

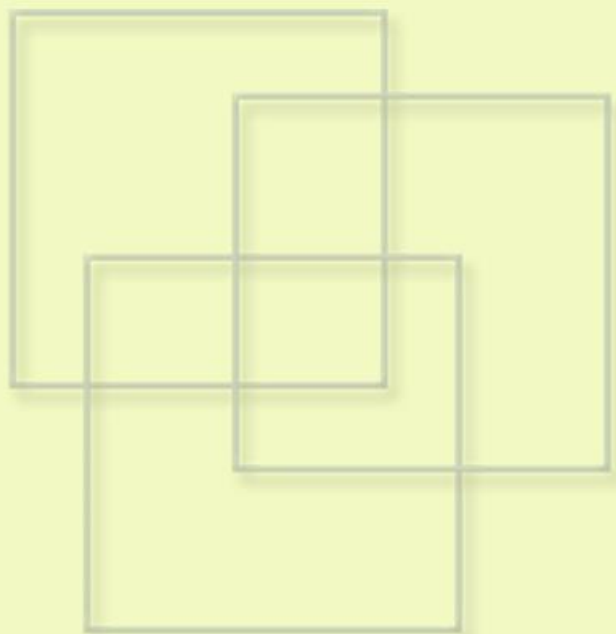


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Employment Scenario in Afghanistan from 2007-08 to 2013-14

Anirban Dasgupta, Rohin Anhal and
Apurva Bhatnagar
March 2019



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Regional Office for Asia and the Pacific

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Abstract

This paper examines the employment situation in Afghanistan from 2007 to 2014 using unit level micro data from three rounds of the Afghanistan Living Conditions Surveys (ALCS). Afghanistan has one of the youngest populations in the world. Unemployment levels in the country have been rising significantly over time and have nearly doubled during the period under examination. These were over 18 per cent in 2014. Even in rural areas where around 70 per cent of Afghan labour force lives, and where we expect open unemployment to be low, unemployment rates are very high. The country also has one of the lowest participation rates for women in the region. Although women's participation rates decline at high education levels in Afghanistan the latter category constitutes a very small proportion of women. If unemployment rates have risen by 10 per cent in the period, it is also the case that informal employment shares in total employment have fallen by from around 90 per cent to 80 per cent. These changes are also simultaneous with a decline of over 12 per cent in the labour force participation rates. Although the decline in shares of informal employment can be seen as encouraging, the withdrawal from the labour market, the decline in informal employment and the resulting rising in open unemployment may also be related to safety and security considerations. The corresponding proportionate rise in relatively more formal employment has, in recent years, largely been due to the expansion of government jobs. The main types of jobs within services are in government, defense and community services. The employment challenges the country faces are formidable. In particular, if we expect aid and development funds to decline in the future, good jobs will be difficult to sustain-either with the further expansion of State jobs or with jobs in services that presently rely on expenditures associated with the externally supported parts of the economy. This means that in agriculture and industry, special policy measures will be needed and indeed will have to be financed. The report identifies some growth strategies as well as some supply side measures that could partly address this impending challenge for the country.

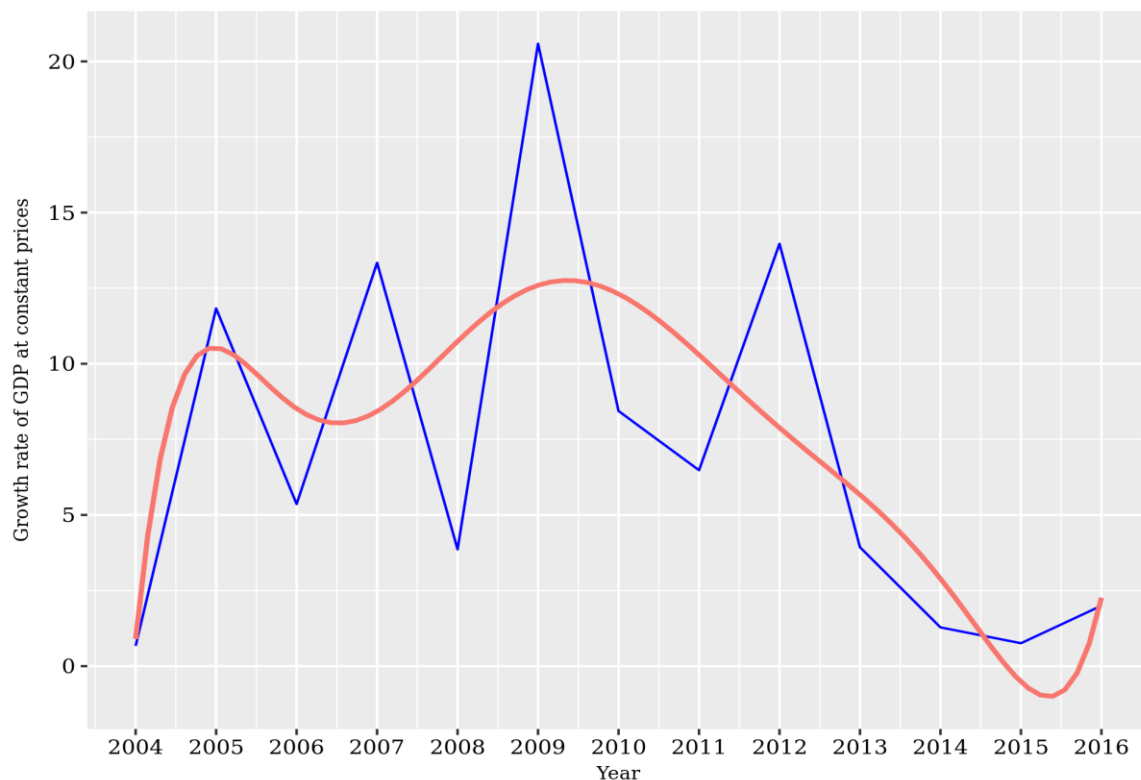
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Chapter 1 -The Political Economy of Employment in Afghanistan

1. Introduction

Afghanistan has undergone a major economic challenge since the fast withdrawal of international security forces between 2012 and 2014, which was accompanied by significant reduction in foreign assistance. This period of major changes in the security and financial apparatus of the country has been widely referred to in the policy literature as ‘transition’ (World Bank, 2012). The average growth rate came down significantly from 9.4 per cent in the decade between 2003 and 2012 to only 2.1 per cent between 2013 and 2016¹. This period of rapid deterioration on the economic front is matched by a worsening of the security situation with a record increase in civilian casualties in 2016. The number of internally displaced people (IDP) has gone up from approximately 100,000 in 2012 to 640,000 in 2016 (World Bank 2017b).

Figure 1.1: Growth rate of GDP at constant price from 2004 to 2016



Note: Source- International Monetary Fund, retrieved from Federal Reserve Bank of St. Louis.

Red line indicates a smoothened polynomial curve of degree 7.

As we shall see, this combination of an unstable economy and uncertain security also seems to have affected the general welfare indicators. Table 1.2 below shows that the mean per capita income (in constant prices) fell across the board for each population quintile between 2011-12 and 2013-14 with the decline being higher for the lower quintiles². Income poverty levels rose appreciably between the same two time points (see Table 1.3) after having fallen moderately in

¹We will argue below that the high growth rate from 2000-2012 was primarily dependent on foreign aids.

² Note that all the figures and tables in this report, unless mentioned otherwise, are compiled using NVRA 2007-08, NVRA 2011-12 and ALCS 2013-14 unit level survey dataset

the pre-transition period between 2007-08 and 2011-12. Inequality has also spiked up (see table 1.1) at the national level as well as in the urban areas with a slight decline in rural Afghanistan between 2007-08 and 2013-14.

Table 1.1: Inequality Levels in Afghanistan by Regions, 2007-2008 and 2013-2014

Region	Gini Coefficient (2007-2008)	Gini Coefficient (2013-2014)
National	0.387	0.407
Urban	0.390	0.424
Rural	0.381	0.375
Kuchi	0.369	0.401

Table 1.2: Mean Real Per Capita Consumption (at 2011-2012 prices) by quintile

Population Quintile	Survey Year		Annual Growth (%)
	2011-2012	2013-2014	
Total	2360	2281	-1.7
Poorest	1120	1073	-2.1
2	1615	1540	-2.3
3	2036	1959	-1.9
4	2619	2545	-1.4
Richest	4411	4287	-1.4

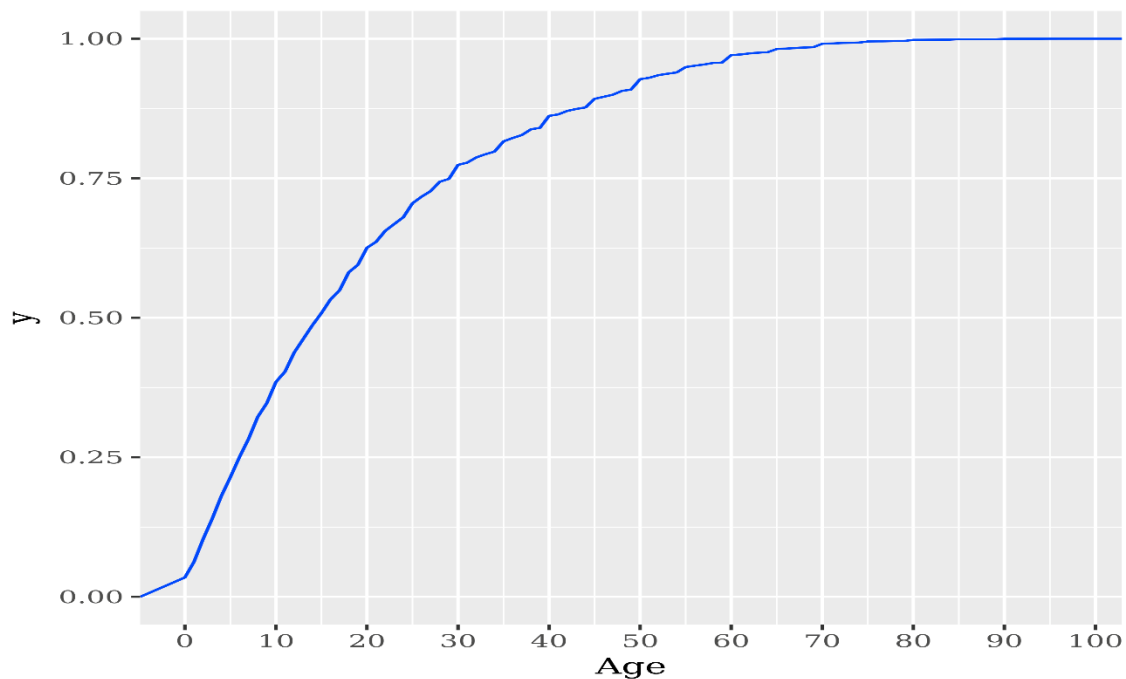
The scale of the economic predicament facing Afghanistan becomes clearer when we look at it from the perspective of employment. The country has one of the most youth-dense populations in the world with approximately two-thirds of the population being 20 years or younger (Figure 1.2). This creates pressure on the labour market with an estimated 400,000 new members (which is nearly 5% of the labour force at 2014 levels) entering the labour force every year with the current rates of population growth. At the present economic downturn, Afghanistan is way short of creating enough jobs for these new entrants. According to preliminary data from ALCS 2016-17, there has been nearly one per cent annual increase in unemployment rate since 2014-15.

Table 1.3: Trends in Actual and Imputed Poverty Rates

Population Quintile	Survey Year		
	2007-2008	2011-2012	2013-2014
Actual	36.3	35.8	-
Imputed	37.2	35.2	39.1

Source: ALCS 2014 Survey Report

Figure 1.2: Cumulative population density in Afghanistan 2013-14



Note: The Y-axis shows the cumulative percentage of population up until the corresponding point on X-axis. For example, the point (15, 0.50) on the curve would mean that 50 per cent of Afghan population is less than or equal to 15 years old.

2. The Key role of employment in post-conflict development

The role of employment as a precondition for inclusive growth and development has been studied extensively in policy literature starting in the mid-2000s (for example, Islam 2004, Khan 2006, Osmani 2010). After more than a decade, there is now a near consensus that economic growth can translate into substantial and sustainable poverty reduction only if this growth is employment intensive and the employment is decent. The analytical reasons for employment playing an important mediating role between growth and poverty reduction are straightforward and exist both at the level of individual households as well as the economy. At the micro level, the quantity and quality of employment available to working age members of the household is a clear determinant of the household's poverty status while at the macro level, an employment intensive growth process translates into a lower incidence of poverty. Of course, in less developed countries with little or no social security, employment per se may not be the real solution as most of the poor engage in some form of paid work. The key is generation of productive employment in adequate amounts so that the return to such employment is sufficient to escape poverty.

In a conflict or post-conflict situation resembling Afghanistan, the role of employment is complex and needs to be understood in a more nuanced way. Elaborating the distinctiveness of economic policies needed for supporting post-conflict recovery, Collier (2009) underlines the critical role of employment in this regard. He correctly identifies that disgruntled (and often poor) young men form the core cadre of any violent social rebellion or movement. Assuming that violent conflict can be diffused through military means, the challenge for any successful post-conflict reconstruction is predicated on ensuring that the core constituency of mostly male youth does not revert back to militancy. According to Collier, the most effective way of doing this is through the generation of productive employment particularly focused on the high-risk youth groups. It is therefore important that post-conflict growth processes are employment

intensive and geared towards incorporating unskilled, poor youth thus reducing the likelihood of them going back to violence³.

Countries that undergo protracted conflicts are very likely to inherit unfavourable economic conditions having undergone significant destruction of its physical and institutional infrastructure. Revival is not immediate even in the best-case scenario, neither is it possible to generate adequate employment through robust economic expansion in the short run. There is, therefore, an important role of fiscally induced public employment programmes in the initial phase of post-conflict reconstruction. Mcleod and Davalos (2008) present cases from various post-conflict scenarios to highlight the importance of public employment programmes. They underline the advantage of integrating employment programmes in the disarmament, demobilization and reintegration (DDR) processes typically followed in post-conflict situations. Apart from providing ex-combatants and their family members a source of sustenance thereby preventing the need to get back to conflict or other illegal activities, employment and training programmes pave the way for a smoother transition to a private sector employment-based economy in due course.

The intuitive reasoning of weaning former or potential combatants away from violence through employment opportunities, is challenged by Gilligan (2016) who argues that

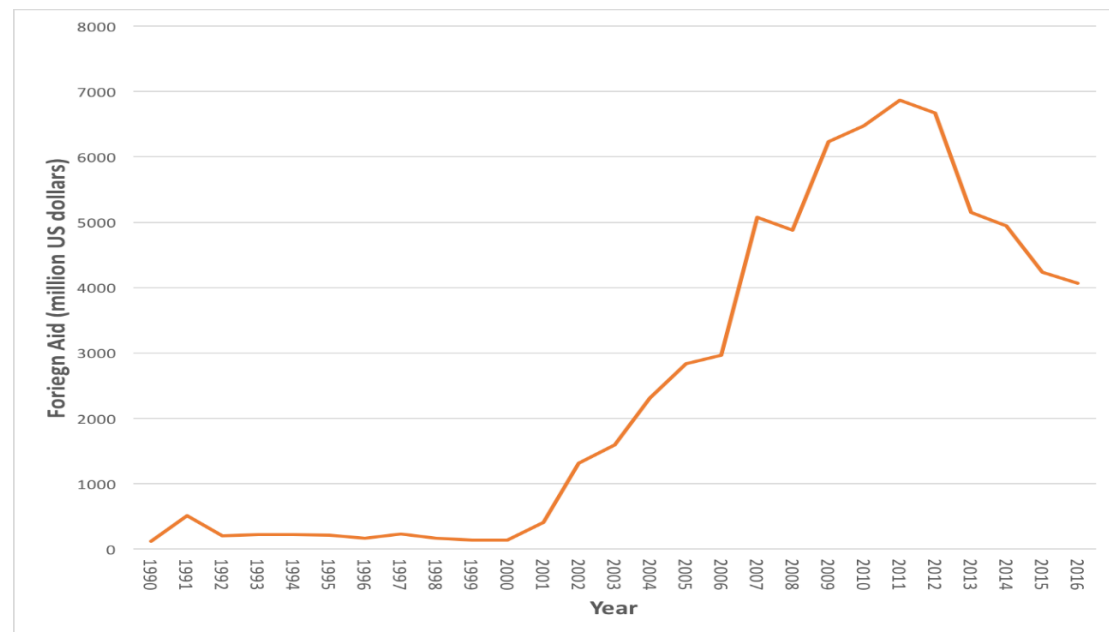
‘Civil violence is not only, or predominantly, an economic problem, but also a psychological, social, and political one that should be approached holistically, rather than addressed simply by creating jobs programs’ (p.1).

Gilligan’s main thesis is based on the lack of empirical evidence that can establish a causal link between unemployment and civil war violence. This prompts him to highlight the non-economic origins of violent conflicts in deep-rooted social or political factors, which therefore cannot be resolved through economic fixes like providing employment. Evidently the non-economic determinants of conflict are vital and should not be ignored in planning and implementing a post-conflict reconstruction plan. However, this recognition need not take away from the critical importance of making economic opportunities available to the community of former combatants as well as non-combatants when a reconstruction is underway.

³As we shall see in upcoming chapters-

- a) Around 20 per cent of Afghanistan population is between 15-24 years of age, and 47.5 per cent is between 0-14 years.
- b) Unemployment rate of Afghan youth population (aged 15-24 years) is 23.17 per cent.
- c) 47.3 per cent of this youth population has no formal education.

Figure 1.3: Net official development assistance and official aid received by Afghanistan



Note: Source: World Bank,
Online at: <https://data.worldbank.org/indicator/DT.ODA.ALLD.CD?locations=AF>

Figure 1.3 shows the trajectory of foreign aid received by Afghanistan from 1990-2016. Note how closely the trajectory of foreign aid matches that of the growth rate of Afghanistan GDP. The drop in foreign aid post 2012 and decline in Afghan growth rate in the same period strengthens the conjecture that high a growth rate in Afghanistan during 2000-2012 was dependent on aid.

Aid dependence is a reality for most post-conflict economies and it is important to understand how this dependence impacts the nature of growth in such economies, in turn, affecting the extent of employment generation. Collier and Hoeffler (2004) in their classic cross-country study, provide some useful insights in this regard. They estimate an inverted U-shaped relationship in terms of the deviation from normal growth over the first post-conflict decade with supra-normal growth peaking between the fourth and seventh year after peace ensues. This spurt in post-conflict growth is largely dependent on aid, which becomes more than twice as productive compared to non-conflict situations. However, the impact of aid on growth is dependent on the policy mix pursued by the government, with evidence suggesting that the growth objective is best served in a post-conflict situation by prioritizing social policies followed by sectoral policies and eventually macro stabilization policies. The paper also notes that in real situations this ideal sequencing of policy priorities is not adhered to with almost equal emphasis observed on all fronts simultaneously.

3. The Employment Imperative for Afghanistan

Based on the brief overview of the Afghan economy and the international literature on the role of employment in a post-conflict condition, we are now in a position to specifically articulate some issues related to Afghanistan which are crucial if the economy has to be rejuvenated in a sustainable way while controlling the impetus of further conflict.

If we look at the structure of output and employment in the country it becomes apparent that despite the rapid growth in the Afghan economy in the decade following international occupation, there has been little in the way of structural transformation. The share of employment in agriculture which largely constitutes low productivity self-employment has

continued to be more than 60 per cent with negligible decline in the nine years between 2008 and 2016 (Table 1.4). On the other hand, employment in industry, including manufacturing, had actually fallen between 2008 and 2012, a period of very high growth, to recover only slightly by 2016. The corresponding share of the industrial sector in value addition has actually fallen sharply from 27.5 per cent in 2008 to only 22.7 per cent in 2016 with a rapid dip of 5 percentage points from 2008 and 2009. The figures for manufacturing show a similar pattern with a decline from 18.2 per cent to 13.5 per cent of GDP between 2008 and 2009. Although service sector employment and share of the sector in the GDP have both increased (share of value added more than the employment share), it is not necessarily a positive change given the inherent heterogeneity within the service sector in terms of quality of employment as well as dynamic linkages with the rest of the economy. Overall the pattern of structural change that we see for Afghanistan indicates a stunted transformation process if we keep in mind the historically important role of industrialisation in leading the course of long-term development.

The high growth trajectory in the Afghan economy between 2002 and 2012 with year on year growth rates often in double digits was triggered by the large inflow of foreign funds which fuelled growth in the service sector, mainly in the communications, transport and construction sub-sectors (ILO, 2012). With the withdrawal of foreign security infrastructure and personnel there has been a decline in economic activities in all these sub-sectors. Data from the Afghan Investment Support Agency, an affiliate of the Ministry of Commerce and Industries show the registration of new firms in services and construction declined steadily every year starting from 2012 with the drop being most pronounced for construction firms (World Bank, 2016) which lost steam as the transition gained momentum. The adverse effect on services was predicted accurately in a report prepared in 2012, which said:

'services will probably suffer the most from the progressive reduction of international aid, as their growth is significantly and artificially led by international financial inflows. More specifically, the transport sector, which has strongly benefitted from the presence of international military troops, is expected to shrink, as the demand for fuel, equipment, and food transportation by road will drastically decrease' (ILO, 2012 p 18)

The construction sector was also dependent heavily on the foreign funded projects often sub-contracted to local firms. With the consistent decline in foreign aid post-2012, construction activities have been adversely affected with little recovery registered till the middle of 2017. With rich mineral resources in the country, mining was seen in policy circles as a key growth sector with scope for adequate employment creation. There were optimistic forecasts of the sector accounting for 25 percent of the GDP by 2016 and 50 percent of GDP by 2024. In reality less than 8 per cent of GDP actually originated from mining in 2016 allaying earlier projections. Notwithstanding some high-profile mining projects financed by foreign investment, the deterioration of the security situation along with continuing bottlenecks around competitive and reliable supply-chains feeding in and out of mining activities, have meant that the sector has continued to underperform. It is clear that the aid-stimulated growth in Afghanistan during 2002-2012 was not able to bring about necessary structural changes to the economy and foreground the basis of development. More detailed analysis of aid allocation and effectiveness will be required to determine why exactly this happened. However, it is evident that the country today needs a holistic rethink of its development strategy focused on long-term productive investment in sectors that can generate remunerative employment in adequate numbers.

Table 1.4: Sectoral Distribution of Employment and Value Added, 2008-2016

Employment and Value Added	Year								
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Employment in agriculture (% of total employment)	63.3	65.1	64.2	63.0	63.0	62.5	62.1	61.6	61.6
Employment in industry (% of total employment)	11.4	9.5	9.4	9.9	9.2	9.3	9.7	9.9	10.0
Employment in services (% of total employment)	25.4	25.5	26.4	27.1	27.7	28.2	28.2	28.5	28.5
Agriculture, value added (% of GDP)	25.4	30.2	27.1	24.5	24.6	23.9	23.5	21.4	21.9
Industry, value added (% of GDP)	27.5	22.6	21.9	23.5	21.8	21.2	22.3	22.9	22.7
Services, value added (% of GDP)	47.1	47.2	51.0	52.0	53.6	54.9	54.2	55.7	55.4

Source: World Development Indicators

Online at: <http://databank.worldbank.org/data/source/world-development-indicators>

An additional dimension that necessitates an immediate revival of growth and employment creation in Afghanistan is the potential link between unemployment and conflict. As we have mentioned before, Afghanistan has an extremely young population thereby making unemployment or underemployment also biased towards the youth. Internationally there is strong evidence that the incidence of youth unemployment and youth bulges more generally, are positively correlated with conflict and the ability of terrorist organizations to spread their influence among the youth (Urdal 2004, 2006). In Afghanistan too, data shows that 80 per cent of unemployed youth are based in rural areas with little economic opportunities and two-thirds of these rural unemployed male youth are either illiterate or have only primary education (World Bank 2017a p. 21). On the one hand, this indicates an extremely grim situation regarding the future employability of the unemployed based on their basic skills. But it also raises concerns about the precarious mix of disenfranchisement and lack of education that make these youth susceptible to extremist ideology and programmes. The increase in civilian casualties in tandem with the recent economic crisis indicates that the connection between economic misery and violence is very real. Breaking out of this poverty-conflict trap where lack of economic opportunities breed conflict and conflict impairs economic opportunity in a cyclical fashion, need concerted public effort. Admittedly there is no easy solution to this complex issue but it is evident that any policy framework to kick-start growth in the coming years has to be cognizant of the exact nature of employment deficit in the country. Growth in urban service sectors or skill intensive manufacturing sectors will not be able to absorb the majority of the currently unemployed labour force in the short run. There may be a strong case for extensive public employment programmes targeting the hot spots of youth unemployment.

Migration has expectedly emerged as a pathway out of poverty and insecurity at the time of economic distress for Afghans. Population movements have taken place both internally between rural and urban areas as well as beyond national borders. Data from Afghan Living Conditions Survey show that although incidence of migration increases geographically with unemployment rates, there was a 40 per cent reduction in the number of migrants abroad

between 2007-08 and 2013-14 (World Bank 2017a). This was true in spite of economic and security conditions being significantly worse in the latter year. This curious fact points to the increasing financial and logistical barriers to migration as well as the reduction in opportunities to work legally in potential destination countries. The evolving anti-migration sentiment in most parts of the developed world and associated immigration restrictions also indicate to a situation where exporting labour abroad will become increasingly difficult for conflict-ridden poor countries like Afghanistan. Internal migration also poses challenge as the movement takes place predominantly to bigger cities like Kabul that are already overburdened with unemployed or underemployed migrants. While recognizing the critical role migration induced remittances have had in sustaining poor and vulnerable households for some time, there is no room for policy makers to be complacent in thinking that migration can be a viable strategy even in the medium-term to deal with the acute employment short fall that exists in the country.

Finally, any serious agenda of development in Afghanistan has to be cognizant of the political economic realities facing the country instead of limiting the analysis to the strict economic domain. It is well known that the bulk of foreign aid coming into Afghanistan since 2001 has been routed to security related sectors. For example, the Development Cooperation Report 2012 released by the Ministry of Finance indicates that as much as 70 per cent of external funds flowing into Afghanistan in 2011 went to the security sector. It needs to be recognized that perusing an employment-centric development agenda will require a much higher share of aid money being injected into core economic sectors like agriculture, manufacturing as well as mining. At the same time, such planning for development has to incorporate and possibly deal with the deep-seated inequality that exists in the country, along geographical as well as ethnic lines. The identification and resolution of the core political tensions is a necessary first step towards sustainable development in Afghanistan.

4. Conclusion

With an understanding of the complex problems facing the economy of Afghanistan in the background, the specific aim of this report is to create a detailed profile of employment in Afghanistan using household level data from three rounds of National Risk and Vulnerability Assessment (NVRA)/ Afghanistan living conditions survey (ALCS) in 2007-08, 2011-12 and 2013-14. This will allow an analysis using the longest possible time interval from currently available data.

The empirical analysis will start by computing standard measures of employment like employment rate, unemployment rate and labour force participation rate using comparable definitions across time points at the national and provincial level. It will also disaggregate these measures on the basis of gender, age and education level for urban and rural areas separately. The key focus of this section of the report will be to identify the patterns of change in employment over time and try to relate them to discernible economic and security related changes.

The second part of the analysis will take a sectoral perspective to first ascertain the extent of employment generated in each major sector, their trajectory over time as well as the returns from it. Agriculture and the informal sector will be the focus of in-depth analyses with the objective of identifying the conditions of employment as well as the constraints that exist in these sectors for providing remunerative livelihoods. The final section of the report will revisit the policy options available for the Afghan economy in light of the earlier findings and chart out a feasible policy framework to achieve more employment intensive growth in the future.

Chapter 2 - Structure of Employment in Afghanistan

This chapter provides a detailed overview of key labour market characteristics in Afghanistan, at national as well as regional (rural/urban) levels. We also look at the demographic and gender dimensions of the Afghan labour market. In addition, the relation between education and employment outcomes is analysed. We finally investigate the quality of employment by distinguishing between formal and informal employment.

We use three rounds of unit level household surveys of Afghanistan, namely NVRA 2007-08, NVRA 2011-12 and ALCS 2013-14 for our analysis. The employment and unemployment definitions used in this chapter are based on International Labour Organization (ILO) conventions (ILO, 2003). Further details on the definitions and the structure of the dataset are given in Appendix-1.

The basic trajectory of employment and labour force participation from 2007-08 to 2013-14 is summarized in tables 2.1 and 2.2⁴. The first striking observation is the spike in the unemployment rate between 2011-12 and 2013-14. In a short period of two years, unemployment increased from a moderate 5.68 per cent to more than 18 per cent for the population as a whole. Interestingly this two-year interval saw the withdrawal of international security forces from Afghanistan with a corresponding increase in violence and a plummeting growth rate (refer to Figure 1.1 in chapter 1). One must note that there was high variability in the unemployment rate of Afghanistan before 2012. In 2007-08 the unemployment rate was as high as 9.68 per cent before coming down to 5.68 per cent in 2011-12. As we shall see further, a large part of this variation stem from the variability in the participation of unpaid family workers in the labour force.

The seriousness of the employment deficit is underscored by the fact that while the labour force increased by close to 1.26 million between 2011-12 and 2013-14, the number of employed went up by a paltry 0.16 million. For a country like Afghanistan with virtually no social safety net for the unemployed, this extent of worsening in the employment situation is indeed alarming. While the slump in the economy caused, to a large extent, by the reduction of foreign funds flowing (as shown in figure 1.3) into the country, is definitely behind the employment crisis witnessed in the data, it is important to recognize the demographic factor at play here. The working age population in Afghanistan has grown at a worrying rate of 3.24 per cent annually between 2007-08 and 2013-14. This is significantly higher than most countries at a similar stage of development. In the same period the number of employed has actually fallen at an annual rate of 1.69 per cent, indicating the perverse situation in the labour market. What the unemployment numbers, adverse as they are, conceal is the decline in labour force participation in this period particularly between 2007-08 and 2011-12. This decline that is entirely explained by a sharp fall in female labour force participation rate (LFPR) is difficult to reconcile for a time when poverty rates remained high and almost stagnant around 36 per cent⁵.

⁴ The working age population in this report is taken as the population that is equal to or above the age of 15.

There is no upper bound to the age limit because in a developing country like Afghanistan, with limited social security and pension schemes, even the old age population is a part of the labour force. Although, to facilitate international comparison, Table 2.1 and Table 2.2 are replicated in Appendix-1 taking the age bounds of working age population to be 15-65, both end years inclusive.

⁵ It has been argued that female LFPR tends to fall at times of relative economic well-being as women who had started to work due to economic distress, withdraw from the labour market, but as we shall see this is not the case in Afghanistan.

Table 2.1: Employment Stats over time in absolute numbers

Sex	Year	Working Age	Labour Force	Employed	Unemployed
Total	2008	12,142,505	8,282,135	7,478,248	801,439
Male	2008	6,181,768	5,439,238	4,930,941	505,861
Female	2008	5,960,406	2,842,566	2,547,052	295,502
Total	2012	13,906,750	6,980,138	6,584,129	396,222
Male	2012	7,050,314	5,726,547	5,479,803	246,957
Female	2012	6,856,436	1,253,591	1,104,326	149,265
Total	2014	14,702,551	8,237,686	6,752,889	1,484,797
Male	2014	7,435,753	6,129,575	5,211,283	918,292
Female	2014	7,266,798	2,108,111	1,541,606	566,505

Whether this drop in LFPR is a function of deteriorating security conditions or some other factor remains to be established. The demographic pressure on the Afghan labour market is unlikely to ease anytime soon as the Afghan population is remarkably young with the median age being a little over 15 years (see Figure 2.1 and Figure 2.2). This means that the working age population will continue to grow substantially in the coming years and the Afghan economy needs to be prepared to absorb them by creating adequate productive jobs.

Table 2.2: Employment Stats over time in percentages

Sex	Year	LFPR	Unemployment rate
Total	2008	68.21	9.68
Male	2008	87.99	9.3
Female	2008	47.69	10.4
Total	2012	50.19	5.68
Male	2012	81.22	4.31
Female	2012	18.28	11.91
Total	2014	56.03	18.02
Male	2014	82.43	14.98
Female	2014	29.01	26.87

Figure 2.1: Population pyramid for Afghanistan 2013-14

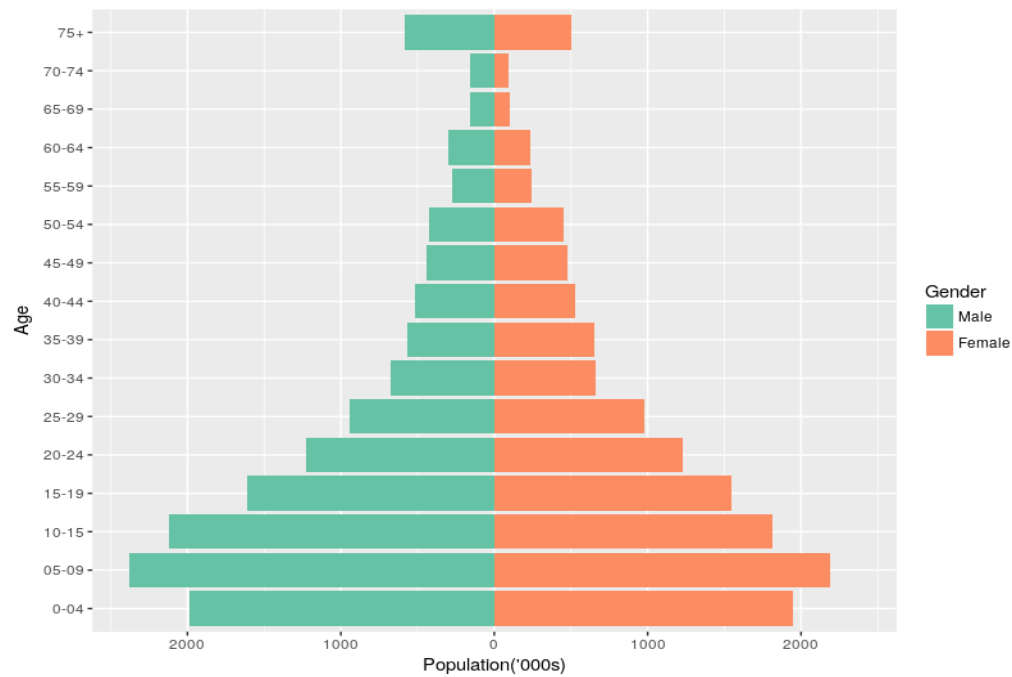
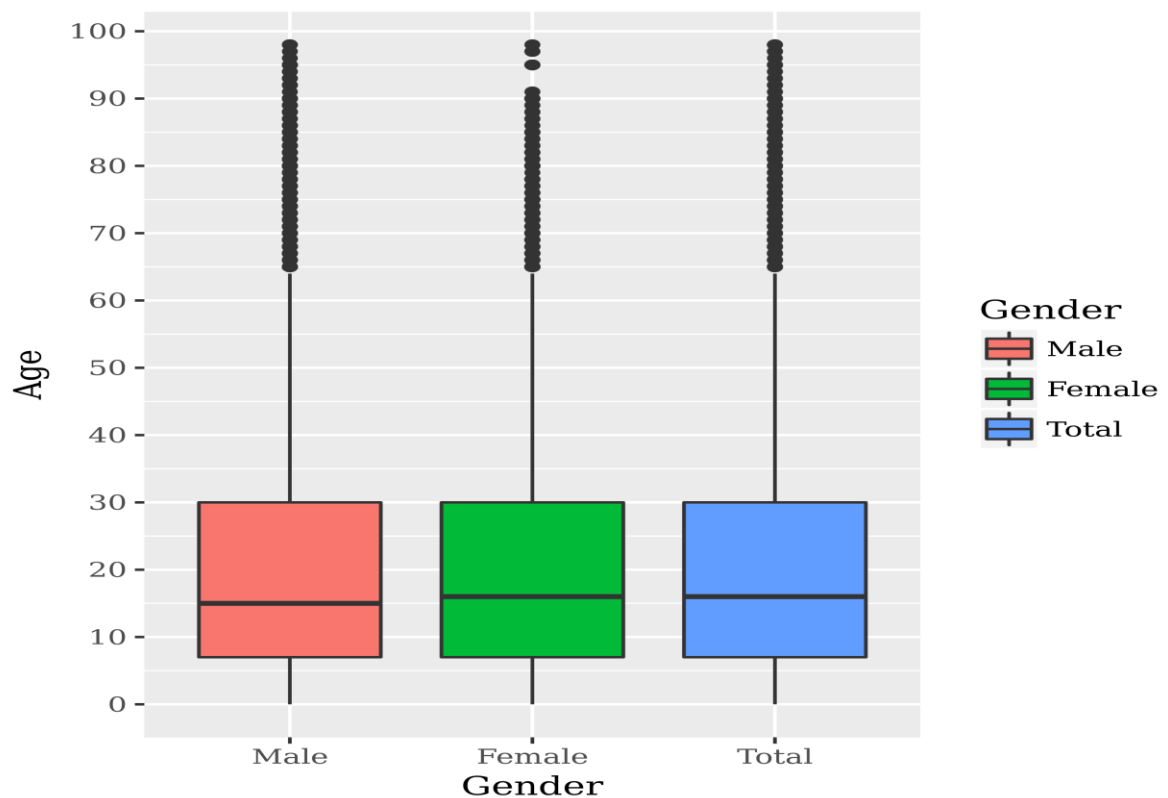


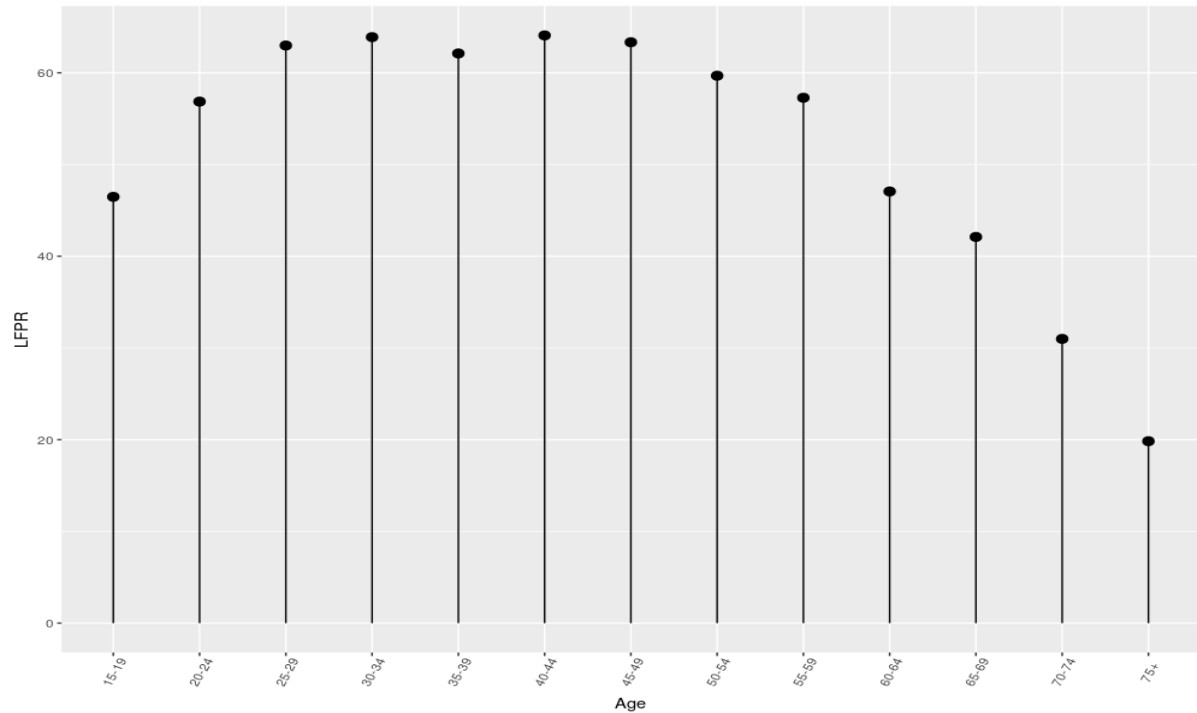
Figure 2.2: Boxplot, Age wise distribution of population of Afghanistan



The demographic question in Afghan labour market is further illustrated in Figures 2.3 and 2.4, which plot the age-specific LFPR, and unemployment rates for 2014 respectively. The labour force participation among youth age groups (15-19 and 20-24) is around 50 per cent in Afghanistan but the unemployment rate is between 20 and 25 per cent. Youth unemployment

is a global problem but what is alarming for Afghanistan is the rapid increase in youth unemployment from the early 2000s as depicted in Figure 2.5. Given the strong association between youth disenchantment, enrolment in militant organizations and ultimately incidence of violence (Schmeidl&Bose, 2016) the persistently high levels of youth unemployment need urgent and special government intervention.

Figure 2.3: LFPR by Age 2014



Another less appreciated issue that emerges from these graphs is the problem of old-age unemployment. For the three age-groups covering senior citizens of 65 years and over, the LFPR ranges between 20 and 42 per cent but the unemployment rates are very high, with that for the eldest group of 75 years of more reaching 45 per cent. These numbers indicate a situation of economic distress among the old where they are forced to join the labour force and seek employment in the absence of any effective social security but their chances of getting absorbed in a job is much less than younger individuals.

Figure 2.4: Unemployment rates by age 2014

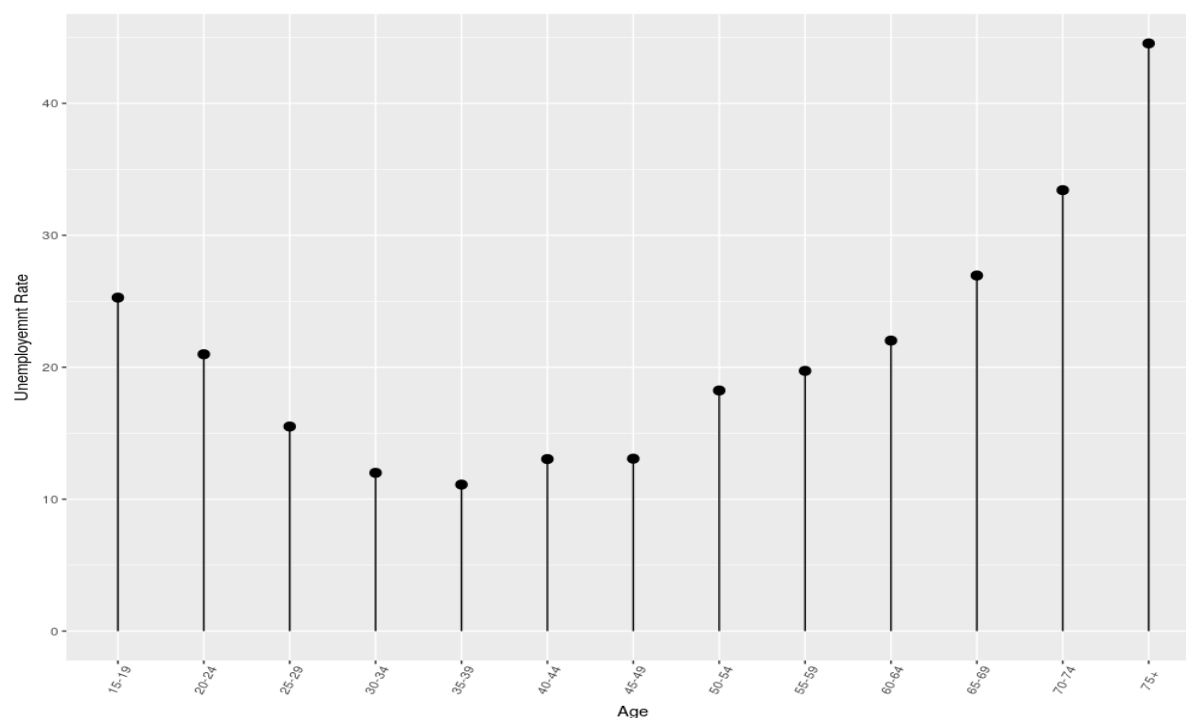
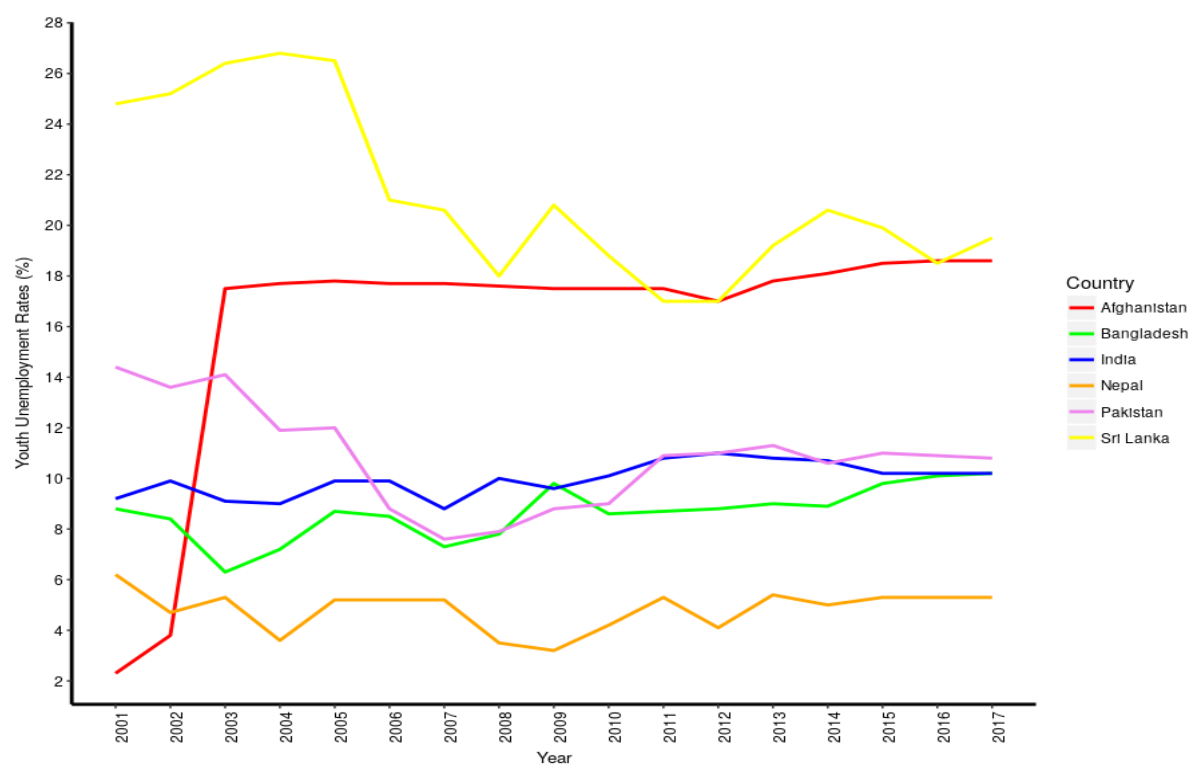


Figure 2.5: Youth unemployment rates by age

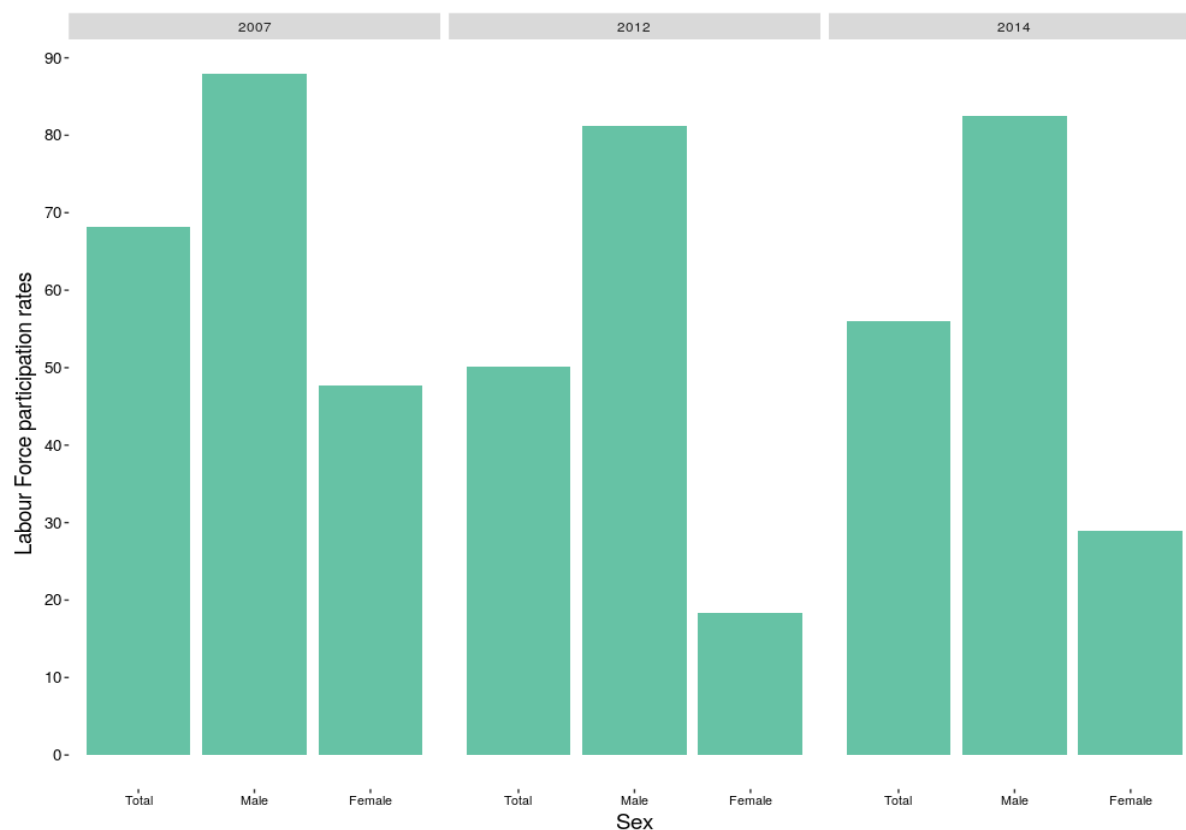


Source: World Bank datasetn online: <https://data.worldbank.org/indicator/SL.UEM.1524.ZS>

The gender dimension of the employment situation has already been referred to in terms of the rapid decline in female LFPR between 2007-08 and 2011-12. Although it recovered to some extent in the subsequent two years, it still remained significantly less than the 2007-08 levels

(see Figure 2.6). One should also note that the direction of changes in male and female labour force participation rates has remained the same across these three years, but the magnitude of variation is significantly higher in case of female labour force participation rate as compared to that of males.

Figure 2.6: Labour Force Participation Rates over time and gender



Figures 2.7 and 2.8 point at some interesting facets of labour force participation in 2013-14. First, female LFPR remains less than 30 per cent across the working age groups and is consistently much less than the corresponding male LFPRs. Second, when LFPRs are disaggregated along gender and education levels (figure 2.8), female LFPR peaks at approximately 70 per cent for postgraduates. Additionally, female LFPRs are also appreciably high for women with teacher training as well as those trained in Islamic schools. While the first is expected, as those women who take the effort to undergo professional courses like teacher training are more likely to actually seek work than not, a 65 per cent LFPR for women trained in Islamic schools is remarkable. Although a more detailed study is required to understand what drives this pattern, this finding contradicts the commonly held notion of Islamic institutions being against open female participation in the economic sphere.

Figure 2.7: LFPR by age and gender, 2014

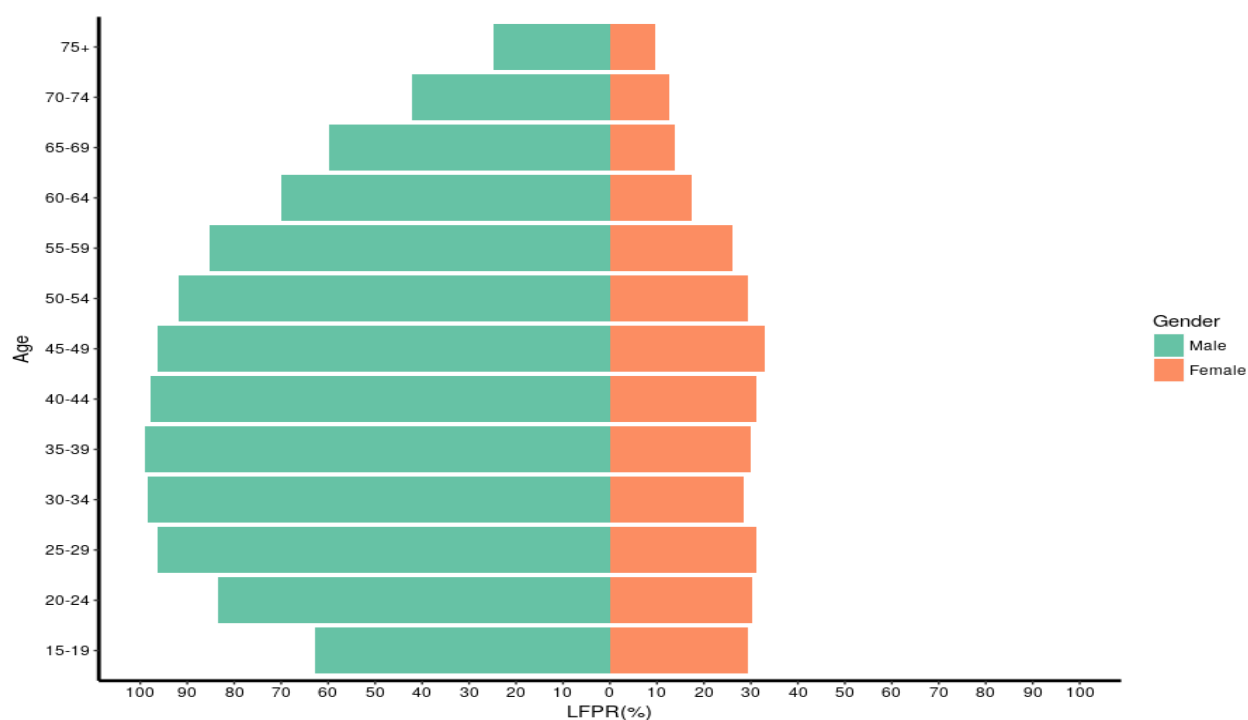
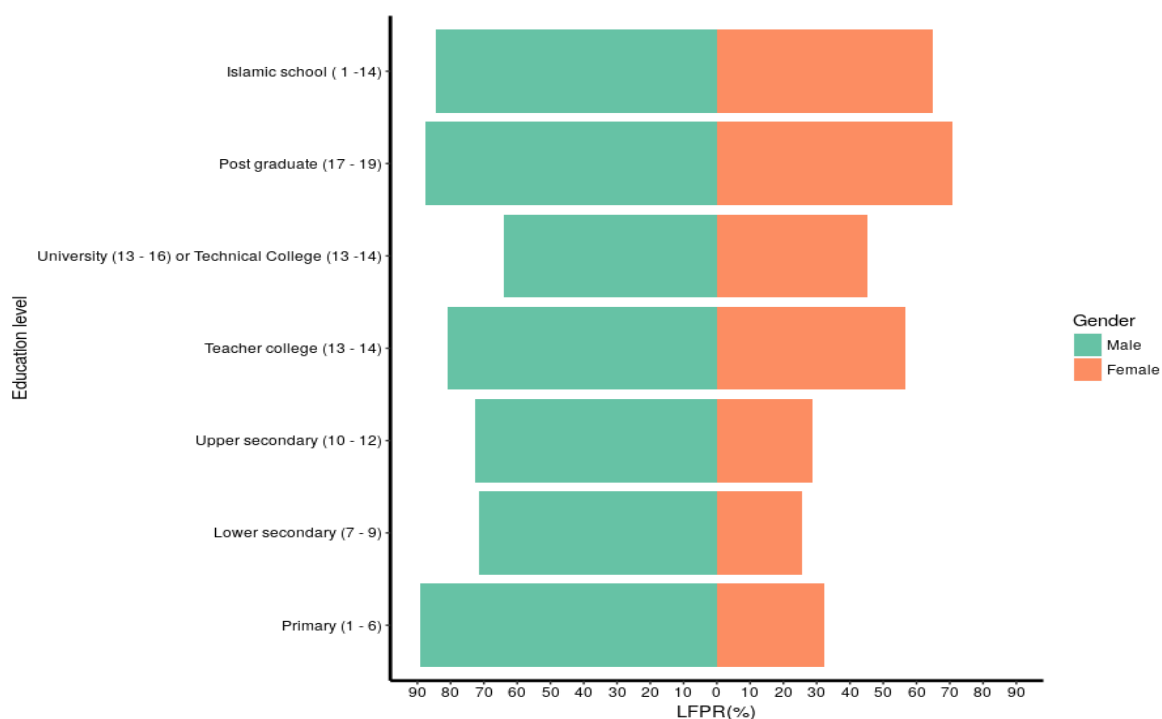
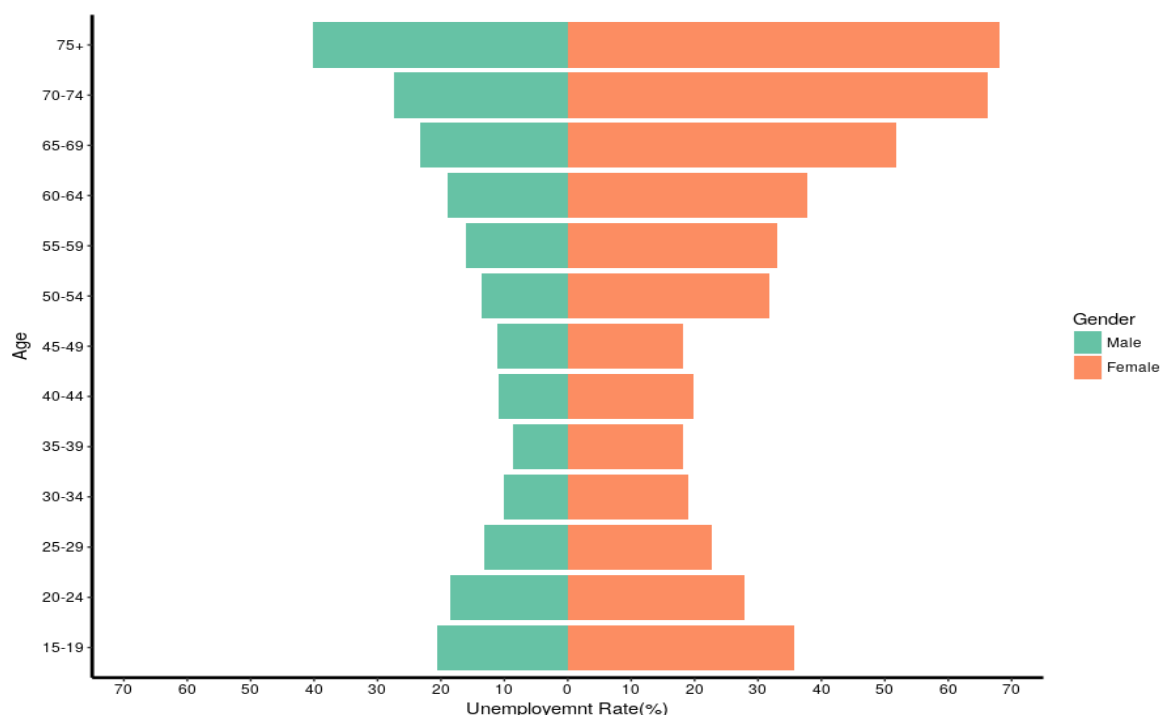


Figure 2.8: LFPR by educational level and gender, 2014



Unemployment rates are significantly higher for women than men for all age groups (figure 2.9) and female unemployment ranges from 10 per cent for the age-group 30-34 to more than 65 per cent in the oldest age group of 75+.

Figure 2.9: Unemployment rates by age and gender 2014



The national data for Afghanistan is divided into rural, urban and Kuchi (nomadic tribes). Table 2.3 below reports the main employment-related numbers across these categories. The Afghan labour force is primarily rural with more than 70 per cent residing there. The rural unemployment rate at 17.50 per cent is still high, but lower than urban unemployment at 21.85 per cent. The lowest unemployment is among the Kuchi people at 8.9 per cent. It needs to be noted that the rural unemployment rate is typically low in poor countries as there is existence of significant surplus labour in family farms and other non-farm units. As such, Afghanistan should not be an exception. But the very high rural (open) unemployment rate despite the options of unpaid or low-paid family work is another indication of the grim employment situation in the country.

Table 2.3: Employment Statistics for 2014 by region

Region	Labour force	Unemployed	Employed
National	8,237,686	1,484,797	6,752,889
Rural	5,847,403	1,023,666	4,823,737
Urban	1,916,283	418,786	1,497,497
Kuchi	474,000	42,345	431,655

Education

It is well-known in labour economics that education plays an important role in the job market, both in increasing the probability of employment as well as the returns from it. Table 2.4 below divides the labour force, unemployment and LFPR in terms of levels of education attained. A disclaimer that needs to be made before analysing the education data is the huge proportion of non-responses to the education question. About 62.5 per cent of the labour force is in this category, making it the single largest one. Since the choices given for the education-related question did not include 'no education', it is possible that most of these non-responses are

actually illiterate but this number can also include genuine non-responses. We have used NA as a residual category in all our tables and graphs, but they have to be interpreted with due caution.

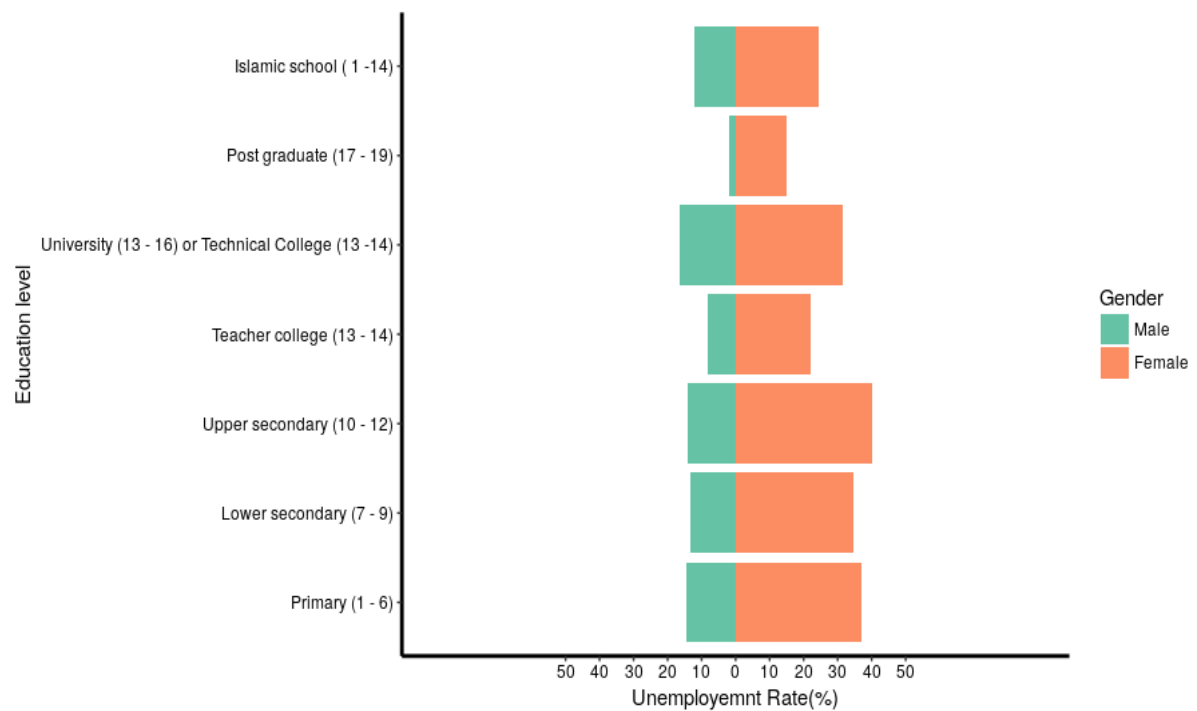
Table 2.4: Employment stats in 2014 by education level

Education level	Labour force	Unemployment	LFPR	Unemployment Rate
Primary (1 - 6)	788,649	141,947	69.79	17.99
Lower secondary (7 - 9)	674,136	109,443	57.09	16.23
Upper secondary (10 - 12)	1,101,975	193,897	60.46	17.59
Teacher college (13 - 14)	198,738	23,387	72.97	11.76
University (13 - 16)	274,927	51,381	60.37	18.68
Postgraduate (17 - 19)	24,092	706	85.89	2.93
Islamic school (1 -14)	25,801	3,384	82.82	13.11
Not Available(NA)	5,149,225	960,652	52.63	18.65

If we exclude the NA category, upper secondary emerges as the modal educational group with primary and lower secondary being the next important categories numerically. As expected, university degrees and postgraduate qualifications are far less in number with a combined strength of 3.6 per cent in the labour force. Another small but interesting group is that of individuals who have completed an alternative system of Islamic schooling and have among the highest LFPR among education groups⁶ comparable to the post-graduates. Curiously, the Islamic school graduates also have a significantly lower unemployment rate than the national average, although it is still much higher than that of postgraduates (which is very low at 2.93 per cent). The other category which shows up with a relatively high LFPR as well as low unemployment rate are those with teachers' training. When the data is disaggregated further along gender lines (Figures 2.8 and 2.10), the unemployment rate is consistently higher for women than men across all education levels. This, in addition to the lower female LFPRs for all groups compared to their male counterparts, confirm the definite disadvantage that female Afghans face in the labour market. It should also be noted that the pattern of relatively low unemployment for university graduates, Islamic school pass-outs and teacher-training for the entire labour force remains valid for women as well.

⁶This point has been made earlier in the context of high female LFPR among this group

Figure 2.10: Unemployment rate by educational level and gender



Type of Work

Till this point, the analysis has been limited to the quantity of employment and its distribution across different sections of the Afghan population. We now turn to the quality aspect of employment by first differentiating between the types of job according to the categories available in the ALCS/NVRA (Table 2.5). The employed population of Afghanistan is categorized by six types of works. According to the nature of these employments, we can create a two-way classification of Informal/Low-quality employment and Formal/High-quality employment. The structure of these two types of employment is explained below.

- a) Informal or Low-quality employment which comprises of i) Day labourers, ii) Self-employed without paid employees and iii) Unpaid family labour; and
- b) Formal or High-quality employment which includes i) Public sector employee, ii) Private sector employee⁷ and iii) Self-employed with paid employee.

It is expected that the general terms of employment including security of tenure, working conditions as well as benefits are likely to be better for the second group compared to the first. It has to be admitted that this is not a perfect scheme of segregation. For one, the category of Self-employed with paid employees does not fit well with formal employment in a conventional sense. However, to keep a simple two-classification between good and bad employment, it was felt that this category belongs to the former as it indicates a minimum scale of operations (given the presence of paid employees) and its economic viability to some extent. Moreover, the classification presented here is based on the primary occupation indicated by the individuals. As it is not uncommon to have secondary occupations in contexts such as that of Afghanistan, some overlap between the two main categories is also possible.

⁷Private sector employees are characterized as those receiving monthly salaries indicating some stability in their employment contracts.

Table 2.5: Distribution of work force by type of work in 2008, 2012 and 2014

Type of Work	2008	2012	2014
Public Sector Employee	5.94	10.71	11.4
Private Sector Employee	2.95	7.88	6.75
Self Employed with Paid Labourer	0.49	0.97	2.44
Total Formal	9.38	19.56	20.59
Day labourer	13.72	19.92	17.69
Self Employed without paid employees	44.22	47.4	31.59
Unpaid Family worker	32.68	13.13	30.13
Total Informal	90.62	80.44	79.41
Total	100	100	100

Table 2.5 presents the distribution of the different types of work for the working population over three points in time. There are several notable patterns that emerge on the evolving nature of employment from this table. First, using our definitions, the extent of informal employment has actually fallen significantly from 90.62 per cent in 2007-08 to 79.41 per cent in 2013-14. This trend of increasing formalization is corroborated by a two-fold increase in the percentage of public sector jobs and more than two-fold increase in private sector jobs. However, the increase in the proportion of private sector jobs tapered off (in fact fell by more than one percentage point) in the last two years of the study period. It is likely that this stagnation is connected to the withdrawal of international forces from 2012 and the consequent decline in certain economic activities. There has also been a five-fold increase in the share of self-employed with employees albeit from a very small base. It might indicate a nascent entrepreneurial class, although one needs to study the sectoral dimensions carefully before giving a definite verdict. Another curious pattern that emerges from the table above is the fluctuation in the proportion of unpaid family labour that fell rapidly in the first interval before rising back to almost the initial level. Unpaid family labour can be used in both farm and non-farm activities at the household level where the head of the household would be counted as self-employed without paid labour and the rest of the family participating in production process will be counted as unpaid family labour. Theoretically a significant part of this group can be understood as surplus labour, indicating the presence of disguised unemployment⁸. Clearly the sharp fall recorded between 2007-08 and 2011-12 indicates a tightening of the labour market whereby people working in typically low productivity family-run activities would have moved into better jobs outside the family setup. However, the situation deteriorates post-2012 due to the economic downturn.

Table 2.6 definitively shows the gender dimension in the distribution of quality employment. The proportion of women in each category is very low except among unpaid family labour category which is likely to have the lowest quality of employment on an average. Unlike other South Asian countries, the proportion of day labourers who are female is extremely low possibly indicating the social restrictions against women working outside the house, especially at the low end of the labour market. At the same time, it is important to note that nearly 20 per cent of self-employed with paid labour individuals are actually women. Lastly the representation of women in more formal jobs in both the private and public sector is low but not insignificant (more than 10 per cent in both cases).

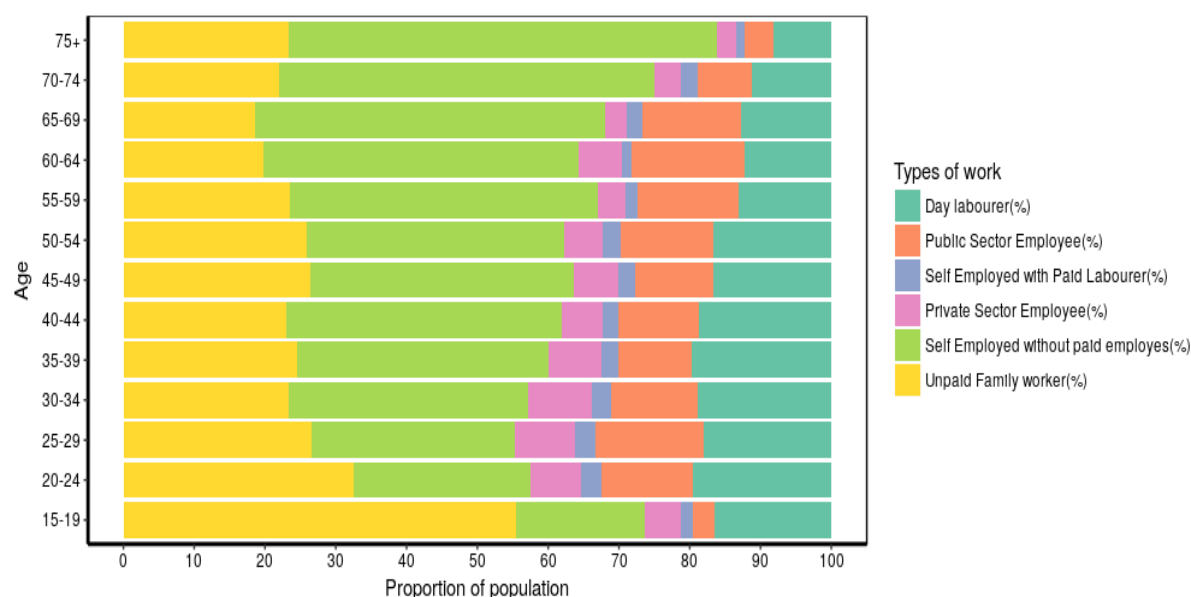
⁸The exact incidence of surplus labour within the category of unpaid family labour is an empirical issue which we are not engaging with here.

Table 2.6: Distribution of working population by type of work and gender

Type of work	Male	Female	Total	Males (%)	Females (%)
Public Sector Employee	650053	73435	723488	89.84	10.15
Private Sector Employee	383314	45104	428418	89.47	10.52
Self Employed with Paid Labourer	125106	29652	154758	80.83	19.16
Total Formal	1158473	148191	1306664	88.66	11.34
Day labourer	1061772	61464	1123236	94.52	5.47
Self Employed without paid employees	1854729	150454	2005183	92.49	7.50
Unpaid Family worker	821992	1090737	1912729	42.97	57.02
Total Informal	3738493	1302655	5041148	74.16	25.84

Figure 2.11 represents the distribution of job types for different age-groups. As expected the proportion of unpaid family labour starts falling with age before stabilizing around 20 per cent. Note that the decrease in the proportion of unpaid family labour is matched by a similar increase in the proportion self-employed without paid employees. Together, these two categories form more than 55 per cent of employment for any given age group, thus indicating the small family enterprises that are most common in Afghanistan.

Figure 2.11: Distribution of work force by age and type of work



The extent of formal or good quality employment rises sharply from the 15-19 age-group to those in their 20s but stagnates thereafter before falling again for senior citizens above 70. Finally, the distribution of job types along rural, urban and Kuchi individuals are presented in table 2.7 in absolute numbers. The extent of formalization measured as the sum of public sector employees, private sector employees and Self-employed with paid labour as a percentage of all employed individuals is 36.88 per cent in urban areas as against 16.33 per cent in rural areas and 5.72 per cent for the Kuchi communities. The presence of family-based activities is very common in the rural regions where they provide almost two-third of the total employment. But interestingly the absolute number of public sector jobs is much higher in the rural sector and even number of private sector jobs are close to that in the urban sector.

Table 2.8 below presents data on the workforce by education levels and type of work. Each row in the table adds up to 100 per cent. On the whole, we see the usual pattern whereby the

percentage of formal employment increases with level of education. It goes up to around 20-21 per cent for those with primary and lower secondary schooling to more than 85 per cent for ones with post graduate education. Teacher college trained individuals have the highest incidence of public sector employment, but this is not necessarily to be seen as a positive outcome as their average salaries tend to be low as reported later in this chapter. 60 per cent of Islamic school graduates are in low paying or non-paying informal jobs. The large group of NA (or non-responses on education levels) is seriously underrepresented in formal jobs and more than 90 per cent of this group work in informal activities. This supports our earlier conjecture that most of the NA responses actually come from those with no education.

Table 2.7: Distribution of working population by region and type of work

Region	Day labourer	Sector Public Employee	Self Employed with Paid Labourer	Sector Private Employee	Self Employed without paid employees	Family Unpaid worker
Urban	196,789	295,485	30,882	216,413	461,993	188,467
Rural	864,911	424,955	111,330	203,284	1,449,320	1,478,529
Kuchi	61,536	3,048	12,546	8,721	93,870	245,733

Table 2.8: Distribution of workforce (in percentage) by Education and type of work

Education level	Sector Public Employee	Sector Private Employee	Employer	Total Formal	Day labourer	Self-employed	Family Unpaid worker	Total Informal
Primary	7.56	10.48	2.99	21.03	21.36	37.13	20.49	78.98
Lower secondary	9.7	9.87	2.53	22.1	17.4	36.04	24.46	77.9
Upper secondary	29.25	10.78	1.86	41.89	9.42	31.13	17.56	58.11
Teacher college	71.87	10.43	0.95	83.25	2.89	10.43	3.43	16.75
University	55.22	22.87	0.53	78.62	1.96	13.33	6.09	21.38
Post graduate	52.95	33.94	1.76	88.65	0	9.65	1.7	11.35
Islamic school	20.26	16.67	4.83	41.76	15.83	28.59	13.81	58.23
NA	3.77	3.9	2.61	10.28	20.29	32.26	37.16	89.71

Note: 1) Full education codes as per ALCS 2014: Primary (1 - 6), Lower secondary (7 - 9), Upper secondary (10 - 12), Teacher college (13 - 14), University (13 - 16) or Technical College (13 -14), Post graduate (17 - 19), Islamic school (1 -14). 2) Employer category contains self-employed with paid employees and self-employed category comprises of self-employed without paid employees only.

Earnings

Apart from the type of job, the other main determinant of the quality of employment is the earnings received. Earnings information in the ALCS has some limitations that do not allow

easy comparison across time or even among different groups of workers⁹. Table 2.9 gives a summary of earnings disaggregated by gender and region for 2014. Daily wage information is available for daily labourers, monthly salary for private and public sector workers and monthly profits for the self-employed. As it was not reasonable to assume that the daily wage earners are employed throughout the month (and that information is not available), the daily wage earnings are not converted to monthly earnings and therefore not strictly comparable with the other two categories of earnings.

Table 2.9: Earnings of Day workers, monthly salaried labour and self-employed by region and gender 2014 (Afghanis)

Sex	Region	Average Daily Wages	Average Monthly Profits of Self-Employed	Average Monthly Profits of Employers	Average Monthly Salary
Male + Female	National	291.24	8720.11	10244.95	11862.64
Male	National	302.43	9227.34	12145.68	12410.19
Female	National	97.95	2460.56	2249.67	7081.66
Male + Female	Urban	349.12	13751.48	22220.27	14310.24
Male	Urban	372.13	14457.6	26785.8	15342.54
Female	Urban	122.12	2852.47	3774.13	8310.44
Male + Female	Rural	278.85	7193.55	7195.65	9963.1
Male	Rural	288.93	7625.88	8625.48	10333.72
Female	Rural	87.85	2351.44	1758.38	4956.68

Note: Self-employed are those without paid employees and employers are self-employed with paid employees

The gender disparity in earnings is staggering particularly for daily wage and profit earners. It is somewhat muted for monthly salary earners but still substantial. It is notable that the extent of earnings gap on the basis of gender is not appreciably lower for urban areas as would be expected normally. In fact, the difference is higher for profit-earners in urban Afghanistan compared to their rural counterparts. The urban-rural divergence in earnings are also high and do not seem to be explained only by cost of living differences. This is true particularly for self-employed individuals where the urban profit earnings are more than twice that of rural earnings. At the national level, salary earnings outweigh profit earnings and this pattern is more pronounced for female workers. When we disaggregate earnings on the basis of job types (not reported here), the patterns are in line with Table 2.9. Both private and public salaried workers earn more on average than self-employed individuals. The self-employed with paid workers have higher earnings than those without paid workers but the difference (10,244 against 8,720 Afghans) is not high enough to indicate two distinct occupational layers. This finding warrants a more cautionary interpretation of self-employed with paid employees as a form of formal or good employment.

The breakdown of earnings on the basis of educational attainment is presented in Table 2.10. Daily wage earnings increase from upper secondary levels but drop sharply for university graduates indicating that these are most likely outliers (less than 2 per cent of university graduates) with no regular need or access to daily employment. For the salaried workers, earnings increase moderately at the lower education levels but go up significantly for university and postgraduate education levels. It is surprising that teacher-trained salaried individuals actually earn less than those with much lower educational attainments. This is a major finding as more than 80 per cent of individuals with teacher training are employed in salaried work

⁹Earnings data was not collected in 2011-12 and the data for 2007-08 has inconsistencies across various job types and therefore not used in the analysis

with the bulk being in the public sector. For self-employed profit earners, a clear break happens for university and postgraduate qualifications with the average profits for these groups being significantly higher than others. Salary and profit earnings are largely similar for individuals with different levels of school education and college education (at the university) but there is massive two-fold difference between the two for postgraduates. This might be due to the supply crunch of highly educated and skilled workforce in Afghanistan. The estimated number of people with post graduate degrees is 24,092, a very small number compared to the total labour force of 8.2 million. Finally, the Islamic school attendees earn less than all other education categories as far as salaried and self-employed people go. It is only as day labourers that their earning is more in line with those with some level of school education.

Table 2.10: Earnings of workforce by education (Afghanis)

Education level	Average Wages	Daily	Average Monthly Salary	Average Monthly Profits of Employer	Average Monthly Profits of Self- Employed
Primary (1 - 6)	299.29		10341.59	24103.98	10978.77
Lower secondary (7 - 9)	294.72		10842.86	16285.57	9888.54
Upper secondary (10 - 12)	380.35		11608.07	9675.06	12028.87
University (13 - 16)/ Tech. College (13 -14)	266.11		18715.01	47764.87	19419.79
Teacher college (13 - 14)	401.19		8589.28	9584.46	11121.67
Post graduate (17 - 19)	NA		34839.55	13167.9	17333.8
Islamic school (1 -14)	366.13		7856.35	4485.79	6077.06
NA	280.87		9455.74	7027.97	7310.39

Note: self-employed are those without paid employees and employers are self-employed with paid employees

Conclusion

Afghanistan is in the midst of an employment crisis. For any developing country, an unemployment rate of 18.02 per cent is alarming. It is to be noted however, that the intensity of this crisis has been different for varying sections of Afghanistan labour force. For instance, the female unemployment rate in Afghanistan is as high as 26.87 per cent despite having very low labour force participation rates. Additionally, in spite of having the youngest population in the South Asian region, Afghanistan also has one of the highest youth unemployment rates in this region. This is a formidable challenge for the Afghan policy makers. The education sector might play a key role in addressing this employment crisis, both as a direct source of employment (as we will discuss in chapter 3) as well as improving the likelihood of individuals getting better quality jobs.

We also observe the dominance of informal forms of employment. But it should be noted that the ratio of formal jobs in the Afghan economy has been on the rise. In chapter three, we will take a look at the particular sectors of the economic that have been behind this steady formalization.

Note that this chapter only looks at the employment outcomes at the national or regional (urban/rural) level. But, we see a huge variation in these statistics at sub-national/provincial levels. On one hand, we have Kabul and neighbouring regions which have performed much better than the national average on every employment statistic. On the other hand, we have the central provinces of Ghor and Herat, where the extent of the crisis is significantly higher. A detailed review of provincial analysis has been provided in Appendix 2 of this report.

Chapter 3 -Sectoral Analysis of Employment

In the last chapter the employment situation in Afghanistan was analysed by disaggregating the data along several dimensions like gender, age group, educational attainment, types of jobs and geographical location. When the quality of employment was evaluated using a rough two-way classification between informal and formal employment (see page 14), there emerged an overwhelming presence of informal workers accounting for almost 80 per cent of the total work force in 2013-14. Although a clear comparison of earnings between formal and informal work is difficult to make due to data limitations, it is very likely that the formal jobs will, on average, generate higher as well as more stable earnings with better conditions of work. Public policy ideally should be geared towards enhancing the share of the formal or good quality jobs in the economy. In order to formulate such policy, it is important to assess the quality of jobs across the actually existing sectors in the economy. It is this sectoral analysis of employment that is undertaken in the present chapter. The NVRA/ ALCS data sets allow an approximate comparison across the different survey rounds only at the 1-digit level of industry-wise disaggregation. Even at the 1-digit level, the exact classification scheme of the economy is not identical (see tables 3.5, 3.6 and 3.7) but can still be worked with to identify some basic patterns of change. The last round of ALCS for 2013-14 provides further sectoral disaggregation at the 2 and 3-digit level. The following section presents an inter-temporal analysis at the 1-digit level while the next section investigates the 2013-14 data at higher levels of disaggregation.

Table 3.1: GDP in 2007-08 and 2013-14 sector wise

Sector	Share of GDP (%)		Share of Employment (%)	
	2007/08	2013/14	2007/08	2013/14
Agriculture	37.05	24.70	59.11	44.84
Industry of which	25.42	23.92	12.46	22.04
Mining	0.40	0.78	0.37	0.13
Manufacturing	13.51	10.80	4.54	8.15
Services	37.52	51.38	28.41	33.12
Total	100	100.00	100	100

Note: GDP data is taken from CSO Afghanistan, calculated at 2002-03 prices for both the years.

Sectoral Analysis at 1-digit level

We start by looking at the broad pattern of structural change in Afghanistan through the sectoral division of GDP and employment over the period of our study (Table 3.1). The GDP data is taken from the CSO documents while the employment information comes from the NVRA/ALCS. In the six-year period that we have data for, the share of agriculture in GDP and employment has declined appreciably indicating a favourable direction of structural transformation. However, unlike the classic pattern of such transformation, the weight of manufacturing in the national output has actually fallen from 13.51 to 10.80 per cent along with a slight drop in the share of the industrial sector as a whole. Interestingly, employment in industry as well as manufacturing within it has increased substantially at this time of relative contraction of these sectors. This unusual change does indicate a narrowing of the gap in productivity between agriculture and industry but not necessarily an overall improvement as industrial productivity is actually declining sharply in relation to the average for the economy. The same holds true for manufacturing where the decline in the productivity in relation to the average is even more marked. The second important observation pertains to the increasing share of services in both GDP and employment. The increase in output share, however, is far higher

than the increase in employment share indicating an improvement in the relative productivity of the service sector which is in line with experiences in several other developing countries in recent years. On the whole, the trajectory of structural change presented in table 3.1 warrants further exploration of the sectoral dimension of employment and its returns using the disaggregated information available to us.

Table 3.2: Employment in 2013-14 sector-wise

Industry(1-digit)	Number of Workers	Percentage of workforce
1 - Agriculture	2,832,952	44.84
2 - Mining and quarrying	8,384	0.13
3 - Manufacturing	515,540	8.16
4 - Electricity, gas and water	2,861	0.05
5 - Construction	865,685	13.70
6 - Trade and restaurants and hotels	714,596	11.31
7 - Transport and communication	321,192	5.08
8 - Financing, and business services	67,948	1.08
9 - Community, social services	989,176	15.66
Total	6,318,334	100

Full industry codes: 6 - Wholesale and retail trade and restaurants and hotels, 7 - Transport, storage, communication and information, 8 - Financing, insurance, real estate and business services, 9 - Community, social and personal services

Tables 3.2 and 3.3 present the absolute numbers and percentages of employment across sectors in 2013-14 and 2007-08 respectively. Due to the difference in sectoral classification used in the surveys in these two years, the 1-digit disaggregation does not overlap exactly in the two tables. The massive movement of labour out of agriculture amounting to more than 1.6 million workers (about 19.52 per cent of the total Afghan labour force) in a period of only six years strikes one as a major success of Afghan economic development at a first glance. However, this optimism is tempered once it is recognized that the economy created only 413,570 jobs across all non-agricultural sectors in this interval. In other words, almost 1.2 million of the 1.6 million workers leaving agriculture may actually have left the labour force altogether¹⁰. Among the non-agricultural sectors, the two major job-creating sub-sectors have been construction and manufacturing with nearly 300,000 jobs being generated in construction alone. Due to the difference in the categories in the two time points, it is difficult to estimate the exact change in the number of jobs in the different service sub-sectors but for services as a whole, the number of jobs actually fell marginally between 2007-08 and 2013-14 (see table 3.4) notwithstanding its relative share going up in economy wide employment and output.

¹⁰This statement is valid in a net sense only. There is no way to substantiate the claim that 1.2 million of those who actually left agriculture exited the labour force as well.

Table 3.3: Employment in 2007/08 sector-wise

Sector	Number of workers	Percentage of workforce
1- Agriculture/ livestock	4,442,220	59.12
2-Mining & Quarrying	27,919	0.37
3-Road construction	12,291	0.16
4-Construction	554,738	7.38
5-Manufacturing	341,682	4.54
6-Transport &Communication	223,358	2.97
7-Wholesale trade	71,442	0.95
8-Retail trade	761,895	10.14
9-Health	22,602	0.30
10-Education	145,087	1.93
11-Other services	622,354	8.28
12-Public admin/gov't	288,444	3.84
Total	7,514,032	100

Table 3.4: Number of workers in major sectors in 2007/08 & 2013/14

Industry	2007/08	2013/14
Agriculture	4442220	2832952
Industry	936630	1392470
Mining & Quarrying	27919	8384
Manufacturing	341,682	515,540
Services	2,135,182	2,092,912
Total	7514032	6318334

We next analyse the quality of employment in terms of the formal-informal distinction that was introduced in chapter 2 based on the type of jobs. Tables 3.5 to 3.7 give details on the percentage and absolute numbers of formal and informal jobs across sectors disaggregated at the 1-digit level¹¹. In line with expected patterns for developing economies, the extent of formal employment is highest for the service subsectors, followed by industry and finally agriculture, for which it is very low. However, there are interesting details worth considering underneath this overall pattern. First, although the extent of formal jobs remains very low for agriculture in all time points, the absolute number as well as percentage of formal employment has increased. It is very likely that this is driven by a rise in number of farmers with paid labour indicating the expansion of commercial farming albeit in a small scale. Second, the two non-agricultural sectors that generated most jobs in the span of six years, construction and manufacturing show contrasting trends of formalization over this period. For construction, the percentage of formal jobs goes up appreciably between 2007-08 and 2011-12 but then drops sharply to lower than the initial level by 2013-14. Looking at the absolute numbers, the loss of about 43,000 formal jobs in construction from an initial level of 103,000 in the last two years possibly indicates the impact of the withdrawal of foreign forces at the same time. Manufacturing, on the other hand, shows a healthier trend with a gradual increase in the share of formal jobs. In order to further explore the quality of jobs being generated in manufacturing we will be looking at earnings data later in the chapter. Third, the highest incidence of formal employment is seen in public administration and related services, which also provide a

¹¹The disclaimer on the non-comparability of the sectoral classification at the 1-digit level across different years still holds.

substantial number of jobs in the economy (between 10-15 per cent of total jobs). Again, the earnings from public jobs need to be analysed to get a better sense of the actual quality of employment in the public sector.

Table 3.5: Formal and informal employment in 2014 sector wise digit-1

Industry	Formal Employment	Informal Employment	Formal(%)	Informal(%)
1 - Agriculture	51657	2780865	1.83	98.18
2 - Mining & quarrying	1980	6404	23.61	76.38
3 - Manufacturing	87295	428025	16.94	83.06
4 - Electricity, gas & water	1751	1110	61.2	38.8
5 - Construction	59928	805757	6.92	93.08
6 - Trade & restaurants & hotels	62368	652228	8.73	91.27
7 - Transport & communication	131528	189664	40.95	59.05
8 - Financing & business services	52694	15254	77.55	22.45
9 - Community & social services	844959	143840	85.45	14.55

Table 3.6: Formal and informal employment in 2012 sector wise

Industry	Formal Employment	Informal Employment	Formal (%)	Informal (%)
Agriculture	23655	1534819	1.52	98.48
Livestock	18448	900157	2.01	97.99
Manufacturing	67115	367431	15.44	84.56
Construction	103226	527996	16.35	83.65
Wholesale & Retail trade	39639	648017	5.77	94.24
Transport & comm.	121811	264484	31.53	68.47
Health	45688	17550	72.25	27.75
Education	227027	25201	90.01	9.99
Other govt. services	362015	31127	92.08	7.92
UN/NGOs	90824	4456	95.32	4.68
Other services	141245	781871	15.3	84.7

Table 3.7: Formal and informal employment in 2007 sector wise

Industry	Formal Employment	Informal Employment	Formal(%)	Informal(%)
Agriculture	21875	4420012	0.49	99.51
Mining & Quarrying	2064	25632	7.45	92.55
Road construction	1699	10592	13.82	86.18
Construction	39111	515201	7.05	92.94
Manufacturing	27196	313451	7.98	92.02
Transport & Comm	67249	156109	30.11	69.89
Wholesale trade	2325	69117	3.26	96.75

Retail trade	16285	744975	2.14	97.86
Health	17248	5354	76.32	23.69
Education	124948	20139	86.12	13.88
Other services	104953	516667	16.88	83.12
Public admin. services	280509	7820	97.29	2.71

Sectoral Analysis at 2 and 3-digit level

Sectoral classification at the 2 and 3-digit level is available only for 2013-14 as is consistent earnings data across different types of jobs. In this section we will be using both this information to provide a profile of employment for 2013-14. Table 3.9 reports the sectoral distribution of employment at the 2-digit level (for 29 sub-sectors in the economy) across the formal-informal divide both in absolute numbers and percentages and Tables 3.10 and 3.11 present the different forms of earnings for sectors also at the 2-digit level of disaggregation. Figures 3.1-3.3, plot the deviation of different types of earnings (daily wage, monthly salaries and monthly profits) from the respective means for the entire economy for the 69 sub-sectors at the 3-digit level. The three categories of earnings - daily wage rates, monthly salaries and monthly profits - are not strictly comparable for reasons explained in chapter 2, but they do allow a comparison across different sectors for the same category of earnings.

We start with agriculture. Although there is no further disaggregation available for this sector at the 2-digit level compared to the 1-digit level already discussed in the last section, we are now in a position to comment more definitely about the quality of employment in agriculture in terms of the earnings they generate. It was noted earlier that between 2007-08 and 2013-14 there has been a sizable increase in formal employment in agriculture most likely due to a rise in the number of self-employed farmers with paid employees. As such this should indicate a positive movement, but the earnings figures cast a doubt on this possibility. The earnings (monthly profits) for the category of self-employed farmers with paid workers was Afs¹² 6,194 which was significantly below the average monthly profits for the whole economy at Afs 11,425. In fact, the profit earnings for this group of farmers is nearly equivalent to the self-employed in agriculture without paid employees (see table 3.8). This also suggests that the increase in formal employment recorded in agriculture may not have any real implication for the quality of such employment. Moreover, for daily wage earners employed in agriculture, the wage rate was recorded as Afs 250, which was also lower than the economy average of Afs 279.

Table 3.8: Individual Earnings across major economic sectors

Sector	Average Daily Wages	Average Monthly Salary	Average Monthly Profits of Employer	Average Monthly Profits of Self-Employed
Agriculture	256.95	9416.42	6193.59	6371.92
Mining and quarrying	297.59	9323.59	9273.23	4918.11
Manufacturing	161.19	5519.42	4268.45	5445.5
Construction	303.48	17532.96	10491.74	8187.13
Financing, insurance, real estate and business services	216.1	10180.07	21144.93	15233.45
Community, social and personal services	296.76	12186.52	11940.84	12989.62

¹²Afghanistan, the local currency

Note: Self-employed are those without paid employees and employers are self-employed with paid employees

One of the biggest non-agricultural sectors in terms of employment in the Afghan economy in 2013-14 was construction. The sector also added the highest number of jobs between 2007-08 and 2013-14, although there was also a marked shift towards creating more informal jobs in these six years with the share of formal jobs in the sector coming down to under 7 per cent in 2013-14. The average daily wage earnings in construction, which is the relevant category for most workers who are employed in this sector, was Afs 303, slightly more than the national average. The salaried workers in construction representing formal employment in the sector earned Afs 17,532 on average, which was significantly more than the national mean earnings for salaried workers of Afs 10,282. On the whole therefore, construction emerges as a relatively remunerative sector in the Afghan context although the difference in earnings between daily wage and salaried workers was also substantial¹³.

The other important sector generating non-agricultural employment and one that has been recognized in the economic development literature as the key source of productive employment in a developing economy, is manufacturing. The manufacturing sector added approximately 174,000 jobs and also more than doubled the share of formal jobs to 17 per cent in the six years under consideration. The 2 and 3-digit disaggregation allows us to locate this change in the specific sub-sectors of manufacturing (Industry code 31 to 39) and also analyse the returns from manufacturing employment. Table 3.9 shows that more than 80 per cent of total manufacturing jobs are based in the Textile, Clothes and Leather sub-sector distantly followed by Food, Beverage and Tobacco, with 8 per cent of jobs and fabricated metals accounting for 5.5 per cent. But the earnings in Textile, Clothes and Leather related activities are dismal. The average earnings for each group of workers is less than half of the national average and is actually the lowest across all sectors in the economy. These low earnings, given it covers such a large part of manufacturing workers, does not bode well for the potential of manufacturing in providing the basis for quality employment in the economy. For Food, Beverages and Tobacco and Fabricated Metals, earnings are better but still lower than national averages for daily wage earners and salaried workers. When we disaggregate further into a 3-digit classification and rank the earnings across sectors according to their deviation from the national averages, the same pattern of low earnings is largely corroborated. For salaried workers, who are expected to constitute the majority of a stable industrial workforce, the earnings for each and every manufacturing sub-sector is lower than the national mean (figure 3.2). For daily wage earners (figure 3.1), only footwear, wood products and other manufacturing sub-sectors generate earnings slightly higher than average but together these account for only a small fraction of manufacturing employment. For profit earners, there is a huge variation across the manufacturing sub-sectors with abysmally low levels for Textiles, Clothes and Leather to enormously high amounts in Wood products (a marginal sub-sector in terms of employment).

The social and community services (comprising of mostly public services) is another important sector of the economy which generated almost one million jobs in 2013-14, making it the single largest non-agricultural economic sector at the 1-digit level in terms of employment. Not surprisingly, this was also the most formalized sector in the economy with more than 85 per cent formal jobs. At the 2-digit level, numerically the two most important subsectors are i) Public Administration and Defense, including the police and the army and ii) Social and Community Services, consisting of health, education and other welfare services. Together they account for nearly 90 per cent of the social and community services sector and most of them can be considered public sector jobs¹⁴. As far as earnings go, the monthly salary for public

¹³Even if we assume 30 days of employment for daily wage earners, monthly earnings of Afs 9000 is almost half of the salaried workers' earnings

¹⁴The proportion of private sector salaried jobs in these two sub-sectors (Industry codes 91 and 93) is about 10 per cent.

administration and defense workers is much higher than the national average. Within this category, the core public administration officials working on finance, taxation and registration (industry 3-digit code 911) earn the highest salaries followed by army and police personnel (See Figure 3.2). Among social and community workers, the monthly salary earnings are slightly lower than the national average, but the daily wage rate is significantly higher than the national average¹⁵. The monthly profits are also higher than the national average indicating remunerative earnings for self-employed professionals like doctors and teachers for example. Another noteworthy feature of the earnings data for Social and Community Services is that public sector salaries are lower by approximately Afs 3,000 compared to private sector salaries. The 3-digit earnings data allow us some more insight into this sector. Both in terms of monthly salaries and profits, the medical and healthcare professionals earn much more than national averages while education workers including teachers earn appreciably less than the same benchmark. This finding is consistent with the low earnings of individuals with teacher training qualification as reported in chapter 2. Given that education workers are mostly in the public sector (85 per cent) and constitute a sizable proportion of total salaried workers in the Social and Community services (two-thirds), their low earnings explain the overall low average salary earnings in the public sector. Lastly, employment in international organizations emerges as the most remunerative and formalized with one of the highest monthly salary and profit across all sectors. However, the numbers employed in this sub-sector are low and unlikely to pick up in the current situation of withdrawal of international forces and their allied agencies.

We finally analyse the other service sectors (6, 7 and 8 in the 1-digit sectoral classification). Trade, restaurant and hotels is the largest in this group employing 714,596 individuals in 2013-14 followed by Transport and Communication, employing 321,000. Trade, restaurant and hotels mostly generated informal employment with less than 9 per cent of the jobs qualifying as formal. The 2-digit classification (table 3.10) reveals that there is wide divergence in the extent of formalization between trade (wholesale and retail) and restaurants and hotels, with the latter having a much higher share of formal jobs. But trade related jobs, which are mostly informal, far outweigh jobs in the hospitality sector. Within trade, retail trade employs 88 per cent of workers but the extent of formal jobs are almost similar between retail and wholesale trade. There are some interesting contrasts between these two sub-sectors in terms of earnings. The average profit earnings in wholesale is approximately 50 per cent higher than in retail. However, the daily wage and salary earnings are lower in wholesale than in retail. Consequently, the difference between profit and salary earnings is much less in retail trade than in wholesale trade. This implies a clearer distinction between employer and employees in their economic status for wholesale activities. The 3-digit classification only disaggregates retail trade (not wholesale trade) and shows a wide variation in earnings (daily wages, profits and salaries) for different sub-sectors within retail trade. The restaurant and hotel sector shows high levels of earnings for salaried workers and profit earners but very low daily wage earnings. The earnings data at the 3-digit level corroborates this finding and suggests that there is a vast difference in the earning levels between the owner-operators and salaried staff on the one hand and the more casual daily wage workers on the other.

The transport and communications sector is further divided into transport and storage and communication and information with the former accounting for more than 98 per cent of the total employment in the overall sector. The transport and storage sector is moderately formalized by Afghanistan standards with approximately 40 per cent of jobs being in the formal category. Earnings in this sector have been above the national average levels with daily wage earnings being particularly high. The 3-digit disaggregation also confirms this pattern with sub-sectors like air transport, land transport and transport services consistently showing moderate to high premium in comparison to economy wide means for the different category of earnings. The communication and information sector is mostly formalized but the earnings are not

¹⁵It might be because the government hires daily wage earners in fields that requires certain specializations, for example, vaccination/immunization workers.

commensurate with the formal status, being lower than the national averages for salaries and profits (no daily wage earners were reported).

Business and financial services generate barely 1 per cent of the national employment and the sector is highly formalized in line with international standards. Upon further disaggregation at the 2-digit level, financial services emerge as a miniscule 0.13 per cent of the entire sector in terms of employed workers with the rest being in the real estate and other business category. Earnings figures for real estate and other businesses demonstrate enormous inequality within the sector. While the casual day wage workers at the informal end of the spectrum earn very low wages (Afs 216 against a national average of Afs 279), the salary earners receive approximately national mean levels and the self-employed earn significantly high profits. The profit earnings are almost twice the national average for the larger enterprise owners who employ paid workers. The 3-digit analyses verify this pattern of divergence among different categories of workers in this sector signaling a slightly scaled up distribution of incomes for domestic security related services compared to real estate services and other residual services.

Summing Up

The sectoral study of employment presented in this chapter points out some key issues for public policy. Most importantly, it raises questions about the potential of manufacturing playing a leading role in creating quality employment in large numbers. While both the proportion of manufacturing jobs in general and formal jobs within manufacturing have increased over time, the earnings of the individuals in this sector remains extremely low. The question of why manufacturing is not producing decently paying jobs needs to be answered urgently with more detailed studies of the main manufacturing sub-sectors, in particular, Textile, Clothing and Leather enterprises which provide more than 80 per cent of all manufacturing jobs. At the same time, there need to be concerted efforts made to identify new lines of manufacturing activities where Afghanistan may have future potential of growth and which can also provide decent paying jobs in adequate numbers.

Construction emerges as a major employment-generating sector with higher than average earnings albeit the growing proportion of informal jobs. However, the future scope of growth in this sector is intricately linked to the general economic performance in the country. The recent drop in national growth rates is likely to adversely affect the construction sector that can only be corrected with active public investment on infrastructure in the immediate future.

Public administration and publicly-funded social services are another mainstay for decent quality employment in Afghanistan, particularly for the educated. Unfortunately, it will be difficult for the Afghan state to bolster this category of employment in the face of the current economic downturn with declining foreign assistance and mounting fiscal deficit.

The non-public service sectors that make a significant contribution to Afghan employment at present are Transportation and Trade. These are not niche sectors that can grow independently but are support services, critically dependent on the overall state of the economy. While it is important to contribute to the growth of services by stimulating the economy, services cannot be depended upon, any further, to play the leading role in creating quality employment in the country.

Table 3.9: Formal and informal employment in 2014 sector wise digit-2

Industry(2-digit)*	Formal Employment	Informal Employment	Formal (%)	Informal (%)
11 - Agriculture & hunting	51,657	2,780,865	1.83	98.18
21 - Coal mining	765	0	100	0
22 - Crude petroleum, natural gas	255	255	50	50
29 - Other mining	960	6,149	13.51	86.5
31 - Food, beverages & tobacco	8,548	32,900	20.62	79.38
32 - Textile, clothes & leather	63,893	349,290	15.46	84.54
33 - Wood & wood products, furniture	462	1,994	18.81	81.19
34 - Paper products, printing...	0	559	0	100
35 - Chemical, petroleum, coal...	633	746	45.9	54.1
36 - Earthenware, glass products...	0	449	0	100
37 - Basic metal industries	395	2,113	15.75	84.25
38 - Fabricated metal products...	7,890	20,560	27.73	72.27
39 - Other manufacturing...	5,474	19,414	21.99	78.01
41 - Electricity, gas & steam	9,63	1,110	46.45	53.55
42 - Water works & supply	788	0	100	0
50 - Construction	59,928	805,757	6.92	93.08
61 - Wholesale trade	6,858	78,968	7.99	92.01
62 - Retail trade	47,371	560,253	7.8	92.2
63 - Restaurants & hotels	8,139	13,007	38.49	61.51
71 - Transport & storage	128,175	189,356	40.37	59.63
72 - Comn. & information...	3,353	308	91.59	8.41
81 - Financial institutions	632	104	85.87	14.13
83 - Real estate & business services	52,062	15,150	77.46	22.54
91 - Public administration & defence	426,230	23,389	94.79	5.2
92 - Sewerage & waste	316	418	43.05	56.95
93 - Social & community services	375,495	63,729	85.49	14.51
94 - Recreational & cultural services	100	1023	8.9	91.1
95 - Personal & household services	26288	53695	32.87	67.13
96 - International bodies	16530	1586	91.25	8.75
NA	12504	18001	40.99	59.01

Table 3.10: Earnings of different type of workers by Industry

Industry(2-digit)*	Average Daily Wages of day labourers	Average Monthly Profits of self-employed	Average Monthly Salary of salaried workers
11 - Agriculture & hunting	256.95	6366.33	9416.42
21 - Coal mining	NA	NA	7383.14
22 - Crude petroleum & natural gas	250	NA	15000
29 - Other mining	300.74	5712.62	9379.34
31 - food, beverages & tobacco	269.03	12,878.69	9,627.97
32 - Textile, clothes & leather	135.54	3759.5	3,988.44
33 - Wood products, furniture	300	32,962.17	NA
34 - Paper products, printing...	NA	NA	NA
35 - Chemical, petroleum, coal...	NA	5000	6000
36 - Earthenware, glass product...	NA	NA	NA
37 - Basic metal industries	235.57	12,001.76	8,000
38 - Fabricated metal products...	246.85	11,089.78	7,549.24
39 - Other manufacturing...	309.81	3,410.24	6,110.54
41 - Electricity, gas & steam	200	8,459.94	11,160.96
42 - Water works & supply	NA	NA	10,000
50 - Construction	303.45	8,706.23	17,532.96
61 - Wholesale trade	239.69	18,398.32	8,987.48
62 - Retail trade	366.82	12,364.87	10,609.9
63 - Restaurants & hotels	216.07	17,391.08	13,232.53
71 - Transport & storage	395.43	12,114.61	11,240.95
72 - Communication & information	NA	5,613.64	10,053.39
81 - Financial institutions	NA	17,000	16,368.67
83 - Real estate & business services	216.1	16,152.89	10,102.37
91 - Public administration & defence	285.48	14,750.75	14,458.61
92 - Sewerage & waste management	350	2000	12,000
93 - Social, community services	396.83	14,292.84	9,472.7
94 - Recreational, cultural services	NA	18,024.39	NA
95 - Personal & household services...	206.22	10,140.83	8,338.81
96 - International bodies	275.3	19,420.68	19,776.72

Table 3.11: Earnings of different type of workers by Industry 2-digit (further classification)

Industry(2-digit)*	Daily earners	wage	Salaried worker, private sector	Salaried worker, public sector	Self-employed without employees	paid	Self-employed with employees	paid
11 - Agriculture & hunting	256.95		9948.18	8405.85	6371.92		6193.59	
21 - Coal mining	NA		6480	9300	NA		NA	
22 - Crude petroleum & natural gas	250		15000	NA	NA		NA	
29 - Other mining	300.74		8021.65	12500	4918.11		9273.23	
31 - food, beverages & tobacco	269.03		9611.1	9868.6	13303.42		7814.28	
32 - Textile, clothes & leather	135.54		3790.09	16034.33	3803.99		3571.91	
33 - Wood products, furniture	300		NA	NA	3500		42272.73	
34 - Paper products, printing...	NA		NA	NA	NA		NA	
35 - Chemical, petroleum, coal...	NA		6000	6000	5000		5000	
36 - Earthenware, glass product...	NA		NA	NA	NA		NA	
37 - Basic metal industries	235.57		8000	NA	16000		3000	
38 - Fabricated metal products...	246.85		7551.02	7500	11742.54		6164.52	
39 - Other manufacturing...	309.81		6065.13	8000	3921.33		1378.19	
41 - Electricity, gas & steam	200		8000	12704.79	8459.94		NA	
42 - Water works & supply	NA		NA	10000	NA		NA	
50 - Construction	303.45		17875.37	15171.38	8187.13		10491.74	
61 - Wholesale trade	239.69		8987.48	NA	15334.11		106834.9	
62 - Retail trade	366.82		10440.7	11521.59	12477.5		10605.88	
63 - Restaurants & hotels	216.07		13454.17	11153.62	17887.98		14722.05	
71 - Transport & storage	395.43		11188.28	11527.17	11608.31		15647.98	
72 - Communication & information	NA		9335.18	12261.24	5613.64		NA	
81 - Financial institutions	NA		11000	20000	17000		NA	
83 - Real estate & business services	216.1		9114.04	10796.36	15213.41		21144.93	
91 - Public administration & defence	285.48		17701.74	13831.06	12498.39		33991.88	
92 - Sewerage & waste management	350		12000	NA	2000		NA	
93 - Social, community services	396.83		11724.92	8760	14940.61		9559.79	
94 - Recreational, cultural services	NA		NA	NA	18890.28		12500	
95 - Personal & household services...	206.22		8344.15	8327.06	10335.57		8810.24	
96 - International bodies	275.3		24120.39	12909.96	21995.8		5000	

*Full industry codes: 11 - Agriculture and hunting, 21 - Coal mining, 22 - Crude petroleum and natural gas production, 29 - Other mining, 31 - Manufacture of food, beverages and tobacco, 32 - Textile, clothes and leather industries, 33 - Manufacture of wood and wood products, including furniture, 34 - Manufacture of paper and paper products, printing and publishing, 35 - Manufacture of chemicals and chemical, petroleum, coal, rubber and plastic products, 36 - Manufacture of earthenware, glass products and its materials, 37 - Basic metal industries, 38 - Manufacture of fabricated metal products, machinery and equipment, 39 - Other manufacturing industries, 41 - Electricity, gas and steam, 42 - Water works and supply, 50 - Construction, 61 - Wholesale trade, 62 - Retail trade, 63 - Restaurants and hotels, 71 - Transport and storage, 72 - Communication and information, 81 - Financial institutions, 83 - Real estate and business services, 91 - Public administration and defense, 92 - Sewerage and waste management, 93 - Social and related community services, 94 - Recreational and cultural services, 95 - Personal and household services, including repair, 96 - International and other extra-territorial bodies.

Figure 3.1: Nominal Earnings of day-labourers in different industries (3-digit), 2014

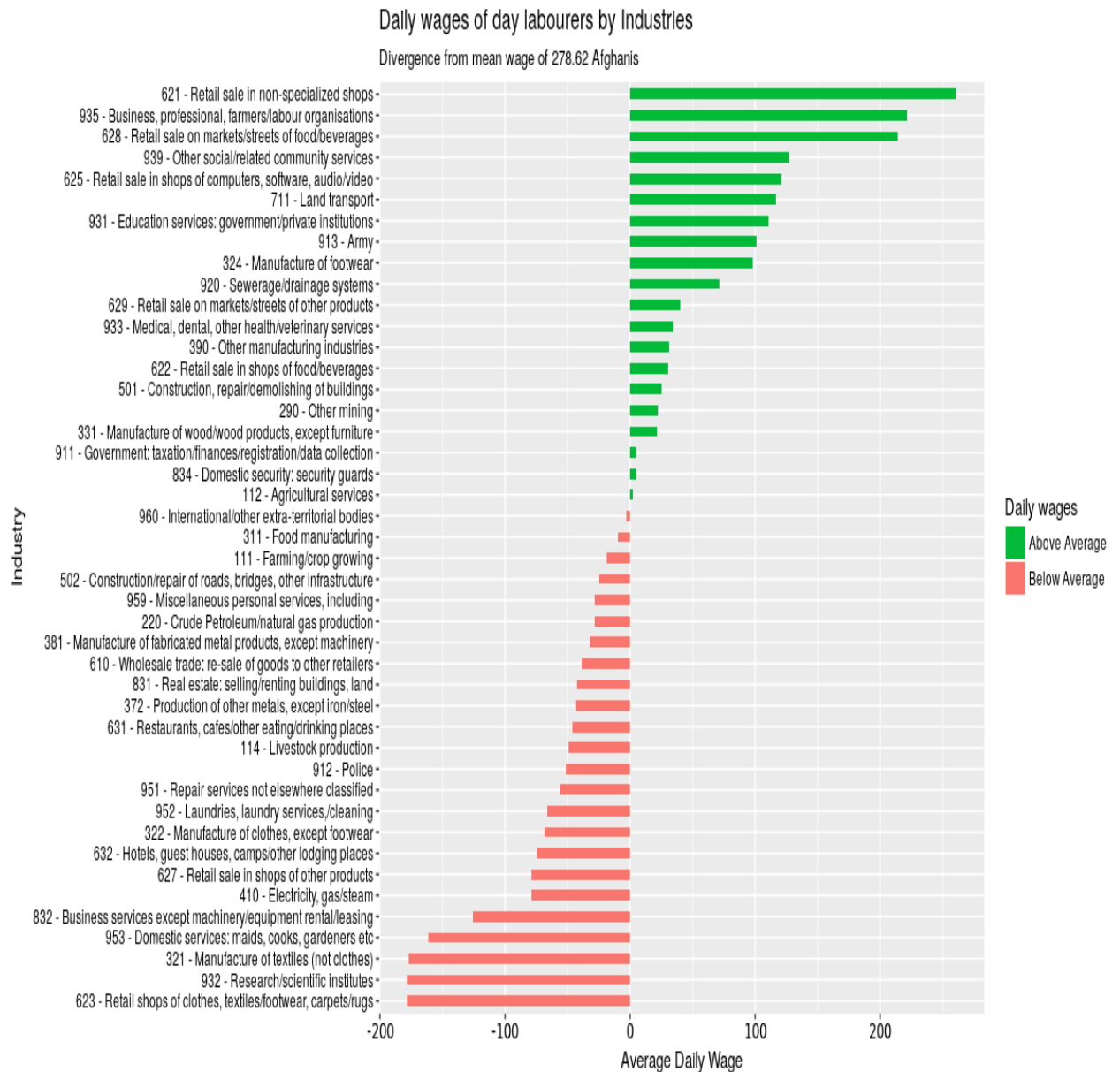


Figure 3.2: Nominal monthly salary of salaried workers in different industries (3-digit), 2014

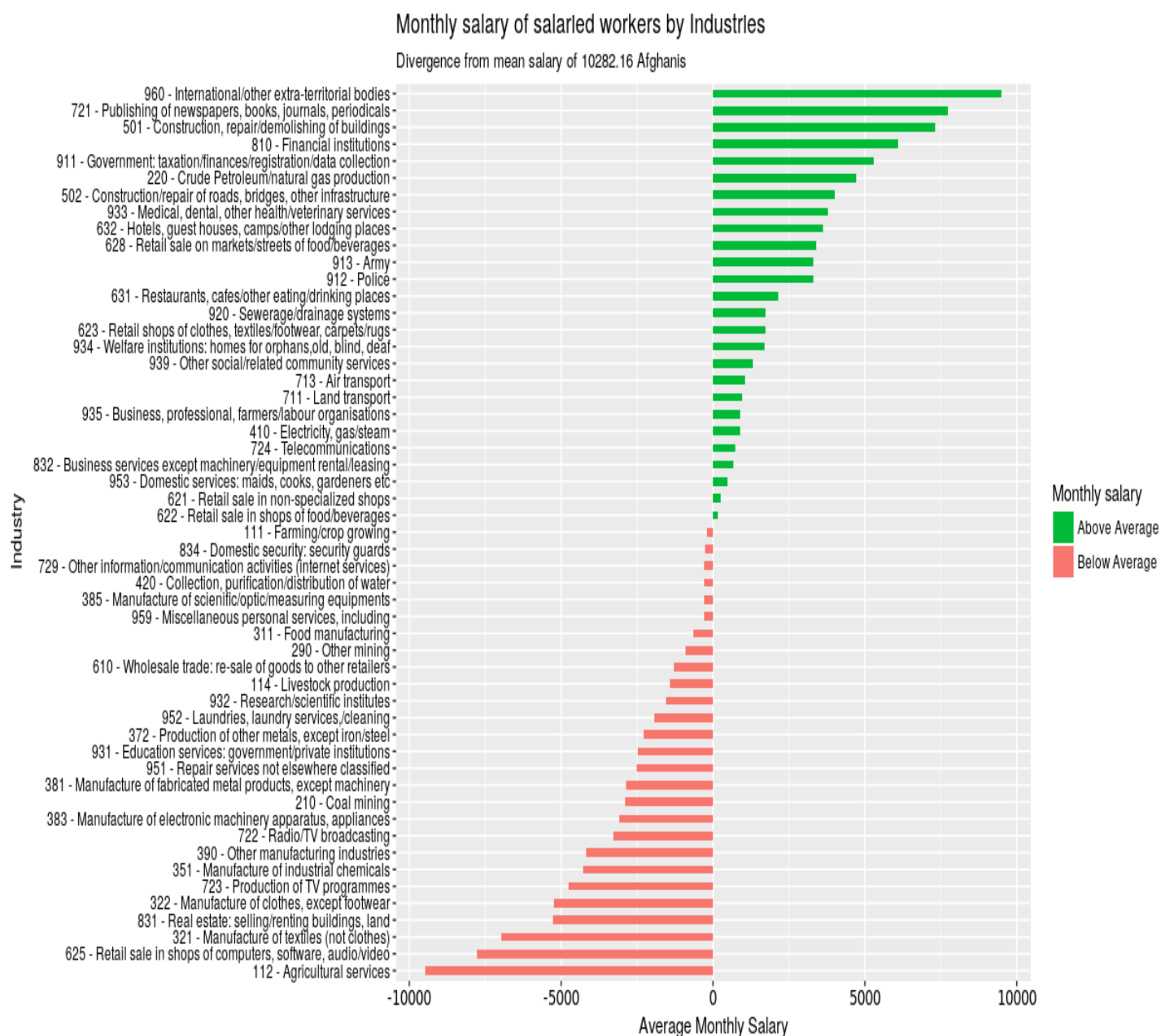
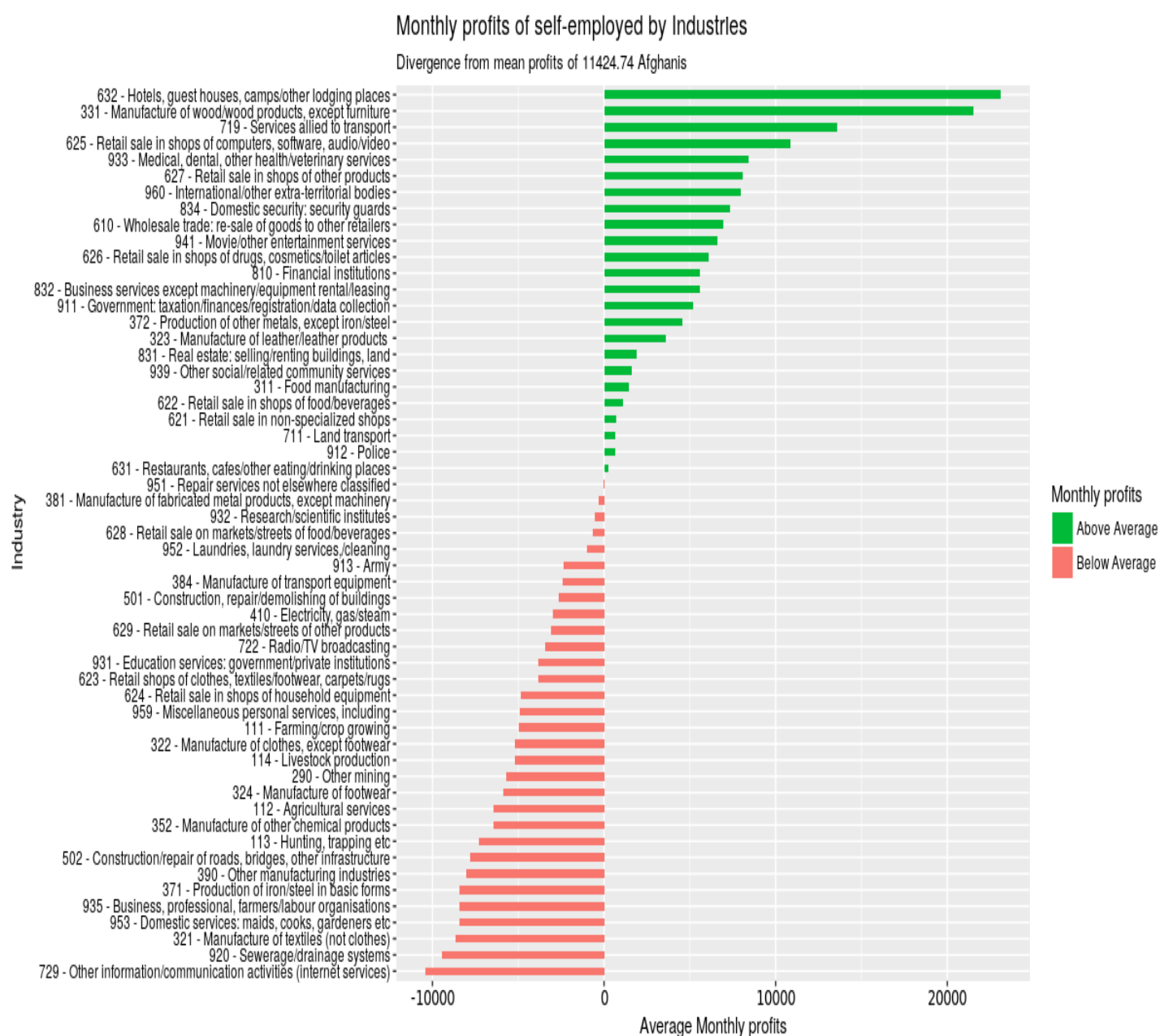


Figure 3.3: Nominal monthly profits of self-employed in different industries (3-digit), 2014)



Chapter 4 - Conclusion and Policy Recommendation

This report has analysed the employment scenario in Afghanistan between 2007-08 and 2013-14 using the micro data from three rounds of the Afghanistan Living Conditions Survey (ALCS). The period under consideration has seen the Afghan economy undergo major changes, most prominent among them being the withdrawal of foreign security forces starting 2012 which was accompanied by reduction in foreign funds for Afghanistan. In the following paragraphs the main findings of the report are highlighted followed by policy recommendations that arise from the analysis.

One of the major concerns for Afghanistan in recent years has been the sharp rise in unemployment. Unemployment in Afghanistan increased from 9.68 per cent in 2007-08 to 18.02 per cent in 2013-14. We also observed that this increase in unemployment was accompanied by a corresponding surge in the number of unpaid family workers in Afghanistan. This problem of lack of gainful employment is further magnified by the fact that Afghanistan has one of the youngest populations in the world. It is estimated that nearly 400,000 people enter the Afghan labour force each year (which is nearly 5 per cent of the 2013-14 labour force). This has resulted in high levels of youth unemployment. In the absence of remunerative employment opportunities, the pressure on the Afghan economy is bound to increase further.

Another feature of the Afghan labour market is the dismal participation rates of the female population. In 2013-14, the female labour force participation rate remained less than 30 per cent across all working age groups. Moreover, the women who do participate in the labour market are mostly confined to unpaid family work. This is not unusual for the South Asian region, but the intensity of this phenomenon is most pronounced in Afghanistan. Although, comparing female LFPR across education levels, we do find that participation rate increases with increasing education. For example, it is as high as 70 per cent for females with postgraduate degrees but the proportion of women with this level of education is negligible.

Nearly 70 per cent of the Afghan labour force resides in rural areas. As is the case with most of the developing countries, the rural unemployment rates are much lower than the urban unemployment rates. This is not surprising since the existence of surplus labour is more common in rural areas. However, it must be recognized that even with lower unemployment rates, a rural unemployment rate of 17.5 per cent is very high by developing country standards. This is alarming, considering the fact that the options of non-remunerative employment (as unpaid family workers) or low paid employment should be more accessible for the rural population.

The report also looked at the role that education plays in determining labour market outcomes. It is widely recognized that education plays a key role in improving the employment prospects of labour force participants. Afghanistan is no exception to this general rule. We do find that there is a steady decline in unemployment rates as the education level increases. For instance, the unemployment rates plummet dramatically for individuals with postgraduate degrees. This holds true for female participants as well. Additionally, the category of teacher-college qualified individuals exhibits higher participation rates as well as lower unemployment rates compared to the rest. Another interesting education category is traditional Islamic education. We find that the unemployment rates of people with Islamic school training are significantly lower than those with formal school training. However, on examining the nature of jobs in this category, we find that more than half of these are in the informal sector. Nevertheless, Islamic school training still appears to improve one's prospect of finding a job in the labour market.

Following ILO conventions, the report distinguishes between formal and informal types of employment. The objective here is to examine the quality of jobs in Afghanistan and not just the quantity. An encouraging fact on this aspect is the consistent decline in the share of the informal sector employment from 90.6 per cent in 2007-08 to 79.4 per cent in 2012-14. The public sector has played a major role in increasing the formality of employment in Afghanistan. Over this period, the share of public sector employment has more than doubled from 5.94 per cent to 11.4 per cent. Another important source of formal sector employment has been the category of self-employed with paid employees (employers). During this time, the percentage of employers in the labour force increased five-fold from 0.49 per cent to 2.44 per cent. This category also has the highest percentage share of females relative to overall formal employment. All three categories in the informal sector have contributed towards the overall decline in informality in Afghanistan. In 2013-14, unpaid family workers and self-employed without paid employees constitute nearly 80 per cent of informal sector jobs. They also have a very high share in overall employment, at around 60 per cent. This points towards the dominance of small-scale family enterprises in Afghanistan.

In terms of the earning patterns in the Afghan economy, the most distinguishing feature is the staggering gender disparity in earnings. This is particularly true for daily wage and profit earners in both the formal and informal sectors. Notably, this gap is the least for salaried individuals. The same pattern roughly holds in both rural and urban areas. At the national level, salaried earnings outweigh profit earnings. Both private and public salaried workers earn more than the self-employed individuals. There is not much of a difference between the remuneration of self-employed with paid employees and self-employed without paid employees. This basically questions our assumed superiority of the self-employed with paid workers relative to those without paid workers¹⁶.

The importance of teacher colleges in increasing the prospects of getting a job was noted earlier. However, when we look at the earnings data, we find that teachers employed in both the private and the government institutions, earn far less than the national average.

In chapter three, a disaggregated sectoral analysis of the Afghan economy was carried out. One of the major conclusions is that the dynamics of the Afghan economy are inconsistent with the general/classical theory of structural transformation. Over the period of analysis, the share of the agriculture sector in both output and employment has fallen. It has not been accompanied by a corresponding increase in the share of output in the industrial sector which has remained almost stagnant. This combined with a substantial increase in share of industrial employment actually indicates a worsening of the relative productivity in the sector contrary to the expected change in the initial phase of structural transformation. Service sector share, however, has increased both in terms of output and employment. One can see that the share of output in the service sector has increased more than the share of employment, which indicates that the relative productivity in the service sector has gone up significantly. This is in line with the experience of many developing countries. The two major employers within services are public administration & defense and social & community services. Together they constitute nearly 42 per cent of service sector jobs. Not surprisingly, almost all the jobs within these two sectors are formal public sector jobs. Within industry, construction is the major employer, employing nearly 850,000 workers. However, the bulk of these jobs are categorized as informal employment.

¹⁶The former was categorized as formal employment accordingly.

Policy Recommendations

- Afghanistan faces the formidable challenge of enhancing both the quantity and the quality of employment in the coming years.
- Although the service sector is currently the key source of high-quality employment, the government has been the major employer in this sector. There is limited scope for this sector to create adequate formal and secure jobs through the public sector in the future. This is particularly true given the stress on government budget that is likely to result due to a reduction in foreign aid.
- Since the service sector growth is constrained by the demand from industrial and agricultural sector, if the demand for services from foreign market is limited, it seems unlikely that services can grow much further. This necessitates emphasis on both agriculture and industries for employment generation.
- Increase in industrial employment through substantial public investment on infrastructure including energy and transport networks, are critically important for the Afghan economy. Apart from the immediate dividend in the form of employment, this investment can improve the prospects of manufacturing growth in the future, which in turn can provide the Afghan economy with a sustainable source of growth and gainful employment.
- While the process of industrial transformation gains steam, the agriculture sector will continue to sustain the majority of Afghans in the near future. In order to enhance the returns to agriculture as well as maximize net export earnings from primary commodities, productivity enhancing investment in agriculture is also an immediate requirement. In addition to crop production, livestock and other rural non-farm activities should also be incentivized to ensure a decent standard of living for the rural population.
- On the supply side, improving access to quality education and training should remain a priority to ensure that there is no bottleneck on the skills front to support rapid economic growth. In terms of the labour market, demand for productive and skilled labour should be matched by adequate supply.
- Getting female citizens into the labour force is of utmost importance for Afghanistan. As we have seen, the female labour force participation rate and their quality of employment increases with increase in their educational qualification. Therefore, improving access to quality education with a focus on women is key for reducing the acute gender-based disparity in labour participation.

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Appendix-1: The NVRA/ALCS dataset manipulations and deviations from their respective reports.

The main source of data for our analysis is the NVRA and the ALCS Survey datasets for the year 2007-08, 2011-12 and 2013-14. To develop national level estimates, all the statistics are weighted according to the household level weight ('hh_weight') variable. The survey reports also produced estimates on employment statistics, but our estimates differ from these reports, mainly because of two definitional reasons.

The first is the definition of working age population. ALCS defines working age population as the number of people who are above or equal to 14 years of age whereas we have conformed to the ILO standards and defined the working age population as the number of people above or equal to 15 years of age (ILO 2003 p 26). For this reason, a filter of age ≥ 15 was applied on both the 2013-14 dataset and the 2011-12 dataset.

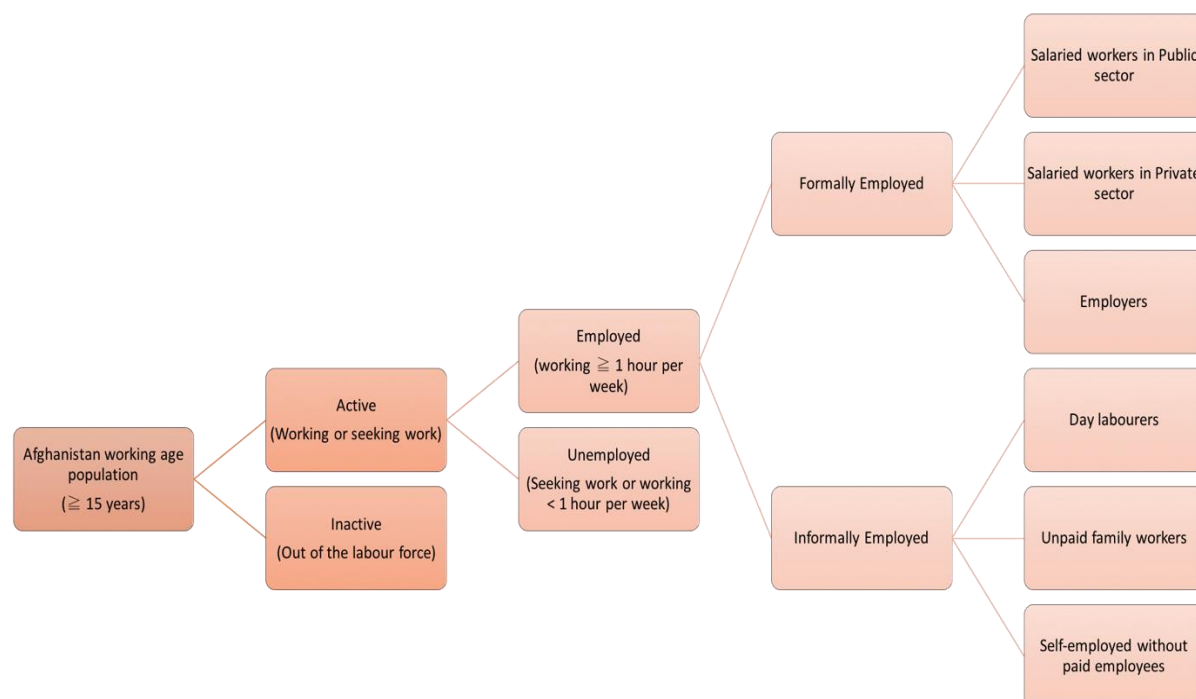
The second, and more concrete, difference between our report and the ALCS report is the definition of unemployed on the basis of hours of work done. In our analysis, an unemployed person is the one who has either not worked at all or worked for less than one hour in the reference period. The remaining part of the labour force is characterized as employed. Whereas, in ALCS report any person who has worked for less than eight hours during the reference period is characterized as unemployed. They further divide the remaining share of the labour force into underemployed and employed based of hourly division of work done. Figure A.1 represents our definitions and characterizations in a simple flow chart.

Further note that we have tried to make the employment estimates across the three time periods, as comparable as possible. But the employment estimates for the year 2007-08 are not strictly comparable. The first reason is because the reference period in 2007-08 dataset is 30 days, whereas it is seven days in the other two datasets. Using simple unitary method manipulation, we did produce an estimate of hours of work done in seven days using the variables 'hours of work done per day' and 'average number of days worked in past 30 days' given in NVRA 2007-08 dataset. The manipulation is given in equation below.

$$\frac{\text{Avg. hours of work done per day} * \text{Number of days the person worked in last 30 days}}{30} \\ * 7 = \text{Weekly hours of work done}$$

The other problem with 2007-08 dataset is that they define the working age population as the number people above or equal to 16 years of age. Therefore, the labour data contains information regarding only those individuals who are strictly above the age of 15. It is for these two reasons that the estimates for the year 2007-08 are not directly comparable with those of the other two years.

Figure A.1: Characterization of Afghanistan's working age population



The data regarding the place of residence (rural/urban) and education are a part of different section of the survey. Since these datasets were separate from the labour dataset, we merged these three datasets into a single one for our analysis.

Lastly, using the type of work variable given in the three surveys we created a categorical variable to get an estimate of quality of employment. The type of work variable has six categories. They are i) Day labourers, ii) Self-employed without paid employees and iii) Unpaid family worker iv) Salaried worker public sector v) Salaried worker private sector and vi) Self-employed with paid employee. The latter three categories are grouped as formal type of employment whereas the former three categories are grouped as informal type of employment.

Note that we have defined the working age population as the number of people above or equal to 15 years of age with no upper bounds. This is because in a developing country like Afghanistan, with limited or no scope of social security and pension schemes, it is not uncommon to see the older population being a part of the labour force. But to facilitate international comparison, we replicate Tables 2.1 and 2.2, by taking the working age population as the total number of people above or equal to 15 years old and less than or equal to 65. The results are given in Table A.1 and Table A.2

Table A1.1 Employment Stats over time in absolute numbers

Sex	Year	Working Age	Labour Force	Employed	Unemployed
Total	2008	11618595	8021243	7308940	709551
Male	2008	5838183	5233505	4789324	441441
Female	2008	5780412	2787738	2519616	268110
Total	2012	13401662	6859432	6481343	378302
Male	2012	6713832	5615578	5383552	232239

Female	2012	6687830	1243854	1097791	146063
Total	2014	14150865	8084573	6654596	1429977
Male	2014	7080608	5998990	5120678	878312
Female	2014	7070257	2085583	1533918	551665

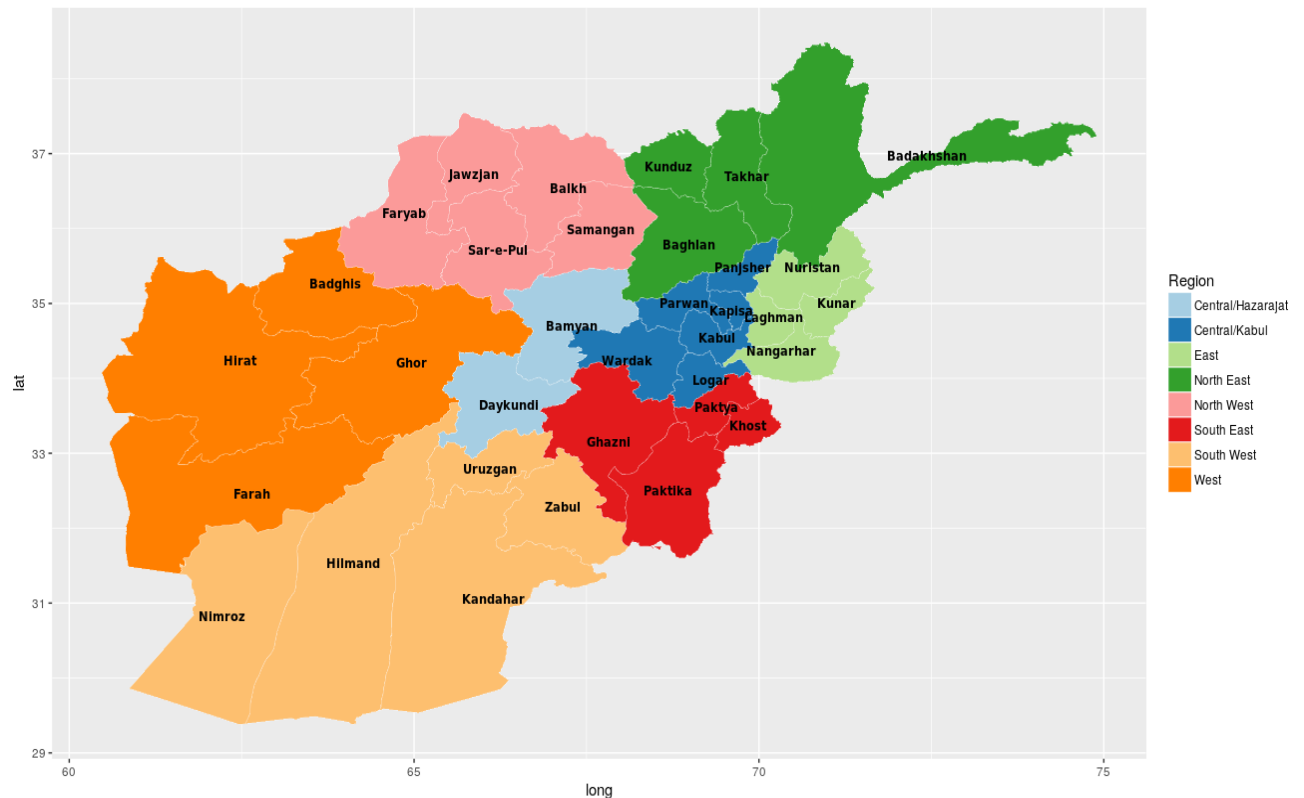
Table A1.2 Employment Stats over time in percentages

Sex	Year	Unemployment Rate	LFPR
Total	2008	8.85	69.04
Male	2008	8.43	89.64
Female	2008	9.62	48.23
Total	2012	5.52	51.18
Male	2012	4.14	83.64
Female	2012	11.74	18.6
Total	2014	17.69	57.13
Male	2014	14.64	84.72
Female	2014	26.45	29.5

Appendix-2: Regional and Province level analysis

Like any large country Afghanistan is not homogeneous internally in its employment outcomes. In this analysis we divide the 34 provinces in the country into eight regions following the clustering done in Asia foundation's report on 'A survey of Afghan People, 2016'. The resulting classification is depicted through a map shown in figure A2.1.

Figure A2.1: Regional classification of Afghanistan



A disaggregation of the two main measures of employment, namely the labour force participation rates and unemployment rates, along regional lines is reported in table A2.1. The Hazarajat and Western regions stick out with very high unemployment rates of more than 35 per cent, which is nearly double of the national average. On the other hand, the unemployment rates in in south east and south west region are fairly low, given that the national average of 18 per cent. The labour force participation rate in Hazarajat region is significantly lower than that of Western provinces, even when they both showcase similar unemployment rates. It seems that in Hazarajat region, even when nearly half of the population stays away from the labour force, the other half that does enter the labour force struggle to find work. This table reflects the fact that one cannot form a perspective on the Afghan economy just by looking at the national figures, except at the risk of gross oversimplification.

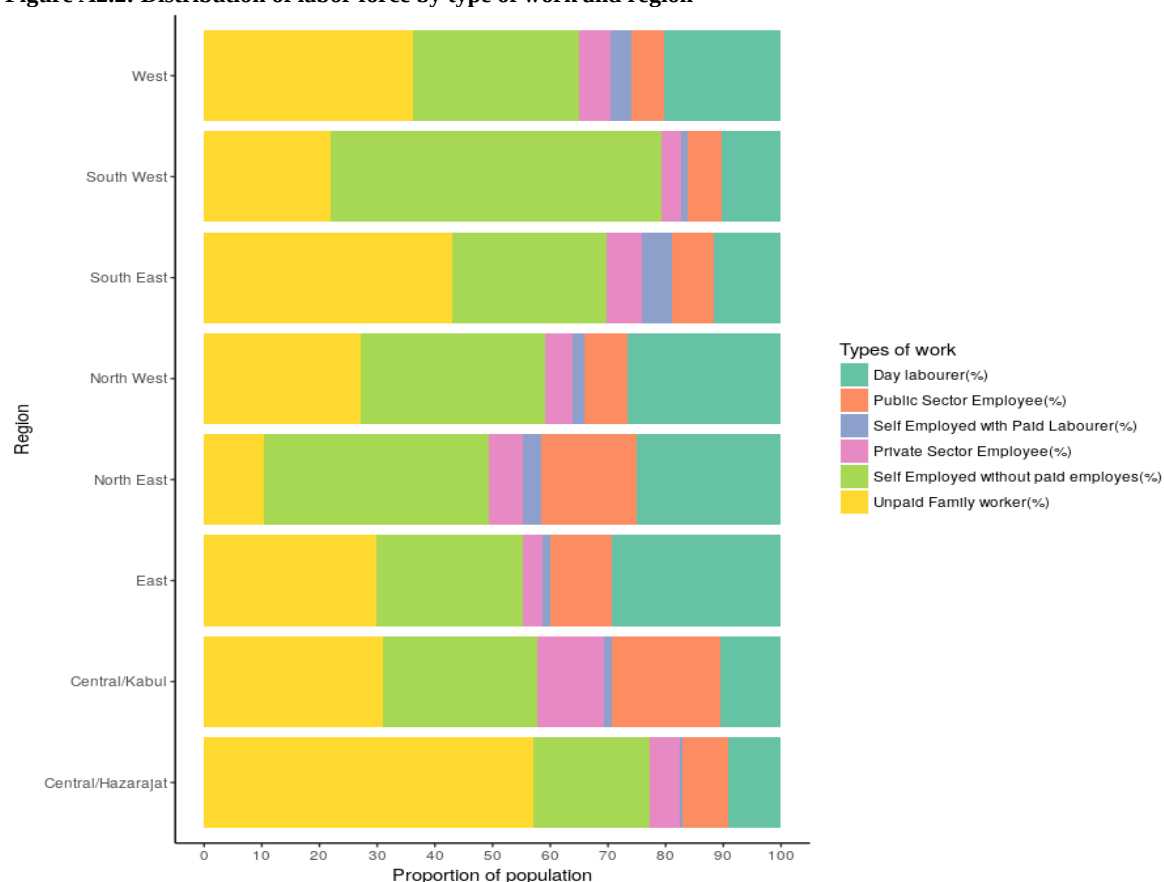
Table A2.1 LFPR and Unemployment rates by region

Region	LFPR	Unemployment Rate
Central/Kabul	52.46	13.19
East	57.06	11.71
North East	45.61	19.98
Hazarajat	56.61	36.07
South East	64.49	5.96
North West	64.36	21.28
West	63.14	35.41
South West	48.69	9.11

Figure A2.2 shows the types of employment of workers across regions. As one would expect, the Central/Kabul region has the highest proportion of public sector employment, followed by the North-East. Lastly, we see an overwhelmingly high proportion of self-employed without paid employees in the South-West region. Recall that this region also boasts a fairly low unemployment rate, compared to the overall Afghan economy. It seems that small-scale family businesses constitute the bulk of employment in this region, which in turn, results in low unemployment.

We also notice that in the Hazarajat region, the proportion of unpaid family workers is the highest, relative to all other Afghan regions. Nearly 57 per cent of all employed workforce in Hazarajat is employed in non-remunerative, unpaid, family work. Also, the proportion of employers, with paid employees is lowest in this region, which again points towards the scarcity of jobs in Hazarajat. Hazarajat is heavily populated by the ethnic minority, the Hazaras. They were the worst-affected section of the Afghan population during Taliban insurgency, and have faced a long history of discrimination prior to that as well. The central Hazarajat region is completely mountain locked, drought prone and geographically isolated. Arable land is also scarce in this region. The history of the marginalization of Hazaras and the geographical isolation of this region together play a role in its underperformance in any employment related indicators.

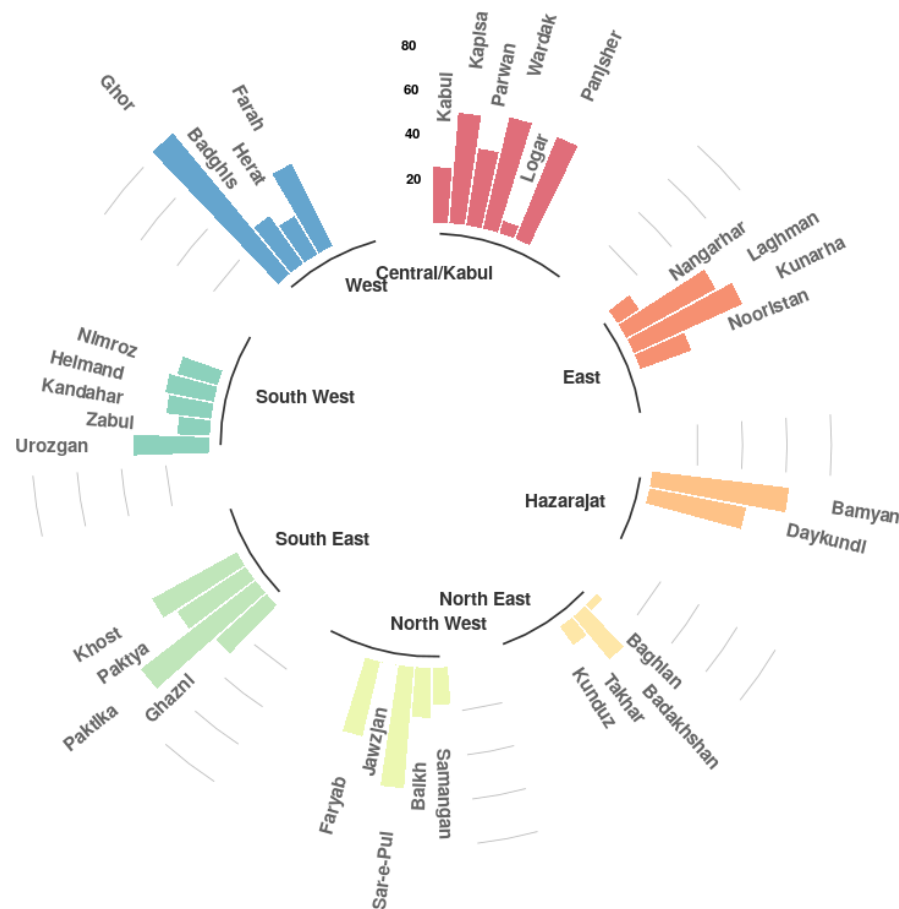
Figure A2.2: Distribution of labor force by type of work and region



Moving on with our analysis, we dig a little further in figure A2.3 to see the distribution of the proportion of unpaid family workers, across all 34 provinces of Afghanistan, within the eight regions already discussed. Firstly, we note the significant variation in the proportion of unpaid family labourers across the provinces of Afghanistan, from being negligible in Jawzjan to around 80 per cent in Ghor. Moreover, there is significant variation in this measure, within the same classified regions. Consider for example, the Western region, where Ghor has the highest proportion of employed workforce engaged in non-remunerative family work, although the other provinces of West have relatively lower proportions. Similar variation is seen in some other regions as well.

If we see the female labour force participation rates across provinces, we find that they are significantly higher in the Hazarajat region when compared to many provinces of the South West region. This has to be seen in context of the fact that the unemployment rate of the Hazarajat region is nearly four times that of the South-West region. This might be indicative of the fact that the higher female LFPR stems from distress rather than that from a personal choice and independence.

Figure A2.3: The proportion of unpaid family labour in the provinces of Afghanistan



Also, note that the pattern of female labour force participation across regions, matches very closely with the pattern of proportion of unpaid family labourers as shown in figure A2.3. It is because women constitute the majority of unpaid family workers in Afghanistan.

We must acknowledge that the overall female LFPR is very abysmal in Afghanistan (around 28 per cent at national level). Even in the city of Kabul, the female LFPR is around 20 per cent, which shows that despite all the opportunities that this region witnessed in the past decade and a half, patriarchy remains strong.

We end this section by making a passing note on the region-wise average earnings of daily wage earners, monthly salaried workers and monthly profits of self-employed (Table A2.2). In all three categories, the Central/Kabul region is a clear outlier offering highest remuneration on an average, relative to all of Afghanistan. The North-West region performs the worst in terms of daily wages and monthly salary and the Hazarajat shows the lowest monthly profits.

Figure A2.4: Female labour force participation rates in the provinces of Afghanistan

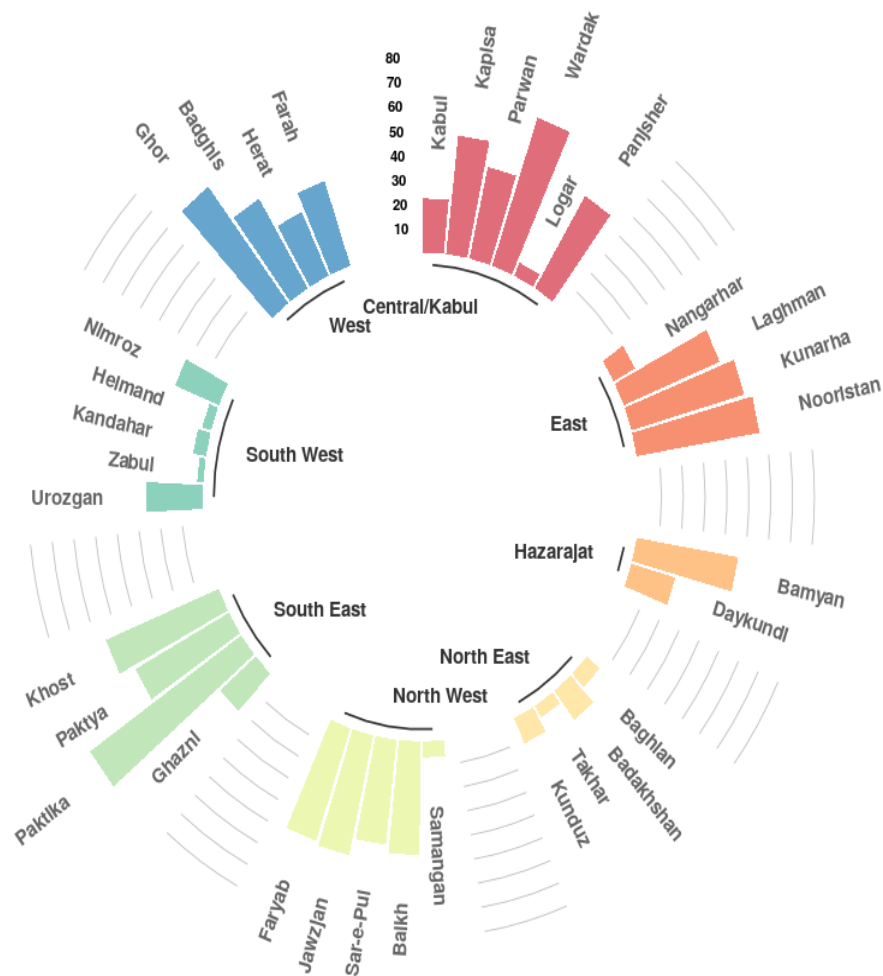


Table A2.2: Average remuneration of different types of workers by region

Region	Daily Wages of day labourers	Monthly employed	Profits of self-	Monthly workers	Salary of salaried
Central/Kabul	401.87	13416.6		14117.41	
East	257.48	7050.01		10962.6	
Hazarajat	281.24	8020.56		9065.61	
North East	284.88	6332.14		9711.85	
North West	251.72	5831.55		9340.41	
South East	331.66	9088.14		10750.4	
South West	266.40	9487.72		10563.34	
West	261.09	7262.28		9532.29	

This paper examines the employment situation in Afghanistan from 2007 to 2014 using unit level micro data from three rounds of the Afghanistan Living Conditions Surveys (ALCS). Afghanistan has one of the youngest populations in the world. Unemployment levels in the country have been rising significantly over time and have nearly doubled during the period under examination. These were over 18 per cent in 2014. Even in rural areas where around 70 per cent of Afghan labour force lives, and where we expect open unemployment to be low, unemployment rates are very high. The country also has one of the lowest participation rates for women in the region. Although women's participation rates decline at high education levels in Afghanistan the latter category constitutes a very small proportion of women. If unemployment rates have risen by 10 per cent in the period, it is also the case that informal employment shares in total employment have fallen by from around 90 per cent to 80 per cent. These changes are also simultaneous with a decline of over 12 per cent in the labour force participation rates. Although the decline in shares of informal employment can be seen as encouraging, the withdrawal from the labour market, the decline in informal employment and the resulting rising in open unemployment may also be related to safety and security considerations. The corresponding proportionate rise in relatively more formal employment has, in recent years, largely been due to the expansion of government jobs. The main types of jobs within services are in government, defense and community services. The employment challenges the country faces are formidable. In particular, if we expect aid and development funds to decline in the future, good jobs will be difficult to sustain-either with the further expansion of State jobs or with jobs in services that presently rely on expenditures associated with the externally supported parts of the economy. This means that in agriculture and industry, special policy measures will be needed and indeed will have to be financed. The report identifies some growth strategies as well as some supply side measures that could partly address this impending challenge for the country.

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