

The informal regulation of the onion market in Nangarhar, Afghanistan

Key messages

- A highly risky market in terms of price volatility rather than access to credit and price information are the key risks that onion farmers face.
- This price volatility can partly be addressed by building cool storage facilities to ensure a buffer stock that will mitigate price volatility. However this will not address the influence that key powerful players in the market exert in regulating access and colluding over price and costs.
- Current liberal market orthodoxy is hostile to market interventions to reduce the risk environment. Such interventions characterise past agricultural transformations and this may be the only means by which risk can be reduced for small farmers now.

What is this study about?

This study has been carried out under the auspices of the Secure Livelihoods Research Consortium (SLRC). It aims to generate a stronger evidence base on how people make a living, educate their children, deal with illness and access other basic services in conflict-affected situations. One component of the SLRC Afghanistan research programme focuses on the economic activities of rural people and how agricultural commodity markets work in practice. This paper is the first in a series of studies that aims to improve understanding of the complexity and diversity of real commodity markets with a view to driving more informed policy making.

The Afghan government comprehensive Agriculture and Rural Development Facility (CARD-F) assumes that lack of information about prices and a lack of access to credit are the most important constraints to small farmers in taking on risk and growing for the market. But markets are not simply about knowing the price and accessing credit. Also important is how prices are set and to whose advantage. In addition economic activity does not take place separately from social relationships but is deeply embedded in them. This study on the onion market investigates how one agricultural commodity market works and the ways in which social relationships govern access to the market in terms of information, credit, trading costs, returns and risks. As becomes clear there are powerful actors within the onion value chain

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Onion production in Afghanistan has been expanding rapidly
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Secure Livelihoods Research Consortium
Overseas Development Institute (ODI)
203 Blackfriars Road, London SE1 8NJ
United Kingdom

T +44 (0)20 7922 8249
F +44 (0)20 7922 0399
E slrc@odi.org.uk
www.securelivelihoods.org



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who manipulate prices and costs to their advantage, concentrating power within the market which limits access to small traders and farmers.

There were several reasons to select the onion market in Nangarhar as a case study. First it is a cash crop that is exported and its production has been expanding. Second it has been seen to be an alternative crop to opium poppy, offering comparable returns. Third it is the type of high-value vegetable crop, growing in a well-irrigated area with good physical market access that many see as the opportunity to drive Afghanistan's agricultural growth.

What did we do?

Data collection was carried out in Nangarhar and Peshawar in two rounds. In December 2013 in-depth interviews were held with 56 traders and farmers collecting data on:

- The life histories of the traders, including accounts of migration and displacement
- The seasonality of the market
- Structures and technologies (storage rooms, roads, and transport) involved in the onion trade
- Price setting
- The relations and networks between various provincial capitals including Jalalabad and Pakistani and Afghan traders in Peshawar

14 more interviews were held with traders and farmers in February 2014 after a preliminary analysis of the data collected additional information on:

- Onions as an alternative to opium poppy
- Crop diversification and availability of water sources
- Income and local credit systems
- Trading volumes, and margins between the Jalalabad and Peshawar markets
- Power relations

The interviews focused on building an understanding of the following:

- The role that key actors play, both within formal government structures and outside of them.
- The role of the formal state.
- The role of individual power brokers in limiting or enhancing access to public goods and economic opportunities.

What did we find?

Does lack of credit and price information constrain market access?

It is widely assumed that lack of information about prices and access to credit are the most significant constraints preventing smallholder farmers from risk-

taking and market engagement. A key finding of this research is that this is not true. Onion farmers have access to price information and are fully aware of daily prices. Further through informal credit networks that draw on social relations based on trust and reputation, informal credit is widely available. The assumption that market expansion depends on more formal credit is problematic. Rather formal credit and its associated institutional arrangements may be an outcome of the growth or widening of informal credit relations rather than the means by which credit supply grows. The challenge therefore is to support the growth of such informal credit relations. This will require more favourable conditions for trust to develop beyond close personalised networks.

Who is calling the shots?

Market exchange is not simply about the buying and selling of commodities. Each exchange is embedded in multiple exchange relationships of credit, social relationships and power. Afghanistan's economic and political marketplaces are closely interlinked. Key actors hold prominent positions in both arenas and draw on their political and economic resources to bolster their relative strength through, for example, the manipulation of formal and informal cross-border taxes. Influential big traders have a major impact on the onion trade's economic landscape. Through collusion they can set local spot prices¹ for traders and control access to market information. They also actively limit income opportunities for farmers and small traders by stockpiling goods and regulating access to informal credit. The relative weakness of those lower down the value chain means they remain the price takers, rather than the price setters. District producers and traders can and do find ways around such exclusionary practices in Afghanistan. But it is not so easy to negotiate the range of rent-seeking practices surrounding cross-border trade with Pakistan and India, where powerful traders collude with powerful political figures.

Price volatility and risk

The onion market displays considerable price volatility, making it intrinsically risky and uncertain for smallholders to engage in. One factor is infrastructural constraints, such as storage capacity. Onions are highly perishable and there are no storage facilities along trade routes. This can mean losses of up to 40% of the seasonal harvest, which has implications for market supply and prices. A lack of buffer stock leads to an inability to handle short-term fluctuations in supply and demand, leading to rapid fluctuations in sale prices. This can be compounded by trader collusions over prices and short-term hoarding. Yet these prices are not simply set by supply and demand. A more significant constraint are market structures in both

¹ The price at which a particular commodity can be bought or sold at a specified time and place

Pakistan and India which influence trade in Nangarhar, as Jalalabad serves as Afghanistan's main transit point for onions. Prices in Pakistan and Afghanistan can be heavily influenced by demand in India, as was found in 2013 when they rose dramatically. It is also possible, although not the focus of this study, that informal regulation of the market stretches from the major players in the onion trade in India to the Peshawar onion market via Karachi.

What does this mean for policy-makers?

It is evident that access to credit and market information are not the key constraints farmers face in growing and selling onions. The key obstacle is the fact that the onion market is highly risky due to price fluctuations.

Some of that risk is intrinsic to the nature of the commodity. Onions are highly perishable and without appropriate storage conditions the losses can be high. The absence of such storage leads to an absence of stock to buffer shortfalls between demand and supply. This leads to sharp price fluctuations. The construction of cool storage facilities can reduce such losses and contribute to building a buffer stock. However cool storage will not resolve the riskiness of the market.

Price fluctuations are also due to price manipulation through collusion by powerful big market players. Such traders also exclude smaller traders through the manipulation of costs particularly in the cross border trade, to the advantage of the bigger traders. The position of these powerful market players is underpinned by strong political connections. Such power asymmetries cannot be addressed through technical interventions.

Farmers manage risk by limiting their exposure to it in two ways. First they restrict the level of production so that they are not overexposed to it and to ensure that they keep sufficient land to meet their subsistence requirements. Second they obtain informal credit through personal relationships and networks with traders whom they trust. Likewise small traders give and receive credit from those that they trust. This trust depends not on material possessions but on relations. Credit in social terms is the currency of lending and borrowing. Given the profound lack of trust in formal institutions, formal credit and the terms and conditions under which it is offered will not widen access to credit. Rather the expansion of credit will depend on the creation of more extensive interpersonal relations. That in turn will depend on the emergence of an environment of more generalised trust. The demand for formal credit may be an outcome of that rather than the means by which it is achieved.

While current liberal market orthodoxy is hostile to state interventions for market support, this may be the only means by which the risk environment may be reduced. Such interventions would include price support, cheap

access to credit or other forms of market intervention characteristic of the state support provided during the green revolution in India. Without it, hopes for agricultural growth stimulated through higher value crops in well resourced areas will remain unrealised.

What's next for the research programme?

Research is underway on a second case study on mobile vendors in the urban economy of Kandahar and a report will be published in early 2015. A third market study with a focus on rural labour markets will be undertaken in Herat during the first half of 2015.

Written by Giulia Minoia (giulia.minoia@gmail.com), Wamiqullah Mumatz and Adam Pain (adamnpain@gmail.com)

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