

ARZU'S Entrepreneurial Approach to Development

Authors

Colin Leonard, BA, MIB

Ryan Berg, BA, MSc, MPhil, PhD (Oxon)

December 2015



Table of Contents

Executive Summary.....3

Methodology.....5

Introduction6

The Outmoded Model of Foreign Aid: An Afghan Snapshot.....8

Afghanistan's Development Challenges9

ARZU's Impact10

ARZU vs. Traditional Aid Models.....13

Re-Thinking Large Scale Development Programs.....15

Scaling Outcomes.....17

Executive Summary

Few countries confront greater development challenges than war-torn Afghanistan. Its development environment is as unforgiving as any, despite receiving over \$110 billion in foreign aid since 2001 from the United States alone. Amid many development initiatives and Large-Scale Development Programs (LSDPs) operating in the field, one organization sticks out above all others for its entrepreneurial approach to development and record of successes. ARZU, founded by former Goldman Sach's partner Connie Duckworth, is a social enterprise which empowers women in Bamiyan, Afghanistan, to weave high-end artisan, handmade, fair-trade rugs. It sells its products via a robust international distribution network and uses the proceeds to fund overhead and social program costs. The core of ARZU's operational success has been in providing previously unavailable and desperately needed civil services to women, particularly education and healthcare.

ARZU aims at female empowerment partly by requiring the signing of a social contract when employing a new female weaver. When ARZU employs a new female weaver, the head of household must sign a contract requiring all female members of the household to attend school.

Recently, ARZU conducted a social impact assessment of its work in Bamiyan Province. They gathered local census data (something the government does not have the ability to do) and conducted a survey of both program recipients and locals who had not received assistance from ARZU programs. The survey outcomes indicate tremendous impact in the following areas:

- **Income/Living Standards:** ARZU supports more than 2,000 family members, while 10,000 community members benefit from cascading economic effects. ARZUS's rural women earn 68% more than the average per capita income in Afghanistan, inclusive of male salaries in urban areas.

- **Access to Education:** After instructing nearly 900 community women in literacy classes, 100% of ARZU's weavers are now literate, whereas 90% of rural Afghans remain illiterate. 20% of ARZU weavers support children who are attending university.

- **Healthcare/Life Expectancy:** Afghanistan suffers from one of the highest rates of maternal death during childbirth in the world. ARZU's health program has assisted in the delivery of over 800 babies, not allowing a single maternal death in childbirth.

ARZU has been able to achieve these results through its innovative approach to micro-development. It

places locals in charge of their own development, allowing them to accrue transferrable management skills and enabling operations to continue with less oversight over time. ARZU also meets long-term community objectives with revenue-generating activities that reinforce social value it creates. LSDPs are less effective in their traditional approaches to aid, restricted by funding sources to pursue “quantity of results over their quality.”¹ These unwieldy bureaucracies must eschew long-term objectives to ensure continuous funding by spending annual budgets in entirety. Their vast resources are spent on short-term objectives broadly applied to highly fragmented communities throughout Afghanistan. Overtime, this unsustainable process has resulted in the country's economic disruption and hindered development. In contrast, ARZU's lean and entrepreneurial approach to micro-development demonstrates the potential impact of managing resources to produce long-term quality outcomes, and is replicable in nearly any development context.

¹ United Kingdom. Independent Commission for Aid Impact. *Department for International Development's Approach to Delivering Impact*. KPMG LLP, British Crown. 10/June/2015. <<http://icai.independent.gov.uk/wp-content/uploads/ICAI-report-DFIDs-approach-to-Delivering-Impact.pdf>>.

Methodology

This study originated as an attempt to identify the reasons ARZU has been able to meet its mission objectives in the communities it works with, then compare the organization's outcomes and processes with those of other aid agencies in Afghanistan. The difficulty and cost of obtaining accurate economic and social data for Afghanistan necessitated the inclusion of disparate data sets. Primary qualitative research was conducted by surveying individuals in the communities within which ARZU works, and the results were subsequently compared with published secondary research.

Participants for the surveys were selected based on their relationship to ARZU. ARZU issued employed weavers questionnaires to gather basic community census information. Participants were also asked to complete several narrative questions about their personal characterizations of how ARZU has impacted their lives and household. ARZU issued husbands of weavers a separate questionnaire to gather information on how the organization has impacted men's habits and attitudes towards women in their families and community. Finally, ARZU surveyed three community leaders to help identify how it has impacted the circumstances of the community's women.

As it is difficult to avoid research bias when directly surveying the beneficiaries of social programs, ARZU also surveyed community individuals not employed by it as a control group. This was done in order to help identify attitudes of those not directly associated with the organization.

Introduction

Effective development in regions that have been devastated by prolonged military conflict requires programmatic patience and most importantly, adaptability. Organizational impatience and inflexibility undermine even the most well-intentioned development initiatives. Recently, improved approaches to poverty reduction have begun to challenge conventional development practices. In Bamiyan, Afghanistan, one organization with a lean, entrepreneurial approach to development has achieved ambitious mission objectives on a budget that is dwarfed by those of traditional aid agencies. ARZU Studio Hope has operated in Bamiyan for over a decade now and is responsible for producing sustainable development solutions within an isolated and marginalized community. The organization's successes illustrate new potential for development programs, especially for initiatives that abandon conventional practices of foreign aid in favor of adopting improved and entrepreneurial approaches to development.

At its core, ARZU creates sustainable and culturally acceptable employment opportunities for women, leveraging financial incentives to produce social change. Its programs have transformed the family dynamics of an inveterate patriarchic society and resulted in sustained local economic growth. Providing economic advantages for women has begun to help address their social subjugation and also subsequently benefitted the next generation of community members. As females have become wage-earning members of the household, they have increased their influence over family and community life.

ARZU's organizational initiatives have enhanced the capabilities of Afghan women by providing them with an above-average standard of living and access to education. Furthermore, its health program has increased life expectancy by effectively eliminating death during childbirth within its community of operation.

This paper comes to the conclusion that development professionals and social entrepreneurs who adopt ARZU's development model would be well poised to create social impact in their communities of operation, maximize their impact per dollar spent, and help eliminate ineffective practices

associated with traditional foreign aid assistance. The paper is organized by first briefly explaining the outdated model of foreign aid, using the context of Afghanistan. It then proceeds by highlighting the immense development challenges the country faces. The paper moves on to outline ARZU's level of social impact in Bamiyan Province despite these challenges, as well as the entrepreneurial practices that have led to such impact. It contrasts these practices to the staid, inflexible development models supported by many Large- Scale Development Programs (hereinafter LSDPs). It concludes by offering a brief analysis of the potential to scale ARZU's entrepreneurial model to other development programs.



The Outmoded Model of Foreign Aid: An Afghan Snapshot

For fourteen years, traditional development practices have failed to produce sustainable micro- or macroeconomic growth for Afghans, reflecting the economic disruption that occurs when a fragmented and war-ravaged society develops a long-term dependency on foreign subsidies for basic civil services and public goods provision. Despite the commitment of billions of US dollars, Afghanistan lacks basic security and functional institutions of government, education, commerce and healthcare. Worse yet, contracts with values ranging from hundreds of millions to billions of dollars have consistently produced little if any progress towards their intended objectives. Despite nearly universal reports by beneficiaries and donor agencies of successful funding outcomes, aid has resulted in multitudes of “ghost” schools, hospitals, and agricultural programs, where “ghost” employee salaries nevertheless continue to flow^{2,3}.

Many inadequacies have significantly contributed to the failure of traditional aid models in Afghanistan, including: the conflicting incentives that motivate donors and recipients of aid; insufficient oversight of private contractor operations; and, opaque auditing practices. However, Afghanistan’s recent history highlights even larger, more fundamental flaws in how international development funds are deployed. At root, centralized management of large-scale poverty reduction programs cannot deliver sustainable solutions to meet local needs. Adequately allocating resources to catalyze viable development requires the decentralization of community investment programs so they can manage their working capital more effectively. ARZU’s successes demonstrate that adopting a localized approach to development, as well as maintaining a long-term commitment and consistent objectives, mitigates the myriad challenges involved in producing social and economic progress in marginalized communities.

² Khan, Azmat. "Ghost Students, Ghost Teachers, Ghost Schools." *BuzzFeed*. N.p., 9 July 2015. Web. 15 July 2015. <<http://www.buzzfeed.com/azmatkhan/the-big-lie-that-helped-justify-americas-war-in-afghanistan#.hmjQxv00a2>>.

³ McLaughlin, Jenna. "Watchdog Tries to Verify Coordinates of Afghan Health Clinics; Gets a Surprise." *The Intercept*. First Look Media, 1 July 2015. Web. 1 July 2015. <<https://theintercept.com/2015/07/01/watchdog-tries-verify-coordinates-afghan-health-clinics-hilarity-ensues/>>.

Afghanistan's Development Challenges

In 2014, Afghanistan ranked number 172 out of 175 countries in Transparency International's Corruption Perception Index, reflecting the extent of institutional and social dysfunction in the nation. The country also ranked 169th in the 2014 Human Development Index, one of the lowest in the study. Corruption, the weak institutions it engenders, and a lack of developed human capital are the largest obstacles to economic and social progress that Afghanistan faces today. Despite receiving over \$110 billion from the United States alone for reconstruction efforts since the military invasion of late 2001⁴—more than the inflation-adjusted amount spent on the reconstruction of all Western Europe after WWII through the Marshall Plan—the Afghan government remains dependent on foreign aid for 90% of its national budget^{5,6}, languishing in deep political paralysis and continued corruption. Afghanistan continues to have the highest infant mortality rate in the world and measures among the worst nations for maternal death rate, per capita income, literacy rate, and electricity usage⁷. Meanwhile, billions of foreign taxpayer dollars allocated to build hospitals, schools, and agricultural programs—all well-intentioned—have “vanished” enriching corrupt program administrators

<<https://www.sigar.mil/about/index.aspx?SSR=1>>

⁵ World Bank. *Presentation: Transition in Afghanistan: Looking beyond 2014*. N.p.: World Bank & Islamic Republic of Afghanistan Ministry of Finance, 2011. Washington Post. Web. 6 Feb. 2015. <http://www.washingtonpost.com/wp-srv/world/documents/presentation-transition-in-afghanistan.html>.

⁶ Rubin, Alissa J. "World Bank Issues Alert on Afghanistan Economy." *The New York Times*. The New York Times, 22 Nov. 2011. Accessed online 4 June, 2015. http://www.nytimes.com/2011/11/23/world/asia/world-bank-issues-alert-on-afghanistan-economy.html?_r=1

⁷ Brinkley, Joel. "Money Pit: The Monstrous Failure of US Aid to Afghanistan." *World Affairs Journal* 92.1 (2013): Jan. 2011. Accessed online 6 June, 2015 <http://www.worldaffairsjournal.org/article/money-pit-monstrous-failure-us-aid-afghanistan>

ARZU's Impact

Indicators of human development transcend econometric considerations to include both the creation of conditions necessary for social progress to occur, as well as the direct enhancement of human capabilities. In each of these dimensions, ARZU's accomplishments exemplify an organizational ability to deliver meaningful results to both individuals and the community at large. ARZU has enhanced human capabilities by increasing life expectancy, access to education, and the standards of living in Bamiyan Province, all of which are vital measures of human development used by the World Bank.

Income/Living Standards

— ARZU has created over 700 private sector jobs, significantly increasing the standard of living for its employees.

- Internal studies show that ARZU employees support about 2,000 family members, while approximately 10,000 community members benefit from cascading economic benefits.
- ARZU's rural women weavers earn 68% more than the average per capita income in Afghanistan. This is inclusive of male salaries and those in urban areas.
- 55% of ARZU weavers own their home, compared to a 66% average in developed countries.

"I used to think women could not make money. Now my wife makes more than I do."- Mohammad Amir, husband of an ARZU weaver

“Before ARZU came, my daughters had no plan for their future. Now they talk about the future, they talk about their school and their life is colorful, not white and black.”- Sayed Nabi, husband of an ARZU weaver

Access to Education

- 100% of ARZU’s weavers are now literate, whereas 90% of rural Afghans remain illiterate.
- 896 community women have attended ARZU literacy classes.
- 100 community women and girls are enrolled in English courses.
- 20 women are enrolled in computer literacy classes.
- 90 children are enrolled in ARZU’s preschool program.
- 20% of ARZU weavers support children attending university.

“I have four girls. When they were small, I wondered how I could make a good life for them. But now they work, they are educated, and they earn as much money as a man earns working and it has changed my thoughts on women.” – Rahman, husband of an ARZU weaver

Healthcare/Life Expectancy

- ARZU’s health program has assisted in nearly 800 deliveries, not allowing a single maternal death from childbirth.

“The women in my family have taken on the roles of men.”- Mohammad Amir.



ARZU has increased the capabilities of Hazara women and cultivated an environment where human development is gaining momentum. It has achieved significant social objectives including: the improvement of gender equality; the establishment of more formidable human security; and the increase in opportunities for participation in family and community

life. Four ARZU weavers have even joined the local Shura (tribal leaders), which has helped address social misperceptions and increased women's local political influence. The organization has also produced basic census data that other institutions can build upon to support future development initiatives locally and regionally.

“Before ARZU, women were only occupied with household tasks...Now, the women are literate, the women have more authority in their families and take more responsibilities regarding their families and society. They would like to have a better life and they are more hopeful than before.”- Safar, head of the Shura in Shash Pul village



ARZU vs. Traditional Aid Models

During a trip to Afghanistan in 2003, social entrepreneur and former Goldman Sachs partner Connie Duckworth identified systemic flaws in the use of development funding. To change the distressing conditions of Afghan women, ARZU crafted a mission to achieve community growth through female empowerment utilizing private sector practices. Ms. Duckworth's strategy was to place Afghans in charge of spearheading their own community development. ARZU, which means 'hope' in Dari, employs women from two Hazara communities in Bamiyan Province to weave high-end artisan, handmade, fair-trade rugs. It then sells its products via a robust international distribution network and uses the proceeds to fund overhead and social program costs.

The core of ARZU's operational success has been in providing previously unavailable and desperately needed civil services to women, particularly education and healthcare. When ARZU

employs a new female weaver, the head of household must also sign a contract requiring all female members of the household to attend school. Male heads of household are no longer free to make decisions on whether to provide medical care to female family members. ARZU employs a host of Afghan locals, including some men, in supportive operational roles; ARZU keeps community leaders regularly involved in the organization's programs.

While Afghans have endured decades of traditional development approaches producing few success stories, ARZU's commitment to under-promising and over-delivering has helped endear it among locals and increase long-term outcomes. This trust also provides leeway for the organization to experiment with new social projects, serving as an in-the-field incubator for development initiatives. This relationship stands in stark contrast to LSDPs throughout Afghanistan that have inspired mistrust and resentment

through waste, corruption, and ineffectiveness.

Traditional charities and development agencies face pressure to decrease and understate overhead costs because of donor aversion to funding processes rather than outcomes. This places undue pressure on staff that could be alleviated with effectively managed working capital. In contrast, ARZU's accurate accounting of its overhead costs has been a crucial component of its continued mission success. Financially efficient processes make the social enterprise less dependent on external income to operate and scale. By tracking its overhead costs, ARZU has been able to generate increased internal revenue and thereby maximize its correlating social impact. ARZU's outcomes demonstrate how

entrepreneurial strategies can help avoid the pitfalls of traditional aid in order to deliver sustainable growth solutions that maximize development impact and increase resource use efficiency.

ARZU's outcomes for one community, in terms of impact per dollar, stand out as exemplary in comparison to the scant successes attributable to the plethora of aid funding throughout Afghanistan. With resources amounting to roughly \$1.5 million USD, ARZU's working capital outperforms the big budget programs, which hemorrhage assets, by addressing local realities with a market based, holistic approach.



Re-thinking Large-scale Development Programs

Bureaucratic LSDPs in Afghanistan continue to demonstrate themselves as incapable of achieving long-term growth solutions for disparate communities. They have proven to be machines of consumption rather than investment, depleting and displacing resources rather than generating them. The aggregated long-term effects of numerous such operations on a nation-wide scale have resulted in a national economy reliant on consumption and expenditure rather than investment and savings.

Global data illustrates an inverse correlation between the amount of aid a country receives and foreign direct investment^{8,9}, a crucial component of sustainable macroeconomic growth. Afghanistan is an extreme example of this inverse relationship. While individuals benefit from LSDP aid services by receiving temporary assistance in a variety of forms, the economic bubbles that result from an inability to sustain and scale programs ultimately leave beneficiaries in precarious positions without long-term solutions. These massive influxes of foreign resources can provide immediate disaster relief during emergencies, but over extended periods cause social and economic disruption with catastrophic consequences for development. In Afghanistan, this has resulted in stymied exports and investment, volatile inflation, and wide-scale economic stagnation, especially in rural communities.

⁸ Moyo, Dambisa. *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa*. London: Penguin, 2009. Print. pgs. 48-51

⁹ Kurtzman, Joel. 'The Global Costs of Opacity - Measuring Business and Investment Risk Worldwide', *MIT Sloan Management Review*, October 2004

Additionally, LSDPs typically install foreign “technocrats” in management positions instead of assigning these responsibilities to locals. When human development is a program’s aim, this policy often inhibits mission success. ARZU’s model demonstrates that investing in human capital by putting locals in management positions takes patience but ultimately yields great results. Locals possess the linguistic, cultural, and situational awareness skills to operate where expatriates are less capable; by developing transferrable management skills, locals enable operations to continue with less oversight over time and can assist in the training of new employees. Meanwhile, remote LSDP bureaucracies are unable to navigate, nor often even be aware of, local cultural or market subtleties that impact operations. Decentralization enables focus to be sharpened on specific and evolving local needs, allowing programs to address

on-the-ground realities instead of getting lost in abstract strategic objectives. ARZU’s micro development model allocates resources based on community rather than regional circumstances, which increases process efficiency. Top down, ‘one-size-fits-all’ LSDP solutions bring significant resources to bear in the event of immediate widespread catastrophes, but cannot direct capital towards focused objectives. Furthermore, these resources are fungible, which makes them susceptible to diversion and corruption, and often rely on byzantine management for delivery. Application of these broad solutions to diverse tribal communities over decades has littered the Afghan countryside with program failures, fueled corruption and economic disruption, and sowed deep resentment among locals with their apparent profligacy.

Scaling Outcomes

Concurrently maximizing quality long-term impact and impact-per-dollar of a development agency is not possible by pursuing short-term measurable outcomes at the expense of sustainability. It can be done by constructing processes that ensure sufficient resource flow for production to meet consistent objectives, as ARZU has. Outcome sustainability has rendered the organization an indispensable engine of economic and social progress for the Hazara community of Bamiyan, Afghanistan.

Localized development strategies enable organizations to spread financial risk, create an advantage to achieve maximum impact per dollar, and help social entrepreneurs compete for financing. In contrast to the consequences inflicted by allocating massive blocks of resources to achieve broad objectives in fragmented communities throughout Afghanistan, ARZU has demonstrated that concentrating capital apportionment to produce efficient microeconomic development increases program longevity. Its market-based approach also illustrates how deploying patient capital and maintaining consistent long-term objectives builds community trust in an organization's commitment to local needs. Furthermore, ARZU has empowered local women to become an integral component of their own society's improvements, which has maximized economic and social impact. In these ways, ARZU's strategic approach to development has enabled the quality of its impact to supersede quantitative measurements of its successes.

The past decade has demonstrated the extent to which traditional foreign aid distribution has undermined Afghanistan's long-term development objectives. ARZU's entrepreneurial method represents a proven alternative to the ineffective and unsustainable practices of this status-quo. Its longevity and exemplary success record are directly attributable to its rejection of foreign aid formulas in favor of competent financial management and the strategic deployment of patient resources to meet local needs.