

Afghanistan Research and Evaluation Unit

Synthesis Paper Series

FINDING THE MONEY: INFORMAL CREDIT PRACTICES IN RURAL AFGHANISTAN



Floortje Klijn and Adam Pain

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Glossary*

<i>Afs</i>	Afghan unit of currency; approximately 50 Afghanis = 1 USD
<i>arbab</i>	chosen representative of a village
<i>jerib</i>	unit of land measurement; approximately one-fifth of a hectare
<i>khairat</i>	voluntary alms
<i>khan</i>	landlord
<i>komak</i>	assistance
<i>maulawi</i>	Islamic theologian
<i>mozarebat</i>	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 the loss is carried only by the investor
<i>mullah</i>	religious leader
<i>mazdur</i>	daily labourer
<i>qala</i>	a walled, fortress-like compound
<i>qarz</i>	credit
<i>qarz-i-hasana</i>	credit on good terms, with no interest
<i>qarz-i-khodadad</i>	a loan given on the understanding that the debtor will repay when God provides the opportunity
<i>qawm</i>	kinship group, often a tribe or sub-division of a tribe; also used for the community where one lives
<i>qurut</i>	dry cheese
<i>ramazan</i>	month of fasting
<i>salam</i>	a well-known form of advanced payment where an advance is provided for a future harvest at an already fixed (low) price
<i>sawab</i>	merits gained when doing a good deed, considered as “profit” from God or “credit” earned with God
<i>ser</i>	one ser=7 kilograms
<i>shariq</i>	business partner who provided investment on credit
<i>shura</i>	group of elders
<i>sudh</i>	credit with interest
<i>taifa</i>	tribal lineage
<i>zakat</i>	obligatory alms

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

Acronyms

AREU	Afghanistan Research and Evaluation Unit
CGAP	Consultative Group to Assist the Poor
CHA	Coordination of Humanitarian Assistance
DDR	Disarmament, Demobilisation and Reintegration
I-ANDS	Interim Afghanistan National Development Strategy
ICRISAT	International Crops Research Institute for the Semi-Arid Tropics
MISFA	Microfinance Investment Support Facility for Afghanistan
NGO	non-governmental organisation
NRVA	National Risk and Vulnerability Assessment
NSP	National Solidarity Programme

Executive Summary

It is widely believed that there is a strong demand for credit in Afghanistan and that much of this demand is unmet, justifying a major programme in microcredit provision. But there is very little understanding of the extent and the workings of informal credit systems, particularly outside opium poppy growing areas. Is there such an absence of credit available to poor rural households as is assumed? Do microfinance and informal credit respond to the same needs? Is informal credit simply the same thing as formal credit, except that it takes place outside formal institutions? And if there is more informal credit available than is believed, what does this mean for the development and role of formal credit systems?

These key questions informed a detailed anthropological study of informal credit practices in three contrasting villages in Herat, Ghor and Kapisa. Drawing from a detailed presentation of eight households case studies, and amplified with additional case material, a number of key conclusions can be drawn from the findings.

First, informal credit practices are widespread with most households both giving and taking credit, having multiple outstanding debts simultaneously and a variety of different households with whom they exchange credit. Second, there is great diversity in informal credit practices, the meanings of which have to be understood according to social context. A large proportion of these credit transactions are on a no-interest basis. Third, informal credit is almost exclusively used for either consumption smoothing or marriage with very little being deployed for investment in enterprises. Fourth, the reasons for entering into informal credit relations are diverse but include investment in social networks for informal security, for providing assistance as

well as maintaining or consolidating patron client relations. Fifth, the majority of households are able to access credit and have confidence that they will be able to do so. Sixth, repayment practices are usually highly flexible and negotiable. Seventh, for many of the households informal credit has positive outcomes in achieving immediate welfare goals. This however is not universal and the dynamics and characteristics of informal credit are changing over time.

The methods used in this study have highlighted the complexity of informal credit and question the application of models of formal credit to informal credit. Notions of debt, interest rates and contractual periods, for example carry very different meanings from those that formal credit assume. Informal credit is not just formal credit working in an informal institutional setting. Its practices, assumptions and objectives are very different and these cannot easily be generalised about.

The fact that informal credit is mostly used for consumption needs highlights a key contrast with microcredit, which is not designed to address such needs, even though in reality it might be used for such purposes. Given this critical role for informal credit, it is difficult to see how arguments that microcredit will increase incomes and savings of the poor can be sustained. Informal credit systems are highly unlikely to disappear, not least for the negotiable flexibility that they offer. But nor is formal credit likely to exist independent of informal credit and there is comparative evidence that microcredit can become parasitic on informal credit practices. Much greater attention is needed to how microcredit works in practice, rather than just simply reporting the number of loans disbursed.

1. Introduction

*"If money is a language, there have been many tongues spoken in Afghanistan."*¹

A year ago Gulab Khan and Shafiq (CS44-K),² together with their four daughters, returned from Iran to their village in lower Kapisa. Gulab Khan, who is in his 60s and with a much younger wife, worked as a driver for some time after his return but he has been jobless now for a few months. During this period he has taken several loans, all

CS44-K: Debt portfolio

Credit types: interest-free loans from relatives

Repayment: *Qarz-i-khodadad*-like loans, paid "when God provides the opportunity."

Amount - credit source - credit use:

2,000 Afs* - maternal cousin - for building house/food

5,000 - maternal cousin - food

1,000 Afs - sister, wife - food

3,000 Afs - civil servant Kapisa/friend - food

3,000 Afs - nephew (wife's sister's son) - food
(*unclear if amount was received)

interest free, from relatives — mainly from his mother's side or his wife's family. Although his known debts have now risen to 14,000 Afs (US\$280), he recently decided to divide the compound where he is living with his brother and his family into two, build a wall and a new house. Halfway through Ramazan with only three days of flour left to eat, the family asked Shafiq's maternal cousin for another loan of 2,000 Afs (US\$40). It is unclear if they had actually received it.

When Shafiq was asked where her family seeks credit, she said: "We get credit from the one who knows us, who has good manners,

who does not come every day to our house asking for their money even though we do not have money. We go to those who do not fight with us." According to Shafiq, these people are not found much in the village anymore. Her household often takes credit from her relatives who live outside the village: "We go to cousins, relatives and friends; not our paternal cousins because they have no money, their life is the same as ours. We go to those with a good life, who have a good economy and good manners." When Gulab Khan was asked how he plans to repay these debts after being unemployed for a few months, he replied: "When I find the money, I will repay."

This story is quite common in the Kapisa village among households considered in the middle wealth group. This illustrates a confidence in finding informal credit, in finding the money to repay it and illustrates a reliance in the functioning of informal credit systems. As will be shown in this report, many households from the three village case studies (in Herat, Kapisa and Ghor) knew "how to find money."

The case of Gulab Khan and Shafiq (CS44-K) also reinforces the notion that there is a high level of demand for credit in rural Afghanistan, fuelled in part by the perceptions of the role that opium poppy fulfils in providing informal credit. But while this case study is evidence of credit demand, it is also evidence of informal credit supply — a confidence in finding the money, finding it in this case on an interest free basis, and finding it in the case study villages where

¹ Hanifi, S.M., 2004. "Impoverishing a colonial frontier: Cash, credit and debt in nineteenth-century Afghanistan." *Iranian Studies*, 37(2):199.

² Each household case study presented in this report is tagged with a code referring to household number and location. Thus CS1-G is case study number one located in Ghor. All households interviewed are presented with details of their asset portfolio in a matrix in Appendix 1 and follow the same codes.

opium poppy was absent. This observation sits somewhat awkwardly with the assumptions of the Microfinance Investment Support Facility for Afghanistan (MISFA), which estimates that a potential two million households are in need of credit and that:

*In the almost total absence of functioning banks or sustainable microfinance institutions, it was clear that substantial donor investment would be needed to build a strong and diverse financial services sector that would be responsive to the needs of poor Afghans.*³

The aim to provide access to financial services to 800,000 households by the end of 2010 – a key rural development benchmark identified under the Afghanistan Compact and I-ANDS – clearly responds to MISFA’s perception of the unavailability of credit. Such perception is partly driven by assumptions about the effects of the formal banking systems’ collapse and, as noted above, the role of opium poppy.

However, there appears to be very little evidence and understanding of the extent of availability and workings of informal credit systems, particularly outside the areas where opium poppy is grown. Is there such an absence of credit available to poor rural households as MISFA, for example, and others assume? Moreover if we look at informal credit through the lens of formal financial systems where money exchange is treated simply as a commodity exchange, does this not rather ignore the context of social relations in which most Afghan’s lead their lives and the meaning and role that informal credit plays within these relations? Can it be assumed that informal credit is basically the same thing as formal credit – except that it just happens to take place outside formal

institutions? And if there is more informal credit available as the above case study hints at, what implications might this have for the development and role of formal credit systems?

These are among the issues that the three village case studies on informal credit intend to address. Evidence emerging from these studies challenges many of the assumptions about the existence and role of informal credit and questions the extent to which formal credit will be able to fulfil the significant role that informal credit provides, both for the poor and rich alike.

Section 2 of this report briefly describes the research methods and context in which this study was undertaken. Section 3 presents eight case studies that illustrate many of the dimensions of informal credit practices accessed and used by poor, middle ranking and rich households. These case studies are then used in Section 4, along with data from a wider set of case studies, to explore key issues related to the pervasiveness of informal credit, its diversity, reasons for giving and taking credit, questions of access, repayment practices and outcomes, and how credit practices are susceptible to change. Section 5 uses these issues to develop a set of critical arguments addressing misunderstandings and preconceptions about informal credit: identifying characteristics of informal credit including its purpose and the timeless nature of its contractual aspects; questioning such concepts as interest rates and default; and considering the dimensions of a moral economy and a context of insecurity that might drive informal credit practices. Section 6 concludes by exploring the implications of these findings for the development of formal microcredit systems in Afghanistan.

³ MISFA website: <http://www.misfa.org/about/htm>

2. Context

2.1. Methodology

This study aims to build understanding of the role that informal credit plays in rural livelihoods. It does not intend to formally document the quantitative significance of credit or debt but more to address questions of access, use and consequences of taking credit. It is based on qualitative rather than quantitative methods, with information collected from an open-ended checklist rather than a closed-ended questionnaire. The questions that were asked and the enquiry pursued depended greatly on the interviewees, the composition of their livelihoods and the dynamics of the discussion. The ongoing process of field analysis and insights gained in previous interviews were fed back into subsequent interviews so that new and emerging issues could be addressed. This report is based on three village case studies conducted in Herat, Kapisa and Ghor provinces and a pilot study conducted in Balkh province.⁴ In each village, an average of 34 in-depth interviews were conducted with both men and women from different wealth groups. Details on asset portfolios of the interviewed respondents and their households are listed in Appendix 1, along with their designated codes, which are used as references throughout the paper.

The term “credit practice” refers to all exchanges where one borrows or lends money or commodities to another. The term “interest” is used solely for credit where a profit is made through a pre-determined percentage mark-up on the loan that increases the longer repayment is not made. “Credit with profit” is a term used for the other types of credit where costs are paid for borrowing or where a profit is made by the borrower. “Cost-free credit” is when the lender charges no marked up value, the credit is free of charge.

Village and respondent selection

To establish whether credit practices differed, based on the extent of market penetration, three villages were selected to capture differing economies. The Ghor village, with seasonal grain deficits, was selected for its subsistence-based economy. Although men did work outside the community, it was often within the district, and the majority of households within the village were primarily dependent on agricultural production and casual labour in the village. The village in Kapisa was selected initially on the assumption that it produced cotton for the market. When fieldwork began, however, it became clear that agricultural production was for subsistence farming and that due to seasonal grain deficits daily labour outside the village was vital for a household’s economy. The Herat village, the last village studied, was a wealthy village specifically selected for its market-based economy, based on the income generating activities of carpet weaving and silk production, and the presence of shops and service providers in the village.

In each study location the research team was facilitated by a development organisation already working in the area. The Coordination of Humanitarian Assistance (CHA) assisted in Herat, UN Habitat in Kapisa and Oxfam in Ghor. In consultation with these partners, a village was selected in each province based on two criteria: villages needed to be average in size and representative of village economies within their district. For the selection of respondents within the villages, quota sampling was used in order to distribute the selection of households across different socio-economic status categories. The criteria used to differentiate these categories included household access to land and income sources. Researchers monitored the number of

⁴ To protect respondents’ privacy, the actual names of the villages studied and respondents interviewed are not used in this report.

households in each socio-economic category interviewed each day, aiming for equal representation in the low-, middle- and high-income groups. The interview teams also targeted specific respondents including female headed households, working women, households with mortgages, newcomers, returnees and educated people. This was not a fixed list, but depended on the village composition.

Wealth categorisation

It was important for the study to ensure that social assets, as well as the dynamics of household livelihood trajectories, were taken into account in grouping the respondents in the three wealth categories: wealthy, middle-ranking and poor. A more detailed and refined categorisation of respondents was used in the analysis phase. Such grouping was continually reassessed throughout the study based as new insights emerged.

After analysing each family's economic status in detail – access to land and its contribution to food (in)security, household size and additional income sources, the depth and breadth of social relations, household trajectory over time and their credit practices – a final wealth grouping specific to each studied village was developed. In addition, there were specific situations included as an indicator of a household's wealth status, for example, how families married off their sons, or how they were able to finance the building of a house, as well as their access to credit.

Although the categorisation facilitates analysis and the presentation of findings, it is not an absolute classification; with some households it was unclear in which wealth group they were best placed. For example the couple in Kapisa presented in the Introduction (CS44-K), were landless, with no sons, no secure income sources and mounting debts but were building a house. Their income sources suggest

that they should be classified as poor, however the fact they can still access credit and build a house suggests that they may also belong to the middle ranking wealth group. Categorisation, therefore, is used in this report to place household situations within a specific time; it is not, by any means, a categorical judgement about their position in life.

2.2 Research settings

The socio-economic context of the households and the region has proven to be essential in understanding informal credit practices. An attempt is made to draw a concise picture of the villages, the regional economy and their dynamics over time. However, before providing village-specific descriptions, it is important to identify some of the change processes that have taken place.

In addition to the differing experiences of conflict and drought over the last three decades or so, all the villages have also experienced economic changes. While conflict and drought have driven processes of de-capitalisation for many households, processes of economic change have provided new or expanded income-generating opportunities, which can contribute to improved wellbeing. The way in which these two countervailing forces have worked out in practice for households, affecting household trajectories and the role of and access to credit, is case specific.

The Ghor village⁵

The Ghor village in Lal wa Sarjangan district, where both Hazaras and Sayyed live, has periodically experienced armed conflict over the last three decades. In 1997-1998, a Taliban-imposed blockade of the Hazarajat region led to acute food insecurity,⁶ followed by a drought that lasted until 2002. All

⁵ For more details, see Klijn, 2007. *Informal Credit Practices in Rural Afghanistan*, Case Study 3: Ghor. Kabul: Afghanistan Research and Evaluation Unit (AREU).

⁶ Semple, 1998. *Strategies for Support of Sustainable Rural Livelihoods for the Central Highlands of Afghanistan*, Draft. Islamabad: PATTAN Development Organisation.

households are currently still recovering from the effects of these on asset holdings.

The Ghor village has a limited cash economy and exchange is largely on a barter basis. The village is relatively isolated and has, compared to the other two study villages, limited external economic linkages. Agricultural production is the main income source (income in kind), though the majority of households and perhaps the village in general—experience grain deficit annually. Livestock was previously the main complement to grain production but due to the Taliban blockade and the following four years of drought, livestock holdings collapsed and are still in the process of recovering. Casual labour has always played an important role in gaining access to food security and has now replaced the role of livestock as a main source of supplementary income. Work can be found either in daily labour or contract labour. For the landless, contract work, where a labourer is hired for a pre-arranged period and wage, has always been the main if not the only source of income. This type of contract offers more than the typical work agreement in that the landlord hiring a contract labourer is obliged and expected “to take care” of the labourer and his family. One respondent (CS65-G) and his family lived in the house of his “benefactor”/landlord as a joint household.

Crop production in the Ghor village is mainly rain-fed wheat and barley. On the valley floor there are small plots of irrigated land, which belong to the wealthier households. Cash crops, such as potato and poplar, are grown as well as fodder. An important activity in the village is the collection of fuel (bushes) and fodder in the mountains. Winters last four to five months and sufficient food, fuel and fodder are required for a household’s survival over this period. The majority of households rely on credit to achieve food security. Besides agriculture, livestock and

casual labour, handicrafts are made and sold mainly within the village and occasionally to shopkeepers in the district market place.

Wealthy households relatively maintain large land (more than ten *jeribs* of rain-fed land⁷) and livestock holdings (more than 15 sheep). In general, they experience grain surplus through which they can hire contract labourers to work on the land. Although they work on a contract basis, these labourers often live on advances taken for labour provided in the future, which in some cases result in situations of bonded labour. There was often a relation of interdependency between big landowners and landless labourers. The middle-ranking households were all small landowners (between one and ten *jeribs* of rain-fed land), working on their own land. These households experience grain deficits on a regular basis and achieve food security through casual labour in the village and occasionally daily labour outside the village. Four wealthy villagers have set up shops in the bazaar in the district centre.

The regional economy of the Lal wa Sarjangan has been characterised over the last three to four decades by the establishment of centralised bazaars, improved infrastructure, and the establishment of education and health facilities. The district centre, half an hour by car, has become a small centre of commerce as well as a source of job opportunities. The current (re)construction of roads and schools, as well as opium poppy cultivation in the main valley, have also increased daily labour possibilities. However, those households accessing daily labour are all from the middle-ranking wealth group. Poor households do not engage in daily labour which can be explained through the claims they have on their labour through advances as well as the loyalty in exchange for patronage.

⁷ One *jerib*=approximately one-fifth of a hectare.



Most villagers have multiple debts owed simultaneously, including to shopkeepers in the bazaar, who are an important source of informal credit.

The Kapisa village⁸

At the time the study was conducted, the research team encountered Pashtuns who spoke Dari in the Kapisa village, located in the Mohammed Raqi district. The team also observed how the village was still dealing with setbacks from major events in the country's history: armed conflict for nearly a decade during the Soviet war, and the subsequent drought that lasted from 1998 to 2002. These events have led to repeated cycles of depopulation and resettlement, with many households fleeing to Pakistan or Iran.

The economy of the Kapisa village is largely cash-based. Agricultural production is its main economic activity, even though all households studied experience grain deficit and require additional income sources to achieve food security. Families end up relying on daily wage labour outside the village (usually in Kabul, a two-hour trip by car) to augment their incomes. Other income-generating activities they participate in

include shopkeeping, carpentry, shoemaking and flour milling. In addition, one doctor, a teacher and a *mullah* were working in the village or in a nearby community.

The village lands are irrigated for the cultivation of wheat, maize and, at times, cotton. The majority of households own small plots of land (up to six *jeribs*), which in general are too small a land area to provide grain self-sufficiency. The landless households are not necessarily the poorest; they can rely on daily wage labour or a more regular income through business or monthly salaried labour in the district centre. Many households have relatives living outside the village in the Shomali plain or in Kabul who, especially in the case of poor households, provide ongoing assistance, often in the form of credit.

The local economy had undergone major changes over a course of four decades. In the early 1970s, land relations were still based on a patron-client relationship, with a small number of landlords whose land was

⁸ For more details see Klijn, 2006. *Informal Credit Practices in Rural Afghanistan*, Case Study 2: Kapisa. Kabul: AREU.

cultivated by a large number of sharecroppers. Increased access to job opportunities in the region (Shomali plain in Parwan province and Kapisa) and abroad, monetization of the local economy, and changing patterns of land ownership has transformed the socio-economic relations within the village. The majority of the households interviewed have been able to purchase land 30 to 40 years ago.

The Herat village⁹

The Herat village, located in the Zinda Jan district (half an hour by car from Herat city), experienced major economic setbacks due to armed conflict in the 1980s and the recent drought. As a result many households had moved to Iran, some even twice. The Herat village, where the inhabitants are said to be Turks, is relatively urbanised based on the comparatively extensive labour market, the number and diversity of shops, small businesses, facilities and services available to residents (health clinics and secondary education), and reliance on a cash economy. Income-generating activities in the village are agricultural and silk productions, livestock breeding, carpet weaving and wholesale, shopkeeping, carpentry, tailoring, handicrafts and daily wage labour. Women from poor households often work for other households cleaning, washing clothes and baking bread. Labour migration to Iran is a common practice to obtain additional income or savings. Women in all wealth groups were actively engaged in income-generating activities: weaving carpets, making and selling handicrafts, producing raw silk and working as teachers. Households in all wealth groups sent members to work in Iran to avail of its higher daily labour wages compared to Herat and the village. This income source provided opportunities to save or to take credit, with the latter repaid with the money earned in Iran. Iran has also influenced the villagers in

another way; there appears to be a trend of households splitting up into nuclear families, a common practice in Iran, according to respondents. As a result, some villagers have bought small plots of land on which to construct new family houses.

Wealth is mainly defined by access to multiple productive assets including shops, cars or partnerships in business ventures (*mozarebat*). In contrast, poverty was often related to household composition and its effect on access to income sources. For example, a large household with only one adult male to rely on for income has limited resources. Because he needs to support the family on a daily basis, the male breadwinner is unable to explore work elsewhere and is restricted to the highly seasonal daily labour available within the village.

As with Kapisa, socio-economic relations in the Herat village have changed over the last four to five decades. The big landlords of the past all sold their land. More recently, the Herat village seemed to have benefited from a changing economic environment, particularly from increased job opportunities credited to its proximity to Herat city and Iran.

Village contrasts

The main trend identified in all three locations over the last three to four decades is an apparent increase in labour opportunities. This occurred earlier in this period and is observed to be more widespread in the Herat village than in the other two villages. The Ghor village, in particular, has only recently experienced a significant economic change.

Increased job opportunities have had a major impact on household livelihood strategies in Herat and Kapisa based on the following effects:

⁹ For more details see Klijn, 2006. *Informal Credit Practices in Rural Afghanistan*, Case Study 1: Herat. Kabul: AREU.

- Reduced reliance on agricultural production as more income opportunities became available;
- Reduced seasonal food shortages; and
- Shifts in credit sources from landlords or wealthier households in the village to extended family networks.

In the Kapisa village, household access to more job opportunities, including labour migration to Iran which started in the 1970s, resulted in families being able to buy small plots of land.¹⁰ Subsequently, landholdings have become smaller, often not enough to provide a household with sufficient agricultural produce.

In the Herat village, there are many other job or business opportunities within the community that land has lost its importance. In a recent election to choose a new *arbab*

(chosen representative of a village), all male residents, both landless and landowners, participated when traditionally this was a privilege only land holders enjoyed.

These developments were not documented in the Ghor village. Even though the regional economy has improved, households are still very much recovering from the Taliban blockade and the four-year drought.

Nevertheless, households in all three study sites and in each wealth group still deal with a high-risk environment. Both seasonal and long-term lean periods still occur, as do crises. Through these expected and unexpected challenges, credit has always played a role in enabling families to get by. But just as socio-economic conditions shift, so do credit practices, as discussed in more detail in Section 4.5.

¹⁰ Land was available for sale after large landowners sold small plots of land. The reason behind this sale remains unclear. Respondents alluded to either the landowner being a big spender, or that the loss was Allah's will.

3. Household Case Studies

This section briefly presents details on eight household case studies selected to illustrate some of the different dimensions of debt and credit found in the study sites. Narrative accounts of each of the Selected eight case studies are presented in Sections 3.2-3.4. Table 1 summarises some key features of these households to highlight patterns of similarities and differences.

3.1 Key features

The debt portfolios of the select households have a number of features worth drawing attention to. Their meaning in a wider context is presented in Section 4.

1. All households have multiple debts with varying maturity: some are short-term seasonal debts, others have been in existence for a number of years. Some households are giving and receiving credit; Abdul Fatah's family (CS22-H) is one example.
2. Debts taken are either in terms of cash or food and relate either to the needs for consumption or marriage. In the Ghor case studies (CS84-G, CS76-G and CS63-G), the majority of debts, particularly of the two lower ranking households are either paid in grain or labour. Credit for business or income generating activities was only found in Herat and is exemplified by Akbar Khan (CS12-H) who reported taking business credit to set up his shop and give loans to carpet weavers.
3. A noticeable number of loans are obtained either from relatives or even neighbours (see CS58-K, CS23-H and CS63-K) and interest free loans are provided by members of all wealth groups. While many of the debts represent loans that need to be repaid, a number of households also receive direct assistance of food as gifts (see CS58-K, CS25-H and CS12-H). In Ghor, however, more of the credit given and taken between households within the village, including between relatives, have costs attached to them. As the case studies show (see Section 3.2 - 3.4) and as will be explored in more detail in Sections 4 and 5, costs do not necessarily imply interest. In most cases, households express a confidence in being able to repay at some stage, illustrating the flexibility in contract periods of existing debt.
4. For households with existing debts and again cutting across the wealth groups, there is a confidence that additional credit can usually be accessed from one source or another (see CS84-K and CS25-H). CS63-G for example, had no difficulty in raising a substantial sum for his son's marriage.
5. For households in the Ghor village, which has more of a barter economy and perhaps greater inequalities in land access but which appears to be a labour deficit economy, debts could be worked off with labour in kind (CS84-G and CS76-G). For households without land in Kapisa and Herat, income could be earned from labour for cash.
6. Households with land (middle and higher ranking households) showed willingness to mortgage it, particularly in relation to raising money for a bride price. There is clearly a strategic element in this as illustrated by Reza's (CS76 -G) decision to re-mortgage his land against rising values to pay off an earlier mortgage.
7. The strategic value of daughters in terms of overall debt management is systematically acknowledged; expected bride prices are part of debt repayment strategies and enter into "calculations" of credit worthiness. This is evident in both poor households, such as Parween's (CS8-K), and among wealthier households such as Zainab's (CS33-G).

Table 1. A profile of eight household case studies and their informal credit history

Case study	Household profile	Income sources	Debts/ Credit form	Credit provider	Means of repayment
Poor					
CS84-G	Own house No land or livestock Husband and wife with 3 young daughters	Contract labour	Grain	Large landowner	Contract labour
			Grain	Shopkeeper	Contract labour
			Labour, 2 years ago	House builder	Contract labour
CS58-K	Own house No land or livestock Old man, young wife 4 young daughters	Occasional casual labour; Wife, domestic	Multiple cash Loans	Wife's sister, neighbours	Cash
			Dung cakes, wood	Sister	Assistance, plus labour
			Flour	Shopkeeper	Cash
			Cash	Builder	Cash
CS25-H	No land, one cow Husband disabled 3 daughters and 3 sons	Wife, domestic; Son, casual	Food	Wealthy households	Assistance
			Cash	Shopkeeper	Cash from
			Cash	Neighbours	<i>khairat</i>
Middle-ranking					
CS76-G	Husband, second wife 3 small children Land and livestock Death of first wife, father and brother	Land Casual labour	Land mortgage for bride price	Wealthy household	Re-mortgage with rise in land value
			Food	In-laws	Cash-possible labour
			Food	Shopkeeper	Labour
CS40-K	Land, family of 12	Daily labour and sharecrop	Cash	Village	Mortgage
			Mortgage	Village	?
			Food	Shopkeeper	Cash
CS23-H	Extended household; Land and livestock	Teaching Sharecrop	Food	Shopkeeper	Cash
			Cash credit	Relatives, neighbours	Cash
			Food credit	Relatives, neighbours	Food
Wealthy					
CS63-G	Land, livestock, motorbike	Land and livestock	Food	Shopkeepers	Barter and cash
			Cash for bride price	Relatives	Cash
			Livestock for bride price	Relatives	Livestock
			Remaining bride price	In-laws	?
CS8-H	No land <i>arbab</i>	Shopkeeper and business	Material credit	Carpet weavers	Carpets
			Cash credit	Poor	Cash/kind
			Cash and food assistance	Poor	Assistance

G=Ghor; K=Kapisa; H=Herat; ?=no data

8. Shocks that are specific to households such as deaths (in the case of Reza - CS76-G), accidents (in the case of Baser Ahmad - CS25-H) and even in the case of Akbar Khan (CS17-H) whose father lost all his land, can clearly cause specific hardships and a drawing down of credit relations, which the case of Baser Ahmad (CS25-H) illustrates best. But as Reza's case (CS76-G) shows, it is possible to recover from these downturns.

The following three sections describe eight household case studies selected from the three locations, focusing on the debt portfolios of poor, middle ranking and rich households, the type of credit households engage in (a detailed list of credit types is presented in the Annex section), and their means of repayment. These wealth categories, it should be noted, are relative to each location and are not absolute.

3.2 Case studies from poor households

CS84-Ghor: Living on advances

Safar and his wife live in their own house in the Ghor village together with their three young daughters. They own no land or animals. Safar works as a contract labourer in houses and on the land of families in the village, but he mainly works for Haji Khaliq Dad, harvesting on his land or working in and around his house. Safar always receives his salary in wheat. This year he received 210

CS84-G: Debt portfolio

Credit types: advances, in-kind loan with profit and delayed payment of goods and wages

Repayment: all through labour

Amount - credit source - credit use:
 ? advance - landlord - food
 ? - shopkeeper - food
 140 kg wheat - neighbours - food
 ? - builder - delayed wage payment
 (? = unknown amount)

kg wheat for working on the land and 70 kg wheat for his work in Haji Khaliq Dad's house. Safar's household, however, is often in need of food before even starting work. He therefore asks for advances on future work and in-kind loans, which he repays with work.

In essence, the whole working season from spring to autumn Safar has been working to repay outstanding loans or services he used the previous year. Last spring the household had no more food. They borrowed 140 kg of wheat from their wealthy neighbours with the understanding they would repay it in labour. Now Safar is working on his neighbour's land to repay the wheat borrowed last spring. But this year Safar also worked on the land of the builder who worked on his house two years ago. He was never able to pay his wages, after which they agreed Safar would work on his land to pay them. Sometimes Safar buys some products on credit from shopkeepers in the bazaar that are from this village, which he then often repays by working on their land or cleaning snow for them during the winter.

CS58-Kapisa: Credit and assistance

Parween (30) and her elderly husband live in the Kapisa village together with their four daughters, the oldest being 14 years old. They have no land or livestock but they own the house they live in. Parween's husband used to be a driver in Kabul but now he is

CS58-K: Debt portfolio

Credit types: cost-free loans and delayed payment of goods and wages

Repayment: possible bride price(s)

Amount - credit source - credit use:
 Bag of flour - shopkeeper (friend) - food
 21 kg wheat - sister - food
 ? Cash - neighbours/ villagers - food
 1,000 Afs - sister - food
 1,000 Afs - maternal nephew - food
 1,000 Afs - builder - delayed wage payment
 2,000 Afs - builder - delayed wage payment
 (? = unknown amount)

old and has difficulty finding a job at all. When he does not find work he takes credit; when he does find work he uses his wage to repay their debts. However, he does not find work often so the debts are accumulating and they are receiving more and more assistance on a gift basis rather than credit basis.

The family has just returned from Iran one and half years ago. In Iran her husband was a daily labourer, from the money earned they saved 40,000 Afs (US\$800) and brought it back with them to rebuild their house. However it was not enough. The wages of the two builders were never paid and are still outstanding debts. They started borrowing cash loans as *qarz-i-hasana* (credit free of charge) from Parween's sister, sister-in-law, and from their neighbours and other villagers. These loans have not been repaid yet. Parween explains how some of their creditors from the village come to their door asking for their money back. "They fight with my husband saying they want their money back." Recently they receive more in-kind loans and assistance mainly from their relatives. For the winter her sister has given her dung cakes and wood to cook on. She occasionally gives

bread too. Parween helps her brother and his wife on their land in the village and receives some wheat or maize from them. During the interview Parween's husband had gone to the bazaar to borrow a bag of flour from a shopkeeper who is an old childhood friend. Asked how they will repay their debts, Parween replies: "I have young daughters, if some good people come to my house for my daughters I will give my daughters. We will get 40,000 or 50,000 Afs as bride price. When I receive the money I will first repay the debts." Later she adds: "If someone comes and asks my husband or myself to work for them, we will do so. "We are in need; we have nothing."

CS25-Herat: Downfall of a family

Baser Ahmad and Kobra in the Herat village have six children: three daughters and three

CS25-H: Debt portfolio

Credit types: cost-free loan, and delayed payment of goods. Also provide in-kind credit

Repayment: after receiving *khairat* (alms)

Amount - credit source - credit use:
3,000 Afs - neighbour - food
3,000 Afs - shopkeeper - food



Labour is often used to repay outstanding debts, including borrowing for food consumption.

sons. Baser Ahmad was a sole income provider working as a sharecropper when he stepped on a mine during the war and lost both his legs. Before the accident they had a “good life,” with a network of relations with whom they exchanged credit. After the accident, he fell back on them for support. Baser Ahmad narrates: “When I became disabled I had good credit relations for one or two months, but then these relations slowly ended because of my physical situation. Now I have no credit relations.”

Baser Ahmad has brothers who used to live in the village but they have all moved out to other villages and started a new life there. They do not support him. He adds: “When you have physical power everybody is your brother, when you are disabled brotherhood means nothing.” Kobra’s family, who lives in Iran, only supports them by letting her family stay in their house while they are away.

The first two years after the accident, they lived on their savings. When that was gone, Kobra started cleaning other people’s houses, washing clothes and baking bread. Their 12-year old son also earns some extra income by collecting fuel for other households. But together, Kobra and her son earn little, and they often still have to request credit or assistance from other families. They also depend on *zakat* (in Islam obligatory alms) and *khairat* (voluntary alms) from wealthier households.

Baser Ahmad states: “Some people support us with *khairat*. If they did not assist me, my life would be worse. People help me with cash or wheat. It is *komak* (assistance) not *qarz* (credit) because I cannot pay it back. But if we need wheat urgently we borrow it from some people. Then during harvest time people give us *khairat* and we repay our debt. We can never repay it outside harvest time.”

Kobra explains how they sometimes do take credit: “Sometimes my children buy things on credit from the shops. We are 3,000 Afs in debt to the shopkeepers. We have taken

rice, oil and wheat from them. We also take credit in cash. We are 3,000 Afs in debt from the neighbours too. My husband took money from them because we did not have anything for household expenses. We have not repaid them yet. I don’t know how my husband will repay them. They come and ask for their money and if we have money we repay them. But if we do not have money we tell them to give us some more time, when we make money we will pay them”. Nevertheless, Kobra did express confidence in finding credit when needed.

3.3 Case studies from middle-ranking households

CS76-Ghor: Mortgage to marry

Reza lives with his second wife and three small children in the Ghor village. They own their house, own a little less than one *jerib* of irrigated land and a little over a *jerib* of rain-fed land, two cows, three sheep and a donkey. Although not a wealthy family, six years ago Reza had a good economy when his brother and father were still alive. They had just returned from Iran with some savings, they built their house, and with some extra loans they were able to marry Reza to his first wife. As Reza puts it: “We were three men who worked, there was no time for debt.” However, misfortune struck: first, his wife died giving birth to their first child. Soon afterwards, both his father and brother also passed away. Reza suddenly found himself on his own. He mortgaged his rain-fed land

CS76-G: Debt portfolio

Credit types: in-kind loan with profit, delayed payment of goods and mortgage

Repayment: sale of livestock or livestock products, through labour

Amount - credit source - credit use:
1,400 Afs worth of wheat - in-laws - food
8,000 Afs - shopkeeper - food
10,000 Afs - villager - mortgage to marry

to pay for the bride price for his second wife, Khadija. That land has been in mortgage for five years now. However, with the change of currency in 2002 and the increasing value of land, he transferred his mortgage to another mortgager. He took an advance from the new mortgager to repay the old outstanding mortgage. As the land value had risen, he was able to mortgage less land for the same amount of money. Now, he has yet to repay his new mortgage but has more land to use for his own consumption.

Besides working on his own land, Reza takes on casual labour in the village. He cannot leave the village for long to work as a daily labourer because there is no one to take care of his family while he is gone. Occasionally, Reza is forced to buy food on credit when there is not enough food for the family. If he cannot pay in cash or barter his debt with *qurut* (dried cheese), he will work for the shopkeeper. Last winter, Reza did not have enough food and they needed to borrow wheat from his in-law. They agreed that he would repay in cash and not in-kind and for a higher cost than the prevailing price: instead of 70 Afs per *ser* (seven kg) he has to repay 100 Afs per *ser*. Reza expresses his intent: "If I have surplus from my own land I will sell it and repay my in-laws, if it is not enough I will sell livestock or I will work and make money for them." He has to repay these debts this working season. However, Reza already thinks he would not have enough food for this winter and that he would again have to go to his in-laws to ask for wheat on loan.

CS40-Kapisa: Mortgage for survival

Abdul Wahid owns three *jeribs* of land, and is the second largest landowner among all respondents interviewed in the Kapisa village. However, he is far from a wealthy man. During the drought he could not cultivate his land for three years and there was little work to be found. With a family of 12 he needed money to buy food. "First I borrowed money from someone in the village. But then he

CS40-K: Debt portfolio

Credit types: delayed payment of goods and mortgage; also provides cash and in-kind credit

Repayment: cash, for mortgage possible sale of part of land

Amount - credit source - credit use:

4 - 5,000 Afs - shopkeeper - food

120,000 Afs - villager - food

regularly came to ask for his money, so I decided to mortgage my land to him instead. I mortgaged it for 40,000 Afs (US\$800) for each *jerib* of land. Now we are 120,000 Afs (US\$2,400) in debt."

After this the family moved to Kabul for a year where Abdul Wahid started working as a daily labourer. But two years later they moved back to the village as life in Kabul became too expensive. He now sharecrops his own land on a 3:1 basis and works as a daily labourer in Kabul 20 days each month. His eldest son works on the land. Still they sometimes do not have enough income for two or three months; they then borrow extra food from a shopkeeper in the bazaar who is a childhood friend of Abdul Wahid. They have an outstanding debt of between 4,000 and 5,000 Afs (US\$ 80-100).

Abdul Wahid wants to regain his own land again but with the income he gets from daily labour, 150 to 180 Afs per day, he cannot save money. He needs it to provide for the daily needs of his family. His eldest son of 17 and says: "The right solution is to sell one *jerib* of land and from that money we can pay back the mortgage. We would get 150,000 Afs (US\$3,000) for one *jerib*." His father's response is: "Now [the mortgager] does not want to buy, he wants his money back. But maybe I could sell it to other villagers." There is a slim chance, however, that other villagers will be able to pay such an amount. Abdul Wahid also stressed he would need extra income to start cultivating his land again to cover the cost of, for instance, seeds, fertilizers, and the ploughing. Abdul Wahid asks: "What shall I do with land now?"

CS23-Herat: Credit networks

Abdul Fatah is a teacher in the Herat village. He lives with his wife and two sons, his parents and unmarried brothers. He has two other older brothers who live on their own somewhere else in the village. They own half a *jerib* of irrigated land on which they cultivate vegetables and alfalfa. The income he gets as a teacher is not enough, this is why he is also sharecropping two *jeribs* of land at the same time and the household breeds sheep.

Usually Abdul Fatah receives his salary every month, but sometimes it is late and he takes credit from his brothers or neighbours. These same people also come to him when they themselves need money. Nearly every month Abdul Fatah buys food items on credit from the shopkeepers and repays them when he receives his salary. He says he does not pay higher prices because he settles the debts every month. Abdul Fatah also gives in-kind credits to close relatives or neighbours, the same people he would go to when he needs to borrow money. Colleagues from school also come to Abdul Fatah to borrow wheat,

and sometimes borrow onions or vegetables that they pay for later. Abdul Fatah says: "It [produce from their small garden] is actually not enough for selling but when they ask we cannot say no."

CS23-H: Debt portfolio

Credit types: delayed payment of goods and cost-free cash and in-kind loan; also provides cash and in-kind credit

Repayment: cash

Amount - credit source - credit use:
? Afs - shopkeeper - food
(? = unknown amount)

3.4 Case studies from wealthy households

CS63-Ghor: Credit to invest in social relations

The household of Zainab is wealthy. They have 25 *jeribs* of rain-fed land, three cows, one donkey, 15 sheep and a motorbike. Her second son, Momeen, goes to school in Lal everyday. He wants to become a doctor or



In credit networks, the same family members and neighbours who provide loans also engage in in-kind borrowing, particularly of food staples such as vegetables and wheat.

teacher later. The household has an outstanding debt with shopkeepers in the bazaar. Zainab makes *qurut* with her sister in-law, which her husband often takes to the bazaar to sell or barter “but most of the time he uses it to repay our debts.”

Recently Momeen married the daughter of a wealthy landowner from the main valley. Zainab explains how this came to be: “My son fell in love with the daughter of this big landowner. He asked his father to marry him to that girl. At first the landowner did not want my son to marry his daughter, so he set a high bride price thinking we could not pay it. But we were able to pay it. The bride price was 120,000 Afs (US\$1,400) as well as 20 *ser* (one *ser* = 7 kg) wheat, 30 *ser* rice, 8 *ser* oil and 20 sheep. For getting all these things my husband borrowed 80,000 from my brother-in-law (Zainab’s sister’s husband) who just received a bride price for his daughter. The credit is *qarz-i-hasana*. We still need to repay the remaining 40,000 Afs for the bride price. We are also 20 sheep in debt. From last year’s surplus we saved to pay for the wheat, rice and oil. We gave it all to the bride’s family.” Zainab says that after giving the food items for the bride price she is not sure they will have enough food for the coming winter: “We will wait and see and otherwise sell some livestock. And if that is not enough we will buy some food on credit.” When asked how they will repay such high debts Zainab replies: “We don’t know.”

CS63-G: Debt portfolio

Credit types: delayed payment of goods and bride price and cost-free cash loan

Repayment: possible bride price for daughter

Amount - credit source - credit use:

? Afs - shopkeeper - food

80,000 Afs - brother in-law

40,000 Afs - bride’s father - remaining bride price

20 sheep - relatives - part of bride price
(? = unknown amount)

My daughter is 20 years old, the age for marriage. The price is very low: 70-80,000 Afs.”

CS12-Herat: Credit to assist and make money

When the fieldstudy was conducted, Akbar Khan was chosen as the new *arbab* of his village. He is the son of the old *khan* in the community and was then still living in the family’s large old *qala* (a walled, fortress-like compound). As his father had lost all their land, Akbar Khan had first worked as a teacher after which he became a shopkeeper and businessman. He started this shop with a partner, a *shariq* (business partner who provided investment on credit; see list of credit types in Appendix 2 for more detail), who was an old friend.

Akbar Khan was the only respondent who openly stated he gave credit: “I give a lot of credit.” During the drought and the Taliban reign, he sold material for carpet weaving and provided many households with the raw material on credit, or provided them with advances on their carpets. “They were in need. When I know people are very much in need I help them with credit.” He says he does not force people to repay their debts if they do not have the means to do so. “I do not want them to sell their daughters.” And he stressed how if he forced people to repay he would lose the profit he would receive from God by helping people—the *sawab*. He also never discusses with the people who are indebted to him when or how they will repay. He states how families who are chronically indebted are supported by the community through *zakat*, *khairat* and *komak* that people

CS12-H: Debt portfolio

Credit type used: business credit

Credit types provided: delayed payment of goods, business credit, cost-free loans, suspected credit with interest.

Repayment: cash

give to those families. “Within Islam the rich should help the poor.” Although not confirmed by Akbar Khan himself, other respondents shared their concerns that he was likely providing loans with interest to businessmen in the village.

Akbar Khan has a network of households with whom he gives and takes credit. This network was established when he was a shopkeeper.

When asked to identify them, Akbar Khan replies: “Families with whom we exchanged daughters, neighbours we have made close to us through family relations.” Akbar Khan was a wealthy man, who had established good relations as a teacher, shopkeeper and businessman in the village: “I had good relations as a shopkeeper and want to keep them as *arbab*.”

4. Key Dimensions of Informal Credit

As illustrated by the individual case studies in the previous chapter, informal credit is embedded in a set of social relations at the household and wider community level. It is widely used in all three villages, mainly for consumption smoothing and for getting married. But how general are the practices reported by the household case studies and how does one understand the differences between households and communities with respect to access to and use of informal credit? This section aims to build on the specific examples discussed in Section 3 and explore more generally the importance of informal credit in rural livelihoods in the study villages, the diversity of practices, how households do and do not get access to different types of informal credit and the contractual basis (repayment terms) and outcomes of taking informal credit. As will be made clear, informal credit practices are not fixed but are undergoing a process of change.

4.1 Pervasiveness of informal credit

On the question of how widespread the use of informal credit in rural livelihoods is, the answer is simple: all households both take and give informal credit. Only one household (CS28-H), a poor widow in the Herat village living on alms reported not taking or providing credit. Nevertheless, she admits that when she goes to households for alms she requests credit out of pride even though she always receives alms. Most households interviewed reported both giving and taking credit, having multiple outstanding debts simultaneously and having a variety of different households with whom they exchanged credit.

In the Herat village, all households except that of the old widow (CS28-H) have networks of credit relations; households that one might

approach to ask for credit could very well be needing credit for themselves. Abdul Shekabanee (CS9-H), a wealthy farmer, observes: “Credit relations are like this; sometimes you give sometimes you get.” Another middle income farmer, Dillawer Khan (CS11-H), describes credit relations as; “People who receive or give credit are specified, they are known to one another. If I go to a house for credit and he does not have it, I go to another. These are people I too have given credit to.” Credit relations among the middle-ranking and wealthy households are often among family relations, neighbours, colleagues and friends. But giving and taking credit was not only practiced by the middle-ranking and wealthy households. Baser Ahmad and Kobra (CS25-H) mentioned they too give food to poor households when they can. Outstanding debts were largely found among the middle-ranking and poor households (see Table 2).

In the Kapisa village credit relations and practices were mainly found within extended family networks (paternal or maternal) and kin networks (tribal segments). Within both these types of networks, credit forms included reciprocal exchanges of small in-kind and cash credit, as well as provision of credit to poorer families by wealthier households. Habibullah (CS57-K), a *mullah* and small farmer in a neighbouring village explains: “We give and take credit between my brothers. And we gave credit to our maternal cousin... if there is a bad situation we ourselves also take credit.” Agha Mohammed (CS56-K), a teacher and small farmer, explains how “within our *qawm* (tribal segment) you have four *taifas* (lineage)—every *taifa* has their own credit and assistance relations.” However, those receiving credit from more wealthy households also provide credit when possible and requested. Sharif (CS59-K), is a poor shoemaker, who himself is heavily

Table 2. The range and average amount of outstanding debts by location and wealth group

Share of HHs with outstanding debts	Wealthy		Middle		Poor	
	Average debt	Debt range debt	Average debt	Debt range	Average	Debt range
Herat: 41%	N=12 households 8% with outstanding debt(s) ¹¹		N=10 households 60% with outstanding debt(s)		N=9 households 68% with outstanding debt(s)	
	<100 Afs <2 US\$	1,000 Afs 20 US\$	20,100 Afs 402 US\$	3,000-50,000 Afs 60-1,000 US\$	27,500 Afs 550 US\$ (3,200 Afs) ¹² (64 US\$)	700-150,000 Afs 14-3,000 US\$ (700-18,000 Afs) (14-36 US\$)
Kapisa: 67%	N=3 households 67% with outstanding debt(s)		N=22 households 68% with outstanding debt(s)		N=5 households 60% with outstanding debt(s)	
	20,000 Afs 400 US\$	30,000 Afs 600 US\$	23,300 Afs 466 US\$	4,500-124,000 Afs 90-2,480 US\$	7,800 Afs 156 US\$	4,000-30,000 Afs 80-600 US\$
Ghor: 89%	N=3 households 100% with outstanding debt(s)		N=22 households 77% with outstanding debt(s)		N=7 households 43% with outstanding debt(s)	
	59,300 Afs US\$	8,000-120,000 Afs 160-2,400 US\$	20,900 Afs 418 US\$	4,000-60,000 Afs 80-1,200 US\$	5,700 Afs 114 US\$	10,000-20,000 Afs 200-400 US\$

indebted and had to sell his mortgaged land yet, at times, he provides his services on credit.

Credit in the Ghor village is provided by both relatives, as well as by wealthy villagers. Compared to the two other villages, giving and taking credit was practised but at a smaller scale and it was mainly in-kind. Ghor was the village with the most interviewed households having outstanding debts (see Table 2), which are mainly owed to shopkeepers since the drought.

The fact that households both give and take credit, as the credit networks in Herat illustrate, indicates that there are not strict

or exclusive creditor-debtor definitions. Although the poor household of Baser Ahmad and Kobra (CS25-H) struggles to make ends meet, it still manages to give in-kind credit to other poor households when possible. It is this same household that expressed so much confidence that they would be able to find credit when needed, even though they were currently facing some major income shortages. Many other households in the sample also expressed this confidence (for example, Gulab Khan and Farida, CS44-K, presented in the Introduction). There were few households that were unable to access credit and were considered vulnerable, as a respondent in Ghor (CS78-G) mentioned,

¹¹ This amount is highly improbable. However, wealthy households were not as eager to reveal their debts in comparison with households from other wealth groups in Herat.

¹² This average of 27,500 Afs of debt per poor household is skewed. In this sample, one household (CS31-H) had fallen into poverty, and still has outstanding debts amounting to 100,000 Afs (2,000 US\$). The other family is a female-headed household (CS24-H), which, over a course of five years, has accumulated a debt of reportedly 150,000 Afs (3,000 US\$) from a shopkeeper who is a relative. Given the bride price of her daughter, it is most likely that either it will repay the debt, or the daughter will marry her relative's son. In hindsight, this household most probably does not belong to the poor wealth group. The remaining eight households form the poor wealth group in the Herat village, have outstanding loans between 700 Afs and 18,000 Afs, which is, on average over the eight households, a debt of approximately 3,200 Afs (64 US\$).

Table 3. Share of households receiving credit (by credit type and wealth group)

Location and number of HHs	Wealthy			Middle-ranking			Poor		
	Herat 12	Kapisa 3	Ghor 3	Herat 10	Kapisa 22	Ghor 22	Herat 9	Kapisa 5	Ghor 7
Delayed Payment	62%	33%	100%	78%	50%	95%	90%	100%	71%
Advances	0%	0%	0%	0%	0%	0%	0%	0%	86%
Cost-free loans	23%	100%	66%	78%	73%	0%	6%	80%	0%
Loans with profit	0%	0%	0%	0%	0%	9%	0%	0%	0%
Mortgage	15%	33%	0%	11%	50%	45%	10%	20%	0%
Business credit	46%	100%	0%	11%	14%	0%	0%	1%	0%

because they had no relation to go to for credit. The confidence in obtaining credit—of being able to find the money—appears to be balanced by a certain confidence in being able to manage the debt. Kobra (CS25-H), for example, who at first said she did not know how they will repay the credit they had recently taken, then went on to say: “If we do not have money we will tell [the lenders] to give us more time, when we make money we will pay them.”

During the drought there are reports of high debts being considered shameful.¹³ However, in all three locations, indebtedness was never presented as shameful but more as something quite normal. This difference may lie in the improved ability to repay the debts (which will be discussed further in Section 4.5). However, cases were found where large and multiple debts were presented with pride. For instance, Zainab (CS63-G) describes with pride how the family of her son’s bride had set a high bride price before the wedding, thinking they could not afford it, and how

they managed to pay through credit from relatives.

4.2 Diversity of informal credit

Given the widespread use of informal credit, it is not surprising that there is great diversity in informal credit practices.¹⁴ However, it is not easy to identify clear categories, either in terms of the conditions under which informal credit is taken, or the way it is put to use. And the definition of categories respondents gave vary, as will be elaborated in the next section.

Diversity in categorising credit

Interestingly, the male *shura* of Kapisa on the first day of field study when asked what kind of credit types there were, replied that there were two kinds of credit; credit provided within the *qawm* (tribe, but also referred to community) and credit provided by “outsiders.”

¹³ Lautze, S., E. Stites, N. Nojumi, and F. Najimi, 2002. *Qaht-e-Pool: A “Cash Famine”: Food Insecurity in Afghanistan 1999-2002*. Medford, MA: Tufts University FIFC, <http://famine.tufts.edu/research/natsios.html>.

¹⁴ See Appendix 2 for descriptions of all credit types found over the three case villages.

Cost-free credit was sourced from within the community or tribal unit, while credit provided with costs or profit attached to it was sourced from outsiders. This last category, credit with profit or where costs are charged is called *qarz-i-sudh* and considered sinful. By the end of the field study it was clear this was an ideal and that in practice those providing mortgages were from within the *qawm*. For instance, Mohamadullah (CS34-K), member of the *shura* and present when the *shura* discussed their classification, was the main source of mortgages in the village. He had provided a mortgage to his cousin, Sharif (CS59-K) who had fallen more and more in debt over the last five to six years. With little prospect of recovery he sold his land to repay the mortgage. Thus, the ideal and practice are not necessarily the same thing.

Credit is often categorised by respondents based on if and what kind of “profits” are gained by the lender. Based on this principle three credit groups can be identified; *qarz-i-hasana*, which is cost-free credit that will be rewarded by God, though repayment is expected; *qarz-i-sudh*, which is credit where profit is made and costs or interest is charged, considered a sin according to Islam; and *qarz-i-khodadad*, which is cost-free credit that is not expected to be repaid by the borrower but “repayment” will be provided by God as reward (see Section 4.3 for more detail).

However, *qarz-i-sudh* and *qarz-i-hasana* are flexible labels given to different credit forms in different locations. In all three locations, *sudh* was largely referred to as the credit provided by shopkeepers when buying on credit. The marked-up price is the *sudh*. This should be contrasted to poppy growing areas, where buying on credit from shopkeepers was considered *qarz-i-hasana*¹⁵ and *salam* practices (a harvest of opium poppy being sold in advance for lower than market prices) as *qarz-i-sudh*. It seems that *qarz-i-hasana* and *sudh* are labels attached to certain credit

forms in relation to other forms of credit available within a locality.

Another example is the different perceptions of mortgage and its costs. In Kapisa people referred to mortgage as *sudh*, because the products of the land go to the one providing the mortgage until the mortgage is repaid. This produce is viewed as profit which is considered *sudh*. In Herat, however, there was no reference to mortgage as being *sudh*. In the Ghor village respondents often referred to mortgage when asked about *sudh*; however its practice was not hidden and full of secrecy as it appeared to be in the Kapisa village. The secrecy around the sourcing of mortgage in Kapisa is likely related to the newly acquired status of Mohamadullah (CS34-K) who provides mortgages. Although his father was a landless sharecropper, he himself had gained wealth through a military check post and is currently obtaining wealth and power through credit. Therefore in understanding and classifying informal credit one needs to be aware of two dimensions: the first is the difference between the ideal and actual practice, and the second is the different meanings attached to different credit practices between the three locations and over time.

For the purposes of this paper different informal credit forms have been classified and labeled according to the way credit is taken or provided (delayed payment, advance payment, or credit from a third party), the terms, costs, collateral and the unit(s) of exchange. The following credit types were identified:

- delayed payment of goods or wages
- advances on wages
- reciprocal cost-free in-kind and cash loans
- cash or in-kind loans with profit
- mortgage
- business credit
- credit with interest

¹⁵ Mansfield, a personal account, 2006.

The details of these are compared and contrasted in the matrix in Table 4. A detailed description is presented in the Annex section.

Diversity across locations

As Table 5 shows, not every credit type was practised in each location, or by each wealth group in a location. Business credit and credit provided with defined interest, for instance, was only found among the sample in the

Herat village, which is probably due to the level of business and trade in the village. However, in the Ghor village two credit types, loans with profit and advances on wages, were found that were not reported in the other two villages. An explanation for this could be that the Ghor village is largely based on barter exchange and therefore lacks available cash. A respondent from the Ghor village (CS70-G) mentions how: “The credit situation was better before the drought. People had money and were lending money

Table 4. Matrix of criteria for differentiating informal credit types

Credit types	Criteria				
	Sources	Range of value	Financial/material gain	Timeframe	Repayment
Delayed payment	<ul style="list-style-type: none"> • Shopkeepers • Itinerant traders 	Variable	Variable marked-up price	Variable; One month - one season	<ul style="list-style-type: none"> • Credit provided in-kind • Credit repaid in cash or through barter
Advances (G)	Large landowners	Variable (found up to 280 kg wheat)	Cheap labour (profit) Dependent workers (cost)	One agricultural season	<ul style="list-style-type: none"> • Credit provided in wheat • Credit repaid in labour
Cost-free loan	<ul style="list-style-type: none"> • Relatives • Neighbours • Friends • Colleagues 	Variable (found up to 80,000 Afs = 1,600 US\$)	No costs/profit	Varies: one week; several months; several years	<ul style="list-style-type: none"> • Credit provided in cash or kind • Credit repaid often in same unit
Loan with profit	<ul style="list-style-type: none"> • Relatives • Wealthy villagers 	Variable (found up to 2,000 Afs = 40 US\$)	Profit is from pre-determined higher value/price	One agricultural season	<ul style="list-style-type: none"> • Credit provided in wheat • Credit repaid in cash or labour
Mortgage	<ul style="list-style-type: none"> • Wealthy villagers, • Relatives • In-laws (G) 	Between 6,000 and 120,000 Afs (120-2,400 US\$)	Use of land	Three-year contract; in practice, a variable number of years	<ul style="list-style-type: none"> • Credit provided in cash • Credit repaid in cash
Business credit (H)	<ul style="list-style-type: none"> • Wealthy villagers • Relatives 	Variable (found up to 80,000 Afs = 1,600 US\$)	Pre-determined share of profit made from business	Defined time, defined project, or timeless	<ul style="list-style-type: none"> • Credit provided in cash • Credit repaid in cash
Credit with interest (H)	<ul style="list-style-type: none"> • Business-men • Wealthy(H) villagers 	no data	Interest until repayment	Pre-determined timeframe	<ul style="list-style-type: none"> • Credit provided in cash • Credit repaid in cash or kind

G=Ghor; H=Herat

to each other but now it has changed and people don't have money to lend." Another explanation could be that there was little trust in households being able to repay either on time or in the unit provided so that when credit is given, the risk is covered through the costs.

The majority of households over all three locations and wealth groups mentioned having access to "buying on credit." Households in Kapisa reported making less use of "buying on credit" than in the other two villages, possibly because they had fewer "relations" as shopkeepers in the district bazaars, and the village shops did not sell wheat. Instead, the Kapisa households relied more often on borrowing money from relatives as *qarz-i-hasana*. In all three villages, poor households did have access to "buying on credit" from shopkeepers although the poor could rely on it less often and with lower ceilings of accumulated debt. Thus, although all wealth groups reported having access to delayed payment of goods, or in other words "buying on credit" from shopkeepers, the actual practice varies by wealth group.

Diversity in perceptions and practices of credit

There were households in all three locations and across wealth groups that were using the

same credit types but in contrasting ways or perceived the same credit types in diverse ways. This illustrates how a credit type can be practiced or perceived differently on a case-to-case basis. The two most striking cases were that of "buying on credit" and mortgage.

In the case of "buying on credit," most households interviewed thought that shopkeepers who were providing their goods on credit for "double prices," were engaged in practices of *sudh*. Some respondents, however, were of a different opinion as in the case of Abdul Fatah (CS23-H), a teacher and sharecropper in the Herat village, who described the credit practice as:

Local shopkeepers depend on their customers and therefore give credit, they know the villagers do not have much cash... Farmers pay every season and they have to pay a bit more than the original price. The longer it takes the more expensive the prices get. It is a kind of sudh. But shopkeepers are also people in need; they too have to get money to buy new goods. For instance a bottle of tomato paste is 50 Afs, after one season it becomes 60 Afs. But in between the repayment, the shopkeeper might need money to buy new goods, they have to do this.

Table 5. Types of informal credit practices reported (by location and wealth group)

Credit	Wealthy			Middle			Poor		
	Herat	Kapisa	Ghor	Herat	Kapisa	Ghor	Herat	Kapisa	Ghor
Delayed payment	+	+	+	+	+	+	+	+	+
Advances	-	-	+(l)	-	-	-	-	-	+(l)
Cost-free loan	+	+	+	+	+	-	+	+	-
Loan with profit	+	+	+	+	+	-	+	+	-
Mortgage	+(l)	+(l)	+(l)	+(b)	+(b)	+(b)	-	-	-
Business credit	+	-	-	+	-	-	-	-	-
Credit with interest	+	-	-	-	-	-	-	-	-

l=lender; b=borrower

Asking respondents to be specific about the marked up price often resulted in respondents referring to “double-pricing” without being able to say in detail what the marked up value was as the shopkeeper was the only one recording the debt and it was evidently not a pre-determined higher price (CS78-G, CS26-H). There may be cases (although not specifically found) where marked-up prices are “double,” in many instances it seemed to be more often a “matter of speech.”

The costs of “buying on credit,” with a marked-up value, is different by case and changes over time as well. Abdullah (CS18-H) used to have a butcher’s shop in the Herat village but he closed it down two years ago because nobody had money to buy meat anymore. He describes how another butcher in the village did not only have to close down his shop but also remained in debt when people did not pay their outstanding bills.

When I had a butcher shop in this village I didn’t give credit to people, because another villager also had a butcher shop in the village and he gave a lot of credit to people. But then the Taliban came and everyone left the village for Iran and Herat and this man could not find money to pay the animal owner from whom he bought the sheep for his shop. So he left the shop and went to Iran and worked there for four years. The money he earned he gave to the sheep owners, but still he didn’t receive his money from the villagers he gave credit to.

No defined practice of mark-up pricing was found in the study, although during the drought, the debt burden of shopkeepers increased, which affected access to “buying on credit” and may have led to an increase in the practice of marking up prices. The marked-up value may be determined by a number of circumstances: the overall debt burden carried by the shopkeeper; the prospect of debtors repaying in a timely manner, as well as the prospect of repaying in the longer term; and the nature of the

relationship between the buyer and the shopkeeper.

Another example of differences in practices is found with mortgaging. Mortgaging of land was a frequently used credit type in all three villages for those owning land during the drought. For many landowners, mortgaging out one’s land was a means to access large cash credits, inaccessible without using land as collateral for repaying accumulated debts. This occurred in two ways; either accumulated debts are repaid through a mortgage or a mortgage is taken as a debt management measure in order to regain access to short-term credit through shopkeepers. For instance, Abdul Wahid (CS40-K) owns three *jeribs* of irrigated land that he had mortgaged out during the drought. He narrates: “First I borrowed money from someone in the village... But then he regularly came to ask for his money, so I decided to mortgage my land to him instead.” Although it is likely there was some form of pressure to repay the outstanding cash debt in order to transfer the debt into a mortgage, it also provided an opportunity to manage his outstanding debt. Many mortgages taken during the drought are still outstanding and land has not yet been retrieved even though the repayment time has passed. It is as if these debts are put on hold. This, however, is not the case with all mortgages as the example of Sharif (CS59-K) illustrates. He and his widowed mother mortgaged their land also during the drought, but were however “forced” to sell it to the mortgager as repayment. Understanding the differences in repayment practices and the outcomes between these two similar situations—which will be elaborated on in Sections 4.5 and 4.6—requires looking at the larger social and economic context of the village.

However, mortgage is not a credit source households seek only in times of distress. It was also used in order to access large cash sums to pay for high bride prices, which again are inaccessible without using land as collateral. This was found in all three

locations: in both Kapisa and Herat half of all households who had taken mortgages used it to pay for marriage costs; in Ghor, two-thirds of all households taking mortgages used them to pay for marriage costs. What was not encountered during the field study in the Herat village but what respondents mentioned occurred, was households mortgaging their land to access large cash sums to start businesses. Given that prices per *jerib* of mortgaged land are based on the value of the land, debts from mortgages taken during the drought, when land values were less, are lower than debts from mortgages taken more recently to pay for marriage costs. Mortgage is not used for just one purpose, it is used in times of need as well as a strategy to pay for otherwise unaffordable undertakings—marriage or business—and its repayment practices also cannot be easily categorised (Section 4. 5 discusses this in more detail).

Considering the different types and practices of informal credit it is not easy to generalise the role that informal credit plays in rural livelihoods. This can only be understood by taking into account the context of the exchange and the parties involved. Why do households engage in credit exchange?

4.3 Reasons for giving and taking credit

The majority of households take credit to overcome expected and unexpected lean periods as well as to pay for marriages and other life cycle events (see Box 1).

Credit for productive inputs and business investments was only found in the Herat village. Providing credit to gain more assets, i.e. mortgaging someone else's land, was found in both Kapisa and Ghor. Besides these

Box 1. Credit use

Consumption smoothing

Most households from all wealth groups of the sample, do not have a regular and secure income and are periodically short of cash or food or face small-scale crises for which food or money is needed. Families dependent on agricultural income sources dealing with seasonal lean periods, families dependent on labour migrants for remittances, casual labourers in the lean time of winter when there is little work in the village, teachers who receive their salary late, carpet weavers before the carpet is completed and sold, or poorer households trying to cope with a period where there is no or not enough income—all fall back on credit to overcome these lean periods. Often, relatives and neighbours are approached to provide in-kind or cash credit. More substantial income or food shortages, often encountered by the poor, were overcome through credit provided as assistance from relatives, through credit from predominantly neighbours and shopkeepers, or in Ghor through credit using future labour as repayment, or in Herat by asking for credit but receiving alms if one is a recognised vulnerable person.

Life cycle events

Another common use of credit is to pay for expensive life cycle events like bride prices and wedding costs. Considering the amount of money a household is willing to invest, marriage is an important event. All recent post-drought mortgaging of land by respondents was to finance expensive bride prices of which the highest reported was 150,000 Afs (US\$3,000). One respondent in the middle-ranking group, a teacher and farmer from the Kapisa village (CS56-K), replied when asked about possible debts, that he did not have sons of marriageable age and therefore did not have debts. Costs related to death of household members are also included here. Poor households avoid wedding costs through sister exchange, marry cheap brides and in case of illness and death rely more on charity to provide for these expenses. Use of credit for life cycle events was common in all three locations but only among the middle-ranking and wealthy households.

three main reasons to engage in credit, there are additional underlying dimensions explaining why households give as well as take credit. Credit is also perceived as an investment in mutual support, as a means of providing assistance and also as part of a system of patronage, and it may fulfil several of these aspects at the same time. Yet even this is not an exhaustive list of reasons for credit exchange.

A. Credit as an investment in mutual support

Deen Mohammed (CS33-K) is the main shopkeeper in the Kapisa village. The family was originally not wealthy but with savings from Iran, they have been able to invest in a shop and the village mill. Recently, his son got married, and in order to pay the bride price and wedding costs he needed to borrow money, which he found from several different villagers: “Because I have influence as the shopkeeper and the miller, people brought money to me to use for the wedding—around 3,000 Afs (US\$60) each. It was all credit.” Later he added: “If I did not have this shop, they would not have given me money.” Why would households give Deen Mohammed credit for organising his son’s wedding? As Deen Mohammed himself explains: “Because I am the main shopkeeper.” Providing credit to a shopkeeper is investing in, or re-enforcing, a relation of support. He adds: “When someone gives me 3,000 Afs when he is in need [himself], I give him 10,000 Afs.”

As this case illustrates, credit can be provided as a means to assist households in need of cash or food but it is also a means to secure assistance for the lenders when they need credit themselves in the future. This giving and taking of credit is more often found in short-term credit provision for consumption smoothing. However, as Deen Mohammed’s example shows, wealthier households also provide larger cash credits for life cycle events to (re)establish credit relations. Similar cases were found in the Herat village (CS17-

H and CS21-H), where middle-ranking and wealthy households had active networks with households of equal standing to give and take credit.

In the Ghor village, credit exchange was only found among the wealthy households, and only used for larger cash requirements. An explanation for this is that their credit networks often extended outside the village, usually with relatives residing in other villages, which does not facilitate frequent credit exchange for consumption smoothing. The give and take of credit between households is based on expected returns and trust in reciprocity. An explanation provided by many middle-ranking households in the Ghor village, as to why there was so little reciprocal cash loans provided, was that there was no trust people would repay. This “distrust” lay most likely in not trusting that the loan will be repaid soon or in the kind in which it was borrowed and not for instance through labour.

Credit is a way to solidify existing relations of mutual support or, when engaging in new credit exchanges, a way to establish or incorporate new relations within a network of support. In Herat, Nuzamudeen (CS21-H), a Kuchi settler, is actively establishing himself as a trader via business credit and is planning to align his family with specific families in the village through marriage, thereby creating new credit relations. The *arbab* from the same village (CS17-H) confirms this when describing with whom he has credit relations: “...with those we have made close through marriage.” But when the trust that the credit will be repaid or the act returned in the future disintegrates, credit relations can dry up or fail as illustrated by the case of Baser Ahmed (CS25-H) described in Section 3.

Marriage is thus an important event through which households invest in social support networks, as it provides a possibility to choose a relation one wants to “get close with” and facilitates credit relations as well as general

mutual support. It provides an important opportunity for households to strengthen and broaden their range of support opportunities and possible credit sources. Poor households in Kapisa were marrying their daughters off with no or low bride price with the expectation that it will provide a source of assistance in the future. Middle-ranking and wealthy households go out of their way in all three locations to collect or borrow enough money to pay for the costs of bride price and wedding, often going into significant debt as the number of mortgages taken to finance the event exemplifies (see also CS76-G, CS63-G, CS33-K, CS20-K and CS21-H). This shows marriage's importance as a socio-economic investment.

B. Credit as a medium of assistance

Whereas the previous point related to credit being used as a means of building mutual support mechanisms, which was largely practiced between households of more or less equal standing, credit was also a means to assist other households; this was found predominantly between households of different wealth groups. This form of credit, described as *qarz-i-khodadad* in Section 4.2, is credit provided as assistance under the agreement that if the borrower gets the opportunity to repay, he or she will do so but if not, the lender will receive repayment "through God." This term is not widely used, although reference to it and its practice was found in the Kapisa and Herat villages. In all households in the sample, there was a general understanding that wealthy families should assist the poor, through charity, assistance or by providing credit. During the fieldwork the *mullah* in the Kapisa village, possibly instigated by this study, preached at the Friday sermon about the goodness of assisting people through *qarz-i-hasana*, contrary to mortgaging, which was considered a sin.

In the Herat village, poor households were mainly characterised by, on the one hand

failing family networks as Baser Ahmad (CS25-H) faced when he became disabled; and on the other hand, by receiving charity and assistance credit from wealthy households. Baser Ahmad again provides an example of this, when he received 3,000 Afs credit from his neighbours even when there was little prospect for him to repay in the near future. In the Kapisa sample, the provision of credit to assist was mainly found within family and larger tribal networks. The household of Gulab Khan and Shafiq (CS44-K), described in the Introduction, is an example of having ongoing support from relatives, often outside of the village; in this case, households who have moved to Charikar or Kabul. *Qarz-i-khodadad*-like credit is not common in the Ghor village, though it did occur. Zamen Ali (CS70-G), himself a middle-ranking farmer, mentioned how, "We have land, when we harvest our wheat people come to us and we give 1-2 *ser* (7-14 kg) of wheat as loan knowing we will never get it back. Some give back some don't. But we know their life situation is worse than ours." Interestingly, no respondents in Ghor expressed feeling obligated to assist the poor, nor did the poor report that they were relying on being assisted. The reason may be related to a credit practice where poor are "provided for" but in an entirely different manner, as the next section will illustrate.

Assistance is a religious as well as a social obligation as seen in certain expectations expressed within the community. Obligation and religious reward are, therefore, underlying dimensions of giving credit to needier households. Who is entitled to this assistance, or who can claim this assistance will be discussed in more detail in Section 4.4 on access to credit.

C. Credit as part of a system of patronage: a means to security and social standing

In the Ghor village a specific credit relation was found that was not observed in the other

two locations: a large landowner providing advances on future contract labour to landless households. As this was done on several occasions throughout the year the labour of a household could be fully reserved to one landowner even before the agricultural season starts. With this agreement, there is a generally understood obligation from those giving as well as expectation from those receiving that the landowner should provide credit for the labourers working for him.¹⁶ However, accumulated advances against future labour and other possible debts with the landowner can result in a state of bonded labour. Gulbakht (CS25-G), who lives with her elderly husband and three young sons in the Ghor village, provides an example. The family also has three daughters all of whom are working and living in other households repaying debts and advances taken. One of Gulbakht's daughters works to repay an advance her father took two years ago. He had fallen sick and was unable to provide the work he had taken an advance for. Although the old debt is not yet repaid, Gulbakht just recently approached the family where this daughter works to request more wheat on loan, which was granted. Other poor households have similar conditions, as in the household of Safar (CS84-G) described in Section 3. Thus, credit in the Ghor village connects landowners with large land and livestock holdings and in need of additional labour to the landless through the provision of advances on future contract labour.

Long-term contract labour is approximately one-third of a daily wage and thus a landowner gains access to cheap labour by providing advances.¹⁷ This system can easily be characterised as “exploitation”—providing credit in order to access cheap labour with

the labourers having no other choices. However, one cannot judge properly without taking into account the possible advantages this system of interdependency has for the poor. As the livestock herds have not yet recovered and many households are supplementing their food income with contract and daily labour, there is labour surplus in the village. Of the 32 households interviewed in the Ghor village 25 had a household member working as a contract labourer (thus excluding daily labour opportunities). Contract labour can provide a more secure and possibly greater income than casual daily labour given the guaranteed length of work it provides; a contract of eight months provides for a strong adult 20,000 Afs (US\$400) which is the equivalent of 133 days of daily labour at local rates, or over four months of continual daily labour. More risk-averse households will aim to smooth their income streams by fixing a term of employment, even for lower return, rather than depending on the uncertain daily wage labour market in a context of surplus labour. Thus, binding oneself to a wealthy landowner through debt and reserving one's labour can be a desirable condition to secure a household's food security.

Interestingly, in the Ghor village, and also found in the rest of Hazarajat,¹⁸ there were examples of joint households where wealthy families with large landholdings would live together as one household with either individuals, or in some cases with whole families of those working for them on a contract labour basis. Khodadad (CS65-G) is a wealthy man with large land and livestock holdings. He is an old man now, and though he and his wife had seven children they all died prematurely. “I have a *mazdur* (contract

¹⁶ The study from Semple, conducted in 1998 in the same region, also reports the expectation of landlords providing credit to their tenants (1998: 38).

¹⁷ Contract labour ranges between 10,000 and 20,000 Afs (200 and 400 US\$), a pair of clothes and food for eight months whereby the person hired often lives together with the family hiring him or her. Converting the cash component to a daily wage rate gives a daily rate of between 42 Afs and 83 Afs (between 0.82 and 1.66 US\$). The rate is likely to be less when contract labour is used to repay debts.

¹⁸ Mousavi, S.A., 1998. *The Hazaras of Afghanistan: An Historical, Cultural, Economic and Political Study*, p. 46. Surrey, England: Curzon Press.



Subsistence farming is an important livelihood but daily labour is still needed to augment income and food security.

labourer) who is with me since he was a small child. He came to me because he had no one to look after him at that time. Now I have brought a wife for him and he is with me.” After this interview, a member of the research team observed that the man working for Khodadad was “a *mazdur* in exchange for shelter, food and a wife.” Although, this was not a common situation, it does illustrate how bondedness also entails an element of security; one obtains food and other forms of security through dependency.

This credit practice was not found in Kapisa or Herat, although respondents in Kapisa reported that it did occur four to five decades ago. An explanation for its decline is most likely related to the changed land relations and access to more diverse job opportunities now found in Kapisa and Herat.

It is important to note that there seems to be more to it for the lender than solely accessing cheap labour or meeting religious obligations by assisting poor households,

especially given that there seems to be an over-supply of labour in the village. This might be related to lenders obtaining social standing and political power within the village by having others depend on them through the provision of credit. The positive perception of employing labour through patronage relations is discussed in Tapper’s study on marriage practices within a Pashtun tribe in the 1970s.

*It is dishonourable to sell one’s labour for recompense in any form, while it is honourable to employ labour, to have clients and dependants, people to whom produce is given in return for their labour.*¹⁹

In the Ghor village, wealthy households built dependency relations through credit that may have affected their social standing and political power within the village. In Kapisa and Herat, while patronage relations such as those described above were not found, a similar outcome of increased social standing

¹⁹ Tapper, N., 1991. *Bartered Bride; Politics, Gender and Marriage in an Afghan Tribal Society*. Cambridge.

through having credit-dependent households was found. Among the members of each *shura* in the three studied villages “big” lenders were found. In the Herat village, the newly chosen *arbab* was a known source of both business credit as well as credit to assist. In the pilot study conducted in a village in Balkh province, the village *mullah* was a wealthy big landowner and an important source of credit for many villagers. Although he described his motivation as religious, it is not surprising he too was chosen as head of *shura*. To what extent are the reasons for providing credit based on altruism or self interest? One can only speculate on a case-to-case basis, but it is most likely to be a combination of both. That all main credit providers of the studied villages were also members of the *shura* or the *arbab* illustrates this.

There are several dimensions why households give and take credit: one is, credit is used to overcome expected or unexpected lean periods and pay for expensive life cycle events. However, credit is also used to safeguard future access to credit and other forms of support or assistance, either through reinforcing mutual support relations, or within a system of patronage to meet religious obligations and to obtain social or political rewards. But do all households have access to the credit they want or need?

4.4 Access to informal credit

There are two striking findings in this study: first, the majority of households from the sample are able to access credit; and second, the confidence that many households have, including the poor, about being able to access credit.

Shafiq (CS44-K), the wife of the household described in the Introduction, is confident in knowing who to go to for credit and in being able to access credit on good terms. However, she is also confident that she will actually receive credit when she asks for it, even though at the time of the interview

there was very little prospect of income in the near future. Her confidence was most probably related to the household’s credit source being her family and the obligations to assist this implies. However, many similar cases of confidence are found in Kapisa, as well as in Ghor and Herat, even among non-family credit sources. What is this confidence based on?

In all three villages, households expressed the expectation of being able to receive credit and in some cases even expressed it as an “entitlement,” as a right to access credit. How this entitlement is expressed varies according to the specific credit relation a household is engaged in (mutual support, assistance or patronage). Within mutual support networks, which are often defined by tribal or other blood relations, reciprocity among the parties giving and taking credit is the basis of claims to entitlement. For example, the Kapisa village is divided into several sub-clans called *taifa*. Within the *taifa*, cost-free credit is exchanged. As a teacher and middle-ranking farmer (CS56-K) reported: “For example, if I ask Esmatullah [a wealthy man from another *taifa*] for credit, he will say no, even though he has money because he would rather give credit to people from his own *taifa*.” Wealthy households reserve their surplus cash to provide for their close relatives and fellow *taifa* members, who in turn “claim” their right to credit from within this group, knowing others within the group can make claims on them. In the case of assistance-related credit, as the obligation to assist is embedded within Afghan society, this obligation forms the basis of claims to entitlement to credit. Similarly, within patronage relations, claims to credit or expressions of entitlement are based on the obligations represented by the patronage relation.

Entitlement, however, entails exclusion of households that do not belong to the kin group, mutual support group, or system of patronage (lack a long-term tenure agreement with a wealthy landowner). One respondent

(CS78-G) in the Ghor village mentioned how “vulnerable households are those who do not know people who can help them.” Another respondent, Anwar (CS83-G) sold his household’s assets and was ready to migrate to Herat the following day. Anwar explained that his household was leaving the village because the landowner they used to work for as contract labourers, whose house they lived in, had mortgaged his land. The new creditor had hired other contract labourers to cultivate the mortgaged land, leaving Anwar unemployed. Equally severe was that they had to vacate the house they were living in, and had lost their main source of credit. In one moment, Anwar lost his employment, his place of residence and credit access due to his patron’s fall in economic status. This exemplifies the covariant nature of some risks, particularly evident in a context like the Ghor village, where livelihood inter-dependency is high.

Poor households from the Kapisa village are accessing credit from wealthier relatives in and outside of the village. It is worth noting that the research team did not come across poor households lacking relations to assist them. A possible explanation for this is that the poor households would not have survived within the village and such households may have migrated out. However in the Herat village, in cases where contacts had been broken during the drought (CS25-H and CS21-H), other entitlements are present, including entitlement to charity. Baser Ahmad (CS25-H) and Ghulam Mohammad (CS28-H), both impoverished, reported how in the Herat village there was a difference between those considered vulnerable, i.e. the disabled and female headed households, who were generally perceived as “in need of assistance,” and those who were poor or had been impoverished but where the head of the household was still an able-bodied male. The first group had access to charity (mainly *khairat*) whereas the second group did not

and instead had to access credit, which could result in further impoverishment.

The underlying reasons why households engage in credit, as identified in Section 4.3, are linked to entitlements to credit through the need to reciprocate the action or through social and/or religious obligation expected by both lender and borrower, or as an integral part of a system of patronage. These entitlements explain the confidence respondents expressed in accessing credit. But once credit has been accessed it needs to be repaid at some point. Where and how do the households find the money?

4.5 Repayment practices

“When we find the money, we will repay,” is the common response by many respondents when asked how they will repay their debts. A good example is Gulab Khan and Shafiqah (CS44-K) who are constantly borrowing money and goods from Shafiqah’s relatives, especially since Gulab Khan became unemployed recently. With little prospect to repay in the near future, the opportunity to “find the money” lies, as Shafiqah states, in the future income from the bride prices her four daughters will most likely receive. In other words “finding the money” seems to refer, in this case as well as in many other cases, to an undefined time in the future when the opportunity to repay will arise. Repayment practices in the three villages were found to be highly flexible, as shown through the examples of mortgage repayment and repayment practices with shopkeepers in Ghor.

Mortgage and repayment practices

Of the 26 households in the sample who mortgaged land over all three locations, nine were already able to retrieve it and three reported having to sell their land or a part of it.²⁰ Respondents mentioned examples of

²⁰ Of the nine households, which had once retrieved their mortgaged land, two had again mortgaged it out.

more households who had sold their mortgaged land, but as they had left the village the dynamics and reasons around the sales, and if they were somehow forced, remains unclear. However, 16 of the 26 mortgages taken are still outstanding, although the three year repayment timeframe had passed. Why have some households sold their mortgaged land to repay the debts whereas others are able to keep outstanding mortgages with apparently no pressure to repay?

For instance, Sharif (CS59-K) now a shoemaker alongside the main road used to be addicted to hashish and did not work. To pay for accumulating debts during the drought, he had mortgaged his land to his uncle, Mohamadullah (CS34-K). His mother, a widow, was able to retrieve his land through the bride price of one of her two daughters, within the three-year repayment period. However, falling further into debt for food expenses they again had to mortgage their land. Only this time when repayment was due his uncle forced them to repay by selling

him a part of their land. Compare this household's situation with that of Abdul Wahid (CS40-K) who had also mortgaged his land during the drought and who is currently still not able to retrieve it as the household's income is solely based on his daily labour and the food produced from sharecropping his own land. Nevertheless, as he has a large family with both daughters and sons, the future prospect is one of multiple income sources, possible labour migration to Iran and daughters who will marry and receive bride prices. The difference between the two households in the extent of repayment pressure from the creditor lies in their very different future prospects of repayment.

Households do take on risk when mortgaging out their land. The creditor, once the timeframe has passed, does have the right to request his money back. If a debtor faces more crises, the creditor might lose trust in the future prospects of repayment, and in response to the increasing risk of default, demand his money back.



Food expenses could push families further into debt; some households are even forced to mortgage land for repayment.

Accumulated debts from during the drought

In Ghor practically all households had large outstanding debts of between 2,000 and 20,000 Afs (40 and 400 US\$) with the shopkeepers in the bazaar, accumulated from the time of the drought. Given the extent of long-term outstanding accumulated debts, shopkeepers have been carrying a high burden for their customers. The value of the outstanding debt was not reported to be still increasing (i.e. through interest charges), though marked up prices may originally have been included in the amount lent. Interestingly, these indebted households continued to be able to buy on credit; they obtained this access through continued repayment of current debts thereby both obtaining more credit and avoiding being charged excessive marked-up prices. For instance, Zainab's household (CS63-G) has an outstanding debt with shopkeepers from the time of the conflict and the drought. However, her husband buys on credit every winter which he often repays with livestock products. Thus, households seemed to have two debts with a shopkeeper, one high outstanding debt that seemed to be "put on hold" and one active debt. The question arises as to why creditors allow "default" in, for example, mortgage repayment or for long-term accumulated outstanding debts? The answer most probably is to be found in the social and/or religious obligation to assist. Sharif's (CS59-K) words of disgrace when describing how his uncle, the creditor of the mortgage, had forced him to repay and thus sell his mortgaged land to him, exemplify this: "All villagers know he took my land by mortgage."

Repayment practices are characterised by a continuing trust and expectancy that the debt will be repaid. This can take years, even as long as waiting for the household to age—for sons to grow older in order to work or for daughters to get married and provide the bride prices. However, repayment practices are an ongoing "muted negotiation," as they

do not always seem to be discussed. Their flexibility can shift when on the one hand the borrower is unlikely, even in the long term, to repay the debt, or on the other hand when the lender needs his money back. There are three main factors that can affect the situation of either lender or borrower, or both simultaneously, and which trigger forced repayment:

- Loss of income sources due to changes in economy, conflict, or drought;
- Changes in household composition: gradual, i.e. a large household with one income provider but many potential future income sources; or sudden, i.e. with the death or illness of a household member; and
- Increasing demands for assistance and support from other households, and decreasing returns from assistance provided to others.

In the end, repayment practices are flexible but contingent. When a debt is not repaid, the credit agreement between lender and borrower is adjusted according to the changing situation of both parties, adjusting to shifting relations and circumstances. Nevertheless, renegotiation of repayment can fail, though there is little evidence that it currently frequently does. Repossession of assets due to the failure to repay debt only occurred for example in the case of Sharif (CS59-K) when there was no prospect of repayment in the future.

4.6 The outcome of credit practices

When looking at the general outcome of credit practices, it is clear that many households achieve what they want: they are able to access food or money to meet their immediate welfare goals and thus survive and get by, or marry and meet their investment needs. This section summarises experiences at two ends of the spectrum of



Drought and conflict have changed credit practices over time. Borrowers, pressured to pay, are pushed into decline.

outcomes—those in decline and those who prosper due, at least in part, to their use of credit. Specifically, this section explores the potential negative effects of crisis on credit practices, and indirectly, on credit outcomes, as well as how credit can provide opportunities to prosper, though generally among those already relatively asset rich.

The impact of crisis

In all three locations, impoverishment from years of insecurity and conflict, followed by four years of drought is widespread. Many households are still recovering. There are, however, two cases in all three locations of households still in a process of decline: Sharif's household (CS59-K) in Kapisa, was forced to sell mortgaged land to an uncle; and Ghulam Mohammed (CS31-H), who has also mortgaged his land and will most likely have to sell it in the future due to a high burden of outstanding debt. Baser Ahmed (CS25-H) is an example of a household who has fallen into poverty and has not been able to recover but has been able to stabilise its condition, though at a lower level.

All households are at risk of experiencing a crisis which can affect credit practices, particularly repayment pressures or the nature of assistance credit already received. Such changes in practices can ultimately lead to a decline in household security. Crises affecting the lender or borrower can lead to unexpected demand for debt repayment. Lenders facing unexpected lean periods or other downturns may call in debts to raise needed cash or food or may remove patronage ties (see CS83-G), while borrowers, who face crises may lose credit worthiness in the eyes of lenders, leading to demands for repayment. Such demands can push borrowing households into decline. Their ability to recover depends on the depth and breadth of their credit networks, as well as the condition of the households with whom they have a relation of mutual support. During the drought, when practically all households faced problems, mutual support networks started to disintegrate. In Herat, there were cases like Baser Ahmed's (CS25-H), of families abandoning their relatives in order to preserve their own security, or to avoid depleting the few resources left in their possession. Thus,

the break-up of mutual support networks, often in the face of negative trends such as drought or conflict, could further drive a household into hardship, especially with unexpected demands for debt repayment that could force families to appropriate assets if no other means existed to repay.

In addition, not all credit provided under the label of “assisting” lead to a positive outcome. While perhaps given to assist a relation facing a lean period or crisis, the nature of assistance credit may change for a range of reasons, from individual greed to larger societal shifts. This shift was reported in Herat where people have lost their assets, including daughters, in order to repay accumulating debts. For example, one female respondent in Herat (CS19-H) mentioned how, at times, people offer help only to reveal later on that the assistance will be extended in exchange for land or a daughter. This could very well be a product of what has become a more individualised economy in the Herat village as a result of market development. With such progress, social obligations “to assist” have shifted towards helping through charity and alms rather than through the provision of long-term outstanding debts. Although debts themselves may not be the direct cause of impoverishment, the combination of outstanding debt and crisis (affecting borrower or lender) can lead to changes in credit practices which can push households into serious poverty, either through reduced access to credit and support, or increased repayment pressures.

Credit and its role in building prosperity

Aside from cases of households falling into poverty, this study also came across households recovering and actually gaining wealth and prosperity through credit. One example is the case of Mohamadullah (CS34-K) in Kapisa, whose father had been landless and who, through his wealth (accumulated through work at a military checkpoint and

his subsequent ability to lend money) has become the wealthiest man and main mortgage provider of the village. Nuzamudeen (CS21-H) is a Kuchi, who, after losing his animals during the drought has settled in the village. He is now a sheep trader and has established within a few years trust among villagers that they are now investing money in his trading activities. Whereas his oldest son is engaged to a girl from another Kuchi family, he is now thinking of marrying his second son to a family from within the village. Credit has played a role not only in his attempt to integrate but also in his efforts to prosper; it is a medium exemplifying other households’ increasing trust in cooperating with him. Since receiving business credit from wealthy households within the village for sheep trading, he himself says: “I have become more trustworthy for them, people know I am honest and that I can do a good job.” Another example is the household of Zainab in Ghor (CS63-G). Her household had taken a large loan in order “to make close” with a wealthy family through marriage, anticipating future rewards from this connection via access to new credit relations.

Opportunities of upward mobility through credit were not found among poor households. In general, opportunities to prosper came from changing household composition and mainly through the availability of more income sources. This last change could eventually lead to better access to other credit forms and different credit sources. These are long-term dynamics for households. However, as the social and economic context has changed considerably over the last four decades, so too have credit practices in relation to their use and role in household livelihoods for the three villages.

4.7 The dynamics of informal credit

This section examines how credit practices have changed over time, due in part to the

dynamics of conflict and drought and their effects on households. However, equally important are the changes in the regional and village economy, including changes in land relations, market penetration and monetisation. These have influenced socio-economic relations and household livelihood strategies within the villages, increased the overall standard of living and subsequently changed credit practices. This is true for all three study locations, but all in slightly different ways. Whereas in Herat market penetration has been found in the village itself leading to a process of urbanisation, in Kapisa and Ghor, economic change has been mainly in the regional centres, especially in the development of bazaars, and in Kapisa the process of industrialisation in the Shomali plain. These changes are explored by looking at the practices of *qarz-i-hasana*, *qarz-i-sudh* and mortgaging.

Trends in *sudh* and *qarz-i-hasana*

In all three villages, respondents referred to changes in the use of *qarz-i-hasana* and *sudh*. Respondents from Kapisa and Herat reported a decrease in *sudh* and an increase in *qarz-i-hasana*, whereas in Ghor, respondents made few references to these credit types and had the least to say about *qarz-i-hasana*. Bearing in mind these terms vary in their meaning and may indicate more perception than practice (see Section 4.2), the question that needs to be asked is: what are these changes in use and what do they exemplify?

In the Kapisa village three to four decades ago, the majority of landless (or small landowners) were grain deficit households. As no other households of equal standing had surplus food to provide in-kind (*qarz-i-hasana*) to make up for lean periods, most credit was provided in-kind by the few large landowners as *sudh*. Although no exact data on amounts were provided, these food debts needed to

be repaid with marked-up values. Since then, however, land relations have shifted, now with a more equal distribution of small-scale landholdings. The number of big landowners has decreased and there are currently more small landowners. Increasing job opportunities in the vicinity of the village has resulted in seasonal food shortages being compensated through other sources of income and, if not readily available, temporarily sourced through *qarz-i-hasana* instead of with in-kind *sudh*.²¹ This process also went hand-in-hand with a growing influence of the clergy like the *mullah* and *maulawi* both under the Taliban rule and in general from within the community.

In the Ghor village today, similar in-kind credit, as practiced in Kapisa three to four decades ago, is found where there is an element of “gain” made, either through the marked-up value of the debt, or through repayment made through cheap labour. These credit forms are advances (often in wheat) on future labour or wheat loans for marked-up prices in cash. As Section 4.3 illustrates, credit in the form of advances on future labour binds contract labourers and landowners in an interdependent relationship. Though there is an element of gain here in that the landowner providing the credit accesses cheap labour, respondents themselves do not refer to this credit form as *sudh*. One respondent, a middle-ranking farmer (CS78-G), mentioned how nowadays there is no *sudh* but there is also no *qarz-i-hasana*.

In the village in Herat, there is another story. As the village economy is highly urbanised with the majority of income sourced from non-agricultural activities and through income-generating activities in and outside the community, the availability of cash is widespread. *Qarz-i-hasana* is institutionalised into networks of mutual support. This has brought an increase in the importance of

²¹ A similar finding was found in Nangarhar. Due to an increase in poppy cultivation, more families had access to cash which resulted in an increase in *qarz-i-hasana* opportunities (Mansfield, 2004).

horizontal social networks, an increased cooperation between households of the same wealth ranking. Here too, respondents often mentioned how there used to be a lot of *sudh* and how it left the village. Although not documented as well as in the Kapisa village, the *sudh* referred to is most likely the same in-kind *sudh* described above. Nowadays, credit practises with an element of costs paid or profit made were found mainly in “buying on credit” with shopkeepers and referred to by many respondents as *sudh*. Credit with interest is practised for those confident businessmen willing to take the risk of investing in an enterprise on their own, and confident they will be able to repay their debts within the set timeframe. Changing perceptions and “use” of credit types reinforce the earlier discussion on how concepts, such as *sudh* or *qarz-i-hasana*, are not absolute but have meaning in relation to other forms of credit available and from whom.

Trends in mortgaging

There is a general trend found in all three locations where mortgage was used during the drought as a form of credit to pay off accumulating debt, but which is now used more as a planned action to access large cash credits with the expectation of being able to repay the debt and reclaim the land. From the data collected in the three villages it is unclear if this is a new trend or it is an old practice revived.²²

The practice of planned mortgage is an indication that households have confidence they will have the resources to be able to retrieve their land; this trust is largely based on the availability of daily labour opportunities in the area, in Kabul, Herat and Iran. The daily labour opportunities in the Ghor village were not as abundant as within Kapisa village but even there households planned their mortgages to pay for bride prices. The

frequency of planned mortgage also might indicate that the land within a household's economy—as source of food—has decreased in economic importance as increasingly more income is provided through casual labour. When the proportion of food provision by the land is relatively small and job opportunities are available, households might be more inclined to mortgage out their land, trusting that the food source they are giving up could “easily” be replaced by other income sources. This is especially the case with larger households in the Kapisa village, for example, Abdul Wahid (CS40-K) who had mortgaged out his land during the drought. He has a large family to feed, and is now sharecropping his own land. Both the income from his daily labour and the products from the land are enough to provide a stable income. Thus, it is not surprising that Abdul Wahid doubts if he should try and retrieve his land now by selling a part of his three *jeribs* of irrigated land. In order to retrieve his land, he will need money; to provide inputs, he will need additional cash and with a large family, the land will not be sufficient to provide for the whole family. Thus, he will have to continue to work as a daily labourer.

Section 4 illustrates how informal credit is widespread among all households of all wealth groups. It is found in diverse types, the majority of which is interest-free, provided through different practices. The same forms of credit could also be perceived in many ways across locations and households. Informal credit is found to be embedded in relations of mutual support, assistance and patronage, where access to credit is perceived as an entitlement, leading to great confidence across wealth groups in the ability to access credit when needed. These new insights into the workings of informal credit stand in stark contrast with the assumption that there is a widespread unmet demand for credit in Afghanistan. The basis for these contrasting perspectives is explored in the following section.

²² Semple, in his study on rural livelihoods in Hazarajat in 1998, p.42, does mention the practice of planned mortgage but did not encounter it in 1998.

5. Understanding Informal Credit

Section 4 has explored some of the key dimensions of informal credit found in the study villages. These findings raise some fundamental questions about how informal credit in Afghanistan is perceived and judged, the extent this has been done through the lens of formal credit, and whether this characterisation does justice to the meaning and practice of informal credit. This section explores some of these questions considering the preconceptions that are held with respect to informal credit, how it is defined, its role and its practices. Attention is also given to the moral economy and the context of insecurity that continues to drive and validate informal credit practices.

5.1 Existing misunderstandings and preconceptions

As discussed in Section 4, the complex practice of informal credit as widely used in the study sites—its diverse forms, the subtle nature of access that reveals no absolute entry barriers, its shifting nature over time and its multi-dimensional outcomes—may frustrate those looking for simple stories or truths. Expectations of such tidy stories and truths about levels of debt and indebtedness, unreasonably high interest rates and calamity-driven exigencies have been created as a result of research based on formal questionnaires that strip away the contingency of complex household relations, settings, value systems, perceptions about uncertainties and time.

A questionnaire could have been constructed for this study and data collected to accommodate such premises as: debt is a quantifiable variable for households; that families would readily share how much debt they owe (a deeply problematic assumption); that there are clear distinctions between lenders and borrowers; and that interest rates are known to and therefore calculated by borrowers. But the product from such an

approach would be essentially proof of its assumptions and evidence of its method, and would not reflect the complex realities of informal credit practices presented in this report.

The reality of debt associated with village-level credit is its multi-dimensional and variable nature—in a word, its complexity. As Polly Hill, the eminent Cambridge anthropologist puts it:

It is because... the nexus of personal relationships involving borrowing and lending is complex, exists on so many levels, has so many functions and entangles nearly everyone... that even [an] outline... is a deliberate oversimplification, [that] must seem to lose itself in its own subject matter; ... "the debt" which is supposed to adhere to so many households is an illusory, ever-changing, at the best of times elusive concept which cannot possibly be caught by a questionnaire or any other form of quantitative butterfly net. Only qualitative enquiry, suggesting general magnitudes, will do (emphasis in original). (1986:93)

Related to the problem associated with the primarily quantitative methods often used to describe and understand informal and formal credit is the language that is used to describe it: informal credit is always understood in terms of debt, giving it a somewhat negative meaning and connotations. Micro-credit, on the other hand, talks in terms of credit creation, not debt imposition and is therefore viewed as positive and beneficial. Labels such as credit and debt, as well as formal and informal are not neutral and can influence research practices and outcomes.

Hill in her chapter, "The Need to be Indebted" takes issue with the image that has been

projected of “creditors [being] wicked rapacious scoundrels” (1986: 84) and debt being abnormal. She develops her case for the limits of quantitative enquiry, particularly if informed by such views from the start:

The number of farmer-creditors in any community must always be considerable, though such is the coyness of creditors that it is never ascertainable. As for the number of debtors, this is invariably very high, both because debt is a natural condition and because... people often borrow with one hand (for one purpose) and lend with another. For all sorts of good practical reasons people do not think in terms of the net balance of debt or credit... which means the bald terms of debtor and creditor are often meaningless, especially as the biggest creditors are often the biggest debtors.

The evidence that emerged from this study supports this assessment: labels of creditor and debtor, which emphasise the financial dimension of the transaction, ignore the social aspects of it and the fact that a household can be a creditor and debtor at the same time. It cannot be assumed that borrowing and lending relationships enhance existing inequalities in rural communities. While credit-based relationships may reflect and maintain basic inequalities, they did not necessarily create them.

Why should debt be seen as a natural condition? In contexts of markedly seasonal and marginal agrarian economies, where employment and food production activities have distinctive peaks and troughs, it is inevitable (as Hill observed while working in dryland areas of Karnataka in India and as

found in the cases reported here) that many households will not always be self-sufficient for a whole year. The unpredictability of weather, calamities and other unforeseen events create challenges and crises that are simply hard to plan for. Borrowing is normal to meet the needs resulting from such situations, as seen in the unique set of household panel studies undertaken by ICRISAT²³ and the extent of risk-sharing practiced within villages studied.

There is widespread belief in the microfinance field in general and in Afghanistan that there is a very strong demand for credit, and that much of this demand is unmet by existing informal or formal credit services. It is unclear to what extent this belief is a legacy of the drought and assertions made at that time that there was a cash famine²⁴ which hindsight indicates may have been overstated.²⁵ Could this notion be driven more by perceptions of the role of opium poppy? This is not the place to explore questions of method or the validity of assumptions made and data produced in these studies. But the objective of extending microcredit within Afghanistan, particularly under the MISFA program as under other CGAP-related microfinance interventions globally, is to increase access to financial services among the poor.²⁶ This aim has also been integrated into Afghanistan’s main policy documents, the Afghanistan Compact and I-ANDS, through a rural development benchmark of increasing access to financial services for 800,000 households by end 2010. These policy-backed initiatives presume a lack of access to credit in rural Afghanistan—a premise that is not supported by the results of the household case studies conducted in Herat, Kapisa and Ghor.

²³ International Centre for Research in the Semi-Arid Tropics, carried out between 1974 and 1984 in the dry zones of India; see, for example, the discussion by Jonathan Murdoch, 2002. *Consumption Smoothing Across Space*, Discussion Paper, 2002:55. World Institute for Development Economics Research.

²⁴ Lautze, Stites, Nojumi and Najimi, 2002.

²⁵ Johncheck, W., 2007. “The Evolution of Food Security Information in Afghanistan: A case of limited ‘availability’, ‘access’ and ‘utilisation’,” in Pain and Sutton (eds), *Reconstructing Agriculture in Afghanistan*; 69-73. ITDG Press.

²⁶ See for example CGAP, 2003. “Helping to Improve Donor Effectiveness in Microfinance: Rural Financial Services for the Poor,” Donor Brief No. 15, October 2003.

What is clear however from the evidence in the case studies is that most respondents know “where to find the money” and how to get access to it, contrary to the view of Rasmussen²⁷ with respect to informal credit in Afghanistan. He asserts that “access is the main constraint, not the price,” although again this view may be a consequence of perceptions of post-drought rural Afghanistan. Informal credit appears to be widely available and the evidence is that it is only the really poor (see household CS25-H) who cannot get access, or to only a very limited extent, to informal credit. This is consistent with the findings of Polly Hill²⁸ who, in a comparative study of dry grain farming families in Nigeria and India, found that “the inability to borrow cash (as such), except in diminutive sums, is one of the hallmarks of severe impoverishment.”

The evidence of widespread availability of and access to informal credit in the study villages sits in strong contrast to other comparative views and reports on Afghanistan. Most notable among these is the Tufts study²⁹ undertaken in 2002-2003 in the immediate aftermath of the drought, which concluded somewhat contradictorily that:

- Informal systems of credit are extremely stressed in Badghis, Herat, Kabul, Kandahar and Nangarhar provinces, and few rural people report being able to lend food or money to family or community members; and that
- More than 50 percent of rural Afghans in Badghis, Herat, Kabul,

Kandahar and Nangarhar provinces have taken loans and increased their debt loads during 2002-03.³⁰

It is unclear to what extent these conclusions reflect the timing of the study, the immediate aftermath of the long drought that Afghanistan experienced between 1998-2002, and the method used, a formal questionnaire (the kind that Hill cautions about, as mentioned earlier). De Weijer³¹ also argues that the Kuchi, who were not covered in this study, are likewise severely constrained in accessing informal credit:

In the current situation, many Kuchi have exhausted their opportunities for obtaining credit, in particular for non-productive loans, due to past borrowing which has led to high levels of debt.

This view should be contrasted with the findings from the NRVA³² on the relatively greater wealth of the still mobile Kuchi in contrast to the average settled rural households. Moreover, and as was found in the Ghor study reported here, high levels of debt do not necessarily lead to households losing access to credit.

The widespread belief in the strong unmet demand for credit is in part drawn from conclusions about the role of opium in providing credit to rural households. Thus, Goeldner³³ refers to the overall demand for credit and to the 2002 MISFA assessments that “estimated the demand for microcredit at one million households, and that figure did not include demand for credit above a micro level.”³⁴

²⁷ Rasmussen, S., 2004. “The current situation of rural finance in Afghanistan,” a paper for a workshop on “Rural Finance in Afghanistan: The challenge of the opium economy; 1-5.

²⁸ Hill, P., 1984. *Dry Grain Farming Families: Hausaland (Nigeria) and Karnataka (India) Compared*; 217. Cambridge: Cambridge University Press.

²⁹ Tufts University, 2004. *Human Security and Livelihoods of Rural Afghans 2002-2003*. Medford, Massachusetts: Tufts University Feinstein International Famine Centre.

³⁰ Tufts University, 2004; 176.

³¹ de Weijer, F., 2005. Microfinance and Kuchis: Background information and recommendations for MFIs.

³² Pinney, A. and S. Ronchini, 2007. “Food Security in Afghanistan after 2001: From assessment to analysis and interpretation to response,” in Pain and Sutton (eds), *Reconstructing Agriculture in Afghanistan*; 69-73. ITDG Press.

³³ Goeldner, 2004. “Roles and Opportunities for Rural Credit Initiatives in Afghanistan’s Opium Economy,” a paper for a workshop on “Rural Finance in Afghanistan: The challenge of the Opium Economy.”

³⁴ Goeldner, 2004;3.

Quite how one accurately estimates demand and unmet demand is a matter for debate and nor can the use of opium in providing informal credit necessarily be seen in the quite same light as credit demand in formal credit systems (see the discussion below on drawing conclusions about formal credit from informal credit). However, the locations of this study were not in opium poppy growing areas and it should be pointed out that non-opium poppy growing villages must cover the majority of Afghanistan's villages—opium poppy cultivation only covers about five percent of Afghanistan's arable area.³⁵ It should be noted that the levels of debt found in the village studies are comparable (see Table 2) to the UNODC reported average levels of opium poppy derived debt of US\$700 for the 45 percent of farmers who took out such a loan.³⁶

One key issue challenged by the findings from the villages studied is the way that informal credit is viewed through the analytical lens of formal credit and the normative assumptions that such a perspective contains. This section proceeds to consider this in more detail by examining the application of assumptions derived from formal credit systems to informal credit practices.

5.2 Defining formal and informal credit

How is informal credit defined? For Rasmussen, “80-90 percent of the economic activity in Afghanistan is in the informal sector and almost all credit and other financial transactions are carried out in the informal sector.” The World Bank,³⁷ on the other hand, talks in terms of the banking system that has collapsed, “leaving the entire country to rely on informal financial systems.”³⁸ The

informal economy usually refers to economic activity that is not registered for the purposes of taxation and/or regulation by the state. But it can also mean particular activities carried out within the formal sector that escape state regulation.³⁹ The key issue in the definition is the degree to which the activity is registered or regulated—not that the informal activity is seen in any way to be far removed from the formal sector. By the same token, informal credit is defined in terms of what it is not—it is not formal—but otherwise its function cannot be separated from that of formal credit.

This is reinforced by the language and practice of neo-classical economics (Ellis⁴⁰) where credit, formal or informal, is treated like any other commodity and there is a market that “behaves”⁴¹ according to demand, supply and a price (interest rate) that acts to balance supply and demand. The key terminology of the credit market is expressed in terms of a lender (individual or institution), a borrower (a person or enterprise), credit as a sum of money that is lent, and the provision of collateral as a device for selecting creditworthy borrowers. The differences between informal and formal credit are simply a matter of the extent to which the different systems are bound by the legal regulations. Thus:

Credit may be informal or formal, private or state in origin. Informal credit channels refer to the financial services provided by moneylenders (rich farmers, traders and others in the rural economy who lend money on the basis of personal knowledge of each transaction). Formal credit channels are those bound by the legal regulations of a country, and they include private banks, state banks,

³⁵ UNODC and the Ministry of Counter Narcotics, 2006. Afghanistan Opium Survey. Kabul: UNODC.

³⁶ UNODC, 2003 Opium Survey.

³⁷ World Bank, 2006. Afghanistan: World Bank Support for Microfinance (see Reference section for complete url address).

³⁸ Indeed it is possible that the emphasis on the *hawala* and opium-related credit has focused understanding of the informal on the illicit trade and has led to overlooking the dimensions of informal credit reported here.

³⁹ Harriss-White, 2003. *India Working: Essays on Society and Economy*. Cambridge: Cambridge University Press.

⁴⁰ Ellis, 1992. *Agricultural Policies in Developing Countries*. Cambridge: Cambridge University Press.

⁴¹ “Behave” as if markets are some autonomous body and a term that simply reinforces a mechanistic view of the market.

*registered cooperatives and a host of others. The entire system of institutions and the way they work is called the rural financial system.*⁴²

In sum informal credit practices are interpreted and judged entirely through the lens of the construction, language and meanings of formal credit. This is problematic because the dimensions of access, use, motivations for giving and taking credit and contractual arrangements described in this report show that informal credit does not fit neatly within the confines of formal credit.

The way in which informal credit in Afghanistan has been interpreted through the lens of microcredit is revealing. There are certain attributes of informal credit practices that have been praised and sought to be replicated in microcredit programmes. Goelder⁴³ “refers to the strong respect for contracts laid out in Islam” that are contributing to high repayment rates under microfinance. The World Bank⁴⁴ comments on a “strong repayment culture” and “traditional social capital that is in support of respect for contracts” and Rasmussen⁴⁵ argues that microcredit must “try to employ the advantages of the informal credit system.”

As made clear in Section 4, repayment is far from being contract-bound and is subject to continuing negotiation and systematic default. Hill notes “that partial default and/or late repayment are so common as to be “usual,” which is an aspect of the continuing personal relationship that so often obtains between creditor and debtor,”⁴⁶ not least because there is always the potential that the roles

will be reversed. And as Gregory⁴⁷ observes, with respect to money lending in India, it is the loans taken for non-productive purposes (marriage and funeral expenses and consumption) obtained through informal credit that are systematically repaid, while the formal loans for productive purposes issued through banks are not.

Thus, cultural practices have to be seen in context and the reasons behind them understood; particular dimensions of them cannot be simply abstracted and universalised for other purposes without a great risk of unintended consequences. Section 6 will explore whether the high repayment rates under microcredit alluded to by Goelder reflect respect for contracts, or more a perception of the riskiness of this sort of loan and are thus more applied in formal microcredit.

If the positive dimensions of informal credit are to be seen in terms of a repayment culture, then the negative dimensions are described in terms of limited access,⁴⁸ or that most credit is provided at “usury rates.”⁴⁹ The extent to which these perceptions are consistent with the evidence from this study will be considered below. First, however, there is a need to consider the purposes for which formal and informal credits are used and what they imply for the transfer of assumptions between the two credit forms.

5.3 The purpose of credit

The World Bank is clear in its view of the role of microcredit⁵⁰ – its function is to enable “poor people to move away from

⁴² Ellis, 1992:153-154.

⁴³ Goelder, 2004:4.

⁴⁴ World Bank, 2005.

⁴⁵ Rasmussen, 2004.

⁴⁶ Hill, 1986. *Development Economic on Trade: Anthropological Case for a Prosecution*. Cambridge: Cambridge University Press.

⁴⁷ Gregory, C.A., 1997. *Savage Money: The Anthropology and Politics of Commodity Exchange*, p.69. Amsterdam: Harwood Academic Publishers

⁴⁸ Rasmussen, 2004.

⁴⁹ Goelder, 2004:4.

⁵⁰ World Bank, 2006.

being dependent on humanitarian assistance to becoming economically independent by building on their innate entrepreneurial spirit and skills” and to encourage them to engage in productive activities. Leaving aside the assertion that the poor are dependent on humanitarian assistance, microcredit is characterised here as a means to improve incomes, savings and raise productivity and to promote growth in the rural economy; these combine output and to some extent equity objectives if the distribution of these benefits is considered.

This contrasts very strongly with what most informal credit is used for as the evidence in Section 4 shows: most credit is used either for consumption purposes or for life cycle events such as marriage and funerals. This is consistent with the evidence provided by Gregory and ICRISAT.⁵¹

Credit and debt practices in the study locations, given the significance of their use for consumption and life cycle purposes, cannot therefore be readily transferred to likely behaviour in relation to the use of credit for productive purposes. The same can be concluded with respect to the broader question of interest rates, contract periods and default in the context of informal credit systems, where again concepts from a neo-classical economic understanding of formal credit systems are applied without consideration of the complexity and meaning of practices on the ground.

5.4 Informal credit and timelessness

As seen in Section 4 (for example with “buying on credit” from shopkeepers), trying to establish actual interest rates and repayment periods is almost impossible to do. It is not that they could emerge if appropriate

research tools were used but more that interest and contract, as defined in neo-classical economics, are inappropriate concepts for the relationships that informal credit represent in rural Afghanistan. These relations are not easily bound within a cost and time framework because often the money involved cannot easily be separated from the other benefits obtained. Hill articulates this point clearly:

[It is] very often inappropriate for outsiders to think in terms of interest rates, both because borrowing is apt to be timeless (interest rates are never computed) and again, because of the attitude to default. From the creditor's angle, the important question is not how long the debt has been outstanding but the prospects of repayment; as for the debtor, his usual concern is to repay as slowly as possible without incurring his creditor's final displeasure, and maybe to borrow more when his debt has diminished sufficiently.

As Gregory argues: raising the question of interest rates being high in rural areas “presupposes that rural money lending involves quantifiable rates and that these are high relative to urban rates”⁵² and, it might be added, in relation to formal or bank credit. If one looks at the diversity of informal credit forms identified in Section 4 it can be seen, developing from Gregory, that they can be grouped as follows:

- Cost-free: those for which no meaning of interest can be attached in any way –the *qarz-i-hasana*, which is most widely used for consumption smoothing in the Kapisa and Herat villages;
- With interest: those which make an explicit (in practice it is coded and secretive although it is well understood

⁵¹ See Morduch, “Consumption Smoothing,” Discussion Paper, 2002: 55.

⁵² Gregory, 1997:213.

- what it amounts to) reference to interest as with business loans with interest;
- With flexible uncertain costs: those that contain an implicit reference to interest/profit although the value and time associated with this are very flexible and uncertain. Many of the forms of delayed payment on goods fall within this group;
 - With collateral where use of land or labour are the costs: those for which, as Gregory states, “the notion of an interest rate is *unmeaning*. For this kind of money lending... it makes no sense to talk about a high rate of interest because the notion of rate of interest is just not there to be found.” Within this category, borrowing against land (found across the three village locations) or labour (as in the Ghor village) is probably the most important form of informal credit—at least in terms of equivalent cash values raised. This form of credit Gregory terms “*usance*” (use in exchange) to distinguish it from usury and interest.

With respect to the first category, which is interest free, exchanges of cash or commodities, their importance and prevalence as a credit form should be emphasised. The second and third categories all contain some dimension of cost, but except perhaps for the second category where it might be possible to determine an interest rate, interest rate costs are not easily calculated, if at all. But it is with respect to this fourth category of informal credit, which involves an exchange of either money for land, or labour for food, that the notion of interest particularly breaks down. Time here is a notional but flexible part of the exchange and the transaction is more a form of rental and the giving away of use rights, rather than the payment of interest for the duration of the contract. Gregory elaborates on this point:

*From the perspective of the lender, the contract can be analysed as a tenancy agreement. He gets land for which he pays all his rent in advance. The money borrower is therefore acting as landlord and the money lender as a tenant... the borrower receives rent in advance; he does not pay interest. The cost to the borrower is the loss of the use of a productive asset for the duration of the contract.*⁵³

Naturally, the money borrower has to pay back the rent that was advanced against the use of the land and the longer this is delayed, the cheaper the annual rent (a fixed amount of money for use of land over a longer period) that the lender has had to pay. But this is not a system in which interest accrues, although the price of land that is foreclosed may well reflect a hidden charge. But as noted, foreclosure in the study villages was rare. In the case of borrowers who have no property but rely on their labour, as found in the Ghor village, the position is as follows:

*They are forced to mortgage their labour in exchange for money. From the perspective of the lender... the contract can be analysed as a wage-labour contract with the difference that all wages are paid in advance. Thus the borrower receives wages in advance, as it were, he does not pay interest. The cost to the borrower is the surrender of his freedom to the landlord for the duration of the contract.*⁵⁴

While lending against labour as the security can be and usually is an exploitative relationship, it is essentially a social relation and absolutely different from formal credit or bank money lending. In the latter, which is governed by principles of interest-bearing capital, unpaid debt grows according to compound interest scheduled against fixed

⁵³ Gregory, 1997:220.

⁵⁴ Gregory, 1997:221.

contract periods. Failure to repay under formal credit leads to loss of assets or land as has been found in many cases in India.⁵⁵ What is striking about the case studies reported in Section 4 is first, how rare the foreclosure on mortgaged land is and second, how strongly it is disapproved of when it happens. What is also clear is how negotiable repayment periods are, without necessarily incurring any form of increased interest (although this does happen with shopkeeper credit). For the term interest rate to have meaning, an exact time period has to be specified. Time is not a variable applicable to many of the village-level credit transactions.

All of this is to point out that terms such as “interest rate” and “contract period” that derive from neo-classical economic perspectives on formal credit are not directly translatable to the practices that govern informal credit. Lender and borrower practices and behaviour have to be seen within the social context of informal credit and not universalised to market relations.

None of the comments are made to romanticise informal credit or to argue that it is more equitable and fair than formal credit systems. Clearly there is much about it that is extractive and unequal, even though it remains legitimate⁵⁶ within its context. But to assume that market-based practices can be inserted into the social context of informal credit and selectively capitalise on the same patterns of behaviour is presumptuous and likely to lead to failure or, at minimum, unintended consequences due to over-simplification.

5.5 The moral economy?

The point made earlier about loans for consumption and marriage (non-productive

purposes) being usually repaid needs emphasising since it points to some more general characteristics of informal credit in the study villages. Although there are clear inequalities in land and asset ownership in the villages, there do not appear to be rigid class differences between borrower and lender. This statement needs to be qualified with respect to Ghor and historically for Kapisa, but as the Kapisa example shows, such class differences have not been entrenched. In this sense there is no clearly identifiable class of “moneylenders” in the way that they are found in India, for example.

Three dimensions of Afghanistan’s rural economy have contributed to this outcome in the study locations. The first, as borne out in the evidence from the case studies, is that the economy of Afghanistan has been fairly precarious, particularly in its more mountainous reaches, and even successful farming families can face dramatic changes in business or employment conditions. This can be reinforced, secondly, by the underlying randomness of family demography where shifting dependency ratios, marriage expenses, inheritance, health, family labour availability can all rapidly have negative and adverse consequences for a household economy. Third, land division across generations inexorably leads to a decline in farm area per household. This shared precariousness of life, and the value of sustaining relationships for reasons of self-interest, underpins many of the informal credit transactions.

Reference has been made above to the legitimacy of informal credit practices and there is clearly a moral code or set of moral assumptions that underlies them. Part of this is a context in which there are a set of expectations and choices about the relations between the relatively well-off and the poor.

⁵⁵ Harris-White, B. and D. Colatei, 2004. “Ruler Credit and the Collateral Question,” in B. Harris-White and S. Janakarajan (eds). *Rural India Facing the 21st Century. Essays in Long-term Change and Recent Development Policy*, 252-283. London: Anthem Press.

⁵⁶ This is a practice regarded as acceptable even if it is unequal.

Much of the language used in the reported case studies, such as assistance, consideration and helpfulness, often fall under the effective umbrella of patronage. These dimensions applied to the provision of employment and help all operate within a web of respect, loyalty and social recognition in which the politics of reputation can be fundamental. Indeed the evidence of creditors not pressing for repayment, as found in all three villages is part of this framework and De Weijer had similar observations with respect to the Kuchi:

*In Nangarhar and Laghman there was no evidence that they were put under strong pressure to repay their debts; most of the loans were taken from relatives who understand that they need to rebuild their assets before they can repay all their debt.*⁵⁷

This moral economy has several dimensions. Part of it is the way in which custom and social pressure work to regulate individual behaviour to conform to traditional norms, and this of course can be employed as much by the poor as the rich, for reasons of mutual interest. Traditional Muslim practice, as the *mullah* in Kapisa reminded the mosque, is about religious values imposing limits on individualistic economic behaviour. But there is also a strand of the moral economy that can be used to regulate behaviour of avaricious merchants or traders, and can be used as a means of protest against authority.⁵⁸ And there is of course more than a degree of self interest in lending, particularly with respect to the horizontal relations: today's lender may become tomorrow's borrower which may well induce a leniency in pressing for repayment.

But one can also read against the grain with respect to the moral economy and much of

the evidence related to "vertical relations" for credit exchange. As exemplified by the Ghor case study, this can be interpreted as the attempt of households to seek and achieve security and protection through informal means in the context of acute insecurity and risk.

5.6 Informal security regimes: "The Faustian Bargain"⁵⁹

As discussed earlier, the major use of informal credit found in the village studies was for consumption smoothing and for household reproduction (marriage) to provide assistance into old age—all actions designed to achieve household survival. The objective of meeting consumption needs is entirely understandable but the significance and importance placed on investment in marriage by households, draws attention to the emphasis given to reproduction and family and household level inter-generational transfers—the logic of peasant behaviour under conditions of acute insecurity and risk.⁶⁰

This risk is not just a matter of random external shocks (unemployment, harvest failure, etc.) or challenges that are household-specific. But as Wood argues,⁶¹ the environment of risk should be seen as relational and institutional, induced by the action of individuals or unaccountable institutions, both informal and formal. These "structural aspects of risk induced by inequality, class relations, exploitation and unaccountable power and social exclusion" are widespread in Afghanistan. Exposure to these risks should not just be seen as shocks (which implies some degree of randomness about them) but they should be understood more as hazards that the poor constantly have to negotiate.

⁵⁷ de Weijer, 2005:21.

⁵⁸ Scott, 1976. *The Moral Economy of the Peasant: Subsistence and Rebellion in Southeast Asia*. Yale University Press.

⁵⁹ Wood, 2003. "Staying Secure, Staying Poor: 'The Faustian Bargain'," *World Development*, 31(3): 455-71.

⁶⁰ Ibid.

⁶¹ Wood, 2004. "Informal Security Regimes: The strength of relationships," Chapter 2 in Gough and Wood, 2003. *Insecurity and Welfare Regimes in Asia, Africa and Latin America: Social Policy in Development Contexts*. Cambridge University Press.

Afghanistan without doubt can be characterised as an environment of extreme risk and insecurity. Under such conditions the poor seek protection through the maintenance of and investment in patron-client relations, which reinforce positions of dependency, as illustrated in the Ghor examples of contract labour. This protection system however reduces their long-term choices—The Faustian Bargain—where future prospects are traded against survival and

security in the present. In economic terms the poor are risk averse: they sharply discount the future for the immediate present and emphasise loyalty over voice in the absence of exit options. These are elements of the context that undoubtedly contribute to the investment in social relations and the maintenance of informal credit practices, although how this plays out may be variable according to context and socio-economic status.

6. Conclusions and Implications

“...formal order... is always and to some considerable degree parasitic on informal processes, which the formal scheme does not recognise, without which it could not exist, and which it alone cannot create or maintain.”⁶²

What has emerged from the evidence and discussion on informal credit is a picture that lacks clarity, where dimensions such as interest rate and contractual period are blurred and where distinctions between borrower and lender shift and depend on time and place. This is not a system that can be disciplined into clear unambiguous order, dependent as it is on personal and social relationships and characterised by diversity. Thus, simple statements on what informal credit is or is not and what can be done to address some of its more coercive and exploitative practices presupposes not only a capacity to legislate and act and provide security through formal state-provided social protection or market-based mechanisms (which in the current context is unrealistic) but also an assumption that formal credit is an alternative and replacement to informal credit. What do these insights into informal credit practices mean to the specific model of microcredit that is so strongly promoted in Afghanistan? The binary or contrast of formal with informal credit presupposes an “either-or” choice. Formal credit systems with their clearly defined parameters—borrower, lender, collateral, contract and repayment period—can replace the muddle and mess of the informal. There are a number of reasons to be confident that this will not happen.

First, the functions that informal credit serve, if one looks at just the direct utility of it and ignores the broader social role that it fulfils, are specifically concerned with reproduction—either through meeting consumption needs

and immediate survival or longer term inter-generational transfers through marriage. Informal credit practices appear to be hardly directed toward “productive” use which is seen to be the primary role of formal microcredit. It might be argued that microcredit, where it uses group lending practices and links lending to group savings schemes, will provide at least the means to address consumption smoothing, if not of marriage.

However, it will depend on the extent to which the poor effectively become members of these savings groups and are able to save, and the extent to which group formation processes reflect and build on the informal networks that already exist. It remains to be seen whether or not the formal and relatively inflexible rule-driven nature of group lending actually provides the flexibility and responsiveness to demand and allowance of multiple levels of debt that informal credit systems appear to provide.

Second, comparative evidence points to the persistence of informal credit systems in general, alongside established formal credit systems. Gregory, for example, notes how “village money lending is still the most popular form” of lending even where there is bank lending available.⁶³ Harriss-White & Colatei concludes that despite a long history of formal bank credit targeted toward the poor, in the study villages in Tamil Nadu, “70 percent of households borrow from informal sources” and a majority of these borrow only from informal sources.⁶⁴

⁶² Scott, 1998. *Seeing Like a State: How Certain Schemes to Improve the Human Condition Have Failed*. Yale, Yale University Press: 310.

⁶³ Gregory, 1997:223.

⁶⁴ Harris-White, Colatei, 2004:260.

In part, this points to some of the advantages that informal credit offers over formal credit—its flexibility, its ready access and negotiable contract periods and the lower risk of losing collateral such as land, which is a real risk⁶⁵ with formal credit. Indeed the requirement for collateral in formal bank credit systems, which is usually land, has effectively acted as a rationing mechanism to exclude the poor and particularly the landless from accessing such credit. As Harris-White and Colatei found in Tamil Nadu: “The access of all kinds of socially disadvantaged households to formal credit is extremely constrained.” In contrast, there is a wide diversity of credit types in informal credit accessible to the poor and these are often cost free and renegotiable.

Microcredit, where it uses group lending and savings practices, is argued to sidestep the problems of targeted credit for the poor and to promote sustainable financial systems for the poor. The Grameen Bank is widely acclaimed as a model for microcredit lending that is pro poor and promotes savings, security and income growth possibilities. But it should be pointed out that there is evidence⁶⁶ questioning the claims of success attributed to the Grameen Bank model and this leads to the third point.

The evidence from the study of microcredit practice under the Grameen Bank points very clearly to the fact that the formal microcredit system was not simply running in parallel with the informal credit system but that they were closely intertwined, and not necessarily in a positive way. The contractual basis on which group lending based microcredit works is to shift all the risk of default on payment from the lender (the bank) to the group and to impose a strict timetable with respect to repayment. Rahman’s study points to numerous cases where group repayment pressures had demanded that the individual had to take loans from informal sources in order to meet the repayment, effectively putting them more into debt rather than less. This mirrors examples cited by Gregory of recourse to informal credit to manage formal credit debts.

Arising from this is the fourth point: it is likely that the very poor who do not even have access to informal credit, but at least keep access to assistance, are even less likely to have access to group-based microcredit systems with their emphasis on investment for productive purposes and the building of savings.

Box 2. The “success” of group-based microcredit (as of September 2006)

- Total outreach has crossed 250,000 clients.
- Three-fourths of the clients were women.
- 35 percent of the clients lived in the rural areas.
- Services had reached 22 of the country’s 34 provinces.
- US\$120 million has been disbursed in half a million loans.
- 98 percent of loans were repaid on time.
- Microfinance institutions had mobilized US\$6 million in savings by poor people.
- Loans were used for service businesses and trade (58 percent), crops and livestock (22 percent), and handicrafts and manufacturing (20 percent).
- Average loan size was US\$200.
- The number of microfinance service providers had risen to 14, from three in 2003.
- The sector was able to cover 80 percent of its operating costs.

⁶⁵ Gregory, 1997.

⁶⁶ Rahman, 2001. *Women and Microcredit in Rural Bangladesh: An Anthropological Study of Grameen Bank Lending*. Philadelphia, PA:Perseus.

Finally, following on the points raised above, attention needs to be paid to how microcredit is formally monitored and what is being reported. A good example is what has been reported (see Box 2) by the World Bank⁶⁷ with respect to the “success” of the ongoing microfinance programme in Afghanistan.

While attention should be drawn to the urban bias of the programme—and this contrasts with the rural basis of the studies reported here—particular note should be paid to broader indicators on which the programme is claiming success: number of service providers, financial disbursements, use of loans, loan size, financial sustainability and the repayment of loans. This is the public transcript of success⁶⁸ and the language and understanding of formal credit but it tells us nothing of the way in which loans are actually used and negotiated within a context of internal and external household and community dynamics and power, and whose interests they serve in practice. This is what Scott would call the “hidden transcript”—precisely the dimensions reported by Rahman⁶⁹ and which may qualify the way success is seen and claimed.

Policy recommendations do not naturally flow from this study of informal credit and there is much that remains unclear about its nature and practices. But there are some important lessons to be derived from this study that have relevance to microcredit. They can be summarised as follows:

- Informal credit systems appear alive and well and, contrary to some of the assertions referenced earlier, most households do have access to one or more of their diverse forms. The way in which they function, based on social rather than market relations, strongly questions the use

of a formal credit approach to understand the principles and practices of informal credit. This approach critically misreads the nature of informal credit. In addition, the formal approach does not leave much room for distinction in equating “informal” with “illicit” in describing the roles of opium poppy in village-level credit and the *hawala* in transfers of opium-derived income.

- The role that informal credit systems fulfill is very different from that of microcredit. In their use for consumption smoothing and marriage, the practices are driven by a household need for survival underpinned by a combination of a moral economy, which cannot be assumed to apply to microcredit systems, and the need to achieve security in an insecure context. Microcredit is highly unlikely to fulfill this broad range of functions and potentially might undermine or subvert the significance, principles and role of these informal systems.
- Both informal credit systems and formal microcredit will exclude the effectively destitute. The village moral economy clearly provides assistance to such people; microcredit does not address this group, nor does it aim to.
- Informal credit systems are highly unlikely to be supplanted by formal micro-credit practices. But comparative evidence indicates that formal microcredit can become parasitic on informal credit systems

⁶⁷ World Bank, 2006.

⁶⁸ Scott, 1990. *Domination and the Arts of Resistance: Hidden Transcripts*. Yale University Press.

⁶⁹ See also Pain, 2001, for evidence on the contrast between the public text of success for a group lending scheme for women carpet weavers and the private reality of probable adverse consequences (“Livelihoods under stress in Faryab Province, Northern Afghanistan,” a report for Save the Children (USA), Pakistan Office.

in that informal credit can be used to pay back formal loans.

- This raises questions about what is promoted as success with respect to microfinance. The reported high repayment rate for microcredit loans is surprising particularly in the light of the high “default” rate on informal credit. This is certainly not due to “a strong repayment culture” as some would claim. Might it be more due to pressures imposed under group lending practices? This needs to be examined more closely.
- There is also a need to gain better understanding of the linkages between opium poppy sourced informal credit and other informal credit systems. Has the availability of such credit significantly altered informal credit systems and

practices? What effects occur when opium poppy becomes newly established in an area, compared to when it is in decline?

In response to the questions raised by many of these points, AREU is in the process of conducting two additional studies on credit systems in Afghanistan. One addresses the final point and will explore the linkages between opium poppy sourced informal credit and other existing sources of informal credit in one village in a region with declining cultivation, and in one village in a region with increasing cultivation. The aim is to understand how these cultivation-related dynamics affect access to and the prevalence and practices of informal credit. The second study focuses on formal credit systems and aims to assess their effects on rural livelihoods and informal credit systems. Results of both studies are forthcoming in 2007-08.

7. Annex

Appendix 1. Respondent Asset Portfolios

Appendix Table 1. Asset portfolios of the respondents in the Herat Village

Household case study number	Household numbers	Working household members	Land (jeribs - irrigated)	Livestock	Agriculture/Livestock breeding	Shopkeeping/Trianing/Business	Daily labour	Cotract labour	Contract labour	Regular contract labour	Handcrafts	Other	Wealth group
CS1-H	6	2	100	3	X						X		W
CS2-H	10	4	20	2	X						X		W
CS3-H	11	2	20	6	X							X	W
CS4-H	9	4	10	2	X	X			X		X		W
CS5-H	20	5	8	7	X	X	X						W
CS6-H	15	2	60	7	X	X				X			W
CS7-H	11	4	36	6	X					X	X		W
CS8-H	13	8	10	2	X				X				W
CS9-H	7	4	70	4	X						X		W
CS10-H	6	2	1	1	X	X							W
CS11-H	7	2	20		X	X			X				W
CS12-H	8	1		10		X							W
CS13-H	9	3	8	27	X	X				X			W
CS14-H	5	3			X					X			MR
CS15-H	7	2	1.5		X				X		X		MR
CS16-H	18	4			X	X			X		X		MR
CS17-H	4	2								X			MR
CS18-H	8	3	1.5		X		X			X			MR
CS19-H	10	5							X		X		MR
CS20-H	8	3	1						X	X	X		MR
CS21-H	9	2	0.5			X							MR
CS22-H	7	1	0.5		X	X				X	X		MR
CS23-H	9	6							X				P
CS24-H	5	1										X	P
CS25-H	8	2		1			X					X	P
CS26-H	11	5					X						P
CS27-H	2	1											P
CS28-H	1											X	P
CS29-H	10	2							X				P
CS30-H	4	3									X	X	P
CS31-H	8	1	1	1		X							P
CS32-H	7	2		2		X		X				X	P

W=wealthy household; MR=middle-ranking household; P=poor household

Appendix Table 2. Asset portfolios of the respondents in the Kapisa village

Household case study number	Household numbers	Working household members	Land (jeribs - irrigated)	Livestock	Agriculture/Livestock breeding	Shopkeeping/Trianing/ Business	Daily labour	Cotract labour	Contract labour	Regular contract labour	Handcrafts	Other	Wealth group
CS33-K	10	3	0.4	1	X	X	x						W
CS34-K	7	1	0.3	2	X	X							W
CS35-K	12	5		2	X	X							W
CS36-K	4	2	1	3	X		X						W
CS37-K	5	1	2.5		X		X						MR
CS38-K	4	2	1.5		X	X							MR
CS39-K	9	2	0.4		X		X						MR
CS40-K	12	2	3		X		X						MR
CS41-K	19	3	6	2	X		X						MR
CS42-K	6	2					X						MR
CS43-K	11	2	0.2	4	X		X						MR
CS44-K	6	1					X						MR
CS45-K	9	3	0.3	2	X	X	X						MR
CS46-K	5	2	0.3	1	X		X			X			MR
CS47-K	11	2				X							MR
CS48-K	7	1	0.5	2	X					X			MR
CS49-K	11	2		1			X						MR
CS50-K	8	1	0.2		X	X							MR
CS51-K	7	1	1	3	X					X			MR
CS52-K	6	3	0.8		X					X			MR
CS53-K	11	4	0.8	1	X					X			MR
CS54-K	9	2	0.2	2	X	X	X						MR
CS55-K	11	3	1.2	1	X		X						MR
CS56-K	6	1	0.2	1	X					X			MR
CS57-K	6	1	0.2		X					X			MR
CS58-K	6	2			X		X						P
CS59-K	4	2	0.5		X	X							P
CS60-K	5	1	0.3		X								P
CS61-K	3	2	0.2	1	X		X						P
CS62-K	6	2	0.5	1	X								P

I=irrigated land; R=rain-fed land

W=wealthy household; MR=middle-ranking household; P=poor household

Appendix Table 3. Asset portfolios of the respondents in the Ghor village

Household case study number	Household numbers	Working household members	Land (jeribs - irrigated)	Livestock	Agriculture/Livestock breeding	Shopkeeping/Trianing/Business	Daily labour	Cotract labour	Contract labour	Regular contract labour	Handcrafts	Other	Wealth group
CS63-G	11	2	25 R	19	X		X		X				W
CS64-G	8	2	10 R 0,21	6	X			X					W
CS65-G	2	1	25 R	54	X								W
CS66-G	8	6	1,4 R	5	X			X			X		MR
CS67-G	2	1		2	X								MR
CS68-K	7	1	0,7 R	1	X			X					MR
CS69-G	8	4	2 R	7	X			X					MR
CS70-G	14	2	2,8 R	7	X			X					MR
CS72-G	5	2	2,8 R	4	X			X					MR
CS73-G	6	2	1,4 R		X			X					MR
CS74-G	5	1	1,4 R		X			X					MR
CS75-G	7	3	2 R	3	X			X					MR
CS76-G	5	1 0,7 I	1,4 R	6	X			X					MR
CS77-G	4	2	0,9	1	X				X				MR
CS78-G	9	2	2,8	13	X			X			X		MR
CS79-G	10	5	0,9 R	7	X		X	X					MR
CS80-G	10	5	0,9 R	8	X			X		X	X		MR
CS81-G	3	2	2 R	5	X						X		MR
CS82-G	7	2	1,7 R		X		X				X		MR
CS83-G	5	1			X			X					MR
CS84-G	9	4		2	X		X	X					MR
CS85-G	5	3	4,3 R		X		X	X					MR
CS86-G	10	1	3,5 R	10						X			MR
CS87-G	8	1			X					X			MR
CS88-G	3	3			X			X					P
CS89-G	7	2									X		P
CS80-G	9	1						X					P
CS81-G	9	3		1				X					P
CS82-G	11	2		1				X				X	P
CS83-G	6	1			X			X					P
CS84-G	5	1						X					P
CS71-G	11	3	3,5 R	6	X			X					MR

I=irrigated land, R=rain-fed land

W=wealthy household; MR=middle-ranking household; P=poor household

Appendix 2: Credit types found in the three villages studied: Herat, Kapisa and Ghor

Delayed payment of goods and labour

The general practice is that when a good is bought on credit, the shopkeeper records this, where upon depending on how long the debt is outstanding, the borrowed good will have a marked-up price. There is, however, no fixed rate for the amount of marked-up price given and is highly dependent on the shopkeeper. However, in general, it depends on the length of time of the outstanding debt, the relation the client has with the shopkeeper, and if the shopkeeper wants to assist the households taking credit. Goods bought on credit are only recorded by the shopkeeper even if a client can read and write. Repayment is done either within a few months, per season, or in longer stretches of longer than one year. There were several cases of delayed payment of wages in Ghor and Kapisa, this was mainly with builders. It is unclear if this was agreed when they were hired and if their salary is higher to compensate for the delay as is the case with buying on credit with shopkeepers, though it is unlikely to be the case.

Advances on wage

Advances taken on future work was only found in Ghor among the contract labourers belonging to the poor wealth group. Wheat, and sometimes money, are provided by a wealthy villager as an advance on work to be provided for a certain period in the future.⁷⁰ The creditor is often a big landowner whom the debtor already has a relation with as contract labourer and which provides the creditor with a source of cheap labour.⁷¹

Reciprocal cost-free, in-kind and cash loans

Most households both give and take cash and in-kind loans between close relatives and neighbours. It is a reciprocal exchange in that one gives credit to the household one expects to take credit from in the future, and is repaid within a time span ranging from one week to two to three months, in the exact amount as was borrowed. As what is repaid is the same as what is given, there are no costs involved, this credit type is considered *qarz-i-hasana* (cost-free loans). Larger cash loans were predominantly provided and taken by wealthy and middle-ranking households and used for weddings, (re)building houses, buying small plots of land for houses (Herat), going on *haj* (Ghor), or major health costs (the highest amount reported was 80,000 Afs (US\$ 1,600)). A timeframe is often set with the larger cash loans, even if reciprocal in nature, though repayment often remains flexible when the borrower is not able to return the loan. The creditor always has the right to request his money back when the agreed repayment timeframe has lapsed.

In-kind loans with profit

This takes place when large quantities of wheat, for example, are borrowed under the agreement of a specified timeframe of repayment (e.g. the following harvest). The agreement is such that it is repaid in cash with a pre-determined higher value. For instance, if 20 *ser* of wheat is borrowed (the equivalent of 140 kg) in late winter, this needs to be repaid in cash at harvest for the

⁷⁰ This credit form is similar to *salam* found in poppy growing areas where households receive an advance on future crops at lower prices.

⁷¹ As wages of contract labourers in general are around 1/3 of a daily labour rate, it likely wages taken in advance to be similar or less.

value of 100 Afs per *ser* (7 kg), whereas the market value is 70-80 Afs per *ser*. This credit type was only found in the Ghor village. Those providing this credit were the more wealthy relatives or villagers. When the debt could not be repaid at harvest time, the debtor would work on the creditors land until the debt is repaid.⁷²

Mortgage

Mortgage is a cash credit provided with land as collateral where the usage right of the land passes to the creditor. Thus, a household mortgaging their land even though still owning it loses the right to cultivate it. Often a contract is made for three years between creditor and debtor. If the debt is not repaid after this term, either a new timeframe is agreed upon, or the creditor has the right to demand his money back and force sale of the land. However in practice this is rarely found. The amount of money provided (the mortgage) is based on the value of the land, thus mortgages taken during the drought are often of less value than mortgages taken after the drought.

Business credit

Business credit was only found to be provided and taken in the Herat village by the middle-ranking and wealthy households. This is most likely due to the many businesses present in the village. The only business credit found was *mozarebat*.⁷³ This involves an investor providing capital for a business in exchange for a percentage of the profit (depending on

the amount invested and relative to the amount possible others have invested). When profit is made it will be shared between the investor(s) and the business owner for as long as the business lasts, for a pre-agreed upon time span, or until the money is repaid by the business owner. If business fails, for whatever reason, no money needs to be repaid to the investor. The amount of business credit found was up to 80,000 Afs (US\$ 1600).

Business loan with interest

A loan provided with a pre-determined interest rate was considered a taboo, often conducted in secret and not spoken of. The only village where respondents mentioned it was practiced was in Herat. A school teacher reported how it was practiced only for business and provided by wealthy villagers. He called it an alternative for *mozarebat*, which one would only engage in when confident the business succeeds. As described earlier, *mozarebat* profit has to be shared between the investor(s)/creditor(s). If a businessman is confident he will be able to repay the debt soon, credit with interest is an option, as the profits made in the business do not have to be shared afterwards with the creditor as is the case with *mozarebat*. Also the creditor would only provide credit with interest to a debtor who is likely to repay it. As this practice is conducted secretly, the likelihood of the debtor being able to regain it would involve making things public. The interest itself was said to be repaid in cash or in-kind.

⁷² Historical accounts on the central highlands of Afghanistan by Ferdinand (1959 And 1962) have reported this credit type often being provided by the Kuchi and taken by the Hazara of Ghor. However, he describes how when the debt is not repaid after harvest, the debt is transferred to the next harvest which entails the debt in cash is transferred back to wheat. But as the agreed upon repayment was in cash and at a higher price, transferring the debt back from cash to wheat at a market price the quantity of wheat for the second cycle of the debt has increased. If the debt cannot be repaid in the following harvest again the debt will be transferred back to wheat at an increased amount. Thus with years of default the debt will increase to unsustainable levels. This study did not come across households engaging in this continuous cycle of ever-increasing debt amounts.

⁷³ Called in the Herat village *shariq*.

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