Conflict and Entrepreneurial Activity in Afghanistan: Findings Based on 2005 NRVA Data

Afghanistan Public Policy Research Organization

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APPRO takes full responsibility for any omissions and errors.

Cover on the right: Ironmonger in Kabul (Photo by Saeed Parto, APPRO)
Cover on the left: Owner of Thresher Assembly Plant in Jalalabad, Nangarhar (Photo by Saeed Parto, APPRO)

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Despite the chronic conflict in Afghanistan over the years, anecdotal information points to sustained entrepreneurial activity: a look around any major population center or some rural areas in Afghanistan reveals numerous cases of entrepreneurship, particularly among the small-scale producers across the country, in a wide range of areas from dairy and poultry production to carpet weaving, iron mongering, auto repair and parts production, and carpentry. These features of the Afghan economy tempt one to suggest that the persistence in entrepreneurial activity is due to a unique “spirit” of entrepreneurialism. Indeed, a 2005 publication by the World Bank states that, “Afghans are a resourceful, resilient, creative, opportunity-seeking, and entrepreneurial people (as witnessed by the high incidence of labor migration, entrepreneurial activity wherever they are located, trading networks, and remittances).”¹

This paper describes the main findings from an earlier study by the authors which investigated the relationship between entrepreneurial activity and conflict in Afghanistan based on an analysis of the National Risk and Vulnerability Assessment (NRVA) survey from 2005.² A key objective in our analysis was to qualify the impacts of low security, inadequate infrastructure, and the type of institutional arrangements on entrepreneurial activity. A related objective was to identify entry points for intervention through policies conducive to increased (productive) entrepreneurial activity in Afghanistan.

In the next section we make the linkage between the literature on entrepreneurship and development and make a case for applying what is known in this literature to Afghanistan. Section 3 provides a very brief background to the current operating conditions for entrepreneurs in Afghanistan. Section 4 provides a summary of the findings followed by section 5 to conclude.

Most of the sizeable economic literature on entrepreneurship has focused on the entrepreneurial history of advanced countries and the contribution of entrepreneurship to economic growth in developed country contexts. Recent appraisals of this literature point to entrepreneurship as being a driving engine of economic growth. In this respect, some scholars and a good deal of research supporting the policy design of such entities as the United Nations, the World Bank, and a host of other major donors have come to conclude that entrepreneurship is a necessary condition for generating economic activity and growth and thus catching up.

A crucial point in our approach is the need to move away from an exclusive focus on “entrepreneurial activity” in the abstract, evident in much of the literature and some of the industrial centers in Afghanistan. Rather, we wanted to draw attention to the design of the conditions that favour productive entrepreneurship and thus

contribute to the stability of the “developmental state” which in this case is Afghanistan. Contextualized in and regulated by the developmental state, entrepreneurship could have immeasurable potential for preventing, managing, and transforming conflicts which are often rooted in poverty and bolstered by unstable, unpredictable, and uncertain operating environments characteristic of new, failing or failed states.

From the reconstruction and development policy perspective, it is important to distinguish between different types of entrepreneurship and nurture (through intervention) activities more consistent with reconstruction objectives. However, as we detail in the next section, in the case of Afghanistan as a country suffering from chronic conflict, it might still be appropriate and relevant to consider “survivalist” entrepreneurial activities – where this does not include rent-seeking or illegal activities such as the drug trade – as desirable and, at least “pro-growth”.

A number of economic and political crises led to a coup in 1978 and the 1979 invasion by the Soviet Union. The chaos and anarchy that followed the ouster of Najibullah as the last remaining Soviet-backed President in 1991 lasted until 1996 when the Taleban took over. Little is known about the conditions of trade and entrepreneurship under the Taleban. It is widely understood, however, that like many other arenas the economic sector and its entrepreneurs also suffered from general neglect by the Government during this period. The neglect was compounded by a persistent drought in many parts of the country with millions of Afghans migrating to the neighbouring Pakistan and Iran. The new period of economic development commenced shortly after the ouster of the Taleban from power in late 2001. However, the economy remains largely in ruins with many of the structures and services not favourable to productive entrepreneurial activity. Lawlessness is widespread in large swathes of the country while the threat of an even more brutal return by the Taleban remains real and a major source of anxiety for Afghans and non-Afghans.

In our analysis we wanted to investigate whether the very different levels of conflict intensity across the districts in Afghanistan have a direct impact on the diffusion of entrepreneurial activity, and the conditions under which entrepreneurial activity is more likely to occur despite the intensity of the conflict. We controlled for five different dimensions: (a) household features, (b) access to resources, (c) governance institutions, (d) infrastructure, and (e) social capital.

In this work we have considered “entrepreneurial” a household that holds a small business as a source of income. According to the NRVA data for 2005, 9% of Afghan households undertake some form of business activity. Our analysis of the data suggests that entrepreneurs in Afghanistan appear to have a strong tendency to adapt to ongoing conflict and continue to operate across districts with very different levels of security and conflict. Controlling for different sets of variables we also find that the intensity of conflict yields a negative, albeit small, impact on entrepreneurship.
A related finding is that the impact of conflict on entrepreneurship is reduced by only one-fourth when we further control for access to resources, social capital, formal institutions, and infrastructure. Some dimensions contribute more than others to this reduction (namely institutions, infrastructure and social capital), but none of them can be firmly considered to be the transmission chain of an indirect effect of conflict. In other words social capital, institutions and infrastructure turn out to be more complementary than substitute explanations of the impact of conflict on entrepreneurship.

Our analysis quite clearly suggests that entrepreneurial activity is mainly a means to survival, rather than of an entrepreneurial “spirit”, and is therefore rather risk averse. In the remainder of this section we sum up the main results that support these findings and conclude with recommendations for further research.

First, many of the household features replicate the evidence found in the standard literature on entrepreneurship, but there are also quite a few Afghanistan-specific effects. By far the strongest positive effect on the probability of being an entrepreneur appears to be a function of the number of activities in which the household is involved, followed by the household size. This suggests that it is much easier to hold a business when the risk of incurring income losses is covered by involvement in a number of other activities such as seasonal or other income yielding work by the entrepreneur or members of the entrepreneur’s immediate family.

Second, entrepreneurship is mainly a coping strategy in Afghanistan. This is reflected in the finding that access to resources such as credit is not related to entrepreneurial activity. Even if entrepreneurs use loans more for business investment, they access loans less than non-entrepreneurs, and not through formal credit institutions. This is consistent with risk-averse entrepreneurship, which is not aimed primarily at pursuing business opportunities but income for survival. This result also indirectly confirms the findings in other studies on loans from formal sources being used for consumption smoothing purposes.3

Third, entrepreneurial households appear to have a weak preference for communities with lower security in property rights, larger possibility of regulatory capture and rent seeking, and a smaller participation by the rest of the community in the policy making process. We also observe a small but significant positive relation between being part of a governmental body and having a small business. These two findings would support a hypothesis on predatory entrepreneurship, which may or may not be productive although pockets of productive economic activity in “low tech” manufacturing have continued to persist. Certainly, continued conflict has generated strong incentive dynamics for unproductive and destructive entrepreneurship in Afghanistan. Numerous warlords and people of influence have benefited handsomely from the conflict by getting involved in the many physical reconstruction projects that require local counterparts and contractors to be implemented.

Finally, significant effects of the ongoing conflict have manifested in inadequate access to markets and lack of adequate infrastructure to support business activity. Continued inadequacy of access to markets and infrastructure is likely to prevent the process of expansion and moving up on value chains by the productive

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entrepreneurs. The negative non-linear relation between trade infrastructure and likelihood of entrepreneurship reinforces the hypothesis on the prevalence of survivalist and unproductive entrepreneurialism: without any access to markets, communities rely on autarchic production.

Afghanistan has numerous unresolved conflicts along ethnic and political lines and faces many challenges in reconstructing its economy, not least because of extreme poverty, resource scarcity, and a lack of adequate structures to support productive entrepreneurial activity. That this is the case does not and should not mean that intervention to reconstruct the country is ill advised or hopeless. As we have shown in our analysis, entrepreneurial activity in Afghanistan persists despite the ongoing conflict. Building on this entrepreneurial spirit requires a careful and clear assessment of the entrepreneurs’ needs, trajectories, and ambitions. While the information collected through NRVA surveys is useful in providing a picture of how things have unfolded in the socio-economy, it is insufficient as a basis on which to develop intervention strategies aimed at supporting productive entrepreneurship. Demand assessment in labour, raw material, and product markets can provide valuable information on how development aid can bolster the ability of suppliers to meet the demands.

Based on our analysis of the NRVA data from 2005 we may conclude that entrepreneurial activity continues despite the chronic conflict in Afghanistan. We have also suggested that because of the chaotic institutional landscape, attempts to generate productive entrepreneurial activity have largely failed and in many cases have in fact contributed to unproductive or destructive activity and rent seeking behaviour. However, given the difficult conditions for conducting reliable population surveys, the difficulty of making survey data available in a timely manner⁴, and the high probability of rapid data obsolescence due to chronic conflict, our analysis is inconclusive.

Because of these constraints, a final conclusion we make is that more attention needs to be paid to narrative-based case studies of entrepreneurial activity to contextualize and accompany formal analyses based survey data such as we have attempted to do in this paper. The value of intuition based on narratives collected through case studies in territorially bounded study areas or on specific issues of interest cannot be underestimated or dismissed in contexts such as Afghanistan. If we want to know how entrepreneurs cope and whether they are productive, unproductive, or destructive in conflict situations, we need to closely engage and examine the entrepreneurs involved in economic activity in our areas of interest. In other words, it is at best difficult to generalize on conflict cases such as Afghanistan because they are diverse, fragmented, and fluid. Future research will need to draw on the available quantitative databases and on locally specific case studies of selected segments of the economy for more depth to inform policy intervention and reconstruction decision making.

⁴ The 2007-8 NRVA dataset remains unavailable at the time of writing. In addition, there is very little congruence between the datasets from 2003, 2005, and 2007-8 due to the significant differences between the survey questions from the three periods.