

# Market



# Prospects

Construction is the main driving force

**Afghanistan offers a pro-business minded environment** in a fast growing emerging market of strategic importance, receiving high-level political attention from the international community. The country's major asset is twofold and stems from its **geo-strategic position** right in the middle of a region rich in natural resources and close to some of the largest and fastest-growing markets in the world. The country has become a **transit link** in the world energy game, strategically located between the energy-rich republics of Central Asia and the major seaports in Pakistan and Iran. Afghanistan is also set to become a **regional business hub** over the next 10 to 15 years.

## Afghanistan Demographics

**Population:** 29.9 million; male 16.4, female 13.5 million  
**Area:** 652 thousands square kilometers (sqkm)  
**Capital City:** Kabul (population: 4.1 million)  
**Population density (Kabul):** approx. 10,000 per sqkm  
**Population density (Country):** approx. 50 per sqkm  
**Population, urban:** 21.7 %  
**Population, rural:** 78.3 %

Source: Government of Afghanistan

The rapid reconstruction of Afghanistan is visible in the whole country. Great progress is being made. **Afghanistan is one of the world's largest building sites.** Major roads like the Kabul – Kandahar – Herat are completed and the road from Kabul to the north over the famous Salang pass is mostly completed, but Afghanistan still needs many more houses, roads, commercial and production facilities and other infrastructure.

## A trade crossroads and strategic transit hub

For centuries Afghanistan has been the hub connecting Asia, Europe, and the Middle East. Today, Afghanistan is ideally situated to again function as a strategic gateway, serving landlocked countries to the north and the Iranian and Pakistani seaports to the south. For the Central Asian republics and Russian industrial centers of western Siberia, Afghanistan is potentially the shortest route to the open sea. For Pakistan, Afghanistan offers a primary route for trade with Central Asia.

In fact, Afghanistan shares borders with six neighbors – Iran, Turkmenistan, Uzbekistan, Tajikistan, China and Pakistan – and is considered a “land bridge” connecting proximate country markets, as well as potentially large trading partners, such as Iran and India. Afghanistan offers a point of access to an extended regional market of more than two billion people, linking the Middle East to Southern, Central and Southeast Asia.



Afghanistan Primary Road Network (Source: Asian Development Bank)

## New and expanding trade routes

The improving transport infrastructure supports Afghanistan’s trade nexus, both in-country and across its borders. It is estimated that 60% of overland transportation comes to or from Pakistan, 30% to or from Iran, and a combined 10% through borders with the Central Asian republics. To the north, in Turkmenistan, Uzbekistan and Tajikistan, goods and commodities flow on main transit routes (and by rail in Turkmenistan and Uzbekistan) south through Afghanistan to the ports of Bandar-e-Abbas and Chah Bahar in Iran, and Gwadar and Karachi in Pakistan. A new bridge links Afghanistan and Tajikistan over the Amu Darya (Oxus) River, which carries barge traffic along the borders with Turkmenistan, Uzbekistan and Tajikistan. Within Afghanistan, the main roads connecting Kabul to Kandahar and Herat in the south and the “Ring Road” in the north and east form a developing major network of highways that links the country’s key commercial centers, and extends to the border crossings with Iran, Pakistan and other neighboring countries.



City of Kabul (The Ministry of Urban Development and Housing is planning 20–25 satellite cities in Afghanistan for 50,000 families); Photo: Dr. Q. Dallalzada

## Construction Activities

Construction has been a main driving force behind Afghanistan's recovery and the construction materials industry is expanding rapidly. The variety, quality and quantity of production materials is increasing. This reflects the considerable business opportunities in the construction materials industry. The continued reconstruction process, increasing income, and increasing population imply that construction will remain strong over the next years. Demand comes from different types of construction activities:

- Major military-related projects
- Government reconstruction projects, such as roads, power and water infrastructure, irrigation systems, etc.
- Large scale private and business construction fuelled by business opportunities
- Small scale development of retail and residential construction

Although the third and fourth categories of building are the most visible when driving around the major cities in Afghanistan, construction in the first two categories actually dwarfs the private construction activities in value several times over.

**In 2005 the total investment in private buildings was 2.4 billion USD. No downturn is expected.**

Infrastructure is a key area in the government's national development framework and its medium-term economic plan. Infrastructure projects will be designed to meet the growing regional demand for transit and

business services, strengthening the country's position as a regional transit link and business hub. **A minimum of USD 13.9 billion will be invested in a first phase up to the year 2010**, largely to be raised through reliance on international technical assistance, concessional loans, private-public partnerships, and access to international capital markets.

## Infrastructure Targets

	2003	2010	2015
<b>Transport</b>			
Paved roads	16%	32%	48.1%
Paved roads (km per 1000 people)	0.15	0.19	0.23
Number of airports ICAO standard	-	20	30
International airports ICAO standard	0	4	5
Number of tourist sites opened	0	20	30
Motor vehicles per 1000 people	14	27	40
Number of busses per 1000 urban people	0.06	0.15	0.3
Number of railway stations	0	5	5
<b>Energy and telecommunications</b>			
Countrywide electricity access	6%	24%	33%
Urban access ratio	27%	77%	89%
Countrywide gas access ratio	8%	23%	42%
Tele-density (phones/1000 people)	1.6	49	120
<b>Urban management</b>			
Population with basic services	10%	100%	100%
Paved coverage of urban roads	-	59%	100%
Informal plots with tenure – Kabul	-	100%	100%
Informal plots with tenure – other	-	100%	100%
Kabul water supply coverage	20%	64%	80%
Kabul sanitation coverage	20%	64%	80%

Source: Government of Afghanistan

By the end of 2010 all municipal governments in Afghanistan should be able to manage urban development and to ensure that municipal services are delivered effectively, efficiently and transparently.

Basic services such as electric power, water and sewage infrastructure are still very limited in Afghanistan. Most companies use their own power generators, and even when state or municipal services are available, companies rely heavily on their own equipment due to frequent breakdowns of the network. There are no fixed rates for power to date, with prices between companies and the government being negotiated on a case-by-case basis.

Similar conditions apply to water. Companies generally drill their own wells and then pump for free. They may also purchase water from another company or locate near rivers and other sources



of natural water. No waste water services are available in Kabul for the

time being. Reliable infrastructure for businesses will be available, however, in the 20 new industrial parks which are being set up throughout the country.

### **State investments in water supply**

Water supply is an important priority of the Ministry of Urban Development and Housing. The investments in water supply systems of the Ministry will be **120 million USD in the next two years**. Additionally, the Ministry is preparing the renovation of existing dams in the country and a new dam for the water supply of Kabul is planned.

### **State investments in new satellite cities**

The Ministry of Urban Development and Housing is planning 20–25 satellite cities across the country to house approximately 50,000 families. The total investment will be **more than 1.2 billion USD**.



### **Selected state construction projects in the next two years**

- Rehabilitation of the Historic Old Town of Kabul
- Provincial town water supply System in 14 Afghan towns
- Ten thousand housing unite in Qasaba Kabul
- Construction of 12 thousand houses in Dah Sabz
- Review and update of Kabul Master Plan 1978 with Kabul Municipality
- Feasibility study of then small towns less than 10,000 population
- Rehabilitation of historical bazaar in Tashqorghhan
- Construction of uncompleted blocks No. 22 in Fourth Macroyan
- Guide planning for old cities of Heart province
- Rehabilitation of historical Kharabat Gozar in old city of Kabul
- Reconstruction of uncompleted block No. 15 in Macroyan 4
- Increasing the level of water supply, garbages transfer of Macroyan
- Construction of uncompleted block No. 15 located in Qasaba area
- Rehabilitation of Hendo Gozar in Kabul
- Rehabilitation of Kabul Machine House

- Rehabilitation of Bagrami bricks factory
- Rehabilitation of Dah Sabx Bricks factory in Kabul
- Building of dumping sites and solid waste management in different cities
- Design and construction of an institution for dust testing and construction material testing
- Rehabilitation of Baghe Qazi Park
- Rehabilitation of Balahesar Park in Kabul
- Rehabilitation of the buildings around Kabul rivers
- Rehabilitation of heating system in Macrorayan
- Technical infrastructure for the old city of Kabul

Source: Ministry of Urban Development & Housing

## Privatization Projects

There are opportunities for investment in state-owned enterprises related to construction slated for privatization. The following is a list of several projects underway:

**Banaye Construction:** Together with Afghani Construction and Housing Construction, these three enterprises have what remains of the construction engineering expertise and the construction equipment which previously served the Government of Afghanistan's construction needs. Owns two brick factories, not currently operational.

**Afghani Construction:** Together with Banaye Construction and Housing Construction, these three enterprises have what remains of the construction engineering expertise and the construction equipment which previously served the Government of Afghanistan's construction needs. Currently operating in Kabul and Herat.

**Housing Construction:** Together with Afghani Construction and Banaye Construction, these three enterprises have what remains of the construction engineering expertise and the construction equipment which previously served the Government of Afghanistan's construction needs. Some marble cutting and wood working operations.



**Spin Ghar Construction:** Specializing in irrigation and dams, Spin Ghar has limited operations and limited capacity at present.

**Construction Materials Production:** Currently operating and working under a cooperative agreement with a foreign firm to produce concrete blocks.

**Afghan Carpentry:** The Enterprise has limited operations, but is operating profitably.

**Helmand Construction:** Specializing in irrigation and dams, as well as erecting buildings, Helmand Construction operates in twelve provinces in Afghanistan.

**Metal Components:** Production of hydro-technical equipment for water supply and irrigation.



## **Development of new Industrial Parks**

Twenty new **industrial park** areas are being set up in three phases at different locations in the country, providing a combination of high quality infrastructure and services unavailable elsewhere in Afghanistan, including clean land title, reliable electrical power supply, 24 hour security, paved roads, central water and sewage system, and professional management.

Afghanistan is providing investors access to **developed land** to set up in professionally managed industrial estates. These **modern parks** offer investors the benefits of high-quality infrastructure and reliable power supply in “build to suit” sites, strategically located in several key industrial areas. Designed to accommodate small, medium and large-sized firms, the

parks help investors avoid costly title disputes and reduce risks and delays associated with land acquisition, zoning and permitting.

The **first phase** of construction initiated by AISA Industrial Parks Development Department is for three parks:

1. **Bagrami Industry Park:** more than 24 hectares 7 km east of central Kabul. The “Phase One” of Bagrami Industrial Park is completed and contains 34 lots. “Phase Two” is expected to start soon and will include 38 lots.



2. **Mazar-e-Sharif Industrial Park:** 26 hectares 7 km north of downtown. This park will have a total of 48 plots and is expected to be ready for settlement at the end of 2006.

3. **Kandahar Industrial Park:** 15 hectares 10 km east of the city. Kandahar Industrial Park is expected to accommodate 58 lots and be completed by June 2006.

The **second phase of Park Development**, for which survey and design of the sites have started, includes 100 hectares Kamari Industry Park near Kabul which is expected to have around 140 lots, and the 200 hectares Hisar-e-Shahi Industry Park, 22 km southeast of Jalalabad city with 180 expected lots.

**Contact and further information about investment and reservation:**  
Mr. Zubair Ahmad, Director AISA Industrial Parks Development Department (IDP); Mobile: 0093 (0) 799652153, Email: [zubair@aisa.org.af](mailto:zubair@aisa.org.af)

## A selection of helpful addresses for construction companies

Afghanistan Investment Support Agency (AISA), President Dr. Omar Zakhilwal and Vice President (Investment Promotion) Suleman Fatimie, Opposite to Ministry of Foreign Affairs, Kabul, Afghanistan, Phone 0093 (0) 20 210 3404, Email: [josigl@aisa.org.af](mailto:josigl@aisa.org.af)

Ministry of Urban Development and Housing, Minister Eng. Mohd. Yosuf Pashtoon and Deputy Minister Dr.–Ing. Q. Djallalzada, Microrayan 3, Opposite to Azadi Press, Kabul, Afghanistan, Phone 0093 (0) 752015393, Email: [djallalzada@gmx.de](mailto:djallalzada@gmx.de)

Ministry of Finance, Minister Dr. Anwar ul Haq Ahadi, Pashtunistan Watt, Kabul, Afghanistan, Phone 0093 (0) 20 210 3157

ICS International Consulting Service for Construction, Karte-e-3, House 235, near Darul Aman Street, Kabul, Afghanistan, Mr. Joerg Reich, Dipl.-Ing. Architect, President and Wolfgang Everts, Dipl.-Ing. Architect, Vice President, Phone: 0093 (0) 79 553558 or 0049 (0) 179 4951660, Email:

[w.everts@ICS-Kabul.com](mailto:w.everts@ICS-Kabul.com), Internet: [www.ICS-Kabul.com](http://www.ICS-Kabul.com);

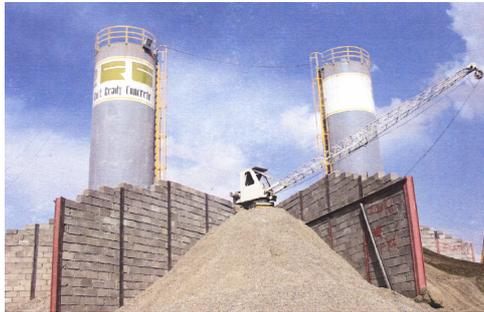
The activities of ICS spans all parts of architectural and engineering services, supervision and project development for construction projects, like residential buildings, hotels, offices, hospitals, airports, industrial facilities and infrastructure.



Afghan-Yar Construction Company Ltd (ACCL), Mr. Shah Mohammad Peerzada, President, Shahr-e-now, Charahi Shahid, beside Zarghuna High School, Kabul, Afghanistan, Phone: 0093 (0) 70290504, Email: [Habib\\_peerzada@yahoo.com](mailto:Habib_peerzada@yahoo.com); ACCL is specialized in reconstruction, renovation, new construction, containerized construction and construction material procurement. ACCL is the sole registered agent in Afghanistan for high quality gypsum and drywall products from Germany.

EDBRCC Emam Dara Building & Road Construction Company, Mr. M. Tachus (MIR), Eng., Director, Darlaman Road, next to old Russian Embassy, Kabul, Afghanistan, Phone: 0093 (0) 202103303, Email: [tachusmir@yahoo.com](mailto:tachusmir@yahoo.com); EDBRCC is specialized in building and road construction. Besides them the company has production facilities for the manufacture of glass and aluminum products as well as PVC pipelines.

# Construction



# Material

**Booming demand and profitable investment opportunities**

## **The construction material sector at a glance:**

The construction and construction materials sector is booming! Materials of different quality, origin and price can be found in different marketplaces across the cities of Afghanistan. At first glance, it appears that this sharp rise in demand has also brought an increasing number of traders and trading companies into the market. However, there still remains many opportunities for potential industrial investors in this sector.

### **Considerable growth potential**

Afghanistan has a wide array of known mineral resources as well as vast areas where the potential is unknown. Few reserves are being commercialized presently, creating a vacuum that can be filled by private investment.

### **High demand for construction materials**

As a result of the reconstruction boom that Afghanistan is presently undergoing, there is significant local demand for mineral-based construction materials, including paving stones, cement and cement blocks, bricks, gravel, wood, steel, sand, glass, and tile. No downturn is expected before 2010. Presently, even basic materials like cement are imported from Pakistan and Iran, offering great potential for import substitution.

### **Costs associated with transport provide advantages to locally produced construction materials**

Assuming minerals-based products such as construction materials can be produced at a quality on par with imports, the costs associated with importing such materials confers an advantage to companies that produce locally.

Source: Investment Horizons: Afghanistan, Benchmarking FDI Opportunities, conducted by the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group

## Construction materials and their supply

There is very little manufacturing capacity in Afghanistan. Most cement and wood, and all steel, sanitary fixtures and other manufactured goods are imported. The main sources of import of construction materials are Pakistan, Iran, Russia and, to a lesser degree, China. Pakistan and Iran have road networks connected with Afghanistan, while railway and air freight are used for import from Russia and China.

Investors taking up the production of construction materials are experiencing excellent business opportunities in this dynamic environment. Afghanistan invites investors to take the opportunity and participate in the development of this industry. **Afghanistan is rich in natural resources that provide an excellent base for the production of construction materials.** The Afghan people are hard-working and possess a spirit of entrepreneurship and resilience. They are eager to learn and engage in the production of many products that are currently being imported. As policy influencers, the Afghan Investment Support Agency (AISA) is working to create a framework that allows private activity in construction and in construction materials industries to flourish. AISA invites you to invest in its rebuilding efforts and to participate in the business opportunities that exist in the construction and construction materials industry.



Infrastructure investments: more than 13.9 billion up to 2010, Photo: AISA

## Average cost structure of a construction material company

Total property cost	58%
Annualized construction cost	26%
Total utility cost	12%
Total labor cost	4%

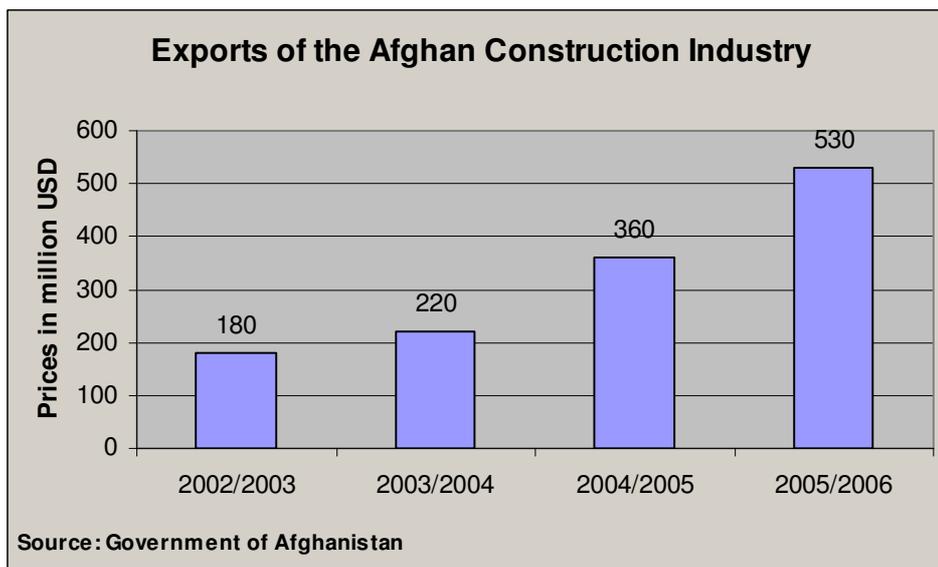
This shows the average cost structure in percentage for investments in Afghanistan from the investor's perspective.

Source: MIGA

## Demand for construction materials is booming

With the reconstruction process continuing at high speed, demand for all kinds of construction material is booming. Demand comes from different types of construction activities. **Most construction materials are being imported**, but the share of domestically produced materials is rising rapidly. Given the nature of many construction materials, transportation costs are an important cost factor for imported goods. This opens up important business opportunities for investors, since many construction materials can easily be produced in Afghanistan. Given the abundance of raw materials, mining activities also offer great business opportunities. Even more promising is the processing of these local resources.

The combination of strong demand for construction materials, existing raw materials and the foreign competition's high transportation costs give rise to many profitable investment opportunities. Afghanistan-based businesses can out-compete their foreign rivals with modest investment and well established technology.



The construction industry is booming. Exports grew 60% in 2005.

## Manufacturing of final construction products

Profitable investment opportunities also exist in the manufacturing of final construction products from intermediate inputs such as doors or windows. Often these activities are carried out on a small scale basis, but many opportunities exist to expand these activities to mass production.

There is also medium-term potential for exporting construction materials. This is clear for the marble and marble cutting industry, but also for some low-value goods where Afghanistan possesses good natural resources and enjoys a comparative advantage over its neighbouring countries. The national market for construction materials is already well-integrated. Prices across regions are comparable. This allows producers to serve the entire national market. Wholesaling and retailing is quite competitive, providing sufficient distribution channels for producers of construction materials.

## Comparison of provincial prices for selected construction goods in three Afghan Cities and in Peshawar, Pakistan

Item	Kabul	Mazar	Jalalabad	Peshawar
Pakistani white toilets	28	39	27.80	27.80
Plastic pipe 4ins/6m	8.5	8.6	11	9.6
Plywood 120 to140 (12mm)	11	12.5	11.5	5.9
Wooden bars local-qury (20)	265	232	442	n/a
Wooden bars import-qury (20)	135	186	120	43
Steel rebar 8 mm/kg (Russian)	0.7	0.7	0.6	0.5
U-channel (Russian) 12m	102	125	121	121
I-beam 12m	102	92	85	121
Red baked bricks (1000 pieces)	58	41	32	39
Coarse aggregate/truck	33	62	x	n/a
Crushed aggregate/truck	40	n/a	x	n/a
Sand/truck	38	40	x	n/a
Cement/50 kg bag	4	4	4	4

All prices in USD (Exchange rate: one USD = 50 Afs), n/a = goods not available, x = price not collected; Source: Sarah Lister and Zainiddin Karaev, [Understanding markets in Afghanistan: A case study of the market in construction material](#), June 2004. The above figures give only a rough indication of the regional price differences.

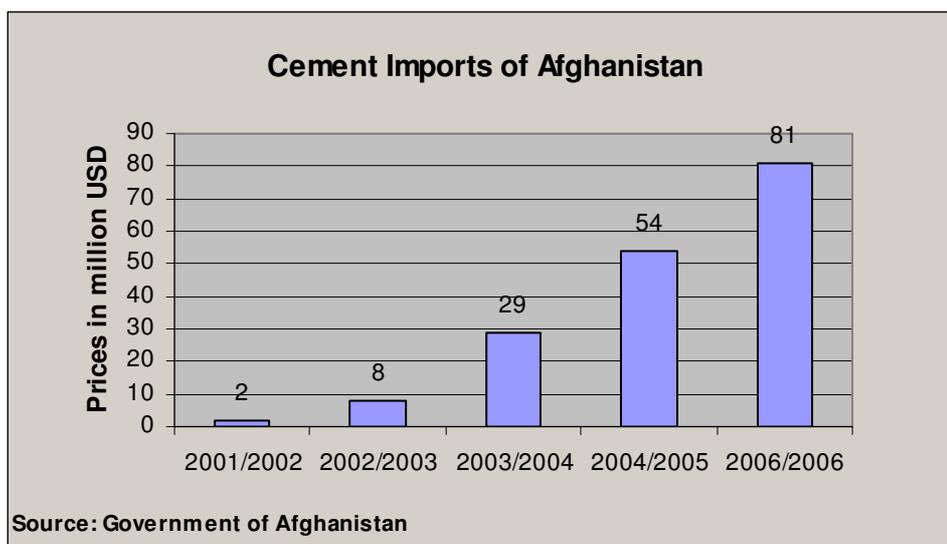
## The market potential

There are many exciting investment opportunities in construction materials. The following is a sample, but by no means exhaustive list of opportunities for investors:

### Cement

Currently, most cement is imported. All necessary conditions for cement production (adequate limestone, energy) can be found in various locations in Afghanistan. Given the high transport costs for the product, Afghan-produced cement is highly competitive with imported cement. Demand for cement has been strong and is forecasted to grow substantially.

Cement prices have been increasing and the neighbouring countries' cement industries are operating at full capacity levels. Growth in South Asia and demand for cement in the region are forecasted to remain strong. **AISA and other government agencies are looking for various international investors to establish new cement plants or take over non-operational former cement production facilities in Afghanistan.** However, given the size and projected growth of the market, many additional opportunities for investors in this sector exist.



Cement imports, value in million USD

### Bricks

There are two kinds of bricks that are used for construction, baked and unbaked. While all mud bricks are made in Afghanistan, baked bricks are imported from Pakistan as well as produced locally. In the higher quality segment of the market, Afghan firms are still under represented. With the high quality demand by the construction projects of international agencies and rising incomes of the population, this segment is expected to grow rapidly.

### Sand, gravel and aggregate

These materials are easy to mine and produce in Afghanistan. Many production sites exist, but quality is mixed due to insufficient investment

in appropriate equipment. Investment opportunities exist to upgrade the quality of the production as well as in the exploitation of new mining sites.

### **Cement blocks**

Cement blocks are a popular construction material in Afghanistan. Upgrading, extending or establishing new production facilities offer good investment opportunities, as the current local production is insufficient.



### **Wood**

Some of the large demand for wood in Afghanistan is met by domestic production, but most wood is imported from either Pakistan or Russia. However, overall quality tends to be poor, because it has not been dried properly, and facilities do not exist in Afghanistan for the artificial drying of wood. The biggest markets for wood are in Kabul, Mazar-e-Sharif and Kandahar.

### **Doors and windows**

Demand for doors and windows is strong. Traditionally, locally produced windows are made from wood and glass on a very small scale. Many construction businesses could profit from expanding the production they use for their own needs and sell the excess on the market. Driven by the surge in demand, some construction companies have started producing windows from imported plastic and glass.

### **Glass**

The demand for construction glass is increasing significantly in Afghanistan, due to the current style of major buildings in large cities. Construction glass comes from Uzbekistan, Russia, Iran, Belgium, Pakistan, China and Kyrgyzstan. Import of Chinese construction glass has increased. Domestically, Afghanistan provides opportunities for small-scale productions of glass recycling. Afghanistan also provides an abundance of natural sand essential for the production of high quality construction glass. A good business opportunity would be the establishment of a new float glass line given the high demand for such materials in the local construction industry.

### **Marble**

There are substantial quantities of marble deposits within Afghanistan. The marble mined in Afghanistan is typically exported and only a tiny fraction is processed locally. The processing is done primarily for handicraft activities or local construction use. Most of production is exported as uncut



marble to Pakistan, where it is cut and polished into blocks and slabs. Investing in cutting activities in Afghanistan has a high profit potential, since doing these activities closer to the quarry reduces transport costs substantially.

### **Tiles**

There is strong local demand for ceramic tiles. Necessary raw materials for ceramic tiles as well as for other ceramics production can be found in Afghanistan. This offers great business opportunities for investors possessing the necessary skills for ceramics production. Roof tiles could also be produced in Afghanistan and demand for these products is likely to increase as income is growing.

### **Tubes and appliances**

Some businesses have started the production of simple products such as tubes, which can be produced from PVC or imported sheet metal.



### **Asphalt**

Some asphalt production capacity has been established given the demand from the construction and reconstruction of roads. As road construction remains a priority over the next years, there is room for further activities in the business.

### **Natural stone**

Natural stone can be mined and processed at various locations and is in high demand.

### **Other construction goods**

The import of other construction goods such as steel, sanitary and plumbing products vary in quality and price levels. Such materials are sometimes imported from as far as Germany. Most arrive from Pakistan, Iran and China and usually with poor quality. Domestic production of these goods would be a profitable opportunity for investors.