

# Investment in infrastructure and employment in Afghanistan

Review of past and present investment plans

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## Abbreviations

ADB	Asian Development Bank
AISA	Afghanistan Investment Support Agency
ALCS	Afghanistan Living Conditions Survey
ALP	Afghanistan Local Police
ANP	Afghan National Police
ANPDF	Afghanistan National Peace and Development Framework
APPF	Afghan Public Protection Forces
CAREC	Central Asia Regional Economic Cooperation
CASA-100	Central Asia-South Asia power project
CIDA	Canadian International Development Agency
CPEC	China-Pakistan Economic Corridor
CSO	Central Statistics Organization
ECO	Economic Cooperation Organization
FDI	Foreign Direct Investment
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HoA	Heart of Asia
IDP	Internally Displaced Person
ILO	International Labour Organization
ITC	International Trade Centre
IS	Islamic State
MIGA	Multilateral Investment Guarantee Agency
MP	Member of Parliament
NATO	North Atlantic Treaty Organization
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PDPA	People's Democratic Party of Afghanistan
RECCA	Regional Economic Cooperation Conference on Afghanistan
SAARC	South Asian Association for Regional Cooperation
SDGs	Sustainable Development Goals
SIGAR	Special Inspector General for Afghanistan Reconstruction
SME	Small and Medium-sized Enterprise
TAPI	Turkmenistan-Afghanistan-Pakistan-India Pipeline

## Investment in infrastructure and employment in Afghanistan

TIR	Convention on International Transport of Goods Under Cover of TIR Carnets
TVET	Technical and Vocational Education and Training
UNDP	United Nations Development Programme
UNHCR	United Nations Refugee Agency
USAID	United States Agency for International Development
USSR	Union of Soviet Socialist Republics

## Executive summary

Scholars of economics contend that infrastructure development is the foundation of a sustainable economy and a means to achieving broader nation-building goals. However, while infrastructure is fundamental to moving popular support away from pre-war or during-conflict loyalties, there is also the argument that it could be a means to direct spoilers towards post-war political objectives. For a country to reap maximum benefits from investment into infrastructure projects, this development needs to be viewed through a conflict analysis lens and understood in the context of the conflict dynamics of the region that it is taking place in.

This paper argues that in order to reap maximum benefits from large-scale investment in Afghanistan, government and donors need to ensure that this investment contributes to generating employment opportunities for Afghans, particularly youth, returnees and internally displaced persons (IDPs), in a conflict-sensitive manner.

Afghanistan has a long history of developing five-to-seven-year plans, which have been focusing on infrastructure and have been financed by both public and private investments. During the 20th century, Afghanistan has experienced both rapid waves of intensive public (and sometimes private) investments in infrastructure as well as heavy destruction of infrastructures and industry. However, these plans have not contributed to economic growth and addressing the problem of unemployment because they have been over-ambitious, and the implementing institutions have been marred by corruption and do not have the capacity to effectively implement the plans. Trying to overcome past difficulties, the National Unity Government has recently developed (in 2017) a number of ambitious plans and frameworks in an effort to coordinate and unify development projects in the country. These plans are all guided by the Afghanistan National Peace and Development Framework (2017–2021), which seeks to build a productive and broad-based economy that creates jobs. While the Framework appreciates that, in the short term, the economy will require ‘bridging’ strategies that provide jobs because of the lack of skills available, it envisages that Afghanistan will have comparative advantage in the long term because of the labour it can supply. To build the requisite skill needed to support the economy, the government plans to invest in vocational education, engineering, managerial skills and the service industry, as well as in reforms, to make Afghan labour more flexible and responsive. However, as with previous plans, the Framework has set itself enormous targets to meet in a short period (five years). Furthermore, although investment projects in Afghanistan are expected to create three types of jobs (skilled jobs, unskilled/daily wage jobs and security-related jobs), it is most likely to generate only short-term, low-skilled and security-related jobs.

This paper argues that in fragile contexts such as Afghanistan, employment generation alone is not enough. Rather, there is a need to generate employment in a way that is conflict sensitive. Only then can investment in sectors such as infrastructure contribute to peace and stability in the country. Furthermore, in fragile contexts such as Afghanistan, the situation and context are unlikely to change overnight. As a result, businesses, investors and donors need to support the government in endeavours to address corruption and to support interim investment strategies that take into account the political and conflict dynamics.

## Introduction

At the Brussels Conference in October 2016,<sup>1</sup> donors pledged US\$15.2 billion to support Afghanistan until 2020, in the expectation that the government of Afghanistan would eliminate corruption and deliver on the Afghanistan National Peace and Development Framework (ANPDF).<sup>2</sup> The ANPDF is Afghanistan's plan to achieve self-reliance and increase the welfare of the population by building a productive and broad-based economy that creates jobs. To achieve this, the government plans to make strategic investments in infrastructure, human capital, quality service delivery and technology, backed by a robust and well-regulated financial sector that can channel money to where it can best be spent.

The donor pledge at the Brussels Conference in 2016 came at a time when investment in Afghanistan had dropped to an unprecedented low, where it has remained since 2014. While development aid for Afghanistan has increased since 2003, private foreign direct investment (FDI) has been declining.<sup>3</sup> The US

Department of State's Bureau of Economic and Business Affairs identifies "a still-developing legal environment, security, varying interpretations of tax law, and the impact of corruption on administration" as the main challenges to business in Afghanistan (Bureau of Economic and Business Affairs, 2017).<sup>4</sup> It adds that "(n)ew firm registrations tailed off dramatically in 2014, with half as many new firms registered in 2014 compared to 2013. That reduced level has remained relatively constant through 2016". According to the Ministry of Finance (2017), the donor community had pledged around US\$90 billion of aid for Afghanistan in the period 2002 to 2013. Out of this amount, US\$57 billion was disbursed between 2002 and 2010, of which 51% was spent on security and the remaining 49% on development projects.

Scholars of economics contend that infrastructure development is the foundation of a sustainable economy and a means to achieving broader nation-building goals. They consider the provision of basic services as critical to

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<sup>1</sup> Communique on the Brussels Conference on Afghanistan, 5 October 2016:

<https://af.usembassy.gov/communique-brussels-conference-afghanistan-october-5-2016/>

<sup>2</sup> ANPDF 2017–2021:

<http://extwprlegs1.fao.org/docs/pdf/afg148215.pdf>

<sup>3</sup> Whereas development aid increased from about US\$1.2 billion in 2003 to a peak of nearly US\$7 billion in 2011 and declined to US\$5 billion in 2013, FDI fell from about US\$270 million in 2005 to about US\$60 million in 2013, with an interim high of about US\$210 million in 2009 (World Bank, 2017; International Trade Centre, 2014).

<sup>4</sup> In more detail: "Afghanistan's legal and regulatory frameworks and enforcement mechanisms remain irregularly implemented. The existence of three overlapping legal systems – Sharia (Islamic Law), Shura (traditional law and practice), and the formal system under the 2004 Constitution – can be confusing for investors and legal professionals. Corruption hampers fair application of the laws. Commercial regulatory bodies are often understaffed and under capacity. Financial data systems are limited" (Bureau of Economic and Business Affairs, 2017).

security, governance, economic development and social well-being. Moreover, in conflict-affected environments such as Afghanistan, the condition of infrastructure can be viewed as a barometer of whether society will slip further into violence or make a peaceful transition out of the conflict cycle (see for example Boudet et al, 2011). According to Mashatt et al (2008), infrastructure is fundamental to moving popular support away from pre-war or during-conflict loyalties and to attracting spoilers to post-war political objectives. Linking infrastructure development with conflict analysis helps to focus the attention of infrastructure programme planners and implementers on the conflict cycle instead of using an engineering perspective – a perspective through which infrastructure experts tend to approach problems. While this view is also important, it must be linked with an appreciation of the conflict dynamics. Indeed, traditional engineering concerns such as efficiency are secondary in a conflict-sensitive approach (Mashatt et al, 2008; see also Boudet et al, 2011). Foreign financial aid and other international interventions can play an important role in rebuilding infrastructure and hence in solidifying the transition to peace (Collier and Hoeffler, 2004; Collier et al, 2003).

Latest annual available figures from the Afghanistan Living Conditions Survey (ALCS) 2014 suggest that Afghanistan's labour market is under considerable strain. In 2014, 78% of the labour force were not gainfully employed, underemployed or unemployed, while 79% were in vulnerable employment.<sup>5</sup> As per the mid-term results from the 2016–2017 survey, the percentage of the labour force who were not gainfully employed, or were underemployed or unemployed, stood at 71%. If Afghanistan is to deliver on the ANPDF, it will be important for investment and development aid to create employment. While job creation is necessary to ensure a sustainable population, the precarious, underpaid, low-skilled and unsustainable jobs that the majority of Afghans have are neither suitable to propel the development of the country nor do they provide future prospects for individuals or communities.

With discussions underway about Afghanistan's inclusion in a number of regional connectivity initiatives such as the China-Pakistan Economic Corridor (CPEC), the next decade could see a significant amount of investment coming to Afghanistan, particularly for infrastructure development. However, the current conditions in Afghanistan point to mounting corruption of government

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<sup>5</sup> According to the ILO's definition, decent work "involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men". It is clear that with 78 percent of Afghan workers in vulnerable employment,

working as day labourers, own-account workers or as unpaid family workers, more than three quarters of all employed Afghans are earning too little for sustenance, working in jobs that are insecure, without social protection, and that offer few opportunities for personal development and productivity enhancement (Afghanistan Living Conditions Survey 2013–2014, <http://cso.gov.af/Content/files/ALCS/ALCS%20ENGLISH%20REPORT%202014.pdf>).

authorities, a rise in violent attacks targeting security force establishments, the government and international organisations, as well as the frequent kidnapping of wealthy individuals for ransom. These conditions deter private foreign investors as well as international construction companies from investing in Afghanistan.

This paper addresses the question of how investment in infrastructure can be achieved despite the adverse conditions in Afghanistan, arguing in favour of creating conflict-sensitive employment under these conditions. Conflict-sensitive employment is an approach that has been developed on the basis of empirical research on successful practices of Afghan transport and construction companies operating under the conditions of rising violence in Afghanistan.<sup>6</sup> It requires an initial analysis by companies of the conflict context in the area where the (infrastructure) project is to be located. Close communication with local community leaders (elders) and power holders is particularly crucial for negotiating ways on how the project can be implemented with local support. Conflict-sensitive employment avoids divisive effects in the local communities affected by the project and reduces the potential for conflict. Moreover, companies seek to provide workers with new skills so they can find employment

more easily after the job has ended, or skills that enable them to set up a small business in their field of specialisation. Creating jobs that are sufficiently paid to make other options less attractive (such as jobs involving carrying arms as a security guard, soldier, fighter) also have a violence-reducing effect. Beyond this, companies and investors should ideally comply with the International Labour Organization (ILO) standards for decent work, providing 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 organise and participate in the decisions that affect their lives, as well as equality of opportunity and treatment for women and men (ILO, 2016). Essentially, conflict-sensitive employment represents the creation of meaningful jobs that provide future prospects for individuals and reduce, or at least do not fuel, local violent conflicts (Grawert et al, 2017b). In order to reap maximum benefits from large-scale investment in Afghanistan, this paper argues that government and donors need to ensure that this investment contributes to generating employment opportunities for Afghans, particularly youth, returnees and internally displaced persons (IDPs), in a conflict-sensitive manner.

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<sup>6</sup> The research project included a pilot phase during which a conflict-sensitive employment framework (Grawert et

al, 2017a) was developed and tested with four companies on their project sites in different parts of Afghanistan.

## Methodology

For the purposes of this paper, the authors critically reviewed existing documents and literature on investment in infrastructure in Afghanistan. The secondary data was further complemented by four interviews: two with representatives from bilateral agencies, one with a manager from an international construction firm and one with a member of the Afghan Public Protection Forces (APPF). The paper is a part of the 'Conflict-sensitive employment under construction: Peace and stability strategies for the private sector in Afghanistan' project, supported by the Dutch Knowledge Platform, and benefits from research in earlier papers published as part of the project.<sup>7</sup>

## Overview

The paper starts with a review of investment in Afghanistan since its creation and focuses on its impact on employment. The next section looks at

the plans of the current National Unity Government and their possible implications for employment generation in the country. Given the strategic geopolitical positioning of Afghanistan, it is important to view investment in Afghanistan through a regional lens. The subsequent section highlights the regional complexities and the role of global powers, and how this has impacted and will impact on investment in Afghanistan. According to the Ministry of Finance (2017), the donor community had pledged around US\$90 billion of aid for Afghanistan in the period 2002–2013. Out of this amount, US\$57 billion was disbursed between 2002 and 2010, of which 51% was spent on security and the remaining 49% on development projects. This continues to happen in the country as the security situation remains precarious. The final part of the paper analyses the implications of security measures regarding infrastructure projects for employment generation in Afghanistan.

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<sup>7</sup> Other project papers can be viewed at <http://www.international-alert.org/projects/14135>

## Historical overview of investment in Afghanistan

During the 20th century, Afghanistan experienced rapid waves of intensive public (and sometimes private) investment in infrastructure and at the same time heavy destruction of its infrastructure and industry. Large investments have mostly been financed by foreign countries and international agencies. Historically, investment in infrastructure in Afghanistan can be divided into three periods:

- Pre- and post-independence era (1880–1979);
- Era of Soviet invasion, civil war and Taliban rule (1979–2001);
- Era of international intervention (2002–2017).

### Investment in the pre- and post-independence era (1880–1979)

The history of modern infrastructure investment in Afghanistan dates back to the reign of Amir Abdur Rahman Khan (1880–1901) in the 19th century. Afghanistan of the 19th century witnessed internal clashes and several incursions by Russians and the British until full independence was proclaimed from Britain in 1919, following the third Anglo-Afghan war (Ghobar, 1996). Under the reign Rahman, some efforts were made to modernise the economy through introducing fiscal and monetary reforms

and extending support to traders and industrialists.

This was necessary because Abdur Rahman took power in a period when Afghanistan had incurred major damages due to the first (1838–1842) and second (1878–1879) Anglo-Afghan wars. The administrative system and military structures had been destroyed, the capital Kabul ruined, and traders and industrialists disappeared in defence of their country (picking up arms to defend themselves and their country). The industrial city of Istalif and Ghazni city's bazaars had been burnt, Kandahar and Jalalabad cities had been emptied of traders and industrialists, and turned into military bases of the enemy. Meanwhile, young farmers from the agricultural regions of Kabulistan, Zabulistan, Parwan, Kapisa, Nangarhar and Kandahar were sent to war fields. As a result, industry in cities and rural agriculture almost vanished. After instituting security, the Amir focused on reviving trade and industry. Metal and leather manufacturing, such as the Kabul military factory and the leather factory, received support from the government (Ghobar, 1996).

The first large-scale infrastructure investment in the country, the Jabul Siraj Hydroelectric plant, occurred in the period 1910–1913, during the reign of the Amir's son and successor, Amir

Habibullah Khan (1901–1919) (Jalalzai, 2003). In addition, a number of irrigation, road and bridge construction projects were completed. These included the Siraj canal of Helmand and the Siraj canal of Nangarhar, the Kabul-Jalalabad highway, the Jalalabad-Laghman highway, the Kabul-Ghazni highway, the Kabul-Jabal Siraj highway, and the Gulbahar, Matak and Daronta bridges. As Habibullah had great interest in the construction of buildings, his tenure also saw the construction of some prominent buildings around the country, such as the Dilkasha building in Kabul, the Siraj-ul-Emarat in Jalalabad and the Qala-e-Siraj in Laghman (Ghobar, 1996).

The 1950s and 1960s were crucial in Afghanistan's infrastructure investment history. During this period, significant investments were made in the agriculture, irrigation, energy transportation and communication sectors. Of special importance during this period was the 10-year tenure of Mohammad Daud Khan (1953–1963) as prime minister (World Bank, 1978). Daud Khan followed a centrally planned economic system guided by national plans. He was successful in benefiting from competition between the then Union of Soviet Socialist Republics (USSR) and the United States (US) in Afghanistan (Jalalzai, 2003) and translating it into assistance for Afghanistan. In a pamphlet on "the economics of competitive coexistence", Franck characterised this situation as follows: "Afghanistan, once a buffer between Russia and British India, but

since 1954 attempting to steer an uneasy course of political and economic neutrality between East and West" (Franck, 1960, p. xiii). By 1978, the USSR and the US had invested US\$1.265 billion and US\$471 million in the development of Afghanistan (DRDC, 2007). Details of these investments can be best understood from the review of the national plans of the time, particularly the first three.

### **First five-year plan (1956-57 to 1961-62)**

The first five-year plan was an ambitious programme aimed at economic development in the country. The plan provided for investment and development in agriculture and irrigation, transport and communications, social services, manufacturing and mining, banking and commerce. "The total budget for the plan was AFN 11 billion (equivalent to about US\$234,500,000 at the exchange rate then used). Of this total, about 75% was to be covered by foreign assistance" (USAID, 1970, p. 4).

Among the sectors for investment identified in the plan, priority was given to investment in irrigation and transport. According to the World Bank (1978), 30% of the total budget was to be allocated towards the agriculture sector and irrigation works, and 25% for the transport and communications sectors. However, in practice, expenditure on transport accounted for 50%, while only 13% was spent on agriculture. The three

main sources of financing for the plan were domestic revenue from taxes, duties and profits of state companies, foreign loans and grants (mostly from the USSR and the US) and private capital. “Afghanistan’s position on the chessboard of international relations would determine from whom to ask the needed foreign support of US\$167 million and what terms to accept” (Franck, 1960).

Within the agriculture and irrigation sectors, three programmes were planned: protection of animals from diseases and crops from pests, improvement of animal species and seed varieties, and extension of areas under cultivation. However, 90% of the money allocated for agriculture development went towards investment in large irrigation projects. The aim was to increase agriculture output and to facilitate the resettlement of nomads (Ministry of Planning, 1956).

Significant irrigation infrastructure projects were included in this plan. Among them was the huge Helmand-Arghandab Valley Development Project, which started in 1946 before the first five-year plan was initiated and continued until the USSR invasion in 1979. It was estimated that 40% of the water irrigation in the country came from the Helmand and Arghandab rivers, affecting two million or almost 20% of the total population at the time. In 1946, the US Morrison-Knudsen construction company was contracted by the Royal Government of Afghanistan for US\$17 million to undertake development works, including canals, roads and dams in

Helmand Valley in south-western Afghanistan (Franck, 1960). By 1956, US\$54 million had been spent on irrigation and land development in the Helmand-Arghandab Valley. Over 4,000 Afghan workers gained construction experience, with many of them becoming trained mechanics. Nevertheless, the benefits achieved by the construction work in Helmand-Arghandab Valley were not deemed satisfactory by some circles inside government (Franck, 1960). US involvement in the Helmand Valley took several forms during the project duration. By 1979, a total of US\$136.5 million was spent on the project.

Other significant irrigation projects were included: the Jalalabad Irrigation Canal and its distribution canals, costing approximately US\$8 million over a five-year construction period; three water storage dams at Paltu District of Katawaz, Sardeh District of Ghazni and Kharwar District of Logar, costing approximately US\$3 million, US\$2.5 million, US\$1.2 million, respectively, over a three-year period; the Kunduz irrigation project, costing around US\$10.6 million over a four-year period; the irrigation project of Kokcha River, costing approximately US\$25 million over a five-year period; and the Mochalgho water storage project, costing around US\$2 million over a five-year period (Ministry of Planning, 1956).

The transport and communication sectors followed agriculture and irrigation in the amount of planned investment, with around 16.1% of the total funds allocated over five years for

transport and communications. At the end of the five years, it was estimated that 1,000 km of main roads would have been improved and asphalted and 18,000 to 20,000 trucks and automobiles would have been imported. Moreover, it was planned that the Kandahar International Airport would be completed and that airports would be constructed in Kabul, Mazar and Herat (Ministry of Planning, 1956).

However, not all projects in the plan were completed in the period specified. Large projects such as the Jalalabad Irrigation Canal, the Kabul-Thorkham Road, the Kunduz Irrigation Project, the Sardeh and Mochalgo water storages and several other projects were not completed within the five-year period. As a result, they were later included in the second five-year plan.

### **Second five-year plan (1963–1967)**

The second five-year plan was even more ambitious than the first one. The amount allocated for investment in the second plan was nearly four times the actual expenditure of the first plan. It was estimated that foreign assistance would cover around 56% (approximately US\$734 million) of the total costs (Ministry of Planning, 1963).

Of the total investment, 23.5% was allocated to agriculture and irrigation, 33.5% to industry, mining and energy, 25.5% to transport and communications, 11.2% to social services and 6.3% to

miscellaneous expenditure. It was also planned that around 67% of the allocation for agriculture and irrigation would go to irrigation projects; more than three quarters (79%) of the allocation for transport and communications was to go to road construction; and education was to be allocated the biggest share within the social services sector, followed by public health and urban development (Ministry of Planning, 1963).

In the agriculture and irrigation sector, some of the projects included were as follows: improvement of the Ajmir Canal and the Chahar Dara Canal (a remnant of the first plan), to be completed in the fifth year of the second plan; improvement of the Ali Abad Canal, to be completed in the third year of the second plan; improvement of the Kabul Canal and ditches, to be completed in the fifth year of the second plan; and a survey of water resources in Katawaz. The abovementioned projects were mostly old canals that needed improvement. In addition, the following new canals and projects were envisaged: the Nangarar Canal (a remnant of the first plan), to be completed in the fourth year of the second plan; Sardeh water storage (a remnant of the first plan), to be completed in the third year of the plan; the Zard Sang irrigation system in Ghazni, to be completed in the fourth year of the plan; and the irrigation system of the upper KoKan in Heran, to be completed at the end of the second plan (Ministry of Planning, 1963).

In the energy sector, the hydroelectric dams of Naghlu, Mahipar, Arghandab and Kajaki, and electricity transmission in some areas, were included in the second plan. Some of these projects were new while others were remnants of the first plan. Moreover, in the transport and communications sector, more attention was to be paid to the many unfinished road projects and the almost completed Kabul and Kandahar airports. Two new airports were also planned in Jalalabad and Shindad (Ministry of Planning, 1963).

### **Third five-year plan (1967–1971)**

In the third plan, the focus shifted from investment in infrastructure to projects that could yield results quickly. A total investment of AFN 33 billion was envisaged for the third plan. The sectoral distribution of investment in the third plan was estimated at 32.8% for mines, industry and power, 29.5% for agriculture and irrigation, 15.9% for education and other social services, 12.7% for transport and communications, and 9.1% for reserves. In total, the third plan provided for a 32% increase in investment compared with the second plan, and an investment of US\$20 million and AFN 14,000 million was required to finance the development programmes.

Of this, US\$167 million had already been committed for the completion of carryover projects. A AFN 2 billion (2% of all development expenditure) private investment was envisaged (Ministry of Planning, 1967).

According to the progress report and analysis of the economic situation for the last year of the third plan (1971), the population of the country (excluding nomads) grew from 13.044 million people in 1966 to 14.608 million people in 1971. The population capable of working (aged 15 to 60) grew from 6.41 million (including 50,000 working-age school students and 60,000 people with disabilities) to 7.35 million (including 60,000 working-age students and 70,000 people with disabilities). The number of people employed rose from 3.96 million (including 380,000 below 15 or above 60 years of age) to 4.51 million people. These statistics are based on sample surveys and several assumptions (Ministry of Planning, 1971).

The data show an increase of 550,000 jobs in 1971 (the last year of the plan) compared with five years previously (1967). Around 20% of these jobs were created in agriculture. The Table below presents the sector-specific data for 1967 and 1971.

**Table 1: Distribution of labour force by sector for third five-year plan (1967–1971)**

<b>Year</b>	<b>1967</b>	<b>1971</b>
<i>Total number of employed population</i>	3,960,000	4,510,000
<b>Employment in productive sectors</b>		
<i>1. Agriculture</i>	2,940,000	3,050,000
<i>2. Industries including small industries and handicrafts</i>	230,000	270,000
<i>3. Construction and geology</i>	90,000	110,000
<i>4. Transport and communications</i>	20,000	30,000
<i>Other productive fields</i>	60,000	80,000
<i>Total</i>	3,340,000	3,540,000
<b>Employment in non-productive sectors</b>		
<i>1. Education and health</i>	20,000	42,000
<i>2. Government organisations</i>	60,000	80,000
<i>3. Commerce</i>	100,000	110,000
<i>4. Other non-productive sectors</i>	100,000	110,000
<i>Total</i>	280,000	342,000
<b>Unspecified sectors</b>	340,000	628,000

Source: Ministry of Planning, 1971

The three five-year plans contributed greatly to the improvement of Afghanistan's infrastructure. Although agriculture and industry were given priority in the formulation of the first two plans, in practice transport infrastructure received the most investment. Out of the AFN 53 billion total actual costs of the three plans, around AFN 18 billion (33%) was spent on the transport sector. At the end of the third plan, over 2,500 km of asphalted

road and 35,925 vehicles existed in the country. While employment figures corresponding to the first two five-year plans are not available, based on the employment figures shown in Table 1 for the third five-year plan, the authors estimate a similar increase in employment, where major employment generation is likely to have been in agriculture and in low-skilled or unskilled jobs.

Two subsequent plans were launched between 1972 and 1983: the fourth five-year plan (1972–1976) and the seven-year plan (1976/77–1983). The fourth five-year plan was prepared but never implemented. Mohammad Daoud Khan overthrew the constitutional monarchy and declared Afghanistan a republic in a coup in July 1973 (Kakar, 1995). The new president, Mohammad Daoud Khan (1973–1978), prepared the first seven-year plan (1976–1983) but before the period of the plan ended, he and several of his

family members were killed in a coup by the communist People’s Democratic Party of Afghanistan (PDPA) in April 1978 (Kakar, 1995), putting an end to the plan’s implementation.

The Table below presents data on actual statistics for the first year of the seven-year plan and forecast for the last year of this plan. Similar to earlier plans, the agriculture sector was forecast to generate the largest number of employment opportunities.

**Table 2: Distribution of labour force by sector for seven-year plan (1976–1983)**

<b>Year</b>	<b>1976</b>	<b>1983</b>
<i>Total labour force</i>	5,617,600	6,113,800
<i>Employment level</i>	5,275,000	6,113,800
<i>1. In productive fields</i>	4,560,000	5,322,500
<i>Agriculture</i>	4,022,000	4,477,500
<i>Industry and mines</i>	350,000	470,000
<i>Other fields</i>	188,000	375,000
<i>2. In non-productive fields</i>	715,000	791,300
<i>3. Unemployed</i>	342,600	0

Source: Ministry of Planning, 1976

### **Era of Soviet invasion, civil war and Taliban rule (1979–2001)**

During the period 1979 to 2001, in which Afghanistan experienced the Soviet invasion and was then under Mujahdeen and Taliban control, there are no records of any major investments. Rather, the focus from investment

shifted to military spending to provide for the ongoing war.

### **Era of international intervention (2002–2017)**

After the military intervention of the US and NATO forces, which removed the Taliban regime, a period of intensive

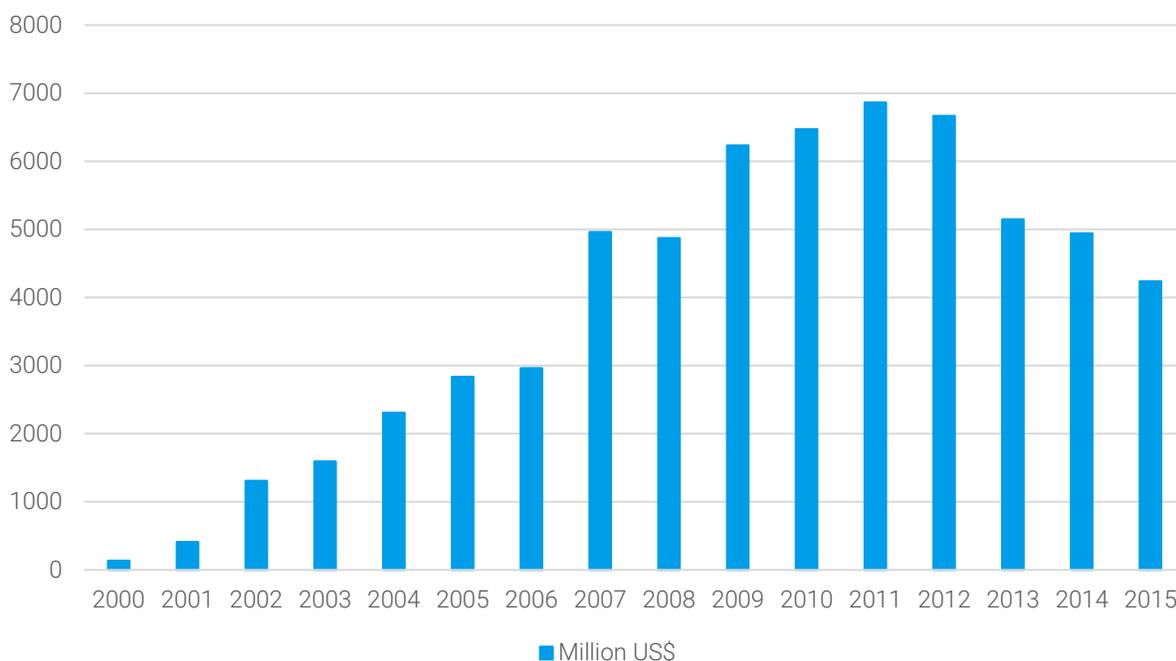
## Investment in infrastructure and employment in Afghanistan

foreign investment in security and development occurred in Afghanistan. According to World Bank statistics, official development assistance (ODA) increased from less than US\$0.5 billion in 2001 to more than US\$1.3 billion in 2002, with a constant increase until it reached

more than US\$6.8 in 2011. ODA witnessed a decline ever since, until it reached a little over US\$4.2 billion in 2015.

The Figure below presents data on net ODA received by Afghanistan from 2000 to 2015.

**Figure 1: Net ODA received by Afghanistan between 2000 and 2015 (current US\$)**



$y = 0; R^2 = \#N/A$

In addition to development aid, Afghanistan has also been receiving foreign investment since 2003. The Afghanistan Investment Support Agency (AISA) reports the value of investment at upwards of US\$650 million from a total of 25 countries between 2002 and 2005 (MIGA, 2005). According to AISA, the largest investor country is Turkey, with

projects amounting to about US\$120 million, followed by Germany, India and Pakistan. Amounting to an estimated US\$180 million, the telecommunications sector has thus far attracted the most investment. Initially, the investment had significant employment effects, as shown in Table 3.

**Table 3: Investment projects in Afghanistan and employment effects (2002–2005)**

<b>Sector</b>	<b>Investment (in US\$ million)</b>	<b>Direct employment</b>
<i>Construction</i>	389	54,800
<i>Services</i>	213	4,300
<i>Industry</i>	150	21,000
<i>Agri-business</i>	6.4	535
<b>Total</b>	<b>758.4</b>	<b>80,635</b>

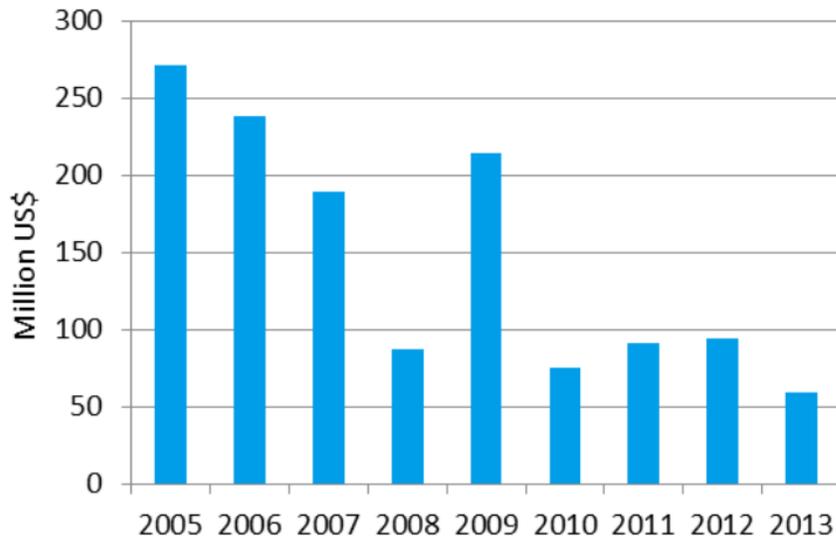
Source: AISA figures reported in MIGA, 2005

In its Services Snapshot for Afghanistan, the International Trade Centre reports that net FDI inflows decreased over 2005 to 2013 (see Figure 3). The Snapshot attributes this to high levels of corruption and the international perception of poor governance in the country. The report also highlights that, as per AISA data, over the period 2003 to 2011 the major sector attracting FDI in Afghanistan was the services sector at

89%,<sup>8</sup> while manufacturing attracted 10% and agriculture 1% of FDI. In order to encourage inward FDI, the government of Afghanistan focused on improving infrastructure and pursued engagement in bilateral and multilateral trade agreements as well as trade-related reforms in construction, telecommunications, transport and logistics.

<sup>8</sup> This includes construction, transport, financial services and other business services.

**Figure 2: Foreign direct investment (net inflows)**

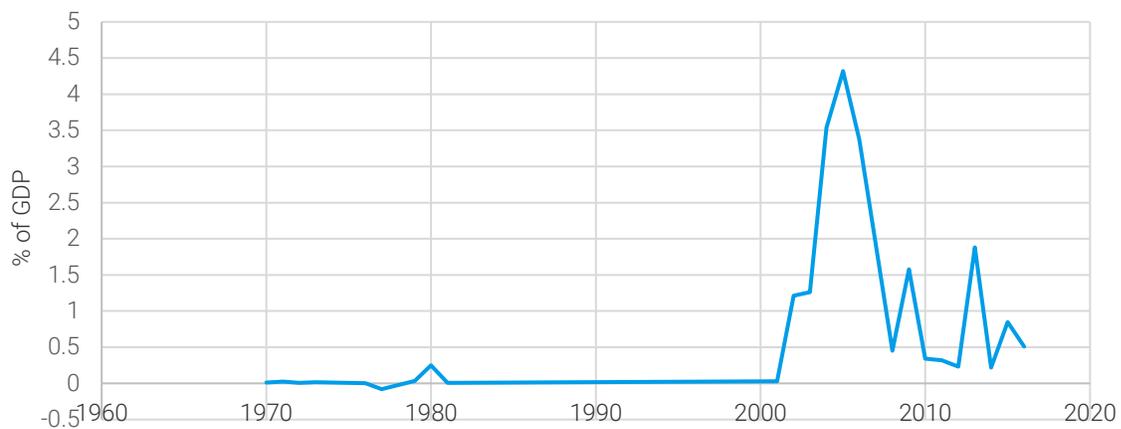


Source: ITC, 2014

The World Bank's dataset for FDI, net inflows (BoP, current US\$), as far back as 1970, also shows an increase between

2001 and 2005, and then a decrease from 2005 to 2015.

**Figure 3: FDI in Afghanistan between 1970 and 2016**



Source: International Monetary Fund, International Financial Statistics and Balance of Payments databases, World Bank, International Debt Statistics, and World Bank and OECD GDP estimates  
(<https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2016&locations=AF&start=1970&view=chart>)

## Investment in infrastructure and employment in Afghanistan

There is no reliable dataset available to make any concrete conclusions about the number and quality of jobs that this investment created. However, the authors speculate that as Afghanistan was emerging from a 15-year war period in 2002, the human capital available in

the country is likely to have been low-skilled or unskilled. Hence, most of the jobs going to Afghans are likely to have been low-quality jobs – such as low/unskilled and short-term jobs, with no training opportunities and poor working conditions.

## National Unity Government and future plans

In an effort to overcome past difficulties, the National Unity Government has recently developed (2017) a number of ambitious plans and frameworks to help coordinate and unify development projects in the country. These plans are all guided by the Afghanistan National Peace and Development Framework (2017–2021), which is aimed at building a productive and broad-based economy that creates jobs. The Framework is in line with the country's 2002 National Development Framework, which recognised private sector development as a core goal and sought to create jobs in the country. The first objective of this five-year Framework is to promote sustainable job creation to improve public welfare and support Afghanistan's progress towards achieving the sustainable development goals (SDGs). The Framework document highlights that the high growth rates of 2006–2013 were mainly derived from security-related construction and services and their associated multiplier effects. It aims to change this through investment in infrastructure and enabling policy reforms that can help the private sector create jobs. To achieve economic growth and create jobs, the

Framework focuses on increasing yield and opening markets for farmers within the agricultural sector, private sector development, investment in and improving accountability and transparency in the extractive sector, energy and infrastructure development, advancing regional integration and turning urban centres into drivers of growth (ANPDF, 2017).

The Framework appreciates that, in the short term, the economy will require 'bridging' strategies that provide jobs. For the longer term, the Framework envisages that Afghanistan will have to begin from its comparative advantages in labour intensive and commodity focused activities, while building up the capital infrastructure and skilled labour force that will allow it to move up the value chain. To build the requisite skill needed to support the economy, the government plans to invest in vocational education, engineering, managerial skills and the service industry, and to institute reforms to make Afghan labour more flexible and responsive. The Framework also highlights the need to and importance of integrating returning migrants and IDPs, as well as improving the quality of educational institutions.

### **Creating jobs by developing our private sector<sup>9</sup>**

Our goals for promoting private sector development are:

- Building efficient and competitive markets;
- Enabling small and medium-sized enterprises (SMEs), particularly export-focused Afghan-owned firms; and
- Encouraging domestic and international investment.

Our tools for creating an enabling environment for the private sector include:

- Assisting Afghan firms to comply with ISO standards;
- Making trade support services relevant and accessible;
- Advancing customs-to-customs agreements with neighbouring countries;
- Strengthening commercial attachés in Afghan embassies;
- Advancing bilateral and multilateral trade agreements;
- Strengthening the transport and logistics sector, including the implementation of the Customs Convention on International Transport of Goods Under Cover of TIR Carnets (TIR Convention);
- Promoting local procurement and allowable import substitution;
- Improving and systematising private sector survey instruments;
- Supporting and building industrial parks and special economic zones;

- Reviewing licensing requirements with the goal of eliminating unnecessary ones;
- Providing tax incentives and legal protections of investments and assets to investors; and
- Establishing one-stop shops offering streamlined electronic business administration services (registration, licensing, customs payments) in Kabul and seven hubs.

### **Growing our human capital to drive economic growth<sup>10</sup>**

Investments in this sector will:

- Prepare for future labour market needs, including labour exports;
- Better align education with private sector requirements;
- Increase the current skills base; and
- Improve workforce quality through investments in preventative and curative health.

To get there we will:

- Expand vocational and technical education, utilising the German apprenticeship model;
- Promote the establishment of private skills academies;
- Identify opportunities to absorb returning migrants and displaced populations into training programmes and labour markets;
- Support community-based approaches to income generation for people with disabilities;
- Review labour policy and regulations to increase flexibility;

<sup>9</sup> Afghanistan National Peace and Development Framework (2017–2021)

<sup>10</sup> Ibid.

- Invest in women's education and market employment;
- Improve the Ministry of Economy by consolidating directorates; and
- Define a sustainable model for health system financing.

In partnership with the ILO, the United Nations Development Programme (UNDP) and the UN Refugee Agency (UNHCR), Afghanistan's government plans to undertake a comprehensive national labour market assessment in 2018 to identify the country's skill needs (RECCA, 2017). With the support of donors such as the World Bank and the EU, the government also plans to improve skills and employability through technical and vocational education. However, it is not clear if the two initiatives will also cater for local employment needs or will only be targeted at foreign labour markets.

As highlighted in the previous chapter, Afghanistan has a long history of developing five-to-seven-year plans that are overly ambitious. Historically, there has been little success in timely implementation of these plans, which have been marred by corruption issues and underspending. As explained in a recent article assessing the newly issued budget for 2018 Clark (2017), efforts have been made to minimise corruption and underspending issues in the budget for 2018. However, given that the preparation and passing of the improved budget 2018 is just a starting point to address issues such as corruption and underspending, the authors are sceptical

about the success of the ANPDF, which also means that there could be subsequent (negative) impacts on achieving the employment generation envisaged in the Framework. The authors' scepticism is also based on the assessment that a lack of required skills and poor education system render the workforce unprepared to meet the development needs of the country. The ANPDF (2017–2021) stipulates that developing human capital is a pre-condition for meeting the needs of the country and has charted an ambitious plan to develop the requisite skills and capacities. However, these plans need to be viewed with caution as the Ministry of Education and the Ministry of Higher Education, which are expected to contribute to the Framework by building human capital, are themselves marred by the same capacity and corruption issues as those of other government institutions. Furthermore, as mentioned previously, data to identify skill needs are missing and although there are plans to undertake a comprehensive assessment to cater for this, this data collection, analysis and subsequent development of relevant education and skills development programmes represent an enormous challenge that will require time, resources and skills. These initiatives are also not new or untested in Afghanistan. Between 2012 and 2017, for example, in the face of 1.7 million unskilled young Afghans, there were plans to establish 250 vocational training centres for 90,000 apprentices and to train 2,700 teachers in two teacher

## Investment in infrastructure and employment in Afghanistan

training academies between 2012 and 2017 (Grawert and Shirzad, 2017). By 2015,

only 46,000 Afghans had completed the training (GIZ, 2015).

## Regional complexities and impact on investment in Afghanistan

Financial support for Afghanistan has come from both donor countries (directly and through trust funds) as well as multilateral organisations. Among the donor countries, regional players such as Pakistan, India and Central Asian countries, as well Saudi Arabia and Iran, have been providing assistance to Afghanistan, especially in infrastructure and construction. However, this is more so because of their own vested interests rather than to meet the development needs of Afghanistan. These regional players have also drawn in and formed alliances with the three global powers – the US, Russia and China – which have had fluctuating interests in Afghanistan and the region. These global powers reinforce the security dynamics within the region and get drawn into the region along existing lines of amity and enmity, which in turn are exacerbated by rivalries between these powers (Harpviken and Tadjbakhsh, 2016). Taking the US as an example, over the past decade both Bush and Obama administrations have sought to rally governments in South Asia to help stabilise Afghanistan, but these efforts have fallen short primarily because of tensions between Pakistan and Afghanistan (Dasgupta, 2013). These efforts have been influenced by US rivalry with China and Russia. In 2011, this strategy was replaced based on the

conclusion that limiting the regional approach to Pakistan and then India only was not enough, and that other countries (Iran, Saudi Arabia, the Central Asian republics and even Russia, China and Turkey) have stakes in Afghanistan's stability (Harpviken and Tadjbakhsh, 2016).

The US and other mainstream analysts considered Afghanistan as the 'heart of Asia', placing Afghanistan at the centre of a large pan-Asian region whose fate is predicated on Afghan stability. However, Harpviken and Tadjbakhsh (2016) challenge this perception, arguing instead that Afghanistan is situated at the margin of three regional security complexes – South Asia, Central Asia and the Persian Gulf – each of which is characterised by deep security contentions. In these three regional security complexes, Harpviken and Tadjbakhsh (2016) suggest the following. Firstly, they contend that Pakistan's and India's sustained engagement in Afghanistan needs to be understood in the context of their foreign policy viz a viz each other. Secondly, they suggest that within Central Asia, security cooperation is hampered by competition for regional supremacy, with each country seeking support from global powers, a dynamic reflected in their roles in Afghanistan. Thirdly, they state that in

the Persian Gulf, both Iran and Saudi Arabia fight for economic and political influence, mirrored in their Afghan engagement.

### **Regional security complexes, economic connectivity and Afghanistan**

The absence of significant economic relations between India and Pakistan is a consequence of their tense relations, affecting not only their trade but also causing ripple effects throughout the larger neighbourhood (Harpviken and Tadjbakhsh, 2016). In Afghanistan, the two countries have been adopting contrasting policies. Despite the tangible benefits that trade connectivity can bring, Pakistan's policy is dominated predominately by its security agenda, which has had detrimental consequences for trade relations between the two countries. India, on the other hand, has not held back from exploring economic cooperation with Afghanistan post-2001. Even as it stayed away from the post-Taliban political process in Afghanistan, India quietly offered economic and technical assistance almost as soon as Karzai assumed leadership of the country in 2001. In 2011, New Delhi signed a strategic partnership agreement with the Karzai government, opening the door for security cooperation between the two countries (Dasgupta, 2013). India now has become Afghanistan's fifth largest donor, pledging US\$2 billion since 2001 and providing aid to education, health and

infrastructure projects (Harpviken and Tadjbakhsh, 2016). Realising this a few years later, Pakistan too has been increasing its aid, and in May 2014 it pledged US\$500 million to help reconstruct Afghanistan. In 2016, Pakistan's Minister for Planning, Development and Reforms announced that Pakistan had launched US\$500 million worth of projects for Afghanistan's education, health and infrastructure sectors (DAWN, 2016). However, from our observations, while much more is known within and outside of Afghanistan about India's support, little is known about the development aid being provided by Pakistan to Afghanistan.

Bohr and Price (2015) in their paper explain that the idea of integrating Afghanistan's economy more closely with the rest of the region is not a new one. They highlight that the New Silk Road concept, promoted by the US since 2011, and now by China –and involving the creation of a trade hub linking Central Asia, South Asia, China and the Middle East via Afghanistan – is its most recent and high-profile incarnation. However, the authors describe the concept as controversial because the Central Asian states generally regard it as an unwelcome attempt to shoehorn them into an artificially defined 'region' that includes Afghanistan; other regional powers view it as a strategy by the US to gain a political advantage at China's and Russia's expense. Bohr and Price (2015) also caution that even if stability were to be achieved in Afghanistan, many

obstacles to economic integration with the Central Asian states would remain. Harpviken and Tadjbakhsh (2016), on the other hand, contend that Central Asian states see considerable promise in economic cooperation with Afghanistan; however, their ability to invest and even to engage in multilateral initiatives has been limited. They conclude that donors and western-backed coordinating and technical agencies “have failed to appreciate the potential of Central Asian professionals and companies and major reconstruction contacts have consistently gone to European, US and Turkish firms” (Harpviken and Tadjbakhsh, 2016, p. 91).

### **Afghanistan and central Asian states**

The ‘New Silk Road’ project has had problems from the outset. Not only is Central Asia one of the world’s least integrated regions, but its two most important development projects – the Central Asia–South Asia Electricity Transmission and Trade Project (CASA-1000) and the proposed Turkmenistan–Afghanistan–Pakistan–India (TAPI) natural gas pipeline – have failed to materialise. Both projects face numerous obstacles. CASA-1000, initiated in 2007, was envisaged as a means of developing electricity trade between Central and South Asian countries in cooperation with a number of international financial institutions.

Ballooning costs have been a primary obstacle preventing CASA-1000 from being realised. In 2014, the World Bank Group and the Islamic Development Bank agreed to finance the project; commitments were

formalised by participant states in December. However, despite such progress, CASA-1000 seems likely to remain yet another US-backed project in the region, stuck in the planning phase owing to an unrealistic assessment of facts on the ground. For example, in addition to the usual security risks associated with Afghan-related infrastructure projects, it is unclear whether CASA-1000 will ever receive a sufficient supply of electricity to be worthwhile.

The TAPI pipeline faces just as many obstacles. With a projected cost of over US\$8 billion, the project has yet to find a solid source of funding. Security risks are a major concern, as are competing pipeline projects from Iran and Qatar, difficult terrain and the high sulphur content of Turkmenistan’s natural gas (Bohr and Price, 2015, pp. 21–22).

Rivalry between Iran and Saudi Arabia is evident in the way that both countries engage in Afghan affairs by providing economic assistance for reconstruction. Iran has been a reliable donor to Afghanistan post 2001, pledging US\$560 million at the Tokyo Conference and US\$100 million at the London Conference in 2006 (Harpviken and Tadjbakhsh, 2016). The main focus of this aid has been on infrastructure (roads, schools and hospitals) and in Herat, and through this investment the Iranian government hopes to create a buffer zone in case the Taliban take over power in Kabul again. Official Saudi figures indicate that between 2001 and 2010, the kingdom contributed approximately US\$429 million to reconstruction, social

and economic projects, and infrastructure development (Harpviken and Tadjbakhsh, 2016).

Regional complexities and development and investment from regional powers have had, and continue to have, multiple impacts in Afghanistan, particularly on economic growth and employment creation in the country, as borne out by the following observations:

- Investment in the country is mainly to further own interests and influence, enabling countries to influence the choice of projects undertaken and geographic location of these projects. For example, most of the reconstruction and rehabilitation projects in Afghanistan supported by Pakistan (which include roads, hospitals and university buildings) are located in Kabul, Jalalabad, Logar and Mazar-e-Sharif, all provinces that are of interest to Pakistan.<sup>11</sup> Regional complexities, such as the rivalry between India and Pakistan, create hurdles as well as opportunities for Afghani businessmen engaged in regional trade and businesses.
- Towards the end of 2013, Saudi Arabia started constructing a new Islamic complex in Kabul. The intention behind this development is speculated to be the belittling of Kahatam al-Nabyeen Islamic University, built

in 2006 by a Shia cleric, allegedly with the support of Iran (Harpviken and Tadjbakhsh, 2016). Iran's investment is mostly in Herat, as explained above.

- The fluctuating security situation in Afghanistan – where non-state actors have been and continue to receive support from other countries – makes investment difficult and raises the costs. These non-state actors also create alternate job opportunities for unemployed youth within their groups.

In addition to bilateral investment by regional players and regional connectivity initiatives by global powers, Afghanistan's Ministry of Foreign Affairs is coordinating two initiatives: the Heart of Asia-Istanbul Process and the Regional Economic Co-operation Conference on Afghanistan (RECCA).

**The Heart of Asia-Istanbul Process (HoA)** was founded in Istanbul, Turkey, in 2011 and aims to provide a platform for regional cooperation by placing Afghanistan at its centre. This is in recognition of the fact that a secure and stable Afghanistan is vital to the prosperity of the Heart of Asia region. The process has three pillars: confidence building measures, regional infrastructure and trade. These pillars include commerce and investment opportunities. The progress report for

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<sup>11</sup> See Pakistan's economic assistance to Afghanistan: <https://defence.pk/pdf/threads/pakistans-economic-assistance-to-afghanistan.317782>

the HoA, reflecting the period 2011 to 2015, concludes that the HoA needs to do more, and that the opportunities provided by the process need to be utilised more to promote peace, stability and prosperity in the region.

The **Regional Economic Cooperation Conference on Afghanistan (RECCA)**, which began in December 2005 and has undergone seven rounds, provides a regional platform for Central, South and Southwest Asian foreign and economic ministers to engage their counterparts in Kabul to forge consensus around concrete policies and investment project opportunities that deepen cross-border economic relations centred on Afghanistan (Ponzio, 2015). RECCA encompasses a regional cooperation framework aimed at promoting cross-border trade and transit through prioritised economic exchange and investment projects capable of contributing to economic growth, job creation, public revenue and confidence-building for countries and people situated within the wider Heart of Asia region (RECCA, 2017).

After a decade, RECCA 2.0 Approach was launched in 2016. The new approach focuses on:

- Coordinating and offering support to bankable projects for private and public investors;
- Teaming up with RECCA focal points, regional governments, regional chambers of commerce, investment road shows and regional business forums;
- Including RECCA in strategic partnerships with other regional bodies and initiatives;
- Supporting the Afghan government's regional connectivity and regional economic cooperation council;
- Transforming the RECCA website into an interactive web portal for real-time regional investment promotion and knowledge sharing;
- Establishing RECCA plus through regional consultations aimed at the development of a regionally led and owned economic strategy for Central, South and Southwest Asia (RECCA Annual Review, 2016, p. 6).

Putting emphasis on employment creation, the RECCA 2.0 Approach considers bankable projects as having:

- An impact on growth in trade and transit;
- A role in private sector development;
- The ability to generate sufficient cash flows and positive net present value, as well as an internal rate of return above the opportunity cost;
- The ability to contribute significantly to employment and public revenue in the region;
- A possibility of being implemented within 12 to 36 months;

- Proper project management and governance arrangements involved.

Based on the bankable project criteria, RECCA has put forward four energy projects, six transport and network projects, three trade and facilitation projects, one communication plan and three projects under B2B and Labour Exchange. For each of these projects, impact on employment is a key criterion. For example, the TAPI project is expected to “generate thousands of construction, operations and maintenance jobs” and CASA-1000 is expected to generate “catalytic (indirect) employment opportunities of over 100,000” (RECCA Annual Review, 2017). The RECCA V11 review (November 2017) proposes that the Afghan government through the National Labour Migration Strategy (2015–2018) and the National Labour Policy (2016–2020) works to gain legal and regular access to foreign labour markets. To support this, the Ministry of Labour, Social Affairs, Martyrs and Disabled, along with the World Bank and the EU, is planning for skill enhancement and employability of Afghan workers through technical and vocational education and training (TVET) programmes and labour dispatch. Under this project, the World Bank aims to facilitate employment opportunities for 2,000 Afghan workers in Saudi Arabia and the Gulf Cooperation Council (GCC) countries. As per the review, employment centres have been established in major Afghan cities, and

the new Asan Khedmat project is expected to bring more transparency to foreign and local work permit processes. These initiatives will be supported by a comprehensive national labour market assessment to be conducted in 2018 to identify the country’s skill needs.

A decade after its inception, RECCA has made progress. Steps have been taken to address gaps and bottlenecks identified in each yearly review and conference, indicating that the platform still remains underused. A much stronger follow-up is needed on the implementation of the commitments made through RECCA. Moreover, as pointed out in successive reviews, there is still a need to take practical steps to foster closer collaboration with the Istanbul Process and other regional cooperation platforms, including the South Asian Association for Regional Cooperation (SAARC), the Central Asia Regional Economic Cooperation (CAREC) programme, and the Economic Cooperation Organization (ECO). With RECCA’s vision to become the coordination body for public and private investment for “bankable projects” and to strategically work with other regional initiatives, it is in a unique position to introduce and ensure that employment opportunities created through public and private investment in Afghanistan are conflict sensitive and contribute to peace and stability in the country. Strengthening RECCA and its interaction with other processes, such as the Heart of Asia and other regional initiatives and forums, will help to contribute to this.

## Investment in infrastructure and employment in Afghanistan

Moreover, given its coordinating role, RECCA also has the potential and opportunity to further define and influence the kind of jobs that these

investment projects provide in Afghanistan as well as in foreign labour markets, offering Afghans conflict-sensitive employment opportunities.

## Security measures for infrastructure projects and implications for employment in Afghanistan

Investment projects in Afghanistan are expected to create three types of jobs: skilled jobs, unskilled or daily wage jobs, and security-related jobs.

### Skilled versus unskilled jobs

The ALCS (2014) report shows that nine tenths of the employed workforce are in unskilled occupations. The survey also shows that 61% of all employed Afghans have not been to school and only 10% have attended school up to primary level. The chief executive officer (CEO) of an international construction company pointed out during an interview with the authors that a key challenge facing companies is the lack of professional and skilled workers in Afghanistan. This challenge exists for both international companies operating in Afghanistan as well as local companies.

Since 2014, Afghanistan's government has placed a restriction on certain trades such as information technology (IT), accounting, administration and security services, so that companies are encouraged to hire locals. However, as the locals that are qualified do not always fulfil the skill requirements or level of expertise demanded by most professional companies, the companies are often forced to hire foreign workers,

mainly from Pakistan and Dubai, which makes recruitment more expensive. This means that the majority of locals are hired for unskilled and daily wage jobs or, as categorised in the ALCS, 'vulnerable employment'. This in turn becomes cyclical – that is, investment coming into the country does not benefit the majority of locals in helping them to develop their skills at an individual level and human capital at the country level, and they continue to be hired in low-skilled or unskilled jobs as more investment comes in.

### Security measures and implications for employment

A key concern for the implementation of large infrastructure and construction projects has been security, to which a high percentage of the budget has to be allocated. According to Ghani (2009), "t(T)oday, about half the costs of some infrastructure projects are payments to security firms". McDiarmid (2013) reported that Canada spent US\$10 million for security measures for an Afghan dam project, which amounts to 20% of the total construction cost. Citing Banerjee, who led the work of the Canadian International Development Agency (CIDA) in Afghanistan from 2003

to 2006, she highlights that “paying for security is a necessity of doing development work in conflict countries...(but) use of private security contractors ate through development funds and undermined the Afghan government’s authority, because at times they operated outside Afghan law” (McDiarmid, 2013). According to the same article, the US Agency for International Development (USAID) estimated that private security costs would increase from 8% to 10% in low-risk areas to as high as 20%, 30% or even 50% in ‘extremely dangerous’ locations (McDiarmid, 2013). CIDA, like USAID, does not hire the private security contractors directly – instead, costs are reported as funds dispersed to “implementing partners”.

### **Turkmenistan–Afghanistan–Pakistan–India natural gas pipeline (TAPI) project**

The TAPI Project aims to export up to 33 billion cubic meters (bcm) of natural gas per year through a proposed approximately 1,800 kilometer (km) pipeline from Turkmenistan to Pakistan and India through the Herat, Farah, Helmand and Nimroz provinces of Afghanistan. The pipeline is expected to change Afghanistan into a transit hub for Central Asia. The project is considered to be of high importance because other projects will be built along the TAPI pipeline route – such as a power transmission project, a railway project, an industrial parts and a fibre optic project. Turkmengas, the consortium leader for the TAPI project, is to contribute up to 85% of

equity. The other TAPI members, namely Afghanistan, Pakistan and India, would make a 5% equity share each in the project company. The project is expected to benefit southern Afghanistan by providing job opportunities during construction as well as creating an enabling environment for further industrial development in the area.

The project is politically complex as it requires cooperation among various governments. It is logistically challenging as the pipeline would pass through highly insecure areas of Afghanistan and Pakistan. The lead international company will be responsible for identifying local companies that are capable of implementing this project. Awards to these companies will be made through a public tendering process.

Interview with CEO of an international construction firm, Kabul, 2017

Between 2001 and 2010, hundreds of security companies operated in the country to secure the project sites in insecure areas of the country. However, in 2010, the former president of Afghanistan, Hamid Karzai, banned the operation of individual security companies and established the Afghan Public Protection Forces (APPF) instead. In 2012, based on a decision by the Council of Ministers, the state security enterprise was dissolved and the APPF was fully integrated into the Afghan National Police (ANP). The APPF is self-funded, producing revenue for the Afghan government through private security contracts. Its governing committee comprises government and private security company employees. The

private security companies are local firms contracted by international companies. The government representatives are from the Ministry of Interior. The APPF's remit is to oversee the security of infrastructure and construction projects. Currently, the APPF is looking after both the TAPI and CASA projects.

The APPF oversees security in two ways: firstly, by ensuring that insurgent groups do not damage projects and staff; and secondly, by establishing agreements between local elders and government. This is done through mosques and imams, as well as by forming bridges between government and communities. So far, the committee has taken care of security in some provinces. However, it has not yet implemented the security plan for TAPI and CASA. The plan is ready but the APPF does not yet have the staff to execute it and is awaiting government orders.<sup>12</sup>

In an interview, a representative from the APPF stated that the main challenge is lack of security. The pipeline is going through highly insecure areas, caused by the presence of the Taliban, the so-called Islamic State (IS), local warlords and some members of parliament (MPs).

Other challenges include the problem of access in some places because of the geography and, in other places, demining has not happened.

The APPF has devised a security plan for this purpose. The plan has two

components – a hard component and a soft component – through which the APPF expects to generate employment for local people.

### **Hard component of the security plan**

According to the APPF representative, key features of the hard component are as follows:

- Local warlords should be brought into the structure of the Afghanistan Local Police (ALP) and provided with salaries to get them involved in looking after security;
- MPs should be pressurised and influenced through the government and be brought into the security structure;
- For the Taliban and ISIS, forces should be deployed.

Asked how the APPF will ensure that local warlords and MPs do not become even more powerful and exploit their powers, the APPF representative stated that: “local warlords and MPs will not be given total power when they are brought under the security structure. Authority will rest with the police, who will supervise ALP.”

### **Soft component of the plan**

With the help of other organisations, an awareness-raising programme will be implemented in the first year. This will be done through the imams of local mosques, tribal leaders, local shuras and

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<sup>12</sup> Interview with representative of APPF, Kabul, 2017.

by reaching out to local people. The purpose is to raise awareness about the benefits of the project that is being implemented by asking the local people not to send their sons to join the insurgents and by highlighting to them that their sons will get jobs through the project as security guards. A training programme has been designed for the locals and would include:

- Training on security;
- Awareness raising about the benefits of the project;
- Education on reading and writing skills as they will have to do some basic reporting.

The training programme seeks to change people's mindset. Some people will also be hired for technical purposes, such as maintenance after the project has been implemented. For this, separate training will be given. Training will be conducted both in Kabul and in their own areas. For the education component of the training, instructors will be hired from the Kabul Education University. The Ministry of Higher Education has a list of graduates who need employment. Islamic matters will also be taught during the training. Local and foreign trainers will conduct security training in army academies.

The APPF envisages both short-term and long-term strategies for generating employment opportunities for local people. In the short term, the strategy is to transfer forces from one project to another. As there are a number of projects in the pipeline (including TAPI,

CASA-100), it is expected that there will be enough employment opportunities. Locals will be hired for projects that are considered long term (duration of 3 to 5 years), such as TAPI and CASA.

Most infrastructure projects in Afghanistan are financed by multilateral organisations, such as the Asian Development Bank (ADB) and the World Bank. According to an ADB sector specialist, ADB was trying to promote local companies and employment through its contracts in the following ways:

- All contracts are bid for by international firms, but they have to find local partners. ADB now places a greater emphasis on this, as previously international firms would sublet to local companies while keeping most of the profits for themselves (even though the work was done by local companies). Business opportunity seminars are held for local companies to inform them about upcoming opportunities so that they can prepare themselves. A shortlist of international firms for projects is shared with them so that they can contact them and seek partnership opportunities.
- In the past, contractors have been attacked, for example in Jalalabad, due to rivalry between two groups who both wanted employment in the project. Contractors now understand that they have to be sensitive to the local situation and

most of them are now taking measures in this regard. They talk to the village elders before the start of the project. This arrangement seems to be working as projects are facing few problems now.

- About 2% to 5% of the budget in projects is allotted to security provisions. A security plan is prepared and calculated for. However, security has to be managed by the implementing companies. A supervision consultant has to verify the security costs to ensure that payment goes to security provisions and is not spent on bribery, for instance.<sup>13</sup>

Currently, most of the jobs created in Afghanistan are short term and low skilled and, as explained in the APPF's strategy, security related. Despite the fact that the APPF's strategy to create security-related jobs may provide employment opportunities in the short term, it raises concerns about the future stability of the country. In the past, the government has applied similar strategies for the Afghan local police and, more recently, for the recruitment of

community members guarding the Ashura processions during the Muharram.<sup>14</sup> This strategy has raised concern as it has the potential to create opportunities for exploitation and more armed groups, and it may lead to recruitment into existing armed groups in the absence of any alternative suitable livelihood opportunities.

Furthermore, while the ADB representative stated that 2%–5% of the project costs are allocated to security provision, McDiarmid's (2013) article tells otherwise, indicating that security costs for projects are much higher. This suggests that, given the security situation in Afghanistan, companies may need greater support to take appropriate security measures. If the companies are to ensure security and to apply the recommendations provided in the Conflict-Sensitive Employment Framework for construction and transport companies (Grawert et al, 2017a), they will need appropriate support greater than the 2%–5% estimated, so that they do not have to resort to alternative measures such as bribing militants and so they can create conflict-sensitive employment opportunities for locals.

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<sup>13</sup> Interview with an ADB sector specialist, Kabul, 2017.

<sup>14</sup> Muharram is the first month in the Islamic calendar and the time when some Shi'ites celebrate Ashura, the

mourning period for the murder of Imam Hussein, the grandson of the prophet Mohammed.

## Conclusion

*Investment is expected to generate employment, but what type of employment should it be?*

Over the years, Afghanistan has received substantial development aid and attracted FDI. However, while development aid for Afghanistan has mounted since 2003, private FDI has been declining, falling from about US\$270 million in 2005 to about US\$60 million in 2013. In the five-year Afghanistan National Peace and Development Framework (ANPDF), the government aims to build a productive and broad-based economy that creates jobs. It intends to achieve this through private sector development as well as investment in the extractive, energy and infrastructure sectors. The government also wants to advance regional integration and use its geostrategic position to reap the maximum benefits for the country through inclusion in regional connectivity projects being planned by global players such as China and the US. These opportunities and ambitions are emerging against the backdrop of a deteriorating security situation in the country. Afghanistan has experienced considerable violence

during 2017, and according to the US Special Inspector General for Afghanistan Reconstruction (SIGAR), the Afghan government's control over districts has deteriorated to its lowest level since December 2015, when SIGAR first began analysing such data (Rajan, 2017).

The ANPDF acknowledges that human capital is needed to drive the economic growth envisaged by the Framework and recognises that Afghanistan does not have the skills and education institutions to cater for this immediately. As per the mid-term results from the 2016–2017 ALCS survey, the percentage of the labour force who were not gainfully employed, underemployed or unemployed stood at 71%. This figure is alarming, given that Afghanistan has a large youth population<sup>15</sup> and has received a large number of returnees from Iran, Pakistan and Europe during 2016 and 2017.<sup>16</sup> Based on the current government's plans and the commitments made by donors at the Brussels conference in 2016, development aid is likely to stay at the current levels for the next five years. The regional initiatives, in which Afghanistan's geographic position places

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<sup>15</sup> About 63.7% of Afghans are aged under 25, reflecting a steep 'pyramid' age structure whereby a large cohort of young people is slowly emerging (<http://afghanistan.unfpa.org/en/node/15227>)

<sup>16</sup> See Afghanistan Returnee Crisis Situation Report No. 9 (April 2017): <https://www.humanitarianresponse.info/en/operations/afghanistan/document/afghanistan-returnee-crisis-situation-report-no9-21-april-2017>

it well for inclusion, are likely to see FDI coming to Afghanistan. However, while this may provide an opportunity for the Afghan labour force, unless it is managed in a conflict-sensitive manner, it could create further instability instead of contributing to economic growth.

Afghanistan has a long history of preparing development plans, and the National Unity Government is continuing this at present. However, these plans have not had much success in the past due to rampant corruption among government authorities, resulting in delays and low quality of projects. This situation and context cannot be changed overnight, despite the efforts being made by government. Therefore, it is important that investors in such a context support the government in its endeavours to address corruption, building human

capital while ensuring economic growth by acknowledging that interim investment strategies need to be put in place as broader efforts continue in the longer term. Furthermore, in fragile contexts such as Afghanistan, only generating employment is not enough. There is also a need to generate employment that is conflict sensitive. In such contexts, businesses (domestic and foreign) can play a significant role in supporting the government in creating conflict-sensitive employment opportunities through responsible business practices, which in the longer term can lead to peace and stability. At the same time, international financing institutions and governments can place an emphasis on ensuring conflict sensitivity in investments if this benefits their business and generates more profit.

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