

The politics of the market in Afghanistan

1. Introduction

In parallel with the anxieties over the political prospects for Afghanistan, its economy is also seen to be in deep trouble. As one long term observer (Byrd, 2015: 1-2) has commented:

'Afghanistan can be characterised as a demand-driven, supply constrained and very open economy that faces an enormous structural fiscal gap and extremely high dependency on international aid. Over the past several years, the sharp decline in international military expenditure caused a major negative demand shock. The slowdown in economic growth from over 9 percent per year during the previous decade to as low as 1.3 percent in 2014 also reflects loss of business and consumer confidence, lack of private investment, very low public investment, and deepening uncertainty over the political transition and security outlooks.....Capital flight and human flight, already significant, have worsened in the past year. Economic growth can be expected to remain low - perhaps in the 2-4 percent year range, meaning little or no rise in average per capita incomes given high population growth. Even this modest growth scenario is vulnerable to political, security and climatic shocks' (Byrd, 2015: 1-2)

Agriculture has long been seen as the engine of Afghanistan's economic transformation and since 2001 policy documents have put agriculture at the centre of efforts to rebuild the country's economy and the state (Pain and Kantor, 2011). But despite the hopes, an agrarian transformation has not taken place and the country's rural economy is in poor health. As the recent Agriculture Sector Review (World Bank, 2014) tacitly admits in its review titled as 'Revitalising Agriculture for Economic Growth, Job Creation and Food Security', agriculture's contribution to employment and wellbeing has fallen far short of expectations. Poverty levels in Afghanistan in 2011-12 as assessed by the National Risk and Vulnerability Assessments (Central Statistics Organization, 2014) have remained largely unchanged since 2007-08 (World Bank, 2015).

But in common with the orientation of most policy outputs in Afghanistan, the ASR's perspective is to the future with little retrospective analysis of why after 15 years we are back at the drawing board making the same claims and seeking the same means to realise the claimed potential for agriculture which it has manifestly so far failed to deliver on. What is new this time? In fact very little and the generalised model of agrarian transformation and 'higher yields in agriculture, access to non-farm rural income-earning activities, migration of family members to cities and transition to wage employment' are again seen as the route to prosperity (World Bank, 2015:1). The means by which this will be done will be:

'by 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' (op.cit:1). *While the state is seen, drawing selectively on the lessons from the Green Revolution model to play a lead role in coordinating strategy across value chains to encourage growth, it is expected that it should work in partnership with the private sector and NGOs in market-led solutions'*.

But the market is something of a chimera in the ASR being both machine like - 'the value chains of commercial agriculture' - and animated with life - 'market-led solutions'. It is a common conception of markets that is abstract, asocial, ahistorical and de-institutionalised (Harriss-White, 2008: 19). As a recent review of Afghanistan's private sector acknowledged (Ghiassy et al, 2015: ix), and it 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'. Thus if as the World Bank argues (2015:8) new policy directions are needed to support inclusive growth and decrease poverty, rather than a de-contextualised model of how markets are imagined to work, a critical, engaged understanding and response to the ways in which markets work in practice in Afghanistan has to be a foundational component of new policy directions.

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 argue that agriculture will need to grow by at least 6 percent per year if rural incomes are to increase as the population expands. A growth rate of 6 percent is almost twice the rate that has been achieved on average of the last decade.

This perspective is one that pays no attention to 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 the ways in which through the terms of many exchanges and physical production activities labour is used and exploited. Markets are complex systems (Ali & Harriss-White, 2012) and stripped down value chain models (Pain & Lister, 2007: 237) that ignore the social institutions that underpin markets (Harriss-White, 2003) ignore that complexity. But as this paper will show in seeking 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, policy built on simplistic and abstract models of what agricultural markets should do are unlikely to realise their goals.

This paper builds on empirical evidence drawn primarily from three of five case studies of markets - two on rural commodity markets (onion and saffron) and one on self employment in Kandahar (Minoia et al, 2014; Minoia and Pain, 2015; Minoia and Pain, 2016a). Two other studies on tailoring and rural labour are also considered (Minoia and Pain, 2016b; Pain and Mallett, 2014) as well as other primary and secondary evidence. The market research in turn has been part of a nested multi scale study examining household livelihood trajectories (Huot and Pain, 2016a; Pain and Huot, 2016) and institutional processes which have separately examined the performance of village institutions (Pain, 2016) and provincial level political dynamics (Jackson, 2016).

While the research has followed many of the common procedural steps in seeking to build understanding of market systems or value chains, it has drawn conceptually on the core concepts of economic sociology (Portes, 2010) to understand market behaviour - namely those of socially oriented economic action, unanticipated consequences and power - in its investigation of the behaviour and performance of markets in Afghanistan. Two questions have framed the enquiry, and these are seen to be central to exploring access to markets, the nature of market development and its distributional outcomes:

- How do people navigate, and negotiate their economic life in rural and urban settings and the structure of power that characterises the economic market place?
- How do core rural markets work and what are the constraints for poor people to benefit from them?

2. Understanding Markets in Afghanistan

To describe Afghanistan as ‘a very open’ economy (Byrd, 2015: 1-2) it to imply that it is in a situation close to free trade, where government regulation is minimal, where all participants have equal opportunity to access 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 in the interstices between the major economies of its borders in Pakistan, Iran, Turkmenistan, Uzbekistan and India. While it may be true to argue that formal government regulation of the economy is minimal, it does not mean that the economy is unregulated or indeed necessarily very open. Ghiasy et al (2015) recognise this but characterise these dimensions as ‘extra-market’ conditions in acknowledged the coupling of the political and economic spheres. But to see this as ‘extra-market’ against some idealised notion of what markets should be is to ignore the mutually constitutive nature of the political and economic market place in Afghanistan (Jackson, 2016) and the networks of access that bind them together.

Earlier work on markets in Afghanistan (Lister and Pain, 2004) drew attention to the permeability between economic activities variously characterised as formal or informal, legal or illicit, conflict or criminal and the ways in which politico-economic actors moved seamlessly between these realms. These simple binaries however are not helpful in characterising the complexity of economic life in Afghanistan where much operates within the informal (outside the purview of the formal). But rather than see it as therefore unregulated, in fact there is a pluralization of regulatory activity of which the state and its agents are only one dimension (Roitman, 2005). Goodhand (2005) in recognition of this complexity has characterised these economies as the intersections between ‘combat’, ‘shadow’ and ‘coping’ economies laying out the motives of the primary actors within each particular sphere in exploring the nature of the opium economy in Afghanistan. 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 these political networks to secure market rents (Jackson, 2016).

The most salient example of this capture is to be found in the saga of the Kabul Bank whereby a group of elite businessmen connected to powerful political figures took multi-million dollar irregular loans amounting to USD 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 of the scandal were ultimately imprisoned when the new government came to power in 2014, this did not stop one of the key figures being allowed out of jail to attend to his business affairs (Bijlert, 2015). But 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, trucking systems that had 'fuelled a vast protection network run by a shadowy network of warlords, strongmen, commanders, corrupt officials and perhaps other' (Aikins, 2016).

These are of course some of the higher reaches of the Afghan economy but dimensions of these rentier economies are to be found across all the major sub-national provincial centres including Nangarhar (Jackson, 2015; Minoia et al, 2015), Kandahar (Jackson, 2015) and Mazaar (Pain, 2011). The evidence on how these economies work points strongly to some of the major political obstacles to economic growth (Williams et al, 2011). These include 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.

Afghanistan without doubt is a market economy and has long been so (Hanifi, 2011) with established trading systems that stretched across the region (Ferdinand, 2006) and an export economy of primary and processed agricultural products to Europe. During the period of drought during the late 1990s and into early 2000 market systems continued to function ensuring that grain markets worked so there was never, as some assumed a supply side failure of basic staples (Pain, 2015). Import levels of wheat have been highly responsive to shortfalls in domestic production and analyses of wheat price correlation coefficients (Chabot and Tondel, 2011) have been used to suggest that grain markets are efficient and competitive. But correlation coefficients have their limitations as measures of competitive market structures (Ali-Jan and Harriss-White, 2012) as they fail to take account of short term price fluctuations and the bargaining power of those involved in the transaction. There is evidence that there are considerable daily price fluctuations in a number of Afghanistan commodity markets including raisins (Lister et al. 2004), opium (Pain, 2011) and onions (Minoia et al, 2014) reflecting buyer collusion and price manipulation.

This price manipulation is just one form of informal regulation within the market place. There are other factors that structure and regulate markets within Afghanistan. A notable feature of Afghanistan trading activity is that it remains primarily a family business and there are very few examples of successful trading houses that are non-family businesses. There are a number of reasons for this.

Trading activities are primarily undertaken through personalised networks, built on reputation and fuelled by informal credit. As is clear in the case of the onion trading systems (Minoia et al, 2014) credit practices are based on personal trust in the context of a highly risky environment and lack of generalised trust. The effect is necessarily to constrain the scope and extent of trading systems and limit the extent that impersonal networks of trade are possible. This does not mean that trust networks cannot extend across space as they most clearly do in the realm of the *hawala* financial markets (Thompson, 2011) but for many markets there is a marked geography in the structuring of Afghanistan's trading economy, linked to the geography of trust networks.

Underpinning this are aspects of social identity leading to ethnic enclaves and middlemen minorities (Portes, 2010). Thus traders in cloth in the Jalalabad market do not trade in Herat or the north because they do not have social connections (Pain, & Mallet, 2014). Within the Mazar cloth markets there are particular sub-sectors in the ready made *peron tambons* market and physical locations that Hazara traders are to be found. In Herat a group of Kandahari wholesale traders exclusively occupy one physical market place.

Ethnic identity is one fault line. A second and pervasive one is the way in which gender structures access and engagement in economic life. Women face formidable barriers to becoming economically active as labour and producers although the nature of those barriers and their effects are highly variable (Grace and Pain, 2011). In villages outside Kandahar women remain largely confined to their houses with little access to education or economic opportunity (Pain et al, 2016) while in villages outside Herat not only is access to education for women widespread (Huot et al, 2016) but there are examples of women owning land and managing saffron production (Minoia and Pain, 2016a). A particular sector in which women are engaged, albeit within the bounds of the gendered space of markets, is that of tailoring and other cloth handiwork. There is evidence (Ritchie, 2016) that carefully calibrated interventions can in specific circumstances shift to a degree some of the constraints on women's economic engagement but the wider evidence from India and elsewhere is that gendered structures are slow to change are slow to shift under liberalising market forces (Harriss-White, 2004)

A third dimension is that of social class and it is a dimension of rural Afghanistan that has scarcely been talked about. It is not one that features in the Agricultural Sector Review (World Bank, 2014) although it talks in terms of large, medium and small landowners and acknowledges that it is primarily the medium and large farms that produce most of the marketed surplus (World Bank, 2014: 13). Indeed the focus of the ASR growth strategy is on the medium and large farms but it asserts that 'opportunities abound for linking many more small farms on a commercially viable basis to the priority value chains. For many other small farmers and landless workers, substantial new job opportunities will be created' (op.cit: 14).

But farm size is closely related to issues of power as the evidence on the nature of village elite and their behaviour shows (Pain and Sturge, 2015; Pain, 2016) and land ownership patterns evidence deep structures of durable inequalities (Portes,

2010). The evidence on the differential access to power by different landed classes found both in the household panel studies (Huot et al, 2016 in Herat; Pain, 2011; Pain et al, 2016) and the wider evidence on village context (Pain, 2016) make class based on landholdings a relevant analytical concept to understandings of power and how it is exercised in rural Afghanistan.

Thus there is within the rural landscape of Afghanistan both a dominant landowning class, a subordinate landowning class of medium and small landowners and numerous landless households. Nowhere is this more evident than in the high potential irrigated agricultural areas that have good access to transport and market centres. In an analysis of landholding distribution in 47 villages in Nangarhar over 64 percent of households were found to be landless and in over 40% of the villages large landowners were less than 1 percent of households (Pain and Sturge, 2015:11). In separate studies on villages in Herat and Kandahar (Huot et al, 2016; Pain et al, 2016) examples were found where almost all the land was owned by one or two landowners.

In many of these irrigated villages populations of *hamsaya* are found, households whose members work as tied labour and servants to the landlord and are housed and fed by them (Olesen, 1994). The many sharecroppers and *hamsaya* households of these large landlords are tied into dependent relations as unfree labour and there is little evidence to indicate that increasing productivity and profits to large landowners from agriculture will necessarily improve the terms and conditions under which they work. The scale of landlessness in the villages is guaranteed to ensure that there will be an unlimited supply of labour which will do little to drive existing wage labour rates (Minoia and Pain, 2016) up from existing sub-living wage levels.

Thus if we are to move from an analytical position that simply examines agricultural commodity markets from a sole focus on production, price and efficiency, the analysis of rural commodity and labour markets needs to take account of the ways in which social institutions structure and regulate the ways that such markets work.

3. Real Markets in Afghanistan: navigating the market place

Case studies this paper takes into consideration as core evidence were conducted in three borderlands of Afghanistan: Agriculture commodity markets have been investigated in the eastern province of Nangarhar, and in the western province of Herat. A study on urban employment has been conducted in urban Kandahar.

3.1. The onion market of Nangarhar

Nangarhar represents one of the ASR's high potential areas with reliable irrigation, a major urban centre and close cross-border links to Peshawar in Afghanistan. The expansion of onion cultivation in part has been driven by strong market demand but also as a result of a shift out of opium poppy cultivation in the districts close to the provincial centre, Jalalabad. However the scale of onion cultivation vary by district according to the reliability of irrigation, the quality of road networks and

physical security. Data on the scale of production is limited but one source (PACJC-CI, 2012:14) reports that imports of onions and shallots were the third highest-ranked commodity in terms of value of Pakistan's total imports from Afghanistan in 2007 (11% share) and fifth ranked in 2012. However the provincial onion economy is characterised by a counter-seasonal trade with Pakistan because of the absence of storage facilities in Afghanistan, benefiting those controlling the trade and trade routes on either side of the border. The harvest and export season in Afghanistan runs from May to December and onions are imported from the Punjab and Sindh from mid December to April.

Farmers see onions as a good cash crop but labour intensive and high-risk due to price fluctuations which limits the area that they cultivate. Many grow it as sharecroppers and have expanded its cultivation as the area of opium poppy has reduced. However it was commonly reported (Minoia et al, 2015: 82) that the ready access to credit from traders that they had when growing opium had been reduced but most are able to access some form of credit through personal networks. Those onions growing districts close to Jalalabad can more readily get access to credit from traders. Given the market risks most farmers prefer to sell onions as a standing crop having the trader meet the cost of harvest, transport and risks of sale with obvious effects on the farmers profit margin. The margins of those who harvested and lifted their own crops could be greater by about 50% but the risk was that traders would only select the best onions and farmers have to carry the costs of storage and storage losses.

The district level traders tend to be larger farmers who trade out of the district through personal networks, often based on common identity (of place and tribe). The trading networks are complex and risky given they handle a relatively high value but perishable product and the lack of storage facilities means that the balance of advantage usually lies with the bigger traders up the onion value chain. The unpredictability of market price is a major feature and district traders reported how even after checking prices and sending onion consignments to Kabul or Jalalabad, prices would often drop if another truck arrived at the same time. As with other commodity markets in Afghanistan (Lister et al, 2004) there is strong evidence of collusion in the main markets.

Most district traders had strong reservations about dealing with the provincial market in Jalalabad. The main market there is under control of one major trader who was politically well connected to a former governor and received the municipalities contract to oversee the market. There are probably about four big traders in the Jalalabad vegetable market who handle the cross-border trade and have long been in control of it. However although they are influential in the province, they in turn face constraints because of their economic and logistic dependence on Pakistani traders in Peshawar. When they could district traders had a strong preference to trade with Kabul traders, for reasons that one informant made clear (Minoia et al. 2015: 84)

'Another reason to sell onions in Kabul market is that Jalalabad there is a group of 15-20 traders controlling prices and there is no competition. A small trader cannot negotiate prices in the Jalalabad market;

In turn the Jalalabad traders made clear that they limited the amount of credit they were prepared to give to district traders in order to prevent competition emerging. The major traders are also the key players in the traders association in Jalalabad that maintain direct contact with the provincial governor. One aspect of this contact was under a previous governor an informal agreement to establish a weighbridge before the border crossing so that payments for excess weight could be made there, providing rent to the governor and allowing traders to avoid the official weighbridge where there were higher taxes.

In sum what is clear is that the political and economic market place in Nangarhar are closely intertwined (Jackson, 2014). The same people have prominent positions in both and draw on their political and market connections to maintain their status. For those lower down the value chain - the onion producers and the district level traders - ignorance of market price for onions or lack of access to credit is rarely the main constraint. Price information is readily available and informal credit is accessed. Rather it is their relative weakness in the market place that means they are price takers rather than price setters. The onion market displays considerable price volatility making it intrinsically risky and difficult for smallholders to engage in. There are also major infrastructural constraints, not least cool storage for onions. But price are not simply set by demand and supply, although this is a factor. Rather powerful actors within the onion value chain manipulate prices and costs to their advantage thereby concentrating power within the market with exclusionary effects. Districts producers and traders can and do find ways around such practices within Afghanistan. However it is less easy to negotiate the range of rent-seeking practices surrounding cross-border trade where powerful traders collude with powerful political figures.

3.2.Saffron in Herat

The second commodity study focuses less on market structures but more on the social relations of production. Saffron has been promoted as a legal alternative to the cultivation of opium poppy since it is seen to provide comparable returns. It is also a commodity for which there is a high value global market and one that fits with a market led approach to Afghanistan's agricultural sector. It has also been portrayed as a crop that can enhance women's participation in economic activities and their productive role outside the household and that its particular value chain structure has the potential to increase this (World Bank, 2014).

Despite being widely promoted as an alternative to opium, the successful cultivation of the crop has been largely confined to Herat probably for reasons of agroecology. Herat province in the west of Afghanistan, shares borders with Iran and Turkmenistan. Herat City like Jalalabad in Nangarhar has a rich agricultural hinterland based on river irrigated agriculture and a border location to the outside world. It is frequently portrayed to be one of Afghanistan's most stable and pros-

perous provinces. It has historically benefitted from a relatively open relationship with Iran and many rural households have members working in Iran sending back remittances.

Herat as a province stands out (World Bank, 2014) not only for its high level of reconstruction funding but also for the greatest level of consumption inequality (in terms of the Gini index¹) of Afghanistan's 32 provinces. Yet it is also ranked as having the highest net attendance ratio of girls to boys in primary education (103.6%). This is likely to reflect Herat's more liberal environment given the influence of Iran. A contributory cause to this inequality in consumption is likely to be the highly uneven access to irrigation water within the irrigation systems of the Hari Rud (Minoia and Pain 2016a). This inequality of access to water in turn is linked to land holding inequalities. Afghanistan's land gini coefficient has been estimated by one source (World Bank, 2005:9) to be 0.57 reflecting the fact that an estimated 2.2 percent of the population holds about 19 percent of the land.

In Injil district that surrounds Herat and to the west of Pashtun Zarghun where the saffron study was undertaken, there is evidence (SMEC, 2005: 31-32) that of the 7000 households, some 3000 (45%) are landless, surviving often as sharecroppers, 15% of the households are medium size landowners (around 2 ha, or 10 *jiribs*) with about 40% of the irrigated land and some 5% of household are large landowners with 20% of the land. The remaining 35% of households are small landowners with landholdings of less than 1 ha. These patterns of land inequality were also found in the Pashtun Zarghun villages (Huot et al, 2016) where this study was undertaken.

Drawing on qualitative interviews in three saffron growing districts of Herat, it was found (Minoia & Pain, 2015) that while saffron growing farmers report that the returns per unit area for growing saffron exceed those of opium poppy the limited scale of production despite more than a decade of promotion makes it more of a niche crop. Moreover saffron is a semi-perennial plant with high capital investment costs and returns that are only significant from the 2nd year onwards. It is more likely to be grown by farmers who can easily meet their subsistence requirements, have sufficient land area or other sources of income to handle the risk of investment. Saffron is therefore less attractive to households that have insufficient land to be food secure or limited sources of other income. Those who grow it have gained considerable benefit from it and they tend to be male farmers with larger land holdings.

There are also examples (Minoia and Pain, 2016: 24) of women who have gained a foothold in production through access to land. This access has either come through inheritance, marriage or contractual relations such as leasing. While in many cases these women come from households with land assets, this is not always the case and there was one case of a woman without land who was able to lease in land for saffron cultivation. Whether or not they have land, women were found to be able to

¹ 'The Gini index measures the extent to which the distribution of consumption among individuals differs from an equal one. A value of 0 represents absolute equality with everyone consuming the same amount, a value of 100 absolute inequality where all consumption is concentrated in one person' (World Bank, 2015:19)

exert management authority over production activities. This evidence challenges widespread perceptions of women's non-involvement in productive activities

The formation of associations has been a key intervention to promote saffron cultivation and about 30 of these have been formed. But these associations have only addressed the organization of production. Support for credit, inputs and post-production activities has been limited. The bureaucratic process required to legally form associations and the restrictions imposed on their scope constrains their role. It requires good personal connections which are largely held by the village elite. Thus leadership of the male associations are usually the village landed elite who act as lenders of credit for other farmers but also have close links, or are even part owners of the key saffron trading companies. Associations have also been formed by women and these tend to come from households with access to more land but it has usually been their husbands who have followed the registration process. Thus it is far from clear what the real benefits of these associations are and whose interests has been served in their formation. In part they have been supply driven by donor funding but this has been unevenly spread and created expectations that have not been met.

Saffron has been promoted because of its potential to generate employment, particularly for women; around 5,000 women and children are being hired every saffron harvesting season for cleaning and processing saffron flowers. This work is generally piece rate and significantly lower paid than comparable work by men and usually takes place in spaces designated for women. There are some examples of women moving from one village to another to undertake this work. A common justification for the use of women is because they can be paid less. The short term nature of employment and the low rates do not offer a living wage or significantly change the employment constraints that women face. It is uncertain, but not surprising, why harvesting and cleaning is designated as 'womens work'. The standard response is that women are better at it and that it is 'light' work but they are not paid more for doing it. One head of a saffron trading company was explicit (Minoia and Pain, 2016: 26):

'The first [reason] is the low wage, mostly women work on a low wage compared to men. The second reason is their patience, collecting saffron needs more patience and mostly we do not have patience and as a result people prefer to hire women ...the last reason is the hard work of women, compared with men. Women are more loyal in their work and their perfectionism makes women more desirable in the saffron market'

A contributory factor to the employment of women may be that the short harvest season with high labour demand cannot be met by available male labour supply much of which has migrated to Iran for work. A notable feature of the saffron labour economy is also the use of cheap child labour for the harvesting process, which while notionally discouraged is widely practiced (Minoia & Pain, 2014: 26).

It is unlikely therefore that the movement of women into saffron farm work is transformational and it could be seen more as or a feminisation of farm labour as seen elsewhere in Asia as men move out of farm based work. Given the patriarchal structures of Afghanistan's rural economy, even in the more liberal environment of

Herat, it is difficult to see this, at least in the short term as a significant change. Nor is saffron going to achieve the scale needed to drive the transformation of the rural economy that is expected of it. It would appear from the evidence that while saffron offers benefit to some, the structure of the saffron market and the way in which it is currently regulated limits wider benefits and poor people and women face considerable structural constraints in gaining significant returns from it.

3.3. Street Traders in Kandahar

The city of Kandahar has historically been a crossroads on trading routes between India and Iran, as well as a battlefield, given its key position between two empires during the Mughal era. During the Taliban rule, it maintained its position as a trading city, importing goods tariff-free through Pakistan and from Iran and then re-exporting through smuggling routes back to Pakistan. Televisions were reported to be a significant re-export to Pakistan at that time. By 2011, the city economy was linked to shop-keeping and trade, with food items, import-export businesses with Pakistan, China and Iran, the opium poppy trade, daily wage labour, NGO employment, agriculture and transportation (TLO, 2009, 2011). Profits from the opium economy, the major cash crop of the province, particularly since 2001, have not only provided major support to rural livelihoods but also generated a significant surplus, part of which has been reinvested in the urban economy.

Two additional key sources of revenue have flowed into the city since 2001. The first is custom revenues, which have largely been captured by local elites and, as Jackson (2015) reports, have been central to elite politics and local power struggles. The second, and undoubtedly larger, flow has been that from the reconstruction funds. While these are difficult to quantify in total, at the peak of the military surge in 2010 the US was reported to have spent \$650 on each Kandahari, which, given an approximate city population of about half a million, amounts to about \$325 million for one year alone. This figure amounts to three times the per capita annual income of Afghanistan (Aikins, 2012; Surkhe, 2011). This has had both direct and indirect effects on the city economy and local structures of power. As noted by Jackson (2015), the process of buying local power-brokers for security purposes developed from the early phases of military intervention in 2001. Those practices post-2001 set the path for the city's economy in following years (Forsberg, 2009).

The effect of these resource flows was to create a cash-rich economy. Military expenditure, reconstruction efforts and development funds fuelled a booming economy and increased demand for services. Those in power effectively captured the higher reaches of the economy in construction, trade and security service provision.

Even at the lower end of the market there were opportunities for those without land and connections to improve their economic circumstances (Pain, 2010). However, there have been major push factors driving people out of rural areas into the urban economy. One key one has been, as we will discuss, increasing levels of violence and insecurity as a result of the insurgency. Between 2006 and 2010, for example,

there was a major struggle for control of the districts of Panjwai and Arghandab. Meanwhile, drought coupled with the over-exploitation of water resources for the intensive cultivation of opium poppy and severe inequalities in landholdings has meant the many land-poor rural households have found employment in agriculture insufficient to meet household needs.

Times have changed though with the withdrawal of ISAF and reconstruction funds. Kandahar's urban economy has undergone a sharp contraction at the same time as the cities rural hinterlands remains in poor health both for reasons of conflict, water scarcity and a decline in the opium area in the region (Mansfield, 2015). The construction market has collapsed along with the cities labour market.

The study in the informal sector of Kandahar (Minoia and Pain, 2015b) focused on three sub-sectors of the street vendor economy: the selling of tarpaulins, clothes and mobile phones. It found that many of those who had secured a foothold in it were migrants from Kandahar's rural districts, and they were often landless, driven out by insecurity and a lack of employment owing to drought. They had also been pulled into the city at a time when prospects were better. They found the entry barriers to becoming a street vendor were relatively low and relationships of solidarity enabled access and in many cases direct provision of starting capital. Initially, in the boom years, being a street vendor provided a significantly better living than people had had before. But now times are harder, insecurity is greater and there has been a general economic downturn.

In addition, people face major risks as a result of the actions of the police and municipal authorities in the city. The police see vendors as a potential security threat and the municipality treats them as illegal. Steps are being taken to regulate their presence but this will not secure better economic prospects.

4. Discussion

Just few weeks before the international community gathers in Brussels to discuss the future of donors' role in Afghanistan, the European Union remarks that their investment and commitment to the country will follow the path that has been built during the past 15 years of international intervention. The EU document on the commitment for Afghanistan between 2014-2016 lists in fact Agriculture and Rural Development amongst the three key pillars for development². Private sector enhancement should follow according to the donors agenda, and according to the government's priorities employment funded by small grants should prevent young generations from fleeing the country's rural areas (MRRD 2015).

However, contradicting the donors auspicious, evidence from the field has shown violence and the unstable political environment are preventing domestic and for-

² http://eeas.europa.eu/delegations/afghanistan/documents/content/multi-annual-indicative-programme-2014-2020_en.pdf

eign investors from seeking in the Afghan soil a land for business ventures (Ghiasy et al. 2015) and rural labour surplus is pushing the population to move to urban settlements in Afghanistan and search for better livelihood opportunities across the borders. This appears clearly from case studies in Herat where rural household rely heavily on migrations and remittances and where issues of land inequality have been shaping practices of exclusion and inclusion in the access to saffron market opportunities (Minoia and Pain 2015, Minoia and Pain 2016).

When looking at policies and programmes dedicated to support agricultural markets growth in Afghanistan these tend to imply that processes will be carried out by institutions moulded following the post colonial model of how the Weberian state should function (Boege et al. 2008), implying a relationship of accountability between the citizens and the state. However when programmes architected on value chain structures are pinned down they reveal that the social institutions working on the ground and shaping 'real' actors access to opportunities and resources are following a different set of rules. And as the *hawala* system shows moving informally currencies across national borders, networks and ties of loyalty are the means to access credit in the marketplace (Minoia and Pain 2014, 2016).

A study on the behaviour of private firms in contexts where policy implementation is uncertain (Hallward-Driemeier et al 2010) suggests that in Afghanistan it might be useful to think first of the institutions and actors involved in the governance of markets to see how the *actual* state of the world differ and can shape the *administratively declared* state of the world.

Like other so called 'failed states' Afghanistan presents newly formed post Taliban institutions co existing with pre existing customary structures. As previously discussed in many cases the ethnic and tribal identity overlap with other parameters such as class and gender, functioning as a parameter for inclusion/exclusion. Individuals may have accessed power through official appointments, violence or money and then manoeuvred resources to hold their positions and support their networks, generating new market flows and economic opportunities within a certain entourage. This is the primary function of the previously mentioned rentier economy (Jackson 2016).

Such context presents what Boege et al. (2008) define a hybrid political order. This framework entails to think of a political context not as "close to fail" or "already failed" but just as what is it, considering that a state or a market can function with informal or non recognised actors. And that in many cases there are parallel social structures such as clans, militias, kinship based entities that are functioning as state's substitutes.

This paper argues that markets in Afghanistan works similarly to contexts of hybrid regimes in fragile democratic settings. Where formal institutions are perceived as unfair and therefore cannot secure compliance, personalised ties might be essential to support newly born fragile democratic structures (Rocha Menocal et al. 2008). Therefore, reconsidering policies in light of what market institutions are and engaging with the actors actually playing in it requires the understanding of the rules of the game that shape political processes, at many different levels. The

section will conclude reflecting on the possibilities for policy crafting and reforms to engage with the existing set of rules and actors in the governance of the marketplace.

Trust networks and connectivity matter

A study conducted by Anna Paterson in 2006 has been observing markets and potential for the private sector and transboundary trade to grow in six Afghan sectors. Ten years have passed since she observed that no market activity can be undertaken in Afghanistan without networks and that networks are vital to all players: “I can’t even buy vegetables at the proper place without the right contact here” (Paterson 2006: 19).

Afghan markets are characterised by pervasive low generalised trust (Fukuyama 1995). On the contrary trust can be found within those groups sharing kinship ties, such as the family, the clan, or the ethnic group (Tilly 2007).

Ties of loyalty amongst individuals who are part of the same network derive from belonging to the same geographic area or from deliberate choices made to access power (Jackson 2016) and the highest the arena of power and the volumes of capital involved, the more detached individuals are from kinship ties (De Waal 2015) and the shortest the life of the network.

Street vendors in Kandahar have been showing through their life histories that interpersonal networks of trust were connecting street vendors and wholesalers coming from the same district in Panjwai across the border with Pakistan in Spin Boldak. Belonging to the same area or tribe was also shown to be the rational for street vendors social organisation in the urban space and for the access of the initial capital to access the market. Vendors from the same geographic area were usually gathering around the same spot the city landscape and trading the same commodity. Tribal and kinship ties were also providing newcomers to the city an entry point to become accustomed to the violent relationship with the police and municipality.

Moving to a different context and observing the elite traders of the vegetable and fruit market in Jalalabad kinship ties become non influential to the existence of this network, that stretches across the border with Pakistan, at Torkham. The vegetable market power holders were primarily affiliated to the once governor of Jalalabad Gul Agha Sherzai (Jackson 2016) and they maintained the network alive through the circulation of goods and the distribution of rents much after the end of Sherzai mandate in the Eastern capital of Jalalabad. This traders’ elite managed in fact to manipulate the onion market, setting prices and therefore controlling volumes, providing credit to smaller traders and therefore preventing these from entering the market. The small network of elite traders could also benefit from the counter seasonal trade and stretch their connection to Peshawar colluding with the border police in order to manipulate customs taxation.

Institutions are personalised

In Afghanistan the relationship between the state authority and the institutions is absent. Institutions are the manifestation of the power and will of those individuals who have the funds and networks to access public offices and to be appointed. These elites become then key players in the administration of power and any monitoring activity or sanctions for non compliance are impossible. A strategic

question asked is then if it would be fruitful to involve those power holders in the development intervention or if it would be more efficient to by-pass them. While a research case study on the role of power brokers in public sector reforms and participatory development in DRC have been highlighting that incentives can engage elites into governance with a positive downturn for the surrounding community (Kyamusugulwa and Hillhorst 2015) examples of generalised compliance of institutional actors lack in Afghanistan. However actors are accountable within a limited range of time to sanctions established by their own network, and sanctions are often expressed with violence.

Case studies have been highlighting institutions behave in order to achieve personalised and targeted goals. The individuals feels entitled to maximise their benefit and benefit those who are linked to them by kinship or deals. Any form of collective action that expands benefits outside the network of trust is generally avoided in order to control resources. An example of this behaviour can be observed in the provision of public goods, such as security.

Observing the saffron market in three district in Herat provide an example of how formal institutions and funds can be adopted as private business opportunities by those who have the connections and the material capital (e.g.: land) to do so. While the government relies on the development of the private sector as provider of goods and employment, policies have been supporting the formation of farmers associations to facilitate marketing of agricultural products. The Ministry of Rural Rehabilitation and Development hosts under his multi donor umbrella the Afghanistan Rural Enterprise Development Programme (AREDP). AREDP mission statement declares to serve the purpose to support the establishment of community based enterprises, sustain farmers in marketing products through integrated value chain formation and top down knowledge based intervention³. Saffron has been introduced in Afghanistan along this line. It was a cash crop with potential for exports and for private sector investments, and it was moreover presenting the opportunity to provide employment for women and replace opium cultivation with profitable returns for farmers.

About 30 saffron growers associations have been established in Herat (Minoia and Pain 2016), many under the umbrella of the AREDP. However, as previous studies have been highlighting inequalities in land distribution, and therefore class (Pain and Kantor 2011) have played a major role in defining access to grants and distribution.

Landed village elites such as *arbobs* appear to be the heads of associations and these act as providers of credit to farmers willing to move into saffron cultivation while leasing them to traders in Herat city. Moreover, while the formation of farmers association has been a key tool to promote the crop cultivation, it has to be considered that the high input costs and the late returns (only after the 2nd year harvesting) makes it a crop that can be grown only by households that are food secure. Associations clearly organise the production side without ensuring farmers a chain for the post production phases, while male heads of the associations are often owning or a linked to saffron trading companies.

A second example that describes well institutional personalised behaviour is provided by the management of public goods such as security by Kandahar institu-

³ <http://aredp-mrrd.gov.af/eng/>

tions. The police in Kandahar has been affiliated to the power of the Karzai clan, though the controversial figure of general Raziq (Jackson 2016, Minoia and Pain 2015) and it is common amongst the street vendors in Kandahar city to say that power stays with the police, not the municipality. Kandahar institutions are managing law and order in the city by asking the street vendors, who still have a blurred status as illegal, to become “informants”. This relationship between street vendors and the police allows institutions to have fresh news on the newcomers in the city. Those street vendors who agree to become part of the deal will eventually lower the level of violence they receive from the institution, however the transaction does not benefit street vendors as a group. By informing the police of what is happening in the bazaar and in the urban area street vendors gain physical safety and a space where they can trade on the sidewalk, while conflict with the authorities is still managed by customary entities such as the *white beards*.

The future is discounted

A general assumption guided the projections of international actors for a post 2014 Afghanistan: the drawdown phase would have led to better security attracting then foreign investments. Development could have been fuelled by a wealth corridor and rely on revenues from the mining sector while niches of the agricultural market, especially high value crops, could eventually find demand in the markets offshore (World Bank 2012, 2014). Unfortunately, the vision of the international actors have been proven characterised by short term planning (Cf: Jackson 2016) and the NATO withdrawal has led to a more violent Afghanistan while shrinking of reconstruction funds and military expenditures has been creating a vacuum of demand for services that was previously supplied by those at the margins of urban economies (Minoia and Pain 2015).

Evidence from field studies has shown that violence and risk are two recurrent dimensions of the experience Afghans face in their economic lives. The Afghan context presents the opposite of the very definition of the term ‘security’ provided by Geoff Wood which is “avoidance of fear about safety” (Wood 2007). Wood argues as well that freedom from insecurity and socio economic security are the pre-conditions for human well being. The Afghan context offers as well examples of the outcomes of constant exposure to multiple risks for human actors. This is what Wood (2003: 462) calls the “phenomenology of insecurity”. It includes aversion to risk, emphasis on physical and social reproduction and significance of localised social resources. These characteristics are taken further by rent-seeking practices as a form of loyalty over voice in the absence of any exit option. The connection of rent seeking practices to the absence of any possible defiance describes the environment in which in Kandahar street vendors coped as self employed with the decline of the war economy. Street vendors moved to urban Kandahar escaping rural poverty in the districts and insecurity in the years between 2005-2009. Entry barriers to become a self employed street vendors were low and kinship ties were providing easy access the initial capital. Moreover in the years of the military surge (until 2010) the boom created demand for goods such as second hand mobile phones and provided better living conditions for many. With the economic downturn however street vendors found themselves stranded and exposed to risks related to actions of the police and municipality, while their status is still illegal. While

the upper reaches of the urban economy could flee the country following their capital street vendors have the only option to be re-absorbed by the rural opium economy in Helmand (Fishstein and Mansfield 2016)

The same phenomenology of insecurity can be found in the rural districts of Herat where women work as low paid labour in the saffron market with no possibility to achieve leverage to negotiate their income. During saffron harvesting, that lasts for about 30 days between September and October, there are around 5000 women and children working in the fields. But it is uncertain why saffron harvesting and cleaning have been designed by donors and then farmers who supervise the work as women's tasks. The response is always that women are better at it and it is light work. However women are not paid more for doing it (they are usually paid 2/5 of male rural wages). There might be other reasons for the employment of women as low paid labour such as the absence of male labour, who migrated to Iran. There have been however examples of women working in opium cultivation when there was acute need for labour in the Hari Rud valley and they were earning higher wages to do so (Grace and Pain 2011).

While it has been elsewhere observed that Afghan women engaged in market driven activities can lead to institutional change in *purdah* norms (Ritchie 2016) it is difficult to see saffron as the mean for a transformation in agriculture other than a possible feminisation of labour. The role of women in the saffron market resemble more an extension of their household function, rather than a shift in gender relations.

The examples from the field provided above are aiming to present the set of rules that are shaping actors relationships and decisions in the economic life and that are influencing elite behaviour. As discussed human behaviour is driven not only by economic goals but by ideas of loyalty and belonging to cultural norms and values (Portes 2010, Tilly 2007, Rodrik 2014).

Since Afghanistan presents binding governance constraints to development and to the governance of market and politics, a question to be asked should be if policies could and should be crafted to engage with hybrid regimes and with the existing social orders. Afghanistan is a contexts where the definition of Levy fits: "rules are personalised, time horizons are short, power is fragmented and contested", (Levy 2014: 134). So the chances that agreements can be monitored and sanctions applied are weak, nonetheless reforms and policies might have to engage with the existing elites in order to reach a *status quo*⁴ where benefits from rents and networks can be expanded and market opportunities can reach a wider range of Afghans.

⁴ Rodrik defines the "political transformation frontier" as the set of maximum economic outcomes achievable by those who are in power, the elites. It is the maximum level of rents that elites can extract taking into consideration the endogeneity of their political power. "Status quo" is the maximum point on the political transformation frontier, which is shaped by the strategies available to the elites, such as coalitions, policies, and actions. (Rodrik 2014: 198)

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