Afghanistan Research and Evaluation Unit

Case Study Series

Microcredit, Informal Credit and Rural Livelihoods:

A Village Case Study in Balkh Province

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December 2008

Editor: Chris Bassett **Design and Layout:** Chris Bassett

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About the Afghanistan Research and Evaluation Unit

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AREU was established in 2002 by the assistance community working in Afghanistan. Its board of directors includes representatives from donors, the UN and other multilateral agencies, and NGOs. AREU has recently received funding from: the European Commission; the governments of Denmark (DANIDA), the United Kingdom (DFID), Switzerland (SDC), Norway and Sweden (SIDA); the United Nations High Commissioner for Refugees (UNHCR); the Government of Afghanistan's Ministry of Agriculture, Irrigation and Livestock; the World Bank; UNICEF; the Aga Khan Foundation; and the United Nations Development Fund for Women (UNIFEM).

Acknowledgements

The authors wish to thank former and current members of the rural livelihoods team, Mohammad Ibrahim, Said Hafizullah Hashimi, Masooda Habib and Parween Gezabi, for excellent teamwork during the intense and demanding period of field trips. Their hard work has secured the collection of high quality, in-depth data for this case study. Special thanks to the people of the study village for the great hospitality, openness and patience shown towards the research team during the period of field work.

Final thanks go to the informal reviewers of the case study, whose comments and suggestions were most helpful, and to Chris Bassett, whose editorial inputs are greatly appreciated.

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Acronyms

AREU	Afghanistan Research and Evaluation Unit
FGD(s)	focus group discussion(s)
HH	household
INGO	international nongovernmental organisation
MC	microcredit
MFI(s)	microfinance institution(s)
MISFA	Microfinance Investment Support Facility for Afghanistan

Glossary

ailaq	pasture land for grazing animals
Afs	Afghani, the official Afghan currency (approximately 50 *Afs* = US$1)
ashar	a religious type of charity given by landowners to poor villagers consisting of ten percent of the harvest
boi	rich person
bakhshish	charity; gifts offered to the poor throughout the year
fetrana	religious charity connected to the Islamic holiday of Ramazan
gilam	woven rug
jalabi	bargaining; used to describe a trader who buys livestock or agricultural production for resale to wholesalers
jerib	unit measurement of land area equivalent to 2,000 m^2 (5 *jerib* = 1 ha)
junbishi	currency of the Northern Alliance during the Taliban era; redenominated in 2002 at a rate of 2000 *junbishi* = 1 *Af* = US$0.02
khairat	religious charity, often given as a meal prepared in the mosque for the poor of the village, sponsored either by several villagers or one wealthy household
kharwar	measure, weight
kheshawand	relatives (in a general sense)
komak	help
lalmi	rain fed land
mandawi	wholesalers market
mullah	religious leader
paisa-i-dawlati	official currency of the Taliban regime; redenominated in 2002 at a rate of 1000 *paisa-i-dawlati = 1 Af = US$0.02*
qarz-i-hasana	interest-free informal loans
ser	measure of weight; in Mazar-i-Sharif, 1 *ser* = 14 kg
sarmaya	capital
sudh	interest
toman	unofficial superunit of the *rial*, the official currency of the Islamic Republic of Iran; in 2002, approximately 8,000 *rial* = 800 *toman* = US$1
woloswali	district office
zakat	religious charity; one percent of harvest and/or livestock holdings, offered to the poor once per year

* Transliterations in this glossary and in the text are spelled according to AREU's editorial policy and do not reflect the opinion of the author(s).

Executive Summary

This case study is the third and final in a series of three that examines how the entry of microcredit (MC) into village and household economies in Afghanistan affects informal credit relations and livelihood outcomes, either directly or indirectly, through effects on the overall village economy. It builds on past AREU research on informal credit systems,[1] answering questions raised within that study about: the assumptions driving the introduction of microcredit in rural Afghanistan, particularly around lack of access to credit and the existence of a large, unmet demand; the successes claimed in terms of clients served and repayment rates; and how informal and formal credit systems interlink and feed off each other as well as the corresponding effects on livelihood security and debt burdens.

The findings of this study are based on analysis of qualitative data collected from one village in Dehdadi district. In this village, a series of key informant interviews and focus group discussions were conducted with MC clients and non-clients. These interviews and focus groups led to the selection of eight households for in-depth case studies. Four MC clients and four non-clients were selected, enabling comparison of the stated changes in livelihood outcomes between those who are involved in the programme and those who are not. The study village, which is near Mazar-i-Sharif, has experienced economic growth during the past three years due to better agricultural production, increased market prices for agricultural produce and better wages for labourers. It is questionable, however, whether or not this is a direct benefit from MC.

Two MFIs are operating in the study village; in this paper, these will be referred to as MFI 1 and MFI 2. This study focuses primarily on MFI 1 but also considers the structure of MFI 2, discusses the differences in programme structure and explores how these differences influence the villagers' use of and access to MC through the two MFIs. MFI 1 is characterised by establishing credit unions through which loans are disbursed and managed. The credit union office is based in Mazar-i-Sharif, which is where clients must go to gain information about the MC programme as well as to receive and repay their loans. New members must pay 100 *Afs* as a membership fee to open a savings account; the credit union encourages members to take ownership of their membership in the credit union by getting involved in its decision-making processes.

The goals of MFI 1 include lending to both men and women and providing loan products to individuals as well as groups. Individual loans require either one or two guarantors, depending on the size of the loan. The group lending model is designed for reaching lower wealth groups, particularly farmers. The standardised credit programme (which applies to both individual and group loans) requires clients to save up to 25 percent of the loan amount before loan disbursement; repayment is fixed after six months from disbursement with a grace period of one to three months depending on the size and purpose of the loan.

Loan sizes vary from 25,000 *Afs* for individual loans up to 250,000 *Afs* for group loans; clients found the loan sizes to be much larger than what they could attain through informal loans, and this was their main motivation for applying.

Client requirements regarding savings and guarantors, however, have meant that only the most resourceful villagers were eligible for loans. Many villagers reported interest in the loans but were either denied or decided to opt out on their own due to the strict requirements. Repayment of loans is difficult because it does not follow the natural cash flow of the clients' livelihood activities; some clients found themselves obliged to borrow money informally in order to repay their MC debts. Other factors that made debt

[1] Floortje Klijn and Adam Pain, *Finding the Money: Informal Credit Practices in Rural Afghanistan* (Kabul: Afghanistan Research and Evaluation Unit, 2007).

repayment more difficult were: use of loans for consumption and clients' desire to take larger loans for investments that did not suit the capacity of their household's economy.

The demand for larger loans led to practices in the village that did not always correspond to MC programme rules. For this reason, clients hoarded the group loans from other group members for use in their own businesses. This meant that not all villagers who officially took a loan used one, because much or all of the money was given to or collected by another person. At times this hoarding was carried out with the complicity of the loan officer in order to meet the demands of the loan taker who needed a large loan for his business. This raises questions about the implications for people who give away their share of group loans as well as overall access to credit (both informal credit and MC) in the village. Answers to these questions are deeply embedded in local power structures among villagers, across wealth groups and social statuses. There is evidence which suggests that access to and use of credit is often controlled by wealthy and powerful households in the village. Loan hoarding, therefore, can mean that a poor farmer may not be able to use MC but, by giving his loan share to the patron, would enable can a patron to benefit from MC. This is another way for poor farmers to strengthen informal credit relations in the village.

MFIs often measure the success of MC in relation to the repayment rates and the number of clients in a programme. These measures of success were applied in the case of MFI 1. Loan monitoring, intended to ensure productive use of the money according to the agreement between the office and client, was poorly conducted. The number of people who actually took loans was also low, as the study encountered many villagers who were either not eligible or decided to opt out.

Conclusions can be drawn from these findings regarding the importance of matching programme structures to client needs, livelihood activities and capacity. The strict requirements of MFI 1 are a major reason that the institution has a low number of clients. Furthermore, since access to credit is determined by existing social relations, MC must be seen as more than simply a financial transaction in order to understand the implications of social relations based on credit and assistance. Honour and status play an equally important role in decisions about lending and borrowing.

Due to the presence of two MFIs in the village, villagers were aware of the potential of MC as well as its benefits and disadvantages. MC was perceived to be an additional credit source, assessed in relation to the various forms of informal credit available in the village. This observation suggests that MC does not fill a gap in the demand for credit, in the sense that it does not provide a service that was previously unavailable; the informal market provided access to credit for those who required it. This implies that the Microfinance Investment Support Facility for Afghanistan should consider developing a more nuanced rationale for the provision of MC services based on an awareness of the credit market that pre-dates the entry of MC. This paper recommends that MFIs better understand informal credit relations as well as methods for improving demand-driven services appropriate for local livelihood activities that can reduce the risks associated with those activities.

1. Introduction

Afghanistan is among the many countries seeking to expand access to financial services for its poor and non-poor populations in order to create secure livelihoods and promote economic growth. This goal was one of the benchmarks for rural development stated in the country's interim Poverty Reduction Strategy Paper — the interim Afghanistan National Development Strategy (ANDS) — which aims to increase access to financial services for 800,000 households by the end of 2010.[2] All references to microfinance seem to have disappeared from ANDS 2008-13, however, despite the Government of Afghanistan's approval of a US$30 million loan to the Microfinance Investment Support Facility of Afghanistan, Ltd (MISFA) in early 2008. The loan, based on a World Bank grant, recognised the rapid growth of the microfinance industry and its ability to provide an increasing number of poor Afghans with credit. The objective of expanding access to financial services contains an implicit assumption, however: that rural households do not currently have access to such services and that financial services (particularly those related to credit) promote livelihood security and economic growth. In Afghanistan, these notions have yet to be supported by evidence.

Previous AREU research has highlighted the importance of credit and debt for the survival of households in rural Afghanistan[3] and explored the pervasiveness of informal credit systems. This research has also noted the extent to which many rural communities already have access to financial services (albeit in the "informal system").[4] These findings raise questions about: the assumptions driving the introduction of microcredit (MC) to Afghanistan[5] (particularly assumptions about lack of access and the existence of a large, unmet demand); successes claimed in terms of clients served and repayment rates; the nature of the connections between informal and formal credit systems; and the affect of these systems on livelihood security and debt burdens. This case study builds on AREU's previous research on informal credit systems and aims to answer some of the questions raised by those studies. It is the final instalment in a series of three case studies conducted in Kabul, Bamiyan and Balkh provinces; each study focuses on one village. These three provinces were selected because of the presence of different microfinance institutions (MFIs), which allowed the study to address the practices of two different MC delivery models.[6] The goal of the series is to understand how the entry of microcredit into village and household economies directly and indirectly affects livelihoods and informal credit relations, and how these effects impact the overall village economy.

In order to address these issues, this study is guided by the concept of public and hidden transcripts.[7,8] According to Scott, public transcripts refer to the record of social

2 "Interim Afghanistan National Development Strategy." Kabul, Afghanistan: Government of Afghanistan, 2005

3 Jo Grace and Adam Pain, *Rethinking Rural Livelihoods in Afghanistan* (Kabul: Afghanistan Research and Evaluation Unit, 2004)

4 Floortje Klijn and Adam Pain, *Finding the Money: Informal Credit Practices in Rural Afghanistan* (Kabul: Afghanistan Research and Evaluation Unit, 2007)

5 Microcredit is the small amounts of money that clients borrow from banks or microfinance institutions. It is a subset of the services offered under microfinance, which refers to loans, savings, insurance, remittance services and other financial products generally targeted at low-income clients.

6 Many more than three models exist in Afghanistan. Because of the in-depth nature of the study and time constraints, however, only three provinces could be included in the study. These three in-depth studies will be supplemented by interviews with a wider range of MFIs to understand their own descriptions of their lending models; this information will contribute to a future briefing paper on MC programme structures.

7 James C. Scott, *Domination and the Art of Resistance* (New Haven, CT, USA: Yale University Press, 1990); Rahman 1999

interactions between subordinates and more powerful actors, including both the spoken and non-verbal aspects of their interactions.[9] The hidden transcript, on the other hand, provides a deeper understanding of how the less powerful act outside the observation of the powerful, uncovering a fuller picture of social interactions. One type of transcript is not necessarily truer than the other, but the differences in interactions between the transcripts suggest ways in which power may affect both relationships and practices.

Informed by Rahman's approach to analysing the Grameen Bank,[10] this study applies the concepts of public and hidden transcripts to MC delivery in Afghanistan. The public transcript is the formal description of how the MC system works, as stated by MFI staff during interviews in both Kabul and district offices. This transcript is then compared to the way the programme works in practice, as described in interviews held in the study village with borrowers, non-borrowers and loan officers. Any differences observed between rules and practices may highlight areas where the formal programme does not fully meet the needs of the participants. These differences may also reveal areas where the interests of MFIs and MISFA may prevail over the interests of the clients that MFIs seek to serve. Loan officers, tasked with implementing programme rules, may also be given incentives to bend the rules, in effect creating their own public transcript of success to present to the MFI.

The study also addresses the contextual distinctions between formal and informal credit systems. Credit transactions between friends, relatives and other social relations are often labelled as informal credit, meaning that they are not bound by regulations and exist outside of established, monitored systems. MC is considered formal credit, however, because it is delivered within a system of rules. This paper will note that this distinction is not always clear cut; formal and informal credit systems may intertwine in a variety of complex ways, with varying effects on livelihood outcomes.

Informal credit is credit borrowed and lent outside of formally regulated systems; it is generally exchanged between individuals who know each other and share a social relationship. Informal credit is widely available for most village residents (except for the destitute) and is often used for consumption smoothing[11] and for funding life-cycle events such as marriages and funerals.[12] Repayment of informal credit is highly flexible because the terms of repayment are often not fixed; instead, they are repaid when the borrower is able to do so.[13] There are generally few repercussions to "defaulting," due to reciprocal ties between borrowers and lenders. This demonstrates that social ties are primary to the financial transaction, and much effort is made to maintain these social links as a guarantee that help will be available in the future during times of need. Borrowers repay when they are able, in amounts that they can raise. Lenders accept this situation because they anticipate that they may face similar constraints in the future and need similar flexibility from their current borrower.

Informal credit systems also reflect the religious and moral obligation to assist the needy that is embedded within Islam. In some cases, patronage relations are formed in which wealthier families assist the needy through credit and other forms of assistance.

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8 Aminur Rahman, *Women and Microcredit in Rural Bangladesh: An Anthropological Study of Grameen Bank Lending* (Philadelphia, PA, USA: Perseus, 1999)
9 Scott, *Art of Resistance*
10 Rahman, *Women and Microcredit*
11 Consumption smoothing involves actions that individuals or households take to avoid the decline of their living standards. Taking credit is a key consumption smoothing strategy.
12 Klijn and Pain, *Finding the Money*
13 Klijn and Pain, *Finding the Money*

These relations can verge on being exploitative, but it should also be recognised that the poor gain some level of security in exchange for their loyalty.[14,15] Evidence that access to informal credit is relatively easy for individuals who need it leads to questions about: the effect that the entry of microcredit programmes may have on this access; the primacy of social relations within informal credit systems; and the role of credit-based relationships as a social protection system in the absence of alternative state-sponsored or private social security systems.

Interest in microcredit for Afghanistan's poor started in the post-2001 period, when both the Afghan government and the donor community considered developing large-scale microfinance facilities as a central component of the country's sustainable development programmes.[16] Decades of conflict, followed by a severe drought, left the majority of Afghans without financial capital. Large-scale credit provision was considered necessary to stabilise livelihoods, improve productive assets and stimulate both economic development and job creation. In August 2003, MISFA was established as a governmental apex institution. MISFA estimated that as many as two million households were in need of credit; this exemplified assumptions about lack of access to — and, thus, a large unmet demand for — credit. As of March 2008, a cumulative total of US$420 million has been distributed in Afghanistan through 15 partner MFIs, reaching a total of 436,777 active borrowers.[17] One important requirement for MFIs that receive credit through MISFA is that they achieve operational sustainability.[18] This is a worthy goal because long-term donor dependence term does not result in a stable, reliable service. Given the cost structures and security constraints that characterise the Afghan context, however, pressure to achieve sustainability may quickly skew incentives for the MFIs, leading them to treat MC delivery almost solely as a business transaction rather than as a development intervention. The goal of operational sustainability also influences where microcredit is delivered because higher concentrations of clients result in lower delivery costs. Hence, in Afghanistan, MFI information about client concentration demonstrates that MC is mostly urban and peri-urban based, with fewer MFIs having a large rural presence.

This case study presents the results of in-depth interviews and focus group discussions (FGDs) held with borrowers and non-borrowers of MC from one village in Balkh province. Two MISFA-funded MFIs work in this village; the first (MFI 1) is the primary focus of this study, while the second (MFI 2) is the same MFI that was active in a prior AREU case study conducted in Kabul Province. The aims of this study are to begin filling gaps in knowledge about how MC and informal credit interact and to help develop approaches for the provision of financial services in rural Afghanistan that are better integrated into existing "informal" structures.

Key questions that the study addresses include:

- To what extent and for what purposes did villagers have access to credit before the MC programme entered the market? Who is interested in joining the microcredit programme, and why are they interested?

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[14] Klijn and Pain, *Finding the Money*

[15] Geof Wood, "Staying Secure, Staying Poor: The 'Faustian Bargain,'" *World Development* 31, no. 3 (2003)

[16] MISFA, www.misfa.org.af (2006).

[17] MISFA, www.misfa.org.af (2006).

[18] Operational self-sufficiency is the ability of an MFI to cover all administrative and financial costs with its revenue. This is a less stringent measure than financial self-sufficiency, which includes covering the costs of loan losses, potential losses and inflation. The Global Development and Research Center, "Microcredit and Microfinance Glossary" http://www.gdrc.org/icm/glossary/ (accessed 9 September 2007).

- How was the microcredit programme introduced? Was there any resistance to the introduction of microcredit in the village or to having women as borrowers for programmes based on this model?
- How has interest in and demand for microcredit changed since it was introduced in the village?
- To what extent does programme practice differ from programme rules, and what might cause this difference?
- How has the introduction of microcredit affected both the supply of and the demand for different types of informal credit in the village?
- How have individuals and households receiving microcredit used their loans? Have uses of informal credit changed in relation to this? How do MC and informal credit systems link with one another, and what are the effects of these interactions?
- What strategies do households use to manage repayment of the credit they hold from different sources?
- How have debt levels changed?
- How and why has the livelihood security of households changed?
- How and why has the village economy changed? Who has benefitted from changes and who has been excluded?

Section 2 presents the context of the study, describing the study village and the MFIs. The latter information reflects the public transcripts of the MFIs (especially MFI 1) regarding their programme rules and operations. Section 3 reviews the research methods used in the study and provides a table that summarises the household cases. Section 4 applies the concepts of public and hidden transcripts to the operations of MFI 1 in the study village, highlighting issues related to: perceptions of programme rules that result from a trickle-down method of programme introduction; differences between practices in the study village and stated rules of MFI 1 as well as what these discrepancies imply about programme structures; and the means by which MFI 1 limits its direct risks and responsibilities for default.

Section 5 moves the analysis to the household level. It presents details of the case study households and raises themes that are explored in Section 6, including: access to credit; the importance of credit as a social asset rather than as a solely financial asset; the social relations associated with credit; and the perceived benefits of formal credit as well as how they affect household and village economies. Section 7 provides conclusions regarding: the active informal credit market that existed prior to the MFIs' entry into the village, which made MC one of many possible sources of credit; the positive reception that MFI 1 and its loan products have received as a result of the institution's efforts to match its products to local livelihoods as well as the prior exposure of village residents to informal lending with interest; and the importance of economic context for the potential that clients will benefit from MC and other credit sources.

2. The Context: The Study Village and Microfinance Institutions

2.1 Village context

The case study village is located in Balkh province and is approximately 20 km (a half hour by car) from the provincial capital of Mazar-i-Sharif. According to oral history, migrants from ancient Arabia founded the study village thousands of years ago. The main ethnic group in the village is Arab, followed by Tajik and Pashtun; the Pashtun migrated from the southern and eastern regions of Afghanistan approximately 80 years ago and now speak Dari. The village was left relatively unscathed by the conflicts of the mujahiddin and Taliban eras, primarily because for many years Balkh was a stronghold of General Abdul Rashid Dostum. Respondents generally reported only one or two instances of migration during clashes between the Taliban and Northern Alliance factions; with the exception of a few cases, these migrations were brief and appeared to be partially motivated by the prospect of humanitarian assistance. Interestingly, the female *shura*'s account of the conflict years indicated significantly more damage to the village as well as widespread migration to a neighbouring district for a period of six months during the Taliban period. The reason for the discrepancy is unclear, although the emphasis that the female *shura* gave to the hardships suffered in the village suggests that hope for assistance from the research team may have been a factor.[19]

The study site contains approximately 300 households and is part of a larger village that is informally divided into sub-villages affiliated with separate mosques. As part of the National Solidarity Programme (NSP), an implementing partner established one male and one female *shura* four years ago. These *shuras* represent two other villages in addition to the study site. Several development projects were ongoing in the village and its vicinity during the research period. Using NSP funding, a well and a water reservoir were being constructed to supply clean drinking water to approximately 700 households. Many households in the village are members of a milk collection centre established by the Food and Agriculture Organisation (FAO) in 2003. This is one of four such centres in the general vicinity of the village; combined, these centres have a total of 450 members and collect a total of 3000Lof milk per day. In conjunction with a U.S.-based dairy company, the FAO also constructed a dairy processing factory that was inaugurated in August 2007. Furthermore, the FAO established four livestock cooperatives whose members are livestock owners from the study site and surrounding villages. According to the male *shura*, a Thai NGO was also working on animal husbandry in the village and had vaccinated and treated 3000 livestock in the area. A school and a health centre are located in a neighbouring village; the latter is sponsored by MFI 2, which is active in the area.[20] Villagers also described travelling to Mazar-i-Sharif to receive medical care.

Livelihoods in the village are closely linked to Mazar-i-Sharif, mostly through trade but also through wage labour and the cultivation of land that belongs to individuals originally from the village that now live in the city. In general, villagers travel to and from the city every two weeks in order to purchase items that are unavailable in the six shops of the village, which sell only basic household items such as flour, oil and gas. Village shopkeepers also travel to Mazar-i-Sharif every two to three weeks in order to replenish their stocks with goods from wholesalers in the bazaar. Credit relations play an important role in this transaction because shopkeepers must balance selling to

[19] Please see Section 3.3 for a further discussion of methodological challenges.
[20] Further information on MFI 2 can be found in Section 2.1.

villagers on credit with repaying wholesalers and buying more goods. The city bazaar is also where most farmers purchase agricultural inputs and sell their agricultural production after harvest. Ties between the study village and Mazar-i-Sharif are therefore integral to villagers' livelihoods as well as to their demand of and supply for credit.

Current village economy

Livelihood activities in the study village are highly diverse and include agricultural production, livestock breeding, casual labour and trade as well as (in the case of women) domestic labour, tailoring and the sale of food items. The majority of villagers are engaged in some form of agricultural production, either on their own land as sharecroppers for half of the harvest or as daily wage labourers during the labour-intensive planting and harvesting periods. The practices of leasing land and (to a lesser extent) mortgaging land were also reported in the village. Respondents identified five individuals in the village as *bai* (wealthy people) who have landholdings of approximately five to six *jerib* of land; most other villagers either have smaller landholdings of between half a *jerib* and five *jerib* or, in some cases, own no land at all. Some villagers work as sharecroppers or wage labourers by cultivating the land of wealthy individuals who own land in the village but live in Mazar-i-Sharif. Cultivated land within the village itself is irrigated, but villagers also grow wheat on rainfed land in the surrounding mountains.

The main crops grown in the village are wheat, cotton and vegetables such as tomatoes, onions and cucumbers. Agricultural production has been adversely affected by drought during the Taliban period as well as by the continuing infestation of locusts and melon flies. Some respondents cited the recent and successful use of pesticides in controlling the problem; the FAO is also making efforts in this regard. The production and sale of cucumbers, in particular, has boomed since the introduction of the greenhouse (known in the village as the "plastic cucumber" method), which was most likely introduced by returnees. Using this method, farmers can continue to grow cucumbers in the winter season and sell them for a high price when availability is scarce. While this new technique has improved production, it has also had the effect of entrenching credit relations between farmers and shopkeepers in Mazar-i-Sharif. Farmers typically buy agricultural inputs such as fertiliser, plastic sheeting and metal rods for covering their cucumber plants on credit from shopkeepers during the winter season. After harvesting in the spring, farmers are then obliged to bring their production to the same shopkeepers, who deduct the equivalent of the loan from the sales and also take ten out of every 100 *Afs* as commission for selling the produce. For the most part, this arrangement is seen as a mutually beneficial relationship and the commission taken by the shopkeepers is not regarded as *sudh* (interest). Since the introduction of microcredit, however, some farmers have attempted to disengage themselves from this relationship by instead using microcredit to purchase agricultural inputs.

The majority of households own some livestock including cows, sheep, donkeys or goats. Some villagers derive a significant part of their income from the breeding of *qaraqol* sheep (a species whose skins are highly valued for their unique colour and texture). Because individual livestock holdings can be as large as 50 animals, shepherding is another livelihood that is activity practiced in the village. During the summer, villagers graze their livestock and collect fodder in preparation for the winter when sheep are kept indoors. Lambs are born in the early spring; males with skins of the appropriate quality are slaughtered immediately and their skins are sold for 1600-2000 *Afs (*depending on their quality). Another source of income from livestock is the sale of milk to the aforementioned milk collection centre. Women, who are the individuals typically involved in this activity, reported earning 11-12 *Afs* per litre of milk.[21]. As part of the initiative to expand dairy production and processing in the area, there are plans to train women who are members of the milk collection centres in milking techniques and to include these women as members of the livestock cooperative.

A number of villagers, typically those with little or no land, derive part of their income from casual labour in construction and on-farm work during the labour-intensive planting and harvesting seasons (in the spring and fall, respectively). Some villagers search for wage labour in Mazar-i-Sharif occasionally but the number of casual labour opportunities there has recently been decreasing. Wage labourers are paid between 150 and 200 *Afs* per day and usually must combine this work with other livelihood activities in order to generate enough income for the year.

Livelihood activities in the study village vary according to the season; in the summer and fall, villagers are engaged in harvesting their production, either from their own land or as sharecroppers and wage labourers on other people's land. In the summer and fall, villagers also graze their livestock and collect fodder and fuel in preparation for winter. During the winter, livestock owners tend to their animals indoors and farmers cultivate cucumbers. Winter is typically the season when villagers have the least cash available and often resort to buying household goods, fodder, fuel and agricultural inputs on credit. Debts are repaid in early spring when lambs are born and their skin is sold or when farmers harvest and sell their cucumber production.

All women in the study village are engaged in domestic chores and tending livestock as well as collecting fuel and fodder. Some women assist their male household members in agricultural activities, particularly during harvest time. In addition, many women sell milk to the milk collection centre (as described previously) or engage in home-based work such as tailoring and yarn spinning. Some women also bake bread at home for sale at the bazaar in Mazar-i-Sharif or work as domestic help in other people's homes for payment in-kind; the latter activity appears to be conducted predominantly by widows.

2.2 Microfinance institution programmes[22]

The primary MFI under consideration in the Balkh case study (MFI 1) is a credit union established by a US-based international trade association and credit union development agency that is currently active in 97 countries. The goal of the MFI is to promote access to high-quality, affordable financial services through the development of credit unions that are owned, controlled and operated by the credit union's own members. Based on the principle of sharing risks and rewards, credit unions are conceptualised as being not only a means of providing financial services to underserved communities but also a vehicle for fostering civic participation and democratic processes in countries, such as Afghanistan, where such opportunities have been denied to the majority of the population. The financial cooperative model of the credit union also aims to be compliant with Sharia, most notably with regard to the prohibition of interest. Since different branches of Islam interpret Sharia in different ways, staff consult with the local religious leaders when the credit union enters a new community in order to tailor financial services to the particular area.

In 2004, MISFA awarded US$1 million in initial funding to develop Afghanistan's first credit union network. The first two credit unions were established that year in Balkh and Jawzjan provinces, and additional funding from MISFA and the US Agency for

[21] An advisor to the dairy processing project reported that villagers earn 13 *Afs* per litre of milk.

[22] The information in this section is drawn from individual interviews with members of the MFI's senior and district level staff in April 2006 and August 2007, respectively, as well as from publicly available information from the MFI's website and programme materials.

International Development (USAID) has been secured to establish a total of 20 credit unions with multiple points of service in the eastern, northern and southern provinces. As of December 2007, eight credit unions, with a total membership of 10,735, have been established and have disbursed loans amounting to a total of US$4,235,680. The majority of these loans have been disbursed for agriculture and agriculture-related enterprises as well as for activities in the trade and service industries.[23]

This case study focuses on a credit union in Mazar-i-Sharif, which is located in Balkh province. As of June 2007, this credit union had a membership of 2,548 (including 361 female members) and had disbursed a cumulative total of 2,506 loans amounting to a total of US$1,435,260 since its inception in late 2004. The credit union offers two types of services: savings deposits and productive loans. With the exception of group borrowers, prospective members must first pay a membership fee of 100 *Afs* in order to join the credit union and must be able to open a savings account and take loans. As part of the credit union's effort to be compliant with Sharia, members earn a dividend instead of interest on their share investment savings account; the return to the member for this dividend ranges from three to eight percent *per annum* depending on how well the credit union is generating its own capital, collecting outstanding loans and minimising operating costs. According to the expatriate project director, some members are assisted in reaching their savings target through matching deposits by the credit union, with the stipulation that they must leave their capital in the account for a specified period of time before withdrawal will be permitted. This matching programme was not reported by national credit union staff or respondents, however, and it is not clear how members can qualify for the programme.

In order to be eligible for a loan, prospective members must be between 18 and 60 years of age and a permanent resident of Balkh province. The MFI office in Mazar-i-Sharif holds an orientation every week, in which a membership officer explains the philosophy, programme structure, conditions and procedures for taking credit to new and potential members. Reflecting the credit union's emphasis on productive loan usage, prospective borrowers are questioned with regard to how they plan to use the loan and should have some form of employment, business or skill. The size of the loan depends on its proposed use and the assets and capacity of the borrower. As part of the process of assessing the credit worthiness of a potential borrower, a loan officer visits the home, farm or shop of the interested party and may also speak with the *shura* before determining (or in some cases limiting) the loan size.

Borrowers must meet several conditions before the loan is disbursed. First, they must deposit 20 percent of the loan amount into their savings account. For example, in order to take a loan of 25,000 *Afs* the borrower must first save and deposit 5,000 *Afs*, either in instalments or as a lump sum. The savings requirement acts as one form of collateral or guarantee and is designed to move borrowers away from a "dole out" mentality. Second, borrowers must provide either one or two guarantors (depending on the size of the loan, the borrower's own asset position and, hence, their credit worthiness) who own businesses that are formally registered with the municipality in Mazar-i-Sharif; guarantors from businesses located outside the city are not accepted. As the MFI moves towards becoming compliant with Sharia, however, it is also in the process of transitioning to use of the *shura* and religious clerics as character references for potential borrowers.

In general, the loan period is six months for all borrowers, although this can vary depending on the size and use of the loan. Borrowers who use their loan for commercial or retail purposes (such as shopkeeping) are presumed to have a continuous income flow and are thus expected to repay the principle and interest from

[23] Source: MFI website

their loan on a monthly basis. Those who take loans for agriculture or livestock, however, are given three months to pay their first instalment and must complete repayment by the end of the six month loan term. Borrowers are charged interest on the outstanding balance of their loan at a rate of two percent every month, which means that speedy repayment works to their advantage. In the event that a borrower exceeds the loan term, a late fine of one percent of that month's payment amount is charged until repayment is complete.[24] If a member is facing difficulty with repayment, then extensions, forgiveness of certain service charges or other forms of assistance can be provided on a case by case basis; these are usually authorised by a governing body such as the board of directors. Loan usage and impact are monitored by MFI staff through follow-up visits to borrowers.

In addition to individual loans, the MFI offers a cooperative group lending product that is based on the solidarity guarantee model. The group lending programme started in November 2005 in order to target farmers who do not qualify for individual loans and does not require borrowers to first become members of the credit union. Groups are typically composed of five to ten individuals who apply together for one large loan of up to 250,000 *Afs*. Until the recent push by the MFI to emphasise *shura* approval, loan groups were required to provide a guarantor who owned a business in Mazar-i-Sharif. Now, however, importance is placed on the potential for repayment and the recommendation of the *shura*. The loan group must also collectively deposit 25 percent of the total loan amount as savings. In general, the more savings that a group accumulates, the higher their potential for a larger loan; other factors are also considered, however, such as proposed loan usage and repayment ability. In a group loan, one member usually acts as the group leader and decisions regarding apportionment of the loan are generally left to members of the group.

Women's empowerment is considered an integral part of the MFI's operating philosophy. Women currently comprise 22 percent of credit union staff and 18 percent of borrowers nationally, and at least one woman has been elected to the board of directors of each established credit union. In order to facilitate the participation of women in credit union affairs, membership meetings are segregated by gender and a female teller is always available to conduct transactions with women members. In terms of procedures for membership and borrowing, however, women are not treated any differently from men and are not subject to special or different requirements.

MFI 1 has an office in Mazar-i-Sharif from which all membership, loan disbursement and repayment procedures are conducted. The office is laid out like a bank and is staffed with a general manager, membership officer, loan officer and cashiers. Given the cooperative model of the credit union, the MFI is governed by a board of directors and general assembly that is elected every year from its members as well as by various committees which are elected and serve in a voluntary capacity. These committees are responsible for policies and procedures, oversight of management and staff, approval of new members and borrowers, loan monitoring and other duties. The MFI also conducts annual meetings that are open to all of its members, who can participate in elections and receive updates regarding the financial status of the credit union (including expected dividends). The US-based organisation that is being funded to establish a network of credit unions in Afghanistan is staffed by two expatriates, who are based in a separate office in Mazar-i-Sharif but travel frequently throughout the country to provide technical assistance to credit union staff.

[24] Depending on the use of the loan, however, repayment may be paid in three month instalments; in this case, it is assumed that the late fine would be one percent of the amount due for that particular instalment period. Although unspecified, it is also assumed that the late fine is charged per day in order to encourage quick repayment.

MFI 1 noted a number of challenges that are associated with its work. Demand for microcredit is high, but there is little awareness of what the process actually entails and the risk of late repayment or default is always present. The organisation feels the need to increase staff capacity, particularly given their high caseloads, but adequately training staff members to work with complex systems and procedures takes time. Finally, Afghanistan does not currently have any laws in place that facilitate the development of credit unions or protect members and borrowers. Part of the mandate of MFI 1, therefore, is to encourage legislative reform and develop regulatory systems in order to facilitate integration of the credit union model into the financial services sector.

MFI 2 is the same organisation that operated in the study village from the Kabul case study of this series, and the organisation works in the same manner in the study village from this case; hence, only a brief overview of its history in the village is presented here.[25] MFI 2 began providing microcredit to the Balkh village in 2003-4, at approximately the same time as the establishment of MFI 1. Unlike MFI 1, which is based in the city, MFI 2 disburses loans and collects repayment instalments in the village itself, primarily through female loan officers. It provides microcredit through group loans to both men and women, although female borrowers are the primary targets. Its loans are repaid in weekly instalments over the course of one year (47 weeks). All borrowers must pay 10*Afs* to receive a passbook in which their loan and repayment amounts are recorded. Borrowers are also charged administration fees amounting to 17.5 percent of the loan amount, which go towards recovering programme costs. According to Kabul-based staff, all information regarding administration fees is provided transparently to borrowers and no negative reactions have been reported. MFI viability is a central interest of MFI 2 and is measured according to their repayment rate, which was 98 percent in 2006. As of September 2007, according to an interview with Kabul-based staff at that time, MFI 2 reported covering 82 percent of its operating costs with revenues and planned to reach 100 percent coverage by the end of 2007.

[25] For further details on MFI 2's programme procedures, see: Paula Kantor and Erna Andersen, "Microcredit, Informal Credit and Rural Livelihoods: A Village Case Study in Kabul Province." (Kabul: Afghanistan Research and Evaluation Unit, 2004).

3. Research Methods

The rural livelihoods research team consisted of four Afghan researchers (two female and two male), an expatriate intern and supervisor. The study was carried out in July and August 2007 and is based on in-depth, qualitative research that delves into the wider socioeconomic context in which microcredit projects are operating.

3.1 Village selection

In order to select a suitable village for the case study, the research team first shortlisted districts in Balkh Province using background material from MFI 1 and guided by data on the length of MFI operation in the districts and number of clients. Two districts were shortlisted in this process: Kholm and Dehdadi, both of which were reported by MISFA to have significant numbers of MFI 1 clients. Four team members then visited the sites to chat with shopkeepers about the area and to gauge general interest in the study as well as (in particular) the openness of respondents in talking about MC.

The research team then went to MFI 1 in order to request further information regarding villages in Dehdadi district where MFI 1 operates; this was in order to shortlist villages with significant numbers of active clients and at least two years of MC-lending history. It became a challenge to acquire sufficient and accurate information about the number and activity of MFI 1 clients, however, as the MFI was reluctant to release client information because of confidentiality concerns. Hence, the research team spent more time visiting villages in the district and interacting with residents in order to locate a potential field site with sufficient borrowers and lending history in which residents seemed willing to participate in the study.

The study village was selected based on these visits; a village from Dehdadi District was selected because it better represents the number and types of clients of the MFI studied in this project. The selection was also based on the village's mix of on-farm and off-farm livelihood activities and because residents seemed more open to having the study take place. The village was quite large, however, so one neighbourhood located around a mosque in the village was selected in order to identify an area of a more manageable size for respondent selection and rapport building.

After selecting the village of study, the research team requested meetings with the female and male NSP *shuras* in the village in order to introduce the study in detail and receive informed consent for carrying out the study.[26] This meeting also provided initial information about village history, its socioeconomic situation as well as informal and formal credit relations, which helped to establish an initial, basic understanding of the village.

3.2 Qualitative research methods

Informal discussions (chit-chats) and the role of the research team

In the process of selecting the study village, the team applied the informal method known as chit-chatting. This method consists of walking around the village and talking to villagers met on the way. The male team went to the fields and the female team knocked on compound doors, occasionally accepting invitations for a cup of tea inside the compound. While gauging interest and willingness to participate, the team members introduced themselves, AREU, the purpose of the study and the concept of research while also asking for general information about the village.

[26] The same process for receiving informed consent was followed for each respondent or focus group.

Informal discussions with villagers served as an entry point to the village in terms of acquiring basic information about the community; these discussions also served a twofold purpose in assessing the field site. First, the discussions allowed the team to meet many people living in the village. This, in turn, allowed the team to determine which individuals as candidates for key informant or household interviews. Second, these discussions spread awareness about the research team's presence as well as the scope and purpose of the research study.

Focus group discussions and key informant interviews

The introductory meetings and informal discussions described above were the primary means of identifying focus group participants and key informants. In total, eight FGDs were conducted as well as five key informant interviews. The size of the focus groups varied between three and six participants and the FGDs were held with different subgroups of interest, including village elders, shopkeepers, widows, loan group members, women and shura members. The key informants were selected based on their role in relation to microcredit practices and livelihood activities in the villages; these were the MFI 1 loan officer, the MFI 1 membership officer, an Afghan employee of an INGO working on a milk processing project and a wealthy shopkeeper. The FGDs and key informant interviews were conducted to provide village-level information such as the overall structure and history of the village as well as perspectives on informal credit practices in the village and how these have been influenced by the microcredit programme's entry into the village. The information generated from these initial interviews provided important contextual understanding about the village and the practices of MFI 1 there. The interviews also provided information about the use of MC by individuals, which assisted in the selection of household cases.

Household case selection

The field team selected eight households for in-depth interviews. Of these, three joined the MFI 1's MC programme and borrowed money, one officially joined but did not use the money borrowed for himself, two tried to join but later decided not to after learning about the lending criteria; and two did not join despite being able to do so. Only eight cases were selected, due to the time entailed in the in-depth data collection. Potential household cases were identified through the introductory meetings, FGDs and key informant interviews; these were supplemented by informal chats with villagers that revealed more about specific households' livelihoods and credit use as well as reasons for joining or not joining the credit programme. The team and the supervisor jointly selected the household cases; their aim was to capture a diversity of livelihood activities, credit uses and reasons for not joining the MC programme.

The research team quickly discovered that very few people in the village had taken MC from MFI 1. Hence the selection of the four MC household cases was done first in order to establish what stories these households would represent. The main criteria of interest in selecting the five non-MC cases were the reasons for not joining — by choice or exclusion, in relation to MFI 1's rules.

In selecting the four MC households, the team had two main criteria: livelihood activities and their particular involvement with MC. Across the four MC households, the team ideally wanted to include both on-farm and off-farm activities as well as represent different numbers of loan cycles and uses of credit, such as: livestock, agriculture, business and consumption. Because there were very few households who had taken MC from MFI 1, however, these criteria had to be adjusted. Ultimately, the MC households were selected based on the outcome of their experience with MC from MFI 1; one had experienced a positive impact; two had experienced negative impacts on their economic situation; and one had benefited indirectly. This last household was selected based on the respondent's report that he had taken MC, but later – through analysis of the interviews – it was discovered that while he had taken a loan from MFI 1 in a group, he had not used it himself and hence only benefited indirectly from the loan.

The most important criteria for selecting non MC households were the reasons the households expressed for not joining the programme. Two households were excluded due to the difficult eligibility criteria of MFI 1 and two others chose not to join. In addition, the households were selected according to their asset base in order to capture variety in wealth rankings. Asset bases, which are always difficult to estimate, were determined for this study based on acquired knowledge of respondents' property, variation of income sources and creditworthiness (in terms of existing and potential credit relations). Ultimately, the respondent households were selected according to how household members expressed: their opinions about MC, their motivations for taking or not taking MC and whether or not they found MC to have any benefits (through personal experience or observation of others). It was important to collect different views on MC among both MC and non-MC households in order to provoke substantive discussions about the influence of MC on informal credit and livelihoods activities. The table below provides an overview of the selected case households.

Table 1: Overview of selected households for case study

Case identifier[27]	MFI 1 borrower?	Household size	Main livelihood activities
Mukhtar	Yes	9	Farming
Sima	Yes	10	Wage labouring, selling vegetables on the street during the winter
Murtaza	Yes	7	Shopkeeping, livestock dealing, sharecropping
Haji Ahmad	Yes	8	Livestock, wage labouring, farming
Yaqoub	No	9	Farming, sharecropping, livestock
Khan Muhammad	No	7	Farming, sharecropping, livestock
Shabana	No	5	Teaching, crop dealing, farming
Rahim	No	10	Shopkeeping, farming
Aslam*	Yes	10	Crop dealing, flour mill

**Aslam is a wealthy shopkeeper and a relative of Sima's household. The team did not carry out full household interviews with him; he was interviewed as a key informant because of his link to Sima's MC loans.*

Household interviews[28]

In each household, the male and female heads of household were interviewed twice in order to gather enough information for a full portrait of the household and its livelihood activities as well as its formal and informal credit relations. The aim of the household interview process was to capture specific stories from the perspectives of different household members about the household's livelihood activities, credit relations and transactions, reasons for joining or not joining the MC programme and experiences of MC among those who did join. Interviewing both males and females in

[27] Note that all names used in this case study have been changed to protect the privacy of the respondents.
[28] A household was defined in the study as a group eating together from the same pot.

the same household was important because it highlighted differences within households by gender in credit practices and in understanding these issues.

Two interviews were conducted with each male and female respondent in a household in order to obtain the necessary depth of information and to provide opportunities for probing further into information learned in previous interviews. The first interview gathered information about every household member, their activities in the household (for example, doing household work, studying or working for pay) and the family's experience of conflict and migration as well as detailed information about the family's informal credit relations. This involved gathering both detailed stories from the respondents and numerical data regarding the credit given and taken by the household such as quantity, timing, use, success in repayment and method of repayment. The second interview focused on experiences with MC among respondents participating in the programme as well as the opinions and knowledge about MC among respondents who did not join. Numerical data about the loans taken were collected again, but the emphasis of the interview was on substantial discussion of the changes MC had brought to the household. At the village level, probing was based on information gathered during the first interview.

This study develops in-depth descriptions of the selected households' livelihoods and experiences with informal and formal credit. It builds an understanding of the perceived use and usefulness of different forms of credit within rural livelihoods in the study villages. Households were selected because of the diversity of stories that they would provide and not in order to enable generalisations about experiences of MC. The length of time that the AREU field team spent in the study village — five weeks between late July and late August 2007 — allowed it to build the rapport that was necessary in order to delve into personal details of household livelihoods and credit use as well as to make repeat visits for following up on information received. This process provided a richness of detail that is uncommon in research done on MC in this context.

3.3 Challenges in the field

For the research team, a number of challenges were present throughout the fieldwork that influenced the methods they used at the research site. The initial phase, in which the study village was scheduled to be selected, was complicated by the fact that, compared to the information given by MFI 1, the research team encountered a lack of clients in the shortlisted villages.

It was also generally difficult to find respondents interested in participating in a household interview because villagers were afraid it would jeopardise their relationship to the MFIs operating in the village. Solving this problem required time in order to meet the respondents and key actors in the village again, patiently explain the scope of the study and assure the entire village of its anonymity in the study. By liaising with key villagers and being sensitive to the circumstances, the team gained the trust of the respondents and were able to continue and finalise the study.

Once household interviews had started, the team found that husbands and wives from the same household often gave contradictory stories, which made it necessary to focus on probing and verifying individual stories. In some cases, it was necessary to interview households a third time. The team also faced challenges in obtaining much of the data required for the study because a perception of shamefulness is associated with revealing levels of debt and credit relations to an outsider. In addition, wealthy villagers, who enjoy high status in the village and act as credit givers, were unwilling to share their information. Because AREU requires that researchers gain informed consent from all respondents, some households could not be selected as a case household. The team considered one case unique enough to justify interviewing the respondent.

Well into the process of interviewing the selected respondents, the novelty of the research team diminished in the village and residents became increasingly suspicious about the research and the amount of questions asked by the field team. Unmet expectations of help and pay in return for their involvement in the research also triggered impatience in villagers who also found it difficult to maintain their interest through two separate interviews. The team members overcame this obstacle by bringing cookies or fruits to the respondents as tokens of appreciation along with thorough explanations of the scope and purpose of the study whenever questions were raised.

4. Microcredit Programmes in Practice

As described in Section 2.2, the MFI under consideration in this study is one of several credit unions established by a US-based organisation that provides initial funding and ongoing technical assistance to participating organisations. There are, therefore, two separate levels of analysis involved in understanding the various ways that practice converges and contrasts with stated rules and philosophy in the field: first, the public transcript of the US-based organisation compared to the public transcript of the credit union it established in Mazar–i-Sharif; and second, the stated rules of the credit union compared to the way they have been implemented in the study village.

4.1 Local credit union and parent organisation

Information provided by expatriate staff from the US-based credit union development agency and Afghan staff from the MFI reveals a significant disparity in their presentation of programme vision and structure. Interviews with staff and public relations materials from the US-based agency present an ambitious vision of delivering financial services that promote democratic participation and are consistent with Islamic law and values. As such, staff members entering a new community are supposed to consult with religious leaders in order to ensure compliance with the local interpretation of Sharia and tailor products to the specific needs of the area. Similarly, the expatriate project director mentioned the agency's move away from their requirement for guarantors in order to focus more heavily on *shura* approval as part of the agency's effort to be more compliant with Sharia.

It is striking, then, that none of the multiple interviews conducted with the Afghan credit union staff mentioned the relevance of the credit union model to Islamic law and values nor did they mention the effort to involve local religious leaders in the drive to become compliant with Sharia. This discrepancy is most likely due to the fact that the programme model and structure are currently in transition and that (at the time of this research) the vision and goals of the US-based organisation had not yet trickled down to the level of the local credit union. There are, nonetheless, multiple examples of differences between the explanation of programme rules given by the umbrella organisation and the explanation given by the credit union it established. These include differences regarding the use of property or land certificates as collateral, the ability of qualified members to get their savings matched by the MFI and the rate at which fines for late repayment are charged. Interestingly, while the goal of women's empowerment is mentioned by both organisations, the US-based agency emphasises that female members and borrowers are not subject to special procedures or criteria. MFI 1, however, explicitly notes the need for female borrowers to be accompanied by a male member of household and that women who could not meet the savings requirement could provide jewellery as collateral instead. Given the complex structure of the MFI and the fast-evolving policies and procedures, it is no surprise that the disparities between the U.S.-based organisation and the local credit union would be replicated to some degree in the field between rule and practice.

4.2 Microfinance institution entry and understanding of programme rules

Accounts of how the MFI entered the study village are generally consistent among MFI staff and village residents but also suggest significant disparities in access to information across female and male respondents. One experienced loan officer provided the official account of entry:

> *I have been the loan officer since the MFI started in Mazar-i-Sharif. The actual loan started in January 2005. The first borrowers were farmers*

> *and people with existing businesses and skills and from different sectors like shopkeepers and bakery shops as well as teachers. At the beginning of the credit programme we went to the districts like Dehdadi, Khulam and Shulgara. We had orientation programs in the mosques for people in order to explain to them about the credit union and loan group and those who wanted to join had to accept the concept of saving the deposit money first.*

According to the female membership officer who conducts the weekly orientation meetings for new and potential clients at the MFI office in Mazar-i-Sharif, MFI 1 makes an effort to involve village representatives; no further mention was made, however, of the role of these representatives in facilitating entry. Respondent accounts suggest that the initial introduction of MFI 1 to villages is geared more towards disseminating information about the MFI rather than vetting the village and its inhabitants against a set of predefined criteria. This can be explained in part by the structure of the MFI, whereby loan disbursement and other activities (such as saving deposits and repayment) are conducted from its office in Mazar-i-Sharif rather than in the village itself. Also (and more importantly), following the MFI's initial introduction to the village, loan seekers must fulfil a set of stringent criteria based more on their individual assets and social networks than on general conditions in the village. Therefore, the primary objective of the MFI when it enters a village is to generate maximum interest in the programme and attract potential members to the office in Mazar-i-Sharif, since undesirable candidates would be screened out at a later stage. The process of qualifying for credit and the impact of that process on the makeup of MFI 1 clientele are discussed further in Section 4.3, which focuses on the distribution of risk and responsibility.

Most of the male village residents interviewed in this study concur that their first exposure to the MFI was through an informational meeting at the mosque or through relatives and friends in the village (as was the case for two male respondents). Surprisingly, none of the male respondents mention the involvement of *shura* members or other village representatives in their accounts of MFI entry to the village. Three male respondents do, however, explicitly recall the active presence of Murtaza (one of the first clients of MFI 1, who had attended the informational meeting at the mosque and was in the process of repaying his third loan at the time of fieldwork). This suggests that MFI 1 cultivated or used local allies in generating interest within the village. The following account by Sefatullah, who took one loan as did his wife Sima, is typical of the male respondents' recollection of MFI entry:

> *One day the MFI's representative came to the mosque of our village and gathered the villagers; he told the villagers that the MFI gives credit to farmers, shopkeepers and livestock keepers. The representative also told the villagers that they can take credit as a group of 5-10 people and also individually. The representative of the MFI spread the news of credit throughout the villagers...the next day the villagers wanted to register their names at the credit union.*

Although the men generally provided a consistent picture of how they first heard about the MFI, the degree to which they were given adequate information regarding the process and conditions of taking credit is less apparent. The experience of Khan Mohammed, recounted below, is common among respondents who had initiated the membership and/or saving process but ultimately dropped out due to the loan criteria:

> *The representative of the MFI came to the village and told the villagers that you should not take credit from the shopkeepers. They said they give credit to farmers, shopkeepers and livestock keepers, and we will get more profit from their credit and will also get rid of the*

> *shopkeepers' credit in the city. One day we rented a bus and about two hundred villagers went to the MFI's office in the city...there the staff of the MFI told us that we should put 200 Afs as fee for the membership. Each of us gave 200 Afs and registered our names in the office...they told us that we need two shopkeepers in the city and our property certificate as guarantee before taking the credit. When we came back home we saw that the conditions were very difficult for us to meet. I dropped out and did not go back to the office again.*

This account suggests that the MFI achieved its goal of generating interest among village residents, but did so at the cost of adequately managing their expectations. Those who attempted to become clients also had to bear the very real costs in time and money that resulted from trips to the city as well as the membership fee and saving deposits. One respondent even reported that the MFI representative had promised to distribute cotton, wheat and onion seeds as an incentive to potential members; his claim, however, is not supported by other accounts. The more likely scenario is that the MFI, in its effort to attract new members, emphasised the benefits of its programme while neglecting to fully explain the complex procedures and rules as well as the potential risks involved in taking credit. With the exception of one respondent, who recalled a detailed description of the MC procedure and rules at the mosque, the general consensus appears to be as follows:

> *When the MFI came to the village three years ago, I was the first of their clients...people were so happy because they came and told the villagers (especially the farmers) that they would help them in farming inputs like plastic sheets, metal rods and fertiliser, and they were mobilising the villagers to take credit and earn good profit from the credit money. They did not discuss with us about the fine charges, interest and late repayment charges, even they did not say to us about the savings of 25 percent which they were taking from us.*
>
> — Male loan group FGD participant

While men in the village heard about the MFI either at the mosque or through the spread of information from that meeting, women were either completely unaware of the MFI's existence or had learned about it through a range of sources (most commonly, their husbands). Female interview and chit chat respondents who did not know about MFI 1 were, however, mostly familiar with (and clients of) MFI 2. This reflects the general perception in the village that MFI 2 is primarily targeted towards women borrowers, to the extent that one male respondent who did not qualify for credit from MFI 1 told his wife to become a client of MFI 2 instead:[29]

> *I would like to say regarding the jewellery, they were asking the women to bring the jewellery and then they will give them credit. In our village MFI 2 gave credit to the women, but the MFI did not give credits to the poor women because they are asking for the jewellery as guarantees. Their husbands also did not allow their wives to take credit and put their jewellery for guarantee.*
>
> — Male loan group FGD participant

> *When my husband realised that he couldn't take credit from that office, he came to me and said that I should go and take credit from MFI 2.*
>
> — Yaqoub's wife, non-MFI 1 household

[29] For a more in-depth discussion of MFI 2's lending to women borrowers, please see: Kantor and Andersen, *Case Study in Kabul*

Of those women who had some knowledge (however limited) of MFI 1, most had been informed by their husbands, other male household members, relatives, neighbours or (in one case) the village leader. One exception was the case of two female respondents, who had heard about the MFI at the school where they are both teachers and decided to form a loan group together. However, the fact that these women are educated and employed implies that they have greater mobility than the general female population in the village and, therefore, increased access to information.

Given that women's access to information in the study village is so heavily dependent on their husbands, their knowledge of MFI 1 varied greatly according to the husband-wife dynamic within each particular household. Below are contrasting accounts from two women that illustrate the degree to which their understanding of MC is related to household gender dynamics:

> *Can you tell me who told you about the office in Mazar-i-Sharif for the first time?*
>
> > *To tell you the truth, I don't know about this office. Someone told my husband that there is an office in the city, then my husband went and took credit.*
>
> *What did this person tell your husband about this office? Who was this person?*
>
> > *I don't know what he exactly said to my husband because my husband didn't tell me. I don't know; what should I tell you?*
>
> *When he wanted to take credit from that office, did he tell you?*
>
> > *He told me about credit and then I said, 'if you're happy and you want to take credit, so take it, you know better than me.'*

Later in the same interview, when asked about loan usage, the respondent replied:

> > *I don't know about these things, it is Mukhtar's work and you know I never ask about these things.*
>
> *Why don't you ask?*
>
> > *Because when I am asking, sometimes he says 'Just take money from me; don't ask from where I find it.' He becomes angry, so I decided not to ask.*
>
> — Mukhtar's wife, MFI 1 household

In contrast, the following female respondent demonstrated highly detailed knowledge of the MC procedure and rules, which could be linked to the high level of communication and joint decision-making apparent in the household:

> *Do you know about the office that is like a bank and gives credit? It is in the bazaar.*
>
> > *Yes, my husband saved something like 200 or 400 Afs. He also has a notebook from that office. My husband wanted to take credit from that office but he couldn't find a guarantor. The office said that he should bring two shopkeepers as guarantors. My husband went to the shopkeepers that he knows from the bazaar, but they said that they are already guarantors for other people and they don't want to guarantee two or three people...*
>
> *When your husband was thinking of taking credit from that office, did he discuss it with you?*

Yes, he always discusses things with me. I told him that he should find money from anywhere he can in order to have more work.

— Yaqoub's wife, non-MFI 2 household

None of the female respondents in individual interviews, focus groups or informal discussions volunteered knowledge of the informational meeting in the mosque. The official introduction of MFI 1 to the village, therefore, appears to have been geared mostly to men, leaving women extremely dependent on their husbands and other informal sources for information about the MFI. Thus, even though the goal of women's economic empowerment is part of the MFI's public transcript, in practice outreach to potential women borrowers does not appear to be a priority.[30]

Taking into account the MFI's goal and strategy in entering a village, how do village residents understand the philosophy, structure, procedure and rules of the MC program and to what extent does their understanding correspond with the official public transcript? Interviews with MFI staff suggest that they considered the unique structure of the credit union to be an important selling point. The following statements from the membership and loan officers emphasise the notion of membership or partnership with the credit union. The values of ownership, democratic decision-making, transparency and self-help, which set this MFI apart from others, are implicit in this notion:

Our office is new, it is a people's union, and the people save up their money first. Then they become members of the union, and after that we give them the loans. Also, they start a partnership with us...this union belongs to people, because it is the peoples' union. The unions belong to people; we are just showing the way to people. It is like we show the people how to catch the fish, whereas others would only show the people how to eat the fish.

— Membership officer

Can you tell me what is different between this MFI and MFI 2?

In this cooperative, people are leaders. For example, these people who are working as volunteers, they are from people or clients; they monitor and supervise all the staff. If they see any weak points in any staff or even managers they can fire them, but in MFI 2 they just give credit to people. People are not involved in their program.

— Loan officer

In spite of this rhetoric, however, respondents appear to have little awareness of the philosophy or values of MFI 1 or of their supposed influence as members. It is telling that annual officer elections and membership meetings — the primary mechanisms through which members can exercise their decision-making power — were only known to two respondents, both of whom were male and among the first to become credit takers in the village. Any comparisons that respondents made to other MFIs were solely with regard to differences in loan terms and conditions; no reference was made to a greater sense of autonomy or ownership as a result of "belonging" to a credit union.

In general, respondents who had heard of MFI 1 had a relatively good understanding of the procedures and rules of the MC programme. There was general agreement that loan usage should be restricted to productive purposes such as farming, shopkeeping or livestock rearing (as opposed to consumption) and that credit takers were obliged to provide a membership fee (although the stated amount varied between 100 *Afs* and

[30] Further discussion of lending to women can be found in section 4.4.

200 *Afs*), their national identification cards (only reported by some respondents) and two shopkeepers from Mazar-i-Sharif as well as property certificates as guarantees. Only two respondents, both men, noted the option to use gold jewellery as collateral if it was not possible to provide property certificates or find shopkeepers to act as guarantors; this does not appear to be a well-publicised feature of the program. None of the respondents mentioned approval from the *shura* as a requirement for taking a loan, which suggests that this shift in procedure at the parent organisation level had not yet trickled down to actual practice at the local credit union.

There was a higher degree of confusion regarding the repayment schedule; while all respondents agreed that the loan term was six months, some understood that repayment depended on loan usage (shopkeepers pay monthly instalments while farmers and livestock keepers pay their first instalment after three months) while others stated that repayment was monthly or entirely up to the loan taker. All respondents were aware of the two percent monthly interest rate; some stated that fast repayment would reduce the interest owed but demonstrated no clear understanding of how this worked (interest is charged on the outstanding loan balance only). There was general agreement that the fine for late repayment was 50 *Afs* per day, although some male FGD participants in a loan group stated that the fine was 10 *Afs* per day. (The membership and loan officers cited both numbers, which most likely accounts for any confusion among the respondents).

Such discrepancies are likely due to a lack of consistency in the information provided by MFI staff. Interviews with the membership officer and loan officer revealed numerous contradictions in their account of programme rules. For instance, the membership officer stated that the first loan given amounts to 25,000 *Afs* while the loan officer described the loan amounts as ranging from 5,000 to 25,000 *Afs*. The membership officer and loan officer also disagree on the repayment schedule, interest rate, fine amount and the percentage of the loan amount that should be deposited as savings. An example of the loan officer's description of caveats in the programme rules is presented below. Neither the membership officer nor any of the respondents could make the following distinctions between different loan amounts and guarantees:

> *If women have gold, they can bring it as a guarantee. If they don't have gold, they should bring the certificate for their house or land. If they want 25,000 they have to bring two shopkeepers as guarantors. If they only want 5,000 or 10,000, then they don't need the shopkeeper guarantors, the certificate or gold is enough. The shopkeeper who is the guarantor should have assets worth more than 25,000.*

When do you ask for the certificate of the house or land?

> *For 10,000 or less we ask for the certificate and for more than 10,000 we ask for the shopkeeper guarantors.*
>
> — Loan officer, MFI 1

The savings requirement, in particular, emerged as a source of concern among respondents. In addition to confusion around the amount of savings required (some stated 20 or 25 percent of the loan amount while others mentioned a flat amount of 5,000 *Afs*), respondents were also unclear about the amount of interest they would earn on the savings (ranging from three to seven percent) and could not differentiate between withdrawable and fixed term saving accounts. There was also a general lack of understanding regarding the notion of dividends; the few respondents that had heard about the credit union's policy of sharing profit and loss among its members had no knowledge of the mechanism by which this would be done. Significantly, and related to the previous discussion on ownership and transparency, the purpose of the savings and the ability to withdraw them appeared to be in doubt. The following statements illustrate the degree to which this doubt can impact villagers' trust and perception of the MFI:

> *The savings which they are taking from the members have not given any benefits to the members yet. Members are still in doubt about what they do with the money which they are taking from the clients. Some of the members said that they are using it for their own benefit and charging interest on the members. So, this is not fair to their clients.*
>
> — Murtaza, MFI household

> *They are taking 25 percent of the total amount of credit and also taking interest of 2 percent along with other fees which the villagers don't know about. The 25 percent of savings they are using for their own benefit and they are also taking 2 percent extra interest. We don't know about the system with which they are taking money from us.*
>
> — Male shopkeeper FGD participant

Suspicion regarding the purpose and use of village residents' saving deposits also extended to other charges, such as the membership fee, interest and late fine as well as the overall sustainability and reliability of MFI 1. Given the emphasis on partnership in MFI 1's public transcript, it is striking that some respondents perceived the MFI to be motivated only by its own gain at the expense of its members:

> *The MFI gives credit in the amount of 25,000* Afs *of which 5000* Afs *are deducted for the savings and they keep the savings with themselves. In this case they are getting double profit. I mean, out of the money which they give to the clients, they are also getting the profit from the 5000 plus from the 20,000* Afs*. The savings which they already have, they also give it to other members as credit, so in this case they are getting profit. Because they tell their clients that we keep your savings in the office but in fact they are using the savings of the members for their own business. In this case they are sucking the blood of their members from whom they are taking the interest and repayment along with fines charged under different names, like late fine charges and interest; no one understands the procedure by which they are taking money from their members. The MC offices are looking for their own interest and benefit, not helping the poor villagers who they are claiming to help improve their economy.*
>
> — Shabana's husband, non-MC household

> *Regarding* sudh*, the villagers were told that the money which we deposit is the savings and they already cut that money from the amount of credit which they gave us. They add the savings to your* sarmaya *(capital) and we don't know how much profit they give us for our savings which they already deducted from our whole loan...this is some kind of victimisation that they are taking from us* sudh *on a monthly basis.*
>
> — Male loan group FGD participant

As the last statement suggests, the MFI's practice of charging *sudh* (which is forbidden under Islam) could add to the sense of exploitation felt among village residents. This is in direct contrast to statements of the loan officer, who in an interview claimed that members understood the need to pay for office expenses and rent and have therefore never mentioned *sudh*. In spite of the apparent disjuncture between the values of ownership and transparency espoused in MFI 1's public transcript and the confusion and distrust expressed by some village residents with regard to the program's rules and motivations, there was no evidence that the MFI even recognised the issue, much less attempted to resolve it. If MFI 1 does indeed seek to be a financial institution that not only provides access to affordable financial services but also serves as a means of promoting democratic processes, then more effort must be made to clarify programme structure and costs and to involve members in governance and oversight. Women should be a particular target of such efforts if the goal of women's empowerment is to move beyond merely being rhetoric.

4.3 Rules versus practice

This section continues the analysis of the MFI and its activities, focusing on how programme practices in the village varied from publicly stated programme rules, and drawing out the implications of such disjuncture.

Loan use monitoring

In theory, MFI 1 requires that loans are monitored in order to ensure that they are being used for their stated productive purposes. This function is performed by the loan officer with supervision from the monitoring committee, which supervises the activities of all the loan officers in the field. According to the loan officer quoted below, the purpose of loan monitoring is not only to verify loan usage but also to determine if the loan has resulted in improved economic and livelihood security:

> *After we give the credit, our team goes and sees their business which they said they will use that credit for to see if they used that credit for business or not...We have one form and we ask about their business: before taking credit how much money they earned and now how much money do they earn after taking credit. Then we calculate the benefits. For example, more people have livestock and agriculture at the end; we ask about the six months during which we gave credit to them: how was their business and how much production did they have? Then we write everything in our form; from that form we know who worked and who spent the money for their household consumption.*

In practice, however, none of the respondents volunteered information about monitoring visits from the loan officer or monitoring committee, either during the loan term or upon completion of repayment. It appears that once clients passed the stringent conditions for taking credit, there was little follow-up regarding the use or impact of the loan. The same loan officer acknowledged the possibility that some borrowers use part or all of their loan for consumption, which perhaps suggests the difficulty of regulating loan usage:

> *When we want to give credit to someone, we ask about their work before giving it to them. But maybe there are some people who use it for household consumption.*

Actual loan usage among respondents was generally geared towards a combination of productive purposes (for instance, buying livestock or agricultural inputs, or paying wage labourers) and consumption. Some, like Sima's husband, took the loan with the intention of buying a cow, but was forced to sell the cow when he realised that its expenses exceeded the income generated. The bulk of the loan was then diverted to consumption during the winter and had to be repaid through the mortgage of land, thus plunging the household into further debt and economic insecurity. The respondent gave no indication that the MFI was aware of his repayment difficulties or the negative outcome of the loan, which again suggests that the loan officers responsible for monitoring place more emphasis on timely repayment than on understanding the use and impact of loans. This focus on repayment at the expense of programme rules regarding loan usage will be discussed further in Section 4.4, which addresses the 'hoarding' of group loans.

Interestingly, women borrowers proved to be quite savvy in telling the MFI what it wanted to hear in order to obtain loans. One teacher, who had been advised by other women that the MFI would only give credit for productive purposes, was upfront about her deception of the loan officer:

> *Did you tell the office that you wanted to buy jewellery with the credit money?*
>
> > *No, I said to the office that I wanted to buy a* guldoze *(embroidery) machine. I told them that I wanted to take 25,000 Afs and buy that machine.*
>
> — Shabana, non-MC household

One female respondent belonging to the same loan group described a similar deception regarding the stated purpose of the loan. Out of a group of five women, three intended from the beginning to give their loans to their guarantor but together agreed to tell the loan officer that they planned to use their loans to buy cows. The apparent lack of concern among borrowers that their deceptions will be found out suggests that there is little expectation of monitoring by the MFI. Understanding the use of loans and their impact on livelihood security appears therefore to be less of a focus for MFI 1 as long as borrowers meet the criteria and do not display repayment difficulties.

Group lending: 'Hoarding' loans

The MFI initiated group lending in November 2005 in order for farmers who do not qualify for individual loans to access the capital they need. The cooperative group lending product is based on a mixed solidarity group and guarantor model, as explained below by the loan officer:

> *Group borrowers need one guarantor, like a shopkeeper, because when people take credit in one group they know one another, and the guarantor should also know all the group members. Every group member should know one another and they should guarantee one another.*

Unlike individual borrowers, group borrowers do not have to become members of the credit union. They are only required to have one guarantor for the whole group (often the group leader) and must deposit 25 percent of the entire group loan amount as savings, which act as a form of guarantee in the event of default or late repayment.[31] As explained by the loan officer below, division of the loan is decided upon by the loan group members and there is no limit on the maximum amount allowed per person:

> *The community members form a group of 5-10 people and introduce them to our office...the loan officer guides them to form the group according to their own choice. Usually the group is formed for the big loans and they guarantee one other within the group and their loan group application for the credit is verified by the elder of the* shura *members. They decide by themselves how to divide the loan among the group members.*

The official purpose of group lending (to enable farmers who do not qualify for individual loans to access credit) has been somewhat distorted in practice, however, in that some borrowers who wish to exceed the maximum amount allowed for individual loans have used loan groups to do so. The experience of Murtaza, recounted below, illustrates savvy manipulation of the group lending mechanism in order to access large

[31] Further discussion of savings and guarantees can be found in section 4.4, which focuses on risk and responsibility.

loan amounts and reveals how this manipulation has occurred with the complicity of local MFI staff:

> *When I finished the first individual loan I went to the office again and asked for the second loan but a bigger amount. The loan officer told me that if I need a big amount of money then it is better to make a group of 5-10 villagers; then I will be the group leader and will be able to take the big loan...Then I came to the village and gathered my friends for taking the second loan. I took my friends' ID cards and photos to the office and they were also with me. I gave them lunch in the hotel and then I took them to the office...They were my close friends and also from our village. I told them I need a big loan for starting* jalabi *work. Then they said, 'yes, we will help you to make a group and take the loan by yourself.' But one thing they said was that they will not be responsible for repayment. All the responsibility should be on my shoulders not theirs...The office agreed and gave me the loan after one month.*
>
> - Murtaza, MFI household

Murtaza's experience demonstrates that rules regarding group lending can be bent, sometimes with the complicity of the loan officer, in order to best serve the needs of the primary loan takers. The manipulation of programme rules, however, depends heavily on the relationships between the loan officer and loan taker as well as the relationships between the loan taker and his social network. In the case of Murtaza, the fact that he was one of the first people to receive a loan from the MFI and had successfully repaid his first loan meant that he was able to capitalise on an established relationship with the loan officer. Similarly, the assistance provided to Murtaza by his friends is a reflection not only of his existing social networks but also a means of strengthening those ties and building social capital for the future. Murtaza's ability to call on those networks when necessary also suggests considerable social status within the community, which could potentially be enhanced by his continued association with the MFI.

Finally, Sima's account of her loan group experience echoes the themes of social relations and loan hoarding and also illustrates how the MFI's goals of lending to women can be subverted in practice:

> *Aslam came and told us to make a group to take credit from the office to give to him because he needed money. We were me, Latifah, Maliha, my mother-in-law and Fatimah in the group. From the beginning, Latifah, Maliha and my mother-in-law gave their credit to Aslam. It was their way to help him because they are all related...At first, Gurg Ali told our men about this office and he said that it was easy for women in a group to get credit. It was true. First the office gave us the credit, then a week or ten days after that the office gave the men's loan group credit.*
>
> —- Sima, MFI household

Maliha, Aslam's wife, disputes Sima's claim that it was Aslam's idea to form a female loan group. Instead, she emphasises his generosity in relieving the women of their loans when it became clear they could not use the money productively (another reference to the importance of social ties and mutual help). She agrees for the most part with Sima's account, however, and explicitly states that Aslam's use of the female loan group's credit was well-known by the MFI and village residents. Furthermore, the fact that Aslam also assumed the loans of a MFI 2 female loan group suggests that this is a strategy he employs to access loans that are larger than those permitted for individuals by the MC program:

> *I want to tell you the truth. All of the credit that the women in the loan group took, my husband used it...last night I discussed with my husband Aslam and said that we had told you that everyone in the loan group used the loan for themselves. Then my husband got angry and said that we should have told you the truth because everyone in the village knows that he used the credit for himself. Yousof, at the office, also knows that Aslam used the loan, because Aslam was the guarantor for our group and Yousof knows him.*

Did you take credit from MFI 2?

> *Yes, I took one notebook of 8,000 for the first time last year. It was in a loan group, and all of the other five women gave their notebooks to my husband.*
>
> — Aslam's wife, MFI 1 and MFI 2 household

Both women's accounts support the observation that the MFI places greater emphasis on repayment than it does on monitoring loan usage. As the loan officer plainly states below, ensuring high repayment rates appears to be the main incentive driving the practice of the MC program:

If one person takes all the money and uses for himself they will tell you?

> *We don't have a problem with that case, if one person uses the money or everyone. We are just looking for repayment.*

4.4 Risk and responsibility

The MFI, like all credit providers, is concerned with reducing the risk of default. It does so primarily by using stringent lending criteria (most notably the need for guarantors) to evaluate the creditworthiness of potential loan takers. The flip side of such criteria, however, is that they can have the effect of shutting out poor, landless or less skilled households with limited social capital. This section analyses the distribution of risk and responsibility as well as the ways in which the motivations and mechanisms designed to reduce default risk can have significant implications for programme structure and client composition.

Like most other financial institutions, the MFI relies heavily on collateral requirements as a means of reducing the risk of default. While borrowers are encouraged to produce property documents (or jewellery in the case of female clients), the requirement that was more emphasised and consistently applied in practice was the need for two individuals willing to guarantee the loan. According to the rules of MFI 1, the guarantors must own a business registered in Mazar-i-Sharif, and their assets must be assessed by MFI 1 staff in order to determine their eligibility. In effect, as described in Sections 5 and 6, the guarantor requirement shuts out individuals who do not have social networks in the city or who are deemed too poor to be creditworthy. Paradoxically, the guarantor requirement also served to exclude a respondent who could have qualified for a loan but chose to opt out due to the shame he associated with asking city shopkeepers to be guarantors.[32] For the most part, however, respondents cited their inability to obtain two guarantors from the city as the main obstacle to obtaining a loan from the MFI. Many suggested that the MFI should instead allow guarantors from the village or, as mentioned above by Rahim, approval from village leaders in order to allow individuals without strong social and economic ties to the city to access loans. Information provided by the expatriate project director of the US-based development agency indicates that the credit union will be transitioning to a

[32] Rahim's case is described in further detail in Section 5.

model that emphasises *shura* approval rather than guarantors, which will help address this issue. To date, however, the guarantor requirement and the criteria that borrowers must have existing occupations or businesses have resulted in a narrow client base that excludes a large segment of the population. The MFI's professed goal of enhancing access to financial services, therefore, is at odds in practice with its drive to reduce the risk of default, which it does by imposing stringent lending criteria that only a small, skilled and well-connected minority of the village population can meet.

The guarantor requirement also helps reduce the risk of default in the case of individuals who have succeeded in obtaining a loan. The shame and subsequent loss of status associated with late repayment, which would implicate the guarantor, acts as a strong incentive for the borrower to repay on time; Murtaza's case illustrates this in Section 5. For this respondent, the fear of jeopardising his relationship with his guarantor (which, like the guarantor-borrower relationship of many other respondents, is based on pre-existing business and informal credit relations) leads him to borrow from other informal sources in order to repay the loan. Therefore, the structure of the MC programme is designed to ensure that all risk and responsibility is borne by the borrower first in order to meet the criteria and, secondarily, by the guarantor in case of repayment difficulty.

The other main feature of the MC program's lending requirements — depositing 20 or 25 percent of the loan amount as savings — is another example of the MFI protecting itself from loan default. Theoretically, one of the benefits of credit union membership is that members have the opportunity to invest and grow their savings. In practice, however, none of the respondents reported being able to successfully withdraw their savings, which were instead used to pay instalments or late fines:

> *I told the loan officer that I have 5000* Afs *here as saving money. Now I want to take it out. He told me that 'I can't take out your money' because I delayed repayment and my savings of 5000* Afs *went to paying the fine. But I did not understand how much money I was charged for the fine. I gave all the money for the repayment to my group leader and he was responsible for the repayment to the credit office. The loan officer told me that from now I can't take another loan and I can't take the savings from my account because that money was deducted for the fine…Those who deposit their money in the savings account should get a 3 percent annual profit from the office. But my profit and savings all went to the late fine. I did not get any profit from my savings.*
>
> — Sima's husband

Initially, the requirement was that borrowers had to deposit the appropriate amount of savings *before* being able to take the loan. It appears that this rule became more flexible over time, however, perhaps in order to enable the quicker disbursement of loans; many respondents reported that the MFI instead deducted the savings from the loan amount upon disbursement. The primary purpose of the savings appears to be as a cushion in case of late repayment or default, therefore serving mostly to protect the interests of the MFI.

Unlike other MC programme models, the loan officer and other MFI staff bear little risk or responsibility for repayment, because the stringent lending criteria — particularly the need for two guarantors — act as a barrier to those who may be less creditworthy. These criteria have an unmistakable impact on client composition. The fact that only a small segment of the village population can qualify for a loan from the MFI is partly reflected in the research team's difficulty in finding borrowers. More importantly, however, it is reflected in the consensus among respondents that only the rich and well-connected can benefit from the MC program, which contrasts directly with the MFI's goal of increasing access to affordable financial services

4.5 Women borrowers

The social and economic empowerment of women is an integral part of MFI 1's public transcript. As discussed in Section 4.2, however, in practice women appeared to have little access to information about the MFI; what little access they had was available through men. It was a challenge for the research team to find women who had even heard about MFI 1, much less women who were able to speak about key components of the programme structure such as democratic governance through elections and membership meetings. If lending criteria — most notably, the need for guarantors from the city and the savings requirement — are difficult for male borrowers to meet, they are even more challenging for women given their mobility constraints. The structure of the MC program, which requires borrowers to travel to Mazar-i-Sharif multiple times in order to complete the membership and loan disbursement process, is a particular barrier to women who must then depend on male members of their household to accompany them. In this respect, the model of MFI 2 (in which loan disbursement and repayment are conducted by staff in the village itself) is more conducive to reaching women borrowers:

> *My sister's daughter-in-law told me that there was an office that was like a bank in the bazaar in Mazar-i-Sharif. This office takes savings from people and then after a while they give credit. She said that we should go to get credit from this office. I said 'How can I go? I don't know the way.' I asked my husband but he did not want to go with me. He said that our sons don't work so how will we repay this credit? ... Mazar-i-Sharif is very far, but the MFI 2 office is near my house so I could go there.*
>
> — Informal discussion with Amanah

Although not stated explicitly, it is likely that the need to travel to Mazar-i-Sharif in order to conduct transactions is a cost that male borrowers also incur in terms of time and transportation expenses. Comparison of information provided by staff from the US-based organisation and information provided by respondents MFI 1 staff indicates a disconnect between these groups in terms of policies and procedures related to women borrowers. The former group stated that women are treated in exactly the same manner as men, while the latter mentioned the need for women borrowers to be accompanied by a male member of their household or to be able to provide jewellery as collateral instead of land. In order for the goal of women's empowerment to go beyond rhetoric, MFI 1 must first be clear and consistent about exactly what it is attempting to achieve and communicate this goal to its staff well. It must also recognise that gender sensitivity, while vital in this context, is not sufficient by itself for achieving women's empowerment and may, in fact, result in penalising women or increasing their dependency on men.

5. Village cases

This section introduces the eight households which were selected for this study. They are presented in groups, illustrating four different perspectives on involvement with MC through the MFI. By understanding the socioeconomic context of our respondents and their involvement with MC, themes evolve around access to and demand for credit. The respondents show, in various ways, how difficult the MFI's criteria for receiving a loan appear to potential clients. In fact, very few villagers qualify for a loan according to the rules stated by MFI 1, which leaves people wanting credit but unable to access it. On the other hand, there is evidence that some villagers manage to get around the rules and receive a loan even though they do not qualify. This presents challenges to repayment because of the larger loans given by MFI 1, the limited possibilities for investment and limited ability to earn a significant return. Thus, this section highlights strategies for managing the risk of default that include stories of success and failure.

5.1 Direct and indirect success from microcredit loans

The first part of this section introduces Mukhtar and Haji Ahmad. Both managed to qualify for MC from the MFI and both have had a relatively successful outcome from their involvement. Whereas Mukhtar represents a wealthy household who clearly met the MFI's lending criteria and profited significantly from his three MC loans, Haji Ahmad's story is much more complex. First, from his livelihood activities and reported income level, he appears to qualify for a group loan, rather than an individual loan, which requires better income and strong credit relations. He reported obtaining a loan in a group, however, and describes his involvement in detail. It remains unclear to the research team whether Haji Ahmad actually used his loan or was covering up the practice of group formation with the intent of one member using all of the money. This case highlights how some villagers engage in covert actions in order to bypass the MFI's strict rules, which indicates demand for formal credit but also (for those using group loans individually) demonstrates a mismatch between programme structures and clients' needs.

Mukhtar

Mukhtar is 36 years old and the head of his household, which consists of nine members. He is illiterate, but his wife and his 14-year-old daughter both studied until sixth grade. He has three other children who are enrolled in school and three who are still too young for school. Mukhtar's primary occupation is agricultural production on the five *jerib* of irrigated land that he inherited from his father and on the additional 13 *jerib* of *ejara* (land leased from a landowner). Mukhtar has leased land from different landowners for many years. Currently he leases land from two landowners; one lease is for nine *jerib* of land, which is agreed upon for a period of three years and for a value of 10,000 *Afs* per *jerib*. Mukhtar must therefore pay 90,000 *Afs* to the landowner every year. He has leased another four *jerib* of land, for which he pays 65,000 *Afs* to the landowner. The terms and price of the lease are agreed upon individually with the landowner, and both parties normally sign a contract. Mukhtar's total income from production last year amounted to 300,000 *Afs*. Mukhtar has contracted a wage labourer to work with him in the field throughout the year. In the time of the harvest he hires three or four other men to help in the field. Mukhtar enjoys two seasonal harvests in his land; in the spring he cultivates tomatoes, onion and cucumbers and for the second harvest he cultivates cotton, corn and wheat.

The main occupation of Mukhtar's wife, Shahzia, is within the domestic sphere and includes caring for the household's cow. The milk from the cow is mostly consumed within the household she sells any that is left to the local milk company run by the FAO.

Mukhtar's household is perceived to be wealthy and he is referred to as *boi*. He owns the house they live in as well as numerous assets, such as a colour TV, a mobile phone, a compact disk player, Iranian carpets and large amounts of household equipment. The household also owns one cow, two calves and two sheep. Mukhtar's landholdings are perceived to be large and valuable because they are irrigated, which also categorises him as wealthy.

Another way to understand the wealth of Mukhtar's household is through his credit relations. His loan portfolio shows active credit relations in terms of both giving and taking loans. More importantly, the portfolio also shows relatively high amounts of informal credit, which was predominantly taken for investment purposes such as lease of land (which also demonstrates wealth). It was only during the time of Taliban control that he was had to take wheat for consumption on credit from a mullah, due to drought and the high amounts of religious charity claimed by the mullahs. Mukhtar is now a source of credit in the village, as he has given large and small amounts of credit (as much as 20,000 and 47,000 *Afs*) for consumption as well as giving a major donation (6000 *Afs*) for the mullah to reconstruct the village mosque.

One example of his capacity as a credit giver is the loan he gave to a labourer one year ago. The labourer had lost his wife and wanted to marry another woman. On this occasion, Mukhtar gave a total of 47,000 *Afs* to pay for the bride price and the wedding party. This was a *qarz-e-hasana* (cost-free loan), and will be deducted from the labourer's wage in instalments throughout the year. According to Shahzia, this gesture was seen as a help to a poor villager, and she appreciates her husband for doing this because his action brings them rewards:

> *I think my husband had money from his land but I was very happy that he helped a poor man; it is good for us and it is a big* sawab *(blessing).*
>
> — Shahzia

As the above quotation implies, the money that Mukhtar lent was drawn from the surplus he earned from agricultural production. While some might view this lending as risky (albeit less so than it might otherwise be, given the patron-client relation existing between the labourer and Mukhtar), it can also be interpreted as an investment in social relations due to the religious and social goodwill that can be obtained through helping poor people. This may also be seen as a means of saving through which Mukhtar can achieve credit in the future, as there are few other means of doing so (such as banks).

Mukhtar took three loans from MFI 1. Overall, he has profited from the loans, but he has also experienced the risks associated with borrowing that arise when the investments made are not profitable. It has been two years since Mukhtar took his first loan from the MFI. There was a clear reason why he took credit:

> *I needed money and the villagers could not pay such amount of money and I thought that I will get the credit from the MFI 1 and repay it in the instalment period. Another point was that MFI 1 promised the people that they will pay the profit of saving money to their members. So I preferred the formal credit more than the informal credit.*

Mukhtar had saved the required 5000 *Afs* to deposit as savings when he opened his account with the MFI. Two months after applying and providing two shopkeepers from the city as guarantors, he took a loan of 25,000 *Afs;* of this, he spent 10,000 *Afs* on agricultural inputs, 10,000 *Afs* for wage labourers and the last 5,000 *Afs* on household consumption. He earned 80,000 *Afs* from his cucumber and onion production, from which he repaid the loans in two instalments. With the success experienced from the first loan, he decided to take another loan of the same amount with the hope of achieving the same outcome. The results of the second loan, however, were quite different. Mukhtar used the credit for cultivating cotton, but obtained no profit from it due to low market prices. In fact, he ended up earning 5000 *Afs* less than what he had spent on agricultural inputs. Obviously, when the repayment was due, Mukhtar faced the dilemma of how to find the money. He decided to share the dilemma with his wife, and they decided to sell her jewellery in order to repay the MC loan. He sold two gold rings for 11,000 *Afs* and incorporated the savings initially given to the MFI with his own additional savings to repay the money. In this way, he avoided losing face to the other villagers by asking for credit, which he recalled in his own words:

> *There was no other choice, and so I decided with my wife to sell the rings and repaid the money to the office. In that I did not want to stand in front of other villagers' doors in my neighbourhood and beg for the credit repayment; it was shameful for me to stand and ask for credit, because villagers know me as* boi *(rich).*

Selling his wife's rings served two purposes. First, it saved him from losing face to the other villagers who perceive him as rich and as being a giver (rather than taker) of credit; secondly, it ensured the possibility of taking a third loan from the MFI because he complied with repayment. We learned later, however, that he did indeed borrow 5000 *Afs* from one of the other relatively wealthy case households in order to repay MC; he repaid this, however, within a couple of days. Villagers know that there is cooperation in these matters, especially between people of the same wealth level, and Mukhtar most likely has not put his reputation at significant risk by borrowing what would be (for him) a very small amount of money. He did not feel comfortable enough, however, to tell the research team about this instance of borrowing.

The failure of his second loan did not discourage Mukhtar; he applied for a third loan, which he successfully received six months before the interview. This time he had applied for 50,000 *Afs* and had deposited 10,000 *Afs* as savings. He spent the money on the production of tomatoes and onions on 18 *jerib* of land, of which 13 *jerib* are leased. He received a total of 300,000 *Afs* in gross returns from his sale of the crops, which enabled him to repay the MC loan, labourers' wages and the lease on the land.

Needless to say, Mukhtar is satisfied with the outcome of his MC involvement. The profit made from his third loan covered the loss from his second loan. His stock of assets — in this case his wife's jewellery — saw him through his repayment crisis. He was able to bear the risk of a failed investment due to his good economic situation. At the time of the interview, Mukhtar was expecting a good income from his ongoing production of cotton and cucumbers, and he has already recovered the household's savings by additionally holding 90,000 *Afs* worth of gold jewellery at home. Mukhtar's own explanation for his success, besides being fortunate in having his wife's gold, is the very good market prices of onions and tomatoes and the fact that the crops reached the market at the right time.

Mukhtar's story is a positive example of how MC from MFI 1 has benefited a household significantly, largely because the household started out with a good economic position, including having productive land and the ability to lease more as well as a cushion of savings to protect his loans against risk of default. This supports the observation, already discussed in Section 4, that the strict rules of the MFI exclude those who do not already have very good means of production and income. The next household, Haji Ahmad, is also a positive story in which MC became important in order to cover periods of increased credit demand. The analysis of the household shows that the household benefited only indirectly, however, by strengthening his relationship with the local shopkeeper from whom he takes consumption credit and to whom he gave his MFI 1 group loan.

Haji Ahmad

Haji Ahmad is the head of his household, which consists of eight members and includes his wife as well as his three daughters and three sons (aged between two and a half and 14 years). Haji Ahmad is 48 years old; he and his wife (who is younger than him) are both literate. Their three oldest children go to school.

Haji Ahmad primarily supports his family with his 50 *qaraqol* sheep. A shepherd tends Haji Ahmad's sheep (as well as his brothers' sheep) in the mountains. Last year, Haji Ahmad made 22,500 *Afs* by selling the skin *of his qaraqol* sheep. Haji Ahmad has three brothers, each of which is separated from their father's household. Upon separation, their father gave each son a half-*jerib* of land for their own cultivation. The land gives enough wheat to support the household for two months but Haji Ahmad must buy wheat for the rest of the year. At the time of the interview, he was cultivating cotton on his land that he will use to make mattresses and pillows for the household. The land does not produce enough cotton to make selling the cotton on the market worthwhile. To supplement his income from the sale of *qaraqol* skin, Haji Ahmad works as a wage labourer in the village. This activity depends on seasonal activities but is usually paid 150 *Afs* per day. His wife, Nafisa, contributes to the household income by spinning wool from the sheep and selling it for 70-80 *Afs* per kg in the bazaar. This activity brought 1500 *Afs* to the household during the previous year.

As shown by the loan portfolio, Haji Ahmad is a credit taker rather than a credit giver. He predominantly takes credit to feed his sheep in the *ailaq* (pasture land) near the mountains) during the winter and early spring. In addition to this, his portfolio shows credit taken from the local shopkeeper for food consumption as well as medical costs for childbirth and hospitalisation; this indicates a low ability to save in order to meet the costs of such shocks. The main income of the household comes from the once-annual sale of the lambskins, meaning that there is a lack of significant cash flow throughout the rest of the year and, therefore, the household is dependent on credit. Thus, it is extremely important for Haji Ahmad to maintain strong relations with the local shopkeeper from whom he takes credit. This requires the ability to balance income flows and debt levels but, as is evident in Haji Ahmad's case, access to credit is also based on cooperation with shopkeepers who want to receive MC. Because Haji Ahmad's household does not appear to have difficulties in either receiving credit or repaying it, they can maintain a level of creditworthiness.

The most characteristic feature of the story of Haji Ahmad's household is the discrepancy between husband and wife in the information provided about MC borrowing. Whereas Haji Ahmad describes in detail his use of a loan from MFI 1, his wife firmly denies his involvement and only confirms the use of a loan from MFI 2. Despite Haji Ahmad explaining in detail his involvement with MC, there are numerous plausible explanations (described below) for Haji Ahmad not using MC even though he was a member of a MFI 1 loan group.

Haji Ahmad's household has taken MC, as his wife, Nafisa, took one loan book from MFI 2 in the amount of 10,000 *Afs*. This loan was used for sheep fodder and household consumption. The loan was taken by Nafisa, but Haji Ahmad filed his name with the organisation; to repay the loan, Haji Ahmad sold three sheep. According to Nafisa this was the only MC loan taken and used by the household and, according to her, Haji Ahmad himself decided they were not going to take a loan from MFI 1:

> *He said it is enough that you took credit from MFI 2's office, we just needed money for feeding our sheep.*

Given Haji Ahmad's income sources and livelihood activities, he is suited for a group loan from MFI 1 because his income and assets support repayment of loans of this size. This means that he must become part of a group, however, and this is where the social relations of credit become apparent; he was recruited into a group by Yaseen, the shopkeeper with whom he has strong credit relations. Yaseen established this group in order to receive a larger loan for himself; therefore, he recruited people like Haji Ahmad who would be willing to give up their loans to him in order to maintain their existing informal credit relations. Yaseen's formation of the group for this purpose was revealed in an early informal discussion, in which he admitted:

> *I took 140,000 Afs in a group of seven members one year ago from the MFI 1 and 35,000 Afs was cut for the savings. I took the money and used it for my shop. I am repaying the money on monthly basis. ... I am in doubt if I share the information about taking credits with you people because we will be put at risk.*

As stated, Yaseen was hesitant to talk to the research team because he was afraid that it would present a risk. The question remains: what is the risk and where would it come from? Yaseen is afraid that MFI 1 will hear about him hoarding the loan, which he knows is against the loan rules. He is afraid of repercussions from the MFI if they learn about his hoarding and deny him loans in the future. In addition to Yaseen's reluctance to talk to the research team, finding the other loan group members was equally complicated. Of the seven group members mentioned above, the research team was only able to find Haji Ahmad.

Therefore, the relationship between Yaseen and Haji Ahmad is particularly interesting in terms of understanding Haji Ahmad's involvement with MFI 1. Yaseen is a wealthy shopkeeper who provides credit to Haji Ahmad when he lacks cash and especially when he needs to buy fodder for his sheep. Four days before the interview, Haji Ahmad had taken goods from Yaseen's shop, worth 500 *Afs*, that had not yet been repaid. This outstanding, in-kind loan and the statement below both show the relevance of this credit relationship — Haji Ahmad depends on it when he needs both fodder and goods for household consumption:

> *I need credit because sometimes there is no work for me in the village. I need money to buy goods for my household consumptions. So sometimes there is no work so it's difficult to afford the expenses of the household. The goods which I am bringing from the shop most of them I buy on credit from Yaseen's shop and repay the money to the shopkeeper from my wage labouring work.*

There is clearly an established credit relationship between Haji Ahmad and Yaseen that pre-exists the formation of the loan group. What can be said about Haji Ahmad's relationship to the other group members? This is relevant because MFIs use loan group models as a form of social collateral, with members cross-guaranteeing one another and determining membership based on existing levels of trust formed from direct knowledge of one another or, at minimum, coresidence in the same village. This was not the case in this instance, particularly from Haji Ahmad's perspective. The following quotation shows that Haji Ahmad did not know the group members, who did not even come from his village:

> *Mohammad Yaseen and I are living in the same village and street, and one of our group members was living in the Shairabad village, which is a little bit far from us. The rest of the four members belong to the Sholgara district. Yaseen knows them and I did not have any relationship with them. When we got the loan, we separated from each other and I don't know how they repaid their credit money and how they used it.*

Maybe Yaseen will have information about them because he knows them better than me. Everyone was responsible for his credit repayment.

— Haji Ahmad, MFI 1 household

This raises questions regarding the rationale behind forming a group among members who did not previously know one another. Why did only the group leader know all of the group's members? His position as a wealthy shopkeeper and his role in bringing the group together provides reason to doubt that this is a "real loan group" in which the members each took a loan; instead, it is likely that the loan group existed only on paper, providing Yaseen the opportunity to hoard the money. Haji Ahmad has benefited from the loan — indirectly — through his willingness to become a loan group member and give up his loan to his main source of informal credit, thereby cementing a credit relationship. Further indirect benefits may flow to Haji Ahmad and others because Yaseen used the loan to restock his shop, meaning that he can provide a wider selection of goods to village residents and is likely able to provide access to these goods comfortably on credit.

The themes that emerge from this story are the social side of credit transactions and the links between formal and informal credit. By using access to formal credit, social relations may be cemented, leading to continued access to informal credit. Yaseen needed access to large MC loans and Haji Ahmad needs access to smaller loans for fodder and household consumption — they could help each other. The conclusion is that Haji Ahmad, although it is unlikely that he used the loan from the MFI, has nevertheless benefited significantly from the very same loan because he now may have improved access to informal loans that are vital for his survival as a livestock holder.

5.2 Microcredit failure and managing debt

This section continues to introduce respondent families that have taken MC. Where the previous section introduced two households for whom MC access was beneficial (although in very different ways), however, this section turns to cases in which MC access led to a cycle of indebtedness. Both cases are stories of how MFI rules were bent and group loans were hoarded by one loan taker, whose investment eventually failed. This led to difficulties in repayment and reliance on informal credit relations in order to remain eligible for future MFI loans. This points again to the relevance of the interactions and interdependence between villagers based on formal and informal credit relations as described in the latter section.

This section introduces two different cases. The first case is Murtaza, the sole income earner in his household, who used the entirety of two group loans for himself. When his business failed after he took the second group loan, Murtaza was solely responsible for finding the money to repay his debt. Sima's case, however, was different; she began using one portion of a group loan to buy livestock, but when it was apparent that there was going to be no profit from the investment, she sold the livestock and transferred the loan to her relative, Aslam, who used it in his own business. She thereby also transferred the responsibility for repayment. Aslam, on his side, had encouraged the women in the group to hand over the loans because he wanted to use it himself. Hence, both cases are examples of the consequences borne by clients who bend the MFI's loan rules and hoard group loans as well as the consequences of MFI 1's failure to sufficiently monitor household economies and the uses of MC loans — themes that will be discussed further in Section 6.

Murtaza

Murtaza is the 45-year-old head of an eight-person household that is composed of himself, his wife, five sons and one daughter. With the exception of his oldest child — a 15-year-old son who is their only child enrolled in school and who helps his father tend the village shop in the afternoons — Murtaza is the sole income earner in the household, which does not own land or livestock.

Murtaza's livelihood activities are diverse and vary according to season. He has been engaged in sharecropping for the last five years and is currently working as a sharecropper on nine *jerib* of land that belong to a relative in the village. Sharecropping agreements are usually negotiated on an annual basis. The sharecropper and landowner divide the expenses and production of the land equally, with the exception of wages and food for daily labourers, which are the responsibility of the sharecropper. Murtaza cultivates a variety of crops throughout the year, but his income from sharecropping is marginal due to low market prices and the expenses associated with cultivating vegetables in the winter. In the previous year, for instance, his income from vegetable production was 55,000 *Afs*, of which 48,000 *Afs* was spent on agricultural inputs and the remaining 7,000 was divided between Murtaza and the landowner. After paying 2,000 *Afs* to the wage labourers, Murtaza was left with earnings of only 1,500 *Afs*. Wheat production from the sharecropped land is used only for consumption, but appears to be sufficient for the household's needs for the whole year.

In order to supplement his sharecropping income, Murtaza engages in livestock trading, primarily during the winter when there is less work to do on the land. The business of livestock trading, whereby Murtaza buys livestock from villagers — often on credit — to sell in the animal bazaar in Mazar-i-Sharif, is by its nature opportunistic with potential for either substantial profit or loss. Murtaza has been trading livestock since the mujihidden period, but recounts how the business has gone from being extremely profitable to increasingly risky: "I used to be able to support 30 people of my household, because at that time I lived together with my father and mother, but now I cannot support even my own wife and children with this business."

Given the marginality of his sharecropping income and the risk entailed in livestock trading, Murtaza has attempted to further diversify his livelihood activities and income sources by opening a small shop in the village last year, selling basic goods such as cooking oil and soap. He invested 60,000 *Afs* in starting up the shop, which he obtained from livestock trading as well as through a loan from MFI 1, and pays 5,000 *Afs* annually in rent. Shop sales amount to 1,000-1,500 *Afs* daily, increasing to 2,000 *Afs* during the winter when villagers travel less frequently to Mazar-i-Sharif; average net income is a modest but steady 150-200 *Afs* per day. The shop also supplies Murtaza's household with most of its basic household goods. According to Murtaza's wife, however, the landowner has asked them to vacate the premises, which means that they will have to start again in a different location should they decide to continue with the shopkeeping business.

Murtaza's informal credit relations revolve mainly around his own shop in the village as well as *mandawi* shopkeepers in Mazar-i-Sharif. Since last year, when Murtaza started the shop, villagers owe him a cumulative total of 14,000 *Afs* in outstanding credit. Murtaza typically sells goods on credit only to villagers he knows, and relies on his literate son to record the names of credit takers with whom they should exercise caution. It is common for villagers to repay their debts in wheat, which Murtaza's household uses for consumption. Obtaining timely repayment from village customers is a source of concern for Murtaza, as it affects his ability to maintain good credit relations with the *mandawi* shopkeepers he depends on to restock his shop. He buys goods on credit primarily from one wholesaler in Mazar-i-Sharif, who is also the *shura* leader of the neighbouring village, and generally repays the wholesaler after two to three weeks when Murtaza returns to purchase more goods. His ability to restock his shop and maintain a good relationship with this wholesaler (who is also politically and socially influential) is therefore highly dependent on timely repayment by customers in the village.

Murtaza also has a close credit relationship with a friend and *mandawi* shopkeeper; he has an arrangement to buy agricultural inputs from this shopkeeper on credit — particularly during the winter, when he grows cucumbers and onions — and he returns to the same shopkeeper to sell his production. The money owed is deducted from the proceeds of the sale, and although Murtaza does not report having to pay a commission, it is likely from other accounts that the shopkeeper keeps a portion of the sale. Murtaza recounted two other instances of taking credit from this shopkeeper — one time to take advantage of a livestock trading opportunity and the other to pay for his wife's medical treatment — suggesting that this is an important credit and help relationship in Murtaza's social network. He later cited a desire to break free from the arrangement with the shopkeeper as a primary motivation for taking his first microcredit loan, however, thus implying a degree of dissatisfaction with having to confine the sale of his production to only one shopkeeper.

In spite of Murtaza's efforts to diversify his income streams, he reported a decline in livelihood and income, starting from at least five years ago when his household separated from that of his parents and unmarried brothers. Maximising returns from his various economic activities was a primary motivation for his decision to take microcredit, at least for his first two loans, but his plans for productive loan usage backfired and instead plunged his household into further economic insecurity and debt, particularly after the loss from his investment of his second loan.

Murtaza took a total of three loans from the MFI over a period of two years, all of which he attempted to use productively in each of his three livelihood activities — agriculture, livestock trading and shopkeeping. He was one of MFI's first borrowers in Balkh and describes the ceremony at which he received his loan from the governor of the province with a sense of pride and hope:

> *What did you feel when you took the credit as the first member of the MFI?*
>
>> *In that time I was very happy and I thought that it will change my life conditions and I thought that I will use the money in my farming work.*

Murtaza is unique among the village respondents in his level of knowledge and participation in the MFI's organisational structure. He is one of the few respondents who had participated in the MFI's annual election and meeting, where he voted for the loan officer who had disbursed his loans and was told about the dividends that members would receive. Several respondents distinctly remembered him accompanying the representative who introduced the MFI to the village, but it is unclear whether or not Murtaza had been acquainted with him prior to that day. Nonetheless, Murtaza stated that when he went to apply for his first loan, he had been under the impression that the MFI was providing cash grants rather than credit that would need to be repaid. This illustrates the extent to which the MFI's initial entry to the village had been misconstrued.

Murtaza took his first loan of 25,000 *Afs* as an individual borrower, spending 20,000 *Afs* on agricultural inputs for the land he sharecrops and the remainder on household consumption. Because he did not have the necessary amount of savings readily available, he sold one calf for 3,500 *Afs* and borrowed 1,500 *Afs* from a villager in order to meet the saving requirement and take the loan. With his shopkeeper contacts, he had little trouble finding a *mandawi* shopkeeper who was willing to act as his guarantor. Murtaza cited three main reasons for deciding to take credit from the MFI. First, he hoped to improve his agricultural production and increase his profit margin, and was confident that he could easily repay the loan with his farming income. Second, he wanted to break free from his credit relationship with the *mandawi* shopkeeper, which restricted him to selling his agricultural production using only one buyer. Third, he would not have been able to access the amount of money he needed through informal sources because loans larger than 2-3,000 *Afs* were difficult to come by. Although Murtaza did not suffer a loss, however, he had to use all of his income from the harvest as well as the money he had deposited into his savings account to repay his first loan within the six-month loan period. The investment, therefore, did not result in a profit.

Murtaza decided to use his second loan for another of his livelihood activities — livestock trading — but recognised that he would need a larger loan in order to maximise the return on his investment. Based on the explicit advice of the loan officer, Murtaza called on his social network to gather a group of people who would form a loan group but give him the entire loan of 125,000 *Afs*, with 25,000 *Afs* deducted as savings. Once again, Murtaza used the same guarantor used for his first loan. He used the bulk of the loan to buy ten calves for 8,000 to 10,000 *Afs* each and spent 5,000 *Afs* on fodder. The gamble he took on this inherently risky business activity did not, however, pay off. Murtaza resold the calves for prices equal to or less than the purchase price and applied the earnings to debt-repayment instalments. He used almost half of the loan amount for consumption during the winter and for paying the hefty monthly interest of 2,500 *Afs*. Given the loss he had suffered in his livestock trading business, Murtaza was forced to sell another calf from his household and borrow a total of 35,000 *Afs* from two fellow livestock traders in order to complete his repayment on time. In the face of significant loss from his investment, he therefore made the decision to take informal credit in order to repay his microcredit loan on time, rather than risk jeopardising his relationship with either the MFI (which would render him ineligible for future credit) or his guarantor (which might impact his credit relations in the *mandawi* and result in shame or loss of status).

Undeterred, Murtaza took a third loan of the same amount using the same loan group and guarantor. He used 35,000 *Afs* to repay his debts to the two livestock traders who had helped him repay his second loan, invested 60,000 *Afs* in his shop and spent the remaining 5,000 *Afs* on household consumption. Two months have passed since the end of the loan period and Murtaza's anxiety regarding repayment is apparent:

> *There is a lot of credit pressure on me. It increases day by day, from one side the credit of the shop and from the other side the credit of MFI 1. I am lost in credit; how will I find the way to recover the repayment of credit?*

Murtaza has not been able to generate sufficient income from his shop in order to repay the third loan, primarily because customers have not paid for goods bought on credit; now his guarantor is pressing him for repayment in response to pressure from the MFI. Murtaza's only plans are either to ask the MFI to extend the repayment period by another six months, or to borrow money from a landowner with whom he has entered into a new sharecropping agreement, again illustrating dependence on informal credit for microcredit repayment.

Murtaza is a prime example of how microcredit can result in a cycle of indebtedness that is difficult to escape, despite the fact that he fit the client profile as a skilled business owner who intended to use the loans productively. In part, the negative outcome of Murtaza's loan investments illustrates the marginal and high-risk nature of his economic activities as well as the fact that he and his household have little that will provide security in the event of an unforeseen shock. Importantly, however, Murtaza's story also shows how the MFI's emphasis on guarantors and successful prior repayment, as opposed to loan usage and impact, led him to take on more of a credit burden than he could handle. Murtaza's ability to take the second and third group loans and bend the rules by using the entirety of the loans himself was due entirely to his close relationship with the loan officer and his credit worthiness as demonstrated by his timely repayment of his first loan. Yet if Murtaza's capacity to take on two successive large loans had been better assessed and the usage and impact of those loans more closely monitored, it might have been possible to avert the indebtedness and vulnerability that his household now faces.

Sima

Sima lives with her husband, Sefatullah, as well as eight children. She is one year older than her husband, who is 32 years old. Their children are between two and a half and 18 years in age and all attend school although the parents are illiterate. The family does not own its own house, but instead lives with Sefatullah's father, who gave them a room in his house. They share the space with Sefatullah's other brothers, but have separate household expenses. During the time of the Taliban, the family migrated to Iran to join family members; Sefatullah worked as a daily labourer and later started a vegetable shop. The family returned to the village after more than five years in Iran, but did not bring back any savings to start a new life in Afghanistan. Immediately after their return from Iran, Sefatullah started working as a sharecropper on the land of a villager; he had to leave, however, because it required cash for agricultural inputs — cash he lacked.

Sefatullah works as a wage labourer and is struggling to support his family. On average, from wage labouring, he makes 2,500 *Afs* a month and gets 3-4 *ser* of wheat as *bakhshish* (a charitable gift). During the winter, he sells vegetables and fruits on the streets in the city, which can bring him 150-200 *Afs* a day.

Sima's household is poor, but its credit portfolio shows many credit relations, primarily with close relatives but also with shopkeepers in the village and in the main bazaar in the city. In the past year, the household has mainly taken credit for household consumption; this credit has been repaid through Sefatullah's wages and Sima's savings from silk thread production, an activity she became involved in through an international development organisation. Sima and her husband have recently faced more difficulty in receiving credit from their informal credit relations:

> *Last week, my husband sent my son to his cousin's shop near our house. My husband told my son that he should bring one can of oil and six kilos of rice from that shop. When my son went to the shop, the shopkeepers said that he should tell his father that it is impossible for him to buy these things with his 180 Afs a day. Then my son came home and he was very upset. I told my son that he should never go to ask for credit again. I told him that if his father asked him to go get credit, that he shouldn't go.*
>
> — Sima

The lack of access to credit has forced Sima to sell household assets such as their Iranian carpets, curtains, fabric and plates to afford consumption goods. As Sima indicated, the reason their household is not able to get credit from shopkeepers is Sefatullah's low daily wage, which will not suffice to repay outstanding debt; this makes the shopkeeper unwilling to risk selling more goods to him on credit.

The unstable income from wage labouring has become a burden to the family, and they are constantly considering alternative investment possibilities. MC plays an important role in this process. Despite their poor income, Sima and Sefatullah took loans from both MFIs, but their good intentions did not result in good returns. The story of their MC from MFI 1 began with a relative, Aslam, who came to the house and persuaded the couple to form a loan group consisting of other female family members.

Aslam was interested in taking a large amount of money for his trading business, in which he sells onions and potatoes. Forming a group and giving him the money was perceived to be a kind of help. Sima and one other woman, decided to keep their share of the loan (20,000 *Afs*), however, so that they could each buy a cow. Sima did not have the 5000 *Afs* required for savings, so she borrowed the deposit money from Aslam.

At the same time, Sefatullah established a group of five people who, in total, received a loan of 125,000 *Afs* that was divided between the members. Sefatullah — like Sima — bought a cow for 20,000 *Afs,* which was the total loan amount after the MFI deducted 5000 *Afs* per group member as a savings deposit.

The two cows in the household gave milk, and during the first three months Sima earned between 50-60 *Afs* a day from the milk which she sold to the local milk collection centre. The income from selling the milk, however, decreased as the cows gave less milk, and the cost of fodder exceeded the income, which made the couple decide to sell both cows, also motivated by Aslam:

> *I used that credit for the cow. But after three months, when I could not afford to feed the cow and it was time for repayment, I was worried about repayment. Aslam said to me that I could give him the credit and he would be responsible for it because he needed money for* jalabi *work.*
>
> — Sima

Aslam is Sefatullah's paternal cousin and is considered a wealthy *jalabi* business man. Their two households are closely interlinked through credit, particularly MC. Aslam is described here based on information obtained through a key informant interview with him and his wife, which was carried out due to their connection to Sima's household and preliminary information indicating that Aslam individually took over group loans taken by his wife and other female relatives.

Aslam is the guarantor for Sima's loan group and he knows the MFI 1 loan officer in the city. The loan officer also knows that Aslam took over Sima's loan to use for his own business. According to Aslam's wife, Maliha, it was not his idea to establish loan groups in order to take all the loans for own investments. It was the women's inability to create profitable activities with the money that led them to transfer the money and the responsibility of repayment to Aslam:

> *I also gave my credit to my husband. It was the women themselves who gave the credit to my husband. It was a kind of help that my husband gave — when he saw that they could not repay the credit, he said, 'Don't worry; just give me the credit and I will be responsible for everything.'*
>
> — Maliha

In addition to the loans from MFI 1, Maliha explained that she took a loan from MFI 2 in a group consisting of her two sisters and three neighbouring women. She took two cycles of credit through this group: the first in an amount of 8000 *Afs* and the second in an amount of 15,000 *Afs*. In both cases, all five women in the group gave their notebooks to Aslam. The women's reason for giving the money to Aslam is similar to the reasons given for the previous loans:

> *When these women took credit from MFI 2 the first time, after one instalment they said it was too difficult to repay weekly. So they wanted to give back the credit to MFI 2. My husband said that the office would not accept back the money, and he said that they should give it to him. I think the total amount of money came to 40,000* Afs *and my husband was responsible for repayment.*

> *Did the office know about this*?

> *Yes, but they didn't say anything. The second time, my husband asked these women to take more credit and give it to him. We took notebooks of 15,000 each and gave all six notebooks to my husband. The weekly instalment is now 2,440.*
>
> — Maliha

This seems to be a strategy for Aslam, who nevertheless denies having used the MFI 1 loans from the women. Aslam needs large sums of cash for his vegetable trading business. His initial plan, therefore, was to use the MFI 1 loans in his business because the amount was larger than what he could otherwise acquire through an individual loan. Pressure from the MFI to repay the loans, however, made him decide to return the money to the organisation.

Sima's transfer of the loan and repayment responsibility to Aslam underlines the credit relationship between the two households. The economy of Sima's household showed a lack of ability to manage debt because its income is too unstable. Their strategy of handing over the money to Aslam and selling the cows bought from the MFI loans illustrates this point.

Sima sold her cow for 12,000 *Afs*, which was 8000 *Afs* less than the amount she had paid for it. In exchange, however, she got to keep the calf the cow had delivered in her custody. She gave this amount to Aslam along with the savings from the loan office (5000 *Afs*) and another 3000 *Afs* from her husband's income, for a total of 20,000 *Afs*.

Sefatullah, regarding the second MFI 1 loan taken by his household, sold his cow at the same price for which he bought it (20,000 *Afs*) and bought 20 sacks of wheat for the same amount in order to start a trading business in the village. This business never got started because Sefatullah only sold 10 sacks for 1000 *Afs* each and used the rest of the wheat for consumption. To repay the loan to the MFI, Sefatullah's father helped him out by mortgaging some land and giving him the money. The MFI loan was repaid after six months; although Sefatullah wanted to withdraw the 5000 *Afs* initially paid as the savings deposit, the MFI office informed him that the money was deducted as a fine for late repayment. Now Sefatullah is in debt to his father because he cannot afford to repay the mortgage. In the meantime, the mortgagee earns the income from the production of the land, which affects the livelihood of Sefatullah's father. Sima is also concerned about their inability to repay the mortgage:

> *I don't know. What should we do? He comes all the time asking for his money. We are thinking of taking another loan from the office to repay my husband's father but we don't think the office will give us a second loan because they told us that they will not give us another loan if we repay late.*
>
> — Sima

Sima and her husband do not plan to take another loan from MFI 1, but at the time of the interview they were considering taking a loan from a third MFI that was expected to start operating in their area. Sima, however, took two loans from MFI 2 one year ago. These loans were partially intended to help Sima's sister's daughter, who needed to go to Pakistan for medical treatment, and partially for household consumption. Sima's niece was not able to take the loan herself because she lives in the city, where MFI 2 is not operating. The credit was repaid from Sefatullah's wage and money that the niece sent in instalments. With Sima's history of struggling to repay MC, it is difficult to understand why she and her husband would risk further debt from the new MFI. Strong family ties and the obligation to reciprocate credit relations are important, however, and this may be the only way for Sima's household to give credit or repay her father in law. This is, again, an illustration of interlinkages between formal and informal credit relations, a theme that will be further explored in Section 6.

The importance of informal credit relations serves two main points in this story; first, informal credit relations are crucial for accessing MC and, secondly, managing debt from MC has (in this case) shown to be impossible without the presence of good informal credit relations.

5.3 Exclusion from microcredit

Yaqoub and Khan Muhammad represent two households selected for this case study because they both tried to take MC but dropped out of the process because they lacked guarantors. This section thus examines how two households with modest incomes drawn from a variety of sources were excluded from participation in MC due to the strict eligibility rules, though their livelihood activities could have seemingly benefited from the investment opportunities MC supports.

Yaqoub

Yaqoub is 47 years old. There are nine people in his household including his wife and seven children (four sons and three daughters). Yaqoub, his wife and their two oldest sons, who are 16 and 19 years old, are all illiterate. Their youngest children, however, are going to school.

Yaqoub is fortunate in that he is not the only breadwinner of the family. His two eldest sons are wage labourers and they each earn 150 *Afs* per day. His wife, Dilkhawa, is 35 and is contributing significantly to the household; she sells the milk from their cow to the local milk collection centre. She sells approximately six L per day for 12 *Afs* per L, which covers all the household's consumption expenses. In addition, she contributes to household income through the sale of eggs and dung cakes (1 sack of dung cakes a week for 50-60 *Afs*). From selling the milk, Dilkhawa has saved up money and, three months before the interview, bought 15 *qaraqol* sheep. They currently graze in the *ailaq* and the household plans to make a business from selling the skin of the lambs once the sheep start reproducing. This has not yet produced an income; in addition to the cow and the sheep, the household owns two calves.

The household also owns four *jerib* of land, on which Yaqoub cultivates wheat, melons and vegetables according to the season. In addition to his own land, he sharecrops three *jerib* of land from a landowner who lives in the city. Yaqoub's two eldest sons also work on this land. This year, Yaqoub earned 50,000 *Afs* from his own land and 20,000 *Afs* from his share of the sharecropped land because he sold 16 *bukhar* (1 *bukhar* = 16 *ser*) of wheat.

Their credit portfolio shows that Yaqoub's household has good credit relations, especially with various shopkeepers. The loans they have taken have mainly been for household consumption but they have also taken a couple of larger loans for agricultural inputs such as seeds or rent for a tractor. The household showed very little outstanding debt, however, because most of the credit was repaid. At the time of the interview, the credit for household consumption was still outstanding, but Yaqoub expected to repay from their income sources. Taking credit for household consumption thus signals a lack of cash flow at specific periods, but the flexibility of informal credit allows the household to repay when there is income. Yaqoub also took a large loan from a shopkeeper in order to buy livestock, which he wanted to sell later at a higher price. This indicates particularly good credit relations, as it is rare to obtain such a large informal loan. This loan has been repaid with income from the sale of onions. Yaqoub also reports a 4000 *Afs* loan taken from a villager to pay for three labourers hired during the harvest. In order to repay this loan, he had to sell an ox.

Yaqoub's use of credit for household consumption is not a sign of poverty; instead, it is a sign of cash flow constraints. Good credit relations and the ability to take credit for productive purposes also show creditworthiness, as does the household's ability to repay the credit from their diverse income sources. This observation is also supported by Dilkhawa's report of their reliance on readily available credit from Yaseen:

> *Yes, I took credit from Yaseen; he has a shop near our house. He is a very good man; he is from Jalalabad. Whenever we want anything, we just ask Yaseen to bring oil or rice, and he will bring it. Ten days ago, we took one sack of rice on credit from him; it was 650* Afs*. My husband brought it from Yaseen's shop; it was* qarz-i-hasana *[an interest-free informal loan]. We have not repaid it, and Yaseen has not asked for payment.*

Dilkhawa does not seem worried about repayment of credit in general, as her two sons are working as wage labourers and will pay from their wage. The household has also sold livestock to repay informal credit, however, including some of their *qaraqol* sheep and the ox mentioned above. This may present a potential risk for their otherwise stable income. Selling smaller livestock such as sheep and goats, which is a common practice, is less problematic compared to selling an ox, which is a major productive asset that is used on the land. Smaller livestock are more likely to be perceived as a form of liquid savings, to be used in times of need; an ox would be perceived very differently.

The introduction of MFI 1 in the village came at a convenient time for Yaqoub and his wife. Yaqoub was in need of productive credit:

> *I needed the credit for farming work, like buying fertiliser, plastic sheets and metal rods. If I took the credit, I would buy all these agriculture inputs and when I would get the production then I would repay its credit money to the office.*

The representatives from the office came to the village and introduced the loans as a kind of help for the people; Yaqoub, along with many other men in the village, was immediately interested. Two days after the introductory visit by the MFI representatives, approximately 200 men went to the office in the city for a meeting in which the MFI explained its programme rules and guidelines. Yaqoub paid 200 *Afs* for the membership fee and has until now deposited 400 *Afs* in the office as savings. He explained that he went many times to the office to apply for credit, but was denied the guarantee of two shopkeepers in the city:

> *When we went to the city and asked the shopkeepers whom we knew to be our guarantee for the MFI, they said to us, 'We know that you live in the village but we can't give our shops as guarantee on behalf of you to the MFI.'*

The shopkeepers did not trust him enough to be willing to guarantee his loan, which made it impossible for Yaqoub to find two guarantors. This is interesting because Yaqoub was able to take a large informal loan from shopkeepers for investment purposes, but the shopkeepers did not consider him creditworthy enough to guarantee him a loan from MFI 1. Yaqoub's wife, however, took two MC loans from MFI 2. The decision to take MC from MFI 2 came after Yaqoub had given up on taking credit from MFI 1:

> *When my husband realised that he couldn't take credit from that office [MFI 1], he came to me and said that I should go and take credit from MFI 2.*

The MFI 2 loans were used, together with informal credit, to buy two calves and sheep; they had to sell these, however, in order to meet the repayment demands of both the informal and formal credit providers. Investments in livestock can be highly risky because the profit can be very small and the animals can fall ill. Yaqoub was excluded from taking a loan from MFI 1, but he nevertheless never went to reclaim the money deposited as savings and worried about whether he would get it back:

> *I did not take out my 600* Afs *deposited money from the MFI because I hoped to get the credit and find the two shops for the guarantee. Now I see I can't find the collateral so I decided to take out my money. During the two years, I did not go to the MFI yet. I have to ask about my money. They also have such deposited money which was collected by the name of savings from the villagers and giving profit but still we did not see any sign of the profit from them. Now we are afraid they will steal our money by another name.*

Yaqoub's concern about the money he deposited refers to the previously-discussed issue regarding the lack of information provided by MFI 1 to the villagers about their rights regarding their savings and the interest given in return for keeping savings in the bank. The research team did not encounter clients who had withdrawn their savings, because the savings had either been used as a part of repayment or taken over by the MFI as a fine for late repayment. In fact, lack of trust from the villagers towards the staff of the MFI and their methods has increased:

> *I have heard from the members in the city that now the staff of MFI 1 is asking for bribe from the members to take the loan quickly from the office, because they said that our salaries are very low and we can't support our families with less salary.*
>
> — Yaqoub

Yaqoub's abortive attempt to borrow from MFI 1 was intended to decrease dependence on the shopkeepers' credit, but in this he was constrained by the strict eligibility requirements. Instead, he borrowed from MFI 2, but used this money for livestock and not for agricultural inputs. Hence, he made no progress in reducing his dependence on production credit. The household of Khan Muhammad, discussed below, also faced this problem.

Khan Muhammad

Khan Muhammad (who is 50 years old) and his wife, Hamida, have five children. Khan Muhammad owns four *jerib* of land and sharecrops eight *jerib* of land belonging to his neighbour, who lives in the city. The household owns a relatively large amount of livestock: 50 *qaraqol* sheep, three cows and two calves. Hamida reported receiving important income through their livestock, as she sells 10 kg of milk daily for 10 or 11 *Afs* per kg and every year they sell the skin of lambs. Last year, they sold 19 skins for a price of 1,700 *Afs* apiece.

The household represents a fairly stable economy, supported by a credit portfolio that shows little demand for credit. Most interestingly, it shows dependency on a shopkeeper for acquiring agricultural inputs. It seems that Khan Muhammad's strategy — unlike Yaqoub's — is to maintain expenses in line with income and take credit only as necessary for agricultural inputs and medical expenses (not for consumption use). This observation was supported by Hamida in response to questions about the household's credit relations:

> *Instead of selling your cow, why don't you want to take credit for your son's wedding party*?
>
>> *We know that people don't have money. Also we feel that it is shameful to ask people for money. Since we have cows, we can sell them to pay for the wedding party.*

Khan Muhammad's initial interest in MC — like Yaqoub's — came from a desire to decrease dependency on the shopkeepers' credit for agricultural inputs. He was also indebted to shopkeepers because a previous harvest had failed and he had been unable able to repay the credit taken for inputs. He wanted to use the MC loan to repay the shopkeepers' credit and buy new agricultural inputs for the following season. Therefore, two years ago he went to the MFI 1 office in the city and became a member; he paid the membership fee but did not deposit any money. When he found out that the procedure for taking the loan was difficult, in terms of requirements for guarantors and savings deposits, he decided (according to his wife) not to pursue the loan:

> *My husband told me that he wanted to take 25,000* Afs*. I also wanted to take 25,000. When we went to the office, they said that they could not give us credit right then. We had to go many times over a long period to the office to save money and also find guarantors. So we decided not to go anymore.*
>
> — Hamida

According to Khan Muhammad, other aspects of MC from MFI 1 also led him to abandon his application. Their structure of loan repayment, in his view, is not compatible with the natural cash flow of agricultural production:

> *They are asking for the repayment after six months. This is also difficult for me to take the credit and repay it after six months. When they are asking for their credit money before our harvesting, which is not fixed according to our farming season, we don't have money to repay the credit.*

The MFI's repayment schedule may expose farmers like Khan Muhammad to a potential risk of debt. He would most likely need to borrow money elsewhere or sell assets in order to repay the credit. The household economy of Khan Muhammad could be assessed as eligible for MC due to their various income sources and ability to save money for unexpected expenses and household consumption, which Khan Muhammad below reports as 10,000 *Afs* but Hamida reports as a more modest 3,000-5,000 *Afs*:

> *I have 10,000* Afs *savings in cash in my home. We keep this money for an emergency or some time when we need fertilisers for the land. Sometimes if there are any diseases affecting the sheep then this is when we need to have cash money in the house to spend it for the emergency cases. We always keep such amount of money from our productions.*
>
> — Khan Muhammad

Nonetheless, the strict access rules of the MFI 1, particularly the need for guarantors, exclude Khan Muhammad from this credit source even though he sees MC as a potential means to reduce reliance on shopkeeper credit for agricultural inputs, if repayments were more suited to cash flows. Does this household then turn to informal sources beyond the shopkeeper for credit, given its decision not to pursue loans from the MFI? It does not, due to their preference — strongly expressed by Hamida — to take MC before taking credit from relatives:

> *I will tell you about myself: I would rather die of hunger than ask my relatives for money. I would rather take credit from the office if they would give a big loan and not ask for repayment too soon.*
>
> — Hamida

Due to perceptions of honour and shame, it appears MC would have seemed more attractive than informal credit if not for the criteria of the MFI. Issues regarding non-access of MC due to strict requirements from MFI 1, along with decisions about taking informal credit versus MC and the role of honour and status, are prevalent in the case of Shabana, which is presented below; these issues are further illuminated in Section 6.

5.4 Opting out of microcredit

The previous section described two respondent families who wanted to take credit but were unable to do so due to the strict requirements set by the MFI. In the next two cases, the households could meet these requirements but shame or status considerations convinced them to not become involved in MC borrowing.

Shabana

Shabana is the 27 year old female head of her household, which consists of five members: herself, her husband (Abdul Wahid, who is 36 years old) and three young children (who are one, three and five years old). Abdul Wahid is illiterate and supports his family by cultivating three *jerib* of land that he inherited from his father as well as by trading in vegetables.

Shabana earns 3270 *Afs* per month as a teacher in the local school. This money is spent on consumption, jewellery and clothes for herself. Abdul Wahid never asks for her salary because he earns enough to support the whole household and they own the house that they live in. Last year, his profit from the land was 5000 *Afs* from cucumbers, which is low, because the plants were diseased. He earned a better profit — 22,000 *Afs* — from his onion productions, but his most significant income is from trading onions and potatoes, which earns him 100,000 *Afs* per year. Being busy with his business, Abdul Wahid needs people to help out on the land and since there is no one in his family who is able to look after the land, he hires four wage labourers for the daily work.

Abdul Wahid's credit portfolio shows that he is a credit giver rather than a credit taker. He has taken few loans, for small amounts that were repaid after a few days. The household does, however, regularly give large loans to others; some worth mentioning include loans to a couple of villagers for wedding expenses and loans to the permanent wage labourer working on his land. He also gives shopkeepers' credit to farmers who need advances to buy agricultural inputs, such as metal rods and plastic to prepare for cucumber production. Three months before the interview, a farmer came to Abdul Wahid to request 20,000 *Afs* for buying fertiliser. He gave the farmer the requested amount of money, and the farmer came later with onions that Abdul Wahid sold in his business:

> *…they know that I am a shopkeeper in the city and they think that I have cash money in the shop. Sometimes they are asking for credit to hire wage labourers and agriculture inputs. When they need it, they come to my shop and I never refuse them, because I have business dealing with them. When they harvest their productions they directly bring their productions to my shop. I trust them because they have land and productions but before harvesting they need money for their land and therefore they ask me.*
>
> — Abdul Wahid

This demonstrates a clear dependence on the shopkeepers, who may take advantage of the farmers' seasonal credit demands, which will be discussed further in Section 6.

Shabana's household has experimented with MC, but only through her involvement in MFI 2. She took two notebooks from MFI 2, but only became a member of MFI 1 (without taking any credit). She first heard about MFI 1 via Maliha, Aslam's wife, and because Shabana wanted to buy more jewellery, she decided to become a member in order to take credit for this purchase. She went three times to the office, in order to get information about the loan, pay the membership fee of 100 *Afs* and make savings deposits. In total, she deposited 3000 *Afs* in savings. When she learned that she had to go to the office in the city seven times and present two shopkeepers as guarantors, however, her husband refused to support her participation:

> *When they asked about the guarantee, I said to my husband that the office asked me for two shopkeepers. Then, my husband said [that] I can't do this 'because all of my friends they know that I don't need credit, then they will think that my wife wants to take it. It is shameful for me, so you should leave this office; you shouldn't go again to that office.'*
>
> — Shabana

Abdul Wahid felt that the combination of his wife exposing herself to the public sphere in the city and the risk that he might lose his reputation among his friends (as a husband unable to support his wife's financial demands) was not worth the possible benefits from the credit. Therefore, he decided to abandon the effort to obtain credit from MFI 1. The "shame factor" was intensified by Abdul Wahid's own experience when he went to apply for a loan for his own productive use in agriculture. While going to MFI 1's office to deposit money, he described how he met a relative along the way:

> *When I came down from the office in the ground floor my relatives saw me and asked, 'What are you doing here?' I felt shame and I told them that I wanted to see my friend in the third floor of the building; they said, 'No, you came here to take the credit.' And I decided not to come again to take credit from the office.*
>
> — Abdul Wahid

Applying for MC from MFI 1 became a risk to the reputation of the household for the aforementioned reasons. Abdul Wahid also realised that Shabana would have faced difficulties in repaying the credit because her monthly salary was not large enough to meet the repayments. In addition to this, Shabana wanted to take credit in order to buy jewellery but had planned to tell the MFI that she would buy a sewing machine. She knew that the MFI would have refused her the credit if she had said that she planned to buy jewellery, rendering her plans unfeasible. Thus, taking credit from MFI 1 was given up. Shabana had also heard about the credit opportunity through MFI 2, however, as her husband recounted:

Then, one night at dinner time, my wife told me that she wanted to take credit from MFI 2. I told her, 'That's okay; you can take the loan from MFI 2 office.' I agreed with her, but I asked, 'What will you do with the loan, because you are getting salary and you don't need to take the loan from MFI 2.' She said, 'I need to buy jewellery and I will repay the credit from my salary on weekly basis to the MFI 2 office.' Shabana took one notebook from MFI 2 of 14,000 *Afs*, which she used to buy two gold rings that were worth 7000 *Afs* apiece. For repayment of the loan, she paid weekly from her salary. She only had to ask her husband for repayment once, because the loan officer was standing by the door waiting to get money:

> *One time my wife came and asked about 440 Afs for the repayment of MFI 2 credit money. She said, 'I don't have cash money and there is a loan officer at the gate asking for the money.' I gave her 440 Afs for repayment of her weekly repayment.*
>
> — Abdul Wahid

This household's decision to opt out of MC from MFI 1 in order to take credit from MFI 2 had two main reasons. First, the amounts of the loans from MFI 2 are lower, which, in Shabana's case, better suited her income and cash flow. Secondly, MFI 2 has representatives in the local community, which means Shabana and other female clients do not have to travel into the city but can be in direct contact with the MFI in their local community; also, the loan officers of MFI 2 operate by going directly to the clients' houses. These aspects will be addressed in depth in Section 6. As for the savings that Shabana had already deposited at MFI 1's office, Abdul Wahid contacted his neighbour, Ghyaz, who also wanted to take credit. Abdul Wahid told Ghyaz to take over the account and pay him the 3000 *Afs* that was already in the savings deposit, which the neighbour did while changing the name on the account to his own. Abdul Wahid's conclusion is that informal credit is more useful than MC because the rules are not as strict. His household's demand for credit is met through informal credit relations — especially the shopkeepers' credit.

The influence of social status and reputation on decisions to take credit, interwoven here with the influence of gender norms, is central to Shabana's story. Thus, while some households are excluded from MFI 1 credit because they are unable to meet the strict lending criteria, others exclude themselves due to concern for the resulting gossip that might tarnish their social standing.

Rahim

Rahim's household is the last to be introduced in this section. He is 45 years old and there are ten members in his household: his wife, Pari, who is 40 years old; his mother, Bibi Jan; and seven children (two daughters and five sons). Rahim, Pari and Bibi Jan are illiterate as are the two daughters, who are 13 and 17 years old, because they were not sent to school. All of the sons, except for the youngest, attend school.

Rahim has agricultural production on four *jerib* of land. Fifteen years ago, Rahim's father divided his land between his four sons before he died; each son was given slightly more than one *jerib*. Rahim bought the land belonging to one of his brothers and leases the land (2 *jerib*) that belongs to the other two. These two brothers have their own businesses in the city; because Rahim lives close to the land, he cultivates it, paying 10,000 *Afs* per *jerib* on an annual basis. His two eldest sons help him work the land, and this year he earned a total of 97,000 *Afs* from the production of his land. From this, he spent 35,000 *Afs* for agricultural inputs. The profit, which totalled 62,000 *Afs*, was spent on household consumption and added to the *sarmaya* (capital) of his shop in the village.

In addition to the income that he generates from the land, Rahim is also occupied as a shopkeeper in the village. He started the shop, only two years ago, using the capital that he accumulated from his former business. During the Taliban era, he and a partner traded onions together. For three years, they traded cows, bought onions from the villagers and sold them in Sheberghan and Kabul. After that, they spent three years engaged in *alafi* (wheat trading). Then, two years ago, Rahim decided to stop working as a trader and withdrew his share of the business, which he subsequently invested in a shop in the village. He also spent 50,000 *Afs* of his income from the land in order to start his shop. At the time of the interview, he was earning an income of 200-300 *Afs* per day from the shop.

Rahim's wife and mother both contribute to the household income. His wife sells milk from the household's cow, and his mother occasionally earns money by sewing clothes for other villagers. The mother charges 100 *Afs* per item of clothing and, if there is a wedding party, she might be asked to produce 15-20 item of clothing. Based on this range of previous and current income sources, the villagers consider Rahim to be a wealthy person, which is an observation supported by his income and credit relations.

Because of his various income activities, Rahim has well-established and diverse credit relations. As a shopkeeper, he gives credit; villagers who buy goods on credit owe him a total amount of 30,000 *Afs*. Rahim is also dependent on shopkeepers' credit for agricultural inputs and, initially, for starting his shop. In addition to investing the money from his previous business and income from land, he bought stock such as rice, sugar, soap, cooking oil, cold drinks, tea and beans on credit from wholesalers in the city, for a total of 20,000 *Afs*. He bought the goods from a shopkeeper he knows who lives near the neighbouring mosque. Six months before the interview, Rahim repaid 7000 *Afs* of the loan; at the time of the interview, he still owed the shopkeeper 13,000 *Afs*. He planned to repay this debt when the villagers repaid their credit. Working on the land requires annual investments in metal rods and plastic for cultivating cucumbers; Rahim has borrowed from shopkeepers to afford these expenses. In the year prior to the interview, he took 25,000 *Afs* of credit, which he repaid after the harvest by allowing the same shopkeeper to sell Rahim's production on commission.

Rahim shows no less demand for credit than other farmers in the village. Like some of them, he also was interested in the MFI's programme and joined the others who went to the MFI 1 office in Mazar-i-Sharif to get information about the programme:

> *I decided to take the credit and use it in my farming work and buy agriculture inputs for my land. In this case, I wanted to improve my farming work and get rid of shopkeepers' credit for agriculture inputs. That's why I decided to take the credit and get benefits in my farming work.*

But the desire for MC only lasted until he heard about the rules of the MFI:

> *In that time, I was working as farmer in my land and I needed money for the land but they were asking for the 5000* Afs *as savings, and they also asked about the guarantee of two shops in the city. When I heard these conditions of credit from the office, I did not like to ask from the shopkeepers in the city to guarantee my loan for MFI 1. I also did not like to stand in front of others and beg for the guarantee.*

His wife had also heard about MC and particularly about MFI 2 because the female loan officers had come to their house to share information about their programme. She had heard about the two MFIs from various sources and was immediately positive towards the prospect of taking MC:

> *Yes, people take credit from that office which is in the bazaar [MFI 1]. Men took credit from that office to work with it. Like Mukhtar, he also took credit from that office. We didn't take because my husband said that it is* sudh *and he doesn't like* sudh*. One time, some women came from MFI 2 to our house and they asked a lot about our life, about everything the way you are asking. I wanted to take credit from them but my husband didn't allow me to.*
>
> — Pari, wife of Rahim

Rahim strongly disagrees with the demands from the MFI and, unlike the other villagers, did not sign up for a membership with the organisation. He elaborated on the reasons behind his decision to not take credit:

> *If they would ask the guarantee of my property and land or anyone in the village to guarantee me, I was ready for that. But they were asking for the guarantee in the city. So that's why I did not go and take the credit. Some of the villagers said that this is* sudh *and I did not want to be involved with* sudh *because this is a taboo in our religion.*

He assured the research team that he knows shopkeepers in the city who would be able to guarantee his loan, but he emphasised the shame linked to asking for credit from people who are less known to him. In sum, Rahim's need for more credit is not high enough to push him to overcome these feelings of dishonour. His economy is stable enough and improving such that he can opt not to take more credit, partly because his two sons are old enough to help with the land and work as wage labourers when necessary. Rahim's need for additional credit sources was stronger three years ago, but now he has managed to create stable income sources without MC, which means he is not contemplating a return to the MFI 1 office.

These latter two families — Shabana's and Rahim's — bring up an important theme that will be discussed in Section 6: the relationship between being a credit taker and credit giver in the study village, in which aspects like honour and shame play important roles in decisions about both informal credit and MC.

6. Formal and Informal Credit in the Village: Practices and Outcomes

The cases introduced in Section 5 illustrated various themes that will now be explored in more depth. The first theme relates to access to informal and formal credit in the village, which is highly dependent on the village's social networks. Likewise, the MC structure and eligibility requirements are highly dependent on pre-existing credit relations in the village, which creates interlinkages between MC and informal credit relations; some of these support the success of MFIs in terms of repayment. This section places emphasis on debt management strategies in order to understand choices made regarding repayment of both formal and informal credit — choices which are influenced, in part, by the stricter repayment rules associated with MC. This leads into an analysis of the credit relationship between farmers and shopkeepers, which illustrates some of the connections between formal and informal credit systems as well as a potentially positive outcome of MC intervention. A discussion of the influence MC has had on poverty at the household and village levels of the study site will conclude the analysis.

6.1 Access to credit: A matter of social networks

MFI 1, like most other lenders, aims to reduce its exposure to default risk; this has significant implications for programme structure and client composition. MFI 1's stringent loan eligibility requirements, especially its requirement of guarantors for individual loans, illustrate how the programme is structured to reduce MFI 1's risk. Section 5 demonstrated the effects this has on client composition, such that households who rely on diverse and stable income sources and could potentially productively use a MC loan (for example, the households of Khan Muhammad and Yaqoub) were nevertheless unable to access credit from MFI 1 because of their inability to meet the guarantor requirement. Others (such as Shabana and Rahim) opted out of the MFI 1 programme because they decided not to inquire for guarantors, due to the perceived threat to their reputation and social status. Social networks and social standing are hence crucial to understanding eligibility for MC, as well as peoples' access to informal credit. The first part of this section addresses access to informal credit and how this influences access to and eligibility for formal credit.

MC and informal credit

Informal credit relations in the study village are varied and include *qarz-i-hasana* (interest-free loans), Islamic charity and shopkeepers' credit. On average, the normal size of *qarz-i-hasana* is — according to the loan portfolios — between 2000-3000 *Afs* (US$40-60) and the maximum amount ranges from 8000-10,000 *Afs* (US$160-200). Higher amounts of money — 20,000 and 30,000 *Afs* (US$400 and US$600) — have reportedly been given as interest-free loans, but these have been less common and acquired for special occasions, such as weddings or business investment.

As indicated, Islamic charity is also widespread and includes: *zakat*, which is 1 percent of harvest and/or livestock holdings, offered to the poor once per year; *khairat*, often given as a meal prepared in the mosque for the poor of the village and sponsored by either a number of villages together or one wealthy household; *fetrana,* which are offerings connected to the Islamic holiday of Ramazan; and *baksheesh,* which are gifts to poor villagers or relatives given all year round.; Because these are forms of charity, they are not expected to be repaid.[33]

[33] For more details on religious charity, please see: Floortje Klijn and Adam Pain, *Finding the Money: Informal Credit Practices in Rural Afghanistan* (Kabul: Afghanistan Research and Evaluation Unit, 2007)

The shopkeepers' credit is a much larger subject for consideration in this case study. Three different kinds of credit from shopkeepers were encountered by the research team, which can briefly be described as follows:

- Consumption credit — credit taken by individual household units for daily consumption such as food and household goods.
- Wholesaler's credit — credit taken by shopkeepers from wholesalers at the market to restock their shops.
- Production credit — credit taken by farmers from village shopkeepers who also have a larger shop or wholesales shop in the main market in Mazar-i-Sharif in order to pay for agricultural input.

Production credit is a relatively common type of informal credit that is given for agricultural inputs during the period of soil preparation, which is the time when farmers need the largest amount of cash for productive use. It is important to analyse credit taken for production purposes in relation to MC in the village; it will, therefore, be presented in detail and discussed in section 3.3.

Consumption credit is commonly used to acquire daily consumption goods for the household; villagers generally have credit relations with all of the shopkeepers in the village, although some households (those of Haji Ahmad, Yaqoub and Khan Muhammad) reported taking credit on a regular basis from one particular shopkeeper — Yaseen.

Wholesalers' credit is important because it enables shopkeepers to restock their shop, but portions of the credit must continuously be repaid in order to obtain more. When shopkeepers give credit to clients, they must therefore carefully balance this with their ability to repay all or some of the wholesalers' credit. Similar to the situation of all shopkeepers, the two households of local shopkeepers in this study (those of Murtaza and Rahim) rely on their customers' prompt repayment of credit in order to repay their own credit to the wholesalers in the main market in Mazar-i-Sharif.

The credit portfolios of the cases whose stories were presented in Section 5 show that all eight households have firm credit relations with relatives, shopkeepers and other villagers. The nature of most of these credit relations, however, is that they are reciprocal and therefore not to be taken for granted. They must be strengthened and nurtured by demonstrating an ability to repay outstanding credit or to (in other ways) return the favour given by the credit giver to the credit taker. Therefore, the credit relations of a household depend on the following: the overall economy, which provides opportunities to generate surpluses that — even if they are small — support informal credit relations; the quality of household debt management and maintenance of creditworthiness in the eyes of others; and the social aspect of relationships, particularly the ways in which help is given and expected. MC plays an important role in this regard, as it may give poorer people (who otherwise would not be able to give much credit) a chance to help other people access credit. This is evident, for example, in Haji Ahmad's case.

This case study highlights the central importance of social relationships in regards to accessing both informal and formal credit. This is not surprising in the case of informal credit, but may be more so in relation to formal credit, which can easily be viewed solely as a financial exchange. This study has, overall, illustrated that viewing MC in this way is a mistake because access to MC very much depends on existing social relations. For example, in this case, eligibility for MC from MFI 1 clearly builds on existing relations in the village — for individual loans, the relationship with shopkeepers as guarantors and, for loan group members, relationships with farmers. At the same time, microcredit takers may find new ways of benefiting from credit that are linked to supplying their loans to others and cementing social relationships rather than to loan use.

Social relations may not always be sufficient, however, especially in the case of acquiring guarantees from shopkeepers for MC loans from MFI 1:

> *I went out again and started to find shopkeepers from our village in the city. I found two of the shopkeepers of our village and they are even my close friends. I asked them to give their shops as guarantee to the MFI 1 on my behalf. They laughed and said, 'That is right; we know you very well, but we cannot give our shops as the guarantee to MFI 1 on your behalf because it makes problems for us.*
>
> — Yaqoub, non MC household

The problem of getting consent from shopkeepers to guarantee MFI 1 loans is further complicated by the social relationships involved. Obviously, in this case the social connections were insufficient because the shopkeepers were afraid of facing problems if they agreed to guarantee a loan. The reason for their concern is that they did not trust the potential MFI 1 borrower's ability to repay the MC loan and were afraid that MFI 1 would make them responsible for repayment — a risk they were unwilling to take. Hence, use of social relations as a means to access credit may be limited by perceptions of risk, with refusals (such as that illustrated above) having negative implications for the relationships involved.

Some respondents (Mukhtar, Shabana and Khan Mohammed) clearly prefer to apply for MC before asking relatives for credit. This concern about honour and shame in the local community is attributed to the fact that these households are considered to be credit givers rather than credit takers. To them, it would be shameful to show need for credit towards the villagers, although in one case (Mukhtar) the shame factor was limited to asking for informal credit while MC was acceptable. The case of Shabana demonstrated that even showing the need for MC from MFI 1 may be considered shameful and, therefore, avoided. Shabana's household took credit from MFI 2, however, and one could question why this is not perceived to be shameful. The answer is that the loan amount is lower and the transaction costs (in terms of time, money and exposure to the public sphere) are not nearly as high because MFI 2 is operated entirely from within the village. Also, it was possible for Shabana to manage the repayment of an MFI 2 loan on her own, using her salary as a teacher. Here, issues related to gender became problematic because MFI 1 requires clients — men and women — to travel to their office in the city; this concern has been overcome by MFI 2.

Focusing on the two MC models that MFI 1 presents —individual- and group loans — will help improve understanding of the interlinkages between MC and informal credit. Each model shows a different way in which formal and informal credit may interact. The individual model gives rich villagers access to MC, which indirectly may give poorer villagers better access to informal credit if they have credit relations these wealthier borrowers of MC. The group model, on the other hand, directly builds on the existing credit relations between people, as they form groups that can also be used by wealthier villagers to access larger MC loans, while those who give up their loans expect to receive help in future. A distinction is made between individual and group loans because their requirements differ significantly and, therefore, they have different influence on access to credit in general.

MC access through individual and group loan models

One of the most common constraints respondents associated with giving and taking informal credit is that only relatively small amounts of money available. Some (such as Aslam) can access larger informal loans, but the demand for large loans in general remains unmet. This is where MC from MFI 1 plays a significant role because it presents an opportunity to obtain larger amounts of money. The potential for acquiring larger loans through MFI 1 did not fully materialise, however, as evidenced by the few individual MC borrowers encountered in the village. While many expressed interest in the MFI, the programme's structure and its fixed timing of repayment (six months after receiving the loan) did not fit the clients' cash flows. Because of this problem, some clients opted out of MC by their own choice (Shabana and Rahim) and others were excluded by MFI 1's eligibility criteria, which lead them to continue to rely on informal credit (Yaqoub and Khan Muhammad). Thus, while MC from MFI 1 does fill a gap in informal credit systems by offering larger loan sizes, these larger loans place the MFI at higher risk of default and therefore come with stringent eligibility requirements such that only the relatively wealthy can access MC from MFI 1. Mukhtar's household is an example of one that is well able to qualify for an individual loan. He earns a relatively higher income through several sources, has savings and is thus better able to repay. MFI 1's individual loans are primarily accessible to the small percentage of households who are considered wealthy (that is, those that rely on multiple income sources and are frequently able to earn a surplus).

MC group loans offer higher amounts of money in comparison to informal loans, but out of three respondents who were loan group clients, only one (Sima) spent the money herself. The other two, Haji Ahmad and Murtaza, either gave their loan to someone else or hoarded the loan amounts from the other group members (respectively).

MFI 1's group lending model was developed in acknowledgement of the difficulties that less wealthy villagers have in accessing its individual loans. This group model appears to have offered a means for some village residents — seemingly unfit for MC due to insecure income flows — to obtain formal credit, although this opportunity may be in name only.

Haji Ahmad, Sima and Murtaza were members of three different loan groups who told three different stories of access to and use of the MC. Whereas Haji Ahmad participated in name only (as the group leader kept the entire loan amount), Murtaza was the member of his group that hoarded the loan. Sima spent her portion of the group loan to buy livestock but ended up in an economic situation that was worse than before she had taken MC; eventually, she gave up the loan. These stories suggest two related phenomena.

First, they suggest that MFI 1 was less interested in assessing the sustainability of household economies within groups prior to their formation and more interested in the involvement of women and in establishing groups, as stated in Section 4. Second, the stories of Haji Ahmad and Murtaza specifically suggest a lack of monitoring regarding the use of group loans, making it possible for some to exploit the system for their personal ends — whether by accessing a large sum of cash or by giving up a portion of a group loan in order to maintain social relations with an informal lender.

Thus, in practice, MFI 1 was not successful in extending outreach using its group lending model, since (in some cases) only one group member directly benefited from the MC. It is likely, however, that MFI 1 unknowingly strengthened exchange relations in the village by providing a new means through which those in more dependent positions could offer assistance to their patrons.

Transaction costs are a common obstacle to accessing MC from MFI 1, for both individual loans and group loans. Unlike MFI 2, which has offices in the project areas and local employees that visit the homes of the clients, MFI 1 requires its clients to go to the office in Mazar-i-Sharif in order to complete the steps in the loan process. This has turned out to be an additional, major problem for potential clients attempting to complete the loan application:

> *...the office told us that you should come for seven Wednesdays. I was busy with the school and when I went to that office I spent 100* Afs *for car rent and I gave 2,000* Afs *from [my] own salary as savings.*

— Shabana, MC from MFI 2 household

Compared to accessing informal credit, which is provided in the village itself, the costs (in terms of time and money spent on transportation) of accessing MC from MFI 1 are quite high. Although Shabana referred to the problems of spending time and money on the loan application process, the fact that she is a woman made access even more difficult. Accessing MC through MFI 1 requires leaving the private sphere and travelling into the city, which is something few women are able to do. Therefore, fewer people will access MC from MFI 1, whether through their own choice or due to traditional gender seclusion norms that do not allow women to participate.

In general, the application process for acquiring MC through MFI 1 is long, complex and complicated by requirements, which adds to the alienation of clients from the MFI and, thus, their alienation from MC loans. The overall difference between access to informal and formal credit (from the perspective of the individual and group loan model) is based on the comparative flexibility of the two systems. Whereas formal credit (in the form of individual loans from MFI 1) requires guarantors and a long, complicated application process, informal credit is mostly accessible within the village, from people whom the borrowers are already linked with through kinship, ethnicity and previous credit exchanges. The process of obtaining a group loan from MFI 1 is as lengthy as the individual loan process and requires all group members to go to the MFI's office numerous times before receiving the loan. The group model requirements are easier to meet than those for individual loans, however, because group members are able to cross-guarantee one another and are only required to provide one guarantor.

In the case of MFI 1, the terms and conditions under which MC is given appear to be diffuse, complicated and particularly difficult to access for all but a small group of villagers. This is, in general, valid for both individual and group loans, even though the group model holds greater potential for reaching villagers with fewer resources who cannot provide guarantors. The model is still not fully achieving this outreach, however, as evidenced by the practice of certain clients hoarding the loans from the other members. At the time of the study, this was being assessed by the management of MFI 1, who were considering changing the guarantor system in order to use local trust relations through village leaders.

6.2 Microcredit and debt management

Debt is perceived to be a natural part of a household economy; although the ability to save is desired in most households, it is not achieved by most. Hence, debt is the rule rather than the exception in the study village and in most parts of Afghanistan. With debt comes a responsibility to manage the debt in order to maintain creditworthiness. Debt management is, therefore, important to assess in order to understand the dynamics of informal and formal credit. Maintaining creditworthiness means having the ability to repay some or all debt in order to ensure access to credit in the future. Thus, managing debt is about choices made regarding balancing debts against actual and expected income and expenditures.

In order to understand the influence that MC has had on debt management and informal credit in the study village, the following sections will divide the concept of debt management into two sets of factors. The first factors are the repayment rules set by the lenders (either formal or informal) and the second, linked to the repayment rules, are the repayment strategies used by the borrowers. Strategies for repaying formal and informal credit depend on the rules set by the informal and formal lenders (respectively). Because informal and formal lenders apply different rules for repayment, the borrower is equally required to make use of different strategies to repay informal and formal credit. The rules for repayment of MC are generally stricter, and repayment often entails taking informal credit. This strengthens (if not requires) interlinkages between the two credit systems.

Repayment rules

Repayment rules associated with informal and formal credit influence choices about which type of credit to take as well as the ability to access different forms of credit. Whether the borrower chooses to take MC or informal credit depends on these rules and their appropriateness for the borrower's needs. Thus, the level to which the rules of informal and formal credit are "client-based" is relevant.

In terms of repayment rules, informal credit tends to meet the respondents' abilities and needs better than MC. Informal credit is generally considered more flexible because repayment is fixed between the borrower and lender according to the income of the borrower, i.e. the production credit which will be described later. The same is prevalent in *qarz-i-hasana,* the free loan that is given among relatives and villagers, which is repaid when possible or when requested, with no fixed date for repayment. The disadvantage of the free informal loans is that the whole amount must be repaid at once, which may be difficult. The borrower can delay if he or she feels that repayment is impossible; this, however, can strain their relationship with the lender.

As described in Section 4, the repayment period for MFI 1 is six months; for MFI 2, the period is one year. The weekly instalments of MFI 2 repayments are difficult for many clients to meet, however, and so it is more feasible to repay the whole loan within six months despite the different rules that MFI 1 applies according to the use of the loan and the perceived cash flow of the client. MFI 1 borrowers are given three months to begin making monthly instalments if the loan is used for agriculture and livestock; if the borrower is a shopkeeper, though, he or she must begin monthly repayments after the first month.

Despite their inflexible repayment rules, some households (Haji Ahmad, Sima and Shabana) found loans from MFI 2 more suitable because of the smaller loan amounts. These loans may be easier to repay for households that have a small but steady income (as was true in Shabana's case). The inflexible repayment period set by MFI 1 has also been a reason to opt out of MC, especially in Khan Muhammad's case, because it does not follow the natural cash flow of livelihood activities. Furthermore, MFI 1 is reported to be less flexible about negotiating repayment, a point emphasised by the fines that both MFI 1 and MFI 2 claim in cases of late repayment.

In fact, none of the cases in the study chose MC from MFI 1 specifically because the repayment rules fitted their needs better than informal credit or MC from MFI 2. Mukhtar, the only respondent with successful patterns of repayment, was able to draw on several income sources in order to repay without difficulty. Given his stable income flow and sources, he did not appear to have any problem meeting the repayment rules; what led him to take MC from MFI 1 was the opportunity to obtain a large loan for his farming activities. Hence, his case is an example of someone for whom the rules had little effect because he would have been able to meet the requirements of any loan structure.

The presence of two MFIs in the village also adds to the spectrum of credit sources because the products from the two organisations have very different requirements; respondents have demonstrated a tendency towards turning to MFI 2 if they are unable to access MC from MFI 1. The challenge presented by the structure of MFI 2 is the weekly repayment schedule, which is a struggle for many clients. This leads to a further focus on repayment strategies because taking credit from both MFIs and taking informal credit form part of the repayment strategies of MC clients.

Repayment strategies

Once villagers have obtained a loan, they apply different strategies in order to find money for repayment. Taking a loan, whether formal or informal, entails the risk of falling further into debt or relying on asset sales if money acquired from earnings is insufficient to meet repayment demands. The exposure to these risks is the same under informal and formal credit systems, although there is more room for negotiation in the informal system (as described in the previous section).

The respondents in this study demonstrated four different strategies for repayment of formal and informal credit: income flow, sale of assets, use of savings and use of credit. The first and best way to repay credit is using the income sources of a household; ideally, in the case of MC used for production, this income will come from the activity for which the loan was used. Microcredit is, ideally, taken for production purposes and most households take MC expecting to make a profit from the loan that can then be used for repayment. This is the ideal outcome of a microcredit loan, but it is far from being the reality, as evidenced by the case households in the study village.

Mukhtar's household is the only one that has been able to repay MC using the profit from his income activities. Other MC respondents (Haji Ahmad, Sima and Murtaza) had to combine other repayment strategies — which are described below — in order to meet repayment. In the case of informal production credit, particular households (Aslam, Shabana and Murtaza) took large informal loans for business purposes that were subsequently repaid from income flows. In these cases, repayment schedules were designed to follow the households' cash flow cycle, which reflects the greater flexibility of informal credit in comparison to formal credit.

Use of income flows for repayment can present serious problems if income levels are not regular or high enough to meet consumption needs. In these cases, loan repayments divert already-low incomes from existing needs for food, schooling or medical care, meaning that these expenses may need to be reduced or that more credit may be required to maintain them. This problem has been reported by households with lower income (Haji Ahmad, Yaqoub and Khan Muhammad) who therefore rely on informal credit for household consumption and are constantly indebted to shopkeepers.

If income flow is not sufficient to support repayment, villagers are required to find alternative strategies to repay credit. A common way to find the money for repayment is through selling assets. This is a common practice among the respondents, across wealth groups, though the impacts on the household economy vary depending on relative wealth level, debt level and the nature of the assets that are sold. Small livestock, such as sheep, are a common asset to sell because they reproduce easily and are therefore considered a "safe" asset to sell; often, in fact, small livestock are kept as a more liquid form of savings, to be used in times of need. Three of the households (Haji Ahmad, Yaqoub and Khan Muhammad regularly) use this strategy to repay both informal and formal credit; in so doing, they have taken less of a risk because they can rely on reproduction of the livestock to maintain livelihood security and creditworthiness.

This was not the case in two other households (Sima and Murtaza), however, whose investments failed, leading to much larger losses whereby they were unable to keep debt levels low and consequently struggled to find repayment strategies, leading them to lose credit-worthiness in the village.

The use of jewellery to repay credit is linked to the sale of smaller livestock assets because both are held as savings and perceived to be a form of economic cushion that can be sold in times of need. Mukhtar, by selling his wife's jewellery, was able to meet MC repayment demands despite his failed harvest. In this case, the decision was made to sell jewellery instead of taking informal credit (another common way to find money for repayment of both informal and formal credit).

Repayment strategies may also involve selling or mortgaging a major productive asset such as land, an ox or a dairy cow. This entails the risk of further debt, especially because these assets constitute important income sources. Selling a major asset may be an immediate response to a crisis situation, but it also signals distress because, once sold, such assets can be difficult to reclaim. Sima's household is an example of one that was forced to sell a milking cow in order to meet MC repayment. Because selling the cow did not generate sufficient income, her father-in-law had to mortgage his land in order to help repay the debt. This has resulted in more debt for the household than it had before taking MC. Sale of major assets has also been reported as a method for repaying informal credit taken for special occasions such as a wedding, when large amounts of money are required.

The credit portfolios of the cases in this study demonstrate that taking informal loans is a very common strategy for repaying both informal and formal credit. In the case of repaying formal credit, informal credit enables the borrower to avoid late penalties and/or default as well as the shame and damage to creditworthiness that inability to repay brings in both informal and formal credit. Despite the inherent flexibility of informal credit repayment, there is a limit to how long a borrower can delay repayment; if a borrower reaches this limit, it is common for them to take informal credit from another source in order to repay their previous debt. This may not alleviate the debt burden, but it does enable the borrower to shift the debt to a fresh source in order to maintain credit relations with credit givers. The case of Murtaza illustrates reliance on informal credit sources to repay MC. Murtaza had to take large informal loans to repay MC due to the failure of his investment. He also took a third MC loan, in part for the purpose of repaying informal credit. This resulted in a cycle of debt, which Murtaza — at the time of the study — did not see any way to escape. Sima faces the same situation; she reportedly used informal credit relations to meet MFI 1's savings requirement as well as when she gave up the loan. Murtaza must now turn to new informal credit sources in order to repay his debts, and Sima was considering taking an MC loan from a third MFI, which is about to start a programme in the area. Both must now accept their loss of creditworthiness in the eyes of both MFI 1 and the local community.

Informal and formal credit both enter into complex interlinkages in which borrowers must carefully consider the options for and against the different sources of credit and the subsequent repayment rules. While the entrance of MC has widened the spectrum of choices, it has also made debt management more difficult because MC represents a less flexible structure in terms of eligibility rules and repayment requirements. It also presents the opportunity to attain larger loans for productive purposes, however, which makes it all the more attractive to those households that can qualify to take MC.

The interdependence of MC and informal credit goes in both directions; the MC clients rely on informal credit to provide both savings requirements and debt repayments to MFI 1, and MFI 1 requires clients to have good informal credit relations in order to be eligible for a MC loan. This illustrates the need to understand existing informal credit relations before implementing MC programmes because MC can have a significant influence on these relations in a village. The following section will explore this relationship further by focusing on a particular credit relationship — the relationship between farmers and *mandawi* shopkeepers.

6.3 MC as a means to decrease demand for shopkeepers' credit

In order to understand how MC may intervene in the local community, a focus on informal credit relations must be emphasised. By delving into the quality of existing social relationships in relation to credit, the possibilities for where MC can have the greatest positive impact become apparent. Informal credit relations are relationships of dependency, which in some cases are reciprocal and equal; in other cases, however, these relationships can be characterised by exploitation of the less wealthy by the wealthier. These relationships change and develop through the influence of interventions such as MC. MC may weaken reciprocal networks, which may be problematic where these are a primary means of livelihood security. MC may also strengthen reciprocal networks, however, by introducing a new form of exchange. Likewise, MC may entrench unequal relationships if indebtedness increases but it also may serve as a means to escape some forms of patronage, giving more choices to the less powerful. MFI 1 stated an intention to achieve the latter, through reducing dependence on production credit among agricultural producers. This section focuses on the credit relationship between farmers and the wholesale shopkeepers (which, earlier in this section, was labelled as production credit) to assess how well MFI 1 delivered on this intention.

Four respondents (Mukhtar, Yaqoub, Khan Muhammad and Rahim) reported that one of the reasons for their interest in MC from MFI 1 was a desire to decrease dependency on production credit. This production credit places farmers in a relationship in which they must sell their agricultural production to the shopkeeper from whom they took that season's credit. The arrangement gives the farmers no room to negotiate the price of their produce and may be representative of an unequal relationship with the shopkeeper.

There are two ways in which production credit is generally given. The most common is when the shopkeeper provides cash to the farmer, who then purchases the agricultural inputs in a different shop. This applied to Mukhtar, Yaqoub, Khan Muhammad and Rahim. Shabana's husband represents the other side of this relationship because he gives cash as credit to farmers. Another, less-common way is to give production credit in kind; in this process, the shopkeeper provides the inputs that the farmer needs. The shopkeeper notes the combined price of the inputs taken in kind and the cash provided on credit, and expects repayment after harvest. It is clear, in both cases, that the farmers are not entitled to sell their produce to a different shopkeeper than the one they took credit from because this understanding is part of the agreement. The shopkeepers deduct the cost of the credit given from the sale price of the produce that the farmers bring and take an additional 10 percent of the price as commission for selling the produce. If the farmer does not bring the harvest production to the wholesaler that provided the credit, he will break the trust that exists in the relationship and the wholesaler will not give him credit in the future.

Respondents offered differing opinions about the shopkeepers' price for the harvest production. Some farmers (Mukhtar, Yaqoub and Rahim) claimed that the shopkeepers pay less than market price, but Shabana's husband (who is a shopkeeper) reported paying the daily market price for the farmer's production. Khan Muhammad added to these opinions by stating that the shopkeeper pays the regular market price but also takes ten percent as commission. Whether the shopkeepers take commission or pay the farmers less than market price, there is no doubt that production credit is perceived to be a lucrative business for the shopkeepers. It is vital for farmers to preserve positive relationships with shopkeepers in order to maintain access to credit.

MC can have both positive and negative outcomes for the farmers' credit relationship with shopkeepers. Positive outcomes are linked to the potential for loosening credit ties, which would benefit the farmers. On the negative side, the farmers risk entering into a tighter credit relationship with the shopkeeper. This is because MFI 1's eligibility requirements conflict with the structure of production credit, requiring guarantees from shopkeepers but providing the farmer with little to give in exchange for this "help."

For wealthy households (such as Mukhtar's) that have business activities and strong social networks in the city market, the goal of loosening dependency on production credit has been achieved:

> *The credit which I took from MFI 1 was very suitable for me, but the credit which I took from the shopkeepers three years ago was not very good because I was under their influence and I could not sell my productions to another shopkeeper without the dealing shopkeeper.*
>
> — Mukhtar, MC household
>
> *Now, because he took credit from the office, he brings his production to those shopkeepers who are paying a high price for our production and we get the benefit.*
>
> — Mukhtar's wife, MC household

Given the direct and positive outcome that Mukhtar experienced from his involvement with MC, his positive attitude is understandable. He represents a rare case in the study village, however, in which a combination of solid credit relations, assets and various income sources was necessary in order to access MC and, in so doing, loosen dependency on the tight credit relationship with the shopkeeper. That being said, production credit had not been questioned until the entrance of MC; this, in itself, is an indirect and positive outcome of MC.

Another factor that limits the potential of MC to positively influence production credit relates to the social relationship between the lender and the borrower of production credit. Production credit is not simply a business transaction, because the shopkeepers from whom many villagers take production credit have their shops in the city but also live in the village. This means that the credit from the shopkeepers forms part of the overall credit relationships among the inhabitants of the study village and is, therefore, difficult to break. Hence, the idea of reducing dependence on production credit and replacing this informal credit with MC is complicated because the relationship exists across different levels of the local society. There is even evidence demonstrating that the influence of MC may strengthen the relationship between shopkeepers and farmers, predominantly due to the guarantor requirement for individual loans.

Through the requirement of two shopkeepers as guarantors, the MFI 1 seeks to change the existing relationship between shopkeepers and farmers. If all were to go as MFI 1 plans, the credit relationship could change to become a more indirect relationship between guarantor and guarantee. This is an alternative to the more dependent relationship of borrower and lender, in which the borrower loses autonomy in terms of marketing. Dependence is still involved, however, because the farmer is dependent on the shopkeeper in order to obtain access to MC. It is also, perhaps, not recognised that shopkeepers potentially lack incentive to transition to being guarantors (therefore bearing risk of default) from being lenders (who bear risk but also gain from the transaction).

Because charging commission for selling the farmers' produce is reported to be a standard practice, shopkeepers may consider it more lucrative to be the credit giver in which business and income is secured through the conditions under which the credit is given as described above. At the same time, agreeing to be the guarantor for a MC client entails the risk of being contacted by MFI 1 if the client defaults on the debt. It is striking that Yaqoub and Khan Muhammad, both of whom were dependent on production credit, could not get two shopkeepers in the city to consent to serving as guarantors. There is reason to suspect that the shopkeepers they take production credit from are the same shopkeepers they asked to be guarantors. Although it is likely that the relatively small size of Yaqoub's and Khan Muhammad's household economies played a role, it is also relevant to consider the shopkeepers' point of view in relation to their benefits from such a shift in relationship (from credit giver to guarantor). In other words, when MC enters the existing credit relationship between shopkeepers and farmers, it may compete with an otherwise beneficial business activity, making the expected outcome of MC less certain. In general, respondents did not view their arrangement with shopkeepers as exploitative because reciprocity is an accepted part of the relationship. It is the inherence of reciprocity in the credit relationship to the shopkeeper that is interesting when focusing on the intended versus potential impact of MC in the community. Here, intended impact refers to MFI 1's stated goals for the MC programme while potential impact refers to the impact that is possible given combination of the MC structure, guidelines and practices with the socioeconomic context. The credit relationship between farmer and shopkeeper is a major obstacle to achieving the intended impact. MFI 1 directly promoted their programme by promising an escape from production credit, and five respondents (Mukhtar, Murtaza, Yaqoub, Khan Muhammad and Rahim) expressed that this was an important factor in their interest in MC. Mukhtar's household was the only one that achieved this goal; three households (Murtaza, Yaqoub and Khan Muhammad) were unable to do so due to either investment failure or exclusion from MC, while Rahim opted out of the process because he was unwilling to "beg" for guarantors. Given the high level of interest in finding alternatives to production credit, the fact that only one case out of five was successful shows an inability to deliver on this MFI 1 intention.

Although MC has good potential for introducing a competing alternative to types of informal credit that might otherwise be exploitative, it must be assessed and structured based on a thorough knowledge of the existing social relations and types of informal credit in the community.

6.4 Impact on village and household economy

This last section will discuss the impact of MC from MFI 1, as reported by the respondents. This includes a focus on the demand for credit in the village as well as on changes in household and village economy. Overall, the village economy has improved, but the reasons for this change are complex and the extent to which MC played a role in this is in question.

In general, the respondents' perspectives regarding changes in the village show the perception that changes since the fall of Taliban have been considerable. When asked about the changes that they have experienced in their village, respondent households reported three areas of change: the extent of off-farm activities (for example, the number of shops); average wage for labourers; and farming activities (for example, the amount of production and livestock).

All respondents reported a significant increase in shops during the previous three to five years. Respondents were largely content about the opportunity to buy almost all major household goods in the village, limiting the need to travel to the main city in order to shop. The reasons given for the increase in shops were relatively vague because respondents generally thought that people had been successful in working on their land, which enabled them to start businesses as shopkeepers. Interestingly, Rahim´s wife mentioned that MC had had a positive influence on the number of shops; this may have been because she was personally interested in taking MC, while her husband was not. Both Yaqoub and Haji Ahmad suggested the possibility that MC had created the opportunity for some individuals to build a shop and mentioned Yaseen, who hoarded the group loan for himself in order to invest in his shop, as an example.

Some MC households (Mukhtar, Haji Ahmad, Yaqoub and Shabana) were more positive about the impact that MC may have had on the local economy.[34] Respondents that stated this were also considering the impact of MC from MFI 2, which has greater outreach in the village than MFI 1. However, MC was not perceived as being the sole or major contributor to the progress of the village economy. Water and higher wages were also cited factors, as Yaqoub elaborated below:

> *During the last two years, the productions of farmers increased because of more water in their lands...and there are also work opportunities for the wage labourers in the village. The shopkeepers have good customers and their shopkeeping business is also getting better. Eight months ago, the wage labourers got 100* Afs *per day but now they get 150* Afs *per day so it is a big change in the economy of the villagers.*
>
> — Yaqoub, non MC household

Wages for labouring work is another area in which improvement was reported; from a previous rate of *Afs* per day, it was reported that wage labourers are now generally being paid 150 *Afs* per day, which is perceived to be a significant change for the villagers. Wage labourers are usually able to find construction or farming work. Respondents particularly reported significant increases in wages for farming due to a better harvest and, therefore, better income from this activity in general. Respondents also reported that the technological circumstances for agricultural production have improved in terms of fertiliser, pesticides (to prevent insects from damaging the crops) and the system of covering cucumber plants with plastic, all of which have led to better production conditions and, thus, better income. The improvement of irrigation and water conditions was a major theme for all of the respondents, which suggests that this improvement was the most important foundation for recent progress in the overall village economy.

An increase in livestock holdings was also reported. The reason for this increase is clear; the drought that the land and people suffered from three years ago has passed, and there is now enough water for irrigating the fields in the area that are used for pasture.

While it is difficult to point to clear indicators of impact at the village level, the picture changes slightly and becomes clearer when focusing on possible MC impact at the household level. At this level, it is possible to find households that have improved significantly from involvement with MC (those of Mukhtar and Haji Ahmad), but there are also clear examples of households that have experienced major loss from their involvement with MC (those of Sima and Murtaza). It is possible to categorise the perceived changes in the households into positive and negative impacts. The positive impacts include loosening dependency on production credit, as experienced by Mukhtar, and stronger informal credit relations, a benefit that Haji Ahmad experienced. On the negative side, Sima and Murtaza encountered further debt from their involvement with MC, which led to a loss of creditworthiness and, therefore, a loss of informal and formal credit relations. The source of the negative impact stems from the mismatch between MFI 1 requirements and the client needs that have posed significant challenges to managing repayment and debt in general; the positive impact can be seen in the availability of an additional credit source and the potential for structural change within informal credit relations.

[34] The MC households here are those who have received MC from either MFI 1 or MFI 2 or both and have experienced a somewhat positive outcome from their involvement.

7. Conclusions

This case study, like the previous two case studies (in Kabul and Bamiyan),[35] focuses on a location with active formal and informal credit relations. This is demonstrated by the presence of numerous forms of informal credit as well as two MFIs and is underlined by the credit portfolios of the respondent households of this study (see Appendix). Once again, it has proven important to match programme structures to client needs, given that few people had access to MFI 1 due to strict savings and guarantor requirements. This has resulted in violations of loan rules and a small number of villagers taking advantage of other villagers in order to 'hoard' loans given to groups. Hoarding loans has been facilitated not only by bending the rules of MFI 1 but also, and more importantly, through existing social relations that are dependent on credit. Viewing MC as more than solely a financial transaction is crucial, therefore, to understanding the role of MC in the study village.

MC enters the local social scene on all levels; it maintains old relations, but it also creates room for new relations and broadens the pre-existing ones. Honour and status play an important part in these interlinkages and influence choices made about informal and formal credit transactions.

MFI 1 has not yet achieved enough outreach to demonstrate a substantial effect on the local economic context. The reasons for this can be found in the programme structure of the MFI, which does not fit the cash flow of local agricultural production and, at the same time, does not acknowledge the dynamics of informal credit (exemplified in the case of production credit). Despite this, MC is perceived to be attractive as an alternative to informal credit, especially production credit. This is because MC offer larger loan amounts than informal credit and also because it offers an additional source of credit in the local community.

The local economic context has experienced a positive development throughout recent years, but respondents perceived that these changes were connected to better irrigation, agricultural technology and increasing market prices for agricultural production. The question remains as to whether the positive development can or cannot be attributed to the entry of MC; at the time of the study, it clearly could not. This also raises the issue of risk and whether or not MC, as part of the credit market, can contribute to a reduction of livelihood risk in rural Afghanistan. This is an issue that will be the focus of a forthcoming cross-case analysis of MC, which will discuss the effects of different programme structures, local economic contexts and investment opportunities in order to further explore the role of formal and informal credit in rural livelihoods.

[35] Kantor and Andersen, *Case Study in Kabul*, and Erna Andersen, Paula Kantor and Amanda Sim, "Microcredit, Informal Credit and Rural Livelihoods: A Village Case Study in Bamyan Province (Kabul: Afghanistan Research and Evaluation Unit, 2008)

Appendix: Household Loan Portfolios

Conversion Key

Currency

50 *Afs* = US$1

100,000 *junbishi* = US$1 (2002)

50,000 *paisa-i-dawlati* = US$1 (2002)

800 *toman* = US$1 (2002)

Weight

1 *ser* = 14 kg (in Mazar-i-Sharif)

Loan portfolio: Mukhtar

Loans taken						
Loan number	From whom?	Amount	Purpose of loan (How decided?)	When taken?	Type of loan or help	Repayment (How much and how?)
1	oldest brother-in-law of Shazia (Mukhtar's wife)	10 million *paisa-i-dawlati*	lease of land for 1.5 years	during the Taliban era	*qarz-i-hasana*	repaid after 1 year from land production
2	mullah	3 sacks of wheat	HH consumption	during the Taliban era	*qarz-i-hasana*	repaid by Mukhtar's father after 1 month with 3 sacks of wheat
3	MFI 1	25,000 *Afs*(5,000 *Afs* as savings)	10,000 *Afs* for agriculture inputs, 10,000 *Afs* for wage labourers and 5000 *Afs* for household consumption. (According to Mukhtar's wife, 7,000 spent on TV)	2 years ago	MC	repaid in 2 instalments (12,000 and 9,000 *Afs*) as well as 500 *Afs* of monthly interest, from cucumber production (500 sacks, sold for 80,000 *Afs*)
4	MFI 1	25,000 *Afs*(5,000 *Afs* as savings)	fertiliser and wage labourers for cotton crop	1 year ago	MC	repaid in instalments of 3-4,000, using cotton production (sold for 20,000), wife's 2 gold rings (11,000 *Afs)* and the 5,000 *Afs* from the savings account
5	MFI 1	50,000 *Afs* (10,000 *Afs* as savings)	agricultural inputs for cultivation of onions and tomatoes	6 months ago	MC	Repaid in one instalment from land income (300,000 *Afs* gross earnings from 18 *jerib*
6	Mukhtar's brother	15,000 *Afs*	leased land	last year	*qarz-i-hasana*	repaid with income from cucumber production

Loans taken: Mukhtar (continued)

7	Shopkeeper	Products worth 100,000 *Afs*	plastic sheeting and fertiliser for agricultural use	last year	*qarz-i-hasana*	repaid with land income
8	MFI 2	12,000 *Afs* (2 note-books of 6,000 *Afs* each)	Mukhtar took the money from his wife and gave her 4,000, which she used on fabric for cushions, as well as 5,000 (of which she spent 3,700 to buy a sewing machine); unclear how the rest of the money was used; Mukhtar did not mention taking the money from his wife	1 year ago	MC (taken by Shazia)	repaid in weekly instalments of 350 *Afs* from Mukhtar
Loans given (*Mukhtar*)						
Loan number	To whom?	Amount	Purpose of loan	When given?	Type of loan or help	Repayment (How much and how?)
1	Rahima, Shazia's sister in law	100 *Afs* or 50 *Afs*	buying tomatoes or potatoes.	from time to time	*qarz-i-hasana*	repays after two or three days
2	neighbour	2,000 *Afs*	wife's medical treatment	last year	*bakhshish*	repayment not required
3	Mukhtar's labourer	47,000 *Afs*	20,000 *Afs* for bride price; 27,000 *Afs* for wedding party	last year	*qarz-i-hasana*	will be deducted in instalments from the labourer's wages
4	Homaira, Mukhtar's paternal cousin's wife	1000 *Afs*	clothes for a wedding party	7 months ago	*qarz-i-hasana*	repaid after 20 days from her husband's farming income
5	Mukhtar's relative	5,000 *Afs*	wedding party	3 months ago	*qarz-i-hasana*	not repaid
6	neighbour	2 cans of cooking oil (1,200 Afs); 25 kg of rice (1,160 *Afs)*	HH consumption; neighbour did not have enough food for his family	20 days ago	*bakhshish*	no need for repayment
7	Mullah	6,000 *Afs*	mosque reconstruction	10 days ago	donation	no need for repayment
8	Mukhtar's nephew	20,000 *Afs*	wedding party	this month	*qarz-i-hasana*	repaid after 10 days

Loans given: Mukhtar (continued)

9	Homaira, Mukhtar's paternal cousin's wife	500 *Afs*	payment of BRAC instalment	last week	*qarz-i-hasana*	repaid after a few days from husband's earnings
10	Shazia's sister-in-law	5,000 *Afs*	earrings for bride at wedding party	3 months ago	*qarz-i-hasana*	not repaid

Loan portfolio: Haji Ahmad

Loans taken						
Loan number	From whom?	Amount	Purpose of loan (How decided?)	When taken?	Type of loan or help	Repayment (How much and how?)
1	Yaseen, shopkeeper	500 *Afs* worth of rice, oil and tea	food for shepherd	4 days ago	*qarz-i-hasana*	not yet repaid
2	brother-in-law of Nafisa (wife of Haji Ahmad)	500 *Afs*	food for shepherd	4 days ago	*qarz-i-hasana*	not yet repaid; payment planned to come from sheep income
3	Haji Ahmad's brother	1,000 *Afs*	MFI 2 instalment	winter	*qarz-i-hasana*	repaid after 3 months from *qaraqol* income
4	Jalab, villager	5,000 *Afs*	fodder and straw for sheep	winter	*qarz-i-hasana*	repaid after 1 month from *qaraqol* income
5	Haji Ahmad's brother	1,000 *Afs*	wife's medical costs	last year	*qarz-i-hasana*	repaid after six months
6	shepherd	2,000 *Afs*	salary owed to shepherd	last year	*qarz-i-hasana*	paid from wage labour income for 8 days at 200 *Afs*/day (1,600 *Afs* total); still owes 400 *Afs*.
7	Haji Ahmad's friend, a shopkeeper	15,000 *Afs* worth of fodder	*konjara* (cotton seed fodder) for sheep	last year	*qarz-i-hasana*	repaid after 2 months from sale of 10 qaraqol skins for 1,700 *Afs* each.
8	MFI 2	one notebook of 10,000 *Afs* (500 *Afs* as savings)	5,000 *Afs* for HH consumption; 4,000 *Afs* for sheep fodder	last year	MC (individual loan taken by wife, but filed in Haji Ahmad's name)	repaid; Haji Ahmad repaid 270 *Afs*/week for 47 weeks from wage labour income; Nafisa sold *qaraqol* and 3 lambs
9	MFI 1	20,000 *Afs*	fodder and straw for sheep	2 years ago	MC (loan group of 7 people, with Yaseen as group leader/ guarantor)	repaid in 3 instalments (8,000 *Afs* after 3 months; 7,000 *Afs* in the fourth month; 5,000 *Afs* 15 days later; also paid 500 *Afs of* interest every month) from sale of lambskins (30 skins for 1,000 *Afs* each)
10	Nafisa's brother-in-law	1,000 *Afs*	medical costs for childbirth	2.5 years ago	*qarz-i-hasana*	repaid after 20 days by selling sheep

Loans taken: Haji Ahmad (continued)

11	shopkeeper in bazaar	400,000 *junbishi*	dry milk for newborn child	during the Taliban era	*qarz-i-hasana*	repaid after 1 month from wage labour income
Loans given (*Haji Ahmad*)						
Loan number	To whom?	Amount	Purpose of loan	When given?	Type of loan or help	Repayment (How much and how?)
1	Haji Ahmad's maternal cousin	1 million *junbishi*	wife's medical treatment	during the Taliban era	*qarz-i-hasana*	repaid in two instalments (after 5 months and 3 months) from sale of wheat
2	Haji Ahmad's cousin	500,000 *junbishi*	medical treatment for mother	1995	*qarz-i-hasana*	repaid after two months; method unknown

Loan portfolio: Murtaza

Loans taken						
Loan number	From whom?	Amount	Purpose of loan (How decided?)	When taken?	Type of loan or help	Repayment (How much and how?)
1	Afghan Gul's maternal cousin	10 million *paisa-i-dawlati*	starting *jalabi* business; household consumption	during the Taliban era	*qarz-i-hasana*	repaid in instalments of 1,000-2,000 *Afs* over a year, from *jalabi* income and sale of an ox
2	Murtaza's maternal cousin	16 sheep (worth 1 million *paisa-i-dawlati)*	for sale in Murtaza's *jalabi* work	during the Taliban era	*qarz-i-hasana*	repaid from sale of the sheep
3	Murtaza's sister	200,000 *paisa-i-dawlati*	HH consumption	during the Taliban era		repaid after 1.5 months from farming income
4	friends in the village	1,500 *Afs*	Deposit savings at MFI 1	2005	unknown	unknown
5	MFI 1	25,000 *Afs*	20,000 *Afs* for fertilizer, plastic sheeting and metal rods; 5,000 *Afs* for HH consumption (According to Murtaza's wife, for *jalabi* work, agricultural inputs and wage labourers)	2005	MC individual loan	repaid principal and interest in one instalment of 4,250 *Afs* and two of 7,000 *Afs,* using sharecropped land production and savings
6	MFI 1	125,000 *Afs* (25,000 *Afs* deducted as savings)	starting *jalabi* business; bought 10 calves (8,000-10,000 *Afs* each) 5000 *Afs* on fodder; remaining 40,000 *Afs* used for winter HH consumption and monthly interest (2,500 *Afs*)	2006	MC group loan (formed group with villagers; Murtaza took the entire loan)	repaid in 1 week in 3 instalments (60,000 *Afs*, 25,000 *Afs* & 15,000 *Afs)*; sold 7 calves for 8,000-10,000 *Afs*; butchered 3 calves for 3,500 *Afs*/calf; borrowed 20,000 *Afs* from a *jalabi* worker from Paghmaniyan mosque and 15,000 *Afs* from another *jalabi* worker; sold 1 calf for 5,000 *Afs*
7	*jalabi* worker from Paghmaniyan	20,000 *Afs*	repayment of 2nd MFI 1 loan	2006	unknown	used 3rd MFI 1 loan

Loans taken: Murtaza (continued)

8	*jalabi* worker in animal bazaar	15,000 *Afs*	repayment of 2nd MFI 1 loan	2006	unknown	used 3rd MFI 1 loan
9	MFI 1	125,000 *Afs* (25,000 *Afs* as savings)	repayment of informal credit to *jalabi* workers; 60,000 *Afs* for shop; 5000 *Afs* for HH consumption	8 months ago	MC group loan (formed group with villagers and took the entire loan)	does not know how he will repay; thinking of borrowing 60,000 *Afs* from new sharecropping landowner or waiting for production from that land (if MFI 1 will wait)
10	Haji Abdul, shopkeeper in bazaar	12,000 *Afs*	fertilizer, plastic sheeting and metal rods for cucumbers	2 years ago	*qarz-i-hasana*	brought production to Haji's Abdul's shop, who deducted the debt money and gave Murtaza the rest
11	Haji Abdul	6,000 *Afs*	medical costs for childbirth	January 2007	*qarz-i-hasana*	sold wheat for repayment
12	Haji Najmuddin, shopkeeper in bazaar	2,000 *Afs* worth of goods	Goods to stock his shop	unknown	*qarz-i-hasana*	Repaid in 3 instalments, finished 20 days ago
13	Haji Abdul	20,000 *Afs*	livestock for his *jalabi* business	unknown	*qarz-i-hasana*	sold 10 lambs and repaid after 3 days
Loans given (*Murtaza*)						
Loan number	To whom?	Amount	Purpose of loan	When given?	Type of loan or help	Repayment (How much and how?)
1	villagers	14,000 *Afs* worth of goods	HH consumption	until the present	*qarz-i-hasana*	not repaid
2	Murtaza's friend	1,600 *Afs*	buying clothes	1 year ago, during *Eid-ul-Qurban*	*qarz-i-hasana*	not repaid after 8 months despite promise of repayment after 10 days
3	villager	2 sacks of rice (1,600 *Afs); 6* L of cooking oil (300 *Afs)*	HH consumption	1 year ago	*qarz-i-hasana*	not repaid
4	Murtaza's brother	1,100 *Afs* worth of HH goods	HH consumption	1 year ago	*qarz-i-hasana*	not repaid
5	Murtaza's friend	3 lambs	Eid	1 year ago, during *Eid-ul-Qurban*	*qarz-i-hasana*	not repaid
6	villager from Paghmaniyan	cow (41,000 *Afs)*	*jalabi* business		*qarz-i-hasana*	father gave Murtaza a cow for 19,000 *Afs* that was sold for 17,000 *Afs*; remaining debt not repaid
7	2 villagers	8 *ser* of wheat		2 years ago	in kind (*jans ba jans)*	not repaid

Loan portfolio: Sima

Loans taken						
Loan number	From whom?	Amount	Purpose of loan (How decided?)	When taken?	Type of loan or help	Repayment (How much and how?)
1	Sefatullah's brothers-in-law	5 million *junbishi* (According to Sima, 160,000 *toman)*	migration to Iran	during the Taliban era	*qarz-i-hasana* (According to Sima, it was *bakhshish*)	repaid over 2 years, in monthly instalments of 2,000-5,000 *toman*, from Sefatullah's wage labour income
2	shopkeeper	2 sacks of fertilizer (worth 1,000 *Afs)*	sharecropped land	4 years ago	*qarz-i-hasana*	repaid from harvest
3	neighbour	2,000 *Afs*	savings deposit for MFI 2	2 years ago	*qarz-i-hasana*	repaid from wage labour income after 4 months (According to Sima, the savings were deducted from Sefatullah's loan amount.)
4	Sefatullah's relative	3,000 *Afs*	savings deposit for MFI 2	2 years ago	*qarz-i-hasana*	repaid from wage labour income after 4 months (According to Sima, the savings were deducted from Sefatullah's loan amount.)
5	Aslam	5,000 *Afs*	savings deposit for MFI 2	2 years ago	*qarz-i-hasana*	repaid when Sima received the MFI 2 loan
6	MFI 1	25,000	purchase of pregnant cow for 20,000 *Afs*	2 years ago	MC group loan; Sima was group leader	Aslam took over responsibility for repayment after Sima gave him 12,000 *Afs* from selling the cow, 3,000 *Afs* from Sefatullah's wage labour and the 5,000 *Afs* of savings from MFI 1
7	MFI 1	25,000 *Afs*	purchase of cow for 25,000 *Afs*; sold cow for purchase price, bought 20 sacks of wheat for 20,000 *Afs*, sold 10 sacks for 1,000 *Afs* each and used the rest for HH consumption(Sima said Sefatullah used loan to buy wheat)	2 years ago	MC group loan (taken by Sefatullah)	paid 500 *Afs* of interest per month for 6 months from the sale of the wheat; Sefatullah's father mortgaged land to repay principle
8	Sefatullah's paternal uncle	20,000 *Afs*	According to Sima, Sefatullah's paternal uncle mortgaged his land to lend them the money for repaying MFI 1.	2 years ago	unknown	uncle asking for repayment in order to rebuild his house; Sima's household cannot currently repay
9	village flour mill owner (Sefatullah's uncle's son)	5 sacks of wheat (7 *ser,* worth 14,000 *Afs)*	HH consumption	over the last 2 years	*qarz-i-hasana*	not repaid; will try to repay in instalments from wage labour income

Loans taken: Sima (continued)

10	village flour mill and shopkeeper	Several sacks of flour (worth 700 *Afs* each)	baking bread for sale in the bazaar	last year	*qarz-i-hasana*	repaid from bread sales
11	MFI 2	1 note-book (10,000 *Afs)* for Sima; 2 notebooks (12,000 *Afs* each) for her sister's daughter; Sefatullah said that Sima took two note-books (totalling 15,000)	Sima's notebook: 4,000 *Afs* for repay-ment and 6,000 *Afs* for HH consumption; other 2 notebooks: sister's daughter's medical treatment in Pakistan (Sefatullah said loan spent on HH consumption and 2,000 *Afs* on fodder)	last year	MC group loan	repayment from Sefatullah's wages and borrowed money; Sima's sister's daughter sends her money in instalments
12	MFI 2	Sefatullah took one notebook(according to Sima)	HH consumption	last year	MC individual loan	repayment from wage labour income
13a	Fatima (Sima's neighbour/ loan group member)	1-2 loans	payment of MFI 2 instalments	last year	MC	Sima took money from her husband's wage labour income to repay Fatimah
13b	Fatima	1320 *Afs* (3 loans of 440 *Afs*)	payment of MFI 2 instalments	12 weeks ago	*qarz-i-hasana*	as above
14	Sima's mother in law	1,000 *Afs*	HH consumption	last winter	*qarz-i-hasana*	not repaid
15	MFI 2	amount unknown	HH consumption	this year	MC	repayment from Sefatullah's wage labour income; unclear if repayment is still ongoing
16	shopkeeper and friend in Mazar-i-Sharif	3,000 *Afs*	purchasing 17 *ser* of wheat for winter	7 months ago	*qarz-i-hasana*	not repaid; promised to pay 1,500 *Afs* in a few days with savings from wage labour income
17	shopkeeper in Mazar -i-Sharif (who lives in the village)	HH goods on credit	HH consumption	6 months ago		not repaid
18	shopkeeper and friend in Mazar-i-Sharif	10 L of cooking oil (worth 1,200 *Afs)*	HH consumption	3 months ago		not repaid
19	village leader's son	3,000 *Afs*	renting his tractor	3 months ago		Sefatullah will work on their land to repay

Loans taken: Sima (continued)

20	Sima's sister	1,800 (2 loans of 1,000 and 800 *Afs*)	HH consumption	3 months ago	*qarz-i-hasana*	sister's husband has asked for repayment; Sima's household does not have money to repay
21	Khawar, a female villager who gives credit	2,000 *Afs*	Sima took the loan to give to her husband to pay for the rent of the tractor	40 days ago	wanted Sima to give her some meat on top of repayment	Repaid the same day from money Sima borrowed from her niece's husband; Khawar also asked for meat
22	Sima's niece's husband	2,000 *Afs*	for repaying Khawar	40 days ago		repaid from Sima's RASA silk worm project salary
23	neighbour	2,000 *Afs*		1 month ago	*qarz-i-hasana*	borrowed money from paternal cousin (see below)
24	Sefatullah's paternal cousin	2,000 *Afs*	for repaying credit to their neighbour	20 days ago	*qarz-i-hasana*	repaid in 3 instalments of 200-300 *Afs* over 3 days from wage labour income
25	village shopkeeper	2 cans of cooking oil (400 *Afs)*	HH consumption	10 days ago	*qarz-i-hasana*	repaid after a few days from wage labour income
26	Sima's sister	brings meat, takes children to hospital	assistance from a more financially secure relative	in general	*bakhshish*	no need for repayment
27	village flour mill	1-2 *ser* of wheat	HH consumption	in general	*qarz-i-hasana*	repayment after 8-9 days

Loans given (*Sima*)

Loan number	To whom?	Amount	Purpose of loan	When given?	Type of loan or help	Repayment (How much and how?)
1	landowner	1,100 *Afs*	wages for daily labour (land cultivation and irrigation)	3 years ago		not repaid
2	villager	1,000 *Afs*	wages for daily labour	1 year ago		400 *Afs* repaid; 600 *Afs* not repaid
3	Sefatullah's relative	500 *Afs*	medical treatment	last winter	*qarz-i-hasana*	repaid after 3 days
4	villager		wages for 6 days of work	2 months ago		not repaid
5	contractor in Mazar-i-Sharif	2,100 *Afs*	wages of 150 *Afs* per day for 14 days	2 weeks ago		1,050 *Afs* repaid; 1,050 *Afs* not repaid

Loan portfolio: Yaqoub

Loans taken

Loan number	From whom?	Amount	Purpose of loan (How decided?)	When taken?	Type of loan or help	Repayment (How much and how?)
1	Yaseen, village shopkeeper	1 sack of rice (650 *Afs*)	HH consumption	10 days ago	*qarz-i-hasana*	not repaid or requested; repayment planned from farming income and son's wage labour income

Loans taken: Yaqoub (continued)

2	neighbour	1,000 *Afs*	wife's medical treatment	3 weeks ago	*qarz-i-hasana*	not repaid; repayment planned from sons' wage labour income
3	Yaseen, shopkeeper	HH goods (3,000 *Afs)*	HH goods	one month ago	*qarz-i-hasana*	repayment planned from farming income and sons' wage labour income
4	friend's shop in bazaar	250 *Afs*	Bought cloth	1 month ago	in-kind	repayment planned from milk income
5	villager	4,000 *Afs*	wheat thresher and wages for three labourers	June 2007	*qarz-i-hasana*	repaid from sale of ox for 25,000 *Afs* (also used for 1,350 *Afs* to the labourers and HH consumption)
6	shopkeeper in bazaar	2,000 *Afs*	HH goods (cooking oil, et cetera)	3 months ago	in kind	repayment planned from sale of one sheep
7	Yaqoub's wife's sister in law	2,000 *Afs*	new clothes for her daughters for a wedding party	3 months ago	*qarz-i-hasana*	repaid 3 days ago using second MFI 2 loan
8	shopkeeper	1,600 *Afs*	5 kg of onion seeds	last year	in kind, *qarz-i-hasana*	repaid after one month by borrowing 800 *Afs* from brother (repaid after one week by wage labour income) and 800 *Afs* of personal savings
9	Yaqoub's brother	5,000 *Afs*	rent of tractor for ploughing land	last year	*qarz-i-hasana*	repaid after 2 months from sale of sheep
10	shopkeeper and friend in Mazar-i-Sharif	9,000 *Afs*	two calves for beginning *jalabi* work	unknown	*qarz-i-hasana*	repaid 20 days before interview from sale of onions
11	Yaqoub's wife's sister	10,000 *Afs*	purchase of calf planned (5,000 *Afs*; HH consumption (5,000 *Afs*)	last year	*qarz-i-hasana*	repaid 8,000 *Afs* from first MFI 2 loan; two days before interview, remainder repaid from second MFI 2 loan.
12	Yaqoub's friend	5,000 *Afs*	HH consumption	last winter	*qarz-i-hasana*	repaid from farming income
13	MFI 2	Yaqoub: 6,000 *Afs* (said 8,000 *Afs* in 3rd interview) Wife: 10,000 *Afs*	Yaqoub: sewing machine for wife to make clothes for HH members (says used to buy calf in 3rd interview, later sold for HH consumption) Wife: planned purchase of a cow; used instead for HH consumption, school supplies, and a calf (sold after a few months in order to make repayments)	Yaqoub:6 months ago Wife: 2 years ago	MC group loan	Yaqoub: repays 165 *Afs* per week from milk income Wife: repaid from sale of cow, milk, chicken eggs and dung cakes as well as from son's wage labour income

Loans taken: Yaqoub (continued)

14	MFI 2 (Yaqoub did not mention a second MFI 2 loan)	18,000 *Afs*	planned purchase of a cow; used instead for HH consumption	Last year	MC	repaid from sale of cow, milk, chicken eggs and dung cakes as well as income from son's wage labour income
Loans given (*Yaqoub*)						
Loan number	To whom?	Amount	Purpose of loan	When given?	Type of loan or help	Repayment (How much and how?)
1	Yaqoub's wife's sister in law	2,000 *Afs*	operation during childbirth	2 months ago	*qarz-i-hasana*	repaid 10 days ago from sale of sheep
2	Yaqoub's wife's sister	2,500 *Afs*	she wanted to buy a cow but did not have enough money	3 months ago	*qarz-i-hasana*	repaid back from her husband's masonry work income
3	Sidiqa, neighbour	200 *Afs*	food for guests	6 months ago	*qarz-i-hasana*	repaid after one week from sale of milk
4	neighbour	500 *Afs*	payment for thresher labourers	1 year ago	*qarz-i-hasana*	repaid after 10 days from sale of wheat
5	neighbour	1,000 *Afs*	For HH consumption	4 years ago	*qarz-i-hasana*	repaid after 2 years

Loan portfolio: Khan Muhammad

Loans taken						
Loan number	From whom?	Amount	Purpose of loan (How decided?)	When taken?	Type of loan or help	Repayment (How much and how?)
1	Ghulam Alaf, shopkeeper	one sack of flour (worth 4 million *paisa-i-dawlati*)	HH consumption	during the mujahiddin era	*qarz-i-hasana*	repaid over 3 years but 200 *Afs* remain; plan to repay the family since Ghulam Alaf is deceased
2	shopkeeper	one sack of flour (worth 4 million *paisa-i-dawlati*)	HH consumption	during the Taliban era	*qarz-i-hasana*	repaid over 2 or 3 years from land income
3	Khan Muhammad's eldest daughter	200 *Afs*	MFI 1 saving deposit	3 years ago	*qarz-i-hasana*	did not repay per se but mother bought her things
4	Khan Muhammad's brother	5,000 *Afs*	appendix operation for Khan Muhammad's son	3 years ago	*qarz-i-hasana*	repaid last year with 4 sacks of wheat
5	Khan Muhammad's second brother	5,000 *Afs*	wife's operation	3 years ago	*qarz-i-hasana*	repaid after 5 days from sale of two sheep for 12,000 *Afs*
6	shopkeeper in bazaar	Clothing (900 *Afs)*	winter clothing for children	1 year ago	*qarz-i-hasana*	not repaid

Loans taken: Khan Muhammad (continued)

7	shopkeepers	40,000 *Afs*	agricultural inputs (could not afford to pay in cash because of poor production the previous year)	last year		repayment from land income
8	Sharif, owner of land that Khan Muhammad sharecrops	6,000 *Afs*	shopkeeper who bought production did not have enough money for payment	this year	*qarz-i-hasana*	borrowed money from Khan Muhammad's maternal cousin
9	Khan Muhammad's maternal cousin	6,000 *Afs*	to pay Sharif	this year	*qarz-i-hasana*	repaid when shopkeeper paid Khan Muhammad
10	Khan Muhammad's brother	2,000 *Afs*	medical treatment for son who had a motorcycle accident	10 days ago	*qarz-i-hasana*	repaid after 3 days from land income
Loans given (*Khan Muhammad*)						
Loan number	To whom?	Amount	Purpose of loan	When given?	Type of loan or help	Repayment (How much and how?)
1	Khan Muhammad's maternal cousin	20,000 *Afs (*from *qaraqol* sheep)	purchasing a house	5 years ago	*qarz-i-hasana*	17,000 *Afs* repaid; 3,000 *Afs* not yet repaid
2	Khan Muhammad's aunt's son	2,500 *Afs* (said 3,500 in 2nd interview)	fertiliser and plastic sheeting for cucumbers	last year	*qarz-i-hasana*	not yet repaid
3	*jalabi* from the village	11,000 *Afs*	Khan Muhammad sold cotton and was owed by the *jalabi*	last year	*qarz-i-hasana*	repaid after 25 days
4	shopkeeper and friend	7,300 *Afs*	sold tomatoes and was owed	one month ago	*qarz-i-hasana*	not yet paid

Loan portfolio: Shabana

Loans taken						
Loan number	From whom?	Amount	Purpose of loan (How decided?)	When taken?	Type of loan or help	Repayment (How much and how?)
1	shopkeepers	10,000 - 12,000 *Afs*	agricultural inputs	cauliflower planting, when farmers need money for agricultural inputs	production credit	used to bring production back to shopkeeper who deducts credit amount and commission; now sells production to anyone for cash and repays the shopkeepers
2	Shabana's brother	3,000 *Afs*	new clothes for wedding party	5 years ago	*bakhshish*	no need for repayment
3	Shabana's brother (same as above)	9,000 *Afs*	HH consumption	3 years ago	*qarz-i-hasana*	repaid back in 3 instalments from her own salary; finished repayment 2 years ago

Loans taken: Shabana (continued)

4	Shabana's brother-in-law	900 *Afs*	payment of carpenter for carpet	last year	*qarz-i-hasana*	repaid after 14 days from her own salary.
5	friend in Mazar-i-Sharif	5,000 *Afs*	winter clothing for family	last year	*qarz-i-hasana*	repaid after 3 days from shop income
6	MFI 2	2 note-books of 14,000 *Afs* each	2 gold rings for 7,000 each; 14,000 given to husband for building their yard	5 months ago	MC	repaid from Shabana's salary in instalments of 425 *Afs* per week
7	Shabana's sister in law, Homaira	50 *Afs*	MFI 2 instalment	2 months ago	*qarz-i-hasana*	repaid day before interview by taking money from husband
8	Shabana's colleague	1,000 *Afs*	paternal cousin needed money for her son's wedding party	8 days ago	*qarz-i-hasana*	Shabana's husband will give money for repayment when money is available
Loans given (*Shabana*)						
Loan number	To whom?	Amount	Purpose of loan	When given?	Type of loan or help	Repayment (How much and how?)
1	Wahid's elder brother	2,000 *Afs*	HH consumption	in general	*qarz-i-hasana*	repays after a few days
2	Ghyaz, shopkeeper and neighbour	3,000 *Afs*	Wahid deposited 3,000 *Afs* as MFI 1 savings; changed his mind about taking credit; gave over his savings to Ghyaz	3 years ago	*qarz-i-hasana*	repaid the 3,000 *Afs* and 100 *Afs* for the membership fee after he took credit from MFI 1
3	Wahid's friend in village	20,000 *Afs*	brother's wedding	1 year ago	*qarz-i-hasana*	not repaid
4	Yar Mohammad, farmer of Wahid's brother	10,000 *Afs*	wedding party	last year	*qarz-i-hasana*	not repaid
5	Shabana's sister in law Homaira	500 *Afs*	HH consumption	last year	*qarz-i-hasana*	2 days ago her husband gave it to Shabana.
6	Baz Mohammad, their farmer	20,000 *Afs*	engagement party	last year	*qarz-i-hasana*	Shabana asked for repayment 2 days ago, but they did not have enough money
7	Mukhtar, Wahid's relative and neighbour and a HH respondent	5,000 *Afs*	payment for MFI 1 credit	6 months ago	*qarz-i-hasana*	repaid after one month
8	neighbour	15,000 *Afs*	medical treatment for wife	5 months ago	*qarz-i-hasana*	repaid from sale of onions 20 days before interview for 90,000 *Afs*

Loans given: Shabana (continued)

9	Wahid's paternal cousin	15,000 *Afs*	fertiliser and wage labourers	4 months ago	unknown	repaid from sale of onions 20 days before interview for 60,000
10	farmer from Balkh district	20,000 *Afs*	fertiliser and wage labourers	3 months ago	production credit	brought onions to the shop after harvest; Wahid bought them at market price and deducted amount of loan
11	Baz Mohammad, farmer	5,000 *Afs*	clothing for fiancée	2 months ago	*qarz-i-hasana*	not repaid
12	Mukhtar, Wahid's relative and neighbour and a HH respondent	3,000 *Afs*	repayment of MFI 1 credit	20 days before interview	*qarz-i-hasana*	repaid last week
13	Wahid's paternal cousin	5,000 *Afs*	son's wedding party.	8 days ago	*bakhshish*	no need for repayment

Loan portfolio: Rahim

Loans taken						
Loan number	From whom?	Amount	Purpose of loan (How decided?)	When taken?	Type of loan or help	Repayment (How much and how?)
1	shopkeepers in Mazar-i-Sharif	25,000 *Afs*	goods for shop	in general	*qarz-i-hasana*	repays every 2 weeks from shop income
2	*mandawi* shopkeeper from village	cooking oil (worth 3,500 *Afs)*	unknown	3 days ago	*qarz-i-hasana*	repayment planned in two weeks
3	shopkeeper from Paghmaniyan village	15,000 *Afs*	goods for shop	1 month ago	*qarz-i-hasana*	repayment planned from sale of goods at shop after two weeks
4	*mandawi* shopkeeper from Sherabad	10,000 *Afs*	goods for shop	40 days ago	*qarz-i-hasana*	not repaid; will repay when customers pay him for goods
5	shopkeepers	25,000*Afs*	agricultural inputs for land	last year	production credit	sold production to same shopkeepers who sold the cucumbers; they took10 out of every 100 *Afs* as commission and deducted the amount of the loan
6	shopkeeper in bazaar from Paghmaniyan village	20,000 *Afs* worth of goods	goods for shop	last year	production credit	repaid 7,000 6 months ago; will repay remainder when villagers pay him for goods they bought on credit

Loans taken: Rahim (continued)

7	Rahim's nephew	US$100	goods for shop	last year	*qarz-i-hasana*	repaid after 2 days from shop income
Loans given (*Rahim*)						
Loan number	To whom?	Amount	Purpose of loan	When given?	Type of loan or help	Repayment (How much and how?)
1	villagers	40,000 *Afs* worth of goods	HH goods	since last year	*qarz-i-hasana*	only 10,000 *Afs* repaid; will be repaid from farming and wage labour income
2	neighbour	2,000 *Afs*	HH goods from Rahim's shop	3 months ago	*qarz-i-hasana*	not repaid
3	poor wage labourer in village	1,000 *Afs*	medical treatment for wife	1.5 months ago	*qarz-i-hasana*	not repaid

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