



# Assessing Potential for Micro Finance in Rural livelihoods

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## ACRONYMS

<b>ACTED</b>	Agency for Technical Cooperation and Development
<b>AIMS</b>	Afghanistan Information Management Systems
<b>AKAM</b>	Aga Khan Agency for Microfinance
<b>AKDN</b>	Aga Khan Development Network
<b>AKF</b>	Aga Khan Foundation
<b>BRAC</b>	Bangladesh Rehabilitation Assistance Committee
<b>CGAP</b>	Consultative Group to Assist the Poor
<b>CSO</b>	Central Statistical Organization
<b>FEWS-NET</b>	Famine Early Warning System Network
<b>FINCA</b>	Foundation for International Community Assistance
<b>FMFB</b>	The First Micro Finance Bank
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit
<b>IFAD</b>	International Fund Agricultural Development
<b>KII</b>	Key Informant Interviews
<b>MAIL</b>	Ministry of Agricultural, Irrigation and Livestock
<b>MEDAIR</b>	Medical Environmental Development with Air Assistance
<b>MFI</b>	Micro Finance Institutions
<b>MISFA</b>	Microfinance Investment Support Facility for Afghanistan
<b>NADF</b>	National Agricultural Development Framework
<b>NGO</b>	Non-Governmental Organization
<b>NHLP</b>	National Horticulture Livestock Project
<b>NRVA</b>	National Risk and Vulnerability Assessment
<b>PPI</b>	Progress out of Poverty Index
<b>SHG</b>	Self Help Groups
<b>SME</b>	Small and Medium Enterprises

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## EXECUTIVE SUMMARY

This report was commissioned by the First Micro Finance Bank of Afghanistan (FMFB-A) to study the demand for micro finance services in Bamyan and Kunduz provinces, which will feed into its rural and agricultural business strategy. This study presents findings from a socio-economic survey about livelihoods and financial behavior conducted by the independent research firm Samuel Hall Consulting.

In brief, the purpose of the study is to examine the market composition in Bamyan and Kunduz and identify future commercial opportunities for FMFB. Specifically the objectives are:

1. *To inform FMFB of the main social and economic characteristics of people engaged in the agricultural and rural services value chain to the nearest urban centres, including analysing level of poverty;*
2. *To understand demand volume and composition for micro finance services and identify main product characteristics appreciated by clients to establish base for the MFI's rural microfinance business strategy;*
3. *To identify preferences for micro-credit, micro-savings and money transfer services including cultural preferences or restrictions to usage and effective delivery channels*

For the study 192 (160 male and 32 female) respondents from Bamyan and 250 (213 male and 37 female) from Kunduz were surveyed as part of the quantitative survey. In total 277 respondents were from urban locations and 165 from rural villages. The findings of the survey are as follows:

### Socio-economic Profile

1. **Infrastructure:** Both provinces suffer from lack of roadways connecting villages in the interiors. This is more so in the case of Bamyan than in Kunduz.

*Bamyan* lies in the highlands of central Afghanistan and receives heavy snowfall such that roads tend to get blocked in the winter cutting of access to most villages. Very few roads are (less than 25%) are able to take traffic in all seasons. Bamyan's agricultural production is low due to inhospitable dry mountainous terrain,

*Kunduz* is spread over flatter lands with climate and soil both suitable for farming crops, cereals and vegetables. Agriculture is so suitable here that in 2008, Kunduz was one of the biggest farm producers in Afghanistan.

2. **Income:** Kunduz has higher income levels than Bamyan. For every source of livelihood, the incomes accruing to the households in Kunduz is at least 25% more than in Bamyan. Income from renting assets is also higher in Kunduz than in Bamyan. The returns to livelihood were higher in Kunduz because of the fertile lands and the strategic location of Kunduz in the north-east trading route which gives it access to more lucrative markets.
3. **Likelihood of poverty:** Based on estimates from the Progress out of Poverty Index (PPI), the sample indicates that 29% of the population in Bamyan is likely to be below the national poverty as opposed to Kunduz where the figure is only 25%. Waras district in Bamyan was the most

economically challenged district while Aliabad district in Kunduz was least likely to host a household below the poverty line.

4. **Agricultural value chain:** The value chains for different crops (including potato and rice in Kunduz, and potato, wheat and goat husbandry in Bamyan) produced here essentially lack vertical specialization<sup>1</sup> and often there is an overlap between agents such that the same households are involved at multiple stages of the value chain. That is, lack of a marketing system means that sometimes the farmers themselves will double up as retailers. In Bamyan the lack of capacity of the farmers and natural threats of droughts mean that farmers are often unable to produce enough, even to sustain themselves.
5. **Financial awareness:** The awareness about basic terms such as ‘bank’ or ‘collateral’ is better than more technical terms like ‘minimum balance’. 71% respondents said their source of information about such terms were the local shopkeepers and traders. The heads of the households are the most important individuals when it comes to making financial decisions or for advice about expenditure and savings.

### **Financial Preferences:**

The demand and preferences for finance depends upon the nature of activity that raises different income streams annually and cultural preferences and restrictions.

1. **Demand for credit:** The percentage of households who have borrowed some amount of money in the past was notably higher in Bamyan (65%) than in Kunduz (40%) due to higher income vulnerability. Reliance on informal sources of loans (such as friends and family) was more apparent than formal sources (MFIs and banks). Only 28% respondents said that they are willing to take a loan from an MFI while the rest cited a combination of both religious (interest is ‘haram’) and non-religious reasons to abstain. Requirement for loans is also seasonal according to cropping patterns.
2. **Credit preferences:** The beneficiaries of MFI loans complained about the lack of grace periods and high service fees charged for late payments on agricultural loans. At the next level, the attitude of loan officers and complexity of loan applications were important variables that were considered by most respondents when citing their preference to take loans from MFIs. Investments into business, daily household consumption and expenditure for social events were the common uses of credit.
3. **Case of women:** There was a higher tendency for (87% of female respondents) women to save money because either they had little opportunity to spend it or they were saving for the welfare of their household such as health issues. The same cultural restrictions that limited spending of money also restricted them from borrowing. 80% of the households in the survey said women in their household could not borrow money.
4. **Informal system of credit:** There is a heavy reliance on the traditional sources of credit since the terms of these loans are well suited to livelihoods and cultural sensitivities. Evidence from case studies and expert interviews indicated that for the marginal population, cash-based transactions

<sup>1</sup> Analogous to vertical specialization in international trade – “Production process that involve a sequential, vertical trading chain stretching across many countries, with each country specializing in particular stage of the production process”, (Hummels, Ishi and Yi, 2001). In a more local context, individual agents replace countries as the points of specialization.

were infeasible. The informal system allowed them to borrow and pay back in kind which is where formal system of lending fell short.

### **Part 3: Recommendations:**

The recommendations are constructed with a view to a long-term strategy for micro finance in the rural value chain framework described above. This includes furthering the income resource of clients, which not only reduces the risk of default but also furthers the social cause of micro financing. There are four principle recommendations:

- **Increase awareness about micro finance.** The factors that are resisting modern finance in these two provinces are; **a)** the reliance on traditional modes of lending and saving coupled with a distrust for modern systems; and **b)** the lack of knowledge about bank branches and products. Therefore one of the key recommendations from this study is to invest in increasing financial awareness and literacy. Afghanistan has a strong social network of friends, families, ethnicities and tribes. Word of mouth is the most common mode of exchanging information.
- **Target clients who have an immediate demand for micro finance services.** Loan requirement is based upon need. Similarly, the desire to engage with an MFI for a loan was also dependent upon requirement. People who were poorer showed more willingness to engage with MFIs while slightly more affluent respondents showed resistance due to religious restrictions. MFI can start by focusing its attention towards asset less individuals in the value chain, traders in urban areas for transfer services, women for micro lending schemes and finally livestock owners and service providers in Bamyan for customized loans.
- **Extend a proportional urban credit line.** Rural finance needs to go hand in hand with urban financing. A robust urban economy close to the villages has a direct implication to the returns that agricultural loans produce through price mechanisms and transaction contracts. This is relevant both in Bamyan and in Kunduz. As the description of value chains will show later in the report there are strategic points located mostly in the urban areas, who if funded, can have positive linkage effects up and down the value chain.
- **Adapt from informal lending mechanism in rural areas.** There is enough potential and indeed a need for micro finance services in the rural agrarian economy. There are however, certain obstacles that MFIs must address, such as lack of infrastructure, volatile and uncertain future political environment and competition from informal sector of lending. A potential way forward is adapting practices used by private lenders and conditions of informal loan into micro credit. For instance, tailoring repayment schedules to household income flows would help expand agricultural services of MFIs.
- **Create a coordinated strategy with partners to develop capacity and environment.** Partnering with different organizations working in these provinces will open up new avenues for micro finance services so that a lot more can be achieved by MFIs such as FMFB. There are numerous organization working in these two provinces that have a detailed understanding of the local markets and labour-force skills capacity and are therefore well placed to provide granular information about ways in which to boost productivity. The MFI could think of aligning its products to suit NGO initiatives in agriculture and rural services.

# 1 INTRODUCTION

The First Micro Finance Bank (FMFB) has commissioned a report to conduct market research for the potential to disburse micro finance services in *Bamyan* and *Kunduz*<sup>2</sup> provinces in Afghanistan. The objective is to inform FMFB of community preferences for micro finance so that it may tailor its products and delivery to adjust to their needs within the business end goals.

Microfinance is the innovation of the financial system that has brought access of credit markets to the world's economically underprivileged. A financial system that allows easy credit flow between economic units is a pre-requisite to the development of an economy. However, access to financial institutions was considered a privilege for the wealthier/middle class of a developing nation up until the development of micro financing. Typically, micro financing is *"providing poor individuals with low-ticket size loans while complimenting the credit services with savings, insurance, pension and transfer services"*<sup>3</sup>. Although the principles of lending, borrowing and saving remain the same, its delivery channels are most often different from that of the conventional system depending upon how the risks are shared. Because of the sensitive nature of its end clients (income vulnerable and exclusion from regular financial services), micro financing carries with it the dual motive of both social and commercial optimization. This makes it very different from the traditional profit-oriented conventional system of banking. As an institution, micro financing has a social obligation to keep the client's economic welfare as its primary interest while maintaining its commercial viability<sup>4</sup>. As a result, micro finance has relied heavily on market demand assessments to study regional features of clients and adapt delivery mechanisms to harmonize the social and commercial motives.

## Microfinance and FMFB in Afghanistan

The World Bank and Afghan Government set up the Microfinance Investment Support Facility for Afghanistan (MISFA), as the apex institution for micro finance in 2003. It was expected to fast track micro finance development by coordinating efforts between institutions that are disbursing financial services amongst the underprivileged in Afghanistan. MISFA coordinates micro finance services across 14 provinces as of July 2013 with a loan outstanding portfolio of more than \$94 million to 86,428 clients<sup>5</sup>. According to the World Bank, the micro finance sector went through a consolidation phase since 2008, which saw a reduction in the number of clients up till 2010. However, Micro Finance Institutions (MFI) under MISFA are currently testing new products such as agricultural loans and sharia-compliant products to address Afghan needs<sup>6</sup> and stretch the reach of microfinance.

The biggest of MISFA's members is FMFB, which operates in 80 districts of MISFA's provincial outreach. It holds 87% of MISFA's loan portfolio in terms of credit disbursed and is the only MISFA partner that provides voluntary savings services to its clients as well. FMFB currently has 130,000 active clients 17% of which are female borrowers. It was set up by the Aga Khan Agency for Microfinance (AKAM) and is the largest MFI currently operating in Afghanistan.

<sup>2</sup> Bamyan is located in the central region of Afghanistan while Kunduz is in the North, bordering on Tajikistan. See chapter 2 for more details.

<sup>3</sup> Otero (1999, p8), Schreiner and Colombet (2001, p339) and Sinha (1998, p2)

<sup>4</sup> Commercial viability means that the MFI should fund its loans from its own deposits as a conventional bank does.

<sup>5</sup> Outreach Data of MISFA Partners, July 2013

<sup>6</sup> "Afghanistan Economic Review", Poverty Reduction and Economic Management, South Asia Region, World Bank, April 2013



In accordance with MISFA’s objectives to innovate on new products and a desire to further its reach into the agricultural and rural population, FMFB has chosen two provinces in Afghanistan (where they have established bank branches) to study the demand for financial services. This involves an analysis of the socio-demographic profile of the population living in these provinces along with an assessment of their financial behavior (past and preference for future). Furthermore, this research will study the propensity of these people for micro-credit, micro saving and transfer services.

## 1.1 SCOPE AND OBJECTIVES

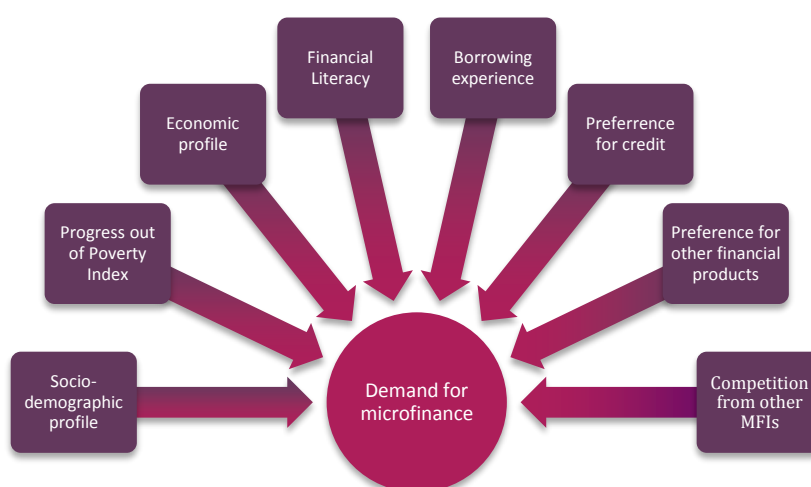
The objective of the study is to help FMFB in their efforts to diversify their services offering through financial products and delivery mechanisms. It informs the product teams on the trends and preferences for loan and deposit products to clients worthy of micro financing.

The specific aims of the study are:

4. *To inform FMFB of the main social and economic characteristics of people engaged in the agricultural and rural services value chain to the nearest urban centres, including analysing level of poverty;*
5. *To understand demand volume and composition for micro finance services and identify main product characteristics appreciated by clients to establish base for the MFI’s rural microfinance business strategy;*
6. *To identify preferences for micro-credit, micro-savings and money transfer services including cultural preferences or restrictions to usage and effective delivery channels*

The scope of this study is to analyze the demand composition of the financial services that are required by the actors in the value chain described above. It is however, beyond this study’s objectives to calculate the size of that demand, or to evaluate the impact of market competition among financial institutions. The study addresses all components that FMFB would require to envision its products and deliveries in these provinces.

Figure 1.1: Components to understand demand for micro finance



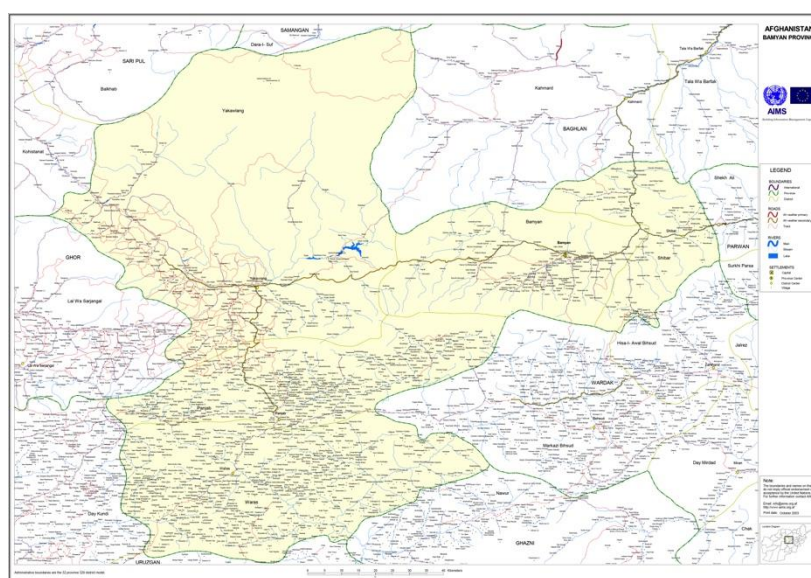
The **socio-demographic features** are basic requisites for a market demand assessment to understand the composition of the population being targeted. This includes information about household size and structure, education, age and gender composition. A component of the profiling is the poverty status of the households measured by the **Progress out of Poverty Index (PPI)**, which gives the likelihood of a family being below the poverty line. The study of their livelihood and sources of income informs us of the **economic profile** of the client, which, among other things, is necessary to value the scale of operation that MFIs will be considering.

The **level of financial literacy** is studied next, to get a sense of the penetration of traditional and modern finance. It also informs on the capacity that respondents might have to be constructively included in the financial system. This is followed by collecting information on the respondents' **borrowing experiences** in the past, and as a result of this experience, their **preference for borrowing** in the future. This is done in sequence based on the premise that preferences are shaped from experiences in the past. In similar fashion, we also study the **preferences for other financial products** by drawing on current and past practices of savings and transfers.

In terms of the target population, this study, focused on surveying primary producer households from villages that were engaged mostly in agriculture and livestock activities. In addition, value chain businesses that support the rural economy by transferring their products to the urban *bazaars*<sup>7</sup> and selling them were also surveyed. The teams thus visited two sites – **rural** areas where most of the primary producers were found and **urban** areas where the other actors of the value chain were located.

In terms of geographic space covered, the study focused on two provinces in Afghanistan: Bamyan and Kunduz. The survey team was provided with the districts to be surveyed by the FMFB based on the location of their branches and their presence in these provinces. The study population comprised of villages that came under the jurisdiction of these branches and were accessible. The field teams conducted quantitative and qualitative assessments by travelling to these locations accompanied with FMFB staff<sup>8</sup>.

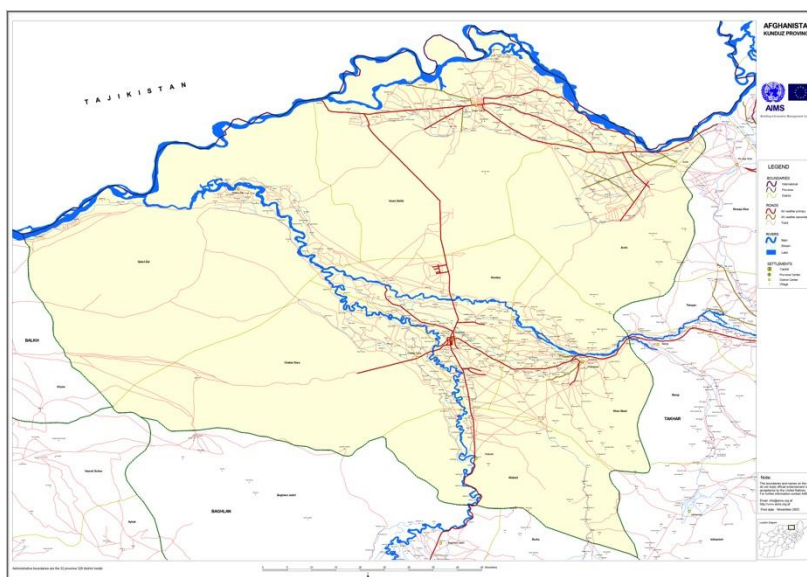
**Map 1: Bamyan**



<sup>7</sup> Local market place

<sup>8</sup> Maps courtesy: Afghanistan Information Management System (AIMS)

**Map 2: Kunduz**



## 1.2 METHODOLOGY

The study began by conducting desk review and secondary research. The purpose of this was a) to gather information on the economic profiles of the target locations and assess whether relevant respondents could be found in the target locations. It informed the field teams on what sort of producers to expect in each district and which ones form the majority so that a reasonably representative sample was obtained in the end; and b) to inform on designing research tools such as quantitative and qualitative questionnaires for a rigorous market demand assessment. The secondary research highlighted a large theoretical literature on designing research for MFIs, which finally helped in creating highly logical and analytical research tools. The secondary research was done from – i) program documents of microfinance banks and institutions, ii) research papers, iii) policy papers, iv) strategy documents, and v) case studies from similar socio-economic setting in other developing nations where microfinance has been successful implemented<sup>9</sup>.

A provincial profile was constructed based on the secondary research, which has been presented in section 2 of the report. Due to a lack of published data on Afghanistan; it was extremely difficult to find updated and established figures for the provinces. Most published reports or data generally rely on the National Risk and Vulnerability Assessment conducted in 2007/8 by the ICON-institute<sup>10</sup>. Due to the lack of secondary data, statistics that are most relevant now given their time of publishing (typically, statistics that are unlikely to undergo any significant change over a long time period) were selected for presentation. Data from primary qualitative survey was also used to corroborate secondary data.

### Quantitative survey and sample description

The quantitative survey was conducted in Bamyan and Kunduz among agribusinesses in urban settings and agriculture and/or livestock supply chain actors in rural environments. The field teams surveyed Bamyan from the 22<sup>nd</sup> of August to the 29<sup>th</sup> August and Kunduz between the 31<sup>st</sup> of August and the 6<sup>th</sup> September

<sup>9</sup> See bibliography for complete details

<sup>10</sup> Detailed set of references is provided in bibliography

2013. A member of the FMFB staff accompanied the Samuel Hall research team during the fieldwork process in both provinces.

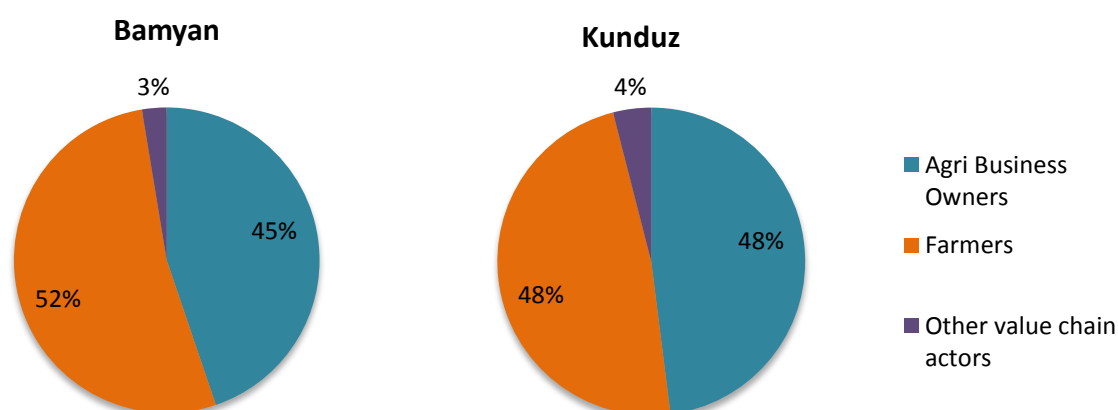
**Table 1.2: Quantitative Sampling Achieved**

Province	District	Urban		Rural		Total	
		Target	Achieved	Target	Achieved	Target	Achieved
Bamyan	Bamyan	25	24	25	24	50	48
	Yakawlang	25	24	25	24	50	48
	Panjab	25	24	25	24	50	48
	Waras	25	24	25	24	50	48
	<b>Total</b>	<b>100</b>	<b>96</b>	<b>100</b>	<b>96</b>	<b>200</b>	<b>192</b>
Kunduz	Kunduz	75	75	25	25	100	100
	Khanabad	25	25	25	25	50	50
	Ali Abad	25	25	25	25	50	50
	Qala-e-zal	25	25	25	25	50	50
	<b>Total</b>	<b>150</b>	<b>150</b>	<b>100</b>	<b>100</b>	<b>250</b>	<b>250</b>

In urban areas and district centers, the respondents were mainly a mix of retailers/wholesalers and other value chain actors – transporters, intermediaries, input suppliers etc. In rural areas, the target respondents were farmers and their families, as well as agriculture and/or livestock value chain actors – producers, collectors, processors, traders etc.

Rural survey sites were selected from villages on the edge of the Provincial or District capitals in order to maximize the chances of finding value-chain actors linked to the local markets. In addition, with the help of snowball sampling<sup>11</sup>, associates (acquaintances doing similar work, fellow cooperative members etc.) of respondents in rural villages were identified and interviewed. Urban respondents were also asked to identify their suppliers, distributors and other actors from the local value chain. Depending upon a) the profile of the individual (whether a producer, dairy farmer, wholesaler etc.); or b) his or her place of business (whether village or district center), they were classified as rural respondents.

Figure 1.2: Type of respondent according to role in agricultural and rural value chain



<sup>11</sup> A snowball sample is a non-probability sampling technique that is appropriate to use in research when the members of a population are difficult to locate. A snowball sample is one in which the researcher collects data on the few members of the target population he or she can locate, then asks those individuals to provide information needed to locate other members of that population whom they know – “Babbie, E. (2001). *The Practice of Social Research: 9th Edition*. Belmont, CA: Wadsworth Thomson”

Overall, the research team conducted 442 interviews among stakeholders of FMFB’s micro finance services. The research teams were also asked to make observations and collect answers to open ended questions from the same agents as were being surveyed.

### Qualitative interviews and assessments

1. **Case Studies:** These were in-depth interviews conducted with the help of open ended questions asked to different value chain actors and business owners as the field team travelled around different districts<sup>12</sup>. The respondents were the same as those for the quantitative fieldwork. Its purpose was to delve deeper into the livelihoods and financial requirements of the rural value chain community. The number of case studies conducted is provided below:

**Table 1.3: Number of case studies conducted**

Province	Total	By region	
		Urban	Rural
Bamyan	8	7	1
Kunduz	11	7	4

2. **Community assessments:** Informal interviews and observations by field managers and team leaders in partnership with FMFB staff to explore value chains and other information relevant to micro-finance and agri-business<sup>13</sup>. These were semi-structured lists of guidelines according to which the field team leader was asked to observe details about the community that might be relevant to the study. The team leader completed 4 assessments for Bamyan (1 for each district) and 8 for Kunduz (4 each for urban and rural).
3. **Key Informant Interviews (KIIs):** These are interviews conducted with open-ended questionnaires with a set of relevant stakeholders (identified both by SH and FMFB) who provided information relevant to the project’s scope. The interviews were conducted face to face and over the telephone throughout the project.

The KIIs targeted two sets of key informants. The first were practitioners of livelihood enhancement in the two provinces who were able to provide the field teams locations that could be surveyed as part of the study’s objective while also informing for logistical planning. The other KIIs were experts who have experience of micro financing in these two provinces and also in the rest of Afghanistan. The interviews with experts were conducted throughout the length of the project.

4. **FMFB Internal Interviews:** Interviews with FMFB employees (including branch managers, deputy branch managers etc.). The KIIs with the FMFB staff were conducted to get a sense of active FMFB clients in different districts, services provided by FMFB, sectors of activities of these clients etc. in order to have a better understanding of FMFB’s operations in these areas as well as people’s perceptions and response to the services provided by FMFB in different districts.

<sup>12</sup> Please see annex - 3 for a sample of case study.

<sup>13</sup> Please see annex – 2 for sample of community assessment

## 2 PROVINCIAL MARKET CHARACTERISTICS

Bamyan and Kunduz<sup>14</sup> are both essentially rural in nature with very little urbanization actually reaching the provinces. However the agricultural profiles of the two provinces are different from each other due to geographical differences. Kunduz shares an international border with Tajikistan, which gives it more opportunity for imports and exports of agricultural products, whereas Bamyan is surrounded on all sides by domestic provinces, the security conditions in which are not always stable. As a result Bamyan's economy remains more isolated than Kunduz. However, both have advantages and disadvantages for the rural population in the provinces, as we will examine in the following sections.

Here we present, an overall nuanced picture of the two provinces in a snapshot of the rural and agricultural economies. Infrastructure is a concern in both provinces. Considering, how much road networks can matter to the rural economy in transporting good to the market, both provinces suffer from lack of infrastructure connecting villages in the interiors. This is more so in the case of Bamyan than in Kunduz. Bamyan lies in the highlands of central Afghanistan and receives heavy snowfall such that roads tend to get blocked in the winter cutting of access to most villages. Very few roads are (less than 25%) are able to take traffic in all seasons.

Kunduz is spread over flatter lands with climate and soil both suitable for farming crops, cereals and vegetables. Agriculture is so suitable here that in 2008, Kunduz was one of the biggest farm producers in Afghanistan with an annual production greater than 400,000 metric tons of grains and 150,000 metric tons of vegetables. Conversely, Bamyan remains within the lower echelons of agricultural production in Afghanistan, contributing around 100,000 metric tons of both grains and vegetables. People in the highlands of Bamyan, where agriculture is less of an option due mountainous terrain and soil conditions, rely on livestock, which has the capacity to provide some subsistence all year round<sup>15</sup>.

Both provinces are part of the National Horticulture Livestock Project (NHLP), which is supported by the Afghanistan Ministry of Agricultural, Irrigation and Livestock (MAIL) as part of the 2009 National Agricultural Development Framework (NADF) to enhance agricultural productivity. Any analysis on the livelihoods and consequently the financial requirements for these livelihoods will benefit from a study of the overall economy of the region. A brief overview of the provincial economies is presented below.

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<sup>14</sup> For definitions and more information about provinces see annex A2 for data sources of the Provincial Profiles.

<sup>15</sup> The figures have been synthesized from data gathered by National Agricultural Information System, AgNet (2008), Province Agricultural Profiles, Accelerating Sustainable Agricultural Program (ASAP), USAID. For more information please refer to Samuel Hall study on the "Social Assessment of the National Horticulture and Livestock Project".

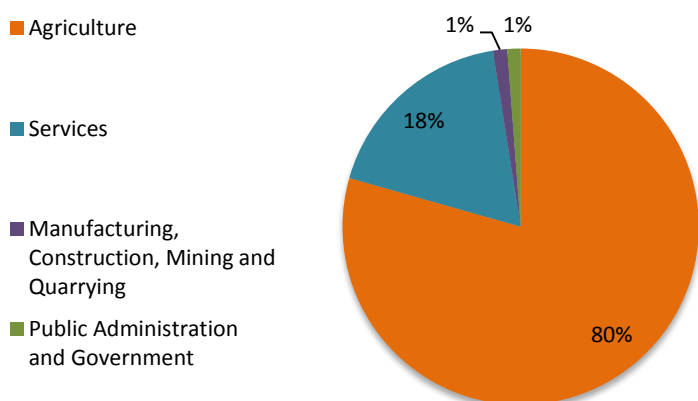
**BAMYAN** province lies in the central region of Afghanistan bordering 7 provinces. It has mostly dry mountainous terrain. This limits farming to the Bamyan river basin, where most of the fertile land is concentrated. The population divided 50-50 between males and females.

The main ethnic groups are Hazaras, followed by Tajiks, Tartars and Pashtuns. Dari is the main language spoken by 98% of the population except a few who speak Pashtun.

### Population and Demographic Profile

Area (sq. km, '000)	18
Population (millions)	0.4
Rural Population (%)	97
<b>Poverty rate (%)</b>	55.7
Employment – population ratio (%)	74.1
Underemployment rate (%)	48.1
Literacy rate – 16 and older (%)	20.2
Ave dist. to nearest drivable road (km)	6.0
Households / village	73
Population / household	7

### Sources of Income



### Infrastructure

#### Accessibility:

With just 21% of the roads in Bamyan able to take traffic in all seasons, accessibility during winter months is a problem. Nearly 21% of the province is without any roads at all. However, repair of the highway from Bamyan city center to Kabul has reduced travel time considerably.

#### Electricity:

Bamyan province still lacks the facility of public electricity supply. Only 6% of the households have access to electricity.

#### Water:

In Bamyan only 8% of all households get access to safe drinking water. Nearly 9% of the province's population has to travel at an average of 1 hour to the source of the water.

### Agriculture and Livestock

#### Key Crops

On farm lands mainly wheat, barley and potatoes, with potatoes being exported. Fruit and nut trees are also common on gardening plots.

#### Potential areas for development:

Animal husbandry, agricultural productivity, pasture improvement, value adding (product processing), postharvest technology and irrigation system improvement (high lands and lower rivers).

#### Main Markets

Kabul, Siagarh, Bamyan and Ghazni.

#### Risk to Agriculture:

Insufficient rainfalls, floods, crop pests/diseases, animal diseases and hail storm are the main causes for productivity failures Bamyan which has impact on incomes. Generally, an increase in transportation cost, food price spikes, poor potato harvest and flooding between March-August are early indicators of risk to productivity.

#### Key Animals

Sheep, goats, cattle and poultry are the main animals that are bred. Qroot (dairy product) and Namad (wool carpet) are famous animal product sold from here.

#### Irrigation

Nearly 93% households have access to irrigated land.

### Other Economic Factors

#### Access to credit:

The livestock value chain in Bamyan works on an internal system of credit where people purchase items from input suppliers/middlemen on credit and pay back in produce instead of cash. There are also MFIs present in the region. FMFB and BRAC are implementing partners of MISFA for financial services in Bamyan.

#### Land Tenure:

People generally own land either in the form of sharecropping, renting or some mortgage arrangements. Commercial farmers rent out their lands while subsistence farmers either share or have sole ownership. Livestock producers are sedentary and nomadic. Over grazing limits their access to land.

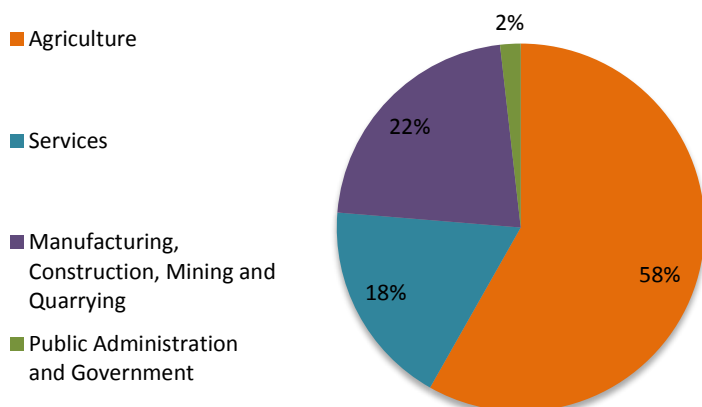
**KUNDUZ** is located in the northern region of Afghanistan and has an international border with Tajikistan. Domestically, Baghlan, Balkh, Takhar and Samangan surround it. It is mostly flat with only 12% mountainous or semi – mountainous terrain. The population is divided 50-50 between males and females.

The main ethnic groups are Pashtuns and Tajiks, followed by Uzbeks and Hazaras.

### Population and Demographic Profile

Area (sq. km, '000)	8
Population (millions)	0.9
Rural Population (%)	76
Poverty rate (%)	29.7
Employment – population ratio (%)	68.6
Underemployment rate (%)	63.3
Literacy rate – 16 and older (%)	19.7
Ave dist. to nearest drivable road (km)	1.2
Households / village	156
Population / household	8

### Sources of Income



### Infrastructure

**Accessibility:**

With 68% of the roads able to take vehicles in all seasons, the Kunduz road infrastructure is well developed. There is a direct road that connects Kunduz to Kabul. Only 4% of the province has no access to roads.

**Electricity:**

Nearly 18% of households in Kunduz have access to electricity. 15% of these rely on the public electricity provisions.

**Water:**

25% of the households have access to safe drinking water and nine-tenth of the households have direct access to the sources of water.

### Agriculture and Livestock

**Key Crops**

Industrial crops include cotton and sesame. Field crops include wheat, rice, watermelon, melon and maize. Fruit and nut trees and grapes are most common on garden plots.

**Key Animals**

Although people generally tend to rely on farming for livelihood in the rural areas, sheep and cattle are maintained for wool and dairy products while women tend to the poultry.

**Potential areas for development:**

Animal husbandry, seed quality programs, pasture improvement, value adding (product processing), postharvest technology and irrigation system.

**Main Markets**

Kunduz, Imam Sahib, Khanabad Manduy, Mazar-e-Sharif

**Irrigation**

On an average, 85% households have access to irrigated land.

**Risk to Agriculture:**

Risk to agriculture and rural services include flood, insufficient rainfall, crop/pest diseases and livestock diseases. Decrease in staple food prices, reduced irrigation water availability, increase in agricultural input prices, conflict are early warning indicators of such risks that are about to accrue.

### Other Economic Factors

**Access to credit:**

Informal channels such as private lenders, friends and family are the popular means to access credit. The demand for loans was seasonal in nature depending upon harvest season. MISFA implementing partners currently operating in the province are FMFB and BRAC.

**Land Tenure:**

Farm ownership is based either upon renting, sharecropping or mortgage arrangements depending upon size of the individual/household. Commercial farmers own their land as sole-owners while subsistence farmers mainly do share cropping. Livestock producers are sedentary and nomadic. Expansion of housing and conflict along with overgrazing are pressing issues.



## 2.1 SOCIO-ECONOMIC PROFILE OF THE RESPONDENTS

The following section details the demographic and socio-economic profiles of the respondents from the quantitative study. The share of women in the sample is low by design since they are reluctant to answer certain questions or questionnaires, either because they are unaware of financial matters or sociocultural norms restrict them from answering.

**Table 2.1: Sample description**

Gender	Kunduz		Bamyan		Total
	Urban	Rural	Urban	Rural	
Male	140	73	120	40	373
Female	9	28	8	24	69
<b>Total</b>	<b>149</b>	<b>101</b>	<b>128</b>	<b>64</b>	<b>442</b>

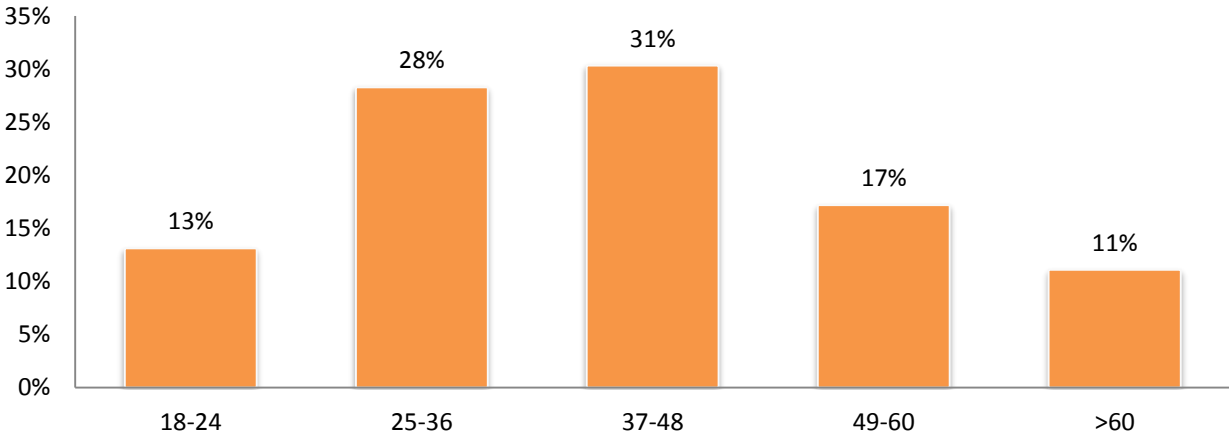
### Demographic profile

Afghanistan is a young country in terms of average age of the population. Nearly 62% of the population is below the age of 24 years<sup>16</sup>. The youth of the country is considered to be anywhere between the ages of 15 to 24. In our sample this population is represented by the 18-24 age group which has nearly 13% of the sample contained in it. This age group represents the aspirations of the next generation of the rural community being studied in the project.

58% respondents fall within the middle age category (between age groups 25 to 48), and form the majority of the working class. People from this age group constitute the groups that determine current demand for financial services. Finally, approximately 28% of respondents represent the elderly (greater the 49 years if age) who are critical to household decisions as per family structures in Afghanistan and also have a lot to offer in terms of community practices in the past.

The average age of the sample is 39 years. However, average age of household heads is higher than the sample average – 44 years. The distribution of respondents across age is similar between provinces.

Figure 2.1: Age distribution of sample in Bamyan and Kunduz



<sup>16</sup> CIA World Factbook

On average, 54% of the respondents said they were illiterate. The share of illiterate respondents was higher in rural areas by at least 25% in both provinces. On a similar trend, the number of respondents having studied up to grade 12 was higher in urban areas (37% - Kunduz and 39% - Bamyan) than in rural areas (19% - Kunduz and 28% in Bamyan). There were in all, 1.3% people who went to religious schools and another 3% had attended technical\vocational training. Only 3% had attended university. The overall penetration of education is low in both provinces especially in the rural areas.

<i>Literacy</i>	<i>Urban</i>	<i>Rural</i>	<i>Total</i>
Literate	56%	29%	46%
Illiterate	44%	71%	54%
<b>Grand Total</b>	<b>277</b>	<b>165</b>	<b>442</b>

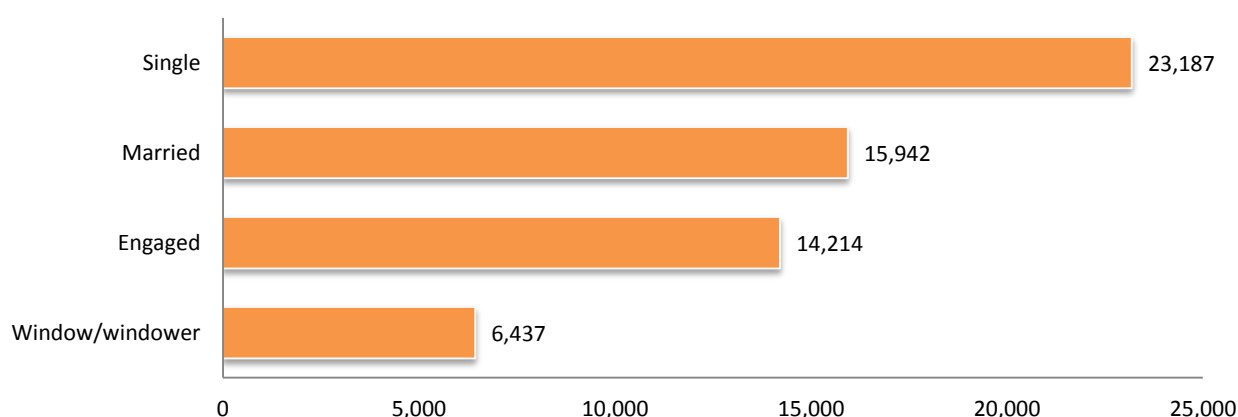
68% respondents said that they were the heads of their households. Of those nearly 79% were male members. Of all the female respondents in the survey only 9% said they were the heads of their households.

**Table 2.2: Are you the head of the household? (%)**

<b>Head of household</b>	<b>Male</b>	<b>Female</b>	<b>Total</b>
Yes	79%	9%	68%
No	21%	91%	32%
<b>Grand Total</b>	<b>373</b>	<b>69</b>	<b>442</b>

The majority of the respondents of the survey were married and a few were engaged. Only 11% said that they were single and the remaining 2% were widows. The widows in the sample were the most vulnerable in income. Although they seemed to have on an average, at least 2 sources of income, the money that they were making was less than half of the rest of the sample.

*Figure 2.2: Marital Status versus average household income (Afs)*



Moving on to the household characteristics, there was only a small difference in the demographic composition of the households. In urban areas, the average household size was 11 people as opposed 10 in rural areas. From both areas 2 people within the age bracket of 24-60 reported to be contributing towards the income of their families on average. The gender composition of the households overall was roughly 50-50. Each household in Kunduz at an average 3 members in the household below the age of 16 whereas in Bamyan, the average was only 2.

**Socio-economic profile**

74% of urban households and 66% of rural households reported having 2 or more sources of income. There seemed to be no difference between provinces with 70% households in Kunduz and 73% households in Bamyan reporting to having more than 2 source of income. This was because of two reasons:

- Firstly, many households did not own\have access to enough agricultural land to sustain them, so they supplement their income from agriculture with daily labour or businesses such as retail shops on the side; and
- Secondly, agriculture provides households with seasonal employment only 6-8 months in a year. For rest of the 4 months people found other sources of income to sustain expenditures.

In Bamyan, women did not typically partake in income generation. The few who did, supported their husbands by taking care of the livestock or helping out in the field. In Kunduz, women were involved in carpet weaving, tailoring and supporting roles in agriculture and livestock. A few even worked as public sector teachers.<sup>17</sup>

### Sources of income:

Table 2.3 gives the breakdown of households by average earnings per source of income and no. of households engaged in the activity respectively.

**Table 2.3: Sources of household incomes – Average (Afs) and Count (%)**

Source of income	Kunduz		Bamyan		Total	
	Ave. (Afs)	Count (%)	Ave (Afs)	Count (%)	Ave (Afs)	Count (%)
<i>Non regular income (daily labor)</i>	13,966	13	6,525	15	10,428	14
<i>Salary (non-agricultural)</i>	10,084	16	7,454	22	8,738	19
<i>Salary (agricultural)</i>	5,411	28	4,323	27	4,951	28
<i>Sale of agro/livestock production</i>	10,812	79	7,024	80	9,156	79
<i>Own business (non-agricultural)</i>	12,939	29	6,955	30	10,269	29
<i>Land rental income</i>	6,308	10	3,255	6	5,400	8
<i>Income from rent of other assets</i>	8,273	4	6,922	9	7,452	6
<i>Domestic remittances</i>	6,500	1	-	-	6,500	1
<i>International remittances</i>	16,143	3	-	-	16,143	2
<i>Zakat</i>	-	-	400	2	400	1
<i>Others</i>	10,875	8	8,967	2	10,626	5

A direct question about personal incomes can have biases in reporting, as respondents may be reluctant to divulge personal or sensitive information. Therefore a relative comparison in reporting (in this case) provides better insights than an absolute interpretation of numbers:

- Sale of agricultural and livestock production overall is the most popular source of income in both districts.
- Kunduz province seems to be a more lucrative province to live in with a higher income index than Bamyan. For every source of livelihood, the incomes accruing to the households in Kunduz is at least 25% more than in Bamyan.

<sup>17</sup> Anecdotal evidence from field observations

- From the sale of agricultural and livestock produce, people in Kunduz are able to earn at an average 80% more than people in Bamyan. Kunduz being a province with an international border involves a lot more trading activity. In addition, Kunduz city takes advantage of its strategic location by being the trading hub for northeast part of the country<sup>18</sup>.
- Irrespective of the income source, respondents from Bamyan said they earn anywhere between 6000-7000 Afs per month from each income source. In Kunduz on the other hand, it would be considerably beneficial (lucrative?) for a person to be engaged with daily labour, agricultural\livestock production or owning a business than any other activity on the list.
- Income from renting assets is higher in Kunduz than in Bamyan. Land rents are also low considering that Bamyan does not host the most fertile lands for agriculture.

### Primary income activity:

In order to study economic patterns of the respondents in more detail, they were asked to identify their primary income activity (identified as the activity that contributed more towards the income of the household in case the household was involved with multiple activities). Naturally a contrast was seen in the nature of employment between urban and rural areas and between the two provinces.

- Half (56%) of the sample population in urban areas was involved with trading activities such as retailing and wholesaling agricultural goods.
- 68% people in Kunduz said that they were involved in trading activities out of which nearly 75% were retailers and rest were wholesalers.
- Traders from both provinces seemed to be based almost exclusively in urban areas. The few involved in trading activities while residing in rural areas were small retail shops supplying essential items and agricultural goods.
- In Kunduz, 79% of the respondents were directly engaged in agricultural production. Out of this, 55% of the surveyed households produced wheat, 16% produced rice and 28% produced other crops like maize. In Bamyan, of the 47% rural sample that worked in agriculture, 60% were engaged with producing the primary crop of Bamyan - potato. The other major crop being produced is wheat (by 36% of the rural sample engaged in agriculture).

**Table 2.4: Distribution of households according to primary business activity**

Economic Activity	Kunduz		Bamyan		Total
	Urban	Rural	Urban	Rural	
<b>Trading Activities</b>	68%	2%	42%	6%	37%
<b>Agriculture</b>	18%	79%	36%	47%	41%
<b>Livestock</b>	4%	2%	5%	28%	7%
<b>Manufacturing</b>	0%	1%	1%	0%	0%
<b>Construction</b>	3%	5%	2%	6%	4%
<b>Services</b>	2%	3%	6%	0%	3%
<b>Miscellaneous</b>	4%	8%	7%	13%	7%
<b>Total</b>	<b>149</b>	<b>101</b>	<b>128</b>	<b>64</b>	<b>442</b>

<sup>18</sup> "Economic assessment and labor market survey", Samuel Hall

### Box 1: Financing farming versus livestock

Although both farming and livestock services are essentially rural services, there are some differences in the requirement of finance by those who farm versus those who own livestock. Cash flows through sales of milk, wool and meat are more or less steady and invariant to farming seasons. But a study from the International Fund for Agricultural Development (IFAD) on “Livestock and rural finance; Tools for project design” notes that the use of formal credit for livestock related activities (such as vaccinations and animal acquisitions) is far less than in crop farming. Indeed, for this purpose the study identifies avenues for financing livestock activities, which are the following (quoted ad verbatim):

1. Encouraging purchase of improved breeds and restocking
2. Purchase of inputs such as feed, health care and construction of sheds
3. Establishment of small livestock related micro-enterprises including processing and marketing facilities

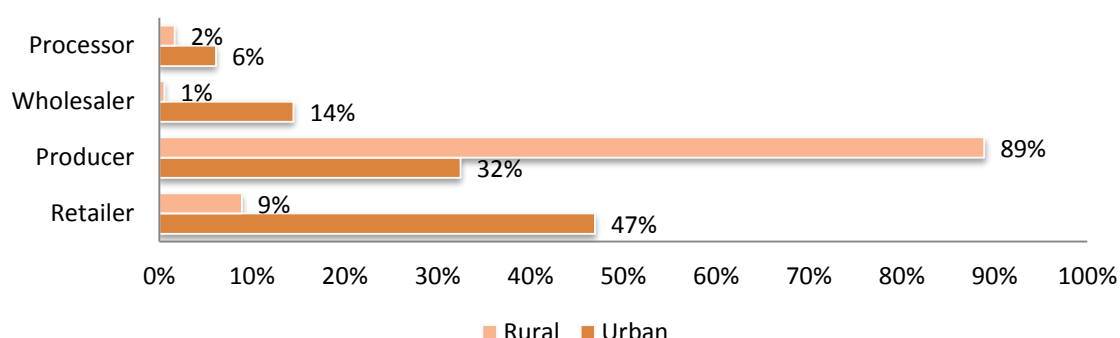
The other major activity for the rural population of Bamyan is goat and sheep rearing, in which 28% of the rural sample is engaged. As mentioned previously, the climate and terrain of Bamyan is generally not as suitable for agricultural activities as it is for livestock rearing. Goats and sheep are reared for the ability to produce wool and cashmere, which are two important products that are sold from the province.

Of the female respondents in the sample, 8 out of 32 and 15 out of 37 rural respondents in Bamyan and Kunduz respectively, said that their household primary income is from farming-related activities as described above.

#### Role and type of employment in value chain:

After identifying the primary economic activity of their households, respondents were asked to specify the role that they play in the value chain. 53% of the entire sample said that they were producers, 33% said that they were retailers, while 9% said that they were wholesalers in the agricultural value chain. From the producers there were mainly wheat (27%), potato (16%), rice (7%) and cashmere/wool producers (8%). Beyond that however, it is difficult to comment on which specific activity of the value chain people were involved in, as many respondents were involved in more than one economic activity.

Figure 2.3: Which of the following best describes your role in the market value chain?



Overall, producers were concentrated in the rural areas, whereas agents higher up the value chain were concentrated close to the markets in the urban areas. However there are contrasting differences to the development of the agricultural value chain in the two provinces.

- The agricultural value chain in **Kunduz** is more developed, but, it appears to lack a formal structure in the sense that households are involved at multiple stages of the value chain. That is, lack of a marketing system means that sometimes the farmers themselves will double up as retailers and sell their produce directly in the markets. The value chain essentially lacks specialization and often there is an overlap between agents<sup>19</sup>. Additionally, each product has its own separate value chain. For instance, wheat, which is the primary product, is first sent to local mills for grinding. The mills then sell the wheat to local traders who arrange for transportation to Mazar-e-sharif where the main wholesale market is present.
- In **Bamyan** the situation is direr. The lack of capacity<sup>20</sup> of the farmers and natural threats mean that farmers are often unable to produce enough, even to sustain themselves. In cases where production is higher, the produce is sold in the local district market. For instance rural populations, away from the provincial center, only have two small markets in Waras and Panjab where little agriculture produce is sold through a small number of retailers, and only when these retailers have produced enough to sell after their own household consumption. Lack of road infrastructure also isolates remote villages from the value chain.

In urban areas, 92% in Kunduz and 86% in Bamyan were self-employed. This mainly consisted of all retail and wholesale businesses that were surveyed. The utility of credit for productive purposes is highest for self-employed business owners. They also make for lower risk clients since they are generally experienced in their line of work and investments into their business do not carry the same risks as startup businesses.

**Table 2.5: Which of the following describes your role in the primary income activity? (%)\***

Employment Type	Kunduz		Bamyan		Total
	Urban	Rural	Urban	Rural	
<b>Self employed</b>	31%	20%	25%	11%	88%
<b>Day laborer</b>	1%	1%	1%	1%	4%
<b>Salaried worker (private)</b>	1%	0%	1%	0%	2%
<b>Salaried worker (government)</b>	1%	2%	2%	2%	6%
<b>Paid family worker</b>	0%	0%	0%	0%	0%
<b>Grand Total</b>	<b>34%</b>	<b>23%</b>	<b>29%</b>	<b>14%</b>	<b>100%</b>

\*Percentages are expressed as share of the total sample, i.e. N=442

## 2.2 FINANCIAL AWARENESS AND BEHAVIOR

The level of awareness about financial terms would be a good measure of how much does finance make for in their livelihoods. The level of awareness about different terms would indicate the inclusion of these terms in their lives. Further investigation into the sources of their financial knowledge will reveal which channels are most likely to be effective to communicate information about micro finance. Most important decisions in the household are taken either by or in consultation with the head of the family. As we will see in this section for financial decisions, this is true as well. For purposes of information dissemination, it would simply be a matter of identifying the age group of the target population, which has the most influence on financial decision is Afghan rural communities in these two provinces.

<sup>19</sup> <http://paywand.mail.gov.af> - "Value Chain Assessment – Rice", MAIL, 2012.

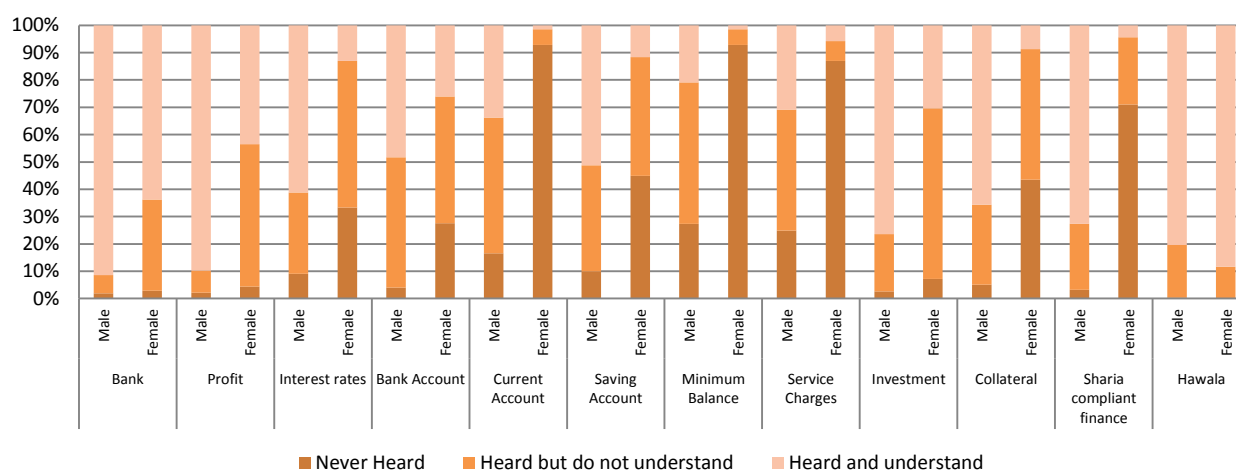
<sup>20</sup> KIIs with livelihood experts from ACTED, Bamyan.

## Familiarity with the financial terms

Generally, the level of awareness of the respondents for this study is high for more “common” banking terms. However, knowledge on the somewhat more technical terms is lacking. For example most of the respondents know and understand what terms like *bank*, *profit*, *investment* and ‘*hawala*’ mean, but there is little idea about the specifics such as *current account* and *minimum balance*. All respondents in the sample were part of the value chain (i.e. no one produced just for sustenance) and hence had a sense of what common financial terms mean due to the transactions they may be carrying out with their suppliers\buyers, but the penetration of modern banking system is low.

There seems to be little difference in people’s knowledge about the terms between the two provinces (Kunduz and Bamyan) since they had almost similar level of information about the terms mentioned above. This is also true for the districts surveyed in each province. If there is any significant demographic difference to the levels of financial literacy it is between men and women

Figure 2.4: Familiarity with Bank terms (%)

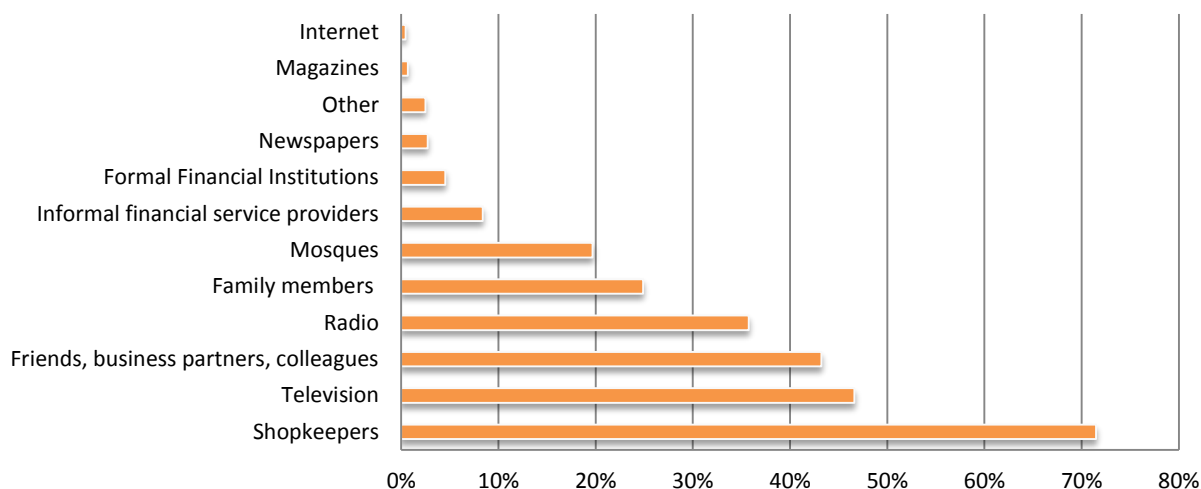


The analysis reveals that males know more about the financial terms than do women. This finding is not surprising in the context of Afghanistan since men are usually engaged with work outside home and are the main bread winners of their households. Thus, for business purposes they interact with money lenders (formal and informal) more often than women do. Roles for women in livelihood value chains are generally confined to manual labour (such as milking livestock or spinning wool) SEE WB report on value chains in the bookcase for reference. Women are heavily involved in labour (more than just a helping hand), but you are right to say that they are rarely involved in the decision making process. but they are seldom involved with making the financial decisions.

## Sources of financial information

Respondents were asked where they get their information on financial terms. The main source was from the local shopkeepers (71%) followed by television (47%) and peer networks of friends, colleagues and business partners (43%). This explains the significant dominance of informal social networks in spreading information.

Figure 2.5: Source of information on financial topics



Ex ante one would expect that as educational attainment increases, the level of financial literacy would increase concomitantly. But it seems that education is not as effective a disseminator of knowledge about finance as are practical experiences of livelihood. Social networks and media played a more significant role in such domains. People who had borrowed from a formal institution in the past had marginally better knowledge about financial terms.

In terms of the incidence of poverty<sup>21</sup>, respondents who are poorer get their information from radios (33%) and mosques (49%) whereas people in the upper segment in the income bracket get their information from televisions (37%), friends, family and business partners (46%). But shopkeepers as a source of information were popular across all segments (table A1.1, annex).

### Seeking financial advice

From table 2.6 below it seems evident that financial matters in these two provinces are private matters resolved within the household. Social networks that are relevant to getting information are not used for consultation. Male members of the household seem more inclined to make the decisions themselves without seeking assistance from anybody. The women rely on the head of the household or their spouses to help them make the decisions about money.

<b>Table 2.6: Who is consulted for financial advice? (%)</b>						
	<b>Total (N = 442)</b>		<b>Kunduz (N = 250)</b>		<b>Bamyan (N = 192)</b>	
	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
<b><i>I don't take financial advice and make my decisions alone</i></b>	34.9	4.3	36.2	-	33.1	9.4
<b><i>I consult the head of the household</i></b>	2.9	34.8	2.8	21.6	3.1	50.0
<b><i>I consult my spouse</i></b>	23.3	37.7	23.0	62.2	23.8	9.4

<sup>21</sup> Incidence of poverty measured using Progress Out of Poverty Index (POPI)



<b><i>I consult other family members</i></b>	34.6	21.7	34.3	16.2	35.0	28.1
<b><i>I consult my friends/peers</i></b>	1.9	1.4	2.3	-	1.3	3.1
<b><i>I consult the local religious leaders</i></b>	1.1	-	1.4	-	0.6	-
<b><i>I don't know</i></b>	0.3	-	-	-	0.6	-
<b><i>Others</i></b>	1.1	-	-	-	2.5	-

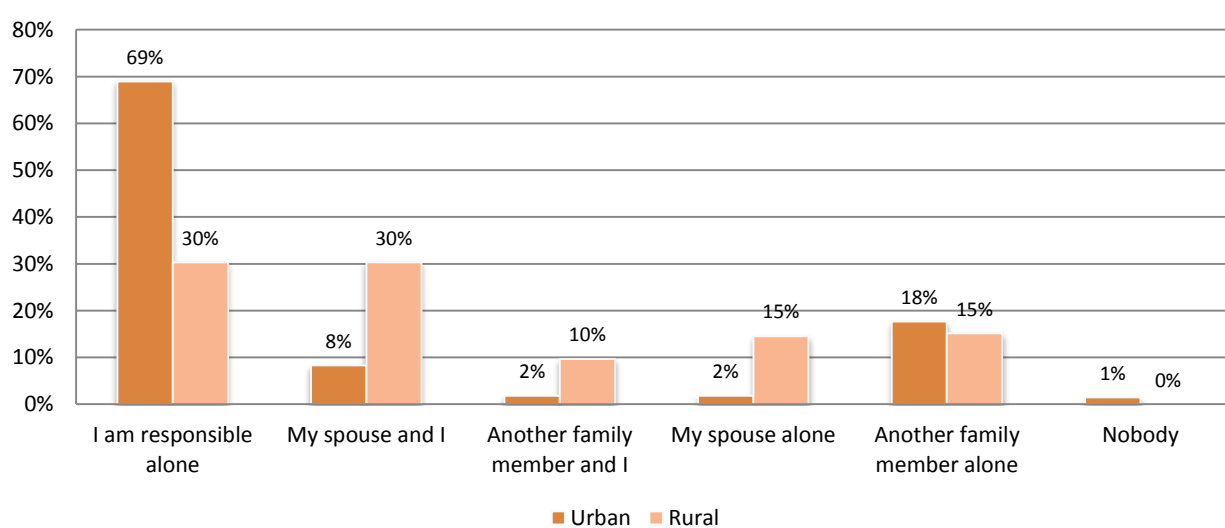
No respondents in either of the provinces said that they would seek advice from a formal institution. Interestingly, people from both provinces were also disinclined to go to the local religious leader for advice on how to spend or save. Thus, while religious leaders often play a central role in administering social affairs, they appear to be less engaged in financial matters. This does not, however, mean that religion *per se* does not influence how people make financial decisions.

### Savings and expenditure decisions

When asked about who is responsible for the day-to-day decisions about money expenditure and saving in the households, 68.9% of urban respondents said that they themselves were solely responsible while 30% in rural areas gave the same answer. Financial decisions are much more evenly shared in rural areas than in urban areas. Almost 40% people in rural areas said they make their decisions after consulting with either their spouses or some other family members.

72% of the respondents who were the heads of their households said that they make their financial decisions themselves without consulting anybody else and 18% of them said they made these decisions in consultation with their spouses. Only 16% member of sample said that they could make financial decisions themselves without consulting anybody else despite not being the head.

*Figure 2.6: Who is responsible for savings and expenditure decision in the household? (%)*



## 2.3 PROGRESS OUT OF POVERTY INDEX

MFIs are unique in the sense that they are the primary illustrations of social business models. Inherently such businesses have dual purposes – social progress and commercial viability. The lack of tools to measure success on the former objective can result in performance indicators being based on the latter, which would be to the detriment of income vulnerable groups. In order to advance the responsibilities on the social welfare front, the Grameen Foundation created the Progress out of Poverty Index (PPI). It is an objective data-based tool that tracks the client’s economic levels, and measures the client’s distance from the local\national poverty line.

The PPI estimates *“the likelihood that a client falls below the poverty line”*<sup>22</sup>. Each country’s PPI is unique, made from the nationally representative household survey of income and expenditure. It uses ten simple indicators that most closely represent a household\individual’s poverty level and can be easily collected from the field. Scores are computed for individuals and then aggregated to represent group indicators of poverty. Each PPI survey is scored between 0 to 100. The score itself however is not the indicator of likelihood.

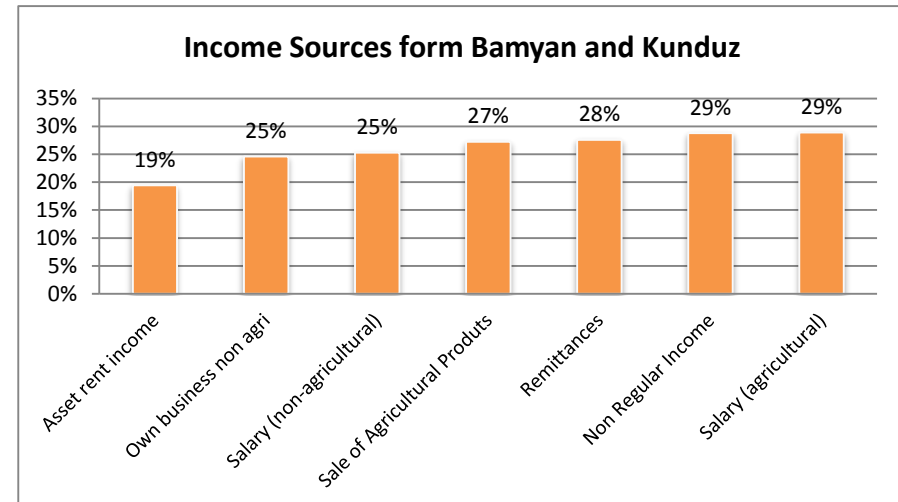
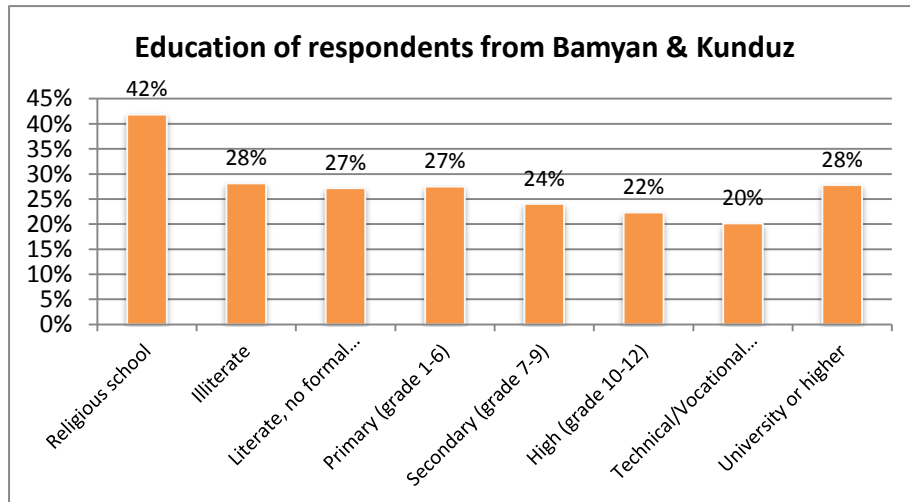
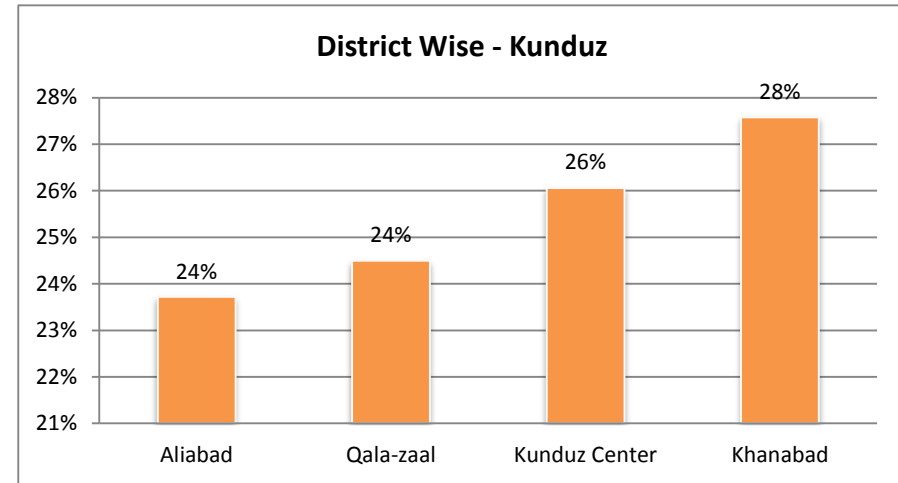
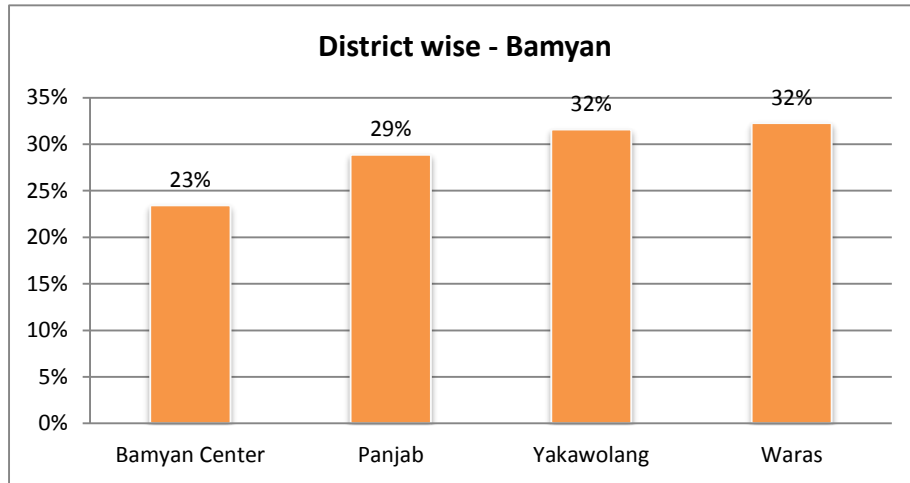
The chart that maps the scores to the probability that the individual is below the poverty line is provided in the annex to the report. Since international comparison is not the objective of this report, the PPI has been constructed on the national poverty line. Given below are the main highlights:

- Overall, **Kunduz is a moderately more prosperous province than Bamyan**. The sample indicates that 29% of the population in Bamyan is likely to be below the national poverty as opposed to Kunduz where the figure is only 25%.
- In Bamyan, respondents from **Waras** district were the **most economically disadvantaged**. Bamyan centre, which has the biggest urban area and market place in the province, is least likely to host a household below the poverty line. In Kunduz, there is much variation between districts. The likelihood that an individual or a household is below the poverty line is almost 4% more in Khanabad than in Aliabad.
- As far as the PPI index of respondents’ household according to their education goes, one can see a **decrease in the likelihood** of an agent being below the poverty line **as education level increases**. Those who were taught at religious schools have a considerably greater chance of being below the poverty line than even illiterate people. However, the probability for university educated respondents is unnaturally high because of two individuals from urban Bamyan and Kunduz who have extremely low asset ownership and large families with more than 5 children below 16 years of age.
- From income source groups, people who have some kind of **asset ownership** that they can rent out (either land or any other asset), have a **lower probability of being under the poverty line**. It seems owning a non-agricultural related business or salary from non-agricultural sources gives a person a better chance to be above the poverty line than salary from daily labour or agriculture, which are often subject to seasonal variance.

<sup>22</sup> “PPI Pilot Training, Participation Guide”, Grameen Foundation

Figure 2.7: Progress out of Poverty Index for Kunduz and Bamyan

The following figures describe the PPI<sup>23</sup> across geography, education of respondent and income sources of households. The percentages indicate the share of total sample in category that is expected to fall below the national poverty line<sup>24</sup>.



<sup>23</sup> This PPI tool for Afghanistan was created in January 2012 on data from the National Risk and Vulnerability Assessment 2007/8. For more information please visit [www.progressoutofpoverty.org](http://www.progressoutofpoverty.org)

<sup>24</sup> Afghanistan national poverty line is also based on the data from NRVA 2007/8. For details see "Setting the official poverty line of Afghanistan", Technical Report by Central Statistical Organization (CSO) and World Bank

### 3 MARKET FOR MICRO CREDIT, SAVINGS AND TRANSFERS

It is important not to confuse between micro-credit and microfinance, which is often used synonymously in literature. *“Microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc.)”*<sup>25</sup>. Microcredit, which is only a small component of microfinance generally, outweighs other services such as savings and transfer schemes because research focus has been specifically been on extending credit to the poor.

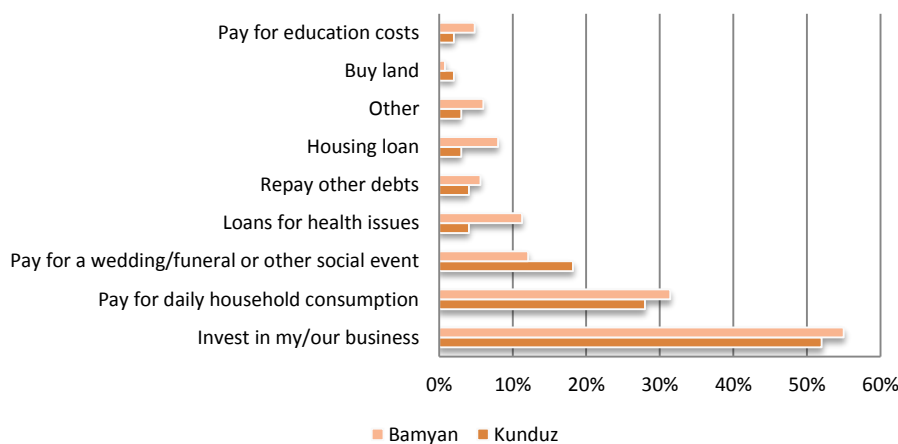
In this section we dedicate a substantial portion to discussing the credit behavior of the rural and urban community in the past while complimenting it with experiences of other services. This helps to identify the existing system of credit in use, and answers how their experiences in the past have affected their preference for finance; all of which is linked to service demand in the future. This section explores, how valuable are savings and transfer services in day-to-day lives of the people and whether there are any social or commercial returns that can be gained from extending these services to them.

#### 3.1 BORROWING AND LENDING EXPERIENCE

The percentage of households who have borrowed some amount of money in the past was remarkably higher in Bamyan (65%) than in Kunduz (40%). Panjab district of Bamyan had the highest percentage of the respondents whose households had borrowed money in the past (72%), while Bamyan provincial center had the lowest (54%). Similarly, in Kunduz provincial center, 48% expressed that their households had borrowing experience as compared to Aliabad and Qala-e-zal districts where 28% of respondents each, had borrowed in the past.

The most common purposes for which loans were taken were for investments in business, household daily consumption and social events like weddings. If we were to bifurcate the purpose of the loans into “productive” and “unproductive” loans, then nearly 70% of the respondents had borrowed for productive purposes<sup>26</sup>.

Figure 3.1: For what reason did you take your most recent loan? (%)



*“Previously I had taken loan some 10 times for investment in my business from AKDN. Currently, I need around 200,000 Afghanis for my business. Majority of the people take loans in this area for business purposes”.*  
(Case study: Faizullah (45), Panjab, Bamyan).

*“I need loan because I want to buy agricultural equipment like tractor, generator and chemical fertilizers. Taking loan is a common practice in this area and people generally take loan to improve their agricultural activities”.*  
(Case study: M. Rasol (58), Provincial center, Kunduz).

<sup>25</sup> Sinha, (1998, p.2)

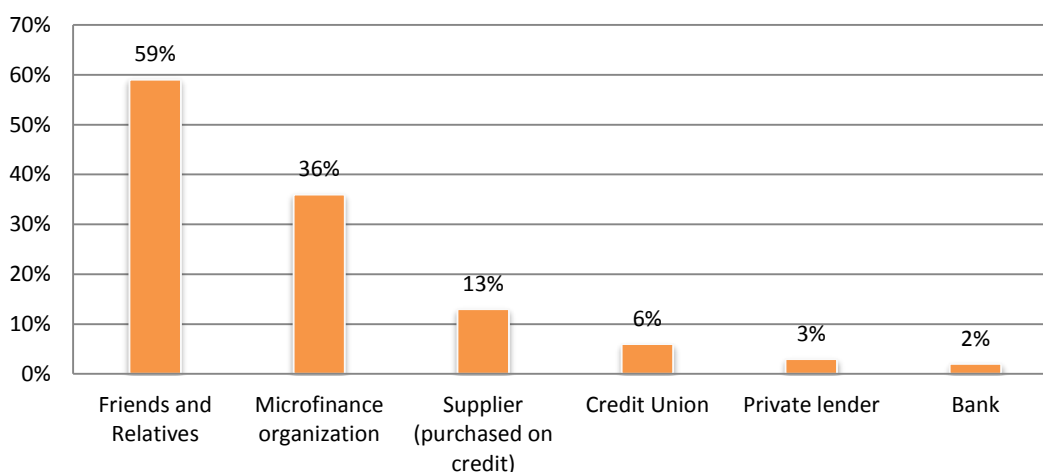
<sup>26</sup> “Productive” loans would imply all loans that were utilized in activities that had the potential to generate more money and income. Hence “invest into my\our business”, “housing loan” (property development) and “buy land” (asset purchase) would come into this category.

Respondents in Bamyan – around 11%, also mentioned that they had taken loan to tackle health issues. The respondents were mostly from Yakawlang (20%) and Panjab (18%) districts of Bamyan, indicating a difference in health spending between the two provinces. It was difficult to ascertain however, why there was a difference. Possible reasons may include, higher medical costs or higher spending due to prevailing health issues in one province over another.

### Sources of taking loans:

An informal system of credit is prevalent in the areas surveyed for this research. The highest number of respondents (59%) in both provinces stated that their main source of borrowing money has been ‘friends and relatives’, followed by input suppliers (13%). However, a substantial number of respondents (36%) explained that they had taken loan from MFIs. It seems that active presence of microfinance institutions is comparatively greater in Bamyan than in Kunduz as 40% of respondents in Bamyan had taken loan from them in the past, while it was 30% in Kunduz. It is also interesting to note that none of the respondents in Bamyan have taken loans from banks, as against 4% in Kunduz who have. It stands to reason that credit requirement for the respondents were more suitable to micro finance than commercial finance.

Figure 3.2: Where have you borrowed from in the past (%)



There was also no clear distinction between respondents in urban and rural areas in terms of their sources of borrowing, as respondents from urban and rural areas have similar sources of credit.

An internal system of credit for financing prevails in the surveyed areas. People, both in Kunduz and Bamyan, traditionally take loans from informal sources and this practice still continues, major source being ‘friends and relatives’. Several reasons were quoted from the qualitative interviews, for preference of internal loans - **i)** taking loan on interest was considered “Haram”, **ii)** friends and family members provide ‘qarz hasana’ – non-interest loans and with easy conditions with no charging fees, flexibly repayment period and without demanding collaterals, **iii)** conditions put by formal financial institutions are tight for them and they sometimes cannot fulfill them. They require collaterals, guarantors, charge high interest rates, charge service fee and have certain repayment schedule, and **iv)** they trust informal internal system of credit than formal financial institutions.

*“Some people may take loans from banks, but I don’t like paying or receiving interest because it is ‘haram’. That is why I don’t take loans from banks. I will only take loan from banks when I have no other options available”. (Case study: Mohammad Omar – 45, Provincial center, Kunduz)*

Coming to MFIs and banks who had lent to people in the past (83 out 442), institutions that were active in Kunduz were: FMFB-A, BRAC, FINCA and New Kabul Bank. Majority (70%) of the respondents here had borrowed from FMFB, followed by BRAC (30%) and FINCA (7%). In Bamyan existing financial institutions that people had borrowed from in the past were FMFB-A, BRAC and MAIL cooperatives. FMFB seemed to have the most dominant presence in the province with 96% of the respondents (N = 50) having borrowed money from FMFB followed by BRAC (6%).

Respondents informed that they approached FMFB for loans on the recommendations of trusted friends and relatives in Kunduz. Although there were other institutions that were providing loans in the past to clients, FMFB seemed to have the most out reach because, 40% (N=50) people in Bamyan and 23% (N=33) people in Kunduz said it (FMFB) was the only institution around that gives loans.

In Kunduz where BRAC was the other major MFI operating, people had had a good experience with BRAC in the following matters - terms of loan, reputation, convenience of access to branches and attitude of loan officers. As we will see in the section where we discuss preferences for loans, these factors are critical for a household making decision about borrowing from an MFI in both provinces, especially in rural areas.

**Table 3.1: Reasons for taking loans from MFIs or Banks (%)**

Institutions	FMFB		BRAC		FINCA		New Kabul Bank	
	Kunduz	Bamyan	Kunduz	Bamyan	Kunduz	Bamyan	Kunduz	Bamyan
<i>Location of branch was convenient</i>	9.5	8.3	10.0	33.3	-	-	33.3	-
<i>Loan terms were good</i>	19.0	18.8	30.0	-	-	-	-	-
<i>Loan officer visited me and explained products</i>	4.8	4.2	20.0	-	-	-	-	-
<i>It had a good reputation in my community</i>	4.8	16.7	20.0	-	-	-	-	-
<i>It was recommended to me by a trusted friend/relative</i>	28.6	8.3	10.0	-	50.0	-	66.7	-
<i>It’s the only institution around that gives loans</i>	23.8	40.0	10.0	33.3	50.0	-	-	-
<i>I don’t know</i>	9.5	-	-	-	-	-	-	-
<i>Other</i>	-	2.1	-	33.3	-	-	-	-
<b>Total (N)</b>	<b>21</b>	<b>48</b>	<b>10</b>	<b>3</b>	<b>2</b>	<b>0</b>	<b>3</b>	<b>0</b>

### Box 2: Internal system of credit

It is necessary to note here, the structure of the internal credit system that is used in agricultural value chains. The value chain is so rudimentary that transactions between input suppliers and the small farmers still take place in kind. This is because the input suppliers are often the buyers as well, which gives them the possibility to exchange inputs for final produce with the farmers negating the necessity of cash. However, further down the value chain there is a higher requirement for a line of credit, i.e. when processing plants and traders exchange with each other, which is a one-way flow of cash and goods.

### Features of the loan taken in the past

Based on respondents' self-reported data about the size of the loans and frequency, the highest amount of money, in absolute terms, was borrowed from friends and relatives (around 16.5 million Afs). The other major sources of borrowing were MFIs (with around 13.5 million Afs of loan disbursements) and 'Input suppliers' (around 1.5 million Afs. disbursements) in both provinces. Although capacity to extend credit to these communities is high, the challenge is to overcome the prevalence of informal forms of lending and borrowing that the people seem to prefer.

Table 3.2: Size and average no. of time loans taken from different sources of credit

	Ave. no. of times loan taken by an household		Ave. amt. of loan taken in the past (Afs)	
	Kunduz	Bamyan	Kunduz	Bamyan
<b>Bank</b>	1.5	0	44,750	0
<b>Microfinance organization</b>	2.3	2.5	138,233	188,400
<b>Private lender</b>	5.0	2.5	150,667	68,750
<b>From Input Supplier (purchased on credit)</b>	2.8	5.0	23,419	85,857
<b>Credit Union</b>	1.0	1.9	55,000	22,708
<b>Friends and Relatives</b>	3.2	4.0	100,655	144,541

### Borrower Satisfaction

Respondents who had taken a loan from an MFI or a bank in the past were asked to rate their level of satisfaction with different features of the loans they took in order to assess where formal institutions need to improve whilst serving rural clients. In both Bamyan and Kunduz, majority of the respondents were either satisfied or very satisfied with the amount of loan that was offered (91.6%). Respondents also mentioned that they were comfortable in making small repayments every month instead of one huge payment at the end of the loan period, as was the case with private lenders.

### Box 3: Livestock value chain in Bamyán and credit

The livestock value chain in Bamyán works on an internal system of credit. For example a middleman in this value chain said that people cannot buy his products for cash directly and so they take it on credit. And the reason for allowing debtors was to increase customers because majority of the people in the town could not afford to pay in cash. Since he was not paid immediately, even he has to borrow cash from someone to pay his input suppliers. The loan he required was anywhere between 20,000 to 100,000 Afs annually. Hence, looking at the value chain, presents a potential opportunity for a credit institution to finance such transactions through small loans.

*“I need a loan of around 500,000 to continue my business because people mostly don’t buy products for cash and it takes long time until they pay for it... reason behind selling the products in debt is to attract more customers... people can’t afford to buy everything in cash.” (Case Study: Jawad, 52, Waras Bazaar, Bamyán)*

Multiple case study respondents especially from Bamyán, said they were dissatisfied with the high fee that was charged in case of a delay in payment of a monthly installment. This results in the increase in the total loan amount that they have to pay. Given that Bamyán is a subsistence economy, fines on loans can really hurt the balance of payments for individuals, which in turn, hurt their overall ability to pay the loan back. This means that either they have to forego the their assets pledged as collateral or they go to private money lenders to borrow more. Either ways, for subsistence individuals and households, the service fee and charges on loans in monetary terms may have extreme repercussion as it may end up putting the person into a debt spiral rather than building capacity to get out of it.

The length of the application process and its complexity were also cited as sources of discontent with MFI loan process (26.3% responded dissatisfied)<sup>27</sup>.

### Box 4: Grace periods in Agricultural loans

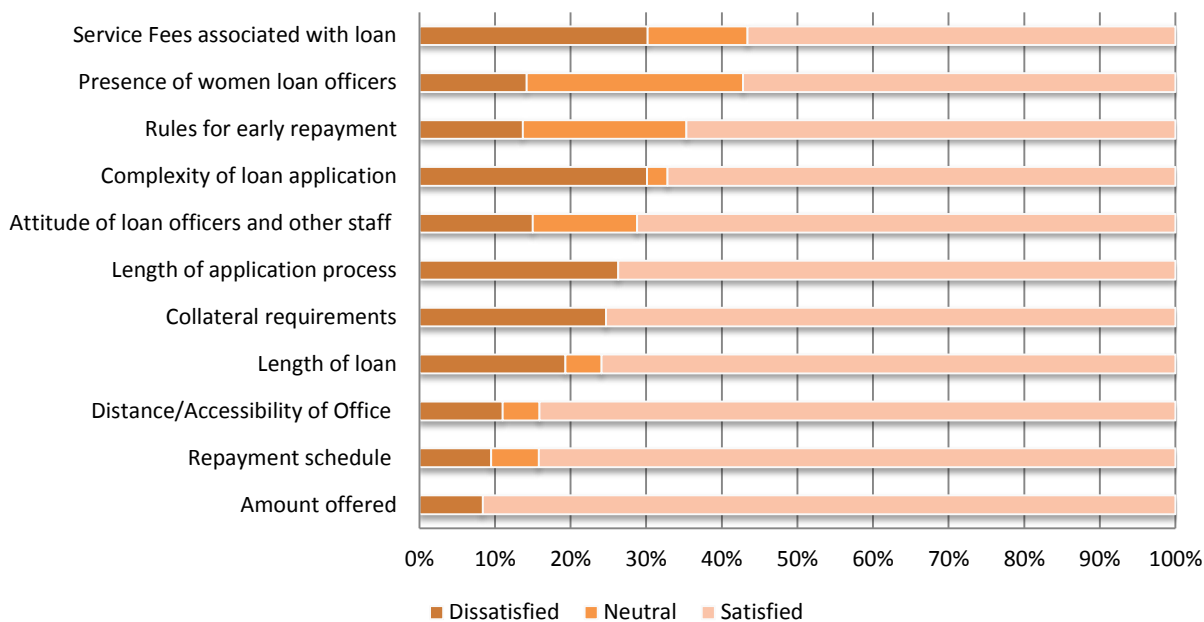
Farmers complained about the lack of grace period in the loans provided by MFIs. Loans taken from institutions required that the first installment of interest begin from the first month onwards. While investment into the business carries on throughout the farming period, the income only accrues at the end of the harvest season, meaning that a payment of a monthly installment for a loan, beginning in the first month reduces their business investment month-on-month. Hence the business does not generate enough returns commensurate with the loan taken but interest is paid on the entire amount.

*“... the bank would take a specific amount of the loan bank from me which would decrease the actual investment... before we start utilizing the loan in business, the bank would ask for its interest. These negative points made me take loan from other people rather than bank.” (Case study: Jawad, 52, Waras bazaar, Bamyán)*

<sup>27</sup> The complexity in the loan process may refer to processes of other MFIs and banks as well. Note here that the comparison is getting informal loans from friends and family where no paper work is required for loans.



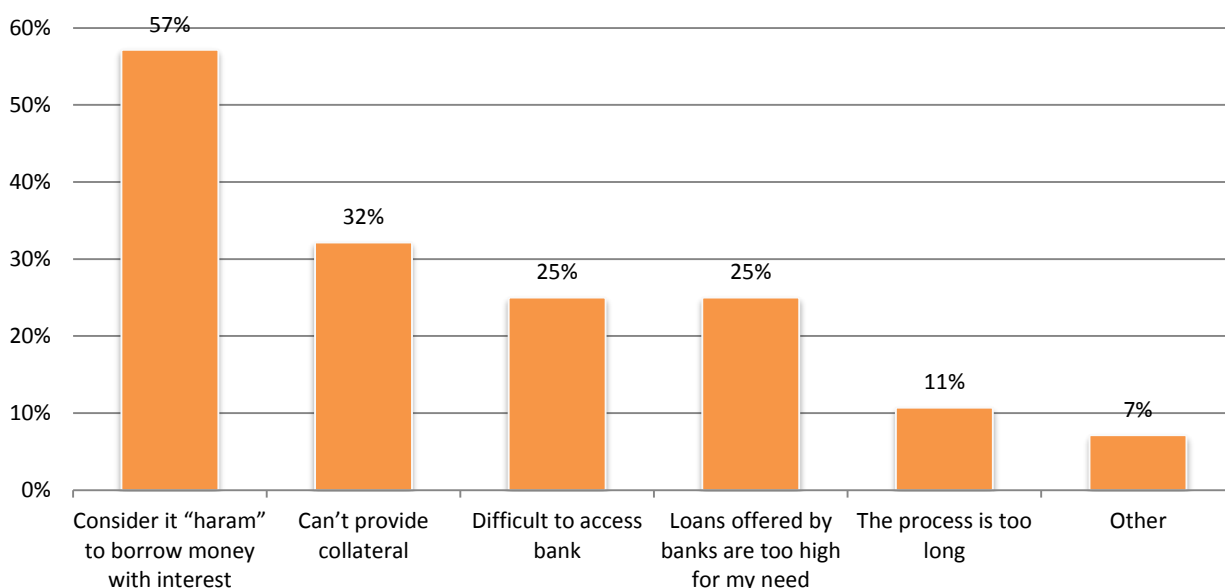
Figure 3.3: Level of satisfaction from bank\MFI services (%)



### Reasons for not taking loans in the past

Overall, the primary reason for not taking a loan, cited by a majority (57%) of the sample that did not take loans from an MFI, is that loans with interests are ‘*haram*’ – unlawful. This was higher in Kunduz (60%) than in Bamyán (54%). 32% of the sample said that they did not take a loan because they had nothing to offer as collateral. However, looking at the options that people chose, it is only the share of the people who considered interest unreligious, that are outside the purview of MFIs. The rest cited reasons, which amounted to inability to take the loans rather than a preference against doing so. By tailoring delivery channels, the rest of the respondents could possibly be brought under the potential for MFIs.

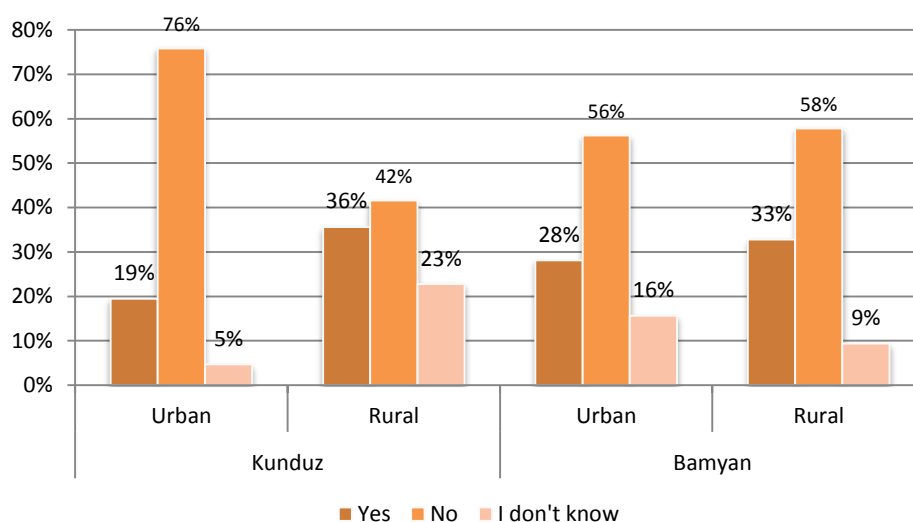
Figure 3.4: Reasons for not taking loans



## 3.2 DEMAND FOR LOANS AND CHARACTERISTICS

The demand for loans from MFIs or banks is in general, not very high in either of the two provinces. 62% of the respondents from Kunduz and 57% of respondents from Bamyan replied in the negative when asked about their willingness to get loans from formal institutions. This is more so in the case of urban Kunduz, where only 1 in every 4 people said that they would take a loan from an MFI. In the sample overall, just 28% people were willing to take a loan from MFIs in the future. The decision to take loans from MFIs seemed to be independent of the whether the person has taken a loan from a bank or an MFI in the past. There were only 10% of people who would consider MFI loans who had never borrowed in the past. 32 were for Kunduz and remaining 12 were from Bamyan. Yet, only 31% of all respondents have never taken a loan in the past and would not consider taking a loan in the future.

Figure 3.5: Would you like to borrow from an MFI in the future? (%)



### Reasons for not wanting loan from MFIs

The respondents who said “no” to future loans from MFIs\banks (264 out 442 respondents) were asked to explain why. Respondents could choose multiple responses from a list of options. In both urban and rural areas, people said that they do not require a loan (62% of sample that replied “no” to the previous question). Since the survey took place at the end of August and beginning of September, this was in the middle of the harvest season in both provinces<sup>28</sup>. There is not much need for money at this point in time at least for the producers in the agricultural value chain since it was mentioned that loans generally taken to obtain seeds and fertilizers during planting period in March-April.

Famer from Khwaja Bolak village in Khanabad district, Kunduz:  
*“Need for loans rises and falls with the season... it also depends in whether there was a natural calamity in that year or not.”*

<sup>28</sup> ASAP, Province Agricultural Profile, 2008

People in urban areas were more averse to getting loans from MFI\banks due to religious non-compliance than people from the rural areas. The reasons cited were that either it was “*haram*” to get a loan on interest or the loans were not sharia compliant. Provincially, half the people in Kunduz said that they considered interest loans to be haram and another 23% said that the loans were not sharia compliant. In Bamyan however, people either said that they did not require the money or that the loans given by MFIs and banks were too big for their needs. Another 17%, in Bamyan said that they borrow only from friends and relatives.

It is interesting to compare reasons for not taking a loan in the past with reasons for not taking a loan in the future. Although the results are not directly comparable - due to a difference in the respondents (only 52% overlapped with the previous set of respondents for the same question) – the results suggest that prevailing cultural norms play a significant role in determining the likelihood of taking up a loan, but they also demonstrate the seasonal nature of loan demand and necessity, which *may*, in some cases outweigh traditional objections to taking out a loan.

**Table 3.3: Reasons for not wanting to avail a loan from an MFI (%)\***

	<i>Urban</i>	<i>Rural</i>	<i>Total</i>
<i>Have no need to borrow money</i>	63%	59%	62%
<i>I do not trust banks and MFIs</i>	3%	15%	6%
<i>They do not offer Sharia products</i>	26%	11%	22%
<i>I can't provide collateral</i>	5%	3%	4%
<i>The process is too long</i>	6%	9%	7%
<i>Bad treatment by loan officer in past</i>	1%	3%	1%
<i>Difficult to access bank/inconvenient</i>	3%	1%	2%
<i>Consider it "haram" to borrow money with interest rate</i>	46%	24%	40%
<i>Loans offered by banks are too high for my need</i>	3%	14%	6%
<i>Borrow only from my family, friends and partners</i>	1%	30%	9%
<b>Total</b>	185	79	264

\* The question was asked as a multiple response feedback. Column percentages do not add up to 100.

### Purpose for wanting to avail a loan

The remaining 122 respondents who said that they would like to take a loan from an MFI were asked for their preferences. Firstly, 57% respondents said that they would take the loan for investment into their business. These investments included, buying more inputs for shop owners, buying seeds and fertilizers for farmers and buying cattle, sheep and goats for livestock owners. 83% Respondents from urban Kunduz who were mostly small retailers and wholesalers said that they would use the loan in their business. In contrast, only 19% of people from Bamyan said that they would use the loans for productive purposes.

People from rural Bamyan cited a lack of medical facilities available in the districts and so 30% of the respondents said they require a loan for their household health issues. 14% people also said that they would take a loan from an MFI to repay other outstanding debts. 10% each said that they would use their loans for either constructing a house or towards education for their children.

Research has shown livestock activities to be highly elastic to credit infusion in case family sizes are large since it is an activity that can take advantage of excess unskilled labour<sup>29</sup>. We have already seen an average household of more than ten people, so it can be expected that credit into this sector may increase the production in Bamyan.

**Table 3.4: If you would like a loan, what would you use it for? (%)**

Purpose of loan	Kunduz		Bamyan		Total
	Urban	Rural	Urban	Rural	
<b>Invest in Business</b>	83	53	64	19	57
<b>Housing Loan</b>	3	0	11	10	6
<b>Social even like wedding\funeral</b>	3	6	11	0	6
<b>Buy land</b>	3	0	0	5	2
<b>Education costs</b>	0	0	0	10	2
<b>Health expenditures</b>	0	0	0	29	5
<b>Repay other debts</b>	0	0	0	14	2
<b>Others</b>	7	42	14	14	20
<b>Total</b>	<b>29</b>	<b>36</b>	<b>36</b>	<b>21</b>	<b>122</b>

The reasons for borrowing in the future also depend on the timing of the survey as much as the decision for borrowing itself. The harvest season was nearing when the survey was conducted which explains why the need for business loans was less. The remaining loans that were required were hence for purposes other than business<sup>30</sup>.

From Kunduz, the case studies revealed that there was a greater tendency for people to use the loans towards unproductive purposes like spending on a social occasion such as weddings or for personal consumption like motorbikes and daily expenditures while citing productive reasons during application process. 42% of the quantitative sample from rural Kunduz said they would like to take a loan from an MFI for other purposes such. In fact 20% of the overall sample said they borrowed for reasons other than the options presented. However, these reasons were also almost always relating to expenditure on the agricultural\livestock activity they were involved in.

### Preferences for loans and features

There are considerable regional differences in requirements between urban and rural respondents particularly for business purposes. Comparing the repayment period that respondents were comfortable with, the turnover period for urban businesses is much faster than those for rural businesses, if one takes into consideration the scale of operation. More specifically, urban respondents from the sample wanted to borrow 0.5 million Afghani which they said they could pay back in a little over a year.

None of the urban respondents wanted to take a loan for either education or health care. Only in rural Bamyan did people require loans of around 25 thousand Afghani for education purposes and 50 thousand for medical purposes. A housing loan in rural area also required more than a corresponding loan in urban area. This was mainly from respondents in Bamyan who said they would take a loan to construct a house.

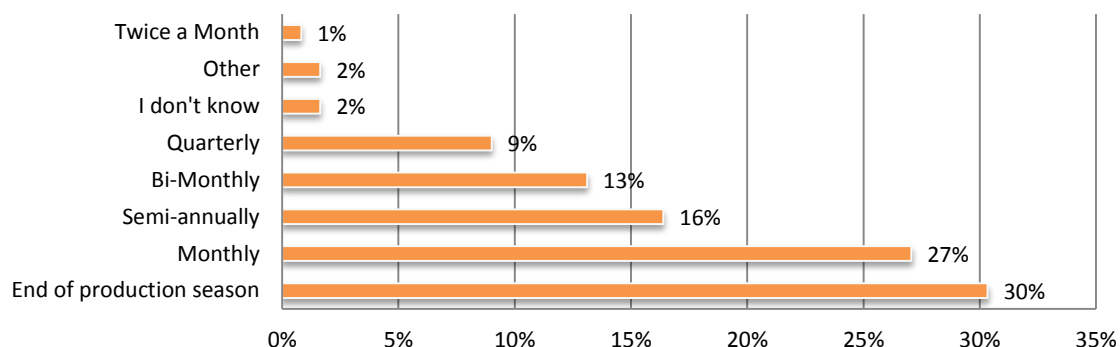
<sup>29</sup> Abedullah, Mahmood, Khalid & Kouser, (2009), "The role of agricultural credit in the growth of livestock sector: A case study of Faisalabad", Pakistan Vet. J., vol. 29-2, pp81-84

<sup>30</sup> Only 23% of the urban population said they wanted loans as opposed to 35% of rural people. People from rural areas who wanted to loans during harvest season had requirements other than for business.

Loans for daily family expenditures, represented by “others”, were of an average size of 95 thousand Afghani and 67 thousand Afghani in urban and rural samples respectively. Respondents from both areas said they could pay this back in 10 to 12 months.

The majority of the respondents who were farmers or livestock producers said they could only pay back the loan at once after the end of the harvest period. 27% said they could pay it on a monthly basis, 13% said bi monthly and 16% said they could pay the loan back in semi-annual installments.

Figure 3.6: How often would you be able to make the loan repayment? (%)



78% of people preferred putting up the title for their houses as collateral. Another 19% said they could guarantee repayment by collateralizing their shop deeds (in urban areas) and land deeds (in rural areas). However, the lack of assets is actually a problem since in case of defaults; these people will have to forfeit the only assets that they have which would send them in a severe spiral of poverty. This is the reason in rural areas, 65% of the people said that they would like a friend, relative or neighbor to act as their guarantors.

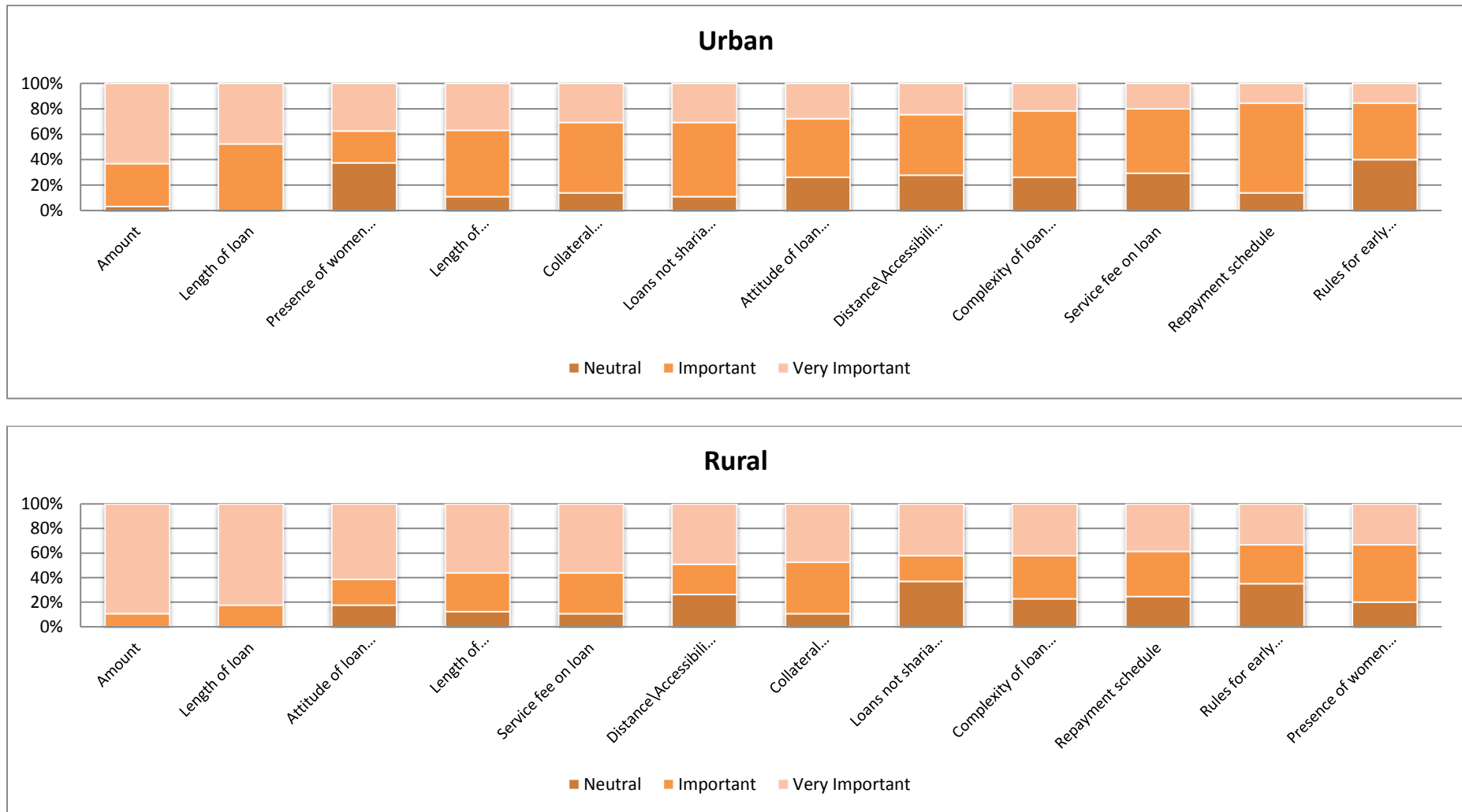
The respondents who had a low PPI score (0-30) were willing to offer only their house deeds as collateral for the lack of ownership of any other asset. Except for that, they either respond with a ‘third person guarantee’ or ‘no collateral to offer at all’. In contrast, the people with higher PPI scores were able said that they could offer their household furniture and business equipment. Only 2 out of 16 in this group responded by saying that they want someone else to guarantee them (Table A1.2, annex).

Although people said they preferred other people providing a guarantee for them, only 23 people said that they were willing to guarantee another person in a group-lending model as opposed to 99 people who replied in the negative. However, this might simply be due to risk aversion. Their lack of experience with group lending makes might account for resistance to try.

Third person guarantee has been successfully implemented in the form of “solidarity lending programs”. Solidarity lending or “joint liability lending” has been successfully implemented by the Grameen Bank in Bangladesh and BrancoSol in Bolivia (Morduch, 1999). The borrowers are organized into a group and can ask for a loan as a group. Each member in the group is thus responsible for the repayment. In case of default by a member, either the rest can pay on his behalf or convince the member to repay the loan. Its feasibility in Afghanistan is still a moot point since only very recently has there been any group lending tried here and the results are yet to be documented. However, evidence suggests at least a pilot into this kind of lending model for the poorer section of the economy.

The graphs below give the preference for different features of the loan that people from urban and rural areas considered most important while making decisions about taking a loan or not. The amount of the loan and the time period for repayment were cited as the most important features that people would consider. In urban areas it was the “length of the application” process that was important to potential clients where as in rural areas the “attitude of the loan officers” towards borrowers was a significant criterion.

Figure 3.7: How important are each of the following loan features when making a decision to apply for a loan? (%)



### Box 5: Funding start-up businesses

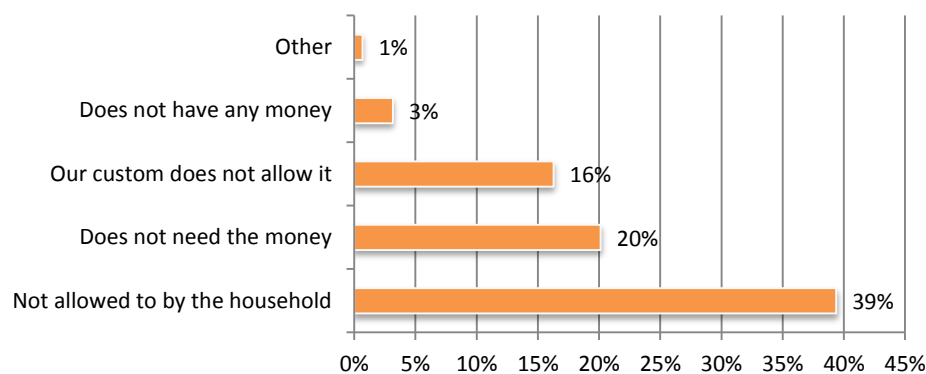
An interview with a rural livelihood expert with the government indicated that there are no financing options available for start-up businesses since these are risky but there certainly is a demand for such loans, especially in Bamyan.

Funding start-up loans has an advantage that it is likely to fulfill gaps in the value chain. For example, a startup-loan towards building a warehouse or storage facility, or setting up a vet clinic could have long-term payouts for the entire community.

### Women as potential clients

80% of the respondents from the sample said that women in their household were not allowed to take loans. Such perspectives regarding women were similar across provinces and even areas (both urban and rural). When asked why, 40% said that their household did not permit women to take loans while another 16% said there were cultural restrictions in their community barring women from taking any loans from formal institutions or private lenders.

Figure 3.8: Why are women not allowed to take loans? (%)



### Box 6: Expectations for 2014 and implication for credit services

Economic, political and security transitions in Afghanistan in the year 2014 have consequences to the risk that credit services carry. It is common knowledge that demand for credit is driven by business sentiment. In this sense, a comparison between expectations of the economy in the future by experts and demand for credit services needs to be assessed before any long-term commitments are made. For instance, according to the World Bank's 'Economic Outlook 2013', *"the withdrawal of international troops is associated with a decline in security and civilian aid. The real GDP growth will fall, high unemployment rate will continue and there will be little progress in reduction of poverty"*.

Our primary data from field case studies gives the impressions that people in Bamyan and Kunduz overall are looking for business loans to expand. Obviously, this wouldn't have been the case unless owners were positive about the future of sales. However, an informal discussion with a community leader from a rural village in Khanabad district, Kunduz, revealed that people around the district seemed to share the sentiments for 2014 with experts. They are hence looking to take loans from MFIs with the expectation that in the chaos that will ensue after the drawdown, they would not be asked to return the loans.

### 3.3 DEMAND FOR OTHER FINANCIAL SERVICES

This section presents some interesting complementarities to the preference for loans discussed previously. It has been hypothesized, and indeed proved, that there is a considerable difference between savings behaviors of males and females. Our study seems to corroborate that finding for populations in Kunduz and Bamyan.

#### Savings

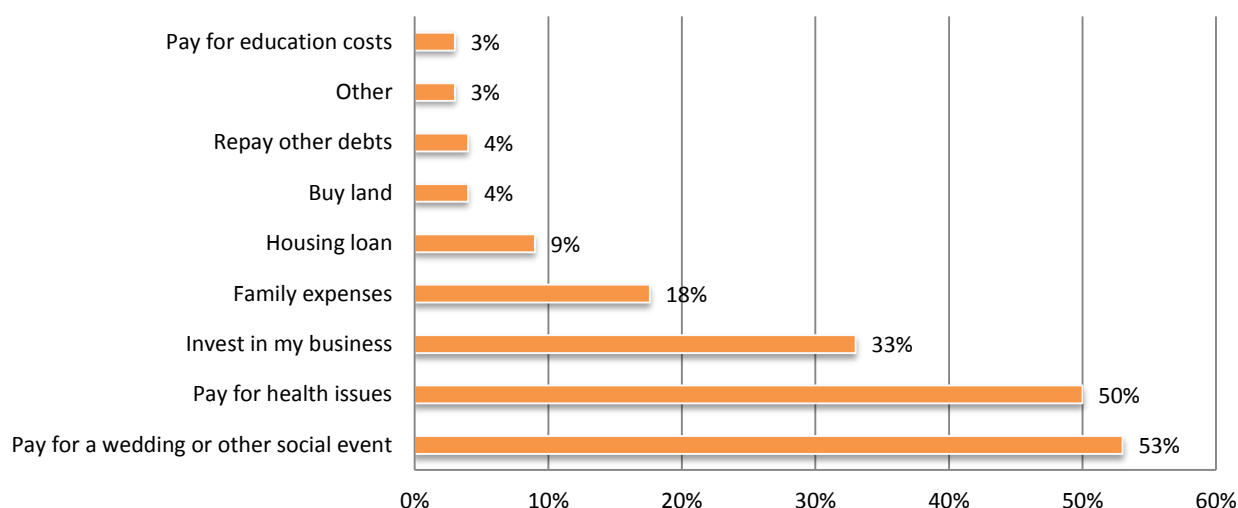
Only 32% of the surveyed households said that they save money in some form or the other. In Afghanistan, the culture of saving is not very popular. The extra income that is earned at the end of the month is generally either, a) reinvested into the business or, b) spent for unproductive purposes. As a official from the MAIL informed us that:

*“The culture of savings is not present in Afghanistan. As opposed to other countries where people would first save and then start spending from their income, in Afghanistan people would spend the money on food and fuel and spend the rest with friends and relatives.*”

From the respondents who said that they save money, 39% said that they save money every 2-6 months and another 37% said that they saved on a monthly basis.

The major difference in savings behavior came between males and females. While only 82 out of 373 (22%) of the male respondents said that their households save money, 60 out of 69 (87%) female respondents positively responded saying that they save some amount of money. KIIs revealed that since women were not allowed to go out on a regular basis, they would save the money given to them by their spouses\household members which they would save up until the time they could go out and spend it, buying either jewelry or clothes for a marriage.

Figure 3.9: Purpose of saving money (%)



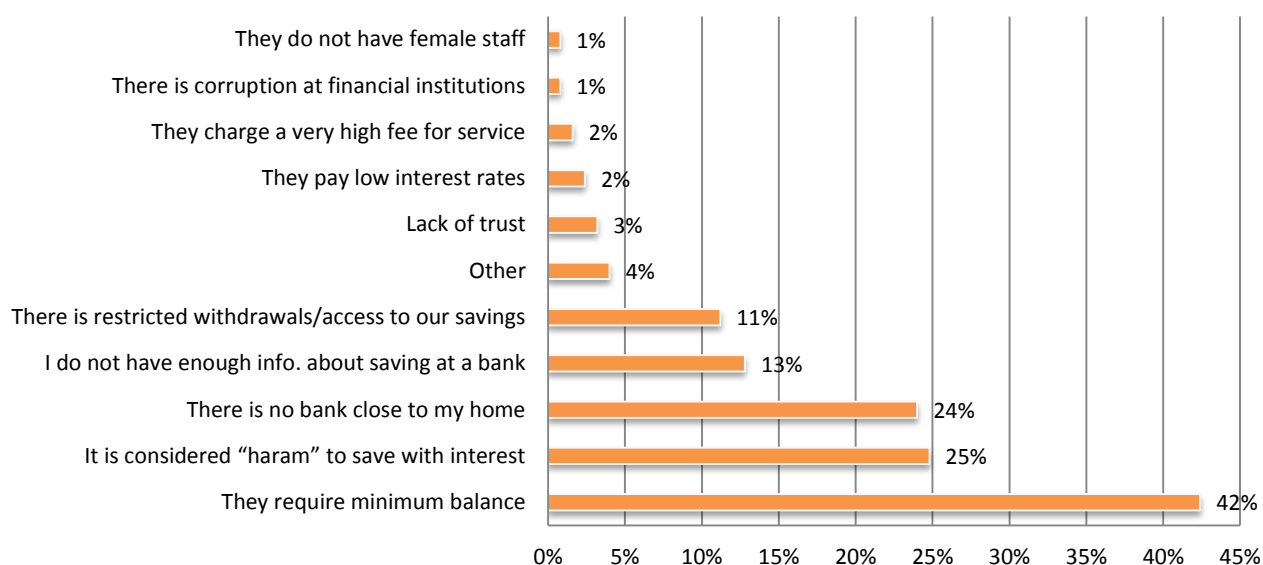


Female respondents were also more concerned with the welfare of the family and indeed saved money from household expenditures that were provided by the income earners for emergencies such as health issues. 93% of the females responded saying that they saved to pay for health issues in their households and 85% said they also save to pay for a wedding or some other social event. Male members said they primarily saved to re invest the money into business. The trends to save were uniform in both provinces but rural people seemed even less inclined to save than urban respondents.

Only 11% of the respondents who said that they save did so with financial institutions. Only 3 people from the sample in Bamyan said that they save with financial institutions. In Kunduz, Maiwand Bank and New Kabul Bank were agencies where people had their savings accounts. Women do not save with formal institutions and prefer to keep savings at home or with family.

42% of respondents said that they did not save with financial institutions because of the ‘minimum balance’ criteria. 25% people said that they did not save with financial institutions because they considered earning interest “*haram*”.

Figure 3.10: If you do not save at any financial institution, why not? (%)



## Transfer

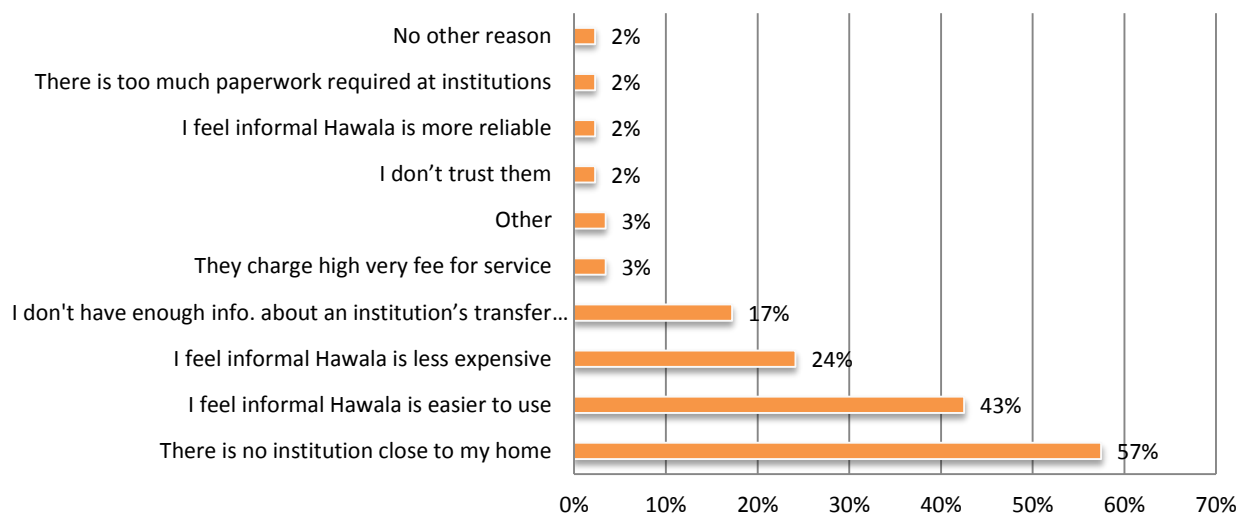
31% of respondents in Kunduz and 47% in Bamyan said that they transferred money in and out with some frequency during the year. The majority (52%) transfer money as frequently as every month and 30% transfer money every 2-6 months.

Most (68%) of the respondents in Kunduz use Banks/MFIs to transfer their money, as compared to Bamyan where 30% of people use this mode of transfer. Conversely, the percentage of people using informal Hawala systems to transfer their money was higher in Bamyan (68%) than in Kunduz (27%), indicating that people in Kunduz are more inclined towards formal modes of transfer whilst Bamyan still relies on the traditional form.

An Urban-rural analysis shows that urban 54% respondents are more likely to use Banks/MFIs for transferring their money than rural respondents (29%). 64% of rural respondents on the other hand relied on Hawala systems of transferring money as compared to urban respondents (44%).

The non-existence of formal financial institutions nearby was the main reason why people in Bamyan (especially in rural areas) did not use formalized transfer facilities. The problem is acute for almost all the districts surveyed in Bamyan, especially for Yakawlang.

Figure 3.11: Reasons for not using financial institutions for transfers (%)



Firstly, the size of money transfers differs between the urban and rural population. The urban respondents seemed to be transferring much higher amounts per capita than rural respondents. The transfers were also marginally higher for Kunduz than for Bamyan. In terms of the estimated poverty incidence of the sample, the per-ticket transaction value became higher as the respondents got higher on the PPI score.

Table 3.5: No. of people using transfer services and average ticket size of transfers

	Kunduz		Bamyan		Total
	Urban	Rural	Urban	Rural	
<b>0-30</b>	10	4	19	11	44
	1,10,900	21,000	92,895	18,227	71,784
<b>30-50</b>	34	13	34	8	89
	1,10,059	33,385	1,52,721	18,125	1,06,893
<b>50-100</b>	15	1	14	4	34
	1,53,333	40,000	1,39,643	28,750	1,29,706
<b>Total</b>	59	18	67	23	167
	1,21,203	31,000	1,33,022	20,022	1,02,287

### 3.4 PROFILING CUSTOMERS

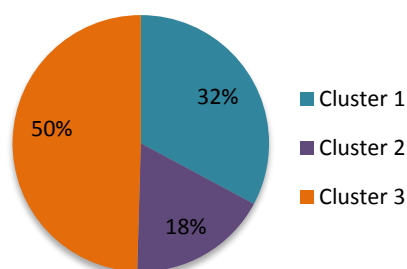
The analysis up to this section has revealed patterns in data in terms of the history of credit, preference for credit, savings and transfer behavior. **Cluster analysis**<sup>31</sup> of the sample would allow us to achieve profiling based on multiple indicators simultaneously. Essentially, cluster analysis takes into account all variables that are used to classify a respondent and finds 2 or more, data points that are characteristically (based on the variables) most different from each other – mean data points. The process would then simply classify the rest of the data points based on their closeness to these means – which forms the clusters. The number of means (or clusters) that it calculates is dependent upon data itself and the variation that it presents. Finally, the clusters allow us to study the respondents contained in them and build profiles, such that each profile now provides us with similar respondent features.

This section describes the groups relevant to the objective of studying the profiles of respondents as potential micro finance customers. Cluster analysis ranks the variables based on the similarity of the responses to those variables. So for instance, in classifying the respondents who would like to take a loan from an MFI or a bank, the profile will allow us to rank the features of the loan that they are most interested in when making their decision.

#### Credit History

Based on the responses for questions relating to the past borrowing experience of customers, there are three significant clusters that can be identified from the data. The sizes and features of each cluster are described below.

Figure 3.12: Credit history clusters (%)



*Cluster 1* groups all individuals who have taken a loan from an informal source in the past<sup>32</sup>. The respondents from this group are categorized as being extremely satisfied with the length for which the loan was forwarded and the amount given to them. However, such loans tend to be used more for unproductive purposes like social events. These respondents were, on average, unfamiliar with most financial terms relative to the other borrowing groups.

*Cluster 2* respondents were those who had borrowed in the past from formal institutions like banks, MFIs and credit unions. Of this group 83.3% had borrowed in the past from FMFB. This would likely be by design, but the respondents borrowing from formal channels utilized the loans for productive purposes such as

<sup>31</sup> Norusis, MJ, "IBM SPSS statistics 19 Statistical Procedures Companion", Prentice Hall.

<sup>32</sup> Private lender, input supplier, friends and relatives

investments into business. In terms of the loan features, amount and attitude of the loan officers were most appreciated by respondents followed by comfortable repayment schedules. The respondents who had borrowed from formal institutions in the past were more familiar with banking terminology than counterparts who borrowed from informal institutions.

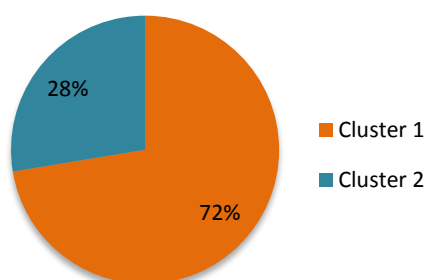
*Cluster 3* respondents, who were 49.5% of the sample, said they had never borrowed any money in the past. The reasons being that they said they did not require any money at the time.

### Credit Preferences

Based on the preferences of the respondents to borrow from MFIs in the future, the sample can be divided into 2 distinct clusters - those who are willing to engage with financial institutions and those who were not. The differences in the two clusters are presented below.

*Cluster 1* denotes all members of the sample who said they would not want to engage with a financial institution to borrow in the future. Half the respondents in this group said they did not require any money, but compliancy to Sharia law was not really an issue for them. The majority of the respondents in this group were traders. The mean PPI score is 37.74 for the cluster, which translates to nearly 24% of the cluster being below the poverty line.

Figure 3.13: Credit preference clusters (%)



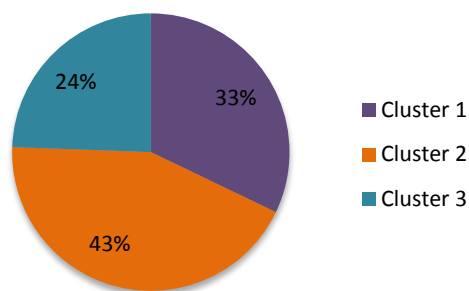
*Cluster 2* where people responded saying they would like to borrow from MFIs in the future said that the length of the loan and the amount offered were the most important criteria for them to accept the loan. The majority, 49.5% and 43.4% people in the group said that the length of the application process and attitude of loan officers were very important factors they considered. Most importantly however, the people who were willing to take a loan from MFIs tend to be from lower incomes households (with low PPI – scores – 36.09) than the those who said they would not like to take a loan from an MFI. Factors such as urban and rural settlement are determiners of willingness to take a loan.

### Other Services

Based on variable that provide information about preferences for other micro finance services, we obtained three distinct respondent groups that can be called saving intensive, transfer intensive and invariant to other services.

*Cluster 1* is where none of the respondents either saved or transferred any money ever. From an income profile these households had considerably lower income index and PPI scores.

Figure 3.14: Other services cluster (%)



*Cluster 2* is a savings intensive cluster where all 43.4% respondents said they save money in one form or the other. Households that save were primarily saving for a social event like a wedding and even for health issues. The most common form of saving was putting away cash at home or with family. The culture of saving with formal institutions was almost absent. The majority of the respondents resided in rural areas as opposed to other clusters. Cluster 2 is also characterized by having never used any kind of transfer facilities.

*Cluster 3* or transfer intensive cluster had 61% respondents who transferred funds on a monthly basis using informal or “hawala” means of transfer. 87% of the respondents resided in the urban areas. This was probably because they were predominantly traders (66%) who were required to transfer money regularly for business purposes.

## 4 RECOMMENDATIONS

There are a number of challenges associated with the delivery of micro finance services to the rural population of Afghanistan, but from the assessment of Bamyán and Kunduz, it can be established that the lack of credit is not a concern. Currently, a combination of both formal and informal sources is looking after the credit needs of the people for consumption and investment funds. However, micro finance itself is still extremely narrow in approach to service delivery in Afghanistan. The mere delivery of the service cannot be the final objective *per se*. It should be used as the tool to uplift entire communities from poverty.

The ultimate objective of the MFI towards its clients must be the stability of income. At present, people seem to be struggling to maintain daily consumption and as a result, MFI loans are used as a means of coping with investment loans being spent towards daily household consumption, but a stable income is not just good for the clients it is beneficial for the MFI as well. An income sufficient client translates to low risk credit and even a healthy deposit source.

The figure below presents FMFB’s way forward to support a sustainable rural economy by providing financial support in terms of its strengths, weaknesses, opportunities and threats that the environment in these two provinces present. Looking at the matrix below, a few pragmatic considerations to programming can help effectively address the internal and external concerns. Micro finance for the sake of extending access to financial services cannot be the ultimate objective. There must be a concerted effort to move communities (not just clients) out of poverty and become self-sustainable. Below are recommendations for a constructive rural strategy for micro finance:

Figure 4.1: SWOT Analysis for micro finance programming

	Positive	Negative
Internal	<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>• Strong presence in terms of network and branches</li> <li>• MISFA’s coordination capabilities</li> <li>• Acceptance and positive image of AKDN among local populations</li> </ul>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>• MFI services are narrow in scope</li> <li>• One-size fits all strategy</li> <li>• Focus on short term profit versus long term sustainability</li> <li>• Lack of programming for awareness</li> <li>• No provision for start up loans</li> </ul>
External	<p><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>• Diversification in terms of products offering and scope</li> <li>• Women’s saving potential</li> <li>• Livestock sector in Bamyán</li> <li>• Strategic points in value chain</li> <li>• Partnerships with organization for disbursing constructive funds</li> </ul>	<p><b>THREATS</b></p> <ul style="list-style-type: none"> <li>• Natural cause and calamities affecting productivity</li> <li>• Volatile security and political environment (especially in Kunduz)</li> <li>• Lack of infrastructure</li> <li>• Strong existing informal sector of lending</li> <li>• Competition from private MFIs and government livelihood projects disbursing cash</li> </ul>

## General recommendations for growing FMFB's client base

Loan requirement is based upon need. There is no conclusive evidence to show that one group is more likely to take a loan than another. Similarly, the desire to engage with an MFI more generally is also based on need. People who were poorer showed more willingness to engage with MFIs while slightly more affluent respondents who had access to informal sources said that they would not take a loan from an MFI due to religious restrictions. Nevertheless, there are a number of steps that FMFB can take to increase its client base:

- **Introduce micro savings schemes for women.** There is a tendency for women to save more than men in both provinces. These savings are made from the money given to them by their spouses\household heads. For households that have taken a loan from the MFI, these micro savings schemes for women could be offered as an add-on service. Engaging more members of the family would ensure customer retention. It would be beneficial for FMFB to learn from agencies that have similar experiences in Afghanistan. An unpublished report by Samuel Hall, after evaluations of SHG programs in Afghanistan suggests promoting SHGs for women by providing financial support<sup>33</sup>.
- **Tap into existing demand for traditional financial services by identifying key features that could be replicated by formal financial services.** The peculiar nature of the rural economy in Afghanistan is that there is substantial trust in the informal method of lending as opposed to other countries from where there is evidence of exploitation from private lenders. For example, FMFB should:
- **Cut down on time between customer walk-in and loan disbursement.** Loan requirement is almost always immediate. Since these people do not have savings, in times of crisis, they require a loan instantly. Where private lenders such as friends and family can mobilize money immediately, the application process for formal institutions takes time. Cutting down on the time between a customer walk in and loan disbursement would help retain branch footfall. Automation of application and verification process is a simple way to go about achieving this;
- **Provide loans for asset purchase with a long-term repayment schedule.** As the data shows, asset owners have a lesser probability of being poor. Further a loan towards asset purchase now makes the client a future prospect for lending against collateral. By improving his/her income stream, it also reduces the risk on the client. But asset purchase loans have to be long-term, in the sense that land purchased now will not give adequate returns within a year. The client must be given adequate time for the asset to bear returns before they can pay it off.
- **Offer group lending policies to people who do not have assets.** A “*joint liability model*” would be a good way to proceed to mobilize such people as clients for micro finance. A pilot aimed at such model will inform about its effectiveness. The survey data shows that although these people would be happy to allow a third party to offer a guarantee for them, they would be unwilling to offer security themselves for another third party. This may be related to a general lack of experience or information about group borrowing.

<sup>33</sup> Samuel Hall, (2011), “*Self Help Group Evaluation*”, commissioned by Mission East

- **Target Shopkeepers and traders in the urban areas as clients of micro financing.** Word of mouth is the most common mode of exchanging information. Traders (retailers and wholesalers) and input suppliers are a very important source of information for village producers. Establishing a client base among these actors in the value chain would raise the profile of microfinance services among their larger networks of rural producers.

#### Box 7: Micro financing and widows

Widows form a very vulnerable group in Afghanistan earning considerably lower incomes for their households. Since many are un- or poorly-educated, stable and salaried employment is hard for them to find. Micro finance can provide them with startup loans to improve their income streams. There are two possible ways to go about disbursing low risk funds to widows:

- **Self Help Groups (SHGs)** are a proven way to mobilize people who are from the same community since they understand each other better. It also mitigates risk of non-repayment through peer pressure. Another advantage of SHGs is that they can be mobilized for group savings as well.
- **Partnerships with organization** (such as AKF) who have worked in the past to provide vocational training to widows in managing small urban businesses. In such cases, the returns would be tied to the vocational training programs' efficiency.

In either case a stakeholder mapping of agencies working with women and widows in Afghanistan would be a good way to proceed.

#### Recommendations for growing business in urban areas

A robust urban economy close to the villages has a direct implication to the returns that agricultural loans produce through price mechanisms and transaction contracts. This is relevant both in Bamyan and in Kunduz. FMFB should:

- **Disburse loans at strategic points in the value chain.** The input suppliers to the farmers are very often the buyers of agri-produce as well. They are placed in unique position to facilitate production in the value chain. Loans towards such input suppliers will send a positive impulse through the forward and backward linkage in the network, i.e. capacity to extend further credit as well as capacity to absorb increased produce;
- **Create an SME strategy, which compliments the rural finance strategy in the same area.** A synergy between the bank's SME strategy and rural strategy would potentially work very well in favour of the bank. Funding, SMEs that use agricultural produce close to the areas where FMFB clients are located would enable demand and supply of produce. Proximity would lead the SME to pick farmers who are closer as its input suppliers, thereby providing a market/customer for their produce;



- **Verify with the farmer or the livestock owner his arrangements to sell the final products<sup>34</sup>.** This would have two advantages: firstly, it could be a tool for risk assessment of the client (whether he has capability to earn income); and secondly, finding opportunities to fund agents down the value chain without incurring costs of surveys;
- **Fund start-up businesses.** There is a requirement, at least in the urban provincial centers, for loans to start new businesses. Small urban centers like Waras could use more retailers and wholesalers to boost demand for agricultural goods. This would also fill up gaps where the value chain has links missing, like warehouses for storage or transporters of goods. The step ahead would be to invest in research into what businesses are people looking to start and where in the supply chain can they add value. Risk assessment of start-up businesses would also be a question this research would look to answer;
- **Compliment the credit disbursement to livestock owners by supporting input suppliers.** The lack of vendors to provide for livestock owners is a concern for investment (higher risk due to lack of business opportunity). Hence it would be beneficial to invest in businesses of traders and processing units in Bamyan urban centers that utilize or buy products of livestock owners. This would go hand-in-hand to funding supporting activities like veterinary services. There is at present a lack of such business in Waras and Panjab district since they have a very small urban population.

### Recommendations for growing business in rural areas

The rural economy between the two provinces is divided between two livelihood sources – agriculture and livestock. There is opportunity for credit and add on services in both these livelihood segments. FMFB must begin with the following actions to take facilitate the two value chains:

- **Conduct a crop-income cycle analysis<sup>35</sup>.** Income stream for agricultural households is not the same, even within districts. The income stream depends on the crops being produced. As mentioned, each crop has its own value chain and its own seasons of harvest. A crop-income cycle analysis will inform the lender about the nature of seasonality for different crops. Its is required to move from a one-size-fits-all model to a customized model of lending where farmers can choose their own repayment options. Customizing repayment options for farmers could even reduce delays on installment payments. The high default fee on installments is detrimental to the financial health of the client and consequently for the lender. Our research so far tells us that agricultural clients would ideally like to pay at the end of the harvest season;
- **Combine loan disbursement for agriculture purposes with capacity building programs for farmers.** The most critical persistent threat to failure of crops is the lack of capacity of the farmers. If the loan disbursements were tied with capacity building programs along with technical assistance to the farmers, it would mitigate yet another risk to agricultural loan disbursement. This is especially true for villages in Bamyan. MEDAIR is an agency that works in the same field. The system could be mutually beneficial as the agency receives financial support for its beneficiaries while the MFI gets access to a potential customer base whilst lowering its risk;

<sup>34</sup> For example, the Union Bank of India has a question that asks a livestock owner the name of his veterinary, buyer and input supplier and the nature of the contract while extending agricultural loans to them.

<sup>35</sup> "Emerging lessons in agricultural micro finance: Selected case studies", CGAP & IFAD, 2006.

- **Create a loan product that also provides medical insurance as an add-on.** The research shows that medical expenses in rural Bamyan form part of the expenditure of the family and these medical expenditures often tend to be considerable. A loan product tied with a medical insurance would then make sure that the client is not using his own income for medical expenses and can allocate this towards savings and eventual repayment of the loan;
- **Continue to focus attention towards customer service.** Respondents from rural areas indicated that this is a factor in whether they would like to engage with an MFI in the future or not. In rural areas, besides the obvious of amount and length, people care about the attitude of loan officers, length of application process and service fee on the loan;
- **Use indirect lending through credit cooperatives to improve accessibility.** The high cost of reaching remote clients can be reduced by indirectly lending through lending groups and credit cooperatives. The cost of verification and check is then transferred to the group managers who can report back periodically. For a long-term strategy, the MFIs might want to consider finding road construction to improve the infrastructure of the province;
- **Provide credit to livestock owners.** Livestock owners of Bamyan are an income vulnerable group. There is indication from the findings that a lot of them depend upon credit from their input providers for livelihood. There is hence an opportunity to substitute input suppliers as sources of credit. Note however, that livestock business would require a different loan product than an agricultural\ farming loan due to difference in income streams.

### Building partnerships with local actors

Partnering with different organizations working in these provinces will open up new avenues for micro finance services so that a lot more can be achieved by MFIs such as FMFB. There are numerous organizations working in these two provinces that have a detailed understanding of the local markets and labour-force skills capacity and are therefore well placed to provide granular information about ways in which to boost economic activity. Partnering with local organizations could also help to tackle the underlying issues of financial awareness and literacy. The starting point to this would be:

- **Conduct a stakeholder mapping of NGOs in the provinces.** There are a number of international NGOs that work in rural livelihood development. Stakeholder mapping would thus involve identifying all agencies whose programs intersect with the agricultural value chain, identifying the profile and size of the program's beneficiaries and finally identifying regions of operation. These agencies could instantly provide access to a customer base and at the same time, inform the MFI about nature of operation so that time and energy is not spent on analyzing the demand. In return, FMFB could:
- **Align products with NGO programming.** Mapping local development initiatives (specifically those aimed at markets and livelihoods) could help to identify likely service-demand segments. Partner with agencies such as MEDAIR (Bamyan) and ACTED (Kunduz) to inform of practices that will increase productivity, and increase the rate of return on investment. For example, ACTED has 60 women's SHGs across the North of Afghanistan, which receives training and grants to start their own businesses. Similarly, MEDAIR has operations that provide capacity building assistance, providing seeds and fertilizers and setting up kitchen gardens;

- **Work with government infrastructure projects** such as NHLP and AREDP to support wider economic development initiatives. Without the supporting infrastructure, the benefits that micro finance can bring about are limited in quantity and quality. Government projects that have already been initiated to develop the infrastructure might require financing.
- **Keep updated about climatic trends and agricultural forecasts** through systems such as FEWS-NET such that information can be transferred to existing clients so they may prepare in advance for any natural occurring or even for FMFB themselves to revisit short-term strategy to disburse further loans.
- **Sponsor or co-fund financial education courses in local communities.** A lack of familiarity with financial products, combined with low levels of financial literacy, continue to hinder the uptake of formal financial products. Providing courses to educate people about financial language and terminology may help to pave the way for wider market penetration.

## 5 CONCLUSIONS

While countries such as India and Pakistan (at the time when they shared the same economic situation as prevailing in Afghanistan now) suffered under the feudal system of agricultural finance<sup>36</sup>, evidence from Bamyan and Kunduz does not suggest that such is the case in Afghanistan as well. Rather, the strength in the informal network and trust in peers makes the existing financial system highly embedded in livelihoods. The problem thus is not an absence of credit but rather a lack of constructive credit. For deposits, there is a lack of culture and for transfer services there is unrelenting faith in the traditional mode of conduct. Thus, micro finance faces competition from the traditional system.

The answer lies in what micro finance can do to further the lives of households dependent upon rural services that the informal market has not been able to achieve. The competitive edge is not in merely disbursing services through modern channels but providing value added services to the clients, which build their capacity to produce more. Clients' repayment capacity is restricted by their ability to efficiently use the funds.

Although the framework itself presents a lot of gaps that can be filled through product designing, the final delivery must always be questioned on its long-term efficacy on the client's well being, both in economic and social terms.

There seems to be no evidence of any innovative micro finance lending in the areas surveyed. Credit disbursement is simple and against collateral which effectively leaves asset less households out of its purview. Needless to say there is a concern for the sustainability of the MFI in terms of profitability and operational costs, but cautiousness seems to be overshadowing the social objective in favor of viability of micro finance services. As of now, micro finance delivery to these provinces has been in the form of direct credit to individuals. However, ignoring the environment of operation of these people and the uses of credit towards purposes other than investment, has led to a short-term strategy with benefits for the client fading out over a longer period.

Fortunately, FMFB is in a good position to bring about this development with its presence and network of branches, but there is a requirement to tailor the delivery channels in order to serve both the long-term and short-term objectives instead of just the latter exclusively.

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<sup>36</sup> Subsistence farmers from India and Pakistan reel under debts to landlords and private lenders.

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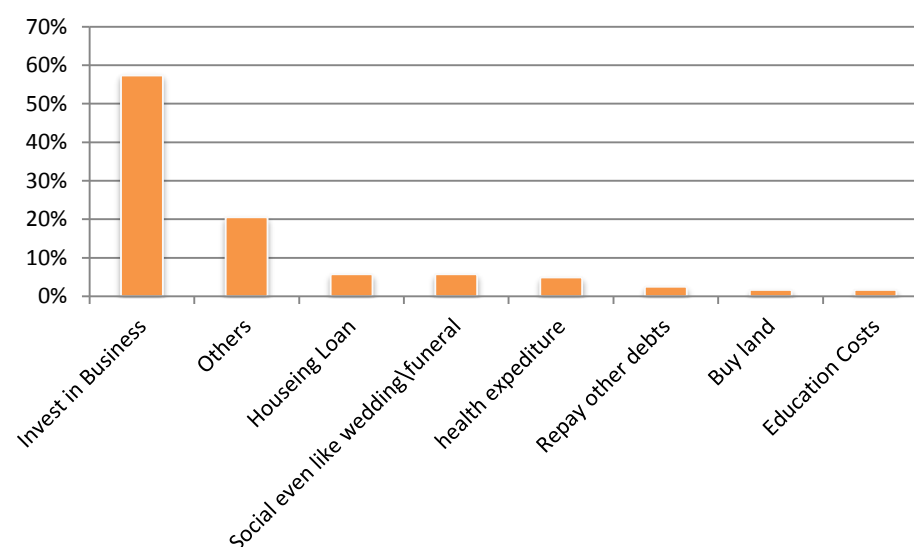
# ANNEX

## ANNEX 1: Additional relevant tables and Graphs:

	0-30	30-50	50-100	Total
Television	30%	52%	18%	206
Newspapers	25%	50%	25%	12
Radio	33%	49%	18%	158
Internet	0%	50%	50%	2
Magazines	67%	33%	0%	3
Family members	30%	59%	11%	110
Friends or colleagues	24%	55%	22%	191
Shopkeepers	32%	52%	17%	316
Mosques	49%	46%	5%	87
Informal financial service providers	27%	46%	27%	37
Formal Financial Institutions	15%	55%	30%	20
<b>Total</b>	<b>141</b>	<b>231</b>	<b>70</b>	<b>442</b>

	0-30	30-50	50-100	Total
Title for a House or apartment	39%	44%	17%	95
Household assets	18%	36%	46%	11
Gold and other jewelry	100%	0%	0%	1
Cars and other transport facilities	0%	100%	0%	3
Business premises	40%	40%	20%	5
Business Equipment	0%	0%	100%	1
I have nothing to offer	50%	50%	0%	6
Third person guarantee	51%	46%	4%	55
<b>Total</b>	<b>46</b>	<b>52</b>	<b>16</b>	<b>114</b>

Figure A1.1: If you would like a loan, what would you use it for (primarily) (%)



## ANNEX 2: Data sources for Provincial Profiles

Information Category	Source
General information	Provincial Development Plan, Provincial Profiles”, prepared by MRRD, 2007
Population and Demographic Profile	NRVA 2007/8, Provincial Profiles, 2011
Sources of Income	NRVA, 2007/8, Provincial Profiles, 2011
Infrastructure	Provincial Development Plan, Provincial Profiles”, prepared by MRRD, 2007 Regional Rural Economic Regeneration Strategies (RRERS), “Provincial Profiles”, 2006-2007
Agriculture and livestock	Afghanistan Province Agricultural Profiles, UC Davis, 2011 Agricultural Prospects Report, MAIL, GoIA, 2011
Other Economic Factors	Livelihood Zoning “plus” activity in Afghanistan, FEWS-NET, 2011

## ANNEX 3: Case Study (Qualitative)

### Case Study 1: Panjab, Bamyan Province:

Name	Faizullah
Age	45 Years old
Gender	Male
Family size	7 members
Province	Bamyan
District	Punjab
Area type	Urban
Nature of work	Retail business

#### **Background:**

My grandfather was originally from Ghazni province but he moved here. Previously I worked as a day laborer and I also migrated to Iran for work. It has been almost five years that I am working as a shopkeeper here. I earn income from selling animal products – animal hides, cheese etc., and other general items.

#### **Financing:**

I am faced with a lack of funds to increase my investment. If I have more money, I can increase my income through buying and selling in bulk. I buy animal and other products by cash. Sometimes when the products are much, I buy them in debt and higher than their prices in cash. Currently I need more money to improve my business. I need around 200,000 Afghanis for this purpose.

Taking loan is common in this area and people take loans from the banks as well from other people for business purposes. Previously I had taken loan – around 10 times, for business purpose from the AKDN. I



have also paid interest for the loans that I have taken. I have paid 2,000 Afs annually for the loan of 10,000 Afs, which is very high rate of interest for me. The bank has some rules based on which they won't give loans for non-business matters. Taking loan from the banks has lots of negative points. Now if I need loan, I will take it from other people and when there is no one to give me the loan, then I will have no option but to take it from the bank. The main problem with the loans from bank is that if we can't pay the instalment of a particular month, they charge 'fine' on us. On the other hand, the bank requires a property documents (*qawala*) as a guarantee and a guarantor towards the loan they are giving, which most of the people do not have. If someone takes loan and can't repay that, the guarantor must repay the loan or the person has to take loan from someone else or sell his property in order to settle the loans.

However, the repayment period was good and I was happy with them because it was easy to repay the money on monthly basis in small amounts, which is way better than repaying the whole amount at once. In my own point of view, for improvement of the loan services the rate of interest should be decreased. For example, from 100,000 Afghanis they should take 10,000 Afghanis annual interest.

Regarding the savings, I don't have any as yet. If I have savings, I will investment them in my business. For keeping the savings if we may have, there are no banks in this area. There is only one bank that operates in this area for which I am not sure if it saves our money or not (it provides this service or not).

**Case Study 2: Ali Abad, Kunduz Province:**

Name	Awlya Gul
Age	55
Gender	Male
Family size	10 members
Province	Kunduz
District	Ali Abad
Area type	Rural
Nature of work	Farmer

**Background:**

I was born, brought up and got married in this village and I am happy living here. I am a farmer and representative of the community. Farming is the only source of income for our family and my family members help me too in this work. Necessities of our household is satisfied by selling the crops we grow. Mostly we spend on food, fuel and clothing. It is difficult to satisfy our basic needs at times, and I borrow from friends and relatives to look after my family needs.

**Financing:**

Personally I didn't need to borrow money from the bank and I am not sure whether I will need it in future as well. Majority of the people do not take loans from lending institutions considering interest to be 'Haram'. So if they need money, they borrow from friends or relatives. However, some people take loan from Agha Khan (AKDN) microfinance institution – which is the only credit institution in this area. They take loan for buying chemical fertilizers, improved seeds, for household expenditure, marriages, business and medical treatments. Since most of the people are engaged in farming, a 50,000 Afs. of loan will suffice for farmers.

Taking loan has lost of positive aspects. It solves many of our problems, especially when we need to buy chemical fertilizers, agriculture equipment or seeds. It has negative features also. The negative features are that; it is interest-born, interest rate is high, if people take loans and are unable to payback, then they have to sell their properties or borrow from someone else to repay the due amount.

I suggest that these microfinance institutions should lower their interest rates and provide the loans at the beginning of the cultivation season to the famers. They should take back their money after the harvesting season or at the end of the year when farmers sell their crops.

Regarding the savings, I do not have any as yet. I can hardly manage my household's expenditure and face difficulties managing that, so I can't save money.