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# Conflict-sensitive employment in Afghan construction and transport companies

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## EXECUTIVE SUMMARY

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Empirical research on private sector companies and their business strategies in fragile and conflict-affected settings (FCASs) has been rare so far. With the aim of identifying the challenges of and motives for conflict-sensitive employment, this *Working Paper* presents a qualitative study on construction and transport companies in Afghanistan, based on interviews with company owners and employees in 2015 and 2016. The research reveals that companies do in fact apply a range of employment strategies with conflict-reducing effects out of self-interest. Builders need such strategies for the smooth completion of construction and infrastructure projects, while hauliers seek safe passage on routes through insecure areas of Afghanistan. These companies hire local people and negotiate with elders in communities located around construction sites or, respectively, along transport routes in order *inter alia* to identify local needs and, where feasible, satisfy them. The *Paper* argues that a general policy framework for conflict-sensitive employment is futile under conditions of an FCAS, which are characterized by a high level of state corruption and a variety of local powerholders with different interests and the inclination to extract money from companies operating in areas under their control. These insights point to a dilemma for development agencies in their pursuit of an agenda to create stability by engaging with the private sector. Whereas companies pursuing conflict-sensitive employment strategies may help to stabilize local communities, they also stabilize local power relations. In Afghanistan, this implies co-existence of, and competition between, various powerholders controlling different districts or fighting over their control. Underpinned by micro-level data, the study thus contributes meaningfully to the ongoing debate on the potential role of the private sector in peacebuilding. It places the scope of action and limitations of private sector companies into a realistic perspective. The *Paper* concludes that new Afghan and foreign construction and transport companies can learn lessons from experienced companies and apply systematic, locally adjusted conflict-sensitive employment frameworks to upcoming infrastructure projects.

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## Main findings

### **Conflict-sensitive employment is a crucial component of conflict-sensitive business**

Unemployment exacerbates violence in fragile and conflict-affected settings (FCAS), because people without jobs not only have less to lose by engaging in violence, but often have a comparative advantage in doing so. Construction and transport companies can employ people in a conflict-sensitive way and contribute to conflict reduction at the local level of operation if they understand the local conflict context and dynamics. For company managers and operators, this involves building relationships with community leaders and shared understandings of the conflict risks and impacts. As violent conflict imposes a range of costs on companies, a conflict-sensitive approach to doing business—one that seeks to avoid these costs by developing locally adjusted conflict management and employment strategies—is a strategic choice for company managers.

### **Conflict-sensitive employment as a process-oriented approach may change labour relations in the long run**

Economic liberalization has promoted self-employment and the creation of short-term jobs, in particular in areas affected by armed conflict, rather than establishing permanent employment along with strong organizations capable of representing labour interests vis-à-vis employers and the state. In Afghanistan, labour relations shaped by close family and kinship networks prevail in construction and transport companies. These arrangements have been strengthened because they offer reliability in the context of decades of violent conflict. We find that companies prefer to employ persons whom they can trust due to family ties. However, when they have projects within communities, companies tend to adapt to the local conditions and hire local people. They seek to protect their sites and assets through trust-building and the dispensing of income opportunities and benefits. In this sense, conflict-sensitive employment strategy has the effect of changing labour relations.

### **Private construction and transport companies may have a conflict-reducing employment strategy at the local and project level, but as temporary actors in communities they cannot assume a peacebuilding role**

Private construction and transport companies can have a meaningful impact on local stability if they apply conflict-sensitive employment strategies. If stability is understood as keeping local power relations and social cohesion as they are, companies that neither exacerbate violence nor widen divisions within a community or between communities do contribute to stability. The conditions that prevail in fragile and conflict-affected settings (FCAS) apparently require such a modest concept of stability. Ambitious normative concepts of stability can only be applied if a social contract is upheld between a legitimate state, with its monopoly on violence, and society. This, however, does not exist either in government-held or in non-state armed group (NSAG)-held parts of Afghanistan. Beyond this narrow leeway for stabilization, there is no evidence of companies having an impact on peacebuilding in Afghanistan.

## Introduction

Violent conflicts have affected Afghanistan since the late 1970s. Armed conflicts between government troops and various non-state armed groups (NSAGs) as well as between NSAGs form the environment in which domestic construction and transport companies operate. They are a crucial factor not only for building work and transport logistics but indeed for any kind of infrastructure project. From the perspective of entrepreneurs, their business environment is characterized by at least three dimensions:

- 1\ direct violence affecting the structures of companies, their projects and the employees,
- 2\ the lack, or weakly enforced, government policies towards the private sector, non-transparent rules and regulations and corrupt authorities,<sup>1</sup>
- 3\ a difficult economic environment due to distortions in demand, supply, value chains, investment and employment.<sup>2</sup>

These conditions impinge on various types of companies to different degrees. Construction is a capital-supplying sector whereas transport is part of the service sector and, hence, provides transactions like any other distributive activity. Economic studies indicate that during civil wars both construction and transportation tend to contract more rapidly than GDP as a whole (Collier, 1999). However, as a key part of the private economic sector, construction and transportation will often continue operating in violence-affected environments as long as investors in resource exploitation or foreign interventions require new buildings, infrastructure and logistics. Building work and the transportation of goods and passengers are essential activities and, hence, may be profitable even under circumstances of ongoing armed conflict, even if on a smaller scale. Construction and transport are labour-intensive activities, usually requiring a large proportion of unskilled labour, so that these sectors of the economy can absorb workers who would otherwise have very limited prospects of earning an income. However, the construction and transport businesses

are less researched, in terms of their performance in a context of violent conflict, than agriculture, mining or manufacturing. These businesses are therefore well worth studying in depth if we want to understand the potentials here for reducing violence through conflict-sensitive employment (CSE) strategies.

It is widely held that unemployment enhances violence in the context of fragile and conflict-affected settings (FCAS), because people without jobs not only have less to lose by engaging in violence, but actually have a comparative advantage in doing so (Hirshleifer, 2001; Collier & Hoeffler, 2004; Collier, 2009; Gerstle & Meissner, 2010). Thus, one conclusion drawn in the literature is that more employment opportunities for the jobless can reduce the likelihood that individuals will willingly engage in violent activities, assuming that the availability of employment increases the opportunity cost of getting involved in fighting. However, equating employment creation with peace building would be to oversimplify a highly complex relationship. Evidence suggests that the type of jobs created is far more important than just having more jobs (World Bank, 2012, p. 127), and that employment may even exacerbate conflict if it favours one group over another in a divided community. Lack of awareness of the potential impact of employment can thus contribute to instability and even exacerbate insecurity (Walton, 2010; GIZ & International Alert, 2015). Against this backdrop, this paper looks into the potentials for conflict-sensitive employment to be instituted by construction and transport companies operating under the difficult conditions of smouldering conflict and a resurgence of violence in Afghanistan. The *Paper* tries to answer two main questions based on empirical findings from field research in Afghanistan:

- \ What induces construction and transport companies to apply conflict-sensitive employment strategies?
- \ What are the challenges hindering companies from engaging in conflict-sensitive employment?

1 \ a) and b) were already mentioned by Afghan CIT company owners participating in the project's kick-off workshop in Kabul in March 2015; cf. also Chene, 2012.

2 \ c) has been elaborated on in numerous academic papers, among them Holmes, 2013, Dudwick et al., 2013, Mashal, 2014, Brück et al., 2015, Byrd et al., 2016, Ghiasy et al., 2015. Cf. also Grawert et al., 2017.

The *Paper*<sup>3</sup> presents a piece of qualitative social research as a contribution to a discourse among non-governmental organizations (NGOs), development agencies and international financial institutions on the potential role of the private sector in building peace or, at least, stability (Naudé, 2007; Brück et al., 2015; see also Grawert et al., 2017).

The first chapter presents scholarly insights on labour relations and their changes during and in the aftermath of violent conflict. It outlines the concept of conflict-sensitive employment developed from the literature on private sector activities in FCAS as a potential approach to enhance stability through employment and discusses potential motives for and challenges to conflict-sensitive employment. It then explains the methodology applied in the research on the construction, infrastructure, and transport (CIT) sector in Afghanistan and the methods of field research and data analysis.

In order to establish the context in which CIT companies operate, the second chapter surveys the economic development and business environment in Afghanistan for the period following the 2001 military intervention, focusing on the role of the government and international aid for the economy and employment. The chapter also highlights the deterioration of the security situation in Afghanistan since 2014 and the characteristics of the business environment, and identifies interlinkages between these dimensions.

The third chapter highlights the main characteristics and developments of the CIT sector and its contribution to employment in Afghanistan. Based on findings from interviews with owners and managers of a range of construction and transport companies in Kabul, Herat, Nangarhar, and Mazar-e Sharif conducted between 2015 and 2017, the fourth chapter focuses on the views of company owners and managers, exploring their assessments of the conflict environment and the ways in which conflict affects the operations of their companies. A distinction is made

between domestic companies working on contracts with international clients, those providing projects for mixed customers and those operating exclusively for domestic Afghan clients. This breakdown is relevant because orders by international agencies and troops rapidly declined in 2013, after the withdrawal of international troops was announced and many aid agencies shifted their focus to a new hub in Syria. This scaling-down significantly affected those companies that had emerged because of the intervention and fully depended on the international customers. The resulting market is artificial and cannot be sustained as long as no other large-scale investment replaces the investment made by the international agencies and troops.

The fifth chapter explores the employment strategies of construction and transport companies, giving special consideration to the ways in which these strategies impact on stability from a local and company perspective. This chapter points out how company owners, managers and employees perceive the changes that have been occurring due to economic decline and rising insecurity as well as their perceptions of possible solutions.

In the sixth chapter, the study identifies the factors that drive the development of CSE strategies for the private sector as well as those factors that either challenge or promote the implementation of this strategy. It concludes by considering the outlook for CSE in the near future, with an assessment of its potential role and meaning in the CIT sector in Afghanistan.

3 \ We are very grateful to Katja Mielke and the BICC colloquium for valuable comments on earlier versions of this *Paper*. This said, sole responsibility for the contents and any errors that might have occurred lie with the authors.



# Inducements for conflict-sensitive business and employment

Insights from scholarly research reveal that relations, institutions and processes put in place before a violent conflict will impact strongly on the origin, form and trajectory of the conflict. Moreover, the social relations and institutions that emerge during a violent conflict and the establishment of a war economy will have a lasting impact on the economy, labour relations and restructuring of institutions when the violence has subsided. However, more often than not, the violence does not fully subside but leaves behind a situation marked by precarious and insecure conditions that can be characterized as a “fragile and conflict-affected setting” (FCAS) (NIMD, 2016). FCAS are defined as settings in which the political environment is extremely polarized and divided due to a lack of trust among political actors. FCAS are thus characterized by “low social cohesion and a lack of consensus on what organising principles should determine the contest for state power and how that power should be implemented” (NIMD, 2016).

Violent conflict, or its aftermath, is closely interconnected with fragility. In fact, the two phenomena have to be considered as mutually reinforcing. Whereas FCAS often coincide with state borders, they may also be limited to specific areas within a state or extend to regions encompassing the borders of several states. As FCAS most often have regional and international linkages and dimensions, the distrust and social divisions, as well as war economies, usually extend beyond local or national levels (Grawert, 2010).

In the context of FCAS, foreign and domestic businesses are, or become, inherently part of the “political marketplace” (Hoffmann, 2014). Entrepreneurs and employees have to be aware that they will never be perceived as neutral. The assumption that businesses can operate as non-political agents in highly political contexts has been proven wrong (Ganson & Wennmann, 2016). Research has revealed that as labour relations vary between different conflicts and are further differentiated according to the specific dynamics of a conflict, the labour relations will also differ within a particular FCAS. An overview of research findings on labour relations in FCAS will clarify the nature of employment conditions that prevail in contexts shaped by violent conflict.

## Labour relations in fragile and conflict-affected settings

Typical for war economies is the prevalence of primitive accumulation, i.e. non-economic ways of appropriating land and other assets. This accumulation to the benefit of one group means displacement for other groups, which will then become dependent on support, aid or alms, or have to make distress sales of their labour power (Cramer, 2008). Farmers may move into trade or join military groups, whilst commanders appropriate urban and rural land. Large sections of the population flee to the towns or abroad, where they may stay in refugee camps or become illegal workers, being hired as cheap labour by local employers in the neighbouring countries where most of the displaced people take refuge (cf. Rohani, 2014 and Monsutti, 2008, for the case of Afghans in Iran).

During violent conflict, the nature of business changes, turning into arrangements that are profoundly different those in peace times. Businesses tend to strive for short-term, often illicit, gains, whilst the actors fuse with combatants, with commanders of NSAGs or military officers becoming businessmen (Peschka, 2011). Entrepreneurs face bottlenecks resulting from the destruction of physical infrastructure and the flight of local human and financial capital and try to overcome these problems by adjusting to the changed market conditions. Market competition acquires a combative dimension as armed actors dominate certain businesses and twist competition with civilian entrepreneurs to their own favour. Previously existing economic institutions and processes are distorted or restructured so as to function according to the terms of a war economy (Elwert, 1999; Schetter, 2002). During the conflict, combatants often engage in pillage, predation, extortion and deliberate violence against civilians in order to *acquire control over lucrative assets, capture trade networks and diaspora remittances, and exploit labour; (hence) war economies are highly decentralised and privatised, both in the means of coercion and in the means of production and exchange (Ballentine & Nitschke, 2005, p. 2).*

War economies thus destroy or circumvent the formal economy and fuel the growth of informal and black markets, “effectively blurring the lines between the formal, informal, and criminal sectors and activities” (Ballentine & Nitschke, 2005, p. 2). War economies entail the breakdown of legal structures and law enforcement and extend business opportunities into spheres that usually are banned by law.

Remnants of the war economy usually survive long after peace agreements have been made, new governments are in place, and aid flows surge up. These remnants shape the economy in FCAS to a significant extent in areas that are not under full control of the state and even in areas where the state has deployed its forces and established governing institutions.

Hence, it is not only during violent conflict but also in FCAS that we usually find some groups or individuals taking direct advantage of the power of arms to seize property and money, impose dues on companies and inhabitants, use forced labour, and exert control over trade, assets and natural resources. Others prosper by organizing supplies on routes and through networks that facilitate trade and contraband across borders. Competitiveness depends on the ability of entrepreneurs to adjust to the violence-driven context, which often entails building special relationships with powerful groups and relying on networks of people who can be trusted. Frequently, these are family and kinship members and members of the same ethnic or other shared identity group. The relationship between the private sector and society in FCAS thus depends on a variety of factors according to the structure of the society in which private companies operate. Local businesses tend to become part of the existing conflict and fragility context (Killick et al., 2005).

In FCAS, company owners make decisions aimed at minimizing the effect of armed violence on their operations and activities. Company strategy will be influenced by a variety of factors: the magnitude of physical assets in specific violence-affected areas (for example, large-scale site-specific investments in non-movable assets such as roads or buildings), the core business of the enterprise (such as natural

resource exploitation, services, construction or transportation), the business strategy (outputs produced for foreign or domestic markets, integrated production cycles), and the level of exit costs (defined as the balance between fixed and mobile assets) (Hameed & Mixon, 2013).

The presence of extractive industries, agribusinesses, distributors, security services and other businesses in FCAS demonstrates that some formal market actors are interested in investing in difficult environments and have found ways to manage risks in these sectors. For bigger companies this frequently involves paying private security companies for protection of their sites or transport routes, which can become a substantial cost factor (Shirzad, 2017). Small entrepreneurs may manage risks through subsistence production or small-scale trade (Hameed & Mixon, 2013). Economic opportunities rise or fall with changes in the flow of military supplies, civilian goods supplies and humanitarian aid deliveries, and this has a strong impact on employment.

During and after violent conflicts, there is a demand for labour by non-state armed groups (NSAGs) and state security forces as well as intervening troops. Researchers have observed continuities in labour relations between pre-war, war, and post-war conditions including those in FCAS. Employers tend to use pre-war methods of recruitment of labour even if the new situation has produced a liberal market without standards and regulations. In a patronage-based society, recruitment favours family and kinship members and at a more general level, clientele of patrons to meet specific needs in services, fighting, logistics and the reproduction of the labour force engaged in fighting (Cramer, 2008). Labour conditions in wars tend to be regulated by force. Two main trajectories determine labour relations in armed conflicts: in situations where NSAGs have gained hegemony over norms, spread ideals or created a collective identity, these groups tend to recruit followers and organize warfare and its logistics based on social contracts with local population groups. They will not commit atrocities against these groups and the people whose labour they need. Where NSAGs receive funds from abroad or through resource rents, they are more likely to

recruit people with little commitment to the community in which they are deployed and with only fragmented organizational ties, so they will do any job for direct payment. In this case, the propensity for these recruits to commit atrocities is likely to be high (Weinstein, 2007). These patterns tend to remain in place under conditions of FCAS.

Violent conflict has a major social impact. It accelerates social differentiation and class formation, pushing many people who had previously been small farmers into wage labour. In some cases, such as South Africa or some Latin American countries, this has led to pressure for better labour relations after violent conflict (Cramer, 2008). Human rights abuses against workers prevail during conflicts and forced labour is often imposed as punishment; this is likely to continue in FCAS, often being imposed by security firms. Ex-combatants are specialists in violence and continue this role in the wider economy. At the same time, and this pertains to Afghanistan, “(t)he post-war peace is about liberalising markets and importing the institutions of capable states and good governance” (Cramer, 2008, p. 123). This implies promoting self-employment, in particular for displaced people and demobilized fighters, rather than establishing strong organizations capable of representing labour interests towards employers and the state. However, in cases where changing labour relations have triggered social movements demanding rights, there can be a challenge to the power relations embedded in the social—and labour—relations and to the macro-economic assumptions of donors and international finance institutions (Pugh, 2008).

In his background paper for the World Development Report 2013 on ‘Jobs’, Cramer (2010) holds that it is often

*the experience of employment – in demeaning and monotonous tasks, with little prospect of promotion or skills development, in conditions that are often openly exploitative and coercive, and for piteously little remuneration – just as much as, if not more than, unemployment that drive people to participate in insurgencies, militias, armies, etc. ( p. 24).*

People may also join armed groups because, apart from the absence of alternative work, they offer opportunities to escape pressure from families and elders, or because participation in fighting has become inherent in local dynamics, especially where resentment and envy divide communities. Researchers hold that a further reason for engagement in violent fighting can be the lack of institutional mechanisms through which employees and workers can express complaints, demand improved conditions and get conflicts resolved (Cramer, 2010). Participation in violent conflict may also represent a rebellion against unjust social orders and a challenge to their legitimacy, again indicating that labour markets and labour relations are important aspects of social orders.

These insights on labour-related factors that can increasingly draw groups into participation in violent conflicts raise the question of whether this perspective can be turned round towards to create what scholars have called an ‘employment-stability nexus’. Moreover, they point to the importance of identifying potential motivations towards conflict-sensitive business and employment strategies.

## Conflict-sensitive employment

Based on the International Classification of Status in Employment (ICSE) of the International Labour Organization (ILO) (see Annex), the groups in employment can be defined as:

*any engagement in a paid or self-earning position outside the public sector in which a material gain or service provision is expected as the result of work. It includes wage employment as well as self-employment (NWO/WOTRO, 2014).*

In an endeavour to encourage more research on the links between employment and stability, NWO/WOTRO (2014) has defined stability as:

*the preservation of a social contract that – at state level – reflects perceptions of legitimacy, adequate service provision, the monopoly over legitimate use of force, and the capacity to mediate non-violent expressions of grievance, and – at the society level – results from or leads to social norms that reinforce*

*social cohesion, social inclusion, and the expectation of security of person and property.*

Obviously, FCAS are by definition far from the stability defined here. As it is already the case that the interlinkages between labour markets and violent conflict are complex and varied and “unlikely to respond to simple policy interventions designed from outside to reduce the risk of civil war onset” (Cramer, 2010, pp. 24–25), the situation in FCAS will hardly be any better. In the context of perceived threats of terrorism, international agencies have attempted to transfer western securitization approaches to FCAS. The core of such approaches is an attempt to increase security by reinforcing community cohesion, for example, through social programmes. They are often accompanied by efforts to foster the formation of consensual national identities and common values by constraining the expression of ethnic, religious and political identities. Securitization involves measures to prevent people from being drawn into terrorism, which entails a security perspective on a growing range of sectors and institutions that are thought to harbour incentives for radicalization. Close monitoring and intervening in these sectors and institutions, as well as protection for critical infrastructure, such as the transport system, power plants and public spaces, by deploying security guards and installing security devices are the consequences of securitization (Ragazzi, 2017).

The principles developed by the Conflict Sensitivity Consortium<sup>4</sup> on conflict-sensitivity can be regarded as an alternative to securitization. The principles comprise the ability of a company, investor, donor, or any other organization to understand the context it operates in, to think through the interactions between its intervention and that context, and to act upon this understanding in order to minimize negative impacts and maximize positive impacts on a society or community affected by armed conflict (Conflict Sensitivity Consortium, 2012). Conflict sensitivity thus signifies recognizing the conflict dynamics, including inter-group tensions, the divisive factors, and those factors that have the potential to connect

groups across conflict lines in the communities where a company operates. It means grasping the nature of the company’s engagement and how this affects the conflict context, and also, realizing how the conflict affects the company’s activities. Conflict sensitivity requires that companies act in a way that avoids reinforcing the existing conflict dynamics, and taking opportunities to support peace (Saferworld, 2016). In short, this means for any investor or company operating in a conflict environment or FCAS that it avoids actions likely to exacerbate tensions between local groups or cause violence between them. A conflict-sensitive approach implies awareness of the underlying conflicts between different groups and their livelihoods and leads to a business project design that takes account of and mitigates the problem (Lenfant & Traoré, 2015).<sup>5</sup>

Conflict-sensitivity thus calls for a process that makes companies or investors increasingly adopt business strategies that have a conflict-reducing effect. This immediately suggests that conflict-sensitive employment must be made a crucial part of any process in which employment practices should not cause or exacerbate conflict. The term ‘conflict-sensitive employment’ has been coined by the research team, building on previous research insights that have shown that job creation per se is important but not sufficient to have a conflict-reducing effect. Jobs have to be meaningful, too, if individuals or communities are to consider those jobs as providing future prospects. This can be achieved by, for example, jobs that provide workers with new skills so that they will find employment more easily after the job has ended, or skills that enable them to set up a small business in their field of specialization. Future prospects can also be created by jobs that are paid well

<sup>5</sup> \ Conflict sensitivity differs from risk management, which takes the project as the starting point and identifies the various risks to the project. Conflict-sensitivity starts from an analysis of the context and of the driving forces for conflict and identifies from there the potential risks the project itself might pose to the context. It considers power dynamics, values and incentives, inclusion and exclusion, and social cohesion (Mitra, 2016). Conflict sensitivity is distinguished from Peace and Conflict Impact Assessments, as it is neither a tool nor referring to a programme or project, nor an approach of mutual learning driven by local people in conflict zones (Barbolet et al., 2005). Conflict sensitivity has been derived from the ‘do no harm’ approach for development agencies (Anderson, 1999; see also Grawert et al., 2017).

<sup>4</sup> \ The Consortium is composed of international development agencies.

enough to make the option of making money by joining an armed organization less attractive. Moreover, a conflict-sensitive approach requires inclusive employment, which avoids divisive effects and the potential for conflict in communities. Beyond this, companies and investors should ideally comply with the ILO standards for decent work, comprising work that is productive and delivers a fair income, security in the workplace and social protection for families, prospects for personal development and social integration, freedom for people to express their concerns and to organize and participate in the decisions that affect their lives, as well as equality of opportunity and treatment for women and men (ILO, 2016).

Whereas this plea by the ILO goes beyond the conditions found in FCAS, it is nevertheless decisive in its call for steps to increase the demand for labour, and in particular, for the creation of *meaningful* jobs. Ultimately, conflict-sensitive employment calls for employment practices that do not cause or exacerbate conflict. Company contributions to conflict-sensitive employment can involve particular employment practices, among them labour recruitment practices that are sensitive to local conflict dynamics and contexts, providing opportunities for training, including on-the-job training, decent wage levels and humane labour conditions. As violent conflict imposes a range of costs on companies, a conflict-sensitive business approach that extends to recruitment and terms of employment in an effort to avoid these costs may be a strategic choice for company managers (Grawert et al., 2017, p. 41).

Ideally, not only employers but also governments and local leaders have a role in creating the conditions for conflict-sensitive employment. However, the poor performance and corruption of state institutions and the lack of rule of law that are typical features of FCAS are likely to have adverse effects on any meaningful support for conflict-sensitive employment strategies. This is why the local level, where companies operate, has come into focus. Company owners or managers need to build relationships with stakeholders who have influence and power in order to find ways of avoiding escalating conflicts and understanding the

risks and potential impacts of various employment strategies (Grawert et al., 2017). As organizations in FCAS are likely to be embedded in patronage networks, they will bargain to advance the particular interests of certain clientele. Enforcement of regulations and standards agreed upon between company managers and local powerholders therefore will depend on the modes prevailing in the patronage system. There may be various groups of employees, employers and either governmental or other controlling group representatives making their own agreements in parallel networks. These can include procedures for labour recruitment that are sensitive to local conflict dynamics and contexts, or provisions for training opportunities, adequate wage levels and labour conditions, but also other agreements that have the effect of perpetuating violence and instability (Grawert et al., 2017, pp. 43-44).

There is still a research gap with regard to the question of how entrepreneurs acting rationally in short timeframes, sometimes in the illicit sphere, and linking up with local power networks to make gains in a 'political marketplace', can introduce conflict-sensitivity standards, not only for business strategies but also for employment. Military officers or commanders of NSAGs who are at the same time businessmen may have clientele among the local entrepreneurs, employees and workers who depend on them. What incentives can make them act as conflict-sensitive employers? The self-governance systems and local orders emanating from non-state social and economic institutions will have to be taken as a given structure and as a framework of equal importance as state structures (which are often entangled with the 'informal' structures anyway) when it comes to negotiating conflict-sensitive employment approaches. Micro-level research is required in order to identify the incentives for conflict-sensitive employment in FCAS. What we present below is an attempt to fill this research gap with a case study of construction and transport companies in Afghanistan.

## Methodology

FCAS Micro-level research at the company level can shed light on the specific contexts under which these companies operate, on what their recruitment strategies are, and on how they deal with divided societies in terms of job creation. Afghanistan appears to be a suitable case for study, because it is a site that has witnessed protracted conflict, undergone periods of decreasing and increasing violence, and thus fulfils all the characteristics of an FCAS. In order to place the focus clearly on the role of the private sector, we have selected as our sample companies operating in the construction and transport business and hence, contributing to infrastructure development. These companies can be assumed to have experience both within settings of severe armed conflict and in parts of the country with a low incidence of violence. Moreover, they are typically connected to, or part of, the type of informal economies that prevail in FCAS.

The research has been designed as a combination of a survey of companies' 'security strategies' and a focus on labour recruitment through in-depth case studies of six companies. The latter sample is a mixture of large, medium, and small companies operating in different parts of Afghanistan.<sup>6</sup> The empirical research aims to analyze the particular challenges facing key agencies in the CIT sub-sector and to identify potential motives for conflict-sensitive employment and the opportunities for large-scale roll-out. The field research is also aimed at enhancing knowledge about the ways companies are coping with insecurity in FCAS, their understanding of the conflict context, and how this is reflected in employment strategies.

The research team works within a project partnership between three organisations: BICC (Bonn International Center for Conversion), The Liaison Office (TLO) and International Alert. The relevant contacts were made and interviews done and translated by Edrees Abdianwall, Taqi Amini, Rahmatullah Amiri, Elke Grawert, Mohammed Murtaza Haqeeqat, Karima Karimi, Zeeba Karimi, Noordad Sahak, Fazalrabi

Shirzad, and Ahmad Zaki. The team conducted its survey by interviewing owners or managers of 40 registered construction and 21 transport companies in Kabul (39), Herat (12), Nangarhar (7), Kandahar (2), and Mazar-e Sharif (1) as well as with 42 staff members and workers in construction and transport. In construction companies, a range of occupations was covered, among them engineers, field supervisors in charge of site security, administrative staff, structuring and wiring workers and asphalt appliers. As the study intended to gain insights into the CIT sub-sector, two suppliers to construction companies were also interviewed. In transport companies, drivers and assistant drivers, mechanics, site managers, and logistics officers were asked about employment and labour conditions.

In order to assess the economic and policy context, the team conducted expert interviews about the development of the business environment and labour conditions between 2002 and 2017 with senior officers in the Ministry of Finance (revenue and customs departments) and the Ministry of Commerce and Industry (investment support department) in Kabul, the Ministry of Rural Rehabilitation and Development as well as the Ministry of Labour, Social Affairs, Martyrs and the Disabled in Herat. They also interviewed the Deputy Governor of Herat, a coordinator of the Afghan Public Protection Force (APPF), representatives of the Afghan Chamber of Commerce and Industries (ACCI) in Kabul, representatives of the associations of construction companies and of transport companies in Kabul and Herat, the director of the Afghan Institute for Strategic Studies and the head of the National Center for Policy Research in Kabul. Information was also gained from officials at the World Bank and the International Finance Corporation in Kabul and representatives of various think tanks and NGOs active in Kabul.

The team carried out the overview of companies and expert interviews from April 2015 until November 2016. Starting from October 2016, members of TLO met six selected 'pilot companies' regularly for intensive discussions about their experiences of operating in a

<sup>6</sup> Companies involved in cross-border trade are ignored here; they are subject of a separate paper (Grawert et al., 2017a).

conflict context and of implementing conflict-sensitive employment strategies.<sup>7</sup> Beyond the transdisciplinary approach of knowledge-sharing with pilot companies, there has been scholarly exchange with a senior economic advisor (Dr Dirk Hansohm) and academic analyses of business in FCAS (Grawert et al., 2017) to guide this process from an economics perspective. This work has been complemented by approaches from political science, sociology and peace and conflict research as the team carry out their conflict assessments and context analyses. Background information was gleaned from media analyses, reports of analysts, official documents of the United Nations Assistance Mission to Afghanistan (UNAMA), the security reports from the Secretary General to the United Nations Security Council (UNSC), statistics and information from academic and scholarly articles, reports of agencies, and books published by various organizations and written by various scholars both nationally and internationally.

The interviews were analyzed by thematic coding, using the qualitative data analysis programme WEFD QDA. With this method, unique perceptions of interview partners could be identified in ways that avoid the risk of confirming preconceived results. In parallel to the interviews, continuous discussions within the team, feedback from experts, and literature reviews led to adjustments of interview guidelines and extensions of the sample. The variation of perspectives from company owners, employees, business associations, government officials, and international agencies enabled the project team to make an informed assessment of the context in which construction and transport companies operate. The field research provided insights into practices of conflict-sensitive employment that already exist in Afghanistan as well as into practices that exacerbate violence. These findings enabled us to derive strategies of conflict-sensitive employment that are applicable in the context of FCAS and initial perspectives for establishing a conflict-sensitive employment framework.

<sup>7</sup> \ This process of mutual learning and knowledge-sharing will continue until autumn 2017 with the aim of developing and testing a conflict-sensitive employment framework.

## Limitations of the research

The escalating violence in Afghanistan during the research period made it impossible for the team to move overland and visit the rural areas and sites at which construction companies were operating and through which transport companies were carrying commodities. Even in Kabul it was risky to organize out-of-office meetings with several stakeholders because meeting halls in hotels have become targets for violent attacks. One of the TLO team members was severely injured during a Taliban attack on the American University in Kabul and had to be replaced by colleagues, who then needed some time to familiarize themselves with the project and continue the research in Afghanistan. A further constraint stems from the low interest of the Afghan Ministry of Labour, which the team considered a major stakeholder for conflict-sensitive employment. The Ministry so far has not received the project team despite appointments being made. Further constraints occurred due to a gap between the academic ambition of the research and the more practical NGO working style of the majority of the research team. Nevertheless, commitment and interest of the team members has been strong enough to achieve new findings and insights which will undoubtedly benefit a wider community of practitioners and academics working on FCAS.

## The Afghan context 2001–2017

Violent conflict has affected the Afghan society in waves, rising and falling, since the late 1970s. After the US army intervened in Afghanistan and deposed the Taliban government in 2001, the violence declined for some time while large-scale aid was poured into the country in an effort to develop and stabilize the economy. Increasing violence flared up again from the mid-2000s and has become devastating since 2014, when Taliban splinter groups, criminal gangs, and the so-called Islamic State stepped up attacks on premises of Afghan security forces and compounds as well as hotels and guesthouses where the international staff of aid and humanitarian agencies are based. Fighting between government troops and Taliban groups has also intensified. In order to provide the context within which construction and transport companies have been operating, this chapter offers an outline of the political developments and the causes of rising insecurity, followed by an account of the economic development. It highlights the role of the government and aid agencies in the economy and, above all, in employment. The chapter ends with some remarks on patterns and dynamics of conflict within Afghanistan. These patterns vary greatly at the local level and will thus have different implications for the design of conflict-sensitive business and employment strategies.

### Politics and security developments

The first few years following the ousting of the Taliban regime that had ruled in Kabul from 1996 to 2001 was a time of severe factional conflict between non-state armed groups (NSAGs). At local level, followers of individual commanders engaged in severe infighting. These groups and individuals—all under the umbrella of the Mujahedin—had roots in the struggle against Soviet occupation (1979–1989), when they had organized as political parties in exile in Pakistan and established armed wings with weapons and funding supplied by the Gulf states, Pakistan and the US. Some of those commanders of NSAGs continue to play a role in politics even today. They still control particular territories, so communities and businesses

are forced to interact with these powerholders, and these conditions strongly affect the ways in which companies operate and carry out their projects. Superseding the clashes between changing Mujahedin groups, Taliban groups resumed fighting against the government in 2006 and have since regained control over an increasing number of districts.<sup>8</sup> A general trend of factionalization of NSAGs characterizes the current situation in Afghanistan, with commanders acting as politicians and businessmen, and a government that is torn between the demands of militia-backed powerholders. This section outlines the key developments that have led to the particular features now characterizing the FCAS in Afghanistan.

The interim administration (2002–2004) established after the intervention was headed by Hamid Karzai and backed by the International Security Assistance Force (ISAF). In 2003, the North Atlantic Treaty Organization (NATO) took the lead of the ISAF, mandated by the United Nations to:

*enable the Afghan government to provide effective security across the country and develop new Afghan security forces to ensure Afghanistan would never again become a safe haven for terrorists (NATO, 2015).*

In 2004, the *Loya Jirga* (grand council of elders and religious and political leaders) appointed Karzai president and agreed on a new constitution. The central government of Afghanistan attempted to overcome the legacy of previous armed conflicts by introducing large-scale demobilization, demilitarization and reintegration (DDR) and launching Disbandment of Illegal Armed Groups (DIAG) programmes, which were utterly opposed or avoided by NSAG leaders. The main armed groups were the Hezb-e Islami, the Jamiat-e Islami, the Junbesh-e Milli, and the Hezb-e Wahdat. The latter three joined forces, forming the ‘Northern Alliance’ in 1996–97 to fight the Taliban. The US intervention in late 2001 helped the Northern Alliance forces to capture Kabul and oust the Taliban. As a

<sup>8</sup> \ According to data of the US Forces-Afghanistan and the NATO’s Resolute Support mission, in February 2017, Taliban controlled eleven districts and influenced 34 districts, whereas the government controlled 97 districts and had influence in 146 districts. Hence, 11 percent of the districts were under Taliban control and 60 percent under government control, and 29 percent of Afghanistan’s 407 districts were contested (Roggio, 2017).



result, Jamiat-e Islami, which had led the Northern Alliance, seized the most important positions of power in the post-2001 government. Its relationship with the other parties disintegrated, leading in several instances to violent power struggles over access to power, mostly involving regional and local rule. Co-optation of NSAG commanders into the government neither ended the power struggles nor led to disarmament of NSAGs. Given the Taliban resurgence after 2006, some of the commanders believe that the Mujahedin who had fought against the Soviet occupation are predestined to combat the Taliban instead of foreign forces. One of them is Ismael Khan, governor of Herat (1992-1995) and Afghanistan's minister of energy and water (2004-2013), who is affiliated to the Jamiat-e Islami party and an influential power-holder in western Afghanistan (Masoud, 2015).<sup>9</sup> Another example of the political tenacity of commanders is Abdurrashid Dostum, a general from northern Afghanistan, who heads the Junbesh-e Milli, a communist NSAG and political party until 1992 and thereafter representing Uzbek and Turkmen interests (Ruttig, 2009). Dostum became the First Vice President of Afghanistan in 2014.<sup>10</sup> The Hezb-e Wahdat party, formed in Iran with the aim of uniting the Afghan Shi'a groups, also split into factions soon after the ouster of the Taliban. The faction led by Mohammad Mohaqeq is the strongest group representing the Hazara<sup>11</sup> (Ruttig, 2009). Gulbuddin Hekmatyar is the founder and leader of the Hezb-e Islami, a political party with an armed wing. During the civil war, Hekmatyar became prime minister of Afghanistan shortly before the Taliban seized power, forcing him to leave the country. After a peace deal with the current government, he returned in May 2017. The granting of

impunity to Hekmatyar and his followers despite the war crimes committed by the group has alienated many Afghans, and Hezb-e Islami groups have refused to lay down their arms (UNSC, 2017, p. 11, *Radio Free Afghanistan*, 11 May 2017).

This brief overview pinpoints the continuities of the militant political landscape of Afghanistan, which shapes the environment in which construction implement building projects and transport companies arrange shipments. The Taliban have also split into factions that fight against the international coalition forces and the government, predominantly in the southern and eastern parts of Afghanistan.

In 2014, the ISAF completed the gradual handing over the responsibility for security to the national forces of Afghanistan and was replaced by the Resolute Support Mission. Mediated by the then US Secretary of State, John Kerry, a National Unity Government was formed through a coalition between the two competing candidates who had won most of the votes: Mohammad Ashraf Ghani, sworn in as the new president, and Abdullah Abdullah, as his 'chief executive officer' (*The Economist*, 22.09.2014). Ghani's political endeavours were shaped by his background as economic advisor to the World Bank during the 1990s, when he designed economic reforms and structural adjustment programmes for developing countries. As Minister of Finance in the interim government and special advisor to Ambassador Lakhdar Brahimi, the UN Secretary General's special envoy to Afghanistan, Ghani was already engaged in developing a roadmap for political transition between 2001 and 2004 and preparing the *Loya Jirga*. From 2010 to 2013, Ghani was the chairman of the Transition Coordination Commission in charge of the transfer of power from the ISAF and NATO troops to the Afghan Security Forces. Economic reforms through a market-liberal approach, combatting corruption and "fixing failed states" (Ghani & Lockhart, 2009) were high on his agenda. This World Bank-informed approach led him to be portrayed as a 'technocrat' (Rasmussen, 2014). His 'CEO', Abdullah Abdullah, with whom president Ghani has to consult when making political appointments and major decisions, once played a prominent role in

9 \ The former leader of the Jamiat-e Islami Burhanuddin Rabbani was president of Afghanistan from 1992 to 1996 and led the Jamiat forces until he died in a Taliban suicide attack in 2011. His son Salahuddin Rabbani took over leadership of the party, became Chairman of the Afghan High Peace Council in 2012 and Minister of Foreign Affairs in 2015 (Bazarak, 2005; Ruttig, 2009; Ministry of Foreign Affairs, no year).

10 \ Like other warlords, Dostum and his militia committed atrocities during the civil war. In May 2017, torture accusations were raised against Dostum's followers.

11 \ An estimated nine per cent of the Afghan population belongs to the ethnic group of the Hazara; however, there have been no verified figures since 1978, when the last reliable census took place (Afghan Network, no date).

the ‘Northern Alliance’ and is a member of *Jamiat-e Islami*, hence attracting votes from some former allies. Agreements between these two leaders have proved difficult to reach, and power struggles are almost inevitable.

Mounting insecurity has been a major challenge for the ‘National Unity Government’. In 2015, security incidents not only increased but spread throughout the country. For the first time since 2001, a provincial capital—Kunduz—fell into the hands of the Taliban. Temporarily they captured 24 district centres in the north (in Badakhshan, Baghlan, Faryab, Jawzjan, Kunduz, Sari Pul and Takhar provinces), in the west (in Badghis and Farah provinces), in the east (in Nuristan Province) and in the south (in Helmand and Kandahar provinces) (UNSC, 2016, p. 4). The Islamic State in Iraq and the Levant-Khorasan Province (ISIL-KP) claimed responsibility for several deadly attacks in Nangarhar, eastern Afghanistan and Kabul. 12 Attempts by the National Unity Government to include Taliban leaders in peace talks in 2015 and 2016 failed. In 2016, the UNSC recorded 3,498 civilian fatalities and 7,920 wounded, while 6,785 Afghan soldiers died in battles and 11,777 were injured between January and November (UNSC, 2017).

The FCASs in Afghanistan are characterized by power struggles between various leaders of armed groups. From the perspective of some donor agencies, however, ‘weak governance’ has been seen as the factor allowing the violent conflicts to continue (Hopkins, 2014, p. 39; World Bank, 2016). Reversing cause and effect, this perspective inevitably leads to assessments of the government as incompetent, corrupt, predatory and too reliant on donors (Cusack & Malmstrom, 2010, p. 6). Others regard the continuous violent conflict as the factor destabilizing the government (GTZ, 2009). These views ignore the fact that members of the government are part and parcel of political power struggles that are fought out through violent means. The continuous deterioration of security, the gradual withdrawal of international troops along with a reduction of international aid, and the limited capacity of the government to implement policies

have had a tremendous impact on the performance of the economy.

## Shifts in the economic environment

A brief look into the history of the private sector in Afghanistan clarifies the trajectory of the Afghan economy after the international intervention of 2001. The first attempt to promote a private sector was made by the minister of national economy Majid Zabuli (1936–1955), who founded the Central Bank of Afghanistan and three other banks. They were all nationalized under Communist rule (1978–1989). The civil war (1992–1996) prevented the establishment of private companies, and the subsequent Taliban regime (1996–2001) did not encourage the private sector. Throughout these decades, the rule of law did not exist in Afghanistan, while the attitude of the government towards private companies remained arbitrary. Taxation was neither regulated nor transparent nor enforced. Little was done to develop human capital. For instance, the Afghan education system did not teach practical and business skills. Nevertheless, there were Afghan entrepreneurs doing business in places like Dubai, China or Japan, so that the widespread refusal of Afghan company owners to pay for a franchise or a market analyst cannot be explained by ignorance but, rather, by their experience of severe uncertainty in Afghanistan. Lack of infrastructure, electricity, spare parts, supplies and other inputs, which the government had not provided in many parts of the country, made setting up a business additionally risky (Fishstein & Amiryar, 2015; Ghiasy et al., 2015). Hence, the market as it emerged after the international intervention was largely artificial due to the boom in demand by international troops and agencies, and since 2012, with the gradual withdrawal of the international forces, this market has been declining.

Against this backdrop it is hardly surprising that the private sector of Afghanistan has not gained a strong voice to present its interests to the government.

<sup>12</sup> \ For a background study on the ISIL-KP (‘Daesh in Afghanistan’) see Mielke & Miszak, forthcoming in 2017.

The Afghan Chamber of Commerce and Industries (ACCI), founded in 2004, is a centralized institution with branches only in the largest cities. Small and medium enterprises (SMEs) in the provinces do not have any institution to represent their interests. Hence, organized lobbyism in the interest of private companies has remained weak in Afghanistan. The legislative and private business associations are not connected as institutions. Rather than involving the parliament as such, business associations prefer to address the executive directly or approach certain Members of Parliament (MPs) individually and pay them for ‘favours’ (Ghiasi et al., 2015; Fishstein & Amiryar, 2015).

Nevertheless, Afghanistan experienced rapid economic growth at a rate of around nine percent between 2003 and 2012, with some fluctuations (World Bank, 2015), relatively low inflation (after hyperinflation in the 1990s), improved public financial management, and rising access to basic health and education. Key social indicators, including life expectancy and maternal mortality, improved markedly (however from an extremely low base).<sup>13</sup> World Bank statistics reveal that despite the substantial growth, accompanied by increases in school enrolment and access to water, the nationwide poverty rate remained stagnant at about 36 percent between 2007 and 2015. Afghanistan has remained one of the world’s least developed countries, with a per capita gross national product (GNP) of US \$520 in 2010, US \$720 in 2013, and US \$630 in 2015 (current prices) (World Bank, 2016; World Bank, 2016b).

The economic upsurge also brought an increase of women’s participation in the economy. In 2011, the employment-population ratio for men was 74.9 per cent, for women 15.5 per cent, and overall 45.7 per cent (ILO, 2015). In 2016, 80.5 per cent of men and 26.7 per cent of women at working age participated in the labour force. However, only 65.7 per cent of the total labour force was gainfully employed or self-employed (CSO, 2017). This is reflected in around 60 per cent of the labour force working in agriculture, mostly in

13 \ Life expectancy rose from 50 (1990) to 55 (2000) and to 60 years (2015) (World Bank, 2017). Maternal mortality per 100,000 live births declined from 1,340 in 1990 to 1,100 in 2000 and to 396 in 2015 (WHO, 2016).

**Table 1**  
**Development of employment in Afghanistan**

Employment status / fiscal year	2007/08*	2011/12*	2013/14*	2016**
Employment to population rate	62.0	45.7	42.9	43.4
Employment rate ***	93.0	No data (see FN 7)	No data	No data
Proportion of own-account and contributing family workers in total employment	76.9	80.5	78.8	No data
Unemployment rate ***	7.0	8.2	22.6	19.4
Underemployment rate****	No data	16.8	16.4	14.9
Percentage of not gainfully employed population (= unemployed + underemployed)	No data	25.0	39.0	34.3

Notes: \*Since 2011/12, a different and more differentiated method of statistical survey has been applied, so that the more recent data are not comparable with previous data; \*\*April to September; \*\*\* in per cent of total labour force; \*\*\*\* in per cent of population

Sources: EU & GIRA, 2008; CSO, 2014; CSO, 2017.

subsistence and low productivity jobs, with most of the rest being employed in precarious casual or temporary jobs (ILO, 2012, p. 6). The employment trends are provided in Table 1.

The data of the Central Statistical Office of Afghanistan show a decline in labour force participation until 2013/14 and a slight increase in 2016. Obviously the figure of eight percent unemployment during the economic boom phase concealed widespread underemployment (ILO, 2012). The Central Statistics Office of Afghanistan made certain adjustments in the data collection so that statistics for 2011/12 and thereafter reflect the high rate of ‘not gainfully employed population’ and the continuously high proportion of ‘own-account and contributing family workers’

on the Afghan labour market. The data indicate that international efforts to support economic development had failed to generate regular, sufficiently paid and long-term employment opportunities for workers.

Every Afghan perceives unemployment as devastating. A perception survey by the Asia Foundation in 2014 showed variations across the country, with Afghans in the north-east regarding unemployment as far more of an issue than Afghans in the west, and those in urban areas rating it as more of a problem than respondents in rural areas. The survey highlights that unemployment had forced many Afghans to migrate in search of work, which not only placed a strain on the areas where they resettled but also left a vacuum in the areas they had left (Hopkins, 2014, pp. 51-53). In 2016, nearly 60 percent of the respondents stated that the employment opportunities for their household members had worsened compared to 2015, and more than 70 percent regarded unemployment as the biggest problem facing the youth of Afghanistan (Warren et al., 2016, pp. 6, 8).

Most Afghan enterprises operate in the informal sector, playing an important role in skills development as they are providing on-the-job training for an estimated 600,000 young people (GIZ, 2015). The informal economy maintains a considerable degree of self-organization, following regulations that emanate from non-state actors and informal institutions (Wilde & Mielke, 2013). The Afghan state is engaged with the informal economy and entangled in it. Many state officials pursue informal economic activities themselves and have vested interests in maintaining the informal economy. This explains why negotiated arrangements over taxation or regulatory policies frequently occur. Studies confirm that, in FCAS, it is not the government or state authorities but rather the social legitimacy attributed to economic activities and the relative power of particular groups that determine what is considered legal and illegal (Grawert et al., 2017, p. 7).

Some scholars explain the low performance of the government in addressing the country's economic problems by pointing to strong interconnections between politics and business stemming from the war. Giustozzi (2006) points out that the civil war and the rise of the Taliban had caused many Afghan

businessmen to relocate abroad during the 1980s and 1990s, leaving space for the emergence of a new generation of businessmen with close ties to factions and commanders of armed groups. After 2001, this generation expanded its activities and took the place of the established business families. Commanders of NSAGs and factional leaders had financial reserves available for investment and were looking for ways to safeguard their long-term financial autonomy once direct foreign aid to the militias stopped. One means of securing their capital was to be co-opted into the Afghan government (Giustozzi, 2006), indicating the perpetuation of a direct nexus between political and economic power. Due to the absence of a durable political settlement in Afghanistan for nearly forty years, short-run intra-elite bargaining among shifting groups, mostly armed, has characterized Afghan politics. Hence, direct violence and the threat of violence by a range of powerful groups have remained an integral part of the political process. Administrative positions in government as well as privileged access to economic resources—public procurement contracts, revenue sources, land, mining contracts, and proceeds from illicit economic activities—are some of the spoils over which this elite bargaining takes place (World Bank, 2016; DFID, 2008).

The Afghan Ministry of Commerce and Industries estimates that 70 to 80 per cent of SMEs are not formally registered because of their fear of bureaucracy and corruption. This leaves them particularly vulnerable to exploitation by 'mafias' consisting mainly of company managers, government officers and local politicians organizing illegal business (Mashal, 2014, p. 10). Pain & Mallet (2014, pp. 17-18) confirm that the non-formalization of business in Afghanistan is not a result of a difficulty in registering a business (at least for men). Rather, businesses are likely to avoid formalization in order to avoid paying higher taxes, bribes and bureaucracy.

The World Bank's Ease of Doing Business indicator (a composite indicator of nine sub-indicators) is a common and comparable measure of the quality of the environment in which businesses operate. The country with the easiest, most favourable business environment is ranked lowest, and the country with the most difficult environment highest. The business

environment of Afghanistan is among the most difficult globally, ranking 177 out of 189 in 2016. According to this indicator, it has become comparably more difficult to do business in Afghanistan during the post-2011 reform phase. Among the areas of most concern, only trading across borders has improved slightly (World Bank, 2016a).

The poor business environment in Afghanistan results from deep economic, political and social distortions and conflicts and therefore cannot easily be rectified by technical or liberalization measures. It reflects persistent economic inequalities and uncertainties. Over the fifteen years following the ousting of the Taliban regime, private sector confidence has slumped, the value added by industry as a percentage of GDP declined, and a fiscal crisis unfolded as shrinking revenues have led to depleted cash reserves and an accumulation of arrears. As the lowest exporter and second highest importer in the region, Afghanistan's economy has remained weak and highly imbalanced. Security concerns, access issues, corruption and unclear business policies are regarded as the reasons for this low performance (World Bank, 2016; ILO, 2012, pp. 21–25).

After a difficult period following the election of 2014, World Bank experts held that the government managed to establish the conditions for a slow recovery of the economy (Joya et al., 2016). Government revenues increased in 2015, partly through more effective tax collection, improved control of corruption, especially at the customs, and new tax levies. However, some analysts caution that revenues from import tax have already reached their limit and over-taxation of the small group of large taxpayers domiciled in Afghanistan must be avoided (Byrd & Payenda, 2016, pp. 2–4).

It seems to be too early to speak of a recovery from the marked decline of economic growth. According to the Afghanistan Statistical Yearbook, in the fiscal year of 2015–16, the real GDP growth reached 0.9 per cent when opium production is excluded and -2.4 per cent when it is included (CSO, 2016, p. VIII). The World Bank (2016) regards pervasive poverty as the key underlying cause of the crisis in Afghanistan and identifies three major constraints to a flourishing economy. First is conflict and fragility, defined as weak state institutions

and dysfunctional societal relations. Second is the demographic and geographic landscape, with birth rates above five per woman and a young population below 15 years exceeding 40 percent of the population (Index Mundi, 2014), whilst large numbers of refugees and internally displaced persons return to Afghanistan. The third constraint is declining aid, requiring “additional efforts to develop new sources of growth, expand effective service delivery, mobilize revenues and prioritize spending” (World Bank, 2016). Taking a critical perspective on the market-liberal approach that the World Bank and other western agencies have promoted in Afghanistan since 2002, a further constraint is the concentration of assets, land and business in the hands of cronies with special connections to, or even co-opted into, the government. Economic decisions apparently depend more on the ability to forge relationships with powerholders and to seize opportunities in a distorted economy than on market forces (Fishstein & Amiryar, 2015).

## The role of aid in the employment crisis

High aid inflows have benefited Afghanistan, but also brought problems. Whereas an estimated US \$62 billion was pledged for the period between 2002 and 2013 (Poole, 2011), the Afghan government disbursed much less due to low absorption capacity. Aid steered the economic liberalization and reform process in Afghanistan and underpinned much of the progress, including the growth in key services and infrastructure. It modernized the government administration but also contributed to corruption and fragmented and parallel delivery systems (Hogg et al., 2013). After 9/11, the USA resumed the support of

14 \ In 2015, out of US \$4.26 billion of bilateral aid, US \$3.73 billion was disbursed. The largest donor was USAID with US \$1.254 billion of aid (US \$1.107 billion disbursed). In addition, Afghanistan received US \$1.112 billion of multilateral aid, of which the European Union was the largest donor committing US \$542.7 million (only US \$339.3 million disbursed), second the Asian Development Bank (US \$297 million committed and US \$154.1 million disbursed) and third the World Bank (US \$271.5 million committed and US \$253 million disbursed) (CSO, 2016). Between 2002 and 2016, the World Bank supported the government of Afghanistan with funding totalling US \$2,339,790,000, with a peak of US \$311,800,000 in 2007, a low of US \$21,500,000 in 2015, and a significant increase again to US \$250,000,000 in 2016 (compiled from World Bank, 2017).

selected commanders of NSAGs and strongmen on a large scale, with at least US \$70 million being allocated to these actors (Giustozzi, 2006). These mixed endeavours call into question the effectiveness of aid supplied to Afghanistan (Hogg et al., 2013).

The employment impact of aid has not been large. International assistance focused on creating employment in conflict areas rather than throughout society. The type of employment being generated was not geared towards increased labour productivity (World Bank, 2016) as it generally entailed short-term unskilled jobs and cash-for-work programmes. These jobs provided a quick and visible peace dividend but no sustainability in terms of employment or development (GTZ, 2009; GIZ, 2015). One estimate calculated that by 2012 6 to 10 per cent of the working population had benefited from aid-financed job opportunities, most of them for less than six months (Hogg et al., 2013).

Medium-term effects were expected from the establishment of vocational training centres and academies for teachers who were trained to teach in those centres. However, in the face of 1.7 million unskilled young Afghans, the plan to establish 250 vocational training centres for 90,000 apprentices with 2,700 teachers to be trained in two teachers training academies between 2012 and 2017 (BMZ & GIZ, 2014, 2015) reveals the magnitude of the task ahead. Even worse, by 2015, only 46,000 Afghans had completed the training (GIZ, 2015). In Herat, where several international NGOs delivered vocational training in eight centres for about 15,000 persons per year, the number had declined to less than 5,000 by 2015, and only three centres were operating. Training had comprised courses for mechanics, electricians, plumbers, tailors, computer and mobile phone repair, motorcycles repair, carpet making, and carpentry, all aimed at young people; and curtain sewing and beauty parlour shop management aimed at women in particular. These qualified for occupations typical of informal enterprises in urban settings, but not geared to agriculture, where most of the Afghan population is occupied. A particular target group receiving training in Herat was the widows of martyrs, who were earning

Afghans (AFN) 5 to 6,000 per month for the sale of handwoven cloth and received AFN 5,000 per month in addition from the World Bank (Ministry of Labour, Social Affairs, Martyrs and the Disabled, Herat, November 2015). The vocational training centres are an example of the strong dependency on aid.

World Bank experts estimated as early as 2013 that a US \$500 million cut in the aid delivered outside Afghanistan's budget would directly affect 11,000 to 18,000 short-term jobs. The authors anticipated that the decline would increase underemployment and reduce household incomes by reducing casual labour opportunities and lowering payment for skilled employees, rather than lead to much higher open unemployment. They expected the impact of aid reduction to be greatest in urban centres and conflict-affected provinces, which had received more aid *per capita*. Labour markets would be able to adjust if aid was reduced in a gradual and controlled way, because growth in the security, mining and civilian public sectors could partly offset aid-related job losses. The experts held that aid reductions were unlikely to enhance poverty markedly, whereas low economic growth would have exactly this effect due to mounting unemployment (Hogg et al. 2013). In fact, the partial withdrawal of international security forces since 2014, combined with continuing political uncertainties and mounting violence, has caused a significant deceleration of economic growth and a surge in unemployment (Joya et al., 2016).

The upsurge of World Bank assistance in 2016 (see footnote 10) indicates that the Bank considers these impacts serious enough for it to continue its economic adjustment measures through its influence on the Afghan government. It promotes the development of mining and agriculture in order to improve food security and provide Afghanistan with a major export industry (World Bank, 2014, p. 8). Moreover, the World Bank and other agencies have put a stronger focus on supporting private sector development (PSD), not only for economic reasons but also as a means of reducing conflict and building peace in the country (World Bank, 2012, pp. 1-2). PSD is considered all the more important now that foreign troops are

withdrawing and international aid is declining whilst the country moves away from a situation in which as much as 40 percent of Afghanistan's GDP used to be derived from development assistance. The number of registrations of new firms has shown a marginal increase compared to 2014, but remains considerably lower than the levels recorded in 2011 and 2012. World Bank experts suggest that this reflects the decline in confidence due to the worsening security environment (Joya et al., 2016). Very few large-scale investment projects were launched in 2015. The most significant of these involved the construction of a steel mill in Kabul with total domestic investment valued at US \$25 million (Joya et al., 2016).

As the bulk of the private sector consists of SMEs, the approach of PSD towards peacebuilding has attracted numerous international organizations towards engagement with this labour-intensive sector of the economy (ABADE, 2016; ASMED, 2007; ACBAR, 2016; Mashal, 2014). SMEs have played a key role in propelling some of today's most advanced economies (Hettiarachchi et al., 2009, p. 5). They are estimated to absorb around 75 per cent of Afghanistan's labour force and generate over 50 percent of the country's GDP (ASMED, 2007). The increased attention on SMEs stems from their high share of the Afghan market and from the assumption that they tend to have closer relationships with the communities in which they operate than large companies (Khan & Ahmed, 2014, p. 6; Grawert et al., 2017, pp. 28–29).

The above analysis shows that private business in Afghanistan has to operate under conditions shaped by the legacy of armed conflicts, with large local variations in patterns and dynamics of conflict. Companies have to manage their projects accordingly, always considering the locally prevailing lines of conflict and relations of power. Whether enterprises can play a role in reducing conflict and, if so, how, remains an open question. Only thorough field research can deliver authoritative answers, and these answers will necessarily be contingent on local conditions and obviously cannot be generalized.

Construction and transport companies have flourished due to donor investment and logistical requirements since 2002. In order to understand the

particular role of the CIT business in Afghanistan, we will outline the economic activities falling under CIT and the contribution of the CIT sector to the economy of Afghanistan and clarify its role in job creation. The surveys, reports and statistics collected by the government of the Islamic Republic of Afghanistan (GIROA), along with data from the Integrated Business Enterprise Survey (IBES) and the Business Establishment Survey (BES), provide the relevant information for tracking the development of business and employment.

How construction and transport companies have tried to adjust to the difficult and highly diverse political, economic, and conflict conditions prevailing in Afghanistan is explained in the following section on the basis of field research findings. Construction and transport companies have different structures and are exposed to the political and security environment in different ways, so they will be considered separately. The chapter ends with an account of the perceptions of insecurity by owners and managers of construction and transport companies and explores the ways in which they attempt to overcome the problems.

# Construction, infrastructure and transport (CIT) business in Afghanistan

## The CIT sector, its development and context

This section provides definitions and statistics on the CIT sub-sector in Afghanistan, distinguishing between construction, infrastructure, transport, and employment.

### Construction

The Central Statistics Organization of Afghanistan uses the International Standard Industrial Classification (ISIC) Version 4 for classification of industrial production when compiling relevant reports and statistics. According to the ISIC of All Economic Activities, construction:

*includes general construction and specialized construction activities for buildings and civil engineering works. It includes new work, repair, additions and alterations, the erection of prefabricated buildings or structures on the site and also construction of a temporary nature. General construction is the construction of entire dwellings, office buildings, stores and other public and utility buildings, farm buildings etc., or the construction of civil engineering works such as motorways, streets, bridges, tunnels, railways, airfields, harbours and other water projects, irrigation systems, sewerage systems, industrial facilities, pipelines and electric lines, sports facilities etc. (UN Statistics Division, 2008, p. 172).*

The construction sector in Afghanistan witnessed a constant expansion, rising in value from 8,700 million Afghans (AFN) in 2002–03 to AFN 124,280 million in 2015–16, when it accounted for over 10 per cent of the economy of Afghanistan. Its contribution as percentage of GDP was 7.84, 8.89 and 10.03 respectively in 2013–14, 2014–15 and 2015–16 (CSO, 2016).

Despite the 8.1 per cent growth of the construction sector in 2015–2016 compared to the previous year, when we dig deeper into the data it emerges that the sector suffered a decline in many of its component activities. For example, in 2013–14, total roads constructed measured 3,915 km, of which 1,059 km were asphalted. The figure rose to 5,619 km (930 km asphalted) in 2014–15, and fell back to 3,226 km (1,300

km asphalted) in 2015–16. The Afghanistan Statistical Yearbook 2015–16 states: “Construction output decreased by 55.3% in 2015–16 compared to 2014–15. Road construction in 2015–16 has decreased by 42.6% compared to 2014–15” (CSO, 2016, p. 178).

Production and import of cement, if not a perfect indicator, can roughly reflect the volume of construction activities in the country. The production and import of cement decreased dramatically from around 6.7 million tons in 2013–2014 to approximately 3.48 million tons in 2014–15 and 2.6 million tons in 2015–16. The number of heavy vehicles and machines owned by construction companies declined from 4,313 in 2013–14 to 3,521 in 2014–15 and even further to 3,336 in 2015–16. Only 560 buildings were constructed or under construction in 2015–16, compared to more than double that figure in each of the two previous years (1,252 and 1,188 respectively) (CSO, 2016). Obviously, construction of buildings was thriving when foreign agencies and troops, as well as newly set-up local businesses, were requiring new offices and premises. The Afghanistan Investment Support Agency (AISA) registered about 2,000 companies between 2006 and 2013, among them about 600 construction companies investing more than US \$6 million. These figures have to be treated with caution, though, because among them investments were recorded that never materialized in reality, and others are falsified to reduce tax liability (Leslie, 2015, pp. 17, 39). When the demand by foreign agencies and troops then declined, construction activities slumped and many construction companies closed down, as testified by the numerous uncompleted buildings in Kabul and Herat.

### Infrastructure

Infrastructure covers a broad range of activities across several sectors of the economy. Therefore, neither the ISIC nor the Afghanistan Statistical Yearbook classifies infrastructure as a separate category. Infrastructure includes construction of roads, railways, irrigation canals, hospitals, schools, electricity substations, and telecommunication towers, among others. Infrastructure projects require construction work and logistics and hence, transportation.



The World Bank and the ILO regard infrastructure development as an indispensable precursor to improvements in the mining and agricultural sector. The rationale for focusing on infrastructure is that it will contribute to providing water and electricity to urban as well as rural areas (World Bank, 2014, pp. 89–90; GIZ, 2014), connecting neighbouring countries with improved roads, and thus boost distribution (World Bank, 2014, p. 12). This is all the more important as many Afghans have been moving to—or back to—urban areas, especially to the country’s capital. Kabul’s population reached a size officially estimated at 3,917,241 in 2015–16 (CSO, 2016a)<sup>15</sup> and has hence nearly doubled since 2001. This gives Afghanistan one of the highest urbanization rates in the region, entailing pressures to improve the infrastructure to accommodate the growing urban population and to relieve the stress on services, which could lead to conflict (ILO, 2014; GIZ, 2014, p. 1). The services sector, including transport, is expected to adapt and develop as a result of investment in infrastructure (World Bank, 2014; ILO, 2012, p. 19).

Recent official agreements indicate that infrastructure development will remain central in Afghanistan over the coming years (ADB, 2016). The Central Asia Regional Economic Cooperation (CAREC) programme, led by the Asian Development Bank (ADB) as the main donor to Afghanistan, has already invested US \$2.2 billion in upgrading and constructing roads across Afghanistan (ADB, 2017). Within the framework of the Afghanistan National Peace and Development Framework (ANPDF) for 2016–2021, prepared by the government of Afghanistan, the ADB plans to continue its focus on infrastructure development in the areas of transport and energy, and on agriculture and mining. The proposed grant programme for 2017–2019 comprises US \$1.29 billion, whereas the government of Afghanistan is to allocate US \$659.270 million (ADB, 2016). This shows that infrastructure building is mainly driven by large-scale investment by international banks and foreign donors contracting companies to implement the required construction projects.

<sup>15</sup> \ Unofficial estimates maintain much higher numbers.

The ADB admits that the situation in Afghanistan in 2015 and 2016 does not justify the reduction of aid, stating: “Military conflicts and regional disputes have seen [sic!] instability in national security, political uncertainty, disjointed governance, and a fragility in the rule of law” (ADB, 2015).

Thus, post-conflict assistance, which was supposed to terminate, will be resumed for some more years, making it all the more crucial for assistance providers to understand how construction and transport companies operate in a conflict environment, and how employment can be made conflict-sensitive.

### Transport

Transportation and storage fall under the services sector. According to the UN Statistics Division, the transportation and storage section of the services sector includes “the provision of passenger or freight transport, whether scheduled or not, by rail, pipeline, road, water or air and associated activities such as terminal and parking facilities, cargo handling, storage, etc. Included in this section is the renting of transport equipment with driver or operator” (UN Statistics Division, 2008, p. 194).

The Afghan Ministry of Transport and Civil Aviation (MoTCA) is in charge of regulating private-sector transport, coordinating agreements between private Afghan and international transporters, and establishing offices in neighbouring countries to facilitate international trade. The ministry’s private-sector department sets the technical standards for private commercial vehicles and inspects them for compliance during licensing and the process of license renewal. The MoTCA collects fees from the operators of private trucks and inter-provincial private buses at national or provincial borders or on the outskirts of major cities and provides some passenger and freight transport services itself by using state-owned vehicles.

The percentage contribution of transport and storage to GDP is the highest not only in the services sector but in all categories of the Afghan GDP and, in total, exceeds the entire industry sector. The development of the value of transport and storage between

2002 and 2016 reflects the overall performance of the Afghan economy, growing from AFN 19,519 million in 2002-2003 to AFN 241,354 million in 2013-14 and then shrinking to AFN 25,597 million in 2014-15 but bouncing back to AFN 232,286 million in 2015-16. However, this recovery is still short of the 2013-14 peak, when the sector witnessed over nine per cent of growth. In 2014-15, it shrank by 1.7 per cent (-1.7 per cent growth), and in 2015-16, it grew by less than one per cent (CSO, 2016).

The total number of registered vehicles amounted to 1,866,283 in 2014-15 and increased by one percent to 1,887,263 vehicles in 2015-16 (CSO, 2016, p. 211). However, the total transport of goods decreased from 11.410 million metric tons in 2014-15 to 9.644 million metric tons in 2015-16, and total goods circulation dropped from 7,344 million metric tons/km in 2014-15 to 4,423 million metric tons/km in 2015-16. Transport of passenger numbers declined from 249 million in 2014-15 to 163 million in 2015-16 (CSO, 2016). A similar trend occurred in air freight transportation. Afghanistan has four international airports and some local airports, three of which have asphalt runways. The total of goods carried by airplanes decreased from 2,176 metric tons in 2014-15 to 1,681 metric tons in 2015-16. On the other hand, the total duration of flights increased from 8,646 hours in 2013-14 to 11,988 hours in 2014-15 and to 12,468 hours in 2015-16. In the same period of time, the total distances flown increased from 13,420 million km in 2013-14 to 14,440 million km in 2014-15 and 14,855 million km in 2015-16 (CSO, 2016). This indicates an expansion of the area covered but, at the same time, a significant drop in numbers of passengers and volume of goods carried by air.

### Employment

Employment in the CIT sector is difficult to assess due to the high prevalence of informal businesses. The Central Statistics Organization (CSO) of the GIROA not only provides data in its annual statistical year-book, but also has conducted two surveys of the non-agricultural economic activities in Afghanistan, which shed light on employment in the CIT business in Afghanistan. The Integrated Business Enterprise

Survey (IBES) was conducted in 2009 with technical and financial support from the Asian Development Bank (ADB), while the Business Establishment Survey (BES) was carried out in 2015 with the support of the World Bank and the Department for International Development (DFID) (CSO, 2016b). The IBES covered non-agricultural economic activities including mining and quarrying, manufacturing, electricity, gas and water supply, construction, trade and repair, transport and storage, accommodation and food service, information and communication, real estate, education, health and social work, and other services. The BES excluded the mining, transportation and small construction establishments, so only covering building firms that employ more than ten people (CSO, 2016b).<sup>16</sup>

According to the IBES survey, an estimated 402,000 establishments were operating across the country, employing nearly 1.2 million people in 2009 (CSO, 2009).<sup>17</sup> There were 5,000 (1.2 per cent of all) establishments operating in the construction sector and 1,200 (0.3 per cent) in the transportation sector.

*Trade and repair was the most dominant activity among the 12 non-agricultural activities categorized, with nearly 117,000 establishments (29%). Others include manufacturing (22%) accommodation and food (10%), and 'other' services (27%) (CSO, 2009, p. 3).*

The 2015 BES depicts a 71 per cent increase in the number of establishments.

*The BES data shows 1.4 million individuals working in 687,000 private sector establishments across Afghanistan. More than half of them (58%) were self-employed in their own business, with another 21 percent consisting of contributing family workers. Thus, of the businesses included in the BES, more than three out of four employees were working in a shop or other business either owned by themselves or by a member of their immediate family" (CSO, 2016b, p. 14).*

Manufacturing was at the top with regard to employment. Out of the 1,179,063 persons employed,

<sup>16</sup> \ The BES took a sample of 7,076 establishments and followed a similar methodology and objectives as the IBES, with a few differences in scope and methodology.

<sup>17</sup> \ Based on a sample of 3,794 company establishments (CSO, 2009).

322,912 employees worked in manufacturing, followed by trade and repair with 238,640 employees, accommodation and food services with 89,046 employees, health and social work with 59,287 employees, and other unspecified services with the high amount of 324,118 employees. There were 52,375 (4.44 per cent) working in the construction sector and 10,758 (0.91 per cent) in the transportation and storage section of the services sector. On average, establishments in the construction sector engaged 10.6 workers, of whom only 8.6 were paid. Establishments in the transport and storage section employed an average of nine workers, of whom only 7.3 were paid. The annual wage per worker was estimated at AFN 36,000 (US \$686) in the construction sector and AFN 189,000 (US \$3,603) in the transportation and storage section. The average annual wage per worker in all sectors was estimated at AFN 51,000 (US \$972) (CSO, 2009). The number of employees grew from 1,179,063 in 2009 to 1,409,241 in 2015, an increase of around 20 per cent. The monthly wages per paid worker increased from AFN 4,284 (US \$82) in 2009 to AFN 8,083 (US \$139). Even though the survey does not cover the entire construction sector, it estimated that 151 large construction companies (employing ten people or more) operated across the country, employing 6,066 (0.4 per cent) workers in total.

The two surveys, with all their weaknesses, somewhat explain the level and structure of business activities in the country, and some of their components shed light on employment in the CIT sector. However, the surveys do not disclose which areas of manufacturing, trade and repair work were related to construction and transport, such as mechanics for the repair of cars, trucks and construction machinery, painters, petrol station staff, casual labour working in loading and unloading or road construction workers. Like any other economic sector, the transport sector also has a large share of its actors engaged in the informal economy, with SMEs sometimes consisting of only one person using unregistered vehicles and conducting small-scale transport services, carrying goods or passengers. As unregistered SMEs, these small transport companies do not pay taxes. Obviously, if they are included, the number of workers and

employees in the CIT sub-sector will be higher than the 5.35 per cent of the total labour force indicated by the IBES. Last but not least, the rise of unemployment and underemployment is not reflected in the above surveys. We have to turn to field research findings to gain some more insights into the causes of the deterioration in Afghanistan's economic performance from the perspective of actors within the CIT sub-sector.

# CIT business practices in the context of FCASs: Findings from field research

Construction and transport companies benefited significantly from high demand by international troops and aid agencies between 2002 and 2012, albeit having to operate continuously in a FCAS. Afghan entrepreneurs seized the market opportunity and founded companies that could thrive on orders from international agencies. With hindsight, we can see that these companies form a particular element within the CIT sub-sector. They are characterized by great dependence on international demand, which made them grow and then shrink or even close down when international demand declined. We shall now consider this type of company, exploring the challenges these firms have faced and analysing the rationale by which they adjust their business practices, first in construction and then in transportation.

## Doing business in an FCAS: Construction companies

In Afghanistan, most construction companies have been founded by two or more partners, frequently engineers, who join together and apply for a business license. The partners are usually family members (brothers, father and sons, etc.), friends or at least acquaintances. Terms and conditions for sharing profits and responsibilities among partners differ from one company to another. In some companies, all partners have an equal share of capital, equal responsibility and an equal share in profit, while in others one partner might have more shares and more responsibility than the others. There are also companies in which the shareholder who manages to acquire a project receives a higher share as a reward. Apart from these small differences, in most companies, ownership and management are not separated. Owners are the managers of the company. Even if separated on paper, the owners rarely delegate authority, even on very small issues, to company employees. Many companies lack a formal hierarchy in which there is a clear division of labour and lines of authority and responsibility. The reason may be a lack of knowledge of professional management practices or a lack of trust in employees. Company owners thus tend to make all decisions by themselves rather than

creating clear paths for delegating authority and responsibility. Moreover, in some cases a company is established not to implement projects but to acquire them in order to sell them on to other companies, i.e. to act as brokers.

Many construction company managers consider corruption as one of the greatest challenges for their business. They have experienced corruption in the bidding process, in government taxation and in customs procedures for imports of machinery and equipment. Corruption in the bidding process can take several forms. Government officials may leak confidential information to a bidder with whom they have relations. This might be information about the price ceiling for a project or the prices offered by other bidders. Some officers give potential tenderers very little time to prepare a proposal and the supporting documents for a very large project in order to put an accomplice at an advantage. As for taxation, company managers claim that corruption is rife in Afghan tax departments.

*The government officials who are assigned to tax departments are really bad people. They take bribes. Although the procedures for paying taxes are very simple, if you don't bribe them, they will create a lot of problems for you (Accountant of a small construction company in Kabul, 2016).*

If the expected bribe is not paid, a corrupt official in a tax office will calculate very high taxes for recalcitrant companies. "The official who comes from the government to calculate our tax usually looks for excuses to put pressure on us by calculating a very high tax. He then asks for a bribe to reduce the tax amount" (shareholder of a big construction company in Kabul, October 2016).

Construction companies usually pay the bribes demanded to avoid larger losses.

The decline in demand from international clients was the second-largest problem for the construction companies interviewed. According to one construction company owner and former chairperson of the Afghan Investment Support Agency in Herat, it forced 80 percent of the local construction companies to close down. In his own company, he had employed 40 staff until 2013. In 2014, when the internationally

funded Provincial Reconstruction Teams (PRT) closed, nine employees were left, and in 2015 only three. He said:

*The PRT provided the largest projects in construction. Their closure has caused major damage to all companies, because they all have invested in machinery for road building. After three or four years, these machines will be rotten (interview, 2015).*

From the perspective of employees, the loss of jobs is central: “As long as we have no projects, our company will not flourish and may employ even fewer workers” (employee of a small construction company, Kabul, 2016).

Most company owners mentioned the economic challenges first and then elaborated on insecurity: “Security is very important for our projects. We have some projects in provinces where security is not good and we are facing a lot of challenges in implementing those projects” (engineer of a small construction company, Kabul, 2016).

Insecurity is not limited to project sites. Company owners do not even feel safe in cities or at home. “There are many security issues. Even some company owners are afraid for their lives. They have been threatened with kidnapping or killed if they did not pay the money” (employee of a small construction company, Kabul, 2016).

An engineer owning a construction company reported a case of kidnapping which had a large impact on the company. The description sheds some light on the perception of insecurity and its effects on a business.

*In 2005, our company had a bridge construction project in Farsi district. It was a project instigated by the International Organization for Migration (IOM) and funded by the Provincial Reconstruction Team (PRT). A commander, who was linked to Ismail Khan [a former ‘warlord’, governor and, in 2005, Minister of Water and Energy in Herat], started—in collaboration with the chief of police of Farsi district—to demand money from the company, US \$200,000, as a condition for gaining permission to carry out the project. I told him that the project was not so big. Then the commander kidnapped me while I was monitoring the construction project. The provincial gov-*

*ernment then had to step in. Family members and the Association of Engineers, the head of the provincial council, the chief of police of Herat and elders from Farsi district all helped. The commander was demanding eight million US dollars, because he thought that this was the value of the project. At that time, they still used satellite phones. My wife played a major role in the negotiations with the kidnapppers. They finally paid US \$20,000 ransom and I was released (construction company owner, Herat, 2015).*

In this example, local powerholders tried to get a share in the assumed lucrative project budget and attempted to enforce their claim through kidnapping and demands for ransom. In local conflict contexts, there is typically a background for such escalations. In this case, the commander used to raise fees from Kuchi nomads, who drove their sheep across wooden bridges built by the commander.

*He used to take money for himself from the nomads for crossing the bridges. Our construction company built the new bridge in summer. The original budget was US \$244,000, but then the project was stopped due to the kidnapping, when about 70 per cent had been completed. The company got only 50 per cent of the payment for the whole construction project from the client (construction company owner in Herat, 2015).*

As a consequence from this experience of kidnapping, which traumatized the engineer, he preferred to carry out construction projects in safe areas. He avoided all orders that could bring the company into insecure areas and only accepted projects within the cities of Kabul, Herat and Kunduz. For security reasons, the owner hesitated to make advance investments as required by big foreign clients. He feared being held liable in the event of destruction of construction machinery or built objects and considered establishing a joint venture with other companies in order to meet client requirements, a strategy already applied elsewhere (interview with a construction company owner in Herat, 2015). Making up-front investments is not only a difficult challenge for many company owners operating in risky areas but also a problem for Afghan construction companies due to limited or no access to credit and the lack of affordable bank loans.

Insecurity also affects the options of Afghan construction companies when it comes to expanding their range of operation. Many company owners are not ready to bid for projects in insecure provinces and districts, especially in locations far from their own regions, where it is difficult for them to establish contacts with local power holders or armed opposition groups such as the Taliban.

*Construction companies have to pay considerable amounts of money while working in Taliban-dominated areas. If the local Taliban are not paid, they burn machinery, attack project personnel and plant mines. They usually have very accurate information about the budget and scope of the project. Taliban may either directly come and request money or first blow up some machinery or attack personnel to show their existence in the area. Deals with Taliban are not uniform; they differ in modes of payments, time of payments, nature of intermediaries and amounts of payment. Their deals sometimes have a special terminology. For instance, the Dari term 'Dah Yaka', which means ten percent, is not unknown to construction companies working in insecure areas; it is the percentage of the project budget that Taliban usually ask for (Shirzad, 2016, p. 28).*

Besides the Taliban, sub-national level government officials, police commanders and local powerholders, but also violent gangs and kidnappers, pose threats to companies in some areas and demand payments. As a consequence, some company owners confine their activities to limited geographic areas because they do not want to become well-known elsewhere and attract the attention of violent actors. Moreover, many businessmen—along with many other citizens—have lost confidence in the state. Several interview partners said that they had believed the government would not survive 2014 and that the Taliban would return to power. The uncertain political situation played a role in company owners' decision to cut back, rather than expand their operations. Only those who have strong backing from politicians and high-ranking government officials can afford to expand their businesses and avoid security threats.

Insecurity is not the only reason preventing construction companies from expanding their operations to the entire country. Many do not have the financial capability to do so. Construction projects need considerable investment in machinery, equipment, construction material, salaries and labour, costs of administration and government guarantees for bid deposits.<sup>18</sup> The return on these investments usually takes a very long time so that companies have to upfront investments and wait until they receive the payment for their services from the clients. A further reason preventing companies from expanding their operations has been the decrease in profits due to the declining demand for infrastructure and construction services. However, some construction companies simply lack the capacity to manage several projects simultaneously and thus do not expand operations.

Whereas many companies in the sample have failed, made losses, or avoided operating in insecure areas, some companies have been able to cope with the difficult environment in the country and implemented projects in risky areas. Their most common security strategies have been paying off Taliban, government officials or other local power holders, recruiting security guards or partnering with influential persons (Shirzad, 2016). Since 2014, companies are required to hire armed guards through the Afghan Public Protection Force (APPF), which is now officially in charge of security throughout Afghanistan.<sup>19</sup> Construction companies can use guards sent by the APPF or introduce guards whom they trust to the APPF, which will then recruit these proposed candidates and train them and deploy them to the construction project. However, for those companies that want to have their own choice of guards and take this path, a long time is needed to complete the procedures,

18 \ The government guarantee is "a specified sum of money, which a bidder is asked to deposit with the procuring entity as a guarantee that the bidder will, if selected, sign the contract as per his bid/ offer. A bidder who fails to sign the contract forfeits the amount of the deposit" (Ministry of Finance, 2011).

19 \ Based on presidential decree 44, the APPF, a state-owned enterprise since 2014, is in charge of supplying security services to companies. Its biggest shareholder is the Ministry of Finance; further shareholders are the Ministry of Interior and the ministries of petroleum, water and power, urban development, public works, and economy. The APPF is funded by the company receiving its security services and pays the wages for all its security guards (interview with APPF head of department).

whereas the APPF guards are immediately available (interview with the head of department of the APPF, Kabul, 2016).

So to sum up, besides the financial challenges arising from shrinking demand, construction companies also face serious challenges in terms of demands for extra payments from power holders ranging from Taliban or commanders of other NSAGs to local political leaders and government officers. If the companies do not pay, they can become victims of violent assaults. The main strategies of companies are avoidance of this type of insecurity or compliance with the various conditions imposed by the powerholders. In the latter case, they become a source of income for a powerholder or corrupt state official and involuntarily have a stabilizing effect on the status quo. If they deploy security guards, these can protect the construction sites as long as local NSAGs do not start seriously attacking them. Having experienced this several times, some companies prefer to hire local inhabitants as security guards even if the procedure takes longer (Shirzad, 2016). However, it is not unusual for a local group to destroy the newly constructed road or building after the company and its guards have left the site, underscoring the need to engage in negotiations with local leaders beforehand.

## Transport companies

The structures of transport companies are similar to those described for construction companies above. Whereas many smaller companies limit operations to Afghanistan, others have branches in Pakistan. As the owner of a large transport company with their main office in Jalalabad city explained:

*The owner of the company is also the director or head of the company. I also have an assistant and four clerks. We have a cleaner, who cooks as well. Our company has many branches both in Afghanistan and Pakistan. We have branches in Kabul, Peshawar, Lahore and Faisal Abad. Each office has a head and two clerks, except in Faisal Abad, where we have only one clerk (interview, Kabul, 2015).*

A few large transport companies have established their own management system with operational

planning and professional staff. The head of the company acts as company president, usually with two vice presidents, and below them is the management running the daily operations. As in construction companies, the transport company leadership often consists of close relatives, such as brothers or cousins, and relatives also hold key positions in site management, assisted by professional staff. Many transport companies of this type ship goods of every kind, depending on demand, but some specialize in carrying particular commodities.

Medium-sized transport companies, consisting of five or fewer persons, are typically organized as follows: "Our company has a boss and two clerks, who are permanent staff. The core structure of our company are these three people and, along with these, we have some 20 workers who load and unload trucks on a per truck wage basis" (interview with the owner of a medium-sized transport company in Kabul, 2015).

*Our company has a very simple structure ... It has a director and two clerks. It doesn't have any more staff, but when we want to load vehicles in order to drive goods to other provinces like Kabul, Herat, Laghman, Mazar-e Sharif and Kunduz we pay workers on the base of a daily wage. ... We export and import goods from Pakistan, secondly we take goods to Nangarhar and other provinces or parts of Afghanistan (interview with a transport company owner in Nangarhar, 2015).*

Very few transport companies in the sample were founded before 2001, and all the large companies had started very small, often with only one vehicle carrying goods for other transport companies. Over the period of high demand (2002-2012), the owners bought more trucks or buses and often had further vehicles on 'stand-by'. When the owners get a contract, they call the drivers of the 'stand-by' vehicles, who will then load and transport the goods on their own account. Prices are set so that the drivers can start work immediately. Their wages are similar to those of the companies' employees (interviews with owners of large transport companies in Kabul and Herat, 2015 and 2016).

Many large Afghan transport companies worked for the ISAF and North Atlantic Treaty Organization

(NATO) forces until 2014. As one owner of such a company explained:

*The reason why transport companies were working for the foreigners was because they were paying a lot of money. My company was transporting fuel for them to various army bases. In our contract with them they were obliged to pay compensation if any of our trucks were damaged by the insurgent groups as part of an insurance package (interview, Kabul, 2015).*

Another company owner described the impact of the withdrawal of foreign troops and agencies:

*We have not seen new people entering the transport sector. The main reason is that previously, there used to be a lot of contracts for the transport sector and people could earn a lot of money, but now it is the other way around and a lot of the people who used to have big transport companies have now closed their companies ... From 2004 to 2010 everyone wanted to invest in transport. During that time a lorry would cost US \$70,000, but now the same lorry will cost US \$40,000. And we must understand that the reduction in the price of a lorry means that there is less work, and less work means less profit. So why would anyone decide to invest in that business? I say the transport sector is in decline (interview, Kabul, 2015).*

A further transport company owner stated:

*I have not seen new people in three years investing in the transport sector. Moreover, their decision not to invest in Afghanistan seems logical to me, because they know that the rate of return in businesses has become critically low here, and now they cannot earn as much money as they used to earn before. More importantly, they know that their money and investment cannot be safe here and they have the fear of losing their money (interview in Kabul, 2015).*

These statements indicate that the combination of fewer contracts, expected low returns on investment and increased uncertainty with regard to economic stability has caused stagnation or decline in the transport sector. There are some exceptions, however, as the statement by a transport company manager in Kabul shows:

*We transport goods to camps and government sites. Some years ago, we had many contracts with NATO, ISAF and the European Union. Our plans for the*

*coming years are to export and import commodities internationally. We will be providing services beyond the borders of Afghanistan. Moreover, we are searching for opportunities outside the country, because these days our business is getting weaker day by day. We need to either expand our business outside Afghanistan or entirely transfer the whole business to Dubai (interview, 2015).*

For companies that have grown into large-scale businesses during the boom period, such options may be viable. For many other companies that were thriving until 2014, they are not. One transport company owner in Herat explained:

*I had a contract with the Americans in Shuridan district. We got US \$1,000 for each truck moving from Herat to Kandahar and US \$4,000 for transporting one vehicle. From Herat to Bagram and Kabul, we were paid US \$10,000. Now this work does not exist anymore. ... Now we are only transporting goods for shopkeepers. We have to heavily overload the trucks, which damages the vehicles. It is difficult to survive (interview, 2015).*

Some transport company owners have tried to sell their vehicles and move into the domestic market with a small fleet of trucks, which they often overload in order to make business more profitable. These profits are short-term, because overloading entails the need for frequent truck maintenance and hence, more costs. This problem is exacerbated by bad road conditions, a matter of much complaint by company owners and drivers. Moreover, as newcomers in the domestic market, these companies face high competition from those who have long been established in this market. A logistics officer of a small transport company in Kabul, which was founded in 2011, explained how the company adjusted to the shrinking demand as follows:

*In its initial years, the company got some very big contracts from foreign forces here in Afghanistan, and you could say that the company was at its peak, but once the foreigners left, the business got kind of stuck. So the owner decided that it was time for a change in company strategy. He purchased two buses and started operating passenger services from Kabul to Kunduz and Kunduz to Kabul, then changed to the*



*route from Kabul to Nangarhar and Torkham and vice versa, providing services to the southern provinces. The company is now providing both human and material transportation services in Kabul and some provinces (interview, 2016).*

So the loss of orders from international forces has forced company owners to find clients in the domestic market and to diversify their services.

The examples show that transport businesses had been attracted by the opportunity for high profits as international demand boomed. Many of them had changed their customer base in favour of the foreign forces, while others were established to serve this high demand. They did not shy away from the risk attached to supplying international forces, which increased as the Taliban retrenched from the mid-2000s. According to the head of the Association for Drivers and Transport Companies and Vehicle Owners in Herat, which had 42 member transport companies, its members lost 687 vehicles from 2013 to 2015 due to attacks on route, and 264 persons working for Herati transport companies were killed, some being targeted by Taliban as they shipped coal for ISAF.

Insecurity was a major reason why some company owners deliberately avoided supplying the international troops and agencies. They did not want to become a target for Taliban. Those companies focused their business on local Afghan customers, despite earning lower profits than those companies supplying international customers, or they moved into cross-border trade, bringing food and household products from Pakistan to Afghanistan. A company owner in Kabul explained,

*Equipment coming from Pakistan into Afghanistan with legal documents is the main commodity we ship to other provinces across Afghanistan. We ship all kinds of equipment to all the provinces of Afghanistan. We mainly work for Afghan businessmen and traders who have purchased goods in other countries and want those goods to be delivered to a specific location (interview, 2015).*

Several transport companies indirectly supplied the internationals, selling goods to other transport companies, which then delivered them to the foreigners. At the time when the orders of the

international customers slumped, those companies that had not been dependent on international demand continued to do profitable business.

Some companies specialize in importing particular goods, such as fuel, oil, petrol, liquid gas, etc., mainly from Turkmenistan or Iran, or commodities from Pakistan. To this end, they have their own large fleet of trucks (ranging between 60 and 400 in the sample). These importers have an important role in the transport sector. They not only ship commodities from neighbouring countries to Afghanistan, but also have storage facilities, tanks and truck parks within the country and invest in these sites. They build feeder roads to access their sites, infrastructure, such as water pipes and electricity, and sometimes even a clinic; they buy trucks and may also run small factories. Such large companies also buy urban land and build houses. Besides transporting goods, they lease trucks to clients or even to drivers who will become owners of these trucks later on. These companies are chiefly wholesalers of products that domestic transport companies then distribute to retailers or, in the case of fuel, directly to petrol stations, other enterprises or households. Challenges facing transport companies with regional business are naturally more related to the conditions in neighbouring countries and at international borders than those facing construction companies or hauliers carrying goods only inside Afghanistan (for details, see Grawert et al., 2017a).

Most of the transport company owners and managers in the sample agreed that the main problem in transport was corruption. Bribes and other payments are required at numerous check points where the companies have to deal with various corrupt government entities, especially police officers, customs duty officers and officials from the tax department of the Ministry of Finance. Referring to corruption at the tax department, one company owner explained the problem in detail. He said that the income calculation for a company is supposed to be based on the real margin of AFN 25 for an imported unit of 1 kilogramme of gas that is sold for AFN 30 to wholesalers. However, the tax department will calculate the final sale price of AFN 48 raised by local distributors per kilogramme, and demand tax payment for the

difference of AFN 23. The tax officer will just ignore the fact that the gas was sold by the company at the wholesale and not the retail price. But once the officer has received a bribe, he will calculate the tax realistically. Moreover, if the company does not pay a bribe, the officer will delay the process. This causes problems for the company, because it needs the annual extension of the business license, which will only be done after taxes have been paid. Delays in the taxation bureaucracy lead to the expiry of the license, with the result that trucks will be held back at the customs. So company managers have to calculate 5 to 10 per cent of the final price of cargo for the monthly bribe demanded by the tax officers. The manager explained that this bribe is not demanded secretly and paid 'under the table'. Rather, the officers voice their demands in public, shouting in a company office when it is full of customers, 'You have to give me the money for my expenses!' As soon as the officer has received the bribe, he will prepare a proper document without delay. The manager added: "During the rule of Karzai, tax collectors were still ashamed, but now they are not. The officer will say, 'If you don't like it, go and complain!', but companies will not get any support from the government to protect them" (interview with a transport company manager in Herat, 2015).

Another challenge for transport companies comes from the irregular demands by police officers, as illustrated by the experience of a company owner in Kabul:

*We are facing a lot of traffic problems. The traffic police illegally take money from lorry drivers on the roads, and when our drivers need permission to enter the city, the police again make a heavy charge on our drivers. In Kabul, especially in Pul Charkhi, the traffic police and the Afghan National Police (ANP) force us to wait for a long time, but once you've paid them the money, they don't let you get delayed for even a second (interview, 2015).*

Transport company owners considered corrupt government authorities as the main uncertainty they had to face because the payments and their frequency were unpredictable and made transport services very costly. A transport company owner in Kabul

summarized: "The government should finish corruption, traffic problems, road problems, police problems, and then the transport sector will be good for investment," and added, "the government should ban those transport companies which don't pay tax or don't have permission from the ministry of transport" (interview, 2015).

In fact, the Ministry of Transport and Civil Aviation (MoTCA) does regulate the private transport sector, collecting fees from trucks and buses at national and provincial borders and on the outskirts of major cities. The above statement alludes not only to the large number of unregistered SMEs that are also part of the transport sector but do not pay taxes, but also to registered companies that get away without or with less payment. Company owners labelled these 'mafia companies', because they thrive on their special relationships with the government. They enjoy customs exemptions or reductions, thus distorting competition with other private transport companies in the sector. The 'mafia companies' demand a lower price for their products and still make more profit. A company owner gave the example of a 'mafia company' that had saved about US \$33,300 in custom-free trade permission due to its particular relationships with foreign governments. As military equipment and aid donations are exempted from taxation, some companies can make use of this framework to ship gas and other commodities across the border, pretending that they are military supplies or donations. This is a major challenge for large companies involved in cross-border trade, because it distorts prices. For company owners, it is difficult to identify those hauliers, who often are individuals, not companies. Their prices are lower, and this seriously affects the profit margin for 'honest' companies (interviews with large transport companies conducting cross-border trade, Herat, 2016).

Like construction companies, large transport companies have sites for their trucks and offices at the margins of towns in several parts of Afghanistan. Especially in Kabul, the companies are facing the problem of land grabbing by influential individuals and, in particular, Members of Parliament. In fact it is a problem that affects many citizens (Mielke &

Grawert, 2016). Companies are affected differently from ordinary households, because the conflict dynamics related to land seizure have an impact on their business. The manager of a transport company site in Kabul explained that the Ministry of Commerce and Industries had allocated land to companies in an industrial area of Kabul, and that the land transaction had been approved by the government. The companies had built the feeder roads either themselves or by paying contractors. When this work had been completed, the justice section of the Ministry of Commerce and Industries claimed that the property document was not properly done. The company then sued the Ministry and got the land back legally - however, about one and a half years later. The company's business was delayed by this period. The manager summarized the situation, saying, "If Afghan businessmen have land, the government will put up legal hurdles" (interview, 2016).

Large companies operating all over the country have to face violence and take precautions. Most of them protect their sites, vehicles and staff through security guards and mobile security teams. If they get a contract to operate and transport goods to an insecure area, they usually hire a person originating from that area to accompany the tour. Landmines are one of the security threats, alongside ambushes, that face trucks moving through areas and roads under control of the Taliban. A company owner stated: "War business keeps the war going. People are paid US \$1,000 to place a mine on a road" (interview with large transport company owner in Herat, 2016).

In western Afghanistan, there are some highly insecure routes: about 45 km on the road between the Turkmenistan-Afghan border and Herat, starting 15 km from the border in Herat province; the Farah road about 150 km south-south-east of Herat; Ghorian district crossing at the Iranian border; and many sections of the Kabul-Kandahar road. Areas where the ISAF coalition forces were located also caused insecurity for transport companies, because their presence and visible Afghan suppliers could provoke Taliban attacks. Several company owners reported that the kidnapping of Afghan businessmen and drivers by

Taliban or local people, sometimes dressed in police uniforms, was a problem that had occurred to themselves or their acquaintances. Due to the abuse of uniforms by criminals, drivers cannot trust the police, as men in police uniforms may be Taliban or local criminals. They tend to trust the army more. A ransom payment to kidnappers could amount to US \$100,000. In some cases, Taliban would call the company owner and demand a 'tax' payment (interviews with owners of transport companies in Herat in 2015 and 2016).

On the road between Mazar-e Sharif and Hairatan at the border between Afghanistan and Uzbekistan, Taliban usually stop truck drivers on the highway and inquire about the freight and client. A truck driver reported:

*We said that this vehicle is from a private company. If they find out that the tanker is delivering government oil or ISAF oil, they won't let us live for a second. ... I always try to keep my distance from the national army vehicles and police cars, and sometimes when I see the international security forces I try my best to go a different way, or to go a bit later (interview, Mazar-e Sharif, 2017).*

This statement points to the risk transport companies face if they have clients from the international troops or the Afghan government who want to have commodities shipped through Taliban areas. The trucks of hauliers working for these clients, as well as private companies operating on their behalf, are targets for direct armed attacks. Many companies therefore decline assignments for the government or foreign clients. The insecurity caused by armed conflict in Afghanistan has serious impacts on transport companies: drivers injured and sometimes killed and vehicles damaged or destroyed. As a consequence, company managers report that they have cancelled plans to expand and open more sites, while some even consider moving some of their offices and sites abroad to Dubai or Iran (interviews with owner of large transport company in Herat, 2015).

In response to these types of security risks, company managers have developed a range of risk mitigation strategies. Through the most insecure areas, trucks move in convoys, accompanied by military

escorts (army protection is free). The drivers are instructed to keep driving during daylight and avoid dangerous routes. Companies said they would not make any contracts directly with the coalition forces, international donors, agencies, or NGOs, but operate through sub-contractors. Moreover, those who regularly use the same routes make sure that they are well-known in the communities and put efforts into building and maintaining an image of being far removed from any connections with non-state armed groups. In the event of kidnappings, company owners consider it least risky to stay connected with the kidnapers and fulfil their demands. If Taliban or others demand 'tax' payments through phone calls, company owners said they would first try not to respond. If nothing happens, the company managers will know that the Taliban are not fully in control of the road. If the calls continue and are accompanied by threats, the owners will occasionally pay. Moreover, the owners of most large companies employ personal security guards to protect themselves and their family members. A further risk mitigation strategy has been to hire unskilled daily labourers from local communities for loading and as security guards whenever possible (interviews with transport company owners and managers in Kabul and Herat, 2016).

As an indirect strategy of risk mitigation, some company owners invest in measures that will benefit the local communities. They provide their workers with extra food and security guards with TV and household utensils to keep them loyal. Further trust-building measures to protect the company include donations to charities or directly to the local community or funding the building of schools, public facilities and mosques (interview with the manager of a transport company in Kabul, 2016).

As representatives of the interests of transport companies, owners have formed transport industry associations across Afghanistan. However, the research findings indicate that these associations, or 'unions', do not voice the main interests of the companies to the government and are obviously not powerful enough to curb corruption. As one transport company owner put it: "We have a union and its head ...

resolves our internal problems, and we resolve problems with the government by ourselves. We know that without paying off government officials the problems are not going to be resolved" (interview in Jalalabad, 2015).

Another company owner explained how companies overcome the shortcomings of the union in practice, saying:

*It is only a union by name, since we have not seen any activity from it. When we face a problem, we prefer to resolve it through our own connections or with money. When we are faced with a robbery or any other such problems, then we will call some transporters and form a Jirga (council-like meeting) to resolve our problem (interview, Kabul, 2015).*

The survey indicates that company owners hardly see a solution to their common problems coming through formal organizations. Rather, they either stick to long-established methods of locally organized conflict resolution, solving the problem by using networks headed by influential personalities, or just pay..

## Employment in the context of FCAs: Findings from field research

Field research findings suggest that employment differs between urban and rural areas. Relationships, money and connections are crucial to getting work with construction and transport companies that have projects in urban areas. Usually company owners or managers will call friends and family members to find, from these circles, the right persons to join the company. There is no standard procedure for hiring and employing people. As the owner of a medium-sized construction company said: “Our company is not a big company and we don’t need to announce vacancies in the media, so we try to hire our friends and relatives. We know them and they know us, and it makes our job easier” (interview in Kabul, 2015). In rural areas, employment is mostly geared to the requirement of a specific project and arrangements made on a short-term basis. An employer of a construction company explained:

*Whenever we need to implement a project in a rural area, we hire all the labourers and workers from that specific area because it costs us less money. At the same time, we would send in our technical team from the center because it is very difficult to find technical experts in the rural areas of Afghanistan” (interview with the owner of a construction company in Kabul, 2015).*

There are further differences in employment practice between construction and transport companies, which will be discussed separately below.

### Employment strategies of construction companies

A typical registered construction company in Afghanistan employs at least one engineer, some skilled foremen, assistant engineers, skilled labourers, administrative and finance officers, a guard, a cleaner, and a cook. These employees constitute the core staff of the companies. The company managers usually try their best to retain the core employees for as long as possible and provide them with a permanent status. When companies get a contract for a construction or infrastructure project, they will add workers to the core staff according to the project budget. Hence, employment in construction companies is volatile.

Number and type of employees depend on the number and type of projects the company has secured. There are, however, also some large, professionally structured companies that have stable orders for construction or infrastructure work and are therefore in a position to conclude long-term formal contracts with employees, who are organized in departments and units.

The bulk of employees in Afghan construction companies are young (15-35 years old). However, private construction companies do not tend to be the first choice of qualified job-seeking youth, as many young people do not see a future for themselves in the local companies. They can be fired any time when the company does not have orders for work. The relatively low salaries and poor benefits and the lack of job security in Afghan construction companies make working for the government, NGOs and UN organizations more attractive.

### Recruitment

Recruitment of employees and workers in the construction sub-sector rarely follows formal procedures. Announcement of vacancies is not a common practice: “If we needed to announce, we would definitely do so. But we have not announced any vacancies yet because we haven’t really felt a need for it” (owner of a medium-sized construction company in Kabul, 2016).

An officer of another construction company in Kabul said: “Whenever we have a vacancy and need to hire someone, we invite our relatives and people we know for an interview. The head of the company then does the interviews and selects one of them for the position” (interview in Kabul, 2016).

Apart from the very few big and professionally structured companies where hiring goes through a formal process, in most companies it is the owner or major shareholder of the company who decides which person is to be hired and which one not: “In our company, it is the managing director who has the authority to hire and fire people; other staff do not really have anything to do with this” (interview with an employee of a medium-sized construction company in Kabul, 2016).

Some owners or company directors do delegate this staff recruitment role to the manager of the department to which the employee is being recruited or to the administration or human resource department. In the end, however, the responsible officers will have to attain the consent for the selection of employees from the owner or director.

Nepotism—the recruitment of relatives and acquaintances—is very common throughout the construction industry. In interviews, the company owners openly communicate this practice: “If I tell you the truth, most of our employees are my relatives, except in the engineering department” (interview with a construction company manager in Kabul, 2016).

These practices hold for recruitment of white collar staff, whereas unskilled labourers are mostly hired at the project location and from nearby districts and provinces. This is particularly common among companies that implement projects in conflict-affected and remote areas of Afghanistan, as the following example shows in some detail. The engineer of a construction company and his team visited a site in the Set-e Kandow area of Paktia Province, where a road was to be built. The company started working the very next day. They brought in their machinery, which was very expensive and had been imported from abroad by the company owners. The engineer explained what happened next:

*During the first day of the work, the field supervisor got a warning letter from an unknown source telling the company to hire the local people of the village or leave the area. The supervisor informed the higher authorities of the company, who treated the matter very lightly. On the following day the tribal elders of that community came to the area and talked with the field supervisor about the same issue, and again nothing happened from the company side. Finally the local people of the area attacked the company's workers and machinery, resulting in the killing of two company security guards and the burning of almost all the machinery that could be found on the site on that particular day (interview with a construction company owner, Kabul, 2015).*

In response, the company owner first planned to hire a higher number of security guards and to

implement the project under tighter protection. As this would have been very expensive, the company owner re-started the project with a new strategy. The company sent a delegation, which consisted of the vice president and the company field supervisor, to discuss the issue with the local tribal elders. He reported:

*One of the local tribal elders said that they were all poor people and the government was doing nothing for them. Other elders added that during the last 14 years, the government had only built one school and a few culverts for them. Moreover, it had asphalted only one road. The elders told our company delegation that from their perspective, the company and the government were the same. They would threaten our company in the same way they were threatening the government, because our company was working for the government. Then the local tribal elders proposed two options to the delegation: First, if our company was to asphalt the road that ran through their village, it should hire all the workers needed from the village. Young people there were available and jobless. The elders claimed that the government was doing nothing for their youth or any other villagers. They were not providing them with jobs. They said that the only way to let us work in this area was to hire local youth for implementation of the works. The second option they offered the company delegation was to give the local elders a cash payment. They said they would take the money and distribute it, in front of the delegation, to all the households in their area. The tribal elders promised the company delegates that if they accepted any of these options, they would ensure full security for the construction team during road building. They also promised that insurgent groups would not disturb the team while working in that area. The company delegation came back to Kabul, and after several meetings, we decided to hire the workers from that area to implement the project, because that was the safer and cheaper option. Once we had hired the local youth, the project progressed very smoothly and nothing happened until its completion (interview with construction company owner, Kabul, 2015).*

This example is typical for many rural areas in Afghanistan, although local features may vary, depending on the power relations prevailing. It shows how urgently young people need employment, so that the elders—in cooperation with the District Development Assembly<sup>20</sup>—will not hesitate to mobilize their community to fight for this aim and to commit acts of sabotage if a company does not respond adequately.

Companies report that, in relatively less insecure urban areas, blue collar workers with some acquired skills are available. This pertains especially to the eastern provinces, where there are many returnees from Pakistan who have gained useful skills from working there. “Some companies even mention in their tender that masons should come from Nuristan Province or from Pakistan, because they know that these people offer quality services” (interview with an employee of a medium-size construction company in Kabul, 2016).

Jobs also used to go to skilled labourers and professionals originating from neighbouring countries, especially Pakistan, because these people were regarded as providing better service and demanding less remuneration than their Afghan counterparts. However, since 2014, recruitment of Pakistanis has declined in response to new government policies favouring Afghans, diplomatic tensions and border closures between Afghanistan and Pakistan (see also Grawert et al., 2017a). A considerable number of labourers are Pashtuns who come from the Federally Administered Tribal Areas of Pakistan yet mostly identify themselves as Afghans. Besides Pakistanis, a number of engineers and technical personnel from India, Nepal, the Philippines and Europe also work in construction companies.

Many company owners do not, however, give much consideration to the qualification and educational background of job applicants. They rather focus on finding smart people who can get the work done for them with ease, as the following statement by an employee of a construction company illustrates.

*They prefer to hire smart people irrespective of their education, because these people do not demand high remuneration from the company, yet do an almost similar job [as higher paid qualified staff] ... for example, in our company, we have an employee named Abdul Shokor. He is only a 12th grade school leaver but a very smart person. He is responsible for government-related issues. He is very good at acquiring project money from the government. If a person isn't smart enough, he won't be able to acquire the money in months. Abdul has established really good connections at the Ministry of Finance which help him get his job done very easily (interview in Kabul, 2016).*

The main reason for employing semi-qualified staff is that highly educated employees will demand higher salaries. Moreover, company owners do not generally have any confidence in the quality of education offered at private universities. What employers may find more important than formal qualifications is the social skill needed to create and use relationships with influential persons, as the example reveals.

### Working time

Labourers in construction usually have to work for very long hours and very often without being paid for the overtime. The labour law of the Islamic Republic of Afghanistan prohibits over 40 hours of work per week on average, but in practice companies rarely observe the law, as the following example shows:

*I used to work for nine hours a day for my previous employer. Even though our working hours are set from 7:00 in the morning till 5:00 in the evening here, now I often work for longer hours without receiving any payment for the overtime. However, we are sometimes paid a little more than our agreed salaries at the end of the month (interview with a skilled labourer of a construction company in Kabul, 2016).*

Moreover, very few labourers make use of the right to holidays given to them under the law. Many companies only give them Friday off as their weekend.

*“I don't have any formal holidays in this company. However, I secretly leave for home for a night once every 15 to 20 days and come back in the morning. I*

<sup>20</sup> District Development Assemblies were introduced as a local structure under the Ministry of Rural Rehabilitation and Development as part of the National Solidarity Programme in 2006. Most of the members are elected by community development councils, some are appointed by officials (Anwarzay, 2011).

*have made a rota for the people under my command so that each of them can leave for their home every 15 days (interview with the security commander of a large construction company in Kabul, 2016).*

In spite of the poor labour conditions, most workers said they felt privileged by at least having a job and did not, therefore, take steps to change their job or ask for better conditions. “A lot of my friends are jobless. They really look hard for a job and are in real need of one but they just can’t find any work. That is the reason why employers can make their employees work for longer hours even if they aren’t happy with it” (interview with a skilled labourer of a medium-sized construction company in Kabul, 2016).

### **Payment and skills upgrading**

Most of the labourers interviewed complain that their wages do not suffice for their family expenses, as the following example illustrates: “This salary is not enough for my home expenses but I am coping” (interview with a skilled labourer of a medium-sized construction company in Kabul, 2016).

The situation has deteriorated in the past few years. Many labourers described the trend in the following terms:

*I used to do the same work five or six years ago and they used to pay me around AFN 30,000 per month. Currently, I am paid just AFN 15,000 per month for the same job. When we ask the company for a higher salary, they promise to increase it when they have more projects (interview with a skilled labourer of a medium-sized construction company in Kabul, 2016).*

Methods of payment vary. Whereas some labourers are paid on a monthly or daily basis, others are paid a piece rate, i.e. according to the quantity of work completed. In other cases, some parts of a construction assignment are outsourced to a third party. In this case, the company will not interfere in how the sub-contractor pays its labourers.

*“Some of them are paid by the company on monthly basis and others are paid by the owners of the machinery, such as caterpillars and others, who work for the company. We have given the contract of asphalt levelling to a subcontractor and we don’t get involved*

*in the payment issues of them. They deal with it themselves. We don’t ask about their working hours, the quality of their work or the size of salary they get, we only deal with the person to whom we have given that particular contract” (interview with the manager of a medium-sized construction company in Kabul, 2016).*

Sometimes companies fail to pay salaries and wages to their employees on time because of delays in payments by the government or the international donor organization that contracted them.

There is no systematic approach to training or HR development. Some companies conduct trainings for their managerial or administrative staff but not for the skilled or unskilled labourers. In some situations, especially when working at army bases, embassies and other security or diplomatic premises, companies are required by clients, in their role as a donor or investor, to follow certain rules.

*When we bring in construction materials, they first test the quality and then we get the permission to use it. Or some embassies, for example, have a strict policy on working hours that we have to follow; everyone has to be inside the premise by 8:00 a.m. and out of it by 4:00 p.m. exactly. And there are various other rules that we have to follow (interview with an employee of a medium-sized construction company in Kabul, 2016).*

The companies under contract are required to train their employees to obey these rules and regulations. “Once, we had a project inside an ISAF camp where we needed to follow certain rules. We had to train our project staff to ensure they complied” (interview with a medium-sized construction company owner in Kabul, 2016).

Most of the company owners reason that their employees are sufficiently well-qualified and do not need any kind of training: “We haven’t provided any trainings yet. So far the workers have done the job correctly and we really haven’t felt any need for training” (interview with a medium-sized construction company owner in Kabul, 2016).

A few companies do provide trainings to their employees, whether for administrative staff or labourers.



“We do train our staff. We train labourers, we train procurement department staff; in fact, we train almost all our employees” (interview with an administrative officer of a large construction company in Kabul, 2016).

And an officer from a medium-sized construction company said, “We sometimes train our staff because it makes our own job easier” (interview in Kabul, 2016).

As labourers tend to work for a company only for a short time and then leave, companies do not benefit from training them and therefore do not do it. Some companies train only the supervisors to ensure they will strictly supervise how labourers do their work and provide instructions accordingly.

### Working in FCASs

Insecurity is a concern not only for employees but also for their families. People are worried about their physical security not only on the construction site but also at the office or while commuting to work. When I leave home for the office, my entire family is concerned about me. They advise me to come straight home after leaving the office” (interview with an administration officer of a construction company in Kabul, 2016).

In some circumstances, employees will accept the risk of working in insecure areas only if they are paid higher than normal. “I will go to the site if the salary is high enough. Otherwise, I will not go” (interview with an administrative officer of a construction company in Kabul, 2016).

Some companies have security divisions responsible for protecting employees and the company’s machinery.

*This company has its own separate security department; Commander Delawar is the head of the department. They have their own security guards and they take care of security-related issues. ... most of the time, we make contacts with Taliban through local residents and we give them a specific amount of money so that we can work there. Otherwise we wouldn't be able to work there for a single day (interview with an employee of a large construction company in Kabul, 2016).*

A few employees said they did feel safe working for construction companies despite of the security threats. They believe that it is less risky to work for construction companies than for the government. They believe that construction companies are less prone to attacks from NSAGs compared to the government. One of those stated: “My work experience helps me a lot, so I’m very comfortable on the job” (interview with a skilled labourer of a construction company in Kabul, 2016).

Some labourers think that companies are less concerned about their safety than about looking after their plant and equipment, and others believe that companies are not able to protect the staff, as in the following case: “I don’t think the company can do anything for our own safety; it is all the responsibility of the government to maintain the security of people and the private sector” (interview with an employee of a large construction company in Kabul, 2016).

Others blame the government for not being able to provide security and protection for employees.

The field research findings indicate that the employment conditions in construction companies are far below the most basic ILO requirements for decent work such as security in the workplace, social protection for families, and prospects for personal development (ILO, 2016). Recruitment of labour favours family and kinship members, which can be explained by the necessity for trust-based relationships after the experience of decades of armed conflict, but also by the prevalence of patronage systems in Afghan society. The companies have adjusted to the declining profitability of construction business by reducing wages and making redundancies. In order to cope with the context of violence, some firms hire their security guards and unskilled building labourers locally from the communities in order to gain protection. This means that construction projects are, to some extent, integrated into local communities and local labour markets.

## Employment strategies of transport companies

Most employees in transport companies do not have permanent contracts. The size of a company is the key factor determining whether they employ managers, administrative staff, site supervisors, logistics and marketing officers, drivers and assistant drivers, or even run their own mechanics section. The bulk of transport companies, however, are informal SMEs. Often they are just a one-man business with the truck or bus owner offering his services as a driver and carrier to individual clients or they may be companies owning several trucks and employing drivers or leasing out trucks to one-man hauliers who will then carry commodities for the company. Unskilled labour, which is mainly used for loading and unloading trucks, is hired by transport company owners on the spot or through sub-contractors.

Truck drivers need some mechanical knowledge and skills and have contacts with workshops on their routes in order to handle incidences requiring on-the-road repairs. Drivers also need to know which documents are required for smooth shipment. If a transport company has its own mechanics section, the drivers will stay in close contact with the head of the section, who regularly receives details of any maintenance problems from the drivers. The trucks are passed on to mechanics with the list of work to be done. Finally the repaired trucks are tested according to the check list. The head of the mechanics section also monitors the driving habits of the company's drivers in order to avoid accidents. Moreover, the company's own mechanics section maintains close connections with certain repair shops along the routes.

The example of a large transport company with head office in Herat clarifies the employment structures and the range of employees required for operations that extend all over the country. In this company, the manager of the mechanics section is in charge of the trucks and drivers. He is responsible for buying trucks, checking their condition, finding and employing drivers, settling the wages for drivers, and supervising the transportation of trucks from the country

of origin to the company depot. The manager determines the number of trucks needed for an order and the route to be taken, solves problems related to documents for drivers and trucks, and always has to keep track of where the company's trucks are travelling and what goods and volumes are loaded. He also has to find solutions for all kinds of incidences on the way. Thirty skilled mechanics do the truck maintenance, managed by a workshop supervisor (interview with head of mechanics section of a large transport company, Herat, 2016). The company has several depots and employs an overseer for each. The latter manages or commissions any building work required for a compound, liaises with contractors, monitors the construction work, and supervises all workers employed on the site, including drivers, guards, labourers, cooks, and daily labourers. Moreover, the company employs labourers for facility maintenance, technicians for machine maintenance, and workers for filling tanks, loading and unloading. As far as possible, the company hires daily labourers from the local communities according to the skills available and for unskilled work (interviews with a site manager and a compound supervisor of a large transport company, Herat and Kabul, April 2016). Armed security guards are hired to protect the sites and bodyguards take care of the company owners and managers, especially when they move between sites or outside Herat (observation in Herat, 2016).

In small companies, the professional roles are often very varied and are much less specified. The following interview comprehensively illustrates the labour conditions in an SME.

*I work as the marketing officer for this company and have a very wide range of responsibilities in the company. I am in charge of selling and also in charge of financial matters. Sometimes I even have to keep contact with the drivers and supervise them, so I really don't know my real position in this company. Though initially I was hired as finance officer, later I realized that I have to do anything that they want ... I am not really happy about my job for the reasons I just told you. But I'm married and have three children, so I have to take care of their financial needs and that is why I never say anything to my boss. I work*

*from 6:00 in the morning to 7:00 or 8:00 in the evening; I have to come early in the morning and sell the tickets, and then I have to do my calculations in the office and, after that, submit a daily report to the owner. And then in the afternoons, the vehicles return and I have to go with them to put fuel in the vehicles and pay the drivers. I also compile charts and other things related to the salaries of the company's employees. These are the financial tasks that I do but, besides this work, there's a lot more I do. Sometimes I even go to the workshop to repair the vehicles and stay there for the whole day, although initially my employer told me that I would never travel in this job. However, later I realized that I do have to travel sometimes, I have accompanied the vehicles to eastern and southern provinces, I mean in Afghanistan. You have to do manual work, if you are educated or not. That doesn't matter; what matters is to work and work and work (interview with an employee in a small transport company in Kabul, 2016).*

Whereas large companies invest in the company's organization and have a clear division of responsibilities with specialists deployed on certain task, the SMEs do not generally specify job descriptions, as their employees have to take on numerous responsibilities and handle situations as they occur.

### **Recruitment**

Recruitment mainly takes place through family references. If an employee is needed for tasks for which there are no immediate contacts with the right skills, recruitment will be primarily based on recommendations of relatives or friends. In large companies, however, there may be a kind of headhunting procedure to recruit skilled mechanics, with good working conditions and payment being offered to those with good reputation in order to attract them away from their current employers. With regard to drivers, there is a preference for recruiting young persons because they tend to show more commitment and readiness to learn. Moreover, they usually work harder, often willing to go out and come back within one day in situations where older drivers would refuse to do so. Inquiries are commonly made to previous employers about a drivers' record (interview with

head of mechanics section of a large transport company, Herat, 2016).

In small transport companies, having the right relationships is even more important. As a logistics officer employed to supply workplace meals in Kabul explained:

*The employment situation used to be very good but now it is so challenging to find a job. It's been three years that I have been looking for a good job, inside an office, not out in the field, but I haven't been able to find one. In current times, if you want to find work somewhere, you will only be able to get it if you already know someone at the work place (interview, 2016).*

It was indeed through acquaintances that the man finally found his job. The statement also indicates the desire for an office job, which is commonly valued higher than manual jobs.

### **Payment, working time and skills upgrading**

For employees in company offices, sites, and mechanics, the salary usually consists of a package that includes monthly payment, transport from home to work and back, and lunch. Companies in the sample did not insure their employees, nor did employees have any own insurance. The overseer of the mechanics section, for example, earned US \$1,000 per month in 2016. He had a company car and his telephone expenses were covered by the company. Employees in less responsible positions were paid in AFN. A compound overseer who worked for ten hours per day received on average AFN 15,000 (about US \$220) per month in 2016; before the crisis, the going rate used to be AFN 20,000 (about US \$365) per month. Mechanics received a low regular monthly salary but had an incentive payment for each repair, ranging from AFN 40–50,000 (US \$580–730) up to US \$2,000. These benefits are an incentive to work overtime, which many staff members regularly do. Assistant mechanics earned at least AFN 3,000 (about US \$44) per month. Truck drivers earned AFN 12,000 (US \$175) per month; sometimes they worked very long hours, going out and coming back within one day (interviews with employees of large transport company in Herat, 2016).

Working time exceeding ten hours per day is common in Afghanistan. A logistics officer reported that he started work every morning at 6:00 and left at 7:00 in the evening. However, he said he was content to be able to return home every evening from work on his motorbike and he did receive a little extra money per day for petrol and food (interview in Kabul, October 2016). Some drivers never get a day off and even have to work during public holidays. They consider taking a leave as ‘escaping’, because they do not ask for permission to briefly visit home (interview in Kabul, 2016). Like many other workers at transport and construction companies with small or medium staffing levels, these men were not able to fully care for their families’ needs, but they still were glad to be earning at least some income.

It is common for company owners to discuss complaints personally with their employees and explain the reasons for their decisions. In 2015 and 2016, such explanations were often required as companies began reducing salaries and wages in response to the economic crisis. In order to maintain those staff company managers rely on, they may consider the needs of an employee. For example, they may plan route deployment in a way that allows drivers with families to not be absent for a long time, while getting unmarried drivers to take over the longer tours. Nevertheless, in order to cope with the economic crisis, larger companies laid off many employees in order to be able to retain those drivers who had already worked for the company for a longer period. The company reduced their payment but kept the core staff even through times when there was no work. In 2014 and 2015, salaries and wages were reduced by 25 per cent on average, while the number of trucks on the road was cut by up to 70 per cent (focus group discussion with owners of transport companies in Herat, 2015). Employees prefer to meet their superiors or the company owners in person when they have complaints. Many interview partners reported to have complained about the reduction of salaries and wages and informed the head of the company openly about their needs. They also discussed their career expectations, for example, being promoted from compound overseer to technical manager. In the face of the economic problems, some

employees offered to take over a position at a higher level for the same salary, hoping to be eligible for a higher salary later when they had proved their abilities. Some employees in leading positions improved their skills by studying alongside their job (interviews with employees in large transport company, Herat, 2015 and 2016).

The responses reveal that employees are strongly attached to ‘their’ company. Reasons are mixed, ranging from the risk of becoming unemployed under the harsh economic conditions through to commitment and interest in the work and voluntary skills upgrading. An employee in a transport company in Kabul summarized his predicament: “If you don’t have links, money and relatives, then it will be very certain that you will remain jobless in Afghanistan” (interview, 2015).

Training on-the-job is the main way of upgrading skills, not only in SMEs but even in large transport companies. For example, a driver is usually accompanied by an assistant driver, who can be considered as an informal apprentice and will gradually take over parts of the tours after acquiring a driving license, until he can get a job as a driver. Most interview partners confirmed that no formal training was supplied by companies; however, skilled employees often train younger persons and technical staff under their supervision. The lack of appropriate vocational training systems in Afghanistan was mentioned as one of the reasons for this practice.

A large transport company in Herat has introduced a strategy of skills upgrading by getting every new employee to start as an assistant driver in order to gain practical experience in the haulage business and some basic mechanical skills. For the company owners, this is a kind of ‘probation’ during which they have the opportunity to get to know their new people. Some of the staff went on to build careers in various sectors of the company, whereas others continued to work as truck drivers. This approach means that everyone in the company has practical and hands-on experience of transportation. The explanation given for this practice is quite clear: “Without a good education system in place, businessmen have developed their own ways.”

To meet the new technological challenges of truck repair and maintenance, the company management sent one mechanic for training in mechatronics to Iran. The employee was then able to take over special repair tasks and, as far as possible, trained others on the job (interview with head of mechanics section of a large transport company, Herat, 2016). Company owners, too, expressed some harsh criticism of the government's failure to improve the quality of the labour force. They complained about the lack of a good education system that could produce the necessary skills and supply the technicians needed in the transport sector. One company owner said: "Improvement for employees will only come from a healthy government and a healthy people. When I see the people, I want to cry" (interview in Herat, 2015).

It seems that a narrow labour market and the tight family networks are forcing employees and workers to accept poor working conditions in order to avoid unemployment.

### Working in FCASs

Employment-related company strategies in the context of FCASs involve close cooperation between the heads of departments and the staff. Running its own mechanics section is part of a company strategy to avoid sub-contractors. This has economic reasons, such as saving costs, but is also explained by the advantages of having direct control over the staff and building trust. An example reveals the potential magnitude of the losses company owners try to avoid by employing trusted people:

*We mostly hire our relatives and people whom we know. The reason is that we have invested a lot of money in this business, and we cannot trust outsiders in our business. We can only trust our near and dear ones. Some years ago, we had hired a driver to drive one of our trucks, he worked for a month or two in our company and then we sent him to transport goods to Kunar province. On the way we lost contact with him, and after a while we found out that he had sold the vehicle at a very cheap price and run away to Pakistan. We lost a lot of money in that incident, so that shows why we need to be cautious when hiring*

*our truck drivers or people in sensitive positions (interview with a transport company owner in Kabul, 2016).*

In some cases, the drivers will make deals for repairs on the way in return for cheap goods supplied by the company (head of mechanics section in large transport company, Herat, 2016). This is a trust-building measure towards the communities along the company's transport route. Further security measures involve driving times and the choice of routes, as in the following case:

*Every day, between five and sixty company trucks are on the routes. We do not have a particular security strategy, except to request the drivers to drive during daylight and avoid dangerous routes. The Farah road 150 km south-south-east of Herat is most dangerous" (interview, Herat, 2016).*

The owner of a small transport company in Kabul stated:

*We don't have a specific strategy, but we know some Arbakees [voluntary community police] and whenever our truck or bus is on the move, we ask them to protect, as far as possible, our vehicles (interview, 2016).*

Company owners, managers and department heads do, therefore, apply certain precautions to cope with insecurity along transport routes, the core of which is building relationships with people along the road who can help to protect the trucks.

Hiring unskilled day labourers from local communities for simple work, such as constructing walls around compounds or as security guards, is another community-oriented security strategy pursued by companies. If local inhabitants are employed, company equipment and vehicles will not be damaged and staff members will face less risk of being attacked (owners and managers of three transport companies in Kabul and Herat, 2015 and 2016).

For transport companies, the conditions in FCASs are insecure not only in terms of the risk of armed attacks on the road but also in terms of unexpected payments of bribes and protection money as well as the more systematic corruption. Several drivers reported that problems occur due to the habit of issuing truck licenses written by hand. This form of

documentation enhances the possibility that mistakes are made in the data regarding the number plate, operating permission, engine number, maximum load, date and document number, and the amount paid for the license. When a driver shows a handwritten license to the police at checkpoints, they will find mistakes or claim that the handwriting on the license is not legible. Officers often accuse drivers of having incomplete documents or create other complications. When bribes are paid, the driver is quickly given clearance. This problem encourages many hauliers to travel without a license and pay at every checkpoint. It provides an extra income for police officers, and drivers prefer to pay because the police will not delay them and search for things for which they can demand payment. Another common way in which government officers cheat is to provide the driver with a copy of the receipt for the higher fees required for big trucks and then enter a lower amount on the officer's copy. The difference pocketed by the officer can be about AFN 6,000 (US \$87). Company staff suggested digitalizing these procedures in order to avoid this type of fraud (interviews with employees of a large transport company, Herat, 2016).

## Assessment of conflict-sensitivity

An important insight gained from the interviews with owners, managers and employees of construction and transport companies is that the prevailing perception of insecurity does not only refer to attacks by NSAGs and direct violence but, at least to the same extent, to the arbitrary extraction of payments by government officers, which create unexpected and unpredictable costs for companies. The broad concept of an FCAS clearly covers this range of uncertainties, as it includes not only the occurrence of armed fighting, land mines, physical attacks, kidnapping and other types of violence, but also the general mistrust of people who do not belong to one's own network, of the state and government, and of its executing officers. Construction and transport companies thus operate in an environment where competition is distorted in several ways. The need to favour trusted persons as employees, sub-contractors, and business partners sidelines those who stand outside the network but might have the required skills. Construction sites and transport routes in insecure areas either require extra investment in security guards or the special skills and knowledge needed for coping with those individuals or groups who control these areas. These are issues that pose non-economic obstacles for business. Economic considerations such as the need for fast delivery of goods encourage corruption among state officials because shipping commodities without documents and paying bribes immediately accelerates control procedures, which is certainly in the interest of a competitive company. Despite the difficult environment, companies do compete, each trying to meet demand and supply services and goods as efficiently and cost-effectively as possible. Since labour laws are not enforced, companies adjust their employment arrangements in line with the market and thus seek to remain economically viable. This explains the high frequency of insecure and short-term jobs, unregulated payment and working hours, and the lack of formal training to ensure skills upgrading. The common tendency to employ family members enhances the informality of labour relations and contributes to tolerance of low payment and unpaid overtime among workers. On the other hand, these members of a kinship network also benefit as they at least have access

to some work and may be kept at the company during times of economic hardship.

The research findings also show that, in the context of rising violence, a shrinking economy and the lack of justice and rule of law across Afghanistan, construction and transport companies seek their own ways of doing business and securing a profit. Small companies pursue hardly any particular strategy inasmuch as they do not need to approach communities in risky contexts from outside but are insiders, providing small-scale transport services or working on locally integrated construction projects as a part of local networks, whether inside or outside government-controlled areas. Large companies, however, often have to deal with communities as outsiders. They need safe access and passage or require permission from the local powerholders. The research revealed that in order to make business as profitable as possible in the context of an FCAS they apply a range of strategies, as follows:

*Conflict-avoiding strategies to cope with volatilities in demand and the lack of training facilities:*

- \ retaining a reliable core team, even if on lower pay, even at times without work, while laying off those less closely related to the company owners and managers as the first response;
- \ reducing salaries, wages and benefits rather than laying off employees and workers; and selling off or leasing out vehicles and other assets;
- \ listening to workers' complaints and explaining the reasons for decisions such as pay cuts;
- \ providing on-the-job training to upgrade skills and—only occasionally—funding training abroad for specific skill requirements;
- \ forming joint ventures with other companies in order to overcome the constraints of the high up-front investments demanded when engaging in a large-scale construction contract.

*Strategies to avoiding attacks by NSAGs and acts of sabotage, kidnapping or attacks by militants from a local community:*

- \ using local workers and employees as far as possible (benefitting from returnees trained abroad), thus reducing the number of foreign labour force;

- \ hiring security staff from the local communities where the companies happen to be operating;
- \ hiring unskilled labour from communities around the project sites;
- \ building clinics, schools or mosques in order to gain the consent of local communities to construction projects in their area;
- \ switching to a different kind of client (less internationals and more locals within Afghanistan, or realigning the company to projects abroad),
- \ focusing on different sites or routes in Afghanistan that appear to be more accessible and less threatened by NSAGs,
- \ negotiating access and passage with local power-holders, including 'tax' payments to Taliban.

The above and similar measures are strategies driven by the self-interest of profit-oriented, risk-avoiding businessmen trying to run companies in FCASS. As our next step, we shall now analyse the effects of these strategies in terms mitigating or worsening violent conflict.

The strategies of keeping core staff in times of crisis and employing Afghans are guided by economic as well as non-economic context-related considerations. After a set-back, a company will be back on the market faster if the core team is still in place. Trust and loyalty will grow among employees if they have had the experience of the owner taking care of them and listening to their complaints. Thus, trust will remain strong, but it has its price: employees may not be producing a profit, there may be workers with higher skills out there and, from the employees' standpoint, employees are suffering temporary pay cuts. Loyalty is important for the company owners because reliable personnel prevent losses caused by employees who would put personal advantages above the interests of the company. Moreover, close company ties reduce the probability that workers will organize themselves and advance their interests collectively across an industry. This explains to some extent the weakness of trade unions in Afghanistan. In any case, keeping core staff is a conflict-reducing strategy applied by construction and transport companies. It

helps to avoid conflicts with employees and provides Afghans with an income, enabling them to survive in times of economic hardship and saving them from having to search for other options. This strategy is driven by self-interest, as companies need to operate with reliable staff.

Connected to this is the practice of preferably employing family members. Although this excludes equally or better skilled people from jobs, there has been no indication in the field research that the practice has enhanced or reduced armed conflict. The rationale for the family-focused employment strategy in FCASS is the same as above, again driven by the same interest in operating with staff that company owners have under their control.

Training appears to be an issue that companies handle without any strategy, simply acting pragmatically to meet temporary needs. The only exception we identified was a large transport company in Herat which deliberately puts every new employee on a career path that starts with an induction as an assistant driver to ensure that everyone has hands-on experience in the core work of the transport business before specializing in any other role. This is a trust-building strategy and enhances respect among the whole team. On-the-job training is partly a requirement stemming from the lack of vocational training institutions in Afghanistan, and partly it is simply a cost-saving practice. In a context of FCASS with low performance of state institutions including education and training facilities, the private sector is left to its own devices. This may not have any immediately visible conflict-enhancing repercussions. However, from a broader perspective, it can make it harder for employees and workers to find new jobs or establish their own companies. They would have better prospects if they had structured opportunities to improve their skills and professional experience while working for construction and transport companies. Such skills are very likely to reduce the attraction of engaging in armed conflicts or working as security guards, options that only enhance arms-related knowledge and provide little prospect of income



generation in peaceful environments. Indirectly, the lack of skills and formal training opportunities can thus have a conflict-enhancing impact.

This assessment was shared by the head of department at the Ministry of Labour, Social Affairs, Martyrs and the Disabled in Herat, who maintained that where vocational training centers have operated, graduates found opportunities for self-employment in masonry, carpentry, plumbing, etc. (interview, 2015). The head of department at the Ministry for Rural Rehabilitation and Development in Herat stated that due to the increased unemployment in the rural areas, more people had moved to the cities, leading to higher levels of 'criminality' (interview, 2015). Hence, training not only of the core employees but also of locally hired workers on construction sites could have a conflict-reducing effect, because they might find opportunities to use their newly acquired skills locally as self-employed or employed semi-skilled workers. Moreover, closer involvement of local workers in construction projects has the potential to open the close family or kinship employment networks to new people and thus, gradually change labour relations.

Employing local inhabitants at construction project sites, using community-based workshops, restaurants and hotels along transport routes, and providing services and buildings to communities are all strategies that reduce conflict between companies and communities. Communities across Afghanistan have to make a living under widely varying conditions, within diverse local power relations and in the face of different scales of economic crisis. In most communities, income opportunities are urgently needed, so that a company that ignores this need can face resistance and acts of sabotage or even kidnapping attempts aiming to force the company to distribute the expected benefits to the community. Hence, those companies that have the skills to negotiate with the relevant persons -requiring an understanding of the local conflict context - will be likely to establish construction sites or transport routes in the vicinity of these communities without being attacked. In other words, the interest of companies in protecting facilities, vehicles and staff from attacks is what drives

some of them to apply the conflict-sensitive strategy of employing local inhabitants.

Hiring security personnel from local communities may also help to protect a company's operations if there is no local-level group that feels sidelined. Understanding the local conflict context is the precondition for a temporary conflict-reducing effect of this strategy. But if local inhabitants consider the hiring policy for security staff to be biased, the effect can be to enhance conflict within a discontented community. Moreover, the supply of arms to local people carries a risk that they will use the power gained from being weaponized for personal gain, such as financial extortion, or for involvement in NSAGs when the job has ended, because using arms often remains the only skill they have ever acquired (Shirzad, 2016).

In all these cases, the conflict-reducing effects tend to be temporary. As long as a company is still at work and employs local inhabitants, there may be a degree of satisfaction due to the available job opportunities. When the project ends, it is crucial that the established building or infrastructure has a sustainable advantage for the community and improves living conditions even after the local workers have left the construction company. Otherwise, the building, road or pipeline, etc. is at risk of being destroyed. Moreover, negotiations that are limited to the community elders and do not involve the local powerholder (directly or indirectly through the elders or district development assemblies) can also put at risk a project or regular transport service in the area. The powerholder may not be satisfied with his share of the payment, may not benefit from the construction or transport activities, or may actually lose a source of his revenue (as in the case of the bridge fees paid by nomads). This would cause an escalation of conflict.

Further security-related strategies pursued by companies involve avoidance of risky areas and routes. They may reduce opportunities for profit but can allow a company to continue at an acceptable level. As large projects in Afghanistan always include work in risky parts of the country (in terms of infrastructure projects as well as transportation), some companies have formed joint ventures or involve

contractors. Sharing and delegating can help to overcome obstacles posed by insecurity and by the requirement to make high up-front payments to clients. The rationale is that local companies take charge of parts of a large infrastructure project in those areas where they have the relevant connections to powerholders, and leave other sections to other companies. Transport companies achieve the same effect by employing different drivers for different sections of the route, such as a Herati driver for the first part, then another, possibly a Pashtun, depending on the prevailing ethnicity. This appears to be a viable conflict-reducing strategy with wider employment effects for large-scale infrastructure projects and overland transportation.

Payment of 'taxes' to powerholders and Taliban by companies is an important source of income for NSAGs. The effect is to consolidate the patterns of control, with some areas under control of NSAGs and others under control of the government, while a number of areas are violently contested. In the same way, paying the bribes demanded government officials, which often exceed the payments required by the Taliban (Shirzad, 2016), contributes to stabilizing these practices. Private companies are thus unlikely to change the local context in a peaceful direction, let alone contribute to a sustainable peace.

The findings suggest that private companies can have a meaningful impact on local stability if they apply conflict-sensitive employment strategies and neither exacerbate violence nor deepen divisions within a community or between communities. However, this kind of stability will not have any normative content but just keep the existing local power relations and social cohesion as they are, be it in government-held or in NSAG-held parts of Afghanistan.

## Conclusion

The *Paper* has addressed the questions of how construction and transport companies avoid losses through violent attacks and manage to continue doing profitable business in FCASs. The research has shown that, in an FCAS, companies are or become part of a political marketplace. This marketplace is shaped by the politics of foreign intervention, where companies supply services to troops, and by local power politics, where they have to negotiate with local powerholders for safe completion of construction projects or safe passage of trucks. Entrepreneurs and employees belonging to a private company will never be perceived as neutral by local communities in FCASs. Hence, those companies that successfully do business in Afghanistan are those that engage with the local leaders, with corrupt government officers and NSAGs in a deliberate and strategic way.

Conflict sensitivity has been defined as the ability of a company, investor, donor or any other organization to understand the context it operates in, understand the interaction between its intervention and that context, and act upon this understanding in order to minimize negative impacts and maximize positive impacts on conflict. This implies taking steps to avoid reinforcing existing conflict dynamics and to take opportunities to support peaceful social interaction. Related to this, conflict-sensitive employment calls for employment practices that do not cause or exacerbate conflict. Employers, but also the government and powerholders in control of areas and communities, can foster or obstruct such practices. In an FCAS, the self-governance systems and local orders emanating from non-state social and economic institutions are a given structure and framework of equal importance to state structures (which are often entangled with these 'informal' structures anyway) when it comes to negotiating conflict-sensitive private-sector development and employment approaches. Concretely, conflict-sensitive employment implies job creation, and in particular job creation that is meaningful in the sense that individuals or communities consider the jobs as providing real prospects for the future. Moreover, conflict sensitivity involves inclusive employment that avoids divisive effects and promotes

cohesion. Ideally, conflict-sensitive employment also requires compliance with the ILO standards for decent work.

The study shows that Afghan companies are far from offering decent work. The huge skills and education gap in Afghanistan will take a long time to be closed. Although vocational training projects do exist, especially for youths (GIZ, 2015), only 52 per cent of the population are above the working age of 14 (ILO, 2014), and only 19 per cent of working age females are active in the labour market (World Bank, 2014, p. 33), especially since cultural attitudes toward women remain largely conservative. In the CIT sector in Afghanistan, women are rarely employed, even in offices. Opportunities for work that is productive and delivers a fair income are very rare, especially after the rapid increase of the unemployment rate in Afghanistan in 2015 and 2016. Security in the workplace and social protection for families are limited, but for those employed as core staff in larger construction and transport companies there are some informal arrangements. Prospects for personal development and social integration are available for this group of employees, however, often connected with family and kinship ties that extend into the company. Freedom for people to express their concerns and to organize and participate in the decisions at work that affect their lives also exists within close personal networks and within a few companies with a deliberate strategy to enhance staff loyalty, but it is not found across or beyond sectors outside personalized networks. This reflects the general social patterns in Afghanistan and will not change in the short term.

International agencies strongly reject any policy of hiring only workers whom employers trust, as they consider this as nepotism (Cusack & Malmstrom, 2010; Pain & Mallet, 2014) and hold that the manner in which jobs are distributed affects the aspirations and expectations of people and influences whether people believe that they hold a stake in their society. They view employment based on merit as contributing to the integration of those who feel disenfranchised and see formal employment as unobtainable (World Bank, 2012). However, as our research in Afghanistan reveals, the conditions of an FCAS enhance the

practice of making trust a crucial basis for employment decisions. So this makes 'nepotism' a rational strategy. Hiring foreign workers instead of Afghans, both for the sake of acquiring skilled workers and improving security, can fuel conflicts under the conditions of high unemployment and in a culture of networks and informal connections.

Contrary to assumptions in the literature, our research finds that SMEs do not seem to be the main driving forces towards conflict-sensitive employment, because they are already integrated in communities, certainly form part of, or at least have an arrangement with, the locally existing power networks and, moreover, do not offer any large-scale employment. The survey findings reveal that some of the larger, formally registered companies in Afghanistan do apply conflict-sensitive employment strategies. Strategies are driven by self-interest and the profit motive and adapted to the context of an FCAS. Conflict-sensitive employment is, moreover, a difficult endeavour, which requires in-depth and long-term experience in operating in a business environment characterized by the risk of violent attacks and corrupt practices of government officials, so the extent to which Afghan companies apply conflict-sensitive employment strategies will vary. New companies can learn from old-established ones, and companies suffering from the withdrawal of foreign clients since 2013 can adopt strategies from these companies in order to survive the economic crisis. If new large-scale investments are to be made in Afghanistan, foreign companies will need to consult with experienced Afghan construction and transport companies in order to make their projects a success.

The most sobering finding of the research is that private construction and transport companies, as temporary actors in communities, may apply conflict-sensitive employment strategies but will not be able to assume a role in peacebuilding. They may stabilize local power relations as they are, but this means contributing to the persistence of state corruption or 'tax' payments to Taliban and other power-holders controlling a particular territory. No evidence was found of companies having a direct impact on peacebuilding in Afghanistan.

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## ANNEX

### ILO International Classification of Status in Employment (ICSE-93)

The Resolution concerning the International Classification of Status in Employment (ICSE), which forms the basis of operation of the International Labour Organization (ILO), specifies the groups in employment according to the ICSE-93 as follows:

1. *Employees, who get a basic remuneration not directly dependent [on] the revenue of the employer - among whom countries may need and be able to distinguish 'employees with stable contracts' (including 'regular employees');*
2. *Employers, who hold self-employment jobs (i.e. whose remuneration depends directly on the (expectation of) profits derived from the goods and services produced) and engage one or more person to work for them as 'employees', on a continuous basis;*
3. *Own-account workers, who hold self-employment jobs and do not engage 'employees' on a continuous basis;*
4. *Members of producers' cooperatives, who hold self-employment jobs in a c[o]operative producing goods and services, where the members take part on an equal footing in making major decisions concerning the cooperative;*
5. *Contributing family workers, who hold self-employment jobs in an establishment operated by a related person, with a too limited degree of involvement in its operation to be considered a partner;*
6. *Workers not classifiable by status, for whom insufficient relevant information is available, and/or who cannot be included in any of the preceding categories (ILO, 2017).*

## ACRONYMS AND ABBREVIATIONS

ACCI	Afghan Chamber of Commerce and Industries	ACCI
ADB	Asian Development Bank	ADB
AFN	Afghan (currency of Afghanistan)	AFN
ANP	Afghan National Police	ANP
ANPDF	Afghanistan National Peace and Development Framework	ANPDF
APPF	Afghan Public Protection Force	APPF
BES	Business Establishment Survey	BES
CSE	conflict sensitive employment	CSE
CIT	construction, infrastructure and transportation	CIT
FCAS	fragile and conflict-affected settings	FCAS
GDP	gross domestic product	GDP
IBES	Integrated Business Enterprise Survey	IBES
ICSE	International Classification of Status in Employment	ICSE
ILO	International Labour Organization	ILO
IOM	International Organization for Migration	IOM
ISAF	International Security Assistance Forces	ISAF
ISIC	International Standard Industrial Classification	ISIC
ISIL-KP	Islamic State in Iraq and the Levant — Khorasan Province	ISIL-KP
ISIS	Islamic State in Iraq and Sham	ISIS
MoTCA	Ministry of Transport and Civil Aviation	MoTCA
MP	Member of Parliament	MP
NATO	North Atlantic Treaty Organization	NATO
NGO	non-governmental organization	NGO
NSAG	non-state armed group	NSAG
PRT	Provincial Reconstruction Team	PRT
PSD	private sector development	PSD
SME	small and medium enterprises	SME
UNAMA	United Nations Assistance Mission to Afghanistan	UNAMA
UNSC	United Nations Security Council	UNSC

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