CRIMINAL CAPTURE OF AFGHANISTAN’S ECONOMY

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Integrity Watch Afghanistan

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ABOUT INTEGRITY WATCH AFGHANISTAN

Integrity Watch Afghanistan (IWA) was created in October 2005 and established itself as an independent civil society organization in 2006. IWA’s aim is to evolve into a reference actor related to understanding, analysing and acting for transparency, accountability and anti-corruption issues.

IWA’s MISSION

The mission of Integrity Watch Afghanistan is to put corruption under the spotlight by increasing transparency, integrity and accountability in Afghanistan through the provision of policy-oriented research, development of training tools and facilitation of policy dialogue.

ABOUT IWA’S RESEARCH UNIT

IWA’s Research Unit undertakes research and advocacy as cross-cutting themes. Its first objective is to develop new empirical research on corruption. Its second objective is to consolidate current knowledge on corruption, accountability, transparency and integrity. Thirdly, it aims to enhance research capacity for anti-corruption issues. Together, these objectives work to influence decision-makers, increase civil society engagement and raise public awareness of corruption issues.
ACKNOWLEDGEMENT

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Weeda Mehran
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EXECUTIVE SUMMARY

With a per capita gross domestic product (GDP) of $528 in 2010/2011\(^1\), Afghanistan ranks 172 out of 187 countries in the United Nation’s Human Development Index.\(^2\) Since 2001, nearly $30 billion was spent in aid and approximately $243 billion has been spent in support of the International Security Assistance Force (ISAF) in Afghanistan.\(^3\) Aid effectiveness has been questioned repeatedly\(^4\) and has been criticized for being fragmented, linked to corruption and giving rise to parallel delivery systems.\(^5\) Afghanistan has been rated the third most corrupt country in the world, is the biggest supplier of opium\(^6\) and has recently made its way onto the list of Failed States.\(^7\)

Despite all these issues, since 2001 the country has experienced an overall GDP growth, especially in sectors such as agriculture,\(^8\) communications and banking. Nonetheless, economic growth has not benefited all Afghans equally. While there are no official and reliable statistics available, preliminary research and observations point to the increasing gap between the minority have-haves and the majority have-nots.

Given these descriptions of the country, the question remains of what are the underlying issues and problems that hinder economic development in Afghanistan. This research aims to analyse these questions at the level of political and economic elites in the country. The main research questions are: (1) How have the political elite influenced the political economy of the country, and (2) what implications has this had for economic development? These questions will be discussed while accounting for political and social factors that have an impact on/facilitate the role of political elites in the economy of the country. The objective of this research is to provide an exploratory account of how these circles have influenced the economic sphere of the country. The findings, which are based on interviews conducted in Afghanistan, show that the strongmen\(^9\) have increasingly engaged in more diversified businesses, have monopolized a number of them and have used both their political and military capabilities in order to ensure their economic interest are protected. In fact, neither monopolization nor diversification, or even maintaining these economic activities would be possible if these strongmen did not have political and military power.

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\(^1\)World Bank, 2012.  
\(^3\)Poole, 2011.  
\(^6\)UNODC, 2011.  
\(^7\)Foreign Policy, 2012.  
\(^9\) Cf. glossary, a strongman is a political elite capable of coercing others to comply with his objectives and strategy while using means that are not necessarily legitimate.
Research Methodology

This research is based on 100 in-depth interviews with experts, businessmen, engineers, politicians and civil servants, who have extensive knowledge of the strongmen and their business activities. The interviews were conducted in Kabul, Herat, Balkh, Bamiyan, and Nangarhar. Using a snowball sampling method, a limited number of respondents were initially interviewed and then they were requested to identify potential interviewees. The data analysis process started after the first few interviews and continued concomitant with, and beyond the data collection phase. This method allowed for flexibility, which was required in order to investigate the emerging themes and findings further. As such, some respondents were interviewed on multiple occasions to clarify issues that arose or to gather additional information.

However, it should be highlighted that the purpose of this study is not to provide an actual or estimated amount of the assets of strongmen. The data has been analysed at the aggregate level while a triangulation method has been used in order to ensure accuracy and validity of the data. The emerging trends and patterns are presented at the aggregate level and the names of people, companies and businesses have been withheld. As such, the paper does not provide a narrative account of the economic activities of a specific strongman.
KEY FINDINGS

- Diversification of economic activities: Increasingly the strongmen have been engaged in a wide range of economic activities both legal and illegal. As such, they have diversified their network taking over a wide range of businesses and stifling competition.

- Monopolization of markets: The findings show that if a strongman enters a line of business, small businesses will voluntarily opt out of the market, be intimidated, or forced to quit. The perception that competing against a strongman is a futile effort is quite common among businessmen who have smaller and medium-sized businesses. Monopolization also indicates the exclusivity of markets. The market in Afghanistan is run by a limited number of actors, making the Afghan market an oligopoly wherein a few sellers or providers of services dominate the whole market.

- Limited competition: Competition in producing goods or services is limited, which gives the oligopolists tremendous market power in terms of setting the prices. Examples include the price of commodities such as gas and oil.

- Use of political influence in order to secure economic interests: The strongmen have been using their political influence—including state administration positions—to get contracts, run import and export businesses, grab land, develop real estate and so forth.

- Military capabilities and political influence as the driving force: The military capabilities (defined as having armed men under one’s command or having access to armed forces for their services) of strongmen combined with their political influence are the backbone of their economic activities. While military capabilities were initially the trump card of the strongmen and facilitated their acquisition of political power, occupying state administration positions and the subsequent political power gained have benefited strongmen tremendously in ensuring that their businesses run smoothly without the threat of competition.

- The impact of weakening security: Concerns about administering projects in insecure areas have made some of the development agencies and the international security forces to compromise their standards in relation to vetting bidders. As such, major projects (e.g. construction and logistics) have been contracted to strongmen who can get the project completed or can deliver the goods regardless of whether or not they are involved in corrupt practices or human rights violations. Contracts—in construction, logistics or otherwise—if given to people who are not vetted well can lead to empowering illicit businesses and create distrust and dissatisfaction among other bidders.

- Avoiding direct ownership of businesses: Businesses are often not registered under the name of the strongmen, thus making it virtually impossible to find any legal documentation linking the strongmen to the businesses directly. For instance, multi-million dollar businesses and real estate are registered under the names of children as young as 17 years old.
Negative impact on state-building and development: The ultimate impact of a criminalized economy can be erosion of the public’s trust in government, halted economic development and lack of interest in investing in businesses inside the country as the perceptions are strong that the government cannot ensure the economic interests of non-state or unconnected actors.

Criminal capture of the economy: All these findings point to the criminal capture of the economy in the country, the main characteristic of which is systematic and methodical abuse of political and military power for accumulation of wealth.
RECOMMENDATIONS

The following recommendations are based on the findings of this research, which are mainly addressed toward the government of Afghanistan, civil society and the international community.

To the Government of Afghanistan:

- The government should establish laws and regulations, which are tailored towards transparency in private investment. The laws should require the listing of shareholders of major businesses and their relations to the senior officials. The High Office of Oversight should strictly enforce asset declaration of all public officials (including the assets, investment and income of officials’ close family members such as children and spouses). The High Office of Oversight should revamp its strategy of implementing this law as it has not been very successful thus far.

- In order to promote economic development in the country, the government needs to ensure that smaller and medium-sized businesses have easy access to required resources and infrastructure such as electricity and land. More specifically, businessmen's access to well-functioning and commercially-run industrial parks should be facilitated and measures should be taken to ensure that these industrial parks are run well and function properly.

- Competition can easily be stifled and businessmen discouraged from investing if they perceive that they have no chance of competing against the oligopolists who have significant political power. The government needs to ensure that small businesses have a fair chance of competing. This can be achieved through implementation of laws and regulations, which in tandem with market forces can determine the success of a business rather than political connections and military capabilities. Given the widespread reliance on political connections, investment policies should account for this factor and require potential investors to list their shareholders and connections to state officials.

- Access to information is key to economic competition. Many businessmen raised the concern that they did not have sufficient information about the projects that were put forward for bidding. The government should formulate policies and regulations that ensure sufficient information is provided publically for potential bidders. Passing the Law on Freedom of Information Act is one step towards this aim. Civil society should ensure access to sufficient information on contracts and bidding process by taking an observatory role in the process of bidding on big projects, making sure that the information on projects is accessible and provided in a timely manner for potential bidders.
Recommendations for the International Community and Civil Society

- Lack of knowledge about investment law and policies and limited knowledge of tax regulations was an issue raised by a number of businessmen interviewed for this project. NGOs involved in anti-corruption, in partnership with AISA and Chamber of Commerce and Industries, can raise awareness of businesses about investment laws and regulations in the country. This can potentially lead to greater transparency.

- The international community has the leverage—i.e. withholding transfer of on budget funding—to pressure the government to implement policies that can block further development of oligopolism and monopolization of the economy in the country. For instance, implementing the Access to Information Law and strict implementation of Anti-corruption and Anti-trust laws can facilitate competition for smaller businesses.

- A legal code can be developed to make it possible for any Afghan citizen to file actions on behalf of the government. This would hold contractors who defraud the government liable. Civil society should engage with lawmakers in a dialogue about such legal provisions. This could be modelled on the “False Claims Act”. Other potential approaches can be legal provisions for collective actions—such that residents of a community who have been affected by a corrupt action can launch a law suit, or: “representative action” where institutions certified by the government as representing particular interest groups can bring an action to the court on behalf of its members.

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10 The False Claims Act is an American federal law which includes a “qui tam” provision that allows individuals not affiliated with the government to file actions on behalf of the government. This is informally called “whistleblowing”.
INTRODUCTION

Background and questions

Contrary to the conventional view that sees war as leading to economic breakdown and anarchy, more recently scholars have described war as having the potential for creating an alternate system of profit, power and protection.\textsuperscript{11}Selby,\textsuperscript{12} for instance, acknowledges this by writing: “protracted conflicts often give rise to the emergence of local political economies which, in their own terms or for certain social groups, are quite successful.” War creates an economic industry that is embedded in socio-political and economic conditions of the distraught society affected by it. Pugh and Cooper\textsuperscript{13}refer to this as “war economies”, which include all economic activities happening in war-torn settings. More specific examples are formation of smuggler’s markets (bazaars) in Pakistan and Afghanistan (Rubin, 2000:1792), Tajikistan and on the border of Iran(in Farah, Nimroz).In the absence of free zones (e.g. UAE) and corruption, traders are forced to resort to “smugglers zones” even for non-proscribed goods.

In the case of Afghanistan, during the protracted wars, a new system of profit, power and protection developed which consequently gave rise to a regional and local political economy at the modus operandi of which were a number of strongmen.\textsuperscript{14}These networks were characterized by a decentralized structure with informal and relatively fluid links—which cannot easily be broken overnight by state-building policies and efforts. The current political economy of Afghanistan and those who run this economy cannot be studied without considering the historical forces which shaped this economy; the most prominent of these forces is the war period of 1978-2001, and peace-building efforts of the last decade. Military capabilities inherited from the above period opened up political and economic opportunities for a number of individuals in post 2001 era, which had already garnered substantial wealth during wartime.

Since the late 1980s, economic opportunities (i.e. availability of resources) for political and military actors have undergone tremendous changes. From 1979 to 1996, economic and military elements aimed at defeating the communist regime in the country and establishing control. The main source of income for the warring sides and the armed opposition groups was foreign aid supplemented by illegal

\textsuperscript{12}Selby, 2008, p. 23.
\textsuperscript{13}2004, p. 8.
\textsuperscript{14}A generic term used by Giustozzi (2003) to refer to a variety of armed political actors with or without military capabilities. A strongman, as defined in the glossary is a political elite capable of coercing others to comply with his objectives and strategy while using means that are not necessarily legitimate.
trade. Prolonged foreign aid and lack of an oversight mechanism led to creation of military groups relatively autonomous from their associated political parties. As state control weakened in most parts of the country and food production declined, illegal economic activities increased. For instance, smuggling narcotics, timber, arms, and gems increased and became "a significant source of funding for military-political organizations."\(^{15}\) Humanitarian aid and trade, licit or illicit activities such as drug trade and import and export of goods increased in 1987 when the roads became relatively secure.\(^{16}\) Additionally, extraction of mines and exporting of gems such as lapis lazuli and emeralds were other sources of revenue.\(^{17}\) Following the Soviet withdrawal in February 1989, with a decrease in military pressure and external aid, commanders pursued economic strategies and established bazaars where they provided security for traders in return for tribute.\(^{18}\) As such, the country inherited economic structures that can be described as decentralized and highly dependent on having military capabilities and political power.

The military, economic and political power of strongmen benefited them in the post-2001 era as well. A number of strongmen in Afghanistan have been involved in corruption,\(^{19}\) the drug trade and drug trafficking,\(^{20}\) and siphoning of international aid.\(^{21}\) A number of them own multi-million dollar security firms.\(^{22}\) While strongmen have accumulated significant wealth since 2001, the general public still lives in poor living conditions. These concerns make it to the local and international media.

This research aims to provide a general and exploratory assessment of a number of Afghan strongmen who rose to political power post 2001 and who have since been in control of both the formal and informal economy of the country. The primary research questions are:

- How have strongmen influenced the political economy of the country?
- To what extent have strongmen used their military and political power to ensure their economic interests?
- What are the implications on economic development and general state-building in the country?

The analysis is based on in-depth interviews with experts and respondents who have close knowledge and understanding of strongmen supplemented by the relevant published literature.

It should be noted that the purpose of the research is not to estimate the income, revenues and assets of strongmen. The data analysed will be only presented at the aggregate level and the names of people, companies and businesses have been withheld unless they are based on secondary sources such as reports and news articles. The first section of this study provides general background information that

\(^{15}\) Giustozzi, 2012, p.16.
\(^{16}\) Swedish Committee for Afghanistan (SCA), 1988.
\(^{17}\) Chipaux, 1999.
\(^{18}\) Dorronsoro, 1996.
\(^{19}\) Gordon, 2011.
\(^{20}\) Aikins, 2009; Goodhand, 2005; Goodhand, 2009.
\(^{22}\) Aikins, 2012.
primarily answers the questions of how the strongmen came to the scene, followed by an analysis of their activities and how they maintain their current economic status. In the course of this discussion, the author develops the Political-Economic-Military Model (PEM), which provides an analytical framework for discussing the relative prominence and whether each factor is a means to an end or an end in itself, or both.

Research Methodology

This research is based on 100 in-depth interviews with experts, businessmen, engineers, politicians and civil servants, who have extensive knowledge of the strongmen and their business activities. Respondents fall within the age range of 20-60 and an overwhelming majority of the respondents (95%) are male. The interviews were conducted primarily inside Afghanistan with a few interviews conducted with scholars and experts outside the country. A majority of the interviews took place in Kabul, while the researcher also visited the provinces of Herat, Balkh, Bamyan, and Nangarhar.

Sampling: Initially a limited number of respondents, who were known to the author, were contacted. Following the interview, these respondents were requested to identify potential interviewees, hence, making the sampling technique a "snow ball sampling method." Analysis of data in the initial stages called for a "purposive sampling method" wherein, based on the emerging themes, potential respondents were identified and then interviewed.

There are a number of limitations associated with the snowball sampling method. For instance, “community bias” such that the first respondent can guide the researcher towards a group of people with certain shared characteristics and the non-randomness of the sample are the main short comings of such a sampling method.

Analysis: The process of analysis started after the first few interviews and continued simultaneous with the data collection phase and after. This method allowed for flexibility, which was required in order to investigate the emerging themes and findings. Hence, a number of respondents were interviewed on multiple occasions to clarify issues or to gather additional information. Since the economic activities of

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23 A snowball sampling is a non-probability sampling method wherein after a number of respondents are interviewed, they are also asked for recommending potential respondents who would participate in the study.

24 The first participants will have strong impact on the sample, such that he/she can affect the selection process and guide the researcher towards a group of people with certain shared characteristics. Although in order to minimize community bias, respondents were selected from different socio-economic backgrounds, the effect of community bias cannot be ruled out entirely.

25 Snowball sampling is not random and hence the data cannot be generalized to a particular population. Furthermore, the sampling size is not determined at the earlier stages of the research. This is only decided based on theoretical saturation methods. This vagueness regarding the sampling size can potentially create issues. Identifying the appropriate person to conduct the sampling, as well as locating the correct targets is a time consuming process, which renders the benefits only slightly outweighing the costs.
strongmen are generally not documented, it is difficult to ascertain if what is being told is what actually happened or how and why it happened. Interview corroboration is one way of addressing this issue. Respondents’ accounts have been crosschecked with one another in order to scrutinize and examine the information given against what other respondents state. Respondents were carefully selected from diverse backgrounds in order to increase the possibilities of getting data from different sources. This can, in turn, increase validity and credibility of the findings. The findings have also been crosschecked against the available published literature. Although a triangulation method has been used in order to ensure accuracy and validity of the data, since the research design does not follow an “investigative journalism” approach, it cannot be ascertained that what the interviewees state describes the exact nature of the information given.
STRONGMEN AND THE POLITICAL ECONOMY OF AFGHANISTAN

The following sections discuss how strongmen became economic elites, what has been the role of international actors in the process; and how businesses are run and what implications this has had for the economic development in the country. While many factors are discussed in relation to these themes, the crosscutting driving force is the military and political power of the strongmen that have ensured their success.

1. Becoming Economic Elites

While the roots of economic activities of the strongmen can be traced far earlier than 2001, the dynamics, sources and extent of these activities has changed dramatically since 2001. The military intervention in Afghanistan of 2001 marks a critical juncture in the development of economic elites. The general misperception of peace-building and democratic intervention policies is that economies of war can easily be transformed to peace economies. However, ‘war economies shape peace economies’. Afghanistan from 2001 onwards is a case in point, where economies of war were reshaped around new sources and economic opportunities, albeit not necessarily legitimately. Those who were prosperous during war, with political and military networks and groups, remained prosperous after 2001 and they flourished economically by developing sophisticated approaches and techniques that allowed the careful husbandry of resources. The role of military and subsequently political power has been key to the transformation of strongmen into economic elite. This new class of strongmen with significant economic power and wealth is referred to as the politico-economic elite in this research. The political and security conditions that led to the re-emerging of the strongmen also led to their occupying political positions which combined with military capabilities makes the backbone of economic activities of the politico-economic elites.

What turned the Afghan strongmen into the economic elites is essentially the political, security and economic conditions of Afghanistan after the military intervention in the country in 2001. The plan of military intervention in Afghanistan heavily relied on the cooperation and direct support of the anti-Taliban coalition. However, lacking manpower, the anti-Taliban coalition was unable to take control of all the areas left behind by the Taliban. Consequently, a number of strongmen, who claimed allegiances with this coalition, regardless of whether these claims were genuine or not, stepped in and filled this

This reliance on the help and cooperation of the former mujahidin groups and their subsequent involvement in politics laid the foundation for their economic power and exploitation. At this stage, it was the military capabilities of the strongmen that helped them out of political reclusion. In short, the above-mentioned events in 2001 mark a critical juncture on the path to becoming politico-economic elites. However, it should be noted that the military capabilities of strongmen highly depended upon the foreign financial and material support as well as the US airpower to effectively challenge the Taliban.

Military functionality is not the only means that held these strongmen in power. Political power is the driving force behind their economic activities. Many were given a share of the pie at the centre of politics in Kabul. The logic behind this sharing of power for the international community was that the strongmen could either be inside the government and help build a state or be outside and become spoilers. This original availability of political power created a momentum that set the strongmen to further accumulate and consolidate their political and economic power—a process that proved to be virtually irreversible in the years to follow.

To address the issue, President Karzai, with the backing of the international community, tried to dislodge the strongmen from their centres of operation in the regions/provinces and bring them to Kabul. The rationale behind this decision was that bringing the strongmen back to the center would detach them from their area of operation. "This logic was shared by both the international community and the Afghan government. In turn, this was to lead to democratic stability in the country." At the root of this rationale was the perception that once the strongmen are incorporated into the democratic political system, the system will shape and mold them and this "political process will change the way they act and behave towards the population." As described by one of the respondents: "these people were smarter than that."

However, this gambit provided an ideal opportunity for the strongmen to flourish as they proved to be adept in exploiting changing circumstances. When in Kabul or in ministerial positions, the strongmen had greater access to economic resources, such as multimillion-dollar construction and security contracts. As stated by one of the interviewees, "not surprisingly, once in political positions, they grasped the economic opportunities prevailing to them as they needed resources for survival." What ensures the survival and flourishing of strongmen as the new politico-economic elites is the political power they possess and the position they occupy in the administration. With the presence of ISAF and the international community, re-waging the civil wars of 1992 was neither possible militarily nor considered a profitable economic option.

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30 Interview with a civil society activist, Kabul, 2011.
31 Interview with an international security consultant, Kabul, 2012.
32 Interview with a civil society activist, Kabul, 2011.
33 MacGinty, 2010.
34 Interview with a civil society activist, Kabul 2011.
These political, economic and security conditions in Afghanistan post-2001 also allowed for the rise of non-former combatants to political power, including Afghans who returned to the country following the military intervention and a number of people with connections and ties, either military or political (e.g. Commander. Matiullah and Col. Raziq). Although this group did not necessarily have any former military background that extended before 2001, they gained both military capabilities and political and economic power after 2001. Hence, alongside the rest of the strongmen discussed above, they entered the political and economic sphere of the country and became prominent figures.

![Economic Interests

Military Capabilities

Political Power](image)

The above figure depicts the interconnectedness of economic interests, military capabilities and political power. In the period from 2001 onwards, it appears that both political power and military capabilities of strongmen were directed towards ensuring their economic interests. Furthermore, economic benefits re-enforced and strengthened both political and military capabilities. The interconnectedness of these three factors points to the complexity of the issue at hand. An overlap of political, military and economic networks also requires devising complex and holistic policies over a long-term period to address the issue. For instance, disarmament, demobilization and reintegration (DDR) policies tailored towards curtailing military activities of certain strongmen—while weapons are freely available and can be easily imported from across the borders—cannot be effective. Likewise, ignoring the political power and military capabilities of the strongmen, and believing that a particular approach and policy aimed at limiting their economic activities, would not only prove ineffective, but could potentially have adverse effects, e.g. security implications.

While before 2001 military and economic capabilities were mainly used towards political interests, after 2001, this relationship seems to have reversed; both military and political power appears to have a functionality tailored towards economic gains. Until 1992, financial resources were generally channeled to support military activities in order to gain political control and to topple the Kabul government. Defining political aims broadly as establishing control over certain territory, a similar direction of association can be observed in the period 1992-1996 wherein violent conflict broke out in struggles for local power.36

Following the military intervention of 2001 and the launch of state building policies, which were centred around monopolization of violence by the central government, the military rule of some of the strongmen has gradually weakened while their political and economic power has increased significantly. As observed by one of the interviewees, “originally, the strongmen started with licit economic activities”.37 International aid provided an ideal opportunity for accumulation of income. Many of these strongmen received lucrative contracts in security, transportation and construction. “They have big economic brains,”38 observed one of the respondents. Grasping the opportunities unfolding for them, they established security, logistics and construction companies. Holding key political and administration positions had a twofold positive impact on their ability to secure contracts—especially transportation, construction and security contracts. First, they were able to establish connections and networks with donors and ISAF who had money, and second, they had the means of implementing the development and reconstruction projects successfully in an unsecure environment.39 The latter point is particularly relevant to security and transportation companies.

For instance, companies in charge of the logistics of transporting ISAF’s supplies and ammunitions from Pakistan to Afghanistan and inside Afghanistan, require military protection especially in insecure areas of the country. This was not possible without having armed men, who had an adequate knowledge of the terrain and the population. As such, a few mid-level militia commanders become rich on the largesse of ISAF’s contracts and became millionaires. For instance, the report “Warlords Inc” by the U.S. House of Representatives (2010:1-2) states:

“Transporting valuable and sensitive supplies in highly remote and insecure locations requires extraordinary levels of security...The private security companies that protect the convoys are frequently involved in armed conflict with alleged insurgents, rival security providers, and other criminal elements.”

The following section discusses these points in more detail in order to shed light on the international dimension of the issue at hand.

38 Interview with a businessman, Kabul, 2011.
2. The Rationale of Irrational Contracts

The issues with corruption, of the international money being channelled to the insurgents,\textsuperscript{40} begs the question, "Why does the international community continue giving out contracts to the "bad guys"? The international community has mainly been over-concerned with getting development and reconstruction projects completed or ensuring procurement in the case of the military forces. This has, in turn, led to lax regulations in terms of vetting bidders and making compromises—\textit{i.e.giving a construction project to a strongman who is known to have a record of human rights violations.}

A consensus reason stated by the respondents of this study has been that strongmen are the only ones who "can get the job done." One of the respondents working for ISAF states:

"...\textit{For operations [military operations] if we need him (a strongman) to provide services and procurement, even though he is part of the criminal patronage networks, if the services are vital he'll get the contact.}\textsuperscript{41}

As such, despite ISAF's knowledge of corrupt practices, the strongmen with questionable backgrounds still continue to receive contracts. A NATO general who has served in Afghanistan explains this quite eloquently: "if the choice is between an ineffective and corrupt individual and a semi-effective and corrupt individual, the second is the better one of the two options."\textsuperscript{42} Another respondent states: "ISAF does not want to embarrass its political allies. What it gets in exchange is political and military support."\textsuperscript{43} However, it is noteworthy that ISAF has been taking measures to develop databases for its contracts and implement a more rigorous process of vetting.

Compromising vetting standards in favour of getting projects completed is not unique to the international forces. A number of international aid agencies show a similar attitude towards their projects and implementing partners. Long-term stability is sacrificed in favour of implementing the development projects. At times, the contractors manipulate the situation and craft security incidents in order to gain a significant percentage of the international aid as security fees. By and large the international community is aware of this issue. For instance, one of the respondents working for an international aid organization in Afghanistan states:

\textsuperscript{40} For the discussion of how the international money feeds into insurgency through contracts, please see U.S. House of Representatives’ report titled “Warlord, Inc. Extortion and Corruption Along the U.S. Supply Chain in Afghanistan”, June, 2010. Furthermore, there are numerous reports on aid effectiveness, and issues such as subcontracting that can be consulted (\textit{e.g.} Fariba Naza, \textit{Afghanistan, Inc.: A CorpWatch Investigative Report}, Oakland: CorpWatch, 2006.

\textsuperscript{41} Interview with an Afghan employee of ISAF, Kabul, Nov, 2011.


\textsuperscript{43} Interview with a security company owner, Kabul, 2012.
“If we say that Qandahar is secure now and we can go and do projects there, right then we get reports of a lot of incidents happening so that next time around we have to pay 30% security fees for the implementation of the projects.”

Partnership with militia commanders is a risky business. For example, Nawa (2006:11) states:

“Berger and its Turkish subcontractor, Cukurova, entered into a business contract with a local militia commander (characterized by some as a warlord) known as the King of the Kuchis (nomads). For a price, the commander’s company would supply construction equipment, including dump trucks, to the crews building the road. At some point during the project negotiations soured between the two companies and the commander, and he made threats to kidnap Cukurova’s employees. The company paid the commander off to the tune of $40,000... Berger sources insist that the money Cukurova paid had not come from USAID funds.”

The urgency within some international aid agencies to get the project implemented supersedes accountability and transparency measures. A number of other donors, despite their strict measures of accountability and transparency, fall into the cracks under the pressure of completing development projects essentially because of stringent deadlines from their home countries. For instance, Nawa (2006:12) reports:

“Sources inside USAID concede that Berger was overwhelmed and that, in hindsight, the tasks should have been divided among several contractors instead of given to one. But USAID was under intense pressure to implement its” accelerated program.” A Berger official said that at one point, the company told USAID that it would be impossible to build quality structures so quickly under the conditions. But delays were also caused by poor planning, severe weather, and the fact that the construction in some regions was occurring in an active war zone.

The consequence of such an approach by the donors has been the spread of the belief that only bidders who had a political connection with the donors would get contracts. In fact, this was a common theme among the respondents who owned small to medium-sized construction companies. For instance, one of these respondents stated:

“Only those who have a connection with the donors would get a contract. You either have to be connected with political elites or the donors or both in order to be able to get contracts first hand.”

Another interviewee, the owner of a construction company in Nangarhar, stated a similar view:

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44 Interview with a civil society activist, 2012. The same concern was raised by other interviewees.
45 Interview with the owner of a construction company in Herat, 2012.
“See, you have to be connected to the important political figures, the rest will work out...the connection helps with all sorts of contracts, the projects by donors or the projects by the government.”

Although these statements do not necessarily indicate a conscious decision by the donors to favour certain companies in order to please a particular strongman, what can be drawn from this assessment is that some donors are not well aware of the negative image and perception they would give to the general population if the bidding process is not well-informed and political or military connections of certain bidders are not researched well.

Nonetheless, reconstruction and logistics contracts and development projects are not the only economic sources that have been at the disposal of the politico-economic elites. In addition to the international money, other domestic sources of revenue were also extensively exploited by the politico-economic elites.

3. Beyond International Money

Based on the findings of this research, other means of resources included licit and illicit businesses, levying taxes and duties, trading contrabands (including, allegedly smuggling arms, drugs and timber), real estate development, investment in national businesses e.g. transportation companies, extractive industries, export and import of various commodities, investment in private health care and private universities and schools. Particularly, the development of the modern drug economy and control of the country’s entry points for trade have proved most lucrative, allowing politico-economic elites to sustain their powerbases.46

Although a detailed discussion of each line of revenue accumulation as mentioned above is beyond the scope of this report, one major means of income and often cited by the respondents of this study is investment in real estate development. This is also reflected in the published literature. For instance, Ozerdem and Sofizada47 report that local militias occupy land and then charge returnees a levy in order to occupy it. Respondents of this study frequently pointed out to the small towns and development complexes built in virtually all major cities of Afghanistan. Civilians can easily fall victim to the land grabbing schemes while state land is not any more immune from this network of people who grab land, commonly known in the country as the “land mafia”. While lack of implementation of rules and regulations of Land Management Law and poor system of land registry has benefited the so-called land mafia, the use of force to intimidate the local population and an ineffective justice system that lacks power in the face of politico-economic elites exacerbate the plight of those who have a land dispute.48

46 Ozerdem and Sofizada, 2006, p. 27.
48 IWA is currently researching the issue of land grabbing in a comprehensive research project.
Furthermore, as investment and trade expanded beyond national boundaries and with weak state control, flight of money out of Afghanistan was inevitable. Deteriorating security conditions after 2005 was a contributing factor to the flight of money and investment out of the country. It was easy to access markets in countries such as Dubai, India, and Pakistan that allowed for the investment outside national boundaries. Whether or not these claims are accurate requires systematic research and investigation which is beyond the scope of this study. However, bringing these points to the attention of policy makers and those involved in the process of state building in the country can potentially trigger such investigations. What allows for international investment is "poorly regulated global trade and investment markets, both licit and illicit", which have traditionally been used by combatant groups to transform captured assets into revenues.\textsuperscript{49} Given the dysfunctional financial tracking system and very poor banking oversight in Afghanistan, it is extremely difficult to track down how many millions of dollars have gotten out of the country.

The findings also show that a favoured destination for real estate investment is Palm Jumeirah Island in Dubai, where many of the politico-economic elites have purchased multimillion dollar property.\textsuperscript{50} Investing in property in Dubai and a crash of the markets has been largely blamed for Kabul Bank bankruptcy. Indeed, the Kabul Bank scandal demonstrates how political connections and political positions can benefit businesses run by politico-economic elites. This case merits further discussion as it shows the interconnectedness of political power and how it facilitates, within the legal limits or outside of it, access to funds and the market in general.

With member deposits of 1.3 billion USD, in the summer of 2010, Kabul Bank was the biggest private bank in Afghanistan. The officials of the bank allegedly created fictitious companies and then gave hundred of millions in loans to these companies while the money was shared between different stakeholders, as explained by Huffman.\textsuperscript{51} Huffman (2011) believes that political ties to the president exempted the bank from government's regulatory scrutiny at earlier stages. Political and military ties enabled those who had a hand in the scandal to threaten the Central Bank examiners and an international advisor, who wanted to investigate Kabul Bank in January 2010.\textsuperscript{52} Once the news of Kabul Bank's $300 million loss in investment leaked out, people started withdrawing their money from the bank. Ultimately, the government paid off around $820 million to bail out the bank while no rigorous investigations were conducted to deal with those who caused the crisis or pressure to recover the money.\textsuperscript{53} In fact, according to the Joint Independent Anti-Corruption Monitoring and Evaluation Committee Report of Nov 2012:

\textsuperscript{49} Ballentine and Sherman, 2003.
\textsuperscript{50} Interview with a civil society activist in Kabul, 2011. See also: Independent Anti-Corruption Joint Monitoring and Evaluation Committee, Report of the Public Inquiry into the Kabul Bank Crisis. Kabul Nov 2012.
\textsuperscript{51} Huffman, 2011.
\textsuperscript{52} Huffman, 2011, p. 4.
\textsuperscript{53} Huffman, 2011, p. 4. See also: http://www.nytimes.com/2013/03/06/world/asia/afghanistan-convicts-21-in-kabul-bank-scandal.html?pagewanted=2&_r=0
“To date, there has never been a full public accounting of how Kabul Bank was allowed to operate fraudulently over a number of years and why the response has failed to substantially recover misappropriated funds or deliver justice.”

Although in March 2013, twenty one individuals, including Sheerkhan Farnood the former president of Kabul bank, were convicted of fraud by a court in Kabul, civil society has not been entirely satisfied with the process as it believes that a number of high-ranking politicians who allegedly had a hand in the scandal have not been investigated. A number of respondents stated that the money from Kabul Bank was invested in buying real estate in Jumeira Palm.

Given the diversity of economic activities in which politico-economic elites are involved, the question is raised of how they manage to run these businesses and control the market. The following section is aimed at answering these questions.

4. Running the businesses

In the absence of rule of law, many state positions were filled by a number of networks at the nexus of which is a particular politico-economic elite. With the expansion of these networks both in terms of occupying political positions and in terms of military capabilities, economic activities of the networks diversified. One of the emerging themes of this research is how state offices are captured by the networks of the politico-economic elites, a phenomena referred to as "state capture" by one of the respondents. It is the crucial role that military capabilities and political positions play in running these businesses or network of businesses that make the strongmen with economic interests the "politico-economic elite". A descriptive analysis of how politico-economic elites run their businesses will unpack this point further. For instance, one of the respondents of this research states:

“He [a high ranking official] puts people in governmental positions. The government posts come with access to economic resources, for instance, positions such as provincial governors, heads of security departments, provincial chief of police and so forth. This, in turn, allows them to have both political resources and security access at the local level.”

What this respondent calls "political resources" and "security access" are indeed crucial for carrying out economic activities in Afghanistan. Like businessmen, politico-economic elites "sit at the top at the managerial positions", however, unlike many businessmen, "it is difficult to find evidence for their economic activities. They don’t do things themselves...they are smart enough not to do that. They get

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56 Interview with TH, Kabul 2011.
57 Interview with a human rights activist in Kabul, 2011.
someone else to run the businesses for them."58 These politico-economic elites are the de facto owners of businesses. Many invest under the name of a close family member, a friend or a relative rather than their own. For instance one of the respondents states:

"Most of his (naming a strongman) businesses are registered under the names of his two sons and his daughter. Can you believe it? His daughter is not even 18 yet and she owns high rise buildings in the city."59

Political positions come with political power, intensified by the absence of any functioning system of checks and balances. Political power combined with their military capabilities could be potentially economically lethal for the underdog. Political power has been used by politico-economic elites to impose laws and regulations tailored towards their economic interests. For instance, one of the governors ordered the people residing in the older part of the city to "rebuild" their houses in order to give the city a new and improved image. House owners who lacked the financial means to relocate their families and teardown the old houses and build new ones, were forced to sell their houses. These houses, not surprisingly, were all bought by the close associates of the governor.60 Perhaps the real intention of the governor was to give the city a new look, but his politics rather than the neutral market forces decided who would benefit out of the deal. The respondents who brought up this example did not see it as beneficial for the local population. The respondents believed that the only reason that the governor ordered the house owners to rebuild their houses was so that his associates could buy these houses at lower prices, rebuild them and make a profit out of it.61

Such examples are plentiful where regulations have blocked opportunities for certain people while benefiting a specific limited crowd with certain political connections. A well-documented case in point is the case of Cement-e Ghori Factory and the coal mines in Baghlan. Both the terms of the contract and the contracting procedures were highly influenced by political connections. First of all, one of the serious bidders was misinformed about the date the bidding took place. Then, monetary requirements, a deposit of 25 million USD, were imposed to screen out some other bidders.62

Dawee, the head of Dawee Oil is reported in the Hasht-e Sobh stating: "Mahmood Karzai reached an agreement with the President. The contract for coal mines and Cement-e Ghori Factory was a special one since it was given to the Afghan Investment Company (AIC, headed by Mahmood Karzai) consisting of Afghan businessmen with the condition that they would bring some benefits to the country."63 As Dawee says—it is worth mentioning that Mr. Dawee was a major shareholder of the AIC

58 Interview with an expert on Afghanistan, Kabul, 2012.
59 Interview with a businessman in Mazar-e Sharif, 2012.
60 Interview with a businessman, Kabul, 2012.
61 Interview with two civil society activists, Kabul, 2011.
at the time—Mahmood Karzai was able to get a special deal after talking to the President both in terms of the length of time the mines can be utilized by AIC (49 years while the Mines Law only allows for a maximum 30 year concession). Based on the Article 34 Validity of Exploitation License of the Mineral Law (2010), the concession of mineral mines cannot be made for more than 30 years. If the raw material for the cement factory is imported to Afghanistan, there is no legal limitation on how long the factory can be contracted for. The contract is now amended and limited to 30 years. However, reportedly, the company is now selling coal commercially while the coal mine was contracted to provide energy for the cement factory only.65

Furthermore, military capabilities and political power are very handy tools in outcompeting and eliminating their business rivals. Many politico-economic elites have formed business networks, which are exclusive. Smaller businesses, which are not part of these larger networks will gradually die out or at best will not improve as these companies cannot enter a competitive market where market forces rather than political and military allegiances decide which firm/business thrives. These networks absorb many small businesses that cannot compete on their own. However, network allegiances are not ossified and at times businessmen change sides depending on "what benefits them". There is a general consensus among the respondents that no large business or construction company can run smoothly in a geographical area where politico-economic elites are operating. For instance, one of the respondents stated:

“If (naming a strongman) is in control of a province, he would make it difficult for the rest to work in that province and get things accomplished. And if someone else wins a contract in that area, they call them and ask them to give him some money."67

In fact another respondent, who owns a business, stated:

“These people are a lot more problematic in the urban areas. Sometimes they give us warnings that if you don't want to share with us or subcontract your project to us you'll face problems. For example, I was implementing a construction project in the (east of the country). I got a phone call from, you know (an influential official), he said we send you a subcontractor, if you don't give us this project, you know that you are going to face a lot of problems in terms of implementing the project. Sometimes we have to keep their local subcontractors busy...we give them a job to do so we can carry out our work...some sort of a job that they are either capable of doing or just won't make too much harm if they are lacking the capacity to do it.

65 Interview with an expert on mining, Kabul, 2013
67 Interview with a businessman, Kabul, 2012.
These problems increase the costs of the projects to something between 10% to 30% or even more than that. Hence, a project with the same specifications can be implemented in the West for about 30% less as compared to the South or East.\textsuperscript{68}

The above discussion and description shows that a limited number of politico-economic elites have almost absolute control over diverse markets in the country. How do these politico-economic elites operate; what strategies they use in order to promote their interests and how these factors influence the market structure are questions that are answered in the following sections.

\textsuperscript{68} Interview with a businessman in Kabul, 2011.
5. Oligopoly Markets

An analysis of Afghan markets shows the characteristics of oligopolies in general and monopolies at the regional level. A market is referred to as an oligopoly if a limited number of sellers or providers of services dominate it. Competition in producing goods or services is limited in monopolies and oligopolies since there will be a single seller or a limited number of business entities, which will have tremendous market power and be able to charge higher prices without competition. Markets for goods such as the importation of oil, real estate development on a large scale, and sectors such as commercial airlines, can be described as oligopolist markets.

The respondents of this study, without any exception, described the market structure of Afghanistan as being run by a limited number of businesses centered on certain politico-economic elites. For instance, one of the respondents states:

There are only a few who control the whole economy of the country, these major elites have occupied high-ranking state positions...they have a hand in all profitable and big businesses such as oil, construction, private security companies, land grabbing and real estate development and many other businesses, you name it.  

Oligopolists are mainly regionalized such that a number of oligopolists operate in a particular region. They are mainly clustered in border cities. For instance, one of the respondents of this study describes oligopolists of the east as:

There are three businessmen operating in the east. They are Haji Farooq, Haji Gulmorad and Haji Qadir - These three people work in every business, they invest in everything and they have connections with the mayor and the governor.

Another respondent describes a similar situation in Mazar stating that “a few people have monopolized businesses in Mazar-e Sharif.”

As observed by the respondents of this study, political connections are crucial to running businesses. This was a theme that emerged from multiple interviews. Many respondents believed that without political connections, running successful businesses is virtually impossible. Oligopolists in turn support certain politicians leading to a vicious cycle of state administration offices being run by people who have close connections with certain businesses and who favour these businesses. For instance, about the oligopolists in the east, a respondent states:

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69 Blinder, Baumol and Gale, 2001, p. 212. According to the authors: "A pure monopoly is an industry in which there is only one supplier of a product for which there are no close substitutes and in which is very difficult or impossible for another firm to coexist."

70 Interview with a businessman in Kabul, 2012.

71 Interview with a civil society activist, 2012.

72 Interview with a civil society activist in Kabul, 2012.
“These three people in fact supported the current governor of [a province in the east “Laghman] to become governor. They got the contract of Farm-e Hada for 100 years and now the land has been sold. The governor was consulted on it…. These three businessmen are connected to each other. They have monopolized all the businesses.”

Factors such as political connections and military power also define the nature of competition for the oligopoly market of Afghanistan.

5.1 Competition: Competition in an oligopoly is limited as oligopolists can block entry and make it very difficult for the new entrants and potential competitors to flourish. For instance, oligopolists are able to set prices and make it difficult for the new entrants to join the market. Entry barriers to oligopoly markets are very high; the most prominent barriers are economies of scale, access to money and complex technology, and most importantly strategic action by the firms. In fact, the latter point is crucial in the context of Afghan markets. The dominant businesses can destroy nascent firms or discourage them from investing in the market. Many small and medium businesses in fact do not even venture in investing in a sector that is dominated by oligopolists backed by strongmen. For instance a businessman from the North states:

“I do not want to get into any line of business that the major politicians are involved...that would be suicidal for me, I won’t survive a day.”

Additionally, a barrier to enter the market can result from government regulations, which can favour a particular firm and discourage others. Having strong political connections, in fact, is viewed as the backbone of thriving oligopolies in the country. As discussed, barriers to entry can limit new companies from operating and expanding within the market. Under perfect competition, markets have free entry and free exit, but monopolies and oligopolies have high barriers to entry. Limiting competition, in turn, means fewer numbers of firms and businesses in the market and this would give a limited number of firms ‘market power’, which is defined as the ability to increase the product’s or service’s price above the marginal costs without losing customers. Low number of competitors increases market power and customers have no other option but to obtain goods and services from the provider or do without. For instance, many respondents in Mazar-e Sharif, described the oil market as being “monopolized” by a few giants of the market outcompeting any smaller businesses that might make an entry. In comparison, an oil businessman in Herat described the oil market to be more open, such that smaller businesses can enter the market comparatively easily.

An outcome of limiting competition is generation of excess profits. Businesses in Afghanistan, which have no or few competitors, such as private airlines, and oil and gas companies, can generate more profits than the normal expected returns on investment. The pattern of generating excess profit in

73Interview with a civil society activist 06, 2012.
75Hirschey, 2000, 451.
76Krugman, 2011.
77Krugman, 2011.
the Afghan market is preserved by limiting entry to the market and intimidating potential entrants as illustrated in the discussion above.

Limiting competition is not always brought about by political power and political leverage. Security conditions and opportunities are grabbed by some of the businessmen to eliminate their economic rivals. For instance, through connection with International Security Assistance Force (ISAF), in fact, politico-economic elites have been able to manipulate the international troops by giving them inaccurate reports of insurgents’ activities. For instance, one of the respondents of this study narrated that following an air strike leading to a number of civilian casualties and the killing of an alleged Taliban commander in the west of the country, ISAF found out that they had bombed the house of a contractor who had shortly before won an ISAF construction project. The tip off had come from a local militiaman who had lost the bidding on the same project. Nonetheless, the militiaman was given the construction project.78

To outcompete a rival, sometimes politico-economic elites form temporary alliances. These temporary coalitions can be between former rivals who happen to be threatened by a common rival.

5.2 Diversification: Oligopolists have not only taken over the major and bigger businesses, but they have also diversified their lines of services and products. Diversification has been horizontal, such that products and services are technologically and commercially unrelated. Examples of such businesses are plentiful in the country. Some politico-economic elites have invested in a few unrelated lines of businesses. For instance, an elite from the East has a security company, construction companies and is involved in importing products.79 Most of such elites for various reasons do not register their businesses under their own names. While it is widely talked about and known that the money invested in the businesses is that of a particular politico-economic elite, the business is formally registered by family members or close associates. However, some other diversified oligopolies do not shy away from making it public what kind of businesses they engage in. For instance, the front page of the Watan Group homepage lists services such as “Risk Management, Oil and Gas, Mining, Logistics, Construction, Steel and Telecommunication”.80 However, the Watan Group website does not mention who the is running all these diverse businesses. There is no information provided for the “Key Personnel” tab on the Watan Group homepage.81

The textbook list of factors connected to the survival of diversified businesses includes loyal customers, good quality products, and effectively pricing and promoting goods and services.82 However, rather than these survival strategies, it is the specific characteristics of the Afghan political and economic situation that allows for flourishing of diversified business. Political connections, availability of resources, and security conditions can determine whether or not a business can diversify. For instance, a logistics company, which operates in a volatile environment, acquires the knowledge and local

78 Interview with a former ISAF solider, 2011.
79 Interview with a civil society activist in the East, 2012.
82 Chisnall, 1995.
connections that allows it to function. Such knowledge and networks of connections can easily allow it to diversify in to a different line of business and offer more services such as construction and importing construction materials. Although diversification can benefit a particular business or politico-economic elite, it can hamper economic development and indirectly undermine state building efforts. These points are discussed further in the report.

In general, the analysis and description of how businesses are run points to the criminal capture of the economy in the country, which is characterized by the systematic and methodical abuse of political and military power for accumulation of wealth. The descriptive tool “criminalization” is adopted from Bayart, Ellis and Hibou’s critical book titled “The Criminalization of State in Africa”. Like the indicators of a criminalized state as described by the authors (Bayart, Ellis, & Hibou, 1999), the political economy of Afghanistan demonstrates the following characteristics:

- Economic activities which are illicit according to national or international law,
- An overlap of economic networks with networks of crime,
- Close political and economic connections and interdependence to the extent that the existence of one without the other is virtually impossible.

6. Implications for economic development and state-building

In the absence of any regulatory mechanisms and checks and balances, the free market economy has a tendency to be hijacked by a very small proportion of the population, the elite, and can lead consequently to grave socio-economic and political inequalities. For example, the market economy can increase the possibility of resources being captured by ethnic or other special interest groups, and hence can lead to inequality and grievances that can set off and fuel eruption of civil wars. In fact, unequal distribution of economic power results in unequal access to political power and unequal capability to express preferences in the political process. Exclusive oligopoly markets in Afghanistan are a case in point.

The findings of this study point to the erosion of trust in the government among owners of smaller businesses. A number of respondents who owned small to medium-sized businesses stated that they had no trust in state institutions to ensure their long-term investment in the country. Therefore, they were reluctant to make long-term investment in the country. One of these businessmen states:

“I cannot trust this government with my money! You know, there is no guarantee that if I invest all my money in a factory for instance, which means that my money will not be movable, if a particular minister or Member of Parliament or some other official does not like my investment, my investment will not be safe.”

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83 Bayart, Ellis, & Hibou, 1999.
84 Stewart, 2000.
What is the alternative option for these businesses? When asked, most of the respondents who owned businesses stated that investing outside the country was a safer option for them. In fact, some businessmen reported lack of security and infrastructure required for the development of businesses as obstacles they are facing. The owner of a small business in the East states that lack or shortage of affordable electricity has undermined factories in Jalalabad while a certain number of businesses and political elites have access to cheap electricity. Unequal access to resources and special treatment of some businesses over others can disenchant citizens with the government.

Additionally, the pursuit of one’s own economic and political interests while ignoring the roles and regulations of state-institutions and the laws of the country indicate the weakness of the state, characterized by state institutions that only function to ensure the interests of a particular group at the expense of the vast majority of the population. As stated above, many businessmen are not willing to invest heavily in non-transferrable assets. Costs to exit can be a large number of employees with high salaries and contracts, contingencies with suppliers and buyers and costs associated with tenancies called off short. In the absence of rules and policies ensuring the interests of these groups, costs of exit become low. Political leverage also means that certain companies and businesses can alter regulations and terms of contract so that they can exit the market without incurring major costs, for example, terminating a mining contract prematurely. Therefore, lax regulations, political connections, political leverage and lack of security in the country are the main factor that define exit from the market. In fact, in Afghanistan, plans for reconstruction “have been premised on economic growth created by the rejuvenation of ‘collapsed’ markets, driven by the private sector and organized within the ‘free’ market. The key concerns of policy making have centered on the need to create a light regulatory state to promote private sector growth.” This can have dire effect on the economic growth because of the close links between businesses and politicians, markets can have a negative effect on both economic development and state building.

86 Interview with a businessman from the East, Jalalabad, 2012.
CONCLUDING REMARKS

This research provided an analysis of the rise of a number of Afghan figures to the status of significant economic elites who by and large control the economy of the country. The main argument of this paper was that both political and military power have been the driving force behind the rise and success of the politico-economic elites. The political and security conditions in the country in late 2001 and since then have determined the success of this group of actors. Early during the military intervention, it was the military role the strongmen played that brought them to the forefront of politics in Afghanistan. This combined with political positions in later years have benefited strongmen tremendously and led them to carve out the centre of economic activities. This analysis shows that each element within the PEM-Model (i.e. economic interests, political power and military capabilities) is complementary to and necessary for the other two elements. While economic capabilities can facilitate acquiring political power and military capabilities, both military and political power can, in turn, ensure economic interests are secured. As for the businesses and economic interests, which is the focus of this research, political power and military capabilities have significant impact on whether or not a business survives or thrives in the country.

In a market economy where the rule of law prevails, monopolies can reduce prices below the costs of operation for a new entrant, and as such prevent them from continuing to compete.\(^8^8\) However, in Afghanistan it is not the lowering of the prices that deters new entrants from competing with the former/old businesses, it is rather the fear of persecution, losing business and political ties that deters potential competitors from entering the market.

The Afghan market demonstrates the characteristics of oligopolies in general. Competition in producing goods or services is limited and oligopolists have tremendous market power and are able to charge prices without significant competition. The findings also show that if a strongman enters a line of business, small businesses will either voluntarily opt out or will be intimidated, or forced to quit. The perception that competing against the strongman is a futile effort is quite common among businessmen who have smaller and medium-sized businesses. A limited number of oligopolists not only have control of markets such as real estate development, construction, oil and gas, transportation, media and so forth, but these oligopolists have also diversified their lines of business, occupying a wide range of businesses leading to stifling competition for smaller businesses.

There is a lack of clarity of who really owns a particular business and who are the shareholders and investors. Businesses are often not registered under the name of the political elites, hence making it virtually impossible to find any legal documentation linking the political elite to the businesses directly although immediate family members and close associates are commonly used for these purposes.

\(^{88}\) Nicholson and Snyder, Thomson 2007.
The military capability of strongmen combined with their political influence are the backbone of strongmen’s economic activities. Initially the military capability was the trump card of strongmen and facilitated their rise to political power, occupying state administration positions, and the subsequent political power has benefited strongmen tremendously by ensuring that their businesses are run smoothly without threatening competition. The following summarizes how these strongmen turned politico-economic elites use political influence in order to secure economic interests:

- Reliance on military force in running businesses
- Coercion and intimidation tactics to drive rivals out or use of force to take them out
- Occupying multiple spheres of influential positions, such as military and political, which have instrumental value to running businesses. The strongmen have been using their political influence—including state administration positions - to; get contracts, run import and export businesses, grab land, develop real estate and so forth.
- Monopolization of diverse economies by use of military force and political power.
- Having a geographical area of operation where no one else can run businesses without the approval of the politico-economic elite, or by paying them off.

The involvement of international actors in the country has tremendously influenced how the market has been shaped in Afghanistan. For instance, security imperatives and getting the projects delivered in insecure areas has made the international community compromise when vetting the bidders. As such, major construction projects have been given to those who can get the project completed or give logistics contracts to the elite who can deliver the goods regardless of whether or not they are involved in corrupt practices.

All these findings point to a political economy in the country wherein political and military power have systematically and methodically been abused for accumulation of wealth. The ultimate impact of criminally captured economy can be erosion of the public’s trust in government, halted economic development and lack of interest in investing in businesses inside the country as the perceptions are strong that the government cannot ensure the economic interests of non-state or unconnected actors.

This research provided a general and exploratory discussion of how strongmen in Afghanistan rose to the status of politico-economic elite while accounting for broad background factors and mechanisms that have influenced this process. Future research would benefit from investigating the impact of these factors on specific types of businesses and provide a detailed account of how each mechanism in place would influence a specific market—i.e. private security companies are rather different from import and export of commodities and goods.


New York Times,  


GLOSSARY OF TERMS

Monopoly  A monopoly, in its ideal form, is a type of market in which there is only one supplier of a product, wherein for this product there are no close substitutes. In a monopoly, it is very difficult or impossible for another firm to coexist with the monopolizer.

Oligopoly market  A market where a limited number of sellers or providers of services dominate it and the competition is limited between these actors.

Political economy  Refers to the interaction between institutions and human behaviour and how the two influence each other in regards to producing, buying and selling, distribution of national income, and establishing laws and customs.

Strongman  A generic term, which refers to political elite capable of coercing others to comply with his objectives and strategy while using means that are not necessarily legitimate. In addition to direct coercive means, such as military power, the elite can use indirect means such as threat and intimidation to pressure/force others to comply with their demands.