

PRIVATE SECTOR DEVELOPMENT

1. The Private Sector Operations Department (PSOD) of the Asian Development Bank (ADB) is expected to have several investments and financing under way in Afghanistan in 2004. Possible investments include those in a new commercial bank, a small- and medium-sized enterprise (SME) fund and a political risk guarantee (PRG) fund, as well as discrete investments in and financing for projects, e.g., a refinery for edible oil and expansion of a cellular phone network. In the longer term, support is possible for sectors such as cement manufacturing, petroleum storage, and distribution, and housing.
2. In response to the need to facilitate investment into Afghanistan through PRG, ADB is engaged in active discussions with the Multilateral Investment Guarantee Agency (MIGA) — the guarantee arm of the World Bank — in connection with establishing an Investment Guarantee Facility (IGF). ADB proposes to participate directly in the IGF and to coguarantee investments in parallel with the IGF and MIGA to give eligible investments increased access to PRGs.
3. ADB also proposes to invest up to \$2.67 million in exchange for a 25% stake in a new bank, the Afghanistan International Bank (AIB), subject to the approval of ADB's Board of Directors. The Overseas Private Investment Corporation (OPIC) may also act, as coinvestor, and AIB will be managed by ING BANK of the Netherlands. Other shareholders are prominent local families and business groups.
4. AIB initially will work from Kabul, and focus its operations on facilitating payment transfers and trade finance. As AIB evolves, it will extend its outreach to other cities in Afghanistan, and explore opportunities to increase its lending operations. AIB will offer state-of-the-art services in electronic banking, including automated teller machines, from the onset.
5. ADB is considering a possible investment in equity and loans to a state-of-the-art seed crushing and edible oil refining facility in Mazar-e-Sharif, which is being promoted by the major importer of edible oils into the country. The plant would process locally grown seed crops into cooking oil, with animal feed as a side product. The plant will be built on a turnkey basis with the largest international company in this industry providing operational support and coinvestment. The project, which has support from all levels of government, will provide a market for growers of legitimate crops in Afghanistan, directly employ up to 200 people and indirectly support thousands, produce a key product for domestic consumers, promote import substitution, and export in the longer term to neighboring countries. A due diligence process has been conducted on site and with government agencies in Kabul, and a report and recommendation on the project to ADB's Board of Directors is being prepared.
6. ADB is considering a potential loan to a global system for mobile communications (GSM) operator in Afghanistan to assist in their countrywide rollout to reach the poorer and more remote areas of the country. Afghanistan suffers from an enormous deficit in communications infrastructure, and providing citizens with affordable telephony is essential to the workings of the Government (e.g., security, health, and education services) as well as to agriculture, trade, and commerce.
7. ADB is in discussion with oversight ministries and with potential local and international investors interested in the core cement and petroleum products sectors. At present, cement is imported into Afghanistan. Given the pace of reconstruction efforts and the need for good quality raw materials, a strong business case can be made for large-scale investment in the cement sector, which ADB could support. The petroleum products sector is likewise in need of

substantial investment as well as regulation and licensing. ADB is discussing possible support to potential local and international investors in this sector. ADB is also looking at avenues for possible support to medium-income housing schemes that would facilitate the return and growth of the business community in major urban centers around the country.

8. ADB plans to pursue these and other eligible project opportunities in Afghanistan.