



BEYOND THE MARKET

Can the AREDP transform Afghanistan's rural nonfarm economy?

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Overview

The recently-launched Afghanistan Rural Enterprise Development Program (AREDP) was set up as a mechanism to promote rural employment and reduce poverty through market-led growth. However, the limitations of both agriculture and rural livelihood diversification as a path to prosperity raise serious questions about the AREDP's ability to achieve its goals. The results of a recent AREU study on rural livelihood security suggest that the vision of an agriculturally-led economic transformation has borne little fruit over the course of the past decade, with livelihood improvement often closely tied to engagement with urban economies and rural diversification being primarily a coping strategy to mitigate agricultural failure.

The study tracked the livelihoods of 64 households in eight villages distributed across Kandahar, Badakhshan and Sar-i-Pul Provinces from 2002-10, with supporting village-level data from three communities in Faryab Province. During this eight year period, only 13 of the 64 households became observably better off. While a further six managed to maintain the same living standards, 45 experienced a deterioration in their livelihood circumstances. This widespread decline is tied closely to the stagnation of agriculture in more marginal areas, with households trapped by a range of factors including unreliable rainfall, underinvestment, resource constraints, and declining land availability due to population pressure.

In areas of high agricultural potential, good market access and relatively low poverty rates, the AREDP may well provide a boost for market-driven agriculture, though due to large inequalities in landholdings such benefits are likely to be restricted to the better-off. However, the AREDP's model will not work where there are already high levels of unreliable, low income diversification in the rural economy.

Key issues that the AREDP needs to build better understanding of and design for include:

- Factors of location and terrain that influence the potential for agriculture and the nonfarm economy

- The nature of the existing nonfarm economy and rural employment
- The structure and functioning of rural commodity markets
- Developing monitoring indicators to test assumptions of community solidarity, explore employment benefits through effects on wage rates and amount of employment, and, more critically, assess rise in demand for agricultural products, its nature and sources

More generally, it needs to be understood that rural growth and poverty alleviation is not just a sub-field of agricultural economics and market development. Increases in supply must occur in the context of rising demand if they are to foster broad-based growth in rural incomes. This must be backed up by wide-ranging public policy in support of migration, the non-agricultural economy, education and public goods provision. Market development is important, but it is far from being a universal cure-all.

1. Introduction

*When the Afghan economy is overwhelmingly agricultural, agriculture is the dominant factor in the economy, in food security, livelihoods, sustainable natural resources and national security. Agriculture will determine whether Afghanistan will succeed or fail.*¹

The transformative role of agriculture has been the subject of high expectations for some time. Over the past decade, policy documents have consistently put agriculture at the centre of efforts to rebuild Afghanistan's economy and the state.²

Since 2001 many projects have been implemented in rural Afghanistan, funded by a range of donors. Although many of these have claimed significant impact or success, the evidence for agricultural growth or poverty reduction through agriculture at a national level has been meagre. The 2007/08 National Risk and Vulnerability Assessment (NRVA) reported that 36 percent of rural Afghan households were below the poverty line and over half of the population was "consuming at a level of less than 120 percent of the poverty line and were thus acutely vulnerable to food insecurity."³

¹ Ministry of Agriculture, Irrigation and Livestock (MAIL), "Umbrella Document for the National Agricultural Development Framework" (Kabul: MAIL, 2009), 2.

² Afghan Assistance Coordination Authority (AACA), "Afghanistan National Development Framework" (Kabul: AACA, 2002); USAID, "The Afghanistan Ministry of Agriculture, Animal Husbandry and Food Master Plan" (Kabul: USAID, 2006); Government of Afghanistan (GoA), "Afghanistan National Development Strategy" (Kabul: GoA, 2008); MAIL, "Umbrella Document"; GoA, "The Agriculture and Rural Development Cluster National Priority Programs" (Kabul: GoA, 2010).

³ Ministry of Economy (MoE) and The World Bank, "Poverty

There have been occasional glimpses of what agricultural potential might be. The National Priority Programs for the Agriculture and Rural Development Cluster of Ministries recently stated that "in 2009, the most bountiful rainfall in 32 years brought harvests that made Afghanistan nearly self-sufficient in cereals. The message was clear—there is much agricultural potential in Afghanistan..."⁴ This echoes similar levels of optimism in 2003, when good rains marked the best harvest in recorded Afghan history and a recovery from the preceding long years of drought.⁵ And despite its illegality, the diffusion and spread of opium together with its positive multiplier effects on the rural economy stands out as the one major instance where an agriculturally-driven rural transformation has seemed genuinely possible.

But despite this optimism—which has been supported by stories of Afghanistan's past agricultural heyday and claims of overseas markets waiting to be captured by its produce—the reality has been substantially more bleak. More often, the rural economy has been characterised by localised and persistent rainfall failures, households falling back into poverty after the brief opium boom, rising food prices (particularly in 2008) and appeals for aid to address food insecurity. The emerging evidence of a global tightening in food supplies

Status in Afghanistan. A Profile based on National Risk and Vulnerability Assessment (NRVA) 2007/08" (Kabul: Al-Azhar Book Co., 2010).

⁴ GoA, "The Agriculture and Rural Development Cluster," 2.

⁵ Anthony Fitzherbert, "Rural Resilience and diversity across Afghanistan's agricultural landscapes," in *Reconstructing Agriculture in Afghanistan*, ed. Adam Pain and Jacky Sutton, 29-48 (Rugby, UK: Food and Agricultural Organisation and Practical Action), 29.

leading to a likely long-term rise in grain prices gives added urgency to concerns for securing a prosperous rural economy in Afghanistan.⁶ But nine years on from 2001, why do the country's agricultural and rural economies remain in such a problematic condition?

The lack of attention and focus by both donors and the government are partially to blame. But at a more fundamental level, the prescriptions for transforming the rural economy have poorly diagnosed the underlying causes of its condition. While there has been no shortage of agricultural plans and policies, the evidence suggests that there has been disagreement both among donors and between donors and the Ministry of Agriculture, Irrigation and Livestock (MAIL) about policy directions, priorities and choices, with different emphases given to national food security, poverty reduction and market development.⁷ In general, there is a tendency to see agricultural development as equivalent to rural development, and to expect more from agriculture than it may be able to deliver.

Prior to 2008, MAIL was relatively unsuccessful in attracting donor support, although considerable effort went into policy and strategy development.⁸ However, the appointment of a new Minister of Agriculture in 2008 and the subsequent grouping of four ministries into "The Agriculture and Rural Development [ARD] Cluster" heralded a new initiative for turning Afghanistan's rural economy into an engine of growth and poverty reduction.⁹ The vision driving this agenda is one of an "agricultural development...driven by local consumer and market demand," and thus of agriculture driving rural development.¹⁰ Primacy has been given to the role of the market as a driver of change, and particularly global markets as receivers for Afghanistan's horticultural produce.

⁶ Overseas Development Institute (ODI) "Rising food prices: A global crisis" (London: ODI, 2008).

⁷ Adam Pain, "Policymaking in Agricultural and Rural Development" (Kabul: Afghanistan Research and Evaluation Unit, 2009).

⁸ Pain, "Policymaking in Agricultural and Rural Development," 6.

⁹ The four ministries are: MAIL, the Ministry of Counter Narcotics, the Ministry of Energy and Water, and the Ministry of Rural Rehabilitation and Development.

¹⁰ MAIL, "Umbrella Document," 5.

But set against these hopes there are realities. The purpose of this paper is to critically examine and test the assumptions of Afghanistan's new agricultural agenda as represented in the AREDP against empirical data drawn from AREU's study of how rural household livelihoods and their contexts have evolved since 2002. The AREDP has been selected for its specific objective of addressing rural poverty and generating employment. Its focus on the rural off- and nonfarm economy is also significant—as the 2007/08 NRVA makes clear, this is where nearly half of Afghanistan's rural population derive their main source of income.¹¹

Central to this paper is a core question about the health of Afghanistan's agricultural economy: how great is its capacity to generate robust, rewarding off-farm and nonfarm growth in rural incomes and what do the existing levels and nature of income diversification tell us?¹² Are the conditions for agricultural growth good enough and the proposed policy instruments for supporting that growth sufficient to bring about a transformation in the rural economy, generate remunerative employment and reduce poverty? Or does the failure of an agriculture-led transformation over the last decade show not only a stagnant agriculture but one incapable of transforming itself without a significant boost from non-rural, non-agricultural sources of growth? If this is the case, staying in an agriculturally linked rural economy may be more of a poverty trap than a route out of poverty for the country's poorest.

In section one, the paper outlines what are seen to be the essential arguments and assumptions of the AREDP. In section two, it examines them against the evidence drawn from the AREU study. This does not claim to provide a representative assessment; rather, it provides a qualitative basis for examining complex time- and place-based social and economic processes. The case examples it offers are used to critically explore the assumed relations of cause and effect that underpin much of current policy. The evidence questions key assumptions made by the AREDP about the potential for agriculture to achieve prosperity for the poor and to drive a thriving rural

¹¹ MoE and The World Bank, "Poverty Status in Afghanistan."

¹² S. Haggblade, P. Hasel and T. Reardon, "The Rural Nonfarm Economy: Prospects for Growth and Poverty Reduction," *World Development* 38, no. 10 (2010): 1429-1441.

nonfarm economy. It also challenges the view of community solidarity as a feature common to many Afghan villages, and faith in the market as an arena for free, open access competition.

In its third section, the paper goes on to examine some wider aspects of the AREDP model. It presents the evidence for differentiated levels and depths of poverty according to province, landscape and altitude. In doing so, it highlights existing limits to agriculture, which have driven many of the study households to distress diversification into the nonfarm economy.

Finally, it explores instances in which a dynamic agriculture has led to a transformation of the rural nonfarm economy, and suggests that the circumstances for doing so are largely absent in Afghanistan. This raises concerns about whether the AREDP model, while an important component in any agricultural transformation, is sufficient to achieve what is hoped of it. The paper ends with a summary of its conclusions and makes a number of recommendations for aligning the AREDP more toward its poverty and employment objectives, as well as fostering more realistic expectations of what it can achieve.

2. The Planned Role of the AREDP

The AREDP forms one of four components of the National Comprehensive Agriculture Production and Market Development strategy, which itself forms National Priority Program 2 in the Agriculture and Rural Development (ARD) Cluster of the Afghan government's overarching Afghanistan National Development Strategy (ANDS). Its core approach and objectives—the provision of training and financial support to promote village-level enterprise groups and small to medium-sized enterprises (SMEs)—need therefore to be seen in relation to the other three.

The “Improved Agricultural Production and Farm Economics” component focuses on the supply of inputs and technology, aiming to improve farm production, productivity and farm economies. The “Rural Credit through Agricultural Development Fund” seeks to ensure the availability of agricultural credit to help commercial farmers modernise and engage with the markets. These markets are seen to be primarily the high value horticultural and overseas markets, while commercial farmers are defined as those who farm from one to 30 hectares. This group is estimated to comprise “40% of the rural population and contribute over 85% of total agricultural output.”¹³ The “Comprehensive Agriculture and Rural Development Facility” is seen to fulfil more of a strategic coordinating role to ensure synergies between the component parts of Program 2 and remove bottlenecks to the growth of district economies. However, the details on how it will achieve this remain far from clear.

The emphasis on market-driven agricultural growth supported by input supply and credit found in these three components of Program 2 is carried through to the AREDP. It aims to “improve employment opportunities and income of rural men and women and sustainability of targeted local enterprises,”¹⁴ and is aimed more at the 60 percent of the rural population with less than one hectare. The AREDP has two elements. The first focuses on community enterprise development, seeking to support the formation of village-level savings, enterprise and producer groups and link these through credit to market-led value chains. The second seeks to provide financial support to SMEs, particularly those that will have stronger linkages back to rural areas in terms of product demand. The AREDP situates itself as addressing in particular the needs of the “extreme poor,”¹⁵ as well as promoting gender equity.

The logic behind the programme is evident in arguments put forward by its funding partner the World Bank.¹⁶ According to the Bank, the key problem the AREDP aims to address is that of poverty and vulnerability, a condition which it sees in part as a consequence of limited access by the poor to formal credit in the rural economy. This, it argues, has led to slow economic growth,

¹³ GoA, “The Agriculture and Rural Development Cluster,” 35.

¹⁴ GoA, “The Agriculture and Rural Development Cluster,” 40.

¹⁵ GoA, “The Agriculture and Rural Development Cluster,” 40.

¹⁶ The World Bank, “Emergency Project Paper on a Proposed Grant to the Islamic Republic of Afghanistan for a Rural Enterprise Development Project” (Washington, DC: The World Bank, 2010).

although it also recognises that the government's weak institutional capacity is also a limiting factor. The AREDP is therefore designed to "jump start" private sector growth in rural Afghanistan, improving rural employment opportunities and household incomes through the promotion of selected SMEs. As the Program progresses, it will thus promote increased engagement by the rural poor in economic activities.

Both the community enterprises and the SMEs appear to be focused particularly on the commercialisation of agricultural commodities or inputs central to agricultural production and rural enterprise (e.g. carpet-making). Although the point is not made explicitly, there appears to be an underlying assumption that this will promote the

growth of the rural nonfarm economy and income diversification, and that this in turn will respond to the need for employment. Conspicuously absent from the project documents is any discussion on the nature of existing income diversification or rural labour markets, and what these might say about the condition of the rural economy. The AREDP documentation also sheds little light on who will provide the demand to stimulate the growth of supply, and how this will happen. Will it be farmers—and if so, which ones—or is it outside traders that will take the lead?

The following section explores how far the evidence from AREU's study of household livelihood trajectories since 2002 supports these expectations of the role that the AREDP will play.

3. Evidence From the Field

The AREDP is currently being trialled in five provinces in selected districts where potential to build commodity value chains has been identified.¹⁷ Although the districts are not specified in the project documentation, it is likely that they will all have relatively good access to markets and reasonable if not good agroecological conditions. But while they were selected on the basis of "promise" for the AREDP, testing some of its fundamental assumptions was probably not on the agenda.

The districts and provinces from which the livelihood trajectory data comes provide strong contrasts in terms of connection to markets and agroecological potential, both key factors in determining a locality's potential for agricultural growth.¹⁸ On the one hand there are the two villages in Dand district in Kandahar Province, both of which enjoy relatively assured irrigation and proximity to a dynamic urban market. At the other extreme are the three villages in Sayed district in Sar-i-Pul Province, all characterised by a predominance of rainfed land, although relatively close to the provincial capital of Sar-i-Pul City. The three high-altitude Badakhshan villages are

all relatively remote from markets, with varying proportions of irrigated land. The Faryab villages (from which only community-level data was drawn) sit somewhere between the Kandahar villages and the rest in terms of resources and location.¹⁹

How have the 64 case households fared in these locations since 2002? What might this tell us about the potential for the agriculturally-driven rural transformation so central to the AREDP agenda and the conditions under which it might succeed?

Livelihood trajectories

Table 1 summarises household-level data by province. In each case households' livelihood statuses were assessed and categorised as either prospering, coping or declining relative to their position in 2002. The evidence shows that 45 of the case households (70 percent) are worse off, while only 13 (less than a quarter) have improved their position. Moreover, the majority (ten) of the prospering households come from Kandahar; the remaining three were in Badakhshan, representing only a small minority of the study sample in the province. What do these improving households tell us about potential pathways to livelihood improvement? How far is this linked to their concentration in Kandahar?

¹⁷ The trial provinces are Parwan, Bamiyan, Balkh, Nangarhar and Herat.

¹⁸ See Adam Pain and Paula Kantor, "Understanding and Addressing Context in Rural Afghanistan: How villages Differ and Why" (Kabul, Afghanistan Research and Evaluation Unit, 2010).

¹⁹ Household data could not be collected from the Faryab villages because of security concerns.

Table 1: Case household livelihood trajectories by province

	Prospering	Coping	Declining	Total
Kandahar	10	3	3	16
Badakhshan	3	3	18	24
Sar-i-Pul	0	0	24	24
Total	13	6	45	64

Prospering households

Table 2 identifies the main driver of prosperity for each of the 13 prospering households, though in many instances this was just one of multiple factors that households exploited to achieve success. For example, two of the richest households were also able to combine inherited wealth with influential social connections to diversify into multiple income streams. These included land or on-farm labour, off-farm work, and nonfarm sources such as overseas trade or employment with key provincial or national figures. A further four households prospered primarily through social connections, though these were leveraged to different degrees. Two of these combined access to powerful social connections and salaried employment with at least one hectare of landholdings, while a third had no land but had built a contracting business through their connection to the largest landlord in the village. The fourth started from a much more modest base, relying on a combination of energy and—critically—informal credit to build a more secure household economy. The vibrant urban informal economy of Kandahar provided opportunities for two more households, although both were working on its margins selling shoes or other goods to the general market. Neither of these households had land resources.

An adequate supply of male labour was critical to the success of many of these prospering households. Through the institution of the joint household, three households in particular were able to command sufficient labour to improve their circumstances. However, only one of these achieved prosperity through devoting their labour resources exclusively to sharecropping in agriculture. In this Badakhshani household, several younger members of the household reached working age in conjunction with the rise of the opium economy, allowing it to sharecrop in additional land at the peak of opium's profitability.

Such an opportunity is unlikely to arise again. Finally, and again unique to Badakhshan, two households prospered primarily through salaried employment—one as a teacher, and the other as a driver for an NGO.

These prospering households were the only section of the study sample with the potential to generate savings for investment. Their improvement pathways thus raise important implications for the AREDP. In only one case was there evidence of agriculture being the main route to prosperity or generating employment leading to improved household circumstances. Even in Kandahar, an area well-endowed with irrigated land and close to a large market, the main opportunities have been in the urban economy, an outcome of major inequalities in landholdings. For the landless majority of case households from the two Kandahari villages, routes to improving economic status have been much more difficult and hard-earned. These have mostly relied on a combination of hard work, luck, household resources and informal credit from relatives to gain some foothold—not in the rural nonfarm economy, but in the margins of the urban economy. In addition, many had struggled to escape from dependent sharecropping relations with powerful landlords in the village.

Static and declining households

The remaining 51 case households have not been so fortunate. In 6 cases (none from Sar-i-Pul), availability of either land or household labour (but not both) has allowed households to maintain their livelihood status, although some of them have been challenged by health events in the family. The remaining 45 have seen their livelihood security decline. For the declining households in Badakhshan and Sar-i-Pul, resource constraints of both land and labour and household-specific health events (often a series of them) have contributed to a long-term

Table 2: Main drivers of improvement for prospering households

	Inherited Wealth	Social Connections	Salaried Employment	Urban Informal Economy	Household Composition
Kandahar	2	4		2	2
–no. with land assets	2	2		0	1
Badakhshan			2		1
–no. with land assets			1		1*

* sharecropping land

erosion in their socio-economic circumstances.²⁰ However, this has taken place in a broader context of decline in the village, district and provincial agrarian economy. This has been fuelled by the fall in opium production, years of drought, and commodity price rises. Many have only kept afloat through access to informal credit through friends and relatives—usually on a no-interest basis—to allow consumption smoothing, and some are in serious debt. The three declining households in Kandahar have survived on the basis of insecure dependence on powerful landlords, who have given day to day food, but no more. Few if any of these 45 households are in a position to generate demand for agricultural products.

These households clearly demonstrate the limits of what an agrarian economy in resource-poor and market-distant areas has been able to achieve in income growth since 2002. Not only has agriculture failed to directly generate food security, but both the on-farm and nonfarm economies have provided little expansion of opportunities. Because of the limits of agriculture, households diversify into low return, seasonal and unreliable labouring activities (such as fuel collection) that allow survival but not security. Many have also migrated to urban areas in Afghanistan or abroad for employment, but this too had the potential to generate debt, uncertainty and insecurity: in one case household, both sons were killed after joining the Afghan National Army, while migrants to Iran or Pakistan reported being arrested or held for ransom.

²⁰ For a fuller discussion of this decline, see Paula Kantor and Adam Pain, “Running out of Options: Tracing Rural Afghan Livelihoods” (Kabul, Afghanistan Research and Evaluation Unit, 2011), 19-27.

The overall picture that emerges from an analysis of these 64 rural household livelihood trajectories poses a serious challenge to the AREDP's assumptions of agriculture's potential to transform rural economies and livelihoods. For the vast majority of these households, agriculture has not been a pathway to prosperity, whether directly or indirectly. Where agricultural conditions have been best, the location of greatest opportunity to improve the household economy—particularly for the land poor—has come through the urban economy and not the rural one. In agriculturally marginal areas that lack a growing urban economy, such as Sar-i-Pul and Badakhshan, the rural economy has declined; being tied to it has been a cause of impoverishment rather than prosperity. The rural nonfarm economy into which households have been forced to diversify because of the non-viability of agriculture has provided at best a means of survival, and is far from a guarantor of livelihood security (this is in contrast to the prosperous income diversification of land-rich households in Kandahar). Agricultural failure has been triggered by drought and compounded in part by food price rises, both chronic risks that the AREDP has little capacity to address.

Savings, credit and risk taking

The AREDP assumes that lack of access to formal credit that is the key constraining factor for the poor to engage in markets. It is true that formal credit through microcredit is largely focused toward urban areas; in 2009, only 28 percent of the Microfinance Investment Support Facility of Afghanistan (MISFA)'s roughly 450,000 clients were based in rural areas. However, that does not mean the rural poor do not access credit; it is well

Table 3. Project outcome indicators for the AREDP

Project Development Objective	Project Outcome Indicators
<ul style="list-style-type: none"> • Improved employment opportunities and income of rural men and women • Sustainability of targeted local enterprises 	<ul style="list-style-type: none"> • 70% of the Enterprise Groups (EGs) will have increased their net revenue by over 50%; at least 35% of these will be female EGs • At least 30% of participating SMEs and EGs will have increased direct and/or indirect employment by at least 30%. Of these at least 35% will be women • On an average, SMEs will report at least a 50% increase in purchase of inputs from rural areas • 50% of EGs supported by the project will still be operating 2 years after start-up; at least 35% of these will be female EGs

* The World Bank, “Emergency Project Paper,” 46.

documented that most of them do, but through informal means.²¹ Most informal credit is borrowed from relatives at no interest, and is mainly used for consumption smoothing or investing in social assets (through marriage, for example) rather than productive investment.²² The use of informal credit for consumption smoothing in particular indicates the basic need is for credit for survival, not productive investment or market engagement, let alone generating rising demand for market products. There is also evidence that credit obtained from microcredit programmes formally intended for investment often ends up being used for consumption smoothing as well.²³

The issue then is not that the poor cannot access credit, but more that they do not have insurance and are unable to generate savings, as was found in the 45 declining households.²⁴ At present, many of the rural poor are limited to investing in networks of informal relations as a way to

mitigate the multiple risks they face. If better insurance were available, it would reduce their need to borrow in order to survive. Evidence of investment in livestock as a form of saving during the good years of opium cultivation was found in Badakhshan.²⁵ However, most households’ livestock holdings have suffered significant reduction with the decline of the rural economy since 2007.

Only when these basic needs—first insurance, then savings—are met will people be in a position to invest and to expose themselves to the risks of the market, as the village enterprise groups are intended to do. It is not, as the AREDP suggests, a question of encouraging the poor to build a savings habit, but more of the poor gaining livelihood security so that they can save. The AREDP is right to stress the need to save, but the question arises as to who will be in a position to save as a step to market engagement and demand generation? Are the poor currently capable of fulfilling this role, let alone the “extreme” poor?

The AREDP explicitly recognises that market engagement carries risks. One of its project outcome indicators (see Table 3) anticipates a 50 percent success rate over two years. This is realistic, but this also implies a 50 percent failure rate, which is some indication of the risk that those engaging in the market are likely to

²¹ Floortje Klijn and Adam Pain, “Finding the Money: Informal Credit Practices in Rural Afghanistan” (Kabul: Afghanistan Research and Evaluation Unit, 2007).

²² GoA, “The Agriculture and Rural Development Cluster,” 25. The assertion made that “Afghan farmers and entrepreneurs can borrow only from impoverished relatives, loan sharks or drug barons” misleadingly implies that all informal credit is at exorbitantly high interest rates by grouping these three credit sources together.

²³ Paula Kantor, “From Access to Impact: Microcredit and Rural Livelihoods in Afghanistan” (Kabul: Afghanistan Research and Evaluation Unit, 2009).

²⁴ Paula Kantor and Adam Pain, “Running out of Options: Tracing Rural Afghan Livelihoods” (Kabul: Afghanistan Research and Evaluation Unit, 2011).

²⁵ Adam Pain, “Afghanistan Livelihood Trajectories: Evidence from Badakhshan” (Kabul: Afghanistan Research and Evaluation Unit, 2010).

face.²⁶ It is far from clear that many of the rural poor have the means to take on such a risk, given existing levels of economic insecurity.

Village contexts and collective action

A further issue arises from the assumption that collective action will provide an important stimulus to the local economy. The World Bank argues that “South Asian experience has shown that community based approaches play a critical role in simulating the local economy and catalysing market development in rural areas.”²⁷ This argument that collective action can be a substitute for private or public sector delivery of pre- and post-harvest services is likely to depend critically on the context. What degree of collective action and social solidarity is likely in rural Afghanistan? Is it, as the AREDP hopes, simply a matter of “utilising strong bonds of community solidarity to facilitate access to finance?” Do such bonds exist universally and does their presence necessarily mean that those who are unable to save will be included? As the Rural Credit Program notes, small commercial farmers “often wield the dominant political influence in their respective communities,” raising the question of whose interests community action might serve.²⁸

The assumption that community-based approaches will play a critical role is in part drawn from the AREDP's assessment of the success of the National Solidarity Programme (NSP) and the formation of village community development councils (CDCs). However, analysis of study village contexts questions the extent and degree to which collective action for the public good is likely, and whether it will serve the interests of all households equally. The 11 study villages differed considerably both in the extent of their community solidarity, and in their ability to generate public goods through the customary structures such as *arbabs* or *maliks* (village representatives or leaders), mullahs and the traditional *shura* (council) of village elders.²⁹

Although all 11 villages had taken part in the NSP and been through the CDC formation process, the impact of that formation was highly variable. So too was the success of the new CDCs in operating to the democratic rules expected of them. The particular set of conditions that exist in each village prior to the introduction of new structures such as the CDCs are thus likely to have a major effect on how they eventually function.

The evidence thus goes against the AREDP's assumption that “strong bonds of community solidarity” exist universally and can be used in an instrumental way to access finance for the benefit of all.³⁰ There is also little basis to assume that new organisational arrangements such as CDCs or other community organisations will necessarily displace what is there already. Evidence both from Afghanistan and elsewhere suggests that in practice, new organisational practices are simply layered over what already exists and often become subject to what they are overlaying in a process of institutional “bricolage.”³¹

This is where the evidence from the 11 villages is significant, since it points to the conditions under which social solidarity is likely to be strongest. Where villages have had a long history of social solidarity and a practice of strong customary institutions with power and accountability balanced between them, village provision of dispute resolution, security, social welfare and even education has been greatest. This was the case in the Badakhshani village of Shur Qul, where the CDC has built on a strong pre-existing norm of social solidarity and achieved even greater provision of village public goods.³² Here there has been a synergy between public intervention and customary institutions. But where, as in the Kandahar villages, a narrow elite exerts undue control over customary institutions, the social solidarity of the village is limited. Under such conditions, externally introduced public goods such as resources for roads, culverts and so on are likely to be captured by the elite for their own benefit.

²⁶ Haggblade et al., “The Rural Nonfarm Economy,” 1427.

²⁷ The World Bank, “Emergency Project Paper,” 16.

²⁸ GoA, “The Agriculture and Rural Development Cluster,” 35.

²⁹ Pain and Kantor, “Understanding and Addressing Context.”

³⁰ GoA, “The Agriculture and Rural Development Cluster,” 40.

³¹ Ben Jones, *Beyond the State in Rural Uganda* (Edinburgh: Edinburgh University Press, 2009).

³² Village name fictitious to preserve anonymity. See Pain and Kantor, “Understanding and Addressing Context.”

The behaviour of the village elite and the extent to which they see it in their interests to promote solidarity within the village and work for the public good is a key issue. Much depends on the pre-existing degree of inequalities that exist in the village. As has been noted elsewhere, “inequality and social solidarity are deeply incompatible.”³³ In communities characterised by extreme land inequalities and resource richness, as in the Kandahar villages, social solidarity is thus likely to be least and the elite more likely to act in their own interests. By contrast, where land inequalities are reduced and resources scarce, elites are likely to be economically insecure. They will therefore have an interest in promoting and supporting social solidarity and village collective action.

Here, then, is the central paradox that the AREDP will face in seeking to build collective action around engagement in the market. Where the potential for agriculturally-based growth is greatest by virtue of resource richness and market access, the conditions for supporting collective action for the village good are likely to be worst. Where resources are poorest and agriculture has the least potential, the conditions for collective action are likely to be greatest. This is a challenge that the AREDP has not recognised, let alone sought to address.

Markets

A fourth assumption underpinning the AREDP centres around how markets work. It assumes that markets are entirely driven by competition and that competition is free and fair. In its focus on added value rather than market structures, this aspect of market performance is something that the commodity value chain model does not address.³⁴ While there is limited evidence documenting how markets work in practice in Afghanistan, such evidence as there is indicates that markets are neither free and fair, nor subject to open competition.³⁵ Rather, the market is heavily

³³ Robert Putnam, *Bowling Alone: The collapse and revival of American Community* (New York: Simon and Schuster, 2000), 254.

³⁴ Adam Pain and Sarah Lister, “Markets in Afghanistan” in *Reconstructing Agriculture in Afghanistan*, ed. Adam Pain and Jacky Sutton, 235-250 (Rugby, UK: Food and Agricultural Organisation and Practical Action), 237.

³⁵ See for example Sarah Lister and Adam Pain, “Trading in Power: The Politics of ‘Free’ Markets” (Kabul: Afghanistan

Box 1: Market Control of Women’s Labour by Men

In Faryab, women’s contribution through weaving carpets aids household survival, though with considerably less impact than in the past. This is because of changes in the way weavers access markets. They are now much less autonomous in terms of carpet design and marketing. Households used to supply their own wool and designs for carpets, selling independently in local markets. Now wealthy traders from nearby cities and beyond control the market. Weavers produce to specification and earn half of the pre-arranged sales prices.

regulated by informal means in a way that actively restricts competition rather than promotes access. While this regulation has been commented on in the context of the opium market, it is equally true in other areas, such as the raisin market, for example.³⁶

This should hardly be a surprise. Afghanistan’s social and economic sphere is heavily determined by social relationships, and patronage plays a key role in giving or restricting access to resources.³⁷ The political sphere is also fundamentally determined by patronage relationships rather than open merit-based appointments.³⁸ There is thus little reason to expect that markets will operate on the basis of open access and competition. It is significant that social connections to powerful patrons were a key determinant for the most successful of Kandahar’s prospering households.

The issue of gender norms adds a further issue to market regulation. The AREDP has ambitions to promote women’s engagement in rural enterprises, but it does not address how existing

Research and Evaluation Unit, 2004).

³⁶ Adam Pain and Sarah Lister, “Markets in Afghanistan” (Kabul: Afghanistan Research and Evaluation Unit, 2004), 236, 243.

³⁷ Paula Kantor and Adam Pain, “Securing Life and Livelihoods in Rural Afghanistan: The Role of Social Relationships” (Kabul: Afghanistan Research and Evaluation Unit, 2010).

³⁸ See for example Martine van Biljert, “Between Discipline and Discretion: Policies Surrounding Senior Subnational Appointments” (Kabul: Afghanistan Research and Evaluation Unit, 2009).

norms restrict women's access to markets or how these targets will be achieved (see Table 3). Evidence from the livelihood trajectories study indicates that under conditions of economic distress women's income may come to play a significant role for the household. However, the control of the market by men limits the benefits that women can gain from this (see Box 1).

The model of the market that the AREDP is working to is thus an idealised one that cannot safely be assumed to exist. The claim that the AREDP will "synergise with private sector growth and use [its] vibrancy and dynamism to further enhance the socio-economic condition of rural households"³⁹ thus carries more than an element of wishful thinking. Even if successful collective action can be built at the village level, there is no guarantee that this in itself will be sufficient to ensure open access to commodity markets

where the major players are likely to be based outside the village.

In summary, the evidence from the livelihood trajectories study questions four of the universal assumptions on which the AREDP is based: agriculture has not proved to be a route to prosperity over the last decade for the study households, whether directly or indirectly; in poorer areas, diversification more often occurs as a response to a declining rural economy where households are struggling to survive, let alone save; where agricultural viability is least the scope for collective action is likely to be greatest, but even in the unlikely event that there is enough agricultural surplus to allow for market savings, poverty is likely to limit savings and make households highly risk-averse; and markets in Afghanistan are generally unlikely to be either open or competitive.

4. Can Agriculture Transform the Rural Economy?

The evidence from the household trajectories study exposes some of the limits of the agriculturally-driven transformation of the rural economy that the AREDP envisions. Further challenges to the AREDP model become apparent when examining both differences between location and households within Afghanistan, and comparative examples of a dynamic agriculture driving the growth of the rural nonfarm economy abroad.

Agriculture, growth and location

As noted earlier, proximity to markets and agricultural resource endowments are both critical in determining the potential for agriculture-based growth. It was also noted that the AREDP is conducting programme trials in more "promising" districts in Nangarhar, Herat, Parwan, Balkh and Bamiyan Provinces. Supported by the evidence from the livelihood trajectories study, both observations highlight the significance of location to livelihood composition and viability. Figure 1 displays 2005 NRVA data on poverty headcount rates (the proportion of poor people) and the poverty gap (how far people are below the poverty line) for each province.

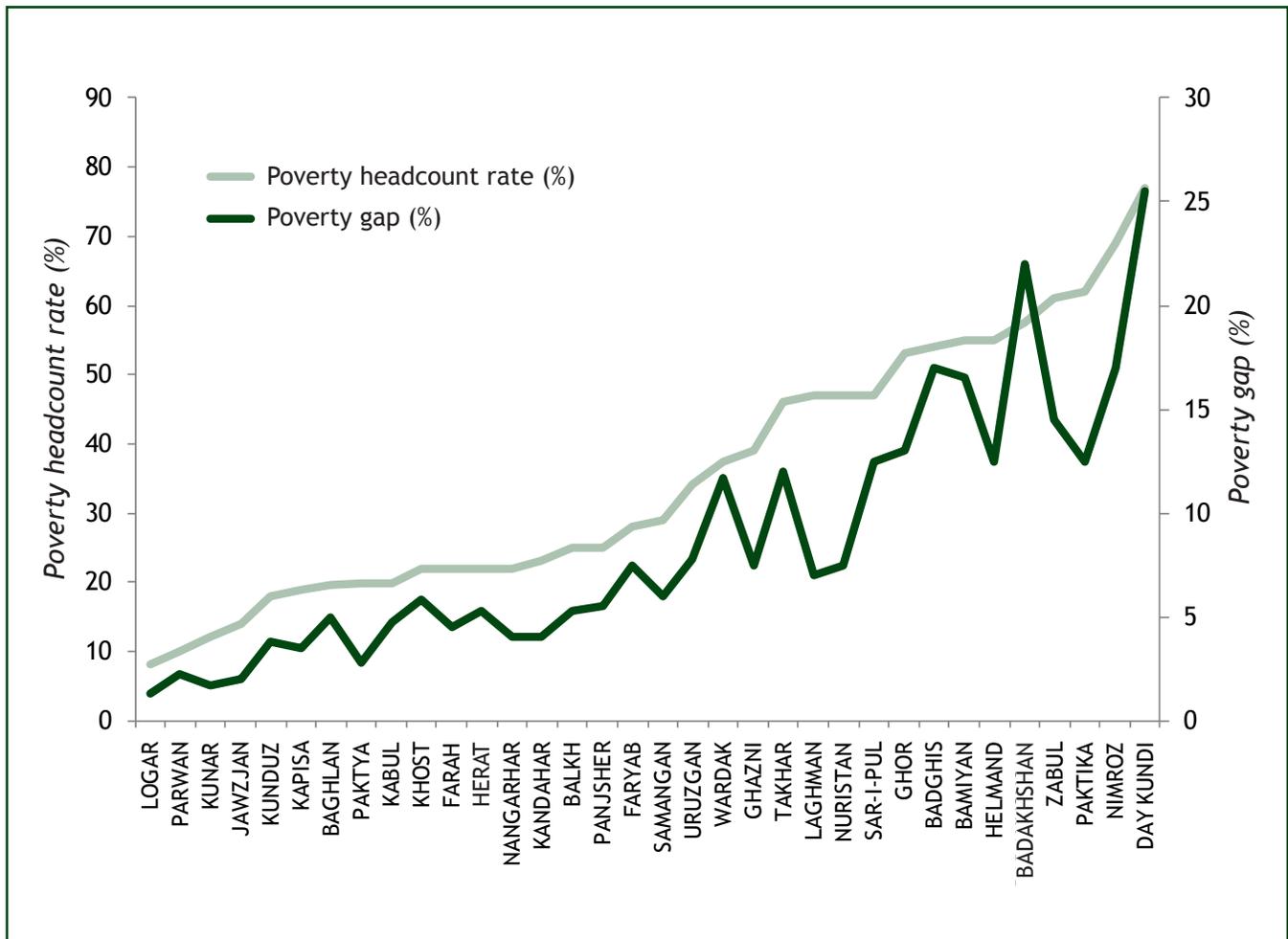
Four of the AREDP trial provinces (Parwan, Herat, Nangarhar and Balkh) rank 2nd, 12th, 13th and 15th respectively for provincial poverty head count rates (where first rank has the lowest rate of poverty). For these provinces poverty rates were 25 percent or less in 2005 and the poverty gap was between five and ten percent. Bamiyan is the outlier, ranking 28th with a poverty gap of 15-20 percent. However, its eastern districts have one advantage over other mountainous provinces in their relative proximity to the urban market of Kabul. In these areas, it may be that good resource conditions, good access to markets and relatively low levels of poverty and poverty gap rates offer potential for agriculturally-derived growth to generate employment and reduce poverty.

But as the 2007/08 NRVA analysis shows, poverty rates increase with the roughness of the terrain and with altitude, rising to rates of more than 40 percent in higher altitude environments.⁴⁰ Here, the potential for agriculturally-based growth to generate sufficient rural employment is much less given the significantly higher rates and depths of poverty. Furthermore, high levels of income diversification already reflect the poverty of agriculture. This is the position that

³⁹ GoA, "The Agriculture and Rural Development Cluster," 41.

⁴⁰ MoE and The World Bank, "Poverty Status in Afghanistan," 30.

Figure 1: Provincial poverty headcount rates and provincial gap rates (NRVA, 2005)*



* S. Azarbaijini-Mogaddam, A. Pinney, A. Pain and A. Masfield, “Understanding Afghanistan: Poverty, Gender and Social Exclusion Analysis” (London: The Recovery and Development Consortium, 2008), 11. There is more recent data on provincial poverty rates (See MoE and The World Bank, “Poverty Status in Afghanistan”), but it does not provide specific provincial-level head count rates or measures of poverty depth, nor is it consistent with the 2005 data as different methods were used in each case.

households in Sar-i-Pul and Badakhshan find themselves in.

In such locations agriculture cannot reliably offer much for rural employment. Rather than focusing on increased market engagement as a primary goal from which poverty reduction may arise, the National Comprehensive Agriculture Production and Market Development Priority Program and its components thus need to recognise poverty alleviation through agriculture as an objective in its own right. This would comprise an agenda that focused on social protection, using agriculture to protect people’s basic needs, prevent shocks, and promote livelihood security.⁴¹

⁴¹ See Paula Kantor and Adam Pain, “Running out of Options: Tracing Rural Afghan Livelihoods” (Kabul: Afghanistan Research and Evaluation Unit, 2011).

The AREDP thus has to recognise where its model is more likely to have effects—and for whom—and where it is not. Regional and local disparities of landscape, market access and other factors will have varying effects on poverty rates and rural economies. This may question the links between its instruments of intervention and its employment generation objectives.

Agriculture and rural livelihood diversification

Geographic diversity in the potential for agriculture to stimulate rural employment is one aspect of variation. A second is the differing contribution of agriculture to rural household livelihoods.

Attention has to be paid to the dual structure of agriculture in Afghanistan. On the one hand, there is a large farm sector responsible for generating most of the agricultural surplus: 40 percent of the rural population generate over 85 percent of the country's total agricultural output.⁴² Here, as seen with the land rich case households from Kandahar, diversification within and out of agriculture is a route to greater prosperity. This is the sector to which the Rural Credit through Agricultural Development Fund responds. Though its focus on export crops may generate localised growth in areas of high potential that are well-linked to the market, significant and widespread employment impacts should not be expected.⁴³

The other 50-60 percent of the rural population are small farmers with one hectare or less, and many of them are functionally landless with 0.2 hectares or less.⁴⁴ Like many of the case households in the livelihood study, these are grain deficit households, who produce significantly less than they consume and acquire most of their grain from the market. A considerable part of their household income comes from off- and nonfarm sources, and they depend on informal credit to achieve consumption smoothing. They are farmers inasmuch as they may have some land or work partly in agriculture. However, a significant proportion of their household income and employment comes from nonfarm sources. For these households, income diversification is a necessity rather than a choice; their multiple income sources, often providing low returns, are strongly correlated with higher poverty incidence.⁴⁵

This fact poses a key challenge to the assumption that the 80 percent of Afghans that live in rural areas are predominantly agricultural. According to the NRVA 2007/08 data, only 20 percent of the rural population derive their main income source

from farm sales. A further 24 percent obtain their income in kind (consumption of own produce) from agriculture. However, nearly 49 percent of rural households obtain their main income from nonfarm sources. Only seven percent obtain their main income from farm labour. The evidence on the level of rural income diversification and the significance of nonfarm income sources suggests that an increasing number of households are being pushed out of agriculture. The AREDP thus has to make the case that even in areas where such diversification is widespread, agriculture has the potential not only to make existing employment more reliable, but increase its return through a rise in wage rates and volume of work. This will not be easy.

The conditions for agricultural growth and transformation of the rural nonfarm economy

The AREDP seeks to drive a more prosperous rural economy, create rural employment and reduce poverty reduction through the promotion of market-led agricultural transformation. The livelihood trajectory evidence from Badakhshan and Sar-i-Pul indicates that agriculture has not been a route to prosperity for rural households over the last decade, nor has it driven a thriving rural nonfarm economy. It is also evident that given the wide variation in provincial poverty rates, the variation in the role of agriculture in rural livelihoods and evidence of existing diversification, the effects of agricultural growth will be highly location- and household-specific. Are the current conditions good enough to drive the kind of generalised transformation of Afghanistan's rural economy that the AREDP envisages?

Comparative evidence from India and other countries that benefitted from the green revolution suggests that a dynamic agriculture can stimulate growth in the rural nonfarm economy and promote poverty reduction. However, this has generally required sufficient scale under a set of specific preconditions.⁴⁶ The first of these is a long history of investment by the state to provide a sufficient base of infrastructure (such as in roads and irrigation), along with public good provision linked with more general economic development.

⁴² GoA, "The Agriculture and Rural Development Cluster," 35.

⁴³ C. Poulton, A. Dorward and J. Kydd, "The Future of Small Farms: New Directions for Services, Institutions, and Intermediation," *World Development* 38 no. 10 (2010): 1413-28.

⁴⁴ MoE and The World Bank's "Poverty Status in Afghanistan" estimates that 50 percent of households engaged in farming as a main income source do not produce for markets.

⁴⁵ MoE and The World Bank, "Poverty Status in Afghanistan," 39.

⁴⁶ Haggblade, et al., "The Rural Nonfarm Economy."

Second, new yield enhancing-plant varieties have been combined with a variety of state-provided support instruments (including input subsidies and price support) to assist market development for the poor. This has helped reduce the risks and transaction costs that small holders face when engaging with the market. Markets needed state support at the outset to reduce transaction costs faced by small farmers before trade volume “thickened” markets and reduced these costs.⁴⁷ This growth generated agricultural surpluses, created demand for farm inputs, increased food supplies and raised rural wages. The increase in farm and rural incomes was a major stimulant to the rural nonfarm economy and led to a major diversification of farm labour out of agriculture.⁴⁸

The AREDP is not currently working in a context where there is a base of investment in public goods and general economic development. Although the four National Priority Programs of the Agricultural and Rural Development Cluster include significant investments in public goods, these will take time to generate effects. The agricultural situation in Afghanistan is also significantly more complicated than in many of

the green revolution countries, where growth was based on the expansion in production of grain staples rather than high value crops, and took place largely in well-irrigated and market-connected environments. There is thus a fundamental need to sequence interventions and establish the preconditions for agricultural transformation before state-supported, market-based growth can yield results.

But comparative evidence also suggests that where there is deep poverty and slow economic growth, as Afghanistan appears to have, there may be insufficient income growth to drive the kind of domestic demand necessary to support a dynamic and growing agricultural economy.⁴⁹ The AREDP has little to say on who will create demand and how, nor does it propose measures to assess it. Without that growth, an increase in the farm-based incomes of small farmers is unlikely. It is also improbable that it will generate greater quality off-farm employment or stimulate the nonfarm economy. The demand that does exist is not for high-value crops, but rather low-cost staples that allow grain deficit households to meet food security needs. This is what needs to be addressed first.

5. Conclusion and Recommendations

Drawing from empirical evidence on rural household livelihood trajectories, this paper has found limited evidence to support the case that a market-based agriculture can drive a more prosperous nonfarm rural economy with greater employment opportunities in Afghanistan. Rather, existing levels of diversification into low-return, unreliable nonfarm employment indicate the limits of agriculture in many locations. Further, the assumption that community solidarity will promote the interests of small farmers in the market is challenged by evidence that such solidarity is inversely related to agricultural potential, a factor closely tied to issues of inequality in land ownership. In addition, the pervasiveness of social relationships in structuring access to social and economic resources in Afghanistan questions the myth of competitive, impersonal market behaviour.

⁴⁷ A. Dorward, J. Kydd, J. Morrison and I. Urey, “A Policy Agenda for Pro-Poor Agricultural Growth,” *World Development* 32, no. 1 (2004): 73-89.

⁴⁸ Haggblade, et al., “The Rural Nonfarm Economy,” 1433.

Wider comparative evidence draws attention to the kind of conditions that allow expanded agricultural growth to drive a more prosperous nonfarm rural economy. These include a long history of investment in public goods by an engaged state, general economic growth and the creation of demand. This has been combined with considerable state intervention through subsidies and market control in the early stages of market development to reduce the risks and transaction costs to smallholders engaging in the market. A focus on broad-based growth of grain staples has also tended to be more effective at reducing poverty in the early stages of development. Few, if any, of these conditions exist in Afghanistan at present.

The AREDP is more likely to support and promote economic activity in areas of higher potential with good market access. It is far from clear that it will address, as it hopes, “extreme poverty,” let alone the needs of the less poor. To tackle poverty in the

⁴⁹ Haggblade, et al., “The Rural Nonfarm Economy,” 1434.

short-term, poverty reduction through agriculture should be seen as a specific goal and not secondary to those of economic development and growth. The longer-term danger is that for the land poor, agriculture may become a poverty trap.

A number of specific recommendations arise from this analysis that may help the AREDP both focus its claims of what it thinks it can achieve, and obtain a better understanding of its actual impacts.

Recommendations specific to the AREDP

- Rural Afghanistan is enormously variable in its resources and access to markets, and there are distinct regional and district economies. This variability has to be understood and addressed in programme design and implementation, since it will affect both the nature and “thickness” of existing and potential rural market networks. The preconditions for program engagement need to be clearly investigated to determine whether and how findings and lessons can be generalised, and where they might be applied.
- There is a limited understanding of the structure and functioning of rural commodity markets. Assumptions that they operate under competitive conditions allowing equality of access are unrealistic. There is a need to move the analysis of markets beyond simple value chain description to an exploration of deeper structures of social regulation that act to exclude or restrict access.
- There is need for better understanding of the existing nonfarm economy in terms of what is driving it, what employment returns it provides, and for whom. This has to be supported by robust social analysis.

- The monitoring indicators proposed for the AREDP are much too limited and do not test the key assumptions of the program. New indicators need to be included that:
 - Test assumptions of community solidarity by examining who is included and excluded from savings groups and why;
 - Critically explore employment creation, looking at who gets employed, for how long, and for how much; and
 - Develop appropriate indicators that assess rises in demand, who it is coming from, and how that is being generated—assessments of traded volumes of commodities is not sufficient.

Recommendations for a more general rural development and poverty alleviation focus

- Rural growth and poverty alleviation is not just a sub-field of agricultural economics and market development. For broad-based rural development, growth in rural incomes is required which is driven as much by rising demand as supply. Broader public policy in support of migration, the non-agricultural economy, education and public goods provision is also essential. Market development cannot substitute for these. There needs to be a much more joined-up policy addressing the rural economy—investment in productive agriculture is but one component.
- The danger of agriculture as a poverty trap has to be recognised. Responses include long-term investments in education and support for migration to help the land poor and landless to move out of agriculture.

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