

The perils of doing business in Afghanistan.

By Skip Kaltenheuser

Perhaps you're brainstorming new economic frontiers into which to expand. Or looking for untapped stores of labor and resources. Or, with the U.S. economy on the skids, seeking fresh overseas investment opportunities. Or just plain feeling adventurous.

Why not try Afghanistan?

Sure, there's still a war on, sort of, but the Afghan and U.S. governments, along with a variety of A-list NGOs, are calling for investment, with a big international push for development and reconstruction. Everyone is eager to bring in industry to displace the poppy-based economy.

And there's plenty of potential, if you follow the money: USAID has spent \$7 billion in the last six years, and since 2001, the U.S. price tag for security and for governance, rule of law, and human rights is nearing \$20 billion. The donor countries continually ratchet up pledges of money, from \$4.5 billion in 2002 to \$20 billion at a meeting this past summer. Multilateral efforts include projects funded by the World Bank, the U.N. Development Programme, and the Asian Development Bank.

Is this the sound of engines signaling economic liftoff? Economic development is critical in a country some describe as a keystone of geopolitical stability of Central and South Asia. Can American entre-

preneurs gain a footing in Afghanistan? Not likely.

Less than half the funds designated for reconstruction have been released. Of that amount, only about a seventh is spent within the country; most gets peeled off by outside experts before it gets to Afghanistan. The three economic areas designated as most promising—carpets, dried fruits and nuts, and mining, particularly of marble and stone—have shown little progress. By contrast, bribery is doing fine—the average Afghan spends a fifth of his income on bribes—which makes it hard for any citizen to view his government as legitimate, especially when a brother of President Karzai finds himself under scrutiny for ties to heroin trafficking.

In short, doing business in Afghanistan involves more than its share of emerging-economy complications. Before rushing in, entrepreneurs might consider the adventures of an Afghan-American, Nasir Shansab, who has worked on projects in his native country since 2002. Call it a cautionary tale if you'd like.

Last year, Shansab hosted a small dinner party in his office and housing complex in the heart of Kabul. Things were going well enough, given the tensions reverberating through an increas-

ingly troubled city—most of which remained without power except for a few hours a day or, for many people, every other day. Since the once-promising days after the Taliban's 2001 defeat, Kabul had grown ever more crowded with former exiles who had ridden their optimism into the city to seek jobs. The unlit streets and buildings crippled the new arrivals' dreams. Without power, there could be scant economic opportunities beyond those working as employees, servants, and drivers for foreigners. Most inhabitants lacked running water or access to a viable sewage system, and in the more crowded neighborhoods, the air seemed toxic. The chaos festering over the mountain ridges was infecting the nation's most promising city.

Still, Shansab's private generator was humming, and his dinner with friends provided pleasurable shelter from the dismal mood of the streets, the aromatic dishes brightened by a sunset that lent friendly mountain shadows to the walls. Spirits were high: The host felt optimistic that he might yet salvage an infrastructure project that could solve the city's power problems.

A year earlier, Shansab had presented the World Bank with a proposal and winning bid to repair Naghlu, the country's largest power plant. The Soviets built

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As Kabul has grown from half a million people to four million, the demand for electricity has skyrocketed. But supply has not kept pace—most Afghans get only a few hours of power a day—and new sources are years away from going online. Here, an electrician cuts old power lines to improve service in a Kabul neighborhood.

Naghlu nearly four decades ago, seventy kilometers from Kabul, in a dam where the Panjshir and Kabul rivers meet. The plant's four vertical turbines are capable of producing one hundred megawatts, but only two turbines still function, and not well, generating only a trickle of energy. Repairing the plant is an urgent priority for the country, and since returning to Afghanistan in 2002, Shansab has pushed to make it happen.

Under the aegis of his American company, Acatco LLC, and its Afghan associate, Mir's Services Ltd., Shansab traveled to Russia and recruited the company that built the dam and provided the original equipment, state-owned Technopromexport. Shansab was to prepare the plan and bid proposal and, once the project began, manage all related work

within Afghanistan.

But actually putting the plan into action would require dealing with more than bribe-hungry inspectors and bureaucrats.

The dinner party was interrupted by the arrival of a man who identified himself as a postal employee—a rare sight, since no one uses the country's dysfunctional postal service—with a letter to deliver. While Shansab's guard considered the unsealed, unstamped envelope and the old paper within, the shadowy messenger forced his way into the living room and offered a verbal missive. The message was clear: We know where you live; we can reach you whenever we want; we can do whatever we want. And the warning was more ominous for the

mode of its delivery: The “postman” spoke with a Herati accent, Herat being the hometown of a powerful warlord who can call up his own private army at will.

It was that warlord, Ismail Khan, to whom Shansab owed the pleasure of this intrusion.

The word *warlord* conjures up feudal images of Jin Dynasty Chinese guerrilla leaders—and a few actually cultivate that look—but in places such as Afghanistan, they may be what passes for upstanding members of society. For instance, Khan serves as Afghanistan's minister of energy.

Ismail Khan is one of a number of warlords whom President Hamid Karzai elevated into top government posts while declaring that the “era of warlordism is over.” A former *mujahedeen* commander

and provincial governor, he is likely the wealthiest of the warlords. In 2003, *The New York Times* reported that Khan, known as “the emir of western Afghanistan,” made \$400 million a year in customs charges on goods passing through his territory from Iran.

Khan’s energy credentials? It depends what one means by *credentials*. His son, who was minister of civil aviation and tourism, was killed in a 2004 power-struggle altercation with a rival warlord. Khan was about to widen revenge attacks into a major conflict, so, to avert an internal war, Karzai quickly brought him to Kabul and handed him the country’s energy portfolio.

And Khan has not held his new, official power lightly—as Shansab learned.

Shansab is no carpetbagger. Nor is he an entrepreneur with delusions of grandeur like the ill-fated British adventurers in Rudyard Kipling’s story “The Man Who Would Be King.” In 1934, Shansab’s father built a small hydroelectric plant in Kandahar; he went on to build a large hydroelectric plant in Puli Khumri and a textile factory with three thousand employees. All three are still in operation. Other family ventures included the nation’s largest industrial plant, an enterprise whose well-paid workforce of eight thousand embarrassed the Communist government.

Shansab realized that as the Communists increased control, his prospects for a long life diminished. In 1975, he took his family and left. Nationalized with other family holdings, the big factory is now locked up, deteriorating in a country that doesn’t know what to do with it.

And now the prodigal son had returned, having figured out how to put the Naghlu power plant right for a mere \$30 million, providing inexpensive, clean, renewable electricity to the energy-starved Kabul region. Did Afghanistan roll out the red carpet? Apparently not. Having succeeded in obtaining World Bank backing as contracted, Shansab found himself cut out of the project by Technopromexport, his erstwhile partner, the Russian company he had recruited to as-

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sist him—the same company that had built the dam back in 1967. Khan had leaned on Technopromexport to hand Shansab’s role to a prior minister of energy—another warlord—and to an Iranian construction firm.

Shansab appealed to the World Bank, sending warnings to staffers in Afghanistan that things were going off the rails, but couldn’t get a reply. He presented loads of documentation to World Bank offices, but efforts to get the bank to look hard at the project were a bureaucrat’s game of three-card monte. Key staff always seemed in transition or returned to a recurring refrain that the problem was just a commercial dispute. Never mind that the World Bank had already advanced over \$6 million with no apparent progress on required timelines.

The project is years behind its original forty-month schedule. As costs go up, the project’s prospects for success are thin.

Cronyism aside, why would a minister of energy delay a desperately needed infrastructure project? One clue: Khan’s recent aid request for \$207 million to provide extra fuel for Kabul’s city generators for six months. For warlords with a knack for skimming, the game has always been to keep as much money moving through their turf as possible. Contrast that \$207 million with the \$30 million allotted to fix the Naghlu plant.

Shansab has nearly given up on looking to the World Bank for oversight—or even guidance. He recounts how in a

meeting last year with the deputy minister of power, a representative of the Russian company let slip that Khan had directed him to cut out Shansab’s company. A World Bank contractor was present at the meeting—but appeared “to pull a cone of silence over his head, and was unreachable afterward.”

The World Bank, Shansab believes, “is in a holding pattern to cover up its ineptitude and negligence on the ground.” He can’t suppress cynicism when he hears the promises of new president Robert Zoellick, a former managing director of Goldman Sachs, to tackle fraud and corruption. Shansab also theorizes that “there’s a collective mentality of avoiding more bad news out of Afghanistan.”

Seven years into the war, many in Congress have grown impatient, and under pressure, in May the White House appointed a special inspector general for Afghan reconstruction. Whether the new office will prove helpful to U.S. business folk in the future without blowing smoke remains to be seen. At this writing, the office is still in the process of setting up processes, including a hotline, for requesting investigations.

Meanwhile, with streets and factories still dim, Afghanistan’s economic lifeblood remains poppies and graft. The story behind Shansab’s uninvited dinner-party guest is a caution to businesspeople, no matter how well-meaning. It’s emblematic of the unbridled corruption generating the frustration that is the greatest threat to Afghanistan’s economic and social stability.

Last February, Shansab met with a dozen or so Afghan expats who had left good jobs abroad to start enterprises in their native country. They traded tales of government incompetence, the regime’s lack of respect for the law, and government corruption. The entrepreneurs were shell-shocked, Shansab says, by dealing with “an odd blend of Middle Ages fiefdoms and Third World socialist lip service. Every single man and woman in the room felt they would be out of Afghanistan by 2009.”

It saddens Shansab to wonder who’ll turn off the lights. If there are lights. ☪