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Doing Business in Afghanistan

Market Overview

- Afghanistan has a poor, agrarian economy with a small manufacturing base, few value-added industries, and a mostly dollarized economy. Agriculture remains Afghanistan's most important source of employment: 60-80% of Afghanistan's population works in this sector, although it accounts for less than a third of GDP due to insufficient irrigation, drought, insufficient market access, insecurity, and other structural impediments. Most Afghan farmers are primarily subsistence farmers.
- Corruption remains a persistent problem throughout the country, increasing the cost of doing business, particularly for foreign companies. Corruption hampers fair application of laws, regulatory bodies lack capacity, and financial data systems are limited. Furthermore, although government officials express commitment to a market economy and foreign investment, business leaders report that some government officials levy unofficial taxes and inflict bureaucratic delays to extract rents.
- The government has undertaken several important reforms to attract Afghan private-sector and foreign investment. For example, it has streamlined the business license registration process under the Afghanistan Central Business Registry (ACBR), which extended the validity of business licenses to three years and reduced the licensing fee.
- The World Bank's Ease of Doing Business rating for Afghanistan increased in 2019 to #167 from #183 in 2018, driven by reforms in the ease of starting a business, getting credit, protecting minority investors, revenue collection, and a new insolvency law.

Political and Economic Environment

- After posting robust economic growth between 2005 and 2013, Afghanistan's growth averaged only 2.3% annually from 2014-2018. With a 3% annual population growth, the economy is not growing fast enough to increase living standards. More than 55% of the population now lives below the poverty line.
- Afghanistan continues to have a small formal financial services sector where domestic credit remains tight. A significant amount of trade financing flows through informal, lightly regulated Hawalas (money service providers and foreign exchange dealers) rather than through banks. Fewer than one in ten Afghans holds a bank account.
- Various estimates place the value of the informal economy to be at least \$4.1 billion, based in part on illicit activities such as opium, illegal mining, and smuggling.
- Several upcoming events have the potential to significantly impact political conditions inside Afghanistan, including presidential elections planned for September 2019 and ongoing efforts by the United States to facilitate a peace agreement between the Afghan government and the Taliban.

For additional background information on the political and economic environment of Slovakia, please click on the following link: <https://www.state.gov/countries-areas/afghanistan/>.

Selling U.S. Products & Services

- Afghanistan is currently the United States' 91st largest goods trading partner with \$1.2 billion in total (two way) goods trade during 2018. U.S. exports to Afghanistan totaled \$1.23 billion while imports totaled \$29 million, leaving the United States with a \$1.2 billion U.S. goods trade surplus in 2018.
- Afghanistan maintains a large annual trade deficit (35% of GDP in 2017), relying on aid flows to stabilize balance of payments. Public debt is low and only a limited amount of concessional borrowing is planned. However, the IMF assesses Afghanistan to be at high risk of debt distress, as debt sustainability depends upon continued ample grant inflows.
- Afghanistan has lost many correspondent-banking relationships in recent years due to risk aversion and lack of profitability despite its removal from the Financial Action Task Force (FATF) Grey List in 2017. The full extent of impact has yet to be quantified, but the unmeasured effects have been a loss in the ease of basic international transactions.
- Afghanistan's National Procurement Authority (NPA) (<http://www.npa.gov.af/>) was created to increase transparency and accountability in the government procurement process. Through its web page, interested parties can register as bidders in the procurement process and respond to current tenders or RFPs.

Leading Sectors for U.S. Exports & Investments

- The top export categories in 2018 were: vehicles (\$645 million), arms and ammunition (\$145 million), electrical machinery (\$110 million), aircraft (\$100 million), and industrial machinery (\$70 million).
- U.S. exports of agricultural products to Afghanistan totaled \$30 million in 2018. Leading domestic export categories include: poultry meat & prods. (ex. eggs) (\$19 million), tree nuts (\$7 million), dairy products (\$2 million), cotton (\$443,000), and prepared food (\$143,000).

Customs, Trade Regulations and Standards

- In 2016, Afghanistan was formally admitted to the World Trade Organization (WTO), which could eventually bring about a number of benefits for Afghanistan after full implementation. However, significant progress will be required to ensure consistent and proper application and collection of tariffs and duties at Afghanistan's various entry points.

U.S. Export Controls

The United States imposes export controls to protect national security interests and promote foreign policy objectives. The United States also participates in various multilateral export control regimes to prevent the proliferation of weapons of mass destruction and prevent destabilizing accumulations of conventional weapons and related material. The U.S. Department of Commerce's Bureau of Industry and Security (BIS) administers U.S. laws, regulations and policies governing the export and reexport of commodities, software, and technology (collectively "items") falling under the jurisdiction of the Export Administration Regulations (EAR). The primary goal of BIS is to advance national security, foreign policy, and economic objectives by ensuring an effective export control and treaty compliance system and promoting continued U.S. strategic technology leadership. BIS also enforces anti-boycott laws and coordinates with U.S. agencies and other countries on export control, nonproliferation and strategic trade issues

BIS is responsible for implementing and enforcing the EAR, which regulate the export, reexport, and transfer (in-country) of items with commercial uses that can also be used in conventional arms, weapons of mass destruction, terrorist activities, or human rights abuses, and less sensitive military items.

BIS's Export Administration (EA) reviews license applications for exports, reexports, transfers and deemed exports (technology transfers to foreign nationals in the United States) subject to the EAR. Through its Office of Exporter Services, EA provides information on BIS programs, conducts seminars on complying with the EAR, and provides guidance on licensing requirements and procedures. EA's Office of Technology Evaluation (OTE) analyzes U.S. export data on items subject to the EAR, BIS license application data, and global trade information to assess data trends. [OTE's data portal](#) provides excerpts from statistical reports, along with data sets to enable the public to perform analyses of exports and licensing on its own.

U.S. exporters should consult the EAR for information on how export license requirements may apply to the sale of their items. If necessary, a commodity classification request may be submitted in order to obtain BIS assistance in determining how an item is controlled (*i.e.*, the item's classification) and the applicable licensing policy. Exporters may also request a written advisory opinion from BIS about application of the EAR to a specific situation. Information on commodity classifications, advisory opinions, and export licenses can be obtained through the BIS website at www.bis.doc.gov or by contacting the Office of Exporter Services at the following numbers:

Washington, D.C. Tel: (202) 482-4811 Fax: (202) 482-3322;

Western Regional Office Tel: (949) 660-0144 Fax: (949) 660-9347.

Further information on export controls is available at: <http://www.bis.doc.gov/licensing/exportingbasics.htm>

BIS's Export Enforcement (EE) is responsible for the enforcement of the EAR. BIS works closely with U.S. embassies, foreign governments, industry, and trade associations to ensure that exports from the United States are secure. In accordance with the EAR, BIS officials conduct site visits, also known as End-Use Checks (EUCs), globally with end-users, consignees, and/or other parties to transactions involving items subject to the EAR, to verify compliance. An EUC is an on-site verification of a party to a transaction to determine whether it is a reliable recipient of U.S. items. EUCs are conducted as part of BIS's licensing process, as well as its compliance program, to determine if items were exported in accordance with a valid BIS authorization or otherwise consistent with the EAR. Specifically, an EUC verifies the *bona fides* of recipient(s) of items subject to the EAR, to include: confirming their legitimacy and reliability relating to the end use and end user; monitoring their

compliance with license conditions; and ensuring such items are used and/or re-exported or transferred (in-country) in accordance with the EAR.

BIS officials rely on EUCs to safeguard items subject to the EAR from diversion to unauthorized end uses/users. The verification of a foreign party's reliability facilitates future trade, including pursuant to BIS license reviews. If BIS is unable to verify the reliability of the company or is prevented from accomplishing an EUC, the company may receive, for example, more regulatory scrutiny during license reviews or be designated on BIS's Unverified List or Entity List, as applicable.

BIS has developed a list of "[red flags](#)," or warning signs, intended to discover possible violations of the EAR.

Also, BIS has "[Know Your Customer](#)" guidance.

BIS provides a variety of training sessions to U.S. exporters throughout the year. These sessions range from one to two day seminars and focus on the basics of exporting as well as more advanced topics. Check a [current seminar schedule](#) for a list of upcoming seminars.

BIS also provides [online training](#).

The EAR does not regulate transactions involving all U.S. goods, services, and technologies. Other U.S. Government agencies regulate more specialized exports. For example, the U.S. Department of State's Directorate of Defense Trade Controls has authority over defense articles and services. A list of other agencies involved in export control can be found on the [BIS website](#) or in Supplement No. 3 to Part 730 of the EAR.

The [EAR](#) is available on the BIS website and on the e-CFR ([Electronic Code of Federal Regulations](#)) website.

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The Consolidated Screening List (CSL) is a list of parties for which the United States Government maintains restrictions on certain exports, reexports or transfers of items. The CSL The Consolidated Screening List API consolidates eleven export screening lists of the Departments of Commerce, State and the Treasury into a single data feed as an aid to industry in conducting electronic screens of potential parties to regulated transactions. The Consolidated Screening List API consolidates eleven export screening lists of the Departments of Commerce, State and the Treasury into a single data feed as an aid to industry in conducting electronic screens of potential parties to regulated transactions consolidates a number of smaller lists of restricted parties that are maintained by a variety of U.S. Government agencies, including the Department of Commerce, as an aid to industry in conducting electronic screens of potential parties to regulated transactions. The CSL is available here: <http://apps.export.gov/csl-search> or

<https://developer.trade.gov/consolidated-screening-list.html>

Investment Climate Statement

The U.S. Department of State's Investment Climate Statements, prepared annually by U.S. embassies and diplomatic missions abroad, provide country-specific information and assessments of the investment climate in foreign markets. Topics include: Market barriers, business risk, legal and regulatory system, dispute resolution, corruption, political violence, labor issues, and intellectual property rights. Visit the U.S. Department of State's [Investment Climate Statement website](#).

Trade & Project Financing

- Given current security concerns, commercial trade and project financing for Afghanistan is extremely limited. However, the United States Agency for International Development (USAID) manages several initiatives to support economic growth through exports. For more information, visit <https://www.usaid.gov/afghanistan/economic-growth>.

Business Travel

- The U.S. Department of State continues to warn Americans against travel to Afghanistan. U.S. citizens should review the Consular Information Sheet and Travel Warning for Afghanistan for the most up-to-date information on the security situation and possible threats. For more information, visit <https://travel.state.gov>.
- Anti-government and political violence are common and public concerns regarding security constrain economic activity. Security is a primary concern for foreign firms operating in country; most report spending a significant percentage of revenues on security infrastructure and operating expenses.