

Afghanistan: Time to move to Sustainable Jobs
Study on the State of Employment in Afghanistan

May 2012

Commissioned by the ILO – Afghanistan Office

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Acronyms

ADB	Asian Development Bank
AISA	Afghan Investment Support Agency
CSO	Central Statistics Organisation
DWCP	Decent Work Country Programme
DWI	Decent Work Indicators
EC	European Commission
ESC	Employment Service Centres
FAO	UN Food and Agriculture Organisation
FY	Fiscal Year
GDP	Gross Domestic Product
GIZ	Gesellschaft für Internationale Zusammenarbeit
GNI	Gross National Income
GOA	Government of Afghanistan
ICSE	International Classification of Status in Employment
ILC	International Labour Conference
ILO	International Labour Organisation
IOM	International Office on Migration
ISCO	International Standard Classification of Occupations
ISIC	International Standard Industrial Classification
KILM	Key Indicators of the Labour Market
LFS	Labour Force Survey
LMI	Labour Market Information
LMIA	Labour Market Information and Analysis
LMIAU	Labour Market Information and Analysis Unit
LMIS	Labour Market Information System
MAIL	Ministry of Agriculture, Irrigation and Livestock
MOE	Ministry of Education
MOLSAMD	Ministry of Labour Social Affairs Martyrs and Disabled
MDG	Millennium Development Goals
MRRD	Ministry of Rural Rehabilitation and Development
NPP	National Priority Program
NSDP	National Skills Development Program
NRVA	National Risk and Vulnerability Assessment
NUWA	National Workers' Union of Afghanistan
ODA	Official Development Assistance
TVET	Technical and Vocational Education & Training
UNDP	United Nations Development Programme
UNESCO	United Nations Education, Science and Culture Organisation
USAID	United States Agency for International Development
WB	World Bank
WFP	UN World Food Programme

Foreword

In its *Jobs for Peace*¹ report the ILO cautioned that “[t]he massive employment challenge faced by Afghanistan and its neighbours, has to be tackled as a critical part of the reconstruction and recovery programme.” That 2001 paper went on to say, “the ILO recognizes this challenge and is concerned that the reconstruction and recovery programmes may miss important opportunities of securing direct and indirect benefits that could immediately flow to the local population if employment is not made central to the overall recovery strategy”.

More than ten years later the ILO regrettably finds itself reiterating the critical importance of making employment a central element of the strategy for this *transition* and the *transformation decade to 2024* of the Government of the Islamic Republic of Afghanistan and the international community. Recent developments in the Middle East and Europe serve as a reminder of the destabilizing effect that unemployment, underemployment and the existence of large numbers of vulnerably employed can have on the social and political fabric of societies.

This brief study attempts, despite the continued lack of reliable labour market data and information systems, to provide a glimpse of the current state of employment in Afghanistan, highlighting key areas of concern and making a series of policy recommendations that it is hoped will be of value to the Islamic Republic of Afghanistan as well as its international supporters.

Almost a hundred years ago (in 1919) the Preamble to the ILO’s Constitution stated that lasting peace can only be established if it is based upon social justice. The ILO continues to believe in the truth of this statement; When conditions of labour continue to exist that create injustice, hardship and privation for large numbers of people - as is the case in Afghanistan today - it can lead to unrest so great that it imperils peace and harmony. The ILO stands ready to support efforts of the Islamic Republic of Afghanistan and the international community in building lasting peace in Afghanistan through decent work.

Hervé Berger
ILO Sr. Coordinator / Representative
ILO Kabul, Afghanistan

¹ Jobs for Peace: ILO Strategy for the colossal employment, reintegration and reconstruction challenges of the Crisis in Afghanistan and its Neighbours, ILO/IFP/CRISIS, Geneva, 24 November 2001.

Executive Summary

The situation of Afghanistan is today undermined by the convergence of demographic, social, economic, and of course, political challenges. Recent figures released by the World Bank and the Afghan Ministry of Finance indicate that the total amount of aid for 2010/2011 amounted to approximately US\$15.7 billion, which is close to the overall GDP. As such, both the income of the Afghan government and the precarious economic equilibrium of the country are directly dependent on donors' contributions and the country could thus suffer an economic downturn and severe uncertainties as a consequence of a reduction in development assistance funds.

In this context, this study calls for a longer term approach to socio-economic development in Afghanistan, in which employment and decent work take a central role. While this is indeed a major challenge given the economic and political uncertainties facing the country, a balance needs to be found between the urgency of stabilization and creating more sustainable jobs that lift people and their families out of poverty.

Economic context and labour market overview

- **Economic activity** – The local economy mainly relies on the informal sector (including illicit activities), which accounts for 80 to 90% of the total economic activity and largely determines the real income of Afghan households. For this reason, the labour market is still dominated by: 1) an agricultural sector, which performs poorly in providing decent work and income; and 2) a services sector, which has been the main driver of the strong Afghan growth but will probably suffer the most from the progressive reduction of international financial inflows.
- **Economic prospects** – In the long- and medium-run, economic and social prospects will depend on: 1) a satisfactory handover of security responsibilities to Afghan national police and army; 2) a continuous and adequate financial commitment by the international community to stay engaged in support of the country's long-term development; and 3) a positive and actual impact of the promising extraction and mining activities on the local economy, to better foster development in services and productivity gains in the agriculture sector.
- **Unemployment** – Data on unemployment in Afghanistan is as weak as it is controversial. According to the *NRVA 2007/8*, the unemployment rate is only a modest 7.1%. Taking the same rate and an estimated labour force (15+) of 11.59 million for 2012 would suggest that there are currently around 823,000 unemployed Afghans. These figures should be interpreted in the sense that, as often stated, the majority of people simply cannot afford to be unemployed.
- **Lack of decent work deficits** – The predominance of underemployment, precarious/casual employment and working poverty are in fact better indicators of the poor state of the Afghan labour market, as reflected by: i) 60% of the employed workforce are in agriculture working in low-productivity and subsistence-type production; ii) the urban labour market, which is characterized by skills mismatch and problems of job quality in both the informal and the small formal sectors; and iii) most jobs, that have been generated by international development assistance, tend to be casual or temporary and are clearly not sustainable without continuing aid inflows.

Vulnerable and marginalized groups

- **Youth** – With the labour force increasing by over 400,000 each year, Afghanistan has an increasing need to generate employment opportunities for its new labour market entrants, along with those individuals who are already un- and underemployed. Young employees generally occupy temporary and precarious positions as “apprentices” or “trainees” in a labour market with no contractual or regulatory obligations for employers.
- **Women** – Since mobility outside the home is limited for cultural reasons, women – especially in rural areas – are primarily involved in home-based income-generating activities like carpet weaving, sewing, tailoring, agricultural work and taking care of livestock and selling dairy products. However, even if women are often more involved in basic unskilled pastoral and agricultural activities in rural districts, it should be noted that the female employment-to-population rate in Afghanistan is higher than the South Asian average (based on the NRVA 2007/8).
- **Child labour** – Though the legal age of employment in Afghanistan is 15, enforcement of this restriction is weak, with UNICEF estimating that 30% of Afghan children work. Children tend to work more significantly in rural areas (pastoral and agricultural activities); though, in urban and peri-urban areas, young children – especially boys – from poor households also tend to contribute to the family income (in brick kilns, carpet weaving factories, and also through begging).
- **Returnees** – Since 2002, over 5 million Afghan refugees returned ‘home’ causing increased pressure on local absorption capacities. On average, family members survive on less than \$1 a day and one third of the labour force surveyed falls under the category of unstable and unskilled labour (seasonal daily labour in the agriculture or construction sectors).
- **IDPs** – At a time of record lows in the repatriation of refugees, increased internal displacement and irregular cross-border migration, access to the labour market has become one of the central drivers of mobility. IDP household heads have substantially lower literacy rates and levels of education, directly impacting their labour market outcomes. Subsequently, IDPs’ employment opportunities are primarily in construction, and low quality and unsafe jobs in general.
- **Marginalised communities** – If nomadic Kuchi communities, which account for 1.6 million people in the country according to the NRVA, are often considered as socially and economically marginalized, the Jogi, Jat, Gorbat and Chori Frosh communities are the invisible among the poor: these communities suffer from severe social, economic and political barriers constraining access to education and employment.

Challenges and trade-offs

- **Lack of reliable data and information system:** Aside from the NRVA data, which methods and data collection have often been criticized, there is neither nationwide data on employment, nor reliable information on skill supply and demand, which clearly undermines the adequate assessment of the current situation.

- **Lack of long-term thinking** – Programmes are too often characterized by short-term initiatives, which are: 1) conducted with limited involvement of key institutions for sustainability; and 2) overly dependent on donors’ funding cycles.
- **Lack of coordination** – There is a clear lack of interaction and coordination between the various Afghan ministries and agencies, which should be working together on the issue of employment. The Ministry of Labour, Social Affairs, Martyrs and the Disabled (MoLSAMD) has developed an employment generation and capacity-building policy within the frame of the National Priority Program (see NPP 1). However, these intentions still need to be translated into a long-term financial commitment from donors and tangible acts from governmental counterparts.
- **Lack of linkage with the labour market:** The link between employment and “political stabilization”, which has been a cornerstone of employment programmes in Afghanistan, has not been successful in creating sustainable jobs. Moreover, a key weakness the existing capacity development and job creation programmes – international and local, public or private, governmental or non-governmental – is the poor link to the labour market. *Government TVET training initiatives*, as well as *international and non-governmental organisations* tend to exclusively focus on direct and visible outputs (e.g. participation in training), without taking into account longer term employment outcomes.
- **Focus on casual jobs** – In addition, most local and international stakeholders have not sought to identify unmet demand in the labour market and are too often focus on strategies that mostly result in the creation of casual and short-term jobs, rather than leading to sustainable employment generation.
- **Lack of financial capacity:** The on-going transition is likely to significantly impact on government employment and capacity building strategies, as socio-economic priorities still lag behind security and civil service wage bills. In the long run, the lack of financial capacity on the skills supply-side may significantly hamper national employment strategies.

Creating more sustainable jobs through coordinated and coherent policies and programmes

- **Holistic approach rather than fragmentary interventions** – In the long-run, only coordinated, sustainable, market-driven, and contextualized initiatives will contribute to the economic and social growth of the county. In this respect, the July 2012 Tokyo conference on Afghanistan has to be ambitious with regards to: i) the necessity for the international community to reaffirm its assistance to employment strategies over the medium and long run (2015-2024); ii) the creation of sanctuarized, guaranteed and dedicated financial commitments from international donors; and iii) the mainstreaming of employment objectives in long-term programming cycles, through the National Priority Programs that specifically focus on job and skills creation, to enable sustainable implementation strategies through multiyear capacity building and employment generation strategies (including a national employment policy). To better coordinate and streamline the several existing employment strategies, each and every programme (either bilateral or multilateral) should rely on a set of guidelines and principles.

- **Promote social dialogue** – Since sustainability is a key factor for any employment strategy, it is important to develop programmes, methods, and instruments that promote ownership among employers and workers organizations through social dialogue. Thus, the development of both national policies and programmes should be built on dialogue between the government and social partners. However, this in turn requires that the employer and worker organizations are further supported through capacity building initiatives.
- **Pragmatic market-driven employment and capacity-building policies** – To build stronger linkages to the labour market, priority should be given to: i) longer term employment strategies, which address institutional capacity building through technical and financial support (e.g. Employment Service Centres – ESCs); ii) the informal economy including agriculture, micro enterprises and other self-employment activities; and iii) making both public and private higher educational institutions more market responsive to the manpower needs of the economy.
- **Specific support to vulnerable and marginalized groups rather than “one-size-fit-all” approaches** – Taking specific groups’ concerns into account is critical for promoting social justice and equity in the transition process. In part, this will involve addressing the participation of groups that have traditionally had restricted access to employment (women, youth, nomadic people, returnees, IDPs, etc.) through education, credit schemes and professional development.
- **Research- and evidence-based policies** – A major impediment to the development efforts has been the lack of adequate information on the Afghan labour market. To fill this important gap, research priorities must be defined, in partnership with the management and staff of the Central Statistical Office (CSO) and the Ministry of Labour Social Affairs Martyrs and Disabled (MOLSAMD), to gather accurate data on the labour market to provide: (a) a solid basis for the formulation of relevant vocational training programmes; and (b) inform a wide range of policy and programme responses to improve the functioning of the labour market and other key areas of decent work and related economic and social services. Overall, national and international employment generation programmes should rely on rigorous analyses of local social and economic environments, which then lead to the design of employment and capacity building strategies that create permanent jobs and additional skills in local labour markets.

Ultimately, most stakeholders will have to rethink their objectives, organization, design and implementation of programmes to pave the way for renewed parameters of partnership between Afghanistan and the international community in the “decade of transformation” from 2015 to 2024, which should situate sustainable employment generation at the forefront of a multiyear non-politicized economic development and employment generation agenda.

Introduction

Afghanistan 2015-2024: from transition to transformation employment strategies?

The situation of Afghanistan is today undermined by the convergence of demographic, social, economic, and of course, political challenges. With the progressive and on-going withdrawal of international military and development actors and the subsequent transition to a full Afghan political control, the international community has reached a new stage of its attempt to address the country's challenges in a sustainable manner.² Since the focus of the last decade has been on security, most key stakeholders in Afghanistan have not paid enough attention to a socio-economic time bomb that may ruin all the long-term efforts undertaken by local and international actors. With one of the youngest populations in the world, where children under 15 represent 49%³ of the population, the absence of a structured labour market and sustainable employment perspectives adds to the deep economic and social uncertainties facing the country.

First, a rapid review of the existing literature does not lead to a great deal of economic optimism. Of the 34.4 million inhabitants⁴, it is estimated that 36% of the population live below the poverty line⁵. Per capita gross national income for 2010/11 is estimated at US\$466 (UN Data country profile) (World Bank's estimate is US\$410). Afghanistan's economy is dominated by the informal sector (including illicit activities), which accounts for 80 to 90% of the total economic activity and largely determines the real income of Afghan households⁶. According to a 2005 World Bank *Country Study*, 3% of GDP and around 350,000 employees are accounted for by the formal economy, which only includes businesses that are registered and pay taxes⁷. The vast informality of the Afghan economy also means that the majority of workers are not protected by labour laws and do not have access to pension or social protection.

Secondly, unemployment and underemployment are clearly one of the most intractable problems facing the country and the lack of productive and decent job opportunities is a major cause of persistent poverty. A seemingly modest unemployment rate of 7.9% and a relatively high labour force participation rate of 67% mask the harsh reality that the poor cannot afford to be unemployed⁸. More than 48% of employed individuals in urban areas and 53% in rural areas work less than 35 hours per week on average, and could be considered "under-employed". More importantly, over 90% of the jobs can be classified as

² Samuel Hall Consulting, *Redefining Humanitarian Assistance in Afghanistan, A Contextual Analysis*, Kabul, July 2011.

³ *National Risk and Vulnerability Assessment (NRVA)* – data from 2007/2008 (Government of Afghanistan, with the assistance of the European Union).

⁴ The World Bank, World Development Indicators 2011: <http://data.worldbank.org/country/afghanistan>.

⁵ The World Bank, World Development Indicators 2008: <http://data.worldbank.org/country/afghanistan>.

⁶ William A. Byrd, *Responding to Afghanistan's Development Challenge. An Assessment of Experience During 2002–2007 and Issues and Priorities for the Future*, World Bank, October 2007.

⁷ The World Bank, *A World Bank Country Study Afghanistan State Building, Sustaining Growth and Reducing Poverty*, 2005.

⁸ Central Statistics Office and MRRD (2005) *The National Risk and Vulnerability Assessment (NRVA) Afghanistan 2007/08*, available at http://ec.europa.eu/europeaid/where/asia/documents/afgh_nrva_2007-08_full_report_en.pdf

vulnerable employment as they do not offer secure stable employment and sufficient income⁹. These jobs include own account workers, unpaid family workers and day labourers.

Thirdly, with the on-going and upcoming transition, the progressive diminution of the international development assistance will negatively impact on services, trade, logistics, transportation, construction as well as public service sectors. Despite perceived and manifest inefficiencies¹⁰, the official development assistance from the international community does contribute to the livelihoods of low-income groups. The most recent figures released by the World Bank and the Afghan Ministry of Finance indicate that the total amount of aid for 2010/2011 amounted to approximately US\$15.7 billion, which is close to the overall GDP. As such, both the income of the Afghan government and the precarious economic equilibrium of the country are directly dependent on donors' contribution and the country could thus suffer a severe economic downturn when foreign troops leave in 2014 unless proper planning commences¹¹.

The drastic reduction of donors' contributions would, therefore, have a short- and long-term impact on the labour market – as highlighted by the Director-General of the Economic Department of the Afghan Ministry of Foreign Affairs in a recent public presentation¹², who identified three major concerns for the years leading up to and following 2014: 1) the probable rise of unemployment; 2) the exile of the most skilled Afghans; and 3) a correlated decrease in productivity of unskilled workers. In a context of significant aid cutbacks, this raises serious concerns for stability and security in Afghanistan¹³.

Afghanistan at a Glance

GDP in 2010/2011 (current US\$): \$17.2 billion
GNI per capita in 2010/2011: \$410 (\$180 in 2001)

International aid in 2010/2011: \$15.7 billion (= nominal GDP)
Development: 172nd on the UNDP-HDI (189 countries)
Doing Business in 2012 (World Bank): 160th (183 economies)
Average Economic Growth since 2002: +9%
Economic Growth in 2011: +8%

Population in 2010/2011: 34.4 million
Rural Population: 77%
Life expectancy at birth: 48.1 years
Infant mortality: 134 per 1,000 live births
Population growth: 2.8%

Poverty Rate: 36% of the population below the poverty line
Literacy Rate: 18% of the population ages 15 and above
Child Labour: 17.9% of age 6-15 year
Food Insecurity: 8 million considered food-insecure
Food Vulnerability: 6 million vulnerable to food insecurity

*Sources: World Development Index (The World Bank, 2011)
Poverty Status in Afghanistan. A Profile based on the National Risk and
Vulnerability Assessment (NRVA) 2007/08 (The World Bank, July 2010).*

⁹ Idem.

¹⁰ Aid effectiveness remains a key concern, an estimated 40% of aid goes back to donor countries in corporate profits and consultant salaries, and over half of aid is tied, requiring the procurement of donor country goods and services. (ACBAR Advocacy Series. 'Falling Short. Aid Effectiveness in Afghanistan', 25 March 2008, available at reliefweb.int/node/260552).

¹¹ Dr. Ashraf Ghani, "Preparing for Transition: A Policy Note on Development," policy memo sent to Senate Foreign Relations Committee Majority Staff, May 12, 2011.

¹² "A Probable Macroeconomic Scenario", held at the Afghanistan Chamber of Commerce and Industries (ACCI) in January 2012. See also the corroborative article of the New York Times, "In Afghanistan, Businesses Plan Their Own Exits" (March 31, 2012), available at http://www.nytimes.com/2012/03/31/world/asia/businesses-may-flee-afghanistan-after-troop-withdrawal.html?pagewanted=1&_r=2&ref=global-home.

¹³ Ashraf Ghani, the Afghan government's transition chief, has said his hope to see a "transition dividend" in which benefit by reducing their military spending would return part of that savings to Afghanistan by increasing aid for reconstruction and development. But, at a time of economic crisis in Europe and America, that would prove politically unpopular.

Fourth, over the past decade many international and national organizations have initiated employment-generation and economic development programmes to progressively build and enhance the business and technical skills of the Afghan workforce. In today's environment of transition, this question is even more crucial, as the deficit in human capital in the country has reinforced challenges relating to improving governance, economic growth and private sector development and thus, on overall efforts to reduce poverty in the long-run. However, it seems that most of those initiatives: 1) do not have a structural and in-depth understanding of the labour market dynamics; 2) have favoured casual jobs and workday generation over permanent and sustainable job creation strategies; 3) do not take systematically advantage of value-chains, thereby limiting the potential for the growth potential of micro and small enterprises; 4) are poorly coordinated; 5) have a very limited national outreach in comparison with the enormous needs of the country, and; 6) have generally been unable to capitalize on the lessons learned from ten years of international and national employment programmes.

Last but not least, reliable economic and employment data on Afghanistan is either absent or unreliable. The lack of reliable labour market and skills data has been recognised as a priority by the Government of Afghanistan's (GOA) Human Resources Development Board, which involves the main line ministries and agencies responsible for labour market and skills development, including the Ministry of Labour, Social Affairs, Martyrs and Disabled (MOLSAMD). Likewise, the World Bank has observed that statistics development is one of the critical issues for both the government and donors to operationalize the Afghanistan National Development Strategy (ANDS)¹⁴. In addition to the limited data on employment issues, Afghanistan also has data deficiencies on the characteristics and key variables of enterprises (e.g. employment by enterprise size; wages and labour productivity by enterprise; occupational profiles; labour demand; and of course formal versus informal sectors)¹⁵. Moreover, most of the existing labour market data available today is largely confined to urban centres. Aside from security constraints that often prevent surveyors from reaching remote rural areas, and thus obtaining representative data, two other reasons prevail: 1) nationwide labour market and employment surveys have been less of a priority for donors and international organisations, as most initiatives tend to have a provincial or regional focus; 2) labour market assessments are often commissioned to design vocational training initiatives, and hence prioritize urban centres where the economic activity is *de facto* more dynamic. As such, the few existing labour or employment surveys in Afghanistan tend to exclude rural areas from the analysis, as they do not seem to offer dynamic economic or employment perspectives. One shall not forget that, in fact, when describing the Afghan labour *market*, most political and economic stakeholders deal with the urban and peri-urban labour market¹⁶.

¹⁴ World Bank, *Statistics for Results Facility Grant Project Document*, Washington, 2010.

¹⁵ The World Bank collected such enterprise data in 2008, through an enterprise survey to gather opinions about the business environment, covering 647 formal and 419 informal businesses, mostly in the manufacturing and service sectors. More recently in 2009, the ADB funded the Integrated Business Enterprise Survey (IBES), which involved 3,794 establishments and a collection team of 117 primary field workers and 42 supervisors posted in statistical offices of the provinces and under direct CSO control. Whilst both surveys collected substantial data on enterprise characteristics, it provided limited data on enterprise specific employment and skill issues.

¹⁶ However, it does not mean that the economic impact of the decision taken by policy-makers in the field of employment exclusively impacts about 20% of the total population (including both working and non-working populations), as there are indirect economic fallouts of the urban economic activity on rural districts – not only through agricultural trade but also, for instance, through remittances sent to relatives.

The reduction of international aid, as problematic as it may appear, might be a blessing in disguise providing that key actors of the international community start focusing on context-specific models, that integrate lessons learned from the past and thorough analyses on the present, building towards sustainable solutions that will exceed a transition timeframe. Following up on the Bonn Conference of December 2011, the upcoming meeting in Tokyo could pave the way to renewed parameters of partnership between Afghanistan and the international community: the “decade of transformation” from 2015 to 2024, which could subsequently situate sustainable employment generation at the centre of the country’s future socio-economic strategies.

Structure of the report

This study aims to provide an overview of the labour market situation and the impact of the existing capacity building and employment creation efforts drawing on both quantitative data and qualitative information on labour and employment markets to complement the existing literature and fill some of its gaps. Additional key informant interviews were also conducted between November 2011 and January 2012 with stakeholders and relevant experts on the topic of political and socio-economic development at both national and provincial levels.

The remainder of the report is structured as follows:

- The first section of this report draws a picture of the demand side of the labour market and captures the perception of job providers on both labour and employment markets.
- The second section analyses other elements of the Afghan labour market, by focusing on updated available quantitative data as well as interviews conducted with key stakeholders of the local socio-economic landscape.
- The third section reviews vocational training, capacity building, and employment generation initiatives conducted by international actors to better understand the challenges faced by these organisations in today’s context.
- The fourth section focuses on the problem of access to the labour market for social or economic minorities, to assess the role played by women, youth, migrants and internally displaced, as well as other ethnical and social minorities.
- Finally, the fifth and last chapter identifies a set of short- and long-term recommendations to help policy-makers adjust their strategies to the complexity of the Afghan political, social, and economic environment.

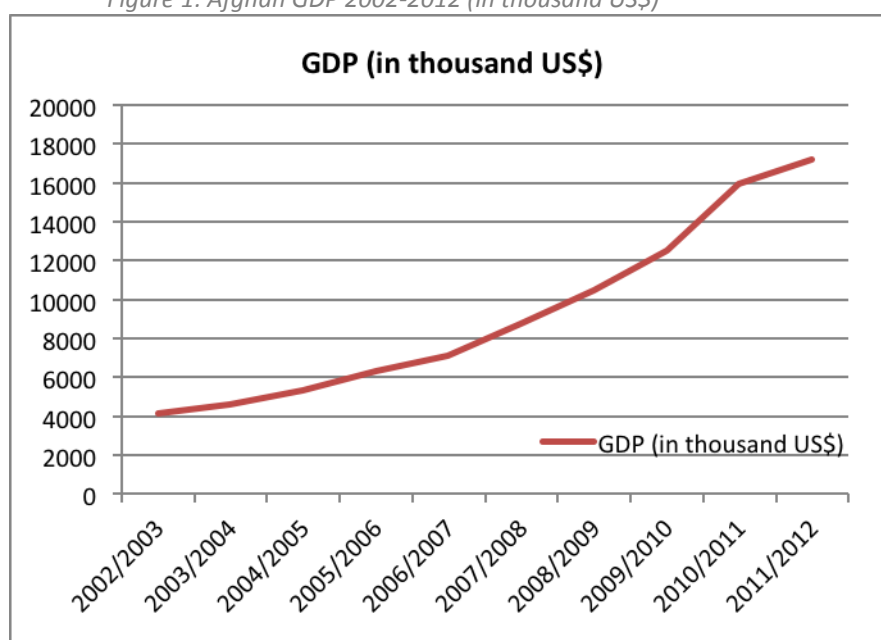
1. Sectors, companies and employers

According to the NRVA, “Afghanistan’s labour market has the typical characteristics of a less developed economy: it is dominated by the agricultural sector and performs poorly in providing decent work, reflected in productive employment, secure income, gender equality and social protection”¹⁷. Such a statement highlights a reality that is too often set aside by policy makers and development actors: around 77% of Afghans live in rural areas and rural poverty accounts for 84% of poverty nationwide¹⁸ – with household income generated almost exclusively through agricultural, livestock, and agribusiness activities. After a rapid overview of the key macroeconomic indicators, this section will draw a broad picture of the local market by focusing on the demand side of the labour market and capturing the perception of job providers on both labour and employment markets.

1.1. Macroeconomic Indicators

Over the past decade, the Afghan economy has grown strongly, which has been driven by “above-average agricultural production, strong growth in construction and transportation, and security spending enabled by large aid flows, especially in FY2009/10”.¹⁹ As shown in the Figure 1 below, the GDP has been multiplied by 4.2 between 2002/2003 and 2011/2012, frequently hitting double-digit annual growth rates (+21% in FY2009/2010). According to the World Bank, the real GDP growth rate reached a relatively more modest 8.4% in FY2010/2011.

Figure 1: Afghan GDP 2002-2012 (in thousand US\$)



Source: WB - Afghanistan Economic Update, October 2011

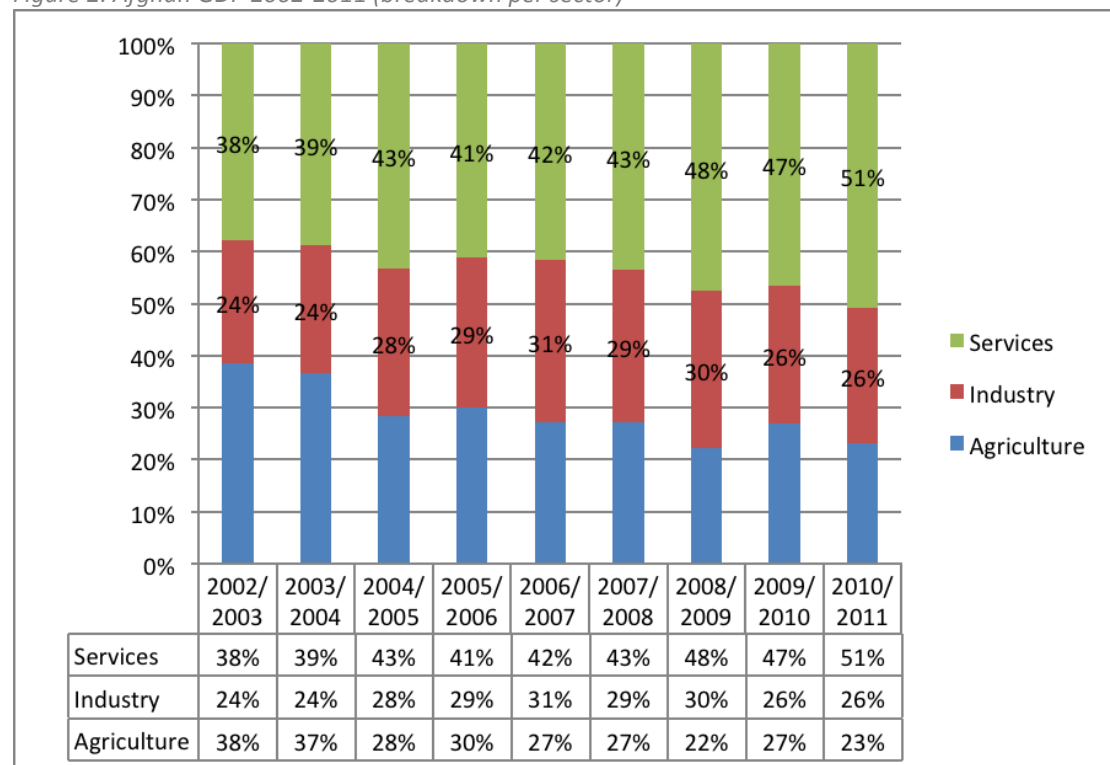
¹⁷ NRVA 2007/8, p.25.

¹⁸ *Poverty Status in Afghanistan: A Profile Based on the National Risk Vulnerability Assessment (NRVA) 2007/8*, Ministry of Economy and the World Bank, *Economic Policy and Poverty Sector, 2010*: from 17% in Kabul province to 96% in Badakhshan.

¹⁹ *Afghanistan Economic Update, October 2011*, The World Bank, Poverty Reduction, and Economic Management, South Asia Region.

One of the main characteristics of the exceptional Afghan growth is the role played by the services sector, which has increased from 38% of the Afghan GDP in 2002 to 51% in 2011, as highlighted in the Figure 2 below. Such a significant increase is mainly due to the growth of the communications, transport, and construction subsectors – which have strongly benefited from the international inflows over the past decade. In the meantime, the share of the agriculture in the GDP has progressively decreased from 38% to 23%.

Figure 2: Afghan GDP 2002-2011 (breakdown per sector)



Source: WB - Afghanistan Economic Update, October 2011

1.2. Sectors of employment

The table below, extracted from the *Poverty Status in Afghanistan*, puts into perspective the key sectors of employment at both national and provincial levels: overall, it clearly confirms the predominant economic role played by the agricultural sector (59.1% of employment), followed by services (24.6%), and manufacturing (12.5%) (Table 1)²⁰. According to the NRVA, 55% of households are engaged in farming and 68% have any type of livestock, which clearly emphasizes that “*agricultural activities are the main livelihood strategies for the Afghan population*”.²¹

Table 1: Key sectors of employment in Afghanistan

<i>Economic Data from the Poverty Status in Afghanistan</i> ²² (including urban and rural districts)	
	National
Agriculture	59.1%
Manufacturing, construction, mining, and quarrying	12.5%
Services	24.6%
Public administration	3.9%

Source: Poverty Status 2010

As stated in the introduction, informal businesses dominate the economy. According to a recent study conducted in Balkh, Kunduz, Badakhshan, and Takhar provinces, if 94% of the surveyed companies know that a company has to be officially registered to operate, only 10% of the surveyed companies were registered with the AISA, while 9% reported being registered with the Ministries of Economy or Commerce²³.

In rural areas, the weight of agriculture is much higher than in urban centres; a key explanation is that only 10% of urban households have access to land (almost 70% for rural households)²⁴. Symmetrically, in urban areas, the sectors of manufacture and services²⁵ are important job providers.

²⁰ It should be noted that some economic sub-sectors (like “Construction”, which accounts for a significant proportion of casual and daily jobs) are included either in the “Manufacturing” sector (*Poverty Status*) or under the label “Services” (*Investment Climate Survey*). As such, it is somewhat difficult to draw any sectoral comparison from those different sources.

²¹ NRVA 2007/8, p.7

²² *Poverty Status in Afghanistan: A Profile Based on the National Risk Vulnerability Assessment (NRVA) 2007/8*, Ministry of Economy and the World Bank, *Economic Policy and Poverty Sector*, 2010.

²³ *Commercial Law Needs Assessment* (Samuel Hall Consulting, commissioned by GIZ in May 2011).

²⁴ NRVA 2007/8, p.7.

²⁵ The services sector includes: *construction, hotels and restaurants; wholesalers; transport, storage, and communications; IT services; repair of motor vehicles; and professional, scientific, and technical services that include legal and accounting services, business and consulting services, architecture and engineering, advertising, research and media companies, private education institutes, beauty parlors, and private health clinics.*

1.2.1. Agriculture: below the poverty line... but not impacted by the transition

More than 77% of Afghans live in rural areas, where agriculture continues to be the main economic activity. At the national level, as almost 60% of the workforce is employed in the agricultural sector and as about 80% of the Afghan households mostly or partly depend on agriculture related income. Agriculture, agri-business, and livestock sectors, therefore, play a major role in driving both the labour and economic markets. The formal agriculture sector recovered from the previous year's drought stabilizing at around 36% of GDP (World Bank, World Development Indicators 2007). However, unaccounted for in official statistics and larger in size than the formal agricultural sector, the illegal opium sector accounted for an estimated additional 9% of GDP in 2011, according to the United Nations Office on Drugs and Crime (UNODC)²⁶.

The agricultural sector is extremely dependent on: 1) regional (Pakistan) and local market price volatility, and; 2) weather conditions (drought, spring floods). Consequently, as the network of local agricultural producers and retailers is strongly affected by price and climatic variabilities, the sector is poorly resilient to shocks. It is, therefore, difficult to develop and implement any long-term economic plan at both national or local levels. However, paradoxically, if rural areas, which almost exclusively rely on agriculture, are vulnerable to price and weather variables, they may be better insulated from declines in international inflows (which often prioritize other sectors, like services or construction). At the urban and peri-urban levels, "only" 11.6% of the companies surveyed in the four peri-urban and urban areas of Badakhshan, Balkh, Kunduz, and Takhar provinces traded either local or imported agricultural products²⁷; it confirms the prevalence of other sectors in urban areas – manufacture and services.

The average size of landholdings is small, however, and as a result, agriculture is rarely the main source of food or household income²⁸. The main staple is wheat, which is grown in both irrigated and rain-fed areas. Dependency on weather conditions, especially timely rainfall, accounts for the fluctuations in wheat production²⁹. The US Department of Agriculture had forecasted a 2010–11 wheat production in Afghanistan of 3.7 million tons, 13 % below 2009's record level, but 18 % above average³⁰. In the current year, the harvest is down again, due to a drought effecting 14 provinces, and food shortages are expected for the coming months.

"The illicit agricultural labour market offers an income that is 6 times higher than the licit agricultural labour: \$3-4 a day versus \$20 to 30. In economic terms, the weight of illicit labour is very important in this sector and benefits many households (despite other harmful effects)".

FAO Representative, Kabul, January 2012

²⁶ The total farm-gate value of opium production accounted for US\$ 1,407 million in 2011 (*Afghanistan Opium Survey*, UNODC, 2011)

²⁷ *Commercial Law Needs Assessment* (Samuel Hall Consulting, commissioned by GIZ in May 2011).

²⁸ While there is a high regard for land ownership in Afghanistan, the contribution of income from land is and will continue to be limited. Household income is derived from a diversity of sources, including services, employment and remittances and does not depend on agriculture alone.

²⁹ In 2007–08, the north and northeast, where 75% of the wheat crop is rain-fed, provided more than 50% of the wheat for Afghanistan. US Department of Agriculture, 'Commodity Intelligence Report', June 2009.

³⁰ US Department of Agriculture, 'Afghanistan: Above- Average Wheat Outlook for 2010-2011',

More generally, a competitive agricultural and agribusiness development cannot take place without the simultaneous development of supporting supply-chain services – particularly transportation to avoid major post-harvest losses, logistics, electricity, and irrigation services.

1.2.2. Services: an artificial bubble, strongly impacted by the transition

The recent Afghan economic growth has been largely driven by the services sector (namely transport and communications), which have been propelled by the large aid inflows. Overall, inflow-induced private consumption has fuelled economic growth and strongly contributed to increase the share of services in the GDP – from 38% in FY2002/2003 to 51% in FY2010/2011, as shown in chart 2. According to the World Bank, the services sector will continue to account for about half of economic growth in 2011/2012, mainly “fuelled by the growth in the telecommunications sector. In addition, donor funding and development projects will continue to drive the demand for transportation and distribution services”³¹. Mobile telephone subscriptions were estimated to be about 13 million in 2010 and are projected to reach 19 million by 2012³². Aside from telecommunications, the most dynamic services subsectors are transport, wholesale, retail trade, as well as finance and insurance.

However, services will probably suffer the most from the progressive reduction of international aid, as their growth is significantly and artificially led by international financial inflows³³. More specifically, the transport sector, which has strongly benefitted from the presence of international military troops, is expected to shrink, as the demand for fuel, equipment, and food transportation by road will drastically decrease: “The transport sector will be badly hit by the on-going transition. As for the other services subsectors, the future is still uncertain, even if their heavy reliance on imports is likely to negatively impact their activity and lead to mass layoff and worsening employment situation, with more underemployment and lower wages”³⁴.

1.2.3. Construction: after the golden age, casual jobs with an uncertain future

Since 2002, the growth of the construction sector has strongly benefited from international contracts or sub-contracts: larger (and generally foreign-owned) firms have been awarded public contracts, which have often been subcontracted to smaller Afghan companies. With the progressive reduction of international aid, both large international and small local construction companies are thus likely to be negatively impacted. By contrast, and as suggested in the next sub-section, experts consider that the development of the mining sector – and the huge infrastructure investments that will need to be undertaken to support the mining industry – is likely to benefit the construction sector (or allow a smooth redeployment of many construction workers). Such a positive scenario, however, will of course depend on the development of the mining industry, which is still unpredictable in today’s environment (see 1.2.4).

³¹ *Afghanistan Economic Update, October 2011*, The World Bank, Poverty Reduction, and Economic Management, South Asia Region.

³² Forecast of Wireless Intelligence, based on data up to Q1 2010 (cited in the *Afghanistan Economic Update, October 2011*, The World Bank, Poverty Reduction, and Economic Management, South Asia Region, p.13).

³³ “*Transition in Afghanistan: Looking Beyond 2014*”, The World Bank, November 2011.

³⁴ Interview with ADB representative, December 2011.

Focusing on the employment side, it should be noted that: 1) the construction sector is labour-intensive and occupies a significant proportion of urban workers; 2) most Afghan construction workers are poorly skilled and often casual labourers; 3) as the local workforce has not been able to fill the growing demand of skilled engineers and middle-managers, most construction companies have imported workers from Pakistan, India, Iran and Turkey (to a lesser extent) to perform jobs that require superior skills. In other words, if the boom of the mining sector may mitigate the negative impact of declining international spending, the construction sector will only provide unskilled and casual jobs to the mass of urban and peri-urban poor.

1.2.4. Mining: promising in theory, with many practical sine-qua-non

Most experts agree that the mining industry is today the most (if not the only) promising driver of income growth and industrialization process in Afghanistan. In an optimistic scenario, the vast deposits of iron ore, gas, oil, copper, gold, lithium and other minerals may lure capital and technology from around the world (and recently from China and Canada). Estimates by the Pentagon and U.S. geologists consider that the country harbours as much as 1 trillion dollars in earth minerals; likewise the government forecasts mining will represent 25% of gross domestic product by 2016 and 50% by 2024³⁵.

The mining project at Hajigak is, by a wide margin, one of the largest investments in the country's history and will – together with the large copper mine located in Aynak - play a leading role in the economy in years to come. Current projections estimate that the two mines could generate up to US\$342 million annually in government revenue until 2015, and up to US\$704 million annually in 2016 and beyond. In the medium term the mining sector could contribute up to 5% of annual growth. However, large investments (US\$6- US\$15billion) in mining and infrastructure development are needed in the coming years to exploit the sector's potential.

Consequently, such investments have the potential to create both direct and indirect jobs, which will depend on: 1) the continuation of high metal prices combined with the relatively high sector taxes, and 2) large infrastructure needs (in rail, roads, and power), as suggested in a recent World Bank report:

*"The central quantitative result [of the study] is that the 2011-40 average annual direct impact on national income would be about US\$745 million (or 8.1 per cent of 2008 GNI), not including linkage or multiplier effects. When procurement to local suppliers is included, this figure rises to US\$ 1.04 billion or 11.3 per cent of 2008 GNI. [...] While annual direct employment in the mines is calculated to only increase by 6,400, if the fiscal revenues are used judiciously to develop infrastructure and linkage industries, this number could be several times higher due to indirect and induced employment."*³⁶

³⁵ In June 2010, Waheedullah Shahrani, the Afghan Minister of Mines, declared: "A very conservative estimate has been one trillion. Our estimation is more than that... the idea is it could be up to three trillion dollars," before admitting that "developing mines [would] take a long time and [that] Afghanistan lacked the basic infrastructure for major mining investments" (source: AFP, June 16, 2011).

³⁶ *The Afghanistan Mining Sector as a Driver of Sustainable Growth: Benefits and Opportunities for Large-Scale Mining*, The World Bank - SEGOM, February 2011. Likewise, in 2010, another study from the PIPS reported: "Mining is the only industry with the potential to subsidize a large portion of the Afghan government's revenue needs. There are over 300 types of mineral deposits in Afghanistan, including coal, copper, marble, emeralds, and blue lapis lazuli stone. In 2007, the Chinese paid the Afghan government \$3 billion for exclusive mining rights to the Aynak copper mine. The government may accrue additional annual tax revenue estimated between \$300

However, for the mining industry to be a sustainable driver of growth and employment, four *sine qua non* conditions should be met:

1. A security situation allowing mining companies and linkage industries to safely operate in Aynak, Hajigak, and the future extraction areas;
2. Long-term political, commercial and trade agreements with neighbouring countries allowing mining companies to export the minerals;
3. A fair and coordinated management of government expenditures as well as a socio-economic governance taking advantage of the several externalities generated by the mining industry and benefitting not only to a few political or economic facilitators, but first and foremost to the whole Afghan economy;
4. The provision of low-cost and competitive supply-chain services – particularly transportation (e.g., railways), logistics, electricity and irrigation.
5. Last, a good local supply of the basic and advanced skills, goods and services requested by the mining industry contributing to the actual development and capacity building of the Afghan skilled workforce.

million and \$730 million during mine construction. Some estimate that annual tax revenue could reach \$955 million when the mine is at full production” (Afghanistan and the Search for a Sustainable Economy, The Project on International Peace and Security, Megan E. Liaboe, 2010).

1.3. An Overview of Afghan Enterprises

Despite attempts to simplify business development, the country was still ranked 167th in the 2011 Ease of Doing Business rankings. In addition to the problems associated with security and corruption, the obstacles confronting companies include expensive and unreliable power, the absence of a proper land registration system, weak legal structures, a lack of a pool of skilled labour, and inappropriate business development services. The following subsection provides a rapid overview of Afghan firms and businesses.

In addition to the Doing Business Survey, the 2009 *Integrated Business Enterprise Survey* draws a representative picture of the situation of local non-agricultural enterprises and companies operating in Afghanistan³⁷. As reflected in the Table 2 below, an estimated 402,000 establishments were operating at the time of the survey in the services and industry sector. Since some segments/areas were not covered, the actual number of establishments is estimated to be nearly 530,000³⁸. 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%).

Table 2: Estimated Number of non-agricultural Establishments by Activity in Afghanistan

Activities	Estimate number of establishments	Distribution
Mining and quarrying	300	0,1%
Manufacturing	88,600	22,0%
Electricity, gas and water supply	13,200	3,3%
Construction	5,000	1,2%
Trade and repair	11,7300	29,2%
Transport and storage	1,200	0,3%
Accommodation and food service	41,600	10,4%
Information and communication	3,900	1,0%
Real estate activities	1,600	0,4%
Education	1,000	0,2%
Health and social work	19,800	4,9%
Other services	108,400	27,0%
Total	401,900	100,0%
Total (adjusted) of non-agricultural establishments	530,000	27,0%

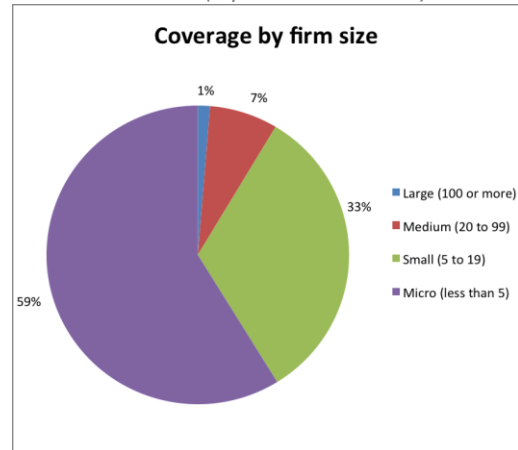
Source: IBES 2009, CSO-ADB

³⁷ Integrated Business Enterprise Survey 2009, CSO - Central Statistics Organization, with the support of the ADB – Asian Development Bank, Afghanistan, 2009. It should be noted that the IBES survey focuses primarily on “establishments” rather than “companies” or “enterprises”: “An enterprise is an institutional unit as a producer of goods and services. It has the autonomy in decision-making and allocating resources. It may be engaged in one or more economic (productive) activities. It can be a corporate or non-corporate enterprise. An establishment is an enterprise or part of the enterprise located in a single location and normally a single economic activity is carried out in the establishment. It is to be noted that in the majority of the cases, and particularly for the smaller or medium-sized units, enterprise and establishment are identical” (p. 26).

³⁸ The above estimate is based on a total sample of 3,794 establishments over a representative sample of 86 villages and 124 controller areas.

The recent GIZ *Commercial Law Needs Assessment* (2011) and Mercy Corps *Labour Market Survey in Baghlan, Balkh, Kandahar, and Kunduz* (2011) show that a large majority (59%) of the surveyed urban and peri-urban companies has less than 5 full-time employees – in Badakhshan, Baghlan, Balkh, Kabul, Kandahar, Kunduz, Takhar³⁹. Both studies highlight the fact that Afghan companies are mostly composed of small economic structures, with basic pyramidal hierarchies and no HR, finance, or legal departments; they also suggest that companies use temporary employees and daily labourer as recurrent resources. Overall, micro- and small companies account for 92% of the sample – most of them being family-owned companies with less than 5 employees and no real financial or organisational structure. Symmetrically, companies with more than 20 employees account for 8% (including less than 1% of large firms with more than 100 employees). The *World Bank* construction survey confirmed the small size of many firms in the construction sector: most of them had less than 50 employees and about one-quarter had less than 10 employees⁴⁰.

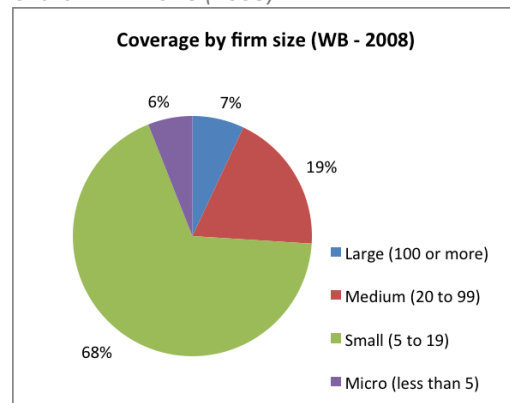
Chart 3: Firm size (8 provinces in 2011)



Source: *Commercial Law Needs Assessment* and *Labour Market Survey in Baghlan, Balkh, Kandahar, and Kunduz 2011*

A comparison with the *Afghanistan Investment Climate Survey 2008* is not fully relevant here, as methodological preference had been given to the larger companies from the AISA database. However, as most surveys primarily target medium or large companies and use quota in the sampling methodologies, it shows that most labour or business surveys are not representative of the actual economic and employment market: the share of micro- or small sized companies is of course higher than 74% and the proportion of large companies is probably lower than 7% (World Bank).

Chart 4: Firm size (2008)



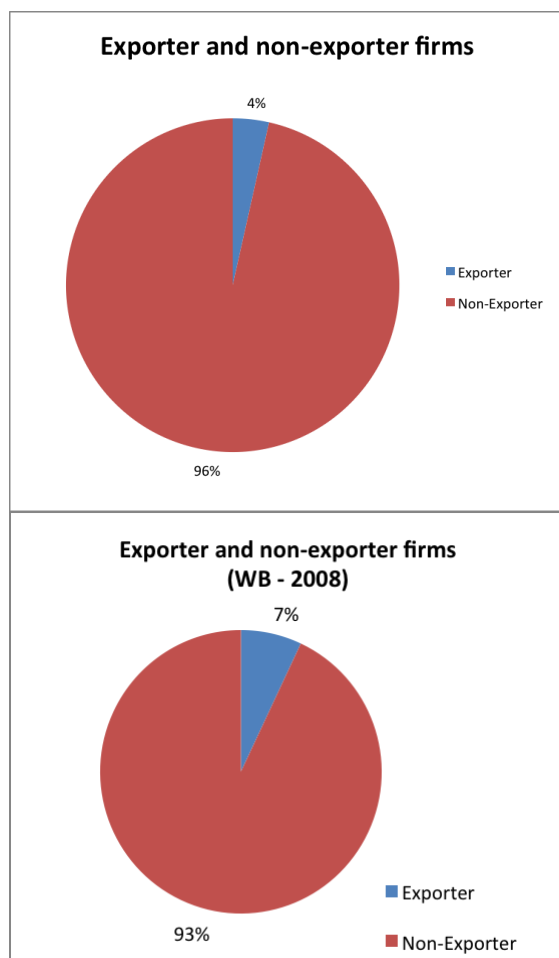
Source: *World Bank Afghanistan Investment Climate Survey 2008*

³⁹ *Commercial Law Needs Assessment* (Samuel Hall Consulting, commissioned by GIZ in May 2011) and *Economic Assessment and Labour Market Survey of Balkh, Baghlan, Kandahar, and Kunduz* (Samuel Hall Consulting, commissioned by Mercy Corps in November 2011) with, respectively, samples of 621 medium-sized companies (in Balkh, Kunduz, Takhar, and Badakhshan) and 1350 employers and employees from the main urban centers of Balkh, Kunduz, Baghlan, and Kandahar provinces.

⁴⁰ *A Window to the Construction Sector in Afghanistan: Initial Results from a Construction Survey*, World Bank, 2011.

1.4. Exporting goods?

Figures 3 and 4: Exports (WB 2008 and SH 2011/12)



Afghanistan is a land-locked country with poor infrastructure and economic integration with its neighbouring countries. Afghan companies primarily operate at a local and domestic level, as highlighted by the *Afghanistan Investment Climate Survey 2008*, with only 7% of exporters among the surveyed firms. Likewise, according to the *GIZ Commercial Law Needs Assessment 2011*, only a few companies from the Northern provinces of the country had access to foreign markets, with 12 of the 619 respondents reporting exporting goods (less than 2%), in only three economic sectors: mining, carpets, and dry fruits. If we consider the 4 surveyed provinces, there is no provincial exception to the rule that says that “Afghan companies do not export their products” (ACCI, Mazar-e-Sharif). It is therefore a major concern that only a handful of companies have access to international market opportunities. In this regard, when asked whether they knew institutions for export promotion – like EPAA, FACT, or ANSA⁴¹, etc. – none of the 621 respondents answered positively.

Afghan carpet: weaving goodbye? Carpet-weaving, tailoring, and embroidery have often been considered by international organisations as a priority in their relatively reduced portfolio of income generating activities – especially when targeting women and disfavoured communities. However, and according to the Afghanistan’s Carpet Association, the carpet production in Afghanistan has fallen by 70% over the past two years. The high cost of raw materials and the lack of weaving facilities are cited as two major causes of the decline. Moreover, if Kunduz, Herat, Maimana or Mazar-e-Sharif carpets have an excellent reputation on the international market, lower-quality carpets are exported to Pakistan, where they suffer from their relatively higher costs. Focus groups with carpet producers and sellers indicate that the main challenges affecting the export potential of the carpet industry are: 1) the atomization of the production and the lack of organized producer associations; 2) the lack of subsidies to carpet weavers, who cannot compete with imported carpets from Pakistan anymore; 3) the transportation cost increase as well as the worrying development of illegal taxes and bribes on the major export roads; 4) the lack of working capital, which prevents a lot of small producers from getting bigger international contracts; and 5) the low value of the Pakistani rupee relative to the Afghani (Afghan currency), which has significantly contributed to a downturn in the Afghan carpet industry, as Afghan carpets have become more expensive in rupee terms.

⁴¹ Export Promotion Agency of Afghanistan (EPAA); Federation of Afghanistan Craftsmen\Traders (FACT) created in 1987; Afghanistan National Standards Authority (ANSA).

1.5. Business and employment trends

Each local market (at the provincial and even district level) has its own logic and it is extremely difficult to raise any general conclusion on the “Afghan” economy or labour market. This segmentation is not only due to the lack of infrastructure, the security situation or the relative geographic isolation of many provinces, especially during winter, but it is also due to the fact that most economic players think locally: some of them buy goods to local wholesalers who import goods from Pakistan or Iran, but they almost exclusively target local markets.

Following this logic, the business climate can vary a great deal from one city to another. Asked if the revenue of their company had increased compared with 1390 (2009-2010), more than 40% of the 1255 surveyed company owners interviewed in the 2011 Samuel Hall labour market surveys⁴² said that it had increased – with no significant difference between small, medium or large firms. As shown in the table below, however, there are clear provincial differences between Kabul (27.5%), on the one hand, and Baghlan (52.3%), Badakhshan (52.0%) or Takhar (60.4%). Regarding Kabul province, the negative perception of business owners (with 47.2% saying that their company’s revenue had decreased) may be in part due to the commercial and political tensions between Pakistan and Afghanistan, after the APTTA was signed⁴³, which culminated with huge amounts of goods that were bound for Afghanistan being held up in Karachi for months after in 2011. However, as two key bordering markets have not been surveyed (Herat and, especially, Jalalabad), this last conclusion should be taken with caution.

Table 3: Business trends

According to you and compared with last year, do you think that your company's revenue has increased, decreased or stayed the same? (2011)								
	KABUL	BAGHLAN	BALKH	KANDAHAR	BADAKHSHAN	TAKHAR	KUNDUZ	Total
Increased	27.5%	52.3%	36.8%	38.8%	52.0%	60.4%	39.1%	40.8%
Stayed the same	22.8%	11.8%	23.4%	27.0%	31.2%	30.7%	22.5%	23.8%
Decreased	47.2%	32.7%	34.3%	15.8%	12.7%	5.9%	23.2%	28.6%
I don't know	2.5%	3.3%	5.5%	18.4%	4.0%	3.0%	15.2%	6.8%
Total	324	153	201	152	173	101	151	1255

Source: Samuel Hall, *Labour Market Surveys in 7 provinces, 1255 companies, 2011*

Similarly, when asked whether the number of their employees had fluctuated compared with the previous year, it is worth noting that a significant majority (58.2%) of the surveyed business owners said that the workforce of their company had increased over the last twelve months. Together with the relatively small percentage (9.3%) of respondents who answered negatively, such a unanimous optimism confirms local businessmen’s confidence in their respective markets.

⁴² *Commercial Law Needs Assessment* (Samuel Hall Consulting, commissioned by GIZ in May 2011) and *Economic Assessment and Labour Market Survey of Balkh, Baghlan, Kandahar, and Kunduz* (Samuel Hall Consulting, commissioned by Mercy Corps in November 2011)

⁴³ Afghanistan-Pakistan Transit Trade Agreement – The APTTA was signed on 18 July 2010 in Islamabad by the secretaries of commerce of Pakistan and Afghanistan in the presence of the Pakistani Prime Minister and the US Secretary of State, says the Pakistan Observer. In short, the APTTA establishes a regulatory framework in which Afghan businesses will be able to export goods easily through Pakistan to India, China and beyond via air and seaports. Similarly, Pakistani businesses would be able to export goods with greater ease, with regards to customs and paperwork, via Afghanistan.

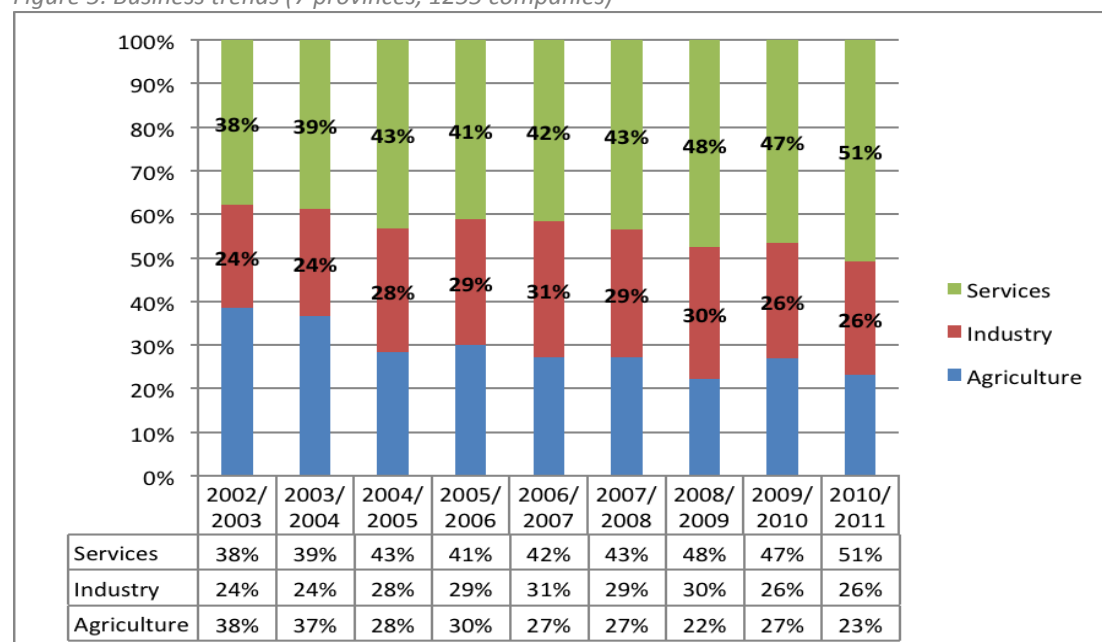
Table 4: Business trends (employment)

According to you and compared with last year, do you think that the number of employees of this company has increased, decreased or stayed the same?

Trend	KABUL	BAGHLAN	BALKH	KANDAHAR	BADAKHSHAN	TAKHAR	KUNDUZ	Total
Increased	55.6%	69.9%	51.7%	57.9%	57.8%	59.0%	60.9%	58.2%
Stayed the same	26.5%	18.3%	28.9%	38.8%	35.8%	37.0%	26.5%	29.5%
Decreased	13.3%	10.5%	15.9%	2.6%	4.0%	3.0%	7.3%	9.3%
I don't know	4.6%	1.3%	3.5%	0.7%	2.3%	1.0%	5.3%	3.0%
Total	324	153	201	152	173	100	151	1254

Source: Samuel Hall, Labour Market Surveys in 7 provinces, 1255 companies, 2011

Figure 5: Business trends (7 provinces, 1255 companies)



Source: Samuel Hall, Labour Market Surveys in 7 provinces, 1255 companies, 2011

1.6. Doing business

Given the security situation, doing business in Afghanistan is more difficult than in other South Asian countries. As already mentioned, the Doing Business Index 2011 ranked Afghanistan lowest in the region and 167th out of 183 countries surveyed. At the firm-level, Afghan businesses are restrained by red tape, lack of policy predictability, and corruption. Afghanistan's regulatory framework is relatively well-ranked on two indicators – Starting a Business (25th) and Paying Taxes (53th). However, it is ranked last (183th) on three indicators (Protecting Investors, Trading across Borders and Closing a Business). In order to address and enhance Afghanistan's business environment the Ministry of Commerce and Industries launched an initiative in December 2010 aimed at making improvements in these areas⁴⁴.

Based on a survey undertaken by Samuel Hall, 1255 surveyed business owners said that access to electricity (56.7%) and land (35.4%, but only 3.4% for Kabul) were very severe

⁴⁴ <http://data.worldbank.org/data-catalog/world-development-indicators>

obstacles, while the lack of their employees' skills was only the fourth most quoted obstacle (by 24.4% of the respondents) (Table 5).

Table 5: Obstacles to the development of the business activity

On a five-point scale, where 1 = no obstacle and 5 = very severe obstacle, what are the main obstacles to the development of your business?

Severity	Access to Electricity	Lack of Security	Employees' skills	Access to credit	Communications	Competitors	Access to Land	Corruption	Access to Water
No obstacle	12.1%	42.1%	29.6%	44.3%	42.6%	41.0%	13.5%	38.8%	45.3%
Minor obstacle	8.9%	9.9%	14.3%	12.0%	22.6%	18.6%	14.4%	21.0%	21.9%
Moderate Obstacle	8.6%	10.0%	16.1%	10.5%	15.7%	19.1%	19.4%	17.8%	10.8%
Major obstacle	13.7%	10.0%	15.6%	14.3%	11.0%	13.4%	17.3%	14.3%	8.9%
Very severe obstacle	56.7%	28.0%	24.4%	18.9%	8.1%	7.9%	35.4%	8.1%	13.1%
Very severe obstacle KBL	68.2%	35.5%	25.3%	22.5%	7.1%	4.0%	3.7%	3.1%	0.3%

Source: Samuel Hall, Labour Market Surveys in 7 provinces, 1255 companies, 2011

Finally, to check how business owners perceived the existing and future market opportunities as well as the robustness of their company, employers from Kabul, Baghlan, Balkh, Kandahar, and Kunduz were asked if they planned to develop their business in the future: overall, 60.8% answered positively (Table 6). 30.7% indicated that they would expand their business if there was an opportunity.

Table 6: Future business development (7 provinces, 1255 companies, SH 2011)

Do you plan to develop your current business at some point in the future?

Answers	KABUL	BAGHLAN	BALKH	KANDAHAR	KUNDUZ	Total
Yes, I already have plans to do so	79.3%	49.7%	54.2%	52.0%	49.7%	60.8%
Why not if there is an opportunity	13.9%	45.8%	35.3%	32.9%	43.0%	30.7%
No, I don't want to	3.7%	0.7%	5.5%	9.2%	4.6%	4.5%
I don't know	3.1%	3.9%	5.0%	5.9%	2.6%	4.0%
Total	324	153	201	152	151	981

Source: Samuel Hall, Labour Market Surveys in 7 provinces, 1255 companies, 2011

As shown in the Table 7 below, out of the 931 respondents who answered that they wanted to expand their activity, 44.3% said they would rely on personal money and 55.7% that they would borrow some to relatives (14.4%) or to a lending institution (13.3%) or did not know how to find the funds (28.0%); hence, it suggests that the 'plan' to develop the current business activity is, in fact, not a business 'plan' but a desire. Additional group discussions with construction and service company owners highlighted their concern about access to finance as they almost systematically rely on internal capital to meet their investment and working capital needs.

Table 7: Business trends (7 provinces, 1255 companies, SH 2011)

If yes, do you have the needed funds to develop the current activity of your business?

Answers	KABUL	BAGHLAN	BALKH	KANDAHAR	KUNDUZ	Total
Yes I have enough personal money	51.6%	31.3%	40.2%	50.4%	41.3%	44.3%
No, but relatives will help me	14.4%	14.0%	13.8%	12.4%	17.5%	14.4%
No, and I plan to borrow money	29.2%	10.0%	5.8%	2.9%	2.1%	13.3%
No, and I don't know how to do	4.8%	44.7%	40.2%	34.3%	39.2%	28.0%
Total	312	150	189	137	143	931

Source: Samuel Hall, Labour Market Surveys in 7 provinces, 1255 companies, 2011

2. Labour market situation in Afghanistan

In January 2010, the deputy chairman of National Worker’s Union, Ghulam Ali Baryal, bemoaned the fact that over the past ten years adequate efforts had not been made to decrease the alarming unemployment rates: “Afghanistan’s labour laws do not meet international standards, and the government has been unable to begin solving the unemployment problems in the country”⁴⁵. Besides this criticism, the NUWA representative added that around 70% of the workforce in Afghanistan was currently unemployed, while the official figure of unemployment is 7.9% (*Poverty Status*) (7.1% in the original NRVA 2007/8 report). The problem of unemployment is thus not only a social and economic issue, but also a very politicized and controversial issue, as both data and definitions are still unclear to most of stakeholders.

Table 8: Official unemployment rates (NRVA 2008)

Unemployment rate (NRVA 2008) – Poverty Status			
Residence	Male	Female	Total
Urban	(9)	(18)	10.5
Rural	(7)	(7)	7
Total	(7)	(7)	7

Source: NRVA 2008

Moreover, if unemployment is an important characteristic of the labour market in Afghanistan, it is also important to stress that underemployment and working poverty are greater challenges because: i) 60% of the employed workforce are in agriculture working in low-productivity and subsistence-type production; ii) the urban labour market is characterized by skills mismatch and problems of job quality in both the informal and the small formal sectors; and iii) most jobs that have been generated by the international development assistance tend to be casual or temporary and are clearly not sustainable without continuing aid inflows.

Last, it is worth keeping in mind that the exact definitions of “unemployed” and “underemployed” in the context of Afghanistan are still unclear, and have become highly politicized, given the lack of data. Such significant differences do not only come from methodological or research limitations but may also be due terminological differences.

2.1. Labour force participation

The labour force participation rate is a measure of the proportion of a country’s working-age population that engages actively in the labour market, either by working or looking for work. It provides an indication of the relative size of the labour supply that is available to engage in the production of goods and services. The labour force participation rate has varied from 63.4% in 1980 to 64.6% in 2006⁴⁶, which is higher than the usual rates in developed countries. According to the *Poverty Status*, in 2008, 66.5% of the Afghan population falling in the official working age bracket of 16 years and over were participating in the labour market. Such high rates may be attributable to: 1) the progressive return of the migrants from Pakistan and Iran after 2001; 2) the reintegration of ex-combatants by the joint efforts of the Afghan government and international programmes; and 3) last but not least, by the absence of any social security system, which forces people to take any type of job that is available on the market. As suggested in the NRVA, lower working age population rates and higher labour

⁴⁵ See <http://ariananews.af/regional/afghan-industry-union-calls-for-more-government-supports/>

⁴⁶ Marc Vansteenkiste and Sajith de Mel, Four years of Labour Force Data Collected by the Employment Service Centers in Afghanistan, UNDP/ILO, 2008.

force participation are found in rural areas and among Kuchi population, as rural and nomadic households: 1) have generally higher fertility rates and a correlative higher proportion of children; 2) “are compelled to find work for bare household survival” (NRVA).

2.2. Employment and Unemployment: controversial, ambiguous, and equivocal figures

Based on ILO definitions, the unemployment rate is defined as the quotient resulting from dividing the total number of unemployed (for a country or a specific group of workers) by the corresponding labour force, which is the sum of the total persons employed and unemployed in the group. The group of the unemployed comprises all persons above the age specified for measuring the economically active population, who during the reference period were without work, currently available for work or seeking work⁴⁷. However, and as stated earlier, data on unemployment in Afghanistan is as weak as it is controversial. The *Poverty Status* (based on the NRVA) remains the only survey based on field data collected in a large nationwide sample: according to the *Poverty Status*, the unemployment rate is only a modest 7.9% (though this figure also includes discouraged workers, i.e. jobless individuals who have given up job search). Unemployment statistics for Afghanistan should be interpreted in the sense that, as often stated in both the NRVA and the *Poverty Status*, people simply cannot afford to be unemployed, and they are likely to indicate high levels of underemployment.

In this regard and considering the difference between urban and rural areas⁴⁸, where a larger majority of people provide paid or unpaid⁴⁹ contributions to their household, a more detailed assessment of rural areas would be necessary to develop a more robust analysis at both national, provincial, and district levels. Likewise, further research is urgently needed, to better inform national and provincial employment policies, as the likely under-estimation of both unemployment and underemployment rates (at national and provincial levels) introduce a strong bias in the strategic assumptions and decisions of policy makers.

According to the NRVA, the employment-to-population ratio, which specifies the proportion of a segment of the working-age population that is actually employed, was fairly high at 62%. At the same time, there are significant differences between urban and rural areas: 1) with 66% of employment-to-population ratio, it confirms that rural household members cannot afford

not to work (either through daily labour on local agricultural farms, or by sending family members to the nearest economic centre to find day-to-day unskilled jobs); 2) with an average gender gap of 37 points (56 points for urban areas and 32 points for rural areas), the labour force participation of females is clearly lower. However, even if women are more

Table 9: Employment-to-population ration

Employment-to-population ratio (NRVA 2008)			
Residence	Male	Female	Total
Urban	72%	16%	44%
Rural	82%	50%	66%
Total	80%	43%	63%

Source: NRVA 2008

⁴⁷ Respectively from ILO, *Key indicators of the Labour Market*, International Labour Office, 2007, Geneva and ILO, *Statistics of Employment, Unemployment, Underemployment: Economically Active Population*, Bureau of Statistics, Policy Integration Department, International Labour Office, 2003 (extracted from Vansteenkiste and De Mel, 2008).

⁴⁸ As shown in the NRVA (see the above table): 7% of unemployment for rural areas to be compared with 11% for urban areas.

⁴⁹ Women working in the household’s agricultural exploitation, for instance, provide unpaid contribution to the economic welfare of their household through harvesting activities, for instance.

involved in basic unskilled pastoral and agricultural activities in rural districts, it should be noted that the female employment-to-population rate in Afghanistan is higher than the South Asian average⁵⁰. Such relatively high rates, especially in rural areas, are typical for low-income economies, where both male and female household members need to work to provide additional income to the household.

2.4. Underemployment

As suggested in the introduction, it is extremely difficult to delineate the notions of employment and labour in Afghanistan. If labour laws are practically inapplicable, in a country where most employers and employees only have verbal contracts and no other agreement than moral, it is also difficult to distinguish paid from unpaid jobs, or long-term from temporary jobs. Underemployment is thus the explanatory key to the current state of the Afghan labour market as it faces time-related underemployment⁵¹.

As highlighted by the former World Bank Director for Afghanistan, Alastair McKechnie, *“there are perceptions that there is...underemployment. And I think that part of the problem is that, for many people, they don't have the security of a regular job. I think there is part-time work around. But it's essentially daily work, which is inherently insecure, particularly if people have families to support and other commitments”*⁵². To corroborate this assumption, it is also worth noting that underemployment data *“should be interpreted in the sense that people simply cannot afford to be unemployed, and they are likely to indicate high levels of underemployment”*⁵³. In other words, remaining unemployed cannot be an option for the Afghan labour force, 1) as there is no social security services and 2) as bread-earners generally have to support extended families. Therefore many skilled or educated people have no other option but to accept unskilled jobs and work conditions that do not match their expectations. Moreover, underemployment is also almost impossible to assess; it can differ by season, area, and of course by sector of employment: according to the NRVA, for instance, there is an underemployment rate of 44% in the winter and 20% in the summer in rural areas. Overall, a national figure of 48.2%⁵⁴ seems in phase with the high proportion of labour-intensive activities (agriculture, but also construction and other services).

As for the terminology, the definition of ‘underemployment’ also raises a certain number of questions. According to the original definition given in the NRVA, underemployment figures are derived by adding individuals who work less than 8 hours a week to the unemployed – the assumption being that those individuals *“are available for more work and are seeking or willing to work more hours”*. But as NRVA recognizes: *“This assumption is*

“Provinces that receive funds from donors have less unemployment, but there is no real impact on underemployment. More problematically, international aid has not been able to create sustainable jobs: they only provide people with casual jobs.”

World Bank Senior Analyst, Kabul, December 2011

⁵⁰ See: <http://data.worldbank.org/indicator/SL.EMP.TOTL.SP.FE.ZS>

⁵¹ “Time-related underemployment exists when the working hours of an employed person are insufficient in relation to an alternative employment situation in which the person is willing and available to engage” (Vansteenkiste and De Mel, 2008).

⁵² Alastair McKechnie, Interview with Radio Free Afghanistan (Mustafa Sarwar) RFE/RL in May 4, 2007.

⁵³ *Summary of the National Risk and Vulnerability Assessment (NRVA)* – data from 2007/2008 (Government of Afghanistan, with the assistance of the European Union), p.4.

⁵⁴ *Poverty Status in Afghanistan: A Profile Based on the National Risk Vulnerability Assessment (NRVA) 2007/8*, Ministry of Economy and the World Bank, *Economic Policy and Poverty Sector, 2010*; and 48% for the NRVA.

particularly questionable in the case of many women and children-in-education". The NRVA, for instance, shows that the unemployment rate indeed increases the most for urban females and individuals in rural areas. Moreover, as shown in the NRVA, the percentage of poor is the highest for those who work between 20-39 hours. In these regards, it is clear that 8 hours may not be the right cut-off to stress a line between employment and underemployment⁵⁵.

Most recent studies agree that underemployment will necessarily increase with the declining financial inflows in services or construction. According to the World Bank, as roughly 6 to 10% of the working population has benefited from aid-financed short-term job opportunities, declining aid levels are expected to significantly increase underemployment throughout the country⁵⁶. A sharp drop in cash-for-work projects (promoted by WFP, UNDP, USAID programs, but also many international NGOs), for instance, will negatively impact casual labour opportunities. As stated by a World Bank economic analyst in Kabul interviewed in December 2011, *"the major impact of declining aid will primarily be on underemployment rather than unemployment, as most aid-financed jobs are 'casual' and last less than 6-months"*.

⁵⁵ *National Risk Vulnerability Assessment (NRVA) 2007/8*, Government of Afghanistan, Ministry of Economy, with the assistance of the European Union.

⁵⁶ The World Bank, *Transition in Afghanistan: Looking Beyond 2014*, Executive Summary, 11/18/2011.

3. Barriers to accessing the labour market

As shown in the previous section, despite the international assistance to the Afghan economy, the local labour market still suffers from a lack of sustainable and decent work. However, the labour market situation also depends on the social and economic profile of the considered community. This section lays the emphasis on social categories that are more vulnerable and disadvantaged on the local labour market – and less likely than other to access either work or decent work.

3.1. Access to employment

To gauge the existing employment channels and how people have access to job opportunities, it is interesting to note that the data collected through an assessment of Kabul, Baghlan, Balkh, Kandahar, and Kunduz labour markets⁵⁷ confirmed the prevalence of informal networks. When asked to explain how they hired their employees, most employers said that they used the most traditional Afghan network system: friends (62.6%) or relatives (57.9%) (Table 10). Likewise, informal networks (employees' friends, employees' relatives, and bazaar) are also key resources for local employers, which confirms the key role played by the direct and indirect family network when it comes to finding jobs. More significantly, for retailers, manufacturers, or livestock owners (traditional or unskilled activities), it is a way to decrease salary costs by keeping the money in the immediate family circle.

Table 10: Formal and Informal employment channels

Socio-professional network	KABUL	BAGHLAN	BALKH	KANDAHAR	KUNDUZ	Total
Friends	70.7%	35.3%	53.7%	71.1%	76.2%	62.6%
Relatives	66.0%	49.7%	55.2%	59.9%	50.3%	57.9%
Through the bazaar	24.7%	44.4%	23.9%	24.3%	55.6%	32.3%
Friend of employees from the company	21.3%	22.9%	30.3%	23.7%	27.2%	24.7%
Relatives of employees from the company	19.8%	30.7%	23.9%	24.3%	23.2%	23.5%
Through the mosque	0.6%	2.6%	2.0%	7.2%	2.6%	2.5%
Job advertisement in a local newspaper	1.2%	0.7%	0.5%	0.0%	0.7%	0.7%
Job advertisement in a local radio/TV	1.2%	0.0%	0.0%	0.7%	0.0%	0.5%
Respondents	324	153	201	152	151	981

Source: Samuel Hall, *Economic Assessment and Labour Market Survey of Balkh, Baghlan, Kandahar, and Kunduz*, 2011

⁵⁷ "Economic Assessment and Labour Market Survey of Balkh, Baghlan, Kandahar, and Kunduz" (Samuel Hall Consulting, commissioned by Mercy Corps in November 2011).

Similarly, when business owners from Badakhshan, Balkh, Kabul, Kunduz, and Takhar were asked to specify if they had hired relatives of family members for full-time positions, almost one-third (31%) answered positively, as shown in Table 11. Many different reasons can explain this “nepotism”: 1) as diplomas have no practical value on the labour market, most employers tend to favour interpersonal network as a professional guarantee; 2) as labour regulations are almost non-existent (in practice) for small and medium enterprises, it becomes a way to hire people at a lower cost and keep the money in the family circle.

Table 11: Percentage of relatives among full-time employees

Provinces	Percentage	Frequency
Badakhshan	27.6%	173
Balkh	35.9%	201
Kabul	28.4%	324
Kunduz	34.1%	151
Takhar	31.1%	101
Total	31.0%	950

Source: Samuel Hall, *Economic Assessment and Labour Market Survey of Balkh, Baghlan, Kandahar, and Kunduz, 2011*

3.2. Youth Labour Market

With the labour force increasing by more than 400,000 per year, Afghanistan has an increasing need to generate employment opportunities for the new labour market entrants⁵⁸. To better assess the role played by 15 to 24 year old employees, male and female employees working in Balkh, Baghlan, Kabul, Kandahar, and Kunduz provinces (urban and peri-urban centres) were asked to specify the positions generally occupied by young employees within the company. As shown in the table below, young employees are generally bound to occupy temporary and precarious positions of “apprentices” or “trainees” (63.8%) in a labour market with no contractual or regulatory obligation for employers.

Table 12: Positions occupied by young employees (15-24)

What positions do young employees occupy within your company?						
Positions	KABUL	BAGHLAN	BALKH	KANDAHAR	KUNDUZ	Total
Apprenticeship (on the job training)	76.2%	66.0%	61.7%	48.7%	53.0%	63.8%
Day Labourers	15.4%	22.9%	18.9%	17.1%	15.9%	17.6%
None	8.0%	2.6%	1.0%	25.7%	21.9%	10.6%
Junior Management	0.3%	4.6%	3.0%	0.0%	0.0%	1.4%
Office Work	0.0%	0.7%	1.0%	0.7%	0.0%	0.4%

Source: Samuel Hall, *Economic Assessment and Labour Market Survey of Balkh, Baghlan, Kandahar, and Kunduz, 2011*

Following the same logic, when asked to specify the problems faced by young employees on the labour market, a significant majority of the surveyed employees prioritized the lack of job opportunities on the local market (59.6%) and other labour market related parameters (experience and skills at, respectively, 36.6% and 33.1% - but also the wage gap with other workers, at 35.6%). More surprisingly, they also mentioned a socio-cultural determining factor: family’s reluctance (at 55.5%) to let young adults – and especially young women – work outside their house: “It’s good to teach [girls] English, accounting, or tailoring; but if you do not convince their families to let them find a job, it is unfortunately useless. Training and capacity building programme providers should work with families and communities to change mentalities” (NGO Director, Herat).

⁵⁸ MoLSAMD, National Priority Program, *Facilitation of Sustainable Decent Work through Skills Development and Market-Friendly Labor Regulations*, Revised First Draft, March 2011, p. 7

Table 13: Main obstacles faced by young employees for accessing the labour market

What are the main problems young employees have to face on the labour market?						
Main Problems	KABUL	BAGHLAN	BALKH	KANDAHAR	KUNDUZ	Total
Lack of opportunities	49.4%	66.0%	68.7%	57.2%	65.6%	59.6%
Family's hostility	42.9%	54.2%	59.2%	66.4%	67.5%	55.5%
Lack of experience	31.5%	43.8%	29.9%	49.3%	36.4%	36.6%
Low salary	26.9%	41.8%	35.3%	48.0%	35.8%	35.6%
Lack of qualifications (education)	39.2%	40.5%	34.3%	30.3%	13.9%	33.1%
Lack of contacts to find a job	23.5%	17.6%	16.4%	13.8%	22.5%	19.5%

Source: Samuel Hall, *Economic Assessment and Labour Market Survey of Balkh, Baghlan, Kandahar, and Kunduz, 2011*

3.3. Women participation to the labour market

Women in Afghanistan have long suffered from a lack of education, skills, security and cultural barriers, all of which put them in a disadvantaged position in the labour market. Women earn on average 49% of the wages paid to men in non-farm occupations.⁵⁹ Another manifestation of the disadvantaged position of women is the strong gender differentiation in employment status. Significantly, most unpaid family workers are female (78 per cent) while day labourers, salaried workers, employers and own-account workers are male. Because mobility outside the home is limited for cultural reasons, women in provinces and rural areas are primarily involved in home-based income generating activities like carpet weaving, sewing, tailoring, agricultural work and taking care of livestock and selling dairy products.

Labour force participation is generally lower for females than for males. In the Afghan economy this gender gap is more significant – albeit lower than in Sri Lanka, Pakistan, and India (see subsection 2.3). Survey data confirms a relatively low female labour force participation – especially in urban areas, where the gap between male and female participants reaches 60 points according to the NRVA 2007/2008, and 80 points in the four urban areas of the Mercy Corps survey. However, this gap tends to be smaller in rural or Kuchi populations (respectively 34 and 28 points), due to the stronger female engagement in agricultural and pastoral activities (see the section 2.3 on employment-to-population ratio). Table 15 shows that the vast majority of workers are men, particularly in Baghlan and Kandahar.

⁵⁹ UNIFEM Afghanistan Fact Sheet 2008, available at <http://afghanistan.unifem.org/media/pubs/08/factsheet.html>

Table 14: Quantitative Sample Description of the Mercy Corps survey – November 2011 (by gender)

Positions	KABUL	BAGHLAN	BALKH	KANDAHAR	KUNDUZ	Total
Apprenticeships (on the job training)	70.7%	68.2%	72.1%	52.9%	58.4%	65.9%
Day Labourers	11.4%	23.6%	22.1%	18.6%	17.5%	17.6%
None	13.5%	2.7%	1.2%	27.9%	24.1%	12.0%
Junior Management	4.4%	4.7%	3.5%	0.0%	0.0%	2.9%
Office Work	0.0%	0.7%	1.2%	0.7%	0.0%	0.4%
Respondents	297	148	172	140	137	894

Source: Samuel Hall, *Economic Assessment and Labour Market Survey of Balkh, Baghlan, Kandahar, and Kunduz, 2011*

As shown in the table 15 below, women do not only work less often than men, but those who do also work for less hours and in less secure jobs: all women working in the surveyed companies were occupying basic and unskilled positions of apprentice or day labourers and only 2.7% of them had managerial positions.

Table 15: Positions occupied by women

Provinces	Employers		Employees		Total		Frequency
	Female	Male	Female	Male	Female	Male	
BAGHLAN	6.5%	93.5%	6.7%	93.3%	6.6%	93.4%	303
BALKH	11.9%	88.1%	10.3%	89.7%	11.1%	88.9%	404
KANDAHAR	5.9%	94.1%	5.9%	94.1%	5.9%	94.1%	304
KUNDUZ	14.6%	85.4%	14.6%	85.4%	14.6%	85.4%	302
Total	9.9%	90.1%	9.5%	90.5%	9.7%	90.3%	1,313

Source: Samuel Hall, *Economic Assessment and Labour Market Survey of Balkh, Baghlan, Kandahar, and Kunduz, 2011*

Underlying causes, as shown in the table 16 below, are of course cultural (role played by women care-taking responsibility for children, elderly and the disabled), lack of job opportunities (65%), lack of experience (57%), and low educational attainment (32%). Last, a major obstacle seems underestimated by most quantitative surveys but is systematically mentioned during focus groups – as highlighted in the box below: the hostility of most families to the participation of their female members to the labour market.

Table 16: Main obstacles faced by young employees for accessing the labour market

What are the main problems female employees have to face on the labour market?						
Main Problems	KABUL	BAGHLAN	BALKH	KANDAHAR	KUNDUZ	Total
Lack of opportunities	66.0%	66.0%	68.7%	57.2%	65.6%	65.1%
Lack of experience	48.1%	54.2%	59.2%	66.4%	67.5%	57.2%
Family's hostility	60.2%	52.3%	50.2%	65.1%	36.4%	54.0%
Low Salary	45.7%	41.8%	35.3%	48.0%	35.8%	41.8%
Lack of qualifications (education)	34.6%	40.5%	34.3%	30.3%	13.9%	31.6%
Lack of contacts to find a job	12.3%	17.6%	16.4%	13.8%	22.5%	15.8%
Respondents	324	153	201	152	151	981

Source: Samuel Hall, *Economic Assessment and Labour Market Survey of Balkh, Baghlan, Kandahar, and Kunduz, 2011*

Dialogue with women in Kunduz (October 2011)

In Kunduz, women are reported to work in manual or labouring work, which often involves cleaning and cooking positions within businesses. No women were reported to be working on office work or junior management. Opportunities for women in the districts, according to interviews and discussions in Kunduz, are based primarily around agriculture and include fish farming, wool processing, beekeeping, poultry farming and small dairy outputs, such as milk, butter and cream production. In both the districts and Kunduz city, women are also very active in handicrafts, particularly clothes making, embroidery and carpet making.

Women face unique challenges, unlike other segments of the labour market, as family permission is often required to leave the home as articulated by Hayderi, a focus group participant in Kunduz City, *'the big obstacle for women to work outdoors is the violent action of men who do not let the women to work.'*

Women not only face threats from within the home, but also by anti-government actors, as described by Rana Jan, another participant, *'the basic obstacle for women who can not work is that the security situation is not good, there are threats and warnings from the Taliban side that stick (notices) on people doors that any women who want to work will be killed.'*

One sixth of the 150 surveyed employers and one fifth of the 150 surveyed employees also stated that their sector was not appropriate for women, which may be the result of the use of manual labour or a traditionally male dominant environment. For the director of DoWA in Kunduz, however, *'women are able to do anything,'* from working in agriculture and livestock in rural areas to *'carpentry, mobile and TV repairing as well as photography'* in urban areas.

Handicrafts, carpet making and embroidery, therefore, represent an apparent compromise as the work is generally undertaken from home. Approximately 18% of respondents also stated that their sector was 'not appropriate' for women, which is traditionally associated with manual labour and trades or environments that are considered the preserve of males only.

Source: Samuel Hall, Labour Market Survey in Baghlan, Balkh, Kandahar, and Kunduz (Mercy Corps, Nov. 2011)

3.4. Child labour

Though the legal age of employment in Afghanistan is 15, the enforcement of this restriction is weak, with UNICEF estimating 13% of Afghan children work (17% for boys and 9% for girls)⁶⁰. According to the ILO, child labour deprives children of their childhood, their potential and their dignity, and that is harmful to physical and mental development. It refers to work that is mentally, physically, socially or morally dangerous and harmful to children, and interferes with their schooling by: 1) depriving them of the opportunity to attend school; 2) obliging them to leave school prematurely; 3) or requiring them to attempt to combine school attendance with excessively long and heavy work⁶¹.

According to the NRVA, at least 1.42 million Afghan children aged 6 to 15 (18% of an age category of 7.88 million children) are performing child labour. In rural areas, child labour is of course frequently associated with livestock or agriculture sectors; in urban areas, children often work in small manufacturing companies, in restaurants, in the bazaar, in brick kilns, in carpet weaving or tailoring factories.

Child and Bonded Labour

Buried in Bricks: Rapid Assessment of Bonded Labour in Afghan Brick Kilns, a recent survey carried out between August and October 2011, aimed to provide an accurate picture of bonded and child labour in brick kilns in two provinces of Afghanistan – Nangarhar and Kabul. The survey found that 56 per cent of brick makers in the Afghan kilns are children under the age of 18 (58 per cent boys and 42 per cent girls), and 47 per cent are 14 or younger (33 per cent boys and 14 per cent girls). Most children began working between seven and eight years old, and by the age of nine almost 80 per cent of children are working. Only 15 per cent of the children attended school, the main reason for not doing so being the need to help their families. Consequently they do not acquire the skills necessary to break out of bonded labour, and, with the intergenerational transference of debt, children have no choice but to follow in the footsteps of their parents. Both adult and child labourers work more than 70 hours a week, in very poor conditions. Average daily wages are between 297 and 407 Afghanis (US\$6.23-8.54) for an adult and 170-278 Afghanis (US\$3.57-5.82) for a child.

Source: Samuel Hall, *Buried in Bricks, Bonded Labour in Afghanistan* (ILO, February 2012)

⁶⁰ UNICEF, Multiple Indicator Cluster Survey (MICS) and Demographic and Health Surveys (DHS) – 2010. It should be noted that the definition of child labour by UNICEF only takes into account children between 5 and 14: “Child Labour: Percentage of children aged 5 to 14 years of age involved in child labour activities at the moment of the survey. A child is considered to be involved in child labour activities under the following classification: (a) children 5 to 11 years of age that during the week preceding the survey did at least one hour of economic activity or at least 28 hours of domestic work, and (b) children 12 to 14 years of age that during the week preceding the survey did at least 14 hours of economic activity or at least 42 hours of economic activity and domestic work combined” (see http://www.unicef.org/infobycountry/stats_popup9.html), whereas the ILO-IPEC definition is broader and includes children between 5 and 17 (see: <http://www.ilo.org/ipec/facts/lang--en/index.htm>).

⁶¹ See the ILO definition at: <http://www.ilo.org/ipec/facts/lang--en/index.htm>

3.5. Refugees, returnees, and internally displaced persons (IDPs)

Since 2002, over 5 million Afghan refugees returned ‘home’ causing increased pressure on local absorption capacities. Central to the migration experience of different migration groups – whether refugees/returnees, IDPs or labour migrants – is the question of access to employment. At a time of record lows in the repatriation of refugees, increased internal displacement and irregular cross-border migration, access to the labour market has become one of the central drivers of mobility.

Early waves of refugee return (2002-2005) – Early returnees were motivated by a high sense of longing but also a very practical sense of entrepreneurship among returnees who expected that the presence of the aid community would create favourable dynamics in the overall economic environment. They matched these expectations with the transfer of savings from exile, to help them start up new business activities. Most returnees expressed difficulties integrating in the Afghan labour market⁶² but were able to find a job, albeit in less preferred jobs despite their real skills, often acquired during exile in Iran and Pakistan. However, the vast majority of returnees found themselves in jobless/casual labour positions and a difficult reintegration process.

Later waves of refugee return – A research study conducted for NRC in 2009 highlighted the vulnerable economic situation of urban returnee households⁶³. The survey results highlight various types of economic vulnerability: lack of savings (80.5%), of access to loans (52.6%), of remittances (96.2%) or of multiple income sources (37.2%). Overall, and in comparison with their economic situation a year earlier, 45.1% of respondents indicate their economic situation to have remained stable (albeit precarious), while 38% consider their situation to have worsened and 26.9% improved. On average, family members each survive on less than \$1 a day. Last, it should be noted that one third of the active labour force surveyed falls under the category of unstable and unskilled labour (seasonal daily labour in the agriculture or construction sectors).

Internally Displaced Persons (IDPs) – A joint research study by the World Bank and UNHCR⁶⁴ illustrates the negative economic situation of IDPs compared to the urban poor. IDP household heads have substantially lower literacy rates and levels of education, directly impacting IDPs’ labour market outcomes. IDPs’ employment opportunities are primarily in construction, and low quality and unsafe jobs. Focusing on male respondents only, the study reveals that, unlike IDPs, the broader category of urban poor work in all sectors of the economy. For example, 12.8% of male heads of urban poor households work in the construction sector (compared with 50.6% of IDPs). Among the urban poor, the majority work in retail trade (26.2%), other services (14.4 %), and, most noticeably, in public sector jobs (11.9% versus 0.6% of IDPs). Sectoral differences in employment between IDPs and the urban poor are reflected also in the occupation structure. IDP male workers are mainly day labourers (68 per cent), followed by self-employment and private sector salaried jobs (23 and 6 per cent, respectively). In comparison, for the urban poor, self-employment is the most prevalent occupation (49 per cent) followed by daily labour (25 per cent) and public sector salaried jobs (17 per cent). The study further suggests that such labour market disadvantages increase IDPs’ vulnerability to poverty. Newly displaced households – besides

⁶² ILO/UNHCR, *Integration of Returnees in the Afghan Labour Market*, 2006.

⁶³ N. Majidi, *Research study on the Coping Strategies of Returned Refugees in Urban Settings*, for the Norwegian Refugee Council (NRC), 2009.

⁶⁴ World Bank / UNHCR, *Research Study on IDPs in urban settings – Afghanistan*, 2011.

possibly lacking skills to benefit from the urban labour market – are less likely to have other income sources, such as loans and credit, and hence are more vulnerable and in need of external assistance.

Labour migrants – Labour migration is unlikely to end, as it is a key livelihoods strategy for Afghans. They perceive higher employment opportunities and more advantageous wage differentials in Iran than in Afghanistan. Most of the migrants are adult men traveling alone, either the heads of households or the sons of the household. The main instigator for this migration, across different profiles, is the difficulty of families to meet basic livelihood needs. Migration becomes a way to provide for immediate needs, to diversify and to ease the strain put on family income. The main pull factors and incentives to migrate to Iran are⁶⁵:

- 1) The expected wage levels, on average four times higher in Iran,
- 2) The opportunity to acquire new skills from migration,
- 3) The high level of remittances,
- 4) The demands for labour of the informal labour market in Iran.

Beyond the expected wage gains is the opportunity to acquire new marketable skills from migration (case study below). These migrant workers benefit from a specific training in skills that is not readily available for them in Afghanistan.

Case study of an Afghan labour migrant to Iran

Reza, a 26-year old single man from Herat, spent 12 years living and working in Iran – returning once voluntarily in 1999, then deported by the Iranian authorities in 2008. *“My wage greatly increased over time. I learned to work as a mason and my daily wage went from 2,000 to 10,000 toman. I spent 30% of my income and sent back the remaining 70% to my family in Afghanistan.”* He now works for about 2 weeks every month as a daily construction worker. He never got married because he could not afford it. The experience of prison and of the treatment by the Iranian authorities left a big mark on him. He now says, *“I will not go back to Iran, it has gotten too difficult. I prefer to stay here, even if I have to beg for money. However, being in exile was positive because it allowed my family to live more comfortably.”*

Samuel Hall Consulting, *Research conducted in Herat in December 2011 for the ILO*

⁶⁵ Majidi, N. *A Research Study on Afghan Deportees from Iran*, Altai Consulting for ILO/UNHCR, 2008.

3.6. Extremely Marginalised communities

If nomadic Kuchi communities, which account for 1.6 million people in the country according to the NRVA, are often considered as socially and economically marginalized, the Jogi, Jat, Gorbat and Chori Frosh communities are the invisible poor among the poor. A rough estimate situates them at 30,000 – mostly in the cities of Jalalabad (Jat), Mazar-e-Sharif (Jogi and Chori-Frosh), Kabul (Jogi and Jat), Kunduz (Jogi and Chori Frosh), and Herat (Gorbat). A survey conducted in Mazar-e-Sharif and Kabul⁶⁶ showed that these communities suffer from barriers constraining access to education and employment. Jogi and non-Jogi respondents were asked to identify their main sources of income, as listed in Table 17.

Table 17: Income generating activities of extremely marginalised communities

Income-generating activities	Jogi and Chori Frosh	Non-Jogi from neighbouring communities
Begging	38.4%	0%
Construction (daily labour)	27.6%	28.5%
Street vending	4.7%	9.5%
Wood sale	4.4%	11.5%
Household workers	4.1%	0%
Car washing	2.9%	0%
Transportation, storage	2.8%	7.8%
Fortune telling	1.5%	0%
Administration, government	1%	6.3%
Construction (skilled labour)	0.8%	8.1%
Car repair	0.3%	3%
Sewing, tailoring	0.2%	2.1%
Electricity, plumbing	0%	1.7%
Other	6.1%	12.3%

Source: Samuel Hall, *Jogi and Chori Frosh out-of-school children: a story of marginalization*, 2011.

The specialization of Jogi communities in begging is very clear as revenues from begging contribute 38.4% to their income. In contrast, begging is not practiced by any of the surveyed non-Jogi households. Empirical observations showed that begging activities are almost exclusively performed by Jogi women and children. Interestingly, daily unskilled labour in the construction sector appears as an important source of revenue both for Jogi and Chori Frosh communities (27.6%) and non-Jogi communities, for which it is the primary income-generating activity (28.5%). This sector provides employment for Jogi and Chori Frosh men and brings an important share of the household revenues. Jogi and Chori Frosh men appear to have the same occupations than non-Jogi men living in the same areas, mostly in the construction and wood sectors (respectively 4.4 and 11.5%). Finally, the main income-generating activities to which Jogi and Chori Frosh have access are exclusively unskilled occupations providing only low-income perspectives. More importantly, they show that the Jogi and Chori Frosh are confined in an economic model of subsistence. None of these income-generating activities is sufficient to offer perspectives of development to the communities. In this context, they research other paths to break the reproduction of the cycle of poverty from generation to generation. In their discourse, education is the first of them.

⁶⁶ Samuel Hall Consulting (2011), *Jogi and Chori Frosh out-of-school children: a story of marginalization*, for UNICEF. The sampling targeted 153 Jogi and Chori Frosh households, 164 Jogi and Chori Frosh children as well as 100 non-Jogi households and 143 non-jogi children.

4. Vocational training and employment generation programmes

Employment promotion and capacity building have been identified by the local Afghans and by various assessments of the ILO, the World Bank and other relevant UN and non-UN institutions, as a critical dimension in any serious response to the Afghanistan reconstruction challenge. Since 2002, international and governmental programs have sought to promote employment and develop a skilled domestic labour force in Afghanistan: the Government of Afghanistan has recognized the problem and the Afghanistan National Development Strategy (ANDS) states that “given widespread low productivity employment and the large number of jobless, employment generation will be one of the most important policies for poverty reduction”⁶⁷.

At the same time, and as mentioned in the previous sections, the Afghan workforce is still hampered by a lack of technical and managerial skills, which undermines the growth potential of local companies. When asked if they needed additional skills, a large majority (80.3%) of the 974 surveyed business owners said that they actually needed to learn complementary skills to run and further develop their company. Based on additional focus groups conducted in Kabul, Baghlan, Balkh, Kandahar, and Kunduz, with skilled and unskilled workers, there seems to be a clear awareness among urban employees and employers of the need to further develop their technical or managerial skills. The number of private institutes (mostly in English, Computer, and Business-Accounting) has sharply increased to match a growing demand in basic vocational skills while most public universities suffer from both congestion and inadequate links with the labour market. However, the acquisition of knowledge and potentially higher-level skills through such institutions by a new generation of young Afghans does not necessarily meet the *actual* needs of the labour market.

Table 18: Skill needs assessment

Do you feel you need additional skills to help you develop your business?	
Provinces	Percentage of positive answers
Kabul	75.3%
Baghlan	84.3%
Balkh	83.1%
Kandahar	78.3%
Kunduz	85.4%
Total	80.3%

Source: Samuel Hall, *Economic Assessment and Labour Market Survey of Balkh, Baghlan, Kandahar, and Kunduz, 2011*

Compared with the apparent high demand for training, existing vocational training programmes may seem unable to meet the reality of the existing and up-coming demand. Aside from such an obvious lack of capacity, however, there are many lessons to be learned from the last ten years. Based on a series of interviews conducted between December 2011 and February 2012 with key international and national stakeholders of the employment creation and capacity building sectors, this sub-section will try to identify some of the key challenges faced by vocational training and employment generation programmes.

Lack of reliable data and information system: Aside from the NRVA data, which methods and data collection have often been criticized, there is no nationwide data on employment in Afghanistan. The NRVA is generally used as the only reliable source because it is the most comprehensive existing one. However, it does not provide any disaggregated data on

⁶⁷ Government of the Islamic Republic of Afghanistan, *Afghanistan National Development Strategy*, prioritization and implementation, 2008 (July 2010).

employment/skills and does not allow policy-makers to develop in-depth analyses on any specific economic sector. As suggested by the FAO representative: *“There is a clear lack of data and the FAO would benefit from greater knowledge on this issue. For example, it would be helpful to know how many BA graduates cannot find a job at the end of their studies, and to know how many graduates in agriculture-related fields are unemployed. Figures and data on underemployment are lacking: it is of course a major issue in this country – with people statistically employed but earning very low salary for a few hours of work a week. Qualitative data on the motivation of graduates to go for other jobs than in the agriculture sector would be interesting as well”* (FAO Representative, January 2012). More broadly, there is no data on skill supply and demand, which clearly undermines the adequate assessment of the current situation.

Lack of long-term thinking: Sustainability is of course a key issue for both capacity building and job creation. By contrast, it seems that the efforts that have been undertaken by the international community in Afghanistan have been uncoordinated and thus counter-productive. Donor-driven programmes are too often characterized by short-term initiatives: 1) conducted with limited involvement of key institutions for sustainability; 2) overly dependent on donors’ funding cycles. For example, in 2007, the ILO successfully funded nine Employment Service Centres throughout the country on behalf of MoLSAMD; but despite their success, the Centres had to cease operations when donor funding ended, as MoLSAMD had not made the required budgetary allocations to enable on-going operations⁶⁸. Likewise, the 9 vocational training centres established by JICA in 2007 were so poorly maintained that UNDP had to fully refurbish them in 2009; however, as noted in the *Afghanistan TVET Providers Inventory*, in November 2011, *“none of the institutes were operating due to lack of funding”*.

Lack of coordination among Afghan ministries: There is a clear lack of interaction and coordination between the various Afghan ministries and agencies, which should be working together on the issue of employment. The Ministry of Commerce and Industries (MoCI) has articulated a 3-year plan delineating 6 strategic industries requiring immediate action. The 6 industries are: cashmere, construction, carpentry, mining & exploitation, and agricultural development. However, while the MoCI defined the action plan, the Technical and Vocational Education and Training programme (TVET) was exclusively established by the MoLSAMD and the MoE. In the meantime, the MoLSAMD has developed a *Facilitation of Sustainable Decent Work through Skills Development and Employment Policies for Job-rich Growth*, which is a pillar of National Priority Program, with the objective of reducing the skills gap by providing Afghan youth and adults technical and vocational education, strengthening the policy and institutional framework for responding to labour-market needs, as well as providing literacy training and market-oriented skills development to increasing numbers of Afghan men and women. Such a positive attempt to better coordinate a still fragmented national capacity development strategy, should be noted – even if laudable intentions still need to be translated into a long-term financial commitment from donors and tangible acts from governmental counterparts.

⁶⁸ Extracted from *Afghanistan TVET Providers Inventory*, USAID-ASMED, November 2011.

Lack of linkages with the labour market:

One of the key weaknesses of the existing capacity development and job creation programs – international and local, public or private, governmental or non-governmental – is the poor link to the labour market: 1) *private institutes or public universities* are insufficiently market-driven

and generally prioritize a reduced set of basic skills that do not meet the demand of both employers and employees for advanced levels of proficiency; 2) *government TVET training initiatives* – such as those developed through NSDP training centres – train rudimentary, out of date and barely marketable skills to thousands of beneficiaries; 3) *international and non-governmental organisations* tend to exclusively focus their analysis on direct outputs (e.g. participation in training) without taking into account longer term employment outcomes.

“NSDP has identified market linkages as being the main problem, the main lack of success of so many training programs. So we have a labor market objective: how to link training with the economic market?”

NSDP Senior Advisor, Kabul, February 2012

“While little emphasis is given to elevating proficiencies in existing occupations, even less emphasis has been placed on training in emerging occupations and skills. Without addressing needs for new skills, the economic growth that has occurred in Afghanistan in the past few years is likely to stall. [...] According to a donor representative, every public hospital has a room full of non-functioning medical equipment that has been purchased over the past 10 years with donor funding. The cost of importing repair people from Germany, the U.S., India and Japan (where the equipment is manufactured) is prohibitive. [...] Unfortunately, there is currently no training program teaching Afghans how to calibrate, maintain or repair this delicate equipment”.

Afghanistan TVET Providers Inventory, USAID-ASMED, November 2011

Lack of financial capacity: The on-going transition is likely to significantly impact on government employment and capacity building strategies, as socio-economic priorities still lag behind security and civil service wage bills. For instance, the government has committed to building 34 provincial and 200 district TVET institutes by 2013; however, funding sources have not yet been identified. While DM-TVET seeks donors to fund construction of these buildings, funding teacher salaries, operations and maintenance will need to be separately addressed. In the long run, the lack of financial capacity on the skills supply side may thus significantly hamper national employment strategies.

Focus on casual jobs – Most local and international stakeholders do not seek to identify unmet demand in the labour market and are too often tied to short-term strategies that lead them to favour the creation of a high number of casual and short-term jobs over the development of a sustainable employment creation based on a thorough analysis of the labour market needs. Long-term employment objectives are still not integrated in the planning cycle and long-term job creation needs to be addressed through different strategies. Usually, most employment generation projects have to do with infrastructures and providing local communities with daily wage labour and short-term employment (with activities like irrigation, energy or flood protection). But, in most of those programmes, long-term employment is clearly not mainstreamed yet and the strategy clearly focuses on casual jobs with no real employment strategy behind it.

Inadequate employment programmes – The link between employment and “political stabilization”, which has been a cornerstone of employment programmes in Afghanistan, is everything but grounded in social and economic practice. The emphasis has increasingly

been placed on providing employment as a means to lure young men away from the insurgency, in line with current veins of thought suggesting that increasing employment would mechanically bring more security. However, the evidence that stabilization or civil-military programmes promote stability in Afghanistan is neither conceptually conclusive, nor grounded by any firm and conclusive evidence.⁶⁹ The geographic focus of most donors confirms a clear political bias: USAID, DFID and up to 2010 CIDA (to mention the biggest government donors with the highest number of troops in Afghanistan) have disbursed their funds with priority given to where their troops are deployed in order to support their military strategy. The USAID map of projects is an exact replication of the security incidents map: USAID funds are being allocated in areas according to their level of insecurity (80% in the South and East), DFID is spending around 20% of their funds in Helmand only, while the French are spending 40% of their total civilian aid in Tagab and Surobi districts (equivalent to 1% of the territory)⁷⁰.

However, providing legitimate employment opportunities may increase popular support for the government, but only under certain conditions. Berman et al. (2001), for instance, find a negative correlation between unemployment and insurgent violence in Iraq, the Philippines, and Afghanistan. They posit that higher unemployment rates lower the price of obtaining information from the population about the insurgent's whereabouts and result from certain counter-insurgency tactics such as establishing security checkpoints that disrupt legitimate commerce⁷¹. Following the same logic, in June 2011, the US Senate acknowledged in a very strong statement what aid field workers would confirm: *"the evidence that stabilization programs promote stability in Afghanistan is limited. Some research suggests the opposite, and development best practices question the efficacy of using aid as a stabilization tool over the long run. [...] We must challenge the assumption that our stabilization programs in their current form necessarily contribute to stability. [...] Providing legitimate employment opportunities may be part of the solution, but the literature is inconclusive"*⁷². It may thus be the time for multiyear non-politicized economic development and employment generation strategies for Afghanistan.

⁶⁹ Eli Berman, Michael Callen, Joseph H. Felter, and Jacob N. Shapiro, "Do Working Men Rebel? Insurgency and Unemployment in Afghanistan, Iraq, and the Philippines," *Journal of Conflict Resolution*, published online March 22, 2011, <http://jcr.sagepub.com/content/early/2011/03/16/0022002710393920.full.pdf+html>. Quoted in a June 2011 report from the US Senate Committee on Foreign Relations, *"Evaluating US Foreign Assistance to Afghanistan"*, 112th Congress, 1st Session, June 8, 2011. Available at: <http://www.gpoaccess.gov/congress/index.html>

⁷⁰ USAID, Annual Program Statement: *"Implementing organizations will be required to coordinate with other US government (civilian and military) organizations in the various PRTs and District Support Teams (DSTs). Applications should identify concrete ways in which DSTs and PRTs will be engaged at the local level to inform programming and acknowledge a willingness to accept guidance from these Teams, as necessary and as agreed to by the USAID Office of Agriculture and Office of Acquisitions and Assistance"*. Since 2009, dedicated funds are also available to the US military commanders: the Commander's Emergency Response Program (CERP) has become a critical capability in the commander's toolbox for conducting stability operations: it represents a significant share of the US Department of Defense (DoD) funding for Afghanistan: aid funding for 2010 was US\$ 1.2 billion and US\$ 1.3 billion for 2011. Stabilization tasks include the reconstruction of infrastructure, support to governance, restoration of public services, and support to economic development. As the manual states: the CERP allows commanders *"to respond with a nonlethal weapon to urgent, small-scale, humanitarian relief, and reconstruction projects and services"* (CERP, Tactics, Techniques and Procedures, April 2009).

⁷¹ Eli Berman, Michael Callen, Joseph H. Felter, and Jacob N. Shapiro, "Do Working Men Rebel? Insurgency and Unemployment in Afghanistan, Iraq, and the Philippines," *Journal of Conflict Resolution*, published online March 22, 2011, <http://jcr.sagepub.com/content/early/2011/03/16/0022002710393920.full.pdf+html>.

⁷² US Senate Committee on Foreign Relations, *"Evaluating US Foreign Assistance to Afghanistan"*, 112th Congress, 1st Session, June 8, 2011. Available at: <http://www.gpoaccess.gov/congress/index.html>

"Stabilization" programmes and unemployment: evidence from the field...

During the fall of 2009, Afghanistan Vouchers for Increased Production in Agriculture (AVIPA-Plus) was launched to provide counter-insurgency stability programming in Hilmand and Kandahar provinces within an agricultural framework (distribution of agriculture voucher packages, training provision, distribution of small grants, etc.). According to International Relief & Development, the implementing partner for AVIPA Plus, in Helmand's Nawa District the project has resulted in 900 cash-for-work projects, employing 128,000 laborers and injecting nearly \$27 million in wages into the economy. Rajiv Chandrasekaran, from the Washington Post, has drawn a rather contrasted image of the actual outcomes of the programme.

"The \$250 million agriculture program is the Obama administration's principal effort to create jobs and improve livelihoods in the two provinces where U.S. troops are concentrating their counterinsurgency mission this year. The U.S. Agency for International Development's agriculture program aims to spend upward of \$30 million within nine months in this rural district of mud-walled homes and small farms. Other U.S. initiatives aim to bring millions more dollars to the area over the next year. [...] Because aid is so plentiful in Nawa -- seemingly everyone who wants a job has one -- many young men have opted to stop serving as the Taliban's guns for hire. Unlike neighboring Marja, where insurgent attacks remain a daily occurrence, the central parts of Nawa have been largely violence-free the past six months. [...] The initiative has put money in the pocket of almost every working-age male in the district. More than 7,000 residents have been hired for \$5 a day to clean the canals, and a similar number of farmers have received vouchers for heavily discounted seeds and fertilizer. Thousands of others have benefited from additional forms of assistance through the program. [...] But the cash surge has also unleashed unintended and potentially troubling consequences. It is sparking new tension and rivalries within the community, and it is prompting concern that the nearly free seeds and gushing canals will result in more crops than farmers will be able to sell. It is also raising public expectations for handouts that the Afghan government will not be able to sustain once U.S. contributions ebb. [...] "Those cash-for-work men -- half of them used to be Taliban," said the district governor, Abdul Manaf. "If the Americans stop paying for them to work, they'll go back to the Taliban."

Source: "In Afghan region, U.S. spreads the cash to fight the Taliban", Rajiv Chandrasekaran, Washington Post, May 31, 2010.

5. Policy recommendations

The position that this paper supports is that employment creation must be positioned as an operational cornerstone of Afghan development rather than as an adjunct to an abstract economic strategy. However, with the on-going transition, the withdrawal of international troops and the predictable decrease of international spending, priority has clearly been given to the political agenda in Afghanistan. Questions of political security have set the path of the economic debate, which is perfectly understandable in a worsening security context.

With donor agencies having pledged to increase their on-budget support to the Afghan government at both the 2010 Kabul Conference and the 2011 Bonn Conference, such an outcome appears likely, thus mitigating the risk of any cuts in public sector spending and employment. That said, according to the World Bank, Afghanistan may be forced to choose between basic service provision and financing its security services if foreign donors do not provide resources sufficient to fund both beyond 2014.

In this regard, if security and good governance are prerequisites to socio-economic development, it does not necessarily mean that socio-economic development and employment creation have to be delayed indefinitely; rather, immediate actions are also needed to promote a controlled, sustainable, and dynamic socio-economic development in both urban and rural Afghanistan.

Holistic approach rather than fragmentary interventions: *setting up an overriding policy framework (national employment policy)*

A more systematic approach should be developed by governmental counterparts, NGOs as well as international donors. In the long-run, only coordinated, sustainable, market-driven, and contextualized initiatives will actually contribute to the economic and social growth of the country. Such an integrated approach would benefit from the expertise built by and the lessons learned from ten years of policies, programmes, projects, and initiatives that have sometimes proven to be locally successful; in today's context, a *national employment policy* has become necessary. In these regards, the July 2012 Tokyo conference on Afghanistan has to be ambitious with regards to:

- The necessity for the international community to reaffirm its assistance to employment strategies over the medium and long-term (2015-2024);
- The creation of sanctuarized, guaranteed and dedicated financial commitments from international donors;
- The mainstreaming of employment objectives in long-term programming cycles, to enable sustainable implementation strategies through multiyear capacity building and employment generation strategies.

Following-up on the resolutions of Bonn 2 (December 2011), a reduced and coordinated political task force – mixing international and local actors – should set employment creation objectives in both quantitative (figures) and qualitative (including skilled jobs and long-term employment) terms to support full Afghan leadership and responsibility for the development of Afghanistan over the coming years.

In these regards, it is important that the donor community politically and financially commits to fostering the development of long-term adequate capacity building and employment

generation strategies through the unique channel of the National Priority Program (NPP 1) (*Facilitation of Sustainable Decent Work through Skills Development and Employment Policies for Job-Rich Growth*). The three components of the programme – “Market friendly labor regulations”, “Literacy for Labor”, and “Skills development” – may offer an opportunity to achieve collective goals through a unique platform: 1) strengthening policy and institutional framework for facilitation of sustainable decent work; 2) increasing the national literacy rate of the youth and adult Afghan men and women; and, 3) improving quality and increasing access of technical and vocational education and training.

The increasing importance that has been placed on providing employment as a means to lure young men away from the insurgency has often led to a simplistic and politicized equation: increasing employment = increasing security. However, the assumption that *stabilization* programs actually contribute to political stability must be challenged, as the politicized version of development: (a) often generates short-term quantitative outputs (casual jobs) rather than long-term qualitative outcomes; (b) targets politically prioritized areas instead of using neutral socio-economic needs assessments; (c) to date, there is no proper and unbiased impact evaluation of any *stabilization* programme in Afghanistan. As such, both national and international employment generation programmes have to rely on rigorous analyses of local social and economic environments, and lead to employment and capacity building strategies that create permanent jobs and additional skills in adequacy with local labour markets.

Responsible partnerships: *applying a basic set of guidelines and principles in every project supported by international donors to promote a sustainable employment strategy.*

To better coordinate and streamline the several existing employment strategies, each and every programme (either bilateral or multilateral) should rely on a set of guidelines and principles. It is crucial that existing employment generation and capacity building programmes systematically coordinate their action with the strategic and political platform of the National Priority Program 1 (NPP 1) on employment and skills development (and the forthcoming national employment policy), to allow a better allocation of resources and efforts at both national and provincial scales.

Moreover, as sustainability is the key factor of any employment strategy, it is important to develop policies, programmes, methods, and instruments through social dialogue. In this respect, it is important the ability of employers’ and workers’ organizations to contribute to policymaking processes is supported through capacity building initiatives.

Pragmatic market-driven employment and capacity-building policies: *understanding the actual labour market demand (economic sectors) and taking into account the whole value chain while designing capacity building or employment generating programmes*

The main lesson learned from ten years of employment generation and capacity building programmes is probably that initiatives must be strictly tied to the existing labour market: 1) Afghanistan is mostly an agricultural country; 2) over the past ten years, the development of services has been artificially driven by international assistance; 3) promising opportunities (mining, for instance) shall not be taken for granted on both short- and long-terms. As such the development of ambitious employment and skill development strategies have to be driven by comprehensive needs assessments of the *real* labour market demand. Employment service centers as well as public or private training and educational institutions can of course help implement such strategies.

Ensuring short-term protection while promoting the creation of more sustainable employment: If short-term programmes that target and quickly improve employment outcomes, especially for youth and other vulnerable groups, are necessary, they should not be the only priority of the government and donors. In particular, increasing focus should be given to longer term employment strategies, which address institutional capacity building and areas that should be targeted through technical and financial support from international organizations and donors.

Agriculture first: When considering the labour market, it is important to keep in mind that: (a) formal employment options will be very limited, because of the negligible size of the formal sector, while the informal economy including agriculture, micro enterprises and other self-employment activities will constitute the main areas for employment; (b) in volume, agriculture will continue to be the main economic activity, as almost 60% of the workforce is employed in the agricultural sector, which approximately accounts for 23% of GDP. However, and as stated in a recent World Bank economic report, *“in the last 40 years Afghanistan’s agricultural production has declined, while that of its neighbours, Iran and Pakistan, has increased five-fold. Less than half of available water is used and only one-third of the 7.5 million hectares available for agriculture are irrigated. The government has articulated well the agenda for improving farm productivity; the challenge is implementation”*⁷³. Major improvements can be done in terms of productivity, access to market, integration of the value chain (from the production to the distribution and marketing steps), new techniques can be applied to strengthen the resilience of the local agriculture-based economy, while non-farm rural employment and manufacturing should also be developed at a large scale as potential sources of labour absorption and income-generating opportunities. Once again, it is possible to channel a significant proportion of the financial or technical support through the National Solidarity Programme (NSP), expanding geographical coverage and involving Afghan institutions and experience.

Revitalized Employment Service Centres: MOLSAMD currently has eight Employment Service Centres (ESCs). However none of them is operational in practice due to a lack of full-time staff and sufficient resources. There is scope in Afghanistan to build on the existing network of ESCs to play a coordinating role in the field, rather than introducing another new institutional structure. As ESCs also provide job seekers with advice on vocational training and self-employment opportunities, they have the potential to further increase the employability of job seekers. ESCs also co-operate with employers to identify the skills demanded by the labour market, however, whilst they are thus an important component of a national labour market information system, they do not obviate the need for local enterprise skills demand surveys as they simply complement data on demand from these and other sources.

Customized capacity building centres: Moreover, in order to support the country’s development strategy over the 2015-2024 decade, the long term skill development programme for Afghanistan should focus on creating a broad spectrum of general skills imparted to secondary graduates in formal technical and vocational institutions of the country. To meet immediate and short run skill needs of various sectors, and to impart Afghan labour force (with diverse educational background) with employable skills as determined by market signals, under NSDP, customized skill development programs may be implemented in collaboration with local technical/vocational institutes/NGOs.

⁷³ *Afghanistan Economic Update, October 2011*, The World Bank, Poverty Reduction, and Economic Management, South Asia Region.

Market-driven vocational training institutes: Both public and private higher educational institutions need to be more market responsive to meet the high-level manpower needs of the economy. Likewise, governmental counterparts, the private sector and donors should agree on a set of common standards and certifications for vocational training centres so that they can have a significant positive impact and progressively bring their contribution to the employment market – rather than following short-term business objectives.

Specific support to minorities rather than “one-size-fit-all” approaches: *taking into account the reality of the labour market, characterized by many socio-economic and gender discriminations*

Taking the concerns of specific groups into account is critical for promoting social justice and equity in the transition process of Afghanistan. In part, this will be a needs analysis in relation to skill development to ensure that the participation rates of groups that have traditionally had restricted access to employment (women, youth, nomadic people, returnees, IDPs, etc. are promoted through education, credit schemes and professional development).

- **Migrants** With the worsening security situation in the South and the East, those “minorities” (especially internal displaced people or economic migrants) will soon become “majorities” in many urban and peri-urban areas. A close collaboration between different types of actors (ILO, IOM, NRC, other NGOs, etc.) will thus be needed to tailor capacity building and employment policies to specific socio-economic profiles of migrants and displaced.
- **Women:** Clear guidelines need to be established in terms of women’s involvement in the planning and implementation of employment strategies. In addition to mainstreaming gender concerns into all other elements, assistance should be provided to female job seekers – both in rural and urban areas. It is envisaged that support to business start-up, micro-finance, cooperative development and vocational guidance and professional counselling will also be needed, especially in rural areas. ILO’s expertise in the field of gender equality in employment will be vital in providing guidance on developing gender based policies and programmes.

Research- and evidence-based policies rather than uninformed and contingent decisions: *filling the methodological and analytical gaps to better inform policy- and decision-makers.*

A major impediment to the development efforts has been the lack of: (a) adequate information on the Afghan labour market and (b) clear institutional arrangements essential to support evidence based decision-making. In the absence of any data relating to current employment and growth opportunities, it has been indeed extremely difficult to inform social and economic policies. To fill this important gap, research priorities must be defined to gather the necessary data and help policy-makers, as well as key stakeholders of the training and employment markets, make longer-term and better-informed decisions.

Accurate data on actual and potential labour availability and demand as well as local demand for goods and services have to be rapidly compiled to provide: (a) a solid basis for the formulation of relevant vocational training programmes; and (b) inform a wide range of policy and programme responses to improve the functioning of the labour market and other key areas of decent work and related economic and social services. The ILO has a number of tools that could be used to do rapid labour market assessments in partnership with the

management and staff of the Central Statistical Office (CSO) and the Ministry of Labour Social Affairs Martyrs and Disabled (MOLSAMD).

As highlighted in the third recommendation, it is also crucial to develop direct collaborations with governmental counterparts (through the first component of the MoLSAMD-NPP, the CSO, the Ministries of Education (MoE) and Higher Education (MoHE), of Agriculture, Irrigation & Livestock (MAIL), the Ministries of Mines (MoM) and Commerce & Industry (MoCI), the Afghanistan Chamber of Commerce and Industry (ACCI), the National Union of Afghan Employees, the TVET Working Group, the National Skills Development Programme (NSDP), and other government agencies that are potential providers and users of labour market information and enterprise labour and skills data), and exclusively implement sustainable (research-) projects.

In this regard, there is a need for a relevant statistics and data on employment and household or employers strategies identifying clearly where, for whom and why employment opportunities are lacking. To overcome those knowledge gaps, areas for further general or specific research and analysis would include:

- **Labour force survey:** A comprehensive labour force survey to provide accurate figures of employment, unemployment, underemployment, female participation to the workforce, rural-urban distribution, level of employment, wages and income, and productivity, employment status, working hours, nature of employment etc. under the auspices of MoLSAMD in collaboration with CSO, and NRVA; with technical assistance from ILO, and funding from donors.
- **Specific studies:** Contextual labour market assessments and sector studies (on female graduates, on child labour, on rural economic dynamics, on nomadic communities and other minorities, etc.) should be systematized to deepen the understanding of specific local socio-economic network and help donors better tailor their implementation strategy to *actual* local contexts.
- **Sector and economic forecasts:** Comprehensive socio-economic and labour market development surveys, including industrial data covering priority sectors (agriculture, manufacture, mining, construction, services) and economic forecasts of short and medium-term labour market demands in the country, including data on available materials and commodities and their prices.
- **Informal sector surveys:** The key role of the informal sector would be analysed. It would develop a clear linkage between the short-term measures needed and a viable and sustainable long-term development strategy.

Contacts:

International Labour Organization – Kabul

UNDP Compound
Shah Mohmood Khan
Ghazi Watt,
Kabul, AFGHANISTAN
Telephone: +93 202 124 500
ilo-kabul@ilo.org

Visit the ILO website at www.ilo.org

Samuel Hall

Qala-e-Fatullah, Street 5, #2
Kabul, AFGHANISTAN
Kabul: +93 796 60 60 28
14, rue Duvivier, 75007
Paris, FRANCE
Paris: +33 6 66 48 88 32
development@samuelhall.org

Visit our website at www.samuelhall.org