

The Role of Private Sector in Development of Afghanistan

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Abstract

The following research is based on the role of private sector in the development of Afghanistan. Research starts with the introductory section where the researcher has provided the background of the country along with the background of the business economy of the nation. Research aims objectives and the questions have been provided in this chapter which helps the readers to get a clear understanding of the purpose of the research. Another important addition in this chapter is the structure of the total study where researcher provides the detailed description about the contents of the research. The role of NATO and the top superpowers in the current economical and geopolitical situation in the country has been one of the major milestones in the present and future of the country. The following milestones have helped in the development of the infrastructure and rules of the country. The research questions set up in the research have all pointed directly to the topic that is based on the role the private sector industry plays in the development of the country and also the major outcomes of the developmental process. The review of the literature has concentrated on the works of the authors who have vastly written and discussed on the following sector of the country. The literary review has identified the major problems regarding the same and has also pointed out to the different types of the factors that lead to the current problems. These problems have been the major cause for the negative growth of the business organizations in the country. The methods used in the dissertation have been justified as well as explained. The use of the positivism philosophy and descriptive techniques research design along with the selection of the secondary research has been helpful for the research. The use of the theme based study has been used to get a detailed qualitative review of the following topic. The research has a wide scope and great approach just because it has presented a number of recommendations which has been a major success factor for the research.

Introduction:

Background:

The following research will be based on the study of the role that the organizations play under the private sector in the developmental process of Afghanistan. The longstanding wars and civil strife has turned one of the most fertile and beautiful Central Asian country to one of the most rugged and infertile country (Chatterjee and Shaw 2015). The end of the decade long soviet rule was followed by the seven years of civil war and the five years of Taliban rule. In the recent past the country faced a longstanding war which involved NATO countries in a fight against the Taliban rule in the country. Therefore there is a huge challenge for the country in the coming da challenge lies in the structuring of the country from the scratch and equips the country with the latest developments and aim to achieve a set of globalized objectives within a set deadline. The research has discussed the crucial role that will be played by the private sector to change the current state of affairs in Afghanistan. The research has also addressed the issues pertaining to the problems that currently exist in the country. This includes Corruption, governance, mismanagement and many more such different things. The research will be verifying and discussing the different elements and factors that are related to the involvement of the public sector and other important ys that needs to be addressed. According to, Azimi (2016) the most important stakeholders in the development process of the Central Asian country.

Research Questions

The research question on which the total discussion will be based is as follows;

- ~~To what extent the private sector contribute to the development of Afghanistan?~~
Or what kind of role does the private sector play to development Afghanistan?
- What are the main ways by which the Private Sector enterprises take part in the?

- What are the different outcomes of the developmental process?

Research Aims and Objectives

The aim of the research is to identify and highlight the role of the Private Sector Enterprises in the development of Afghanistan.

The objectives of the following study are given below;

- To get a clear idea over the task of private sector in the developmental process of Afghanistan
- ~~To identify the main ways by which~~ the private sector takes part in the development of Afghanistan
- To determine the different outcomes of such development process

Problem Statement

There are a number of different issues that are the main problems to the development of Afghanistan. The political crisis is the first and foremost issue that has a direct impact on the development process of the country. The fear of insurgency has led a number of well reputed companies to withdraw from different kinds of infrastructural projects in Afghanistan (Benn Sangaré and Hos 2017). Cultural sensitivity is another main problem that has gripped the developmental process of the country as because the companies need to maintain a few important cultural features to complete the project. There are also issues with the western and nonwestern or local stakeholders of the project which are serious concerns and if not solved at the correct time can lead to huge crisis. The following problems can be easily said to be the problems that will be addressed in the research including the identification of the work or task of the sector in the organizational and infrastructural development of the Central Asian country.

Rationale of the Study

The main need for the research study can be ascertained while the discussion of the aims of the research. The identification of the task of the private sector industries in the structural and infrastructural developmental process of Afghanistan is the main purpose of the study. The rationale will be based on the set up of the different kinds of existing works on this particular literature. The review of the topic will discuss and answer all the elements that are clearly assigned with the role of the private sector in Afghanistan.

Research Hypothesis

H0- The industries operating under the private sector have a major role in the development of Afghanistan

H1- The industries operating under the private sector does not have a major role in the development of Afghanistan

Structure of the Study

The research on the role of the private sector in the development of Afghanistan has been divided into five different chapters accordingly. This includes the introduction of the chapter. The first chapter introduced the readers with the private sector industries currently operating in Afghanistan and their specific roles in the development of the country as a whole. The first chapter provides a decent knowledge of the different facts and issues that are related with the development factors in Afghanistan. The next chapter of the dissertation is the literature review chapter. The literature review chapter is the chapter where a critical and analytical review of the chapter is included. This includes the different kinds of literature on the relevant topic. The following section has clearly related to the problem statement, purpose and the research questions of the dissertation. The review is generally based on the different kinds of the secondary sources that have been collected from the different journals, articles, literary sources.

The data is analyzed, synchronized and synthesized to form the different kind of the results. It

continues with the discussion of the different points discussed in the literature review and also the critical analysis and the reasons behind the different methods selected for the review and the analysis. The fifth chapter of the review is the results chapter where the results obtained from the analysis of the data has been provided in a proper form. The results have been explained accordingly with proper sources, citation and justification. The last and penultimate chapter has deal with the concluding part of the project. The concluding statement and the dissertation will be of strong, clear and concise measurement.

Literature Review

Introduction

The literary review of is one of the most crucial chapters in the build up to the study. The following chapter discusses, analyzes and critically reviews the works of different authors and also provides a clear and transparent view of the said topic. The review is also designed and structured in such a way that it goes on step by step following a chain of different links that are directly or indirectly linked to the study of the role and the impact that the private sector of Afghanistan has in the development of the nation. The economy of the country has a strange blend of informal along with the illicit and also the different types of elements that are aid sustained. The firstproduct of an elongated time mixed with covariance of protected conflict, interference of international powers and dependence on external aid is the present state of the country (Chatterjee state both the Government and private sector is neither the growth machine of economics nor the key instrument of social index but it also has the potential to be amongst one of them. On the other hand, Bielenberg et al. (2016) have stated that popular dissatisfaction with uneven access to different resources from the economic perspective, plot public goods and services, the risky security situation and pediatric activities including e-government activities decreases the impact and sustainability of the private sector companies in the country. However, the presence of the prospective reverses the dynamic. Government and private sector combines together and helps in the addition of a leading economic growth and contribute to the improvement of the traditional and human security conditions present in the country (Benn Sangaré and Hos 2017). Such kind of development will lead to a transformation of the infrastructure of the country. A sudden action by the authority operating in Afghanistan is needed to speed up the operating process. The government must follow a few steps in order to create a sustainable future for the country. According to, Duffield (2014) the first and foremost task of the Afghanistan government is to create a friendly and proper place for the mentioned sector and provide opportunities for the disadvantage of the small business organizations that carries on a prospective business economy. The private sector organizations are the main power behind the economic growth of the country. It plays a critical role in the establishment of employment capital formation income and mobilization of different kinds of domestic resources. It also helps to identify new things and participate in the growth of the nation. Afghanistan's private sector made some progress in the last decade and received investments in various fields like banking, aviation, construction, Healthcare, telecommunications and many more as such (Duffield 2014). However, the opportunities and the millions of foreign aids or not the future of the country and it needs to make some plans and progress that can help the private sectors sustain and act as an impetus for economic growth. Ghiasy Zhou and Hallgren (2015) has mentioned that the lack of investment opportunities in the private sector, adverse security situation and the insufficient partnerships among the public and private limited companies are the main reasons for the lack of trading and

financial resources in the country. The view has been supported by Jackson and Beswick (2018) who has further added in this context that the huge corruption during the rule of the earlier government led to the lowering of the potential competitiveness of the market and resulted in the creation of an unstable economy in the country. On the other hand, there are tendencies of powerful people in Afghanistan to control the big banks, airline companies and procurement agencies in their hands which often lead to corruption and destabilization.

Apart from this the research by, Qian (2015) has shown that the donor countries have often focused on the development of security and the defense sector in the country. The absence of an effective engagement with the private sector of the country has led to the downfall of the private sector participation in the nation. On the other hand, the study by Brown Grävingsholt and Raddatz (2016) has shown that a large percentage of the total private industries were granted to the security sector and the remaining percentage was distributed across all the other sectors into 3 infrastructure rule of law governance agriculture health

education culture sports and all the other facilities.

This suggested the minimum amount that was received in the private sector development of the country. Poverty unemployment illiteracy and poor living conditions are the main parties to the success of the private sector and their efficient participation in the growth of the country (Sexton 2016). Therefore, in the current situation the refinement and the development of the private sector of Afghanistan would not only transform itself into the engine of economic growth and development but also help in establishing peace and tranquility in the country.

Current Political Situation in Afghanistan

The research of, King (2016) has revealed that Afghanistan finds itself in one of the most pivotal moments in its recent history. It currently stands at the juncture of a rugged non developed state and turning into a developing and developed nation of the world. Security is one of the biggest challenges of the state as it is believed to be the root of all the different problems. This includes the likes of the security threats from political groups and militants and also from other kinds of insurgencies. Apart from this the presence of drug mafias, criminals and gangsters makes it difficult for the management of the companies to work freely in the developmental process of Afghanistan. King (2016) has also shown that the Government of Afghanistan along with the other international forces are trying their level best to develop the country by providing the best of protection for the organizations working in the country. The main aim of the country is to ensure the presence of the developmental activities.

Formal vs. informal economy

The formal type of jobs in Afghanistan presents only close to 9% of the overall employment share. On the other hand, 20% of them are present in the public sector. The dominance of public sector in the formal labor market provides a number of different kinds of private sector jobs that receive proper salaries (fairobserver.com 2019).

A large number of Enterprises that are family registered mostly fail to represent the different types of businesses that country. The formal economic institutions have very limited reach as there just been being introduced in the country. Different studies have shown that more than 70% of the economic activity of Afghanistan is informal and have not changed since the last decade. The informal economic activities comprise all the different economic activities that generally takes place outside the different legislative and regulatory framework of the Government and the other authorities. This includes mostly all the intended transaction illicit affairs and unregistered illegal distribution of production of goods and services (fairobserver.com 2019). The accumulation of capital in the informal sector can help to actions the formal sector by increasing the purchasing power of the consumers and also paving the way for private investment. As mentioned earlier the informal sector plays a major role in the economy of the country. According to, Berdal (2017) the lost recruit employee and reduce poverty by means of servicing markets that are well below the pyramid. Apart from this the informal activity is also largely responsible for the present economic recovery and dynamism. The parallel acting to and competing with the present economic governance systems informality leads to a strain cycle in which the government is not capable to bring out and utilize the resources that are needed for taxation to provide a proper environment for the presence of the formal businesses.

There are rules that the country can play that relates to the Welfare and the production of labor. However unfortunately this has also been reduced. Barefoot the social economic safety and never provided by the formal channel and as always provided by informal channels which creates additional disincentives to formalize. On the other hand, a survey conducted in the year 2012 on the small scale businesses have revealed that new registration invites a number of additional benefits in terms of 2019). Institute formal business is often face large scale cost in terms of different requirements like taxes legal bindings and other kinds of issues. Therefore, distinctions lie mainly between the barriers that leads to formalization. The lack of proper information regarding the transformation to the formalization process and the confusion regarding the procedures is one of the main reasons for the popularization of the informal procedures.

conflict on the economy

with the security affect all the sectors of the society in Afghanistan. It tends to consider every week and the power of the Government and the other State Authority which results in poor governance huge corruption and brings in new challenges before the authorities to construct a healthy economy (blogs.worldbank.org

framework of a war. This results in the economy to be dominated by the 2019). Apart from these it also analyses other economic activities into the constructive competition between different tribal groups that are buying for control of the illicit drug economy land water Rents and international aid money (nir.se 2019). The presence of father International forces also vendors are you challenge for the private sector as well as the public sector to usher in new developments and speed of the recovery of the economy. The absence of proper infrastructure and the lack of investments have led to the youth skill unemployment in the country. The economical conflict leads to the absence of property optician which can be certified as another factor that cannot be bypassed in the overview of the challenges and opportunities faced by the private sector in the country. the security and the economical tensions. Fragmented tribal religious and Civic authorities make it difficult for the investors to project long lasting Investments in the country. The power brokers of the country generally analyses the fund their own companies and then applies internal and external pressure to raises this fund which leads to destabilization and the construction of a parallel economy. The absence of proper and strong legal actions against them has led to the increase in the number of issues faced by the country (polsci.ku.dk 2019). Therefore, private sector development depends on established and efficient legal framework.

Macroeconomic policies

The Government of Afghanistan and the international community provides nominal support to the private sector in Afghanistan however stable macroeconomic policy is in place since its intervention (sigar.mil 2019). This is outstanding considering the institute and political instability that generally overshadows the economy of the country. The public Development does not sleep in relieved and the average inflation rate has been in just a single digit in the last 10 years the currency of the country is also fixed even under overvaluation as a result of increase in the difference between the local currency and the US Dollar (fairobserver.com 2019). However, the increase in value of the exchange rate has helped in the imports of Afghanistan but has also turned out to be a serious cause of concern for export competitiveness of the private sector companies. Foreign reserves, that were stable at the end of 2013, were utilized in a proper way to make up for the decrease or shortfall in the revenues. As an elongation of the political transition, rampant corruption and the poor enforcement of tax collection and Customs control tax revenues fell from drastic 11.6% of GDP in 2011 8.4% of GDP in 2014. In 2010 the banking and financial system was brought by the Kabul Bank fraud case which has made formal finance channels list drivers and more difficult to access (fairobserver.com 2019). There are also other problems as the neighbors of Afghanistan utilize the country as a dumping ground for low quality goods and edible products that reads on private sector could do a certain degree competitively produce by its own (sipri.org 2019). Properly designed and effective economic policies are able to protect new and important industries from unfair and tough foreign competition. Different strong actions must be needed to mitigate or decrease the chances of an uncertain industrial and economic future of Afghanistan.

Private sector companies in Afghanistan

A large majority of the local Afghans which constitutes of more than 90% are recruited in establishment with minimum 5 employees amongst which a majority of the people is a sole proprietor. The presence of an efficient private sector environment for the micro Enterprises is key to overcome the poverty and providing employment to the large number of people especially for the woman and the youth (Ghiasy Zhou and Hallgren 2015). There are a few large enterprises in the country which have a relatively marginal level of employment. These kinds of enterprises play a crucial role in generation of government tax revenue and attracting FDI. Apart from such facilities the enterprises also provide different Medical Services like Healthcare telecommunication, construction and many more as such. These companies also player critical role to introduce technology and establish superior management standards which helps to catalyze the formulation of other small and medium sized enterprises. Foreign presence outside the service sector are connected to the large foreign presence and are restricted and handful in numbers. The Afghanistan owned Enterprises generally having ownership and management structure that involves the male members of the same family. There are a few businesses that dates back to the invasion of Russia while there also large number of new set of successful entrepreneurs who emerged after the conflict situation in the country. Even when the maintainer cold line of business the large scale corporate groups seems to be active in different sectors like the logistics trade finance security and construction (Ghiasy Zhou and

Hallgren 2015). This type of Companies generally spread the risk Andre invest profit to stay active in the Afghan market. Different types of local base in the areas where they first started their operations. And in cages in ties of ethno- political environment. According to, Fayyaz Lund Thomsen and Lind green (2017) the following model reinforces the existing configuration of interest and sets aside the new entrepreneurs to reduce risk in the volatile and insecure environment and maintain investment in the Afghanistan economy. There are different types of urban micro and small enterprises in manufacturing and other types of retail services which have been introduced recently and they have the tendency to corporate each other to resolve common issues and disputes (Mawdsley 2015). According to auditions are where there are more than 500, 00 such micro Enterprises which are active across the country and provides a good source of employment to the informal sector.

The new private sector however lies through cooperation between local business groups and the international community as because the share the mutual interests in improving the rugged business conditions prevalent in the country. the different types of important business initiatives have been Grand funded two different NGOs supported by the international community of development. The ACCI or the Afghanistan Chamber of Commerce and industries is the country's leading National business organization (acci.org.af 2019). The foundation is the only voluntary membership services Association with the voice in policy advocacy available in broader layers of the formal private sector. Most of the female business owners and employees face various forms of discrimination since a long time. However according to the records of acci.org.af (2019) the present times have seen drastic changes and women are participating in the development process as well. Another important point to note is the disproportionate

concentration of not only private companies to urban areas but also the lack of organized private sector in agriculture and Agricultural Processing. The unorganized rural sector does not help the economy of the country and leads to severe loss. Agricultural Processing accounts for more than 90% of the manufacturing and Agriculture itself accounts for 60% of the country's workforce, the lack of proper representation is huge issue (acci.org.af 2019). Thus the role of the private sector in the country must be more proactive in nature to ensure the transformation of the country to an underdeveloped to a developing one. Inclusive private sector growth.

According to, Davis (2016) the private sector is believed to be the engine of the sustainable growth and the road to the social inclusion of Afghanistan. The different types of national strategy documents like ANDS claim that the private sector has the capability to lead the development of Afghanistan. Thus there have been significant rises in the gross domestic production of the country poverty rates have not declined. The absence of any progress to decline the rates of poverty is one of the major constraints in the growth of the private sector in Afghanistan (Nachtnebel et al. 2015) They have been both an increase in the number of people living below the poverty line and the number of people experiencing food insecurity. as mentioned earlier the capital letter measured during the presence of international community has been mentally spent to develop the economic political and war like situation in the country. The other part of this lump sum amount has been accumulated by the nouveau riche.

Methodology

The literature review chapter is generally followed by the chapter in which the researcher states the different methodologies and the methodological tools that are available during the conduction of the particular research. The following chapter has not restricted to the description and explanation of the various kinds of methodological tools but has also explained the characteristics of the tools that are followed by the justification of the selection of the different tools and methods. In addition to this the following chapter also highlights the different issues that are faced by the researcher along with the justification of the significance of following the different tools and methods accordingly.

Research outline

The formulated of the research as selected particular metrological tools keeping into account the topic of the research to analyze the main role of private sector in the development of Afghanistan. The researchers used the positivism philosophy, deductive approach and the descriptive Research Design to analyze the

following study. The secondary research method has been selected by the researcher by considering the above mentioned tools. The main reason for selecting the secondary research method has been the extensive information that was needed to get deep idea about the private sector and the current state of infrastructure and development in Afghanistan.

Private Sector Development and Economic Growth in Afghanistan

The main component of private sector development and economic growth in Afghanistan was provided and supported mainly by the team of international partners that was led by the United States. The first main private sector development task for the United States and its partners were to create an enabling environment in which a dynamic, licit and strongly effective private sector could thrive easily. This was the main factor behind the building of strong confidence to work freely in the development of Afghanistan. The main priority was given to the customs and tax set ups and a number of effective and efficient reforms were undertaken by the authorities to change the organizational set up in the country. The reforms in the tax and the customs department was responsible for the change in the growth of the organization, increase in the revenues of the country, transparency in the tax system and many more similar reforms. The adoption of new monetary reforms presented a new legal framework which was important to build an effective legal strategy to counter the growing number of crimes in the country. The international community also earmarked the absence of proper financial system in the country as one of the major reasons for the presence of large scale poverty in the region. The lack of easy accessibility to the financial sector of the country is one of the major reasons for adopting strong financial strategies to change the financial system of the country. The international community presented a clear picture on the development of the financial goals of the country and created new financial institutions through channeling new funds. The new funds were utilized to create new and developed financial institutions that allowed easy access to the common people with an easy and effective financial platform. The following will be beneficial for the country to introduce different

private sectors in the Afghan market.

Lessons from the US Experience with Private Sector Development in Afghanistan

A report identified by the US experience in Afghanistan explains the role of the private sector in the developmental process of the country. According to their experience it is not realistic to expect huge and robust changes that can be sustainable behind this is the presence of an uncertain and hostile environment which tends to disrupt the enough to change the economic growth of the country. The main reason economic growth of the country. The presence of a large number of criminals and terrorists along with the local mafias who control the illegal trade in the country is another huge hurdle to the progress of the country. The number of large scandals in the country has recently bought it in headlines where the Government of Afghanistan mutualized the funds received from the international community.

Conclusion

The objectives that have been analyzed along with the analysis of the review has provided with a number of strong conclusions on the research of the role of private companies in the development of Afghanistan. The presence and interference of foreign powers since a long time back and the implementation of competing economic elements, economic mismanagement and weak state capacity highlighted the war that resulted in the complete destruction of the formal institutions and a total loss and destruction of the infrastructure. The too much dependency on external aid and other financial helps from external sources is a source of major concerns for the country as such a situation leads to an uncertain and conflict economy. The economic condition thus turns out to be a blend of illicit and informal economic activity that leads to the creation of an illegal parallel economy within the country and restricts the positive economic growth of the country. The limited positive change of the organizations operating in Afghanistan is a serious concern and must be addressed immediately to get quality results. The lack of positive changes limits or totally diminishes the positive effect of the economic conditions of the business organizations that operate in the country. According to the experts operating and studying different forms of research on the following topic, the growth of the companies under the private ownership is expected to remain slow over the medium term and the fiscal vulnerability will remain excessive enough accordingly. Amid the presence of all these things like post-transition aid resources and ongoing insecurity economic

instability is quite high enough to create the damage to the organizations and ultimately the country. The adjustment of the different policies related to economics reflects the domestic and regional economic truth that will help in the reflection of the domestic and regional economic realities. A thorough analysis of the following study can ascertain a certain things on the future of Afghanistan.

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