

PRIVATE SECTOR AND STABILISATION IN AFGHANISTAN – A PROMISING MATCH?

CONFERENCE SUMMARY

TINA MAGAARD

Background

On the 24th of October 2012, the conference “Private sector and stabilisation in Afghanistan – a neglected match?” was organised in collaboration between the Centre for Business and Development Studies (Copenhagen Business School), the Public-Private Platform, (Copenhagen Business School), the Centre for Military Studies (University of Copenhagen) and the Institute for Strategy (Royal Danish Defence College).

By combining perspectives from strategic studies and business and development studies, the conference offered a deep insight in the challenges and opportunities of the private sector in Afghanistan, and opened up new perspectives concerning the interrelatedness of private sector and stabilisation in war-contexts such as Afghanistan. While Afghanistan was the chosen case, the findings of the conference may well be relevant to consider in other conflict/post-conflict regions.

An important priority in setting up the conference was to nurture the academic discourse with the practitioners’ valuable empirical insight, and provide the practitioners with a stringent analytical frame for discussing their practical experience. This approach proved very fruitful, as the complementary contributions of the participating scholars, practitioners, military personnel and administrative personnel provided a very broad panorama of the issue.

Held in 2012, the conference also marked the ten years that have passed since the international community engaged in Afghanistan in 2002. As such, it allowed a review of past and present initiatives on the ground, failures as well as successes. We as the organisers are very grateful to the participants for having engaged in a frank debate concerning the challenges met on the ground. If we really want to understand what can induce change in the future, insight in initiatives that have not produced the desired result is just as - if not more - precious than the success stories. Moreover, it inspires us as scholars to review our theories in the light of the practical realities.

Due to the application of Chatham House Rules, the following conference proceedings are presented as a summary of important points from the conference, without mention of participants’ names.

Considerations concerning the research question

Can the private sector contribute to stabilization in Afghanistan? If so, how, and under which conditions? These questions framed the conference, as all participants were invited to search for answers, leverage discussions and outline dilemmas concerning the topic.

The stabilisation agenda of the international community includes several parallel efforts. The attempt to build viable security structures, through training of the armed forces and the police, is accompanied by considerable investments supposed to establish the bases of longer-term development. In this context, the private sector plays a key role, as a sustainable economy is arguably a prerequisite for lasting stabilisation.

This initial premise may seem common sense, but it actually opened up for strikingly complex issues, as it became clear from the presentations and discussions. This complexity not only defines the reality on the ground, which is complex enough in itself, but also the different perceptions of the nature of stabilisation and the role of the private sector. The participants came from a broad variety of professional backgrounds (the private sector, the military, government structures, academia and NGO's), and it soon became clear that creating a coherent policy and practice of stabilisation presupposes a shared understanding of what the agenda actually is. That is in itself a conceptual and institutional challenge, but there seemed to be broad acceptance of the idea that we must take up the challenge, in order to create a truly comprehensive approach to stabilisation – and a proper understanding of the role of private sector in stabilisation.

Current political situation in Afghanistan

Afghanistan finds itself at a pivotal moment in its recent history – after a decade of Soviet rule, seven years of chaotic civil war followed by five years of Taliban rule, followed by more than a decade of international intervention, the cards are ready to be redistributed again: In 2014, the withdrawal of ISAF and the US troops will be concomitant with national Afghan elections and the election of a new president. In this context, a few challenges are to be highlighted before even considering the role of the private sector in stabilisation:

Security remains one of biggest challenges, a challenge which is at the root of most other problems. Tribal blood feuds, the insurgency led by Taliban and other Islamist groups, the activities of criminal gangs and drug-criminals all together create a potential risk of inter-and intra-state war. Several participants expressed the concern that some militias are re-mobilising and preparing for new power struggles from 2014 onwards.

Impact of the conflict on the economy: The security problem affects all sectors of society. It considerably weakens government and state institutions, resulting in poor governance, rampant corruption and manifest challenges to reconstruction of the economy. Moreover, it canalises economic activities into the framework of a war economy. As a consequence, the economy is dominated by competition between rival patronage groups vying for control of the illicit drug economy, land, water, rents and international aid money. Combined with animosity to the presence of foreigners, such economic structures hinder sound economic recovery. The lack of infrastructure, so critical to investments and to job creation, is another factor not to be bypassed in the overview of challenges and opportunities of the private sector in Afghanistan.

Legal frame: Another consequence of the security problem and the war economy is the lack of contract enforcement. Fragmented tribal, religious and civic authorities make it difficult for investors – be they Afghan or foreign – to project lasting investments in the country. Lack of secure access to land remains another challenge to consider before investing, as episodes of land grabbing by former warlords, now influential in government, have been reported. Such events undermine trust in formal government structures, and lead to co-option or bypassing of existing formal institutions by informal power brokers. In turn, such opacity seems confusing and untrustworthy to foreign investors, who may consequently be reluctant to invest in the country.

In this context, solutions must be found to break the vicious circle where poverty forces “the common man” into criminal or Islamist networks, networks that in turn worsen insecurity and obstruct law enforcement, which in turn hinder the economic development needed to create alternatives to the illicit economy. As some participants underlined, the risk of a new chaos due to an enforced vicious circle after 2014 should not be minimized – but as it was also contended, positive forces in play may pull towards more stability. In this volatile and changing reality, which role can be assumed by the private sector? How can private sector development be used as an instrument for stability? Before treating these questions, we need a brief overview of the existing business sectors.

Composition of the Afghan business sector

An effect of the war economy has been the fragmentation and ‘localisation’ of the population. Because of lack of security and infrastructure, many big and medium-sized companies avoid operating outside the big cities. The active businesses in rural areas are typically local consumer-producer networks, defined by small size firms operating in traditional sectors such as agriculture and carpets textile. Thus, retail is by far the most dominant business sector. In Helmand for example, about two thirds of the supply is local. Lack of finance seems to hamper growth to a certain extent. In the example of Helmandi business networks, personal savings and family or friends’ savings appear to be the main source of finance. Bank loans, government loans, supplier credits and equity investments are practically unknown in this context. Even the extent of Islamic hawala loans appears to be quite limited. Having established these challenges, it should not be forgotten that Helmand experiences an estimated annual growth of 7-10 %. The question is how to create the best enabling environment for entrepreneurship, especially in the case of small or medium-sized companies with a potential to export to other regions or even other countries.

In contrast to the localised economy dominated by retail and small size firms, big, international companies have entered the Afghan national economy since 2002, mostly due to the reconstruction policy of international donors and regional actors such as Iran, Turkey, China and India. Major sectors having received donor investment/private foreign investment are construction, mining, transport, telecom, media, the financial sector, the service sector and the health sector. In 2012, about 30.000 officially registered companies operate in Afghanistan, out of which about 15 % are foreign enterprises.

The question of cultural sensitivity

A recurrent theme in the plenary sessions as well as in the workshops was the crucial importance of understanding the local culture and taking it into account when tailoring interventions. A few important cultural features will therefore be presented as a prerequisite to discussing the economic dimensions.

Person-oriented approach to business First of all, a basic tenet of the Afghan business culture is that most of the population relies on a network based, traditional economy. As a consequence, the Afghans have developed a person-to-person type of approach, which is very different from the Western approach. Such a cultural trait must be recognized and respected by western investors / donors to avoid misunderstanding and increase trust between foreign and Afghan business counterparts. As a presenter argued, foreign donors are not always aware of how to efficiently use the person-oriented communication. These cultural issues may well be part of the explanation why some advising initiatives end up with poor results. Hence, it was underlined that in order to avoid some of the past failures of donors' capacity building initiatives, the only way forward is to adapt advising to the cultural realities on the ground, and to find advisors who have the time, age and cultural competences suited for the task.

Western versus non-Western stakeholders Western stabilisation policies and initiatives are often formulated as if Western stakeholders were the only capacity builders in Afghanistan. But Indians, Chinese, Turks, Iranians (especially in the Western part of Afghanistan), Pakistanis (especially in the Eastern part) are currently developing their presence in the Afghan business and reconstruction sectors. Donors and business people from the neighbouring countries are privileged by cultural affinities with the Afghans and may more easily be seen as reliable partners by the latter. As non-Western investors often represent attractive alternatives to Western interlocutors, it has become all the more important to include these regional players in the Western stabilisation initiatives, especially when considering the development of a sustainable private sector in Afghanistan.

As the conference presentations and workshops revealed, there are some inbuilt dilemmas in the above-mentioned questions of cultural sensitivity and of non-Western investors. Is it patronising to impose Western "best practices" in the business community or in the Ministry of Commerce and Industry? Are Western practices bound to be better than traditional Afghan practices? Are they better than Chinese/Pakistani/Indian practices? When Western donors and businesses formulate an agenda of what the Afghans should do differently, they expose themselves to accusations of being culturally insensitive – on the other hand, non-Western investors may be more culturally sensitive, but also have less ambitious standards in terms of good governance, contract enforcement and anti-corruption policies and practices. These dilemmas should be given more attention in the future, as there is no easy solution to them.

Returning refugees' networks The question of cultural affinities also came up in the discussion concerning the potentially positive role played by returning refugees. As these refugees have sometimes built up extensive networks in the countries that have hosted them (such as Pakistan, Iran and India), it should be investigated to which extent these returning refugees could be vectors of export-import activities. This question seems to have passed under the radar in the research community, but more research on the question should be encouraged.

Corruption

Corruption is a complex issue, affecting the cultural, legal and economic environment of business. Is it cultural sensitivity to engage in corruption? Although a few participants reckoned that the culture of offering gratuities was so deeply embedded in the Afghan culture that it hardly made sense to fight it, the key note speakers and other participants (Western and non-Western alike) underlined the negative impact of corruption and encouraged searching for ways to favour transparency.

Several speakers gave a series of examples of high-ranking government officials and politicians deeply involved in corruption scandals. Such behaviours explain why the political and administrative powers do not engage more actively in fighting corruption. What to do? As a speaker emphasized, understand the existing structures is a prerequisite to acting as efficiently as possible. Following his analysis, the current corrupt system in Afghanistan stands on four pillars: the government, the private sector, the general public and international donors. From a systemic point of view, corruption has evolved into a stable, but very undesirable system, as described here below:

In the general public, the willingness to give bribes seems to be rooted not only in cultural practices, but also in fear of persecution. Moreover, inadequate mechanisms to protect whistle-blowers are likely to discourage any idealistic citizen from revealing corrupt practices.

In the public sector, the temptation to take bribes relies on a deeply rooted practice. But not only: in Afghanistan, a system has developed where medium level and senior jobs are for sale. A head of department may well have paid 10.000 \$ for the position. The formal salary ranging from about 500 \$ a month, up to around 1200 \$, if it is subsidized by an international donor, the “buyer” of the job must take bribes in order to cover the expenses linked to buying the job. In addition, corruption may take a supplementary twist in contact with foreign donors: for those who object to foreigners being in Afghanistan, extorting money from foreign donors is not considered corruption, but *ghanimat*, a war trophy that a good Muslim has the right to take from his non-Muslim enemies.

The private sector plays an undeniable role in relation to corruption. Based on inquiries on the ground, it seems that private business’ willingness to pay bribes originates in a pragmatic calculation of minimizing transaction costs. The unwillingness to press for change, on the other hand, is directly linked to the lack of economic incentive – and to the fact that denouncing corruption can be costly. A practical example of this: a businessman refuses to pay bribes to a junior officer in the custom’s system, denouncing him to his senior officer. The senior officer’s reaction is to blame the business man for making trouble, and to charge him a bribe five times as high as the bribe charged by the junior officer in the first place. Such behaviours obviously send a negative signal to the business community, and contribute to upholding the systemic structure of corruption.

The custom system was highlighted as a good example of how corruption evolves into a stable system, which is difficult to change. When importing goods from for example Pakistan, many companies have chosen to rely on *komishenkars* (middlemen, commissioners) who can efficiently and quickly get the containers through the custom procedures, because they know what to pay to whom. The Afghan customs net about 1 billion \$ a year for the government, but it is estimated that another billion is lost every year because of the corrupt system.

The business community is likely to contribute to uphold the system as long as there is no economic incentive to denounce it. But it is a system, which, in all its stability, undermines the kind of stabilisation that international donors wish to favour.

The role of the international donors should not be neglected. On the one hand, the international community spends considerable sums to fight corruption in Afghanistan, but at the same time, many donors end up indulging in corrupt practices themselves, in order to get things done. Thus, the international donors are at times part of the problem, and their role must be rethought, if the system of corruption is to be fought efficiently.

Possible solutions? Finding satisfactory solutions to this challenge seems to be at least a medium term project. A participant warned against dramatically clamping down on corruption at the border controls, as it might just push monetary transactions further outside the formal system. Several participants representing NGO's encouraged engaging the business community in reducing the importance of corruption, by creating awareness of how harmful it is to growth. For example, Afghanistan Public Policy Research Organization (APPRO) has investigated how many signatures (=bribes) were needed in order to acquire a business licence, by sending in an employee to register a business. Officially, five signatures are needed, but in the NGO's experiment it was 24. Such practical examples might be used to create awareness in the business community of how the systemic corruption hampers the development of business.

Another proposal to combat corruption, put forward by Harakat, is to combine a bottom up approach - through contacts with student unions and business associations - with a top down approach where senior officers in the ministry of commerce are engaged in the process of creating more transparency.

Even another way forward could be to train reporters from the Afghan media in exposing illicit practices, in the hope that awareness among the general public could induce change over time, thereby encouraging the movement towards transparency.

Public sector, private sector

The conference participants vividly discussed the respective roles of the private and the public sector, in a debate reflecting the parameters from the classical "Keynes versus Friedman" debate. ThMany expressed scepticism towards the idea that free market forces should be the sole drivers for growth and stabilisation, without public interventions. Examples of former developing Asian countries were cited in order to illustrate how governments have at times played a crucial role in creating market places and in driving investment decisions. But is the current Afghan government in a position to do this? As mentioned above, the corrupt structures of the present governmental institutions left observers with scepticism concerning its present ability to be a positive driver of the economy. Several practitioners were optimistic though, emphasizing the need to apply a multi-stakeholder approach, where governmental structures, the private sector and civil society where equally engaged. In any case, the participants agreed that the Afghan economy does not necessarily correspond to Western theoretical constructs about how markets work. Therefore, it was emphasised that we should be very receptive to the realities on the ground, looking carefully for sources for economic growth, without being limited by fixed ideas of what private versus public sectors should do.

Corporate social responsibility Corporate Social Responsibility constitutes an example of how the Afghan economic reality may not correspond to the theoretical constructs of an academic field of research. As such, Afghanistan offers a stimulating case for reviewing the preconceptions on CSR, while addressing the issue of private sector impact on stabilisation.

In the CSR literature, the assumption prevails that companies develop CSR-policies in order to respond to legal pressure or consumer pressure – notions that are not really applicable in Afghanistan. Another assumption often met in the CSR-literature is that CSR is a “luxury” of developed countries. But precisely in the case of Afghanistan, one of the least developed countries in the world, CSR is not a luxury, but a necessity for any company wanting to survive. Showing corporate social responsibility, thereby gaining legitimacy among local communities, may allow the company to operate securely in unsafe areas, to attract good employees, and to educate the customers to use its products. The telecommunication company Roshan was given as an example of a company, which expands partly due to its efforts on CSR and social innovation. For example, Roshan has developed an application to send and receive money on a mobile phone. The claim is that this invention has reduced corruption, because salaries can now be paid directly to the employees, instead of circulating through commanders who might charge considerable “overheads” for redistributing the salaries to their workers. Such an example of technological and social invention questions whether some private companies are more successful in inventing ways forward than the Afghan state or the donors are, and whether this consideration should encourage international donors to more actively use the creativity of the private sector in the stabilisation efforts.

Roshan was also mentioned as an employer procuring employees and local communities with social and health services. While definitely having a positive effect in the short run, a new question arises: If private companies become the main providers of social and/or health services, will they then, as a secondary effect, contribute to delegitimizing the state, thereby potentially harming long term stabilisation of the country? And what if the company withdraws a specific social service? Would the short-term stabilising effect then turn into destabilisation? All these questions considered, it was suggested that possible new ways of conceiving public-private partnerships ought to be more carefully investigated.

The contracting economy

The contracting economy was given much attention by the participants at the conference, due to its strong stabilising as well as destabilising potential.

The military With more than ten years of presence on the ground, the US and NATO military have exercised considerable influence on the Afghan economy. Following a participant, each day in Afghanistan, the military spends more than 100 million \$. How is that money spent, how does it impact stabilisation, and to which extent does it engage the private sector in Afghanistan? Especially the US armed forces’ involvement represents huge sums, often spent on Western civilian contractors engaged to assure transport, running the camps etc. But this contracting system hardly has a trickle down effect, as the contractors are not Afghan. In other cases, the military actually does engage Afghan contractors, mainly to ensure infrastructure projects and security. But several participants underlined that these large procurements of the military may well have been hijacked by elites linked to the militias.

Thus, the short term, the stabilising effect of big labour intensive construction projects – creating a job alternative to engagement in Taliban, opium and criminal gangs – may in the long term have a destabilising effect, if the projects end up having canalised considerable sums into the circuits of the militias that ISAF and the US military were supposed to fight.

A challenge to the decision makers in the military has been the political pressure to create quick stabilisation results. As a consequence, it has not always been possible to avoid a common temptation of expeditionary economics, where spending the money as quickly as possible becomes a goal in itself. But, as a speaker noticed, wanting to show results quickly may well have gotten in the way of producing results at all. Even worse: the expeditionary economics can have its own destabilising side effects, due to the incapacity of the Afghan economy to absorb the enormous sums released into the country within a short time span. The consequence thereof has been the producing of two parallel economies: a circuit of elites living in amazing wealth, and a circuit of “ordinary” poor Afghans suffering from the inflation caused by the presence of the foreigners. Such huge gaps between rich and poor are potentially destabilising, as they breed resentment in the general public. Following several participants, satisfactory solutions to this potentially destabilising problem have not yet been found, but must be sought for.

One of the solutions discussed was whether ISAF could create more varied points of contacts in the local economy, for example by engaging smaller contractors from the agricultural sector, thereby also providing an alternative to opium. Moreover, such an initiative might give small retail businesses the opportunity to develop into medium-sized enterprises with a potential to reach new markets after the withdrawal of Western troops.

International Donor Agencies / Governments As the Western military is preparing its withdrawal from Afghanistan, international donor agencies and civil actors are progressively taking over. But the structural challenges of the parallel economic circuits and the inflation caused by donor consumption have not yet been overcome. Thus, impediments to stabilisation and private sector development may even have been created or worsened by the funding that was supposed to overcome them.

In this context, the “policy versus impact”-discussion arose among the conference participants – as it was claimed, much policy by donors has been based on what the host country wanted for Afghanistan, not on what was needed on the ground in order to reach stabilisation. Therefore, there is a risk of international donors giving priority to documenting to the public at home that the money was spent, regardless of actual effects on the ground. In connexion to this problem, an experienced practitioner criticised the very structure of relations between donors and contractors. Often, the donors spend their money through preferred contractors. If these are private businesses, which in most cases they are, it is only natural that they aim at maximising profits from the project. The example given to illustrate the potentially perverting mechanisms in this kind of private-public collaboration schemes was the following:

Imagine a given project of 100 million dollars. Out of that amount, about half will be invoiced as direct costs (salaries, flights etc.). But the office representing the contractor in Washington DC has to be supported; therefore, there is at least a 50 % overhead applying to any direct cost. In such a system, there is huge incentive to spend as much money as possible on direct costs, because if

the direct costs are not spent there is no overhead, and if the contractor does not receive the overhead, the business cannot function. The incentive to do quality work risks being compromised in this process, because of the strong incentive to spend the money as quickly as possible on numerous (useless?) advisors, in order to cash the overhead.

What could be imagined in order to overcome this problem? Several proposals were voiced: as an overall consideration, donors' activities could be supervised more carefully, in order to avoid artificially undermining and subverting the sustainable economy growth that they are supposed to support. An obvious priority is to search for ways to shift focus from spending the money to how it is spent, and what it means to the country. A participant proposed a simple and practical "self test questionnaire" to donors and contractors: "are you affecting the economy in a negative way?" "are you helping the economy?", "is this going to be sustainable after you've spent the money?"

Another advice was to minimise the role of "revolving door advisors" who are extremely costly and do not have enough incentive to push for real change; as a better and less expensive alternative, it was argued, much more resources should be spent on including the Afghans in sustainable knowledge and best practice transfer; several participants also underlined that resources should be allocated to emerging civil society organisations. These organisations should thus be resourced, guided, and linked with other civil society organisations in Afghanistan and the rest of the world. A final advice was to stop thinking in terms of "building" or "developing" capacity, and to start thinking in terms of *exchanging* capacity with the Afghan stakeholders, public and private, on all levels of society.

The micro-level economy

As a means to empower the Afghans on the bottom of society, with no connexion to the contracting economy's circuits, microfinance has been quite popular among donors and in CIMIC projects. As many microcredit programs have existed or still exists in Afghanistan, an entire workshop session was dedicated the subject, and the issue was discussed in the plenary session as well.

Micro-credit has known successes, but also many failures in Afghanistan. In 2008, there were 14 micro finance institutions in Afghanistan. In 2012, only 7 still exist. This implosion of half of the micro-finance sector requires a thorough investigation into the hows and whys, in order to explore how micro-credit may be used without too many failures in the future, or whether it should at times be replaced by other initiatives. Once again, it was underlined by several participants that local knowledge and adaptation are key words. How do you make sure that the chosen instruments are appropriate at a specific place at a specific time, rather than simply reflecting bureaucratic instruments available to institutions in the West? As a participant pointed out, specific challenges can be identified when microfinance is promoted by the military, as hostile feelings towards the foreign soldiers may "stain" the persons accepting the loans, thereby alienating them from their social context instead of empowering them. A discussion arose concerning the way micro-finance has been implemented by ISAF, often with a "how do we generate from scratch"-focus. But given the unsatisfactory results of this approach, it was recommended to rather facilitate businesses that have already emerged.

Another speaker gave an example of existing businesses with an unexplored potential for growth. In traditional cities, cluster economic activities (tailors street, carpenters street etc.) have been

present in specific areas for centuries, surviving regime changes and wars. The argument was that these clusters are likely to be able to generate considerable growth. In their case, micro-credit was not appropriate, as these already existing businesses rather needed access to finance and to export advice.

Similar remarks were made concerning Helmandi businesses; the analysis held that for most existing small businesses in Helmand, access to finance was not really an issue, as most felt they were able to recycle profits or tap into informal sources of finance. But in order to stimulate growth, focus should be on businesses employing more than 10 people, with the potential to be a driving force in creating connections with market places nationally or even internationally. Once again, the appropriate tool is not micro-finance, but rather solutions such as access to formal banking or a credit system run by an Afghan equity scheme.

Experiences with micro-credit revealed other challenges, for example in the case of rapacious entrepreneurs who force micro-finance on communities that are incapable of repaying, thereby establishing an exploitative relationship. Moreover, the religious issue may surface, as usury is forbidden in Islam. In response to this, some of the microfinance institutions that have survived have chosen to call the interests “administrative charge” in order to avoid problems with religious authorities.

As a conclusion, microfinance was considered partially relevant, in certain contexts. It was underlined that in order to be successful, micro-credit can never be used as a stand-alone activity, but must be part of a comprehensive package. Moreover, it requires thorough local knowledge, economic sense and cultural sensitivity for a microfinance institution to be a success.

As an example of a micro-level program, The Livelihood program developed by the Danish Provincial Reconstruction Team in Helmand could be mentioned. It was presented at the conference as a project that assures the transition from military driven projects to civil support to private sector development. The method is to combine agricultural development with community development programs. The program being quite new, it is still not possible to evaluate it. But the hope is to facilitate value added intervention along existing licit agricultural value chains providing alternatives to poppy. Little by little, such interventions will hopefully harness the chosen sectors and enable their entry on national or even international markets. Other initiatives were highlighted as successes, such as the Danish NGO DACAAR’s micro-level initiatives, which have contributed to build a small, but sustainable saffron sector with export activity.

The regional environment

Zooming out from the micro-context to the macro-context, it should be underlined once again that Western investors and donors are not alone in Afghanistan. The non-Western investors and donors, principally China, India, Turkey, Iran and Pakistan play a growing role in the Afghan economy and often represent attractive alternatives to the Western stakeholders. The dilemma is that in order to involve them, the Western powers will have to accept dealing with the different profiles of the regional powers – such as the Iranian “rogue state”. But, as it was discussed in the workshop, solutions must be found in a regional context. Therefore, in order to avoid that these regional actors play a destabilising role, ways must be found to include them in the elaboration of the overall stabilisation strategy.

Ways forward

Can the private sector contribute to stabilization in Afghanistan? If so, how, and under which conditions? The overall attitude among the participants was an appreciation of the challenges of the context in the country, but also a conviction that the private sector is an indispensable driver for stabilisation. But, as the practical examples cited in this paper show, understanding the local culture and the structures of a war economy is the key to operating efficiently in a conflict setting like Afghanistan. Moreover, as the reality on the ground may not correspond to academic or ministerial theoretical constructs, there is an urgent need to promote and institute research as an integrated part of policy making. The situation calls for a new, empirically based kind of research, with a focus on the promising processes of economic recovery. A humble, open-minded attitude is the prerequisite to be able to learn in the process, and, especially, engage with and learn from the local stakeholders, as they are the ones holding the keys to sustainable private sector development.