *Technical and vocational schools are not functioning properly due to:*
 - *Lack of equipments and tools*
 - *Shortage of professional teachers*
 - *Demolished school buildings*
 - *Lack of practical labs and workshops*
 - *Lack of coordination between training centers and private sector*

TVET Rehabilitation Goals:

- 1- Establishment of a coordinated, balanced and active system of TVET
- 2- Rehabilitation of technical and vocational schools and institutions
- 3- Involvement of private sector for creating job opportunities and practical trainings
- 4- Establishment of a proper TVET curriculum based on current needs in Afghanistan
- 5- Capacity enhancement of TVET in coordination with private sector
- 6- Attraction of National private sector and international aids for rehabilitation of TVET

- 7- To attract almost 30% of general education students into TEVT in the next 5 to 10 years
- 8- To provide skilled workers and technicians to participate in the reconstruction process of Afghanistan
- 9- To graduate self-sufficient high school graduates and reduce unemployment problems

TVET Rehabilitation Requirements:

To achieve the mentioned aims, more attention to be paid to the following requirements:

- Quality improvement of TVET
- Implementation and effectiveness of TVET based on existing needs
- Improvement and development of TVET
- Improvement of specific educational and training policies of TVET
- Technical and vocational capacity building
- Organizing a proportional structure and necessary training related to private sector needs
- Participation and establishment of close cooperation with industry and business sector
- Curriculum development of TVET based on job market needs
- Access to modern technology and information technology
- Providing quality teaching and learning environment
- Providing healthful and safe working environment
- Occupational health and safety education
- Environmental awareness and education

Purpose of Developing TVET System:

- 1- Providing easy access to education for young Afghans (male and female) to secure employment capabilities

- 2- Training skilled workers and technicians in different areas of technology, agriculture, industry, business, health services and environmental protection
- 3- Teaching effective skills for young generation to participate actively in the reconstruction process of Afghanistan
- 4- Improvement of TVET status in the society
- 5- Improvement and Development of fine arts and traditional industries

TVET Strategies:

- 1- Recognition and anticipation of training and human resources needs based on priority of production, technical and administrative personnel demands
- 2- Establishment of a mechanism for organizing policies between concerned governmental departments and private industrial sector
- 3- Establishment of National fundamental norms, occupation, curriculum development, and training of key personnel for TVET in coordination with private sector
- 4- Development of balanced technical and vocational education in the cities and villages
- 5- Development of modern and cultural education programs for girls and women
- 6- Development of fine arts, local handy crafts, industry and local constructions
- 7- Development and coordination of TVET with higher education institutions and private sector
- 8- Establishment of relation between learning and job market by implementing common programs between TVET and private sectors
- 9- Development of TVET, including distance learning
- 10- Improvement of TVET programs by active participation of private sector.

- 11- Improvement of TVET programs by introducing new technology and computer
- 12- Supporting TVET status in the society

Private Sector Role in TVET

- 1- Relation improvement between TVET Systems and job market
- 2- Provision of Technical and Vocational Training facilities
- 3- Establishment of short term and long term technical and vocational training
- 4- Creation of job opportunities
- 5- Economical cooperation and participation in TVET programs
- 6- Supply of raw material and proper expertise for technical and vocational training
- 7- Participation in design of training programs based on local and job market needs
- 8- Elevating social status of TVET
- 9- Providing short term and long term scholarships for skill development
- 10- Providing specific training programs for TVET capacity building
- 11- Establishment of proper co-op training programs
- 12- Provision of in-service and after service training programs
- 13- Providing occupational health and safety training programs

Training Centers for TVET:

- 1- Technical and vocational schools and related private sector facilities
- 2- General education high schools (elective vocational courses)
- 3- Handy craft vocational high schools (training skilled workers)
- 4- Teachers training high schools and higher education institutions
- 5- Health science training institutions
- 6- Colleges for teaching vocational courses

- 7- Special training centers and schools run by specific Ministries and private sector
- 8- Unofficial training programs (short term courses) in the villages

Current Needs of Technical and Vocational Schools:

One of the initiatives of the MoE is establishment of a committee represented by different Ministries to assess the current needs of 42 existing technical and vocational schools all over Afghanistan for reconstruction and rehabilitation of TVET

Need assessment for 17 TV schools in Kabul is recently performed and the following facts are found:

- 1- Labs are generally destroyed
- 2- School buildings are partially demolished
- 3- Electrical, Heating, water and sewage systems are destructed
- 4- Equipments and tools are not existing
- 5- Lower educational capacity of teachers
- 6- Shortage of vocational teachers
- 7- Low financial status, has made the vocational teachers to leave and join private sectors
- 8- Lack of teacher's awareness about new technologies and professional developments
- 9- Lack of awareness about information technology and computer
- 10- Occupation of vocational education properties by other organizations
- 11- Lack of relation and cooperation of countries, who were financially and technologically supporting technical and vocational schools and institutions
- 12- Lack of relation with industrial and technological world of other countries
- 13- Lack of proper teaching environment and material
- 14- Lack of proper technical and vocational curriculum based on current needs of reconstruction process of Afghanistan
- 15- Lack of technicians for Labs and workshops

- 16- Lack of vocational teacher's training institutions

Recommendations:

The following recommendations are expected to be enriched with the help of respected experts in this seminar as an outcome to be presented to the Ministry of Education.

- 1- Reconstruction of facilities and supply of equipments, based on demands and priorities
- 2- Continuous revision of TVET curriculum according to society needs and demands
- 3- Revival, development, or establishment of trade institutions like: carpentry, Tailoring, Masonry, Plumbing, Sculpture, Ceramic and Tile, Electrician, auto mechanics, Machinery, General Mechanics, Welding, Computer Maintenance, Radio and Television Repair, Office Equipment Maintenance, Material Handling, Heating, Ventilation, Air Conditioning and Refrigeration(HVAC/R), Landscaping, Hospitality and Tourism, Business and Administration, Home Decoration, Beauty Parlor, Management, Accounting and Finance
- 4- Establishment of contacts with representatives of other countries to attract financial aids for TVET
- 5- Designing proper practical work programs for technical and vocational schools with the help of private sector
- 6- Reform and improvement of education quality by using new teaching methods and technologies
- 7- Private sector involvement in Technical and vocational seminars to enhance teacher's knowledge and capacity
- 8- Providing educational scholarships for training and capacity enhancement of technical and academic staff and students

- 9- Design and implementation of capacity building programs for TVET with the help of Kabul University, University of Polytechnic, international societies and private sector
- 10- Establishment of training centers for TVET teachers training with the help of Kabul University, University of Polytechnic, international organizations and private sector
- 11- Establishment and development of short term and long term plans and strategies
- 12- Introducing vocational courses into general education high schools' curriculum
- 13- Coordination of different National, international and private TV programs for better effectiveness
- 14- Establishment of agricultural training schools and centers
- 15- Establishment of computer and information technology centers for professional awareness
- 16- Establishment of good relations with private sector all over the world
- 17- Training teachers in advanced technical and vocational subjects, technology and computer
- 18- Supply of technical and vocational text books for TVET courses
- 19- Establishment of a regulatory body to monitor the standards of technical and vocational courses
- 20- Development of educational programs in technical institutions and colleges according to the local and private sector needs

Conclusions:

Private sectors can play a big role in rehabilitation and development of TVET through a proper training and education system. Therefore, every effort should be made for establishment of a proper educational relation with private sector in

Afghanistan, according to the needs and demands of reconstruction process.

In order to reestablish the existing technical and vocational institutions, huge amount of investment is needed for the following purposes:

- 1- To repair and maintain the school buildings
- 2- To establish and rehabilitate labs and workshops
- 3- Recruitment and training academic and technical staff
- 4- Curriculum revision and development
- 5- Training skilled workers, technicians, experts in different technological and vocational fields

At the end, I would like to express my sincere thanks to the SAE – SAAE delegation, who have organized such a helpful seminar and extended their helping hands to Afghan people, in such a crucial time and situation, by sharing their valuable experiences and expertise. However, we expect and need more cooperation from this reputed organization to contribute in facilitation of equipping our TVET schools, training our vocational teachers and establishing new vocational training centers.

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Table 1 - Required Estimated Budget for 17 TV schools in Kabul

No	Schools Name	R. E. B	Estab. By
1	Afghan Institute of Technology (AIT)	\$2,500 000.00	USA
2	Kabul Mechanical School	\$2,000 000.00	Germ
3	Higher Education of Auto-Mechanics	\$7,300 000.00	USSR
4	Repair of Construction Machinery High School	\$0,400 000.00	USSR
5	Repair of Road Construction Machinery High School	\$2,000 000.00	USSR
6	Higher Education of Light Industry and Food material	\$2,000 000.00	USSR
7	Higher Education of Construction and local Industries	\$ 0,200 000.00	Germ
8	Auto and Industrial Machinery Repair High School	\$2,000 000.00	USSR
9	Radio television and Refrigerator Repair High School	\$0,500 000.00	USSR
10	Higher Education of Public Administration	\$2,500 000.00	Germ
11	Commerce Vocational High School	\$0,200 000.00	Germ
12	Art and Music Vocational High School	\$2,000 000.00	Aust
13	Jamhoryat Vocational High School	\$0,050 000.00	Germ
14	Blinds Vocational High School	\$0,300 000.00	I.A.M
15	Women Vocational High School	\$0,200 000.00	Gov.
16	Institute of Agricultural Training	\$0,500 000.00	W.B
17	Institute of Accounting	\$2,000 000.00	Germ

10 - The Importance of the Private Sector in the Free Market Economy and its role in Securing National Economic Aspirations

Hamidullah Farooqi, Kabul University

Creating, promoting and supporting an efficient private sector, as the main ingredient of Free Market Economy, a poverty reduction tool and job creation factor, should be put high on the agenda when planning strategies and setting big national economic and trade objectives.

To adopt an academic approach to the issue and highlight the role of the private sector in the Free Market Economy, we would better have a glance at the historical backgrounds of the mentioned system and come up with a comprehensive definition.

Introduction

Among the other major milestones in the world, "The wealth of Nations" by the famous Scottish philosopher and economist Adam Smith was published in 1776. The great masterpiece deeply looks into the nature and building elements of the wealth of nations. The publication of the book was not only the first attempt to organize economic principles but an efficient systematic anatomy of the economic issues. The ideas of the founder of the classic school of economy were widely accepted because he did not restrict his views only to economic laws but associated them with philosophical, social, historical and even psychological methods.

About the personality of Adam Smith, Walter Bagehot, an English writer, says, "The founder of the Classical School and Free Market Economy did look like neither a merchant nor a businessman. He was a Scottish professor sunk in the books who never involved himself in business.

According to Smith, the main characteristic of the Free Market Economy is that all producers, sellers and buyers do business in a free and equal competitive

environment where they enjoy equal privileges.

But only specific player(s) of the market benefit from the unfair competitive situations created through the support of the government and granting special concessions.

Mercantilist economic policies, today called protectionism, are rejected by Smith. Rather than ensuring the interests of consumers, he believes, such policies mostly protect "especial interests" of specific groups. According to Smith, the interests of the Free Market players are ensured through deletion of weak competitors. He highly respects the businessmen and entrepreneurs who succeed through competition.

The followers of Classical School and other groups like Keynesians who tried to modify Smith's theories and the contemporary economists who defend the Free Market Economy have based their definitions and justifications of that system on Smith's viewpoints.

In a nutshell, the following is the most succinct definition that reflects the basic principles of Free Market Economy:

"Free Market Economy is an economic system that promotes the allocation and distribution of economic resources through decentralized individual decisions of numerous production agencies and families and based on their economic transactions."

At a glance at the above definition, once can feel the importance of the private sector and its role in securing the objectives of Free Market Economy, namely sustainable economic growth, excellent employment opportunities and elimination of poverty.

According to the aforementioned definition, the private sector is actually made up of the producers, families or individuals whose behavior and decisions

determine the distribution of goods and services expected to be produced in such a system.

Whether in or outside legal and formal economic frameworks, all decisions, activities and policies of the private sector and its share in the national economy is taken into consideration in economic calculations.

The main characteristic of Free Market Economy, that is, fair and free competition can be ensured for all participants of the system if the government plays a strong role in providing an appropriate legal environment and in supervising and disciplining the activities of individuals and small enterprises, lest they undermine the fairness and effectiveness of such a competition.

A healthy, strong and active private sector is an inevitable must in Afghanistan if we are to reach reconstruction goals, achieve a strong and sustainable economic growth, eliminate poverty and attain other aspirations.

Regarding the traditional traits and cultural richness of the Afghan trade and economy, I believe that our country has excellent capacities for business and trade. Once liberated from the grips of the harmful informal economic patterns, such capacities can serve as the driving engine of the country's weak and recessionary economy.

To lay the basic foundations of the Free Market Economy, small enterprises active within the Afghan economy, whether be individuals or family enterprises active in areas of agriculture, small industries, handicrafts, trade and other services and production agencies should be promoted as small, medium and even big enterprises. And the country's economy should be enabled to enter international production and trade competitions. To reach that goal, the government should undertake the following responsibilities to promote and support the private sector:

1. Provide facilities and appropriate grounds for the promotion of the private sector by adopting proper macroeconomic policies e.g. increasing the demand for the private sector productions through reasonable financial policies and meeting government's demands by the private sector supplies.
2. Create proper structural or legal environments for the private sector participants to grow through fair and free competitions.
3. Provide basic infrastructures like water, power, land, transport and communication services and other necessities of the private sector in an economically efficient manner.
4. Raise the capacity of the private sector by providing financial and credit facilities to enable the private sector to efficiently compete with non-governmental organizations and channel the international assistance towards the country's reconstruction.

Regarding the existing realities of the country, the followings should be taken into consideration when formulating strategies to support the private sector:

1. Afghanistan is a landlocked country with thousands of kilometers of uncontrolled border with neighbors that have differing trade and investment policies.
2. The Afghan economy is mostly dependent on informal and unregistered activities including illegal narcotics cultivation, production and trade.
3. Insecurity has prevented the proper growth of the effective and productive capacities of the private sector and has led it towards short-term inefficient economic activities. It has even marginalized the sector.

4. The lack of proper infrastructures has been affecting the end prices of goods and services and has put some constraints on productivity and production and trade profitability.
5. Whether because of legal constraints or due to physical obstacles, ignoring rich and untapped natural resources of the country has caused the marginalization of the heavy industries in the country and the alienation of the private sector from that area.
6. Displacements and emigrations over three decades of war have brought chaos and crisis to the labor market. The drain of specialists and skilled and semiskilled workers from the country has created enormous employment and human resource problems for the private sector and has consequently affected the productivity and business profitability.

Various surveys including the polls conducted by the World Bank show that the main problems facing the private sector in the main Afghan provinces like Kabul, Nangarhar, Mazar-e Sharif and Konduz are insecurity, inefficient financial and credit services. Insufficient land, water shortage, lack of power resources and facilities and inadequate communication and transport services are other problems of the private sector. Administrative corruption inside the government is another main problem that has been consistently emphasized by the private sector actors.

It is evident that a sound investment environment is a must for the materialization of big investment goals and a sustainable growth of the national economy. Other priorities are security, rule of law, establishing of national or macro economic indices, basic legal, political and institutional frameworks and proper access to production factors and, finally, a stable, transparent, appropriate and confident economic and

trade policy adopted by the national economic policymakers.

To sum up, the followings should be given priority when developing programs to support the private sector in the country.

1. The duties and roles of the public and private sectors should be differentiated and defined.
2. The legal and judicial instruments and laws pertaining trade and investment should be formulated and put into practice.
3. The access of the private sector entrepreneurs to production factors should be facilitated.
4. The customs and tax laws should be reformed and amended to encourage investment and promote the private sector.
5. Both physical and legal security should be promoted.
6. Basic infrastructures should be established.
7. Land should be provided e.g. through industrial parks at reasonable and encouraging prices for the private sector.
8. Export should be promoted as much as possible e.g. through tax or customs and tariff exemptions.
9. The private sector capacities should be enhanced by providing more financial and credit services.
10. The government department's administrative and managerial capabilities should be enhanced, particularly those assigned to promote and support the private sector.
11. The disorganized public firms should be privatized.

Believing the important and leading role of the private sector in a Free Market Economy, the government should prepare grounds for the parallel growth of both private and public sectors. It should fully

support the private sector and bring major reforms to the public sector, and should accept that the government acts not as a rival but as a controller and supporter of the private sector.

We hope productivity grows, social capacities increase and we achieve a sustainable growth of in our national economy, eliminate poverty, create

employment opportunities and the aspirations of economic and social welfare are secured in the society.

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