Afghanistan Research and Evaluation Unit
Case Study Series

Microcredit, Informal Credit and Rural Livelihoods:
A Village Case Study in Bamyan Province

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Glossary

abro	dignity
ailaq	pasture land for grazing animals
baay	rich person
bakhshish	charity
fetrana	religious charity
gelim	woven rug (also pronounced "kelim")
jalabi	bargaining; also used to describe a trader who buys livestock or agricultural production to resell to wholesalers
jerib	measure, surface
karbalayi	a Shia Muslim who has carried out the pilgrimage to Kerbala
khairat	religious charity
kharwar	measure, weight
kheshawand	relatives (broad term)
khoms	Shiite religious charity
komak	help
lalmi	rain-fed land
mandawi	wholesalers market
mullah	religious leader
qarz-e-hasana	interest-free informal loans
ser	measure, weight
sarmaya	capital
sharayi	legal according to Islamic state law
shura `	council
sudh	interest
sudhkhor	term used to describe a local money lender who charges high interest (literally "interest eater")
urfi	common, customary; sometimes referring to type of property document
ushr	a religious type of charity given by landowners to poor villagers consisting of 10 percent of the harvest
wakil	village counsellor
woloswali	district office
zakat	religious charity

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

Acronyms

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

Executive Summary

This case study is the second 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 Bamyan district where a series of key informant interviews and focus group discussions were conducted with MC clients and non-clients, leading to the selection of eight households for in-depth case studies. Five MC clients and three non-clients were selected, the latter to enable comparison of stated changes in livelihood outcomes between those involved and not involved in the programme. There are indications that the study village, which is near Bamyan city, benefits from this economic link since it has experienced an economy on the rise in the past three years due to better agricultural production of potatoes and an increase in livestock and livelihoods activities in general.

Three MFIs are operating in the study village. While MFI 1 is the primary focus of this study, it also considers the structure of the two other MFIs and examines the villagers' use of the three MFIs together. MFI 1 lends to both men and women with an aim to facilitate socioeconomic change for households across wealth groups with existing businesses; it delivers a standardised credit programme with required savings before loan disbursement, a grace period of six to nine months with fixed repayment after a one-year loan term. The loans were mostly given to people organised in loan groups but also to individuals if MFI 1 found the client's financial situation suitable. The loan products are tailored to the livelihoods activities of the clients. There are, thus, agriculture loans, livestock loans, business loans and a fourth product—known as solidarity loans—to help poor villagers establish an income activity. Clients found the loan sizes (US$30 to $3,000 per loan) to be good, motivating people to continue after having successfully repaid first and second loans. They also found the grace period very useful because it followed the cash flows from productive investments. Repayment was therefore generally easy, but the villagers expressed concern that the economic benefit from their harvest was insufficient after repaying the loan, leaving them to depend on getting another loan to meet expenses for the winter. Some factors made repayment difficult: loans being used for consumption and clients wanting larger loans to make investments that did not suit the capacity of the household economy.

The demand for larger loans led to practices in the village that did not always match MC programme rules. Hence, clients "hoarded" the loans from other clients to use in their own businesses. This meant that while numerous villagers had officially taken a loan, fewer actually used their loan since a large portion of the money was given away to or collected for another person. This practice was not allowed by the MFI's programme structure; nevertheless, the office was aware of this and accepted it as long as the risk of combining loans was covered by a guarantor. This, however, raises questions about the

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

implications of people giving away their loans and the overall access to credit—both informal and MC—in the village. Answers to these questions are deeply embedded in local power structures between villagers across wealth groups and social status. There is evidence that access to credit is often controlled by wealthy and powerful households in the village that determine who and how villagers can take credit. This had an effect on MC practices since access to a loan was granted through the formation of a loan group, in which case only villagers with firmly established social relations in the village were able to join.

The success of MC is often measured in relation to repayment rates. This was the case with MFI 1. Monitoring of loans to ensure productive use of the money according to the agreement between the office and client was poorly conducted, however. In many cases the clients were warned before monitors visited the villagers in order to allow them to make arrangements showing that the loans were correctly used. The loan officer was aware of the loans being used for other purposes and the office seemed more interested in covering the risk of repayment.

Conclusions can be drawn regarding the importance of matching programme structures to client needs. The strong preference for MFI 1 over other MFIs in the village is due to larger loans and the longer grace period. As clients are "hoarding" loans, however, recommendations regarding further adjustments can be made to better match clients' needs. Furthermore, since access to credit is determined by existing social relations, MC must be understood as more than a financial transaction to understand the implications of the social relations of credit and help. Honour and status play an equally important role when making decisions about lending and borrowing.

The presence of three different MFIs in the village meant that the villagers were highly aware of the potential of MC along with its benefits and disadvantages. In fact, MC was perceived as an additional credit source, assessed in relation to the various forms of informal credit available in the village. Based on this observation, one can conclude 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 legitimisation for providing MC services, incorporating an awareness of the credit market that pre-dates the entry of MC. It is recommended that MFIs better understand how informal credit relations work and how to improve demand-driven services that suit the local livelihood activities and can reduce the risks related to the activities.

1. Introduction

Afghanistan is among the many countries seeking to expand access to financial services for its poor and non-poor population to create secure livelihoods and promote economic growth. This goal is one of the benchmarks for rural development stated in the country's interim Poverty Reduction Strategy Paper—the interim Afghanistan National Development Strategy—that aims to increase such access for 800,000 households by the end of 2010[2]. This objective, however, contains an implicit assumption that rural households do not have access to financial services and that such services, particularly those related to credit, promote livelihood security and economic growth. In Afghanistan, these notions have yet to be supported by evidence.

Past AREU research has highlighted the importance of credit and debt in the livelihoods of rural Afghans[3] and has explored the pervasiveness of informal credit systems as well as the extent to which many rural communities already have access to financial services (albeit from the "informal system")[4]. Recently completed AREU research, thus, raises questions about the assumptions driving the introduction of microcredit (MC)[5] to Afghanistan, particularly the lack of access and the existence of large, unmet demand; the successes claimed in terms of clients served and repayment rates; and how informal and formal credit systems are interlinked and affect livelihood security and debt burdens. Building on previous AREU research on informal credit systems, this case study aims to answer some of these questions. It is the second in a series of three, each covering a village in one of Kabul, Bamyan or Balkh Province. The goal is to understand how the entry of microcredit into village and household economies affects informal credit relations and livelihoods either directly or indirectly and how these effects impact the overall village economy. The three provinces were selected because they provide access to different microfinance institutions (MFIs), allowing the study to cover the practices of three different MC delivery models.[6]

To address some of these issues, the study is guided by the concepts of public and hidden transcripts[7]. According to James Scott, public transcripts refer to the record of social interactions between the subordinate and more powerful, looking into both the spoken and non-verbal aspects of their interactions.[8] They show how subordinates act in relation to more powerful actors. The hidden transcript, on the other hand, digs deeper into understanding how the less powerful act outside of the view of the powerful, uncovering a fuller picture of social interactions. One is not necessarily truer

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[2] *Afghanistan Compact*, London Conference on Afghanistan (London: 31 Jan.-1 Feb. 2006); Government of Afghanistan, *Interim Afghanistan National Development Strategy* (Kabul: Government of Afghanistan, 2005).

[3] Jo Grace and Adam Pain, Rethinking Rural Livelihoods (Kabul: Afghanistan Research and Evaluation Unit, 2004).

[4] Klijn and Pain, *Finding the Money*.

[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); Aminur Rahman, *Women and Microcredit in Rural Bangladesh: An Anthropological Study of Grameen Bank Lending* (Philadelphia, PA, USA: Perseus, 1999).

[8] Scott, *Domination and the Art of Resistance*.

than the other, but the resulting discrepancies between the transcripts hint at how power may affect relationships as well as practices.

Informed by Aminur Rahman's approach to analysing the Grameen Bank[9], this study applies the concepts of public and hidden transcripts to microcredit delivery in Afghanistan. The public transcript is the formal description of how the MC system works as stated by MFI staff interviewed in both Kabul and district offices. This is then compared to the way the programme works in practice as relayed in interviews with borrowers, non-borrowers and loan officers in the study village. Differences between rules and practices can highlight areas where the formal programme does not quite meet the needs of the participants and where the interests of MFIs and the Microfinance Investment Support Facility for Afghanistan (MISFA) may prevail over those of the clients that MFIs seek to serve. Loan officers, tasked with implementing programme rules, may be given incentives to bend the rules as well, in effect creating their own public transcript of success presented to the MFI.

The study also draws upon the contextual distinction between formal and informal credit systems. On the one hand, credit transactions between friends, relatives and other social relations are often labelled as informal credit — that is, not bound by regulations and existing outside of established, monitored systems. MC, on the other hand, is considered formal credit since it is delivered within a system of rules. As will be noted in this paper, however, such distinction is not always clear cut; formal and informal credit systems may intertwine in different and complex ways, having varying effects on livelihood outcomes.

Informal credit is credit borrowed and lent outside of formally regulated systems, generally exchanged between those who know each other and have a social relationship. It is widely available for most village residents, apart from the destitute, and is often used for consumption smoothing[10] and to fund life-cycle events such as weddings and funerals.[11] Forms of informal credit in rural Afghanistan are diverse, ranging from business credit with interest to buying on credit with profit to *qarz-i-hasana* (cost-free loans). Informal credit may be exchanged in cash or kind and repaid in either form, depending on the agreement between the parties. Another defining characteristic of informal credit is that repayment is highly flexible.[12] Thus, repayment terms tend not to be fixed and "defaulting" — which, in cases of informal credit, means the inability to repay upon request from the lender — is common. Due to reciprocal ties between borrowers and lenders, there are generally few repercussions of "defaulting"; within the relationship, role changes are common. This makes social ties primary to the financial transaction; much effort is made to maintain these links as a guarantee of future help in times of need. Borrowers repay when they can in amounts they can raise; lenders accept this in anticipation of facing similar constraints in the future when they themselves might need such flexibility from their current borrower.

Informal credit systems also reflect the religious and moral obligation embedded in Islam to assist the needy. In some cases, patronage relations are formed whereby wealthier families assist the needy through credit and other forms of assistance. These relations can verge on the exploitative, but it also must be recognized that the poor

[9] Rahman, *Women and Microcredit in Rural Bangladesh*.
[10] Consumption smoothing involves actions that individuals or households take to avoid a decline in their living standards. Taking credit is a key consumption smoothing strategy.
[11] Klijn and Pain, *Finding the Money*.
[12] Klijn and Pain, *Finding the Money*.

gain some level of security in exchange for loyalty[13]. Evidence of the relatively easy access to informal credit for those who need it leads to questions about: how the entry of microcredit programmes may affect this access; the primacy of social relations within informal credit systems; and the role of these relationships as a social protection system in the absence of alternative state-sponsored or private social security systems.

The interest in microcredit for the poor in Afghanistan started in the post-2001 period when both the Afghan government and the donor community considered developing large-scale microfinance facilities in the country as a central component of sustainable development programmes.[14] Decades of conflict followed by a severe drought that left the majority of Afghans decapitalised, as evident in the stories presented in this case study. Large-scale credit provision was seen as necessary to stabilise livelihoods, improve productive assets and stimulate economic development and job creation. In August 2003, MISFA was established as an apex institution[15] of the Government. MISFA estimated that two million households were potentially in need of credit, exemplifying the assumption of lack of access to — and thus a large, unmet demand for — credit. As of May 2007, a cumulative total of US$252.8 million had been distributed through partner MFIs, reaching a total of 314,208 active borrowers[16]. One important requirement for MFIs receiving credit through MISFA is the achievement of operational sustainability.[17] This is a worthy goal because donor dependence in the long term does not make for a stable, reliable service. Given the cost structures and security constraints characterising the Afghan context, however, pressure to achieve sustainability quickly skews incentives for MFIs, making them treat MC delivery almost solely as a business transaction rather than a development intervention. In relation to programme structures and outcomes, issues of whose interests are served through MFI rules and who bears the risk and responsibilities involved in credit delivery are discussed in Section 4. The goal of operational sustainability also influences where microcredit is delivered since concentrations of clients lower delivery costs; hence, in Afghanistan, MC is mostly based in urban and peri-urban areas and fewer MFIs have a large rural presence.

This case study presents the results of in-depth interviews and focus group discussions (FGDs) with borrowers and non-borrowers from one village in Bamyan Province where three MISFA-funded MFIs are working. One is the MFI of interest (MFI 1) and receives the most attention in the case study. A second is less active in the village and was mentioned infrequently by village residents (MFI 2) while the third started lending more recently and is the same MFI that was active in the study village in Kabul Province (MFI 3)[18]. The study's aim is to begin to fill gaps in knowledge about the interaction between MC and informal credit, contributing to the development of approaches to providing financial services in rural Afghanistan that would be better integrated into existing "informal" structures. This recognises the economic and social

[13] Klijn and Pain, *Finding the Money*; Geof Wood, "Staying Secure, Staying Poor: The 'Faustian Bargain'," World Development 31, no. 3 (2003): 455-71.
[14] according to MISFA website (www.misfa.org.af)
[15] An apex institution channels funds to (and at times supports technical services of) MFIs in a given single country or integrated market.
[16] according to MISFA website (www.misfa.org.af)
[17] 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 costs of loan losses, potential losses and inflation (www.gdrc.org/icm/glossary [accessed September 9, 2007]).
[18] Paula Kantor and Erna Andersen, "Microcredit, Informal Credit and Rural Livelihoods: A Village Case Study in Kabul Province" (Kabul: Afghanistan Research and Evaluation Unit, 2007).

importance of informal credit systems to rural livelihood security and that the introduction of MC would ideally build from and not infringe upon them.

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? And among whom and for what reasons is there interest in joining the microcredit programme?
- How was the programme introduced? Was there any resistance to the introduction of microcredit in the village and to having women as borrowers for programmes using this model?
- How have interest in and demand for microcredit changed since MC was introduced?
- To what extent does programme practice differ from programme rules and why might this happen?
- How has the introduction of microcredit affected both the supply of and demand for different types of informal credit in the village?
- How have individuals and households receiving microcredit used the loans? Have uses of informal credit changed in relation to this? In what ways do the two systems interlink and what are their effects?
- What strategies do households use to manage repayment of the credit that they hold from different sources? How have debt levels changed?
- How has household livelihood security changed and why?
- How has the village economy changed and why? Who benefits from any changes and who is excluded?

Section 2 presents the contexts of the study —the study village and the MFIs. The latter represents the MFIs' public transcripts of its programme rules and operations, particularly those of MFI 1. Section 3 reviews the research methods used in the study and provides a summary table of the household cases. Section 4 applies the concepts of public and hidden transcripts to MFI 1 operations in the study village, highlighting issues around: understandings of programme rules resulting from a trickle-down mode of programme introduction; differences between practices in the study village and MFI 1's stated rules and what these discrepancies imply about programme structures; and, the means through which MFI 1 limits the risks and responsibilities for default that it directly bears. Section 5 moves the analysis to the household level. It presents details of the case study households, raising themes to be explored in Section 6, including: access to credit; the importance of credit as a social versus solely financial asset; the social relations associated with credit; and, the perceived benefits of formal credit and how they affect household and village economies. Section 7 provides conclusions and highlights: the existence of an active informal credit market prior to the MFIs' entry into the village, which made MC one source of credit among many to choose from; the positive reception by villages of MFI 1 and its loan products resulting from efforts to match the product to local livelihoods and to past exposure among village residents to informal lending with interest; and, the importance of the economic context to the potential for clients to benefit from MC and other credit sources. Compared to the Kabul case village, the local economy in the Bamyan village has allowed more advantages to flow from access to credit for productive purposes.

2. The Context: The Study Village and MFIs

2.1 Village context

The case study village is located in Bamyan district and is approximately 15 km from the bazaar in the district centre (or half an away hour by car). The village is one in a cluster of villages where the predominantly Sadat (sometimes referred to as Sayed) population resides. According to the villagers, the Sadat people originated from Iraq and settled in this valley many hundreds of years ago.

The study site is closely linked to a neighbouring village that is five minutes away by car. With no public facilities located within the study village itself, people travel to the next village where there is a mosque, health clinic and school. Several respondents did, however, mention the existence of home-based literacy courses that an NGO provides for women and girls in the village. As part of the implementation of the National Solidarity Programme (NSP)[19], one male and one female *shura* (council) were established three years ago by an implementing partner. The *shuras* represent three other villages in addition to the study site, meaning each *shura* member represents 20 households.

It is a 2.5- to three-hour walk from the study village to the district centre. When the need arises, villagers travel to the district centre to go to the hospital or *woliswali* (district office); mostly, however, they go weekly or biweekly to the bazaar to buy and sell goods. Five to seven villagers from the study site have shops in the Bamyan bazaar where approximately 400 to 500 shops sell a variety of food items, agricultural inputs and non-food items. In addition, there are a number of pharmacies, clothing shops, money changers, restaurants, mechanics and souvenir shops geared primarily towards tourists.

Livelihood activities of the villagers are closely linked to the district centre. Villagers buy agricultural inputs and sell their produce in the bazaar, restock their shops, transport passengers and goods and, in the case of women's work, contract with carpet weaving companies. Access to the district centre and the bazaar, however, is severely limited during the winter due to heavy snowfall and road blockages.

History of the village

According to oral history, the study village was established many hundreds of years ago by a man and his three sons among whom the land was divided. The current inhabitants of the village are all descendents of this family. Approximately 140 households make up in the village—the majority of which are Sadat along with small Hazara and Tajik minorities. All are Shia Muslims.

The Bamyan village had been ravaged by three decades of intermittent armed conflict. By virtue of its proximity to the district centre and airport, it found itself on the frontline of fighting during three separate periods. First, during the Russian era, the village was the target of heavy artillery by Russian forces due to the presence of mujahiddin in the area. The subsequent civil war led to further destruction of lives and livelihoods since loyalties were split within the village and people were compelled to provide food and shelter to competing mujahiddin groups. It was during the Taliban regime, however, that the village suffered the most devastation. Caught in the crossfire between the Taliban and the Hazara- and Shia-dominated Hizb-i-Wahdat group, villagers described the burning of their houses and crops as well as the

[19] The National Solidarity Programme is a national-level, community-driven development programme that has been progressively implemented in the country since 2003.

widespread killing of civilians. Like earlier conflicts, villagers migrated in large numbers to Besoud, Yakawlang, Pol-i-Khumri, Wardak and Kabul as well as to Iran and Pakistan. Hundreds died attempting to flee through the inhospitable Baba Mountain, which stood between the village and the relative safety of neighbouring districts.

The Taliban conflict had a devastating impact on the livelihoods and economic security of the study village. Roads to the Bamyan bazaar were blocked and people were unable to access basic goods and services. The main assets of the villagers — namely, their houses, land and livestock — were either destroyed or seized by the Taliban; it is worth noting that several male *shura* members accused people from the surrounding areas of posing as Taliban in order to loot their houses, trucks and livestock. Those who were able to migrate with their livestock were, soon after, often forced to sell in distress for survival in their places of refuge. Villagers are still recovering from this decapitalisation, as evidenced by livestock numbers that are much smaller compared to before the period of Taliban rule. Lack of access to grazing land has also contributed to the shift from emphasis on livestock breeding to agricultural production as the primary livelihood activity in the village.

Following the fall of the Taliban, international organisations such as the World Food Programme and the International Committee of the Red Cross as well as several NGOs provided humanitarian assistance in the form of emergency shelter and the distribution of food and non-food items. While the aid was provided for only one year, many villagers felt it was instrumental in helping rebuild their lives after the almost complete destruction of their homes and livelihoods.

Current village economy

Livelihood activities in the study village are quite diverse and include agricultural production, livestock breeding, casual labour, trade, transportation and carpet weaving. In addition, a small number of villagers have monthly salaried employment as teachers and cleaners in the neighbouring school and clinic or, in the case of one prominent landowner, as staff of an international NGO (INGO).

The majority of villagers are engaged in some form of agricultural production, either on their own land or as sharecroppers for one-fifth or one-sixth of the harvest. Respondents identified four individuals as *baay* (landowners) who have large landholdings ranging from five to 20 *jerib* (1 to 4 ha) of land, and who are the primary employers of sharecroppers and daily wage labourers. Most other villagers have smaller landholdings of one-half to five *jerib* (0.1 to 1 ha), or in a few cases, own no land at all. Approximately 75 percent of cultivated land is located in the valley and irrigated while the remaining is rain-fed land in the mountains referred to as *lalmi*.

A key resource for villagers is an agricultural cooperative that was established four years ago by the Ministry of Agriculture and Livestock and funded by an Iranian NGO. The cooperative owns four tractors and four threshers; rental prices are determined on the basis of membership. The 202 members from the study village and neighbouring villages, for instance, are charged nine *ser* (63 kg) of wheat for use of the thresher while non-members are charged 12 *ser* (84 kg) of wheat. An eight-month lease of a large tractor is US$1,600 and fuel is the responsibility of the lessee; tractors may also be leased at an hourly rate. The cooperative not only allows villagers to access heavy farming equipment that would otherwise have been too expensive to purchase, but it also provides wage labour opportunities in facility construction and equipment maintenance.

The main crop is potatoes, which is grown primarily for sale due to its high market price. Farmers either sell directly to commission agents who then transport the potatoes to the *mandawi* market in either Kabul or Mazar-i-Sharif for sale to traders from Pakistan or they sell via a middleman in the village. Credit relations are common in such transactions since the farmers are not always paid up front in cash; respondents in individual interviews and FGDs could easily cite instances of middlemen and commission agents delaying or avoiding payment.

Nonetheless, many respondents attributed the recent improvement in the village economy to the switch from wheat to potatoes; the former is now grown exclusively for household consumption and the latter is the primary cash crop in the village. As the main reasons for the switch, respondents cited the higher market value of potatoes as well as the greater suitability of the land for potato cultivation. They also stated that other factors contributing to the improved agricultural economy in the village include knowledge of more effective farming techniques gained through previous experience as well as improved access to higher quality fertilisers and markets in Bamyan, Kabul and Pakistan since the fall of the Taliban.

Planting season takes place in the spring, followed by harvesting and sale of production in the fall. A relatively new agricultural activity is the cultivation of fruit trees; production, however, is currently for household consumption and it is not expected to be an additional income source for another three to four years when the trees mature.

The village is still recovering from the loss of livestock that occurred during the Taliban era. Most of the interviewed households' livestock holdings ranged from one to four cattle, one to two oxen, one donkey, and one to six sheep—with the notable exception of one wealthier respondent who owned up to 50 sheep. The sheep have traditionally been brought to graze in *ailaq* (mountain pastures) in Shibarto and Qarghanato, near Band-i-Amir, which are a 12-hour walk from the village. Respondents, however, reported difficulties in grazing animals due to resistance from the Hazara population living in those areas, which is another reason for the small livestock numbers in the village. Both female and male household members also collect fodder for livestock as well as bushes and dung for fuel in preparation for the long winter season.

In the winter, almost all villagers are without work due to the heavy snowfall in the area. Household goods such as flour, cooking oil, rice and, in particular, fuel, are stocked before the first snowfall and often become scarce towards the end of the season when savings and supplies become depleted. Farmers must also obtain agricultural inputs shortly after the winter in the early spring as they prepare their fields for planting. Hence, the need for cash, household goods, and agricultural inputs — and by extension, the need for credit — is greatest in the late fall or early winter and early spring.

During the spring and fall when labour-intensive opportunities exist, a number of villagers, mostly the landless or those with very small landholdings, derive part of their income from casual labour in carpentry, masonry, construction and on-farm work. Some occasionally go in search of wage labour in the Bamyan bazaar, but the work is scarce and usually not worth the total expense of travelling to and from the village (60 Afs or $1.20). Wage labourers are typically paid between 180 and 200 Afs per day ($3.60 and $4 per day).

Due to conflict and migration, small business ventures, such as shopkeeping as well as passenger and goods transportation, have been undertaken in the village only in the last three years. Currently four shops in the village itself sell basic household goods, groceries, fertiliser and gas; six to seven villagers have shops in the Bamyan bazaar. Apart from these villages, most people travel to the bazaar only once every one or two weeks to make purchases or, in the case of village shopkeepers, to restock goods from wholesalers. Credit plays a significant role in the interaction between village customers, shopkeepers and wholesalers because shopkeepers must constantly juggle their ability to sell goods on credit with their need to restock and maintain timely repayment to wholesalers. Finally, passenger transportation to Bamyan and Kabul as well as transportation of potatoes for sale to traders in the *mandawi* are other activities that have evolved in response to the increased stability and economic well-being of the village.

All women in the study village are engaged in domestic work, tending livestock, and collecting fuel and fodder, but some also participate in agricultural activities such as weeding as well as cleaning and sorting potatoes during the harvest season. In addition, many women and children work inside the home tailoring, doing embroidery, spinning yarn and weaving carpets — the latter two activities apparently the most prevalent. Wool and carpet companies in Bamyan bazaar provide the raw materials, design and equipment, and contract villagers for labour. Depending on the quality of the carpet, companies pay between Pakistani Rs. 1,700 ($28) and Rs. 2,300 ($38) per metre; many women, however, complained about being short-changed due to genuine or alleged errors in the final product. Typically, children perform the actual work of weaving carpets, particularly during the winter when they are not in school.

2.2 Microfinance institution programmes[20]

This section reviews the programme rules as presented by the MFIs operating in the study village. It focuses on the rules of the institution of interest in this case (referred to in this paper as MFI 1) but briefly presents the programme of a second institution (referred to as MFI 2). A third is the same one that operated in the Kabul village of an earlier AREU case study[21] (referred to as MFI 3) and works in the same manner in this village; hence, only a brief overview of its history is presented.[22]

MFI 1's programme and rules

MFI 1 began offering MC services under a rural emergency programme in 2002 after the fall of the Taliban. It reorganised its rural MC programme in 2004 to offer a range of credit products to farmers and traders in Afghanistan with the aim of building appropriate and accessible financial services in rural areas. As of July 2007, it had worked with over 33,000 active clients in 53 districts across 12 provinces. It has disbursed, cumulatively, over 76,000 loans totalling $56.8 million. In July 2007, it had $21.4 million in loans outstanding, with 19 percent of its borrowers being women. It reached operational self-sufficiency in December 2005 and, in July 2007, it covered 118 percent of its operating costs with revenues. MFI 1 currently uses the surplus as a cushion against crises (for example, in case of the sudden need to close an office due to security). According to an interview in September 2007, an MFI representative stated the intention to offer clients a drastically reduced interest rate as of 2008, reflecting its growing surplus. The MFI has no information on client dropouts but is working to track this in the future.

When selecting a village to enter, MFI 1 first surveys the area to see if there seems to be a need for microcredit services. According to a September 2007 interview with MFI 1 head office staff, this survey generally does not include an assessment of informal credit sources and systems. If demand is identified, MFI 1 enters the new community by meeting with the NSP *shura* to provide information about the programme. Members of the *shura* are asked to spread the information throughout the village. Interested

[20] This information was drawn from individual interviews with the head of the MFIs' microcredit programmes and with local staff of the MFIs.
[21] Kantor and Andersen, "Microcredit, Informal Credit and Rural Livelihoods."
[22] for details of its MC programme procedures, see Kantor and Andersen, "Microcredit, Informal Credit and Rural Livelihoods."

borrowers are then individually assessed for creditworthiness, focusing on asset holdings, income and capacity to repay. Local *shura* members or the *wakil* (village counsellor) verify creditworthiness of clients by signing client application forms but do not act as guarantors. Based on the assessment, loan officers make decisions about the type of loan (individual or group) and specific loan terms to offer: which product, the grace period and the number of instalments required. Loan use also plays a role in these decisions. Loan officers are to monitor loan uses to ensure they match the stated plans.

MFI 1 offers four different products and has no savings requirement or option for clients.

1. *Solidarity group loans* are for poorer clients who cannot provide property documents as collateral. A group of four to eight people is formed and serves as collateral through a system of cross-guarantees. These loans are smaller and, therefore, are for those with lower repayment capacities. They range from $30 to $300 and are repaid over a period of three to six months, with loan use and repayment capacity influencing the repayment term. Groups collect their repayment instalments jointly and submit them to MFI 1, reducing transaction costs to the institution.
2. *Agricultural loans* can be provided to a group or an individual. MFI 1 will lend up to a maximum of $800 to each member of a loan group while individual loans are aimed at those better able to repay and with more assets; they range from $100 to $3,000. Agricultural loans have a maximum grace period of six months before the principal has to be repaid; the total loan must be repaid within 24 months from when the loan was taken. This typically is done in one or two instalments at dates agreed upon with the loan officer.
3. *Livestock loans* are the same as the agricultural loans except for repayment structure and the length of the grace period, which is up to eight months long. Monthly repayments are to be made after the grace period based on a plan set up with the loan officer and the total loan must be repaid within 24 months from when it was taken. The monthly schedule may be readjusted to lump sum repayments (similar to that of agricultural loans) according to loan use and resulting cash flows.
4. *Business loans,* different from the other products, are offered without a grace period and repayments are made monthly over one year. These are more often offered in urban or peri-urban contexts where business turnovers are more likely to be high enough to support monthly repayments.

The client assessment and planned loan use are important inputs in MFI 1's lending operation since its loan officers are permitted considerable scope to shape a loan product to match the borrower's livelihood needs and capacities. MFI 1 charges 18 percent interest annually — equating to 1.5 percent of the amount of loan to be paid by borrowers monthly starting from the date of receipt.

Generally, borrowers must show evidence of an existing business in order to qualify for a loan. Individual borrowers must provide property certificates in order to receive a loan. To deal with those who do not have property documents, the programme allows them to be placed into groups for borrowing and not be required to have such documentation. MFI 1 shows some flexibility around repayment and considers refinancing options if a business fails. It acknowledges the difficulties that clients face in repaying, so it states that it does not pressure clients to sell their land, homes or other assets to meet repayments. It does apply a penalty of 0.15 percent of the loan per day for late repayments.

MFI 1 prefers that its borrowers do not have loans from other MFIs, largely because of the implications for repayment capacity of clients who hold multiple MC loans. This is checked during the initial assessment, but MFI 1 staff also realise that the institution will not always be aware of the diversity of loans that clients are holding. Additionally, MFI 1 requires that only one loan be given per business; taking a loan for someone else who already has one is prohibited. Even with its monitoring, however, MFI 1 is pragmatic in recognising that it cannot to the fullest extent know what the loans are being used for and by whom. Note also that the rule about one loan per business means a household with multiple businesses can hold multiple MFI 1 loans.

Comprising 19 percent of borrowers, women are able to borrow but are not a specific target group for MFI 1. The programme rules do not limit women to receiving group loans only, but women have tended to qualify for this loan type due to the tendency of their businesses to be relatively small in size.

MFI 1 has an office in the Bamyan District centre where residents in the study village go for disbursements and repayments. It has a branch manager, field managers and loan officers who work and live in the same general area. The loan officer in the study village was from the area but not from the village itself. He, however, clearly had relationships with some of the village residents. Both female and male respondents mentioned that the disbursement of loans from the office was a barrier to receiving credit; for women, it was due to mobility constraints while for men it was because of the opportunity cost of time spent in travel and waiting for disbursement.

MFI 1 noted a range of challenges associated with its work, including remoteness, seasonal access and the cost of delivering MC services in rural Afghanistan. It is easier to work in urban areas, but this MFI recognises that there are greater concentrations of poor people in rural areas. Hence, to meet its mandate of poverty reduction, delivering services in rural areas is important. It also noted resistance to MC due to *sudh* (interest), which is defined as *haram* (forbidden by religious laws), as another challenge. Upon entry into a village, MFI 1 tries to address this through open dialogues with *mullahs* and village residents, attempting to put *sudh* into historical context and to change interpretations of *sudh* that are different from those during the time of the Prophet.

MFI 2's programme and rules

MFI 2 began offering MC services in 2004 in three Afghan provinces: Ghazni, Kabul and Bamyan. Its mission is to provide MC to poor and low-income men and women to stabilise and increase incomes, to create and sustain jobs, to strengthen and expand businesses, and to contribute to economic development in Afghanistan.

MFI 2 started lending in the study village at the beginning of 2005. It lends using a solidarity group model, with the group serving solely as a guarantee. MFI 2 makes no other claims about why it uses a group-based delivery model, for instance, that this model could foster socioeconomic empowerment. Group members receive loans individually and there are no savings requirements to meet prior to loan disbursement. In order to qualify to borrow, each potential client must have a national identification card and be part of a group, usually of five to seven people. No property certificate is required — the group forms the only collateral. Clients should be from 18 to 80 years of age, have a source of income and be able to work (e.g. not ill or with a disability). While men are required to have an existing business, women are not.

MFI 2 provides initial loans of $300, for a loan period of between six and 12 months. Once the first loan is successfully repaid, loan sizes increase to $500, $700, $1200 or the maximum of $1400. MFI 2's stated average loan size and term is $550 for 12 months. At the time of the study, repayments were to be made monthly, irrespective of how the loans were used, and the loan term interest rate was 18 percent of the loan amount.

Groups cannot consist of immediate family members and members should represent separate households. Each group has a leader who is responsible for collecting instalments on the required repayment dates and giving them to the office. MFI 2 lends primarily to men, but approximately 21 percent of its total borrowers are females. As of November 2007, MFI 2 reported having over 4400 active borrowers and having cumulatively lent more than 11,000 loans since its operations started, totalling over $6 million.[23] According to MISFA data, it has $1.45 million in outstanding loans and can cover 58 percent of its operating costs with revenues (up from 50 percent in December 2006). MFI 2 reports a 100 percent repayment rate on its loans.

The Bamyan office of MFI 2 has four male and two female loan officers plus a branch manager, credit officer and finance/administrative officer. The loan officers are to work with individual clients to agree to a repayment schedule. They are also to monitor loan use and are supposed to have at least three meetings with new groups prior to disbursing loans. In the study village, MFI 2 reported having six to seven groups and a male loan officer who is responsible for collecting instalments and creating new groups.

MFI 3's programme

MFI 3 is the most recent entrant to the financial services market in the study village, starting its programme last year. While MFI 3 has been providing credit in Afghanistan since 2002, its movement to Bamyan Province reflects a recent expansion into new areas. It lends through groups, which may be made up of men or women though the MFI primarily targets females as borrowers. Two female loan officers work in the village and come weekly to collect repayment instalments.

MFI 3's loans are repaid each week over one loan-term year (47 weeks). All borrowers receive a passbook in which their loan and repayment amounts are recorded and weekly repayments are accounted for; according to MFI 3's Kabul office, clients are charged 10 Afs for this passbook. According to MFI 3, all information is provided transparently to borrowers so that there are no negative reactions to the administration fees charged. This fee is 17.5 percent of the loan and is set at a level to recover programme costs. Viability of the institution is a central concern and is measured by its repayment rate, which was 98 percent in 2006. As of September 2007, MFI 3 reported covering 82 percent of its operating costs with revenues and has plans in place to reach 100 percent coverage by the end of 2007.

[23] from interview with MFI 2 staff.

3. Research Methods

3.1 Village selection

To select a suitable village for the case study, the research team first shortlisted districts in Bamyan Province using background material from MFI 1 guided by data on length of operation in the districts and number of clients. Two districts were shortlisted: Shiber and Bamyan, both of which were reported by MISFA to have significant numbers of MFI clients. Two team members then visited the sites to chat with shopkeepers about the area and to gauge general interest in the study and, in particular, openness in talking about MC. Shiber was not selected based on this experience and because it is a very remote and poor district with few livelihood opportunities. An area of Bamyan District was selected because it is more representative of districts in the province based on its mix of on-farm and off-farm livelihood activities and because residents seemed more open to having the study take place.

The research team then went to the NSP facilitator for the district, UN Habitat, to request further information on two villages in the district where the MFI was working that were of appropriate size, had a significant number of active clients, and had at least two years of MC-lending history. The team did not want to enter the village through MFI 1 since this could bias the research and lead to greater expectations from respondents that the researchers would have benefits to offer them. The team entered the Bamyan area alone.

The rural livelihoods research team consisted of four Afghan researchers (two female and two male), an expatriate intern and a supervisor. They subsequently visited the villages to meet representatives and, in general, interact with residents to learn more about livelihood activities, openness to discussing credit relations and willingness to participate in the study. Based on these visits, the study village was selected. Residents showed an immediate interest in sharing their views and experiences of microcredit compared to those in the other shortlisted village.

3.2 Qualitative research methods

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

In the process of selecting the study village, the team applied the informal method of chit-chatting. This is basically done by walking around in 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, accepting occasional invitations for a cup of tea inside. While gauging interest and willingness to participate, they introduced themselves, AREU, the purpose of the study and the concept of research as well as asked for general information about the village. This information fed directly the process of selecting a village.

Informal discussions with villagers served as an entry point to the village in terms of acquiring basic information about the community and, moreover, had a twofold purpose in assessing the field site. Firstly, it allowed the team to meet many people living in the village in order to determine which individuals stand out for key informant or household interviews. Secondly, these discussions spread the word of the research team's presence and the scope and purpose of the research study.

Having selected the site, 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 to carry out the research.[24] At the same time, this meeting provided initial information about village history, its socioeconomic situation as well as informal and formal credit relations; this helped to establish an initial, basic understanding of the village. The expatriate team supervisor participated in the introduction phase of the fieldwork, generating interest and attention while wandering in the village as well as explaining the overall function of AREU and the purpose of the research. As soon as the fieldwork was well initiated, the Afghan researchers carried out interviews by themselves since the presence of an expatriate could cause unnecessary attention and interrupt the interview dynamic.

Focus group discussions and key informant interviews

The introductory meetings were the first means of identifying focus group participants and key informants; more potential respondents were identified while FGDs and interviews were held. In total, nine FGDs were carried out along with two key informant interviews. The size of focus groups varied between three and six participants. The FGDs were held with different subgroups of interest, including village elders, shopkeepers, widows, loan group members, craftswomen, landowners and landless villagers. The key informants were selected based on their role within microcredit practices in the villages; these were the MFI 1 loan officer and a wealthy landowner. The FGDs and key informant interviews were conducted to provide village-level information such as the overall village structure, its history, perspectives on informal credit practices in the village, and how these have been influenced by the microcredit programme's entry in the village. The information generated from these initial interviews provided important contextual understandings of the village and MFI 1 practices there as well as some information about individuals' use of MC. This latter information assisted in selecting household cases.

Household case selection

Selecting household cases was a very important step in the study. The field team selected eight households for in-depth interviews; five of which had joined the MC programme and three had not. Only eight cases were selected because of the depth of data to be collected and the time this would entail. Potential household cases were identified first through the introductory meetings, FGDs and key informant interviews. These leads were supplemented by informal chats with people in the village to learn more about specific households' livelihoods and credit use as well as reasons for joining or not joining the credit programme. The selection of the household cases was done jointly by the team and supervisor with the aim of capturing a diversity of livelihood activities, credit uses and reasons for not joining the MC programme.

To facilitate the selection of the households, the team spent the first and second week of fieldwork conducting FGDs and key informant interviews and developing a list of household profiles that described those considered as potential cases for study. The five MC household cases were selected first with the aim of selecting the three non-MC households to match the reasons encountered for not receiving MC. MC appeared to be so common in the study village that there only a few households that had not taken an MC loan. The households selected as non-MC were thus selected based on their reason for not taking MC without considering their livelihoods and economic background. Hence, the main criteria of interest in selecting the non-MC cases were the reasons for not joining — by choice or exclusion.

[24] For each respondent or focus group, the same process to determine informed consent was followed.

In selecting the five MC households, the team had two main criteria: livelihood activities and their particular involvement with MC. Across the five households, the team wanted to include both on-farm and off-farm activities as well as to represent different credit uses such as for livestock, agriculture, business and consumption as well as numbers of loan cycles. Apart from that, the MC households were selected according to their asset base to capture variety in wealth rankings. Always a difficult estimation, this was determined for the study by acquired knowledge of respondents' property, variation of income sources and creditworthiness in terms of existing and potential credit relations. The team was also interested in including households that, due to high MC activity, had taken MC from the three different MFIs in the village as well as one or two shopkeepers due to their role in the village as credit providers and being named as key MC clients because of their steady cash flows. 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[25]	MC borrower?	Household size	Main livelihood activities
Karim	yes	6	shopkeeping, farming
Haleema	yes	13	mini-bus transportation, farming, livestock, carpet-weaving
Zahra	yes	9	wage labour, sharecropper
Ghulam Sakhi	yes	6	wage labour
Latifa	yes	7	farming, livestock, carpet-weaving
Sayed Jaffer	no	11	truck transportation, farming
Zarifa	no	8	cleaning lady at health clinic (only breadwinner)
Jamal	no	10	shopkeeping, farming
Sayed Hassan*	no	12	landowner, job with INGO

**Sayed Hassan is a wealthy landowner and working with an international NGO. The team was unable to carry out full household interviews with him; he was then interviewed as a key informant due to his particular position in the village as a credit giver.*

Household interviews[26]

In each household, the male and female heads of household were interviewed twice in order to gather information for a full portrait of the household, its livelihood

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

activities, and formal and informal credit relations. The aim of the household interviews was to capture the specific stories from the perspectives of different 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 the same household was important in highlighting differences by gender in understanding these issues and in credit practices and knowledge within households.

Two interviews were conducted with each male and female respondent in a household to obtain the depth of information required and to provide opportunities to probe what was learned in previous interviews. The first interview gathered information about every household member, their activities in the household (e.g. doing household work, studying or working for pay), the family's experience of conflict and migration, and detailed information about its informal credit relations. This involved not only gathering detailed stories from the respondents but also numerical data regarding the credit given and taken by the household — how much, when, how it was used, whether the credit had been repaid and, if so, how it was repaid. The second interview focused on experiences with MC among those in the programme as well as on opinions and knowledge of MC among those who did not join. Numerical data about the loans taken were again collected, but emphasis was on a substantial discussion about 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 MC, comparing them to those not taking microcredit. This is to understand the different perceptions of MC and, more generally, engagement with credit networks across both groups of respondents. Households were selected for the diversity of stories that they would provide and not to enable generalisations about experiences of MC. This approach contrasts somewhat with that used in the World Bank-funded report by Erik Lyby, "Microfinance and Gender Roles in Afghanistan", which in scope and purpose resembles this study since it also seeks to understand the socioeconomic status of MC loan takers and non-loan takers, their understanding of MC, uses of credit, and perspectives on the changes that MC has brought[27]. Significant differences in method exist, however. Whereas Lyby's field sites include both urban and rural settings, this study looks exclusively at rural dynamics of livelihoods and credit. Lyby's study, while using a variety of qualitative methods, seems to aim for coverage[28] rather than in-depth understanding of household strategies to cope with MC, which is this study's contribution. The length of time that AREU's field team spent in the study village — six weeks from early June to mid-July 2007 — allowed it to build the rapport necessary to delve into personal details of household livelihoods and credit use and to make repeat visits to follow up on information received. This provides a richness of detail uncommon in much of the research done in this context.

3.3 Challenges in the field

For the research team, a number of challenges were present throughout the fieldwork, which influenced the methods used at this site. From the beginning of the study, we encountered significant discrepancies between the information acquired by men and women. Husband and wife in the same household often gave contradictory stories,

[27] Erik Lyby, "Microfinance and Gender Roles in Afghanistan" (Washington: The World Bank, 2006).

[28] In total, 135 household interviews and 41 FGDs were conducted across rural and urban sites in four provinces. Non-clients were also interviewed but no details are given on how they were selected or how many were interviewed. The report does not provide an estimate of the time spent per field site.

which made it necessary to focus on probing and verifying the individual stories. In some cases, it was necessary to interview the household a third time.

A small group of very wealthy landowners in the village acted as "gatekeepers" because they wanted to have influence on selecting the people who would be interviewed. During an FGD with landless villagers, the landowner on whose land the respondents were working insisted on being present, which interfered significantly since the respondents were reluctant to answer in his presence. One particular person in the village opposed the study and it was reported that he threatened some of the respondents and villagers to try to prevent them from cooperating with the team. This presented challenges in terms of meeting residents and carrying out interviews with a household. Solving this problem required time to meet the respondents and key actors in the village again, patiently explaining the scope of the study and assuring the whole village of its anonymity. 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 the interviews had started, the team faced challenges in obtaining much of the data required for the study since 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 it is an AREU requirement to gain informed consent from all respondents, this situation necessarily meant that some households could not be selected as a household case. The team proceeded with interviewing one respondent as a key informant when the case was unique enough to justify this.

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 work and number of questions asked by the field team. Unmet expectations of help and pay 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 to the respondents as a token of appreciation along with thorough explanations of the scope and purpose of the study whenever questions were raised.

In addition, the length of time the team could stay in the village was fairly limited, further complicated by the situation that all the villagers had to attend funeral ceremonies for two days in one particular week. When appropriate, the team participated in the ceremonies — a gesture which helped to promote goodwill towards the team from the villagers.

4. Microcredit Programmes in Practice

This section primarily highlights the practices of the MFIs operating in the study village in comparison with their public transcripts described in Section 2.2. More attention is given to MFI 1 as the focal institution in this case study. The section also compares villagers' preferences among the three MFIs in terms of their programme rules, operations and structures. Key aspects of MFI practices assessed here include mode of village entry and implications for client knowledge of MFI rules, the divergence of practice from rules in certain areas, and how the MFIs' structures distribute risks and responsibilities.

4.1 MFI entry and understandings of programme rules

The three MFIs operating in the village used similar entry strategies, largely dependent on information dissemination through the *shura* and then further word-of-mouth transmission. Respondents, largely men, knew that the MFIs entered by speaking with village leaders (members of the male *shura*) and that *shura* members then passed on the information to others. Some reported seeing MFI 1 representatives walking through the village telling people about the programme. MFI 2 is reported to have posted announcements in the village to spread the word. Two women respondents reported being visited by two women from MFI 3 who told them about its credit programme; in one case, recounted below, this information led to a decision to decline becoming involved.

> *Two MFI 3 representatives came to our house and told me about microcredit. They said that every month they would come and see how we were spending the money. Because of this, I don't like to take credit. They also said that every month I should go to a neighbouring village for a meeting. I can't go there; it is half an hour by walking. I don't have time to go and sit for one hour with them.*
>
> —Jamal's wife, non-MC household

How did this rather unstructured mode of information dissemination affect the means by which men and women heard about MFI 1's programme and their resulting understanding of programme rules? Men reported that they first heard about MC through relatives who had already taken a loan and through villagers or shopkeepers. Two reported that they learned about MC from the MFI branch manager; the first through a chance introduction when the manager was in the village for personal reasons and the second because the manager was a close friend. Women respondents were more likely to hear about MC through their husbands; five reported learning about credit after being informed by her husband who had heard either through a relative or in the bazaar. One respondent was not aware of MFI 1's programme. Another heard about MFI 1 from a neighbour whose husband had taken credit. It is apparent that information is passed along but how accurately and comprehensively?

Compared to men, female respondents showed somewhat less knowledge of the different MC programmes; this occurred in cases when their households were directly involved with MC and also when they were not. This in part showed the minimal discussion of credit-related matters in households. This is exemplified by the response below to a question posed by the research team regarding how MFI 1 and MFI 3 programmes work.

> *I don't know. We couldn't take credit from the MFI, so what can I say? Also the men sit together and talk and I don't know what they are saying. How can I know about offices outside my house?*
>
> —Sayed Jaffer's wife, non-MC household

At times, the minimal intra-household communication about such matters influenced data collection because husband and wife in some households told very different stories about access to and use of MC. This does not imply that one respondent was lying but that the stories were told from different perspectives and knowledge bases. Given the lower levels of knowledge that women had of the programme, a great deal (though not all) of the data cited below come from male interviews and FGDs.

Some general aspects of MFI 1's programme were quite well known, but understanding of the details in many cases was murkier. Everyone was aware of the relatively long loan term offered by the MFI; that is, loans except business loans are repaid after a significant grace period. This was well known because it was a highly valued characteristic of the programme. The length of the grace period was less well known—not surprising given that it varies by loan type and because loan officers have some discretion in setting. Hence, some reported six-month grace periods, others eight, ten and 12 months.

Also well known among both females and males was knowledge of the need for some form of guarantee in order to receive a loan — specifically, the need for a property document to access an individual loan. Some but not all respondents also mentioned the need to show a national identity card. This was, however, more clearly understood as a requirement of MFI 2, which did not require property certificates and gave only group loans.

> *With MFI 1, there are individual clients and loan groups of six women each. If the person has a guarantee like a paper for her house, land or shop, then she can take an individual loan.*
>
> —participant, female *shura* FGD

In the case of group loans, it was less clear to respondents that a form of a guarantee was needed. Some made clear that group loans were for those without property documents and that only a national identity card was required for access, but others noted that an individual with a property document would have to serve as guarantor. An interview with the loan officer clarified the differences in requirements between group and individual loans but not whether the group guarantor had to be a group member. Respondents' stories show that the group guarantor often was a loan group member or the husband of a member.

> *Malem Yousaf, the loan officer of MFI 1 told us you should make the group of eight people and one of them should be the group leader. You need to bring your national ID cards and then the MFI will give the loans.*
>
> —Zahra's husband, MC household

> *In the beginning, they were giving money in groups for those who did not have property documents. MFI 1 made groups for them and, if one group member had the property document, he was the guarantor for the whole group and the document was kept by the MFI office.*
>
> —Sayed Jaffer, non-MC household

> *For the individual loans, we ask the client for the letter of his land, his car licence or the letter for his house. For group loans, we ask the guarantor for one of these letters and he is then responsible for all the group members.*
>
> —Sakina, loan officer

Male respondents were also aware of the role of a *shura* member in approving loan applications because they themselves had to take the applications to be stamped and approved. Two respondents specifically understood that the amount of credit they could access was influenced by assets, repayment history and the potential client's financial position; one was also aware of the loan officer's role in making these decisions.

> *When the client uses the first loan, then the loan officer sees the condition of the client and his work. If the client has a good business like a shop or owns a lot of land, then he gives him large loans like $2,000 or $3,000. But when he sees that the client is poor like me, then he doesn't give more than a $1,000 loan.*
>
> —Ghulam Sakhi, MC household

When asked generally about the programme's rules, not many respondents volunteered the loan interest rate. They knew, however, that the credit was provided with interest; in particular, MC clients knew that interest tended to be deducted on disbursement. They could also report how much was deducted. One respondent who could provide the interest rate confused the annual interest rate with an administrative fee.

> *They take 18 percent interest on their loans and 1.5 percent for admin charges from their clients.*
>
> —Ghulam Sakhi, MC household

It is the "and" which makes the difference here. In actuality, this 1.5 percent each month is the 18 percent annual interest rate, which is to be paid each month even during the grace period. This monthly payment, however, seems to be a moot point since interest is reportedly deducted when the loan is given as shown by the statement below, which is representative of many other responses.

> *After winter, I took $600 for the second loan. They deducted $30 for their interest and gave me $570... And then I took the third loan and it was $800. From this loan they took $70 for their interest and gave me $730... And then I took the fourth loan which was $1,000 this year. From that money they deducted $100 and paid me $900.*
>
> —Latifa's husband, MC household

It is unclear how much interest is deducted, however. From the above statement, between five and ten percent of the total loan was deducted at disbursement, which is neither equivalent to the 18 percent annual interest rate as a one-time flat fee nor to the monthly 1.5 percent interest over the possible grace periods of six, eight or ten months. MFI 1 may understandably not want to collect these fees monthly since they are relatively small against the costs of collection. Practices around interest payments thus remain rather murky to borrowers and the research team due to differences between the public transcript and evidence from the field as well as the lack of specific information regarding how much clients repaid in their instalments.

Respondents also showed confusion about late repayment fees. It was well known that, a few days before repayment was due, MFI 1 would send staff to warn a household of the upcoming deadline. It was less clear, however, was when late fees would be charged, for how long and at what rate if repayment was not ready on time for collection. This method of informing respondents of the repayment due date seemed to lead to some surprises; clients were at times not ready with the cash to repay and had to organise quick sale of livestock or harvest. Fines would be issued if there was a time gap between access to the cash (through sale of assets or informal borrowing) and the repayment date.

> *I didn't face problems in repayment because I had the production from my land and was repaying the credit from my production. But last year I*

> *didn't know about the repayment day and suddenly I was informed, "The credit time is over and you have to repay the credit money tomorrow." At that time, I hadn't sold my production and didn't have cash. I was fined by MFI 1 for eight days; every day I was charged $5. After five days I sold my production and I repaid the credit.*
>
> —Latifa's husband, MC household

> *If someone is late for the repayment, he is fined $1 per $100 per day. I was fined $60 for three days because I was not informed about the repayment day and suddenly the office told me to repay the money. Then after three days I sold my potatoes and repaid the money.*
>
> —Karim, MC household

Some reported a flat fee of $1 per day, missing out the "per $100" figure that links the fine level to loan size. Another source of confusion concerned when the fees were to start and for what length of time they would be charged. Some reported fines starting immediately after the missed repayment as demonstrated by the statements above. Others reported fines starting immediately but only for five days; MFI 1 would then take other action to ensure repayment, including going to the *shura* to gain assistance in obtaining the money and, if this failed, stopping all lending in the village. In a male FGD that included MFI 1 clients, however, participants reported that, if they still had not repaid, the institution waited five days before fining clients. None of these scenarios match the stated rule of MFI 1, which is a charge of 0.15 percent of the loan per day and has no mention of a grace period before fines are issued. Even the loan officer interviewed did not correctly present this rule, stating that the fines were on a percentage basis but at a rate of 10 percent. Some of this may show confusion over the use of percentages.

MFI 1's limitation on taking more than one loan per business was another rule that was not well understood; even when it was known, it was not often followed.[29] In one example, when discussing who could form a loan group, the respondent did not specify the need for household members to have different businesses.

> *If there are six people in one household, then they can form one loan group.*
>
> —participant, female *shura* FGD

Finally, one rule that was well known among respondents and that MFI 1 staff put into practice is the requirement that loan use is monitored. Monitoring was particularly noted to have occurred early in MFI 1's relationship with the village, i.e. for loans disbursed in its first cycle. This led to some carefully using the loan as stated. Not all, however, responded this way as will be described in the next section.

It should be noted that MFI 3's means of entry into the village shaped residents' perceptions of the organisation. Some respondents reported that MFI 3 used information dissemination techniques similar to those of MFI 1 and 2, with the additional interaction of meetings with women in their homes. Clients, however, were quite displeased with MFI 3 largely because of inaccuracies in communicating programme rules and unfulfilled promises made by staff.

[29] Divergences from this regulation among those aware of it are discussed in depth in the next section on practice versus rules, which illustrates how borrowers bypass programme rules that they find constraining in order to make the programme more suited to their needs.

MFI 3's representative came to the village and told the villagers that "our credit is from the World Bank and is charging less interest and also we have savings for you in the bank." That's why we decided to take the MFI 3 loan. The MFI 3 representative did not tell us that they will be so strict in taking weekly repayments.

—Haleema's husband, MC household

We didn't benefit from MFI 3's loan. Every week they came and said we should pay back the loan. At first when MFI 3 came to the village, they said that if we took loans from them, they would bring carpet-weaving, chickens and gelim-weaving for us. After that we took MFI 3's loan.

—Latifa, MC household

The MFI 3 credit programme came last year and their repayment was on a weekly basis. When they first came to the village, they promised villagers, "We give credit," but didn't mention interest. When the week was passed, their loan officers came to our houses and asked for the repayment. Before giving credit, they said, "We will give you sheep in future," but they didn't give any sheep and now villagers do not get credit from MFI 3.

—Zahra's husband, MC household

The empty promises likely reflect pressures on loan officers to enrol clients; MFI costs decrease as client numbers increase, which moves MFIs closer to meeting or maintaining operational sustainability goals.

Loan officers working for MFI 1 were also not immune to these pressures. One recounted how she told lies though not about programme rules or operations but about existing clients in order to convince others to join:

When I came to this office, I went to the villages and talked a lot with the men and women, shura *leader,* mullah*, with everyone. Sometimes I told lies. At that time we didn't have many clients. When I went to a wedding party or visited people, I would tell everyone that we had so many clients and that they should also take credit from us.*

—Sakina, loan officer

The unstructured means used to inform village residents about MC led to some confusion about how the programmes operate — not in the general themes-at-large (except for situations where hiding a rule seemed to be an explicit aim) but more so in the details of the ways the programmes run. Women in particular were left out of information flows, particularly those of MFI 1 and MFI 2's programmes. The next section turns to evaluating how some of the programme rules play out quite differently in practice and why this might be the case.

4.2 MFI practice versus rules

This section draws from the work of Scott[30] and applies the concept of hidden transcripts to an analysis of MC programme operations in the Bamyan study village. To what extent do MFI 1 practices vary from its publicly stated programme rules? What are the implications of any discrepancies?

[30] Scott, *Domination and the Art of Resistance*.

Exchanging MC loans

One key divergence between rules and practice is the various ways through which some clients access more than the requisite one loan per business either for their own use or to give to others. This occurs in relation to both group and individual loans. It first became apparent to the research team in a story from Haleema's household about their "hoarding" (accumulation or taking control of others' shares) of group loans to enable the purchase of a vehicle.

> *Last year, my husband wanted to buy a car so I collected six people — seven including me — and we went to the MFI 1 office to take credit and my husband was the guarantor. I said to my mother, sister, sister-in-law, neighbour and two relatives, "You should help me get this loan because my husband wants to buy a car." Usually when someone needs money they will go to their relatives and say, "Let's form a loan group and get credit from the MFI and you all give me the money and I will be responsible for repayment."*
>
> *—Haleema in loan group FGD*
>
> Interviewer: *Did the office know about the whole group taking the money and giving it to one person to use*?
>
> *Yes, they knew. It was no problem as long as there was a guarantor.*
>
> —Haleema in loan group FGD
>
> *Her husband wanted to buy a car, so Haleema came to me and said we should form a group. She said that all the group members would give her the money so that her husband could buy a car. We kept for ourselves only $60 from the loan because we didn't need money at that time.*
>
> —Latifa, MC household
>
> *I took the credit money from the office and I did not need that money and Sayed Jabar*[31] *requested that I give him the money. He was responsible for the profit and loss of the vehicle. I did not have any profit from the vehicle. I even had to go to the office to get the money and give it to him and also on repayment I had to be present with the group.*
>
> —Zahra's husband, MC household

This story shows that the office is aware of this apparently common practice and is not bothered by it as long as its risk is covered by the participation of a guarantor. This story also highlights an issue that will be discussed in Sections 5 and 6: what is gained and lost by those giving up the loans. Here, Zahra's husband gave up valuable time by going to the office — for no financial benefit but probable return in future assistance by cementing social relations with those using his loan.

This story also involves another form of rule-bending related to accessing loans. Haleema's husband recounts also taking more than one loan for his household, using the names of his wife and co-resident aunt. This is against MFI 1 rules, which limit one loan per business per household.

The practice of taking loans in other people's names also occurs in relation to individual loans. For example, Ghulam Sakhi did this for his own use, taking two loans

[31] the co-owner of the vehicle along with Haleema's husband

in his third cycle: one in his own name and another in that of his maternal uncle. Karim assisted a nephew who did not have a property document by taking a loan in his own name and giving it to the nephew to use. Sayed Hassan, a relatively wealthy land owner, also recounts allowing others in the village to take loans in his wife's name as a form of assistance to them.

These practices highlight the demand for sizeable MC loans among some in the study village and how MFI 1's programme, though offering loans in substantial amounts, still does not fully meet the requirements of some clients. They then seek to bend the rules, which the local office is somewhat aware of. Such rule-bending is likely allowed because it has not yet resulted in repayment problems among those who benefit and, therefore, does not risk local staff's status in the MFI 1 organisation.

The practices also highlight the social relations side of microcredit. MC does not only represent a financial transaction; similar to perspectives on informal credit, viewing MC solely in this light ignores its function in assisting others or maintaining links with those who offer assistance. These include relations with the loan officer, who allows the hoarding of loans that then facilitates the creation and maintenance of other relations, as well as between patrons and clients, which are reinforced through the ability to exchange loans.

Loan use monitoring: client deceptions

MFI 1 requires that its loans be monitored to try to ensure that they are used for their stated purposes. Respondents offer evidence that this practice occurs, particularly when taking a first loan; many reported being told that someone would come to check the use of the loan and that this actually took place. While MFI 1 does put this rule into practice, the study uncovered a measure of collusion between local MFI 1 staff and borrowers to ensure that such monitoring demonstrates local success of the programme to visitors from the main Kabul office and from abroad:

> *I took all three loans as livestock loans, but I used the money for household consumption, buying fertiliser and seeds. I cheated the MFI representatives when they came to the village because I showed them the livestock of others… Actually, this monitoring was done by another delegation which belonged to the MFI but came from their main office. When they came to the local office, a day earlier, the MFI branch office staff informed us, "Tomorrow a delegation is coming to the village and wants to monitor your livestock." The loan officer told us to try and show them livestock and not to make them [the MFI staff] ashamed because "if we do not show them the livestock, then they will threaten us [the MFI 1 staff] by saying, 'Why don't you make sure the clients use the money for livestock, agriculture or small enterprises?'" Then before they came to the village, I kept my uncle's cow at home and also showed them my neighbour's sheep and they accepted this.*
>
> —Ghulam Sakhi, MC household

Clients are thus forewarned of the monitoring visits so that the appearance of following MFI rules may be maintained to outsider MFI staff. Local staff, however, clearly know that many clients do not necessarily use the loans as stated. Haleema's husband reports the same practice of showing different livestock—his own but bought before taking the MFI loan—to appease loan use monitors. He also recounts another story that illustrates the seeming superficiality of MFI concern for loan use. MFI monitoring staff is easily pleased by a reported change in loan use, even if suspicious, possibly because it may allow them to report success to their superiors.

> *There was a person who took credit from MFI 1 and said to the office he would buy some sheep. Instead he used the money for household*

consumption. When the loan officer and the foreigner came to his house, they asked him where his sheep were. The foreigner became angry and said, "We gave you the money to improve your life. You made a problem for yourself by using that money for household consumption; how will you repay it now?" Then the man's son brought a neighbour's sheep and showed them to the loan officer and the foreigner and said that they were their sheep. Then they [the MFI staff] became happy.

—Haleema's husband, MC household

This story leads one to speculate that the monitor's interest is more in repayment and reporting success (i.e. productive loan use) than in understanding how the loans are used, why borrowers make those decisions, and what this might mean for MFI 1's programme and products. This may indicate pressures to maintain the appearance of success to higher-level MFI 1 officials and outside (e.g. from local staff to the main office and main office to MISFA) — to the detriment of both in-depth assessment of how well the loan programme is functioning and client satisfaction.

The monitoring that is done does not ultimately stop clients from using all or some of the credit for consumption. This is supported by the following statements and Lyby's study of microcredit in Afghanistan[32].

For the wedding party, we used a loan from the MFI.

—Karim, MC household

I took a third loan and it was $800... I bought a cow for 16,000 Afs [$320] with this money and kept it in my house and the rest of the money I spent again for household consumption.

—Latifa's husband, MC household

I spent my first loan on household consumption because I am newly married and my husband and I live alone so we needed the money for the house.

—female participant, loan group FGD

While it is good to monitor loans and support their productive use to enable repayment, a wider view must also be taken. Given individual capacities and the opportunities available in the village economy, which kinds of additional support may be required to facilitate productive loan use? In this regard, MFI 1's stated intention to eventually link its MC programme with other programmes promoting local economic development may be a positive step forward. n

Loan groups and guarantors

While MFI 1 officially builds in some flexibility regarding guarantors[33], it seems that practices beyond this flexibility may be operating in the study village. Loan officers are potentially relying on social relationships to bend MFI guarantee rules. There is also perhaps a lack of clarity among staff on guarantee procedures, particularly for group loans. There is also evidence of changes in procedure in both tightening and loosening controls.

[32] Lyby, "Microfinance and Gender Roles in Afghanistan."

[33] For example, if an individual does not have a property document but has a relative who has received and repaid a loan successfully in the past who is willing to be a guarantor, the individual can take an individual loan.

The interview with MFI main office staff states that loan groups do not require property documents and, in fact, that the lack of such documents is what characterises group-based borrowers. Evidence from respondents who borrowed in groups, however, seems to show that a group required at least one member who could provide a property document as a guarantee. The quotation below clearly links MFI 1 staff to this requirement, presenting a contradiction between local practice and main office policy.

> *I didn't have the document of my house, so Malem Yousaf [the loan officer] told me, "You have to be in a group and one of the group members should submit his property document in the office."*
>
> —Zahra's husband, MC household

The local office may have instituted this practice in response to a previous experience with defaulting, which increased risk aversion and led to a guarantor requirement.

> *There was a person at the very beginning who took credit twice from MFI 1. He brought the letter for his land and took credit, but then he went away to Mazar with that money. The office asked his relatives for the money and his relatives mortgaged his land and paid back the office. Because of this, the office said that we should make a group and one person should guarantee the whole group.*
>
> —Haleema, MC household

Interestingly, in the case of Haleema's group, property documents were not required from the guarantor, illustrating a bending of the informal rules based on social relationships. Malem Yousaf, the loan officer, is a friend of Haleema's husband. Even after failing to find someone with a document to guarantee credit, her husband was allowed to serve as her group's guarantor.

> *...one of my relatives came and said that he brought the letter for his land to the office and he took $500 of credit. At that time, we needed money so my husband looked for someone who also had a letter for his land and wanted to take credit from MFI 1. My husband went and asked his son-in-law about the letter for his land, but his son-in-law's mother did not want to give the letter. She said that if she gave us the letter then we could take their land. My father-in-law also did not want to give him the letter for the land. After that, my husband saw Malem Yousaf. He is a friend of my husband from childhood. Malem Yousaf told my husband that he should find four women to make a group and act as a guarantor for the group, then Malem Yousaf would give them credit.*
>
> —Haleema, MC household

Another divergent practice related to collateral includes Ghulam Sakhi's experience of gaining trust through a successful group loan, then graduating to individual loans on the basis of a property document the group used; he did not need to provide his own separate guarantor. This also shows the strength of social relationships since the guarantor trusted his co-borrowers enough to allow them to borrow under his name and assets.

An interesting, final example involves collateral requirements for an individual loan that were stricter than the rules expressed — when a property document, for whatever reason, was insufficient to assure access to a loan. In Latifa's case, she recounts submitting both the property document for the household's land and requiring a shopkeeper from the bazaar to act as guarantor. No other respondent mentioned this dual requirement. In fact, Sayed Jaffer, from his perspective as a non-borrower, considered MFI 1's rules to be loosening in terms of guarantees due to good credit practices in the village. He notes that MFI 1 now provides credit based on customary property documents not only legal and registered documents[34]; he also notes that group members can individually get credit from the office using the property document of a previous group member, reflecting Ghulam Sakhi's experience.

Like those of MFI 1, the practices of other two microfinance institutions in the village differ from stated rules. The research team identified the same divergences from rules as noted in the Kabul case study that focused on MFI 3[35]. In particular, inadequate size of loans led to clients taking multiple notebooks (each loan is given with a notebook or "passbook" as referred to by MFI 3) during the same period — similar to what happens in Bamyan with the MFI 1 programme.

In relation to the less frequently used MFI 2, one of two clear divergences was the hoarding of group loans by specific group members. At times, people would request the formation of an MFI 2 loan group so that they could take more than the one loan allotted to them. In this way, they raised the required funds for their needs but were also responsible for repayment. According to Haleema's husband (MC household), MFI 2's monthly repayment made this practice more difficult:

> *I took my national ID card and that of my brother and of Sayed Nazir, but the [loan] money for all of these three people I took. Since the repayment was on a monthly basis, it was difficult for me to collect the money every month. Therefore after we repaid the first loan, I didn't take another loan from MFI 2.*

The second kind of discrepancy was loan groups that were comprised of members of the same household. This was prohibited by MFI 2 but still occurred as the following loan group description shows.

> Interviewer: *Who was in your group?*
>
> *One was Baqer, another was Ali, another was Sayed Sarwar, me, Sara and Mazari. Sara is the daughter-in-law of Sayed Sarwar and Mazari is the wife of Baqer.*
>
> —Ghulam Sakhi's wife, MC household

Again, this was practiced to access more money than allowed by the loan programme, signalling demand for larger loan sizes and the ability of some households to somehow find the money for repayment. Due to the risk of default under the weight of too much debt, MFIs tend to bar clients from membership in more than one programme and from taking more than one loan at a time. Clients do not seem to view the risks in the same way, however, and find ways around such rules. Risk and responsibility are two issues that drive loan programme structures; the next section turns to how these influence the focal MFI's operations and outreach.

4.3 Risk and responsibility

Risk is an issue for any institution delivering credit: there is always the risk of default. Lenders may aim to reduce the risk they directly bear by structuring their programme so that the risk and responsibility associated with repayment and default are borne by others. As previously discussed, rules that limit membership in multiple MC

[34] Sayed Jaffer is particularly aware of this because he only has customary documents and was previously denied credit from MFI 1 in part because of a lack of formal land documentation.
[35] Kantor and Andersen, "Microcredit, Informal Credit and Rural Livelihoods."

programmes and prohibit borrowing multiple loans per business or household are geared to reducing default risk by ensuring households maintain affordable credit portfolios. Clients, however, can easily get around these rules. This section reviews other means through which the MFI seeks to reduce the risk of default that it bears and the effects these approaches have on programme structure, loan officer's jobs, client characteristics and client outreach.

One of the most important ways MFI 1 (like most financial institutions) reduces risk in their lending is to require collateral. While some divergence from the MFI's requirements took place, it was still generally acknowledged that borrowers (particularly individuals) without a strong credit history had to provide property documents or, in some cases, an individual with property willing to vouch for them and guarantee their loans. This requirement, coupled with the desire to lend to those with existing skills or businesses, meant MFI 1 was less inclined to lend to poorer village residents who would be at greater risk of default and have few assets from which it could recover any losses. Therefore, the collateral requirement, which in practice at least seems to have also extended to some loan groups, limited the MFI's outreach to poorer, landless and less-skilled residents. As will be evident in Section 5, some poorer households did access credit, but this was generally through social relations with better-off households.

MFI 1 also uses peer pressure to shift the risk of default from the MFI to the borrower, village *shura* and village as a whole. Firstly, MFI 1 clearly informs potential clients who come to their office of their risks and responsibilities in case of business failure or loss of assets and that they would still subsequently have to repay the loan.

> *Before giving the credit, they have a form that has name, house address, amount of money and verification of the client. There was also a written statement: "I am borrowing the money and after 10 months I am going to repay." It was also written that if any livestock or oxen died or if there is a loss of the business, then the MFI is not responsible for that. And the client must repay the money from whatever sources they can find when the contract is over. Otherwise, the MFI will get the money from the guarantor and, if not, then from the* shura *and, as a last resort they will complain to the police. I needed money so I accepted all of these conditions, filled in the application form, had it signed by head of the* shura *and took the credit.*
>
> —Ghulam Sakhi, MC household

This statement also highlights the two other risk barriers that the MFI has in place: the guarantor and *shura* leader, which bring in peer pressure to ensure repayment. If the borrower cannot repay, then the guarantor (or his or her household, land, shop and so forth) is seen as the next level from which to get the funds. This also likely involves the *shura* as the intermediary between the MFI and the guarantor (or household) to facilitate repayment.

The *shura* has a range of involvement in the MFI 1 programme, from engaging with MFIs in initial discussions about the village generally and its creditworthiness to being responsible for signing off on individual loans — not as a guarantor but in a role providing necessary approval. Thus *shura* members (and perhaps more so the *shura* leader) play gatekeeper, as exemplified in the description below of how *shura* members signal a bad credit risk.

> *The* shura *leader tells us if there are some people who would not be able to repay our credit, so that we should not give credit to them. For example, there is a form that the* shura *leader uses and on which each person in the village who wants credit needs to get the* shura *leader's*

> *signature. If it is a good person and we should give him credit, then the* shura *leader signs in the correct way. If not, then he makes a small mark to show us that we should not give him credit.*
>
> —Sakina, loan officer

There was no evidence of this in the study village, but the approval process provides a potential opening for *shura* leaders to gain from their role (by charging for signatures, for example). It makes sense to engage community members to provide information to the lenders, reducing the risk of lending to inappropriate clients. How local leaders are involved, however, should be carefully considered to reduce potential for rent-seeking.

MFI 1 does not call in the police as a final means of obtaining repayment, as was indicated in an above description. Main office staff reported that MFI 1 avoids such formal responses as much as possible and most respondents verified this; unlike in the Kabul case study, there were no reports of borrowers being taken to a district officer. If involving the *shura* fails to obtain repayment, MFI 1 will instead use an even stronger form of peer pressure: it will close down lending in the entire village until the repayment is made, something which has happened in the study village.

> *Last year there was a villager named Sayed Nasir who didn't want to repay the credit. So the members of the* shura *did their best to get the money from Sayed Nasir, but they were not successful. Then the office suspended its programme in the whole area. All of the villagers were worried about this situation because many villagers wanted to get credit from the office but they couldn't. Therefore the villagers gathered and they collected money and paid instead of Sayed Nasir.*
>
> —Latifa's husband, MC household

As Sayed Nasir's story shows, closing the programme is not an empty threat and has worked to ensure high repayment rates, giving the responsibility to the *shura* and whole village.

> *If someone doesn't have money to repay the credit or runs away without repaying, then we stop giving credit to the whole village. Then, the* shura *leader and the villagers are responsible for finding money to repay us.*
>
> —Sakina, loan officer

Another group of people largely bearing responsibility for managing the risk of default is MFI 1 loan officers in terms of their role in deciding who becomes a client for individual or group loans as well as the size and terms of the loan. Due to the flexibility built into the programme, all of these decisions are left to local staff based on assessing a potential client's financial status. This flexibility is good since it allows responsiveness to local needs and conditions. It also seems that the peer pressure model used to ensure repayment works for MFI 1, meaning that no methods of holding loan officers personally responsible for defaults have yet to be developed. In the Kabul case study, MFI 3 loan officers faced salary deductions if clients could not repay; in this Bamyan village, MFI 1 loan officers did not make any similar complaints. This is not to say that loan officers do not feel some pressure to perform, exemplified in the warnings to clients before monitoring visits. Hence, loan officers are careful about who they lend to and the terms of loans, with trust being a key aspect of decision-making and again highlighting the social relations side of microcredit.

> *We give credit to those people who have a shop or some kind of work — not people who are jobless. We give credit to women who can care for livestock and who know how to do carpet-weaving...The loan amount for*

> *the first cycle starts from $50 to $500. If we trust someone, we give them $500 right away.*
>
> —Sakina, loan officer

MFI 1 reduces its own exposure to default risk through: its collateral requirements; its requirement that borrowers have an existing skill or business; and using the judgment of its local loan officers to decide who specifically to lend to and under what terms, offering more flexibility in loan products and terms than some other MC programmes. It also uses local agents to provide information on client creditworthiness, requiring *shura* leader approvals for all lending. This allows local MFI staff to involve the *shura*, a respected local body traditionally dealing with disputes, in problematic repayment cases. It also, however, reserves the right to close down lending operations if any one client refuses to or cannot repay, successfully applying the peer pressure model at a larger scale beyond a loan group to ensure clients prioritise repayments to MFI 1.

4.4 MFI preferences: programme structure

Because three MFIs were operating simultaneously in the study village, the research team could investigate how programme structure affected client preferences for borrowing from one MFI over another. Respondents expressed a clear preference for MFI 1 over the others; MFI 2 was much less well-known and MFI 3 was universally disliked. What programme elements led to this classification?

Loan term and repayment schedule, loan sizes and treatment by staff were the recurring categories against which respondents assessed MFIs, leading to the above order of preference. As the statements below attest, the larger loans of MFI 1 and MFI 2 were judged preferable to MFI 3's small loans. The long grace period of MFI 1 was preferred since it allowed clients sufficient time to work with the money and obtain some return before repayment. MFI 2 was preferred over MFI 3 in this regard because it asked for monthly, not weekly, repayments. Finally, MFI 3 staff was judged to be aggressive in terms of requesting repayment, screaming at clients, and in general acting "shamefully" according to norms of female behaviour in this particular context, thus bringing shame onto its clients. MFI 1 staff is considered more understanding and responsive.

> *MFI 3 is not good because we have to pay instalments every week and there is no benefit for us. We have credit from MFI 3, but we want to finish it early because it does not have a benefit for us.*
>
> —Haleema in female loan group FGD

> *The MFI 1 programme is going well in the village. It has many clients and the grace period is also longer. Their grace period is six months and ten months. They also give bigger amounts of credit to their clients compared to other NGOs like MFI 3, which is giving credit for a very short time and asking for the money on a weekly basis. Villagers are not happy with MFI 3 because they are giving less money and asking for repayment quickly. There is another NGO, MFI 2, which gives big loans to the villagers but asks for money on a monthly basis. I think MFI 1's credit is better than the other NGOs.*
>
> —Zahra's husband, MC household

> *People who are working for MFI 1 are very friendly and kind. These two girls who work for MFI 3 are not good. They come to our house and say, "Whether or not you have the money, you should pay us."*
>
> —Latifa in FGD of craftswomen

> *I heard from a client that said, "I am happy to beg and not get credit from MFI 3" because he was treated badly by a MFI 3 loan officer. She puts pressure on the clients.*
>
> —participant, FGD of shopkeepers

These factors very much matter to programme success. For example, though MFI 3 had just started its programme in the village, it was ending its work at the time of this research fieldwork due to its lack of programme success. It could not retain clients due to: its programme structure, which did not meet client needs; competition from other MC programmes and informal credit sources that better met client needs; and inappropriate staff behaviour, including misleading villagers from the start by making promises of help that did not materialise.

4.5 Conclusion

This section assessed lending practices at the MFI level. It examined how programmes entered the village and what implications this had for residents' understandings of programme rules; women, for example, claimed to be less involved and less knowledgeable than men in their households. Knowledge about most of MFI 1's general rules was apparent among men, but there was confusion over details. This section also evaluated MFI practices against publicly stated rules and found some divergence, particularly in the area of accessing more than one loan in order to meet borrowing needs beyond MFI loan size limits. This was common across all three MFIs and signals demand for larger amounts of credit than is available through formal or informal sources. It also highlighted the social side of MC — where social relations are used to access more credit than allowed and credit is taken and given up to maintain these relations of mutual assistance. Finally, MFI 1 reduces its risk of financial losses through various means: collateral requirements; the need for clients to have an established business; and the willingness to close down lending to a whole village after client default. These requirements and threats of closure do not make this institution unpopular; rather, it is quite valued in the study village, preferred over the other two MFIs due to its longer grace period and repayment terms and the larger loan sizes. The next section moves the analysis to the household level to understand how MC is used in household economies and to what extent it contributes to livelihood security.

5. Village cases

This section introduces the eight case households to draw out themes about formal and informal credit in the village to be further developed in a subsequent section. It presents households both in thematic groups and individually, highlighting similarities and differences in experiences that bring out some relevant key issues.

5.1 Access to and demand for credit

The initial two cases show how access to and demand for credit relates to livelihood activities and income level. They are illustrations of eligibility for MC under MFI 1 requirements. The two households differ widely in income sources and livelihood activities, which determines their exposure to MC. Whereas Zarifa knows very little about the MC products in the village, Haleema has acquired loans from all three MFIs operating in the village. The cases also show variation in demand for credit based on differing opinions about taking credit and the risk presented by repayment. The main reasons behind whether or not to take a loan are concerns over adequate income sources to use the loans productively and meeting repayment requirements. Zarifa's household understands the risk of taking a loan when having only few income sources and thus decided to minimise their demand for credit. In Haleema's case, a variety of income sources makes her eligible for a loan and, at the same time, increases demand for credit to make investments.

Zarifa

Zarifa, a woman who is approximately 60-65 years old, works as the sole supporter of an eight-person household that consists of her husband, three younger daughters, a married daughter and two grandchildren. She works as a cleaner at the local clinic, which was built and is run by an international health organisation. For this work, she gets US$80 per month. At the time of the interview, her husband was hospitalised in Kabul and has been sick for 17 years, which means the household depends on Zarifa's monthly salary. Zarifa's married daughter and two small grandchildren often live with her because the daughter's husband, who is jobless, mortgaged his land and wasted the money. Of Zarifa's four children, only the oldest son is working but is not considered a member of the household; he is based in Kabul as a soldier with the Afghan National Army. He has, however, taken the responsibility to pay for his father's treatment and the expenses for building the extra room that is currently being added to the house. He will move into this room once he gets married. The son is therefore considered a help to the household since he takes on responsibilities according to the capacity of his salary.

Zarifa's story is unique in the Bamyan study because she is the only respondent who had never heard of MFI 1. When asked, she replied that the loans being given out in village were from the Government. A wealthy relative informed her about MFI 3; she knew that it gives loans to women.

Zarifa has work and can rely on her monthly salary, which makes her eligible for an MC loan, but her husband decided not to take MFI 3 credit since they were both concerned about the weekly instalments and their lack of other income-generating activities in which to invest the credit and from which to make repayments.

> *My husband said that we shouldn't take credit because he is jobless and we don't have any work to do with that money. If one day the office came and asked for repayment but we didn't have money, then what would we do? It would be a big shame.*

This household's dependency on one income source, its lack of land and livestock, and the ill health of the traditional breadwinner makes the ability to repay uncertain, which preoccupies both Zarifa and MFI 1. As analysed by AREU researchers, if Zarifa chose to apply, MFI 1 would most likely recommend a loan taken in a group due to the lack of collateral. This loan type, however, would still be seen as risky since no one in her household could spend the money on income-generating activity. Zarifa had not been exposed to offers from MFI 1 most likely because she is very busy with her work but also because she is considered to be too poor to be approached as a potential client or loan group participant. She has no demand for MC since she can, to some extent, rely on her income from the clinic. The fear of MC is mostly rooted in being unable to repay when required. She recognises that she is not a key client of the MFIs and, thus, opts out.

This does not mean, however, that she has no demand for credit; informal credit is available to meet her existing demand. Zarifa reports good informal credit relations in the village and among relatives. One of the local shopkeepers is a relative who provides daily consumption goods on credit when needed. She repays with her salary from the clinic. Informal credit is more appealing to Zarifa because it is generally much more flexible than credit taken from an organisation.

> *Because if your relatives come to ask for their money, we can tell them that we don't have the money now and we will pay later. But with the office, we cannot tell them that they should wait.*

Her job and reliable salary from the clinic makes her household creditworthy among informal borrowers. Her loan portfolio (see Appendix) shows her ability to engage in reciprocal credit relations. While Zarifa's household shows demand for credit, this is not large and is largely characterised by the need for daily consumption goods towards the end of the month when her previous month's salary is running out. She shows a high level of expense management to avoid overdependence on credit for daily needs. Her past history includes migration during the period of Taliban rule, which forced the household to sell all its jewellery and carpets. Her household, therefore, owns neither significant assets nor land that would serve as security in times of need. In Zarifa's situation, it is therefore important to keep her budget small in order to maintain the current balance of her household. Taking an MC loan would jeopardise this balance because of new repayment demands, thus leading to the decision to not take a loan.

Haleema

The opposite of Zarifa's case is that of Haleema. Haleema belongs to a relatively wealthy household that obtains income from a variety of sources. Whereas Zarifa's household does not show significant demand for credit, Haleema's household can draw upon several sources of income and its demand for credit has generally been high. Credit is not only taken to pay for unexpected costs related to sickness or forced migration but also to invest in agriculture. This shows not only a demand for credit to solve problems but also equally a desire to invest in growing ongoing business activities. The latter is how Haleema's household may benefit from MC. In fact, this household has learned to navigate through requirements of different MFIs operating in the area, exploiting these systems for maximum benefit from MC in ways that were discussed in Section 4.

> *We have a car, we have livestock and land, so people are willing to give credit to my husband. They know that if my husband cannot repay the money, then we will sell our car, land and livestock to repay it.*

Whatever the level of difficulty faced by the household to repay its MFI 1 credit, it has maintained its wealthy reputation supported by the household's status as credit givers as well as its ability to give charity to poor villagers and help to daily labourers who work for them. In fact, Haleema's husband reported he had recently given 9,000 Afs ($180) to a relative used to repay MC. Thus, the household is viewed as highly creditworthy and as one with which to build credit connections. It is, however, unclear if people are now asking the household for more informal credit because of its access to MC or if this has consistently been a phenomenon. While relatively well off, Haleema's household also recognises that it is crucial to maintain social relations of credit in the village in order to be able to access formal and informal credit in future times of need.

Both Haleema and her husband are very positive about MC, particularly MFI 1 and MFI 2. That said, it is difficult to determine whether they have in reality made a significant surplus from their involvement with MC; after three years of MC borrowing, they still rely on informal credit, mortgage and selling off assets to meet repayment requirements. They cannot repay solely out of the profits from investment; will the income from the potato harvest be high enough to repay MC and sustain the family through the winter? Or will using some of the income for MC repayment mean relying on credit for next year's investments and winter consumption? This is also a considerable concern for other respondents who have fewer resources and indicates a possible inability to earn sufficient returns from investments to achieve livelihood security independent of credit even among those, like Haleema's household, who use the credit primarily for business.

5.2 Maintaining informal credit relations

The next three households presented hold very different statuses in the community that are primarily determined by their wealth and assets, which subsequently determines their creditworthiness. All three possess strong informal credit relations, which are maintained throughout their involvement with MC. Decisions about whether or not to take MC were guided by concerns over their perceived creditworthiness in the village and maintaining existing informal credit relations. The household of Zahra represents the lowest end of society since her family highly depends on the financial support of wealthy relatives and the landowner of the property on which they live and work like Sayed Hassan. For such landowners, showing no demand for credit is a matter of maintaining creditworthiness and honour in the village. Ghulam Sakhi's status is somewhere between the two others because he has more informal credit relations but insecure income sources through wage labour and a little land. After having taken MC for productive purposes and making an investment that has unfortunately led to little profit, he must borrow money from every possible source in order to meet repayment for both informal and formal credit. For Ghulam Sakhi, it is of paramount importance to maintain credit relations. At the same time, his story shows a possible opportunity for productive use of MC, the outcome of which is unknown since the loans were not yet to be repaid at the time of the study.

Zahra

Zahra is Haleema's sister. Although the livelihoods and MC situation of the two sisters are closely interlinked, there are substantial differences in their livelihood activities, household economies, informal credit relations and MC experiences. Their households are connected not only through kinship but also, and more importantly, through credit relations that influence access to MC for both households.

Zahra has a nine-member household. She is 30 years old, her husband is 50 and together they have seven children between 6 months and 15 years old. Zahra's husband is not originally from the village but came as a young man from another district and started working as a wage labourer for Zahra's uncle; thus he does not own land or a house in the village. The family lives in a house owned by a wealthy farmer in the village for whom Zahra's husband works as a sharecropper, receiving a share of the harvest and free housing. Zahra's husband also works as a sharecropper for Sayed Hassan, another rich landowner living in the village[36].

The landowners give Zahra's husband one-sixth of the harvest; last year, the household also received 14,000 Afs ($280) from the owner of the house in which they reside and 13,000 Afs ($260) from Sayed Hassan. The earnings usually range between 12,000 Afs ($240) and 15,000 Afs ($300) annually from each landowner. If the need is there, Zahra's husband works on a temporary basis as a daily labourer on other people's land earning from 180 Afs ($3.60) to 200 Afs ($4) per day. The household also earns income from carpet-weaving, from which they received Pakistani Rs. 3,000 ($50) for weaving two metres last year.

Zahra took a literacy course offered by an INGO. Besides domestic work, she helps collect potatoes in the field during harvest; no wage is reported for this activity. Zahra's household is by far the poorest among the eight case households in terms of cash income. For informal credit, the family depends on relations with the landowners for whom Zahra's husband works and the goodwill of wealthy relatives such as Haleema. The household has a long credit portfolio, which reflects dependence on Haleema, particularly the free loans that she would secretly give to Zahra because Haleema's husband would not approve such loans to Zahra and her household.

To supplement the relations of assistance and occasional support from Haleema, Zahra is also part of a network of neighbouring women who help each other. This was observed during an interview when Zahra's neighbour came with a packet of salt to repay her for some that had been previously borrowed. These relationships between women across wealth groups in the village have been directly reported in interviews and observed throughout the study.

Zahra's household has a significant list of outstanding loans. In some cases, repayment is pending the upcoming harvest while in others the lender has not yet asked for the money given the household's poor status. The household also has shopkeepers' credit for which Zahra and her husband must rely on goodwill because they do not have the means to repay their credit. This is evident in Zahra's statement:

> *There is a shopkeeper in the Bamyan bazaar. During the last year I bought goods for 8,000 Afs [$160] from him. He did not ask me for the money because he knows that I am very poor in the village. There is another shopkeeper; two months ago, I took 7,500 Afs [$150] and he asked for his credit twice and said to me, "I am going to Kabul and need the money." But I told him that I don't have money now. Then he did not ask me again.*

Yet another set of informal credit transactions are not expected to be repaid because they were given as help or alms. That the household is entitled to receive charity from other villagers is an indication of their low status in wealth. At the time of the interview, Zahra's husband was promised 20 *ser* (140 kg) of wheat as *ushr* (a type of charity) which he still had not collected from Jamal, a shopkeeper who is also a respondent.

Given Zahra's household's status in poverty and lack of assets, would a household with this economic background and outstanding informal debt be at all eligible for a loan? Based on the requirements of MFI 1, the answer should be no. Zahra's household,

[36] The research team interviewed Sayed Hassan as a key informant.

however, took loans in two cycles from MFI 1 and two notebooks from MFI 3, participating at least on paper quite substantially in the MC programs. How did it qualify and afford to repay these loans? The answer lies in the social relations of microcredit. Zahra's household, after its initial involvement in MC, became a conduit for others to access larger loan sizes and thereby allowed it to maintain its own social relations of support.

MC participation started out well for Zahra's household. The first loan was taken two years ago from MFI 1 in a group of eight members. Haleema established the group and her husband provided the collateral. Each member received the same amount of money ($300) and used the loans individually. Zahra's husband bought two sheep, raised them for 5 months and sold them for 2,900 Afs each ($58), earning 1,000 Afs ($20) in total. He also bought a calf to keep and use for milking and to eventually sell at a good price. The first loan had a six-month grace period and was repaid in two instalments with money from the potato harvest.

Repayment was and is a great source of worry for Zahra's household, which made the household question if it was wise to take another loan. The household, however, remained members of the loan group for a second loan cycle a year ago. The loan amounted to $500 of which they only kept $60 for their own household consumption. Zahra's husband explains that the loan was taken in a group of four people with Haleema's brother-in-law as the loan group leader. Haleema's husband was the leader of another group of three and the two groups put their money together to give to Haleema's husband and brother-in-law to purchase a vehicle. The statement below shows Zahra's husband's reluctance to take this loan for himself, given the difficulty in using it productively to support repayment:

> *Actually I didn't want to get the second loan because I knew that I would spend the money on household consumption and then have problems in money repayment. But Sayed Jabar requested that I get money and give it to him, so I took money in their group and gave it to him. I didn't take any profit from that money because Sayed Jabar was responsible for everything. He took the money and bought a vehicle.*

Despite their reluctance to sign up for another loan, the household's MC loan portfolio continued to expand when Zahra became a member of an MFI 3 loan group. A year ago, she took two notebooks of 8,000 Afs ($160) each. The household only used one from which Zahra's husband made a profit buying and selling a sheep. The money from the second notebook was given as informal credit to Haleema's husband. Haleema's husband promised to repay after three days, but the money was not repaid until three months later. This meant that during this three-month period Zahra's husband had to find the money for the required weekly repayments along with the interest payments throughout the loan period. This came at some cost to him since the money was given to Haleema's husband as a free loan.

> *The money I took from MFI 3 was a big load on me and I repaid it along with its interest without any advantages for my family. I paid the* sudh *of that money and the advantages were taken by my brother-in-law.*

In terms of using the MC loans, Zahra's household has shown a limited ability to transform its loans into profit. Lack of land and pasture has prevented the household from long-term investments in livestock; the livestock bought with MC money has thus been sold shortly after purchase with minimum profit. The livestock, which the household owns, is kept by a neighbour who they have to pay two *ser* (14 kg) of wheat per month as compensation for fodder expenses. In addition, the landowner keeps the milk from the sheep, but Zahra will receive the kid of the sheep. Selling the kid is the only real chance for making a profit from their investment that, however, has no long-term potential.

Zahra's story is followed by a description of the landowner, Sayed Hassan who is one of the two landowners that Zahra's husband works for and an informal credit provider. He is introduced here to further understand the status of Zahra's household in the village and the role of wealthy households as credit providers.

Sayed Hassan

The motivation of Sayed Hassan's household is similar to Zarifa's behind deciding not to take an MC loan; they both feel that they do not need MC and that they are not able to invest the money in a profitable manner. Their respective household economies and livelihood activities, however, differ substantially.

In Sayed Hassan's 12-person household, he is the only breadwinner since his oldest son is studying at Bamyan University. He has two wives and seven children — three from his first wife and four from his second. His oldest son is a third-year year university student; the other children attend school and literacy courses in the village provided by an INGO for which he pays $5 per person. Sayed Hassan is working for an INGO where he earns $600 per month and, in addition, has six *jerib* (1.2 ha) of land. His land is sharecropped; he employs a farmer to cultivate wheat on three *jerib* (0.6 ha) of land in return for 200 *ser* (1,400 kg) of wheat as payment. On the rest of the land, potatoes are planted and, for this, the farmer gets 1,500 *ser* (10,500 kg) of potatoes. Sayed Hassan's annual income from the land is $8,000 and in total he spends $6,000 on his household per year. It is unclear how he uses the remaining $2,000; he admits, however, that he has taken land in the village on mortgage, so it may be assumed that he gives this money to the landowner. Last year, he mortgaged land of a villager for 70,000 Afs ($1,400) and, until the landowner pays back the money, he will keep the land. This year, he will take more land in this way. Taking land on mortgage is a common activity but one which individuals rarely admit to doing because it is perceived as shameful. Sayed Hassan had no problem with reporting that he has taken land on mortgage, but he does deny giving informal loans with interest to his fellow villagers. Through other respondents, however, it was learned that Sayed Hassan provides loans with interest. But since this is seen to be a very shameful practice in the village and elsewhere, he did not confirm with the research team that he engaged in this practice.

Illustrating its relative wealth, Sayed Hassan's household does not have demand for informal credit, which is evidenced by the fact that it has never taken a loan with interest. The household can manage without relying on credit; in those infrequent times when the household needs assistance, Sayed Hassan will approach his brother who has a shop in the main bazaar and will provide him with a free loan.

This lack of demand for informal credit extends to formal credit as well. While Sayed Hassan is well informed about the MFIs operating in the village and has a positive attitude about MC, he did not take credit because he finds that his salary is sufficient for his household expenses. He does not feel a need to take credit and also explains that no one in his family would be able to use the credit in a profitable way that would enable repayment.

Sayed Hassan seemed proud to announce that he could afford to not receive an MC loan, which again underlines a position as a wealthy household in the village. Throughout the study, various respondents noted that it is shameful to take credit, especially if it entails interest and that it is perceived to be an indication of wealth and honour if it is possible for a household to decline credit — whether informal or MC.

Although he never received MC personally, he reveals a connection to MFI 1's programme that again indicates his household's wealthy status putting it in a position of patronage. One example involved a close relative, two months before the time of the interview, taking credit for her own use by including the name of Sayed Hassan's wife in a loan application. This is a form of assistance or cooperation with his relatives since his household would not receive any benefit from the arrangement; it is therefore a situation opposite to that of Haleema's case story. While Haleema's husband hoarded the money from their relatives using his status to obtain more credit from households in his network, Sayed Hassan voluntarily borrowed an MC loan without any economic benefit to his household. His emphasis on this practice being a "kind of cooperation" points to it being an act of giving assistance compared to the actions of Haleema's husband who took the loan from those who were not in a position to oppose him. Furthermore, providing access to MC can in Sayed Hassan's case be another indication of his high rank and esteem in the village and perhaps his higher relative wealth than that of Haleema's household, which is still on the economic rise and therefore still needs more credit to invest and accumulate assets. Sayed Hassan, on the other hand, has already established a more secure livelihood.

Sayed Hassan is obviously perceived to have cash ready to lend to others, reflected in the fact that he has been approached by villagers and relatives for informal credit in order to repay MC. For example, his sister once came to his home and complained about not having cash for the repayment to MFI 1, the deadline of which was approaching. She asked for $500 since the loan officer had announced the collection of the money. Sayed Hassan gave his sister the funds to repay.

Ghulam Sakhi

In order to meet daily expenses, Ghulam Sakhi has become highly indebted to relatives, shopkeepers and other villagers; at the same time, he has taken loans from the three MC programmes in the village. The motivations behind taking both formal and informal credit have been to maintain informal credit relations — invest in social assets — and to find a way to increase income by making strategic investments. He struggles to succeed in profiting from his investments due to: very high, outstanding credit; unreliable clients; little land and production; and seasonal challenges, particularly surviving the winter. This household therefore differs from Sayed Hassan in every possible sense because, in Ghulam Sakhi's case, access to MC is highly important to avoid losing creditworthiness in the village. Via his access to formal credit, he maintains his informal credit relations, which however makes his household dependent on both types of credit.

Ghulam Sakhi's six-person household is composed of himself, his wife and four children aged two to 13 years. He is the only breadwinner and has relied on a mixed portfolio of activities to support his household, including wage labour, income from a small land holding and self-employment — all quite insecure or irregular. Currently, he is working at the agriculture cooperative in the village, which is funded by both international organisations and the Government and also makes bricks for the construction of a building near his house. At a rate of 4 Afs ($0.08) per brick, he was been hired to make 4,000, which he has done. He has not yet been paid for his work, however.

The year before, Ghulam Sakhi was managing the village's generator, which delivers electricity to 300 houses. The villagers, however, did not pay him regularly for his services; since he had to take credit in order to pay for the generator's fuel, he decided to leave the job since it was not profitable. His only more reliable, though small and variable, income source comes from the potato harvest from the less than one *jerib* (0.2 ha) of land that he shares with his brother who prepares the land.

Three years ago, Ghulam Sakhi separated from his stepfather's household when the children of Ghulam Sakhi and his brother got older and it became inappropriate for them to live together, presumably due to the prospect of future marriage between them. He is now alone in maintaining his family though lives in the same compound with another brother. The stepfather, who is the brother of Ghulam Sakhi's biological father, was a significant contributor to the household, especially in terms of credit relations:

> *When we were living together with my uncle and he was the elder of our household, he was making all dealings with relatives and villagers. If we needed money, he was getting it from someone and he was dealing with them.*

During the last three years, Ghulam Sakhi has had to establish and maintain independent credit relations for his household. His household's outstanding debt seems to be increasing without any prospect of decreasing it in the near future, especially since he has not been paid yet for the work at the cooperative and cannot find other work elsewhere. Given his uncertain income flows, it is thus not clear how he can afford to spend 3,000 Afs ($60) per month on household consumption as he is doing. It is even less clear how he manages during the winter when it is practically impossible to find work in the village and Ghulam Sakhi cannot afford the expenses to go to Bamyan centre to look for work. The household's reliance on credit sources is even higher during this period.

> *Interviewer: How did you pass last winter?*
>
> *We took credit. I tell you, all of our life is passed with credit. We take credit from one person to pay another person and for household consumption. Even now we don't have anything, we have to take credit.*
>
> —Ghulam Sakhi's wife

The statement above not only refers to the household's dependence on credit relations during the winter but indicates a general dependence on credit. In order to repay his outstanding informal and formal debt, Ghulam Sakhi found alternative ways to earn money. One way is sale of livestock; three months before the interview, he sold three sheep for 7,000 Afs ($140) and repaid credit owed to shopkeepers in the village. Due to lack of income-earning opportunities, however, he soon found himself forced to take credit from the shopkeepers again — thus continuing a vicious circle of debt. Ghulam Sakhi's wife notes the difficulty that the household faces in continuing to access shopkeepers' credit, given the outstanding debt, and adds concern over their demands for repayment.

> Interviewer: *Has anyone come to ask for their money?*
>
> *My husband took money from the shopkeeper. When I needed some food, he didn't go to the shopkeeper to get those things. He sent my brother-in-law to the shopkeeper instead to get oil, rice, and beans for us. My husband said that if he went to the shopkeeper and they asked for money back, what would he do? Because he doesn't have the money now.*

Ghulam Sakhi's household's dependence on debt relates to three issues. First, the split in the family made the household responsible for its own expenditures and led to a need for credit since income-earning opportunities for the head of the household are quite limited, which is the second reason for high debt dependence. Third, his children are still young and unable to contribute significantly to household income. The need for cash has led the household to take loans from all three MFIs present in the village. These loans were used in a range of ways, including for household consumption and productive use such as fertiliser and potato seeds as well as given to other villagers to repay informal credit. The mortgaging of the land of a villager who lives in a different city was the riskiest productive use of the MC loans. To do this, Ghulam Sakhi combined a third loan cycle from MFI 1 (40,000 Afs or $800) with another MFI 1 loan taken for him by his maternal uncle and gave these funds to the owner of the land. With this investment, he expects an increased agricultural production from which he will be able to repay the MC loans. Like Zahra, he has also given MC loans to relatives and wealthy villagers. His wife participated indirectly in obtaining loans from MFI 3; she received a loan, but when she learned of the weekly repayment instalments, she and Ghulam Sakhi decided to hand over the loan to her father-in-law. A loan from MFI 2 was not used by Ghulam Sakhi himself but given to a villager, indicating another way to maintain informal credit relations.

One may question whether the harvest will bring in enough income to repay the outstanding MC loan from MFI 1, not to mention the additional resources to get through the winter. Ghulam Sakhi's problem is that he relies on too few and unstable income sources due to small landholdings and lack of wage-earning opportunities. This drives his household's dependence on debt and there are few opportunities to escape. Ghulam Sakhi is, however, actively trying to improve his household's livelihood through mortgaging land, in which MC played a major role. This is a risky venture dependent on the possibility of good conditions in which to obtain a harvest. If harvests fail, Ghulam Sakhi may find himself in an even worse position, raising questions about whether he was really qualified for a loan in the first place and how he could have been dissuaded from taking two $800 loans simultaneously. He was granted a second loan individually because he successfully repaid the first loan (taken in a group), but MFI 1 was unable to control the microcredit that he accessed through his relative. It could lead to what might become an unsustainable debt burden if luck is not with him and his harvests are not large enough to support repayment and daily needs. This raises the question whether the aim of MFIs in general to improve access to credit can increase insecurity if the capacity to use the funds and other debt burdens are not considered. This will be discussed in Section 6.

5.3 MC repayment: A question of livelihood security

Moving away from discussion of a household that experiences difficulties creating viable income sources with MC loans, the following describes how relatively stable households may have different attitudes towards MC. Jamal's and Latifa's households have similar levels of income and livelihood security but opposing attitudes towards MC: Jamal decided against and Latifa in favour of taking loans from the MFIs. The example of these two households furthers the discussion on the importance of being able to rely on several livelihood activities in order to use the loans productively and secure repayment. Their opposing views on MC shows how risk aversion leads one to be less inclined to take credit in one case while the other shows confidence in existing livelihoods activities and subsequent engagement in credit relations.

Jamal

Jamal is among the few villagers who have not taken MC. In his case, it is a matter of a firm decision, which was made based on considerations regarding the potential social and financial risks and benefits linked to taking a loan. Jamal is eligible to borrow, but decided not to enrol in any of the village's MC programs. While Ghulam Sakhi took a risky approach by mortgaging land, Jamal is very cautious and estimates that he would not be able to benefit substantially from MC.

The research team first met Jamal during an FDG with shopkeepers in the village. Shopkeeping, however, is his secondary occupation; his village shop is run by his younger son. His primary occupation is cultivating the four *jerib* (0.8 ha) of land that he owns, which is in the low but more than self-sustainable end of land holdings in the village. On his land, he cultivates clover for livestock consumption, wheat for household consumption and potatoes to sell. The income from his land last year was 90,000 Afs ($1,800).

From this income, he has to support his household consisting of ten members. Jamal lives with his wife (his third after his first wife died and his second wife divorced him) and their two sons and three daughters. From his first wife, he has two sons — the oldest, 27, is deaf and mute and the other, 24, was married seven months ago. The two youngest sons, aged between 10 and 13, are both going to school but the older of the two works in the shop in the afternoons.

Every day the shop sells 300 to 400 Afs ($6 to $8) worth of goods, of which 50 Afs ($1) is profit to the household; this provides a steady but low income. Jamal owns an additional shop in Bamyan centre, which he rents to a shopkeeper for 4,000 Afs ($80) per month. Jamal can, therefore, rely on a few relatively stable income sources to support his family. Combining the income from agricultural production and the goods sold at the shop covers household expenses during the winter, which last year amounted to 20,000 Afs ($400). He managed to meet another major expense last year: 10,000 Afs ($200) for fertiliser for the land. Whether or not the total income of his household was enough to cover all expenses throughout the year is unclear, but Jamal is determined to keep his expenses below his income.

In the past, Jamal successfully worked as a trader in Kabul from which he enjoys high esteem in the village. This can also be seen in his good informal credit relations (see loan portfolio in Appendix). Jamal's priorities and decisions are rooted in maintaining room for manoeuvring the finances of his household. This is illustrated in Jamal's decisions regarding how to manage duties connected to his livelihood activities.

> *My sons and I are working on the land. We don't hire wage labour for our land and, at the time of potato collection, our women help us in cleaning mud from the potatoes and filling the sacks.*

Not hiring wage labour but requesting all members of the household, including women and children, to contribute to the work means fewer expenses. This is combined with an attempt to keep living expenses modest, which means he can avoid reliance on credit relations.

> *Actually, I don't like to get credit because it is a big responsibility and the borrower feels shy in front of the lender. So, I pass my life with less expenses and don't like to get credit.*

Jamal is concerned with how he can make a sustainable livelihood out of his already existing income sources, which means mastering the management of credit relations, living expenses and income from his businesses. Jamal is less interested in the possibilities to expand his shop business through economic investments, which would include receiving MC. Instead, Jamal emphasises concern over how he can make the most out of the existing capital flow from his shop business. This depends on receiving repayment of outstanding credit to his customers, which at the time of the interviews had reached 20,000 Afs ($400) worth of goods. If Jamal lacks cash when he needs to restock the shop, he is highly dependent on credit from the wholesaler. The amount of credit from the wholesaler is limited; Jamal must pay instalments to be able to continue getting credit. Customer repayments are thus strongly linked to the shopkeeper's ability to maintain stock and sales.

Despite his high outstanding credit to the villagers, Jamal is considered eligible to borrow MC because of his landholdings and income from both of his shops. According to the following statement, Jamal has confidence in his ability to obtain a loan, either informally or via MC:

> *I can get money from my relatives if I need it in small amounts, I mean less than 10,000 Afs. So far I have not needed a big loan, but if I want it I*

> *can get it easily from MFI 1 because I have a shop and they can have trust in me.*

Equally interesting is that he considers 10,000 Afs ($200) a small loan and within the range that is considered achievable through *qarz-i-hasana*. This amount is on the same level as MFI 3 credit, raising a question about the extent to which MC and *qarz-i-hasana* are viewed by borrowers as competing or completely separate products.

Jamal, however, decided not to take an MC loan and, throughout the interviews, repeatedly expressed reluctance to become involved with MC programmes in the village. The reasons for his reluctance are twofold. First, he realises that his eldest sons are not capable of using the money productively in order to make a surplus from a loan.

> *My sons don't have experience; one son is deaf, also my other son is a fool. And my smaller sons are studying in school, so when they become adults then I can use them for work. Now I don't trust my two older sons because they can't work with the money and I am too old to work.*

Second, he is afraid of jeopardising his reputation in the village, as expressed by his wife:

> *My husband doesn't like it [microcredit]. My husband says, "When the office comes and if one time, I don't have money to repay," what should he do? He says it would be shameful and not good for his reputation.*

These reasons are ultimately why he has established his household to be self-sustaining, that is, not dependent on credit for daily consumption needs. The problem of repayment is a major concern, especially regarding the possible damage to his reputation in the village if he cannot repay. According to Jamal, there is another dimension to his concern about repaying an MC loan that is linked to the risk of losing property and assets in order to meet repayment. He is afraid that being required to repay MC will force him to mortgage his land. Mortgaging land was in the past a common practice when a household needed a loan. This has, in some cases, resulted in people losing their land to the person who took the land on mortgage. Jamal's concern is thus rooted in a tangible risk that has occurred in the village in the past.

Some neighbouring shopkeepers and relatives have attempted to persuade Jamal to consider taking MC to restock his shop since they found it lacked goods. This did not lead him to take a loan but does not mean that he opposes MC. He knows villagers who took MC and repaid the credit from his shop with some of the money. Even though Jamal can see this as a positive aspect of MC, it also confirms his concern regarding the risk of using MC loans on household consumption, which makes repayment problematic and can lead to a cycle of debt.

Latifa

The household of Latifa can be compared to that of Jamal in terms of level of income and diversity of livelihood activities since they both enjoy stable income from land and other activities. The theme of both Jamal and Latifa's cases is the livelihood risks that are connected to taking an MC loan. The households' respective members and their capacities differ, however; Latifa and her husband decided to take MC loans to build on existing income activities while Jamal decided not to take the risk. Unfortunately, Latifa faced bad luck in the first investment made with an MC loan; this bad luck dominates her household's story through its adverse livelihood impacts and the resulting need to climb out of the deficit created. Her story highlights the problematic lack of insurance-related products available to poor Afghans apart from informal and formal forms of credit, which themselves can increase household risk instead of guard against it.

Latifa lives with her husband and five children (four daughters and one son). She is her husband's second wife because his first wife died during childbirth 20 years ago. From her husband's first marriage, Latifa has one stepdaughter who was married ten years ago. The three oldest daughters aged between 7 and 13 are attending school and literacy courses.

The main income activity of the household is agricultural production as Latifa's husband owns eight *jerib* (1.6 ha) of inherited land shared with two brothers. Both brothers have migrated to Pakistan and Iran and do not make any claim on the production since they are capable of maintaining their households from their income abroad. The land is cultivated with potatoes and wheat; the wheat is for household consumption and the potatoes are sold to a wholesaler. Latifa's husband can produce 2,000 *ser* (14,000 kg) of potatoes annually. Last year he sold 900 *ser* (6,300 kg) of potatoes at 48 Afs ($0.96) per *ser*, which is a very low price. The fields suffered from flooding in the spring did not receive enough water in the autumn, resulting in small-sized potatoes and thus decreased their selling price. Latifa's household also harvests clover from the fields to be used as fodder for livestock. The household's secondary occupation is weaving carpets, earning between 10,000 and 12,000 Afs ($200 and $240) per year.

Based on its land ownership and range of income sources, the household is eligible for both informal credit and MC. This is observed through the credit portfolio in which one sees that the household used four loan cycles from MFI 1 and two from MFI 2. The two MFI 2 notebooks were taken by Latifa and her daughter separately and were used in part for household consumption and for paying the salary of a farmer who had helped with the land.

According to its loan portfolio (see Appendix), Latifa's household currently has minor informal debt owed to shopkeepers in Bamyan centre used for goods consumed during Eid, which is not a major source of concern. During and after periods of conflict, however, the household has been forced to take major loans from local lenders at high interest. The entry of MC in the village, therefore, gave Latifa's husband an alternative to expensive, local loans, and enabled his household to abandon dependency on local lenders. The question is, however, if MC in Latifa's case has made a real difference and whether there is a way out of the circle of MC debt by increasing the scale or productivity of existing activities. Apart from being able to finish repaying interest-bearing informal loans, Latifa's husband expected to increase agricultural production and livestock holdings. With this in mind, he took $400 from MFI 1 three years ago and, after repaying his outstanding informal loan, he bought a cow with the remaining funds. Sadly, the cow died after one month and Latifa and her husband lost their first investment. Recovery from this loss became the determining factor for the rest of the story of Latifa's household and linked to the process of deciding to take the next loan.

> Interviewer: *How did you decide to take more loans from MFI 1?*
>
> Latifa's husband: *When I took the first loan, my cow died and the rest of the money I spent on my household consumption. For repayment, I gave the money from the production of my land, so I needed money to cultivate my land for the second year and, therefore, I decided to take the second loan.*

Latifa's husband thus saw no way other than to take another loan in order to afford the production expenses for the following spring. The cow's death and resulting diversion of agricultural earnings to repayment was one factor in why the household became dependent on credit — but was not the only reason. Getting through the winter is a major concern to villagers in Bamyan and no less to Latifa's household. To get through the winter, Latifa's husband thus took the second MC loan ($600) before the start of the season in order to buy food and fuel. The loan was therefore divided between the expenses for the winter — an unproductive use generating no income for repayment — and land preparation in the spring. If the loan was enough to cover these high expenses is, however, unclear. The reason for MC being more suitable than informal credit is most probably because it is available in the fall after harvest and before the winter when all villagers need cash for wintertime fuel and consumption, leaving smaller informal credit flows.

Using the MC loans on consumption can be highly problematic in terms of repayment but especially when considering the potential of getting out of debt cycles. Latifa's case shows the problem of not having other forms of insurance available to cover the unexpected loss resulting from a risky livestock investment. Latifa was willing to take the risk since her household believed that using MC to purchase livestock would add a stable source of income to the range of their existing income sources. This household suffered a loss, however, and instead of increased income had to rely on other credit sources to meet daily consumption and repayment requirements. Microcredit — however convenient in terms of access and available amounts of money — has in this case become a burden on the household due to fixed repayment and interest charges; no flexibility was offered in light of the household's loss. Hence, the case shows evidence of how easy it is to fall into a cycle of debt. The household needed to take another MC loan due to both the major loss from the first loan and subsequent use of the loans partially for consumption, which reduced the profit generated to support repayment.

The picture is not all bad, however. Latifa's household shows a gradually increasing ability to invest with the MC loans due to the increased amount of money taken with each loan. This has facilitated recovery through more and better investment across loan cycles. During the study, Latifa's household was in its fourth loan cycle and was accessing loans double in size from the first loan it took three years ago. The fourth loan, therefore, not only covered the expenses during the winter but also enabled the household to buy good quality fertiliser and an ox with which to prepare land. These have meant increased agricultural production and income.

> *I use the ox to plough the land and use the cow to give us milk. Before this credit, I didn't have even a carpet to sit on; but now I have carpet in my home and I can also buy some cheap household equipment and this is all because of the MC credit.*

Despite the slow start in involvement with MC, Latifa's husband shows a positive attitude towards the programme. With the fourth cycle of MC, he has been able to move from being able to repay only the most urgent loans and getting through the winter to making investments with sufficient return, enabling him to spend less MC money on household consumption. The income from the potato harvest is expected to increase due to the purchase of better fertiliser from MC and good climate this year. There is indication that the household would then be able to move away from a high-debt situation, but this would be in part due to conditions out of his control — a healthy ox and good weather. If either of these were to change, the household's position may again decline, illustrating the thin margins on which households base their livelihood improvements.

5.4 MC eligibility and trust relations

The last pair of households to be discussed is compared based on their eligibility for MC from the perspective of trust relations. Sayed Jaffer and Karim have good and stable income sources, bordering on the wealthier groups in the community. However, they face opposite scenarios in their eligibility for MC. Whereas Sayed Jaffer's application for a loan was denied, Karim is approached and offered a loan without having applied for it. The two households bring up a general theme about the importance of trust relations in the community to maintain creditworthiness.

Sayed Jaffer

Three years ago, Sayed Jaffer returned to the village after his whole family had been living in exile in Iran for 27 years. During the study, he was about to expand his house with more rooms for his brothers and their families; they were therefore still sharing the household expenses. Sayed Jaffer lives with his 65-year-old older brother whose wife and son still live in Iran as well as his 46-year-old younger brother who lives with his second wife and their daughter. Sayed Jaffer's third brother is still living in Iran together with the first wife of his younger brother and her daughter. The numbers of dependants in Sayed Jaffer's household amount to 11 people, but the number of breadwinners are high and include his eldest sons who work with him as truck drivers and on the land. Sayed Jaffer's immediate family includes his wife, three sons and two daughters.

When the research team first met Sayed Jaffer, he appeared to be rather poor and said that he was denied MC by MFI 1 because he did not have land. His household, however, turned out to be rather wealthy since he owns a truck from which he runs various businesses — trading his own potatoes and also transporting other goods. He actually owns quite a large amount of land but does not have its legal title. On his 18 *jerib* (3.6 ha) of land, he harvests wheat, potatoes and clover and has managed to increase production and income every year since his return through improved production techniques.

> *In the first year after we came to the village we got 1,500* ser *[10,500 kg] of potatoes, which was very little. In the second year, we had experience and gave better fertiliser and seeds to our field and we got 5,000* ser *[35,000 kg] of potatoes. And last year, we got 6,000* ser *[42,000 kg] of potatoes. This coming year, we hope to get even more production of potatoes from our land.*

Since it has only been three years since his return, his household and income level can be characterised as in a state of transition. The household is still in the process of settling into their new home in Afghanistan and their livelihood activities and outcomes are still in flux — though on an upward trend.

Sayed Jaffer had a strong starting position upon his return to Afghanistan, having saved a significant sum while in Iran. From these savings, he was able to buy a truck and start a transport business. His good economic position is illustrated through his ability to buy 50 sacks of fertiliser to give to villagers on credit in the spring; he has sufficient cash flow to support this large expense worth roughly 40,000 Afs ($800). He said that he did this to help the villagers and did not take any profit from it. Some villagers still owe him for the cost of the fertiliser, which had been given two months before the interviews.

Given the above, why was Sayed Jaffer denied MC? The reason from the perspective of MFI 1, as analysed by the authors, is to be understood through Sayed Jaffer's financial situation as a recent returnee to the village. Based on his current economic situation, business activities and land holdings, he should be eligible for a loan. The reasons for not receiving a loan when he applied for credit three years ago upon return from Iran were: the initial state of his livelihood activities before starting his upward transition and lacking a registered land document. The land he owned was still non-productive and he needed money to restart business and land preparation. He was not met with understanding from MFI 1, however. His household economy was seen as too risky since he was in the process of buying a truck and had no trust relations in the village. The 27 years of absence from the village broke down the social relations he needed to access both formal and informal credit.

Thus, the MFI's official reason for denying him an MC loan was his lack of legal property papers; but since he could have been in a loan group, the reason is more complex. His business was not yet established, which meant low cash flow and, more importantly, he lacked social relations in village. People did not know him, so they may not have wanted to involve him in a group. Sayed Jaffer explains his lack of access to MC:

> *Actually when we returned from Iran three years ago, we needed cash money for our truck and we decided to get credit from MFI 1. My maternal cousin knew Malem Yousaf [the loan officer] and he took me to him. I met Yousaf and asked him for the money. He asked for a* sharayi *[legal according to Islamic state law] property document but I didn't have that one. And instead I had an* urfi *[common, customary] property document, but he didn't accept it and didn't give me credit. Because we were new to the village and after passing 27 years in Iran, he didn't have trust in us.*

Note that even though he had a social connection through the cousin, the MFI did not trust him.

Sayed Jaffer explained that he brought $27,000 in savings from Iran back to the village. With this money he bought the truck but needed more for repairs to the truck and for building his house. Since he was denied MC, he had to ask his brother, who remained in Iran, to send more of their savings. When Sayed Jaffer later achieved better production from his land, he did not reapply to MFI 1 — probably because the initial denial hurt his sense of honour and also due to a reduced demand for credit. He has shown himself capable of establishing a sustainable livelihood without MC.

> Interviewer: *Will you be able to get credit form Malem Yousaf if you need it now?*
>
> *He knows that we are here in the village now and have been for the last three years and he trusts us. We asked him just once for credit and didn't ask him again. We don't need credit because our life is good and we have good production from our land. I told you that at that time we had money in Iran but that it was coming a month later and that is why we decided to get loan from the MFI and to send our truck for work.*

Sayed Jaffer's experience raises questions about MFI 1's ability and willingness to support returnees during a time of transition when their income is uncertain and most vulnerable to external factors that jeopardise their emerging livelihood activities. This is exactly when an influx of credit could make a significant difference to building a secure livelihood. What are the possibilities for returnees to obtain credit to start up businesses or to assist in resettling? Is MC a possibility?

It is not for Sayed Jaffer, a recent returnee. Practically all other respondents returned to the village much earlier than he did — during the period of the Taliban and before Hamid Karzai became the current President of Afghanistan. At that time, the option of MC did not exist. The research team learned that, therefore, most of them took expensive informal loans with high interest from local lenders — for which they were grateful but greatly struggled to repay; an accessible MC programme at that time would have been very welcome. In Sayed Jaffer's case, there was a real alternative to *sudh* dealers but the structure of the MFI 1 programme did not allow him to take advantage of this opportunity; his access was denied. He was luckier than most since he needed the MC loan only to bridge a delay in receiving his savings from Iran; he did not have to turn to the *sudh* dealers. Others may not be in such a good financial position. If returnees became a specific client group, MC could fill the need for credit both to rebuild housing and start businesses.

Karim

Karim and Sayed Jaffer are both wealthy landowners but have quite different livelihood histories. Karim enjoys great respect as a shopkeeper in Bamyan centre. Through this, he has important social connections, especially to the loan officer of MFI 1, which has provided him credit in three loan cycles. Despite this, he has not achieved economic success in the business and, therefore, depends on other income sources to repay MC.

Karim lives with his third wife, eight sons and three daughters. The first wife died during childbirth after 22 years with him; he got divorced from a second wife after three years. His oldest son, 35, got married only seven months ago and lives with Karim in his house. His 23-year-old son, who got married during Taliban rule, lives with his wife and three children in Bamyan centre because he is studying and teaching at the university. This son does not earn enough to support his family, hence Karim considers him a part of the household and supports him when needed. The son also helps with farming when he has time off from school.

Karim, like Sayed Jaffer, is considered the owner of a large amount of land, approximately 14 *jerib* (2.8 ha) of land in total. On this he cultivates wheat, potatoes and clover. A year ago, Karim invested in 25 fruit trees and 30 *Safidar* trees, which are used for building, hoping to start a fruit and wood business in the future when they mature. He owns the house in which he lives along with the house in which his son's household lives, which is near the Buddha in the town centre.

Apart from being a landowner, Karim is known in the community for his large business dealings in the past. During the period of the Taliban, he owned a truck and carried goods between different provinces in the South and North. The truck was, however, seized by the Taliban. Throughout periods of conflict, the capital he derived from his previous businesses declined and he had to obtain credit in order to start or maintain businesses. His current business started as a butcher shop for which he brought animals from Kabul to sell as meat in his own or other butcher shops. His shop is owned jointly with two other villagers, but Karim is the main investor. He was approached by the MFI loan officer, who he knows personally and who offered him an MC loan.

> *One day, I met Malem Yousaf, the loan officer. He is my friend. He said to me, "If you would like to take credit, I will give it to you." Then I decided to get credit. I said that if I will need money, then it is good to get it from MFI 1 — not from relatives. If I ask for credit from relatives then my* abro *[dignity] will be looked down on by them. That is why I took credit from the MFI in my own name. I took three loans and started three years ago.*

The notion of honour plays a large role in understanding the financial situation of Karim and what is and is not being reported. He denies that he has or had demand for informal credit to start the businesses that his sons operate and even for major life-cycle events. His wife, however, provides a clearer picture of a household economy in decline. The butcher shop was restocked to sell gas and oil; both Karim and his wife explain that the son placed in charge of the gas shop sold too much on credit. He is now collecting the credit owed by the customers and the shop cannot be restocked until he collects sufficient funds.

One of his numerous sons, however, has managed to establish a business at the provincial university. While one son is studying and teaching there, another has started a small shop selling sweets and refreshments near the university and is also delivering bread to the university canteen. He buys 600 pieces of bread from the bakery every day and sells them to students, earning 1 Af per bread. On this he can earn 200-400 Afs ($4-$8) per day. Karim's household has thus shown an ability to establish a new profitable business but at the same time faces decline in its main business. Karim continuously emphasises his status as a successful business man, which mostly serves as a way to maintain his standing in the village. This is especially evident while explaining the process of deciding to take credit. He obviously relies on encouragement from others, as shown in this statement:

> *First, I saw some shopkeepers in the bazaar who were my neighbouring shopkeepers and they were talking about the credit of MFI 1 and said that they got good profits from their business. And secondly,* Malem Ayoub *is my close friend and he encouraged me more and told me, "You are a professional guy and I am sure you will get more profits from your business." So I was encouraged and went to Malem Ayoub's office and took the credit.*

He took credit three times individually, which already is an indicator of wealth and creditworthiness, since new clients generally are advised to form groups in order to receive MC. The question is whether this is a sign of his actual wealth or an indicator of his strong friendship with the loan officer since the loan may have been given individually as a courtesy to his friend. If the latter is true, it would support Sayed Jaffer's suspicion about the loan officer offering the service as an act of friendship, perhaps with personal interests outweighing a reliance on MFI 1 rules. The MC loans were first used for his butcher shop for which he bought cows from Kabul and sold them as meat to other butcher shops in Bamyan centre. The next two loans were taken to restock his shop to sell gas and oil and also partly for his son's wedding seven months ago. He was very positive while reflecting on the benefits that the loans have brought to his business and claims to have gained good profit from the loans. He describes, however, making the repayments from the production of his potato harvest and not from the gas and oil shop for which he used the money. Based on this, there is good reason to believe that he did not obtain significant profit from the business in which the MC loans were invested and instead relied on income from the potato harvest and other sources to repay.

Also in this case, there are discrepancies between the information provided by husband and wife. Karim claims to have used the loans productively in his butcher shop, but according to his wife he also used it on household consumption and wedding expenses. Karim has large landholdings and was able to repay from agricultural production. The question is, however, whether this has affected the ability to afford household expenses in the next year and whether the low profitability from the MC investments, linked in particular to too many sales on credit, may be a trap of further debt. The situation of Karim's household, like many of the others, raises questions about the potential profitability and uses of investments made with MC. Low profitability and loans diverted to pay for consumption seem to lead to continued reliance on credit in the following year for both production and consumption-related expenses. The dependence on other sources of income to repay MC is among other themes identified that will be discussed in the next section.

6. Formal and informal credit in the village: Practices and outcomes

Cases introduced in Section 5 illustrated various themes that will now be explored in more depth. Household loan portfolios (see Appendix) were also drawn upon for analysis in this section. The first theme relates to access to MC in the village, which has had an important influence on the demand for credit in general and for informal credit, particularly loans taken with high-interest *sudh*. Another theme is the influence that MC has on social relations in the village; the analysis will highlight the importance of relationships between selected actors in the village in relation to their roles in the implementation of MC. To conclude the analysis, the influence that MC has had on poverty at the household and village levels of the study site will be discussed.

6.1 Access to credit

This section examines access to and demand for both informal and formal credit in the village, particularly how demand for formal and informal credit may in some cases be complementary. It also assesses respondents' perceptions of the risk of default among the different sources of credit and how this risk may limit credit demand. While, for some, demand for MC was primarily for consumption uses including debt repayments, it was clearly for investment in productive activities for others. This illustrated the gap that MC could fill locally since informal credit was more often used for consumption and debt repayment. Risk inherent in the activities available for investment was also relevant to decisions about the productive use of MC, however. Credit demand and access are linked to notions of status and creditworthiness, which for some in the study village is also associated with trust.

Formal versus informal credit

MC forms an additional source of credit in the village. Informal credit sources has a broad and diversified presence.[37] Shedding light on different existing sources of credit is the first step towards understanding the influence made by the introduction of MC in the village. The most important point to be made regarding influence on informal credit in the village is that MC constitutes an alternative to transactions with *sudh*. While informal transactions with *sudh* are currently practiced, they were even more common in the past.

The research team encountered different types of loans in the village: *qarz-i-hasana*, different forms of charity and *sudh* loans. *Qarz-i-hasana* is known to be smaller, interest-free loans exchanged by relatives or neighbours. According to various loan portfolios, the size of the loans range from 100 Afs to 8,000 Afs (US$2 to $160) except one loan reportedly given to Sayed Jaffer's household amounting to 60,000 Afs ($1200). Large amounts of free loans, however, are uncommon. While it is common to repay outstanding debt after the potato harvest in the fall, it has been reported that *qarz-i-hasana* is not always reclaimed by the lender. This depends on the size of the loan, the relationship to the borrower and his or her ability to repay. This is indicated in the example of Haleema's husband who has not asked his daughter to repay money given as a free loan. This can be attributed to the fact that she is in the immediate family and that he is not in need of the money.

[37] The existence of informal credit sources in rural Afghanistan is documented and analysed in the AREU paper by Klijn and Pain. Not only does it identify a significant presence of credit sources, it also overturns the assumption made by the World Bank and MISFA that there is very few credit sources in Afghanistan, which forms one of the rationales behind initiating microfinance.

The other common type of credit in the village is in-kind credit from shopkeepers. All respondents use shopkeepers' credit and, from the shopkeepers' perspective, it is a normal practice in the village. Customers would request goods in terms of food and other household items from the shopkeeper. Repayment for the goods is expected to be completed within two weeks up to a month after receiving the credit. The credit is often continually accumulated and only in rare cases did the research team see it completely paid off. It is, however, important to pay some of the debt in order to be able to receive new credit. The shopkeeper normally keeps a record book of outstanding debts and the price of the item received on credit is not negotiated. It has been reported that the price of goods is higher if received on credit. In some cases, the price increases if the credit is not repaid after a month, as obversed by Zahra:

> *We took some food from shopkeepers but not cash money. If we had not paid back in more than one month, then they will charge extra… The shopkeepers would charge extra when we buy big items like flour but they don't charge more if we're buying small things like tea.*

As further indicated, the price of goods depends on the type of good taken on credit, but the size of differences in price remains unknown. The common concern of shopkeepers is how to collect repayment of the credit from villagers. It is the rule rather than the exception that this outstanding debt is a large amount of money; different amounts have been noted but, according to Jamal, roughly 20,000 Afs ($400) is a normal amount. He mentions that, at least in his case, the introduction of MC has meant that some outstanding credit has been repaid. Given that many MC takers have partly spent their loans on household consumption, Jamal has benefited from MC since it has given him more financial turnover in his business. Jamal, however, is not completely positive about MC since he believes that spending MC money on household consumption, including debt repayments, can lead to increased debt and not increased profit in the end. On the positive side, it has led to higher buying power in the village, which can be a factor in scaling up local businesses.

Another indicator for an upward trend in household economies within the village is the practice of charity. A variety of charity types in the village has been reported. The most commonly mentioned is the Shiite tradition of *khoms*, applied by villagers who belong to the Sayed tribe. *Khoms* is one-fifth of the combined value of household assets and capital (*sarmaya*). The amount is calculated by the religious clerk of the village; he is entitled to receive half of the amount. The other half is supposed to go to a poor villager, but respondents have indicated that it often goes to a poor relative of the donor. Similarly, there is *ushr,* one-tenth of the harvest given to poor residents of the village. This is – like *khoms* – given once a year. Overall, in the respondents' view, charity in general (falling under the term *khairat*) has been affected positively by the entry of MC due to improvements in agricultural production.

> *Now when MC came to the village, the villagers took loans from MFI 1 and bought livestock or oxen and this was good for them. The economic condition of the villagers also got better because they get good production from potatoes from their lands. They also give* khairat *and* ushr *from their land at the time of harvesting wheat and potatoes.*
>
> —Haleema's husband, MC client

To determine the influence of MC on informal credit requires delving into the nature of loans with *sudh* that have been common in the past. Transactions with *sudh* were practiced before and during the period of Taliban rule in Bamyan province. One individual from a loan group FGD interview described taking credit with *sudh* from a wealthy person from the area:

> *During the Taliban when I migrated, I took 250,000 Afs [$5,000]. He charged* sudh*. After three years, I repaid him 520,000 Afs [$10,400]. He was a very kind and good man; he didn't ask for his money right away. He said, "When you have money then you pay me back."*
>
> Interviewer: *What is your relationship with that man?*
>
> *He is not my relative. Everyone goes to him to ask for credit and he gives to everyone. If someone goes to ask credit from him, he will give it to him. But now people don't go to this man, they are going to MFI 1.*

As above mentioned, the loans with *sudh* have changed since the entry of MC. This is further described in the statement below:

> *I myself didn't take credit from MFI 1, but I like the credit for the poor villagers in the village and it brought some changes to the credit from* sudkhors *[provider of loans with* sudh*]. For example, a* sudkhor *gets 500 Afs [$10] from 1,000 Afs [$20] credit from borrowers and they are not able to repay it. But the credit of MFI 1 takes less interest and is easily repaid and most of the villagers use the credit for farming, livestock and shopkeeping so they get good profits.*
>
> —Sayed Hassan, non MC client, wealthy landowner

Literally, the term *sudhkhor* means "the person who eats *sudh* (interest)" and is used in a disapproving manner. The transactions with *sudh* presented a necessary source of credit for the reconstruction of material and economic assets during and after the periods of conflict and migration. Despite villagers opposing transactions with *sudh*, many respondents have expressed positive attitudes towards the possibility of taking a loan and some have described it to be a help. This explains the widespread acceptance of this type of informal credit; it is in light of this that the most important change brought about by MC must be understood. With the entrance of MC to the village, the need for taking informal loans with *sudh* was no longer the necessity it was before. The expensive informal loans have reportedly been exchanged for MC loans, which have a comparatively lower interest rate. Hence, one does not find resistance here to the idea of formal credit with interest since there is a history of informal lending at higher rates. This is an important factor for the success of MC in the village. The villagers have a positive attitude towards MFI 1 also due to the higher amounts of loans it gives and because MFI 1 follows the natural cash flow of livelihood activities in the village, providing a grace period of six or nine months according to the activity the loan is used for.

In conclusion, given the data collected in the case study, MISFA's assumptions about lack of access to credit in rural areas or only with very high interest and, thus, the expected demand for MC are not sustained. The proof is to be found in the loan portfolios and the data collected in relation to significant informal dealings — with and without interest both before the entry of MC and continuing after MC. MC, therefore, did not enter an empty market and became another choice among a wide range of credit options. For some, access to MC provided an opportunity to invest, depending on ongoing income activities and their potential for expansion. Access to and demand for credit also differ according to social status and wealth in the community, bringing in considerations about perceived creditworthiness in the village that are linked to the demand for credit. It must also be noted that for other respondents with fewer opportunities or riskier livelihood positions, access to microcredit presents a risk of defaulting on repayment of both MC and informal credit. This leads to a stronger dependence on credit sources in future — a cycle of debt. These aspects will be discussed in detail below.

Managing the risk of default

General concern about falling into a cycle of debt due to taking credit is a reason for some respondents' low demand for formal and informal credit. This leads to risk management actions to guard against increasing household debt or being in debt at all. Risk management responses are, therefore, important to understand and may include: managing expenditures to avoid relying on credit for daily needs; avoiding MC due to its repayment schedule, which is more stringent than informal credit; or, conversely, choosing MC because it is paid back in smaller amounts and not claimed by the lender in one lump sum. Thus respondents' comparison between informal and formal credit regarding risk management lies in repayment rules and practices and what is needed in order to maintain creditworthiness.

In Section 5, Zarifa showed a low demand for credit in general and very limited knowledge of MC largely due to disinterest on her part and on the part of MFI 1. The latter is because she is not perceived to be a core client of the institution — lacking sufficient income and having a household consisting of young children and a sick husband — and thus lacking household members with skills or time to start or continue a business with a loan. Her own disinterest is based on a voluntary decision made due to the borrowing requirements of MFI 1 and the potential risk that taking a MC loan would entail, specifically about inability to repay, which would jeopardise an otherwise stable livelihood and be viewed as shameful.

In the cases of Zarifa and Jamal, the strategy for managing the risk of default is to decline or cease taking loans. The positive aspect of being able to rely less on credit for daily needs is that the household becomes more creditworthy in case it is needed during times of sickness or failed harvest; the households protect access to credit for times of crisis by forgoing taking it for daily needs.

While some can avoid borrowing, other households are less able to do so and must develop strategies to reduce the risk of default. In the case of Ghulam Sakhi, borrowing from Peter to pay Paul — that is, from one source to pay another — became necessary in order to comply with repayment of credit.

> *When I took that money [MC], I had a lot of ideas about how to use it. But you know, in Bamyan there is so little work. So I used that money to repay informal credit and for household consumption.*

For Ghulam Sakhi, the risk of falling into a cycle of debt can be intensified by the availability of MC. If a cycle of debt is already apparent, MC serves as an additional source to make up cash flow shortfalls and repay other debt, presuming the borrower is perceived eligible for a loan. The struggle for cash, however, will re-emerge as the MC repayment date draws near due to the loan's fixed terms. In this situation, the struggle to maintain creditworthiness is acute since the borrower must consider which of the debts is more urgent to repay in line with the penalties associated with default.

> Interviewer: *Which one will you repay first, the informal credit or micro-credit?*
>
> *First we will repay the MFI because if we pay late then there will be a fine. Then we will repay the shopkeepers because we will need to take goods on credit again for our household.*
>
> —Ghulam Sakhi, MC client

The importance of patterns of MC repayment becomes apparent as part of understanding why MC from MFI 1 has achieved success in the village compared to the other two MFIs. They offer a very short grace period, which leaves less time to find money to repay. Due to its larger loan sizes (allowing funds to be spent on productive uses, consumption and debt repayment) and longer grace period, MC from MFI 1 presents a realistic investment opportunity through which to recoup some of the money for repayment. The value of informal credit, however, should not be underestimated; for some respondents, MC and informal credit complement each other since they meet different needs. Informal credit for some is used more as a means to meet daily consumption needs while MC meets consumption needs as well as larger investment opportunities. The use of MC for investment will be explored in the following section.

An opportunity to invest

While some case households used MC as a source of cash that could be used to repay informal credit or to meet consumption needs, others perceived MC as an opportunity to invest and expand existing income activities. This group included both men and women in the study village and represented various economic activities.

> *In our village, the women took credit in a group and some women used the credit money by themselves. They bought livestock and some women are doing carpet-weaving. There are also more women in our village who took credit from MFI 1 and they gave the money to their men… The men are using the money in farming and agriculture and some men invested the money in their shops in the Bamyan bazaar.*
>
> —Karim in FGD with credit takers

> *I bought seeds of potatoes and wheat for 5,000 Afs [$100] and I bought 10 sacks of fertiliser for 5,000 Afs [$100]. Each sack was for 500 Afs [$10]. The rest of the money was spent for my household consumption like cooking oil, flour and clothes.*
>
> —Latifa, MC client

> *I took $1,000 at the beginning of spring and I brought cows, calves and ox from Kabul on that money. And in this business, my nephew was also sharing with me and advised me to bring animals from Kabul, so we bought all the animals from this credit and brought it to Bamyan.*
>
> *I took the third loan of $652 in my own name and $652 in the name of my maternal uncle. From that money, I gave $800 to the mortgage land owner and took over the land. And the $500 — I spent 3,000 Afs [$60] from it for ploughing the mortgaged land, 7,000 Afs [$140] for buying the potatoes seeds, 5,000 Afs for buying the fertiliser and, the remaining 10,000 Afs [$20], I used for household consumption for buying the goods like beans, cooking oil, rice, sugar and other things.*
>
> —Karim, MC client

In the villagers' views, MC from MFI 1 presents a good opportunity for investment, which some of our respondents could take advantage of, though with varying outcomes (see Section 6.3). The variation in outcomes relates in part to the level of risk connected to the livelihood activity in which the borrower invests an MC loan. Latifa's case is an example of the riskiness of borrowing for productive reasons; she bought a cow in order to sell its milk and for breeding. Unfortunately, the cow died before it provided any benefit and taking subsequent loans has been necessary to repay the failed loan and make up for losses. The risk of default is, therefore, not only linked to a client's ability to use the loan productively but also to the opportunities available for investment and their inherent risk. These risks are often high when considering livestock and agricultural activities. In the end, this means that clients must consider: how to manage a range of risk factors when deciding to borrow and how to use the credit; MFI loan structure and associated default risks; informal loan sources and how quickly repayment may be requested; applying the loan to productive uses or consumption; and the risks associated with existing or potential productive activities.

A question of status and trust

Another factor that some respondents noted in their discussion of demand for credit is status. Notions of status influenced perceptions of and demand for credit in different ways, but a shared concern was avoiding the shame of default.

Status, linked to creditworthiness, affects demand for credit, which led to a desire for it in one case household yet an avoidance of it in another. Being able to take credit as an individual rather than a group can be seen as a sign of status and creditworthiness since it requires a certain amount of capital and assets. Karim is an example of this since he was approached by the loan officer — and not vice versa — to take an individual loan; he saw this as a sign of his position in the village as a large landowner and businessman. On the other hand, the ability to decline taking credit is also a sign of creditworthiness and status — to be known to be eligible but to opt out and, in fact, to be a credit giver. This was Sayed Hassan's case, showing his status in the community. Thus, decisions about taking credit are not only informed by financial interests, highlighted by earlier mentions of concern for shame should the borrower default. Reputation and social factors also enter into decision-making processes.

Perceived creditworthiness clearly affects access to credit as well; this creditworthiness is not always about physical or financial assets to the extent portrayed in MFI 1 rules. As with informal credit, creditworthiness is influenced by existing credit relations; it includes knowing that someone is able to get credit elsewhere in order to repay a loan. The notion of trust is of importance to forming and maintaining these credit relations. People must have many and good trust relations in order to be considered creditworthy and receive a loan. These are formed in a variety of ways, including through one's financial and physical asset holdings (as noted below by Jamal's wife) but also through blood ties and long, less formal relationships. As we have learned in Section 5, there are no differences in the requirements for having trust relations in order to receive MC or informal credit.

> *When we want credit, it is no problem for us. My husband would go and ask for credit because we have land and people trust my husband, so they give us credit. We don't face this problem.*

The trust relations can come in many forms and, in some cases, take the shape of particular power relations that are characterised by dependency. Patron-client relations related to credit access were present in the village, for example.

6.2 MC patron-client relations: More than a financial transaction

To understand the deeper impact and influence that MC has on the local population, it is important to point out that MC is not only a financial transaction. It also serves to reinforce particular sets of social relations among villagers that are locally often the main sources of human security. The field study encountered a number of relationships among actors in the village, which are of particular interest to this study. These relationships existed prior to the entry of MC but which have been strengthened, underlined or otherwise affected by its entry. Some of these are relationships based on hierarchies in the village or within the household and are driven by factors such as wealth, status and gender. This section builds on observations made in the discussion on access to and demand for informal and microcredit: wealth, status and other sources of power were found to be important in defining who had access to credit and who could use others as conduits for MC as well as determining demand for credit, including the ability to opt out of credit relations.

As mentioned earlier, MC enters a realm of relationships in the local community. Simplistically, any transaction involving credit may be understood as an expression of a power relationship — namely, the power to give and the power to take credit. The following focuses on the relations that traditionally exist in the local community that are either strengthened or changed by MC as well as those relations that are created in the act of giving and taking credit. This involves different actors in the community, exemplified by the respondents in the study. We have identified a set of relations which can be linked under the term, "patron-client relationships."[38]

The term here means a commitment between a person who holds authority, social status, wealth (the patron) and another person who benefits from this influence (the client). This relationship is a potential source of exploitation but can be perceived as socially and economically necessary by both actors. By pointing out patron-client relations among the respondents, it not only shows how these relations exist within credit exchanges but also how they are influenced by the introduction of MC. In some cases, MC may even provide room for creating new patron-client relationships.

Three different kinds of patron-client relationships are identified by the research team in the study village. The first set of relations is determined through access to a particular kind of informal credit involving *sudh*; this entails relations between actors with different levels of power. The second kind of relationship also revolves around credit relations but should be distinguished from transactions with *sudh,* which are primarily for economic imperatives; these credit relations take place between parties with stronger personal connections, which may also be characterised by power differences, but where a social imperative behind them is stronger than an economic one. These dynamics may arise between relatives and may at times be the basis of a potentially new relationship created by MC between a loan officer and a villager. The last set of relations, between landlords and labourers, deals with economic and social interests simultaneously.

Sudhkhor and villagers

The *sudhkhor* is a villager who has the economic resources to provide large loans to less wealthy villagers. As is indicated in the loan portfolios corresponding to the case stories (see Appendix), many of our respondents have a history of taking credit with *sudh*. Respondents explain that transactions with *sudh* took place especially during the period after the Taliban takeover in the province. It was a period where the residents returned to the village after having fled fighting between Taliban and mujahiddin. The villagers had lost the majority of their livestock and their homes had been destroyed. The villagers, therefore, had a high demand for credit at a time when supply was low and thus took loans from the few villagers who had capital to give them. The loans were given at high interest rates, which is still a concern today, but since the need for credit was high and other sources were not available, this was accepted. Transactions with *sudh* were in place before MC organisations started their projects and during a period when the villagers did not have cash to provide *qarz-i-hasana*.

> *Before the [period of the] Taliban, I took credit from* karbalayi*. He gave me a 20,000 Afs [$400] loan on* sudh *and he took 12,000 Afs [$240] of interest in that loan. I paid that money after one year. This was a big amount of interest he took from me. I took the loan for household*

[38] The team has identified gender relations, especially between husband and wife, as another set of reciprocal relationships influenced and changed by credit relations. Understanding the relationship between MC and gender relations is a complex exercise and one which requires its own study. Hence, it is not explored in this section because sufficient information was not collected in the study.

> *consumption and farming. In the time of the Najib government, I took credit from another man in the amount of 30,000 Afs [$600]. I used that money for the farming. I paid 15,000 Afs [$300] as interest. After one year, I paid his money. Eight years ago, I took credit from Sayed Hassan in amount of 20,000 Afs [$400]. I gave him 10,000 Afs [$200] profit.*
>
> —Latifa's husband, MC household

The relationship between the *sudhkhor* and the borrower is created at the point the loan is taken and does not necessarily exist before this exchange though some social knowledge of the borrower is required to ensure creditworthiness. Respondents claim that the *sudhkhor* is not likely to be a relative of the client; this would create a conflicting relationship because it is very shameful to demand *sudh* from a relative. The relationship between the two actors— *sudhkhor* and borrower — is limited to the period of the loan, which distinguishes this relationship from the relationship between the landowner and the worker to be described in the next section. The relationship is expressed through economic trust only and is not one of long-term reciprocity providing informal security.

> *We know them and they trust that we will certainly pay the money along with* sudh*. They know us because we belong to the same village. There are some* sudhkhor *in other villages like Saidabad, but they don't know me because I belong to a different village and also don't know how much land I have.*
>
> —Latifa's husband, MC household

Transactions with *sudh* have had a major influence on landholdings in the village since villagers have seen themselves forced to hand over their land in order to meet repayment. According to respondents (like Latifa's husband in the statement below), this happens frequently but it is unknown to what extent:

> *This is the cruelty of the* sudhkhor *towards poor villagers. Our capital and business is still in their hands. When the villagers need money, they take advantage of their poor life conditions and they charge whatever they want.*

Despite the obvious concern to villagers over losing landholdings, it has been seen as a necessity to take interest-based informal loans for material reintegration into the community after conflict. It has been noted that some respondents have described the ability to take loans on *sudh* as a help in times of need, indicating some kind of legitimisation of this practice. Keeping this in mind, dependence on the *sudhkhor* is possible since it may be necessary to take another loan in order to meet the needs of the household. In this case, a longer-term relationship could develop with the borrower becoming increasingly dependent on the *sudhkhor*'s service. Losing landholdings because of non-repayment is one factor that may lead to increasing dependence on transactions with *sudh*; it results in declining livelihoods and further increases dependence on debt in the future. With the introduction of MC, transactions with *sudh* have lost their legitimacy and the villagers report less demand for these dealings. As it has been argued earlier, MC is appreciated as an alternative for larger loans at lower interest.

Credit relations between relatives

In the case of the next set of relationships, the glue that links these relations is social rather than economic ties. Like the above, the relations are created through mutual trust but evolved first and foremost from social relations based on kinship or marriage; these relationships form a basis for reciprocity between both equals and unequals. Thus patron-client relationships can very well be between relatives. The imperative behind creating and maintaining these social ties is security; even between relatives with unequal power, they provide one of the few sources of support in times of need. Thus, respondents value them highly and invest heavily in them.

An example is the relationship between Zahra and her sister, Haleema. Even though Zahra's husband reports that he was not forced to give Haleema's husband the MC loan, there was undoubtedly no real alternative if he wanted to maintain a relationship of support with Haleema's household. The strong dependence on Haleema's household has both a negative and a positive side to Zahra's household's access to MC and informal credit. The positive side is that it enabled the household to have access MC in the first place. Through the collateral of Haleema's husband, Zahra was able to get an MC loan. But at the same time, the dependence on Haleema's household meant that Haleema's husband could claim MC money at the expense of Zahra's household.

A patron-client relationship can also be exercised through mutual provision of services. Sayed Hassan, being a wealthy landowner and a credit giver, is able to assist a less resourceful family to obtain an MC loan. Though he never received MC personally, he reveals a connection to MFI 1's programme — through his wife in whose name another household took a loan. This indicated his household's wealthy status in the village, putting it in a position of patronage. An important point to note is that through Sayed Hassan's wealth and patronage practices, he earns respect and the right to services in return (to be further explored in the discussion of his role as a landowner and employer).

Credit relations between relatives are very common and individuals know which of their relatives is worth approaching for credit or charity. It is common that individuals are constantly in debt to relatives in a web of reciprocity. Debts may or may not be expected to be repaid but form the basis on which reciprocal relations of help and cooperation are built, involving both the giving and taking of money and other types of assistance. It forms an important part of the security network that a household relies on to survive through hard times. It is crucial to understand how the entry of MC affects this network in different households — for whom does MC strengthen networks of support and for whom might it weaken them? In the case of Zahra and Haleema, it is evident that the relationship became stronger and both households got better access to credit.

Credit relations between relatives are not always characterised by unequal power relations; the notion of reciprocity indicates that mutual need in many cases. In fact, throughout the study, MC enters this realm of family networks and creates yet another space for cooperation and help between relatives. In some cases, however, this access to MC may ultimately lead to the creation of a patron-client-like relationship. Receiving an MC loan may signal to others an immediate increase in the household's wealth; relatives may approach with requests for credit, which are difficult if not impossible to turn down. This was Latifa's experience when she was approached by her brother who asked for money after she had recently taken a loan:

> *Two years ago, my brother came and asked about 5,000 Afs [$100]. And at that time, I had taken $2,000 from the MFI. Then my brother came and told me that now I have money, so I should give him some.*

Given the obligation to help relatives when it is possible, it can in this case be difficult to deny money to the brother. Furthermore, the patron in this case is not identified as Latifa since she was forced to give him money, which points to the observation that receiving MC may not lead to higher social status compared to relatives who did not take MC. In fact, the obligation to assist presents a risk to the MC borrower since he or she is responsible for using the loan productively and diversions, while supporting social relations and fulfilling an expected obligation, can ultimately lead to repayment difficulties. This puts the livelihood security of the MC household at risk.

The loan officer and the villagers

Another new relationship of potentially unequal power created by the entry of MC is between the loan officer and the loan applicant. One responsibility of a loan officer is to determine who is eligible for credit; thus, loan officers have the power to include and exclude villagers from the programme, which has a particular impact on his or her social relations in the community. The loan officer may not have held a particular role in the community before he or she was recruited but, through a new title and a salary from an international organisation, the social and economic capital of the person increases. This is a product of the MC programme. An example of this is the relationship between the loan officer, Malem Yousaf, and the villagers Sayed Jaffer and Karim. Sayed Jaffer was denied credit largely due to his lack of personal trust relations with Malem Yousaf while Karim was approached by the loan officer and offered a loan — without even applying — based on his long relationship with Yousaf; both had similarly strong financial positions, but Sayed Jaffer had only recently returned from Iran.

It can be argued that formal credit has had significant effects on relations in the village, from reducing dependence on *sudhkhors*, to strengthening equal and unequal credit relations between relatives. It is also creating opportunities for new relationships to develop. The activities and guidelines of the organisation, carried out by people working in the local community on a daily basis, provides the potential for the creation of new roles and spaces of influence between actors who previously did not have a relationship with the villagers. MC has also had an effect on another form of patron-client relations —between landowners and workers.

Landowner and worker

The relationship between landowner and the worker can be described as a traditional patron-client relationship, which may be compared with the feudal system of medieval Europe. An example among the respondents is Zahra and her household's relationship to wealthy landowner Sayed Hassan. From him, Zahra can get advances on future payments; Sayed Hassan is formally responsible for the well-being of her household. This means that, in case of emergency, the landowner provides the means to see a doctor or meet household expenses. The labourer's relationship to the landowner was further explained during an FGD with landless labourers:

> *I have been working for the last 20 years with Sayed Raman. Anytime I need money for household expenses or medical costs, I am taking money from Sayed Raman. He gives me money. When we get the potato production, he deducts the money from my wage. Sometimes he does not reclaim a* qarz-i-hasana *from me but gives it to me as bakhshish [alms or charity].*

It should be noted, however, that this statement was provided while the landowner was present at the meeting. The picture may not be as positive in reality; it has been noted that some landowners deduct loans from their share of the harvest. This creates a debt bondage to the landowner and forces the labourer to continue to work for him, reducing choices of future earning opportunities.

That said, in conditions that do not reach this level of exploitation, the relationship between the landowner and the client may be beneficial to the client, given his or her limited options for alternative livelihood arrangements; it may be the least-worst option. The labourer may obtain security via the relationship, that is, work, a guaranteed income, and often food and credit when needed. Despite Zahra's household's subordination to the landowner, it has a free house to live in and a secure annual income; Sayed Hassan has a responsibility to the farmer working permanently on his land.

Sayed Hassan is not the only source of credit for Zahra's household (see loan portfolio in Appendix). The household, as noted previously, obtained MC through collateral of a brother-in-law but has shown only a limited ability to transform its MC loan into profit. The challenges presented to profiting from credit use are significant since it proves difficult to use MC if there is a lack of investment opportunities. Instead, MC may create a means through which wealthier households use the dependence of those less well off in order to obtain better access to MC for themselves.

6.3 MC and the potential of breaking out of poverty

To conclude, the potential opportunity that MC creates for poor villagers to break out of poverty will be discussed, focusing on respondent household livelihoods and the village economy. From the data collected in the study village, it is difficult to argue that MC has yet had an overall positive impact on household and village economy. It is, however, not all negative either, particularly at the village economy level. Context plays a role: the potato crop has been very good for the village and the crop price good and stable. Hence, the village economy is conducive to investment unlike the situation in the Kabul case study village.

Among respondents, there is an overall sense of positivity about the entry of MC into the village in terms of effects on the household and the village. At the household level, this is connected to a greater availability of credit and at lower interest rates. Hence, the positive view of MC relates largely to MFI 1 and its larger loans, lower interest rates compared to local lenders and long repayment period, as illustrated below.

> *It was good for me because I could buy a cow and ox and could also afford the household consumption from the credit money. And if I took this money from the village, then I wouldn't get this profit from it because the villagers charge high interest.*
>
> —Latifa's husband, MC household

> *Credit from MFI 1 was good for me because I didn't have to get money from village* sudkhors. *From the credit of the MFI, I bought two sheep and one calf. I sold the sheep and, the calf, I still have it. I also used the rest of the money for my household consumption. This credit was good for me and for the villagers because the villagers got rid of the* sudhkhor.
>
> —Zahra's husband, MC household

Some also see an improvement in the quality of life due to an ability to afford more household goods or assets, which are easily sold if needed.

> *Before we took credit from MFI 1, we had to think about what to cook for lunch and dinner and we had a lot of informal credit. But now we have finished repaying all our informal credit and we bought land, a cow and a car with the office money. If the office were to ask me now for repayment, I can repay because I can sell these things. Otherwise, I can easily repay the office credit with the potato production.*
>
> —Haleema, MC household

> *I took the credit of MFI 1 and bought an ox, cow and I used it in farming. Now the ox and cow are at my home. I use the ox for ploughing the land and use the cow to give us the milk...Before this credit, I didn't have even a carpet to sit on; but now I have carpet in my home and I could*

also buy some cheap household equipment and this all because of the MC credit...When I get the production of potatoes, I repay from that money the credit of the MFI and then getting another credit [loan] from the MFI and that money I use for the winter expenses as well as for recultivation of my land.

—Latifa's husband, MC household

While these assets are cushions in times of need and available to sell to raise needed cash, questions are raised about the ability of MC to support sustained livelihood improvements because of further evidence of struggles to repay MC debt; the practice of using earnings from land production to repay MC that was invested in other activities; and the diversion of substantial amounts of MC for consumption, particularly winter expenses. Even after three to four loan cycles, there is still evidence that both better-off and poor households in the respondent group struggle to make repayments and continue to depend on debt to pay for winter expenses and continued investment.

It has a benefit. We are happy with the credit. Just the repayment time, we have to find money from everywhere to repay. But when we face problems, the credit from the office can solve our problems...

Interviewer: *Since you joined the microcredit programme, are you able to save money?*

Now we have only enough money to spend on daily needs for my household, not for saving.

—Haleema, MC household

I took $300 from the shopkeeper in the Bamyan bazaar as qarz-i-hasana *and I kept the money at home for repayment of MFI 1. When I repaid the money of the MFI, they gave me second loan individually. From that $652, I repaid the $300 to the shopkeeper and the rest of the money I used for myself...I repaid him after 10 days. For the repayment of the second loan, I had halaf [grasses] that I collected in my own field and money from potato production, which made 25,000 Afs [$500]. And the remaining 10,000 Afs [$200] again I took as* qarz-i-hasana *for 10 days from the same shopkeeper and I repaid the money of the MFI. And when I took the third loan, I repaid the 10,000 Afs [$200] to the shopkeeper and the remaining money I paid to the owner of mortgaged land, fertiliser, seeds, ploughing and the rest of the money I spent for household consumption. For the repayment of third loan, I will repay from production of my land.*

—Ghulam Sakhi, MC household

Interviewer: *In the last three years, what changes have happened in your household? For example, when there is a marriage party now, can you make a new dress for you and your children?*

No, I can't. Last year there were a lot of wedding parties, but I couldn't get a new dress for myself and my children, so I didn't go. Yesterday when there was a funeral, I took 170 Afs [$3.40] from my father-in-law to give to the family of the deceased...Now I'm very sick but I can't go to the doctor. One time I went to the clinic, they gave me a prescription for medicine that I had to buy. When I came home I tore up the prescription because I couldn't show it to my husband. My husband would say that he *didn't even have 1 Af, why am I bringing him a prescription for medicine? Now, if I go to the doctor, I will also get a prescription, but I can't afford to buy the medicine...*

Interviewer: *After you repay this loan, will you take another loan from the MFI?*

Yes, we need money because our potato production is not enough for us. You know, our potatoes this year are not growing very well and we think that the harvest will not be very good. If our harvest is not good, then we will sell our cow to repay our credit.

—Ghulam Sakhi's wife, MC client

When I get the production of potatoes, I will repay the credit of the MFI. Then I get another credit from the MFI and that money I use for winter expenses as well as for cultivating my land.

—Latifa, MC client

Haleema's statement in part sums up the benefits from MC so far: it has more to do with solving the immediate problem of access to cash for investment and consumption. There is another option to choose from and one that removes reliance on informal borrowing with interest, one of the main sources of large loans in the past. The benefits are less about clear improvements in livelihood security since most of the households have not been able to develop sufficient profits from their investments to support savings, apart from a few livestock. They still use rather large portions of the MC for consumption because potato production is not sufficient to meet repayment and winter expenses and many struggle to meet basic food needs or healthcare. So while the general assessment of MC among borrowing households is positive, this seems to be more about the broadening of the credit market, which reduced reliance on an unfavoured source of credit from *sudhkhors* rather than upward livelihood trajectories supported by household borrowing.

Similarly, the respondents view changes to the village economy over the last three years in a positive light, reflecting in part the particular context and good market for potatoes. Overall, the village economy is viable. MC can support this viability by assisting households to invest in their land and increase production. This was widely mentioned and is perceived as a positive thing. Such improvements, however, now need to be scaled up so that earnings from uses of MC increase sufficiently across more households to enable repayment of credit, reinvest in the land during the next season and cover winter expenses. This is where broader support to markets, trade, storage and transport become needed — where credit services alone cannot do enough to bring about the livelihood improvements that the respondents and MFI 1 desire.

In our village, almost all the shopkeepers took credit from MFI 1 and they bought goods for their shops and now they have more goods in the shop.

—Haleema's husband, MC household

Credit from the MFI 1 has impact on the production of those farmers who did not have money to buy enough or good quality fertiliser for their fields, so they took credit and used the money for fertiliser, seeds and to plough the land...The opportunities for farm work are better now, because production has increased from the land and the big landowners need to hire farmers for their land.

—Sayed Jaffer, non-MC household

> *Villagers did not have cash money and the rich villagers were getting high interest for their credit, but now MFI 1 gets less interest over a longer period of time. So now the economic conditions of the villagers are getting better and now they have good production from their land and have good sales in their shops.*
>
> —Zahra's husband, MC household

Finally, the case study shows that demand for MC has replaced demand for informal credit with interest; villagers can meet their needs for larger loans more cheaply through MC. MC's effect on demand for other forms of informal credit is less clear, however. The loan portfolios (see Appendix) attest to considerable exchange of *qarz-i-hasana* among close credit networks; respondents support this to an extent, saying this form of credit continues to exist but between close relatives. This is supported by the detailed loan portfolio data, which shows continued demand for credit but now from a wider range of sources because of the addition of the three MFIs to existing sources. Interestingly, Ghulam Sakhi and Jamal note a change in village relations affecting the availability of *qarz-i-hasana*. They report a decline in compassion or sympathy in the village and an increase in interest in using money for financial investment versus as a form of assistance or social investment. Hence, they perceive *qarz-i-hasana* as less available because of a growing spirit of individualism. It is not clear whether this change is linked to the entry of MC, its focus on credit as a financial transaction, and the need to invest it profitably to continue to have access. Neither of the respondents make this explicit connection. To the extent that such a change is happening, it could have considerable effects on human security in the village since over the last two to three decades, social networks were the bulwark of security for most families; as it stands, no other institution — neither the state, the market nor the aid community — seems able to suitably fulfil this role.

7. Conclusions

This case study village is a vibrant location of formal and informal credit activity as exemplified by the presence of three different MC programmes and by the complexity of credit relations shown in the loan portfolios (see Appendix) of respondent households. In terms of programme interventions, it has shown how important it is to match programme structures to client needs given the strong preference stated for MFI 1 over the others due to its larger loans and longer grace period, matching most closely client livelihood requirements. That said, MFI 1 loan rules are still routinely broken in practice as clients seek to create a product that matches their needs even more closely. Through existing social networks, this leads some to hoard loans and others to give up loans or take loans for others, largely for the social payoff attached to such acts. Hence, like informal credit, MC cannot be understood as only a financial transaction: social outcomes related to creating and maintaining sources of future support, honour and status also play a role in decision making about borrowing and lending.

The vibrancy of the credit market in the village and the range of sources of informal loans documented underline the need to step back from claims about the lack of access to credit in rural Afghanistan. Instead, MC is one valued source of credit among many available to village residents and MFIs would do well to develop a better understanding of the working of local informal credit markets to understand how to offer demand-driven, complementary services suited to local livelihood activities and attuned to reducing livelihood risk. This dovetails with interest in expanding services offered beyond credit, including savings and insurance products, which may also be of interest to villagers ineligible for MC or who opt out due to fear of default.

The local economic context has facilitated a positive village-level effect of MC. Respondents report positive views of how the village economy has changed in part due to having real investment opportunities available due to the good market for potatoes. It is, however, harder to see many sustained improvements at the household level in the three years of lending. While a few respondents have built up assets, often the profit from productive investments of loans does not appear high enough to meet both winter expenses and future investment needs (particularly in the land), meaning the need for credit is perpetuated. Margins of security do not appear to have significantly increased, such that any downturn could still have quite devastating effects on all respondents. This raises the issue of risk and to what extent MC, as part of a wider credit market, can assist reducing livelihood risk in rural Afghanistan and what other mechanisms may be required to achieve this end. This issue will be explored in a future paper focusing on cross-case analysis, drawing out the effects of different programme structures, local economic contexts and investment opportunities to further explore the role of formal and informal credit in rural livelihoods.

Appendix: Household Loan Portfolios (June/July 2007)

Conversion key

currency	50 Afs = US$1
weight	1 *ser* = 7 kg

Loan portfolio: Zarifa

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	Sayed Ali (unrelated friend of husband; lives in different village)	5,000 Afs	to go to Kabul for husband's medical treatment	2007	*qarz-i-hasana*	son will repay when he is next in Bamyan
2	relative's shop	unknown	son bought clothing on credit for Zarifa's daughters for Fakur's son's wedding party	2007	*qarz-i-hasana*	son will repay when he is next in Bamyan
		food	household consumption	in general		from Zarifa's future salary

Loans given

Loan number	To whom?	Amount	Purpose of loan	When given?	Type of loan or help	Repayment (How much and how?)
1	female neighbour (lending is recripocal between these two households)	1,000 Afs	unknown	1 month ago	*qarz-i-hasana*	exchanged for bricks

Loan portfolio: Haleema

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 Bamyan centre	goods on credit	brother-in-law's wedding party	3 years ago	goods on credit with *sudh*	repaid price of good plus a small unknown extra amount; sold cow

<table>
<tr><td>2</td><td>kheshawand (relatives)</td><td>60,000 Afs</td><td>bride price for brother-in-law's marriage</td><td>3 years ago</td><td>informal credit with sudh</td><td>repaid loan amount with one kharwar of wheat</td></tr>
<tr><td>3</td><td>two villagers from different village</td><td>350,000 Afs</td><td>bought land</td><td>1 year ago</td><td>mortgage</td><td>repaid mortgage in 1 year with money from potato production</td></tr>
<tr><td>4</td><td>husband's maternal uncle</td><td>10 sacks of fertiliser (720-1,300 Afs/sack)</td><td>for land</td><td>June 2007 (a few days before the inter-view)</td><td>in kind without sudh</td><td>will repay from money from husband's transportation business</td></tr>
<tr><td>5</td><td>MFI 2 (according to husband)</td><td>$1,300</td><td>bought Townace vehicle</td><td>2 years ago</td><td>Male group loan (4 members); 8-month loan period; one cycle; $37 monthly interest</td><td>instalments paid with income from transportation business and through sale of ox (24,000 Afs)</td></tr>
<tr><td rowspan="2">6</td><td rowspan="2">MFI 1 (according to Haleema)</td><td>loan A: $260</td><td>bought land and/or household consumption and/or loom</td><td rowspan="2">loan A taken 3 years ago</td><td rowspan="2">female loan group; Sayed Abbas served as guarantor</td><td rowspan="2">borrowed $100 from relatives; mortgaged land; sold car, husband took credit of $100-$200 from 3 shopkeepers</td></tr>
<tr><td>loan B: $2,000 total amount taken by Haleema</td><td>all group members gave loan to Haleema for husband to buy car</td></tr>
<tr><td>7</td><td>MFI 3 (according to Sayed Abbas)</td><td>3 notebooks of 8,000 Afs each</td><td></td><td>1 year ago</td><td>3 notebooks taken under Haleema's name, her mother-in-law's name, and her mother's name; 47-week loan period</td><td>weekly total instalment of 750 Afs (220 Afs per notebook plus 90 Afs for savings); Sayed Abbas did not remember exactly how instalments were paid but had income from vehicle</td></tr>
</table>

Loans given *(Haleema)*

Loan number	To whom?	Amount	Purpose of loan	When given?	Type of loan or help	Repayment (How much and how?)
1	labourer who farms on their land	3,000-3,500 Afs	poverty; father had died; household expenses	start of every year	*bakhshish*; *komak*; *khairat*	not expected
2	close relatives	100-5,000 Afs	unknown	in general	*qarz-i-hasana*	repayment expected within 20 days
3	neighbour	3,000 Afs	unknown	June 2007 (2 days before inter-view)	*qarz-i-hasana*	after neighbour finished weaving carpet
4	married daughter	unknown	unknown	unknown	*bakhshish*	husband did not ask for repayment

Loan portfolio: Zahra

Loans taken

<table>
<tr><th>Loan number</th><th>From whom?</th><th>Amount</th><th>Purpose of loan (How decided?)</th><th>When taken?</th><th>Type of loan or help</th><th>Repayment (How much and how?)</th></tr>
<tr><td>1</td><td>villager living in a different village</td><td>3,000 Afs</td><td>unknown</td><td>15 days ago</td><td>khairat</td><td>not expected</td></tr>
<tr><td>2</td><td>neighbour</td><td>900 Afs</td><td>unknown</td><td>2 months ago</td><td>qarz-i-hasana</td><td>sold wheat to repay</td></tr>
<tr><td rowspan="2">3</td><td rowspan="2">Haleema</td><td>1,000 Afs</td><td>to buy thermos for tea</td><td>4 months ago</td><td rowspan="2">qarz-i-hasana</td><td rowspan="2">repay when finds money; loan was in secret</td></tr>
<tr><td>flour</td><td>household consumption</td><td>in general</td></tr>
<tr><td>4</td><td>landowner for whom</td><td>10,000 Afs</td><td>household consumption;</td><td>this spring</td><td>advance</td><td>landowner cut this</td></tr>
</table>

	husband works	1,000 Afs	clothing for children; pay MFI 3 instalment	in the last year		amount from husband’s share of produce from the field
5	Relative	1,000 Afs	child birth-related costs	6 months ago	*qarz-i-hasana*	has not asked for repayment
6	shopkeeper	8,000 Afs worth of goods	household consumption	in the last year		shopkeeper knows he is a poor man so has not asked for repayment
7	shopkeeper	7,500 Afs	household consumption	last year		asked for repayment twice because shopkeeper was going to Kabul but has not asked again since
		2 sacks of rice		2 months ago	in kind	future income from farming
8	brother-in-law (who had taken an MFI 3 loan)	8,000 Afs	urgent need to buy goods	last year	*qarz-i-hasana*	indicated repayment after 3 days but, in fact, repaid after 3 months
9	landlord	unknown amount	repay relative for loan 9	in the last year		unknown
10	shopkeeper in bazaar	500 Afs	bought clothes for neighbour on credit after money given by neighbour to Zahra was used by husband to pay MFI3 instalment	in the last year		paid shopkeeper after 5 months with income from harvest
11	neighbour	200 Afs	to pay MFI 3 instalment	in the last year		unknown
12	neighbour	unknown amount 3 times	to pay MFI 3 instalment	in the last year		unknown

13	relative	7,000 Afs	winter expenses (fuel, children's shoes)	2 years ago	*qarz-i-hasana*	unknown
14	landlord	3,000 Afs	unknown	2 years ago	*qarz-i-hasana* and *ushr*	paid 1,000 Afs after potato harvest; rest was not repaid but taken as *ushr*
15	MFI 1	loan A: $300 with $30 interest deducted	bought 1 calf (7,000 Afs) and 2 lambs (2,400 Afs each, which were raised for 5 months then sold for 2,900 Afs each); the remainder for household consumption	2 years ago	loan group (6-month loan period)	sold 300 *ser* of potatoes from his share of production for 11,000 Afs
		loan B: $500	gave money to villager to buy vehicle	1 year ago	loan group	villager responsible for repayment
16	MFI 3	2 notebooks each of 8,000 Afs; 650 per notebooks initially deducted); 20 Afs savings for 7 weeks; total interest: 2,400 Afs per notebooks	gave 8,000 Afs to brother-in-law and spent remainder on household consumption; according to Zahra, some of the MFI3 loan was used to pay weekly instalments	1 year ago	taken by Zahra in loan group; 47-week loan period	weekly instalment of 165 Afs per notebook; taken from daily labour wages and when brother-in-law repaid his loan

Loans given *(Zahra)*

Loan number	To whom?	Amount	Purpose of loan	When given?	Type of loan or help	Repayment (How much and how?)
1	husband of Haleema (Zahra's sister)	3,000 Afs (from MFI 3 credit)	unknown	last year	*qarz-i-hasana*	repaid 1,000 Afs after 3 months, then another 1,000 Afs after 4 months; 1,000 Afs remain

Loan portfolio: Ghulam Sakhi

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	father	170 Afs	to give to family of deceased at funeral	2 days earlier	*qarz-i-hasana*	not yet
2	shopkeepers in village and bazaar	approx. 18,000 Afs total (6,000 Afs from each)	household goods	since spring	prices cost a little more than if had paid with cash	will repay after potato harvest and payment for work by cooperative; sold 3 sheep for 7,000 Afs to repay village shopkeepers 3 months ago
3	fuel shop in bazaar	6,600 Afs	fuel to operate generator because villagers had not paid him	1 month ago	in kind	income from potato harvest
4	owner of generator (according to wife)	15,000 Afs	oil and other items for generator because villagers had not paid him	last winter		used MFI loan
5	shopkeeper in main bazaar	11,000-12,000 Afs in goods	household consumption	since spring	in kind	not yet repaid
6	Ghulam Sakhi's brother (lives in village)	5,000 Afs cumu-lative	two sacks of fertiliser; household goods	since spring	*qarz-i-hasana*	not yet repaid
7	gas shopkeeper in village	600 Afs in gas (3 loans of 200 Afs each)	household consumption	since spring	in kind	will repay with future salary and proceeds from potato harvest
8	Ghulam Sakhi's father	household goods	goods remained from an engagement that did not take place; given to household and his wife on credit	last winter	*qarz-i-hasana*	not yet

9	shopkeeper in bazaar	11,500 Afs	served as neighbour's guarantor to buy generator	1 year ago	served as guarantor	neighbour repaid 8,500; shopkeeper asked Ghulam Sakhi for the remainder
10	neighbour (not related)	27 *ser* of wheat	household consumption	2 years ago	*qarz-i-hasana*	repaid same amount of wheat from production
		20 *ser* of wheat 1 year ago		1 year ago		
11	shopkeeper in Bamyan bazaar (friend)	loan A: $300	paid first two MFI loans	three years ago	*qarz-i-hasana*	repaid with MFI loans each time after 10 days
		loan B: 10,000 Afs		two years ago		
12	Ghulam Sakhi's brother (a soldier in Kabul)	30,000 Afs	for the winter; fertiliser; tractor (hired at 650 Afs/hour for 1.5 hr); household consumption (according to Ghulam Sakhi); repay MFI 1 loan (according to his wife)	over past 3 years	*qarz-i-hasana*	not repaid
13	MFI 1	loan A: $264 ($36 in interest)	bought seeds and fertiliser; rented tractor; household consumption	2 years ago	loan group (4 members); 6-month loan period	took $300 in *qarz-i-hasana* from a shopkeeper in Bamyan bazaar
		loan B: $652 ($148 in interest)	repaid $300 to villager; 3 sacks of fertiliser for 550 Afs each; seeds; household goods		loan B and C were individual loans; property document of one group member used	25,000 Afs from grass and potatoes; 10,000 *qarz-i-hasana* from same shopkeeper

		loan C: same as loan B in addition to taking MFI 1 loan from maternal uncle); 18% interest and 1.5% admin charge; combined $1304 ($296 in interest)	repaid 10,000 Afs to villager; 3,000 Afs to plough land; 7,000 Afs for potato seeds; 5,000 Afs for fertiliser; 10,000 for household consumption; $800 for taking land on mortgage and		to guarantee both loan cycles; told MFI 1 that the loans were for livestock; 10-month loan period	will repay with income from harvest
14	MFI 3 (according to wife since Ghulam Sakhi said he never took credit from this MFI)	Ghulam Sakhi's father took 7 MFI 3 notebooks. He gave Ghulam Sakhi two notebooks	used loans partly for household consumption, then returned it all to his father because could not pay the instalments	1 year ago	Ghulam Sakhi's father formed loan group of 7 members including Ghulam Sakhi and his wife	took cash credit from shopkeeper to repay part used for household consumption, then gave whole amount back to Ghulam Sakhi's father
15	MFI 2 (according to wife)	$300 (in 2 note-books)	household consumption; gave loan to friend	2 years ago	loan group (6 male and female members)	$60 monthly repayment with $5 interest over 5 months; paid with salary from work with generator

Loans given *(Ghulam Sakhi)*

Loan number	To whom?	Amount	Purpose of loan	When given?	Type of loan or help	Repayment (How much and how?)
1	neighbour	20 Afs	to give money to family of deceased	day of interview		
2	a man (landowner) who now lives in Mazar	40,000 Afs	to pay for 9 *ser* of land		mortgage (will hold land until owner pays; no production to be given)	took MFI 1 loan

Loan portfolio: Jamal

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 Bamyan centre	up to 3,000 Afs in goods	to stock shop	in general	unknown	when villagers repay Jamal for goods bought on credit; if they do not, he goes to another shopkeeper to buy goods on credit
2	villagers	10,000 *ser* of potatoes at 35 Afs per *ser*	to sell to commission agents in Kabul at 40 Afs/sair	four years ago	unknown	repaid one month later with payment from the commission agents
3	shopkeeper in bazaar	18,000 Afs in clothing	clothing for wedding party	7 months ago	unknown	will repay after potato harvest
4	shopkeepers in Bamyan centre	2,000 Afs in clothing	clothes for Eid	6 months ago	in kind	will repay after potato harvest
5	villagers	2,000 Afs in rice	unknown	2 months ago	in kind	will repay after receiving rent for shop

Loans given

Loan number	To whom?	Amount	Purpose of loan	When given?	Type of loan or help	Repayment (How much and how?)
1	relatives, friends, neighbours and villagers known by Jamal	20,000 Afs in total (each time made up of 300-500 Afs in goods)	household use	in the last year	in kind (unsure if with or without *sudh*)	some villagers but not all have repaid through farming, wage labour, sale of livestock
2	poor villagers	1/10 of wheat and potato production	use up to the recipient household	every harvest	*zakat* (charity)	not expected
3	poor villagers	part of production or cash equivalent	use up to the recipient household	Eid ul feter (holiday)	*fetrana* (charity)	not expected

4	Sadat people	1/5 of wheat and potato production	use up to the individual household	every harvest	*khoms (charity)*	not expected
5	neighbour	100 Afs	to repay MFI 3 instalment	6 months ago	*qarz-i-hasana*	unknown
6	neighbour	200 Afs	to repay MFI 3 instalment	2 days ago	*qarz-i-hasana*	repaid the next day

Loan portfolio: Latifa

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	Sayed Hassan	17,000 Afs	farming and household consumption	a few months ago	*sudh*	repaid with 8,000 Afs *sudh*
2	neighbour	2,000 Afs	household consumption	2 months ago	*qarz-i-hasana*	will repay after harvest
3	MFI 1	loan A: $400 ($50 deducted for interest)	to buy cow which died after 1 month	loan A taken 3 years ago	MC in loan group	repaid with potato production; paid first instalment after 8 months and the second 2 months later
		loan B: $600 ($30 interest)	according to Latifa: to buy ox, cow, wheat seeds (5,000 Afs), 10 sacks of fertiliser (5,000 Afs); gave $200 to Haleema; remainder for household consumption			repaid with income from potato production (75,000 Afs); according to Latifa, sold cow and its calf to repay loan
		loan C: $800 ($70 interest)	according to Latifa, to pay for 15 sacks of fertiliser (1,400 Afs each) that had been bought on credit; to buy potato seeds; household consumption			according to Latifa, not yet repaid; will pay with income from production or sell ox if production is not good
4	MFI 3	2 credit books of 8,000 Afs one in Latifa’s	household consumption; according to Latifa, also to pay their	1 year ago	Latifa took loan in female loan group with relatives and	200 Afs per week for each credit book with salary from

		name and one in her daughter's name; 20 Afs per week savings for 5 weeks; MFI 3 deducted 400 Afs from each loan	farmer		neighbours	cooperative; took credit from relative to pay one of the instalments

Loans given *(Latifa)*

Loan number	To whom?	Amount	Purpose of loan	When given?	Type of loan or help	Repayment (How much and how?)
1	Latifa's brother	20,000 Afs	to pay uncle for his land	1 year ago	mortgage	not yet paid off mortgage
2	villager	1,700 *ser* of potatoes worth 77,000 Afs	villager sold potatoes to commission agents in Bamyan bazaar, also took them to Kabul to sell	1 year ago	no *sudh*	paid for potatoes after 2 months
3	Haleema's husband	$200	asked Latifa's husband for credit to repay his MFI 1 loan	in the last year		Latifa's husband promised when MFI repayment was due, he would give Haleema's husband the money

Loan portfolio: Sayed Jaffer

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	friend in the village (knew each other from potato business)	60,000 Afs	repair of truck after son's crash in the Salang Pass	two years ago	*qarz-i-hasana*	after five months with income from truck business
2	friend from potato business who has a shop in the Bamyan bazaar	12 sacks of fertiliser	farming	last year	*qarz-i-hasana*	not yet repaid; friend says money is not needed and repayment can wait until money available after potato harvest

Loans given *(Sayed Jaffer)*

Loan number	To whom?	Amount	Purpose of loan	When given?	Type of loan or help	Repayment (How much and how?)
1	cousin	13,000 Afs	rent of Jaffer's truck	1 year ago	*qarz-i-hasana*	repaid 7,000 Afs 6 months ago; remainder outstanding
2	a Sadat man from the village	2,000 Afs	unknown	3 months ago	*qarz-i-hasana*	borrower says he does not have money and Sayed Jaffer will not yet ask for repayment; will repay when man finds the money
3	relatives and villagers	50 sacks of fertiliser	for the land	2 months ago	*qarz-i-hasana*	will repay when potatoes are harvested

Loan portfolio: Karim

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	relatives	loans of various sizes totalling 40,000 Afs	son's wedding party	this year		
2	man who lives in a different village	60,000 Afs	to open butcher shop	2 years ago	*sudh*	charges 20,000 Afs *sudh* every year; extremely insistent on repayment; demands 15,000 at the time of the interview
3	MFI 1	loan A: $500	to start livestock and butcher business	4 years ago	individual loans	fined for late repayment of 3 days; sold potato production to repay

		loan B: $1,000 ($250 interest deducted); also acted as guarantor for loan of $1,000 to nephew	to buy 10 cows, calves and ox from Kabul to sell in own and other butcher shops; as guarantor for loan to nephew (his partner in butcher shop) to buy animals	3 years ago		repaid with profit from sale of animals in Bamyan and potato production; repaid before deadline
		loan C: $2,000 ($300 interest deducted)	to start oil and gas shop and paid for son's wedding	last year		repaid with income from potato production; repaid before deadline

Loans given *(Karim)*

Loan number	To whom?	Amount	Purpose of loan	When given?	Type of loan or help	Repayment (How much and how?)
1	villagers	unknown	rent for use of tractor that husband rented from cooperative	currently		unpaid
2	poor villager	2 sacks of flour	household consumption	June	*bakhshish*	not required
3	relative	$100	to repay MFI credit	this year	*qarz-i-hasana*	repaid after one month
4	clients of oil and gas shop and *jalabi* (bargainer, trader)	150,000 Afs in total	goods on credit	cumu-lative; unclear when began	shopkeeper credit	not yet repaid
5	potato commission agents	75 sacks of 12.5 *ser* potatoes each	to buy potatoes on credit for sale in Kabul	1 year ago		not paid
6	relative	5,000 Afs	household consumption	2 years ago	*qarz-i-hasana*	not yet repaid

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* Publication is available in Dari
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