

Holly Ritchie

Beyond the Value Chain Model

Deconstructing Institutions Key to Understanding Afghan Markets

1. INTRODUCTION

Despite the on-going conflict in Afghanistan, entrepreneurial activity is 'ubiquitous',¹ and business is thriving, particularly amongst certain families. There is an assumption by the aid community that all entrepreneurship is productive and will facilitate prosperity and peace. Yet findings from Africa suggest that entrepreneurship may not always generate economic growth and development, as previously suggested by Baumol et al.² There has been increasing discussion by development theorists about the complex role of social/cultural institutions (ie, norms, values) in 'market-oriented' development and the role of social regulation (as a result of gender, ethnicity and caste) in causing exclusion or 'adverse incorporation'.³ Harriss-White highlighted the role of 'non-state regulative structures' and suggested that markets comprise '*bundles of institutions*'

embedded in broader 'regulating institutions'.⁴ Pain suggests that traditional markets in Afghanistan cannot be disentangled from the nature of the current context of the Afghan state and society governing their behaviour, both in the problematic formal regulation and extraction of 'bureaucratic rent' and in the non-economic forces of control.⁵

Facilitating development led by the private sector is viewed as the key strategy to Afghanistan's economic growth, as indicated in the Afghanistan National Development Strategy (ANDS) and key donor policy documents. Yet little appreciation is given to prevailing societal institutions, related information asymmetries and the prevalence of non-economic obligations.⁶ Priority sectors have been selected (both for export and import substitution⁷) and value chain projects formulated (particularly by USAID and GIZ). A great deal of

¹ Tommaso Ciarli, Saeed Parto and Maria Savona, 'Conflict and Entrepreneurial Activity in Afghanistan: Findings from the National Risk Vulnerability Assessment Data,' UNU WIDER Discussion Paper for Workshop on Entrepreneurship and Conflict INCORE, University of Ulster, Northern Ireland, 2009.

² William Baumol, 'Entrepreneurship in Economic Theory', *The American Economic Review* 582 (1968): 64–71.

³ Susan Johnson, *Making Markets Work for Poor People: The Role of Social Regulation*, UK, University of Bath 2006.

⁴ Barbara Harriss-White, 'On Understanding Markets as Social and Political Institutions in Developing Economies' in *Rethinking Development Economics*, ed H Chang, London, Chicago and Delhi, Anthem Press 2003.

⁵ Adam Pain and Jackie Sutton (eds), *Reconstructing Agriculture in Afghanistan*, UK, FAO and Practical Action 2007.

⁶ Adam Pain and Sarah Lister, 'Markets in Afghanistan' in *Reconstructing Agriculture in Afghanistan*, eds Pain and Sutton (see FN5).

⁷ For example, exports include dried fruit and nuts, carpets and cashmere. Imports include vegetable oil, poultry products, dairy products, wool, bottled water and soap/detergents (Afghanistan Ministry for Rural Rehabilitation and Development).

effort is now being channelled into these enterprise-development initiatives with varying degrees of success. Markets are assumed to be open and free, and social and political dimensions are largely ignored. All that is conceived to be required to jumpstart markets is 'entrepreneurship' support. Little discussion is held about the market itself or the underlying forces of influence beyond the basic nature of exchange, e.g., factors influencing supply and demand such as competitive pricing and efficiency.⁸

A core emphasis of private sector development projects – such as USAID's Economic Growth Programme⁹ – is accelerating 'Small and Medium Enterprise' (SME) development in Afghanistan, with an implicit assumption that this will gradually resolve all other market failures and inhibit the growth of 'terrorism'. Activities include business development services to encourage the establishment and growth of SMEs and public-private partnerships as well as facilitating 'internal and external market linkages' to strengthen value chains in priority sectors. Yet steps to resolve root social and cultural constraints to equitable economic development (decoupled from politics) in Afghanistan remain absent. Using the lens of institutions, this article argues that a more realistic, cautious and subtle approach to market development is required. The article discusses market development and the much-hyped value chain approach, the informal nature of Afghan markets and the importance of social networks, the trading elite and power, and the context of risk and the poor. It then highlights innovative mechanisms of grassroots social change towards more inclusive and pro-poor economic development with a particular focus on gender.

2. MARKET DEVELOPMENT AND THE VALUE CHAIN APPROACH

Evolving predominantly from new institutional economics, the value chain approach has been a popular tool used to facilitate market development.¹⁰ In addition to its use by the private

⁸ Pain and Lister, 'Markets in Afghanistan' (see FN6).

⁹ USAID's Small and Medium Enterprise project aims to specifically increase opportunities for trade, employment and investment by improving private sector productivity.

See www.afghanistan.usaid.gov/en/Program.22.aspx (accessed September 2010).

¹⁰ A value chain is defined as the entire range of activities through which a product or service passes from initial production to final delivery to the consumer

and public sector to promote economic growth, the value chain approach has been increasingly adopted by development agencies to enhance market participation of poor producers in global value chains and to facilitate their improved earnings. This economics-driven approach is hailed as the new silver bullet for accelerating developing country markets towards comprehensive poverty reduction. Yet it has stumbled on market complexities arising in fragmented contexts and on incorporating the influence of socio-cultural factors. Where formal institutions are weak, the social, cultural and political framework may determine access and scope of participation in markets. Understanding the informal institutional context is therefore imperative, particularly in how this may affect clientelism and social, political and cultural exclusion in socio-economic structures. Market development programmes tend to overlook the fundamental importance of these evolving institutions and local contexts and their influence on social relations, trust and cooperation. Over the long term, this risks becoming counterproductive. Pursuing a strictly economics-based strategy may indeed perpetuate and exacerbate the nature of existing social exclusion,¹¹ particularly in an informal and unstable context.

3. THE REALITY OF AFGHAN MARKETS

Since they are characterised by informality and power distortions, understanding Afghan markets requires looking at how the trade is embedded, assessing the distributional spread of income and profits, and identifying control mechanisms within the chain.¹² It is also essential to consider the context of risk/distrust that leads to the perpetuation of predictable trade linkages.¹³ Yet

(Raphael Kaplinsky and Mike Morris, *A Handbook for Value Chain Research*, IDRC 2002). The value chain approach aims to provide insights into the nature and determinants of competitiveness and dynamics of inter-linkages between market actors, to identify returns on activities and to assist with the formulation of appropriate leverage points to resolve value chain constraints towards improving the participation of market actors in global markets.

¹¹ Ian Christophos and Dorothea Hilhorst, *Human Security and Capacity in Fragile States*, Wageningen University 2009.

¹² Pain and Lister, 'Markets in Afghanistan' (see FN 6).

¹³ Holly Ritchie and Anthony Fitzherbert, *The White Gold of Bamyan: A Comprehensive Examination of the*

despite their informality, Afghan markets should not be portrayed as simply 'traditional', and solely based on subsistence-based agriculture and antiquated techniques. This somewhat misses the 1960s global market orientation of major sectors such as dried fruit (particularly raisins) and karakul lambskins.¹⁴ The agricultural market context may be more appropriately characterised as adaptable to 'episodic development interventions, recurrent drought, periodic conflict and the regional politico-economic situation'¹⁵

History sheds light on Afghan institutions and markets. During three decades of war and instability, nascent (pre-conflict) formal institutions were weakened or destroyed. Informality has thus persisted with limited control mechanisms, shaped by a context of risk and distrust. This has led to the evolving 'distorted' nature of Afghan business, where trading remains dominated by powerful and traditional players. While some recent efforts have been made to formalise trading, poor enforcement, continued uncertainty and discriminatory (social) institutions result in power asymmetries and high transaction costs that are mostly borne by producers (including identification of trustworthy suppliers/buyers, and costs associated with negotiation, measuring, transfer, monitoring and contract enforcement).¹⁶ It is argued that current (inequitable) economic growth in Afghanistan may not necessarily lead to improved broader political governance (and institutional development) as many policy makers suggest. In fact, current market functioning may indeed have a negative impact on political governance and state building.¹⁷ It may also lead to 'unproductive' economic growth and social discontent.

4. AFGHAN MARKET DYNAMICS: NETWORKS, SOLIDARITY AND RISK

Despite extensive private sector support, Afghan markets remain embedded in local social relations

Bamyan Potato Value Chain from Production to Consumption, Kabul, Solidarites 2008.

¹⁴ Ian Christoplos, *Out of Step? Agricultural Policy and Afghan Livelihoods*, Kabul, AREU 2004.

¹⁵ Ibid.

¹⁶ Laurence Smith and Mike Stockbridge, 'Facilitating The Provision of Farm Credit: The Role Of Interlocking Transactions Between Traders and Zamindars In Crop Marketing Systems in Sindh', *World Development* 27, 2 (1999): 403–418 (cited in Christoplos, *Out of Step?* See FN14).

¹⁷ Pain and Lister, 'Markets in Afghanistan' (see FN6).

and networks. Social organisation is complex and diverse in Afghanistan, reflecting the linguistic, ethnic and geographical heterogeneity (and related power dynamics) and the importance of bonds and reciprocity.¹⁸ Traditional trust and interconnected networks of kinship, friendship, ethnicity and regional affiliation are part of the intricate web of Afghan social relations. Afghanistan's resilience and survival during decades of conflict have been greatly attributed to the formation and development of 'social capital' in 'strategic family alliances' and solidarity networks and relations with diverse groups. Tribal-based *qawn* and religious *ulema* networks are the informal norm-based social networks in Afghanistan that influence societal interaction and relations. In the absence of a strong state, often such traditional relational networks and associations are considered to thrive (rather than break down) as people depend on them for trust and solidarity.¹⁹ In the context of chronic conflict and instability in Afghanistan, people have indeed depended on these networks for their very survival.²⁰ And inevitably, with high levels of risk and vulnerability, such relational ties dominate both social and economic behaviour. These exclusive relations and networks determine the nature and scope of market participation and development.

5. TRADING ELITE AND POWER

As a result of these traditional networks, there are high levels of integration within business chains, and deals are still largely conducted on the basis of 'personalized client and social relationships', which are grounded in ethnicity, family relations, history and religion.²¹ Pain and Lister contend that the business elite is strongly connected to political power holders, facilitating tax exemptions, trading security, access to contracts and channels to launder money. The current thriving business environment may be characterised as an 'oligopoly' and is predicted to lead to increased social inequality.²² Sectoral evidence suggests that

¹⁸ William Maley (ed), *Fundamentalism Reborn? Afghanistan and the Taliban*, Lahore, Pakistan, Vanguard Books 1998.

¹⁹ Carolyn Nordstrom, 'Shadows and Sovereigns' *Theory, Culture and Society* 17, 4 (2000) 35–54.

²⁰ Michael Bhatia and Jonathan Goodhand, *Profits and Poverty: Aid, Livelihoods and Conflict in Afghanistan*, London, Overseas Development Institute 2003.

²¹ Pain and Lister, 'Markets in Afghanistan' (see FN6).

²² Ibid.

sectors are indeed growing in Afghanistan,²³ but the challenge is in facilitating an increase in participation in markets with benefits of more widely distributed growth and reduced inequality. While a broader political strategy should promote good governance decoupled from business, key practical steps towards improving competition incorporate (formal) institutional building to combat corruption and awareness-raising initiatives for external actors.²⁴ To boost the inclusion of smaller players, other activities include instituting tax reforms, improving micro credit markets, and stimulating collective action through associations.²⁵

6. MAINTAINING RELATIONS IN RISKY CONTEXTS: THE POOR'S 'FAUSTIAN BARGAIN'?

*Risk due to institutional uncertainty is a key factor that locks households into dependent, client-based relations.*²⁶

While formal institutions may improve market efficiency, it is unclear whether the more marginalised and vulnerable producers will manage to compete due to the traditional bounded nature of 'trust and market-based relations'.²⁷ Rather, the challenge is in facilitating gradual change in these 'deep-seated causes of non-competitive behaviour, which are rooted in complex patterns of social relations affected by decades of conflict and lawlessness'.²⁸ The persisting context of uncertainty and risk in formal institutions is indicated to lead the poor to nurture and maintain strong patron-client relations, prioritising immediate survival over new

opportunities and future prosperity. Wood uses the concept of 'adverse incorporation' to describe the behavioural imperatives of 'risk aversion' in the present in favour of short-term security,²⁹ which is typical in these unstable contexts. Patron-client relations play a major role in facilitating access to land, inputs, credit and markets but also in providing protection.³⁰ Pain adds a fourth dimension (beyond state, market and family), citing Gough, Wood et al and their adaptation of the Esping-Anderson Model for developing country contexts: that of the 'community' in its critical role in determining social relations and identities and providing a means to achieve security.³¹ The context of risk is a structural/institutional element in Afghan livelihoods, beyond external shocks (eg, drought) but entrenched in inequality, class, power dynamics and social exclusion, affecting access to employment, assets and resources, and influencing degrees of poverty.

In viewing market-based growth as a solution to poverty, it is thus imperative to appreciate the risky nature of markets in Afghanistan. Small market players may often be trapped at a 'micro-level' of activity or be constrained by marginalisation. For example, agricultural or craft producers may be locked or tied into relationships with middlemen that are formed on the basis of personal trust, with small margins.³² But traditional relationships and systems may alternatively help in reducing risk particularly in transit, where theft, seizure and bribes are commonplace.³³ Local politics and relations also influence how businesses grow: many rural small- and medium-sized enterprises choose not to expand formally because they fear being 'noticed' and 'coerced by corrupt elements'.³⁴ Citing the World Bank, Paterson suggests that high levels of close support networks were a 'positive force allowing poorer people to

²³ Ritchie and Fitzherbert, *The White Gold of Bamyan* (see FN13); Holly Ritchie, *Sub-Sector Analysis and Business Plan Development/North Region, Afghanistan: Carpets, Melon and Almonds*, Kabul, Afghanistan/MRRD (unpublished) 2007; Holly Ritchie, *Assessment of Selected Producer Food Processing Enterprises in Kabul, Herat, Badakhshan, Afghanistan*, Kabul, FAO (unpublished) 2009; Holly Ritchie, *Medicinal and Wild Plants Market Assessment Afghanistan*, Kabul, FAO (unpublished) 2010.

²⁴ Pain and Lister, 'Markets in Afghanistan' (see FN 6).

²⁵ Ibid. The Ministry of Agriculture is indeed promoting associations and cooperatives of producers to facilitate marketing, although the national strategy remains weak (Ritchie and Fitzherbert, *The White Gold of Bamyan*. See FN13.).

²⁶ Pain and Lister, 'Markets in Afghanistan' (see FN6).

²⁷ Christoplos, *Out of Step?* (see FN14).

²⁸ Pain and Lister, 'Markets in Afghanistan' (see FN6).

²⁹ Geoff Wood, 'Staying Secure, Staying Poor: The Faustian Bargain' *World Development* 31, 3 (2003) 455–71.

³⁰ Ritchie and Fitzherbert, *The White Gold of Bamyan* (see FN13).

³¹ Ian Gough, Geoff Wood et al, *Insecurity and Welfare Regimes in Asia, Africa and Latin America: Social Policy in Development Contexts*, UK, Cambridge University Press 2004.

³² Anna Paterson, *Going to Market: Trade and Traders in Six Afghan Sectors*, Kabul, AREU 2006.

³³ Adam Pain, *Opium Trading Systems in Helmand and Ghor*, Kabul, AREU 2006.

³⁴ Saeed Parto, Anna Paterson and Asif Karimi, *Enabling or Disabling: The Operating Environment for Small and Medium Enterprises in Rural Afghanistan*, Kabul, AREU 2007.

become entrepreneurs'.³⁵ But such support networks and relationships of trust may also limit access and trading partner choices (and related benefits) in the risky context of Afghanistan.

7. INCLUSIVE ECONOMIC DEVELOPMENT THROUGH PROGRESSIVE SOCIAL INSTITUTIONS

In an attempt to go beyond the status quo, market development projects endeavour to facilitate new trading relationships between producers and (non-local) buyers. Yet the project pace, strategy and expectations are often inappropriate. In the rush to channel produce in a new 'more profitable' direction, little consideration is given to existing social ties/obligations – for example, between farmers and traders – in developing new relations, trust and cooperation, particularly in a context of risk.³⁶ Meanwhile, projects with women stumble upon socio-cultural barriers to both entry and participation in enterprise initiatives.³⁷ In Afghanistan, gender norms (eg, *purdah*)³⁸ mean that economic practices are particularly constrained for women, limiting the scope of their activities, with the reality that 'most women are not linked into markets'.³⁹ Women are usually confined to specific trades (eg, handicrafts) and do

not work outside of the home. Some traditional activities such as carpet making can even be ethnically selective with long-term links between 'producer' communities and traders.



Women's self-help group in Balkh province preparing tomato paste for the local market.

While rights campaigners view formal laws as the mechanism to promote broader social, economic and political roles and opportunities for women, the policy discourse suggests that new formal institutions must resonate with the prevailing culture to enable a sustainable change in behaviour.⁴⁰ Several innovative community initiatives have indeed taken an alternative grassroots-oriented approach to facilitating inclusive economic development and in the process transformed local attitudes towards women in business and community life. These projects have demonstrated that socio-cultural constraints with women can be (gradually) overcome, and new roles can be facilitated with far reaching consequences for the future social/economic development of communities.⁴¹

7.1 Networks and knowledge precipitate new socio-economic activities

In northern Balkh and Badakhshan provinces, the Indian-modeled Self Help Groups (SHGs) have increased women's skills in money handling and access to microcredit as well as boosted social networks between women and

³⁵ World Bank, *Social Capital in Poverty Reduction and Economic Development* at www.go.worldbank.org/73YBNN320 (accessed September 2011) cited in Paterson, 'Going to Market' (see FN32).

³⁶ Holly Ritchie, *Market Support to Apricot Associations [Bamiyan]*, Kabul, (unpublished) Solidarites 2009.

³⁷ Holly Ritchie, *Understanding Gender in Enterprise Development in the Context of Afghanistan: Barriers and Solutions*, Kabul, Harakat 2011. This paper drew off broader PhD research, 'Institutional Construction in Value Chain Development: Shaping Economic Development in Afghanistan' (2010–11), exploring the transformation of *purdah* in women's enterprise development in Afghanistan. The research included three case studies of poor women's businesses in Kabul, Herat and Parwan.

³⁸ *Purdah* is defined as 'the practice in certain Muslim and Hindu societies of screening women from men or strangers' (Oxford Dictionary online, accessed September 2011). Strict interpretations of *purdah* tend to confine the women to the household influencing the extent of women's social and political life, access to services and resources, and engagement in economic activities (Ritchie, *Understanding Gender in Enterprise*. See FN37).

³⁹ Adam Pain and Jo Grace, *Rethinking Rural Livelihoods in Afghanistan*, Kabul, AREU 2004.

⁴⁰ World Bank, *Afghanistan*, World Bank Approach Paper 23, Washington DC, World Bank 2001.

⁴¹ Ritchie, *Understanding Gender in Enterprise* (see FN36).

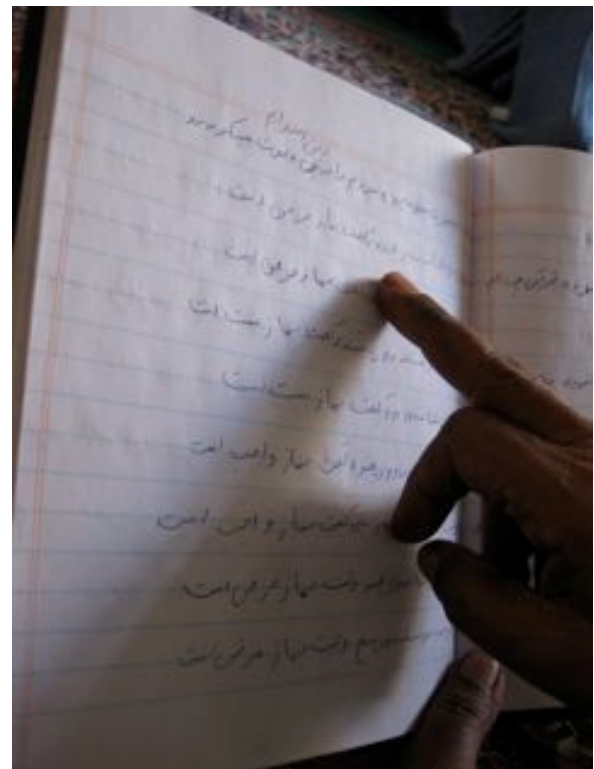
community power holders.⁴² Simple food processing businesses have been initiated, and older (and more mobile) women have started basic trading activities such as buying/selling garments to relatives in neighbouring villages.⁴³ While the economic impact may be modest (in the short term), the social impact is significant. SHGs have subtly boosted women's confidence and demonstrated their capacity to be active household contributors, which is broadening ideas on the potential role of women in communities. This has promoted attitude changes towards female involvement in enterprise, social exchange beyond the confines of the family, and women's participation in community decision-making.⁴⁴

7.2 Progressive religious education: laying the platform for new business roles

Meanwhile, in the western province of Herat, another progressive – and notably strategic – approach to promoting 'attitude change' was adopted by a local NGO involved with women's enterprise development.⁴⁵ A powerful combination of acquiring community trust as 'non-foreign' outsiders and the provision of Islamic education (eg, highlighting the role of the prophet Mohammed's wife in business), alongside literacy support and storytelling, has facilitated support for women's changing roles. In particular, a re-examination of the Koran has led to the revision of cultural and religious 'codes'.

These progressive educational initiatives have expanded ideas on women's roles in business in addition to supporting women's own knowledge on Islamic practices. This has permitted the emergence of new economic

practices (such as marketing) and increased women's standing in the household and community. Twenty women's community groups have now evolved into a full-fledged food processing enterprise, supplying the local domestic market in Herat. While the project has now met its goals in establishing a women's enterprise, it has been perhaps most successful in facilitating the development of *less discriminatory (social) institutions*, influencing subsequent economic (and social) development pathways.



Learning messages from the Koran on religious practices and women's roles

8. FRAGILE SEEDS OF CHANGE?

Going beyond the simplistic donor view on private sector development, this discussion has highlighted the informal nature of Afghan markets, which is constrained by a context of risk that influences both economic and social behaviour. It has also highlighted critical mechanisms of change. Grassroots initiatives have demonstrated the importance of facilitating gradual social and cultural institutional change in promoting equitable

⁴² Self Help Groups (SHGs) or Savings and Credit Groups (SCGs) organise people (approximately 15–20 in one group) with similar wealth backgrounds to learn basic accounting and initiate/expand economic activities.

⁴³ This includes milk candy (mostly limited to Ramadan), chutney and pickles, tomato paste, jam, juice and syrup, dried products and almond oil. Some of these replace Iranian products in the market. Holly Ritchie, 'Assessment of Selected Enterprises' (FN23).

⁴⁴ Ritchie, *Understanding Gender in Enterprise* (see FN36).

⁴⁵ Ibid.

and more inclusive economic (and social) development. Yet, without subsequent supporting law and order, new roles and practices remain fragile due to the prevailing

conservative attitudes in neighbouring communities, uncertain local politics and persisting instability.

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Holly Ritchie has a background in finance, international development (MA) and enterprise development with experience in Afghanistan (7 years), Bahrain and Brazil. She was a director for the NGO Afghanaid between 2005 and 2007. With a passion for pro-poor market development, she now consults for development agencies (including FAO, Oxfam and Tearfund) and government ministries in Afghanistan (including MAIL and MRRD), alongside her PhD research. She has conducted several value chain analyses, designed rapid market research toolkits, conducted national-level training in association development, and undertaken socio-economic evaluations. Her PhD research examines the process of social and cultural institutional change in women's enterprise development in Afghanistan and the implications for broader economic development (Institute of Social Studies, Erasmus University, The Hague 2009–2013, expected).

ABOUT THIS CHAPTER

This chapter is part of a larger volume called *Snapshots of an Intervention: The Unlearned Lessons of Afghanistan's Decade of Assistance (2001–2011)*, edited by Martine van Bijlert and Sari Kouvo. The volume is a collection of 26 short case studies by analysts and practitioners, each with long histories in the country, who were closely involved in the programmes they describe. The contributions present rare and detailed insights into the complexity of the intervention and, in many cases, the widely shared failure to learn necessary lessons and to adapt to realities as they were encountered.

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