Case Study Series

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

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Glossary*

Afs	Afghan unit of currency; approximately 50 Afghanis = 1 USD
augrayee	credit for goods, repaid in instalments
haram	unlawful
hawala	is an informal fund transfer system based on trust among a network of participants
jez	gifts to the bride from her family
karez	canals
purdah	female seclusion
malik	community leader
muzarebat	a partnership between an investor and a businessman in which one provides the money and the other provides the work; profit is divided between the two, while loss is carried only by the investor
mullah	religious leader
qarz-i-hasana	credit on good terms, with no interest
shariqi	in a business partnership where one provides the money and the other provides the work; profit is divided between the two, while the loss is carried only by the investor
sudh	credit with interest
takhtjamee	a ceremony held by the groom's family after the wedding to show relatives from both sides the *jez* (gifts to the bride from her family).
wasita	social relations with powerful people
woliswal	district officer

Acronyms

ANDS	Afghanistan National Development Strategy
CDC	community development council
FGD	focus group discussion
GoA	Government of Afghanistan
MC	microcredit
MFI	microfinance institution
MISFA	Microfinance Investment Support Facility for Afghanistan
NSP	National Solidarity Programme
PRSP	Poverty Reduction Strategy Paper
SDF	Sanayee Development Foundation

* 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).

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Executive Summary

This case study is the first in a series of three to examine 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 from past AREU research on informal credit systems (Klijn and Pain 2007), 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 inter-link and feed off each other — what effects are created on livelihood security and debt burdens.

Its findings are based on analysis of qualitative data collected in one village in Mir Bacha Kot district where a series of key informant interviews and focus group discussions were conducted with microcredit (MC) clients and non-clients, leading to the selection of eight households for in-depth case studies. Four MC client and four non-client households were selected, the latter to enable comparison of stated changes in livelihood outcomes between those involved and not involved in the programme. The study village, while in close proximity to Kabul city, does not benefit as much from this economic link as it could due to negative effects of drought and asset decapitalisation experienced during the war between the mujahiddin and the Taliban, during which the Taliban burnt grape vines and orchards and destroyed the *karez* (canals).

One microfinance institution (MFI) is operating in the study village. It lends primarily to women with an aim of facilitating socio-economic change for women in their households. It delivers a standardised credit programme with required savings before loan disbursement, weekly repayments and a 47-week loan term. Clients found the loan sizes (5,000 to up to 12,000 Afs per loan) to be small, moving some to take more than one loan at a time, generally in relatives' names, against programme rules. Many also found the weekly repayment extremely difficult because loans were used for consumption, or because cash flows from productive investments did not match the repayment period. Client struggles over repayment and the loan officers' and branch office's need to maintain strong repayment performance for the central office, led to practices in the village not always matching MC programme rules. Hence loan officers assisted some clients with repayment, reimbursing themselves from later double payments made and avoiding a salary cut, and at times used client savings for repayments, again against programme rules. These practices arose from the MFI's programme structure which tended to push default risk and responsibility as far from the institution as possible, to the loan officers, clients and even *maliks* and district officers. These actions and the non-client-led programme design resulted in some borrowers being disenchanted with this MC provider and dropping out of the programme.

The evidence collected of client dropouts and some extensive loan portfolios from both MC and non-MC clients points to the invalidity of the assumption that there is a lack of access to credit, at least in this study village. When people needed credit (which was often) most could access it, including informal, cost-free credit in amounts similar to that offered by the MFI. The decision of some villagers not to join the MC programme due to issues with *sudh*, and the decision of some clients not to continue in the programme also highlight that alternate sources of credit exist. Thus MC does not enter an environment devoid of financial services but a competitive environment in which potential clients make informed choices about where to borrow.

The success of MC is often measured in relation to repayment rates. That was also the case with this MFI. However, while the case study shows people do make repayments, this is often achieved through great struggle, including depending on informal borrowing, selling livestock, going hungry and even holding back a portion of the loan to use for repayment. The struggle to repay in this study village was partly because of the marginal nature of economic activities due to the effects of drought and conflict. Even those using the loans productively struggled to earn sufficiently to support repayment. As a result, respondents tended to view the effects of MC on household economies or the village economy negatively. The lack of water in the village had a stronger effect, outweighing anything the MC programme could do. While microcredit may have helped to solve an immediate problem (i.e. medical crisis, other need for funds), it did not appear to bring sustained positive change over the years it functioned in the study village.

Six conclusions can be drawn from the case study, many closely interlinked:

- Demand for credit exists in the study village, but most if not all is met by existing informal and now formal credit products. Thus, when an MFI enters a new area it should survey the range of products available, recognising it is likely entering a competitive market and offering only one among many possible loan products.
- The MFI's interest in operational self-sufficiency — reducing its own risk and earning sufficient revenues to cover costs — outweighed that of serving client needs. Hence the credit programme it offered is not the best suited to client needs. In the MFI hindered its own ability to achieve self-sufficiency as client numbers were reported to decline in the village.
- Context matters to MC delivery. In a context with such marginal economic activities, MC may not be the best intervention, given the difficulties in earning a sufficient return on investments to meet fixed term repayment obligations.
- In order to respond to both the competitive informal credit market in this study village and to the economic context, the MFI would do well to develop a more client-led approach to MC delivery.
- The MFI's aim of facilitating a process of socio-economic empowerment of women borrowers suffered from an overly technical approach. Self-formed groups which seemed largely to exist to support repayment collection, and access to credit are expected to be sufficient to support what is an extremely complicated process in any context, and even more so in Afghanistan.
- Relying so much on repayment rates to indicate the success of a microcredit programme can lead to perverse incentives in practice which potentially do harm to both clients and the MFI. Monitoring more carefully how clients make repayments would bring out: the dependence of the formal system on the informal, something very strongly illustrated in this case study; the possibility that client debt burdens increase with involvement in MC; and the use of other negative strategies clients resort to in order to meet their repayment obligations. Such information would contribute to developing a formal credit delivery model that builds from the informal and contributes more positively to rural livelihood security.

1. Introduction

Afghanistan is one among 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 stated as one of the benchmarks for rural development in the country's interim Poverty Reduction Strategy Paper (PRSP), the interim Afghanistan National Development Strategy (ANDS), which aims to increase such access for 800,000 households by the end of 2010 (GoA 2006; GoA 2005). In this objective, however, there is an implicit assumption that rural households do not have access to financial services and that financial services, particularly credit, promote livelihood security and economic growth —notions that have yet to be supported through evidence.

Past research by AREU has highlighted the importance of credit and debt in the livelihoods of rural Afghans (Grace & Pain 2004) and has also explored the pervasiveness of informal credit systems and the extent to which many rural communities already have access to financial services, albeit in the "informal system" (Klijn and Pain 2007). Recently completed AREU research raises questions about the assumptions driving the introduction of microcredit[1] in Afghanistan, particularly around lack of access 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 inter-link and feed off each other — with what effects on livelihood security and debt burdens. This case study aims to answer some of these questions by building on AREU'S past work on informal credit systems. It is the first in a series of three studies covering one village in each of the three selected provinces; Kabul, Bamiyan and Balkh. 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 such effects impact the overall village economy. The three provinces were selected because they provide access to different microfinance institutions (MFIs) and hence allow the study to cover the practices of three different MC delivery models.[2]

To address some of the issues mentioned, the study is guided by the concepts of public and hidden transcripts (Scott 1990; Rahman 1999). According to Scott (1990), 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. It shows how subordinates act in the face of power. 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 — not necessarily one that is more true, but one that in its discrepancies with the public transcript hints at how power may affect relationships, as well as practices.

Informed by Rahman's (1999) approach to analysing the Grameen Bank, this study applies the concepts of public and hidden transcripts to microcredit delivery in Afghanistan. The public transcript is the public 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 related in interviews with borrowers, non-borrowers and loan officers in the study village. Differences between rules and practices can highlight places where the formal programme does not quite meet the needs of the participants; 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. This

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

[2] More than three models exist in Afghanistan. However based on the in-depth nature of the study and time constraints, 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 the public description of their lending models; this information will contribute to a future briefing paper on MC programme structures.

occurs when loan officers in the middle, tasked with implementing programme rules are also given incentives to bend them, 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 (not bound by regulations, outside of established, monitored systems). MC, on the other hand, is considered formal credit, as it is delivered within a system of rules. However, as will be noted in this paper, such distinction is not always clear cut; formal and informal credit systems may intertwine in different and complex ways, with 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 and to fund life cycle events such as marriages and funerals (Klijn and Pain 2007). 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*, which is cost-free credit. 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 (Klijn and Pain 2007). Thus, repayment terms tend not to be fixed and "defaulting" — which in the case of informal credit means being unable to repay upon receiving a request from the lender — is common. There are generally few repercussions to an inability to repay due to reciprocal ties between borrowers and lenders, where role changes within the relationship are common. This makes social ties primary to the financial transaction, with much effort 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, and 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 to assist the needy embedded within Islam. 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 gain some level of security in exchange for loyalty (Klijn and Pain 2007; Wood 2003). Evidence of the relatively easy access to informal credit for those in need of 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.

Interest in microcredit for the poor in Afghanistan started in the post 2001 period when both the Afghan government and the donor community considered large scale microfinance facilities within Afghanistan as a central component of sustainable development programmes.[3] Decades of conflict followed by a severe drought 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 stabilize livelihoods, improve productive assets and stimulate economic development and job creation. In August 2003 MISFA was established as a governmental apex institution. MISFA estimated that potentially 2 million households were 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 252.8 million USD has been distributed through partner MFIs, reaching a total of 314,208 active borrowers (www.misfa.org). One important requirement for MFIs receiving credit through MISFA is

[3] MISFA websit: www.misfa.org.af

achieving operational sustainability.[4] This is a worthy goal in that donor dependence in the long term does not make for a stable and reliable service. However, given the cost structures and security constraints characterising the Afghan context, pressure to achieve sustainability quickly skews incentives for the MFIs, making them treat MC delivery almost solely as a business transaction versus a development intervention. 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 in relation to programme structures and outcomes. The goal of operational sustainability also influences where microcredit is delivered, since concentrations of clients lower delivery costs; hence in Afghanistan, MC is mostly urban and peri-urban based, with fewer MFIs having a large rural presence.

This case study presents results of in-depth interviews and focus group discussions with borrowers and non-borrowers from one village in Kabul province where one MISFA-funded MFI is working (henceforth called the MFI). Its aim is to begin to fill gaps in knowledge about how MC and informal credit interact, contributing to the development of approaches to the provision of financial services in rural Afghanistan that better integrate into existing "informal" structures. This is in recognition of the economic and social importance of informal credit systems to rural livelihood security, and the ideal of leveraging from this and not infringing upon it.

Key questions 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 and with what effects do the two systems interlink?
- What strategies do households use to manage repayment of the credit 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 — that of the study village and that of the MFI, the latter representing the MFI's public transcript of its programme rules and operation. 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 operations in the study village, highlighting issues around: lack of understanding of programme rules due to a trickle down mode of programme introduction; the clear aim of the MFI to divert as much risk of default away from itself to loan officers, borrowers and others; the incentives for the less powerful within the MFI structure to present a successful picture, measured by repayment rates back to the MFI central office; the functionality of loan groups for repayment over their proposed objective of socio-economic empowerment

[4] Operational self-sufficiency is the ability of an MFI to cover all administrative and financial costs with 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.

for women; and the façade of lending to women when it is widely understood that men tend to use the loans. Section 5 moves the analysis to the household level, presenting details of the case study households and raising themes to be explored in Section 6, specifically about access to credit and the assumed lack thereof in rural Afghanistan; the links between the formal and informal credit systems, which in many cases show the formal system to be dependent on the informal, particularly in terms of achieving the reportedly high repayment rates; and the perceived benefits of formal credit in terms of effects on household and village economies. Section 7 provides conclusions, highlighting that while MFI intentions are good, and a need for credit clearly exists in the village, how the programme is delivered in this case is problematic. The programme design has been imported from another context and is not responsive to client needs and livelihoods in the specific MC delivery context, to gender relations in the Afghan context, or to the existing informal credit market operating in the study village, leading to outcomes not in line with intentions.

2. Village and MFI context

2.1 Village context

The Kabul case study village is located in Mir Bacha Kot District, about 20 km outside of Kabul city. On both sides of the main road into the district there are shops belonging to the main bazaar in the district centre. The village's connection to the district centre bazaar and its proximity to Kabul form the immediate background for understanding the economic dynamics of the village. The peri-urban location of the village presents a potential for trading and selling of products from the village. The products grown in the village — mainly fresh and dried grapes — are sold in the wholesale market, Mandawi, in Kabul. However, this potential is currently not fully harnessed as the production of grapes is very small. Lack of water due to drought and the destruction of the village's water source, the *karez* (canal), make it difficult to produce enough to earn a significant income. Thus the villagers' experiences of conflict and drought — the former having particularly negative effects during the Taliban period — are also important to understanding the economic conditions of the village. These experiences have had long-term effects on village asset holdings, affecting the impact microcredit can have on village livelihoods.

Historical context

The anecdotal history of the village describes it as originating before the period of Amir Abdur Rahman Khan (1880-1901). A government servant, Mir Bacha Khan, gathered men to protect the area, thereby giving the district its name. At this time the study village is said to have grown up around a big mosque in which people from the surrounding villages gathered to discuss conflicts and events occurring in the area.

Because of its proximity to the Afghan capital, the Kabul village has through its history been placed in the physical frontline between the changing opposing parties during the last three decades of armed conflict. During the Taliban period, the villagers belonged to the Taliban rival groups of Jamiat-e-Islami and Hisb-e-Islami. This led to serious damages to the bazaar and the main livelihoods income sources of the village, the vineyards. Forced migration to Iran, Pakistan and other Afghan cities, such as Kabul, Pul-e-Khumri and Mazar, also occured. This is obvious to every visitor when entering the village today. The ruins in between newly rebuilt buildings, the destroyed water canal and the vineyards, which were cut down by Taliban, tell their own story of recent war and migration.

The village

The study village is estimated to have 386 households, including both Tajiks and a small number of Dari-speaking Pashtuns. Some Pashtun households married into families of the village, perhaps due to the long-term relations existing between the villagers and nomads. There are many sources of income generation to be found in the Kabul village among which the main activities are fruit gardening, farming, shopkeeping, daily labour and livestock rearing.

The majority of the village households own fruit gardens, where they predominantly grow grapes but also mulberries and walnut. The vineyards which were seriously damaged by the Taliban are only now beginning to yield production. The main obstacle to cultivating the grapes and any fruit trees is lack of irrigation sources due to the destruction of the *karez*. Whereas the majority of the people have grape plants, only a few households were recorded to grow enough for selling. Most of the families are only able to cultivate for their own consumption due to both water shortages and damage to the vines and trees.

For those with land to farm, crops are limited to wheat and selected vegetables: onions, potatoes, tomatoes, peppers and leeks, which are for own consumption and in some families for sale in the bazaar. There are also some families recorded who collect aniseeds, mushrooms and wood fuel from the mountains. These products are sold in the bazaar in Mir Bacha Kot or Kabul (Mandawi).

Most households have livestock. These include cows and calves, ox, sheep and chickens. While many families own chickens, it is not common for families to own cows and sheep. Some women who do own these livestock stated that they are producing and selling dairy products which are sold in the bazaar. Availability and cost of grass for grazing is one constraint on owning livestock.

Around ten families enjoy income from shops in the big bazaar close to the main road in Mir Bacha Kot. The part of the bazaar which is placed on the street leading to the village is where the ten village shopkeepers have their shops. The building is owned by the *malik*, who takes rent monthly from each shopkeeper. The shopkeepers offer a variety of goods and services. There is a shop selling material for carpet weaving, a grocery shop, a barber, tailor, pharmacy, shoemaker, butcher and a cook (who also does catering and rent of crockery) and there is a restaurant. Inside the village itself, there are three small shops selling a limited variety of food ingredients, vegetables and sweets. In the village there is also a miller and a tailor.

In general there are many households who depend on activities connected to the district bazaar as well as the Kabul market. Among these is transportation services; as recorded, one truck with a container, a minibus, and a taxi and private vehicles (Toyota Corollas), which are used by the villagers for travel and by the shopkeepers to transport goods from the Mandawi wholesale bazaar in the heart of Kabul. There are also around 12 teachers working in the district school, a policeman who serves the district office and around 20 households earning an income as government servants within the national army in nearby Baghram and as police officers in Kabul.

Within the village, wage labour is carried out within agriculture primarily in collecting grapes and weeding the vineyards. However, the possibility for wage labour is concentrated in the spring time, when the vineyards need attendance. The limited possibilities for wage labour within the village are somewhat compensated for through the market in Kabul, especially during the winter, when there are no other activities in the village. Many families send their older sons to Kabul for wage labour within construction and some sell vegetables from carts on the streets and in the Mandawi bazaar. Some young men are also working in car workshops as well as carrying goods. However, some of the respondents reported that opportunities in Kabul are declining due to more competition for work. As a result, some have stopped going to avoid incurring transportation costs, only to find no work.

The majority of the women in the village do not work outside of their homes for income. Their work is primarily housework and raising children and many are also involved in livestock rearing. Some women have handicraft skills such as the ability to embroider flowers on curtains (*gul dozi)*. The team has recorded a couple of households with sewing machines, and some women say that they would sew clothes for other people in the village, but not for payment. As the village is conservative in terms of observing female seclusion, or *purdah*, it is rare that women in the reproductive age go outside of their homes. Only elder women tend to go outside of the house to buy daily food. One activity carried out by women more so in the past before the Taliban was collecting grapes from the vineyards. They collected grapes during harvest time and placed them in boxes. For the work the women would receive money and fresh grapes. This however has stopped now as the production of grapes is very low and some women said it is shameful for women to work in the fields. Instead, they are responsible for drying the grapes on the roofs of the houses. This is not an income generating activity as most of the dried grapes are used for household consumption.

An important aspect regarding the power structures in the village is the *malik's* position. His role while carrying out the fieldwork as well as in relation to villagers' access to informal credit and MC shall be further detailed below, but a couple of comments should be added here regarding his overall role in the village. The *malik,* as the head of the community development council (CDC) and as a wealthy villager, holds significant power in the study village. He has accumulated relatively significant wealth in part through his ownership of a building in the main district bazaar in which he rents out ten shops. He runs a pharmacy himself and also owns houses in the village, in which members of his extended family reside. Even though the *malik* suffers a significant hearing impediment, he is highly respected in the village; although some also believe he is corrupt and withholds assistance from the needy.

While the *malik* and people linked to him either socially or through kinship hold power and status in the village, another indicator of wealth and power is land holdings. These have rarely been recorded in terms of land size but rather by the amount of grape vines owned. The amount of grape vines owned by villagers have ranged from between 13 at the low end, up to around 200-250 grape trees. The latter is a large number and requires seasonal wage labour, which is another way to acquire power in the village as the owner becomes a source of income for poor households dependent on wage labour.

2.2 MFI programme[5]

The MFI active in the Kabul village has been delivering MC in Afghanistan since 2002, although at a relatively small scale until an expansion in 2005 concurrent with the receipt of a new three-year MISFA contract. It has maintained a presence in the Kabul village (and the study district) since 2004, meaning clients have had the opportunity to go through multiple loan cycles with the programme. The MFI initially worked in Afghanistan only through a group lending model (village organisations), and has established 8,919 groups across the 19 provinces in which it works, as of the end of 2006. The groups serve as guarantees for the loans to members. More recently, the MFI has begun to offer individual loans for small businesses. It primarily lends to women, although it provides some group-based and individual loans to men. As of 2006 the MFI reported having approximately 131,400 outstanding borrowers, cumulative disbursements of 52.6 million USD and an outstanding portfolio of 19.0 million USD. Its average loan size was 267 USD. As of September 2007, it reported covering 82 percent of its operating costs with revenues, with plans in place to reach 100 percent coverage by the end of the year.

The MFI operates three loan projects on:

1. Poverty alleviation which organises groups of poor women who save for six weeks and then are eligible for loans from 5,000 to 10000 Afs, often for off farm activities. If a larger loan is desired, the branch manager must approve it.
2. Agriculture and livestock development (rural-based) which provides training to groups of women in poultry, livestock management and vaccinations; men also can be involved and receive training in crop production. These loans range from 15,000 to 50,000 Afs in the first cycle and can increase up to 70,000 Afs in the second, and then there is no maximum after that. Loans of this size were not reported in the study village.
3. Small enterprise in urban and suburban areas, which provides individual loans in larger sizes of 50,000 up to one million Afs. Repayments for this type of loans are monthly due to the larger loan size. These loans were not offered in the study village.

[5] This information was drawn from individual interviews with the head of the MFI's microcredit programme, the MFI's 2006 Annual Report, information from village level interviews, and interviews with district level staff of the MFI (in a different district than Mir Bacha Kot).

The MFI offers savings facilities and a death benefit. The latter is a one time payment of 5,000 Afs, provided to a designated person if the borrower dies while a member of the programme. For those in project 1, saving is tied to obtaining a loan — at least establishing an initial level of savings of five percent of the loan amount. From that point MFI representatives state that clients are able to use their savings as they like and save weekly by their own choice. It views the savings as a form of security — for unexpected events and for old age. The only restriction on the use of savings is that members are not allowed to use them for repayment. Clients receive a six percent return on savings according to the MFI's annual report from 2006.

All borrowers receive a notebook in which their loan amount and repayment amounts are recorded and weekly repayments are accounted for; according to the MFI's Kabul office, clients are charged 10 Afs for this passbook. Loans are repaid each week over one year (47 weeks). According to the MFI all information is provided transparently to borrowers so 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. MFI viability is a central concern and is measured by its repayment rate. The MFI achieves viability by selecting clients posing less risk of default and has done so successfully, as it reports a 98 percent repayment rate on its loans in 2006. How repayment is achieved by borrowers is investigated in Sections 4 and 6.

The branch offices of the MFI are computerised and staffed by a manager, accountant and programme officers, each of whom covers an area of 4-5 km, by foot or other personally provided transport. They are expected to visit two groups per day to collect repayments and hence are each responsible for 12 loan groups.

Credit operations begin with a survey in new villages to identify poor households who are then approached to join the programme, generally in groups. Village interviews noted the requirement in the past of borrowers, largely women, needing to provide a photo in order to join. This goes against cultural norms of *purdah*. It is unclear whether this is still an official requirement. Households borrowing from the MFI are not to have loans from other MFIs and only one member in a household can receive a loan at any one time. Late repayments are penalised by a fee of 50 Afs per day.

The MFI lends to women in order to facilitate a process of empowerment — of social change for women. In fact women's empowerment is the second of two main aims of the MFI, the first being poverty reduction. The MFI perceives itself as able to create social change through forming village organisations — women's loan groups. These groups first provide a social space for women outside of the home, providing women a place to express themselves. Providing access to money is a second function of the groups, which also, in time, is expected to lead to greater control of the funds and even to greater control of wider household resources. Through this process, women are to become empowered, experiencing increased mobility and decision making involvement in the household.

Future aims of the MFI are to become a sustainable lending organisation in Afghanistan; to expand to other areas of the country and increase its client base five fold. Increasing the client base reduces programme costs and improves the potential to become operationally sustainable. Challenges reported by the MFI in running its MC programme include the influence of mullahs in communities — particularly in villages, and the demands of clients for larger loans.

3. Methods

3.1 Village selection

In order to select a suitable village for the case study, the research team first short listed districts in Kabul province using background material from the MFI, guided by data on length of operation in the districts and number of clients. After short listing two districts (Istalif and Mir Bacha Kot, both reported by MISFA to have significant numbers of MFI clients), the team visited the areas to chat with shopkeepers about the area and gauge general interest in the study and especially openness in relation to talking about MC. Based on this experience, and the specialist livelihood activity Istalif is known for (pottery), Mir Bacha Kot district was selected as more representative of districts in the province based on its mix of on farm and off-farm livelihood activities, and people seemed more open to having the study take place. The research team then went to the NSP facilitator for the district, SDF, to request further information on two of the villages in the district where the MFI was working which were of appropriate size, had a significant number of active clients, and had at least two years of MC lending history. The team also requested assistance in being introduced to the communities. The team did not intend to enter through the MFI as this could bias the research and lead to greater expectations from respondents that the researchers had some benefits to offer. SDF was very helpful in providing the requested information and introductions.

The rural livelihoods research team consisting of four Afghan researchers (two female and two male) and an expatriate supervisor subsequently visited the villages in order 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 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 along the way. The male team went to the fields and the female team knocked on compound doors and occasionally went inside for a cup of tea. They introduced themselves and AREU, the purpose of the study and the concept of research and asked for general information about the village, gauging interest and willingness to participate while doing so. This information fed directly into discussions of which village to select.

Informal discussions with villagers served as an entry point to the village in terms of acquiring basic information about the village. Moreover, it fulfilled a two-fold purpose in assessing the field site. First, it allowed the team to meet many people living in the village, enabling it to identify which individuals stand out as either key informants or potential household case studies. Second, these discussions spread the word of the research team's presence and the scope and purpose of the research study.

Having selected the village of study, the research teams 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 study.[6] At the same time, this meeting provided initial information about the village history, its socio-economic 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

[6] The same process of receiving informed consent was followed with each respondent or focus group.

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 the interviews themselves, as the presence of the expatriate could cause unnecessary attention and interrupt the interview sessions.

3.3 Focus group discussions and key informant interviews

The introductory meetings were the first means of identifying focus group participants and key informants, with potential household case study candidates identified among participants in the focus group discussions (FGDs). In total ten FGDs were carried out along with nine key informant interviews. The focus groups varied in size, with between three and 14 participants.[7] FGDs were held with different sub groups of interest, including village elders, shopkeepers, widows and loan group members. The key informants were selected based on their role within microcredit practices in the villages, and included the district officer, *malik*, some loan officers from the MFI and senior staff in MFI branch offices. The focus group discussions 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 program's entry in the village. The information gathered from these initial interviews provided an important contextual understanding of the village and MFI practices there, as well as some information about individuals' use of MC. This latter information assisted in selecting household cases.

3.4 Household case selection

The field team selected eight households for in-depth interviews, four who joined the MC programme and four who did not. Only eight cases were selected because of the depth of data to be collected and the time this entailed. Selecting cases was a very important step in the study and 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, and reasons for joining or not joining the credit programme. The selection of the household cases was done by the team and the supervisor jointly with the aim of selecting cases presenting a diversity of livelihood activities, credit uses and reasons for not joining the MC programme.

To facilitate the selection of the eight households, the team spent the first three to four weeks conducting FGDs and key informant interviews and developing a list of household profiles describing those considered as potential household cases. The four MC household cases were selected first, with the aim of selecting the four non-MC households to match these to some extent — similar livelihoods, household circumstances, etc., to facilitate comparing across cases. Also of interest in selecting the non-MC cases were the reasons for not joining — by choice or excluded for other reasons.

In selecting the four MC households the team had two main selection criteria, livelihood activities and their particular involvement with MC. The team wanted to include both farm and non/off-farm activities across the four households, as well as to select households representing different credit uses such as for livestock and agricultural use, business use or consumption, and numbers of loan cycles. Apart from these, the MC households were selected according to their asset base to get a variety in wealth rankings. This is always a difficult estimation, but was determined from the acquired knowledge of the respondents' property, variation of income sources and creditworthiness in terms of existing and

[7] In one case, the female researchers interacted with an assembly of 40 village women who had gathered to meet with representatives from an international NGO; this was a good way of introducing the study to a large number of women.

potential credit relations. The team was also interested to include: a female- headed household as a credit taker due to the MFI's focus on lending to women; as well as a shopkeeper or two, given the role of shopkeepers in the village as credit providers and also as key microcredit clients with their generally steady cash flows. Ultimately, the final respondent households were selected according to how household members expressed their opinions about MC, their motivations for taking and not taking MC and whether or not they found MC to have any benefits (via personal experience or observation of others' use of it). It was important to collect different views on microcredit among both MC and non-MC households in order to provoke substantive discussions about the influence of MC on informal credit and livelihoods activities. Table 1 gives an overview of the selected case households.

3.5 Household interviews[8]

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 activities, and formal and informal credit relations. The aim of the household interviews was to capture the specific stories from the different members' perspectives 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 to understand differences in understandings of these issues, and to uncover differences in credit practices and knowledge within households by gender.

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 about what was learned in previous interviews. The first interview gathered information about every member of the household, their activities in the household — from doing household work, to studying, to 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 collecting numerical data regarding the credit given and taken by the household — how much, when, what it was used for, whether or not the credit had been repaid, and if it had, how. The second interview focused on experiences with MC among those in the programme, and on opinions and knowledge of MC among those who did not join. Again, numerical data about the loans taken were collected, but emphasis was on a substantial discussion about the changes MC had brought to the household and at the village level, probing based on the information gathered during the first interview.

[8] A household was defined in the study as a group eating together from the same pot.

Table 1. An overview of the selected case households

Case identifier[9]	MC borrower (Yes or No)	HH size	Main livelihood activities
Jamila	Yes	6	Vegetable and fruit vending
Nasima	Yes	9	Work as police; sell generator connections; grape production; relative of *malik*
Qasim	Yes	5	Shopkeeping
Akram	Yes	11	Agricultural production; milk sale; mason work
Farooq	No	9	Mason work; shopkeeping
Hamid	No	6	Mason work; taxi service
Nilofar	No	6	Work as soldier; cotton preparation
Daud	No	8	Teaching
Akbar*	Yes		Shopkeeping

*Akbar is Daud's brother; his was the initially identified household case but Akbar initially did not want to participate. His brother's family was included due to their close credit connections. Later Akbar agreed to be interviewed as a key informant.

This study develops in-depth descriptions of the selected households' livelihoods and experiences with microcredit and compares those experiences with those not taking microcredit to understand the different perceptions of MC and engagement with credit networks more generally across both groups of respondents. Households were selected for the diversity of stories 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, "Microfinance and gender roles in Afghanistan" (Lyby 2006), which in scope and purpose resembles this study as it also seeks to understand the socio-economic status of microcredit loan takers and non-loan takers, their understanding of MC, uses of credit, and perspectives on the changes MC has brought. There are however significant differences in method. Whereas Lyby's field sites include both urban and rural settings, this study looks exclusively at rural dynamics of livelihoods and credit. The World Bank- supported study, while also using a variety of qualitative methods, seems to aim at coverage rather than an in-depth understanding of household strategies in coping with MC.[10] Providing the latter insight is this study's contribution. The length of time AREU's field team spent in the study village — 11 weeks from February to late April 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. As a result, the study is rich in detail, uncommon in the type of research done in this context.

3.6 Challenges in the field

The research team faced a number of challenges throughout the fieldwork, which influenced the methods used in this site and others. As such, they are worth noting.

One challenge involves the prominent role of the *malik* in the study village. From the beginning, it was clear that the *malik* acted as the "gatekeeper", not only for access to MC

[9] Note that all names used in the case study have been changed to protect the privacy of the respondents.

[10] 135 household interviews and 41 FGDs were conducted across rural and urban sites in four provinces (Lyby 2006). 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.

as will later be discussed, but also for access to the villagers and thus respondents. He was overly eager to introduce the team to villagers with whom he was related or had strong connections. This presented challenges in terms of meeting residents beyond the limited social circle of the *malik*, a step necessary to the process of household case selection. In addition, the *malik* insisted on being present at every interview at the early stages of the fieldwork, which naturally limited the respondents' ability and willingness to be open and informative to the team members. This, together with the rather large size of the village, meant that the team had to spend more time on outreach and informal discussions in the village, and in politely and patiently convincing the *malik* to cease his involvement in the study.

Well into the process of interviewing the selected respondents, the "novelty" of the research team diminished and the villagers became increasingly suspicious about the work and amount of questions asked by the team members. Also, unmet expectations of assistance and some form of compensation for their participation in the research caused impatience among the villagers who found it difficult to keep interest through two separate interviews. This was overcome by bringing cookies to the respondents as a thank you along with thorough explanations of the scope and purpose of the study by the team members whenever questions were raised. Once the interviews started, the team faced challenges in obtaining much of the data required in the study as it is perceived to be shameful for people to reveal levels of debt and credit relations to an outsider. The length of time the team could stay in the village helped ease some of the tension to some extent.

The need to interview women also fostered disapproval among some men, who did not allow the female team members to interview their wives. As it is an AREU requirement to gain informed consent from all respondents, such families had to be dropped as a case study household, or proceeding with the male respondent as a key informant if the case was unique enough to justify this.

4. Microcredit Programme in Practice

Section 2.2 provides the official view of how the microcredit programme is to operate in the field, drawn from interviews with MFI officials at various levels. This section assesses what happened in practice in the village, from the entry of the MFI when it started its programme, to its day-to-day operations from the perspectives of village residents, and from the MFI staff responsible for enacting MFI rules. This section also examines: how the means of village entry affects the understanding of programme rules; divergences between official rules and practices and what they say about client needs versus programme structure; the distribution of risk and responsibility between the MFI, its staff and clients; and why women are the MFI's primary client group even though most MFI staff seem aware that few women actually use the loans, and the loan groups do not seem to function with the intended social purpose.

4.1 MFI entry and understanding of programme rules

Accounts of how the MFI entered the village show differences in interests between loan officers and potential clients, and differences in access to information across male and female village residents. The female loan officers interviewed[11] provide the official account of entry (as illustrated in the exchange below) geared toward reducing the risk of lending to non-viable clients versus disseminating information to a wide range of possible clients.

> *When we want to start MC in a village, at first we have a survey in that village. When a person wants to take credit he/she comes to the office. After that we ask the* malik *about that person and then we find their names in the survey form and the* malik *signs a paper that he/she lives in this village. Then we give them credit.* — Loan Officer 1

Loan officers report their first step as doing a survey of village residents, to have a list of names against which to confirm residence among those requesting loans, and to assess household livelihoods in relation to ability to repay. This is supported by a senior MFI branch office staff member (not from the study district) who reports:

> *We surveyed the area; I mean we had a group of surveyors and went to each household and talked with them about their socio-economic conditions as well as to find out the income activities of the people. In this process we rejected one village, because the people said to us that this village is doing gambling and they will not repay the loans.*

The same person goes on to note some interaction with district officials and village representatives, once a village is selected, to pave the way for village entry:

> *We surveyed the area and after that we had a meeting with the district level* shura*, district officer and religious clerics to tell them about the credit.*

MFI staff collects more information about assets, income and the like after potential clients come forward to request loans, again to assess client viability. This process is described more in section 4.3 on the distribution of risk and responsibility.

While the loan officers assigned to the village report the survey as their first point of contact, most male village residents interviewed in the study recall an informational

[11] The MFI had only female loan officers in this village, due to their greater attention to lending to female clients. One female loan officer worked with a male loan group.

meeting in the mosque as the first contact point between village residents and MFI representatives. The common story told is reflected by the account of Akram, a microcredit client whose household went through four loan cycles:

> *In 2004 when the MFI came to the village, their representatives came to the congregation mosque along with the* malik *and collected the elders of the village in the mosque. There were two men from the MFI and they told the elders about credit. They explained to the elders that you can inform the villagers about our credit and if anyone wants to get credit he/she can come to our office next to the bazaar.*

Men in the village either heard about the credit opportunity directly through attending this meeting, as in the case of Daud, a member of the *shura* at the time the MFI entered the village, or they heard via the flow of information from this meeting. Two of our male respondents reported hearing from a neighbour and one of them also knew about this official meeting but had not been present.

One male respondent, whose uncle is the *malik*, could also detail the district level interactions with the MFI occurring before village entry, and emphasises the *malik's* role in informing the village:

> *Before this programme came to the village the MFI representative talked with the district officer in the district office about the implementation of the programme. The district officer collected all the* maliks *of the district and talked with them about the microcredit programme. Then the* malik*, my uncle, came to the village and said to the village* shura *and elders that if you want to take credit then one NGO will come and give credit to the villagers.* — Nasima's son, MC HH

So, men either heard directly from MFI representatives by attending this informational meeting or through the spread of information after the meeting, with most respondents, both MC clients and non-clients, reporting knowledge of this meeting and what was discussed in it. Women, on the other hand, depended on a range of sources — from relatives to MFI staff to the *malik* — to hear about the presence of the MC programme, as the statements below attest.

> *There was a woman, she is my husband's uncle's wife, she came to our house and said there is an office, and this office gives credit to people. If you need money come with me to go to this office. She* (the husband's uncle's wife) *heard about credit in a wedding party.*
>
> — Female loan group FGD participant

> *The* malik *told the men about MC then our men came and told us about MC. They said we do not want to take MC. I don't have a lot of information about it.* — Farooq's wife, non-MC HH

> *Last year when Nasima (a neighbour) took MC she came and said to me: for your son's wedding party you shouldn't go to relatives' house for credit; it is easy for you to take credit from the MFI.*
>
> — Nilofar; HH denied MC by MFI

> *One day all the women gathered in Nazir's house, the* malik *gathered them and said come and take credit from the office.*
>
> — Nasima, sister-in-law of *mali*k, MC HH

One woman reports hearing more "officially" through a meeting with a female loan officer:

> *For the first time (I heard about MC) from my grandmother Afghan Gul. It was a snowy day that Afghan Gul sent a person and said: come to our house. Then I went to her house and when I went there they had gathered some women. Salima (a loan officer) was there and she talked about microcredit.* — Akbar's wife, MC HH

No women respondents, in focus groups or individual interviews volunteered knowledge of the official informational meeting in the mosque. Thus, initial village entry by the MFI appears to have been directed largely to the men in the village, even though the MFI states that its aim is to lend to women.[12] Women heard about it afterwards, through official and less official sources, being somewhat more dependent on the latter than the men. Lack of female staff cannot be used as an excuse for focusing primarily on men in official information dissemination meetings, nor can a lack of access to women as a female NSP *shura* exists.

The next question is what this trickle down approach to informing villagers about the programme means for the villagers' understanding of programme rules? The evidence shows that the trickle down spread of information about MC had some negative effects on understandings of the rules. While most were aware of the savings requirement among both women and men, there was some confusion about the number of weeks savings was required before being given credit. When this requirement was mentioned, responses varied between five and seven weeks. There was also a variation in the stated amount of weekly savings required: some stated 20 Afs, 25 Afs, 30 Afs and 50 Afs. This variation reflects, to some extent, differences in loan sizes as the MFI management stated five percent of the loan size had to be saved prior to disbursement. However, village respondents did not seem to know about this fixed percent and instead perceived this as an increase in savings requirement; they did not link it to loan size. The availability of these savings also was a source of uncertainty and lack of clarity, even for loan officers. An MFI senior level branch staff member noted that the profit from savings would be returned at the end of the loan period, implying the principal stays with the MFI. No respondent in household interviews or focus groups mentioned the possibility of earning a return on their savings; thus no one could make the distinction between savings accrued and the interest earned on it, with one loan officer interviewed just stating that at the end of the loan the savings are given to the client. Some respondents and participants in FGDs also knew of the return of savings, but expected amounts varied from 900 to 1,200 Afs (again perhaps reflecting different loan sizes); one male respondent from a microcredit household noted they did not receive any savings even though they have now stopped borrowing from the MFI (Nasima's son). Some respondents said they used their savings for repayment, something prohibited in the official MFI rules.

There is a general understanding that the loan term is 47 weeks, although one female FGD participant and one man provided differing terms: 40 weeks and 46 weeks, respectively. The need for a guarantee from the *malik*, or through owning a business, shop or property is understood by both men and women, although this is not something overtly stated in the official MFI rules, except for the need for clients to already have skills or some income generating activity. Only in one male FGD with loan group members was the death benefit offered by the MFI mentioned. This is not a very well known feature of the MFI programme.

One area where there is quite a significant lack of clarity among respondents is in relation to the fees charged by the MFI. A fee was paid for the passbook in which repayments are

[12] The meaning of lending to women and the challenges of doing so in the Afghan context are discussed in section 4.4.

recorded (some reported 50 Afs, others 100 Afs, as the cost of the passbook compared to the MFI stating that the cost to clients was 10 Afs[13]); other clients also reported paying a lumpsum upon disbursement of the loan (1,100 Afs, 500 Afs — amount depends on loan size). Others noted amounts charged for which they could not name the reason, as the statements below illustrate.

> *The first week we paid 50 Afs, then we paid 100 Afs for the notebook; after that we were paying 30 Afs every week for seven weeks for saving. After that we paid 200 Afs more but we do not know for what. At last when they gave us the credit they again took 500 Afs.* — Shafiq, MC HH
>
> *My mother took 5,000 Afs credit and she paid 20 Afs for the five weeks for savings and for 46 weeks she paid 150 Afs for the weekly repayment. Out of that money they are taking 200 Afs by the name of admin charges, building rent and stationary. We already paid 6,500 Afs but we did not know for what they took the extra money from us.*
> — Nasima's son, MC HH

A final item of note for this section is how the reliance on trickle down information flow, particularly around the fees charged, could be problematic in relation to perceptions of charging *sudh.*[14] There was only one instance where it was noted in a FGD that a *mullah* spoke of the fees not being *sudh*, and therefore not being *haram*. This was not mentioned as something addressed openly in the informational meeting at the mosque, even though the MFI recognises the challenges of charging interest in the Afghan environment.

> *When we heard about the profit we said it is* sudh*, but there was a* mullah *sitting in the MFI office. We didn't know him but he was speaking for the MFI. He explained to us that this money the MFI is charging is for the transportation of staff and also for the office charges and other expenses like pens and papers and it is not* sudh*. You can take it and I approve it, it is not* sudh. — Male loan group FGD participant

In general, based on the rather indirect means of information flow about the programme and its structure, one can say that little effort was made to counteract or minimise potential backlash in sentiment about the programme due to its charging of interest. This is a rather short-sighted strategy on the part of the MFI, given the context in which it is working, and a strategy that did cause problems in the study village as will become clear later in discussing why some did not join and others decided to discontinue with the programme. For a programme seeking to expand its client base in order to achieve operational sustainability in a Muslim environment, more direct attention to ensuring all staff explain programme costs and charges would be seemingly important, as is also reflected in the mention of problems with *mullahs* in villages as being among the challenges raised in the interview with a Kabul-based MFI staff member.

[13] The MFI, in a return interview, took this reported differential quite seriously. The MC programme has internal monitoring systems and is audited twice a year; however due to the programme's size and expansion, not all such discrepancies can be identified.

[14] Sudh means interest and under Islam earning money from money – i.e. interest, is haram.

Box 1. Study village loan officers

The local staff members of the MFI are both men and women. The district office staff included one male branch manager and 12 loan officers, of whom three or four were men. The male loan officers are responsible for the agriculture loans, which are given to men, while female loan officers can work with either women's or men's groups. In the study village there were two female loan officers to oversee loan distribution and collection of weekly instalments.

Loan officer 1
LO 1 is a Tajik mother of five daughters and two sons in her mid-thirties. She was a refugee in Pakistan before she returned two years ago and moved into a house across the street from the *malik's* shop in the district centre bazaar. She is originally from a neighbouring district. Her husband is jobless, and she had finished ninth grade when they got married. She was working as a teacher before she joined the MFI as a loan officer. She moved to the district when she started the work and has a second job as a teacher at the local high school.

She is responsible for groups in three different villages in the district. In the study village she oversees the loans of two male loan groups, and each morning she has a meeting in one of the three villages where she works. Reflecting on her job, she says that it is very hard work, as she has to make sure that people are able to repay the loan. Once the loan is given she faces difficulties in dealing with people who are not able to pay and are trying to avoid payment by arguing or giving different excuses. Once she had 3,000 Afs taken from her monthly salary of 4,500 Afs because a client fled from the village; another time she paid a woman's weekly instalment because she liked the woman. Her husband, she says, is a very open-minded person, and he lets her work as a loan officer because her work is at the household level and not with shopkeepers. The latter would expose her to the public and commercial sphere, considered shameful for a woman.

Loan officer 2
LO2 is 41 years old. She is Tajik, was born in Kabul, but her relatives are from the Shomali plains. She lives in Kabul and finished 12th class. It has been four years since she became a loan officer. She is responsible for female loan groups in three villages. She decided to apply for the job because her husband could not find a job in Kabul when the family came back after nine years of exile in Iran. She says that at first it was very difficult for her, as she did not know the area and every day during the first four months she had to be accompanied by another loan officer to find the villages she was working in. Because of her being new to the area and the people, she still had not established a loan group two months after she started her job. The branch manager complained to her one day, which made her decide to seek help from a loan group leader in the study village. The group leader contacted her relatives in the village, and finally the loan officer was able to establish her first group.

For her it is equally difficult if the MFI deducts unpaid instalments from her salary, as her household must pay rent for the house they are living in. Once a female client denied repaying the loan, claiming it was *sudh*. The money was withdrawn from the salary of the loan officer. Sometimes she pays the instalments voluntarily and keeps the money from the clients after one or two weeks, when they pay the missing instalments.

Every day she meets with two loan groups, but before giving loans she approaches the *malik* and shopkeepers to take guarantee information about new clients. In dealing with female clients, she says that it is very important that a client brings her husband too otherwise she will not get credit. This is a rule started by the MFI after facing difficulty getting repayment from husbands who deny knowledge of their wives' loans.

4.2 Rules versus practice

After discussing the MFI rules and how the study respondents understand them, the next questions, drawing from Scott's public and hidden transcripts (1990), are: how do these rules play out in practice and what are the implications of any disjuncture between the stated rules and their application in the field?

4.2.1 Small loan size and multiple notebooks

As noted in section 2.2, one stated rule of the MFI programme is that each household can take only one loan notebook at one time. However, practice in the village is very different. Largely in response to the perceived small size of the loans the MFI provides relative to needs, borrowing households reported taking notebooks under different people's names; in one case even taking the notebook of a neighbour whose family in the end rejected the MC loan due to its perceived relation to *sudh*. Statements below describe two cases where borrowers took more than one notebook.

> *The first time I went to the credit office to give money for saving… when my daughter and I went there I saw our neighbour. She brought a notebook with her to the office. I think she took credit and when she went home everyone told her it is* haram*: "you should give it back to the office, it is not good." She brought it to the office and said, "I don't want to take that credit, it is* haram*. Then my daughter said: "Mother you should keep it because we need money and it is available now. Then I took that notebook. It was in the name of my neighbour, and after 20 days I took another notebook by my name and after another 20 days I took the third notebook in my daughter's name.* — Nasima, MC HH

> *One woman could take even three credit notebooks but with different names of her household members. Because this is the rule of the MFI that clients cannot take several notebooks in one name.*
> — Zmarai, Nasima's son

The second quote shows a slightly incorrect understanding of the rule about not taking multiple notebooks, which from the MFI perspective is to be upheld per household and not per person. The rule is presumably in place to reduce the risk of defaulting. Borrowing households, with likely loan officer complicity, get around this rule through relying on family members and relatives who indirectly lend to them by taking loans and giving them up. This practice can lead to repayment problems, as will be seen in some of the household cases presented in Section 5. Need for funds in amounts greater than 5,000 or 12,000 Afs drives the practice of taking multiple notebooks, whether for business needs (Shafiq, Akbar) or consumption (Nasima). Akbar's statement below shows the need for larger loan sizes, but also the resulting repayment struggles the high debt burden can lead to in a village with only marginal economic activities (see section 5.3.3 for more details on Akbar's case).

> *I took the first loan of 10,000 Afs in 2005. I repaid that money to my friend the Mandawi shopkeeper. And I repaid that loan in 47 weeks. Then I took a second loan — two notebooks for a total of 20,000 Afs; one by my own name and another by the name of my son. And I again gave that money to my friend the Mandawi shopkeeper. I repaid the MFI loan for both notebooks in 47 weeks. I was repaying 600 Afs weekly for both notebooks from the shop. Then I took two more notebooks for a total of 20,000 Afs, again one by my own name and one by the name of my brother in law and I repaid the money to the Mandawi shopkeeper. When I repaid the last two notebooks of 20,000 Afs to the Mandawi shopkeeper his money was completely repaid to him but my shop goods were*

> *decreased because of the MFI money I was paying to my friend the Mandawi shopkeeper. I was repaying the MFI weekly repayment from my shop earnings. Sometimes when the customers were bringing credit repayments I was collecting these and repaying this to the MFI and I was also affording my household expenses from the shop. Because of that the goods were day by day decreasing in my shop. When I repaid the MFI loan in 47 weeks from my shop I took more loans and now I have eight notebooks outstanding for which I am weekly repaying 2,400 Afs to the MFI. For these eight notebooks I still owe 30,000 Afs to the MFI and the rest of the money I repaid to them.*
>
> — Akbar, MC client taking 13-15 notebooks

4.2.2 Loan groups: substance or show?

The MFI states that it lends primarily to women in groups to support social change, as described in section 2.2 where the weekly meetings are claimed to improve women's mobility and increase women's decision making roles in the family. In practice the loan group meetings do not seem to fulfil this function. This does not mean they do not have the potential to provide a space for women outside of the household through which other forms of interventions can be delivered, but as it stands, little to no effort has been made to support such structures in the study village. Instead, the groups seem to be more of a mechanism through which to ease repayment for the MFI, versus anything to support a process of women's empowerment. As international evidence shows (see for example Kabeer 2001, Mayoux 2000), the latter requires a much more concerted effort than the MFI appears to be willing to give at this stage. In practice, anyone can deliver the repayment funds to the office or to a group meeting, yet it seems that borrowers are not required to attend meetings regularly and organised meetings are not always held, as illustrated in the recorded exchange below.

> Jamila (MC HH): *Yes, that is true — men took credit but for repayment all women went to Afghan Gul's house*.
>
> Researcher: *Every Thursday you went for repayment by yourself?*
>
> Jamila: *When I am free I go there and I give my money to Afghan Gul or if Farida is present there I give my money to her… we don't have any meeting during repayment time*.
>
> *No, they didn't have any rule, everyone can bring the money; just notebook and money are important.* — Female LG FGD participant

But a loan officer kept to the public transcript in her interview, as shown in this statement:

> *Yes, every week all women came to repay.* — Loan Officer 1

The quotes below show appreciation by some of the women of the ability to share difficulties within the groups. This illustrates what the groups could build from if the MFI treated the groups as more than a means of repayment guarantee — where the money and notebook are the important things. Asked if they had a discussion when they went to their group for repayment, two women replied:

> *Yes, it was good for us. We talked with each other. Someone talked about her husband, someone talked about her sister-in-law, about their difficulties.* — Female loan group FGD participant

> *When we went for instalment women talked with each other… for example, I talked about my husband, some talked about their daughters-in-law, whether they are good with their mothers-in-law or they are bad… yes we gave some advice; when someone talked about their daughters-in-law, I advised them that you should have good behaviour with your daughters-in-law, then they will have good behaviour with you.* — Nasima, MC HH

4.2.3 Hiding repayment problems

Another interesting disjuncture between rules and practices is driven by the need to show success at multiple levels within the MFI structure (branch to central office; loan officer to branch office). It relates to practices put in place among loan officers and branch offices to mask repayment difficulties among clients, in order to show strong performance, which in the MC field is largely measured via repayment rates. As a senior branch MFI staff member (not from the study district) states, the clients' savings are used to make up for missed repayment, keeping accounts clear with the head office, even though this use of savings is against the rules:

> *Saving is an amount of money that we collect from our clients before giving him/her loans. This saving money is saved with us. Whenever the client cannot pay the weekly instalment then for that missing week we pay the money (from the client's savings) to the account of head office. Because we cannot say to the head office that a client cannot repay his/her instalment because it is not good for our performance… when the client pays his instalment in the next week in double… we refill his savings.*

One also sees similar practices between loan officers and the branch office, where loan officers report paying instalments for some clients, then keeping the money themselves when the client pays double to make up for the missing payment. This is to forestall the implementation of an MFI policy to cut loan officers' salaries if clients miss payments.

> *I couldn't repay for one week. Then the loan officer said, "It doesn't matter, your husband is sick, you should pay it next week." Then the loan officer paid the instalment instead of me. Then for the next week I had to repay for two weeks.* — Nasima, MC client

> *If a client didn't pay in one week we will take double payment for the next week. It happened one time in the Kabul village. I repaid from my own salary; it is not a problem. When they bring their money I will take for myself.*
>
> *If a group leader cannot repay then the office will take from our salary, and as I told you our salary is too low. If they take from our salary, then nothing will be left for us.* — Loan officer 2

Thus, to avoid official salary cuts the loan officers devise other informal means to submit the required funds to the office, ways that allow them to recoup the money they contribute without the office knowing there was a problem. Hence they still look successful to the branch.

Interestingly, the office uses these salary cuts as a means to compel repayment in that the loan officers will be compelled to get the repayment from clients, as it affects the amount of money he or she lives on. As a senior MFI branch office staff member states:

> *Oh yes, sometimes we (the MFI) deduct the client instalment from the responsible loan officer's salary and then when the loan officer takes the money from the client, she takes it for herself. This happens by the decision of the MFI office and it is not by the loan officer's choice. It is something like her obligation. In this case the loan officer is compelled to get money from the client.*

It is also worth noting that the understanding illustrated in Nasima's account is not a general practice. Nasima is a relative of the *malik* and hence may be "worth" such treatment, as might others with *wasita* or other assets. Due to pressures to keep repayment rates high, or to compel repayment, loan officers often betray unpleasant, aggressive behaviour with those with fewer connections who cannot repay, leading many in the village to feel ashamed and uncomfortable about their inability to repay and the behaviour of these women, as the quotes below attest to.

> *The clients have to find the money to pay the weekly repayment. Because the loan officers are asking for their money; they are using bad words to the clients and make them feel ashamed because if the loan officer uses bad words to a client in front of other clients, it is not good for the client who cannot repay the money.* — Hamid, non-MC HH

> *Loan officers don't behave badly with those clients who repay the money on time. I saw a woman who didn't repay for two weeks. Then the loan officer came to her house and shouted at her, "Why didn't you repay the money?"* — Jamila, MC HH

For women to act this way in public in the Afghan context illustrates the pressures loan officers internalise to obtain repayments, something that will be touched upon again in the next section on risk and responsibility. It is also a means of using shame to compel repayment, both when women are involved as borrowers, but also for some men for whom interacting with a female loan officer may be shameful. This will be discussed further in section 4.4.

Other rules relaxed or broken in practice include: using the forced savings as repayments, which is rather common due to client problems making the weekly repayments; having loan officers relax the pre-loan savings requirement if the borrower is known — this was mentioned once; and allowing non-village residents on the list generated in the pre-lending village survey to borrow in a village loan group, against the rule of ensuring all applicants are residents.

4.3 Risk and responsibility

As mentioned earlier, there is considerable evidence of the MFI using an established programme structure which ensures that it does not bear the majority of risk and responsibility in relation to possible client default. This reflects the pressure to achieve operational sustainability among MISFA funded MFIs, where high repayment rates contribute to this goal and little effort seems to be made to understand how the high levels of repayment are achieved. The next section reviews evidence on how MFI programme structure distributes risk and responsibilities and shows how borrowers, loan officers and village representatives tend to bear more default risk, and how the *malik* in particular gains considerable power by assuming a gatekeeping role.

4.3.1 Loan officers as risk bearers

Loan officers compose one group that bears considerable default risk, as exemplified in the previous section, where a senior branch office official explains the rule about cutting loan officer salaries if clients miss payments. This MFI response to lack of client payment presses loan officers into displaying certain behaviour foreign to the Afghan context, particularly for females in public. The loan officers must do their best to make clients fear the consequences of defaulting by pressuring them to repay and publicly shaming them when payments are missed. This way, loan officers do not personally bear this risk. The programme structure provides incentives to pass responsibility down the chain, in such a way that those with the least power in the organisation (loan officers and clients) end up bearing more risk.

> *After the survey we discuss with the loan officer of the area that if we lend to these villagers will it be possible for you to collect money from them or not? So, if a loan officer says yes, then it becomes her responsibility and we don't emphasize taking a guarantee from those clients.* — Senior staff member, MFI branch office

There is some evidence of a change in lending rules during the time the MC programme was operating in the village, which reduced the levels of responsibility placed on loan officers and introduced new guarantee mechanisms to ensure client repayment. One loan officer recounted a story where her salary had been cut, but that this occurred prior to the time when *maliks* and *woliswals* (district governors) were made responsible for clients taking credit.

> *There was a man by the name of Farid who took credit and he fled from the village. Because of this action, the MFI took 3,000 Afs from my salary. At that time the* woliswal *and* malik *were not responsible for clients.* — Loan officer 1

The next section describes the roles of the *malik* and district officer as gatekeepers (the ones who approve or disapprove access to credit for potential clients) and guarantors on the one hand, and as repayment enforcers on the other, and how they reduce the risk and responsibilities borne by the loan officers and the MFI.

4.3.2 The need for guarantees: the roles of village and district officials

After some time the MFI sought to shift risk and responsibility to the *malik* and *woliswal*, with the *malik* given a particularly sizable role in providing villagers access to credit. Many respondents in FGDs and individual interviews noted the need for the *malik's* guarantee or signature before being given credit; this is illustrated in Box 2. One household even used the *malik* to convince the MFI to reconsider providing credit after refusing a female borrower initially when she did not submit the photo requirement for borrowing. Another female borrower was not granted credit after asking the *malik* for help, which she thinks has something to do with some outstanding debt to the *malik*. Thus, the *malik*, already a wealthy resident with considerable status and power[15], assumed even more power in the village as the gatekeeper to credit, but also more responsibilities as guarantor.

[15] During a FGD with shopkeepers in the local bazaar they noted that none of them owned their shops; they pay rent to the *malik* who owns them.

Box 2. The role of *maliks* as guarantor and gatekeeper of credit

These people who I know are wage labourers, they are going to Kabul for working and I know that they are honest and paying their credit money, I guarantee for them. Also some people who have shops in the bazaar and have gardens, I trust in them and I know that they are able to pay the credit money, so I made a guarantee for them. — Malik, MC client

Those who were verified and guaranteed by the malik *of the village, they could get credit. Without guarantee people could not take it.* — Elder in village

If a client doesn't have money for the repayment then the MFI office contacts the malik. *Then the* malik *talks to the client to repay the money, so the man who accepts the guarantee of the clients is responsible for his repayment.* — Daud, non MC HH

One day the malik *came and told us about micro credit. My son went to take credit, but the office said it is not for men it is for women and said to my son that you should bring your wife. Then my son brought his wife to the office. Then office asked for her photo. My son didn't allow his wife to give her photo to the office. Then the* malik *said to the office that I know them they are good people, and the women who worked in office (loan officers) they said we know them. After that they gave us credit.* — Akram, MC HH

It has also happened that a client did not have money for the weekly repayment and the loan officer was asking for the money. Then the client went to the malik *and told him that I don't have money for this week and I will repay to the MFI next week. Then the* malik *told the office that she will repay in the next week and the office accepted it, and the woman repaid her money in next repayment day for both weeks.* — Nasima's son, MC HH

Shukrya said to me on Tuesday you should go to the office they will give you (credit). You should bring one person as a guarantor. When I went to the office the manager said you should bring a man and one person as a guarantor. Then I went to the malik's house, he said I will go with you. Then I went three times to the malik's *house and he didn't go with me; then I brought his elder son. When I went with the* malik's *son and my son then the manager said we don't believe on this village's people…Maybe the* malik *said to them don't give her money... because the* malik *knows that I can't repay and he should guarantee me. And we took credit from the* malik *and we didn't repay it back to him. The* malik *will think if I can't repay, the office will ask him about the repayment.* — Nilofar, denied MC

The MFI's information gathering also extended beyond the *malik*, though not necessarily reducing his power as gatekeeper.

> *We take information from the* malik *and other people that know her (the prospective client). Then when we make sure that this person is living in the village and everyone knows her and she is a good woman, then we decide to give credit to her.* — Loan officer 2

Female *shura* members see this practice of information gathering as rather two-faced, with the MFI implying it will give credit, then checking a person's creditworthiness, behind his/her back.

> *Office told us that they will give us credit; behind us they are asking from other people in the village if we can repay their money or not. If we can't then they don't want to give us credit.*
>
> — Female *shura* FGD participant

This is not to say that the MFI should lend to all clients and does not need to check creditworthiness among residents as the villagers clearly have more information about potential clients than the MFI or its staff. This is a common practice in any financial system providing credit. However, ensuring the system's transparency and the residents' understanding of the process are important to maintaining good community relations and client numbers.

Issues of risk and responsibility have implications for who MFI lends to, meaning it is generally not poorer residents. Most MFIs, like this one, acknowledge that they lend primarily to those with established businesses, skills and assets in order to reduce risk of non-repayment. Social assets count as well, as will be discussed in Nasima's case in the next section.

> *As we said, those two men, one of them couldn't give guarantee (land, collateral) to the MFI and the second man was not acceptable due to his poverty.* — Male loan group FGD participant

> *The MFI gives credit to those who have shops, working on a cart or have land and their own property. They note in their notebooks about the household assets such as furniture, TV, carpets, crockery and livestock.*
> — Jamila's husband, MC HH

In the end, when a client misses too many repayments, the MFI turns to district officials as enforcers, placing these officials in difficult circumstances, and at times making them turn against MC programmes as causing too many conflicts within their villages. There is evidence in the village interviews of MFI staff applying different levels of pressure on the district officer: from involving him to impress upon the *malik* to collect repayment, to using the *woliswal's* office to detain male family members while coercing them to repay. One account most disturbing to the villagers was how the MFI had one female borrower held in the *woliswal's* office when she missed repayment. The implications of the latter will be addressed in more detail in section 4.4, where possible motives for lending to women are explored, including playing on conceptions of family honour to guarantee repayment.

> *There are two men, they took credit from the office this year and one of them didn't repay the credit money for four weeks and one didn't repay for six weeks. The MFI went to the district office and complained to them. The district officer called me and told me that you are the* malik, *you go with them (MFI staff) and solve their problem.*
> — *Malik* as participant in male loan group FGD

> *Yes in our group there were some women who couldn't repay. Everyday when the loan officer came and asked about money they said I don't have money.*
>
> *The office brought their husbands to the* woliswal*… they were in the* woliswal *for some days. After that the women found money and took it to the office and then the* woliswal *brought the men (back) to their houses.* — Female loan group FGD participant

> *Last year it happened to a girl. She took credit from the MFI and didn't repay it — I don't know for how many weeks she didn't repay. Then the office brought her with her father to the* woliswal*. They were there for one hour and after that were let go… yes, it was very bad because they brought a young girl to the* woliswal*.* — Jamila, MC HH

The *woliswal* himself states he tries not to get involved, leaving settlement of disputes between the MFI and villagers to the *malik*, in part because his office is too busy and also because the *malik* is directly involved as guarantor. However, in an interview at the end of the research he did note involvement in one case where a client ran off to Iran without repaying. He resisted sending the police to the man's house as there was little to be gained by this. In any event, the *woliswal* was not supportive of the MFI from the start, largely because of the small loans given and the ease of diverting them for consumption, leading in his view to potential repayment problems. He agreed to its operation in response to requests from the *shura*, who noted people's need for money, confronted by the widespread destruction in the post Taliban period.

4.3.3 Loan groups as guarantees

Loan groups as portrayed in the MFI's public transcript are expected to serve as a means of bringing women together to facilitate a process of social change. However, evidence from the study village shows that their role is primarily functional in regards to ensuring repayment and shifting responsibility for default away from the MFI. Thus, while the MFI will give credit to widows — with some widows likely among the poorer village residents as the next section will show — this is only if there is a group behind them to be held responsible for repayment. And as one loan officer states, this responsibility primarily falls on the group leader, making this person very important to the loan officer in that he or she represents the first recourse to repayment, ensuring the loan officers' risks are low.

> *They will give you (credit) but the office needs collateral. The office asked me if I know of about 15 people because at first they want you to make a group of 15 people.* — Participant, FGD with widows

> *She (the group leader) is responsible for all members. It means she has to inform all the women for instalment payment and has to collect all the money. If someone doesn't pay one week's instalment she has to pay it in place of this woman. Her life should be better than other members of the group so she can repay in place of other members. At first we should be careful about group leader and group members. We make sure ourselves that they are honest.* — Loan officer 2

The responsibilities placed upon group leaders affect who gets taken into the groups. Often members are close relatives, particularly among the women's groups, and in the following case of a male group, those known to have assets. The quote below also shows the multi-faceted way the *malik* is involved in the MC programme — giving villagers access to credit through his role as guarantor, as well as leading a loan group.

> *Those who had lands and gardens and who were working, I took them in our group. — Malik*

And loan group leader responsibility is not sufficient to the loan officers who also take information from the *malik* and others before giving credit to a group, again reflecting their fear of being held responsible for repayment and having their salaries cut. They also may take more than just the borrower's name, again to clear themselves of responsibility, this time in case of the borrower's death. This is exemplified by the following accounts:

> *We don't want to give them credit until we take information from the* malik *and other people who know them. We will take a guarantee and then we will give them credit.* — Loan officer 2

> *My husband took credit but the office wrote my husband's name, my name and one of my son's names. They wrote three names of our family.* [This way] *if one of these three people died, two other people can repay.* — Jamila, MC HH

Some villagers the study team spoke with questioned the motivations of the MFI, likely in response to recognition of who carried more risk and responsibility in case of default. The MFI did not invest in strong village relations through comprehensive information dissemination at its entry, which also seemed to spill over into lack of trust in loan officers and perceptions of corruption. This was enhanced by some of the villagers' lack of literacy and numeracy, particularly the men's perceptions of the effects of women's innumeracy.

> *We understood that the MFI is only looking out for its own profit, not to solve the problems of the people. Because, if they mean to help the poor then they should give us big loans.* — Male loan group FGD participant

> *There is a widow… her credit was completely repaid according to her notebook, but on the next week the loan officer came and asked her for the money. This is done by the loan officer; they take this extra money for themselves.* — Male loan group FGD participant

> *The MFI credit is not for the welfare of villagers; it is looking for its own benefit*. — Hamid, NMC HH

A former loan group leader alleges similar types of corruption among MFI staff:

> *Loan officers cheated people; they gave 5,000 Afs to everyone then people had repayment for 47 weeks. But the loan officers wrote in their notebooks in pencil and one time they wrote in their notebooks that two weeks remain. When they came for the next week they erased the two and wrote four because all the people were illiterate, they cheated people.* — Key informant interview, female loan group leader

Even an MFI branch staff member questions the poverty reduction motives of the organisation, from his perspective:

> *The MFI only wants to run its own business and is looking for its own sustainability, not for the poor. Because they are telling us to give loans and get our profit, and don't give it to those who you think will not be able to repay the money.*

These sentiments among villagers and MFI staff do not bode well for the future of the programme in this village, and, as will be discussed in Section 6, demand for MC peaked early and is now in decline, for a range of reasons.

4.4 Women as borrowers

This section draws inspiration from the ethnographic study by Rahman (1999) of the Grameen Bank in Bangladesh, which took a critical look at the public and hidden transcripts in terms of why MFIs lend to women. It examines how in principle, women are targeted as borrowers in line with the publicly-stated commitment to women's social and economic progress. In practice, however, this is betrayed by the undeclared strategy of utilising women's roles as bearers of family honour to ensure borrowing households repay their debt.

Similar questions can be raised as to why women are targeted as clients by the MFI in this study, given how the MFI made very little effort to directly facilitate a change process of improving women's social standing, or even to help them find remunerative activities for which to use their loans. Instead, there appeared to be little understanding among loan officers, branch office staff, clients and even the *woliswal* at to why women were borrowers since most often men used the loans women took, a common knowledge among MFI branch staff. In fact, after briefly targeting only females and having them sign up as borrowers, rules and practices shifted to lend to men, or to require male permission for female borrowing to ensure repayment. This in itself raises questions about the MFI's commitment to women's "empowerment."[16]

Much opposition to women as borrowers came from men, not surprisingly, with women expressing shame more around their inability to repay rather than the mobility required of them in making repayments to the group, or the documentation of their names by the office.

> *It wasn't a shame for us to go to others' houses for repayment; it was a shame for us when the loan officer asked about money we didn't have… for example when the loan officer came to collect our money, if we didn't have it we said we don't have money. Then she said, "If you couldn't repay, why did you take a loan?" It was shameful for us.*
> — Female loan group FGD participant

However, one woman MC client (Jamila) did express discomfort at being in others' homes for repayments, due to the talk it could generate in the village about going into non-relative households.

Men also felt shame about being unable to repay, and another dimension was added to this since all loan officers in the village were female. Thus, in the study village the issues of honour and shame raised in Rahman's study of the Grameen Bank seem to apply to both men and women. For men, beyond the shame resulting from their inability to pay, they may have also felt disempowered or emasculated when asked for repayment by women. However interviews with both male MC borrowers and non-borrowers focused largely on discomfort with the mobility requirements required of female borrowers and the writing of women's names, as the statements below show. Specific comments relating to men's feelings about repaying to women were not heard from respondents, only expressions of disapproval of the actions of female loan officers wandering in the streets.

> *When we took the first credit my son's wife was going to another house to repay the weekly money in the group. Every week going to another house was not good because a woman should not walk on the street for repaying the money. When we finished the repayment of the first loan she did not get another loan; instead of her I took the credit from the MFI.* — Akram, MC client

> *We are Afghans and living in rural areas and the MFI gives credit to women, which is strange in our culture. We don't like women to go outside of the house and to go to the MFI office for repaying money. We have to respect our culture and norms. The MFI sends its female loan officers to the clients' houses every Thursday and they are wandering in the village for collecting the weekly money which is not okay. Because*

[16] Empowerment is used here in relation to the MFI's stated aim of using microcredit and village organisations (loan groups) to support a process of social change among women, leading to improved status in the household, represented by greater decision making involvement.

> *the loan officers are also women and it is strange in our culture for women to walk in the streets for collecting the money from the groups.*
> — Daud, NMC client

> *People of this village destroyed the sign board of our office. They said you should write the men's names, not the women's, and it was interesting, they gave the wrong names for their women. When they came to ask for credit, we asked their names and they said a different name which made it difficult for us. They thought it is bad when someone knows about their women.* — Loan officer 1

Women encountered more problems related to honour after experiencing the first loan cycle. The problems were in connection with the story mentioned earlier about the MFI allegedly taking a woman to the *woliswal's* office. Jamila notes below how this incident changed women's views about borrowing. This illustrates how, in this sensitive context, using shame and honour to force repayment can backfire and jeopardize client relations and retention.

> *Last year a lot of women took credit, and then they were faced with a lot of problems like the MFI office brought the woman to the* woliswal*. Then this year they didn't want to take a loan; after that the MFI had to give loans to men.* — Jamila, MC HH

Jamila's comment also signals the dynamics of the programme's structure, particularly in relation to who its clients were. This shifted gradually from requiring husbands' signatures and approval to out and out direct lending to men. Thus, the stated intention of lending to women for the purpose of fostering social change appears to be easily given up when facing opposition, and not thought through adequately from the start to make progress towards such change feasible in the Afghan context. The likely functional versus substantive purpose behind having women as borrowers is also apparent in the clear understanding among MFI staff that the loans are men's responsibility in the end, irrespective of who took them, with men being more likely to use them for productive purposes.

> *Women took credit without their husbands' permission, and when we went for the weekly instalments, then (one woman's) husband said, "I don't know who took credit." The husbands were responsible for the repayment because women didn't have any job to earn money. Now we decided to write both their names. Husband and wife, they should know who took credit.* — Loan officer 2

> *But now my husband brings the money to the office – it depends on the men. Two years ago it depended on the women.*
> — Female loan group FGD participant

4.5 Conclusions

This section reviewed the programme's entry to the village and its operations, highlighting how practices in some cases diverged from the rules, indicating a mismatch between client needs and programme structure. It also illustrated how, likely in response to pressures to achieve operational sustainability, the MFI structures its lending operations to reduce its own risk and responsibilities, passing them down to loan officers, clients and other village representatives. Finally, the reasons why the MFI lends to women were examined, leaving unresolved questions as to why this is done given the few efforts made to ensure women use the loans or to assist women to develop a wider range of remunerative activities. In fact over time, there was evidence of the MFI moving away from its commitment to using MC as a means of facilitating social change for women in this study village as men became more and more involved as borrowers.

5. Village Case Stories and Emerging Themes

This section introduces the eight case households to draw out themes about formal and informal credit in the village that would be developed further in the next section. It presents households both in groups and individually and highlights similarities and differences in experiences which bring out some key issues relevant to the case study. Household loan portfolios are provided to illustrate the case households' access to and use of informal and formal credit but are not necessarily discussed in detail in the household's introduction. They are drawn upon in Section 6, in discussions of access to and demand for credit.

5.1 Widows' access to and demand for credit

The two cases below show the sources of credit available to two female-headed households in the study village. They are illustrations of consumption uses of both informal credit and microcredit, with only Nasima's household able to access MC, even though both are relatively poor with similar household compositions and reliance on adult male sons for income. Nasima's social assets may have placed her household in a better position, providing her more and more varied sources of credit, including MC. However, in both cases, credit networks are shrinking due to the poor and declining economic circumstances of these households and in the village generally (due to lack of water and asset decapitalisation post-Taliban), as well as the inability to repay existing credit. The reduction in networks will likely lead to future difficulties in coping with day-to-day expenses, as well as with any impending crises. In Nilofar's case, repayment struggles have reduced demand for credit, particularly MC with its more stringent repayment requirements. In the case of Nasima, her demand for MC has shifted; she no longer wants credit from the existing MFI, but appears willing to try a new MFI set to enter the village offering credit on somewhat different terms.

5.1.1 Nasima

Nasima is a 45 year old recently widowed woman. Her husband died of cancer about six months before the interviews, after two years of illness. She lives in a nine-person household, including herself, one unmarried son, two unmarried daughters and two married sons — with the eldest having one daughter. Nasima's husband was a member of the NSP *shura*. Upon his death, the second son took his place. Nasima is a member of the female *shura*. The *malik* is her late husband's brother, giving the household strong social assets in the community. Nasima would like to work in part to provide for her two younger daughters, but her grown sons will not let her, saying it would reflect negatively on their honour. Instead she relies on her sons to shoulder the household expenses and pay off their mounting debts related to her husband's long illness, his funeral ceremony, the marriages of the two sons and inputs into their small garden (see portfolio). The eldest son is 25 and has worked with the police since one year after the Taliban collapsed, earning 3,300 Afs per month. The second son works closer to home. Nasima's brother supplied a generator to the family to assist them in earning an income. Her second son generates income by charging people to connect to their generator. He charges 100 Afs per month for each bulb connected (appliances are charged differently; a television, for example, is levied monthly at the cost of two bulbs). He makes about 7,000 Afs profit from this every month, but they found this business less profitable than expected due to the high cost of diesel. The generator broke down during the study period and her second son ended up selling some of his wife's jewelry for 10,000 Afs to buy a replacement. This son had spent considerable time in Iran from 2002 until his father's death, sending money home to the family to help with medical costs, funeral costs and daily living. Some of these funds also contributed to the cost of his wedding and bride price.

The household has their own house and a garden with 300 grape vines. They (i.e the HH) contributed to the expense of a shared drilling for irrigation which cost 7,000 Afs two years ago. They get water every nine days. The investment increased what had been very poor production levels to decent though not exceptional levels. Last year, they were able to dry grapes for sale in Kabul Mandawi; they earned 30,000 Afs.

The household has a cow and calf. Nasima is facing pressure from her sons to sell the animals since it is difficult to bring or buy straw for them. She wants to wait until the calf grows to get a better price and would then like to use these funds to repay debt — a repayment option used in the past and which shows some effort to manage debt and plan for repayment, although admittedly with few available options.

Nasima's credit portfolio is complex and sizable, ranging from small give-and-take credit relations with neighbouring women (in kind and cash) to larger *qarz-i-hasana* taken for wedding and medical costs. Her household has repaid few of the informal loans, particularly those from relatives. This exemplifies not only the flexible nature of informal credit, but also the need to repay MC debt first due to Nasima and her sons' perceived threats of soldiers being brought in to enforce repayment. Her household's access to informal credit also likely relates to her connection to the *malik*, although she now notes:

> *My sons went to take credit but now no one wants to give credit to us. Now all people's gardens are dry and they don't have water. At that time my husband was sick and my relatives knew that I needed money urgently. Now if I go for credit my relatives will not give me.*

Previously she could rely on good will due to her husband's illness but now, with high outstanding debt and general economic problems in the village, some of her credit networks appear to be drying up, even given her social connections. The households' prospects for repayment do not look good to others, and her credit relations now place their own problems related to the drought and lack of water above her household's need for credit.

Nasima is also unwilling to turn to the MFI for further credit, having taken three notebooks two years ago (in her name, her daughter-in-law's name, and one in a neighbour's name whose household told her to take the notebook back), just before her husband fell ill. She struggled to repay due to the expenses incurred for his treatment, which took precedence over a planned purchase of a sheep. While noting the MC was useful in that it helped them to solve their problems, she also stated they had to sell many household items, including jewellery and even a *chadori*, to repay the loans because they had not been able to use them productively. The struggle to make weekly repayments made Nasima's household reluctant to seek additional credit from the MFI. However, this does not mean it has no demand for MC. In fact, when a new programme recently entered the village, with a seemingly different structure and no profit charged, Nasima did sign up for it and put down savings with the aim of using the funds in the garden. However representatives of this programme showed up quite infrequently and credit has yet to be given at the time of the study.

Nasima's household is also a credit provider, and in more than just the small scale give-and-take relations between neighbours. In the past they could lend more substantial amounts. As recently as last year her household lent 6,000 Afs to a cousin, who was able to repay quickly. Her family maintained a give-and-take arrangement with the same group, building and solidifying relations of support. But the financial burden of Nasima's husband's long term illness has strained these relations — a social cost that makes future access to informal credit potentially more difficult.

5.1.2 Nilofar

Nilofar is a 45-year old widowed head of household, whose husband disappeared 16 years ago during the mujahiddin time and is presumed dead. She lives with one married son and his wife, two unmarried daughters and one unmarried son. Her eldest son is married and lives separately in the village with his wife and two children; they live in a house Nilofar owns in partnership with her brothers-in-law. Nilofar's household lives in a home provided without rent by the father-in-law of one of her three Kabul-based married daughters, to which they added two rooms. He is a source of credit as well, supporting some of the costs of Nilofar's second son's marriage (his son-in-law).

Her two married sons have worked as police officers in the Afghan National Police and their commander was a distant relative. There was a change in work activities for the two men during the study period due to the commander's unwillingness to share "earnings" from passengers travelling on roads they guarded. The sons see this as particularly problematic given the state's tendency to pay salaries irregularly. Hence irregular income flows are something the family has had to cope with, taking bridging loans from a cousin with a shop in the village bazaar and paying them off after the second son's salary (about 3,000 Afs per month) is paid. After this conflict with the commander, Nilofar's second son left this work and now prepares cotton for *toshaks* and other products.

Nilofar worked in a bakery in the past, when the family had migrated to Kabul during the Taliban period. However her sons now do not want her to work. Nilofar receives financial help from the families of her daughters; when she visits them in Kabul they give her cash since they know how poor she is. Her daughters are important sources of help since she has experienced violence from her co-resident son, to the extent that during the study she left her home to live with a daughter for eight days. She wishes to live separate from this son, with her unmarried son and daughter, but other family members do not approve.

The household has a garden with 200 vines, shared between Nilofar's sons. They have a share in a water pump but they still do not get very good production from their garden; they sold their production for only 2,300 Afs last year, after spending 8,000 Afs on water and fertilizer. The family has no livestock as there is no one available to care for them; the youngest son studies and is an apprentice in a tailor shop. Hence, compared to Nasima's household, the income activities of Nilofar's are less diversified, although the family did not have to cope with the long-term medical crisis that affected Nasima.

Nilofar's household credit portfolio is dominated by credit for her two sons' marriages, sourced from relatives and the *malik.* The *malik* is not a relative but a *watandar* as Nilofar says. The *malik* has been a relatively patient credit provider, lending 5,000 Afs for the first son's marriage and still not requesting repayment after five years. This exemplifies the flexible repayment terms characteristic of informal credit, as described by Klijn and Pain (2007). There is evidence of some lenders requesting repayment — the father-in-law who lent some of his wife's earnings and a shopkeeper who is a relative. Nilofar is not able to repay — she asks her son to find money, but as of yet, no repayments have been made. There are also signs, as in Nasima's case, that credit networks are shrinking in light of perceptions of inability to repay. When she recently went to her son-in-law (who owns a shop in Kabul) for credit, she relates:

> *When I went to my son in law's home for credit he got angry, I recognized it from his face.*

Table 2. Nasima's credit profile

Credit taken				
Amount (Afs)	When	Source and type	Use	Repayment
1,000	Few days ago	Neighbour; *qarz-i-hasana*	For Nasima's brother to repay for bulbs for electricity business	Not yet
5,000	Few days ago	Son's father in law; qarz-i-hasana	To lend to nephew	Not yet
10-20,000 (conflicting accounts)	3 months ago	Son's uncle; qarz-i-hasana	Elecrical items for business	Repaid in 15 days: sold jewellery and from savings
5,000	Last year	Malik; qarz-i-hasana	fertiliser	Will repay from this year's production
5,000	Last year	Malik, qarz-i-hasana	Husband's funeral	Sold jewellery for 9000 Afs; worked as labourer and used earnings; sold raisins
5,000	Last year	Maternal cousin, qarz-i-hasana	Husband's funeral	
5,000	Last year	Nephew, qarz-i-hasana	Husband's funeral	
8-10,000	1 year ago	Cousin; qarz-i-hasana	Bride price for second son's bride	Sold calf to repay part
10,000	1.5 years ago	Daughter (sold jewellery; qarz-i-hasana	Son's passport for travel to Iran	Not yet
5,000	1.5 years ago	Sister; qarz-i-hasana	Husband's medical treatment	Not yet
20,000	2 years ago	Friend of second son (in Iran); qarz-i-hasana	Wedding costs and medical costs	Not yet; lender's brother recently asked for repayment
5-10,000	2 years ago	Husband's maternal uncle; qarz-i-hasana	Medical costs	Maternal uncle is ill; sons asking for repayment; considering to take more MC to repay
5,000	2 years ago	Nephew; qarz e hasana	Medical costs	unknown
5,000	2 years ago	Husband's elder brother; qarz-i-hasana	Medical costs	Son worked for him as partial repayment
5,000	2 years ago	Husband's brother; qarz e hasana	Medical costs	Not yet
10,000	Unknown	Cousin/neighbour (conflicting accounts); qarz-i-hasana	Fertilizer and wheat seeds	Sold earrings and tape recorder to repay; used some savings
1,000	Unknown	Local shop; in kind	Goods for HH consumption	Son repaid
Unknown	On and off	Non-relative shopkeeper; in kind	Goods for HH consumption	Not yet; son avoids shopkeeper; can repay after get grape production
18,000	2 years ago	MFI; sudh MC	Husband's medical treatment	Repaid: sold assets; borrowed informally; sold milk and eggs
Credit given				
Variable		Neighbouring women		Give and take in cash and kind
Unknown	Current	Villagers	Owe for electricity use; not paying on time	
5,000	Few weeks ago	Nephew; qarz-i-hasana	Nasima's son borrowed from father in law to lend on	Not yet
1,000	4 months ago	Neighbour; qarz-i-hasana	Given by son for HH consumption	Will pay after harvest
6,000	Last year	Cousin; qarz-i-hasana	Given by son to help with working capital needed	Repaid after 25 days
15,000	Last year	Nasima's uncle; qarz-i-hasana	Given by son to help in buying neighbour's garden	Repaid after a few months

He refused her request but on leaving the house, she met his father, who did listen to her problems and lent her 15,000 Afs and some food. Her difficulty in accessing credit extends to exclusion from the MC programme, due in Nilofar's opinion to the influence of the *malik*, who must serve as guarantor. Because she has not been able to repay his past credit, she thinks he did not approve her getting an MC loan, for fear that she would not repay and he would be held responsible. She went to the MFI office three times to request a loan (once for her second son's wedding, then for productive uses) but was declined each time. The *malik* also refused to provide credit for her second son's marriage, reflecting the outstanding credit from her first son's wedding. While he is not requesting this repayment he is also not willing to extend more credit, directly or indirectly through the MFI. Now her demand for MC has disappeared in response to fears of not being able to repay and the MFI's response to this. This extends to an unwillingness to borrow from the new MFI coming to the village.

Nilofar is less able than Nasima to engage in giving credit to her network members. Her most common form of giving credit is within small scale give-and-take relations, which includes Nasima, who is a neighbour. Otherwise the only other loan given was possible after the household received a large in flow of cash from the last married daughter's bride price; half of it was used for *jez*, 7,000 Afs was lent to Nasima's son and the balance was used for household needs.

Table 3. Nilofar's credit profile

Credit taken				
Amount (in Afs)	When	Source and type	Use	Repayment
500	3 months ago	Malik; qarz-i-hasana	Medicine from malik's shop	No request yet
5,000	5 years ago	Malik; qarz-i-hasana	First son's wedding	No request yet
40,000	Last year	Uncle; mortgaged land	Bride price to father in law	Commander saved 1,000 Afs/month from salary to repay
12,000	One year ago	Commander, qarz-i-hasana	For water pump	Taken from salary
15,000	4 months ago	Daughter's FIL in Kabul (owner of their residence); qarz-i-hasana	Second son's wedding	Asking for 4000 of the funds; took from his wife's earnings. Hope will count added rooms as payment for the debt.
4,000	4 months ago	Grandchild of aunt; shopkeeper; qarz-i-hasana	Second son's wedding	Not repaid; he is asking for it
6,000 Afs of rice and oil	4 months ago	SIL, food shop in Kabul; qarz-i-hasana	Second son's wedding	No request
5,000	4 months ago	Eldest son in law; qarz-i-hasana	Second son's wedding	No request
2,000	4 months ago	Eldest daughter; qarz-i-hasana	Beauty parlour visit for second son's bride	Repaid 1,000 from takhtjamee money
Variable	As needed	Cousin's shop in bazaar	Food, gas, wood	Repay from salary (late salary bridge)
Credit given				
7,000	Unknown	Nasima's son; qarz-i-hasana	Unknown use	Not yet
Variable		Neighbouring women		Give and take in cash and kind

5.2 Credit for consumption: stories of decline and recovery

Partial consumption use of MC loans is not unusual as evident in the MC case stories presented here, and as supported by Lyby's study (2006). However, two of the case study households — Nasima, introduced previously, and Jamila who will now be introduced — used their microcredit wholly for consumption needs. While planning to use them productively, events just prior to or after receiving their loans led them to divert the funds to medical costs. This exemplifies the daily risks facing households in rural Afghanistan and how plans can easily unravel under certain circumstances and the general lack of social security mechanisms other than informal and now formal credit. These two cases also show the stress repayment puts on households since no income was earned from the credit; Nasima recounts having to sell household items to repay, while Jamila's case shows building informal debts to repay MC, as well as holding some of the loan funds to immediately recycle into repayment. However, due to the relative scale of the crisis affecting each household, with Nasima's experiencing long-term illness, high medical costs and death of the head of household, and Jamila's household facing more of a shock, shorter in term, lower in cost and ending in the recovery of her husband's health, Nasima's livelihood security entered a sustained decline with shrinking credit networks, while Jamila's declined and then recovered, with support from informal credit networks.

Jamila is a 28-year-old woman who lives with her mother in law, her husband Ahmad, and three young sons (eldest age 12) in a compound shared with her brother-in-law's household. Her household returned from exile in Iran two years ago with just enough money to rebuild their old house in the village. They went to Iran through smugglers, paying the cost in part by mortgaging their garden share; this was reclaimed through saved earnings from work in Iran. After returning from Iran they initially lived in Kabul for one year before moving back to the village to rebuild the house burned by the Taliban. To the funds from Iran they added funds from the sale of a jointly-owned Kabul shop Ahmad had run with a relative during their time in Kabul. He used some of these funds to buy a cart to start vending fruits and vegetables in Kabul, from a base in the village. He is the only earner in the household and earns about 200-300 Afs per day in vending work and requires 4,000 to 5,000 Afs per month as working capital. Ahmad obtained some fruits and vegetables initially on credit from a wholesale shop under a *shariqi* arrangement; he repaid this money and the lender's share of the profit after one month of work (see credit portfolio).

Ahmad owns a share in a garden (500 vines) with his brothers and one nephew. However, they do not have a water pump so little to no production comes from their land. They own their home, and interestingly Jamila's brother-in-law paid off credit they had given for him to buy fertilizer by providing free labour as Jamila and her household rebuilt their home.

Jamila and Ahmad felt they had quite a secure livelihood through vending, in terms of being able to meet their household's daily needs through the resulting income. Thus, when they returned to the village and heard about the MC programme, Jamila did not enrol herself as many of her female neighbours and relatives did. She and Ahmad felt they did not need credit, either from the MFI or more generally from informal sources. Things changed however when her mother-in-law fell ill, and these costs ate into Ahmad's working capital, illustrating their household's exposure to risk of a sudden income downturn due to reliance on one earner. The medical expenses led Jamila and Ahmad to enrol in the MC programme, with Ahmad as the borrower, for the purpose of restocking his vending operation. They took a loan for 12,000 Afs. However, upon taking the loan, and due to the heavy lifting and pushing involved in his work, Ahmad injured himself and needed an operation and a recuperation period of three months. Thus the loan funds were diverted to cover more of the mother-in-law's medical expenses, household consumption and eight weeks of MC repayment (350 Afs per week). Luckily her husband was treated at a free hospital so they only spent 2,000 Afs on his illness, which was spent mostly on taxi fare to and from the hospital; they borrowed this amount from Jamila's brother in law and repaid it through informal credit from a maternal cousin a few months later. The biggest problem was Ahmad's loss of work for three months, as he is the only earner, leading to problems in meeting the weekly loan repayments and daily consumption needs.

This case differs from Nasima's where there were adult sons who could bring in income during her husband's illness. However in Nasima's case the illness was protracted and ended in death, leading to declining livelihood security and shrinking credit networks, even with the presence of her adult sons' income and their social connection to the *malik*. This may in part reflect their household's substantial credit burden as well, relative to Jamila's household which tried to avoid taking much credit before these events occurred.

Jamila's household coped with the medical crises and MC repayment pressures by taking 11,000 Afs in informal credit from two sources: a sister-in-law in Kabul, who gave 3,000 Afs for MC repayment and household consumption; and a maternal cousin's loan (8,000 Afs). This was used to repay the brother-in-law who requested repayment in preparation for his impending remarriage, to restocking fruit and vegetables so work could restart, and to household consumption. They also reported selling two rings to pay for the mother-in-law's medicine and for food. However it was largely because others were willing to give informal credit after they saw the household's potential for repayment through the recovery of the husband's health, that the household could survive the crisis, repay its MC and see a brighter future ahead. Informal credit relations were central to the household's safety net and to repaying its MC loan during the household's medical crises.

5.3 Shopkeeper stories

Shopkeepers are a key client group for many MFIs because they have an established business and are presumed to have consistent cash flow, supporting their ability to meet repayment obligations. Among the selected respondents, two households ran shops, and the brother of one respondent also ran a shop. The shopkeeper brother, Akbar, was selected as among the first choices of respondents but was initially resistant to being interviewed. His brother expressed more interest and was then included with his household in the study, considering how the two households were closely linked through credit relations. By the end of the study period, the research team could do a key informant interview with Akbar, who had taken 13-15 notebooks since the MFI started lending in the village, all used in some way for his shop.

Shopkeepers are an interesting borrower sub-group because they are enmeshed in networks of credit relations, with or without involvement in MC. All the shopkeeper respondents bought goods for their shops on credit, generally from the Kabul Mandawi, and then were dependent on cash income from sales to fund the repayment instalments which enable restocking. When many customers buy on credit, and are slow to repay, this can cause significant problems for the shopkeepers, who may end up decapitalising the shop if cash is not available from other sources. All the respondent shopkeepers expressed problems with repaying their Mandawi and other business credit because of slow customer repayment, as well as discomfort at their need to ask for repayment in order to maintain their businesses. The villagers' continued reliance on buying on credit from local shops and their slow repayment implies that in general the village economy has not been greatly improved through three to four years of MC lending — cash flow among the villagers has not improved. Problems relating to the lack of water in the village seem to have far stronger effects on the local economy.

Table 4. Jamila's credit profile

Amount (in Afs)	When	Source and type	Use	Repayment
Credit taken				
Unknown	7 years ago	Neighbour; mortgage	To fund part of travel costs to Iran (smuggler for HH)	Through work in Iran
7,000 Afs	Last year	Shariqi with a wholesaler	Fruit and vegetables to sell	Repaid after one month with lender's share of profit earned
3,000 Afs	Last year	Brother's brother in law; qarz-i-hasana	For working capital	Repaid 6 months later when lender's father died; could have repaid earlier but did not; waited until lender had need
2,000 Afs	Few months ago	Brother in law; qarz-i-hasana	Car rent to and from hospital	Repaid recently, using from credit from maternal cousin
3,000 Afs	Few weeks ago	Sister in law; qarz-i-hasana	MC repayment and HH consumption	Not repaid; prioritises repayment because her HH is poor
8,000 Afs	Few weeks ago	Maternal cousin; qarz-i-hasana	Repay brother in law; working capital; HH consumption	HH is rich with few children; will not ask for repayment soon
12,000	Few months ago	MFI; sudh	Medical costs, repayment; HH consumption	Repayment in process from informal credit and part of principle set aside for repayment; after Ahmad started working again—repay from earnings
Credit given				
Variable		Relatives/neighbours		Give and take in kind
6,000	2002	Brother in law; qarz-i-hasana	Used for fertiliser	Repaid through labour
12,000	2003	Brother with taxi; qarz-i-hasana	To repair taxi	Paid off in instalments

5.3.1 Shafiq and Qasim

Shafiq and Qasim are brothers who currently co-own a grocery shop in the village, situated just outside of their home. They live in a five person household, with Shafiq's wife, their widowed mother and an unmarried sister. They have two older brothers living in Kabul, one of whom, Hafiz, runs a bakery which received UN funds in the past under a scheme to employ widows. He is seemingly quite well off, helping both his Kabul based brother's and Shafiq's and Qasim's households, the latter to support his mother. He provides bread and fuel regularly, pays for the groceries the family consumes from the shop, introduced Shafiq to shopkeepers in Kabul Mandawi to establish credit relations, and, as the credit profile shows, regularly helps in paying off debt and paid for a large part of the costs of Shafiq's wedding two years ago. The village household would not survive without Hafiz's help.

The household's main assets are its home and shop. It has a small garden with only 20-30 vines and no water, so little production or income comes from the land. They have no livestock because there is little grass available for grazing. Qasim now sits in the shop and Shafiq goes to Kabul for daily wage work or takes such opportunities in the village when they are available; he earns about 150-180 Afs per day when he finds work.

Shafiq and a cousin opened the shop together three years ago on *shariqi*, each putting in 5,000 Afs. Shafiq was responsible for going to the Mandawi to buy goods and his relative sat in the shop. In time it was discovered that the relative was taking money from the shop, as the stock began to decline. Hence Hafiz intervened, the relative took his share of the shop (estimated at 20,000 Afs in cash and kind) and Hafiz put Qasim in charge. Qasim had saved

12,000 Afs while working in Kabul selling vegetables; this was invested in goods for the shop.

On good days the shop sales are about 900-1,000 Afs, which also includes repayment of past credit. They earn about 90-100 Afs in profit for every 1,000 Afs in sales. Sales increased to 1,000-1,500 Afs per day after Shafiq and his relative first took MC — a positive change related to having more goods in the shop.

They first took MC about 1.5 years ago to buy goods. Shafiq and his relative each took one notebook for 10,000 Afs which they each repaid with earnings from the shop. After paying these off, they each took a second loan for 10,000 Afs, both of which are currently still outstanding, and are now Qasim's responsibility. Qasim also inherited a Mandawi credit of about 20,000 Afs, of which he has repaid 13,000 Afs; he has established further Mandawi credit connections, where he owes another 3,200 Afs. These are both credit for goods, repaid in instalments (*augrayi*) which allow the purchase of more goods on credit.

The household's credit portfolio shows that the main uses of credit are the shop and Shafiq's wedding. When buying goods on credit from the Mandawi, they report paying extra compared to the cash cost. Hence, having MC to buy in bulk in cash can increase shop profit margins. However, the brothers' ability to repay their loans to the MFI and to shopkeepers is limited by the level of outstanding credit they have with customers — 12,000 Afs from the time of Shafiq and his relative, and an additional 2,500 Afs since Qasim took over a few months before. Currently they missed one week of MC repayment because they had to spend their earnings to buy more goods. \only through having sufficient goods can they ensure sufficient earnings to keep repayments up. It is a vicious cycle which causes stress for Shafiq and Qasim. Their mother recounts that both would like to close the shop and open one in Kabul where social relations will not be as close, making requesting credit repayment from customers less shameful. They do resort to this to keep the shop running, even complaining against one customer with the district office to get back 1,000 Afs owed to them after three months of waiting. This is likely not taken well in the village — hence the desire to close the shop. MC has been useful for the brothers, in part because of slow customer credit repayments; earnings are only just enough for repayment of MC and restocking the shop, but not enough to increase investments and foster growth. As a result, their business is limited by the marginal economic conditions in the village, which MC access over the last years has done little to mitigate.

5.3.2 Farooq

Farooq is the 52-year-old head of a nine-person household, composed of him and his wife, a son and his wife, two unmarried sons and three unmarried daughters. His eldest son lives separately with his own family in the same compound. While expenses are separate, Farooq helps them since the son is often jobless. The unmarried sons are studying but the girls are not allowed to do so — either here or when they were in exile in Iran. His wife is chronically ill after a rough journey to Iran in 1998, when she was pregnant.

They have their own house but pay rent for their shop. They also have a garden with 500 vines but little water so no dependable income comes from this source. They do share a generator with a neighbour and spent 6,000 Afs for a shared water pump, but the fuel is too expensive to use these productive assets profitably. They have no livestock.

Table 5. Shafiq's and Qasim's credit profile

Amount (in Afs)	When	Source and type	Use	Repayment
Credit taken				
5,000	3 years ago	Brother Hafiz; help	To start the shop	NA
5,000	3 years ago	Relative; shariqi	To start the shop	Broke partnership; gave 20,000 Afs
20,000	Over 3 years	Mandawi shopkeeper; augrayi	To stock and restock the shop	Repaid 13,000
5,000	2 years ago	Paternal uncle; qarz-i-hasana	Marriage costs	Repaid with shop earnings
30,000	2 years ago	Hafiz; help	Bride price for SHAFIQ's wife	NA
10,000	2 years ago	Paternal uncle; qarz-i-hasana	Bride price	Uncle died; Hafiz repaid after son's asked for it
Oil, flour, rice	2 years ago	Kabul shopkeepers; qarz-i-hasana	Shafiq's wedding	Hafiz did/will repay
10,000 Afs + 10 sair rice	2 years ago	Nephew; qarz-i-hasana	Shafiq's wedding	Not yet; no request
3,200	A few months ago	Shopkeeper; augrayi	To stock the shop	Pay off in installments
30,000	Over past 1.5 years	MFI; sudh	To stock the shop (3 notebooks HH responsible for)	Repaid 10,000; in process of repaying 20,000 Afs
Credit given				
14,500	Over last 3 years	Village customers; In kind credit		Some paid off and new credit given

Farooq is a mason and earns 400-500 Afs per day when he finds work. Last summer he worked in Kandahar and Helmand for three months and earned a significant sum of money (100,000 Afs), part of which was used for his son's wedding. Farooq started the shop four months ago for his recently married co-resident son, so he did not return to Iran due to lack of work. One younger son is working in Iran and he sent the funds needed to pre-pay 30,000 Afs in shop rent, using a *hawala*. Farooq sold some of his wife's jewellery to buy goods to stock the shop. He has refused to participate in the MC programme due to clashes with his cultural values, particularly his views on *sudh*. Hence he has found other ways to fund the shop's start up and stocking, unlike the brothers presented previously.

The married son sits in the shop, and when he goes to Kabul to buy goods, his younger brothers or father sit in the shop in his place. Farooq's brother-in-law has a flour shop in Kabul from whom the household buys its flour stock — they are in debt to him and buy on marked up prices (20 Afs more per sack) when buying on credit which is their usual arrangement with all shopkeepers. This brother-in-law also introduced them to other Mandawi shopkeepers so they could establish wider credit relations. He now has about 54,000 Afs in credit in the Mandawi. He pays off part of this each week to be able to buy more goods, and currently has capital of 80,000 Afs of goods in the shop. Daily they can sell between 1,500-2,500 Afs of goods, earning 70-80 Afs per 1,000 Afs sold.

Farooq's son sells goods on credit and they face the same problems in getting repayment as Qasim and Shafiq. Farooq's household is hard hit by this, as the shop is the main stream of income for the household, especially in winter when there is little masonry work. Thus, if the customers do not repay, they cannot restock the shop. Currently they hold 10,000 Afs in outstanding credit; they ask for repayment after waiting 40 days, but unlike the brothers' story above, they do not complain to the district office if someone is more delayed in paying — it is "not good to do so".

Even with the recognition that buying in cash will bring lower Mandawi prices, enable larger purchases and thus lower per item taxi fare costs, all leading to higher profits, Farooq and his son are not willing to take credit from the MFI in place of Mandawi credit. On the one hand they feel that the amount of money from the MFI is not large enough to assist in making substantially larger purchases, and even more importantly, Farooq is against both *sudh* and the involvement of women in the MC programme in relation to the mobility demanded of women for repayments. Farooq's father was a *mullah* and he has very strongly internalized the prohibition against *sudh* dealings, as the following story he relates shows:

> *There was one man he was doing* sudh *dealing and when he died, after he was buried, three times his body came outside of the grave and his son had to rebury him… For four to five months, noises were coming from his grave. This was the sign of doing* sudh *dealing… God shows his signs to those doing* sudh *dealing and on the day of judgment, God will punish them and send them to hell.*

Does this imply Farooq and his household are against all MC, have no demand for MC? Not necessarily — like others he has expressed interest in the new MFI entering the village, because he has heard it does not charge *sudh*. Thus, while others took credit on *sudh* from the existing MFI, because, according to Farooq, their needs were great — he refused for moral reasons, which could be overcome through a more culturally appropriate programme design. While his need for MC may not be as great as others who were pushed to overcome their discomfort with *sudh* dealings, MC could still help him and his son to reduce reliance on wholesalers and marked up prices and to reduce transport unit costs, increasing profits and potentially household wellbeing. It should be noted that like the brothers above, the success of this scenario depends significantly on improvements to the village economy which allow more shop customers to buy in cash, or to repay credit in kind promptly. Improving access to water has a major role to play in this.

5.3.3 Akbar

The final shopkeeper story was drawn from a key informant interview with Akbar, the brother of Daud. He owns another village shop and his story shows important links between formal and informal credit, but in this case links leading to a rising debt burden, made more troublesome by slow client repayment. In the end this led to shop decapitalisation and a slow spiral of descent due to declining product stocks and lower and lower sales.

Being jobless for six months after he returned to the village with his family from Iran in 2003, Akbar took over the mortgage on a container owned by his father-in-law, paying 12,000 Afs by borrowing it as *qarz-i-hasana* from his brother, and opened a shop. This credit is still unpaid, because when Akbar had the funds to repay, Daud did not need it and told him to wait; now that Daud could use the money, Akbar, as will be shown, is in no position to repay.

Table 6. Farooq's credit profile

Credit taken				
Amount (in Afs)	**When**	**Source and type**	**Use**	**Repayment**
500	Last year	Farooq's brother; qarz-i-hasana	Treatment for eldest son's baby; asked for 2,500 Afs; received 500	Worked with malik making bricks and repaid from earnings
2,000	6 months ago	Neighbour; qarz-i-hasana	HH consumption	Paid after 5 months
54,000	Over last 4 months	Mandawi wholesalers; augrayi	Goods for the shop	Repay in installments (3-4,000 Afs/week) to be able to buy more goods
30,000	4 months ago	Son in Iran; bakshish	To pre-pay rent of shop	NA
5,000	10 days ago	Son in Iran; bakshish	Father in law's funeral	NA
10,000	Few years ago	Husband of wife's sister; qarz-i-hasana	Passport and ticket for married son's second trip to Iran (pre marriage)	Repaid from earnings in Iran after 4 months
5,000	Few years ago	Son-in-law; qarz-i-hasana	Passport and ticket for married son's second trip to Iran (pre marriage)	Repaid from earnings in Iran after 4 months
Credit given			**Fund source**	
10,000	Over last 4 months	Village customers; In kind credit	Shop earnings reduced	Some paid off and new credit given
1,500	3 years	Malik; delayed wage payment		Worked for malik; only partially paid; asks for balance and does not receive

Akbar stocked the shop through a 10,000 Afs credit from a friend in the village and 50,000 Afs of credit from a Kabul Mandawi shopkeeper he knew from their time together as mujahiddin. This large amount of credit, along with lack of control over the amount of goods sold on credit to villagers, coupled with slow repayments, has been the undoing of Akbar and his shop. He sold 30,000 Afs of goods on credit and meanwhile his Mandawi shopkeeper friend came to ask for repayment — the shame of being unable to do so was unbearable to Akbar. The pressure to repay the Mandawi shopkeeper and his inability to do so from shop earnings due to excessive selling on credit drove Akbar to the MFI Even though Daud was personally against borrowing from it due to *sudh*, he supported Akbar's decision. It was clear to Daud how badly Akbar needed the loan because of his inability to access the required sum (50,000 Afs) through informal credit sources.

Over the next three loan cycles Akbar took five notebooks, starting in cycle one with a loan of 10,000 Afs through a group in his own name. After that, he took two individual loans in each of cycles two and three, in his, his son's and his brother- in-law's names. The 50,000 Afs borrowed over this period was repaid to his friend in the Kabul Mandawi.

He managed to repay these funds to the MFI but at the cost of keeping his shop stocked. Even Daud notes the change — he often helps his brother with small loans for household consumption or medical needs, then gets repaid by taking goods from the shop. Now there is not even flour — a staple product — in Akbar's shop so Daud has had to buy this on credit from other shops when his salary is late. Hence Akbar's earnings have declined, at the same time that he has had to use shop earnings to repay MC credit. While at the start of his shop he could sell 4,000-5,000 Afs per day in goods, now he sells only 500-600 Afs, earning 50-60 Afs per day. He also took more MC — eight more notebooks, meaning 2,400 Afs in repayment owed each week. This is an unsustainable burden. He has missed the last 3 repayments and the branch manager has paid him a visit. Added to this, his daughter recently had an accident, leading to an additional 10,000 Afs of expenditures. How will he recover? It is not at all clear with a shop that once had 70,000 Afs of stock reduced to 15,000-20,000 Afs of goods.

As Akbar says:

> *Taking credit from the MFI is not very good and I am tired of the MFI's credit because you just saw the loan officer; she was asking for the money. Since I repaid the MFI loan to the Mandawi shopkeeper and I am making repayments from the money of the shop, I don't feel relaxed because in every week I am trying to collect the money for the loan officer, and if I don't have the money then she is standing here for 10-15 minutes and telling me that I have to repay the money.*

Has this turned him off MC? Not at all; he too has registered with the new MFI, because their procedure is good: asking only 200 Afs in fees and not charging *sudh*. He is under the impression that clients only repay 300 Afs per month for a 10,000 Afs loan. This contradicts Nilofar's understanding of required repayments of 900 Afs per month, which corresponds more closely to a 12-month repayment period, and which she perceived as too high for her income flows. Akbar needs such a clear perspective on his own situation, including the effects of sustained slow customer repayment, or he may find himself further in debt, with a failed shop and a household spiralling into poverty.

5.4 Client retention and programme structure

Akram heads a household of 11 people including himself, his wife, his son and his wife and seven grandchildren. He is 65 years old and works in the family's garden, which has 1,000 grape vines and space to grow wheat and some vegetables for consumption. His son works irregularly as a mason, a skill learned while in exile in Iran. Akram's household has seen many good times in the past when he was a trader of raisins and rice within Afghanistan. However, the years of war have taken their toll. The household survives, but is reliant on credit for consumption smoothing and for garden investments. Like others they have entered into a *shariqi* agreement to dig a well and buy a water pump to irrigate their land — spending 24,000 Afs on this. Last year however there still wasn't enough water so production was not good (11,000 Afs earned). They hope to make 30,000 Afs profit this year, since the snow and rains have been better. They have also leased some adjoining land from a relative living out of the village, sharing the profit half and half with him. This has yet to earn them much as the land had lain fallow for a long while.

In terms of assets, Akram's household is better placed than those discussed so far. They have a generator, more vines, two sewing machines and livestock including a currently pregnant cow from which they have sold milk — this cash income has helped in making MC repayments. Akram considers the livestock to be liquid assets, to be sold when in need of cash for household consumption or credit repayment, and not for investment and growth of a herd. Thus he is planning to soon sell a sheep to pay off credit to shopkeepers, as requests for repayment are increasing and he feels embarrassed to return to local shops.

Lean periods drive the family to rely on buying on credit to meet much of their consumption needs, since the son does not work regularly and the earnings from the land are not substantial yet. One of the shopkeepers is a distant relative, easing their continued access to buying food on credit. They are another household indebted to the *malik*, illustrating the *malik's* relative wealth and power in the village as he is able to lend out so much and to not request repayment for long periods. Unlike in Nilofar's case, the outstanding credit with the *malik* has not affected Akram's ability to access MC.

Akram and his household have been involved in the MFI programme since its start. The household has taken four loans, and used them for a mix of purposes, including for house construction, garden investments (fuel, fertilizer, vines) and household consumption, not atypical of many MC clients. He is the one MC borrower in our case households who used part of his loans for agricultural uses — for investments in his garden. His daughter in law took the first loan of 5,000 Afs in 2004, but due to concerns with women going out of the home to make repayments, and issues with providing photos of female family members, Akram has taken the following three loans, one each year, totalling 34,000 Afs. The fourth one was only taken February 2007 and is still being repaid. He took his first and second loans through a male loan group but all members stopped taking credit after the second cycle; he continued and borrowed the final loan individually.

While he has been able to repay his three closed loans on time, this has not always been easy in part because of the marginality of agriculture in the study village due to lack of water and destruction of crops during the Taliban occupation. He finds repayment money through selling raisins and livestock and saving the proceeds to make MC repayments; selling milk, and at times borrowing informally to meet MC weekly payments. Thus while he states a preference for selling assets over borrowing, need still drives him to take MC as well as borrow informally.

> *When I need money I sell the household equipments or my sheep. I don't like to take credit from someone because if I take credit then I have to repay it. If the lender is a good man then he can wait for you, otherwise he is asking for his money and you have to find it.*

Akram's household still needs consumption smoothing assistance, as well as credit to invest in the garden, but even so Akram's demand for MC from the MFI has declined. After paying off the current loan he says he will not take another due to increasing weekly saving demands and higher fees. However he has heard of the new MFI coming to the village and is attracted by their lower *sudh* charges and monthly repayment. Hence his demand for MC is not gone; like other MC client respondents, his demand has just shifted in response to MFI programme structure and perceptions of the ease of repayment. Taking this into account, the MFI could perhaps do better in attracting and retaining clients if a better understanding of client livelihoods, cash flows and the Islamic context were reflected in programme structures.

Akram's cash flow constraints (and remaining need for consumption smoothing assistance) also are apparent in the admission that the household cannot lend money — it needs to keep any cash for the garden and household consumption.

5.5 Opting out of MC

Like shopkeeper Farooq, two other respondent households opted out of the MC programme. They had similar reasons for not borrowing, related to *sudh* and objections over women's mobility — both for women in their households and in terms of female loan officers wandering around the village and the loan officers' insulting behaviour at times if repayment became a problem. Hamid was more concerned about possible loss of income involved in leaving work for a day to make repayments and shame due to observations of how loan officers treat clients. Daud raised more issues about women's mobility in relation to such freedoms not being acceptable in the village context, from his perspective. Both raised issues with *sudh*, and due to their financial position, could opt out of the programme, unlike others who shared such concerns but had more pressing needs (e.g. Daud's brother Akbar). Hamid was the clearest respondent in stating he had no demand for MC — even if the new programme does not charge *sudh*. He would take it only <u>if</u> he needed it, implying a current lack of need. Daud would take it and even considered joining the current MC programme, until learning of the profit taken and weekly repayments. Both, from the position of outside observers, question the benefits of the programme for borrowers, apart from helping them to solve immediate problems.

Table 7. Akram's credit profile

Credit taken				
Amount (in Afs)	**When**	**Source and type**	**Use**	**Repayment**
10,000	3 years ago	Malik; qarz-i-hasana	House reconstruction	No request yet
2,000	Last year	Grandson; qarz-i-hasana	garden	After 3 months from son's earnings
14,000	2 years ago	Various (son's network); qarz-i-hasana	Garden wall	Not yet
A cow	After return to village	Shopkeeper in Kabul who helped previously; mozarebat	Shared in earnings from sale of milk	Kept cow for 2 years
4,500	A few months ago	Shopkeeper relative; in kind credit	Goods	Repaid 1,400 Afs earned by son
2,000	One months ago	Shopkeeper, in kind credit	Goods	Not yet
1,300	A few days ago	Shopkeeper, in kind credit	Goods	Not yet
5,000	A few days ago	Son-in-law	Household consumption	Not yet; pay with production from garden
5,000	A few days ago	Friend in Kabul; qarz-i-hasana	2000 HH goods; 1000 fuel for tube well; 2000 saved for MC repayment	Not yet
	2 months ago	Cousin; lease	Land for cultivation	Share profit
39,000	Over life of MFI programme	MFI; sudh	Consumption; house repair, garden	Repaid 3 loans; in process on fourth

Daud is the 47-year-old head of an eight-person household in which he is the only earner. His wife, age 35, and six children (three boys and three girls) live with him. His eldest son is age 16 and eldest daughter is 13, while his youngest child is 4. He shares a compound with his brother Akbar's family, keeping separate expenses but engaging in frequent credit and help relations, which have become more one way recently, with Daud helping Akbar.

Daud is a high school teacher and this monthly salary of 3,500 Afs, supplemented with private tuitions bringing in 1,500 Afs per month, is the household's only income. They have no land or livestock. They are currently living on these two income flows and facing a bit of a livelihood decline compared to the recent past when Daud was involved in different NGO trainings and seminars, earning extra income in dollars. During this period they easily afforded their winter expenses, home improvements, plus a medical crisis when his wife fell ill and needed treatments costing 21,000 Afs. They could also provide loans to others easily, as shown in their credit profile. It was at this time that Akbar's shop was also doing better, but offers by Akbar to repay the outstanding 12,000 Afs used to open the shop were turned down by Daud due to his own good financial situation. Now he would like this money but can't request it due to Akbar's heavy debt burden and declining livelihood. He even can't get repayment of smaller loans (for Mandawi purchases and MC repayment) in kind from AKBAR's the shop due to low stocks. Hence Daud has had to take some credit from shopkeepers other than Akbar to get by between salary payments.

Daud was at first interested in the MC programme until he heard about the *sudh* and weekly repayment requirement, which would be difficult to meet given his monthly salary payments. He was also put off by its lending to females and their need to go out for repayment. His views on women's position and mobility are rather traditional. In Daud's opinion the benefits of the MC programme are not high; the loan size is too small to be used productively and the profits to the MFI too high, leading, as he sees from his brother's experience, to struggles to repay and exposure to loan officer censure and the resulting shame and loss of status. This doesn't mean he is personally against all MC — he, like others, expressed interest in the new MFI, if it does not charge *sudh*. He is also indirectly involved in the MC programme through occasionally lending money to Akbar so he can make his repayments This again highlights the links between informal and formal credit, and how in many cases the former system is necessary to the stated "success" of the latter in relation to reported repayment rates.

Table 8. Daud's credit profile

Credit taken				
Amount (in Afs)	**When**	**Source and type**	**Use**	**Repayment**
2,000	2003	Maternal cousin; qarz-i-hasana	HH consumption	After one month, when received salary
3,000	2004	Maternal cousin; qarz-i-hasana	HH consumption and hospitality for guest	After one month, when received salary
280	A few days before	Shopkeeper; in kind	Cooking oil	After one month, when receives salary
700	A few days before	Shopkeeper; in kind	Sack of flour	After one month, when receives salary
Credit given				
500 USD	2006	Maternal cousin; qarz-i-hasana	To buy a taxi	Repaid 400 USD after two months because Daud's wife became sick; 100 USD still to be paid
12,000	2.5 years ago	Akbar; qarz-i-hasana	To start the shop	Not yet
2-2,500	On and off; recurring	Akbar; qarz-i-hasana	To repay MFI credit and Mandawi credit	Daud takes repayment in kind from the shop
1,500	A few days ago	Akbar, bakshish	For daughter's treatment	NA

5.5.2 Hamid

Hamid is a 55-year-old head of a six-person household composed of himself, his wife, one recently married son, his wife and an eight-month-old child, and a granddaughter, the child of a recently deceased daughter. Hamid and his son are the two household earners. Hamid is a mason who has worked in Iran and Kandahar in the past but now works in the study village and neighbouring villages. He no longer goes into Kabul for work due to increased competition for daily wage work, avoiding the expense of travel due to a low probability of getting work. He can earn between 300-500 Afs per day when he gets work locally. His son used to drive a car between the study village and Kabul but the profit in that declined so they sold the car and bought a taxi instead, which he drives in Kabul, earning about 2-300 Afs per day. Hamid took credit from a son-in-law to make up the cost difference between selling their first vehicle and buying the taxi. This is a risky occupation; the son has only been a taxi driver for a few months but has already been in one accident, costing 12,000 Afs to fix the taxi and the other vehicle involved.

Their economic status is not too bad; they have a two-story house, a big yard with many vines, and good quality carpets and cushions in the house. Hamid's wife has gold jewellery as well. They have a garden and shared vines in another village but no water and thus little production and income from this source. They seem to earn enough to get by, meaning

Hamid could opt out of the credit programme, in response to his discomfort with the *sudh* charged and uncertainty of being able to repay in winter, when their income flows decline:

> *I don't say that I am a very rich man and don't need money, but I pass my life with mason work and I can afford my household and don't want to take [micro]credit.*

They do take shopkeeper credit in winter but can repay in spring when work picks up again; he is known as a skilled worker and thus can easily get credit. His loan portfolio is not extensive and most has been paid off, highlighting his ability to get by with less credit than others, and repay the credit he does take.

Hamid has avoided taking MC credit also to avoid interaction with the loan officers whom he describes as cunning and insulting. He has observed how they treat clients who cannot repay and seeks to avoid any possibility of such shame being brought on his family, if he were to take credit and then for some reason be unable to repay. Like Daud, he also does not think MC has helped borrowers very much — admittedly it has solved immediate problems "but it does not have a positive effect on the household economy". This lack of positive effect is due to the small loan size — easily diverted to consumption needs leading to repayment difficulties. He thinks MFI clients are driven to the programme due to the poor village economy, linked to the lack of water and a resulting need for cash. He is not in this position, so has no demand for MC, even for the new programme which may not charge *sudh*. He also sees demand for the MFI's credit declining in the village more generally, as people face repayment problems. He is suspicious of the MFI's intent and thinks it is operating largely for its own, not the villagers' benefit.

Table 9. Hamid's credit profile

Credit taken				
Amount	**When**	**Source and type**	**Use**	**Repayment**
1,500,000 daulati	6 years ago	Brother-in-law; qarz-i-hasana	Eldest son's wedding	After 1 year
300,000 daulati	6 years ago	Brother; qarz e hasana	Eldest son's wedding	After 1 year; repaid for wedding in brother's family
25,000	3 months ago	Son-in-law; qarz-i-hasana	To buy taxi	8,000 Afs repaid from earnings; earnings now spent on cost of repairs
10,000	Last year	Brother-in-law; qarz-i-hasana	Second son's wedding	Repaid from earnings
Variable	Winter season	Shopkeepers; in kind	food	Repay in spring from earnings
Credit given				
40,000	About 5 years ago	Brother; qarz-i-hasana	Brother's son's wedding	Given to repay other credit
10,000	Few months ago	Son-in-law; qarz-i-hasana	Daughter's funeral	Not yet
In services	Last year	Brother-in-law; free service	Mason work	NA
In services	Last year	Son in law; free service	Mason work	NA

6. Formal and Informal Credit in the Village: Access, Linkages and Outcomes

6.1. Access to and demand for formal and informal credit

A review of the debt portfolios presented in Section 5 counters the claims discussed in the introduction about there being a lack of access to credit in rural Afghanistan. Whether for business use or as a form of safety net in face of daily consumption shortfalls or other events — ill health, marriage or death - access to informal credit is widespread. Most respondents, both MC clients and non-clients, had extensive credit networks with relatives, shopkeepers and neighbours. Only Daud and Hamid, by choice and lack of need, had more limited credit portfolios. Reciprocity was also apparent with examples of small scale give-and-take credit relations among some respondent households and others giving and taking larger loans within their networks, as Klijn and Pain (2007) also found.

There is evidence of diversity of forms of informal credit, including extensive use of *qarz-i-hasana*, even though respondents often said its use had declined with the lack of cash in the community and the entry of microcredit. Other forms of credit reported to be in use in the study village were in-kind buying on credit, *augrayi*, mortgage and lease transactions and, additionally, borrowing on *sudh*, largely introduced with the entry of the MFI. In the study village there was not much evidence of informal borrowing on *sudh* in the past or currently. However, Hamid is one respondent who did note that in the past there was some borrowing on *sudh*; rich villagers lent money, earning by his estimate 400 Afs for each 1,000 Afs lent. This was done in secret and is seemingly not prevalent today, largely due to the decline in the village economy due to lack of water. There was some mention of increased prices when buying goods on credit, particularly among shopkeepers buying on instalment from wholesalers (see Farooq's case), but this was not considered *sudh*. The lack of past prevalence of borrowing on *sudh* may explain in part many respondents' unease with the MFI's practice of *sudh* borrowing.

The debt portfolios also show that informal credit transactions are not only available for small amounts of cash or goods. While some were for 1,000 Afs or less, many were for amounts equal to if not greater than the sums offered officially by the MFI in the village (5,000 Afs, 10,000 Afs, 12,000 Afs). Thus, informal credit transactions are not necessarily marginal but in many cases are competitive in terms of size with the amounts offered from this MFI.

The Kabul case study evidence raises clear questions in relation to the discourse around the large unmet demand for MC in rural Afghanistan which is driving MISFA to support the scale up of its partners' operations. The availability of informal credit, particularly in costless forms, competitive amounts and generally on more flexible repayment terms, may offer an explanation for the challenges the MFI is facing in the village in retaining clients. MC is one among multiple credit products on offer in the study village, and MFIs would do better to realise this.

The level of debt held by many of the respondent households shows that credit is needed, so demand for MC does exist, but it will be taken only as long as it meets client needs better than existing loan products. Villagers were very willing to try MC, but as will be shown below, many began opting out after one or two loans due to aspects of the programme that did not fit their needs, while others opted out from the start due to lack of demand or discomfort with specific programme requirements (Daud, Hamid, Farooq).

The following statement about the entry of MC to the village shows the villagers' need for credit, as represented by the *shura*, but also the *woliswal*'s uncertainty about the potential benefits, due to small loan sizes and other programme conditions, that turned out to be correct.

> *When I heard about their conditions, that they are asking for the repayments on weekly basis and the amount of money is also less, I didn't like it. But when the shura told me that people have problems and need cash money, they will get credit and will work on that money, I allowed them to open their office in Mirbachakot. Because if I didn't let them open their office, then people would tell me that you give us money to work on. — Woliswal*

Others also note that the need for money due to crisis events, or general lack of cash flow due to the decapitalisation experienced during the Taliban period and the current lack of water, drove some people to try the MC programme:

> *When I came from Iran last year I didn't take credit, because I had money and didn't need credit. But this year when I became sick and needed money I took credit from the MFI.* — Jamila's husband, MC client

> *Villagers did not have good production from their gardens and land; they needed cash money for the gardens as well as for household consumption. So they took credit from the MFI.* — Daud, NMC HH

But this trial did not always lead to repeat borrowing, as learning from borrowing experience led to reportedly significant programme dropouts due to problems with the loan terms and with finding the money for weekly repayments. Some also did not seem to understand what microcredit is; that it is not a gift. This refers back to the trickle down information flow about programme rules and operations, and the resulting problems with relying on this approach to introduce the new programme.

> *People thought that it is like* bakshish*. There was an NGO they gave chickens to people like* bakshish*. When people heard about credit they thought that it was also like the chickens. After a while they knew that we should pay it back then some of them had difficulties with repayment. For the second time they didn't want to take.*
>
> — Gulalai, loan group leader, MC client

> *Due to their rule of weekly repayment and sudh the majority of MFI clients did not take it again.* — Village elder

> *Day-to-day its clients decrease. In the first year when credit came to the village everyone took it. In that time almost all villagers took it. In the second year, I mean last year, almost 60 clients took credit but presently maybe 15 clients took credit from our village. Because they charge more money from their clients by the name of admin charges and notebook expenses, that is why clients don't want to take more loans. In the first year there was too much rush in the MFI office but if you see it now, there are only a few people who come to their office, and the staff, some of them drink tea and some others walk around the office because of no more clients.* — Jamila's husband, MC HH

> *We didn't take the second loan because the weekly repayment is difficult, and if the client doesn't collect the money for weekly repayment then the loan officer shouts at them, so we don't want to hear shouts of the loan officer in getting money late.*
>
> — Nasima's son, MC HH

In time, programme rules and changes to them also led Akram's household, a repeat borrower, to withdraw. The benefits no longer exceeded the social and financial costs of borrowing. Even though his case profile in Section 5 shows that his household still needs consumption smoothing assistance, he has decided to drop out of this MC programme.

> *When I repay my current loan [the household's fourth] I don't want to get another loan because of weekly repayment, which is difficult for me. And also they get 50 Afs for the savings. It is also not good that women go to other houses for the repayment of the money.* — Akram

So it is not only first time borrowers who withdraw, but some of those with a longer borrowing history also come to the decision to leave the MC programme. This of course is not necessarily an option for all, with Akbar an example of a client who may be trapped in a cycle of debt. He does not explicitly acknowledge feeling trapped in this way, but a reading of his case story in Section 5 shows an imbalance between his declining income flows from the shop and large repayment responsibilities which hint at continued dependence on credit from the MFI and other sources. His expressed tiredness with MC and his tension are also implicit indications of a feeling of being trapped in debt.

But what are the implications of the rather large scale withdrawal of clients from the MC programme? Again, they come back to assumptions about the existence of a large unmet demand for credit in rural Afghanistan, which has led MFIs to presume clients will take their credit irrespective of the terms. The credit portfolios in the study village show this is not the case; a competitive market for credit exists, with MC and informal credit available to most borrowers, and the latter often used to repay the former as will be illustrated in the next section. Thus, MC clients in the village seem to have the ability to withdraw from a programme not meeting their financial needs, with the knowledge that they will be able to find the money elsewhere, for consumption smoothing or work-related needs.

The other place they may be able to find the money is another MC programme. A new MFI was in the process of entering the village as the study was ongoing (though never dispersed funds in this period). Exchanges about the new programme with two former female MFI clients show the importance of knowing one's clients, villagers' ability to choose from where to take credit, and the diversity of interests across clients — what is appealing to one may be a turn off to another. Thus the simple, standardised package delivered by the MFI is likely to lead to loss of clients in a competitive environment, which includes seemingly ready access for many respondents (as evidenced by their loan portfolios) to cost-free *qarz-i-hasana*.

> *I wanted to take credit from the other office. At first they told us that we should make a group of 15 people and we should save 50 Afs weekly for three months. After that they would count the money and give the groups 50000 Afs… I thought it was good; I will take 20,000 Afs from them and I will repay all the money of the MFI and give the remaining money to my husband for work. But when they came for the second time they said we will give each group member 5,000 Afs for six months and you should repay 910 Afs per month. When they said that, all women left the room. No one wanted credit from them.* — Jamila

> *Yes, I want to take credit from that [new] office because the* malik *said that it doesn't have* sudh *and it has monthly instalments. They will give us 5,000 Afs for six months. I will repay 900 Afs for each month.*
>
> — Nasima

Jamila judged the new programme to be essentially the same as the current MFI, except for the repayment period.[17] She foresaw continued repayment problems and the inability to invest in a significant way, given the small loan size. Nasima seems to have a greater need for credit, as her case story and loan portfolio imply, making her more open to the given terms, and the influence of the *malik*, her relative. Sensitivity to such differences in client interests is required of any MFI that is to be more successful in attracting and keeping clients and, most importantly, better able to provide financial products to meet their clients' needs. Designing such products will take a greater understanding of the existing informal system, upon which villagers have relied for their security for so long.

But what about informal credit; how has demand for and supply of informal credit changed over the last few years? When this question was asked of respondents[18] most noted a reduction in informal credit transactions, with three main reasons associated with the perceived changes. Two of the seven male household respondents, who replied to this question, plus key informant Akbar, linked a perceived decline in informal credit transactions directly to the presence of the MFI and the availability of MC. There is evidence that some villagers saw that MC could be used as a replacement for informal credit relations. However, the stronger evidence supports the village context as a primary reason for the perceived decline in informal credit, specifically the village's lack of water and resulting decline in production from the land and in income flows. Only one male household respondent of the seven who were asked about this issue did not mention this as a reason for a change in credit relations. Akbar and his brother Daud mentioned both the MFI's presence and these context factors while five other households only linked the change in informal credit transactions to declining income from the land.

> *In the past when the villagers had money from their gardens and fields they were getting good production and could help each other.* — Akbar

> *As compared to the past credit relations have decreased because now villagers don't have cash money and when someone gives money to a villager on credit or* qarz-i-hasana *he does not repay it. Now villagers do not trust each other because they cannot repay money on time.* — Farooq

> *I mean before the Taliban villagers had good income from their grape gardens and lands, some of them were busy in their own shops. In that time people were giving credit to each other because they trusted each other. When the relatives to whom he gave credit get grapes from the garden and sell them in the bazaar for cash money, then they repaid the credit. Now villagers think that if we give credit how will they repay the money, because there is no grape production and no cash money. Therefore we do not trust each other.* — Jamila's husband

As the last two quotes show, the lack of water, leading to lack of good production and income, has meant trust relations in the village have deteriorated, which is the second reason for the decline in informal credit. Creditworthiness is less assured so people do not

[17] This monthly repayment rule matches a requested change to the current MFI programme, but still does not generate client interest.

[18] Questions about changes in informal credit were only asked by the male interviewers. The females asked more about how MC changed household and village economies and about opinions of both MC and informal credit.

trust that borrowers can repay. This is clearly linked to the first reason for perceived decline in informal credit relations, and is also related to conflict and past migration out of the village. On the migrants' return, some of the trust relations were affected, according to some, though not all, respondents.

Finally, two respondents, Jamila's husband and Hamid, go on to link the problems in the village economy due to lack of water to demand for MFI credit. So unlike those supporting a direct connection between MFI entry and the decline in informal credit relations because some opted for MC over informal credit, they see the lack of water and reduction in cash in the local economy as driving some to the MFI when they could not raise money through informal sources.

While the levels of informal credit exchanges may have declined in the study village, the credit portfolios in Section 5 imply that *qarz-i-hasana* is still available, and on relatively flexible terms. The decline in demand for MC also seems to imply an implicit confidence in finding credit when it is needed from informal sources among the villagers — why else leave the programme, given that consumption smoothing is generally needed to get through lean seasons and crises, as is cash for business? Finally, as will be discussed in the next section, use of MC is linked to increased demand for informal credit for many respondent MC clients, who admitted to relying on informal credit at times to meet the weekly repayment criterion of the MFI.[19] Thus informal credit is far from dying out in the village due to the entry of microcredit schemes; MC may actually depend upon informal credit to continue functioning.

6.2. Repayment methods: informal/formal credit linkages

Two links between the informal and formal credit systems have already been noted. First, the reference made by respondents in two households to the decline in the village economy and cash flows, and how this has led villagers to take MC; and second, how relatives, and even in at least one instance a non-relative, have taken MC credit and given it over to someone else for use (i.e. the practice of taking multiple notebooks in different names). The latter is a symbol of the strong social relationships and trust between people, characteristic of the informal system, but adapted here to enable access to formal credit.

Apart from these, one of the strongest links between the two credit systems evident in the data is related to repayment. While there was one case of using MC to repay a large informal debt from a Mandawi shopkeeper (Akbar), there was more extensive evidence of the use of informal credit to repay MFI credit. Across all MC client respondent households, in FGDs and in general discussions of the MC programme among non-clients (particularly men), struggles with the weekly repayment criterion of the MFI were consistently mentioned. These struggles led to a range of methods to repay, with informal borrowing being common, as illustrated in Table 10. MC repayment was prioritised because of the requirement of on-time payment by the MFI, and the penalties and, for some, shame associated with missed payments:

> *The villagers who took credit they repaid the money weekly. Sometimes if they don't have the money they take the money from someone else and repay the MFI, because the MFI representative is asking for the money on time. The credit money is just staying in the cupboard and every week the borrower takes it out and gives it back to the MFI. This is good for the MFI's profit.* — Farooq NMC HH

[19] Note also that Akbar used formal credit to repay his loan from a friend working in the Kabul Mandawi, and that since some of the MC loans are often used for consumption, this might also include using MC to repay shopkeeper in kind credit.

Table 10. Repayment methods of microcredit clients

MC Respondent HH	Repayment methods (planned and actual)
Nasima	*MFI credit*: sold wheat, chadori, daughter's earrings, chickens; sale of milk and eggs; **borrowed twice from loan group leader** *Son's wedding*: sold land *Husband's funeral*: informal borrowing; sold jewellery
Jamila	MFI credit: reserved loan funds paid directly back to MFI; **borrowing from relatives; help from sister in law**; after husband's recovery; from his earnings
Akram	Shopkeeper credit: Sale of a sheep; from son's earnings, when he gets work; borrow informally MFI credit: sale of milk products; sale of sheep; **borrowed once from loan group member**; sale of raisins; **borrowed from a friend**
Shafiq and Qasim	MFI credit: from shop earnings; recently missed one payment – used funds to restock shop; **borrowed from a neighbour once**
Akbar	Mandawi credit: repaid with MFI credit MFI credit: used shop earnings leading to decapitalisation; recently missed payments due to daughter's accident

The struggles to repay may be related to two main factors. One is the tendency among many though not all borrowers to use some or all of their MC loans for consumption purposes (daily needs, medical costs, weddings, etc.), meaning little or no additional income is generated from which to repay. Clients then need to find the repayment money from a range of sources each week. Many respondents linked the tendency to uses loans for consumption to the relatively small loan size, where individual loans were too small to fund productive activities on their own, leading to diversion to consumption uses. Among the MC client respondents, Nasima and Jamila used all of their loans for consumption and Akram admitted to diverting some of his multiple loans to consumption uses. This is reflected in their greater struggles to repay compared to Shafiq and Qasim, and even Akbar, though of course his use of microcredit to pay off informal business credit led to a larger problem of shop decapitalisation as he did not have the profits to support household consumption, credit repayment and shop restocking. Nasima had an especially hard time in repaying; she was the most reliant on asset sales to meet her repayment responsibilities, and therefore is akin to Akbar in ending up decapitalised after involvement in the MC programme. Jamila regrets taking the MFI credit due to repayment difficulties, as she states here: "If I knew that it would be this difficult, I never would have asked for credit from the office. Repayment was difficult."

The second factor related to repayment struggles is the generally marginal nature of the economic activities the villagers engage in, due to the effects of lack of water on production, and reliance on irregular daily wage work or self employment in Kabul. These potential productive investments for the credit funds did not provide opportunities to generate sufficient profits to both fund daily needs and weekly repayments.[20] Thus, there is little evidence of clients doing significantly better after involvement in the programme, even among those taking multiple loan cycles and using the loans productively. Shafiq and Qasim were something of an exception, as initial borrowing did reportedly pay off in higher shop sales, but their own selling on credit in time limited their benefits from the programme. This will be discussed further in the next section on respondents' assessments of the programme and its benefits to individual clients and the village economy.

Some clients' use of informal credit to fund MC repayment implies that involvement in the MC programme may be leading to a cycle of debt. While no respondents explicitly state that they have entered into such a cycle, the evidence from some respondents of consumption-

[20] The marginality of economic activities in the village also pushes borrowers to use MC for consumption, as income levels tend not to be sufficient for meeting basic needs, creating a cycle of problematic repayment.

based loan use and subsequent use of informal credit to fund partial MC repayment implies such outcomes are likely. This is apart from the evidence of decapitalisation, which admittedly was not a result of the MC programme itself, but of the circumstances in which some borrowers (Akbar and Nasima) took the credit and of the economic context which did not provide sufficient opportunities for investment, earning and repayment. The potential for some clients to enter a debt cycle is more strongly associated with this MFI's programme structure versus MC itself, particularly the relatively small loan size for the Afghan context and weekly repayment requirement. These make consumption use more likely and pressures for repayment stronger and more overwhelming than a different structure, perhaps better matching client cash flows, would. This conclusion is supported in part by the respondents' often stated suggestion of a change to monthly repayment, giving more time between repayments to raise the money. This was also found in Lyby's study, and we agree with Lyby that the implications of this change for the size of the repayments may not be understood by clients.[21] However, it remains that more consideration of client uses of and needs for credit is needed in structuring programmes, and particularly in establishing repayment periods. This could go far in reducing the burden that MC seems to have become for some borrowers.

In the end, two of the most important findings are that MC does not seem to be leading to improved economic circumstances, including improved livelihood security, as will be discussed in section 6.3, and that weekly repayment struggles, along with *sudh* and problems with rising fees, are driving both client dropouts, as well as decisions not to join the programme in the first place.

> *When they took it they were paying the profit of credit to the MFI office and it was difficult for them to collect the weekly repayment money for the office. And now they don't want to take it again.*
>
> — Farooq, NMC HH

> *[I dropped out] because it was difficult for me to pay every week… that everyday when I sold vegetables on the cart, the money I earned I was paid to the MFI.* — Male loan group FGD participant

> *I also wanted to take this credit to rebuild my house and their credit money paying from my salary. But when I heard about the weekly repayment I did not take it.* — Daud, NMC HH

Even those remaining in the MC programme find the weekly payment difficult, including shopkeepers who MFIs expect to be key clients, with their weekly cash flows:

> *The weekly repayment is very difficult for us because sometimes in one week it is difficult to collect the instalment money for the MFI. If they take the money from their clients on monthly basis then it is easy for us.* — Shafiq

Hence rethinking programme rules and structure may aid both the clients involved and the MFI in that it would be better able to both attract and retain clients, both central to achieving operational sustainability.

Another important factor associated with the use of informal credit to repay MC is its affect on claims of success among MFIs, which are in part based on reportedly high repayment rates (98 percent as of a 2006 World Bank document on MISFA performance). What is behind these percentages is not investigated and what this study's results point to is a

[21] See footnote 9 and the quote from Jamila it refers to.

privileging of MC repayment among borrowers due to the financial and social penalties involved in delayed payment. Clients find the money any way they can — sometimes through profits from MC funded investments, and sometimes through more damaging means, such as reducing consumption, selling assets or borrowing informally leading to continued debt burdens. Thus, the success of the formal credit system as reported through repayment rates seems to be quite dependent on the informal system, an unacknowledged fact which further justifies more attention to understanding how informal credit systems operate and how this MC programme, and others, can move beyond an at times parasitic, one way relationship with informal credit systems to begin to learn from and support them. It also depends on clients finding the money to repay which for some clients, as we have shown, is a struggle that may put their livelihood security at risk.

6.3. Assessing MC benefits

In the end, access to MC should lead to positive household livelihood outcomes and perhaps even improvement in village economies through access to more goods and services and, in time, expansion of employment opportunities. While some claim the main aim of the microfinance sector is to increase access to financial services (Helms 2006), this study and past AREU research (Klijn and Pain 2007) have shown that access is not necessarily a constraint. Rural Afghan households can obtain credit and often costless credit on flexible repayment terms. Thus, microcredit in Afghanistan must provide something more to justify the present allocation of resources to MISFA, ideally improving livelihood security and reducing poverty through offering larger sums of credit, different products or credit plus other services needed to enable borrowers to use the funds more productively in their social and economic contexts. Is this happening in the study village? What did villagers think of the effects of MC, as provided by this MFI, on household and village economies? And in the end, do they express a preference for one form of credit (i.e. informal or formal) or the other?

6.3.1 Effects on household economies

Respondent households, including key informant Akbar, were asked about the benefits of MC to borrowing households.[22] MC clients spoke from experience and non-MC clients spoke from observations of others in the village who had borrowed from the MFI. Four main issues were raised: MC is good if borrowers work on it, not if it is used for consumption reasons; loan sizes were quite small, making it hard to use the funds productively and easy to divert them to consumption; repayment was hard due to the weekly requirement and high perceived sudh/fee levels (and implicitly due to the tendency to use loans for consumption); and MC solved an immediate problem but did little beyond this.

Four of the five MC respondent households (includes key informant Akbar) and one of the three NMC households asked about benefits remarked that benefits were only possible if the money was used for work; otherwise repayment was difficult. However, there was also general agreement across both borrower and non-borrower respondent households that the loan sizes tended to preclude productive use (four of five MC HHs and three of three NMC HHs stated this). Loans ranging from 5,000 to 10,000 Afs did little to support business use; instead, the high cost of basic commodities in Kabul province and general economic difficulties or crisis events led to the need at times to use funds taken for business use for consumption.

> *My father took credit from the office last year. He wanted to buy some fertiliser for his garden but he couldn't do that. When he took the loan my brothers were jobless; they used the money for their household consumption.* — Jamila

[22] Nilofar's household was not asked about this. There was only one interview with the male household representative due to internal HH conflicts and Nilofar, as a non borrower and less mobile woman, did not provide an assessment of benefits flowing to borrowers she knew of.

> *It is not 40000 and 50000 Afs to do business with and get a lot of profit. The 10000 Afs or 5000 Afs are for household expenses.* — Shafiq

> *Sometimes I am thinking that I should take credit and buy a cow then I can use the milk and yogurt of that cow and I can sell it and earn money for repayment. But if I take 10000 Afs, with that money I can't buy a cow. The price of a good milk cow is 20000 Afs or 30000 Afs.* — Jamila

> *But it does not have a positive effect on the household economy because villagers can't work on that money. They are using it for household consumption.* — Hamid

> *They didn't work on credit money because it is less money for work. 5000 Afs will be spent in one day if someone buys flour, cooking oil and sugar for the household.* — Farooq[23]

As noted in Section 4 borrowers did try to get around this, reformulating the programme to better match their needs for funds by taking multiple notebooks at one time. This provided the 20,000 Afs and more desired, but still led to repayment difficulties, even if the loans were used productively. Repayment problems were noted as a reason for less MC benefits among four of the five MC households and all three of the NMC HHs asked about benefits. One loan group FGD participant provides a stark report of her assessment of her household's MC involvement:

> *I saw a change since I became a member of a loan group. We became poor: we had problems in repayment; we kept ourselves hungry, but we took money to the office. It was not good for us due to repayment problems.* — Female loan group FGD participant

Akbar's use of MC allowed him to maintain social relations with a friend who loaned him a significant sum for business use, a clear benefit. However this is balanced by the social risks linked to loss of honour and dignity he sees in having borrowed from the MFI and then faced repayment problems. Thus, it seems to be hard to find evidence of clear benefit from borrowing due to repayment issues.

> *The benefit of the credit to me was that I took credit from the MFI and repaid the money of the mandawi shopkeeper (thereby maintaining a social relationship of importance). …Because of this credit my personality (status) declined. MFI credit is a stain on the dignity of clients because when clients don't have the money then whatever the loan officer says they must accept. The loan officer is pressurizing a lot.*
> — Akbar

In assessing MC, the stated repayment problems led some to suggest programme changes (3 MC HHs and 2 NMC HHs) such as monthly repayments as well as reductions in sudh or doing away with sudh entirely. Weekly repayments are a problem for two reasons; one is that not all borrowers (whether for consumption or production uses) obtain regular cash flows from which to meet weekly payment demands. This is particularly the case for those using the loans for agriculture (Akram) but also for shopkeepers, whose own sales on credit may hinder their ability to generate sufficient weekly profits to afford household needs, shop restocking and MC loan repayment. While Shafiq noted a positive change in his shop initially, due to being able to stock more goods, sales on credit led to a decline in stocks over time, and less earnings, leading to repayment struggles. The problems facing shopkeepers link to the second problem with weekly repayments, and more generally to a possible problem with the introduction of MC in this particular village, which is the marginality of economic activities in the village and hence the general challenge to earn sufficient returns from productive loan uses to repay the credit (whether monthly, weekly, etc).

Thus, MC, as noted by all MC respondent households and one non-MC client household interviewed, is good for solving an immediate problem but more general improvements to livelihoods or household economies have not been noted by respondents. For some this may be due to solely consumption use of the credit, as noted by Jamila's household (used for medical costs). However even uses for production were not noted to bring larger sustained changes to the household economy.

> *Those villagers who took credit from the MFI they needed the cash for household consumption and for garden expenses [note these were what his HH used credit for]. They took the credit and solved their problems. That is the advantage of MC – to solve the problems in the time of need. MC doesn't have other benefits for the villagers.* — Akram
>
> *With this credit villagers' income will not increase because they cannot work on this money. As I told you before thay can only solve their problems and use this money for household consumption. From MC villagers could not get any benefit.* — Jamila's husband
>
> *I didn't see any changes in my house because I spent all the money for treatment.* — Jamila

Thus MC seems best able to help households in the study village to cope with immediate needs — either related to work or to other financial requirements (ill health, home repairs, daily needs). Longer term positive changes to incomes and living standards are still elusive, even after three years of lending. Instead one sees a decline in numbers of borrowers, which implies a lack of benefit from MC — clients would stay involved if they were receiving something from the programme. MC in this study village seems largely to be another available form of credit to access, along with informal sources, to get though periods of need — whether for inflows of cash to stock a shop or to fund garden inputs or to support the costs of a medical crisis. It seems not to have offered something new or incrementally better than the forms of credit already available, as people have opted out both from the programme's start and after having some experience of the programme. A larger question, to be pursued in the study synthesis paper assessing client experiences across different MC programme structures, is to what extent MC may increase vulnerability to livelihood declines among borrowers? There is some evidence of this in Akbar's case, where large outstanding MC loans are a burden, and a recent crisis in the form of his daughter's accident has made him miss multiple repayments on multiple notebooks. With declining shop stocks and weekly income, how the household will recover, given the existing pressure to fund the missed payments and meet the remaining weekly repayments is unclear.

6.3.2 Informal and formal credit compared

MC client respondent households were asked for their views of informal credit compared to MC. The results are quite mixed, contradicting other judgements that clients prefer MC due to reductions in the shame of asking for money from relatives (see Lyby 2006). This does come up among our respondents, but perspectives on both systems seem to be associated with personal experiences under both schemes, specific to aspects of each and thus do not show a clear preference for either one over the other.

Akram and Akbar both raised the issue of shame in relation to borrowing informally. Akram presents a mixed picture of his preferences across the two systems, preferring informal sources because he can get credit without *sudh* and because leaving work for a day to make the MC repayments is difficult (opportunity cost)[24], but he then notes the shame or shyness felt in front of informal lenders, the need to come up with the money when informal lenders ask for it — in full, and the risk of losing credit networks if one faces repayment problems in the informal system. With MC, repayment problems are between you and the loan officer, a sentiment shared with Akbar. Akbar also relates his fears of risking his social relations if he borrows and cannot repay, and also expresses shyness about facing informal lenders; however, his brother is a key lender and this shyness does not seem so problematic in this relationship. He is likely referring to his experience of being asked for repayment by his Mandawi shopkeeper friend and being unable to pay, the shame which drove him to borrow from the MFI in the first place. In the end, Akbar, reflecting his growing livelihood insecurity in relation to credit held, expresses dislike of all credit: "*Qarz* is not a good thing from the MFI or from relatives."

The notion of missed MC repayments being between the MFI and borrower, or loan officer and borrower, is interesting in the village environment. This seems to imply others would not learn of these problems, which did not seem to be the case. Respondents could relate others' MC repayment problems, so missed MC repayments seemingly could affect access to informal credit, just as poor credit reviews in the village would lead the MFI to deny some applicants credit (Nilofar).

All MC households apart from Akbar explicitly stated the view that informal credit was preferred due to the lack of *sudh* (at least as practiced in this village). There are mixed opinions on the flexibility of repayment in the informal system, reflecting different experiences. Jamila relates a story of a relative, during Taliban times, coming late at night to demand full repayment of a loan. She did not have the money so had to give up jewellery to meet the demand. Hence she prefers the scheduled, known repayments in the MC programme over informal borrowing. Others had the opposite view of repayment of informal credit, a view largely supported in AREU's previous work on informal credit (Klijn & Pain 2007), which is that repayment terms are quite flexible. While a lender may ask for repayment, he/she would also accept one's apologies if the money could not be found. Jamila's husband felt this way (interestingly illustrating intra-household differences in opinions), as did Shafiq and Nasima. This is linked to the religious merit obtained from providing assistance credit, but only if repayment is not requested.

> *Qarz e hasana doesn't have sudh and people give it to each other for the blessings of god. The creditor never asks for his money until the debtor repays the money.* — Male shopkeeper FGD participant

Nasima's household, reflecting their need for credit for a medical crisis, and thus for quick inflows of cash, expressed a preference for informal sources due to the ability to receive credit quickly.

> *When faced with difficulties I can't get credit from the office because they do not give me credit on the same day (note: after repaying the first loan this would be possible). I have to save my money for four weeks and after that the office will give me credit. When I go to my relatives they will give me credit on the same day.* — Nasima

However, this implies relatives have money to give, highlighting a reason two respondent households expressed willingness to borrow from the MFI, and for one, a preference for it.

[24] Note that others would avoid such costs by having other family members submit the repayments.

Akram's wife preferred the office credit because relatives didn't have enough money to give: "If we go to our relatives they do not have enough money to give us." Jamila's husband expresses the same constraint among relatives, but would prefer not to have to take MFI credit, something they avoided until illness pushed them to do it: "I didn't want to take it [credit] from the MFI but I know that my relatives don't have cash money."

All in all, personal experiences colour judgements of the two systems, including past problems in repaying either or both, ability to get cash credit from personal informal networks, and individual perceptions of *sudh*. Broader gender relations can also influence preferences through shaping personal experiences. For example some women heading households may face shrinking informal credit networks if their ability to earn income to repay is judged as marginal, and men may dislike MC due to forced interactions with female loan officers. In the end, few general conclusions can be made about preferences for either, except to say that borrowers do consider the options available (which for some may be quite limited) before deciding who to approach, whether that be between different MFI products, different informal lenders or between informal and formal sources.

6.3.3 Effects on the village economy

This last section briefly assesses respondent perceptions of how the village economy has changed over the last few years, and if MC had any role. The conclusion is that "initial conditions" related to the local water crisis due to the destruction of the *karez* outweighs any and all other effects. This has implications for applying a standardised approach to MC delivery which is not responsive to local conditions and need, as it can lead to larger debt burdens among clients who are stymied in their productive uses of credit and to reduced MC demand due to the lack of benefits among clients.

Only Shafiq and Qasim expressed an individual benefit from the credit, but one that was short lived due to larger constraints in the village economy linked to shop customers' inability to repay credit in a timely way. Thus village context mattered to their experience of MC. This is apparent in the views of Jamila's household, which notes individualised benefits for some MC clients, but not any larger effect for villagers in general.

> *When two and a half years ago I came from Iran villagers already took credit from the MFI and on that money they bought a cow, donkey, poultry, sheep or calves and repaid the money. This was a little good for the villagers but for the rest (of the villagers) there was no change in the village.* — Jamila's husband

> *Nothing happened in the village. No one became rich and no one has more land or garden. If someone worked with that money it was good for him and not for all the village.* — Jamila

Others again go back to the small loan size and diversion of the credit to consumption as the explanation for the lack of larger effects on the village economy.

> *In the village no changes happened because they are giving 5,000 Afs – 10,000 Afs to the villagers and they solved their own problems. …They used it for household consumption and did not get any benefits from the credit.* — Daud

> *I can't see any changes in the village because the loans which the MFI gave to the villagers were not much money to change the economic conditions of the villagers.* — Akram

Context outweighed other factors pointing to the need for a larger understanding of the village and its economy before an MFI enters, to assess more clearly the potential benefits to clients and the suitability of the MC products to be delivered to the village. As the following statement shows, a better assessment of the interventions needed may reduce the overall need for credit by providing better livelihood opportunities delivering adequate incomes to meet daily needs and more.

> *Our request to the government is that it should first make the irrigation canal for us* (karez)*. If water comes to the village then we don't need the credit because villagers can work in their gardens and fields and will be happy in their farming and gardens.*
>
> — Male loan group FGD participant

This relates again to the microfinance sector's rather blind assumption, contradicted by the findings here and in Klijn and Pain (2007), that there is a large unmet demand and need for credit in rural Afghanistan. A more cautious approach to rolling out MC in rural Afghanistan, built on an understanding of local context, village economies and the operation of informal credit systems, may provide more returns to both the MFIs involved, assisting them in reaching the goal of financial sustainability, and to their clients through the design of more comprehensive financial service packages addressing constraints at multiple levels, built from an understanding of local needs and conditions.

6.4 Conclusions

This chapter expanded upon themes brought out in Section 5. The first theme related to issues of the existing credit market in the village, into which MC inserted itself and how the household credit Section 5 support the claim that access to credit is not such a barrier in rural Afghanistan. Hence MC is one choice among others for village residents in need of credit, and the evidence of client drop outs supports that the products offered by this MFI are not the most preferred. Another theme brought out is the links between informal and formal credit, with strong evidence supporting the formal system's reliance on the informal, as MC clients in our sample and in FGDs often reported the need to borrow from informal sources to make MC repayments. Part of the reason for this struggle to repay is the marginal nature of the economic activities available in the study village and the inability of the MC loans, or informal loans, to boost production due to constraints imposed by drought and conflict-related decapitalisation. Based on these context-related constraints related to war and drought, households did not report significant effects of MC on household or village economies, in part because of the need to use some or all of the loans for household consumption — this got a families through crises but could not support growth.

7. Conclusions

Six main conclusions, many interrelated, can be drawn from the study of this MFI's experience in the Kabul study village. These conclusions were considered as the research team commenced the fieldwork for the other cases, as part of the ongoing learning characteristic of qualitative research. The key findings will also contribute to an analysis that looks across MC delivery models to broadly assess the connections between microcredit, informal credit systems and rural livelihoods.

One of the most important conclusions is that in this village demand for credit, from both formal and informal sources, definitely exists — people need consumption smoothing assistance and business credit. However, the evidence shows that much if not all of this demand is being met by existing credit products, which now includes MC products as one among many available to village residents, available from sources inside and outside of the village. A major point to be drawn from this initial case is that it is unlikely that a large and largely unmet demand for credit exists in rural Afghanistan. MC does not enter an empty financial services environment where people are willing to accept credit on any terms. Instead this case points to a rather competitive credit market, with significant access to low cost or cost free credit, in substantial amounts, matching the loan sizes offered by the MFI. Clients' ability and willingness to opt out of the MC programme supports the conclusion that they are confident in being able to find money elsewhere, on equal if not better terms than on offer from the MFI.

The second conclusion is that it seems as if the interests of the MFI in achieving self sufficiency and standardising credit delivery to reduce costs and complexity prevail over those of the clients in this study village. While the MFI has good intentions in terms of aiming to reduce poverty, the competing concern to reduce costs and cover them with revenue in the end overwhelms the prior aims. Thus, the MFI disburses a standardised product in the village to viable clients, with a weekly repayment requirement and in loan sizes of no more than 12,000 Afs. Neither of these programme characteristics seems to meet villagers' needs (even among "viable clients"), with few having weekly cash flows sufficient to support repayment easily and villagers generally remarking that the loan sizes offered are inadequate to support productive use, though all borrowers are told to use the loans productively to enable repayment. This injunction in itself does not reflect knowledge of the locality, as the marginality of economic activities, from shopkeeping to gardening/farming to daily wage work, tend not to provide sufficient investment opportunities to generate profits to fund repayment, as well as consumption and other household or business needs.

Thus, the third conclusion is that context very much matters to how rural livelihoods may be affected by MC, with great potential for MC to raise client risk and vulnerability if it is offered in a context such as the study village, where existing livelihood opportunities are marginal. Initial assessments of whether or not MC is an appropriate intervention are required to safeguard villagers from thoughtless drives to expand MC programme outreach in order to meet the short term interests of reducing MFI costs and moving it closer to financial independence. Instead the financial independence of the potential clients must take centre stage in considering where and how to deliver MC services.

All of the above lead to the fourth conclusion, that a client-led approach to the development and delivery of financial services in Afghanistan is required, something that has been known in the microfinance industry for some time (Cohen 2002) but for some reason not reflected in the practices of the MFI, to its own and its clients' detriment. The outcome of the mismatch between client interests and the programme structure are evident in the hidden practices through which clients bypass programme rules (especially the borrowing of multiple notebooks by one household) and in the seemingly high client drop out rates in the village.

The fifth conclusion relates to gender specific outcome of the MFI's MC programme, as evidenced in the study village. The MFI states an intention to foster women's empowerment through the formation of groups — giving women social outlets — and then providing them access to money, which in time may also lead to their increased control of these funds. All well and good, but facilitating such a process in any South Asian context, let alone in Afghanistan, takes a focused effort to develop groups that exist in their own right, as ends in themselves. In this case study there is little evidence that such efforts have been made, although it was evident that some of the women did find it useful to share problems during the meetings that were held. Hence there is scope for village organisations to have a positive effect on women's lives, if a conscious decision is made on the MFI's part to invest in them. Not doing so is no mark against the MFI; the MFI only then needs to be more realistic in its claims about the potential social outcomes of credit involvement for female clients.

The sixth and final conclusion relates to the successes claimed by the MFI in relation to its repayment performance. In general repayment rates are central indicators used in rating MFI performance in Afghanistan and elsewhere. However, the figures tend to be accepted as a given with little querying about how they were achieved, and what livelihood investments or changes may have supported the ability to repay. Such questioning would likely lead to findings similar to that in the Kabul study village, where these high repayment rates emerge as strongly dependent on the client's ability to borrow from informal sources, and for some, on asset sales, reducing daily food consumption, and other negative responses to the need to find the money for repayment each week. Driving households to such dire actions is not the aim of MC or this MFI and no one presumes it is. However, this MFI and likely others has not done enough to hold itself responsible for knowing how repayments are made to ensure MC is not leading to rising informal debt burdens or other potentially risky livelihood "choices" made to avoid the threats and penalties imposed (rhetorically or actually) by the formal system, which tend to be absent in the informal. Greater self-monitoring mechanisms and different incentives for village level MFI staff — less tied to compelling repayment — may do far more to assist the MFI to learn from its practice and from existing informal systems in the villages, to improve its own systems and performance, as measured by knowledge of and ability to meet client demands for financial services. This would be in both the MFI's interests and those of its clients.

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