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**Microfinance in Postwar Afghanistan:
Towards a Conflict-Sensitive Approach**

**A thesis
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Abstract

It is well established that microfinance has become a key tool to reduce poverty in developing countries. Previously unable to gain access to credit and savings products from formal providers such as banks, poor people can now take small loans to support income-generating activities, or build up small savings accounts for important expenditures. These services are offered by microfinance providers (MFPs), semi-formal institutions which often have development as well as financial goals. Because poverty tends to be widespread in countries emerging from war, the provision of microfinance is being increasingly recognised as crucial to post-conflict economic reconstruction.

Most writers on post-conflict microfinance (PCM) have outlined the considerable challenges which MFPs face in these unstable situations, and have offered valuable operational advice on how to meet those challenges. However, little has been written on how PCM has impacted upon the clients themselves, or whether it has assisted them to re-establish viable livelihoods. Secondly, even though postwar situations are unstable due to unresolved sources of tension, most PCM literature lacks a systematic treatment of how the microfinance could be 'conflict-sensitive'.

'Conflict sensitivity' can be defined as taking preventative measures to reduce the possibility that development intervention will exacerbate tensions, and implementing pro-active strategies to help build peace. This study constructs a conflict sensitive system whereby microfinance goes beyond its traditional role of poverty alleviation to that of conflict mitigation.

Afghanistan serves as context within which the concepts of conflict-sensitive microfinance are explored. Since the defeat of the Taliban in 2001, much of Afghanistan has enjoyed a period of relative peace and reconstruction after 22 years of intrastate war. However, the country still faces a number of challenges which could contribute to renewed violence, including poverty, inter-ethnic tensions, weak local governance, and the largest opium sector in the world. This study examines what role the young microfinance sector is playing in addressing these issues and what impact it is having on Afghan livelihoods and society. The sector's success in helping to alleviate poverty and build peace depends on the extent to which MFPs in Afghanistan expand their services, coordinate efforts among themselves, and collaborate with other development and government actors in holistic, conflict-sensitive interventions.

Preface and Acknowledgments

I fell in love with Kabul, Afghanistan during my three-year term there as a teacher in the late 1990s, despite the ever present Taliban. So, in June 2005, it was a joy to land at Kabul airport for the first time in six years, this time with the aim of doing field research for this thesis. The research started off well, but after a few weeks it began to stall, as directors I wished to interview were either busy, out of town, or not answering my emails. Anyone who has lived in a developing country knows that getting things done there requires unlimited patience, and one would think I should have been accustomed to delays and frustrations, having lived in Kabul before. But then I found out that a couple of key organisations *had* answered my emails but my American-based email provider was filtering them out, probably because of the “afg” (for Afghanistan) in the addresses. My growing impatience now turned into something close to fury.

At the height of this frustration (though I stayed calm on the outside), I sat down to lunch with several Afghans who took care of the house where I was staying. A couple of them were Hazara, the ethnic group (distinct for their Mongolian facial features) occupying the mountainous central region (Hazarajat). We made small talk for a while, but then the young, normally kind-hearted Hazara father of two launched into a bitter 10-minute monologue about the Taliban era (1996-2001). The Taliban, mostly Pashtun,¹ would repeatedly harass the Kabuli Hazaras, often imprisoning them for no reason. The father told how they would yell at him, “You are Hazara. Why don’t you go back to China?” Even now, in 2005, he believed that the only thing preventing this harassment and violence was the presence of international military forces. “If they leave, I will go to Europe, even if it has to be on foot with my children on my back... You know, I just want to live a normal life. I just want my kids to be educated.”

Needless to say, I felt fairly ashamed after lunchtime about my anger. Here I was stressing about email problems, with my thousands of dollars in scholarship money to do a Masters degree, and here my friend was, having lived through 22 years of war, making maybe \$70 a month and just wanting basic education for his kids. Many Afghans are even worse off, over half of them living on \$1 a day or less. I and they live on two quite different planes of existence. I had been stuck by this disparity and poverty during my time in the 1990s, when Kabuli children routinely begged on the streets. At the end of my time, I was determined, if I ever returned, to do something about it. This eventually led me to an interest in microfinance.

¹ The largest ethnic group in Afghanistan.

On the one hand, reducing disparity, levelling the playing field, is what microfinance is all about. Microfinance is the provision of small loans, savings, and insurance products to the poor who normally do not have access to financial services. This can protect them from sudden misfortune and allow them to invest in an income-generating activity. From a development perspective, this is a particularly attractive intervention since it is not a handout but rather a strategy to help poor people help themselves. In this thesis, I examine whether and how microfinance has indeed helped Afghans since the fall of the Taliban in 2001.

On the other hand, any gains the poor in Afghanistan might make might well be wiped out if war resumes, and judging from the anger and words of my Hazara friend, that is not entirely impossible. In such a fragile post-conflict setting, could the provision of microfinance also play a role in fostering peace? Could it somehow bring the Hazara and the Pashtun together into a more peaceful coexistence, if not trust and friendship? This is the other question I hope to answer.

This research would have been extremely difficult to handle financially without the generous support of Massey University and the New Zealand Agency for International Development (NZAID). I was very much encouraged by their assistance and I hope this study represents a good return on their respective investments.

My sincere thanks also to Dr. Donovan Storey and Dr. Manu Barcham, my supervisors at Massey University. They each gave me invaluable pre-field advice, tolerated my frequent questions, and helped greatly in forming the final shape of this thesis.

To the many development practitioners in Afghanistan who offered their time and opinions, I express my gratitude. Special thanks goes to the directors of five microfinance providers who gave me in-depth information about their programmes and allowed me to interview their clients. I especially would like to single out Christine Mulligan, country director of CHF, who allowed me and my translator to stay at CHF's compound in Bamyan for a week, free of charge. To the staff of CHF there, thanks for the after-work games of volleyball!

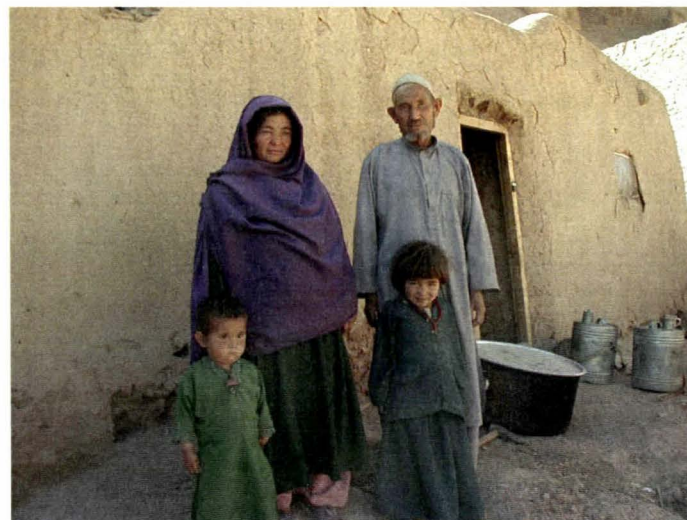
I also wish to thank IAM, the organisation I worked for in the 1990s. IAM opened a place for me to stay in Kabul during my field research and provided other logistical

support. Thank you as well to many of my old friends in IAM who hosted me for enjoyable evening meals.

To the many Afghan staff and clients who gave of their time, thank you. Your hard work, optimism, dignity, and hospitality were an inspiration to me. I hope this research helps, in some small way, to rebuild your country.

Although my parents are in California, I know they have been behind me through these two years of study. They have always supported me in my eclectic life pursuits and I will never forget the freedom they have given me.

Of course, my largest gratitude goes to my wife, who fortunately has done one of these thesis projects before and thus has understood the hermit life I have been living the last six months. She has been nothing but completely supportive, wise, and encouraging. I look forward to getting to know her again on the other side of this thesis.



Some microfinance clients in Bamyán province, Afghanistan.

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Glossary

Section A: Microfinance Terms

commodity credit	Loan given in some commodity (e.g. clothing materials) with the promise that the buyer (e.g. the tailor) will pay back in cash at some later time. Usually, the creditor adds a percentage markup.
consumption credit	Refers to loans which may be used for “everyday” consumption needs (e.g. food, medicine, education, etc.). This is opposed to loans which must be used for productive or income-generating purposes. Semi-formal microfinance providers (MFPs) normally do not give consumption credit. Some of these MFPs use ‘peer monitoring’ to make sure the loan is used properly.
Grameen Bank	Based in Bangladesh, is the bank which is credited with starting the modern microfinance movement in the 1970s. Some MFPs which use a similar method to Grameen are sometimes dubbed part of the “Grameen family”
<i>informal</i> microcredit or microfinance	Credit provided privately, unregulated, with no external intervention. (Compare semi-formal MF). There are two main avenues of informal microcredit. First MF services can be provided either by private moneylenders (e.g. merchants who sometimes charge large interest rates) or friends or family. Second, sometimes a group of acquaintances come together, help each other save, and rotate the saved funds amongst themselves as loans. When this thesis uses the term “informal” MF or credit, the writer primarily has the former sense in mind.
mandatory savings	A process whereby a client must save first, up to a certain percentage of the desired loan. The savings account does earn interest, but the savings act as collateral against the loan, and the client normally cannot withdraw the savings until exiting the programme. Seen by many observers as inflexible.
microcredit (MC)	The provision of small loans. The use of the word implies that the lender does not offer other products such as savings or insurance. (Compare with microfinance)
microfinance (MF)	The provision of small loans, savings and insurance products. When the word is used, it implies that the lending agent is a semi-formal provider (see ‘semi-formal’). (Compare with microcredit).
microenterprise	A very small business, having a turnover or assets of no more than \$30,000, and up to five employees (cf. “small enterprise”)
peer auditing	When members of a microfinance group investigate the causes of loan non-repayment to determine whether the non-payer is <i>unable</i> to repay the debts or is <i>unwilling</i> to honor them.
peer monitoring	When members of a microfinance group keep tabs on each other to check how the loan has been used. (see consumption credit)
salaam system	This describes the practice whereby a farmer borrows cash from a shopkeeper, with the promise that some months later (usually at harvest time), the loan will be repaid in crops. This advance sale, however, means that the farmer gets only 50-80% of the normal market price.
savings first	This term is often (erroneously) equated with mandatory savings (see above), whereby a person must ‘save first’ a certain percentage in order to qualify for a loan. But ‘true’ saving first refers to an entire group or organisation must first save enough before lending to its members. In other words, most or all of the loan capital fund must originate from the savings of the members, not from outside subsidies or from interest earned on loans. Chapter 3, section 1.4 provides an example.
<i>semi-formal</i> microcredit or microfinance	Credit services that fall somewhere between informal MC (eg. individual moneylenders) and formal MC (given by banks). Can be from an NGO provider, but can also be from an institution devoted only to finance at a small scale. These MF providers (MFPs) or MF institutions (MFIs) are not normally regulated by banking authorities, but as MF is growing worldwide, governments are starting to take on some oversight and creating some regulation.

Section A: Microfinance Terms (cont.)

small enterprise	One with a turnover or assets of up to \$100,000, and between six and 20 employees (see “microenterprise”)
solidarity group	About four to five members join together and assume joint liability for each other's loans. Five or more groups join to form a village bank with about 20-100 members.
sustainability	In MF terms, refers to the expectation that MFPs will eventually grow large enough, reach economies of scale, and earn enough from charging interest, that outside assistance (subsidies) will no longer be necessary. This is normally expected in 5-7 years.
sustainability, financial	When an MFP can not only operational costs (see below) with its own income, but that it has enough money left over to lend out to its growing clientele, some of whom are progressing to larger and larger loans.
sustainability, operational	When operational costs (salaries of staff, administration costs, etc) are covered by non-subsidy income, usually from fees and interest revenue..
village bank	A semi-formal bank consisting of 20-100 members (see solidarity group). The village bank members elect their committee and the NGO provides seed capital in the form of a revolving fund to the village bank that manages the fund by making and collecting on loans to its members. All managerial activities are decentralized at the village bank level.

Section B: Dari Terms

Note: Dari is a dialect of Farsi, spoken in Iran. Pashtu is also spoken widely in Afghanistan, especially by the Pashtun ethnic group. These are the two official languages of Afghanistan. The two languages are very dissimilar.

<i>balad</i>	to be known in a community
<i>beswat</i>	1/20th of a “jerib”
<i>gerao</i>	pawning (land or house)
<i>hashar</i>	collective work done for a neighbour, friend, relative, or community, without pay.
<i>jerib</i>	officially 2000 square metres, but the local understanding of the size of jerib varies from region to region
<i>jirga</i>	Pashtu word for “shura”
<i>mujahideen</i>	jihad fighter. Came to common use in the 1980s to denote the Afghan militias who fought the Soviet occupation.
<i>pehran tunban</i>	shirt and trousers, Afghan style. Very similar to shalwar kameez, as it is known in India and more globally
<i>qowm or qawm</i>	can mean family, extended family, clan, tribe, or ethnic group. (see box 2.1)
<i>salaam</i>	Normal meaning: hello, peace. Credit meaning: See above
<i>ser</i>	7 kg. Dry groceries, esp. rice, wheat, flour, etc. are sold in <i>sers</i>
<i>shura</i>	village or regional council
<i>toshak</i>	floor mattress
<i>ulama or ulema</i>	religious scholars; can have some political power
<i>waseta</i>	“connections”; political clout

In the text, all Dari terms will be *italicized*.

List Of Acronyms

ACBAR	Agency Coordinating Body for Afghan Relief
ACTED	Agency for Technical Cooperation and Development
ADB	Asian Development Bank
Af	Afghani - currency in Afghanistan; 50 Afghanis is roughly equivalent to US \$1.00
AFSG	(Mercy Corps-) Ariana Financial Services Group
AGEF	Association of Experts in the Fields of Migration and Development Cooperation (English translation from German)
AIHRC	Afghan Independent Human Rights Commission
AIMS	Afghanistan Information Management Service
AKDN-ARMP	Aga Khan Development Network Afghanistan Rural Microcredit Programme
ALH	alternative livelihoods
AMI	(CHF-) Afghanistan Microfinance Initiative
ANBP	Afghanistan New Beginnings Programme
ARMP	(AKDN-)Afghanistan Rural Microcredit Programme
AREU	Afghanistan Research and Evaluation Unit
ARTF	Afghan Reconstruction Trust Fund
ASKI	Allay Sa Kaunlaran Sa Gitnang Luzon Inc (a Philippine MFP)
BDS	business development services
BRAC	Bangladesh Rural Advancement Committee
CA	conflict assessment/analysis
CCF / CFA	Christian Children's Fund / Child Fund Afghanistan
CDC	Community Development Council
CDP	Community Development Programme
CGAP	Consultative Group to Assist the Poor
CHF-AMI	Cooperative Housing Foundation Afghanistan Microfinance Initiative
CIS	client interview schedule
CPAU	Cooperation for Peace and Unity
CPE	complex political emergency
CRECER	Crédito con Educación Rural / Credit with Education

CSIS	Center for Strategic and International Studies
DFID	Department for International Development (UK)
DDR	Disarmament, Demobilisation and Reintegration
EVI	extremely vulnerable individual
FIFC	Feinstein International Famine Center
FINCA	Foundation for International Community Assistance
FMB	First Microfinance Bank
GMA	Global Microentrepreneurship Awards
GOA	Government of Afghanistan
HDI	Human Development Index
HRRAC	Human Rights Research and Advocacy Consortium
IA	impact assessment
IAM-MED	International Assistance Mission - Microenterprise Development
ICG	International Crisis Group
IDP	internally displaced person
IFAD	International Fund for Agricultural Development
IFDC	International Fertilizer Development Center
INGO	international non-government organisation
IP	implementing partner
LCSO	Local Civil Society Organisation
LHF	livelihood framework
LHI	livelihood improvement
MED	(IAM-)Microenterprise Development
MF	microfinance
MFCS	more fully conflict sensitive
MFI	Microfinance Institution
MFP	microfinance provider
MISFA	Microfinance Investment and Support Facility for Afghanistan
MRRD	Ministry of Rural Rehabilitation and Development
MYRADA	Mysore Resettlement And Development Agency

NBFI	non-banking financial institution
NEEP	National Emergency Employment Programme
NGO	non-government organisation
NSP	National Solidarity Programme
ODI	Overseas Development Institute
PCIA	peace and conflict impact assessment
PCM	post-conflict microfinance
PDI	Participation Depth Index
PO	programme organiser
RAG	respondent analysis sheet
RIS	respondent information sheet
SCG	savings and credit group
SEP	(BRAC's) Small Enterprise Programme
SEWA	Self-Employed Women's Association
SFCL	Small Farmer Cooperative Limited
SHG	self-help group
SIDA	Swedish International Development Cooperation Agency
SMFI	Schema for microfinance intervention
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNHCR	United Nations High Commission for Refugees
UNODC	United Nations Office for Drugs and Crime (formerly UNDCP)
USAID	United States Agency for International Development
USD	United States dollar
VO	village organisation
WFP	World Food Programme
WHO	World Health Organisation
WOCCU	World Council of Credit Unions
WWI	Women for Women International