Traditional Clustered Enterprises of Afghanistan: A Synthesis

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Synthesis Paper
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About APPRO
Afghanistan Public Policy Research Organization (APPRO) is an independent social research organization promoting social and policy learning to benefit development and reconstruction efforts in Afghanistan. APPRO is a non-profit, non-government organization, headquartered in Kabul, Afghanistan, with regional offices in Bamiyan, Herat, Mazar-e Sharif, Jalalabad, and Kandahar. APPRO is also a founding member of APPRO-Europe. APPRO’s mission is to provide insights on how to improve performance against the development milestones set by the Afghan government and international donors. APPRO conducts applied research, carries out evaluations, and provides training on policy analysis, Monitoring and Evaluations, advocacy, and research methods. For more information, see: www.appro.org.af

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Cover Photo: Ironmonger clustered enterprise in Kabul, by Saeed Parto

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1. Introduction

As with most traditional / older societies, Afghanistan’s economy, particularly in urban areas, is to a significant extent made up of constellations of enterprises of the same or related trades clustered around a number of identifiable locations. These clusters have a number of key defining features of relevance for efforts to increase the productive capacity of Afghanistan’s private sector and workforce. First, there are clearly defined structures through which the sustenance of these clusters is maintained. Second, the cluster members in each cluster simultaneously collaborate and compete, pointing to the presence of social capital within the clusters and entrepreneurialism of the clustered enterprise owners and operators. Third, in almost all clusters there are apprenticeship arrangements to train the future generations of tradespersons, pointing to the presence of built-in mechanisms that contribute to cluster resilience and longevity. A fourth feature of clustered enterprises in Afghanistan’s major cities is that they have never been a focus in economic development policy making.

This synthesis report is the product of persistent efforts by researchers from Afghanistan Public Policy Research Organization (APPRO) since 2009 to alert Afghan governmental authorities and international donors to the need for a better understanding of productive and resilient forms of economic enterprise in Afghanistan as the basis on which to devise sustainable economic programming. In 2010, after one full year of negotiations with various donors, the Microfinance Investment Support Facility for Afghanistan (MSIFA) agreed to support, with funding from the Italian Development Cooperation in Afghanistan (IDCA), a pilot survey of clustered enterprises in Herat. The Herat study focused on microfinance needs of clustered enterprises.¹ In 2012-2013, APPRO conducted another survey of clustered enterprises in Kabul, Charikar (Parwan), and Mazar-e Sharif (Balkh) funded by Die Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. The GIZ study focused on vocational training needs of clustered enterprises.² In 2014, APPRO was approached by Coffey International to conduct a survey of selected clusters in Kandahar and Mazar-e Sharif, with funding from the Department for International Development (DfID). The focus of this latest study was to document the operating

conditions for “the bottom of the pyramid” enterprises in Afghanistan’s fledgling private sector and verify the findings from the two previous studies for MISFA and GiZ.

Based on the findings from these studies, this paper makes a case for policy and programming focus on clustered enterprises as resilient, productive, and licit economic actors offering untapped potential for strengthening the role of private sector in Afghanistan’s political economy and economic reconstruction.

This paper is organized as follows. The next section provides a brief overview of the role of clusters in productive economic activity in developing countries, highlighting the policy implications. Section 3 describes the tools used in the collection of data in three rounds of data collection between 2010 and 2014. Section 4 presents the institutional landscape within which clusters operate in Afghanistan. Section 5 links clustered enterprises to value chains. Section 6 synthesizes the key findings from the analysis of the data from the 26 traditional clusters (Appendix 1). Section 7 lists the most pressing needs of clustered enterprises while Section 8 concludes with recommendations for further research and implications for economic development policy in conflict environments.

2. Clustered Enterprises

For the purposes of this paper, a cluster is defined as a group of enterprises that cooperate on joint or similar tasks and functions, complement one another in efforts to overcome common production-related challenges, compete with one another from time to time, achieve collective efficiency, and capture a market size beyond the sum of their individual market shares. In the broader development economics literature, the term ‘cluster’ is also used to indicate a sectoral and geographical concentration of enterprises which produce and sell a range of related or complementary products and are, thus, faced with common challenges and opportunities.³

Clustered enterprises benefit from external economies through collective contracts with specialized suppliers of raw materials and components, access to a pool of sector-specific labor force and skills, and access to resources such as micro credit and production tools and equipment. Clusters also create

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environments conducive to the emergence of locally based collaborative relationships between private and public interests.

Initial work on clusters, mainly during the 1980s, was concerned with descriptively documenting the unique features and economic contributions of clusters. Later work on clusters since the 1990s has taken an active interest in the policy and strategic implications of understanding cluster dynamics for economic reconstruction and poverty alleviation. In developing countries clusters provide employment, income, and welfare for the working poor. However, initiatives to move local clusters up the global value chain could lead to cluster growth while at the same time pushing out weaker and vulnerable enterprises. Thus, the assumption that cluster development can always act as a means to alleviate poverty more generally has been nuanced by those who have underlined the importance of cluster governance and the distributional impact of interventions as key elements in interventions to strengthen clusters.4

Three key cluster features and three processes need to be understood on the linkages between poverty and clusters. These are the location of the cluster, sector and enterprise types in the cluster, and the type of employment the cluster generates. The processes are the links to external economies (markets, skills, knowledge, credit and information), joint action (collective capabilities), and social capital. In-depth investigation of these features and processes can provide the foundation for policy intervention aimed at enterprise development, increased business linkages, and improvements in local governance.5

More broadly, the capacity of clusters of micro and small-sized enterprises (MSSEs) to persist despite turbulent operating environments has been attributed to a set of determinants of cluster emergence and subsequent persistence. These determinants have been grouped as economic, governance-related, social, and entrepreneurial. Economic determinants include joint actions, collective efficiency, and external economies. Governance-related determinants include national and local policy inducements. Social determinants include cohesion as a result of cooperative action, networking, and increased trust. In addition, clusters are viewed as having a significant degree of “entrepreneurial spirit”.6 Additionally,

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5 Ibid.
clusters have been characterized by different types of agglomeration, level of dynamism, stages in the life cycle, positioning in the value chain, and level of political involvement.7

Work on traditional economic clusters in numerous developing and developed countries has shown that clusters of traditional enterprises generate economic and livelihood benefits and, as such, certain interventions are warranted to create an enabling environment for their expansion and growth. Evidence suggests that interventions to increase access to financial products, technology, skills and training, infrastructural change, and market intelligence can help clustered MSSEs expand, increase productivity, move up the value chain, and thus increase employment opportunities and improve economic wellbeing.8

For a number of years the United Nations Industrial Development Organization (UNIDO) has promoted a technical cooperation program focusing on small and medium-sized enterprises (SMEs) with the aim of forming clusters to increase efficiency, create jobs, and facilitate private-public partnerships for local economic development. The UNIDO program is aimed at allowing “enterprises to overcome their isolation and reach new collective competitive advantages beyond the reach of individual small firms” with local formal institutions acting as facilitators in the networking process or “system integrators”. The outcome of this technical intervention is expected to be the emergence of a joint entrepreneurial vision shared by firms, suppliers, buyers, and support institutions.9

Others have argued that the concentration of enterprises and the presence of supporting institutions in a cluster can be conducive to business-related coordination and increased trust.10 In general, and in line with much of the conventional wisdom in economics, an enterprise locates where it makes the most economic sense given its (incomplete) knowledge about the market for its products or services, limited access to a pool of appropriately skilled workers, and other inputs such as tools and capital.11 In other words, by co-locating or clustering, enterprises can take advantage of positive externalities. But co-locating or clustering, enterprises can take advantage of positive externalities. But co-

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9 Ceglie and Dini (1999), pages 4-5.
locating also forces the enterprise to compete more fiercely with other enterprises within the cluster and thus provides the incentive for the clustered enterprises to innovate.\textsuperscript{12}

Clusters can thus be fertile grounds for economic and social innovation if their determinants and dynamics are fully understood, and interventions are designed to work with synergies inherent in almost all resilient clusters. Empirical research on the place of clusters in the broader political economy, their contributions to productive, value adding, economic activity, and their potential synergy for sustainable economic development in the longer term strongly suggests clusters need to feature more centrally in economic policy making and development planning in fragile and conflict environments.

Based on this empirical research a consensus has been emerging since the 1990s among development economists that the focus of economic analysis at the local scale should be on the relationships among enterprises and between [clustered] enterprises and the institutions that govern them in a specific geographical area. The examination of these relationships would highlight cooperation among clustered enterprises but also the processes of interaction, learning, qualification, innovation, and thus the social capital of the clusters characterized by rules of spontaneous cooperation, reciprocity, networks of social relations, and a system of participation and trust.\textsuperscript{13} While state authorities may not always succeed in creating sustainable clusters of micro enterprises, they can play a much-needed facilitative role in strengthening generations-old traditional clusters of MSSEs.

To sum up, interventions to strengthen local production systems need to be based on a comprehensive understanding of cluster determinants, the operating environment, and the institutional structures through which clustered enterprises organize themselves (or are organized). Methodologically, in-depth understanding of clusters requires eclectic and mixed research methods consisting of quantitative and qualitative analysis, longitudinal observation, and intuition.\textsuperscript{14} The next section describes the methodology used by APPRO in three separate rounds of data collection on clusters over a period of four years, from 2010 to 2013.

\textsuperscript{12} Porter, M.E. (1998).
\textsuperscript{14} Parrilli (2007).
3. Methodology

The unit of analysis in this research is the cluster of micro and small-sized enterprises (MSSEs), sharing supply sources, production activities, personnel, and markets. As such, all these enterprises simultaneously collaborate and are co-dependent but they also compete against their own cluster members and others. An MSSE typically employs between 3 to 10 individuals including the owner and the apprentice(s).

The ongoing research on clustered enterprises by APPRO since 2010 has focused on selected trades with clear value adding features and a reasonable degree of production sophistication as exemplified in carpentry, iron mongering, and repairing electric and mechanical capital goods such as fridges and automobiles. This research did not include service occupations such as interpreting and translating for which there is much need for standardization and training. This research also excluded construction trades such as bricklaying mainly because construction trades are not as identifiably “clustered” as the trades selected for this research, though arguably as important.

The research was carried out using a mixed methods approach consisting of a review of the available reports and other documents, semi-structured interviews, a mapping exercise, and quantitative surveys as follows:

Document Review – Relevant documents on the traditional forms of industrial organization in Afghanistan and other less developed countries were reviewed to highlight what is known about cluster structures and dynamics and whether or not attempts have been made to mainstream and formalize these arrangements. The review drew on the available national level data where possible.

Semi-structured Interviews – Interviews with key individuals were used to map the organization of the trades within the scope of the research, the traditional and other forms of structure through which cluster processes were organized, and other relevant contextual information. The interviews also served as the basis on which to design the survey questionnaires (see below).

Mapping – A map was generated based on the information collected through interviews with key informants and observations in the field (Figure 1).
Surveys – Survey questionnaires were used to survey whole populations of 26 clusters on cluster processes, structures, and needs in Herat City, Kabul City, Charikar (Parwan), Mazar-e Sharif (Balkh), and Kandahar City. The cluster types were Ironmongers (4), Tinsmiths (3), Auto Mechanics (3), Motorcycle mechanics (1), Refrigerator technicians (3), Carpenters (3), Dried fruits and nuts producers and retailers (2), Silk weavers (1), Tailors (1), Saffron producers (1), Leather makers (1), Handcrafts - WClol (1), Radio & TV technicians (1), and Beekeepers (1). Three of the clusters were made up entirely of women-owners or operators: Saffron producers in Heart, dried fruit and nut producers in Kabul, and Handcrafts – WClol in Kabul. To obtain statistical representativeness the number of craftspersons and apprentices were estimated based on the information gathered from the key informant interviews. The sample sizes were calculated with a 10% error margin and 95% confidence level assuming a normal distribution.¹⁵ The 10% margin of error is justified because it is a population group that is very specific and relatively homogeneous, allowing for the findings to be adequately representative and therefore generalizable. (See Appendix 1).

4. Institutional Landscape of Clusters

Clusters analyzed in this research all have clearly defined structures that govern and sustain them (Figure 1). Each cluster is represented by a *senf* (traditional guild) and/or *anjoman* (formal trade association) which, in turn, has membership of the *etehadia* (the national apex organization or association). Senfs, anjomans, the etehadia representing them, and the senfs’ constituent businesses have persisted, some for hundreds of years and despite the recurring periods of turmoil and instability, to generate licit, productive, and resilient economic activity. A key finding from the analysis of data collected on numerous clusters across Afghanistan is that knowledge is practically nonexistent on the role of senfs while little is known about anjomans and the national etehadia, other than the fact that they exist.

There are numerous clusters of ironmongers, carpenters, carpet weavers, butchers, furniture makers, mechanics, agri-food processors / retailers, printers, tailors, and pottery workshops in all urban and peri-

¹⁵ The sample sizes were calculated using the following standard formulas: \( n = \frac{N \cdot x}{\left(1-(N-1)E^2\right)} \) where \( n \) is sample size, \( N \) is the population size, \( x \) is a coefficient, and \( E \) is the margin of error. Margin of error \( E \) is calculated as: \( E = \sqrt{\frac{N - n}{n(N-1)}} \) Coefficient \( x \) is calculated as: \( (3) = Z^2(\frac{c}{100})^2(100-r) \) where \( Z^2(\frac{c}{100}) \) is the critical value for the confidence level \( c \) and \( r \) is the fraction of responses of interest.
urban centers in Afghanistan. Senfs, anjomans, and the national etehadia and its provincial branch offices have played and continue to play a pivotal role in representing the interests of their constituent micro and small-sized enterprises (MSSEs) at the municipality level of governance and sustaining the apprenticeship mechanisms in the trades they represent.

**Figure 1. Governance Structure of MSSEs**

A substantial portion of MSSEs of the same craft, whether clustered or not, are categorized according to their senf. A senf is not a physical entity and not formally registered. The literal translation of senf is class, or profession, as in being a carpenter and thus belonging to the carpentry trade or being an ironmonger and belonging to the ironmongery trade. Senfs are represented at the national level through *etehadia senfi*.

A significant number of MSSEs are also members of trade *anjomans* (formal trade associations). Anjomans play a similar role to etehadia senfi in that they are made up of MSSE members from the same trade. Anjomans are formal provincial entities and registered with the Ministry of Justice, which
grants them an operating license. Etehadia senfi, in contrast, act more like a traditional trade union. Not all members of the same senfi are organized in anjomans while an MSSE may have membership of both an anjoman and an etehadia senfi. Membership of both etehdia senfi and anjomans is voluntary. The requirement for anjoman membership is the payment of a monthly membership fee of between 30 to 50 Afghanis by the MSSE that wishes to join. In addition, the joining MSSE is required to pay a one-time fee of 150 Afghanis to acquire the anjoman membership card.16

Both provincial anjomans and provincial etehadia senfi report to the Etehadia Walayati Pishawaran (Provincial union of trades). Etehadia Walayati Pishawaran reports to the provincial Shura Walayati Pishawaran (provincial industrial council) and Etehadia Melli Pishawaran. The 17 Shura Walayayti Pishawaran report to the Shura Markazi Pishawaran (Central / national shura of trades). Shura Markazi Pishawaran is responsible for overseeing the work of Etehadia Melli Pishawara and organizing the national congresses.

There are approximately 800 provincial etehadia senfi throughout the country and an estimated 300,000 bazaar companies nationally of whom 75,000 registered with provincial anjomans. There are 92 different types of production and 300 different types of jobs within these trades. The small enterprises with their apprenticeship system are the largest – but officially unacknowledged – TVET training providers in Afghanistan. Assuming two apprentices employed at each enterprise, this gives a total of about 600,000 young people being trained in the traditional (undocumented) apprenticeship system.17 The national etehadia is headed by a director, based in Kabul, a deputy, and an executive committee. Each provincial etehadia is headed by a provincial manager, assisted by a deputy and support staff.

5. Clustered Enterprises and Value Chains

Enterprises and their clusters are subject to constraints such as regulatory pressure, coercion and corruption, lack of protection, inadequate infrastructure, or lack of access to markets, capital, or reliable supplies, and are thus often interdependent in overcoming constraints despite being competitive toward one another.

16 Anjomans were, reportedly, introduced by the French and American donors to lessen the influence of the potentially militant etehadia senfi in Afghanistan (Key informant interview in Kabul, June 15, 2013).
17 This number is six times the training capacity of the formal TVET system of Afghanistan.
Figure 1 depicts the relationship between clustered enterprises and the value chain within which clustered enterprises operate. Whereas the value chain approach emphasizes the broader market conditions and the need for individual firms to strive to move up the value chain, the cluster approach is concerned about the more immediate operating and market environment of clustered enterprises which are typically co-located, share suppliers and customers, face the same constraints, and are thus forced to collaborate horizontally.  

Figure 1: Clusters and Value Chains

In contrast to the value chain approach, the cluster approach is more focused on consolidation of the cluster in terms of efficiency and resiliency. Efficiency (and effectiveness) of a cluster may be increased through securing shared agreements to secure cheaper supplies of raw materials, increase supply of goods and services to meet spikes in demand by drawing on built-in redundancy within the cluster, and use the critical mass of the cluster to demand change in operating conditions, secure loans, or

undertake joint marketing. Clusters, particularly in a less developed context and without access to export markets, are prone to benefiting from realignments in the domestic market aimed at increasing demand for domestically produced goods and services. Realignment, carried through in a value chain context, is likely to lay the foundation necessary for domestic enterprises to move up on the value chain by gaining access to extra-local markets (Figure 1).

A key finding from the analysis of all the 26 clusters is that knowledge on structures through which clusters are organized is practically nonexistent. The senfs, anjomans, and the national etehadia do not feature in the economic policy discourse of the Government of Afghanistan or the international donors. Most key stakeholders in economic development policy making process have little or no knowledge of clusters and their governing structures other than the fact that they exist. Senfs have played and continue to play a pivotal role in representing the interests of their constituent MSSEs at the local levels of governance and sustaining the apprenticeship mechanisms in the trades they represent. Much potential exists for informed economic policy making through engaging with clustered MSSEs individually and through their organizing structures. This, however, would require systematic knowledge and analysis of clusters, their strengths, weaknesses, opportunities, and threats – all key tasks that remain to be addressed as parts and parcels of strengthening the private sector in Afghanistan.

6. Key Findings

The broad and crosscutting findings from the analysis of the clusters in Herat, Kabul, Parwan, Balkh, and Kandahar may be summarized as follows:

**Land Tenure:** The overwhelming majority of clustered enterprises rent their workspace with land titles belonging to different actors including private individuals and the government. Decisions to rezone land use by the government or title holders can result in disruption of business activity due to displacement of clustered enterprises.

**Infrastructure:** A significant number of the MSSEs operate with no electricity. Businesses that rely on electricity are adversely affected by unexpected outages or wide variations in voltage, often damaging electrical tools and machinery. Reliance on individual or communal generator power is quite common among clustered enterprises.
**Kinship / Family Ties:** None of the clusters appears to be predominantly based on a clan-like structure. The incidence of family or kinship ties is higher in older trades such as ironmongering and carpentry than others.

**Lending and Borrowing:** The most common form of collaboration among clustered MSSEs is borrowing and lending money. There are also high levels of lending and borrowing of tools and machinery, sharing energy sources, sharing orders, relying on human resources of other enterprises for rush orders, bulk purchases of input materials, and sharing workspace.

**Intensity of Collaboration:** Collaboration among the cluster members varies in intensity in different locations, with Mazar-e Sharif and Herat being the locations with the most intense levels of collaborations.

**Modes of Learning:** Daily face-to-face interaction among members of clustered enterprises is the most widespread method of transferring knowledge and learning, pointing to the importance of tacit knowledge.

**Captured Customer Base:** A captured customer base is most apparent in Mazar-e Sharif, Herat, Kandahar, and Charikar (Parwan) where most customers come from within the province. In Kabul the customer base appears to be much wider, covering areas beyond the province.

**Debts, Savings, and Access to Credit:** The vast majority of the clustered enterprises have access to formal and informal credit. All enterprises have higher levels of debt than saving. A very substantial number of enterprises object to borrowing on interest from formal entities such as microfinance institutions (MFIs) or banks as being against Islamic values. Many enterprises also find formal loans to be expensive or inadequate to their needs.

**Investment:** Investment in ongoing business activity is varied among cluster types and locations. A very high number of enterprises have made no investment in their businesses during the last five years. The purchase of tools and machinery is the most common form of business investment, followed by workspace improvement and skills education for employees.
Supply Stock Management: The vast majority of clustered enterprises operate according to just-in-time principles of stock keeping and do not hold high inventory levels of input materials. This is due mainly to space limitation for storing stockpiles and cash flow limitations for paying for materials not immediately needed for production.

Business Needs: The main business needs of the clusters were stated as:
- Cheaper and/or more readily available inputs or raw materials
- Tools and machinery
- Workspace, and
- Skills training.

Business Management Needs: The vast majority of the clustered enterprises do not have a system to document their business activity and transactions. The most common form of keeping accounts is by memory of the enterprise owner, followed by recording debts and credits in a scrapbook and, in exceptional cases, use of computers.

Business Prospects: The vast majority of the clustered enterprises reported improvements in the economic conditions (as of late 2014), a steady customer base, and a steady flow of sales and revenue.\(^{19}\)

7. Most Pressing Needs of Clusters

The clustered enterprises were asked to list their most pressing needs. The responses are summarized below.

1. Modern production technology and tools.
2. Professional trainers to train the master craftsmen on modern production techniques and using modern production tools.
3. Literacy and basic mathematics training for apprentices, a significant number of whom are

\(^{19}\) Since 2012, there has been a general downturn in the economy due mainly to a reduction in the flow of international aid funds to Afghanistan. The impact of this change, and the coping mechanisms of clustered MSSEs, need to be examined for an update on the operating climate for MSSEs and the private sector more generally.
functionally illiterate and thus limited in their ability to absorb formal learning.

4. English literacy for some of the more senior trades people, such as master craftsmen or those who work in more complex trades such as auto mechanics.

5. Tailor-made training for master craftsmen to standardize their knowledge of their trades and to enable them to transfer their skills to their apprentices more effectively.

6. Access to affordable finance.²⁰

7. Access to other markets (domestic and beyond).

8. Access to reliable electricity.

9. Access to basic amenities such as running water and sanitary facilities at the workplace.

8. Conclusion

One of the primary concerns and challenges for Afghanistan and its international donors in the post-2014 period is establishing a sustainable economic base as the foundation on which to develop programs for the stabilization of Afghanistan and work toward less reliance on donor funding.

The focus of the main donor organizations active in Afghanistan has remained at the macro-level of intervention, exemplified by the 2015 accession of Afghanistan to the World Trade Organization (WTO) and the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline. Important as these and other macro-level interventions have been in Afghanistan – including regulatory reform, creation of quasi-governmental entities such as Afghanistan Investment Support Agency (AISA) and Export Promotion Agency of Afghanistan (EPAA) to assist in issuance and renewal of business licenses, bi- and multi-lateral trade accords and agreements, and the digitization of the customs system – there remains a major gap between these macro interventions and the economic role and place of the micro enterprises that constitute the bulk of private sector activity in Afghanistan.

Based on the available information and APPRO’s research on clustered enterprises since 2010, we can state the following:

²⁰ Microfinance from Microfinance Institutions is not advisable in this case due to the short period of repayment and extortionately high interests charged. See APPRO (2008) on some of the issues related to microfinance in Afghanistan, available from: http://appro.org.af/publications/
• The five urban centers that served as the sites for this research have an estimated total population of around seven million, roughly one fifth of Afghanistan’s population. Kabul has an estimated population of four million, Mazar-e Sharif 700,000, Kandahar 1.2 million, Herat one million, and Charikar (Parwan) 106,000.\(^{21}\) The full extent of social and economic contributions of clustered enterprises to their local economies remains largely unknown, however.

• Traditional production methods used by clustered enterprises are typically “low-tech” and almost all trades would benefit from machinery and tools upgrading. Introduction of new machinery and tools would necessitate acquiring know-how by the masters who could then transfer their skills to their apprentices.

• There are numerous forms of lending and borrowing among clustered enterprises including money, tools and machinery, energy sources, human resources for rush orders, bulk purchases of input materials, and even workspace. The multiplicity of collaboration among clustered enterprises could serve as a firm foundation on which to design a wide variety of programs to strengthen the private sector.

• The potentially high demand for microcredit and other financial products among the clustered enterprises must be contextualized in the fact that there is also widespread opposition to borrowing money on interest. The presence of high demand for credit is nevertheless an opportunity for intervention to raise awareness about and usefulness of the modern banking system as a potentially positive source for business modernization and expansion. In so doing, attention must be paid to cultural sensitivities and religious values against the payment of interest, and learning from the largely disappointing outcome of introducing microfinance in Afghanistan.

• The vast majority of the enterprises do not keep formal records of their business activities, including transactions. The clustered enterprises need to be trained on the benefits of documented business activity including bookkeeping and the benefits of paying due taxes as trade off for receiving, or expecting to receive, government / municipal services.

• There are major structural issues that constrain improved performance and expansion of the clustered enterprises. Unstable and arbitrary land tenure arrangements are a general concern throughout Afghanistan due largely to the decades of conflict and antiquated zoning laws. This instability can act as a deterrent to business expansion or more optimal business location.

• Access to markets beyond the domestic market requires expertise, personnel, and additional resources for marketing (including advertising) and quality improvement and standardization.

• Traditional sectors for which Afghanistan has plentiful raw materials and labor at competitive prices, such as leather shoe and bag making, honey production, woodworking, and carpet weaving are at the risk of being completely eliminated due to competition from the much cheaper, though low in quality, imports. A major step in protecting and strengthening the clustered enterprises of these sectors is to secure the domestic market by winning the confidence of Afghan customers in domestically produced, good quality, and competitively priced Afghan products.

• The inadequacy and insufficiency of energy supply are also main deterrents to more efficient operational performance.

The preoccupation of the national government with other major issues such as security and worries about the post-2014 prospects warrant a local focus for the national and international interventions to support Afghanistan’s private sector. This approach would be consistent with “local economic development” (LED) as advocated by the World Bank, for example. The approach would involve local municipalities, the local private sector and particularly the clustered enterprises such as those surveyed for this research, and the international donor aid organizations with mandates to develop the private sector in Afghanistan.

In local economic development the focus is on increasing competences and competitiveness of existing businesses, an approach also advocated for building and expanding clustered business activity. Assistance provided for clustered businesses should thus include physical infrastructure, secured supply sources, basic municipal services such running water and electricity, access to markets, and access to

finance. In Afghanistan the Community Development Councils (CDCs), local shuras and jirgas, elders’ committees, and religious leaders can play major roles as direct stakeholders in the development, implementation, and monitoring of local economic development programs based on in-depth knowledge of the pre-existing forms of business organization, such as clustered MSSEs, and their most urgent needs.

Clustered MSSEs make multiple contributions through their licit, albeit low-tech, economic activity. MSSEs generate income for numerous families, provide an environment for learning and entrepreneurship, and contribute to social cohesion and order in their host communities. MSSEs also have multiple, fundamental needs if their potential to economic development and growth is to be fully realized. Continued monitoring and analysis of clustered enterprises will be needed to highlight their value adding economic activities and entry points for policy intervention to create spaces and opportunities for MSSEs to grow and move up their respective value chains.

There are ample opportunities for the government and development aid organizations to add value through their programming on private sector development by including in their focus the large but neglected number of clustered MSSEs present in all major populations centres of Afghanistan. Intervention with a focus on MSSEs will also be consistent with the goals of using job creation for social cohesion, stability, and inclusive development, promote export by building value chains, and increase the competitiveness of the Afghan private sector.

Continued analysis of data from additional clusters is likely to generate much needed additional systemic and systematic knowledge about the traditional forms of business organization in the broader economy, the extent of their positive and legitimate contributions in generating livelihoods, their internal sustenance mechanisms such as apprenticeship arrangements and lending and borrowing, and their needs in terms of access to business management systems, finance, and technology. The analysis should pay particular attention to the institutional arrangements of the senfs and etehadias as structures through which to consult with the private sector on the provision government and donor support for the private sector.

Periodic surveys must be conducted to establish demand conditions in the domestic market, and thus the demand for the goods and services being produced by the traditional clusters. The findings
generated through such surveys should be used to encourage MSSEs to acquire appropriate and modern tools and production technology and thus a higher demand for learning outside of the traditional apprenticeship system.\textsuperscript{23} Resources need to be allocated for setting up monitoring mechanisms and generating consistent data on domestic and international markets as the basis on which to provide support for clustered enterprises. Ultimately, strengthening clustered enterprises through assistance to address their multiplicity of needs is likely to provide incentives for individual enterprises to move up their respective value chains.

\textsuperscript{23} Conducting surveys, particularly in the years since 2008/9, is extremely difficult in Afghanistan. However, there are a variety of ways of monitoring market conditions including qualitative surveys and continuous engagement with key informed individuals within and outside the business sector.
## Appendix 1: List of Clusters and Sample Sizes

### Table 1: Sample Sizes and Surveys

<table>
<thead>
<tr>
<th>Location</th>
<th>Type of Senf (trade)</th>
<th>Registered Trades</th>
<th>Sample Size</th>
<th>Nr of Surveyed Trades</th>
<th>Sample Size Apprentices</th>
<th>Nr of Surveyed Apprentices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Herat</td>
<td>Ironmongers</td>
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