

Understanding rural markets in Afghanistan

This briefing paper draws on findings from research on Afghan agricultural commodity markets and rural and urban labour markets. The studies explored how people navigate and negotiate their economic life. They were based on market system and value chain approaches while informed by concepts from economic sociology.¹ These emphasise the socially oriented nature of economic action and the pervasive role of power in markets.

Five case studies were undertaken: two on rural commodity markets of onion and saffron in Nangarhar and Herat (Minoia et al 2014, Minoia and Pain 2016), one on rural labour markets in Herat (unpublished work, Minoia and Pain 2016) and two on urban self-employment in Kandahar (Minoia and Pain 2015) and Kabul (Pain and Mallett 2014). The research has been part of a multi scale study investigating household livelihood trajectories (Pain and Huot 2016) and institutional processes at village (Pain 2016) and provincial level (Jackson 2016).

This brief presents a synthetic account of policy approaches to Afghan markets and actual market practices. It then discusses key findings from field case studies and the implications of these for future analytical approaches to understanding markets in conflict and programmatic practice.

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Credit: Todd Huffman

How do Afghan markets actually work?

The informal market regulation survived 30 years of conflict

During the long conflict markets continued to function in Afghanistan: grain markets delivered and imports of wheat were responsive to shortfalls in domestic production. However, rebuilding Afghan markets was seen as a key challenge for the international intervention post 2001. Some assumed markets had disappeared, others believed that markets were regulated by forces other than market economics and resembled bazaar economies and others, such as the World Bank² came to the conclusion that grain markets have been functioning rather well. Even the opium poppy market was seen to operate more as a competitive market than a criminal cartel and production was price responsive.

The concerns of the international actors were to increase trading volumes and quality. But the existing forms of market regulation, that are almost exclusively informal, were not appreciated and ignored.

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1 Portes, A. (2010) *Economic Sociology: a systematic enquiry*. Princeton, N.J.: Princeton University.

2 World Bank (2005) *Enhancing Food Security in Afghanistan: Private Markets and Public Policy Options*, World Bank, Washington DC.

Programmatic gaps, value chain models and political analysis of markets

In the early 2000s the issue for international actors was to promote an investment climate and address constraints to private sector development while at the same time stabilising and securing the country through the military intervention. Constraints to private sector development were seen as issue of supply bottlenecks and to be addressed through short term technical interventions.

An example was the USAID RAMP programme which focussed on infrastructure development, market development and rural finance. The conceptual tool employed was a limited value chain that was deprived however of its fuller form that requires understanding of assets structure, competitive conditions, price formation and performance (Harris-White 2003). RAMP's agenda addressed commodity based opportunities, infrastructure repair, physical markets facilities and new technologies. It ignored or was unaware of the social relations and power structures that underpin trade and distributional outcomes. The Afghanistan Comprehensive Agriculture Rural Development - Facility (CARD-F) – also adopted the value chain model in seeking to provide input services with infrastructural support for six commodities aiming to 'increase employment, income and business opportunities for rural masses'³. CARD-F accomplishments are framed as input provision, infrastructure construction and farmers trained, addressing some of the constraints to agricultural growth that the World Bank (2014a) identifies but not the need to develop land markets and commercial credit. But how value chain development will create employment and for whom remains unclear. The programme describes the core barriers to the development of the rural economy as lack of information about prices and lack of access to credit. These are seen as preventing farmers from risk taking. However evidence from case studies on commodity markets challenges these assumptions. Both informal and informal credit are widely available to farmers in Nangarhar and Herat (Minoia et al 2014, Minoia and Pain 2016).

These and other programmatic examples such as the Afghanistan Rural Enterprise and Development Programme (AREDP)⁴ show that the adoption of a simple value chain approach to rural market development has given little attention to the social institutions that structure market exchange in a context of risk and conflict. A more nuanced understanding of the complexity of Afghan markets is instead required based on different analytical approaches.

Networks of access govern rural and urban markets

The political and economic marketplaces are strongly interconnected in Afghanistan and they are bound by networks of access that control resources and rents (Jackson 2016). The appearance of being an open economy (Byrd 2015) masks the fact that the informal social regulation of markets restricts both competition and participation and that the distribution of benefits is skewed towards those already in power.

Goodhand (2005) characterizes market objectives in terms of meeting 'combat', 'shadow' and 'coping' needs to reflect the different interests of the participants. There is a fourth dimension – that of a rentier economy – that describes how political powerful actors make use of their connections to secure and redistribute market rents in order to generate revenues for their networks.

Examples of the rentier economy are visible in provincial capitals in Nangarhar (Jackson 2016, Minoia et al, 2015) Kandahar (Minoia and Pain 2015) and Mazar (Pain 2011). The evidence of how these economies work points to some of the major political obstacles to economic growth⁵: the absence of competitive markets because of rent seeking practices, lack of sufficient investments in public and semi-public goods because of patronage spending and predation and looting of resources by private and state actors.

The conditions of past green revolutions do not exist in Afghanistan and new policy directions are needed

The World Bank Agricultural Sector Review (ASR)⁶ assumes agricultural transformation is the route to prosperity for Afghanistan. It asserts that the key role to be played by the state is limited to being a regulatory authority in partnership with the private sector. This is not the role that states played in past green revolutions as in India in the 1960s and 1970s. But the assumption that higher yields in agriculture and non farm rural income will facilitate migration of families to cities and to wage employment does not apply to Afghanistan today. Here the preconditions of past Green Revolution do not exist: namely investments in infrastructure and rising demand to fuel increased agricultural supply.

The Afghan market is today a mix of informal, formal, illicit and aid driven elements as the result of decades of conflict, low state capacity, dependency on aid and foreign interference (Ghiasi et al 2015). Moreover the analytical lens of the ASR is limited to issues of production, price and efficiency and pays no attention to how resources are extracted from agricultural commodity markets to fuel non-agricultural growth and to how labour is used and exploited.

3 http://www.cardf.gov.af/images/factsheet/CARD-F_Factsheet_September_2015.pdf accessed 5/09/16

4 Pain, A and Kantor, P (2011) Beyond the Market: Can the AREDP transform Afghanistan's rural nonfarm economy? Briefing Paper, Kabul, AREU

5 Williams, G., Duncan, A., Landell-Mills, P. and Unsworth, S. (2011) 'Politics and growth'. *Development Policy Review* 29 (s1): s28-s55.

6 World Bank, (2014a) Islamic State of Afghanistan Agriculture Sector Review (ASR): Revitalizing Agriculture for Economic Growth, Job Creation and Food Security. Washington, The World Bank

The ASR proposes a 'first mover approach' and with focuses on high potential areas with assumptions about trickle down effects. It argues that agriculture will need to grow by at least 6 per cent per year if rural income are to increase and as the population expands. These projections are however unlikely to be achieved since a growth rate of 6 percent is almost twice the rate that has been achieved on average during the last decade. But the World Bank⁷ also argues that given the current state the Afghan private sector, rural markets cannot sustain economic growth or social inclusion and new policy directions will be needed in order to take into account and respond to the ways in which markets work in practice.

Key Findings

■ Diverse interests in Afghan market systems

Afghan commodity markets are structured by patterns of ethnic identity and geography that set the scope of trade for any individual trader. For those who are more wealthy and powerful and connected to the provincial political enclaves and their networks a broader set of opportunities exist.

Market categories such as wholesaler or retailer do not describe what traders actually do as their interests are diverse. In the saffron market in Herat (Minoia and Pain 2016) there were city traders who were also engaged in production through lease and land acquisition, recruiting labour, processing and exporting. Equally there were large saffron growers in the district who were often village elite in position of power who employed farm labour, provided credit, processed and exported saffron.

These could be called small or medium enterprises (SMEs), but are these actors driven by the entrepreneurial interests that characterise 'formal' markets? If we consider the market of self employed street vendors in Kandahar, pushed to leave the surrounding rural district by conflict and drought and absorbed by the booming urban economy, their engagement was a compelled and reluctant employment in a saturated market. For bigger traders who are often middle-large landowners risk taking and profit can be described as their motivations. But for many, the personal imperatives are often related to ensuring household reproduction and survival. And the social regulation of markets tends to keep these actors as small traders.

■ Trust is the coin of the realm

Extensive but circumscribed networks of informal credit lubricate the production and flow of commodities.

These function on the basis of personalised trust and relationships. As Thompson⁸ notes with respect to the hawala system: 'trust is the coin of the realm'. While the inability to access informal credit is the true mark of exclusion, the benefits of the inclusion depend largely on the terms and conditions of the deal and on what is expected in return. From large saffron producers in Herat who give credit to farmers to afford costly saffron bulbs, to onion growers in Nangarhar who receive credit from district traders to the large vegetable traders of Jalalabad who provide credit to smaller traders to limit the volume of their business, informal credit relations structure trade. These vary from a more horizontal distributional economy between village households to more regulative hierarchical practices in the commodity markets. Establishing formal credit systems will not change this. Rather the growth of informal credit relations through more generalized trust are the preconditions for establishing formal credit systems.

■ The informal regulation of prices

While commodity markets clearly function in Afghanistan the regulatory role of social institutions are what shapes and controls them. Simple supply and demand models where price signals efficiency do not apply. Information about prices is widely available to Afghan traders. Within the onion market both farmers and traders have real time access to them through cell phones (Minoia et al 2014). The question is then how prices are set and regulated.

Turbulence is an endemic feature of Afghanistan commodity markets. Prices have been reported to show short term volatility in the onion, raisin and opium markets, reflecting collusion between bigger traders. In the onion market in Nangarhar for example prices can drop significantly within one or two hours in a morning. Major traders in Jalalabad ensure market control through manipulation of prices. Collusion on cross border taxation can also be used to exclude competition while rent seeking practices of border officials and informal check posts affect the market functioning. These examples show that market regulation is highly discretionary, dependent on powerful networks and subject to the action of key brokers who collect and distribute rents.

■ Rural labour surplus

Given the very high unemployment and underemployment rates⁹ the proposition of the ASR that high value crops in favourable locations will increase rural employment must be questioned. It is unlikely that an intensified agriculture can even partially absorb the available labour.

7 World Bank, (2015) Afghanistan: Poverty Status Update: An analysis based on National Risk and Vulnerability Assessment (NRVA) 2007/08 and 2011/12. Washington, World Bank.

8 Thompson, E (2011) Trust is the Coin of the Realm: Lessons from the Money Men in Afghanistan. Karachi, Pakistan. Oxford University Press.

9 World Bank, (2015) Afghanistan: Poverty Status Update: An analysis based on National Risk and Vulnerability Assessment (NRVA) 2007/08 and 2011/12. Washington, World Bank.

Studies indicate that landlessness in villages varies from 40 to 80 per cent of households. In well irrigated villages land ownership tends to be highly skewed. Even in villages that are well irrigated and close to Herat city (Huot and Pain 2016) only 8 landowners out of 84 households were offering very limited permanent employment in their vineyards and most labour opportunities were on a casual basis and highly seasonal. Not surprisingly key sources of income were to be found outside the village. Iran is the main destination for those seeking for work: one informant reported that only 10-15% of those looking for work could find it within the village and the rest migrated to Iran.

Acute shortage of work in rural economy has been exacerbated by rising demand for such work and by the decline of urban economies. A general downturn of the Afghan economy as noted by various respondents have caused a depression in wage labour rates. Daily wages also vary by location, season and year. The excess of labour supply over demand is evident looking at daily wages fluctuation for grape harvesting. In Sar i Pul rain fed villages (Huot and Pain 2016) daily rates can drop from USD 5 to 3 and rise at key points of labour demand from USD 5 to 7.

■ Rural labour markets reproduce social inequalities

Rural and urban labour markets are governed by personal rather than impersonal relationships. They are deeply embedded in social relations. Wages – often paid in kind – are determined by custom and segmented by gender, age, locality. The most significant factor is the regulative role of gender where women are facing obstacles in working. In the most conservative environments such as Kandahar villages women usually do not work outside the home and they may be at best involved in home based embroidery or tailoring work. In the more liberal environment of Herat women have been drawn into saffron production both as producers and labour (Minoia and Pain 2016) but the work is spatially segregated and paid less than half the daily wage rate of male labour (USD 3).

The payment in kind for harvesting wheat points strongly to the significance of social relationships in structuring rural economic relations. As a parallel study on livelihood trajectories points out (Pain and Huot 2016) access to work opportunities depends very heavily on personal relationships which must be maintained to secure future work and access to informal credit. An *arbob* of a village in Herat for example is able to secure voluntary labour to work his fields without remuneration when he needs it. This is an indication of the powerful role he plays in the village and it highlights the patron-client relations and non-contractual obligations rather than market forces that characterise access to rural work.

Jammadars who broker labour migration in Sar-i -pul play a central role in the villages by acting as creditors and access to work in the brick kilns of Mazaar. Other studies indicate that nearly all those who work in the kilns are bonded labourers tied by debt to the owners of the brick fields with the *jammadar* acting as intermediaries.

Implications

■ The Complexity of market governance

How can the understanding of Afghan markets move beyond the simplistic and abstract models that have guided programmatic approaches so far? Value chain models have evolved to take into account power structures embedded in markets and distributional outcomes. An additional dimension to understand complexity of markets can be found in the Making Markets Work for the Poor (M4P) Approach¹⁰. These deepen the understanding of market systems setting them within the institutional landscape of governments, the private sector, representative bodies and functions and rules. However, while M4P model gives attention to market complexity around the core supply and demand functions, it misses the understanding of how profits are extracted and this is key to the circumstances of Afghanistan. Evidence of labour exploitation in commodity markets is clear in the terms and conditions of female labour working in the processing of saffron (Minoia and Pain 2016).

Harriss-White study on agricultural markets in West Bengal¹¹ examined why growth in agricultural production has not translated in rural poverty reduction. Speaking clearly to Afghanistan the study shows that a socially regulated market has led to a concentration of power that limit returns to the less powerful. What are the lessons that can be drawn to craft policies that can widen market benefits to a greater range of Afghans?

■ Living with constant risk

Why does the free market model not work in Afghanistan? Neo classical economics views markets as spreading risk across people and distance. However the model is an idealised view of how markets work. Evidence shows that the presence of high risks in relation to markets and market prices combined with limited assets and therefore protection against price fluctuation can have major influence on choices of crops and technology: asset poor households will often choose low risk activities even though these have lower returns. Opium poppy has to be seen as a relatively low risk crop in a high risk environment given the market support to it provided through credit and farm gate purchase.

10 DIFD and SDC (nd) A Synthesis of the Making Markets Work for the Poor (M4P) Approach. UK Department for International Development and the Swiss Agency for Development and Cooperation (SDC)

11 Harriss-White, B (2008) *Rural Commercial Capital. Agricultural Markets in West Bengal*. Delhi, Oxford University Press

■ **Greater attention is needed to the multiple dimensions of risk**

How can we then better understand and mitigate the multiple dimensions of risk? Emphasis on near term measures that provide support to reduce costs and price risks to allow markets to thicken would help. That could stimulate economic growth that sees domestic and urban demand as means to correctly broaden the rural development agenda. And many rural household would probably welcome the idea of a structural transformation in Afghanistan's economy and the possibility for better urban

employment. But these measures would not address the politically saturated nature of markets and the broader nature of the risk environment.

There needs to be a greater realism as to the extent to which market interventions can bring about systemic and broader scales changes to widen the benefits of market growth. There are fundamental challenges of interventions 'coming to scale' and the mid-level programmes that donors support can do little to address the wider challenges of market structures.

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