



Researching livelihoods and
services affected by conflict

Understanding rural markets in Afghanistan

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About us



The **Secure Livelihoods Research Consortium (SLRC)** 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 (CAS). Providing better access to basic services, social protection and support to livelihoods matters for the human welfare of people affected by conflict, the achievement of development targets such as the Sustainable Development Goals (SDGs) and international efforts at peace- and state-building.

At the centre of SLRC's research are three core themes, developed over the course of an intensive one-year inception phase:

- State legitimacy: experiences, perceptions and expectations of the state and local governance in conflict-affected situations
- State capacity: building effective states that deliver services and social protection in conflict-affected situations;
- Livelihood trajectories and economic activity under conflict

The Overseas Development Institute (ODI) is the lead organisation. SLRC partners include the Centre for Poverty Analysis (CEPA) in Sri Lanka, Feinstein International Center (FIC, Tufts University), the Afghanistan Research and Evaluation Unit (AREU), the Sustainable Development Policy Institute (SDPI) in Pakistan, Disaster Studies of Wageningen University (WUR) in the Netherlands, the Nepal Centre for Contemporary Research (NCCR), and the Food and Agriculture Organization (FAO).

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Acronyms and glossary



Acronyms

ADB	Asian Development Bank
AREDP	Afghanistan's Rural Enterprise Development Programme
AREU	Afghanistan Research and Evaluation Unit
ASR	Agriculture Sector Review, World Bank
CARD-F	Comprehensive Agriculture and Rural Development-Facility
FAO	Food and Agriculture Organization of the United Nations
ha	Hectare
ICAI	Independent Commission for Aid Impact
M4P	Making Markets Work for the Poor
NATO	North Atlantic Treaty Organization
NGO	Non-governmental organisation
RAMP	Rebuilding Agricultural Markets Program
SLRC	Secure Livelihoods Research Consortium
SMEs	Small or medium enterprises
UN	United Nations
USAID	United States Agency for International Development

Glossary of terms

Arbob	Village leader
Gilims	Afghan rugs
Hamsaya	Servants
Hawala	Money exchange
Hawaladar	Money exchange dealer
Jammadars	Brokers or intermediaries between labourers and brick-kiln owners
Mujaheddin	Islamist Afghan warriors in the Soviet-Afghan war

Contents



Acronyms and glossary	iii	Tables	
Abstract	v	Table 1: Major employers of agricultural labour in village H1	14
1 Introduction	1	Table 2: Three dimensions of market complexity	19
2 Conflict and the rise and fall of Afghanistan's agricultural economy	2		
3 Approaches to market development in Afghanistan since 2001	4		
3.1 Assumptions about the condition of Afghanistan's markets post-2001	4		
3.2 Review of specific policy approaches	5		
4 How do markets operate in practice in Afghanistan?	8		
4.1 Open or closed? Legal or illicit?	8		
4.2 Rural commodity markets in Afghanistan	9		
4.3 Rural labour markets in Afghanistan	13		
5 Discussion and recommendations	18		
5.1 We need to focus on domestic and urban demand	18		
5.2 Commodity markets must be recognised as complex systems	18		
5.3 We need better analytical and policy models	19		
5.4 Lessons can be learnt from the opium poppy market	19		
5.5 We must broaden our understanding of risk	20		
5.6 We must recognise and address the political and social structure of markets in order to support growth	20		
References	22		

Abstract



Since the 2001 international engagement in Afghanistan, policy-makers have put agricultural development at the centre of efforts to rebuild the country's economy. But core policies have failed to understand or address the social and political institutions that regulate agricultural commodity-market systems or how they limit economic growth in Afghanistan.

This working paper draws on five case studies from the Secure Livelihoods Research Consortium and its partners, and other primary and secondary evidence, to review current understanding of agricultural commodity and rural labour markets in Afghanistan, and explore the pervasive social regulations that structure them.

Despite some limited commercialisation, the country's rural economy remains in poor health. Agricultural policy has focused on production, value-chain efficiencies

and price, as well as abstract projections of potential productivity changes, growth and job creation.

In order to better understand how external interventions can promote growth and ensure better distributional outcomes, we must: 1) consider how domestic production and demand can be stimulated; 2) recognise commodity markets as complex systems 3) move beyond simplistic models of analysis and policy-making that bear little relation to how markets operate in practice; 4) learn lessons from approaches to analysing the opium poppy market; 5) broaden our understanding of the multiple dimensions of risk that the free-market model does not consider, including access to assets and uncertain institutional environments; 6) recognise the political and social structure of markets in Afghanistan, in order to address the systemic changes that are needed to enable economic growth.

1 Introduction



This working paper seeks to contribute to a deeper understanding of how agricultural commodity and rural labour markets in Afghanistan work in practice, and the nature of their social regulation. It finds that policy models that are built on simplistic and abstract ideas of what agricultural markets should do are unlikely to realise their goals.

Our discussion brings together empirical evidence from five case studies of markets in Afghanistan conducted by the Secure Livelihoods Research Consortium (SLRC) and its partners, including the Afghanistan Research and Evaluation Unit (AREU). Two of the case studies are on rural commodity markets in onions in Nangarhar province (Minoia *et al.*, 2014) and saffron in Herat province (Minoia and Pain, 2016), one is a case study of rural labour markets in Herat (Minoia, unpublished), and two are on urban self-employment in Kandahar (Minoia and Pain, 2015) and Kabul (Pain and Mallett, 2014). We also review other primary and secondary evidence. The paper forms part of a nested multi-scale study examining household livelihood trajectories (Pain and Huot, 2017) and institutional processes in Afghanistan, which have separately examined the performance of village institutions (Pain, 2016) and provincial-level political dynamics in the country (Jackson, 2016).

While our analysis has followed many of the common procedural steps (see case study papers) in seeking to understand market systems (Humphrey, 2014) and value chains, we also draw on the core concepts of economic sociology to understand market behaviour (Portes, 2010) – namely that of the socially embedded nature of economic action and power. A central interest has been to explore how people navigate and negotiate their economic life in rural and urban settings within the structure of power that characterises the economic market place – which, as will be seen, reveals how core rural markets work and the constraints that poor people face in benefiting from them.

Section 2 provides contextual information about changes in Afghanistan's agricultural economy during significant periods of conflict and reconstruction. Section 3 considers approaches to rural market development in Afghanistan since 2001, and Section 4 presents our findings on rural commodity and labour markets. We conclude in Section 5 with a discussion of the analytical approaches to understanding market systems and implications and recommendations for future programmatic practice.

2 Conflict and the rise and fall of Afghanistan's agricultural economy



Since the late 1970s Afghanistan has followed an unsteady economic trajectory, marked by particular periods of conflict, peace and international engagement. Soviet occupation from 1979 to 1989 had a notable impact on the economy, as did the civil war from 1996 to 2001, and military action by the United States (US) and its allies in 2001 following the September 11 terrorist attacks.

Afghanistan has long had an agrarian market economy (Hanifi, 2011), with trading systems extending through to India and Pakistan (Ferdinand, 2006), and an export economy of primary and processed agricultural products to Europe and elsewhere. Prior to the start of the Soviet-Afghan conflict (1979-1989), the country had established its position in niche export markets, including raisins and other dried fruits, and industrial crops such as cotton and sugar beet that generated significant foreign-exchange earnings (Fitzherbert, 2007). However these markets were lost during the long period of conflict as the commodities were produced elsewhere in the world at lower cost and higher quality. Subsequent to the Soviet occupation, Afghanistan has had to compete with high-quality fresh grapes grown as far away as Chile, and dried fruit and nuts from Turkey and California. Previously profitable commercial crops such as cotton have also failed to regain their agro-industrial position in the economy.

It would be wrong to see the years from 1979 to 2001 (from the Soviet occupation through to the civil war from 1996 to 2001) as one long period of agricultural stagnation or decline. Between 1989 and the early 2000s the Food and Agriculture Organization (FAO) of the United Nations (UN) supported the production, multiplication and distribution of improved and well-selected wheat seed and appropriate fertiliser inputs, which contributed considerably to post-conflict agricultural recovery in the 1990s and post-drought recovery after 2001. The country also developed export markets in mung beans and other pulses from the Kunduz river valley and Helmand to Pakistan (Fitzherbert, 2007); and agricultural mechanisation spread, with tractors, wheat and rice threshers found across the agricultural heartlands of Helmand, Kandahar, Balk and Kunduz.

Despite a widespread view in the early 2000s that markets failed during the long period of conflict, this was not the case (*ibid.*). Market systems continued to function during the drought of the late 1990s and into early

2000, ensuring that grain was delivered and there was never a supply-side failure of basic staples (Pain, 2015). Indeed, import levels of wheat have always been highly responsive to shortfalls in domestic production (Chabot and Tondel, 2011).

After 2001, further processes of agricultural commercialisation and technical change came about with the expansion of onion production in Nangarhar, and saffron and grapes in Herat – as well as the notorious opium poppy market, which we discuss later. Other examples of functioning agricultural supply and product markets include intensive commercial vegetable crop production in the irrigated districts of Nangarhar, as well as commercial potato production in the central districts of Bamyan, and traditional melon crops in the Northern provinces. Temperate fruit orchards of apples and plums in certain districts of Wardak and Ghazni provided a reasonable income for their owners, with all of these crops having a ready market in Kabul and other urban centres.

Data sources and methods

Detailed description of the methods can be found in the individual studies, along with details of the informants. All of the studies drew on qualitative in-depth interviews and involved at least two rounds of interviews by research teams from the Afghanistan Research and Evaluation Unit (AREU). The first round was designed to collect more general information in order to set the agenda for detailed follow up with key informants in the second round.

In the case of the onion study data in the first round of fieldwork was collected on the structures and technologies (storage rooms, roads and transport) involved in the onion trade, price setting; the seasonality of the market; the life history of the traders, including accounts of migration and displacement; relations between Jalalabad and the other provincial capitals involved in the onion trade; relations between Jalalabad market, Pakistani traders and Afghan traders in

Peshawar; and the margins and networks of the onion trade between Jalalabad and the districts in Nangarhar. In the second round interviews were held with traders in Jalalabad and Peshawar and farmers living in different villages of Sukhrod and Rodat. Information collected in the districts in this round focused on the introduction of onion in Nangarhar as an alternative to opium poppy, crop diversification and the availability of water sources in the two districts of Sukhrod and Rodat, as well as costs, income and the credit system of the onion market for farmers in the districts. Information collected in Jalalabad and Peshawar focused on the volumes and margins of the traders and power relations within the two markets.

For the saffron study in Herat through qualitative interviews an initial scoping study of 45 interviews was undertaken and followed up with further fieldwork in Herat city and the districts of Injil, Ghoryan and Pashton Zarghon in August 2015. Following the scoping study, 35 in-depth interviews were held with informants in different positions in the saffron value chain. These included traders and key informants from the government of Afghanistan and the UN in Herat city and male and female saffron association heads, saffron producers and female seasonal workers in the sample villages. These village-level informants were purposively selected in discussion with the village elders or Community Development Council (CDC) leadership.

In the case of the Kandahar study the first study round was designed to map the diversity of street vendor activities and the locations in which they traded. Questions asked in this round focused on supply chains and credit relations, life histories, districts of origin and location in Kandahar, familial ties to the districts and other provinces and migration patterns.

Second and third studies concentrated on street vendors in the tarpaulin, garment and mobile phone sector. Second and third rounds interviews collected information on trader history, details on the sector, economic trajectories and risk and uncertainties.

3 Approaches to market development in Afghanistan since 2001



Since the international engagement from 2001, policy documents have put agricultural development at the centre of efforts to rebuild Afghanistan's economy and the state (Pain and Kantor, 2011). But despite the hopes and processes of commercialisation noted above, an agrarian transformation has not taken place and the country's rural economy remains in relative poor health. Here, we consider general assumptions about the functioning of Afghanistan's markets, before examining specific policy measures and approaches, including the World Bank's Agriculture Sector Review.

3.1 Assumptions about the condition of Afghanistan's markets post-2001

Zeza and Migotto (2007) reviewed the plethora of policy documents produced since 2001 by the Asian Development Bank (ADB), the FAO and the World Bank, as well as national strategies, line-ministry sectoral analyses and donor-country strategy papers which all identified agriculture as the engine of Afghanistan's growth and the main source of livelihood for the majority of Afghans. All more or less equated 'rural' with agriculture and poor farmers, and 'agriculture' with food security and livelihoods. But as Zeza and Migotto (ibid.) conclude, most of these policy documents are essentially agricultural sector reviews rather than strategies, strong on aspirations and priority lists but weak in analysis and understanding or exploration of the trade-offs between food-security needs, poverty-reduction objectives, and agricultural- and export-driven growth. Furthermore, these actors have been particularly blind to the context of conflict and insecurity.

Some assumed that markets simply disappeared during the drawn-out political conflict or came to a standstill (ADB *et al.*, 2002). For others, markets existed, but the absence of the state led them to believe that markets were unregulated by forces other than those of free market economics, and thus characterised them as 'bazaar economies' (Schetter, 2001).

The World Bank (2005) concluded that grain markets had been functioning rather well given the circumstances and that the opium business in Afghanistan more closely resembled a 'competitive market rather than a criminal cartel' with production that was price responsive (World Bank, 2004: 84). Altai (an independent Kabul-based consulting firm) also agreed that the horticultural sector had not collapsed despite three decades of war and drought in the late 1990s, drawing attention to the informal structures within the existing horticultural

markets (Altai Consulting, 2004). However, it should be noted that Altai's leap from fragmented social networks to fragmented Afghan society and restrictions on contractual relations betrays concerns regarding trade volume and quality, rather than efforts to understand existing forms of market regulation:

'The marketing sector is organised in fragmented, vertical social networks which hamper optimisation of market opportunities. The fragmentation of the Afghan society hampers the establishment of contractual relations outside of social networks between producers and traders for large volumes of good quality products.'

An early study on the *hawala* system in Afghanistan (Maimbo, 2003: 3) is clear about a rather effective, informal market at work:

'Money exchange dealers, or hawaladars, provide a well-organised, convenient, and cost-effective means of making international and domestic payments. They have had lots of practice, for the Afghan population has relied on the informal sector to access financial services for hundreds of years. For many years, operating primarily from open-air markets, hawala has provided the most reliable, convenient, safe and inexpensive means of transferring funds to far flung-regions.'

But whatever the assumptions about the condition of Afghanistan's markets, the challenges for policy and programming have been seen to be either the 'rebuilding' of markets or making the so-called informal sector 'formal', so that the private sector can become the engine of growth (World Bank, 2004). While one might debate definitions,¹ 'informal' essentially means that which is not regulated or known about by the state. For the World Bank (2004) and others, the issue has been of promoting an investment climate and addressing constraints to private-sector development, defined in terms of poor infrastructure, lack of access to finance, as well as a poor regulatory environment and the presence of considerable corruption. All too often, such issues have been assumed to be technical shortcomings that can be tackled without an understanding of the institutional context in which they are embedded.

3.2 Review of specific policy approaches

3.2.1 The Rebuilding Agricultural Markets Program

One example of a 'technical' mechanistic approach is 'The Rebuilding Agricultural Markets Program' (RAMP), funded by the US Agency for International Development (USAID) with US\$132.5 million over three years from 2002 (Pain and Lister, 2007), which focused on infrastructure development, market development and rural finance. In seeking to understand the economic efficiency of markets, its approach employed a version of the conceptual tool of the 'value chain'. But while a fuller form of the value-chain approach focuses on asset structures, competitive conditions, price formation and performance (Harris-White, 2003), the RAMP model was something of a stripped-down version that ignored social relations of trade, distributional outcomes and power structures. RAMP's attention to the value chain was thus led by a rather limited agenda of commodity-based opportunities, infrastructure repair, physical market facilities and quality standards based around new technology. To RAMP's assumptions of failed or missing markets we must therefore add a complete lack of interest or awareness of the non-economic structuring of markets.

3.2.2 Afghanistan's Comprehensive Agriculture and Rural Development – Facility

Essentially, Afghanistan's Comprehensive Agriculture and Rural Development - Facility (CARD-F) has also adopted a value-chain model in seeking to provide input services in target provinces with infrastructural support for six commodities aiming to 'increase employment, income and business opportunities for rural masses'.² Core barriers to the development of the rural economy have been lack of information about prices and lack of access to credit that prevent farmers from risk-taking and market engagement (CARD-F, 2015). Notions of value added implicitly drive commodity flows from field to market along the value chain by enhancing production, trade through 'standard practices', facilitation to acquire deals and supporting the establishment of producer organisations.³

CARD-F sees development of the value chain as the key to driving growth and job creation – and frames its accomplishments in terms of input provision, infrastructure construction and farmers trained, rather

¹ See Harris-White (2003) for a discussion of the use of labels in relation to the non-formal economy in India.

² http://www.cardf.gov.af/images/factsheet/CARD-F_Factsheet_September_2015.pdf accessed 5/09/16.

³ See their Vegetable Value Chain, for example: http://www.cardf.gov.af/index.php?option=com_content&view=article&id=81&Itemid=380 accessed 5/09/16

than outcomes. This addresses the need to develop efficient land markets and rural commercial credit. How value-chain development will create employment and for whom, the nature of that employment, and who in the lumpen rural masses will benefit from the opportunities remains unaccounted for. And studies on commodity markets in Afghanistan question the assumptions (notably the lack of information about prices and limited access to credit) of the CARD-F programme and other market support programmes such as Afghanistan's Rural Enterprise Development Programme (AREDP)⁴ (see Pain and Kantor, 2011). Furthermore, a focus on value chains pays little attention to the social institutions that structure market exchange and the context of risk and conflict. As is discussed in later sections, analytical approaches to understanding markets have moved on considerably from the frameworks that have been adopted in Afghanistan to date (Humphrey, 2014).

3.2.3 The World Bank's Agriculture Sector Review

The World Bank's Agriculture Sector Review (ASR) (World Bank, 2014a), admits that agriculture's contribution to employment and wellbeing has fallen far short of expectations with poverty levels remaining unchanged in the country since 2007-2008 (Central Statistics Organisation, 2014; World Bank, 2015). As argued in a companion SLRC paper that draws on a long-term study of rural livelihoods in Afghanistan (Pain and Huot, 2017), aspirations for agrarian change have been hampered by the deep poverty trap in which many poor landless rural households live. They find little work in the rural economy and survive from non-farm work and remittances driven by the imperative to gain food security. The fact that these households keep a foothold in rural Afghanistan relates more to the country's distributional rather than productive economy (Ferguson, 2015) – as well as the security and access to food provided by social relationships that often operate on adverse terms but provide the only protection available in a highly risky and insecure environment. Larger or medium landowners who might have been seen as the drivers of a commercial agrarian economy have had more to gain as gatekeepers and patrons of village economies, and have drawn on more remunerative and more easily accessed opportunities outside the agrarian economy through their networks

of access. Indeed, if the market-driven transformation of Afghanistan's rural economy had come about in the way the ASR envisaged, with full penetration of market forces into land and labour relations, there would likely be a very large dispossessed rural population with much higher levels of poverty.⁵

In common with most policy outputs in Afghanistan, the ASR's perspective is to the future, with little retrospective analysis of why, after 15 years making the same claims and seeking the same means to realise the assumed potential of agriculture, it has so far failed to bring about positive changes. It assumes that 'higher yields in agriculture, access to non-farm rural income-earning activities, migration of family members to cities and transition to wage employment' will be the route to prosperity (World Bank, 2015: 1). The means by which transformation will be brought about are seen to include: 'paying attention to production risk management, by investing in climate-smart agriculture, by promoting agricultural trade and by integrating smallholders into the value chains of commercial agriculture' (ibid.). While the state is seen to play a lead role in coordinating strategy to encourage growth it is expected that it should work in partnership with the private sector and non-governmental organisations (NGOs) in market-led solutions. This perspective pays little attention to the conditions under which past Green Revolutions⁶ came about (such as in India in the 1960s and 1970s), where the state played a key role in providing support to smallholders against market risks, and national markets were often protected from global competition (Dorward *et al.*, 2004). In addition, a precondition for the Green Revolution transformations were substantial prior investments in infrastructure and rising urban demand to fuel supply – conditions that do not exist in Afghanistan.

The analytical lens of the ASR is narrowly limited to issues of production; price and efficiency linked to value chains; and abstract projections of potential productivity changes, growth and job creation. Its 'first-mover' approach is, in essence, a focus on high-potential areas with assumptions about trickle-down effects. It argues that agriculture will need to grow by at least 6% per year if rural incomes are to increase as the population expands, which is almost twice the rate that has been achieved on average over the last decade (World Bank, 2014a).

4 <http://aredp-mrrd.gov.af/eng/> accessed 6/09/16.

5 As the case of village H2 (Pain and Huot, 2017) evidences, where a large landowner mechanised and commercialised his business, evicting his long-standing sharecroppers in the process.

6 A period of dynamic change driven by new short straw higher yielding varieties in rice and wheat

It is a common misconception that markets are abstract, asocial, ahistorical and de-institutionalised (Harriss-White, 2008). As a recent review of Afghanistan's private sector acknowledges (Ghiassy *et al.*, 2015), this is a perspective that is missing in the ASR. The market is a complex mix of informal, formal, illicit and aid-driven elements and 'the product of a decades-long convergence of protracted conflict, low state capacity, foreign interference and external aid dependence. ... In its current state, the Afghan private sector is not the engine of economic growth or instrument of social inclusion it has the potential to be' (*ibid.*: ix).

Significantly, the ASR pays no attention to the social institutions that underpin the marketing systems of agricultural commodity markets and, in particular, how resources are extracted from agriculture to fuel non-agricultural growth, or how labour is used and exploited through the terms of many exchanges and physical production activities. Markets are complex systems (Jan and Harriss-White, 2012), and stripped down value-chain models that ignore the social institutions that underpin markets deny that complexity (Harriss-White, 2003; Pain and Lister, 2007).

4 How do markets operate in practice in Afghanistan?



4.1 Open or closed? Legal or illicit?

Earlier work on markets in Afghanistan (Lister and Pain, 2004; Paterson, 2006; Pain and Lister, 2007) draws attention to economic activities variously characterised as formal or informal, legal or illicit, conflict or criminal, and the ways in which politico-economic actors move seamlessly between these realms. To describe Afghanistan as 'a very open' economy (Byrd, 2015: 1-2) could imply that it operates close to free trade, where government regulation is minimal, where participants have equal access to markets and where there is free competition.

In one sense, Afghanistan is indeed an open economy, given the complete permeability of its borders and its position between the major regional economies of Pakistan, Iran, Turkmenistan, Uzbekistan, Tajikistan and India. While it may be true that formal government regulation of the economy is minimal, however, this does not mean that the economy is unregulated or indeed very open. Ghiasy *et al.* (2015) recognise this, but characterise these dimensions as 'extra-market' conditions across the political and economic spheres. Jackson (2016) argues that this ignores the mutually constitutive nature of the political and economic marketplace in Afghanistan, however, and the networks of access that bind them together.

Studies on the construction business, carpet market and raisin trade have found that the booming non-formal economy in post-2001 Afghanistan was highly regulated by informal institutions and therefore not 'free'. The appearance of economic dynamism hid the fact that informal social regulation actively restricted competition and participation, which has meant that the distribution of market benefits (and therefore of economic growth) have been skewed towards those who are already wealthy and powerful (Ghiasy *et al.*, 2015).

The fall of the Taliban in 2001 did not constitute a decisive break with economic processes, patterns or players of the past either (Pain and Lister, 2007). The same traders who developed their power bases in the markets of Pakistan in the 1970s continued to trade under the *mujaheddin* and the Taliban, and have dominated trading post-2001. The return of these traders to Afghanistan signified a relocation of their base, rather than the entry of new players to the markets. Thus a relatively small group of businessmen have actively excluded competitors and positioned themselves as the major beneficiaries of growth in

certain sectors. Their tactics have included price manipulation, political influence, and vertical integration at the 'top' of the chain. Most business is conducted through client and social relationships based on complex factors, including family relations, ethnicity, history and religion, and is not (as is sometimes asserted in the Afghan context) simply based on family.

The business elite have maintained strong financial and personal links with national, provincial and local political and military power holders throughout the country (Jackson, 2016). And such relationships are mutually beneficial: for businessmen they have provided security, tax exemption and credit, and (in some sectors such as construction) lucrative contracts; for power-holders, they have provided a means of investment, the potential for money laundering, and an overall strengthening of influence by linking military, economic and political power. Power-holders are also often in control of the inputs to production processes in Afghanistan, such as water and land.

Big and medium-sized traders have been found to deal in multiple commodities. Within a given region, actors in the middle of commodity chains (i.e., not primary producers or retailers) tend to be the same, with individuals trading in carpets and/or raisins and/or construction materials, and perhaps even televisions or fertiliser, depending on demand, prices and issues of seasonality (Pain and Lister, 2007). This multiplicity of products contributes to the dominance of a limited number of traders, and also reflects the lack of formal financial systems (so an exporter of raisins may import to return his money to the country) and issues of seasonality and risk.

Thus there are blurred lines between 'licit' and 'illicit' markets and activities in Afghanistan. Many traders, even if primarily engaged in activities that could be brought into the formal economy, have a background in and a capital base derived from illicit activities. Even if traders have not themselves been involved in the illicit economy, they require good relationships with those who are, because this group controls the supply routes and transport systems on which 'licit' traders rely.

Accordingly, regulatory activity has pluralised in Afghanistan, whereby the state and its agents are only one dimension (Roitman, 2005). In exploring the nature of the opium economy in Afghanistan, Goodhand (2005) recognises this complexity and characterises such economies as intersections between 'combat', 'shadow'

and 'coping' economies and lays out the motives of the primary actors within each particular sphere. However, it might be useful to add a fourth dimension – namely that of a 'rentier' economy – where core political actors use market rents to build political networks, and use these political networks to secure market rents (Jackson, 2016).

The most salient example of this rentier economy is the saga of the Kabul Bank, whereby a group of elite businessmen connected to powerful political figures took irregular multi-million dollar loans amounting to US\$982.6 million to support cross investments in the major sectors of Afghanistan's economy, including fuel (linked to large US/NATO contracts), mining, banking, real estate and construction materials, and consumer goods (Bijlert, 2011). Although some of the key perpetrators were ultimately imprisoned when the new government came to power in 2014, this did not stop one key figure being allowed out of jail to attend to his business affairs (Bijlert, 2015). Unfortunately, reconstruction funding has also played a key role in promoting these linkages – the American's military practice of outsourcing core support systems for their forces led to, amongst other things, trucking systems that 'fuelled a vast protection network run by a shadowy network of warlords, strongmen, commanders, corrupt officials and perhaps others' (Aikins, 2016).

Similar rentier economies are to be found across all the major sub-national provincial centres also, including Nangarhar (Jackson, 2016; Minoia *et al.*, 2015), Kandahar and Mazaar (Pain, 2011). The evidence on how these economies operate points strongly to some of the major political obstacles to economic growth (Williams *et al.*, 2011), including the absence of competitive markets because of rent-seeking practices, lack of sufficient investment in public and semi-public goods because of patronage spending, and predation and looting of resources by private and state actors.

4.2 Rural commodity markets in Afghanistan

Commodities are the surplus raw materials or primary agricultural products of the rural economy that are bought and sold. They may or may not be processed and used as inputs to manufactured goods. Drawing primarily on SLRC studies of the onion and saffron markets, we here seek to understand the markets within which such commodities are transacted in Afghanistan, and discuss implications for market development in order to drive growth, income generation and employment.

4.2.1 Characteristics of rural commodity markets

A general characteristic of the smaller trading ‘firms’ or enterprises in Afghanistan is that they are strictly patriarchal family organisations, working with family capital and rarely expanding their management structure beyond the extended household. They range in scale and scope from an individual commodity focused retailer working at the village or district level, to urban-based wholesalers serving provinces and regions. The reach and scope of such individual traders is determined by a distinct geography of markets that is tied to ethnic identity. In Herat and Mazar, for example, there are ethnic enclaves of Kandahari Pashtuns and Hazara traders respectively, who occupy exclusive physical spaces and control specific niches in the cloth trade. Cloth traders from Jalalabad do not expand to the north because of their lack of connections and their need to keep the firm within the household network (Pain and Mallet, 2014). In Kabul, clusters of carpentry shops that are scattered through the city are exclusively run by men from Surkhparsa district in Parwan province (ibid.).

Simple categories of wholesalers, retailers or processors are rarely analytically useful, since they do not describe what traders actually do. Traders have diverse interests and are rarely specialised in this way, which means that market actors cannot be easily located within market systems. For example, in the case of saffron trading in Herat (Minoia and Pain, 2016), there are cases of city traders extending down into production through lease and land acquisition, labour recruitment, oversight of processing, buying from other traders, processing and exporting. Equally, large saffron growers have been found in the district who were often the village elite in positions of power (Pain, 2016), who employed farm labour, bought produce from other saffron growers, provided informal credit to such growers, processed the saffron, and exported it through ownership of a trading company. Similarly, district-level onion traders in Nangarhar have been found to be larger landowners who might sharecrop their land, or traders with diverse activities including one individual found to be trading in imported cars to counteract the seasonality and risks of onion trading (Minoia *et al.*, 2014). Choice of technology (crop varieties, processing technology) or specialisation rarely provides a basis for differentiation between traders.

So, can one call these small or medium enterprises (SMEs) a formal market (Hoffman and Lange, 2016)? For the street vendors of Kandahar – ejected by conflict

and drought from surrounding rural districts where they had little or no land and propelled into the informal urban economy – theirs is a reluctant engagement in a saturated low-return market in order to survive. Bigger traders, who are often mid-size or large rural landowners as well, may well be motivated by risk-taking and profit. Pain *et al.* (2016) found an individual in Kandahar, who had moved into poultry production for such reasons. For many, however, personal imperatives often relate more to ensuring household survival, and the regulatory structures of markets tend to keep them as small traders.

Saffron is a high-value, light and easily transportable product, therefore its transfer from field to market is easily and cheaply done. It is a different matter for onions. A combination of high price volatility, and thus risky markets, combined with a limited shelf-life due to intrinsic perishability of the product and the absence of appropriate cool-storage facilities, means that smaller producers often sell their standing crop wholesale to a trader. The trader is then responsible for lifting and transporting the crop for a guaranteed but lower price than the farmer might get if he harvested the crop himself. Similar purchases of standing crops has also been found in grape harvests from the Herat vineyards (Minoia, forthcoming). While a farmer might get a higher price if he harvested and sold the crop himself, he would run the risk of having to sell a product with a limited shelf-life, knowing that traders could be choosy about the onions or grapes that they buy (Minoia *et al.*, 2014).

4.2.2 Access to credit

Extensive but circumscribed networks of informal credit lubricate the production and flow of commodities in Afghanistan, with women included in only exceptional cases. While it is common to see female labourers in saffron fields, the participation of women as landowners or growers in the saffron market is determined by status, wealth and family connections. It is a system that functions on personal relationships of trust – from the larger saffron producers in Herat who give credit to enable other farmers to afford costly saffron bulbs, to the onion growers of Nangarhar who receive credit from district traders, to the large onion traders of the Jalalabad vegetable market who provide credit to smaller traders. As Thompson (2011) describes the *Hawala* system in her book title, ‘trust is the coin of the realm’ and personal reputation is foundational to this. Subsequently, it is the inability to access informal credit that is the true mark of exclusion and destitution.

The benefits of inclusion in informal credit relations depend largely on the terms and conditions under which it is offered, however, and what is expected in return. When informal credit relations are built on mutual survival and risk-management between households of equal status for consumption-smoothing, it is an element of a distributional economy (Klijn and Pain, 2007). Where informal credit relations underpin dependent village-level relationships between large landlords and *hamsaya* (servants) or sharecroppers, a doubtful bargain is struck that ensures short-term survival of the dependent household at the cost of long-term wellbeing and independence (Wood, 2003; Pain *et al.*, 2016). Where informal credit is rationed to tie farmers into production contracts or stop smaller traders from expanding – as was found in the onion market of Jalalabad (Minoia *et al.*, 2014) – then it becomes part of the regulatory practices of the market.

Lack of access to formal credit is seen as a constraint to market-oriented agricultural production (World Bank, 2014a: xv), but it does not mean that credit is absent. Comparative evidence indicates that formal credit and its associated institutional arrangements may be more an outcome of the growth of informal credit relations, rather than the means by which credit supply grows (Tilley, 2005). This growth of informal credit relations in turn depends on the creation of more extensive interpersonal relationships, which require greater levels of generalised trust. The tight networks of access in political and economic marketplaces of Afghanistan (Jackson, 2016) and the country's political instability are key obstacles to expansion of trust networks beyond close personal relations.

4.2.3 Price-setting

Common to the granting of credit in trading relations is the setting of price. This linking together – what is termed 'interlocking contracts' – of informal agreements for credit and price-setting reinforces the regulatory role of informal credit. And brings into question the extent to which price, as the value-chain model sees it, is freely set between supply and demand.

Turbulence is an endemic feature of Afghanistan's commodity markets. Prices have been reported to show short-term volatility in the onion (Minoia *et al.*, 2014), raisin (Lister *et al.*, 2004) and opium markets (Pain, 2005), suggesting collusion between the main traders.

For example, onion traders reported that prices could drop significantly within an hour or two in a morning. This

limits the use of correlations based on average prices to test for market integration and efficiency (Jan and Harriss-White, 2012), an approach that has been used to analyse Afghanistan's wheat market and conclude that it was integrated (Chabot and Tondel, 2011).

As noted earlier, there are assumptions in Afghanistan's market programmes that farmers are unaware of prices (CARD-F, 2015). But as the study on onions in Nangarhar makes clear, information on prices is widely available within this particular market, and both traders and producers have ready access to that information (Minoia *et al.*, 2014:1-2). The bigger question, therefore, is how prices are actually set and regulated, as informal regulation ensures that it is not simply determined by supply and demand considerations.

4.2.4 Networks of access

As Jackson (2016) makes clear, what has emerged in Afghanistan at sub-national level since 2001 is not a dichotomy between state and non-state practices, or even a clear hybrid order (Meagher *et al.*, 2014), but a 'non-hierarchical networked limited-access order' (North *et al.*, 2009) that has clear regional dimensions and is of variable stability. These relationship-based networks of access 'produce and regulate power through the distribution of resources', and effectively constitute the state and economy (Jackson and Minoia, 2016). In turn, connectivity, personalised relationships, short-term futures and compulsory engagement characterise the regulatory order.

This does not mean that there is no bureaucratic state presence within agricultural commodity markets in Afghanistan, however, as the rules and regulatory practices behind producer organisations in Herat demonstrate (Minoia and Pain, 2016). The formation of associations has been seen as a key instrument of intervention not only in saffron production, but more widely by the AREDP (Pain and Kantor, 2011). However, this is an intervention that simply focuses on the production-side of the value chain, and makes assumptions about the egalitarian nature of collective action. For example, in justifying the AREDP, the World Bank (2010:16) has argued that 'South Asian experience has shown that community-based approaches play a critical role in stimulating the local economy in rural areas'.

Wider evidence from Afghanistan villages shows that assumptions of collective action for community benefit

depend greatly on the behaviour and interests of the village elite (Pain, 2016). In the specific case of saffron, it is clear that the saffron associations are primarily run in the interests of the large landowners (Minoia and Pain, 2016). Moreover, the bureaucratic processes required to establish associations are considerable, and only those who are well-connected (i.e. the village elite) are in a position to navigate them.

The nature of networks vary from provincial to district and village levels in relation to the identities of local elites, and can be more or less egalitarian. The higher the arenas of political and economic power that personalities of the network can access, the more likely it is that networks are horizontal. For those at the bottom of the value chain, the chance to access material and less tangible resources depends on their proximity to powerful figures, and to the personal interests of these elites.

4.2.5 Rent-seeking

Generally speaking, implementation of the rules is discretionary, and is heavily dependent on personalised connections and subject to the action of key brokers who collect and distribute rents (as in the customs house of Kandahar described by Pain *et al.*, 2016). At the higher reaches of regional and provincial economies, there is a complete intertwining between political and economic spheres. Key political actors seek economic rents through control or tariffs on trade – particularly if it is cross-border – as seen in the case of the provincial police chief in Kandahar (Jackson, 2016: 13). In turn, political connections ensure market control through regulatory practices that exclude competition, manipulate prices, and collude on cross-border taxes – as evidenced by the major onion traders of Jalalabad (Minoia *et al.*, 2014). This is not a market system that seeks profit for productive investment, but rather creates rents to support network sustainability.

More significant to the costs and functioning of markets are the rent-seeking practices of border officials, however, and informal check-points that populate roads from the field to the market place: onion traders reported at least 26 check-points between Torkham on the Afghanistan border and Peshawar, leaving aside those that exist between the districts and Jalalabad. While outright theft of the commodities under review was not reported, the border can be closed suddenly, which blocks movement of goods. Conflict, as experienced in the districts around Kandahar city, also has major effects on supply.

4.2.6 The reconstruction economy

The rise and fall of the reconstruction economy represents a major shock to market systems. While on the rise – largely in the service sector (World Bank, 2014b) – it created employment in the non-agrarian economy that fed back into village households and ultimately improved consumption and food security. The rise of the opium economy from 2001 to 2006 had similar, if not greater effects, stimulating short-term growth of the rural economy with profits largely invested by farmers into consumption goods, and by higher-level traders in both consumption and property/land purchases. Combined with the sharp fall in the opium economy (Kantor and Pain, 2012), the decline in reconstruction funds has hit urban economies hard and reduced trade (Minoia and Pain, 2015).

4.2.7 Land

Saffron is a semi-perennial crop that has been mainly adopted by larger farmers. In some cases, profits have enabled investments in land holdings, which indicates a degree of market development. As noted earlier, there also are cases of Herat saffron traders buying into the rural economy and accumulating land in order to integrate production.

But there is little evidence that commercialisation of commodity production (with the exception of opium poppy cultivation) has led to systematic accumulation of land by market-driven producers or expansion of employment and rising income for rural labourers. As we shall discuss, much rural labour is already under-employed, and where households do have the opportunity to intensify production, they largely absorb unpaid household labour. It is thus striking that many larger landowners with agricultural surpluses have primarily invested profits outside agriculture in the urban economy and trade in the service sector (although some investment has been undertaken in grape gardens where water is available) (Pain and Huot, 2017). As noted earlier, there is only one example of a major landowner in one of the Herat villages who mechanised his land (thereby reducing the returns to sharecroppers who essentially became labour paid in-kind) and leased out land for saffron (that subsequently led to the eviction of other sharecroppers) (Huot *et al.*, 2016).

Fundamentally, land is not commoditised or subject to market forces (Pain and Huot, 2017). Under conditions of significant landlessness, access to land is accounted for more by patron-client relations and non-contractual

obligations than market forces, which explains why processes of land accumulation and dispossession have not taken place on the whole. Thus, the nature of exchange and economic behaviour is characterised by social relationships rather than market relations based on transaction costs and profit.

4.2.8 Implications for market development

Relationships between producers and traders are complex, and terms of trade are difficult to determine. Given the unstable state of the rural economy and its socially structured nature, there is little evidence that intensification processes and market development can generate the required surplus to drive significant growth and employment.

There are aspirations, at least for Afghanistan (World Bank, 2014a), that production in intensive irrigated systems has import-substitution potential and opportunities to link to global value chains. And this is consistent with the CARD-F programme, in its focus on the market development of selected value chains oriented towards commercial farms and assumptions of income and employment creation. It is envisaged that this will be driven by improved technical inputs and crop-management practices, including better on-farm water management and, to some extent, improved infrastructure for storage and transport. But this is a model of technology-driven exogenous change, with little attention to price formation or market structures.

The evidence is very clear that political and non-economic institutions such as identity, class and patriarchy have an extraordinarily strong regulatory role in commodity markets. Indeed, if anything, these have been reinforced over the last decade through the conditions (Jackson, 2016) that have given rise to and reinforced the networked state.

Thus, while commodity markets clearly operate in Afghanistan, the regulatory role of social institutions and the politics of market places are what shape and control them. Simple supply and demand models, where price signals efficiency, poorly characterise such markets. If anything, the current reduction in external funding and ready access to easy money may drive a search for alternative resources to fund political networks, which may be found in more valuable (e.g. fruits and nuts)

traded agricultural commodities. Ultimately, such rent-seeking practices are unlikely to promote productive investment in agriculture and stimulate the growth that is hoped for.

4.3 Rural labour markets in Afghanistan

4.3.1 Lack of employment opportunities

The need for employment generation in Afghanistan is not in question, given current estimates of the levels of unemployment (24 percent of the working population) and underemployment (40 percent of the working population) in the rural economy (World Bank, 2015). A core proposition of the ASR (2014) is that expansion of higher-value crops in the most favourable locations would generate increased rural employment. But the main body of the ASR lacks evidence to support this claim, and it is presumed that the calculations that underpin them are based on simple supply-and-demand assumptions premised on the functioning of a largely neutral labour market.

Even if rural labour markets were to operate in this manner (and as we shall see, there is evidence to show that they do not), it is doubtful as to whether intensification of localised production in high-potential areas (well-irrigated, good access to markets) would generate sufficient employment to match the rural labour supply that is available.

The acute shortage of work in the rural economy has been exacerbated by a decline in urban economies in recent years, which has, in turn, resulted in increased demand for rural work. This was noted in both the Herat villages and similarly observed in Kandahar. As one informant from Kandahar reported:⁷

'The labour market has come down and about 65 % at the village are free and they are not able to find work for themselves. About 8 years ago, this percentage was about 10% and these 10% were busy in agriculture activities at the village level. The other 90% of people were busy in work outside the village.'
(Pain and Huot, 2017: 24)

Even doubling the demand for rural labour in crops such as grapes or wheat is not going to meet the need for employment for those who are currently working part-time.

⁷ See Pain and Huot, 2017:

Part of the argument for the multiplier effects of agricultural intensification relate to its impacts on the generation of employment in post-harvest operations and input supplies. But this generally requires more skilled labour.

4.3.2 Landlessness

Recent studies (Pain and Sturge, 2015; Pain and Huot, 2016) indicate that levels of landlessness in villages range from 40% to 80% of households, and that in well-irrigated villages land ownership tends to be highly skewed, with most of the irrigated land owned by a small few. Furthermore, small landowners with up to 1 hectare (ha) of irrigated land may also not generate sufficient food to meet subsistence requirements, so they must look for additional work to make ends meet. As one informant⁸ in Herat reported:

‘There are 84 households in the village and people with less than 1 ha have to work in other people’s lands or they have to work in Iran to make some money to feed the family.’ (Pain and Huot, 2017: Table 3)

Bearing in mind that this Herat village is well irrigated, with potential for double cropping and also close to Herat city (and therefore an example of the ‘first-mover’ location

that the ASR (2014) identifies), we get some sense of the scale of the rural employment challenge.

4.3.3 The irregularity of employment

The Herat village mentioned above is notable for its vineyards, and there is evidence that the production of grapes for raisins has intensified since 2001 (Huot *et al.*, 2016). There are four landowners (out of the 84 households) in the village who provide work for labour on a regular basis (see Table 1), with the vineyards providing the main source of employment for daily labour. However, most employment is on a casual, highly seasonal basis, with limited opportunities for permanent employment.

There are three main sources of labour work within the village, the first two of which could be seen as off-farm⁹ work. These are classified as non-skilled tasks (general agricultural labour and harvesting of grapes and wheat), semi-skilled labour (the pruning of grape vines) and non-farm work in skilled labour in masonry and construction. These attract wages of US\$4-5 per day, US\$7 per day and US\$8-14 per day, respectively.

There are essentially three periods of employment: 1) a six-week period from mid-February to March when

Table 1: Major employers of agricultural labour in village H1

	Land area	No. of permanent labourers	No. and duration of casual labourers
Landowner 1	4 ha grapes, 1 ha wheat	4	Pruning – 8 for 20 days in February-March Cleaning – 5 for 20 days in February-March Harvesting – 10 for one month
Landowner 2	1.2 ha grapes	0	Pruning and cleaning – 5 Irrigation – 4 once a week in April-September Harvesting – 5 for 15 days
Landowner 3	3.2 ha grapes	3 (sons, responsible for irrigation)	Pruning – 5 for 10 days Cleaning – 10 for 15 days Harvest – 10 for 20-25 days
Landowner 4	2.4 ha grapes	4	Pruning – 2 for 10-15 days Cleaning – 2 (with his 3 sons) Harvesting – family labour only

Source: Minoia (2016: unpublished data).

⁸ Informant H07 (Minoia and Pain, unpublished data on rural labour markets in two Herat villages). Villages H1 and H2 were part of the livelihood panel study (Huot *et al.*, 2016).

⁹ Off-farm work is work on land that is not owned by the worker; non-farm work is work that is not agriculturally related.

there is work in the vineyards; 2) a period for harvesting wheat that lasts for about 20 days from mid-June to the first week of July; and 3) a period for harvesting grapes from September to mid-October. Pain and Huot (2017) interviewed 15 households as part of their study, seven of which had a member working in agricultural labour, and only two of which were able to find work for at least 100 days a year (with 200 days seen to be full-time work). Not surprisingly, therefore, the key source of income for those seeking work is not within the village but outside it – individuals look for casual labour in Herat city, in the opium poppy fields of neighbouring provinces, or in many cases, migrate to Iran on a seasonal or long-term basis. Indeed, one informant reported that only about 10-15% of those looking for work could find it within the village, and the rest migrated to Iran for work.

Village H1's lands are reliably irrigated. Village H2's lands are not, and it has just one landlord who owns most of the village land. He sharecropped this land in the past, but in recent years he has not only mechanised production, but has also leased land to another farmer to cultivate saffron (Huot *et al.*, 2016). Not surprisingly, most households in this second village rely on finding work in Iran, with only 10% of households finding labour work in the village or other villages within the district.

4.3.4 The variability of wages

In the rainfed villages of Sar-i-pul the availability of off-farm work is even scarcer than in Herat, and levels of outmigration on a seasonal and more permanent basis have increased (Huot and Pain, forthcoming). The combined pressures of outmigration from more agro-ecologically marginal villages and insufficient opportunities in those villages that can generate agricultural labour opportunities indicate an enormous mismatch between those seeking labour and the supply of opportunities. Indeed, as we see below, the excess of labourers seeking employment means that – other than at key points of demand around the harvest of grapes when wages can rise from US\$5 to US\$7 per day – daily-wage rates can fall from US\$5 to as low as US\$3. Furthermore, various respondents in Sar-i-pul pointed to the more general depression of agricultural labour rates in the last few years as a result of the downturn in Afghanistan's economy more broadly.

Variation in daily-wage rates by season is one variable. But there is also between-year variation depending on

water availability and temperatures. An early frost can damage grapes, thus reducing the harvest and the demand for labour, and lowering the wage rates and number of paid days. Of course, a good year increases the number of paid days and the daily-wage rate.

Although the wheat harvest is paid in-kind rather than cash as with grapes, the same mechanism is at play, as one informant noted:

'The wheat harvest was very good last year and I received 1125kg of wheat (450kg per ha) from 2.5 ha of wheat. This year I received 360kg from just 2 ha of land and the remuneration per ha was 180kg because the crop was not as good as last year.'
(Informant H04, Pain ., 2016)

4.3.5 The social regulation of labour markets

Gender

Rural as well as urban labour markets¹⁰ are subject to heavy social regulation and governed by personal rather than impersonal relationships. The most significant factor is the regulatory role of gender, whereby women face considerable obstacles to working. In the most culturally conservative environments (as in the Kandahar villages), women usually do not work outside the home and at best may be involved in home-based embroidery or tailoring. Naturally there are exceptions, with examples found of married women managing and receiving income from livestock production or widows managing peri-urban domestic businesses (Pain *et al.*, 2016).

In the more liberal environment of Herat province, women have been drawn into saffron production, both as producers as well as labourers (Minoia and Pain, 2015). The reasons for women moving into saffron production may relate to the fact that the work is highly seasonal, and is needed at a time when male labourers are more likely to be away searching for employment in Iran. While a significant number of women (an estimated 5,000) are now in casual employment in saffron harvesting and processing in Herat province, this work is still segregated – limited to non-male places and paid at half the daily-wage rate (US\$3) of male labour. The grounds for this wage differential is that the tasks are considered 'women's work', and therefore by implication are not valued in the same way as that of men. It also points to the inability of women to seek or negotiate better wage

¹⁰ For urban labour markets see Pain and Mallett (2014) on Kabul's tailoring sector.

rates, and indicates the ability of male saffron traders and producers to keep women in a subordinate position.

The absence of male labour has driven striking changes in women's involvement in rural labour activities in Sar-i-pul (Huot and Pain, 2016). In 2008-2009, women participated in traditional income-generating activities: home-based activities such as spinning wool and embroidery, and making *gilims* (rugs). Due to the drought of 2006-2008 and other factors, livestock numbers fell during this period, the supply of raw materials was limited and demand dropped. But the drought also led to increased male out-migration, affecting the division of labour in the villages. Women became increasingly involved in on-farm agricultural activities, and began to enter what was once a strictly male sphere of the economy – grazing sheep, sharecropping land, and labour migration to Mazar to work in the brick kilns.

Social networks

In-kind payments for harvesting wheat points to the significance of social and non-market factors in structuring rural economic relations. As Pain and Huot (2017) discuss in their findings on livelihood trajectories in Afghanistan, the significant inequalities in land ownership, acute lack of rural employment and a broader context of risk and uncertainty have contributed to the enduring nature of Afghanistan's heavily socially embedded economy. As informants made clear, access to work opportunities depend very heavily on personal relationships that must be maintained both to secure future work, as well as access to informal credit and other assistance in times of need. For example, Landowner 3 in Table 1 is also the village headman or *arbob*, and according to another informant is able to secure voluntary labour to work on his fields without payment when he needs it – an indication of his powerful position in the village. Thus, there is evidence that patron-client relations and non-contractual obligations rather than market forces characterise access to rural work.

When opportunities for rural labour run out – as they appear to be doing in Sar-i-pul, although the return of opium poppy discussed later is shifting labour-market dynamics there – different processes come into play, which again reinforce the significance of personal relationships and history in structuring access to work. The study of livelihood trajectories in Sar-i-pul (Huot et

al., 2016) finds that in two of the villages (S1 and S2) households took refuge in Pakistan during the Taliban period where they acquired skills in brick-making, while those in village S3 migrated to Iran. Not only do social and personal connections structure current migration patterns, but skills such as brick-making picked up by households in villages S1 and S2 have since given them access to work in the brick kilns of Mazaar in Afghanistan.

This labour migration is brokered by *jammadars* (intermediaries), who play a central role in the villages by acting as creditors and securing work in the kilns. Evidence from studies of brick kilns in Kabul and Nangarhar (International Labour Organization, 2011) 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* as the key intermediary. These brokers act as the middleman between the brick-field owner and the labourers, responsible for recruiting workers and managing credit relations. Typically, in the winter when households have no access to work and limited or no food stores, the *jammadar* will give a cash advance to a household from the owner of the brick field. People will also take loans from the *jammadar* for specific events or projects such as house reconstruction, marriage, or funeral costs¹¹ The household is then indebted to the *jammadar*, who is in turn indebted to the kiln-owner as he is held responsible for paying loans if the household does not. The hierarchical nature of this debt bondage means that personal relationships and accountability are crucial to maintaining this arrangement – the kiln-owner will not hire anyone outside the *jammadars'* recruitment, and the *jammadar* in turn will not recruit anyone outside the village or whom they do not have some family, community, or ethnic tie with.

Households can easily find themselves in a situation of permanent debt to the *jammadars*, falling into debt in the winter and repaying loans in the summer; with limited options for employment elsewhere and low wages in the kilns, it can be extremely difficult to break out of this cycle of debt. Households reported selling livestock and other assets to pay loans, and, more commonly, committing themselves to work in future years to repay their debt. Despite this, it can still be seen as a privilege of sorts to have access to this credit at all; loans are only given to those who have some kind of relationship with the *jammadar* and so are not available to everyone:

11 B4, male respondent, interview 3, Huot and Pain (forthcoming).

'...the jammadar is giving the loan just to those that are able to pay [back] the loan. If something happened to the family that they can't pay the loan, then he will wait for the next year to take repayment of the loan from the family. But if this is not happening then the jammadar take assets or other things in exchange, because each jammadar is giving... money just for those that they are working for him and he knows them well.' (B4, male respondent, interview 3 , Huot and Pain, (2017, household interview notes)

In sum, it is clear that rural labour markets are not structured by simple supply-and-demand considerations, but are deeply embedded in social relations. Wages can often be paid in-kind rather than cash, and are determined more by custom and segmented by gender, locality and age. Often, as seen clearly in the case of migrant workers to the brick fields, there are interlocking contracts on credit and wages, indicating the degree of informal regulation of access to work that simple supply-and-demand considerations do not take into account.

5 Discussion and recommendations

Afghanistan's economy is in a dire state achieving only GDP growth of 1.3% in 2014 and 2015 (Byrd, 2015). So, how might we engage with markets in Afghanistan to stimulate growth in the rural economy, provide better employment opportunities and ensure better distributional outcomes?

5.1 We need to focus on domestic and urban demand

Byrd (2016) proposes a useful set of near-term measures that could stimulate overall demand and support domestic production. Those that are relevant to Afghanistan's rural economy include: (a) programmes to increase overall demand, such as supporting **infrastructure projects that generate employment and targeted urban development** where demand can be generated; (b) **measures to support domestic production**, including targeted social protection programmes for the urban poor, increasing local procurement, and imposing import tariffs on agricultural cash crops that compete (often with country-of-origin subsidies) with those that are produced in Afghanistan; and (c) promoting **export value-chain development for high-value cash crops**.

These measures, in their emphasis on the need for intervention, are a necessary counterpoint to the wishful free-market thinking of the ASR (2014a). And the emphasis on domestic and urban demand correctly broadens the rural agenda. Indeed, given the lack of opportunities in the rural economy at present, many rural households would most probably welcome the idea of structural transformation in Afghanistan's economy and the possibility of better urban employment.

5.2 Commodity markets must be recognised as complex systems

In order to understand how they function in practice, commodity markets must be **approached and analysed as complex systems** (Jan and Harriss-White, 2012), paying attention to three aspects summarised in Table 2.

Given their selective examination of certain aspects of the market system, the market studies on which this synthesis is based do not come close to addressing this complexity, even if they evidence some of the key non-state regulatory practices that take place. An exception to this is Harriss-White's (2008) long-term study of agricultural markets in West Bengal, which, in examining why growth in agricultural production has not translated into rural poverty reduction, clearly shows how social

Table 2: Three dimensions of market complexity

Core aspects	
Structure	<p>Elements: firms, their social organisation, technologies and location</p> <p>Relations: flows of commodities and money</p> <p>Regulatory practices: state and non-state</p> <p>Shocks: environmental, economic, political, environmental</p>
Function	<p>Control of the labour process</p> <p>Flows of commodities</p> <p>Flows of money</p>
Changes in market structure and relations over time	<p>Exogenous: technology and price</p> <p>Endogenous: competition, contradictions, non-economic social institutions</p>

Source: Adapted from Jan and Harriss-White (2010: 46).

regulation of the market has led to a concentration of market power that limits returns to less powerful actors. There are clear lessons here for Afghanistan and elsewhere: **it is not just about achieving agricultural growth, which Afghanistan’s agricultural sector has largely failed to do, but also about investigating how the benefits of that growth are distributed.** Moreover, under conditions of climate change, even the growth potential for agriculture, let alone the durability of rural infrastructure, is likely to become increasingly uncertain.

5.3 We need better analytical and policy models

It is surprising that the stripped-down value-chain models that simply focus on competitive conditions, price formation and performance still appear to largely frame the CARD-F approach, and also characterise (at least in the early years) USAID support to markets in Afghanistan (Pain and Lister, 2007). In our view, **understanding of markets in Afghanistan has to move beyond these simplistic and abstract models that bear little relation to reality.**

Value-chain models have evolved to take account of power structures in the market place and distributional outcomes (Mitchell and Coles, 2011). But the emergence of the ‘Making Markets Work for the Poor’ (M4P) Approach (DFID and SDC, 2008) gives much **greater attention to market context and market power.** Indeed, the development of what are now termed ‘**market systems approaches**’ (Humphrey, 2014) have much in common with, and deepen, M4P in their focus on understanding core market transactions, institutions, services and infrastructure. The M4P model sets the

market system within an institutional landscape of government, the private sector, representative bodies and the not-for-profit sector, an envelope of support functions and rules, and an operational core of supply and demand (DFID and SDC, 2008). It is a model that gives attention to market complexity, but its perspective on the institutional landscape and rule-making practices still poorly addresses the circumstances of Afghanistan. Moreover, with supply and demand at the core of the M4P model, the role of markets in extracting profits is also absent – which the World Bank’s (2008) model of agrarian transformation suggests will help drive structural transformation and development.

5.4 Lessons can be learnt from the opium poppy market

Opium poppy appears to be the one commodity market in Afghanistan where analysis has been undertaken of the **informal power relations that structure exchange and market regulation** – albeit from a very clear value stance (UNODC, 2003). The Janus like nature of opium poppy (Pain, 2010; 2012) – on the one hand portrayed as an evil, but on the other hand as a commodity that has delivered employment, food security and income for many rural households – invites broader questions about what can be learnt from its dynamics. Indeed, **it is an example of a commodity that has bucked the trend – a spread of almost unprecedented technical change in a rural economy that has absorbed labour and brought other widespread benefits.** Price is certainly part of the story, but opium poppy has specific characteristics – its **fit in the cropping system** (not displacing wheat), its requirement for **intensive management and harvest**

labour (including that of female workers) that has driven both higher wage rates and availability of work, its **responsiveness to management inputs**, and its **storage qualities**. These, combined with strong market support structures (notably credit provision and farm-gate purchase), act to reduce the risks around its cultivation.

Relatively speaking, opium poppy is a low-risk crop in a high-risk environment. It has offered increased access to land for the many landless in Afghanistan's socially embedded economy. And, in effect, has acted to keep a significant percentage of the rural population working on the land, who might otherwise have been forced to migrate from rural to urban areas.¹² If and when there is a significant and permanent decline in opium poppy cultivation in Afghanistan, the opportunities for those with little or no land to engage in the rural economy will also significantly decline.

5.5 We must broaden our understanding of risk

The neoclassical position is that markets effectively act to spread risk across people and distance. But much of this is premised on an idealised view of how markets actually work. Dercon (2004), on the other hand (who would clearly position himself within the paradigm of mainstream 'neoclassical' economic theory), focuses particularly **on conditions of uncertainty and power where the free-market model simply does not work**, namely, in relation to risk and uncertainty.

The pervasiveness of risk and its downside – potential vulnerability to food insecurity or poverty, for example – is not just a dimension of poverty, but is in itself a cause of poverty (Dercon, 2004). Risk and shocks can have permanent effects on income, nutrition and human-capital formation. There is considerable comparative evidence (Dercon, 1996) that the presence of high risk in relation to markets and market prices, combined with limited assets and therefore protection against price fluctuations, can have a major influence on the choice of crops and technology (which is consistent with the shift to opium poppy cultivation in Afghanistan). Asset-poor households will often choose low-risk, low-return activities (i.e. subsistence crops or sub-optimal levels of inputs and management, for example) that will result in a more secure but lower average income, thus contributing to continued income poverty (Dercon, 1996).

Dercon's analysis leads to a robust set of arguments with respect to **developing social protection policies based on the economic rationale that they are also good for growth** and can contribute to broader equity and efficiency. But it also widens the scope of our understanding of risk to address **not only risk to income, but also risk in terms of access to assets, an uncertain policy and institutional environment, and the inability to transform income into wellbeing** through the achievement of consumption, health or education goals due to uncertain public-service provision.

Greater attention is needed to the multiple dimensions of risk and the means of mitigating it. In part, this is the recommendation of Dorward *et al.* (2004), who argue for the provision of support to reduce cost and price risks, and allow markets to thicken in terms of transactions so that supply and demand comes to play a greater role. **But steps need to be taken to address the politically saturated nature of markets** and the broader nature of the risk environment, including **overt and structural violence or rent-seeking practices** of the more powerful.

As the SLRC study on the onion market shows (Minoia *et al.*, 2014), despite its many forms of social regulation that skew returns to the powerful and create risks for those further down the value chain, it functions and, furthermore, has grown in recent years. It is also integrated into regional markets, albeit under adverse terms. Access to credit and market information are not the constraints that producers face, although informal credit systems are one of the regulatory factors in the market. Systemic change in the way that it or the saffron commodity market function will not be brought about by the limited technocratic interventions that current programming for market development evidences. Certainly, in the case of onions, improved cold-storage facilities might well provide buffers to reduce price volatility, and across-season storage would help support a domestic market and limit imports off season.

5.6 We must recognise and address the political and social structure of markets in order to support growth

The assumption that collective action (i.e. through the formation of producer associations) might provide some means of pooling risk and strengthening agency are

¹² In this sense, an analogous role to that of the cultivation of potatoes, which greatly increased the calorie output per unit area and historically increased the security of subsistence levels in mountains leading to increased population densities in Switzerland in the 18th Century (Viazzo, 1989), as well as northern Nepal in the 20th Century (Stevens, 1996).

challenged by the evidence, and in themselves do not address the political structure of markets at district and provincial levels. There is evidence of strong patron-client relations in villages (Pain, 2016), where elites – particularly in well-resourced areas with the potential for agricultural growth but with high degrees of land inequality – often work in their own interests. In these contexts, village elites are in a position to block or subvert such collective action that may undermine their power in the village. Collective interests feature more strongly in marginal places – which are often food-insecure villages – but these are not conditions under which agricultural growth is possible. Where agricultural growth does take place, the benefits of more and better employment cannot be assumed within the labour market, given the many who are seeking work and the power relations and social regulations at play.

Greater recognition and analysis of the complexity of Afghanistan's market systems is an important step forward towards economic transformation; but the pervasive politics of markets represent fundamental challenges as to if and how external interventions

can promote growth and ensure better distributional outcomes. Analysis of Afghanistan's market systems **must recognise the saturation of both local and wider power relations within the country's commodity markets, in order to support the systemic changes that are needed to widen the benefits of growth.** M4P approaches seek systemic change in market-system performance (Humphrey, 2014), but this can hardly be achieved by promoting change in individual commodity systems at a district, let alone a provincial, level. As the Independent Commission for Aid Impact (ICAI) report on DFID's private-sector development strategy notes, there are fundamental issues of 'coming to scale' that need to be addressed. This is likely to be beyond the ability of 'mid-level' programmes and single agencies to achieve, even with medium-term programming (ICAI, 2014), and is a lesson that the European Union needs to take into account in its planned support to Afghanistan's Agriculture and Rural Development sector.¹³ Changing the incentives within Afghanistan's commodity and labour markets first requires fundamental changes in its networked state, which are unlikely to happen any time soon, or be easy to implement (Jackson, 2016).

¹³ http://eeas.europa.eu/delegations/afghanistan/documents/content/multi-annual-indicative-programme-2014-2020_en.pdf, Accessed December 16th 2016

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Understanding rural markets in Afghanistan

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