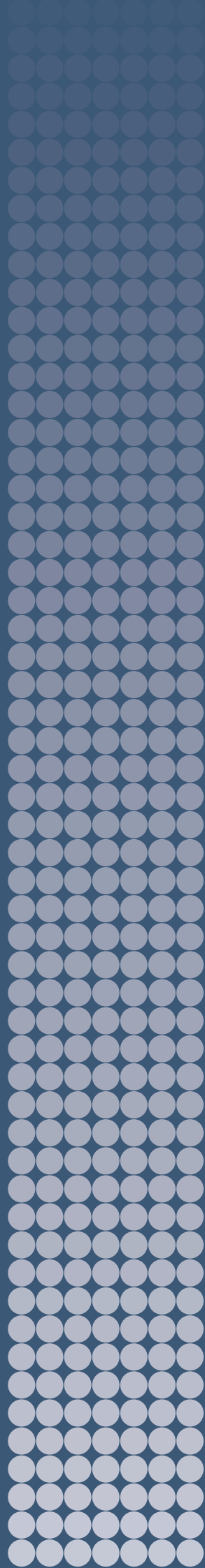


AFGHANISTAN'S PRIVATE SECTOR

Status and ways forward

RICHARD GHIASY, JIAYI ZHOU AND
HENRIK HALLGREN



AFGHANISTAN'S PRIVATE SECTOR

Status and ways forward

RICHARD GHIASY, JIAYI ZHOU AND
HENRIK HALLGREN



**STOCKHOLM INTERNATIONAL
PEACE RESEARCH INSTITUTE**

NIR Näringslivets Internationella Råd
International Council of
Swedish Industry

October 2015

**STOCKHOLM INTERNATIONAL
PEACE RESEARCH INSTITUTE**

SIPRI is an independent international institute dedicated to research into conflict, armaments, arms control and disarmament. Established in 1966, SIPRI provides data, analysis and recommendations, based on open sources, to policymakers, researchers, media and the interested public.

The Governing Board is not responsible for the views expressed in the publications of the Institute.

GOVERNING BOARD

Sven-Olof Petersson, Chairman (Sweden)
Dr Dewi Fortuna Anwar (Indonesia)
Dr Vladimir Baranovsky (Russia)
Ambassador Lakhdar Brahimi (Algeria)
Jayantha Dhanapala (Sri Lanka)
Ambassador Wolfgang Ischinger (Germany)
Professor Mary Kaldor (United Kingdom)
The Director

DIRECTOR

Dan Smith (United Kingdom)

Contents

Preface	v
Acknowledgements	vii
Authors' note	viii
Executive summary	ix
1. Economic backdrop	1
1.1. A brief history of Afghanistan's economy	1
1.1.1. The pre-war economy to 1979	1
1.1.2. Soviet invasion, the civil war, and and Taliban years: 1979–2001	2
1.1.3. International intervention: 2001–14	4
1.2. Macroeconomic policies	6
1.3. The Afghan economy in transition	8
1.4. Conclusions	9
2. Framing the private sector	11
2.1. Formal vs. informal economy	11
2.2. Economic integration	12
2.3. Private sector actors	13
2.4. Sectorial conditions	15
2.4.1. Agriculture	15
2.4.2. Mining	17
2.4.3. Industry	18
2.4.4. Services	18
2.5. Government legitimacy and the social contract	19
2.6. Legislation, enforcement and government policies	21
2.7. Conclusions	23
3. Impediments to inclusive private sector growth	25
3.1. Extra-market conditions	26
3.1.1. The political situation	26
3.1.2. Business-political coupling and the issue of corruption	27
3.1.3. Influence of foreign aid	29
3.1.4. The regional politico-economic environment	30
3.2. Economic resources and critical infrastructure constraints	32
3.2.1. Access to land and physical resources	32
3.2.2. Access to finance	34
3.2.3. Human resources	36
3.2.4. Critical Infrastructure	36
3.3. Limited female economic participation	38
3.4. Conclusions	42
4. The private sector and security	43
4.1. The private sector and the security nexus	43
4.2. Conclusions	47

5. An analysis of private sector development	49
5.1. An analysis of private sector development programmes	49
5.2. Private sector development coordination	52
5.3. Principles of engagement and red flags	53
5.3.1. Time frames and exit strategies	54
5.3.2. Sustainability	55
5.3.3. Holistic perspectives	55
5.3.4. Clear objectives	56
5.3.5. Market distortion	56
5.3.6. Needs-based interventions	56
5.3.7. Developmental mafia	57
5.3.8. Monitoring and evaluation	57
5.4. Conclusions	58
6. Conclusions and recommendations	59
6.1. Conclusions	59
6.2. Recommendations	60
6.2.1. Recommendations to the Afghan Government	61
6.2.2. Recommendations to the international community	65
6.2.3. Recommendations to the private sector and other Afghan stakeholders	67
Annex 1. A provincial perspective	69
Balkh	69
Bamyan	70
Herat	71
Kabul	72
Parwan	74
Annex 2. Methodology	75
Background and research questions	75
Provinces selection rationale	75
Approach	76
Limitations	77
Annex 3. Abbreviations	78
Annex 4. Notes	80

Preface

This report on the state of the Afghan private sector and the nexus with development and security was funded by the Swedish International Development Cooperation Agency (Sida). It is a joint project by SIPRI and the International Council of Swedish Industry (NIR) that commenced in September 2014 and coincides with a critical juncture in modern Afghan history: a triple transition that is forcing a new administration to reorient its economy as the international military/civilian contingents and accompanying aid are scaled down. Simultaneously, the National Unity Government is preoccupied with addressing ongoing security challenges and resolving political impasses that are threatening its direction and mandate. In light of this, private sector development support by the international community is much needed.

Scoping the attributes of any country's private sector is a daunting task, but particularly one as complex as the Afghan version. In comparison with more developed economies, the Afghan private sector faces considerable challenges: it is largely inequitable, informal and is shaped strongly by extra-market conditions.

Data was collected within the first nine months of the project: statistical data was not always recent, entirely reliable or at times even available. Data collected by the authors on three fieldtrips to five Afghan provinces was therefore highly significant. Afghanistan's security dynamics did not permit visits to many of the other provinces, although most economic hubs were visited. Eighty-three individual face-to-face meetings were held in Afghanistan with relevant actors ranging from senior representatives of government, international organizations and diplomatic missions, to think tanks and business support agencies. Sixteen factories and workshops were visited, and 164 entrepreneurs of all ages and industries, male and female, were interviewed through a series of seminars held in all visited provincial capitals except Kabul. These interactions gave the authors invaluable insights into the opportunities the Afghan private sector holds, but more so into the many structural impediments it faces to inclusivity, growth and competitiveness.

After scoping the private sector, the next goal was to provide recommendations to the Afghan authorities, the international community and the Afghan private sector on how to foster it. There is an emphasis on how the international community can support the Afghan Government in developing its private sector policy, and in what ways it may—prudently—intervene directly in the market.

This report is a comprehensive piece of research on the current state of the Afghan private sector, and should be of interest to any stakeholder in Afghanistan's reconstruction and (socio-) economic development. It should also be of significance to those examining the country's security-economic

development nexus. As such, parts of this study are likely to be of interest to those studying other (conflict-affected) countries with challenging private sector conditions.

We would like to express our gratitude to Sida for their generous grant and overall support, and would also like to thank all interlocutors who made time to meet the authors and share their valuable insights.

Dan Smith
SIPRI, Director

Jonas Borglin
NIR, CEO

October 2015

Acknowledgements

This report benefitted from the invaluable input of many individuals, including all the interlocutors from the non-governmental organization, business, international and Afghan Government communities who were so kind as to contribute their insights and experiences about the private sector and development in Afghanistan during the course of our research. In addition, we owe a debt of gratitude to multiple peer reviewers: Saeed Parto, Paul Fishstein, Adam Pain, Graeme Smith, Ethan Kapstein, Peter Middlebrook, Maihan Saeedi, Gary Milante, Damir Esenaliev, Anastasia Aladysheva, Kate Sullivan, Emma Bjertén-Günther, Sofia Birkestad Svingby, as well as the SIPRI Editorial Department without whose feedback this report would not be in the condition that it is in final publication form. Special thanks go to Fraidoon Sekander for the support he provided to our endeavour. This research was funded by the generous support of the Swedish International Development Cooperation Agency (Sida), for which we are grateful. It goes without saying that any faults in the report are our own.

The Authors

Authors' note

The difficulty of conducting rigorous analysis on the Afghan economy is illustrated in the absence of such basic statistics as population size and breakdown. Affected by physical insecurity and weak state capacity, data collection and management continues to be a perennial challenge in the post-international intervention period. Data referenced in this report should thus be used with caution.

Executive summary

Afghanistan's economy has a complex mix of informal, formal, illicit and aid-sustained elements. This is foremost the product of a decades-long convergence of protracted conflict, low state capacity, foreign interference and external aid dependence. The formal Afghan private sector contributes a mere 10–12 per cent to the country's official gross domestic product. In its current state, the Afghan private sector is not the engine of economic growth or instrument of social inclusion it has the potential to be. Popular dissatisfaction with unequal access to economic resources, flawed public services and goods, the adverse security situation, and predatory government activity undermine an effective and sustainable private sector.

There is a prospect of reversing this dynamic. The Afghan private sector could, in addition to leading economic growth, contribute to improving human and traditional security conditions in the country. Immediate action by the Afghan Government is needed to catalyse this process. The Afghan Government will need to create a more facilitating environment for the private sector, particularly for the many disadvantaged smaller players that form the bulk of the economy. In light of weak state capacity as well as the dismal fiscal outlook new partnership modalities with the private sector are recommended. Support from the international community through private sector development (PSD) will still be needed. However, a number of critical conditions for effective PSD apply.

This Swedish International Development Cooperation Agency (Sida) funded report is the product of a one-year field and desk research study of the state of the private sector in Afghanistan and its nexus with development and security. Based on the study's findings, this report provides input on how the Afghan Government, national stakeholders and the international community could facilitate a more inclusive, productive and competitive Afghan private sector. The findings are likely to be of interest to all stakeholders in Afghanistan's reconstruction.

Historically, the Afghan population has not been able to count on the government or the formal market to provide welfare. Limited state capacity and geographic reach are a congenital problem, and this has helped sustain a fragmented society. Pre-1979, Afghanistan's private sector was predominantly informal, agrarian and subsistence-based. As a war economy emerged formal institutions collapsed, the social fabric was torn, and illicit crops and criminal cross-border activities became ingrained in the country's economy. This resulted in a complex backdrop and a very low baseline from which internationally assisted state rebuilding and economic growth efforts began in 2001.

However, the introduction of new organizational structures after 2001 did not constitute a decisive break with preceding economic patterns, processes or players. The Karzai administration allowed the post-intervention conflict and

aid economy to create new revenue channels for an existing and emerging oligopoly. Lack of interest and incapacity by political authorities have resulted in weak formal economic institutions, largely unaccommodating economic policies and regulatory failure. Moreover, neither government nor donors have been sufficiently focused on accelerating trade and transit, agriculture and the extractive industry, which are cornerstones for long-term structural economic stability for Afghanistan. International community PSD efforts were slow and limited throughout the first decade of engagement, with the bulk of donor attention focused on security or on other developmental challenges.

In the absence of a free market with functioning state regulation, the oligopoly and local power holders determine access to economic resources in many markets across the country. Critical infrastructure is largely absent, particularly in rural Afghanistan. Both these factors inhibit economic activity and integration. These constraints are compounded by extra-market conditions: concerns over the National Unity Government's (NUG) longevity and effectiveness, lingering and rampant corruption, a deteriorating security situation and external aid flows that distort the domestic marketplace. The politicized regional economic environment is also unfavourable to Afghanistan's private sector and is exacerbated by the fact that the country is landlocked. A number of (extended) neighbours' geopolitical agendas trump regional economic integration initiatives.

Currently, the NUG's attention is largely focused on security issues and political infighting. The initial transition landscape has given little indication that the security situation will improve in the short term. While the NUG has initiated a number of economic reform processes, unpredictability and uncertainty remain key negative factors for the private sector. Accordingly, capital flows are largely outbound, and investments are put on hold or have a short-term horizon. An improved security situation is necessary to stimulate foreign as well as domestic private investment.

Consequently, the country's economy is largely deadlocked. Its large yet functional informal economy (accounting for 80–90 per cent of total economic activity, and which also comprises the illicit economy) and a weak fiscal regime limit the NUG's ability to collect tax revenue and provide essential public services and goods. This in turn erodes government legitimacy and hampers state building efforts, including the creation of the conditions needed to stimulate economic growth. Indeed, the lack of suitable conditions for the private sector may even be driving anti-government sentiment. New partnership modalities with the private sector are needed.

Clearly, at its current capacity levels and in the present environment, the Afghan private sector cannot make use of the country's economic potential. There exist substantial untapped human capital resources in Afghanistan since informal institutions tend to, among other population groups, marginalize women, who make up around half of the potential labour and entrepreneurial force. Unemployment levels also remain worryingly high and could continue to rise as around half a million people, mostly rural-based and illiterate, enter

the labour market each year. Beyond providing legitimate employment, the private sector has a role to play in providing a tax base, mitigating poverty, and granting the broader population, as well as the elites, an economic stake in the survival of the state. Yet, in its current embodiment, small(er) players and marginalized sections of the population have great difficulty participating, competing and expanding in the private sector. Afghan Government interventions to promote more inclusive private sector growth are therefore urgently needed. However, the NUG is still weak in its administrative and technical capacity. In the light of this, strategic PSD support from the international community in the medium- to long-term time horizon is required.

The way in which this support is provided is critical to its sustainable impact. Despite the obvious benevolent intentions behind PSD work, failures of coordination and implementation by the international community are well documented. A number of direct market interventions, for instance, have fed into corruption and patronage networks, distorted markets and reinforced dependency. PSD efforts have also had limited success due to fragmented and uncoordinated approaches, and lack of contextualized knowledge. Some of these miscalculations might have even worked to the detriment of government legitimacy and private sector development. Therefore, coordination among all stakeholders is essential, as is addressing root causes of market failures at the structural and policy level. How, then, can stakeholders assist the Afghan private sector to become a source of economic growth and an instrument of social inclusion?

Recommendations to the Afghan Government*

- I. Provide direction by developing a realistic private sector growth strategy with clear measurable milestones, division of labour between international and national actors, and implementation, monitoring and follow-up mechanisms;
- II. Increase the capacity of state economic institutions that support the productive potential of the private sector, including through continuous training of the civil service. Relevant public institutions must be given unambiguous mandates;
- III. Take immediate carefully tailored measures to curb corruption starting at the highest government echelons. Curb corruption in regulatory processes through increased use of digitalized processes;
- IV. Improve the business climate in close coordination with the organized business community through realistic growth-promoting economic policy reforms and by prioritizing sustainable development of strategic industries. Instruments

* See chapter 6.2 for more detail and rationale on the recommendations listed here.

- such as tax relief, state supply contracts and public-private partnerships (PPPs) should be considered;
- V. Evaluate and update the strategy for trade policy instruments that can enhance Afghan competitiveness and protect infant industries. Full digitalization of customs procedures could help to eliminate existing gaps in regulation;
 - VI. Tackle the hurdles that limit access to economic resources, in particular land and capital. Access to resources should be combined with clearer and enforced property rights. Mobilize state landholdings for use by the private sector through favourable long-term lease agreements. Leverage the potential of existing and developing unbanked credit mechanisms. Sector-oriented banks that provide demand-led financial products are recommended;
 - VII. Invest in infrastructure critical to economic activity. In light of government financial limitations, rapidly move to pass and implement the new PPP law; and
 - VIII. Prioritize women's full and equal participation in the economy, leveraging women-to-women economic networks, while promoting male endorsement. Support policies should be mainstreamed within all economic plans.

Recommendations to the international community

- I. Support the Afghan Government with all the above-stated eight recommendations. Direct but careful market interventions can also be considered;
- II. Set up a formal cooperation and coordination mechanism for the development of the private sector in conjunction with the NUG;
- III. Establish a new formal international aid database that incorporates former and running PSD efforts, including off-budget development programmes;
- IV. Support full value-chain development projects in the agricultural sector, which have high labour intensity and job creation potential, including for women;
- V. Consider diversifying geographic focus: aid interventions should aim to target communities based on need rather than on political or security priorities; and
- VI. Incorporate consumer demand perspectives into PSD programming. Demand is a critical component of commercial feasibility and sustainability for PSD programmes.

Recommendations to the private sector and other Afghan stakeholders

- I. Strengthen the capacity, transparency and member representation of organized business. The views of smaller-scale business actors, including informal and rural-based businesses, should be given greater weight; and
- II. Strive to curb supply-side corruption. Leverage collective action, engage officials, utilize media and engage organized civil society to promote clean business.

1. Economic backdrop

1.1. A brief history of Afghanistan's economy

1.1.1. The pre-war economy to 1979

Even before the devastation wrought by near-consecutive wars beginning with the Soviet invasion in 1979, Afghanistan was marked by widespread poverty and its human development indicators ranked among the world's lowest. Challenged by geography, topography and limited infrastructure, the country has always been decentralized, with low connectivity to and between communities, some of which remain beyond the capacity of the central government to administer and monitor. Traditionally a trading and agrarian society, nearly 80 per cent of the Afghan labour force throughout the pre-war 20th century was engaged in rural agriculture.

Economic modernization and nascent industrialization began in the 1930s with state-led infrastructure projects followed by the limited emergence of a variety of small- and medium-scale light industrial enterprises.¹ These activities created a modest hub of capital in Kabul, and profits were often reinvested towards expanding industrial growth. Export markets did widen, and Afghanistan's agricultural products and specialty items even reached Europe.² Political elites played a supportive and largely backseat role to private sector³ decisions until Mohammed Daoud Khan became prime minister in 1953, after which much of the burgeoning formal economy was nationalized to promote more rapid growth and modernization. These efforts were to be carried out through a series of five-year development plans between 1956 and 1972, the first two of which were focused on infrastructural projects, government enterprises and heavy industry.

However, government ministries proved technically incapable and administratively too weak to implement an effective state-managed economy.⁴ On the eve of war, modern industry had contributed relatively little to Afghanistan's economy: domestic production was unable to meet the internal demand for consumer goods, and exports remained based on traditional agricultural goods, which constituted 60 to 75 per cent of exports in 1977.⁵ Despite advances in irrigation and infrastructure, agriculture continued to be subsistence-based and only a fifth of wheat production made its way to markets.⁶ It was also highly vulnerable to the elements: devastating drought and famine of the early 1970s contrasts with near food self-sufficiency achieved under positive weather conditions at the end of the decade.⁷

From the 1950s onwards, Afghanistan's state-led economy also became deeply tied to international financial aid, benefitting greatly in monetary terms from, mainly, the competition between the Soviet Union and the United States for political influence. Foreign sources provided an average of 75 per cent of the capital for Daoud's five-year plans, and by 1973, they were providing

2 AFGHANISTAN'S PRIVATE SECTOR: STATUS AND WAYS FORWARD

nearly two-thirds of the revenue of the government itself.⁸ Aid dependency was also related to the extremely low fiscal capacity of the government — a perennial problem. However, this aid money was largely fixed to specific projects, which was provided and implemented on the condition of donors' geostrategic priorities and in line with their politico-economic ideologies. Lack of coordination and competition among donors led to a piecemeal development agenda over which the central government had little ownership.⁹ Many of these projects, including large-scale irrigation projects, suffered problems of implementation, execution, and long-term sustainability. Afghanistan's developmental and aid-coordination challenges of the 21st century in fact echo those that it faced in the 1960s and 1970s.

1.1.2. Soviet invasion, the civil war, and the Taliban years: 1979–2001

The 1979 Soviet invasion

The Soviet invasion of Afghanistan in late 1979 marked the beginning of what became an over three-decade long disruption of the country's developmental trajectory. Sequential wars and conflict would result in enormous human, societal and economic devastation from which subsequent reconstruction attempts must begin.

Nascent national market integration begun in the 1960s ceased as the highway and road system became battleground.¹⁰ Much of the war was experienced in the countryside, resulting in massive rural flight not only to neighbouring countries, but also to urban centres where the population was heavily dependent on Soviet supplies for basic subsistence commodities. The agricultural harvest had by 1982 already dropped to only a fourth of its 1978 level.¹¹ The rest of the decade and beyond would be marked by tremendous food insecurity as well as shortages in basic goods and utilities, which neither the state nor the formal market could alleviate.

During the Soviet occupation, Afghanistan experienced massive trade reorientation towards the Communist bloc and isolation from Western markets. While the government in Kabul did attempt to restructure the economy along the Soviet command-economy model, the Soviet Union did not discourage private sector activity.¹² Natural gas, a sector built and heavily used by the Soviet Union, represented a large bulk of Afghan exports in the 1980s, although gas production declined and finally ceased as active wells were depleted and Soviet maintainers left the country.¹³ Together with Soviet aid, nearly half of government revenue remained rentier income.¹⁴ However, a more lasting economic impact was the emergence of a deleterious war economy that would continue to function well after Soviet withdrawal was finalized in 1989.

The emergence of the illicit economy

As a result of the state-led development model, much of Afghanistan's pre-war urban employment was in the public sector.¹⁵ But as the central state crumbled during the Soviet occupation, formal economic institutions and employment opportunities gave way to an unregulated and increasingly criminal economy. Trade and agriculture, areas where the private sector dominated, increasingly became intertwined with illicit cash-generating activities controlled by political and military power holders beyond the reach of the disintegrating state. Smuggling consumer goods to Afghanistan and then re-exporting them to Pakistan had been a perpetual problem since the signing of the Afghanistan Transit Trade Agreement (ATTA) in 1965.¹⁶ With the influx of unfettered foreign financial aid and arms to mujahideen groups by international stakeholders, this smuggling began to include weapons, narcotics, and even human trafficking.

Opium production, which spread into Afghanistan from Pakistani networks, trended upwards through the 1980s and 1990s.¹⁷ Revenues were used in part to finance the activities of mujahideen and regional warlords, but production was also an important means of income-generation for devastated farmers.¹⁸ Both rugged and arid, Afghanistan is particularly vulnerable to climatic and environmental hazards, and opium poppy is less demanding, more adverse weather-resistant and cost-efficient to produce than most traditional crops. Production increased particularly after 1987, as the central communist regime collapsed. By 1991, Afghanistan had become the world's largest opium producer.¹⁹

Smuggling and opium production were important cash-generators for both infighting warlords and impoverished Afghans living under conditions of rampant inflation. These activities were also heavily facilitated by the *hawala* finance system, the unregulated means by which both licit (such as remittances from abroad) and illicit exchanges took place. By 1990, Afghanistan had become the single largest producer of opium, and by the end of the decade was responsible for 80 per cent of world output.²⁰ In the absence of functional state and supportive formal economic institutions, there was limited incentive for the economy to formalize.

The Taliban years (1996–2001)

Infighting during the civil war destroyed what infrastructure and industry remained in the country, particularly in Kabul. Exhausted by this second round of violence, which included widespread predation and looting by local commanders, the Afghan population initially welcomed the draconian security the Taliban provided. By 1998, the Taliban had consolidated control over the large majority of the country's roads, transport points and customs points. The improved stability and road access allowed for marginal resumption of economic activity. However, efforts to build critical economic infrastructure or the state institutions that support the formal private sector were not made.

4 AFGHANISTAN'S PRIVATE SECTOR: STATUS AND WAYS FORWARD

In fact, the Taliban only cemented an illicit economy centred on smuggling goods and drugs.

Despite promises to rid the country of opium, Taliban leadership instead issued an Islamic sanction of it and derived revenue from its transport. Increased security expanded the area available for cultivation, although the bulk of production continued to come from the same two provinces: Helmand and Kandahar.²¹ Illegal cross-border trading and smuggling became the Taliban's largest source of official revenue,²² and it reoriented economic activity from the capital to provincial cities. This trade, which included goods imported from Arab states of the Gulf and smuggled into Pakistan, was estimated at over \$2 billion a year.²³ The newly independent, post-Soviet Central Asian states as well as Iran provided additional export routes for heroin taxed by Taliban. Beyond the service sectors surrounding the illegal trade and opium, there was little regular economy of which to speak. The brain drain initiated by the Soviet invasion continued. Women, who were gradually being integrated into urban and public sector employment in the pre-war era, were no longer allowed to participate in the economy.

However, regular agricultural production did begin to recover: cereal production improved throughout the 1990s, and by 1998 nearly reached 1977 levels as a result of enhanced security and good precipitation. Livestock production also improved.²⁴ However, these gains were quickly reversed in the next year, due to a massive drought that by 2001 had brought production down to half those levels.²⁵ With the influx of repatriating Afghans and population growth post-2001, there would continue to be tremendous food insecurity for many parts of the country and segments of society.²⁶ Rather than being met in greater capacity by domestic supply, demand was, and continues to be, predominantly met through imports of staple crops and international humanitarian aid.

1.1.3. International intervention: 2001–14

The international intervention that toppled the Taliban and destroyed al-Qaeda cells in late 2001 was followed by notable economic development. From 1980 to 2001 Afghanistan had no growth or negative growth, economic growth in the years after the 2001 intervention has been inconsistent but robust at an average 10.5 per cent between 2005 and 2012.²⁷ However, much of the growth was not driven by either domestic demand or supply, but by international community presence, particularly after the surge in combat and stabilization operations post-2009. The growth is also a function of the initial low baseline against which is measured. Military and civilian aid grew from the 'light footprint' figure of \$404 million in 2002/2003 to a massive \$15.7 billion in 2010/2011, which was about the same in size as Afghanistan's total gross domestic product (GDP) that same year.²⁸ From 2009 to 2012, Afghanistan was the world's largest annual recipient of official development assistance (ODA).²⁹ As during the cold war, Afghanistan has again become a rentier state

highly dependent on foreign aid rather than domestically driven economic dynamism.

The intervention established that Afghanistan's economy would be rebuilt on free market-based principles. The National Development Framework of 2002 stated that one of the three pillars of the post-war state-building would be the 'creation of sustainable growth through a competitive private sector, which becomes both the engine of growth and the instrument of social inclusion through the creation of opportunity'.³⁰ Yet, economic development took a backseat to overwhelmingly security-oriented priorities of the international community. Neither was it prioritized by the presidential administration of Hamid Karzai. In 2008 an agenda to develop the private sector was formally delineated through the Afghan National Development Strategy (ANDS), whose main economic goals for 2008–13 were to reduce poverty and ensure sustainable development through a private sector-led market economy. While this strategy had some notable flaws, the main reasons for its weak implementation was little input from ministerial stakeholders in its design and limited implementation support from top-level government.

Despite wide consensus by domestic and foreign state-builders that Afghanistan's economy should be propelled by the market, little has been effectively done in the last decade to build the governance mechanisms necessary for an inclusive, formalized, and competitive marketplace. Insufficient effort has been made to support the economic engagement of the underprivileged: the (rural) poor, women and Afghan youth. The state's administrative umbrella is far from able to cover, or even account for, much of the economic activity in the country.³¹ Informal and unregulated markets have continued to dominate, stretching from licit but unreported micro-, small- and medium-enterprises (MSMEs) to criminal activities, of which opium production and smuggling continue to form the bulk. In the absence of sustainable alternative livelihoods and strong demand, Afghanistan's drug economy has soared since international intervention. Despite the billions of dollars spent on counter-narcotics efforts, poppy production has expanded to nearly all of Afghanistan's provinces from its concentration in two during the Taliban years. The export value of opium was 61 per cent of the licit GDP in 2004, and while this figure has since declined in relative terms (partially due to overall national economic growth) the area under poppy cultivation was Afghanistan's highest on record in 2014.³² Along with the black market trade and smuggling, such activities represent flourishing markets outside of government control. Indeed, such illegal activities form what Weinbaum refers to as 'a capitalist intensity that in another enterprise would be laudable', with spillover effects to the rest of the economy.³³

Economic activity—even in broader terms—remains far from 'free' from extra-market conditions: these include not only recognizable corruption, but also distortionary interventions by political elite and power brokers (including in illegal activities), the use of coercive measures and control over input resources to hamper competition, and even socio-cultural norms that

discourage inclusive participation for women, among a host of issues. The persistence of mafia-like networks, whose activities blur between the licit and illicit economy, reflects not only state regulatory failures, but also long-standing historical patterns of informal institutions as well as new dynamics in a war environment where risks are high and social capital is accordingly low.³⁴ While the state framework can be improved through policy interventions, broader trust in society and in markets requires time and increased positive socioeconomic interactions to be built.

Nevertheless, there have been notable successes. A nationally integrated market is slowly emerging, in part due to the rehabilitation of highway transport infrastructure. Vehicles on the road have increased from under 200 000 in 2003 to nearly one million.³⁵ The telecom and media sectors, led by private corporations, have seen tremendous growth. From 2 telephones for every 1000 Afghans in 2002, there were over 20 million mobile subscriptions in 2012.³⁶ It should be noted that the telecom and media sectors entered a market that lacked established players, posed very steep financial entrance barriers, and was not subject to the challenging topography of the country.

While international trade remains heavily imbalanced, certain light industries such as shoes and plastics manufacturing have seen annual production increases (this does obviously not guarantee sales at a profit), and Afghanistan is now completely self-sufficient in beverages.³⁷ More generally, agriculture continues to form a notable part (25.45 per cent of GDP in 2012–13) of what is an otherwise services-oriented economy (50.29 per cent of GDP in 2012–13), although the proportion both in percentage of GDP and employment terms has reduced in recent years.³⁸ The absorptive capacity of the agricultural sector in Afghanistan is increasingly under question as urbanization proceeds. However, it continues to have the largest jobs potential vis-à-vis other sectors, particularly considering the country's human capital conditions.

Despite more money having been spent on Afghanistan than was provided after World War II to the entirety of Europe under the Marshall Plan (in real dollar terms and corrected for inflation), the country remains one of the least economically developed countries in the world.³⁹ Social indicators, while improved, remain low: in 2012 the adult literacy rate (15 years of age and over) was 31.4 per cent; 45.4 per cent for men and just 17.0 per cent for women.⁴⁰ The country's median age is estimated to be 17.1 years in 2015, making it one of world's youngest populations.⁴¹ While in theory, youth have great potential to engage in Afghanistan's private sector, they will need quality vocational training, education and corresponding employment.

1.2. Macroeconomic policies

While the Afghan Government and the international community have provided only nominal support to Afghanistan's private sector, relatively stable macroeconomic policies have been in place since intervention. This has

been quite remarkable considering how insecurity, and at times looming political instability, overshadowed the economy. Debt has largely been relieved (it was 6.5 per cent of GDP in 2014) and the average inflation rate (consumer price index) has been single digit in the past 10 years (it dropped to 4.6 per cent in 2014 from an average 8.1 per cent in 2005–14).⁴² The currency has been stable, even if overvalued and as a result of constant US dollar influx.⁴³ The overvalued exchange rate has benefitted Afghanistan's imports but has negatively affected the private sector's export competitiveness. While the exchange rate has been steady since 2002, it has progressively depreciated vis-à-vis the US dollar and euro since 2011–12. This places the private sector in a more volatile and uncertain situation. Foreign reserves, which were stable as of the end of 2013, were utilized to make up the shortfall in revenues in 2013–2014.⁴⁴

The triple (political, security, and economic) transition has augmented a number of vulnerabilities: a fiscal gap (the budget deficit excluding international aid) has risen, an estimated 20 per cent of the 2015 GDP, that can only be filled through external financial support this year and most likely in the foreseeable future. As an extension of the political transition, rampant corruption and the poor enforcement of tax collection and customs control, tax revenues fell from 11.6 per cent of GDP in 2011 to 8.4 per cent in 2014.⁴⁵ Fiscal revenue collection, which has been a perennial challenge in Afghanistan, remains weak and vulnerability will remain high over the medium term. The Afghan Government needs revenue—tax or non-tax—to independently fund the Afghan National Defense and Security Forces (ANDSF), which at approximately \$5 billion per year is equivalent to approximately 20 per cent of the GDP and is currently financed by the international community,⁴⁶ and to fund the mounting public goods and services the country needs. Non-traditional forms of finance (e.g. sovereign wealth funds, SWF) and new project financing modalities such as public private partnerships (PPP) should be considered.

In 2010 the banking and financial system was rocked by the Kabul Bank fraud case: this has made formal finance channels less diverse and more difficult to access, as well as a less appealing for many private sector actors.⁴⁷ Protracted insecurity, doubts over the longevity of the National Unity Government (NUG), and sensitivity to drought, fuel and food prices compound this impediment and work destabilizing for macroeconomic stability. The NUG needs to urgently mobilize revenue, pursue financial sector reform, and instil confidence in the Afghan economy. In its bid to greater self-reliance, the NUG has commenced macro-fiscal reforms, yet these require time to mature.

Finally, Afghanistan faces a tremendous trade imbalance: \$7.12 billion in 2014, resulting in a nearly 1:14 ratio.⁴⁸ The total estimated trade deficit was 37.9 per cent of GDP in 2014.⁴⁹ Afghanistan has a trade deficit with its four largest trading partners (Pakistan, India, USA, EU, by rank in 2014)⁵⁰ and its imports account for 80–90 per cent of total consumer market value.⁵¹

Neighbours continue to utilize Afghanistan as a dumping ground for low-grade goods and edibles that its own private sector could, to a certain degree, competitively produce itself. Well-designed and tuned economic policies that protect infant and strategic industries from unfair foreign competition, keeping in mind possible negative spillovers from these measures will be necessary to mitigate prospect of an uncertain macro-economic future.

1.3. The Afghan economy in transition

At the dawn of the transformation decade (2015–24), the Afghan economy continues to be spurred by external aid. The significant amount of aid and vast international military spending post-2001 has re-ingrained a culture of aid-rentierism: the Afghan elite competes internally for political rents from the international community. The Karzai administration was disinterested in facilitating a more inclusive private sector. The little wealth there is in the country is inequitably distributed, and the rich-poor gap has been widening.⁵² In 2014 the United Nations Development Programme ranked Afghanistan 169th out of 187 in human development worldwide and the lowest in Asia.⁵³ Afghanistan's GDP in 2014, \$20.8 billion (in current prices) and still a mere \$659 per capita,⁵⁴ ranked at the bottom 15 worldwide (where the country was positioned in 2001) and was also placed last position in Asia. Average GDP growth in 2015 is anticipated to be 1.9 per cent, inadequate to alleviate poverty when set against the population's 2.7 per cent growth rate.⁵⁵

Now that the triple transition has been largely concluded, the business climate is affected by an additional three major factors: (a) uncertainty over longevity and effectiveness of the NUG; (b) a thus-far deteriorating security environment; and (c) economic reorientation. Doubts about the longevity of the forced marriage by means of the NUG between President Ashraf Ghani and Chief Executive Officer (CEO) Abdullah Abdullah and corresponding alleged bipolarization of political bases have contributed to discouraging domestic investment. The insurgency that has recently spread activity vigorously throughout the north and northeast of the country only exacerbates the situation, as does the presence of the Islamic State of Iraq and the Levant (ISIL) the country.⁵⁶ Peace talks between the government and the Taliban have been held in 2015, but it is too early to assess the outcome of this.

As the security situation is likely to remain unstable over the short term it would be ideal for the private sector if the state would bear return on investment risk and lay the foundation for economic development by investing in hard infrastructure to support and link domestic markets and attempt to secure safe(r) access to neighbouring countries and sea ports. To do this, the state will need to increase its revenues (both tax and non-tax sources). In doing so, the state will need to provide incentives to the informal economy to formalize, but without security and public service delivery in return this will be an impossible mission to accomplish. Public-private partnerships (PPP) are a possibly viable alternative. The promising extractive industry could be

leveraged by PPPs and/or the setup of state-owned enterprises (SOE) to generate much-needed tax and non-tax revenues for the government.

In its need to reorient the economy towards one that is indigenously driven, the Afghan Government and the international donor community face some serious hurdles: more than 80 per cent of the population lives in underdeveloped rural areas and urban centres do not have the current capacity to host or employ them. About half a million new entrants join the labour market each year: they unite with about the quarter of the labour force, some 1.8 million, who are either unemployed or underemployed.⁵⁷ In theory, and depending on a number of determinants, the agricultural sector could absorb many of them, yet international donors have surprisingly neglected this sector until about 2008. The vast majority of the labour force—60 per cent in urban Afghanistan and nearly 70 per cent in rural Afghanistan—is employed in the agricultural sector, many of which are still family-run and done so on a subsistence level.⁵⁸ During the period 2001-2005 the formal agriculture and service sectors averaged near equal shares of the Afghan GDP each totalling just under 40 per cent of the GDP. In 2012–13, services (dominated by transport and storage) contributed to over half of GDP (50.29 per cent), with agriculture following at 25.45 per cent and industry at 20.52 per cent.⁵⁹ A reorientation is anticipated, as the services' share is unsustainable against a backdrop of decreasing international community presence.

1.4. Conclusions

The convergence of decades of foreign interference and the imposition of competing economic ideologies; weak state capacity and economic mismanagement; protracted conflict that resulted in the destruction of infrastructure and formal institutions; and dependence on external aid has created an unsound 'conflict economy'. The economy is largely a synthesis of illicit and informal economic activity. The Afghan private sector is not 'free', productive, or competitive. The Afghan elite continues its sway over economic resources through patronage networks and coercion.

The NUG has expressed clear commitment to fostering the private sector. However, fundamentally, the private sector has witnessed limited positive change to date since the NUG took over in September 2014. The NUG is attempting to reform a number of macroeconomic policies, but these take time to mature. Growth is expected to remain sluggish over the medium term, and fiscal vulnerability high. In the process, unpredictability prevails and investment horizons remain short term. Amid contracting aid recourses and ongoing insecurity, post-transition economic instability is likely. A toxic set of conditions has created a deadlock: the government can neither kick-start the economy nor provide the core public goods and services necessary for the formal private sector to blossom.

The Afghan Government will have to come up with bold, ingenious, and well-coordinated solutions to gradually break the economy out of this

10 AFGHANISTAN'S PRIVATE SECTOR: STATUS AND WAYS FORWARD

stalemate. This requires the government to take share investment risks with the private sector and generate economic activity and subsequent jobs for the large un- and underemployed labour force. Alternatively or in parallel to this approach, it will have to increase investor and consumer confidence through building a more business-friendly environment. Adjusting economic policies to reflect domestic and regional economic realities would be one such measure. In the absence of such initiatives, the economic 'transition' will simply be a continuation of a largely aid-sustained status quo.

2. Framing the private sector

2.1. Formal vs. informal economy

Formal jobs represent only around 9 per cent of the total share of employment in Afghanistan, 20 per cent of which are in the public sector. The public sector dominates the formal labour market and provides twice the number of private sector salaried jobs.⁶⁰ At least 65 000 enterprises are formally registered, but this figure may not accurately represent the myriad businesses that may register with local authorities and municipalities.⁶¹ Comprehensive national data on this has not been aggregated, collected or updated. Even less is known regarding the informal sector.⁶²

Formal economic institutions have only recently been re-introduced in Afghanistan and still have limited reach. In fact, estimates made in 2005 that 80–90 per cent of Afghanistan's economic activity is informal have not changed over the past decade.⁶³ Informal economic activity encompasses all economic activities that take place outside of the government's regulatory framework, from subsistence and in-kind transactions, licit but unregistered activity, to irregular or illegal distribution and production of goods and services.⁶⁴ In Afghanistan as well as other developing countries, the relationship between the formal and informal economy is often fluid, encompassing the same human networks, as well as utilizing the same unregulated economic resources.

There has been positive spillover from informal sector-led growth. Capital accumulation in the informal sector can serve to the benefit of the formal sector, by increasing consumer purchasing power and providing a source of investment.⁶⁵ The informal sector also plays a strong role in poverty reduction through employing and servicing markets at the bottom of the pyramid.⁶⁶ Indeed, as the World Bank in 2005 stated, informal activity 'has been largely responsible for [Afghanistan's] recent economic recovery and dynamism'.⁶⁷ At the same time, however, widespread informality—even when licit—does place a ceiling on development. By acting parallel to and competing with official economic governance systems, informality leads to a vicious cycle in which the government is unable to generate the resources necessary through taxation to provide an enabling environment for formal businesses. Roles that the state could play related to welfare and labour protection are also reduced; currently, socioeconomic safety nets are provided through informal channels, which create additional disincentives to formalize.⁶⁸

In general, incentives for formalization by licit actors remain low. A survey conducted in 2011 with small-scale business actors revealed that registration brings few benefits in terms of government service delivery, contract and law enforcement, government protection (including for labour), or access to affordable finance.⁶⁹ Formal businesses instead often face costs in terms of entry requirements, taxes, extortion and corruption by officials, as well

lengthy and complex bureaucratic processes. Distinctions are generally made between barriers to formalization: lack of information or confusion regarding procedures, literacy, or problems of access in rural Afghanistan—versus conscious decisions to stay informal based on the above cost–benefit analysis. Policy interventions are necessary at both ends. However, research has also found an ‘informality of indifference’—whereby formal procedural and legal changes but low state capacity has simply not altered pre-intervention economic patterns. To date, little has been actively done to encourage or foster informal businesses to build a relationship with the government, and it will take time before the government earns the private sector’s trust and decides to formalize.

As the Ministry of Commerce and Industries (MOCI) has stated, ‘for the private sector to expand . . . and fulfill its role as the main engine for growth, additional efforts must be made to address the needs and maximize the contribution of the many informal enterprises, family-run farms and self-employed men and women that conduct business there’.⁷⁰ There is a need for the state- and policy-shapers to build a relationship with licit informal sector actors, to include Afghanistan’s more traditional trade associations.⁷¹ Government and stakeholder processes and forums should not only take into account the thin formal sector of registered businesses, the public sector, and non-for-profit organizations, but also include the viewpoints of the vast majority of Afghans whose activities remain unaccounted and unspoken for. Informal workers, for instance, are not included in the 2007 Labour Law. In this, particular care should also be taken to unpack the differential layers of vulnerable or disadvantaged populations—including women, child labourers, migrants and refugees—who are involved in informal activities.

2.2. Economic integration

Integration with global markets has been both a curse and a blessing for Afghanistan’s struggling economy. The availability of foreign products and services increases consumer options, but goods from more mature, developed, as well as state-supported economies crowds out market space for competitively disadvantaged Afghan producers. Imports allegedly account for more than 80–90 per cent of the consumer market, and the trade imbalance is severe.⁷²

Regional economic integration has been widely touted as a panacea for development. Afghanistan, indeed, has the potential to become the transit hub that connects Central Asia with South Asia, and South Asia with the Middle East. There are prospects of positive economic spillover with loosened sanctions against Iran, whose Chabahar seaport could be a critical access point for Afghan trade. However, dialogue on regional economic projects continues against a backdrop of a heavily politicized regional environment (see 3.1.4). In many respects regional economic integration, particularly with neighbours Iran and Pakistan, is strong, albeit unbalanced. Trade agreements with

neighbours often disadvantage Afghanistan—that is, when they are enforced. What is needed is equitable and more rule-based economic integration.⁷³ Beyond the competitive advantages they have over Afghan businesses, a number of foreign producers are also backed by government subsidies and higher import tariffs—which further disadvantage Afghan exports.⁷⁴ Currently, Afghanistan is in the third stage of its ascension process to the World Trade Organization (WTO). This will bring national industries and policies (closer) in line with global standards, but questions remain as to how Afghanistan can be competitive on world markets, and how nascent and budding industries can survive if the country is plunged into these international institutions. Precaution is advised.

Afghanistan's current liberal trade regime is a product of low state capacity as much as design: trade channels remain mostly irregular, and the bulk of what could be appropriated as customs revenue continues to be lost to smuggling and corruption. Thus, while Afghanistan serves as a dumping ground for neighbours' products, those neighbouring markets remain more closed to Afghan goods, with trucks often stalled and stopped at border crossings, damaging perishable products. Afghanistan's power to negotiate better terms over the past decade has been weak. Furthermore, what licit goods do cross over are often raw materials or lower-value products that to which neighbours add-value and capture the bulk of profits. Higher-value products are exported, but are often relabelled and resold at higher prices to other parties.

Afghanistan's domestic market is weakly integrated. Rather than a single economic space, there are instead a number of localized markets. Urban centres are weakly connected with rural areas in infrastructural (and by extension economic) terms. The largest provincial capitals—Herat, Mazar-e Sharif, Kandahar and Jalalabad—are more economically integrated with their adjacent neighbours than they are with each other. At the same time, in cross-border trade policies, beyond problems of heavy corruption, customs are often not harmonized across borders. These price differentials are liable to, and have been, exploited by traders to the detriment of local producers.

Fragmentation also goes beyond limited infrastructure and physical connectivity, to include challenges of socially closed and relational trade and business networks. This lack of internal integration exacerbates the problem of broken value chains and market access, keeping the economy at the lowest rungs of domestic, regional, and global economic value chains. Existing domestic needs—not only for final products but also for pre- and post-production inputs that could be met in-country—often remain unmet and supply-demand linkages underdeveloped.

2.3. Private sector actors

The vast majority of Afghans (some 90 per cent) are employed in establishments with less than five employees, a clear majority of those with a

sole proprietor.⁷⁵ A facilitating private sector environment for micro-enterprises⁷⁶ is instrumental in overcoming poverty and in employing the country's workforce, particularly for women and youth.

While Afghanistan's few large enterprises are currently relatively marginal to employment, they do play an important role in generating government tax revenue, attracting foreign direct investment (FDI), providing certain critical services (such as telecommunication and construction), introducing technology and management standards and catalysing the establishment of smaller enterprises. Foreign ownership outside of the services sector connected to the international presence is limited and mainly concentrated to technology-intensive industries, such as extraction and telecom. Large Afghan-owned enterprises typically have an ownership and management structure involving male members of the same family.⁷⁷ A handful of large business groups date back to before the Russian invasion, while a new set of successful entrepreneurs emerged with the post-2001 service-driven economy. Even when they maintain a core line of business, the large corporate groups tend to be active in several sectors, foremost logistics, trade, finance, security and construction, as a means to support their main business, spread the risk or to reinvest profit. Many Afghan business groups, even when headquartered overseas, maintain a strong commercial base in their region of origin, where they often have ties to the ethno-political establishment. While this model reinforces the existing configuration of interests and sidelines entrepreneurs, it is, however, also a way for these enterprises to reduce risk in the volatile and insecure environment, and, at large, maintain investment in the Afghan economy.

While formal business organizations have only recently been introduced in the country, the numerous urban micro- and small-enterprises in manufacturing, retail and services have long organized in *senfs* (sector-based guilds) where they cooperate on common issues and resolve disputes. This model makes them more resilient to external shocks, while it should be noted that it may also create entry barriers to outsiders by setting limits to free competition.⁷⁸ With perhaps 500 000 such micro-enterprises active across the country, they are a substantial source of employment and apprenticeship, largely in the informal sector.⁷⁹ The Federation of Afghanistan Craftsmen and Traders (FACT) for instance, has 75 000 members, many of them with informal businesses, organized in some 1000 *senfs*.⁸⁰ Considering the rapid rate of urbanization and the role of these actors in engaging mainly male youth (particularly as apprentices), the sustainability and adaptability of these long-standing economic institutions will only increase in importance.

The more contemporary organized private sector emerged through cooperation between Afghan businesses and the international community which shared a mutual interest in improving business conditions. Several of the important recent business-environment initiatives in the country have been grant funded through Harakat, a non-governmental organization supported by the British Government's Department for International Development (DFID).

The Afghanistan Chamber of Commerce and Industries (ACCI) is considered to be the country's leading national business organization. It was developed through a merger of a MOCI-controlled agency and a chamber founded by prominent Afghan businessmen in 2004 to promote investment.⁸¹ While its independence of major business interests has been questioned, ACCI is the only voluntary membership services association with a voice in policy advocacy available to broader layers of the formal private sector.⁸² Several business organizations are represented in ACCI—including FACT and the Afghan Women's Business Federation (AWBF), the main national umbrella organization for women active in business. The capacity of the AWBF and a handful of other existing, mostly donor-initiated, organizations and networks is currently wholly inadequate to face the many challenges facing economically active women, both in terms of advocacy and everyday support. Although most female business owners and employees face various forms of discrimination, the commonalities between the country's economically active women may otherwise be tenuous. Still, the importance of these associations is obviated by their role as sole representatives of Afghan women in the private sector.

A final important point to note is the disproportionate concentration of not only private companies to urban areas but also the lack of organized private sector in agriculture and agricultural processing. Rural employees mostly lack the corresponding organized representation of interests made possible by FACT. As agricultural processing accounts for 90 per cent of the country's manufacturing and agriculture employs some 60 per cent of the workforce, this lack of representation is problematic.⁸³ This is partly explained by the dispersed population and by differential needs engendering other forms of cooperation, but as much hope is pinned on productivity increase in the vital agricultural sector, the need for mechanisms to safeguard investment and labour rights will increase.

2.4. Sectorial conditions

2.4.1. Agriculture

Agriculture is commonly cited as the sector with the greatest potential for job absorption and economic impact on rural Afghanistan, where over 80 per cent of the poor are located. As of 2014, 40 per cent of the labour market is employed the agricultural sector, but much of this employment remains on a low-productivity basis and/or is at subsistence levels. In order to keep pace with population growth, the World Bank estimates that agriculture will need to grow at 6 per cent annually for poverty reduction to be achieved. On the ground, however, there have not been structural and sustained productivity increases. Output primarily depends on weather conditions in any given year: for example, negative agricultural growth in 2008–2009 was followed by high productivity upwards of 40 per cent the next year, which in 2010–11 was yet

again negative.⁸⁴ Absent more structural improvements such as in irrigation, the sector remains highly vulnerable to environmental stresses.

Beginning in 2002, a variety of strategies and plans have been developed to enhance and improve the agriculture sector of the country. Approaches have not been entirely consistent, and certain major donors have worked on assumptions that increased production and market linkages would very naturally lead to increased food security and a reduction of poverty (i.e. an emphasis on 'growth' versus 'pro-poor growth').⁸⁵ However, evidence reveals that, for the country's most vulnerable, commercial agriculture may still be a step too far. Programmatic evidence from rural enterprise development programmes shows that when farmers are unable to guarantee basic sustenance, the riskier endeavour of producing for markets is much less appealing.⁸⁶ Likewise, the World Bank's 2014 agricultural sector review recognizes that promotion of commercial agriculture, while necessary to stimulate quick results in agricultural growth, will have limited impact on those who are engaged in rain-fed farming, for nomadic livestock systems and, in fact, for the majority of farmers who operate on a prohibitively small scale, with limited access to factor inputs.⁸⁷

Noting that these will require more developmental interventions, the World Bank has identified three key commodities ('first movers') that have the greatest commercial agriculture potential and have been assessed to be able to quickly generate jobs and incomes: irrigated wheat, horticulture (encompassing vegetables, fruits, nuts, spices and other higher-value cash crops) and intensive livestock and animal husbandry (meat, poultry, dairy and animal-derived products). As a staple crop, wheat is essential for basic food security, but the comparative and competitive advantages of domestic production are not clear. Horticulture is comparatively labour intensive compared to wheat, and women are substantially engaged in cultivation and harvest. In quality terms, Afghanistan's horticultural products have proven to be internationally competitive. For example, Afghan saffron is widely recognized to be of very high quality; it is also a labour-intensive crop that can generate employment opportunities for women in particular.⁸⁸ Fruits grown in Afghanistan have also won first-place awards in international competition.⁸⁹

Livestock and animal husbandry 'constitute(s) perhaps the most inclusive production activity in Afghanistan'.⁹⁰ Women are heavily involved in the care of livestock and in the dairy sector, with most farmers in general operating on a small-scale. Demand for meat is strong and growing (an estimated \$3 billion in annual consumption); with two-thirds of this demand being met through imports, there is an ample market for domestic producers.⁹¹ Despite having 2 million dairy cows, Afghanistan still imports the bulk of its dairy products, worth \$42 million annually.⁹² In principle, the perishability of milk products favours domestic producers, but the lack of dairy processing and pasteurization plants is a major hindrance. In instances where facility investments and market linkages have been made, this study has found that domestic dairy production is commercially viable. Altogether, agriculture—

almost entirely horticulture and/or livestock derived products, not including rugs or carpets which also depend on wool material—constituted 75 per cent of Afghanistan’s official exports in 2014–15.⁹³

These and similar commodities valuations may be useful to both development, private sector and government actors, but the question remains as to what support mechanisms are provided on the ground. The World Bank recommends ‘commercial development of selected value chains, targeting commercially oriented farms that can be linked to these chains on a business basis’.⁹⁴ A variety of programmes have taken this approach and preliminary evidence, including fieldwork for this study, shows that there have been positive outcomes from these market support programmes.⁹⁵ As in other sectors of the economy, commercial agriculture still faces key constraints at every part of the fragmented value chain—from limited irrigation, to perishability and transport, as well as many other post-production processes that are necessary to bring Afghan products into, and make them competitive in, the marketplace. Finally, while agriculture does indeed have substantial absorptive potential, rural-to-urban migration, as laborers flock to cities both seasonally and more permanently in search of economic opportunities, may also limit the transformative economic impact of the sector.

2.4.2. Mining

Afghanistan has rich resource deposits of mineral and natural resources. In the medium to long term the extractives industry is among the most viable export-led growth and revenue generation options for Afghanistan. Should the extractive industry take off, it would be a significant and sorely needed source of revenue for the state. However, even optimistic estimates regarding the sector’s development are clear that these resources ‘will not in itself be transformative and may not be a source of inclusive growth’. According to the World Bank and assuming the sector even moves forward, by the 2020s mining would only likely create 10–20 000 direct jobs, mostly skilled or semi-skilled labour—with little benefits going towards the poor or to women. Furthermore, the derived revenue—an estimated 700 million to 1.5 billion by the 2020s—would be ‘insufficient to replace aid flows’.⁹⁶ The Afghan Government is more optimistic about this sector and estimates that in the best-case scenario it could possibly create an economic turnaround in some 10 years.⁹⁷

There are ideas for linking resource development to pro-poor growth, however. The World Bank’s ‘resource corridor’ concept suggests that the mining sector could have great spillover effects: stimulating local and diverse downstream enterprises, creating indirect jobs and providing infrastructure (hard and soft) that could be utilized for other key sectors with more poverty alleviating impacts. The MOCI also suggests the establishment of a special fund utilizing mining revenues that would go towards stimulating more diverse industries and smaller actors.⁹⁸ These remain at the ideational phase, as mining in the country has stalled. Innovative partnerships between the Afghan

Government, the Afghan private sector and international investors will be necessary to tap the potential of the extractive industry. Responsible economic management of these natural resources will be necessary, without which resource dependency can have negative impacts on governance, development and stability.

2.4.3. Industry

Industry encompasses a little over 20 per cent of Afghanistan's official GDP.⁹⁹ It remains relatively unsophisticated, with 90 per cent of manufacturing accounted for in agricultural processing.¹⁰⁰ As the relevant ANDS National Priority Program (NPP) put it, 'the manufacturing sector is tiny, export-orientation is minimal, and most producers, with the exception of a few agro-processors, source their raw materials from abroad'.¹⁰¹ Manufacturing is seen as a higher-risk, with larger upfront and fixed investment, longer maturation and dependence on a more complex production supply chain. Competition from foreign producers also reduces profit potential. Where productive industries have been successful, such as in beverages, this is due in part to the raising of tariff barriers, large-scale contracts with international military presence, as well as the transportation-shielding effect of shipping imports. In the interviews conducted for this study with Afghan industrialists, they noted that the overwhelming constraint on their growth was unfair competition from neighbouring countries: illegal dumping, export and customs problems, and non-tariff barriers that fly in the face of trade agreements.

Nevertheless, a low-risk industrial policy was developed by the MOCI in 2011, to encourage the growth of small- and medium-enterprises (SMEs), substitute imports, increase exports, and to facilitate 'pro-poor growth'. The policy identified as priority those sectors in which Afghanistan is competitive across entire value chains, in which raw materials were readily available in-country, that are 'labour-intensive with a strong rural presence', with low entry barriers, low technological requirements, and which used existing human resources and skills. Furthermore, the sectors were identified as ones within which Afghanistan can move up the value chain. These sectors were agri-processing, livestock skins and leather, carpets, construction (and construction materials), marble and gemstones. Action plans were developed by line ministries to boost each of the sectors. Certain concrete gains have been made, but it is difficult to attribute most them to organized to these public interventions.¹⁰²

2.4.4. Services

An overwhelming amount of SMEs are engaged in trade and retail, up to 80 per cent according to the MOCI. While trade and retail are key for providing goods to markets, they are of limited value in terms of job creation.¹⁰³ Trade is attractive for a number of reasons. As research has found, the uncertain Afghan business climate creates strong incentives to 'focus on

short-term trading at the expense of long-term productive enterprises' and to invest in the 'highest-margin businesses that require the least amount of capital that produce benefits in the least amount of time'.¹⁰⁴

But the tertiary sector more broadly has accounted for most of the economic growth in the country over the past years. From 2003–2009, 59 per cent of the new GDP growth came from logistics, construction, and other services—driven in large part by the international presence. This had some albeit limited job creation and trickle down effect.¹⁰⁵ These sectors were hard hit during the triple transition, with a net negative impact on GDP in 2014–15.¹⁰⁶ This may be particularly pronounced in regions with larger international presence. The construction sector in Kabul has remained surprisingly stable due to strong urban housing demand and potentially provides jobs for casual urban labourers. New housing units themselves, however, remain largely unaffordable for the bulk of the population.¹⁰⁷

Telecom has been the major success story of Afghanistan, with 90 per cent of the country covered and over 80 per cent market penetration.¹⁰⁸ This digital network—which links all but the most remote parts of Afghanistan—can no doubt be used to produce development results, not only for educational outreach and public service provision (including e-governance) but also to promote economic activity through access to information on markets and pricing.¹⁰⁹

Financial services are still nascent in Afghanistan, with only 3 per cent of the population banking through formal channels.¹¹⁰ For the vast majority of Afghans, such financial transactions continue to take place through personal networks and the informal *hawala* system—though some banks are exploring sharia-compliant options to help penetrate this market. Commercial lending is key for business development, but for most SMEs, loans remain prohibitively costly for smaller actors. Microfinance more deliberately aims at socioeconomic inclusion, and in other countries it has played a strong role in stimulating growth at the bottom of the economic pyramid. In the Afghan context, microfinance may be of mixed or limited overall impact: among other problems, it has been noted in research that rural Afghans primarily borrow money for consumption purposes.¹¹¹ In many cases donors have also acted directly as financial service providers, through matching grant schemes or providing finance at programmatic levels.

2.5. Government legitimacy and the social contract

Since the Afghan state was established in 1880, the social contract has been a perennial experiment. Two socio-political experiments in the 20th century—King Amanullah Khan's in the 1920s and the Soviet-backed Communist effort in the late 1970s—failed. Historically, Afghan households have sought welfare through informal and even illicit means rather than through the formal economy since neither the state nor the formal market could adequately meet the needs of the population, particularly in rural Afghanistan. These two

experiments further eroded trust in the state. Since 1978 the state has gradually become, for many, the enemy, and since the 2001 international intervention many, including urbanites, see the state as predatory,¹¹² and for some even as artificially imposed. This is despite the fact that 'firsts' in the Afghan social contract—such as political representation, human rights protection and electoral participation—have been introduced. Some see these as veneer, as the Karzai administration did not prioritize upholding their integrity. The social contract has thus to be proven efficacious by the new administration.

To understand Afghanistan's dysfunctional social contract and the manner in which it affects the private sector, its root causes need to be understood. These are multifold:

1. The Afghan Government has traditionally provided limited public service delivery, especially in rural Afghanistan and to women and youth in particular, and this has affected how Afghan entrepreneurs and consumers still perceive the role of the state. Perceptions differ across the country and many perceive the state as an intruder or an obstructor. Some await the state to provide public services and goods that could foster their business.¹¹³

2. The Afghan Government has been unable to provide stability to the Afghan people since 1979 and has failed to provide and facilitate either physical or human security since 2002. International community state building efforts following the Taliban collapse had an overly technical orientation, the domestic and regional politico-economic context was not sufficiently taken into account. The Taliban was kept outside of the political processes that followed the Bonn Conference in 2001, which reinforced the Taliban's view of the Afghan state as illegitimate and fuelled the subsequent insurgency. Insurgent activity has and continues to severely hamper the business confidence climate.

3. Systemic kleptocracy and rent-seeking nurtured and sustained by the Karzai administration, from the top to the sub-district level, gravely undermined the state's perceived legitimacy as a guarantor for a facilitating private sector. The NUG now has the daunting task of uprooting engrained corruption and pursuing performance-based legitimacy.

4. Three decades of conflict have damaged the social fabric and affected the 'social covenant' (i.e. social bonds and trust). Business cooperation is preferably, but not exclusively, conducted intra-ethnically, while ownership is largely managed intra-family. While this is arguably more prevalent post-1979, it should be noted that this has been the case prior to the events that have taken place since USSR invasion.

5. The largely rugged and harsh mountainous topography of landlocked Afghanistan is disadvantageous to social cohesion and public service delivery; this also affects market connectivity.

To entrepreneurs in Afghanistan the disincentive to formalize and pay taxes is exacerbated by administratively and technically weak governing bodies, the absence of a functional and more inclusive private sector, and, as noted above, systemic kleptocracy. Afghan entrepreneurs are not incentivized to formalize

their businesses and pay taxes if the state is perceived as predatory and fails to deliver public services and goods. The size of the informal economy bears witness to this. A section of Afghan youth eschews the private sector altogether in light its many insecurities and poor labour conditions and rights, and instead prefers public sector employment.¹¹⁴ Poor livelihood prospects in the Afghan private sector are also an incentive for Afghan youth to embark on illicit and insurgent trajectories: some Afghans are willing to commit a major crime for as little as a one-off \$200 payment.¹¹⁵ Absence of employment opportunity and the deteriorating security situation has also led to a surge in illegal immigration to Europe and elsewhere.

A cohesive society is a prerequisite for a successful state, and where social cohesion is limited, political fragmentation and weak governing bodies are more likely to feed on each other in vicious cycles.¹¹⁶ In an attempt to cement legitimacy, the NUG will have to ‘break’ this mutually reinforcing dynamic through sound economic and social policies that bring demonstrable differences to the populace. The private sector is one, important, way to accomplish this.

International community efforts can make valuable contributions to government legitimacy, for example by supporting state efforts to create a more facilitating environment for the private sector. In the process, to make sure that international direct market interventions do not erode state legitimacy by circumventing the state, it is indispensable that programmes are implemented in close coordination with the government and other international contributors—and that they are also presented to the Afghan private sector and civil society as such. A more inclusive and sound Afghan private sector contributes in turn to stronger human and traditional security. It is, therefore, essential that the international community help foster the capacity, transparency, and effectiveness of Afghan Government institutions.

2.6. Legislation, enforcement and government policies

Already in its earliest days the NUG reaffirmed the government’s commitment to private sector growth as the driver of the country’s development. However, not only does the government lack the financial and human resources, the administrative and technical capacity, and the provincial reach to foster the private sector—it has often been an active part of the problem.

The government’s strategy to support the private sector has not been consistent, and its implementation uneven at best. There has generally been a structural absence of coordination, sometimes even based in ministry and agency competition.¹¹⁷ Thus, the Presidential Office and several ministries and agencies have been involved in various capacities. The Ministry of Commerce and Industry (MOCI) General Directorate for Private Sector Development has so far been the only agency with direct focus on supporting the private sector, but it has not had full control over policy implementation.¹¹⁸ Nearly a year after NUG was formed, private sector policy responsibilities within the state

apparatus have also not yet been fully clarified and further reconfiguration seems likely.

Commercial legislation has been the subject of ongoing reform since 2002, resulting in adopted laws on, for example, business structure, partnerships, arbitration and mediation, and several other laws are in the process of amendment.¹¹⁹ The final version of the much debated minerals law,¹²⁰ adopted in 2014 and as of 2015 under further amendment, will be an indicator of the NUG's ability to reconcile the need for foreign investment with equitable resource and revenue utilization and public transparency. For domestic businesses of every size, the lack of a sufficiently unambiguous legislative basis for investment protection of fixed assets is a major problem.¹²¹ The NUG has commissioned international law firms for a general oversight of national legislation, but the process of resolving inconsistencies, amending laws and obtaining parliamentary approval is likely to be lengthy, not least due to political-economic vested interests.

However, the arguably most important concern for businesses is in the unpredictable implementation of legislation. In the field of government procurement, the ANDS recognized the telecom industry as a model for ensuring transparency and efficiency for regulatory authorities in several sectors.¹²² Still, in many areas contradictory and overlapping legislation gives opportunities for misuse by officials, exacerbated by the lack of (legal) literacy among the population. While obtaining an operating license is relatively easy,¹²³ businesses are required to renew licenses with the Afghanistan Investment Support Agency (AISA) on an annual basis and there is a widespread impression of prevailing corruption in this process.¹²⁴ Simplification of licensing procedures, government agency coordination and introduction of computerized registries may, if implemented, increase transparency and limit the room for misuse.¹²⁵ Recent experience shows that with concerted effort business climate improvement can be achieved relatively quickly. However, without incentives for enforcement and with continued impunity of officials, relapse is likely.¹²⁶ Currently, many formal and informal businesses are dependent on 'commission workers': informal agents acting as middlemen for access to government services.¹²⁷

A grave deterrent to investment and business operation is the inefficiency of the judiciary, including in resolving commercial disputes.¹²⁸ The courts are seen as the country's most corrupt institution.¹²⁹ In addition, access to the statutory justice system is very uneven, with commercial court competence available only in the largest cities. Distrust in receiving fair redress in court means that many business disputes are resolved by other means, such as tribal *jirgas* or informal mediation and arbitration.¹³⁰ A further aspect with important consequences is that cases involving corruption charges are unlikely to be fairly settled through the court system.

In the new administration, the level of coordination and clarity about the role of presidential commissions as well as how strategic private sector-related programmes will be divided between MOCI and implementing ministries will

be important success factors to any private sector development strategy. In line with the ambition to channel aid funds on-budget, the government aims at more engagement in economic development programmes. Any private sector programme will also have to be coordinated with ongoing macroeconomic reform and the country's trade and tax regime.

The Afghan Government is the only authority that legally can, and should, create the conditions for a more facilitating private sector, but it should be noted that the government's inadequate influence over the criminal and informal economy and its budget dependency on foreign aid limit what any government policy can be expected to achieve.

2.7. Conclusions

Historically, Afghan households have sought welfare through informal and even illicit means rather than through the formal economy, particularly in rural Afghanistan. The post-intervention administration has not been able to alter this status quo. Administratively and technically weak governing bodies rife with predatory officials discourage the Afghan private sector to formalize. Incentives for formalization remain low as registration brings few benefits. The size of the informal economy bears witness to this: estimates made in 2005 that 80–90 per cent of Afghanistan's economic activity is informal have not changed over the past decade. The vast majority of Afghans, some 90 per cent, are employed in establishments with less than five employees. Organized business acts as a useful united voice, but capacity is limited and outreach often fell on deaf ears during the Karzai administration's tenure. On the other end of the spectrum are a handful of large business groups that date back to at least the early 1990s, the oligopoly, complemented by a new set of successful entrepreneurs that emerged with the post-2001 service-driven economy. The former uses its political and economic clout to undermine competitors.

Domestic market integration is limited, exacerbating the problem of broken value chains and market access. Urban-to-rural linkages are weak, particularly in the case of smaller provincial capitals and of rural Afghanistan to the country's largest urban clusters. This is much to the detriment of Afghan farmers. Rather than a single economic space, there are instead a number of localized markets in the country. This goes beyond the limitations of physical connectivity, to include more socio-ethnic challenges of exclusive trade and business networks. Regional trade channels are existent but irregular: trade agreements with neighbours are often not enforced, and where they are, they disadvantage Afghanistan and add to its trade imbalance. This is the extension of low state capacity as much as design. Beyond rampant corruption and enforcement problems, customs policies also are disharmonized across borders. The consequent price differentials have been exploited by traders, to the detriment of producers.

After nearly a year since the NUG's inception, private sector policy responsibilities within the state apparatus have not yet been fully clarified and

further reconfiguration seems likely. For domestic businesses of every size, the lack of a sufficiently unambiguous legislative basis for investment protection of fixed assets and enforcement of contracts is a major impediment. The NUG, with international community support, will need to display bold and decisive economic policy measures, uphold commercial legislation, and engage in public goods initiatives that instil trust in the government and slowly but gradually incentivize the private sector to formalize.

3. Impediments to inclusive private sector growth

The 2002 NDF claimed that the private sector would be the ‘engine of sustainable growth and the instrument of social inclusion’ in Afghanistan.¹³¹ Follow-on national strategy documents, including the ANDS, made similar claims on the ability of private sector growth to lead to developmental outcomes. However, this growth has in reality has been neither sustainable nor inclusive. Despite the tenfold growth in the size of Afghanistan’s GDP, poverty rates have not substantially been reduced. The 2011–12 National Risk Vulnerability Assessment (NRVA) finds an ‘absence of progress in poverty reduction over the past four years’ and that ‘the poorest segment of the population have not benefited from the general improvement in economic conditions’.¹³² The rate of people living below the poverty line and the number of people experiencing food insecurity have both increased (36 and 30.1 per cent, respectively), particularly for rural and nomadic populations, while consumption for the top quintile had increased.¹³³ The capital accumulated in connection with the international presence has gone primarily to economic, political, and war elite, or a segment of *nouveau riche*. This is in contrast to 81 per cent of the population which is still in what is considered ‘vulnerable employment’, with insecure sources of income. Regional disparities are also pronounced. In the developmental aid provided by donors there are ‘well documented inequities and imbalance across provinces’.¹³⁴

Circumstances for women have changed for the better in many ways, but the labour market remains dominated by men: women constitute 19 per cent labour force participation rate and have only an 11 per cent total share of non-agricultural jobs. Similarly, ethno-cultural groups have not benefitted equally in economic terms.¹³⁵ Overall, numbers such as per capita GDP do not reflect the inequality that has so marked Afghanistan’s development—a gap that has even been growing.¹³⁶

Finally, much of the growth, as has been noted, is not sustainable. Without the market created by the fleeting international presence and the ongoing injections of aid, the economy has experienced tremendous drop off in growth. Rather than being reinvested into the domestic economy, urban capital has been fleeing the country. Fluctuations in annual economic outcomes and in basic economic indicators have often been the result of annual variation in rainfall.¹³⁷ Nevertheless, there has been little investment in structural improvement of the agricultural sector, despite its role in providing livelihoods for the most vulnerable.

The 2008–13 ANDS laid out an action plan for ‘making investments that have a preferential impact on bringing the poor out of extreme poverty . . .’ This poverty reduction paper made a case for policy that addresses the *quality* of growth rather than *quantity*. Its target of ‘pro-poor growth’ was defined as growth in which ‘the incomes and livelihoods of the poorest rise faster than

the average growth of the economy'.¹³⁸ But as the private sector currently stands—with only a handful of medium and large-sized business, and given the above sections' overview of some of the macro-level and durable constraints—the ability of the formal 'free' market alone to tackle poverty reduction may be in question.

3.1. Extra-market conditions

3.1.1. The political situation

Doubts over NUG sustainability and its effectiveness combined with extra-political realities put Afghanistan in a very delicate spot: the annual Fund for Peace 2015 Fragile States Index (formerly the Failed States Index) ranked Afghanistan 8th on its list of most fragile states.¹³⁹ In 2014, the Afghan private sector considered political instability as the biggest business environment obstacle.¹⁴⁰

There has been a political vacuum in varying capacities for nearly two years in Afghanistan: in anticipation of the elections the Karzai administration amplified inertia, and political survival calculations sidelined day-to-day duties since late 2013 already.¹⁴¹ As of October 2015, the new cabinet has not been fully formed and parliamentary elections have been delayed as a result of Ghani and Abdullah's diverging stance on the particulars of electoral system reform. These political indecisions—in combination with the waning security situation—add to the poor investment climate and seriously hamper the private sector. A recent ACCI survey conducted in five provinces concluded that the business community had lost the enthusiasm it held after the NUG was formed¹⁴² and that capital flight had increased extremely in the first three quarters of 2015, particularly from the trade and construction sectors.

This drop in the business community's enthusiasm is partially the result of the manner in which the NUG agreement on 21 September 2014 came to being. While the political transition in 2014 was the first peaceful transfer of a democratically elected authority in the country's recorded history, it was ultimately not secured by the ballot box but through foreign brokerage (mainly the USA's) and extra-constitutional means. The uncertainty that prevailed over succession has negatively impacted the business environment for four reasons since 2013: first, there was speculation that former President Karzai would either rig the election in favor of former minister of foreign affairs, Zalmay Rassoul, or alternatively, would cling to power himself; second, after Ghani took the lead in the run-off elections, rumours of vote rigging began to dominate the media adding to paranoia and frenzy among the Afghan populace and spoiling the business climate; third, the power sharing arrangement between Ghani and Abdullah (Abdullah's extra-constitutional CEO role was created by Ghani through presidential decree) has the business community concerned about the political sustainability of their working relationship and its effectiveness; and fourth, the delays in cabinet formation

have in turn deferred economic policy reforms. Ghani's commitment to introducing a younger pool of top officials through a more merit-based a selection process has resulted in a sluggish reconfiguration of the cabinet. This has been exacerbated by parliamentary fragmentation. This reconfiguration affects the elite's positions and connections within the new government, and subsequently their investment windows and income channels.

While the NUG did perhaps prevent a violent scenario in 2014, it has possibly sown the seeds of potential new conflicts among powerful business patronage networks: chiefly vested interests of their political bases, elections campaign financiers and loyalists to either Ghani or Abdullah—none of which had envisioned a power-sharing government. The NUG formation meant that pre-designated seats and subsequent power, income channels and investment windows quickly evaporated for some. This also impacted investment horizons for their networks. A *loya jirga* (a grand assembly of elders, tribal leaders and prominent individuals) has refused to constitutionalize Abdullah's position and its legal parameters before 2017, if ever. Until that date, existing powerful patronage networks are anticipated to fend off other and incoming political and ethnic factions' business interests. The 2017 timeframe and the power-sharing nature of the NUG negatively influences the business engagement of the economic elite that sides with Abdullah; and indirectly that of micro-, small-, and medium-sized businesses.

A number of available short-term indicators on new firm registrations and other fiscal and monetary trends signal that the Afghan economic slowdown deepened during the first half of 2014 suggesting that events since around October 2013 have taken a toll on the private sector.¹⁴³ The number of staff employed in the private sector was cut 25 per cent in the first quarter of 2015.¹⁴⁴

Unless the Ghani–Abdullah administration makes demonstrable strides in strengthening institutional capacity and resilience, providing increased security and administering core public services and goods that hone the private sector, both domestic as well as foreign investors will remain wary of actively engaging the formal economy. On different occasions the new administration has conveyed that bolstering private sector confidence is a key priority. A number of reform processes at the institutional and policy levels has been initiated, the impact is pending.

3.1.2. Business-political coupling and the issue of corruption

Afghanistan is consistently considered one of the world's most corrupt countries, and despite awareness of the problem within the country and the international community, the overall assessment has not improved in recent years.¹⁴⁵ The international intervention, which overwhelmed recipients' aid absorption capacity, has contributed to a climate of kleptocracy and fed resources into a corrupt system. Corruption is not only a matter of squandered government revenue and inefficient public service provision, but it constitutes a major source of instability and violence and erodes the legitimacy of the

state in the eyes of citizens and potential investors in the private sector. Corruption also fuels civil society's resentment at the government and fosters insurgency lure.

Broadly, the particular character of Afghan corruption may be traced to the breakdown of the state-centric economic bureaucracy in the civil war, when the economy was captured by factional interests and state institutions nominally remained in eroded form. The surge of narcotics-driven informal capital and the influx of large amounts of foreign aid precluded the development of a sustainable formal economy. It has been argued that at a macro-level Afghanistan's state apparatus is an example of 'trickle-up' corruption, making it comparable to other resource-strapped states with a centralized bureaucracy.¹⁴⁶ However, the corruption pyramid also has a strong element of top-level legislative subversion and nepotism with effects including political embezzlement and money laundering. Clearly, neither the Karzai administration nor the NUG, to date, have instilled an effective culture of accountability. Furthermore, although Afghanistan is ostensibly a strongly centralized state, in reality provincial power brokers often maintain their own order, sometimes in competition with representatives of the central government. Cross-border trade is also subject to heavy subversion on a lower level.¹⁴⁷

Boundaries between private companies and public officials are blurred through ethnic, family and personal ties. Major business interests are part of an ecosystem of *grand corruption*, where officials subvert the economic, legal and judicial system for their benefit. The Kabul Bank case exposed the political shielding of business interests at the highest level and demonstrated the politicization of the judiciary.¹⁴⁸ Land access for real estate development and government procurement, especially for lucrative import contracts for fuel and construction materials, have reportedly been awarded to companies with connections to state officials in Kabul. In the mining sector, where major extraction royalties are yet to come, concession deals have often been highly opaque.¹⁴⁹ However, the NUG's reinforced commitment to the Extractive Industries Transparency Initiative (EITI) may be a sign of change.

The high cost and at times physical risk associated with clean business incentivize companies to participate in the corrupt system. According to a FACT official, proper payment of taxes is an issue 'from both sides'.¹⁵⁰ Mid-size companies, having no direct access to political elite, often have no option but to align with local economic strongmen, thereby often consolidating the existing oligopoly. The overhead created by bribes is a major hurdle for the growth of micro-enterprises and SMEs. In the words of one businessman in Balkh, 'as soon as you reach a certain size, the government moves in'¹⁵¹ with the effect that businesses may choose to remain informal up to a certain size.

Over the past 14 years the Afghan Government has repeatedly pledged to make fighting corruption a national priority. However, bodies such as the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) and the High Office of Oversight and Anti-Corruption (HOOAC) have

no authority to independently prosecute corrupt officials, and HOOAC has itself been accused of corruption. Repeated government-led anti-corruption campaigns have so far yielded few tangible results.¹⁵² On the business-side, initiatives like the Center for International Private Enterprise (CIPE)-initiated Business Integrity Network Afghanistan (BINA) hopes to lead by example, making business more transparent and less tolerant towards corruption.

Corruption is consistently a top three concern among Afghan businesses—and is the top concern among female business owners.¹⁵³ It erodes trust in both the public and private sector,¹⁵⁴ sets a bad example to Afghan youth, deprives the state and companies of revenue, deters investment and discourages the growth of a competitive Afghan private sector.

3.1.3. Influence of foreign aid

Foreign aid underpins many of the developmental gains that have been made in Afghanistan since 2001, but its application has been highly flawed, and its success record is mixed at best. As the World Bank puts it, aid has ‘been linked to corruption, fragmented and parallel delivery system, poor aid effectiveness, and weakened governance’.¹⁵⁵ But with poor domestic revenue collection, the Afghan state is nevertheless highly dependent on it: foreign assistance constitutes 74 per cent of public expenditure in Afghanistan. Net ODA as a share of GDP has begun to decline in recent years (25.7 per cent of GDP in 2013, compared to nearly 100 per cent at its peak in 2011). However, this does not include the security budget, \$5.4 billion in 2015, which is entirely funded by donors.¹⁵⁶

Most aid to Afghanistan since 2001 has been provided outside of government channels. This is usually due to donors’ own legislative restrictions or concerns regarding the Afghan Government’s lack of capacity and rampant corruption. In developmental projects this may mean more direct reach to beneficiaries, but in the reconstruction process as a whole, off-budget spending has had a particularly low local impact, with only an estimated 10–25 per cent directly reaching Afghans (‘phantom aid’). The bulk goes to international contractors and technical assistants, or otherwise circulates back to donor countries’ economies.¹⁵⁷ With 88 per cent of all civilian aid provided off-budget in 2011, local content is estimated at less than 40 cents a dollar.¹⁵⁸ Neither has aid reached Afghans equally. Beyond lining pockets for a small segment of the population, aid has had highly varied geographic impact, concentrated for instance in urban areas, insecure provinces and largely where foreign troops have been stationed. Poor aid management and oversight, with nearly no accountability mechanisms to the Afghan state or to beneficiaries, have contributed to corruption and even to the insurgency.¹⁵⁹ For the vast majority of Afghans, developmental aid has made little lasting difference, and poverty figures remain unchanged.¹⁶⁰

Nevertheless, international aid has substantially impacted the economy and the private sector. Aid money, which often plays a subsidizing role in markets, has distorted incentives for local businesses and created an industry designed

specifically to respond to and siphon off foreign assistance.¹⁶¹ Young talent in the labour markets has been captured by international or internationally funded non-governmental organizations (NGOs) which pay higher salaries; the influx of US dollars has kept the Afghani artificially high; and both wages and expectations have been inflated beyond what domestic markets can alone provide moving forward. Indeed, decreasing levels of aid are already beginning to have a sharp impact on the economy. However, the World Bank notes that while the transition needs to be carefully managed, there is in fact much room to trim the fat, to increase aid efficacy and to provide aid in a more targeted, need-based and responsible fashion.¹⁶²

3.1.4. The regional politico-economic environment

The politicized economic environment of the larger region, as well as the fact that Afghanistan is landlocked, has a profound impact on Afghanistan's private sector. This is exemplified by the Afghan private sector's struggle to compete with imports and to gain access to neighbouring, regional and world markets. Broader regional geostrategic rivalry strongly shapes Afghanistan's security situation, which in turn affects the business climate.

The international community only began actively encouraging regional solutions to Afghanistan's security situation and reconstruction after it announced in 2011 that it would wind down its military involvement by the end of 2014. Until then, the intervention took very little account of regional dynamics. Since the announcement (notwithstanding the founding of the Heart of Asia Process and a number of bilateral, trilateral, and multilateral initiatives), there has been no substantial coordinated regional approach to support Afghanistan's stability or to tap its economic potential as Asia's 'roundabout'. Regional stakeholders placed Afghanistan's stability second to their own geostrategic calculations, much to the detriment of regional economic integration more broadly. This is one of the reasons why multilateral bodies such as the Regional Economic Cooperation Conference on Afghanistan (RECCA) have largely had minimal impact. The most recent iteration in 2015, VI, is somewhat more promising and includes proposals on transition from traditional donor support to new modalities of financing.

To its north in Central Asia, Afghanistan borders impoverished Tajikistan, an economically largely insulated Uzbekistan, and a gradually economically burgeoning Turkmenistan; to its east in South Asia is Pakistan, which changes its customs policies for Afghan goods at will despite recently re-signing the 2010 Afghanistan–Pakistan Transit and Trade Agreement (APTTA); and to its west in the Middle East is Iran, which has suffered economically from years of imposed sanctions. Afghanistan joins three regions bound together by politically rooted distrust and rivalries, exemplified by Uzbekistan's obstructionist economic policies to Afghanistan; Pakistan's hindrance of Afghan and Indian transit through its territory and the arbitrary enforcement of trade agreements and product dumping in Afghanistan; and Iran's disadvantageous customs policies towards Afghan produce¹⁶³ and ongoing

product dumping in neighbouring Herat province. Afghanistan also has long-standing water-sharing disputes with neighbors Iran and Pakistan.

There is progressive consensus in the international community that Pakistan—Afghanistan’s largest trade partner—is, in particular, the de facto most influential foreign actor for Afghanistan’s security and development. Pakistan is fearful of being ‘sandwiched’ between an economically emerging India and an economically growing pro-India Afghanistan state. Pakistan is widely believed to have provided safe haven and support to the Afghan Taliban, a strategy that has backlashed when the Tehrik-i-Taliban Pakistan (TTP) was formed in late 2007, leading to intertwined militancy in the two countries. The Afghan Government claims that it is treated as Pakistan’s backyard, one that Islamabad prefers to keep poor and disorganized. Yet, Pakistan also depends on Afghan territory to export to Central Asian markets and to import surplus hydropower energy and gas from Central Asia.

However, it is not just Pakistan. The rivalry between Pakistan and Saudi Arabia on the one side, and India and Iran on the other side has had a complex push and pull effect on Afghanistan. The rivalries are severely detrimental to Afghanistan’s security, which in turn drains the Afghan Government’s attention and budgets that could be used to foster the private sector. These four actors’ geostrategic agendas and conflict proxies are extra-market conditions that strongly affect the Afghan private sector, not least by creating the insecurity that discourages investment. Furthermore, the majority of Afghanistan’s neighbours produce the bulk of the agricultural products and handicraft on which Afghanistan could have had an economic edge. Most of Afghanistan’s neighbours also have limited economic infrastructure quality and inconsistent customs policies, which affect Afghan foreign market access and market prices of exported Afghan goods.

Nevertheless, these economic realities do not imply that there are no economic opportunities: if political trust grew and economic integration became less politicized, closer economic integration would be likely to follow. At this stage it is uncertain how and when this will unfold, yet it would most likely positively impact integration of regional private sectors and corresponding capital flows.

The NUG is wary that a weak, economically underdeveloped and landlocked Afghanistan will continue to be prone to foreign meddling. Economic development at large, and private sector growth specifically, will have little chance of fruition without resolving the security situation. Increasing regional economic transit interdependence could possibly be one such way to reduce foreign meddling. The NUG is therefore proactively attempting to leverage the country’s unique geographic position as the ‘heart of Asia’ and push for large-scale projects such as CASA-1000, the electricity transmission and trade project between the Central Asian countries of Tajikistan and Kyrgyz Republic and the South Asian countries of Afghanistan and Pakistan, and the long-delayed Turkmenistan–Afghanistan–Pakistan–India (gas) pipeline (TAPI). As it does so, the NUG must simultaneously

attempt to provide assurance over the country's deteriorating security situation in the north and the threat that emanates from presence of ISIL in its general territory.

Despite all the various detrimental extra-market forces at play, a momentum might be emerging that could gradually turn Afghanistan's geographic liability into an asset for the country's private sector. Afghanistan's vicinity to world's two fastest growing large economies, China and India, and their growing regional security interests; the promised lifting of sanctions on Iran over the course of 2015 and beyond; and the possible thawing of relations between Kabul and Islamabad, could all possibly become a collective game-changer for Afghanistan's security and private sector. In particular, China's concerns over stability on its western borders, the threat of East Turkistan Islamic Movement (ETIM) insurgents military training in non-controlled Afghan and Pakistani border territories, and the growing investment and transit security interests that come with the Silk Road Economic Belt (SREB) have made Beijing more proactive in its Afghanistan policy and to Islamabad. China's close involvement in the Afghan peace process bears witness to this.

3.2. Economic resources and critical infrastructure constraints

3.2.1. Access to land and physical resources

The absence of discernable land ownership, usage characterizations and definitions, and corresponding rights hurts the private sector and negatively affects many commercial issues.¹⁶⁴ It also unnecessarily creates risk for all stakeholders. The private sector is dependent on mortgages to obtain formal capital, lease private commercial land, and sell or lease (serviced industrial) state land. A modern, efficient, and transparent policy on land and property rights is required to make sure that the creation of wealth is not limited to the economic elite: in its current state the private sector does not facilitate the creation of a widespread business class. Absence of clear land and property rights and corresponding enforcement can be considered a serious impediment to (inclusive) private sector growth.

There are three land tenure types in Afghanistan: (a) individually owned; (b) family-, clan- and community-owned; and (c) government-owned.¹⁶⁵ In an agrarian society like Afghanistan, land rights are central to government legitimacy—and to the peace process. Perceptions of the government as predatory permit the insurgency to provide shadow government services: the government has used statutory law to lease and sell private land, completely undercutting customary claims to those lands. The post-Taliban Afghan state overlaid, but never fully replaced existing localized tribal land relations. Popular views on the predatory role of the government with regards to property ownership are well founded: an estimated 240 000 hectares were usurped by officials under the Karzai administration.¹⁶⁶

Land disputes are a primary driver of conflict in Afghanistan.¹⁶⁷ Disputes over unequal land distribution along politico-ethnic lines have existed since the founding of the Afghan state,¹⁶⁸ but they have been exacerbated by ongoing instability since 1979.¹⁶⁹ Since 2002, competition over land has increased even more so: political disinterest and weak governing institutions during the Karzai administration have brought little positive change amid population pressure, rapid urbanization and rising land value.¹⁷⁰ Land is a commodity with an exceptionally high market value in Afghanistan. It easily converts to political power and vice versa. Control over access to land is fundamental to power relations and corresponding business activity: the Afghan business elite receives security assurances, tax exemptions, credit lines and access to lucrative contracts from political, financial and military power holders. These mutually beneficial relationships provide parties with the resources to further increase their power¹⁷¹ and to acquire physical resources.

There were a number of land reforms in 2009, of which the most notable led to the establishment of Arazi as the country's single source for managing all land-related issues. While Arazi is entrusted to administer government land leasing to investors, it has limited resources.¹⁷² Arazi and supporting government bodies have still not been able to document the vast majority of land in the country that continues to go untitled (or inaccurately titled) and unregistered.¹⁷³ This in turn further complicates the Afghan state's ability to resolve land disputes, particularly in rural settings. In addition, it is time consuming for the average Afghan to consult authorities and official records: it demands a certain level of education and dealing with forged documents by counter parties is common. The complexity surrounding Afghan land issues is well demonstrated by World Bank *Doing Business* data: it requires no less than 250 days (more than tenfold the OECD average) to purchase registered land and physical resources (i.e. real estate, free of title dispute).¹⁷⁴ This puts Afghanistan seventh last in the *Doing Business* global ranking. Securing land tenure and the safe purchase (or rent for that matter) of real estate plays a central role in the private sector growth process. Transparent laws on land tenure and property rights gives entrepreneurs long-term incentives to invest and save their income, it shifts orientation from protecting land rights to economic usage of land, it facilitates the possibility of using land as collateral for formal loans (access to formal finance is a key prerequisite for any private sector to grow), and it contributes to social stability and local governance.¹⁷⁵ Specific to the Afghan context, the scarcity of economically viable land, particularly upstream land amid increasing drought—in conjunction with high dependence on access to land for subsistence farming and the inability of the government and the market to provide welfare to the majority of the Afghan populace—makes land a much contested production factor. Furthermore, inheritance practices that subdivide assets over generations mean that the size of land holdings is declining, adding to the problem.¹⁷⁶ In urban settings, property prices have skyrocketed as an extension of the international

community's presence, and consequently the political and patronage dimensions of property have become further entrenched.

Due to lack of trust and confidence in formal judicial institutions, 90 per cent of Afghans rely solely on customary law.¹⁷⁷ This paves the way for insurgents to intermedicate in tribal and land disputes by what they present as Sharia justice, the Islamic legal system. Such interpretation is subjective and often self-serving, and many Afghans are not educated enough to know what is Sharia and what is really local tradition. The main appeal of these judgments is that they are seen to be untainted by corruption. Insurgents also fill the conflict disputes intermediation void that (attempted) land grabs by strongmen and government officials create and that the government does not intermedicate in to resolve. These strongmen particularly target more lucrative state-owned land in urban settings (which is then often designated for construction purposes or distributed to gain patronage), and tend to target local ethnic minorities.¹⁷⁸ Another challenge relating to equitable land access concerns the return of many refugees and internally displaced persons (IDPs), a number of whom with useful business ideas and connections. Many have returned to face property disputes or have been unable to return due to land and property disputes arising from either occupation or expropriation by the government or powerful individuals, which has hindered business development.

Of particular relevance to land access is the position of women. Contrary to Afghan men, Afghan women typically have very limited mobility and access to and involvement in land and livestock activities is of great social and economic value to them. Despite their involvement in such activities, few own the land,¹⁷⁹ which hampers their influence within the family.

The challenge to accessing non-real estate physical resources (e.g. of cold storage materials and cold-storage transportation, hi-tech machinery, and modern IT systems) is financing: large formal loans can generally not be obtained without evidence of registered land. Another major obstacle is obtaining visas for the purposes of shopping abroad for production machinery, its safe import into the country, and inadequate operation and maintenance (O&M) expertise of and material for physical assets. While the economic elite can afford and acquire these resources, the average SME has difficulty procuring such inputs.¹⁸⁰ Without modern machinery, it will be nearly impossible for Afghan farmers, small agro-businesses and light industrialists to improve efficiency and output and compete with foreign produce and goods.

3.2.2. Access to finance

As the influx of international community-related expenditures diminishes, Afghanistan is seeing a reconfiguration of its potential sources of investment capital. While only relatively limited amounts of aid gone directly into private sector development, many companies will be affected by the termination of supplier and service contracts and indirectly through reprioritization of aid

programmes. Fortunately in the latter case, the post-transition aid agenda has notably increased the focus on private sector development as the primary means for the country to achieve a self-sustained economy.

Access to finance capital in Afghanistan is a problem on several levels. In the transition year 2014, companies considered political instability to be the biggest business-environment issue.¹⁸¹ Concerns about political instability reflect a general lack of trust in the future, which partly explains many of the country's problems attracting and retaining capital. Much of the revenue generated through Afghanistan's macroeconomic growth over the past decade has been funnelled abroad, typically to Dubai, or only available to narrow segments of the private sector. Uncertainty and insecurity holds back both foreign and domestic investment. Since FDI in Afghanistan has always been low and is decreasing,¹⁸² a key question becomes to what extent, and under which conditions, capital—particularly domestically generated capital—can be reinvested in the economy.

For the extant Afghan private sector, companies of every size regularly list access to finance among their top concerns. SMEs are facing even more difficulties than large enterprises in obtaining loans, and women are further disadvantaged, with 81 per cent of female SME owners stating a lack of access to credit.¹⁸³ In total, no more than a few per cent of companies employ bank loans to finance investment.¹⁸⁴ This is partly explained by the availability of other forms of funding, especially through relatives and kin-based networks. Among clusters of craftsmen, small mutual loans are part of the common framework within which they otherwise compete.¹⁸⁵ Overall trust in the formal banking system is low and has decreased considerably since the Kabul Bank scam—as credit restrictions have at the same time tightened. In addition, there is still a scarcity of sharia-compliant instruments among banks and microfinance institutions. Those companies which do opt for bank loans often face prohibitive repayment conditions, including lending rates of at least 15 per cent,¹⁸⁶ requiring a very high short-term profit margin.¹⁸⁷ Collateral and public credit registries—such as those introduced by the Central Bank (Da Afghanistan Bank) in 2014—could, however, eventually be a step in the direction of broader bank credit access.¹⁸⁸

Afghanistan is an outlier among least developed countries (LDCs) in the low financing rate through banks. In fact, less than half of formal Afghan firms have a bank account and even the major banks only have offices in the largest urban centres. Moreover, most of the economically active population is in the informal sector, or is for other reasons not eligible for commercial lending. For large numbers of businesses, entrepreneurs or producers, including in rural areas where access to finance can be decisive for vital livelihoods, bank credit will likely remain out of reach. Therefore, in parallel with recreating trust in financial policy and building a robust banking system, non-banked-based (informal) credit mechanisms may be required to relieve the financing issue. Microfinance has been one response, with mixed results. Starting in 2003, the government initiated the microfinance support

organization Microfinance Investment Support Facility for Afghanistan (MISFA), which has since reached out to nearly a million clients, one third of whom are women.¹⁸⁹ However, in order to gain community acceptance and to produce desired results, microfinance operations require a highly adaptive model that takes into account existing local credit mechanisms, education levels, religious and community sensitivities, security and other risks.¹⁹⁰

3.2.3. Human resources

With almost half of the population under 15 years of age, Afghanistan has one of the world's youngest populations. The Afghan youth bulge is both a challenge and potential asset. While in principle these demographics suggest high dependency ratio, in reality such demographics have translated to a high incidence of child labour.¹⁹¹ At the same time, only a fraction of the female population participates in the labour force. This is particularly low in urban households, although women participate to a greater extent in rural agriculture.¹⁹² The transition year 2014 seems to have had clearly adverse affect on employment: in 2015 nearly 40 per cent of the total labour force was estimated to be unemployed or underemployed; half of them are women.¹⁹³ Since many low-income countries typically exhibit relatively high rates of female labour participation out of breadwinning necessity,¹⁹⁴ lack of inclusive economic participation in Afghanistan is potentially a serious problem for Afghanistan in terms of productivity and growth.

There is strong evidence for education as a determinant for individual income. Moreover, literacy, especially if evenly distributed, in itself can contribute to economic growth.¹⁹⁵ Despite significant improvement in access to education, Afghan literacy rates are still among the lowest in the world at an estimated 31.4 per cent.¹⁹⁶ Education, as the foundation for poverty reduction and long-term equitable economic development, requires a sustained commitment from donors and authorities.

The issue of fostering and retaining a qualified workforce also remains a serious challenge to development of the country's private sector. Outmigration of the skilled workforce was substantial during the Soviet-Afghan war, and peaked in the late 1990s when some 6 million Afghans left the country¹⁹⁷. However, many members of the Afghan diaspora have contributed remittances (or investment) back into the country, or have returned from displacement in Pakistan and Iran with entrepreneurial skills and trade contacts. Worryingly, however, outmigration has yet again increased over the past year, reflecting renewed concerns over the political, security, and economic situation in the country.¹⁹⁸

3.2.4. Critical Infrastructure

As an extension of weak government capacity, the country's rugged topography, and recurring conflict, much of (rural) Afghanistan has never been well connected or powered. This deprivation has cut rural Afghanistan

from public services, cultivated societal fragmentation and undermined economic connectivity. Critical infrastructure is a fundamental enabler for the private sector. The poor state of Afghanistan's infrastructure is detrimental to private sector activity, as most of the country lacks decent quality roads, which hampers market connectivity and inflates prices.

The Afghan energy sector suffers from low power generation capacity and transmission systems are outdated, including those in power suppliers' territory such as Tajikistan. In an ACCI 2014 Business Bottleneck Survey across five major cities, 75.6 per cent of respondents stated that infrastructure is a key impediment to the success of their business.¹⁹⁹ Only 28 per cent of Afghans have electricity and most of them are urbanites. The Afghan electrical system primarily consists of nine isolated 'island' systems that mix grid-based power, micro-hydro or solar panel stations. Only 6 per cent of the rural population has access to electricity and are mostly dependent on micro-hydro or solar panel stations.²⁰⁰ Rural citizens are often dependent on the latter two and only 6 per cent of them have access to electricity. A number of industrial parks in the country have no access to electricity or share the same patchy national grid.

The vast bulk of the country's energy (78 per cent) is imported; this while the country has ample potential for hydro-, solar- and coal-based power production. While hydro-power has potential, all of the country's river basins are trans-boundary and require agreements with riparian countries. Grid-based power—imported from Tajikistan and Uzbekistan, and run by the government owned Da Afghanistan Breshna Sherkat (DABS)—is not reliable, and power cuts are a near daily phenomenon, even in Kabul. This is partially the product of poor operations and maintenance. Out of 183 countries, the World Bank's 2015 *Doing Business* Data ranked Afghanistan 141st in ease of access to electricity;²⁰¹ yet this indicator does not sufficiently reflect reliability and capacity of provided electricity.

Only 27 per cent of rural Afghanistan has access to clean drinking water and even less to basic sanitation.²⁰² Critical infrastructure urgently needs more investment to maintain existing systems and to build new ones. This was also reiterated by Afghan civil society in its position paper at the '2014 London Conference on Afghanistan' and by the Harakat and ACCI in their recommendations 'Outcome of Private Sector Priorities for Reform Conference' at a side event at the London conference.²⁰³

Future infrastructure development should be more carefully integrated with priority industry development to maximize impact.²⁰⁴ More liberal policies that permit the private sector to (co-) invest and provide critical infrastructure through for instance PPPs is worth serious contemplation by the NUG.

The telecom sector has performed remarkably well: in 2001 Afghans needed to go to Pakistan to make international calls, in 2015 90 per cent of residential areas have telecommunication and data coverage, and there are 23.21 million mobile phone users in the country.²⁰⁵ 10 per cent of the population has access to Internet services, however mainly in urban settings. The telecom sector

employs about 204 000 people and generates over \$200 million in annual tax revenue.

To create a more enabling environment for the private sector, addressing critical infrastructure deficiencies is fundamental. The Afghan Government has considerable public expenditure needs to build, operate and maintain critical infrastructure.

3.3. Limited female economic participation

The limited participation of half of the eligible working population in Afghanistan's economy has deep implications for the country's wellbeing and is a missed opportunity—for socioeconomic inclusivity, for poverty reduction, as well as for overall growth and productivity. Afghanistan ranks at the very bottom (149 of 152 countries) of the United Nations' Gender Inequality Index (GII).²⁰⁶ According to 2011–12 NRVA, the female labour participation rate is 18.5 per cent compared to 80 per cent for men, and UN Women estimates that only 5 per cent of businesses in Afghanistan are female-owned.²⁰⁷

There have been clear gains in women's empowerment since the end of Taliban era; however, progress has been highly variable across regions and communities. In many pockets of Afghanistan life for women remains unchanged.²⁰⁸ The limited role of women in the economy is rooted in their exclusion from existing power structures due to longstanding social norms and religious traditions, for example the stringent *Pashtunwali* that excludes women from inheritance rights²⁰⁹ and the *pardah* which restricts female visibility and presence in public spaces. There is of course variation across regions, ethnicities, religions and other sociocultural communities. It was found, for instance in Kabul, that, 'most of the women working outside the home in cities and who penetrate the male-dominated space of the physical marketplace are Hazara women'.²¹⁰ The economic needs, endowments and constraints of women are also influenced by age, education level and special circumstances, such as widowhood or extreme poverty.

Overall, however, traditional gender norms, which stipulate that men are expected to be the primary or sole earner and providers for the family, remain strong.²¹¹ But perceptions of gender roles are slowly changing—particularly in urban areas.²¹² One key measure of this change is women's own perceptions of their place in society: 82 per cent of women now believe that they should be able to work outside of home.²¹³ Besides formal policy changes and donor interventions, studies show that exposure to the outside world (for instance, return migrants) and educational attainment are essential components in this transformation. Rational economic considerations by households for more diversified income sources are also playing a role in opening more space for women to work.²¹⁴

Currently, the market in Afghanistan is by and large male-dominated, with a small pool of women making a few inroads into the private sector in recent years. Business remains a domain in which women's participation is not seen

as a culturally appropriate, and research suggests that even in urban areas many believe that it is not appropriate for women to own or run a business.²¹⁵ Nevertheless, there have been visible successes and positive trends. A recent study surveyed women engaged in the formal economy from a pool of 804 identified female business owners and 1604 female employees. Of these, 98 per cent of respondents were based in urban areas. Female business owners indicated that their professional obstacles are not necessarily gender-specific, with corruption listed as their top problem. Access to finance, however, remains major challenge. It is well understood that women on the whole have greater difficulty accessing finance due to lack of property (land) ownership and collateral, as well as discrimination, but the degree to which limited access to capital is the major ceiling to entrepreneurship and business growth may be variable. While 81 per cent of female SME owners were unable to access credit, 36 per cent claimed that they were not in need of it. However, the greatest difficulty the women faced was not being taken seriously in the business community.²¹⁶ Outside of this particular survey, it has also been 'argued further that the burden of regulation is even larger for female business owners (and workers), because they have less time and money to overcome expensive and time-consuming barriers to registration'.²¹⁷ Discrimination by economic authorities was also a recurring theme in interviews conducted by the authors.

Interestingly, female businesses owners range across a diverse set of economic sectors, including non-traditional (i.e. male-dominated) ones. Of these, 24 per cent were involved in the construction and construction materials sector.²¹⁸ This finding corresponds with AISA statistics; among 1130 registered female businesses, 51 per cent were in construction, transportation and storage.²¹⁹ While it is possible that women have made inroads into these male-dominated sectors, it may raise questions about whether donor priorities have created a market for female-owned businesses to the extent that male business owners may list a female relative as the proprietor to obtain benefits in access like international contracts or donor support. While nearly half of the women did business with the international community, half of those surveyed were also unaware of any donor programmes supporting female economic engagement. Moreover, there was some confidence expressed that these female-owned businesses, while facing shrinking markets, were sustainable beyond the international community's involvement.²²⁰

The same survey on women's formal economic participation found that there is a strong proportion of those working were in the younger age range (below the age of 30), and that four out of five business owners had attended institutes of higher education. Although many other factors are involved, the gains made in female school attendance in Afghanistan in recent years likely bodes well for increasing the pool of women able and willing to be involved in the economy in the future, particularly in education, administration, finance, business, health and other sectors where jobs are in demand. Currently, however, this group of female trailblazers is very much elite, not the least of

which by virtue of their educational status. They contrast sharply with the rest of the female population, which for those 15 and older, count a dismal 17 per cent literacy rate (compared to 45.4 per cent for adult males).²²¹

More broadly, a 2009 labour market survey, found that the top 'occupations' for urban working women are domestic/cook and homemaker, although tailoring is also significant, at 25.5 per cent.²²² Women are also heavily involved in the traditional Afghan economic sectors, such carpet weaving and handicrafts, products that are in fact key in the Afghan economy and comprise 17 per cent of the country's exports in value.²²³ However, as in many other facets of Afghan society, women's economic role is embedded within governance dynamics and processes in which they have little power; male market intermediaries capture the lion's share of profits in the value chain. Outside of these sectors, waged income opportunities are still limited. Women are still hampered by a lack of skills, which can make them uncompetitive even excluding the other significant barriers to their work force participation. Physical challenges—not only engagement in public spaces, but physical safety and security (including during travel)—also disproportionately affect women's engagement with markets to a very significant extent.

In rural areas, the working environment for women is significantly different in many ways, although there are again differences across regions, with relatively more permissive environments in the north and western provinces versus in the south and southeast. Broadly speaking, however, conservative ideologies are often more pronounced in isolated village communities. Economic opportunities for rural women are limited to home-based production in handicrafts and carpet weaving, and often unmonetized work in agricultural value chains.²²⁴ Female land ownership is rare in Afghanistan, and women have limited financial interaction with markets. Despite these restrictions, women do play an important role in the rural economy, taking on a variety of agricultural tasks—from harvesting and post-harvest processing of horticultural crops, to animal husbandry—as part of their household tasks and chores. According to the World Bank, 'an estimated 54 per cent of the agriculture work force is female'.²²⁵ (The 'hidden' household dimension and informality of this labour may explain why this may not be accounted for in the wider NRVA labour participation estimates.)

In Afghanistan, women working in the informal sector have largely been ignored by the international donor community. For such women, socialization into market processes will be a long-term endeavour, requiring new normative ideas to be brought into village life, with male buy-in and support. One key to the success of urban, female business owners is a supportive family environment²²⁶—which may be difficult for donors to influence through what are often seen as foreign incursions into highly traditional and often suspicious communities. There are, however, entry points in select areas, and select value chains in which rural women are substantially engaged, and those which the World Bank has identified as highly viable for commercial production, and competitive in both domestic and regional markets. These include horticultural

crops and animal-derived goods. Among these categories, the most promising products intersect both female labour and female production—such as grapes/raisin, almond, and saffron, dairy production and carpets. Women are the predominant producers in Afghanistan’s dairy industry—although their role becomes more limited farther up the value chain and in market governance. Beyond traditional products, donors have introduced relatively new commercial crops into Afghanistan, in hopes of stimulating growth with particular impact on women. Saffron has been success story in many regards, after being introduced as a cash crop with the help of international NGOs, while other newly introduced crops have had mixed results.²²⁷

Certain donors have worked to increase productivity in female-dominated segments of the value chain, providing materials or training for improved processes.²²⁸ However, women’s participation in the agricultural sector remains problematic due to poor compensation: they are often paid less than children or not at all.²²⁹ Whatever compensation women receive is subject to male capture, discrimination and sabotage further up the supply chain, and the compensation is rarely sufficient to help them to overcome systemic subjugation or provide control of the market processes to which they are beholden.

With the help of donors, some fully female-owned value chains have emerged in Afghanistan. These at a glance seem to be the most promising types of female market engagement activities: full value-chain linkages ensure a degree of sustainability and female engagement at multiple levels (from businesswomen who engage with the transactional parts of markets to women producer group’s at the village level), in addition to enabling women-to-women networking and support. For instance, there are successful models of community-led development for female engagement in the food processing sector. These programmes have created and supported linkages from self-help groups and village-based female producer centres, to commercial enterprises and outlets in the urban centre.²³⁰ In saffron production, donors have helped support the emergence of what has now become the Afghan Women’s Saffron Association (AWSA), which has been able to re-capture some of the saffron market from a male-dominated oligarchy.²³¹

Women-to-women support networks, producer group’s, and female linkages are particularly key at lower levels where women may be more vulnerable or dependent and face higher risks claiming their individual economic rights. Finance may also be more accessible for these associative groups. Infrastructure such as village and saving loan associations (VSLAs, which are a surprisingly 70 per cent female), and similar models established can be utilized.²³² Although it remains significantly more difficult for women to carve out space higher up the value chain, there are examples of approaches that have managed to push past community censure, male sabotage, and other gender-specific constraints. Around Kabul, for instance, there exist female trading companies engaged in dried fruits and nuts.²³³ While it should not be

assumed that such models can work in all parts of Afghanistan, there may be components of these models that are suitable for scaling up or replication.

Finally, while government prioritization of female empowerment is critical, as one study puts it in Afghanistan, 'it is unrealistic to expect that chain governance and gender issues could be addressed formally and through regulatory channels'.²³⁴ Greater and more equitable female participation in the economy is a major opportunity for the country's reconstruction, but will require addressing obstacles at all levels, including through shifts in social customs and norms, greater male buy-in and accommodation of women in the market, and more de facto female ownership of economic resources and decision-making processes.

3.4. Conclusions

Afghanistan's regional environment—Central and South Asia, and the Middle East—strongly politicizes economic integration and permits historic rivalries and geostrategic agendas to overrule economic integration. As a landlocked economy, the Afghan private sector is strongly dependent on its neighbours for access to world markets. Regional and domestic political factors are not the only obstacles to inclusive private sector growth. Limited and unequal access to economic resources (e.g. land and capital) and the lack of skilled labour and physical resources (e.g. infrastructure and electricity) pose major hurdles for inclusive economic development. The scarcity of economically viable land and the inability of the government and the market to provide for welfare to the majority of the Afghan populace make land a much contested production factor. Limited access to land, and ambiguous property rights in turn, limits access to formal capital that the private sector could use for investments in production. Deprived of physical capital and more modern production means, it will be a daunting task for the Afghan private sector to improve efficiency, reduce costs, increase output and compete with foreign produce and goods.

Socio-cultural norms and other hurdles marginalize women from economic activity. As these women form half the potential productive base of society, this is clearly a missed opportunity and major constraint on productivity and inclusive growth. Markets in Afghanistan are controlled by men, but even within this there are detriment extra-market dynamics at play: business is often governed by elites through patronage networks and power struggles.

Although external and socio-cultural obstacles may require a longer timeframe for change, the NUG (and a supportive international community) will have to mitigate these obstacles to inclusive growth through enforced legislative and legal reforms, greater public investments, and committed economic policies at all levels. Increasingly more equitable access to economic resources and providing more and better critical infrastructure is necessary.

4. The private sector and security

4.1. The private sector and the security nexus

Afghanistan has experienced an upsurge in insecurity and violent attacks since the 2014 transition. As the ANDSF assumed full combat responsibility in 2015, government casualties have increased 70 per cent in the first half of 2015 compared to the 2014, on track to become the bloodiest year for pro-government forces to date.²³⁵ Attacks in Kabul have likewise doubled. But physical insecurity in Afghanistan is wide-ranging, including: local intergroup conflict among militias, organized crime, threats posed by transnational extremist organizations, as well as the varied forms of conflict related to the Taliban and anti-government insurgents.²³⁶ Such forms of violence are often heavily interconnected and are compounded by the availability of arms in the country, with an estimated 2 million weapons in circulation.²³⁷ Although often less of a focus, non-organized crime—such as localized violent disputes for resources like land and water, as well as interpersonal and household-level violence—are also prevalent.

‘Security’ in Afghanistan encompasses a range of threats not only to the state but also the wellbeing of individuals. Civilian deaths caused by the post-2001 conflict are estimated at over 26 000²³⁸—with the highest civilian casualty rate yet in the first half of 2015.²³⁹ Fear of attack is prevalent, with more than half of Afghans in a 2014 survey reporting always, often, or sometimes fearing for their safety or that of their family, and even more reporting fear for safety when traveling to a different part of the country—with clear implications for market integration and access.²⁴⁰ But insecurity goes far beyond only the threat of physical force. Along a range of other human-oriented security indicators—for instance food, environmental, health, political, personal, community and economic security²⁴¹—Afghanistan also performs extremely poorly. Despite tenfold growth in the GDP since 2001, for instance, Afghanistan is still ranked 169th in the Human Development Index, with 59 per cent of the population in ‘multidimensional poverty’.²⁴² As surveyed in 2011-2012, 30.1 per cent is food insecure²⁴³ In the two essential components of human security, ‘freedom from fear’ and ‘freedom from want’, challenges are substantial. With GDP growth sharply declining, foreign aid levels dropping, and the security situation still volatile, the prospects for improvement are uncertain.

The private sector has a complex relationship with both traditional and human security. Analytically, the ‘private sector’ refers to any profit-oriented activities and transactions outside of direct state control. When promoted in national strategy documents as driver of ‘increased employment, higher living standards and a reduction in poverty’, and as the primary instrument for ‘sustained growth’, these implicitly refer to a private sector that has a formal relationship with state authorities, or has the potential to build one.²⁴⁴ Such

private sector growth does have a role to play in contributing to a secure, viable and legitimate state, providing a tax base, creating legitimate livelihoods and jobs, mitigating poverty, and for giving the broader populace as well as elites an economic stake in the survival of the system. But 'private sector' also includes activities entirely out of the state's regulatory purview: not only licit informal activities (including in-kind, subsistence, and extra-legal activities that could potentially formalize), but also irregular and illegal activities, altogether comprising an estimated 80–90 per cent of the economy. Indeed, over the decades of conflict in Afghanistan, 'the link between war and illicit activities became progressively stronger'.²⁴⁵ To this day economic opportunities and opportunism continue to fuel and be fuelled by conflict.

Opium accounted for 13 per cent of Afghanistan's GDP in 2014 (80 per cent of global supply of opium), the value of which 'considerably exceeded the value of the export of licit goods and services in 2014'.²⁴⁶ From a purely economic point of view—opium is in fact one of the few value chain success stories. Together with smuggling, irregular mining and other underground activities, the illegal economy arguably constitutes the most functioning and robust private sector in Afghanistan. While this report has not focused on the irregular or illegal economy, it warrants attention here as an oft-cited source of funding for the war economy, with implications for rule of law, governance, as well as security. There are other important spillover effects into legal sectors of the economy, both positive and negative. For instance, opium has stimulated the rural economy and contributed to growth in legal sectors. And although it is not always poverty that drives farmers to grow poppy, it is in many cases an important source of income for some rural households.²⁴⁷ However, opium can be a source of conflict itself; eradication programmes embarked on by the international community have driven people to arms, and not uncommonly, to join the Taliban.²⁴⁸

While anti-government forces commonly perceived to be heavily dependent on the opium economy for funding their activities, some experts suggest that it may be pro-government factions and corrupt officials who take the biggest share of the drug profits in Afghanistan.²⁴⁹ Taliban do impose taxes on opium harvest, trafficking, and heroin laboratories, and are heavily involved in drug production and trade in major-opium producing provinces. But it is noteworthy that while the poppy economy provided an estimated quarter of their income in 2011–12, this was only \$100 million of drug crop value estimated at \$3.6 to 4 billion that year. Other sources of funding include local taxation, extortion from major businesses, donations, as well as money derived from international aid. The UN estimates Taliban have been able to capture 10–20 per cent contract money from the international community.²⁵⁰ Thus, the problem extends far beyond political and ideological divides, and involves economic governance more broadly. Organized crime, drug trafficking, corruption, and other criminal activities related to protection and promotion of the narcotics industry and other illicit activities, fuel and perpetuate alternate power structures and poles of control that often directly subvert government

control (notwithstanding complicity of government officials) by violent means. Illegal extraction of natural resources, in which Taliban are also deeply involved, can and will lead to resource-based and resource-fuelled conflict.²⁵¹

Yet the pathway away from violence also entails an important role for the private sector. An addendum to the 2011 World Development Report finds that ‘the private sector alone is in a position to generate large-scale, sustainable employment opportunities, especially for young men, who are at highest risk of becoming fodder for potential future conflicts’.²⁵² Formal private sector actors are allies to the government, providing a base for taxation and revenue collection by the state, and acting as a form of organized society that has stake in the stable and effective state that can provide public goods—of which security is one of the most important. Moreover, in communication with the authors, a variety of businessmen, particularly industrialists, actively framed their activities in terms of rebuilding the country.²⁵³ This is also a driving sentiment expressed by women business owners in surveys.²⁵⁴ Impacts of insecurity to normal operations are severe: insecurity is frequently cited as one of the main, and very often the top challenges to formal businesses.²⁵⁵ Although such surveys often list ‘crime’ as a separate category, it is likewise an important security concern; in the major cities of Afghanistan, the private security industry for personal protection is steadily booming as productive businesses suffer from crime, threats of kidnapping, and extortion.

Legal and legitimate businesses cope with physical insecurity in various ways. These include: relocating business operations from insecure areas to elsewhere in the country; negotiating with either local, government, or insurgency actors, often entailing payments; building in a security budget into business costs; or, in a few cases, implementing a community-based strategy for protection.²⁵⁶ But insecurity places a ceiling on business growth, as businesses prefer to stay ‘below the radar’, including by staying informal, rather than expand and attract attention. While those that are linked to the international community may be at more risk for targeted attack, threats may also come from predatory government officials, or competitors.²⁵⁷ Insecurity strongly deters both domestic and foreign investment. Large-scale extraction projects in Afghanistan, revenues from which the economy was supposed to have been jumpstarted, have stalled or halted their work due to the security situation. Furthermore, due to the security situation, of Afghanistan’s largest capitalists have moved their families, businesses, and capital offshore.

This is not to downplay the resilience of the legitimate private sector in Afghanistan. Those domestic business actors that remain active often have a high threshold of tolerance for insecurity, with more nuanced understandings of how to mitigate risks within their environment. Indeed, research has found that the forefront concern for many operating businesses is not insecurity, but uncertainty: an inability to make long-term plans, or invest in long-term activities due to unpredictable and volatile business conditions.²⁵⁸ This may be harder to capture in surveyed questionnaires. But within a private sector, and indeed society, that has been ‘traumatized and damaged’ by decades of

conflict, some of the coping methods have deeper impacts. These include maintaining tight and closed business networks, exclusive to kin or socio-ethnic groups, engaging in short-term opportunism, investing in low-risk quick turnover activities, with a marked preference for trade over production. While these may be rational economic choices, it places a ceiling on how much businesses can contribute to the processes of social inclusion, integration, and job creation that policy makers assume that a market economy will help achieve.

The free market has a role to play in achieving the 'freedom from want' that is still lacking for the majority of Afghans. But patterns of growth so far have, as noted, largely served to the disproportionate benefit of power holders and oligarchs. Afghanistan is one of the more classic examples in which elite bargains for economic spoils can help constrain violence.²⁵⁹ But while perhaps stabilizing in the short-term, this type of growth is damaging for long-term development and for a competitive free private sector. Moreover, corruption and exclusion have been found to increase the risk of violence in fragile contexts, and inequitable growth feeds into an environment in which insurgent groups and non-state violent actors can thrive.²⁶⁰ Lack of opportunities and unmet economic expectations have driven people to petty or violent crime, and even in cases into the arms of the insurgency.²⁶¹ The unemployment problem is particularly acute not only due to youth bulge, but also due to the international withdrawal, which according to the Afghan Government has also created a gap of half a million jobs.²⁶² A ceasefire or peace agreement could bring as many as one million refugees back into the Afghan job market.²⁶³

But it is not growth per se which is necessary for broader stability, but high-quality growth that gives people at all levels a stake in society. The private sector as one report puts it, has always had a 'crucial role in conflict—as a cause and catalyst of strife, and as an integral part of restoring and maintaining peace'.²⁶⁴ Research suggests that countries unable to raise themselves up in economic terms are more at risk of falling (back) into conflict.²⁶⁵ But clearly, it is content of the private sector and as well as the broader connection to state governance, that matter in breaking cycles of violence. Absent an effective regulatory framework, rule of law, justice and strong institutions, the any peace-building effects of private sector development will be limited. Neither is the private sector a panacea for the myriad security challenges that Afghanistan faces, some of which are imposed onto it by external pressures. Measures to support the functioning of the legitimate private sector will require a host of reforms, but above all the building of effective and legitimate institutions—although which private sector actors can capitalize on as well as buttress a putative peace dividend.

Finally, it is worth noting that clear lines cannot always be drawn between economic development and security. While there may be general trends to the contrary, it is also the case that some of the safest provinces in Afghanistan are the most economically vulnerable, and in cases it is farmers with the highest average incomes which nevertheless cultivating opium.²⁶⁶ More involved

analysis of motivations, political, social, and ideological is extremely necessary. Simplistic models or theories of change, particularly as they relate to entrenched economic and political power struggles, may not be applicable without deeper analysis of what are often localized drivers.

4.2. Conclusions

Along a range of both traditional and human security measures, insecurity in Afghanistan is substantial; physical violence is pervasive in society at all levels, from use of force as a political and ideological tool by anti-government elements, to its use in interpersonal conflicts in a society where rule of law remains weak. The first half of 2015 has seen the highest casualty count both for pro-government forces as well as for civilians since 2001. Insecurity in developmental terms is also high, and with the slowdown in economic growth and foreign aid decreasing, prospects for improvement remain uncertain.

The private sector, broadly speaking, has a complex and manifold relationship with security. Economic opportunities and opportunism is a source and driver of conflict, as is a lack of economic opportunities and alternative livelihoods. As the same time, the private sector can play a strong role in providing licit jobs, in buttressing state capacity, and in contributing positively to development. In this, greater stress should be made on the quality and content of the 'private sector', with care taken to ensure that marginalized populations do not get left behind in growth models. But the private sector alone is no panacea for Afghanistan's security challenges, a solution for which will require stronger and more legitimate state institutions, through which markets and market actors can engage and partner with.

For formal businesses, insecurity (including crime) heavily impacts businesses operations. While resilient businesses have been able to cope with difficult security conditions in a variety of ways, some of Afghanistan's largest actors have already moved their businesses and capital offshore. Foreign investments that were expected to help jump-start the domestic economy have also stalled. Without a robust tax base from which the government can begin to provide essential public goods, however, the state building enterprise will also continue to face major challenges.

5. An analysis of private sector development

5.1. An analysis of private sector development programmes

Private sector development (PSD) encompasses the efforts of actors in the public or non-governmental sector, as well as by corporations and individuals, to promote and enhance the development and growth of the private sector. Both in concept and in practice, PSD has been increasingly utilized by the international aid community to harness the private sector's presumed ability to create jobs, reduce poverty, and to contribute broadly to developmental goals. In Afghanistan, paper commitments to developing an inclusive and productive private sector were made very early on, including in the National Development Framework (2002), in which 'the creation of sustainable growth through a competitive private sector, which becomes both the engine of growth and the instrument of social inclusion through the creation of opportunity', was one of the three main pillars on which Afghanistan's progress was to be based.²⁶⁷ The follow-on Securing Afghanistan's Future document made similar vision statements.²⁶⁸

Technical assistance by international actors put in place the general macroeconomic framework for Afghanistan's market economy, including basic economic institutions and its trade regime.²⁶⁹ Donors have been instrumental in the creation of key private sector-related bodies: business registries, business support organizations and investment promotion agencies. While these contributions are laudable, both government and business actors have also noted in interviews that the economic institutions established by the international community in the early years failed to take full account of the Afghan context. On the ground, few holistic attempts were made to help transition Afghanistan out of what was and remains a largely informal economy.

After the initial momentum subsided, PSD was low on the international community's list of priorities in Afghanistan, behind issues of security, governance and rule of law and human rights. At the same time, the Afghan Government was crippled by a general lack of capacity, when it was not being recalcitrant, uninterested or merely self-serving. While the US Government aid agency USAID has been involved since 2004 in PSD efforts, supporting business organizations in particular, very few initiatives were launched during the 2000s. A donor database operated by a department of the British Government shows that outside of major infrastructure and public service projects, and investments by the International Finance Corporation (IFC) and a few microfinance and credit schemes, most notable PSD efforts by other actors did not start until after 2009, with the majority beginning after 2010.²⁷⁰ As an evaluation of World Bank programmes from 2002–11 noted, by the end of the period, 'the [Afghan] government's objective to use the private sector as the driver of sustained growth remain[ed] elusive', and 'progress in addressing

critical constraints to PSD ... remain[ed] slow, with a lack of systematic and coordinated efforts by the Bank Group and other development partners to address these weaknesses'.²⁷¹

More active government and donor efforts have been made in recent years. PSD first became explicit in the Afghan Government's development strategy, as a National Priority Program (NPP) cluster of the Afghan National Development Strategy (ANDS).²⁷² The PSD cluster encompasses the NPPs of Integrated Trade and SME [small and medium-sized enterprise] Support and e-Afghanistan. However, these NPP proposals were not fully developed and released until 2011. The MOCI was the designated lead for PSD cluster implementation, but lack of ministerial input and buy-in in the drafting process, among other factors, led to weak implementation.²⁷³

An SME Strategy was introduced in 2009, although implementation did not start until 2011, when an SME Directorate was created within the MOCI. The SME Strategy, which promotes 'sectors in which Afghanistan has competitive advantages across the value chain', that are 'labour-intensive with a strong rural presence', and where import substitution can realistically be achieved, has many laudable aspects and is well worth re-examining.²⁷⁴ In addition, a Private Sector Directorate was established within the MOCI in 2012. A New Market Development Project (NMDP) designed to revitalize the private sector in the four major urban centres was also launched that year. Given their delayed and ongoing implementation, little in terms of impact assessments or gap analysis on these initiatives is currently available. Anecdotally, however, general ministerial capacity in these programmes remains very weak, a problem that was exacerbated by the election deadlock and political transition of 2014–15.

The NUG has promised to prioritize development of the private sector, making a commitment at the 2014 London Conference that 'improving Afghanistan's business enabling environment is the top priority'.²⁷⁵ A dedicated side session at the conference on Private Sector Priorities for Reform presented 11 reform priorities for the government developed by key private sector actors. However, with no accountability or follow-up mechanism in place, the reform priority document might join the growing list of other prescriptive documents for Afghanistan that have gone unheeded.²⁷⁶

On the donor side, PSD has received more financial and programming attention in the past few years. Ongoing or recently completed PSD efforts by donors range from matching grant programmes for SMEs, rural enterprise and market linkages projects, and value chain development projects to programmes promoting female entrepreneurship. These projects and programmes have largely taken place on an ad hoc basis and are primarily funded and implemented outside of the Afghan Government framework. The Afghanistan Reconstruction Trust Fund (ARTF), the primary means by which donor aid is channelled through the government, has not funded the PSD cluster of the ANDS.²⁷⁷

Pitfalls common to many development programmes, such as short-termism, weak commercial sustainability, reinforcement of dependency models, limited outreach and fragmented approaches, have been widely observed as well as documented in relation to programmes launched in Afghanistan. The supply-driven mentality inherent to many programmes has placed an emphasis on spending rather than follow-through. In some programmes the focus has been on measurable outputs rather than outcomes, while certain multi-million dollar donor PSD projects have indicated, quite bluntly, that sustainability is not their goal.²⁷⁸

More anecdotal feedback from roundtables and interviews with entrepreneurs in Kabul, Herat, Balkh, Bamyan and Parwan suggests, that business owners have a generally unenthusiastic attitude towards these PSD activities. There was among entrepreneurs a general preference for donors to engage directly with beneficiaries, as working through the government was perceived to result in dilution of aid as it filtered down through layers of parasitic bureaucracy. However, those involved in established businesses suggested that non-governmental organization- (NGO) or donor-dependent businesses mostly fail as soon as donor financing is no longer available. Local actors have also mentioned the emergence of ‘businesses’ that make their profit essentially by siphoning money from aid programmes. While these may or may not be systemic problems, quality control, monitoring and evaluation clearly need more emphasis in PSD programming.

In other cases, some aid practitioners claimed that aid aimed at promoting entrepreneurship often amounted to nothing more than salaried income for beneficiaries in unsustainable business models.²⁷⁹ In addition, softer business development efforts, such as training sessions, have not always been tailored to their audience. During interviews, owners of established businesses often remarked that business capacity training sessions offered by some programmes were ‘useless’, while smaller actors and businesses that might benefit, including informal ones, lack the connections and channels to access such programmes. Better pre-intervention research of specific actors, needs and context may help with the problem of ‘finding’ PSD beneficiaries. In general, these aid activities fly in the face of the very principles underpinning private sector-led growth.

International community PSD involvement in the form of procurement contracts has perhaps had more success. Up until 2009, less than half of international security and civilian assistance (and only 10–25 per cent in externally budgeted programmes) was estimated to have actually made its way into the Afghan economy.²⁸⁰ But programmes such as the Afghan First Policy, adopted by the US military in 2008 and later by the North Atlantic Treaty Organization (NATO) in 2010, committed in-country international forces to procuring goods and services locally whenever possible.²⁸¹ This brought large and guaranteed markets directly to domestic producers, helping to sustain local businesses—of which the local beverage industry was a more notable beneficiary. Such military procurement contracts, including for the ANDSF,

led to contracts not only for construction and logistics services, but also for foodstuffs, furniture, textiles and other goods. The largest military contract in Afghanistan is still held by an Afghan-owned company, which sources locally for the agricultural produce and foodstuffs consumed by remaining international troops. Overall, such international contracts were estimated to have created 15 000 jobs at their peak.²⁸² USAID in fact claims that the Afghan First Policy supported the employment of 85 650 Afghans through its contracts between 2008 and 2010.²⁸³ However, the impact of withdrawal is now keenly felt where local economies became tied to international presence.²⁸⁴ Such programmes have not been perfect, but proposals currently circulating among Afghan policymakers to similarly provide market and purchasing guarantees for local businesses through ANDSF or other government procurement contracts should be seriously considered.

5.2. Private sector development coordination

Coordination is necessary at multiple levels to ensure the effectiveness of aid efforts in Afghanistan, including for PSD. It requires alignment and coordination between donors and the Afghan Government, as well as coordination between donors themselves and between relevant Afghan government bodies. In 2011 PSD represented 2 per cent (\$218 million) of external assistance to Afghanistan—but only of the donor aid that the Afghan Government was able to account for. With 82 per cent of aid bypassing state channels that year, fragmented among donors and agencies, the figure does not represent the full picture of the PSD projects and programmes that have been attempted in the country. Donors committed to channelling 50 per cent of aid through the national budget at the Kabul Conference 2010 and aligning 80 per cent of this aid in accordance with national priorities (the ANDS NPPs) over the following two years.²⁸⁵ But with only 18 per cent of aid delivered on budget at the end of 2011, follow-through on these promises was clearly lacking.²⁸⁶

The Afghan Ministry of Finance and donor counterparts have held a series of high-level Development Coordination Dialogues (DCDs) since 2006. In the past year, relevant actors have also been meeting for regular PSD donor coordination meetings.²⁸⁷ But effectively coordinated aid needs more than information sharing. It also requires alignment with government priorities and harmonization of efforts—two key principles of the 2005 Paris Declaration of Aid Effectiveness.²⁸⁸ Pooled funding mechanisms are important means by which both can be achieved, lowering transaction costs for donors while contributing to capacity building and ownership by the government. The ARTF, which has had 33 contributing donors over the years, has been assessed as a very effective vehicle for channelling on-budget aid, aligned entirely with government priorities.²⁸⁹ However, the ARTF has on the whole not been used for economic development programmes. When support for microfinance was phased out of the ARTF in 2007–2008, this left the 6.5 per cent invested in agricultural growth and development as the only multilateral

funding stream oriented towards economic growth.²⁹⁰ The ARTF, moreover, does not fund the PSD cluster of the ANDS, although it provides funding for the other five priority clusters.²⁹¹

While legal restrictions in donor countries may act to limit the provision of on-budget aid occasionally, the low levels of such aid are more often due to the perceived weakness or undesirability of working through the government itself. Off-budget aid may reach beneficiaries more swiftly and directly, but it can cause a number of problems, ranging from negative impacts on government legitimacy and capacity to lack of project sustainability and handover to national authorities. The government currently has no clear picture of the geographic scope of aid programmes in the country, with donors directly contracting implementing partners and NGOs often without informing relevant line ministries.²⁹²

Besides lack of coordination with the government, however, there are also major challenges in terms of cooperation among donors. Different agencies, diplomatic missions, and NGOs can have vastly different agendas—which are sometimes contradictory. Provincial Reconstruction Teams (PRTs) have poured vast amounts of economic development money for stabilization purposes. This type of aid is in time frame, methodology and metrics of success, very different from aid intended for long-term sustainable development.²⁹³ Within agriculture, actors have pursued different ‘not necessarily complementary’ policies.²⁹⁴ However, the lack of coordination in relevant instances may result in missed opportunities to create synergies between actors, and lead to duplication and overlap, reducing effectiveness. Moreover, the absence of an overarching structure for cooperation means that there is little institutionalized memory of lessons learned. As new advisors are appointed, and projects and programmes are initiated without any coordinating mechanisms in place or guidance as to what has or has not worked previously, aid efforts have become increasingly fragmented, and development—similar to the military campaign in Afghanistan—can now be characterized as a series of ‘one-year wars’ rather than a sustained and cohesive engagement.²⁹⁵

Finally, it is worth noting that the Afghan Government’s lack of inter-ministerial cooperation and coordination is still a major problem—not only downwards from national to subnational counterparts, but also at the central government level. PSD cuts across many departments, but the overlap in the mandates of Afghan ministries and public institutions causes confusion as to areas of responsibility. There remains no firm counterpart or single responsible coordinator for development of the private sector as of the time of writing.

5.3. Principles of engagement and red flags

Limited coordination is one among a number of reasons why PSD efforts have been neither systemic nor sustained. But another recurring challenge for those involved in PSD is how to sequence and prioritize efforts given that resources

and time frames are limited. In addition, Afghanistan's private sector faces many problems that are not only interconnected, but also may be beyond the capability of PSD to address.

PSD can be very broadly categorized into two types of interventions.²⁹⁶ The first intervention focuses on the environment in which the private sector operates, removing obstacles at the institutional or policy level. Properly and carefully done, efforts by the state and other actors, to reform and implement regulations, provide public services, enforce basic rule of law, and improve the business climate can serve to the benefit of all market actors. However, many donors are also engaged in more targeted assistance, in sectors of the economy that they believe can deliver significant impact in relation to pro-poor growth. These interventions include providing resources to private sector actors through matching grants or challenge funds, supporting specific value chains, or otherwise actively encouraging enterprise development in select geographic areas. These more direct interventions to stimulate economic growth and reduce poverty are conceptually (and often in practice) problematic for a 'private sector-led' economy. Analysis of the effect of direct market interventions shows that the results have been somewhat mixed. While direct intervention may be more effective in terms of donor impact and reach (particularly when the Afghan state is seen to be an unreliable or ineffectual partner), such interventions may address only the symptoms of market failure rather than the root causes. Further, there are risks that poorly devised direct PSD can distort the marketplace by favouring certain sectors or actors, skewing supply and demand, or crowding out private sector investment.

However, in the Afghan context, given the massive and myriad constraints on inclusive growth and the weaknesses of the formal private sector, donors have also now come to the conclusion that in many cases, 'strong assistance is required'.²⁹⁷ Indeed, the Afghan Government itself has also concluded that there are 'strong grounds for believing that in some cases government intervention will expedite (economic) development'. It has called for industrial policy, import substitution, and promotion of export-oriented sectors.²⁹⁸

The following are a few principles and key potential pitfalls that should be considered before initiating direct intervention. They should be taken into account not only at the implementation stage, but also at the initial formulation stage. The guidelines are based on a review of existing PSD programmes in Afghanistan, in-country fieldwork and a broader review of the relevant literature. Many of the guidelines can apply to other development programmes, even those beyond interventions of a PSD nature. Better coordination among actors will also help to ensure that the various actors involved in PSD can learn from other development efforts.

5.3.1. Time frames and exit strategies

PSD is a long-term process. Donors often have unrealistic expectations about what can be accomplished in limited time frames, particularly given the

extremely low baselines from which they are working.²⁹⁹ Overly short time frames incentivize measuring success on short-term outputs rather than sustainable impact, undermine careful evaluative processes, and increase chances for opportunism.³⁰⁰ Most donor aid initiatives are fleeting rather than structural, do not incorporate a clear and responsible exit strategy, and often leave behind orphaned projects and beneficiaries and value chains that remain broken. Thus, assessment of realistic time frames for results should be accompanied by an evaluation of responsible exit strategies that consider sustainability.

5.3.2. Sustainability

Post-intervention sustainability may be achieved on a number of different levels. When handing over to beneficiaries, donors should first determine whether there exists sufficient capacity in human, financial and technical terms to utilize or maintain the material or immaterial resources provided. Establishing commercial sustainability requires a rigorous assessment of the underlying context, the relevant value chains and the market. Maintaining the successful results and models produced by a programme after it comes to an end may require a handover to local actors, which may be easier to accomplish if government institutions are involved from the outset. This, according to Independent Directorate of Local Governance (IDLG), would help donors move from a 'programmatic' approach to a more 'institutional' approach, as well as help buttresses government capacity and legitimacy.³⁰¹

5.3.3. Holistic perspectives

The uncoordinated and patchwork nature of PSD projects has prevented actors from taking a systematic and holistic approach to interventions. But many of the individual constraints are closely interconnected and cannot be solved in isolation. For instance, a project that supplied cold storage units to commercial farmers failed to take into account the financial context, including the cost of upkeep, and the units were subsequently sold to traders. In another case, a programme to provide land for industrial parks failed to address the interconnected issue of absent or inconsistent electricity supply. At the general level, support for domestic producers fails to take into account the regional trade environment. Moreover, in many instances, donors have intervened in only one section of the value chain, leaving the rest broken, and the efficacy of the entire endeavour in question.³⁰²

Some issues, such as local human capacity, may lie beyond the capability of direct PSD to address. However, these should be rigorously assessed pre-intervention. Indeed, if there are too many structural barriers to a successful PSD intervention, donors should consider whether their funds would be better spent in helping to deal with those structural problems.

5.3.4. Clear objectives

Donors should differentiate between projects that aim to have a social impact and those intended to be genuinely commercially viable, as 'the muddying of the two metrics has resulted in projects that satisfy neither goal'.³⁰³ Programmes to stimulate socially inclusive economic participation may be very meaningful, but it has been noted that these often amount to no more than salaried income for participants and, as such, should have different metrics and follow-through mechanisms from for-profit endeavours. On the other hand, commercial viability is critical for projects whose clear objective is to produce sustainable business models.

5.3.5. Market distortion

Donors should ensure that 'the market' is not an artificial one that is created by donor funds, but rather addresses a genuine consumer demand. The subsidizing role of donors, as noted, is ironic if not in what has been designed to be a neoliberal market economy. Without more careful considerations of the distortionary impact of aid, Afghanistan may suffer the worst of both systems: economic inefficiencies as well as limited state support and protections. In this, market assessments are key. The private sector should not be crowded out and donor aid should only be used to kick-start the market when the private sector cannot do so itself.³⁰⁴

5.3.6. Needs-based interventions

PSD interventions should be needs based, rather than supply driven, and should first consider what communities are ready, interested and able to absorb.³⁰⁵ Numerous examples exist of donors first devising a project and then searching for potential beneficiaries, rather than working together with identified target groups to address meaningful or contextualized needs. In some cases, finding beneficiaries becomes one of the primary hurdles to implementation of the project.³⁰⁶ In some instances, rural communities have perceived little to no benefit from market development or entrepreneurship programmes, and lack interest.³⁰⁷

Needs differ depending on the target group. Some large- and medium- sized enterprises, for instance, have found training or capacity-building exercises offered through PSD programmes to be of only marginal significance. PSD may not even be suitable at smaller enterprise level, where beneficiaries' needs may be more developmental in nature (basic livelihood for example). While this does not mean that such programmes are not important, for PSD to have greater impact and sustainability, communities should be seen more as participants than as passive beneficiaries. Overall, as a recent Sida programme evaluation points out, 'it is better to start with analysing the situation on the ground first and then developing the programme accordingly'.³⁰⁸

5.3.7. Developmental mafia

As in all areas where developmental and reconstruction efforts take place, there exist in Afghanistan groups of individuals who capitalize on opportunities available for personal gain. As one local actor noted, siphoning off development aid has become a for-profit private sector endeavour of its own. Pop-up ‘businesses’ with no long-term prospects have sprung up to take advantage of grant money and there are male-owned enterprises purporting to be run by women in order to receive special benefits from donors. Local interlocutors such as heads of business support organizations, neighbourhood headmen, or other authorities who have more contact with donors, may claim to represent others, when in fact they are merely presenting their personal agendas.³⁰⁹ Information asymmetries can also compound unequal access. Very careful assessment of actors, and finding ways to reach out directly to intended beneficiaries rather than middle-men can help in this regard.

However, during the information gathering process for this report, the authors also discovered examples of projects being deliberately sabotaged because they did not have the endorsement of local community leaders or power-holders. It is therefore important to obtain the approval of such individuals in certain contexts. Intervening in markets is not a neutral activity; it can impact social hierarchies, and resource and power configurations, either reinforcing pre-existing structures or subverting them. While donors should ‘identify ways to provide access to resources that challenge existing inequalities’, efforts should also be highly contextualized and sensitive to local realities.³¹⁰

5.3.8. Monitoring and evaluation

The endemic corruption, inefficiency and waste linked to the aid effort in Afghanistan is well known, although not always documented. Vigorous quality control of contractors and implementers, and evaluations of impact on target beneficiaries should be built into any programme’s structure. While compiling this report the authors learned of multiple complaints of corruption levelled against developmental actors. Donors can hold the Afghan state to account on the basis of their metrics, but there are no mechanisms for local Afghan people to hold donors to account for their actions in Afghanistan.³¹¹ Third-party or community-based monitoring could be important in this regard, although in the latter case communities may lack the capacity or technical knowledge to effectively monitor developmental projects. Programmatic ‘success’ is usually determined based on predetermined metrics. But a running theme in evaluation reports is that these metrics emphasize only outputs rather than outcomes or meaningful impact.³¹² Indicators for what may be immaterial social returns may be difficult to develop or rigorously assess, but proper pre-intervention baseline assessments can be of use in this process.

5.4. Conclusions

The Afghan Government and the international community made paper commitments to encourage growth in the private sector shortly after intervention in 2001, but most notable PSD efforts were actually implemented only after 2010. An overarching strategic framework with clear division of labour for development of the private sector was never created. The former Afghan administration had a vested interest in limiting private sector competition. The international community, despite good intentions, made a number of miscalculations: a supply-driven mentality placed emphasis on spending rather than follow-through and a focus was placed on measurable outputs rather than outcomes. International donor community PSD efforts have also had limited success due to the fragmented approaches taken and restrictions in (rural) outreach. Ultimately, many have reinforced a model of aid dependency. This combined with limited coordination between state and non-state actors has resulted in disjointed interventions. The private sector itself has had limited impact as organized business remains relatively weak and attempts to interact with the state have often been ignored. At large, a recurring problem is how to sequence and prioritize PSD efforts given that many of the Afghan private sector's impediments are interconnected and may not be solved by direct PSD.

In the light of weak government capacity, the NUG's preoccupation with the security situation, and the overall poor state of the Afghan economy—PSD efforts by foreign actors do have the potential to play a crucial role in jumpstarting or supporting socioeconomic development. However, to avoid eroding government legitimacy it is essential that there is also support at the institutional and policy level. Donors should implement carefully devised direct market interventions in close alignment with the Afghan Government. Such harmonization can enhance efficacy, promote synergies and strengthen long-term structural development impact.

6. Conclusions and recommendations

6.1. Conclusions

Afghanistan's pre-1979 economy was predominantly informal, agrarian and subsistence-based. The state's capacity and reach beyond the country's largest urban clusters have always been inadequate. Thus, limited domestic integration, informal economic activity and the socially fragmented tribal nature of Afghan society have persisted. Starting from the 1980s foreign interference, protracted conflict and a weakening government apparatus contributed to the degeneration of the existing fragile social fabric and facilitated criminal economic activity. By 2001, most formal economic institutions and infrastructure had been destroyed, resulting in a very low baseline from which to begin post-intervention reconstruction efforts.

The international community's intervention did not necessarily constitute a decisive break with past economic processes, patterns or players. Indeed, although Afghanistan has received substantial amounts of aid intended to bolster state-building efforts, the sudden introduction of a market economy to a country beset by ongoing conflict has in some cases exacerbated existing problems. Afghanistan's private sector is today a complex synthesis of informal, formal, reconstruction, war-related and illicit activities. Lines between these elements are not always distinct, and private sector opportunities and opportunism continue to fuel and be fuelled by conflict.

An inclusive free market is ideally characterized by equality of access by all to economic resources and opportunities, and a rule-based playing field that permits and encourages competition. Yet, in Afghanistan economic activity is strongly impacted by extra-market conditions. These affect the production capability and competitiveness of micro and small enterprises, which employ the majority of Afghans. Furthermore, they influence the employment and (formal) start-up opportunities of marginalized sections of the population. Limited employment opportunities in turn increase the attraction of illicit activities or the likelihood of radicalization: young men are at the highest risk. Private sector constraints also erode NUG legitimacy, thereby jeopardizing political stability and thus the country's security situation.

Efforts by the state and international actors to foster inclusive economic growth have so far been limited. Large family-owned business conglomerates with political ties have disproportionately reaped profits in the growth process, while for the vast majority of Afghans economic conditions have not improved. Unaccommodating economic policies and weak regulatory enforcement have even allowed some neighbouring countries to profit from the Afghan market through unfair competition. Opportunities for the Afghan economy to connect with neighbouring and world markets are complicated by its landlocked position in a politicized and often toxic regional economic

environment. The culmination of these forces and conditions, compounded by the triple transition, has created a precarious business climate.

Unpredictability, a weak regulatory system and physical insecurity dampen both domestic and foreign investment. Indeed, the flow of capital in Afghanistan often ends in Dubai. In addition, the fragile fiscal regime leads to a lack of public services and goods, and it prevents the government from establishing an attractive climate for investment. This in turn deprives it from (growing) fiscal revenue that could be ploughed back into providing essential public services and goods. Critical infrastructure, fundamental to economic development, is still unreliable, inaccessible or completely missing in large parts of the country. While the macroeconomic environment has been relatively stable, there remains no clear strategy to support the private sector. This is despite early paper commitments from the Karzai administration and the international community that deemed the private sector to be the engine of economic growth and an instrument of social inclusion. In the absence of an overarching strategy that involved all stakeholders and addressed market failures on a structural level, a number of direct market interventions have distorted markets, fed into corruption and patronage networks, and even eroded government legitimacy. PSD efforts have also had limited success due to fragmented and uncoordinated approaches, lack of contextualized knowledge and inadequate consideration of sustainability or institutionalization.

Considering the structural nature of the impediments to the Afghan private sector, the NUG will need to step up to address market failures at the institutional and policy level. But considering its still weak administrative, technical and financial capacity, international community PSD is much needed. Finally, NUG, international community and other stakeholder commitments have to be long term, have clear and realistic timeframes for impact, and find a balance between commercial viability and inclusiveness.

6.2. Recommendations

The following recommendations are divided into three categories:

- I. recommendations to the Afghan Government;
- II. recommendations to the international community; and
- III. recommendations to the private sector and other Afghan stakeholders.

These recommendations are based on empirical data collected by the authors in Afghanistan, extensive dialogue with Afghan private sector stakeholders, and desk research conducted in Stockholm, Sweden.

The formal Afghan private sector remains weak, and the 'to-do list' is extensive. No one-size-fits-all framework for fostering a vibrant private sector exists, as every context is unique. Recommendations in this report focus on

what the research findings have indicated as the most critical impediments to the Afghan private sector. In the case of the Afghan Government, the recommendations are primarily on the institutional and policy level. As such, the impact of these recommendations may be gradual, and demonstrable results cannot be anticipated in the short term. The recommendations to the international community are aimed at supporting the Afghan Government at the structural level, as well as by means of direct market intervention. Given the exclusionary nature of most of the Afghan private sector there is a case for interventions that directly target marginalized sections of the population, support smaller commercial enterprises and help to resolve provincial disparities. Inclusivity agendas should however take commercial viability of programme objectives into consideration.

The recommendations foremost endorse active support by the international community to the Afghan Government's own efforts, particularly considering the government's weak administrative, financial and technical capacity, and its preoccupation with security issues. At the institutional, policy and direct market-intervention levels, the international community should adhere to the Tokyo Mutual Accountability Framework (TMAF) that was set out at the Tokyo Conference in 2012, which states that the Afghan Government should determine its own development priorities. Recent government interest in non-traditional financing modalities and new partnership modalities with the private sector is one such example.

The authors would like to reiterate that the political, economic and social contexts of any direct market intervention require further study, including conflict-sensitivity analysis before and throughout implementation. It is imperative that all market interventions are coordinated with the Afghan Government, relevant international and national donors and implementers, and target beneficiaries. Fragmented, uncoordinated and superficial initiatives will not have any structural impact and might even negatively impact perceptions on government legitimacy.

Finally, it should be noted that the current conditions—namely a still highly volatile security situation, political instability and uncertainty, and a stagnant economic policy environment—have an immeasurably detrimental effect on the business climate. If the security situation deteriorates substantially, or if the government fails to show lasting commitment to fostering a more inclusive and encouraging private sector environment, international community PSD efforts are likely to have minimal sustainable impact. The impact of any of these recommendations on human and traditional security conditions in Afghanistan depends entirely on intervention design and execution, and a host of other relevant factors.

6.2.1. Recommendations to the Afghan Government

The Afghan Government must provide the preconditions for an inclusive, productive, rule-based and formalized market economy. This report's findings indicate that the NUG should—with immediate effect—take on a much more

proactive role to address a long list of impediments that sustain market failure. This report recommends that the Afghan Government:

I. Display leadership and vision by *developing a realistic private sector growth strategy* with clear and measurable milestones, division of labour between international and national actors, and the implementation of follow-up and monitoring processes. Considering the government's limited administrative, technical and financial capacity, this strategy should be coordinated with the international PSD community and be in full dialogue with the private sector. At this stage, an updated and overarching strategy to give direction to the development of the private sector is absent: a number of international PSD actors are awaiting clarity on NUG economic policies. Existing policies are scattered and sometimes even overlapping.

Such a strategy would lead to greater integration and efficiency in the approaches taken by the relevant authorities, the international donor community, the Afghan private sector and other stakeholders with mandates on PSD. For implementation to succeed, it is imperative that the views of all stakeholders, the formal as well as smaller players in the informal private sector, are taken into account in a systematic manner. Sector competitiveness analysis will be needed to utilize the country's limited resources to their highest strategic impact. Commercial prioritization on a sectoral and (sub-) provincial basis, for instance through local economic development (LED), will be critical. A balance would have to be struck between commercial viability and inclusivity. *A flexible, pilot-driven, step-by-step approach is urged.*

The results of this strategy will be entirely dependent on the speed, determination and the quality of its implementation.

II. *Increase the capacity of key state economic institutions that support the productive potential of the private sector.* There is a need to *professionalize administration at the national and provincial level through continuous training.* Effective public administration and a merit-based civil service are essential. The best laws, regulatory frameworks and policies will be to little avail if there is insufficient capacity in the civil service to implement them. Existing institutions should be tasked with supporting inclusive private sector growth through promoting transparency and more equal access to economic resources, employment and rule of law. This would serve to the benefit of broad layers of the population, encourage efficient use of resources and also boost government legitimacy. *Ministerial directorates and agencies must be given a clear and unambiguous mandate on their precise roles.*

III. *Take immediate carefully tailored measures to curb corruption starting from the highest government echelons.* Corruption erodes trust in the government and leads to anti-government sentiment. Numerous bodies and committees have been set up to deal with corruption, all lacking consistency, determination and unbiased follow-through; hence, they have had little

positive impact. A precedent must be set, starting from the top and in accordance with a clear agenda, in order not to squander what political momentum still exists. *Curb corruption in administrative interaction with the private sector through increased use of digitalized processes.* Corruption in business-related processes, such as registering property and paying taxes is rampant, and not only affects economic growth, but also results in unnecessary loss of revenue for the government. It is strongly recommended that the government pursue efforts to simplify and digitalize its economic processes.

IV. *Improve the business climate in close coordination with the organized business community.* Establishing a business-friendly, predictable regulatory framework will enhance the competitiveness of the formal private sector, while serving to improve the investment climate. Against this background, and in compliance with the recommended growth strategy, the government should *pursue growth-promoting economic policies that support strategic business sectors.* The current economic policy environment is stagnant: investor and consumer confidence need to be boosted through bold and clear-cut economic policies. *Use of growth-promoting instruments, such as tax relief, state supply contracts and strategic PPPs should be considered.* Findings indicate that businesses in the *agricultural and derivative sub-sectors, in particular, have a good combination of large employment absorption capacity and the potential to produce competitive output.* This does not, however, imply that other business sectors should be neglected.

V. *Evaluate and update the strategy for trade policy instruments to promote sustainable development of prioritized sectors, primarily agriculture, agricultural processing and light manufacturing.* The current trade regime is detrimental to the Afghan private sector and does not permit enterprises with otherwise competitive characteristics to vie with foreign businesses exporting similar goods into Afghanistan. Taking into account Afghanistan's vulnerability to dumping, some sectors of the economy such as agriculture and light industry, may need temporary support to gain an adequate foothold in the domestic market. Such support policies could also help Afghanistan to move higher up the economic value chain. Policies should ensure that any level of protectionism does not lead to diminished competitiveness, rent-seeking and adverse impact on consumers. It should also be noted that the quality standard of Afghan products currently does not always meet consumer demand. Poor marketing of products is another major impediment to better sales. These support measures must be combined with *full digitalization of customs procedures,* which would help to eliminate corruption and allow for the collection of revenue. The absence of adequate customs procedures deprives the Afghan Government of about \$1 billion annually. To mitigate racketeering practices, *e-payment systems at customs nationwide should be introduced,* which would also increase formal customs revenue collection. Current border customs are tarnished by racketeering practices and are not subject to

government supervision. This affects price competitiveness of exports and erodes import regulation, effectively constituting an impediment to the development of domestic (export-oriented) production, as well as to the role of Afghanistan as a logistical hub in regional trade.

VI. *Tackle the hurdles that limit access to economic resources* and inhibit the private sector from using the full potential of the productive capacity of the workforce. Access to land, physical resources and finance are partially interlinked. In particular, access to land is multi-faceted problem, rooted in Afghan customs that differ across the country. The absence of discernable land ownership and corresponding rights negatively impacts the productive capacity of the private sector, as the acquirement of capital, in most cases, depends on proof of rights over formally titled land. Uncertainty about tenure leads to reluctance to invest, as entrepreneurs may fear that the government or power holders may take their land and property. A modern, efficient and transparent policy on land and property rights is required to expand wealth beyond the economic elite. As this is expected to be a lengthy endeavour, the government should, in the process, *mobilize state landholdings for use by the private sector through favourable long-term lease agreements*, including as incentive for PPP, to reduce capital investment risk and enhance net land value.

Access to physical resources must be combined with a more robust property rights regime that—while accommodating towards customary laws—promotes formal, rule-based dispute resolution. In parallel with broadening access to formal bank credit, a comprehensive financial access strategy needs to *leverage the potential of and develop existing unbanked credit mechanisms. Specific sector-oriented banks that provide demand-led financial products are recommended. Mobile technology-based solutions should be considered given current telecom coverage and penetration levels.*

VII. *Invest in the country's critical infrastructure*: a productive and competitive private sector cannot operate without quality infrastructure. Reliable electricity provision is a rapidly growing need and one of the private sector's first priorities. This requires investment in new systems, and better operations and maintenance of existing grids (and ideally of those of neighbouring suppliers). In conjunction with this, *prioritization of road connectivity between commercial agricultural clusters and large urban centres is strongly recommended*; as is investment in wet infrastructure and irrigation schemes. To meet infrastructure needs, and in light of state financial limitations *rapidly move to pass the PPP law. Implementation should be subject to a clear strategy.* PPPs can contribute to building an atmosphere of mutual trust, improve accountability and transparency, and mitigate the private sector's risk on investment. A strong legal framework for PPPs would need to be implemented and enforced to ensure that the existing oligarchy does not usurp them.

VIII. *Prioritize women's full and equal participation in the economy.* Afghanistan's low female economic participation is a barrier to realizing its economic growth potential. Women are particularly important in the key agricultural sector; this role should be more greatly encouraged and expanded. In an economy where men dominate markets and higher parts of the value chain (correspondingly capturing the bulk of the profits), fully female-owned value chains and women-to-women economic networks can contribute to ensuring more equitable growth and distribution of wealth, as well as wider access to and control of economic resources. Going beyond the simple act of implementing legislation, the government must ensure the enforcement of labour protection laws, property and inheritance rights and equal opportunity. A starting point could involve initiatives to raise public (including female) awareness of such issues and the promotion of male endorsement wherever possible. *In all economic development plans, and across line ministries, support for women should be a mainstream issue rather than a tokenistic one.* Broader sociocultural change may be a slow process, however, and female economic promotion activities should be in coordination and conjunction with other measures to increase the human and social capital of Afghan women.

6.2.2. Recommendations to the international community

In the context of the dismal state of the formal Afghan private sector and weak government capacity, international community support will remain essential at least in the medium term. The Afghan Government will require support throughout the 'transformation decade' (2015–24) to build capacity to regulate a healthy private sector and correct market failures. As a means to assist beneficiaries more rapidly, carefully designed and implemented direct market interventions are also advised. This report recommends that the international community:

I. *Support the Afghan Government with the above stated eight recommendations.* As stated in this report, the NUG will need continued and closer international community support in at least the short and medium term. It should be noted, however, that with an increasing amount of aid on budget or provided in direct coordination with government agencies, demands for due diligence on spending are high, not only to safeguard funds and ensure project efficiency, but also to avoid contributing to corruption or jeopardizing government legitimacy.

II. In conjunction with efforts by the NUG to develop the private sector, *jointly set up a formal cooperation and coordination mechanism.* Aid coordination at multiple stakeholder levels is vital to ensure the effectiveness of all intervention efforts in Afghanistan, and PSD is no exception. Uncoordinated efforts between top-level—as well as provincial and local—government, fellow donors and beneficiaries are likely to produce superficial

and limited results. Currently, there is some level of coordination among a number of diplomatic missions, but this excludes many other stakeholders.

III. *Establish a new formal international aid database* that incorporates former and current PSD efforts, including their geographic scope, funding streams and evaluations, as well as donors' off-budget development programmes. *This database has to be combined with Afghan state-led efforts to develop the private sector*, meaning that the offices of the President and CEO will have to be involved. A public aid database managed by the Aid Management Directorate of the Ministry of Finance is available, but the digital system is not satisfactorily updated and does not include off-budget programmes. A coordinated, easily accessible and comprehensive information system has not been utilized for international aid efforts during the period 2001–15. A more robust international aid information sharing system and cooperation and coordination mechanism could improve what has so far been an extremely fragmented international aid effort. Ideally, the PSD strategy and the coordination and cooperation mechanism would incorporate a public finance model with clear objectives and milestones that work towards a scenario where the Afghan state becomes increasingly self-reliant.

IV. *Support full value-chain development projects in the agricultural sector.* Support for agricultural development is critical for Afghanistan's most vulnerable people both in terms of income generation and food security. Agriculture has higher labour intensity and greater job creation potential, including for women, than most other sectors. A specific focus on those value chains identified as commercially viable whether for domestic or export markets is recommended. Such value chains include horticulture (e.g. fruits, grapes/raisins, nuts, saffron and vegetables) and livestock (e.g. dairy, meat, poultry and other animal-derived products). *Dairy production has been identified as a commercially competitive sector with high domestic demand and which has income-generating potential for women who are highly involved in dairy value chains.* As such, sector-specific support for the dairy industry, among other sectors, is recommended.

Donors may choose to work within existing frameworks and projects, utilizing existing competencies, potentially filling gaps (such as greater gender mainstreaming) and/or expanding the scope as appropriate. If entirely new agricultural value chain support programmes are proposed, they should be assessed against existing programmes through wide-ranging consultation processes to utilize lessons learned. *Prior to intervention there should be rigorous assessment of local conditions and needs, consultation with the government, and careful thought given to an exit strategy that envisions commercial sustainability and/or project institutionalization.* This recommendation should be synchronized with the economic policies as presented in recommendation IV in the Recommendations to the Afghan Government section.

V. *Consider diversifying geographic focus.* Regional disparities are pronounced in the developmental aid provided by donors, with well-documented inequities and imbalance across provinces. Even within national development programmes, donors tend to prioritize aid based on their individual political priorities, favouring regions in which their own PRTs had been engaged, or on security and military assessments. Disbursements have been heavily imbalanced, with little assessment of where needs are most pronounced or developmental impact would be greatest. Moving forward, *aid interventions should consider targeting communities based on need and/or commercial viability.* For those donors able to make a sustained and longer-term developmental commitment, diversification of geographic scope to under-prioritized provinces should be considered. This, however, will require more in-depth study on province and sub-province private sector conditions to determine what type of interventions are most appropriate.

VI. *Incorporate consumer demand perspectives more fully into PSD programming.* Consumer perspectives, the demand side of the equation in both domestic and international markets, are as critical as the Afghan producer and supplier perspectives. There is, unfortunately, a dearth of information on consumer choices, needs and preferences in Afghanistan, as well as in export markets. Taking the entire producer to consumer chain into account may also shift support priorities. Further research on this is recommended.

6.2.3. Recommendations to the private sector and other Afghan stakeholders

Domestic and international companies share a responsibility with governments, both in Afghanistan and in donor countries, for improving the conditions for a rules-based, competitive and sustainable private-sector driven economy. The Afghan private sector in its current state, however, is not in the best position to ‘correct’ market failures; some level of economic intervention is necessary to promote inclusiveness, competition and greater productivity. As testified by this report, the Afghan private sector is heterogeneous, representing a wide array of interests and with varying potential to effect positive change. Nevertheless, this report recommends that the Afghan private sector and relevant non-government organizations:

I. *Strengthen the capacity, transparency and member representation of organized business.* While private sector business in Afghanistan is organized to some degree, it is generally weak in capacity, rural representation and in impact on policy making. The business oligopoly has ‘captured’ the government, while other businesses, ranging from large to medium and small-sized enterprises, struggle to be heard. Active private sector participation is necessary in all steps of government economic policy making to ensure that priorities are in line with business concerns, that there is private sector buy-in

and to streamline bureaucracy. Internally, governance and corruption challenges to organized business will also need to be addressed.

II. *Strive to curb supply-side corruption where financial and physical risks are manageable.* Refusing to participate in corrupt behaviour in Afghanistan today often means a short-term commercial disadvantage to companies or even a physical risk to individuals. If also enforced by competitors, however, ridding a market or supply chain of corrupt practices can lower direct costs, reduce risks, encourage investment and cooperation, and could facilitate access to formal credit. In practice, however, many factors limit the measures an individual firm can take, including most fundamentally the absence of impartial legal recourse, only certain actions may be feasible. A well-established and enforceable corporate anti-corruption policy is fundamental. Options to consider include to participating in collective action, engaging government officials, employing media outreach and cooperating with civil society and citizens' monitoring groups to place business corruption on the political agenda.

Annex 1. A provincial perspective

Five sample provinces were selected by the authors for field data collection based on the rationale provided in the methodology (see Annex 2). This annex provides an overview of private sector conditions in these five provinces to assess to what extent they overlap and differ.

Balkh

Balkh, bordering Tajikistan and Uzbekistan, is the most populous of the Northern provinces and 36 per cent of the population is urban.³¹³ Its capital Mazar-e Sharif is an important economic hub and Afghanistan's main trading gateway to Central Asia. The booming post-Taliban economy of Mazar-e Sharif attracted not only entrepreneurs and investment from across the Northern provinces, but also villagers who found work in the transport and construction sectors.

Since the fall of the Taliban, political life in Balkh has been dominated by rivalries. In recent years, Governor Atta Mohammad Noor has consolidated sufficient allegiances to maintain relatively stable levels of security in the province, which has helped sustain the substantial independence Mazar-e Sharif enjoys in relation to Kabul.³¹⁴ One precondition for this has been a strong concentration of economic interests around Governor Noor. Nevertheless, independent and semi-independent business actors exist, including some of the country's largest business families. The result is an oligopoly, where private sector actors outside these circles face constraints on access to resources and markets.³¹⁵ Compared to most other cities, however, Mazar-e Sharif has a relatively competitive economic life. The business community is also more open to female economic participation than in many other provinces.³¹⁶

During the years when Balkh served as a military base and main hub for the Northern Distribution Network (NDN), substantial capital was accumulated through service contracts, mainly in construction and transport, some of which may be reinvested if the business climate were to improve. The presence of international military forces also resulted in an expansion of shops and traders, effectively creating a growing middle class.³¹⁷

Infrastructure is relatively well developed in the province with a road network connecting it to the Northern provinces and to Kabul.³¹⁸ Mazar-e Sharif airport has direct connections to Istanbul and is part of a German-led effort to upgrade the country's civil aviation.³¹⁹ The only railway connecting Mazar-e Sharif with the Uzbek border is open for limited Afghan exports. Electricity is supplied from Tajikistan and partly from Uzbekistan in the summer, but access and supply are still unreliable, including in Mazar-e Sharif.³²⁰ Aside from fuel imports which enter the province from Central Asia, trade between Balkh and the rest of Afghanistan (including Kabul) is limited.

The relative wealth of Mazar-e Sharif has also not directly translated to Balkh province and the rest of the North, other than through the income created by temporary migrant workers.³²¹ Balkh province has been a mostly poppy-free province since 2007 and rural areas have potential for increased agricultural production.³²² This, however, is constrained by water shortage, due to lack of streams and neglected irrigation infrastructure.³²³ The province also boasts some mineral reserves, especially oil deposits, processed at the country's only refineries at Hairatan.

The effects of the foreign military drawdown, increased insurgent activity in nearby provinces, and the general economic downturn are visible in Mazar-e Sharif. Out of 10 large provincial centres, consumer prices on non-food items fell the most in Balkh.³²⁴ The property market in Mazar-e Sharif, the target of much local investment, has stagnated and foreign investment is on hold.³²⁵ Outside the capital, the largely rain-fed agricultural lands remain susceptible to droughts, while a decline in construction may also lead to difficulties for rural labour migrants.

Bamyan

Bamyan is located in the mountainous and mostly barren Central Highlands, which according to many indicators of the National Risk Vulnerability Assessment (NRVA), is one of Afghanistan's most economically vulnerable areas.³²⁶ Lying at the heart of the Hazarajat territory, Bamyan province has an estimated population of 425 500 who are predominately of the Shiite Hazara ethnic group that has historically faced socioeconomic and political repression, as well in some cases targeted violence.³²⁷ The province is largely rural, with more than 80 per cent of the population directly or indirectly engaged in agriculture. This is despite the fact that only 5 per cent of the province's land is actually suitable for crop and livestock cultivation.³²⁸ Aside from potato cash-cropping, farming has traditionally been in the form of household subsistence.³²⁹ Bamyan suffers severe winters, and due to the lack of cold storage and greenhouses, must import its food from outside the province during its long lean season. Due to low productivity, the province is among Afghanistan's most food insecure.³³⁰ Nevertheless, there is commercial agricultural potential. Among other high-value products, Bamyan's white potatoes have a reputation for quality—both in Afghanistan and in regional export destinations. The livestock sector is also very robust. However, off-farm handling or processing of agricultural goods is still very limited, and value chain development is desperately needed.

Outside of agriculture there are few employment opportunities and outmigration for work is commonplace.³³¹ There is virtually no secondary production besides carpets, handicrafts and some agricultural value-adding processes. Lack of electricity places a low ceiling for growth in the private sector: Bamyan is not connected to any central power grid and relies therefore on expensive diesel generators, solar panels and in some places micro-hydro systems. Solar power services the city of Bamyan (the regional capital) and a

number of nearby villages. While solar energy has great potential for expansion in the short term, in the long term it cannot be expected to sustain the high-energy consumption associated with industrial development. There are mineral resources in Bamyan, including iron ore, coal, and precious and semi-precious stones, but absent central government support (among other problems), formal extraction projects, particularly the Hajigak mining concession, have stalled.³³²

Bamyan is currently one of the safest provinces in Afghanistan, which perversely has led to it receiving much less donor attention in comparative terms. However, the security situation gives rise to a relatively favourable environment not only for development activities, but also for tourism. Given the cultural and geographic landmarks in the region, the tourism industry does have medium- to long-term potential.³³³ Socioeconomic conditions in Bamyan city centre are relatively favourable for women and allow them to engage in economic activity and set up shops alongside those owned by men. This appears to be a recent development catalysed by the organic rise of what, at least anecdotally, seems to be a women's rights movement.³³⁴

Herat

Herat is the country's second largest province by population as well as land area. Herat city until recent years had a predominantly Dari-speaking population with a largely Pashto-speaking hinterland. However, in the past decade there have been rapid changes. Herat province has seen a stronger urbanizing trend than the national average since 2006. New citizens include returning refugees from Iran, but there is also substantial rural-urban migration, creating ethnically segregated enclaves. Half of the urban population are economically vulnerable day labourers.³³⁵

Herat is located on the Ring Road and it has long been an economic hub along a trade route connecting Central Asia with Iran. The province has busy trade ports of entry with Iran and Turkmenistan. The balance of official trade for the main port of Islam Qala is heavily in Iran's favour, but the levied customs duties are an essential contribution to the Afghan Government's revenue. Over \$1 billion of official imports were registered through Herat in 2011, 22 per cent of the national total.³³⁶ Fuels and oil products remained the most significant import commodities from Iran in 2015, while sugar, confectionery, eggs, chicken meat and vegetables were the most important food imports.³³⁷

Despite a relatively low direct dependence on revenue flowing from the presence of the international community, Herat was hit hard by the political uncertainty and accompanying economic downturn in 2014, which was further compounded by increased organized criminal activity. The absence of security in Herat is strongly linked to the competing business interests of power-holders, and is fuelled by the large gap between the poor and the better off.³³⁸ Respondents stated that assault and kidnapping were a real risk in the course of daily business.³³⁹ Corruption is also a persistent problem in the province,

arguably based in mujahideen-led patronage networks consolidated in the wake of the Soviet–Afghan War.³⁴⁰

Herat has a comparatively diverse economic base. Marble production accounts for some 5000 jobs and is often cited by international donors as a success story. There is potential for further export growth and new domestic markets (85 per cent of marble used in Afghanistan is currently imported), but there are obstacles in terms of productivity, security and transport infrastructure.³⁴¹ This, like the revival or increase in productivity of existing manufacturing, requires quite substantial investment.

In terms of human capacity, Herat has a large class of entrepreneurs educated in Iran, who represent an important business asset and could help to drive further growth.³⁴² It is also home to Afghanistan's second largest university.

The province has a relatively diversified agriculture; the land is rain-fed in the north and irrigated in the south and east. In season, fresh fruit, as well as beverages and food products, are exported to Central Asia, but improved irrigation and cold storage capacity could expand agricultural output and return Herat closer to its previous position as the 'bread-basket of Central Asia'.³⁴³ Security problems outside the city and in adjacent provinces as well as poor road conditions currently prevent Herat from fully contributing to the domestic food supply.

The view that Herat is isolated from the rest of the country and its interests under-represented in Kabul is widespread and most of the interviewees expect little from the government.³⁴⁴ The province is heavily dependent on imports from Turkmenistan for electricity, but there are good conditions for wind, solar and hydropower. Major infrastructure projects, most prominently the long overdue Salma dam on the Hari River, may, if finalized, significantly boost both irrigation and electricity supply in the province.³⁴⁵ Easing of sanctions against Iran, resulting in a new momentum in Iranian economic development, is likely to have positive spillover effects for Herat's private sector. During the sanctions regime Herat became a useful source of foreign exchange for Iran. Increased international trade with Iran may also provide opportunities for investment in much needed infrastructure in Herat (e.g. improved connections between Herat and the Iranian port of Chabahar on the Arabian Sea).

Kabul

Kabul is estimated to be home to 41 per cent of Afghanistan's total urban population.³⁴⁶ Officially, the city's population is 3.5 million, although some estimates place it at closer to 7 million.³⁴⁷ The number of inhabitants is growing at the rapid pace of nearly 5 per cent annually and Kabul is now the fifth fastest-growing metropolitan region in the world.³⁴⁸ Since 2002, millions of internally displaced persons (IDPs), returning refugees and internal migrants have flocked to the city, expanding it upwards as well as outwards; hillsides and informal arrangements now represent 70 per cent of housing.³⁴⁹

Kabul's population is more mixed in terms of ethnicities, with less stringent tribal structures and institutions, than in other parts of the country. It is also diverse in economic terms. As the economic and political centre of Afghanistan, Kabul is where the capital accumulated in the post-Taliban era is most visible. It can be seen in the fast growth of certain larger commercial enterprises—some located in the Bagrami and Pul-e-Charkhi industrial parks—and also in costly high-rise apartments and 'poppy palaces'. High demand for residential housing has sustained the construction sector beyond the international withdrawal and there remain opportunities for private businesses in this and other sectors. However, there are dense areas of extreme poverty, not only in informal settlements, but also in the refugee camps outside the city. Associated with these areas are problems such as eviction and land tenure insecurity, absent or over-capacitated urban services and infrastructure and vulnerability along many indicators.³⁵⁰

But migration to Kabul remains appealing due to the opportunities available in the capital, be they commercial or otherwise. Electricity is available to 95 per cent of households in the municipality and a quarter of households own their own vehicles.³⁵¹ The presence of educational facilities, including 76 higher education institutions, creates a pool of higher-skilled labour.³⁵² The city's literacy rate (at nearly 65 per cent) is higher than the rest of the country, as is the proportion of children enrolled in primary school.³⁵³ The situation for women is comparatively more liberal than in other parts of the country. With a thriving media and telecommunications sector as well as new roads, Kabul is better connected to the engines of business at all levels than any other part of the country.

As Kabul is the centre of government and the headquarters of the international community, it is often the target of high-profile political attacks. Security therefore remains a problem. The international presence has also been a major driver of the local economy over the past decade, and the economic impact of transition has been strongly felt by local businesses catering to this market. This includes the non-governmental organization (NGO) sector, which has absorbed many of the country's educated elite.

Despite the greater range of opportunities available in Kabul, less than 10 per cent of the employment in the city is in fact formal, with a large proportion of those jobs existing in the public sector.³⁵⁴ Outside of this, the bulk of employment is in trade and services, with a large proportion of jobs also being casual labour.³⁵⁵ Unemployment and underemployment are major problems: only a third of the working age population was considered economically active in recent surveys.³⁵⁶

Some agricultural activity takes place, concentrated in the rural districts of the province of Kabul. These districts are home to 20 per cent of the province's population. In Kabul province the vast bulk of production is in higher-value crops such as fruits, vegetables and livestock, and is mainly located in the northern three districts.³⁵⁷ Somewhat surprisingly, 19 per cent of the land in the city itself is still being used for agricultural purposes.³⁵⁸

Parwan

Parwan province borders Kabul province's northern boundary. Its population is estimated to be about 631 600 of which 90 per cent are rural-based.³⁵⁹ The province lies along the Ring Road and is the north-south transit point through the Salang pass. Parwan benefits not only from traffic and economic spillover, but also from having the large market of Kabul within close reach. Access to land is easier and cheaper than in overcrowded Kabul.³⁶⁰ Agricultural potential is very high: the province benefits from swathes of fertile land and the four rivers that run through it, although water management remains a problem. Production is a diversified mix of staple, high-value cash and niche crops, and livestock.³⁶¹ It has been designated a poppy-free province.³⁶² Better cold storage, greenhouses and improved post-harvest processing facilities are still essential, however, not only for income generation, but also for food security purposes.³⁶³

There is a mix of medium and small-sized enterprises in Parwan. However, the labour market and many businesses were stimulated by the presence of the Bagram Airbase, which at its peak employed up to 15 000 Afghans. While not all these were Parwan locals, the declining international military presence has had substantial impact on many of the province's contractors and businessmen. Interviewees pointed out that such international community contracts brought little in terms of sustainable impact, although some longer-term investments were made: Parwan now has the largest cold storage facility in Central Asia. The province has defunct but revivable Soviet-era factories, and has potential for warehousing and spring water bottling, among other non-agricultural commercial opportunities.

As in so many provinces, reliable electricity supply is one of the key private sector needs in Parwan. While household access to electricity is relatively high, the supply to the province for commercial use remains unreliable.³⁶⁴

Despite Parwan being relatively peaceful in terms of the threat of insurgency, its business environment has been described as 'ruthless', with extortion, kidnapping, robberies, factional fighting and other violent activities rampant.³⁶⁵ Such a security environment makes the private sector unattractive for local male youth, who are generally not encouraged to enter into it. Half the population is estimated to be below 17 years of age, which has longer-term economic implications.³⁶⁶ Interestingly, the diverse array of economically active women interviewed by the authors in Parwan noted that they do not face the same problems of business-related violence as the male population. This may be due primarily to: the smaller scale of activity, the traditional respect for women among many in the province and the fact that women have not generally tended to become involved in vendetta-fuelled feuding. Interviewees described the situation in Charikar as being favourable for women to engage in economically.³⁶⁷ However, the situation for women in the province as a whole remains limited.³⁶⁸

Annex 2. Methodology

Background and research questions

This Swedish International Development Cooperation Agency (Sida) funded report is the product of a one-year scoping study on the state of the private sector in Afghanistan, and its nexus with traditional and human security. By examining impediments to the private sector this report seeks to provide input on future Afghan Government and international community initiatives to facilitate private sector growth. In this regard, special attention is paid to inclusivity of economic development. This report's findings are therefore likely to be of interest to any stakeholder in Afghanistan's reconstruction, security and (socio)economic development.

The aim of this study is to contribute to the existing body of knowledge on the Afghan private sector and on private sector development (PSD) initiatives in the country by attempting to collect evidence to answer four key questions:

- I. What are the attributes of the private sector in Afghanistan?
- II. Which institutions, either formal or informal, support or discourage a functioning and more inclusive private sector, and which are detrimental?
- III. Can the private sector and PSD contribute to human and traditional security in the Afghan context and, if so, under what conditions?
- IV. What efforts to develop the private sector should the Afghan government and the international donor community prioritize for a more inclusive approach to private sector growth and how could this be achieved?

Provinces selection rationale

To answer these questions the three authors conducted three data collection visits to Afghanistan visiting five provinces: Balkh, Bamiyan, Herat, Kabul, and Parwan. The rationale for choosing these five provinces was the following:

—Kabul, the country's capital is the nexus of the government and most international and national organizations, as well as top policy advisors and policymakers in the country. Kabul also best represents the centre of the Afghanistan's economy.

—Balkh, with its connection to Central Asia through shared borders with Tajikistan and Uzbekistan, has been relatively secure from insurgency since 2002. Mazar-e Sharif is the largest urban centre and economic cluster in the north of the country.

—Herat, with its proximity to Iran, has traditionally been a hub of economic activity in Afghanistan, even during the Taliban's rule. It is a key centre of

agricultural activity and is the most significant economic cluster in the west of the country.

—Bamiyan and Parwan: while Nangarhar province in the east is an important economic centre with economic connectivity to Pakistan through Jalalabad, current security dynamics in Nangarhar province affected the selection process, and Bamiyan and Parwan were chosen in lieu. Bamiyan is a relative secure area and therefore has potential for intra-province commercial activity. Historically, the international donor community and the central government have also largely overlooked it. Parwan connects Kabul to the north of the country and could potentially become a major centre of food production in central Afghanistan. Private sector conditions and PSD opportunities in these five provinces are shared in Annex 1.

Approach

In attempting to answer the four research questions a combination of desk and field research was applied. The authors deemed it vital to interact closely with private sector actors in Afghanistan and to assess in person key formal and informal institutions, and extra-market conditions that shape the broader private sector environment. This study is limited to licit formal and informal private sector activities: except where noted, use of the term 'private sector' denotes these sub-sectors. Collected data was primarily qualitative and was analysed through interpretive methods. The rationale behind this approach is that in Afghanistan's context quantitative sources provide an imperfect indication of elements that influence the private sector's development, such as political will, relations with (extended) neighbours and religious and cultural factors, but which are hard to quantify. Semi-structured face-to-face interviews were held with a wide array of respondents in all five provincial capitals and occasionally in locations outside of city borders; and a total of 12 thematic workshops were held, comprising 10 to 15 interlocutors at each of them. Workshops took place in all the provincial capitals, with the exception of Kabul. The authors interviewed 164 respondents during this stage of the data collection process. This group comprised male and female entrepreneurs and union representatives of all ages and from a wide range of industries. Most of the interviews took place at the aforementioned workshops. Local chambers of commerce (ACCI) selected the respondents in line with criteria set out by the authors. The authors visited 16 factories and workshops producing goods in a variety of sectors.

The authors also held 83 other separate meetings in Afghanistan with interlocutors that included government officials, officials associated with or assigned to foreign diplomatic missions, development practitioners at non-governmental organizations (NGOs) and international organizations, scholars, companies, business support agencies, organized business, policy advisors and analysts. The authors conducted a further 23 interviews outside of Afghanistan, including in Sweden, the USA, and the United Arab Emirates.

To ensure that the data collected was as comprehensive as possible, the authors also consulted actors involved in political, regional and security affairs. These interviewees were chosen on the basis of their institutions' impact on or involvement in the Afghan private sector.

All data from respondents was transcribed. Collected data was added to the first-hand observations made by the authors in Afghanistan and desk research conducted in Stockholm. In addition, the authors reviewed and took due consideration of relevant literature on the economic development of Afghanistan and various aspects of the current state of the private sector landscape and PSD. A draft report, including recommendations, was circulated internally and externally for peer review.

Limitations

The selected methodology certainly has its limitations: the territory and population of the areas chosen are both considerable in size and although much data was collected, it also widened the authors' perspective. Taking into account the extensive scope of the study, a set list of questions was not feasible and questions were often tailored. The authors' visits to the provinces were generally limited to their capitals. Except for Kabul, which was visited on all three data collection trips, other cities were merely visited once for a number of days each. The geographic focus, length and frequency of these visits were too limited to collect comprehensive primary data on the particularities of the private sector in and beyond the five chosen provinces. These dynamics also limited the scope of interlocutors. The authors did not visit the neighbouring countries of Iran and Pakistan, both of which have a strong impact on the Afghan private sector and would have provided noteworthy impressions. The lack of reliable and up-to-date data has been an impediment, but this is a hurdle faced by anyone conducting research on Afghanistan.

Finally, since this is a scoping study of the complex Afghan private sector—and consequently covers much ground—further research on identified impediments and recommended PSD approaches shared in this report is strongly endorsed, particularly on direct market interventions and their specific contexts.

Annex 3. Abbreviations

ACCI	Afghanistan Chamber of Commerce and Industries
AISA	Afghanistan Investment Support Agency
ANDS	Afghanistan National Development Strategy
ANDSF	Afghan National Defense and Security Forces
APTTA	Afghanistan–Pakistan Transit and Trade Agreement
ARTF	Afghanistan Reconstruction Trust Fund
ATTA	Afghanistan Transit Trade Agreement
AWBF	Afghan Women’s Business Federation
AWSA	Afghan Women’s Saffron Association
BINA	Business Integrity Network Afghanistan
CEO	Chief executive officer
CIPE	Center for International Private Enterprise
DABS	Da Afghanistan Breshna Sherkat
DCD	Development Coordination Dialogues
DFID	UK Department for International Development
EITI	Extractive Industries Transparency Initiative
ETIM	East Turkistan Islamic Movement
FACT	Federation of Afghan Craftsmen and Traders
FDI	Foreign direct investment
GDP	Gross domestic product
GII	Gender inequality index
GOIRA	Government of the Islamic Republic of Afghanistan
HOOAC	High Office of Oversight and Anti-Corruption
IDLG	Independent Directorate of Local Governance
IDP	Internally displaced person
IFC	International Finance Corporation
ISIL	Islamic State of Iraq and the Levant
LDC	Least developed countries
LED	Local economic development
MEC	Independent Joint Anti-Corruption Monitoring and Evaluation Committee
MISFA	Microfinance Investment Support Facility for Afghanistan
MOCI	Ministry of Commerce and Industries
MSME	Micro-, small-, and medium-enterprises
NATO	North Atlantic Treaty Organization
NDN	Northern Distribution Network
NGO	Non-governmental organization
NMDP	New Market Development Project
NPP	National Priority Program
NRVA	National Risk and Vulnerability Assessment
NUG	National Unity Government
O&M	Operation and maintenance

ODA	Official development assistance
PPP	Public-private partnership
PRT	Provincial Reconstruction Teams
PSD	Private sector development
RECCA	Regional Economic Cooperation Conference on Afghanistan
Sida	Swedish International Development Cooperation Agency
SME	Small- and medium- enterprises
SOE	State-owned enterprise
SREB	Silk Road Economic Belt
SWF	Sovereign wealth fund
TAPI	Turkmenistan–Afghanistan–Pakistan–India Pipeline
TMAF	Tokyo Mutual Accountability Framework
TTP	Tehrik-i-Taliban Pakistan
VSLA	Village and saving loan association
WTO	World Trade Organization

Annex 4. Notes

¹ Loans issued by the bank were *sharia*-compliant. Bank profit was obtained from stamps that borrowers were required to purchase and attach to repayment receipts. Ford, R. S. 'The economy', eds R. F. Nyrop and D. M. Seekins, *Afghanistan Country Study* (The American University: Washington, DC, 1986), p. 143.

² These included lambskin pelts, fruits, grain, cotton and opium, which constituted 80–90% of Afghanistan's exports in the 1930s and 1940s. Ford (note 1), p. 144; and Barfield, T., *Afghanistan: A Cultural and Political History* (Princeton University Press: Princeton, 2010), p. 203.

³ In this report, the 'private sector' refers to a basic organizing principle of economic activity where private ownership is an important factor, where markets and competition drive production and where private initiative and risk taking set activities in motion—as based on the OECD's Development Assistance Committee's (DAC) guidelines. See e.g. Organisation for Economic Co-operation and Development (OECD), *Support of Private Sector Development*, Development Cooperation Guidelines Series (OECD: Paris, 1995).

⁴ Ford (note 1), pp. 147–48.

⁵ Nijssen, S., 'The Afghan economy: a brief history', NATO Civil-Military Fusion Centre, 14 Oct. 2010; and Ford (note 1), p. 174.

⁶ Barfield (note 2), p. 204; Nijssen (note 5); and Ford (note 1), p. 174.

⁷ In 1977, Afghanistan only needed to import an estimated 2500 metric tons of wheat. Clarke, P., 'Food security in Afghanistan', *Afghanistan Outlook Dec. 1999*, UN Office for the Coordination of Humanitarian Affairs, 31 Dec. 1999, <<http://reliefweb.int/report/afghanistan/afghanistan-outlook-dec-1999>>.

⁸ M. S. Noorzoy, 'Planning and growth in Afghanistan', *World Development*, vol. 4, no. 9 (1976); and Barfield (note 2), p. 205.

⁹ Noorzoy (note 8), p. 761.

¹⁰ Rubin, B. R., 'The Political economy of war and peace in Afghanistan', *World Development*, vol. 28, no. 10 (2000), p. 1793.

¹¹ US Defense Intelligence Agency, 'The economic impact of Soviet involvement in Afghanistan', May 1983, p. 2; and del Castillo, G., *Guilty Party: The International Community in Afghanistan*, Xlibris, 2014, p. 116.

¹² Kalinovsky, A., *A Long Goodbye: The Soviet Withdrawal from Afghanistan* (Harvard University Press: Cambridge, 2011), pp. 100–101.

¹³ Kalinovsky (note 12).

¹⁴ Rubin, B. R., *The Fragmentation of Afghanistan: State Formation and Collapse*, 2nd edn (Yale University Press: New Haven, CT, 1995), pp. 296–97.

¹⁵ Rubin (note 10), pp. 1791.

¹⁶ A 1999 World Bank study conservatively put cross-border trade with Pakistan at \$2.5 billion in 1996/1997, of which some 84% was estimated to be unofficial re-exports of transited goods back into Pakistan. Naqvi, Z. F., 'Afghanistan–Pakistan trade relations', World Bank, 1999, pp. 3, 6.

¹⁷ Rashid, A., *Taliban: Islam, Oil and the New Great Game in Central Asia* (I.B. Tauris & Co Ltd: London, 2002), p. 120.

¹⁸ Although the farmers 'received less than 1 per cent of the total profits generated' in the overall process, according to the UN International Drug Control Programme. Rashid (note 17), p. 125.

¹⁹ Favre, R., 'Exploring the roots of opium and illicit economy in Afghanistan', AIZON Report, Nov. 2005, p. 24.

²⁰ UN Office on Drugs and Crime (UNODC), *2004 World Drug Report, Volume 1 Analysis* (UNODC: New York, 2004). However, this was primarily concentrated in two provinces (Helmand and Nangarhar), which accounted for around 90% of the country's opium production between 1994 and 2000. Favre (note 19), p. 33.

²¹ It is notable that when the Taliban leader Mullah Omar declared opium growing 'un-Islamic' in 2000, output decreased by 95% the next year. This was reflective of how much effective control the Taliban had in the Afghan countryside. By the 2006, opium production had spread to nearly all the provinces of Afghanistan.

²² Rashid (note 17), p. 198.

²³ Rubin, B. R., *Afghanistan in the Post-Cold War Era* (Oxford University Press: Oxford, 2013), p. 30.

²⁴ Food and Agriculture Organization (FAO), Special Report: 'FAO/WFP Crop and Food Supply Assessment Mission to Afghanistan', 2 July 1998, <<http://www.fao.org/docrep/004/w9095e/w9095e00.htm>>.

²⁵ del Castillo (note 11), p. 119.

²⁶ Counting since 1989, 3.84 million Afghans had repatriated by 1996. UN General Assembly, Emergency Assistance to Afghanistan, 28 Oct. 1997, A/52/536, <<http://www.refworld.org/docid/3a6aec28.html>>; and Clarke (note 7).

²⁷ Official growth does not include the substantial illegal smuggling or opium-related activities. Annual growth over the decade fluctuated widely, much of which related to the agricultural harvest. See World Bank, 'World DataBank', <<http://databank.worldbank.org/data/views/reports/tableview.aspx>>.

²⁸ This does not include security spending. Hogg, R. et al., *Afghanistan in Transition: Looking Beyond 2014* (World Bank: Washington, DC, 2013) p. 48.

²⁹ See World Bank, 'Net official development assistance received (current US dollars)', [n.d.], <<http://data.worldbank.org/indicator/DT.ODA.ODAT.CD/countries>>.

³⁰ Interim Afghan Administration, *The National Development Framework: A Summary* (Interim Afghan Administration: Kabul, 2002), p. 3.

³¹ The World Bank notes that its own statistics are unable to capture the picture precisely.

³² A Taliban ban on poppy-growing brought figures down to zero hectares of cultivation in Helmand and only 218 hectares in Nangarhar in 2001. In the previous year these 2 provinces had accounted for nearly 80% of the country's poppy cultivation area. In 2004, the farm-gate value of opium was 12.5 in per cent GDP terms. In the most recent UNODC report, this figure has dropped to 4%. UN International Drug Control Programme (UNDCP), *Afghanistan Annual Opium Poppy Survey 2001* (UNDCP: Islamabad, 2001), p. ii; and UN Office on Drugs and Crime (UNODC), *Afghanistan Opium Survey 2005* (UNODC, Nov. 2005), p. 1.

³³ Weinbaum, M. G., 'Afghanistan: rebuilding and transforming a devastated economy', ed. L. Binder, *Rebuilding Devastated Economies in the Middle East* (Palgrave Macmillan: New York, 2007), p. 213.

³⁴ See Lister, S. and Pain, A., 'Trading in power: the politics of "free markets" in Afghanistan', Afghanistan Research and Evaluation Unit (AREU), Briefing Paper, June 2004; and Pain, A., Communication with authors, Uppsala, Sweden, Feb. 2015.

³⁵ Dowdy, J. and Erdmann, A., 'After the "war economy": the role of the private sector in Afghanistan's future', compiled by C. Richards and J. Stewart, *Afghanistan Revealed: Beyond the Headlines* (Crux Publishing Ltd: 2007), p. 266; and World Bank, 'Motor vehicles (per 1000 people)', Data, <<http://data.worldbank.org/indicator/IS.VEH.NVEH.P3>>.

³⁶ Bhatia, B. and Gupta, N., 'Transforming telecoms in Afghanistan', Public-Private Infrastructure Advisory Facility, Note no. 1, Apr. 2006; and US Agency for International Development (USAID), 'Connecting to opportunity: a survey of Afghan women's access to mobile technology', May 2013, <<http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2013/06/USAID-Connecting-to-Opportunity-A-Survey-of-Afghan-Womens-Access-to-Mobile-Technology.pdf>>.

³⁷ Dowdy and Erdmann (note 35); and Afghanistan Chamber of Commerce and Industries (ACCI) Official, Communication with authors, Kabul, Nov. 2014.

³⁸ Afghan Central Statistics Office (CSO), *Statistical Yearbook 2012-13* (CSO: Kabul, 2013), p. 139.

³⁹ Special Inspector General for Afghanistan Reconstruction (SIGAR), 'Quarterly report to the U.S. Congress', July 2014, p. 5.

⁴⁰ Afghan Central Statistics Office (CSO), *National Risk and Vulnerability Survey 2011-2012* (CSO: Kabul, 2014).

⁴¹ For 2015, under conditions of constant mortality. 'Median age (years) (years)', UN Data, <<http://data.un.org/Data.aspx?d=PopDiv&f=variableID%3A41>>.

⁴² World Bank (note 27).

⁴³ World Bank, *Afghanistan Economic Update*, Apr. 2015, <<http://www.worldbank.org/en/news/feature/2015/05/02/increasing-fiscal-stresses-against-the-backdrop-of-a-slowng-economy-and-a-deteriorating-security-environment-demand-solid-reforms-to-restore-fiscal-stability-and-reinstate-investor-and-consumer-confidence>>.

⁴⁴ World Bank (note 43).

⁴⁵ World Bank (note 43).

⁴⁶ Byrd, W., 'Afghanistan's continued fiscal crisis: no end in sight', United States Institute of Peace, Peace Brief no. 185, May 2015.

⁴⁷ 'Audit Says Kabul Bank Began as "Ponzi Scheme"', *New York Times*, 26 Nov. 2012, <http://www.nytimes.com/2012/11/27/world/asia/kabul-bank-audit-details-extent-of-fraud.html?ref=topics&_r=0>.

⁴⁸ Government of the Islamic Republic of Afghanistan (GOIRA), *Towards Regional Economic Growth & Stability: The Silk Road Through Afghanistan* (GOIRA: Kabul, Sep. 2015).

⁴⁹ World Bank (note 43).

⁵⁰ World Integrated Trade Solution (WITS), 'Afghanistan trade at a glance: most recent values', <<http://wits.worldbank.org/countrysnapshot/AFG>>; and GOIRA (note 48).

⁵¹ Afghan Central Statistics Office (CSO) of Afghanistan, *Statistical Yearbook 1393 (2014/15)* (CSO: Kabul, 2015), Calculations made by authors.

⁵² Afghan Central Statistics Office (note 40).

⁵³ See UN Development Programme (UNDP), *2014 Human Development Report— Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience* (United Nations: New York, 2014).

⁵⁴ See World Bank, 'Country data', <<http://data.worldbank.org/country/afghanistan>>.

⁵⁵ World Bank, Senior officials meeting, Kabul, Sep. 2015.

⁵⁶ As of Oct. 2015 ISIL has a presence in Afghanistan, but its footprint cannot yet be assessed: many sources indicate that demotivated Taliban factions have rebranded themselves as ISIL and that the number of foreign recruits is minor.

⁵⁷ Afghan Central Statistics Office (note 40).

⁵⁸ See Afghan Ministry of Economy, 'Afghanistan's job challenge', [n.d.], <http://moec.gov.af/Content/files/Afgh%20Jobs%20Challenge_Final.pdf>.

⁵⁹ See Afghanistan Central Statistics Office (note 38), table 7-4, p. 139.

⁶⁰ Formal jobs are estimated to encompass 29% of jobs in urban areas and 6% of jobs in rural areas. Afghan Ministry of Economy (note 58).

⁶¹ These are the businesses registered with the Afghanistan Chamber of Commerce and Industries (ACCI), which allegedly encompasses 90% of formal private sector employment in Afghanistan. There are also nearly 43 000 businesses registered with the Afghan Investment Support Agency (AISA), and others registered with the Afghanistan Central Business Registry (ACBR), as well as the Ministry of Commerce and Industries. There is substantial membership overlap among these registries, which makes it difficult to determine the total number of formal businesses in the country. See Afghanistan Chamber of Commerce and Industries, <<http://www.acci.org.af/>>.

⁶² More comprehensive surveys on the formal business sector include: Afghan Central Statistics Office (CSO), *Integrated Business Enterprise Survey 2009* (CSO: Kabul, 2009). For one of the few studies conducted on the informal economy see Afghan Management & Marketing Consultants, 'Informality and small business development in the city of Kabul', July 2011, <http://www.harakat.af/site_files/13623051011.pdf>.

⁶³ World Bank, *Afghanistan-State Building, Sustaining Growth, and Reducing Poverty* (World Bank: Washington, DC, 2005).

⁶⁴ Classification used by the World Bank: formal, in-kind, extra-legal, irregular and illegal. World Bank (note 63).

⁶⁵ This includes the opium economy. Paterson, A., 'Going to market: trade and traders in six Afghan sectors', Afghanistan Research and Evaluation Unit (AREU), Synthesis Paper Series, June 2008, p. 7.

⁶⁶ See Swedish International Development Cooperation Agency (Sida), *Making Markets Work for the Poor* (Sida, Oct. 2003).

⁶⁷ World Bank (note 63).

⁶⁸ As the Afghan Ministry of Commerce and Industries points out, this is less applicable in the Afghan context. Afghan Ministry of Commerce and Industries, 'Afghanistan SME development strategy', Dec. 2009, <<http://afghanenterprise.com/wp-content/uploads/2014/04/MOCI-SME-Development-Strategy-09-12-15.pdf>>; and Afghan Management & Marketing Consultants (note 62).

⁶⁹ 47% of registered businesses surveyed noted that they received no benefits from formalization. Afghan Management & Marketing Consultants (note 62). These complaints were corroborated in our interviews and roundtables.

⁷⁰ Afghan Ministry of Commerce and Industries, 'The Ministry of Commerce and Industry introducing its new Private Sector Development General Directorate', [n.d.], <<http://moci.gov.af/en/page/542>>.

⁷¹ Such as *senfs*, *anjomans* and the *etehadia*. See Afghan Public Policy Research Organization (APPRO), 'Resilience and conflict: clustered enterprises of Balkh, Kabul, and Parwan', Feb. 2015.

⁷² Aga Khan Development Foundation (AKDF), Communication with authors, Kabul, 25 Feb. 2015. According to the Afghan Central Statistics Office, Afghanistan's official imports amounted to 7.7 billion for the period 2014–15, while its exports amounted to only \$570 million. Afghan Central Statistics Office, 'Economic statistics: annual trade', 2015, <<http://cso.gov.af/en/page/economy-statistics/6323/annual-trade>>.

⁷³ Afghanistan's largest trading partners for 2014–15 are Iran, Pakistan and China. However, as mentioned, the trade is highly unbalanced. India is also a major export destination. Afghan Central Statistics Office (note 72).

⁷⁴ Tariff statistics for Iran are not available, although it is understood that Iranian policies are largely protectionist. Pakistan's applied average tariff for all products, agricultural and non-agricultural products, at 13.5%, is well over twice that of Afghanistan's (5.9%). World Trade Organization, 'Tariff Profiles', <<http://stat.wto.org/TariffProfile/WSDBTariffPFHome.aspx?Language=E>>.

⁷⁵ Afghan Central Statistics Office (CSO), *Integrated Business Enterprise Survey in Afghanistan 2009* (CSO/Asian Development Bank, [n.d.]), p. ix. Note that not all establishments are necessarily companies. They can also be branches of larger entities and are not necessarily private sector (though the vast majority are).

⁷⁶ According to the MOCI definition, a micro-enterprise has fewer than 5 employees. Afghan Ministry of Commerce and Industries, The Small and Medium Enterprises Development Department, [n.d.], <<http://moci.gov.af/en/page/7541/7544/the-small-and-medium-enterprises-development-department>>.

⁷⁷ E.g. consider the Dubai- and Mazar-based Ghazanfar Group, which originated in Faryab in 1910, grew prominent in energy provision and is now one of the country's most diversified business groups. All 10 members of the board of directors (as of 2013) were relatives of Chairman Mohammad Ibrahim Ghazanfar. 'Ghazanfar Group: Afghanistan's leading energy company', Presentation, [n.d.], <http://ihale.tobb.org.tr/dosya/2467_GG_Presentation.pdf>.

⁷⁸ Parto et al., 'Traditional economic clusters and reconstruction in Afghanistan: the case of Herat', Afghan Public Policy Research Organization (APPRO), 2012, pp. 8–9.

⁷⁹ Numbers from GIZ, in turn partly based on FACT (Federation of Afghan Craftsmen and Traders) estimates. Reier, G., 'Bazaar study Afghanistan and conclusions for a systemic approach', Presentation at Bonn Conferences on Adult Education and Development, Bonn, Germany, 16–17 Oct. 2013, <http://www.bocaed.de/media/Gustav_Reier_Bazaar_study_Afghanistan_and_conclusions_for_a_systemic_approach.pdf>.

⁸⁰ Sepahi, H., FACT Chairman, Communication with authors, Kabul, 17 Feb. 2015.

⁸¹ 'Dueling chambers of commerce', WikiLeaks, no. 05KABUL5118_a, 17 Dec. 2005, <https://www.wikileaks.org/plusd/cables/05KABUL5118_a.html>.

⁸² Among its recurring activities, ACCI conducts quarterly business tendency surveys and yearly bottleneck surveys, as well as elaborates the policy guidance National Business Agenda (NBA). For alleged ties to elite interests, see e.g. Afghanistan Analysts Network, 'Afghanistan's elite has its own election', 23 Nov. 2011, <<https://www.afghanistan-analysts.org/afghanistans-business-elite-has-its-own-election/>>.

⁸³ ARTF Strategy Group Meeting, 'Agriculture in Afghanistan: growing the economy, jobs and food security', Presentation, 20 May 2014, <http://www.artf.af/images/uploads/ASR_PPT_for_ARTF_Strategy_Group_Meeting_May_20_2014.pdf>

⁸⁴ These figures do not include opium production. Hogg et al. (note 28).

⁸⁵ See Pain, A. and Shah, S. M., 'Policymaking in agriculture and rural development in Afghanistan', Afghanistan Research and Evaluation Unit (AREU), Case Study Series, Apr. 2009.

⁸⁶ UNDP Official, Communication with authors, Nov. 2014; and Kantor, P. and Pain, A., 'Rethinking poverty reduction in Afghanistan', Afghanistan Research and Evaluation Unit (AREU), Policy Note Series, Oct. 2011.

⁸⁷ World Bank, *Islamic Republic of Afghanistan Agricultural Sector Review: Revitalizing Agriculture for Economic Growth, Job Creation and Food Security* (World Bank: Washington, DC, June 2014).

⁸⁸ For the third year in a row, Afghan saffron has received the highest honours from the International Taste and Quality Institute. Mohseni, G., 'Afghan saffron named 'world's best' for third time', Tolo News, 6 June 2015, <<http://www.tolonews.com/en/business/19880-afghan-saffron-named-worlds-best-for-third-time>>.

⁸⁹ Boustan Sabz Manager, Communication with authors, Kabul, 10 May 2015.

⁹⁰ World Bank (note 87).

- ⁹¹ Zamir, A., Minister of Agriculture, Communication with authors, Kabul, 10 May 2015.
- ⁹² Jahanmal, Z., 'Afghanistan imports \$42m worth dairy products annually', Tolo News, 20 Feb. 2015.
- ⁹³ This does not include the unspecified category of 'other'. Afghan Central Statistics Office (note 72).
- ⁹⁴ World Bank (note 87).
- ⁹⁵ Under the framework of the ANDS, economic development packages (EDPs) have been developed, partnering with the Comprehensive Agricultural and Rural Development Facility (CARD-F), to intervene in, stimulate and enhance the local economic impact of selected value chains. The programme takes a full value-chain approach. New programs, such as the Regional Agricultural Development Program (RADP) are also being implemented.
- ⁹⁶ World Bank, *Afghanistan: Resource Corridor Strategy and Plan: Making Mining-Based Growth More Inclusive* (World Bank: Washington, DC, May 2013).
- ⁹⁷ GOIRA (note 48).
- ⁹⁸ Afghan Ministry of Commerce and Industries, 'Growth during transition 2012–2015', Oct. 2012.
- ⁹⁹ World Bank, 'Industry, value added (% of GDP)', 2015, <<http://data.worldbank.org/indicator/NV.IND.TOTL.ZS>>.
- ¹⁰⁰ World Bank (note 87).
- ¹⁰¹ Afghan Ministry of Commerce and Industries, 'Integrated trade and SME support facility,' [n.d.], <<http://www.the kabul process.gov.af/images/npps/psd/1-pdd-itssf-final.pdf>>.
- ¹⁰² According to the 2013–14 updated Action Plan for the Agribusiness Sector, MAIL will be constructing 8 large-scale cold storage facilities in 8 major cities across Afghanistan. If these are in fact constructed, this would be a major accomplishment for the Afghan Ministry of Commerce and Industries and for the industry as a whole.
- ¹⁰³ Afghan Ministry of Commerce and Industries (note 68), p. 36.
- ¹⁰⁴ Cusack, J. and Malmstrom, E., 'Bactrian gold: challenges and hope for private sector development in Afghanistan', Presentation at Council of Foreign Relations, 1 Nov. 2010.
- ¹⁰⁵ Afghanistan Ministry of Commerce and Industries (note 103).
- ¹⁰⁶ World Bank (note 87).
- ¹⁰⁷ Rabani, S. M., 'Study of Kabul housing market', Afghanistan Investment Support Agency (AISA), Feb. 2014.
- ¹⁰⁸ Sangin, A., 'PP-14 policy statements', International Telecommunication Union (ITU) Plenipotentiary Conference 2014, 21 Oct. 2014. <<http://www.itu.int/en/plenipotentiary/2014/statements/file/Pages/afghanistan.aspx>>.
- ¹⁰⁹ See Afghan Ministry of Communications and Information Technology, 'Private sector development cluster: e-Afghanistan', 2011. <<http://mcit.gov.af/Content/files/PSD%20NPP%20%20E%20Afgh%20NPP%20Proposal%2023%20May%202011.pdf>>.
- ¹¹⁰ Afghanistan International Bank (AIB) Official, Communication with authors, Kabul, May 2015.
- ¹¹¹ Klijn, F. and Pain, A., 'Finding the money: informal credit practices in rural Afghanistan', Afghanistan Research and Evaluation Unit (AREU), Synthesis Paper Series, June 2007. The FMFB does not give personal loans, however.
- ¹¹² Pain, A. and Kantor, P., 'Local institutions, livelihoods and vulnerability: lessons from Afghanistan', Overseas Development Institute (ODI), Humanitarian Policy Group (HPG) Working Paper, Apr. 2012, <<http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7653.pdf>>, p. 13.
- ¹¹³ Entrepreneurs in 5 Afghan provinces, Communication with the authors, 2014–15.
- ¹¹⁴ Youths, Communication with authors, Charikar, Parwan Province, May 2015.
- ¹¹⁵ Business support community, Communication with the authors, Herat city, Feb. 2015.
- ¹¹⁶ Kaplan, S., 'Social covenants and social contracts in transitions', Norwegian Peacebuilding Resource Centre, Feb. 2014, pp. 2–3, <<http://www.peacebuilding.no/Themes/Global-trends/Publications/Social-covenants-and-social-contracts-in-transitions>>.
- ¹¹⁷ A coordination initiative such as the High Economic Council, established in 2012, chaired by the president and including key ministries, AISA and industry representatives, initially played a role in investment policy, but has since lost in importance.
- ¹¹⁸ Afghan Ministry of Commerce and Industries (MOCI) Official, Communication with Authors, Kabul, Nov. 2014.
- ¹¹⁹ A law can be adopted and signed by the president, or adopted by presidential decree and ratified in parliament. The latter can be used without ratification with the risk of later being overturned by parliament. See also MOCI, <<http://moci.gov.af/en/page/550>>.

¹²⁰ See Afghan Ministry of Mines and Petroleum website for the most up to date version. Afghan Ministry of Mines and Petroleum, 'Laws', <<http://mom.gov.af/en/page/3993/3994>>.

¹²¹ UN Assistance Mission in Afghanistan (UNAMA) Rule of Law Unit, *Stolen Lands of Afghanistan and Its People: The Legal Framework*, Aug. 2014, <http://unama.unmissions.org/Portals/UNAMA/UNAMA_RoL_Unit_Part_1_Legal_Framework_Final-2.pdf>, p. 6.

¹²² Government of the Islamic Republic of Afghanistan, *Afghanistan National Development Strategy 1387–1391 (2008–2013)* (GOIRA: Kabul, 2008), p. 76.

¹²³ Starting in 2009, Afghanistan took several measures to simplify the business start-up process, including by consolidating company and tax registration, eliminating inspections and cutting required time and cost. The country made it to number 24 on the World Bank 'Doing Business' ranking for starting a business in 2014, ahead of countries such as the USA and the UK. However, the following year, both cost and time again increased somewhat. World Bank, *Doing Business 2015: Economy Profile Afghanistan* (World Bank: Washington, DC, 2014).

¹²⁴ In 2015, President Ghani suspended the leadership of AISA and ordered an investigation into corruption claims. Office of the Afghan President, 'A meeting chaired by President Ghani discusses problems at AISA', 28 May 2015, <<http://president.gov.af/en/news/47055>>.

¹²⁵ Among the most frequently mentioned sources of illegitimate fees is the requirement to keep tax records for 5 years.

¹²⁶ Afghanistan Public Policy Research Organization (APPRO), 'Business licensing in Afghanistan. Procedural reform or institutional regression?', APPRO Working Paper, 2014.

¹²⁷ Sometimes known as *commissionkar*, these middlemen facilitate registration or licensing for an illicit fee with the consent of an official. Gardizi, M., Hussmann, K. and Torabi, Y., 'Corrupting the state or state-crafted corruption?', Afghanistan Research and Evaluation Unit (AREU), Discussion Paper, June 2010.

¹²⁸ According to the World Bank's *Doing Business 2015*, enforcing a standardized contract issue in Kabul (in the formal legal system) takes 1642 days and involves 47 procedures, putting Afghanistan at 183rd place out of 189 countries. World Bank (note 123).

¹²⁹ In Transparency International's Global Corruption Barometer (2013), the Afghan judiciary was perceived as the most corrupt institution, followed by government officials and non-governmental organizations. According to Integrity Watch Afghanistan's 'National corruption survey 2014', the courts were considered by a wide margin to be the most corrupt Afghan government institution. Within the court system, the prosecutors were seen as most susceptible to corruption. Transparency International, 'Global Corruption Barometer 2013: Afghanistan', <<http://www.transparency.org/gcb2013/country/?country=afghanistan>>.

¹³⁰ In rural areas, property, land and irrigation rights are common sources of dispute, resolved by *jirga* or traditional arbitration. For a historical discussion, see Barfield, T., *Afghan Customary Law and its Relationship to Formal Judicial Institutions*, draft (United States Institute for Peace: Washington, DC, 26 June 2003), <<http://www.usip.org/sites/default/files/file/barfield2.pdf>>.

¹³¹ Interim Afghan Administration (note 30).

¹³² Afghan Central Statistics Office (note 40), p. 56.

¹³³ Afghan Central Statistics Office (note 40).

¹³⁴ Emmott, S. and Jawhary, A.M., 'Evaluation of the NABDP in Afghanistan, Final Report', UN Development Programme (UNDP) Afghanistan, July 2014, p. 20.

¹³⁵ Kuchis, for instance, a nomadic Pashtun group whose livelihoods depend primarily on livestock, have not seen developmental gains within an aid system largely oriented towards sedentary populations.

¹³⁶ The GINI Index increased from 29.7 in 2007–2008 to 31.6 in 2011–12. Afghan Central Statistics Office (note 40).

¹³⁷ Hogg et al. (note 28).

¹³⁸ Government of the Islamic Republic of Afghanistan (note 122), p. 27.

¹³⁹ The Fund for Peace, 'Fragile state index 2015', <<http://library.fundforpeace.org/library/cfsir1423-fragilestatesindex2014-06d.pdf>>.

¹⁴⁰ See World Bank Group Enterprise Surveys, 'Afghanistan (2014)', <<http://www.enterprise-surveys.org/data/exploreeconomies/2014/afghanistan>>.

¹⁴¹ Afghan Government officials, Communication with authors, Kabul, 2014–15.

¹⁴² Afghanistan Chamber of Commerce and Industries, 'Business tendency survey report', Apr. 2015, <<http://www.acci.org.af/surveys-and-studies.html>>.

¹⁴³ Cordesman, A. H., 'Afghanistan at Transition: Lessons of the Longest War', CSIS Report, Mar. 2015, p. 159.

¹⁴⁴ Afghanistan Chamber of Commerce and Industries (ACCI), *Business Monitor 2014* (ACCI: Kabul, 2014), p. 8.

¹⁴⁵ In Transparency International's Corruption Perception Index (2014), Afghanistan noted a slight improvement, but only 3 countries were considered more corrupt. The TI Global Corruption Barometer (2013) saw a trend where more respondents believed corruption had increased rather than decreased over the past 3 years. In the compound World Bank worldwide governance indicators (WGI) for control of corruption, Afghanistan was in the bottom 2% per centile every year but one during the period 1996–2013 with no overall improvement in score. Transparency International, 'Corruption perceptions index 2014', <<http://www.transparency.org/cpi2014>>; and World Bank, 'Worldwide governance indicators', <<http://info.worldbank.org/governance/wgi/index.aspx#home>>. See also Goodman, M. B. and Sutton, T., 'Tackling corruption in Afghanistan: it's now or never', Centre for International Progress, 17 Mar. 2015, <<https://cdn.americanprogress.org/wp-content/uploads/2015/03/Afghanistan-Corruption-FINAL.pdf>>.

¹⁴⁶ Chayes, S., *Thieves of State. Why Corruption Threatens Global Security* (W.W. Norton & Company: NY, 2014), p. 59.

¹⁴⁷ The issue of uneven application of tariffs and import tax featured in interviews in Mazar-e Sharif and Herat. For a discussion of the politicized nature of border taxation at Torkham, see Minoia, G., Mumtaz, W. and Pain, A., 'The social life of the onion: the informal regulation of the onion market in Nangarhar, Afghanistan', Afghanistan Research and Evaluation Unit (AREU), Working Paper no. 26, 2014, pp. 19–20.

¹⁴⁸ For an analysis of the development and aftermath of the Kabul Bank scam, see Huffman, M., 'The Kabul Bank scandal and the crisis that followed', US Policy in a Big World, Blog, 3 Dec. 2011.

¹⁴⁹ See Byrd, W. and Noorani, J., 'Exploitation of mineral resources in Afghanistan: where are the government revenues or development benefits?', United States Institute of Peace, 1 Dec. 2014, <<http://www.usip.org/publications/exploitation-of-mineral-resources-in-afghanistan>>.

¹⁵⁰ That is, abuse of power by officials and evasion by companies coexist and feed off of each other. Federation of Afghan Craftsmen and Traders (FACT), Communication with authors, Kabul, Feb. 2015.

¹⁵¹ Business owner, Communication with authors, Mazar-i-Sharif, Feb. 2015.

¹⁵² HOOAC and MEC were established by presidential decree in 2008 and 2010, respectively, to coordinate and implement the national anticorruption strategy and to evaluate national and international efforts to fight corruption.

¹⁵³ Butler, A. and McGuinness, K., 'Afghan women's economic participation: 2013 report', Building Markets, 2013, <<http://buildingmarkets.org/products-services/afghan-women-economic-participation>>.

¹⁵⁴ See Integrity Watch Afghanistan, 'National corruption survey 2014', <<http://integritywatch.co/downloads-ncs-2014/>>.

¹⁵⁵ Hogg et al. (note 28).

¹⁵⁶ World Bank, 'Afghanistan', <<http://data.worldbank.org/indicator/DT.ODA.ALLD.CD/countries>>; and US Department of Defense, *Report on Enhancing Security and Stability in Afghanistan* (1225 Report), June 2015.

¹⁵⁷ Bontjer, R. A., Holt, J. P. and Angle, S., 'Spending the development dollar twice: the local economic impact of procurement in Afghanistan', Peace Dividend Trust, July 2009.

¹⁵⁸ Hogg et al. (note 28).

¹⁵⁹ As Waldman points out, 'The Afghanistan Compact has 77 measurable benchmarks for the Afghan government, but none for donors. Donors are subject to little independent scrutiny; reporting to the Afghan government has improved but is insufficient; and downward accountability to project beneficiaries is limited or non-existent'. Waldman, M., 'Falling short: aid effectiveness in Afghanistan', Agency Coordinating Body for Afghan Relief (ACBAR), Mar. 2008; and United Nations, Security Council, 'First report of the Analytical Support and Sanctions Implementation Monitoring Team submitted pursuant to resolution 1988 (2011) concerning the Taliban and associated individuals and entities', S/2012/683, 30 May 2012, para. 19.

¹⁶⁰ Afghan Central Statistics Office (note 40).

¹⁶¹ Cusak and Malmstrom (note 104).

¹⁶² Hogg et al. (note 28).

¹⁶³ Afghan farmers, Communication with authors, Herat city, Feb. 2015.

¹⁶⁴ UNAMA Rule of Law Unit (note 121), p. 34.

¹⁶⁵ McEwan, A. and Whitty, B., 'Water management, livestock and the opium economy', Afghanistan Research and Evaluation Unit (AREU), Case Study Series, June 2006.

¹⁶⁶ Independent Joint Anti-corruption Monitoring and Evaluation Committee, 'Report of the public inquiry into land usurpation (Translated from Dari)', Nov. 2014, <http://www.mec.af/files/2014_11_01_Final_Report_of_the_Public_Inquiry_Into_Land_Usurpation_ENGLISH.pdf>, p. 9.

¹⁶⁷ Land access challenges are partially the extension of Afghanistan's topography: an extreme continental arid climate gives Afghanistan an essentially semi-arid to desert (mostly the south) soil: the bulk of crop production is limited to pockets of irrigable land, with some rain-fed areas in the country's north and at high-altitudes. 12% of the land is arable, 7.79% of which was used in 2012. 58% of the total 2014 work force was employed in agriculture, and 80% of the population depends on agriculture in some capacity or the other.

¹⁶⁸ Gebremedhin, Y., *Land Tenure and Administration in Rural Afghanistan: Legal Aspects*, ADB/DFID Capacity Building for Land Policy and Administration Reform Project no. 7, Sep. 2007, <http://terrainstitute.org/pdf/ProjectReport%207_Legal%20.pdf>, p. 15.

¹⁶⁹ Wily, L. A., 'Looking for peace on the pastures: rural land relations in Afghanistan', Afghanistan Research and Evaluation Unit (AREU), Synthesis Paper Series, Dec. 2004; and Patterson, M., 'The Shiwa pastures 1978–2003: land tenure changes and conflict in Northeastern Badakhshan', Afghanistan Research and Evaluation Unit (AREU), Case Studies Series, May 2004.

¹⁷⁰ Gaston, E. and Dang, L., 'Addressing land conflict in Afghanistan', USIP Special Report 372, June 2015.

¹⁷¹ Lister and Pain (note 34).

¹⁷² Independent Joint Anti-corruption Monitoring and Evaluation Committee (note 166), p. 13.

¹⁷³ 80% is estimated to be inaccurately titled, but precise national statistics on land tenure, conflicts and grabbing are unavailable. Gaston and Dang (note 170).

¹⁷⁴ World Bank, *Doing Business 2014: Economy Profile Afghanistan* (World Bank: Washington, DC, 2013), p. 39.

¹⁷⁵ De Soto, H., *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (Basic Books: New York, 2000).

¹⁷⁶ Kanto and Pain (note 86).

¹⁷⁷ USAID, 'Property rights and resource governance—Afghanistan, country profile', <http://usaidlandtenure.net/sites/default/files/country-profiles/full-reports/USAID_Land_Tenure_Afghanistan_Profile.pdf>.

¹⁷⁸ Giustozzi (note 178), p. 29.

¹⁷⁹ Grace, J., 'Who owns the farm? Rural women's access to land and livestock', Afghanistan Research and Evaluation Unit (AREU), Working Paper Series, Feb. 2005, p. 27.

¹⁸⁰ Entrepreneurs in five Afghan provinces, Communication with authors, Afghanistan, Nov. 2014–May 2015.

¹⁸¹ World Bank, *Enterprise Surveys: Afghanistan Country Profile 2014* (World Bank: Washington, DC, 2011 (updated 2014)) <<http://www.enterprisesurveys.org/~media/GIAWB/EnterpriseSurveys/Documents/CountryHighlights/Afghanistan-2014.pdf>>.

¹⁸² FDI decreased to only \$54 million in 2014, the lowest value since 2002. It constituted a mere 1.3% of gross fixed capital formation, much lower than the average for the region and for developing economies. UN Conference on Trade and Development, *World Investment Report 2015*, <http://unctad.org/sections/dite_dir/docs/wir2015/wir15_fs_af_en.pdf>.

¹⁸³ Afghanistan Chamber of Commerce and Industries (note 144); and Butler and McGuinness (note 153).

¹⁸⁴ Reliable numbers are unavailable, but in the World Bank *Enterprise Survey 2014*, 5.1% of firms were surveyed to have bank loans or lines of credit. World Bank (note 181).

¹⁸⁵ Sepahi, M. H., Chairman of FACT Central Council, Communication with authors, Kabul, 17 Feb. 2015.

¹⁸⁶ World Bank 'World Development Indicators', <<http://data.worldbank.org/data-catalog/world-development-indicators>>.

¹⁸⁷ In a 2014 company survey by ACCI, the majority of respondents (59%) viewed high interest rates as the main problem in obtaining loans, followed by unreasonable collateral requirements. Afghanistan Chamber of Commerce and Industries (note 144).

¹⁸⁸ However, the issue is also one of registry data in a country with no updated census data, incomplete property registries, etc. World Bank, 'Modern credit infrastructure allows for quicker loans', 2 Apr.

2015, <<http://www.worldbank.org/en/news/feature/2015/04/02/modern-credit-infrastructure-allows-quicker-loans>>.

¹⁸⁹ As of May 2015, MISFA had disbursed a total of \$897 million to slightly over 900 000 clients in 14 provinces. There were 120 000 active borrowers, 31% women: MISFA, 'Outreach data of MISFA partners', <<http://www.misfa.org.af/wp-data/uploads/2015/02/Monthly-Update-May-15.pdf>>.

¹⁹⁰ See e.g. Kantor, P. 'From access to impact: microcredits and rural livelihoods in Afghanistan', Afghanistan Research and Evaluation Unit (AREU), Synthesis Paper Series, 2009.

¹⁹¹ Afghan Central Statistics Office (CSO), 'Afghanistan living conditions survey 2014: mid-term results (preliminary figures)', Dec. 2014, <<http://cso.gov.af/Content/files/ALCS%202014%20Half-year%20Report%20-%20141208%20BdB.pdf>>. The legal (limited) working age is 15-years old. UNESCO estimates that 10.3% of children aged 5–14 are involved in economic activity (11% boys, 9.6% girls). UNICEF, 'Afghanistan: statistics', updated Dec. 2013, <http://www.unicef.org/infoby-country/afghanistan_statistics.html>.

¹⁹² There is a large discrepancy in the female labour force participation rate between the numbers in the official Afghan Central Statistics Office surveys for 2011–12 (16.8%) and the preliminary figures for 2013–14 (28.3%). The authors attribute this to the set of questions being used rather than an actual increase in economic participation. Afghan Central Statistics Office (note 40).

¹⁹³ Afghan Central Statistics Office (CSO), 'Afghanistan living conditions survey 2014: mid-term results (preliminary figures)', Dec. 2014, <<http://cso.gov.af/Content/files/ALCS%202014%20Half-year%20Report%20-%20141208%20BdB.pdf>>.

¹⁹⁴ Female labour participation is assumed to follow a U-shaped curve with highest participation rates among countries with the lowest and highest per capita GDP. Despite this, Afghanistan has one of the lowest female labour participation rates in the world.

¹⁹⁵ For a summary of research, see UNESCO, *Education for All Global Monitoring Report* (UNESCO: Paris, 2005), pp. 143–45.

¹⁹⁶ Afghan Central Statistics Office (note 40).

¹⁹⁷ International Organization for Migration (IOM), *Transition, Crisis and Mobility in Afghanistan: Rhetoric and Reality* (IOM: Geneva, 2014), p. 10.

¹⁹⁸ Bezhan, F., 'Afghanistan tries to stem tide of migration "brain drain"', Radio Free Europe Radio Liberty, 23 Sep. 2015.

¹⁹⁹ Afghanistan Chamber of Commerce and Industries (note 144).

²⁰⁰ According to statistics from the Afghan Ministry of Energy and Water of the IRA's website, <<http://mew.gov.af/en/documents>>.

²⁰¹ World Bank (note 123).

²⁰² According to statistics on the Afghan Ministry of Rural Rehabilitation and Development of the IRA's website, <<http://mrrd.gov.af/fa>>.

²⁰³ 'The Afghan civil society position paper, London Conference on Afghanistan, December 2014', Dec. 2014, <<http://unama.unmissions.org/Portals/UNAMA/Civil-society-position-paper-london-conf-Nov2014.pdf>>; and 'Afghanistan private sector identified their top priorities for London Conference', *Reform*, no. 9, Oct. 2014, <http://www.harakat.af/site_files/14180381391.pdf>.

²⁰⁴ Dowdy, J. and Erdman, A., 'Private sector development in Afghanistan', eds Burns, R. N. and Price, J., *American Interests in South Asia: Building a Grand Strategy in Afghanistan, Pakistan, and India* (The Aspen Institute: Washington, DC, 2011), p. 120.

²⁰⁵ According to statistics on the Afghan Ministry of Communication and Information Technology of the IRA's website, MCIT, 'MCIT mission for the next three years', [n.d.], <<http://mcit.gov.af/en/page/4876/6955>>.

²⁰⁶ UN Development Programme (note 53).

²⁰⁷ Labour force participation rate (national definition). Afghan Central Statistics Office (note 40).

²⁰⁸ Echavez, C., 'Gender and economic choice: what's old and what's new for women in Afghanistan?', Afghanistan Research and Evaluation Unit (AREU), Mar. 2012.

²⁰⁹ Under Islamic law, daughters are entitled to half the inheritance of sons. In Afghanistan, however, many women often leave this entitlement unclaimed, either due to lack of understanding and information, or due to more stringent sociocultural and customary traditions.

²¹⁰ Pain, A. and Mallet, R., 'Gender, youth and urban labour market participation: evidence from the tailoring sector in Kabul, Afghanistan', Afghanistan Research and Evaluation Unit (AREU), Working Paper 18, July 2014; and Afghan Management & Marketing Consultants, 'Informality and small business development in the city of Kabul', July 2011.

²¹¹ Echavez (note 208).

²¹² Echavez (note 208).

²¹³ This compares to 51% for men (overall 63%). Urban areas are more likely to support this idea (77%), compared to 58% for rural areas. The Asia Foundation, *Afghanistan in 2013: A Survey of the Afghan People* (The Asia Foundation: Kabul, 2013).

²¹⁴ Various entrepreneurs, officials and researchers, Communication with authors, Afghanistan, 2014–15. See also Grace, J. 'Gender roles in agriculture: case studies of five villages in northern Afghanistan', Afghanistan Research and Evaluation Unit (AREU), Case Study Series, March 2004.

²¹⁵ Echavez (note 208).

²¹⁶ Butler and McGuinness (note 153).

²¹⁷ McKenzie, D., 'Gender, entry regulations, and small firm informality: what do the micro data tell us?', World Bank, PREM Notes no. 142, Sep. 2009.

²¹⁸ Butler and McGuinness (note 153).

²¹⁹ Afghan Ministry of Commerce and Industries, 'Implementing Afghanistan's SME development policy: the women's SME action plan April 2014–March 2017', [n.d.].

²²⁰ Butler and McGuinness (note 153).

²²¹ Afghan Central Statistics Office (note 40).

²²² 27.5% are in cooking/domestic or housewife 'occupations'. Afghan Ministry of Labor and Social Affairs, Martyrs and Disabled, 'An urban area primary source study of supply & demand in the labor market', Jan. 2009. <[http://molsamd.gov.af/Content/files/research/An%20Urban%20Area%20Primary%20Source%20Study%20of%20SupplyDemand%20in%20the%20Labor%20Market\(En\).pdf](http://molsamd.gov.af/Content/files/research/An%20Urban%20Area%20Primary%20Source%20Study%20of%20SupplyDemand%20in%20the%20Labor%20Market(En).pdf)>.

²²³ Afghan Central Statistics Organization (note 51).

²²⁴ Afghanistan Public Policy Research Organization (APPRO), 'Gender and the agricultural innovation system in rural Afghanistan; barriers and bridges', 2011.

²²⁵ World Bank, *Afghanistan—Understanding Gender in Agricultural Value Chains: The Cases of Grapes / Raisins, Almonds and Saffron in Afghanistan* (World Bank: Washington, DC, 2011).

²²⁶ This was surveyed to be the second most important factor of success, behind capacity and skills. Butler and McGuinness (note 153).

²²⁷ New Zealanders introduced rain-fed alfalfa in Bamyan, to little avail. Interview with Hashimi, Z., Associate Professor of Agriculture at Bamyan University, Bamyan, May 2015.

²²⁸ Afghanistan Public Policy Research Organization (note 224).

²²⁹ Nojumi, N., Mazurana, D. and Stites, E., *Life and Security in Rural Afghanistan* (Rowman & Littlefield Publishers: Lanham, Maryland, 2009), pp. 210–11.

²³⁰ Ritchie, H., 'A quiet revolution through the vehicle of enterprise: A women's food processing business in Afghanistan', IS Academy Research Brief no. 2, Jan. 2012.

²³¹ The AWAFF has 1400 women farming members. See Negin Saffron, 'About us', [n.d.], <<http://neginsaffron.af/index.php/about-us>>.

²³² Swedish Committee for Afghanistan Official, Communication with authors, Feb. 2015.

²³³ Afghanistan Public Policy Research Organization (note 224).

²³⁴ Afghanistan Public Policy Research Organization (note 224).

²³⁵ 'ANSF casualties rise by 75 per cent in 2015', Daily Outlook Afghanistan, 21 June 2015.

²³⁶ Afghanistan faces all the types of violence identified in the 2011 World Development Report. World Bank, *World Development Report 2011: Conflict, Security, and Development* (World Bank: Washington, DC, 2011).

²³⁷ United Nations (note 159).

²³⁸ Watson Institute for International and Public Affairs of Brown University, 'Costs of war: Afghan civilians', <<http://watson.brown.edu/costsofwar/costs/human/civilians/afghan>> (accessed 28 Aug. 2015).

²³⁹ UN Assistance Mission in Afghanistan, *Afghanistan: Midyear Report 2015 Protection of Civilians in Armed Conflict* (UNAMA: Kabul, Aug. 2015).

²⁴⁰ The Asia Foundation, *Afghanistan in 2013: A Survey of the Afghan People* (The Asia Foundation: Kabul, 2013).

²⁴¹ These are the 7 human security indicators noted in the 1994 HDR, but these are not exhaustive. UN Development Programme (UNDP), *Human Development Report 1994* (Oxford University Press: Oxford, 1994).

²⁴² UN Development Programme, 'Afghanistan: human development index', 2014 <<http://hdr.undp.org/en/countries/profiles/AFG>>.

- ²⁴³ Afghan Central Statistics Office (note 40).
- ²⁴⁴ See Interim Afghan Administration (note 30); Ministry of Communications and Information Technology (note 109); and Government of the Islamic Republic of Afghanistan (note 122).
- ²⁴⁵ Peschka, M. P., 'The role of the private sector in fragile and conflict-affected states', World Development Report 2011 Background Paper, World Bank, July 2010 (updated Apr. 2011).
- ²⁴⁶ UN Office on Drugs and Crime (UNODC), *Afghanistan Opium Survey 2014: Socio-economic Analysis* (UNODC, Mar. 2015), <https://www.unodc.org/documents/crop-monitoring/Afghanistan/Afghanistan_Opium_Survey_Socio-economic_analysis_2014_web.pdf>.
- ²⁴⁷ UN Office on Drugs and Crime (note 246).
- ²⁴⁸ See Smith, G. et al., 'Special report: talking to the Taliban', *The Globe and Mail*, 22 Mar. 2008, <<http://v1.theglobeandmail.com/talkingtothetaliban/>>.
- ²⁴⁹ See Mansfield, D., 'Responding to risk and uncertainty: understanding the nature of change in the rural livelihoods of opium poppy growing households in the 2007/08 growing season', Report for the Afghan Drugs Inter-Department Unit of the Government of the United Kingdom, July 2008.
- ²⁵⁰ United Nations (note 159).
- ²⁵¹ Special Inspector General for Afghanistan Reconstruction (SIGAR), 'Quarterly report to the U.S. Congress', Apr. 2015; and Lakhani, S., 'Extractive industries and peacebuilding in Afghanistan: the role of social accountability', United States Institute of Peace (USIP), Special Report no. 339, Nov. 2013.
- ²⁵² Peschka (note 245). However, despite this almost prosaic statement regarding employment and security, there has in fact been little in-depth research done on causal linkages between the two, and major knowledge gaps remain. See Bruck, T., Krisko, K. and Tedesco, A., 'Linking employment and stability in fragile and conflict-affected situations', Knowledge Platform Security & Rule of Law, June 2015.
- ²⁵³ Industrialists, Communication with authors, Mazar-e Sharif, Feb. 2015.
- ²⁵⁴ Butler and McGuinness (note 153).
- ²⁵⁵ It was the top concern in a 2010 business survey, at 78%. The World Bank's 2014 Enterprise Survey did not list insecurity as an option, but political instability as a proxy was the most prevalent concern. Center for International Private Enterprise (CIPE), '2009–2010 Afghan business survey final report: Afghan business attitudes on the economy, government, and business organizations', CIPE, 2010, <http://www.cipe.org/sites/default/files/publication-docs/Afghan%20Business%20Survey%20Report_5-04-10_FINAL.pdf>; and World Bank (note 181).
- ²⁵⁶ Cusack, J. and Malmstrom, E., 'Afghanistan's willing entrepreneurs: supporting private-sector growth in the Afghan economy', Centre for a New American Security, Nov. 2010.
- ²⁵⁷ Entrepreneurs and analysts, Communication with authors, five provinces in Afghanistan, 2014–15; and Cusack and Malmstrom (note 104).
- ²⁵⁸ Cusack and Malmstrom (note 256).
- ²⁵⁹ North, D. C., Wallis, J. J., Weingast, B. R., *Violence and Social Order* (Cambridge University Press: Cambridge, 2009).
- ²⁶⁰ World Bank, *World Development Report 2011: Conflict, Security, and Development* (World Bank: Washington, DC, 2011); MercyCorps, 'Youth & consequences: unemployment, injustice and violence', 2015.
- ²⁶¹ Katzman, K., 'Afghanistan: post-Taliban governance, security, and U.S. policy', Congressional Research Service, 27 Apr. 2015.
- ²⁶² Butler and McGuinness (note 153).
- ²⁶³ 'Afghanistan's road to self-reliance: the first mile progress report', Afghan Ministry of Finance, Policy Department, Sep. 2015, p. 15.
- ²⁶⁴ Peschka (note 245).
- ²⁶⁵ Collier, P. et al., *Breaking the Conflict Trap* (World Bank and Oxford University Press: Washington, DC, 2003).
- ²⁶⁶ UN Office on Drugs and Crime (note 246).
- ²⁶⁷ Interim Afghan Administration (note 30).
- ²⁶⁸ *Securing Afghanistan's Future: Accomplishments and the Strategic Path Forward*, Interagency report prepared for International Conference 31 Mar.–1 Apr. 2004 (Asian Development Bank, UN Assistance Mission to Afghanistan, UN Development Program and The World Bank Group: 17 Mar. 2004).
- ²⁶⁹ See Deloitte Consulting LLP, 'Afghanistan Economic Growth & Private Sector Strengthening (EGPSS) Project', Oct. 2010.

²⁷⁰ For a public listing of some of the donor activities in PSD, see Davis, P., 'Private Sector Development programmes in Afghanistan: A desk-study', Swedish Institute for Public Administration (SIPU), June 2013.

²⁷¹ Independent Evaluation Group (IEG), *Evaluation of World Bank Programs in Afghanistan 2002–11* (World Bank: Washington, DC, 2012).

²⁷² Afghan Ministry of Commerce and Industries, 'Strategic plan: 2011–2015', Oct. 2011, p. 9.

²⁷³ Afghan Ministry of Commerce and Industries Official, Communication with authors, Kabul, Nov. 2015.

²⁷⁴ Afghan Ministry of Commerce and Industries (note 68).

²⁷⁵ Government of the Islamic Republic of Afghanistan, 'Realizing self-reliance: commitments to reforms and renewed Partnership', p. 15.

²⁷⁶ DFID Official, Communication with authors, Kabul, Nov. 2015.

²⁷⁷ The website of ARTF has a full list of active and closed portfolio investment projects. World Bank, *ARTF at a Cross-roads: History and the Future—Final Report* (World Bank: Washington, DC, 2012).

²⁷⁸ Director of undisclosed aid project, Communication with authors, Kabul, May 2015.

²⁷⁹ Zardozi Markets for Afghan Artisans Director, Communication with authors, Kabul, Nov. 2014.

²⁸⁰ It is estimated that that only 38 cents on the dollar have made their way into Afghan households and bank accounts. Bontjer, R. A., Holt, J. P. and Angle, S., 'Spending the development dollar twice: the local economic impact of procurement in Afghanistan', Peace Dividend Trust, July 2009.

²⁸¹ Rhyne, D. W., 'Afghan First: building a stable economy through strategic acquisition', *Defense AT&L Magazine*, May–June 2011, <www.dtic.mil/cgi-bin/GetTRDoc?AD=ADA543600>.

²⁸² Taylor, R., 'Army procurement switch puts boot into Afghan dream', Reuters, 3 May 2012, <<http://www.reuters.com/article/2012/05/03/us-afghanistan-procurement-idUSBRE8420B820120503>>.

²⁸³ Special Inspector General for Afghanistan Reconstruction (SIGAR), 'Quarterly Report to the U.S. Congress', Jan. 2011, p. 89.

²⁸⁴ Businessmen in Mazar-e Sharif and Parwan, Communication with authors, Mazar-e Sharif and Parwan, Feb. and May 2015.

²⁸⁵ 'Kabul Conference communique', Kabul International Conference on Afghanistan, 20 July 2010, <https://www.unodc.org/documents/afghanistan/Kabul_Conference/FINAL_Kabul_Conference_Communique.pdf>.

²⁸⁶ Afghan Ministry of Finance, *Development Cooperation Report 2012* (Ministry of Finance: Kabul, 2012), p. 2.

²⁸⁷ German Embassy Official, Communication with authors, Kabul, May 2015.

²⁸⁸ Paris Declaration of Aid Effectiveness, 2005, OECD. <<http://www.oecd.org/dac/effectiveness/paris-declarationandaccraagendaforaction.htm>>.

²⁸⁹ World Bank (note 277).

²⁹⁰ World Bank (note 277).

²⁹¹ ARTF Website, <<http://www.artf.af/portfolio/active-portfolio-investment-projects>>.

²⁹² Afghan Ministry of Finance, *Development Cooperation Report 2012* (Afghan Ministry of Finance: Kabul, 2012), p. 2, 14.

²⁹³ See Beckwith, S., 'The militarisation of aid in Afghanistan: implications for humanitarian actors and the way ahead', 30 Apr. 2012, <<http://dx.doi.org/10.2139/ssrn.2167857>>.

²⁹⁴ Pain and Shah (note 85).

²⁹⁵ Cusak and Malmstrom (note 104).

²⁹⁶ Sinha, S., Holmberg, J. and Thomas, M., 'What works for market development: a review of the evidence', Sida UTV Working Paper, no. 1 (2013); and Curtis, L. et al., 'Private sector development in conflict-affected environments—key resources for practitioners', Donor Committee for Enterprise Development (DCED), Oct. 2010.

²⁹⁷ Government of the Islamic Republic of Afghanistan, 'The agriculture and rural development cluster, national priority programs (a preliminary draft in advance of the JCMB and Kabul Conference)', 8 July 2010. <http://foodsecuritycluster.net/sites/default/files/The_Agriculture_And_Rural_Development_Cluster_National_Priority_Programs.pdf>.

²⁹⁸ Afghan Ministry of Commerce and Industries, 'Growth during transition 2012–2015', Oct. 2012.

²⁹⁹ See World Bank, 'Restructuring paper on a proposed project restructuring of Rural Enterprise Development Project', 26 Oct. 2013; Gray, S. and Montgomery, E., 'Evaluation of "Sustainable

livelihood programme through community mobilization and establishing knowledge resource centre in Mazar-e-Sharif”, final report”, Sida Decentralised Evaluation, no. 39 (2013).

³⁰⁰ CDA, ‘Listening project: field visit report Afghanistan’, Apr./May 2009, Revised Aug. 2010.

³⁰¹ ILDG Official, Communication with authors, Kabul, Feb. 2015.

³⁰² Davis (note 270).

³⁰³ Cusak and Malmstrom (note 104).

³⁰⁴ Cusak and Malmstrom (note 104).

³⁰⁵ Waldman (note 159); and CDA (note 300).

³⁰⁶ World Bank Official, Communication with authors, Kabul, May 2015.

³⁰⁷ Gray and Montgomery (note 299).

³⁰⁸ Gray and Montgomery (note 299).

³⁰⁹ Ittig, A., ‘Urban development in Kabul: an overview of challenges and strategies’, Institute for Afghan Studies; Waldman (note 159); and CDA (note 300).

³¹⁰ Kanton, P. and Pain, A., ‘Poverty in Afghan policy,’ Afghanistan Research and Evaluation Unit (AREU), Briefing Paper, Nov. 2010, p. 11.

³¹¹ These actors pointed to a need for locals to in fact first assess donors for their own suitability to engage in programs in Afghanistan. As an Oxfam report on donor aid in Afghanistan points out, while the Afghanistan Compact provides 77 metrics to hold the state accountable to donors, there were none holding donors accountable to Afghans. Waldman (note 159).

³¹² World Bank (note 277); Sinha, S., Holmberg, J. and Thomas, M., ‘What works for market development: a review of the evidence’, UTV Working Paper, no. 1 (2013).

³¹³ Afghan Central Statistics Organization (note 38).

³¹⁴ Perception of security in Balkh among businesses seems currently strongly connected to the personal control of governor Atta. Various entrepreneurs, Communication with authors, Mazar-e Sharif 18–19 Feb. 2015. See also Mukhopadhyay, D., *Warlords, Strongman Governors, and the State in Afghanistan* (Cambridge University Press: New York, 2014), pp. 138–41.

³¹⁵ Giustozzi (note 178), p. 22, 26–33.

³¹⁶ Female entrepreneurs, Communication with authors, Mazar-e Sharif, 19 Feb. 2015.

³¹⁷ Giustozzi (note 178), p. 36.

³¹⁸ The section connecting Balkh westward to Herat, however, is still unfinished between Faryab and Badghis. See Suroush, Q. ‘Going in circles: the never-ending story of Afghanistan’s unfinished ring road’, Afghanistan Analysts Network, 16 Jan. 2015, <<https://www.afghanistan-analysts.org/going-in-circles-the-never-ending-story-of-afghanistans-unfinished-ring-road/>>.

³¹⁹ Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), ‘Development civil aviation in Afghanistan’, Apr. 2014, <<http://www.giz.de/en/downloads/giz2014-en-flight-safety-afghanistan.pdf>>.

³²⁰ Amin, M., ‘Power to the people: how to extend Afghans’ access to electricity’, Afghanistan Analyst Network, 3 Feb. 2015, <<https://www.afghanistan-analysts.org/power-to-the-people-how-to-extend-afghans-access-to-electricity/>>.

³²¹ Giustozzi (note 178), pp. 34–36.

³²² After successful eradication campaigns, the province has been free of a marginal producer since 2007. It is, however, one of the country’s cannabis-producing provinces. UN Office on Drugs and Crime (UNODC), *Afghanistan Opium Survey 2014: Cultivation and Production* (UNODC, Nov. 2014) <<https://www.unodc.org/documents/crop-monitoring/Afghanistan/Afghan-opium-survey-2014.pdf>>.

³²³ In addition to lack of investment, the expansion of water infrastructure is the victim of competition between local strongmen. Giustozzi (note 178), pp. 29, 35.

³²⁴ Afghan Central Statistics Organization (note 51).

³²⁵ Balkh Chamber of Commerce and Industries Chairman, Communication with authors, Mazar-e Sharif, 18 Feb. 2015.

³²⁶ The Central Highlands ranks low in food security, in potable water access, and Bamyan’s rate of ‘not-gainfully employed’, at over 40%, is among the highest between provinces. Afghan Central Statistics Office (note 40).

³²⁷ Recently conducted population statistics were, and continue to be, the subject of much political controversy. Afghan Central Statistics Organization (CSO), ‘Settled population of Bamyan province by civil division, urban, rural and sex: 2012–13’, [n.d.], <[http://cso.gov.af/Content/files/Bamyan\(1\).pdf](http://cso.gov.af/Content/files/Bamyan(1).pdf)>.

³²⁸ Hashimi, Z., Associate Professor of Agriculture at Bamyan University, Bamyan, May 2015; and Afghan Ministry of Rural Rehabilitation and Development, ‘National area-based development program,

Bamiyan provincial profile', 2012, <<http://www.mrrd-nabdp.org/attachments/article/267/Bamyan%20Provincial%20profile.pdf>>.

³²⁹ See Ritchie H. and Fitzherbert, A., 'The white gold of Bamyan: a comprehensive examination of the Bamyan potato value chain from production to consumption', Dec. 2008.

³³⁰ Afghan Central Statistics Office (note 40), p. 59; and Afghan Ministry of Rural Rehabilitation and Development, 'Provincial profiles: regional rural economic regeneration assessment and strategies', 2006.

³³¹ A 2011 survey estimated that 12.4% of the total population had resided outside of Bamyan for at least 6 months. Afghan Central Statistics Organization, 'Socio-demographic and economic survey: Bamyan', 2013.

³³² 'Mineral resources of Bamyan province', Pajhwok News, 14 Jan. 2014, <<http://mines.pajhwok.com/news/mineral-resources-bamyan-province>>; and Deputy Governor of Bamyan, Communication with authors, May 2015.

³³³ Including but not limited to: the remnants of the giant Buddha statues, Band-e Mir National Park, new plans to build a Cultural Centre, as well as sports such as mountain skiing.

³³⁴ Female entrepreneurs, Communication with authors, Bamyan and Parwan, May 2015.

³³⁵ Leslie, J., 'Political and economic dynamics of Herat', United States Institute of Peace, 2015.

³³⁶ Leslie (note 335).

³³⁷ In the year 2014–15 (1393), imports from Iran constituted \$1.5 billion, 19.5% of the country total. One third consisted of fuels and oil products. Disaggregated trade statistics per province were not available.

³³⁸ According to one local journalist, there is a large recruitment base of poor people who would 'commit any crime for two hundred dollars', Pajhwok Afghan news journalist, Communication with authors, Herat, 23 Feb. 2015.

³³⁹ Various entrepreneurs, Communication with authors, Herat city, 24 Feb. 2015.

³⁴⁰ Leslie (note 335), pp. 6, 15, 33.

³⁴¹ Currently, while profit margins are high, the price of Herat marble is around 4 times higher than its Pakistani counterpart, and volumes are limited. 85% of the marble used in Afghanistan is imported, some of it is reimported from Pakistan. See Rassin, A. G., 'A comprehensive study of marble industry in Afghanistan', AISA, 2011, <http://afghanenterprise.com/wp-content/uploads/2014/09/Marble_industry_AFG_AISA_FINAL.pdf>.

³⁴² Nearly all the businessmen and -women interviewed in Herat had gained experiences in or conducted business with Iran. Various entrepreneurs, Communication with authors, Herat, Feb. 2015.

³⁴³ Aria, identified as Herat, was described as such by Herodotus in the 5th century BCE.

³⁴⁴ Interviews with ACCI, business owners and entrepreneurs, Communication with authors, Herat, 22–24 Feb. 2015.

³⁴⁵ The partly Indian-funded Salma Dam on the Hari River is Afghanistan's largest energy infrastructure project, expected to more than double the cultivated land and give 42 MW of electricity. Iran, cautious of loss of downstream water and currently exporting 80 MW of electricity to Herat, has sought negotiations. New governor of Herat province, Asif Rahimi, expected the dam to be finalized in 2016, but the project has already been delayed several times.

³⁴⁶ Government of the Islamic Republic of Afghanistan, *State of Afghan Cities 2015* (GOIRA: Kabul, 2015), p. vii.

³⁴⁷ The official statistics at the provincial level is 4.2 million. Afghan Central Statistics Organization (CSO), *Statistical indicators in the Kabul Province: 2014–2015* (CSO: Kabul, May 2015).

³⁴⁸ City Mayor Statistics, 'The world's fastest growing cities and urban areas from 2006 to 2020', [n.d.], <http://www.citymayors.com/statistics/urban_growth1.html>.

³⁴⁹ Nearly half of these settlements are urban but irregular, and another 16% are on hillsides. UN Habitat, 'Knowing Kabul', Discussion Paper no. 10, Mar. 2015.

³⁵⁰ UN Habitat, 'Inclusive cities', Discussion Paper no. 8, Mar. 2015.

³⁵¹ Afghan Central Statistics Office, 'Kabul Province socio-demographic and economic survey highlights', 2015, p. 20.

³⁵² Afghan Central Statistics Office (note 347).

³⁵³ 77.9% for males and 50.6% for females surveyed over 15 years of age. For the entire province, the surveyed literacy rate was 55.2%. Afghan Central Statistics Office (note 347), p. 6.

³⁵⁴ There are over 110 000 government civil service employees in Kabul. Afghan Central Statistics Office (note 347).

³⁵⁵ Though estimates are inexact and outdated, casual labour has been estimated to be up to a third of Kabul's total labour force. Afghanistan Public Policy Research Organization (APPRO), 'Return migration and development nexus: casual labourers of Kabul', APPRO Working Paper, Apr. 2014.

³⁵⁶ Economically active being defined as working for at least 6 months in the 12 months previous to the survey. 64.1% of the total surveyed did not work at all. However, this captures women primarily engaged in household duties, as well as students. Afghan Central Statistics Office (note 351), p. 6.

³⁵⁷ UN Population Fund (UNFPA), 'Kabul: a socio-economic and demographic profile', 2004.

³⁵⁸ UN Habitat (note 349).

³⁵⁹ Afghan Central Statistics Organization, 'Settled population of Parwan province by civil division, urban, rural and sex, 2012–13', [n.d.], <[http://cso.gov.af/Content/files/Parwan\(1\).pdf](http://cso.gov.af/Content/files/Parwan(1).pdf)>.

³⁶⁰ Various entrepreneurs and public officials, Communication with authors, Parwan, May 2015.

³⁶¹ Afghan Ministry of Rural Rehabilitation and Development, 'Provincial profiles: regional rural economic regeneration assessment and strategies', 2006.

³⁶² 'Poppy-free' is a designation by the UNODC of provinces with less than 100 hectares of opium cultivation. However, this does not mean that trafficking of narcotics has ceased. UNODC, 'Afghanistan: opium poppy free road map and provincial profiles', June 2008.

³⁶³ This does not mean that the province is food secure. In 2011, 46% of the population took out loans, of which 70% stated went largely to purchasing food. Food is imported to the province outside of the growing season. Afghan Ministry of Rural Rehabilitation and Development, 'National area-based development program, Parwan provincial profile', 2012; and Farmers and entrepreneurs, Communication with authors, Parwan, May 2015.

³⁶⁴ In most districts, household access to electricity is upwards of 80%; in the three remaining districts, the proportion was upwards of 60%. Interestingly, solar is a prevalent source of household lighting (at 44%). Afghan Central Statistics Organization, 'Parwan province socio-demographic and economic survey highlights', 2014, pp. 15–18.

³⁶⁵ UNAMA Official, Communication with authors, Kabul, May 2015.

³⁶⁶ Afghan Central Statistics Organization (note 364), p. 3.

³⁶⁷ In fact, the authors were encouraged by the Parwan branch of the ACCI to suggest to donors that they work with the women entrepreneurs of the province, rather than the men. Parwan Chamber of Commerce Official, Communication with authors, Parwan, May 2015.

³⁶⁸ A Sep. 2014 survey found that only 5.3% of women had worked for 6 months or more in the past year, while 93.9% had not worked at all. Unfortunately, details on the methodology used to collect this data is not entirely clear. Afghan Central Statistics Organization (note 364), p. 3.



**STOCKHOLM INTERNATIONAL
PEACE RESEARCH INSTITUTE**

Signalistgatan 9
SE-169 70 Solna, Sweden
Telephone: +46 8 655 97 00
Fax: +46 8 655 97 33
Email: sipri@sipri.org
Internet: www.sipri.org

NIR Näringslivets Internationella Råd
International Council of
Swedish Industry