Microfinance in Postwar Afghanistan:

Towards a Conflict-Sensitive Approach

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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 Afhgan 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.

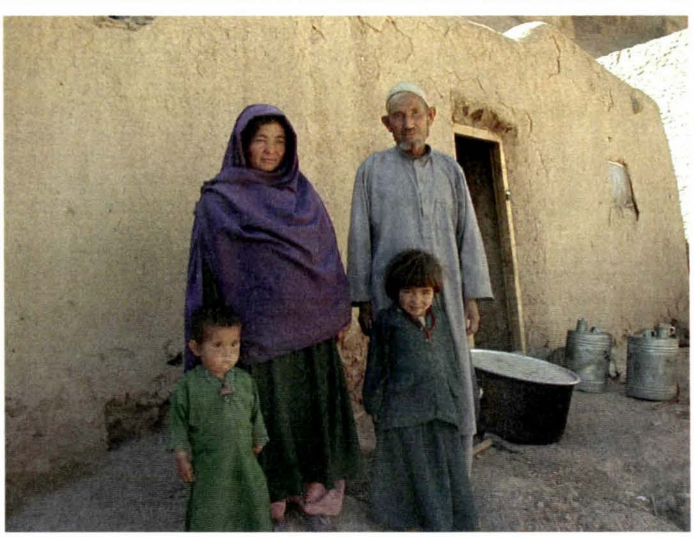
To the many development practitioners in Afghanistan who offered their time and opinions, I express my gratitude. Special thanks goes to the directors of five microfinance providers who gave me in-depth information about their programmes and allowed me to interview their clients. I especially would like 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 Bamyan 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"
informal 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 *unable* to repay the debts or is *unwilling* 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 subsides or from interest earned on loans. Chapter 3, section 1.4 provides an example.
semi-formal 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 (subsides) 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.

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

Chapter 1: Introduction

1. Afghanistan on the Global Stage

When it comes to characterising global trends in armed conflict over the past half century, three eras can be distinguished: the Cold War, the decade of intrastate war in the 1990s, and the recent rise of international terrorism. Ironically for such a remote country, Afghanistan has been an epicentre of upheaval in each of these eras. It was the scene of the last great proxy war between the USSR and the USA. After the Soviet soldiers were forced to leave in 1989, fighting among Afghan factions continued and the country became an archetype of post-Cold War internal conflicts, especially with regard to refugee flows. Thanks to its chronic instability, it was during this time that Afghanistan became the home of who would become the world's most famous terrorist, Osama bin Laden, and his Al-Qaeda network. With eerie prophetic accuracy, the introduction of the book *Turbulent Peace* – published in August, 2001 – stated that intrastate conflict often adopts "one of the most pernicious characteristics of wildfire: spreading unseen underground only to ignite in another part of the forest" (Crocker et al., 2001: xv). One month later, the ultimate example of this phenomena occurred as Al-Qaeda carried out the 9/11 attacks on America.

Prior to 2001, Afghanistan had fatally lost the notice of the international community. In 1995, then UN Secretary General Boutros Boutros-Ghali said, "Afghanistan has become one of the world's orphaned conflicts – the ones the West, selective and promiscuous in its attention, happens to ignore in favour of Yugoslavia."[1] The international effort, both in aid and diplomacy, was heavily criticised for being uncoordinated, half-hearted and ultimately ineffective, even for being "part of the problem rather than the solution."[2] Somewhat perversely, the events of 9/11 led to refocused world attention on, and cautious optimism for, Afghanistan. The repressive Taliban were expelled from Kabul later in 2001 and the country has enjoyed relative peace since then. With a heavy international presence now in place, especially in the capital Kabul, and with bilateral and multilateral aid pouring into the country, development and diplomatic actors have a new chance to 'get things right.'

Perhaps because Afghanistan is famous for the Russian occupation, the Taliban, Al-Qaeda, and its opium poppy, one of its most forgotten aspects has been its people and the suffering they have endured. The war with Russia alone caused 1.5 million

[1] Quoted in Atmar and Goodhand, 2002: 61.

[2] This was the opinion of Atmar and Goodhand (2002: 7). The UN itself came under particular fire. Maley (1998: 183) , for example, called Afghanistan a "graveyard for UN mediation."

Afghan deaths; at any one time, six to seven million refugees sheltered in Iran or Pakistan. Excluded from the UNDP's[3] Human Development Index (HDI) since 1996 due to lack of data, the 2004 National Human Development Report on Afghanistan nevertheless estimates that the country would be in the humble position of 173rd out of 178 countries (UNDP, 2004: 18).[4] Among the appalling statistics are a literacy rate of 28.7% and life expectancy of 44.5 years, which is six less than other least developed countries and 20 years less than Afghanistan's neighbours (ibid.: 26-27). Fifty-three percent of the population live on less than US$1 a day (ADB, 2004: 16).[5]

2. Dealing With Post-Conflict Poverty: Microfinance

Poverty is a common feature of many developing countries, but extensive and ingrained poverty tends to be especially characteristic of countries emerging from long years of war, which makes economic recovery a top priority among development practitioners who work in such settings. As Doyle (1998: 13) simply puts it, "more people in a post-conflict society are poor – a man-made disaster, such as a major conflict, makes the poor even poorer and drops most of the middle class down." This larger number people means that microfinance – the provision of financial services, especially the lending of very small loans at reasonable interest rates – is an object of particularly high demand in post-conflict situations.

Microfinance (MF) has been a rising development star, not just in post-conflict settings, since its inception in the 1970s in Bangladesh.[6] Seven million families worldwide were part of a MF programme in 1997, 19.3 million were involved in 2000, and 92 million clients were reached in 2005 (The Microcredit Summit Campaign, 2005). Although MF is generally not seen as the silver bullet for poverty reduction, it is increasingly being recognized in development circles as a vital tool toward that end.[7] The reasons that the poor (especially rural poor) often do not have access to formal credit and banking systems include: a) small loan and deposit size mean high transaction costs for the lending institution; b) doubts about whether the poor can repay a loan, and the fact that the poor usually lack collateral; and c) further costs to the institution to serve a widely

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[3] UNDP = United Nations Development Programme.

[4] Pages 263-266 of the same report outline the gaps in the data and explains how the authors used estimates to arrive at a total HDI of .346. Incidentally, if the same estimated HDI of .346 holds for 2005, Afghanistan would still be ranked in the same position of 173rd. See UNDP, 2005: 222, which is the last page of the 2005 HDI listings. Afghanistan is not listed, but would be just above Chad, whose HDI is .341.

[5] All dollar figures in this thesis are in US dollars.

[6] A number of writers rightly observe that, technically speaking, microfinance (although the term itself is new) has been around for centuries, either through the mechanism of private moneylenders, informal groups which rotated money amongst themselves, or rural state-run banks. However, the term is normally understood to refer to a development-oriented semi-formal institution (e.g. a non-government organisation) as the mechanism.

[7] The UN declared 2005 as the International Year of Microcredit in order to draw attention to the benefits of microfinance.

dispersed rural population (Johnson and Rogaly, 1997: 6). Through innovative and varied strategies, MF practitioners have generally overcome these difficulties.[8]

Microfinance is particularly well suited to post-conflict environments and not just because of the greater number of poor. In such environments, the *informal* credit system[9] often sustains serious damage, partly because of widespread poverty (which means fewer people able to give out loans) and because conflicts damage inter-personal trust. This combination of low supply and high risk means that moneylenders will charge higher interest rates, to the further detriment of the poor. As for *formal* credit systems, "armed conflict can variously destroy the rural banking infrastructure, the Central Bank or the entire financial system" (Wilson, 2001: 44). Therefore, *semi-formal* providers (such as NGOs – non-government organisations[10]) can partially fill this critical vacuum in order to rejuvenate economic activity.

These microfinance providers (MFPs)[11] have been operating in Afghanistan since the middle of 2002.[12] What success have they had so far? Are they having a positive impact on Afghan livelihoods?

3. Dealing with Post-Conflict Tensions. A Role for Microfinance As Well?

Another particular characteristic of most post-conflict settings is their fragility (see table 1.1). Historical causes of conflict may continue to be a problem and new tensions might have been generated by the war.[13] Therefore, the risk of minor or even major outbreaks of violence is still very real; indeed, the term 'post-conflict' is something of a misnomer:

> As some of these [internal] conflicts subside, states re-emerging from the ashes of destruction may still undergo periods of intense or sporadic fighting. It may therefore be inaccurate, even misleading to talk about 'post-conflict situations' as such situations do not pass directly from

[8] MF is often criticized for not actually reaching the poorest of the poor, for being subsidy-dependent, and for actually making the poor worse off by driving them further into debt or by getting them ostracized by the community (e.g. Hulme, 2000; Kilby, 2002). However, most criticisms centre around MF design flaws and not MF *per se*.

[9] 'Informal credit' refers to credit provided privately, unregulated, with no external intervention, usually through a friend or a merchant at the market. 'Formal credit' is normally provided by banks. 'Semi-formal' credit is often provided by a development organisation. See glossary for details.

[10] It is sometimes useful to make a distinction between an International NGO (INGO) and an NGO owned and run by Afghans only. In this thesis, INGO will be used if the distinction is necessary. When only the term NGOs is used in this thesis, it denotes both INGOs and Afghan NGOs.

[11] The use of MFP in this thesis is somewhat unusual. The MF literature normally uses 'microfinance institution' (MFI), but this term suggests a big-time player, exclusively existing for MF, with tens of thousands of clients. I use a more inclusive term, 'MFP', to allow for smaller programmes and NGOs which may be involved in other development projects.

[12] Microfinance of a sort *was* provided in the 1990s, but it was unsustainable and small-scale. See chapter 4, section 1.1.

[13] See Chapter 2, section 7, about how this has happened in Afghanistan.

conflict to post-conflict conditions. We shall however retain the term 'post-conflict' to indicate these war-torn societies that are undergoing some form of transition towards a more peaceful and stable situation.[14]

Table 1.1 Positive and Negative Features* of a Post-Conflict Situation

Positive features	Negative features
1. There exists a process of transition to relative peace (Macrae, 2001:5). 2. A negotiated settlement or change of regime has occurred (ibid). 3. A 'political basis' for peace exists. That is, most major parties feel they at least have a voice. (Goodhand, 2004: 48; Surkhe et al., 2004: vi). 4. The 'peace' is fragile, yet strong enough to allow return of refugees or internally displaced persons (IDPs) (Forman and Salomons, n.d.). 5. Acute humanitarian crisis has ended and a process of reintegration and political and economic recovery has begun (ibid).	6. Does not imply absolute peace. Low or high Intensity (though sporadic) violence may still occur (Macrae, 2001: 42). 7. There might be weak government administrative capacity, especially immediately post-conflict and depending on duration and intensity of the conflict (ibid, 49). 8. There is continued involvement by international security forces in humanitarian activities (Pugh, 1998: section 2.0). 9. Features of a war economy persist (ibid). 10. There is still a risk of renewed war (ibid; Macrae, 2001: 44).

* 'Positive features' refer to characteristics of a country indicating movement from the conflict to post-conflict stage. 'Negative features' emphasize the continued instability of the country.

What is the proper role of an aid or development organisation in such a setting? Is it to remain a neutral agent, simply delivering its services while sidestepping the dynamics of any tensions or conflicts which may exist in its area of service? Or is it to be more pro-active; that is, should it design programmes and implement operational procedures which have a mitigating impact on those tensions, in order to decrease the chances for renewed violence? The debate[15] has spawned an impressive amount of literature,[16] which is too broad to review here. One recent and extensive World Bank commissioned survey of current practice (Lund, 2004) revealed that "an explicit notion of pro-active conflict-preventive action" (p. ii) is gaining acceptance. Indeed,

> The emphasis among development agencies in approaching conflict is shifting away from an exclusive focus on remedial humanitarian aid and on post-war rebuilding, to a preventive perspective that seeks to engage early in societies that appear vulnerable to conflict. In the current jargon, instead of only working 'in' conflict or 'around' conflict, development and other agencies are increasingly working 'on' conflict itself (ibid: 22)

But what of microfinance? At first glance, one would think MF is simply about dollars and cents, but can it also be used in a more intentional way as a tool for conflict mitigation, specifically in Afghanistan?

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[14] UNHCR, cited in Macrae (2001: 42).
[15] The wider debate is actually about aid in any conflict situation, not just a post-conflict situation.
[16] For example, Anderson (1999), Macrae (2001), Lund (2004).

4. Research Objective

The questions which have concluded the previous two sections indicate the two avenues of investigation this thesis intends to pursue. As a guide to begin the investigation, literature on post-conflict microfinance (PCM) was extensively consulted.[17] Considering the fact that microfinance has been provided in post-conflict settings since the early 1990s (or, according to a few, since the early 1970s),[18] it is somewhat surprising that "sustained writing and reflection on the subject does not seem to have emerged until the late 1990s" (Heen, 2004a: 16). Nagarajan, who appears to have been the first to make an attempt, wrote in 1997: "Although several experiments are being conducted by international donors among others in designing and operating financial programmes in post-conflict countries, their experiences are rarely documented."[19] Since 1997, the growth of the literature has been modest; besides the occasional item in newsletters or a reference to MF in a peacebuilding article or country report, a total of seven commissioned works between 1997 and 2003 have been written on PCM.[20]

This body of work is informative and yet neglects some important issues. First, the unit of analysis is normally the MFPs, not the clients, and the subject is the challenges MFPs face in providing MF in a post-conflict setting. For the microfinance practitioner, these studies are good news in that they provide valuable advice and experiences; taking these lessons to heart would certainly increase the probability of successfully establishing a sustainable MF service in a post-conflict context. Yet the comparative paucity of research which focuses on the clients and communities to whom these services are provided mirrors the attitude of the wider microfinance industry, which is "dominated by a techno-managerial perspective, with a large number of technical manuals and courses...[where] in the process, the development impetus which first gave rise to micro-finance is often lost" (Fisher and Sriram, 2002: 20).

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[17] The PCM literature includes Nagarajan (1997, 1999), Doyle (1998), Wilson (2001), D. Larson (2001) Alidri et al. (2002), and Manalo (2003). See appendix 9 for notes on each work.

[18] Nagarajan (1999: 4) states that the earliest known PCM experiment was when the Bangladesh Rural Advancement Committee (BRAC) began operations in Bangladesh following the war of independence from West Pakistan (1971). However, for the purposes of this thesis, 'post-conflict' refers to countries emerging from internal conflicts. Further, the bulk of literature reviewed for this thesis concerns itself with wars which ended after 1989. Cambodia (where peace accords were signed in 1992), for example, is usually referred to as the country with the longest-running experiments in PCM compared to other countries. See e.g. Doyle (1998: vii).

[19] Nagarajan's 1997 work appears to be an online html document only, with no page numbers. However, the quote comes from section I, the Introduction.

[20] These seven works are multi-country surveys. The research also discovered a handful of single-country studies on PCM.

There is a discernable lack of analysis in the PCM literature on how MF is actually changing life at the grassroots level. Wilson's (2001) work might be considered an exception. While the other literature consists of essentially out-of-country desk studies, researchers on Wilson's team at least directly interviewed clients about how war affected their livelihoods. However, Wilson's ultimate purpose was to help MFPs design appropriate products to match demand, not to assess impact, which is crucial if an MFP's aim is to alleviate poverty.

> After all, credit is a two-edged tool. To a borrower, credit means debt, and debt can destroy as easily as it can build. If we seek to help people lift themselves out of poverty, we will want to know that they were poor when they started borrowing and they were less poor as a result of borrowing (Cheston et al., 1999: 6).

Therefore, the approach taken for this thesis is similar to Wilson's in its client focus, but also attempts to go beyond Wilson. While her research only observed if MFP products were matching client demand, the current study observes the impact those products have on client livelihoods, even if demand is being met.

The second characteristic of PCM literature is that it lacks a comprehensive approach in terms of conflict sensitivity. 'Conflict sensitivity' refers to the need of an organisation (a donor, government, NGO, etc) to at least take preventative measures to reduce the possibility that its development intervention will exacerbate tensions and conflict, and at most implement pro-active strategies to help build peace.[21] Although there are "bits and pieces, ideas and experiments" about conflict mitigation in the PCM literature, "there is little operational advice in [the literature] on what...using a conflict-sensitive approach would actually look like" (Heen, 2004a: 27). This assertion could be disputed, for Doyle (1998) presents a number of practical examples of how MFPs have built peace objectives into their strategies and procedures and leaves open the possibility that MF can be used "as a tool for peace and reconciliation" (p.vii). At the same time, however, Doyle does not offer any kind of systematic treatment, or schema, of how this could be achieved.

Since 2003, a pair of works have examined more closely the issue of conflict-sensitive microfinance.[22] Heen (2004a) devotes her entire Master's thesis to it, stating in the abstract (p.ii), "the predominant focus among microfinance researchers is on how conflict impacts microfinance; no writing seems to address how microfinance impacts conflict." The crux of her thesis is the introduction of a typology which categorises various methods MFPs could use for conflict mitigation. Marino's (2005) short paper is

[21] A fuller definition and discussion of conflict sensitivity is found in chapter 3, section 2.2.
[22] Of course, there might be more literature of which I am not aware.

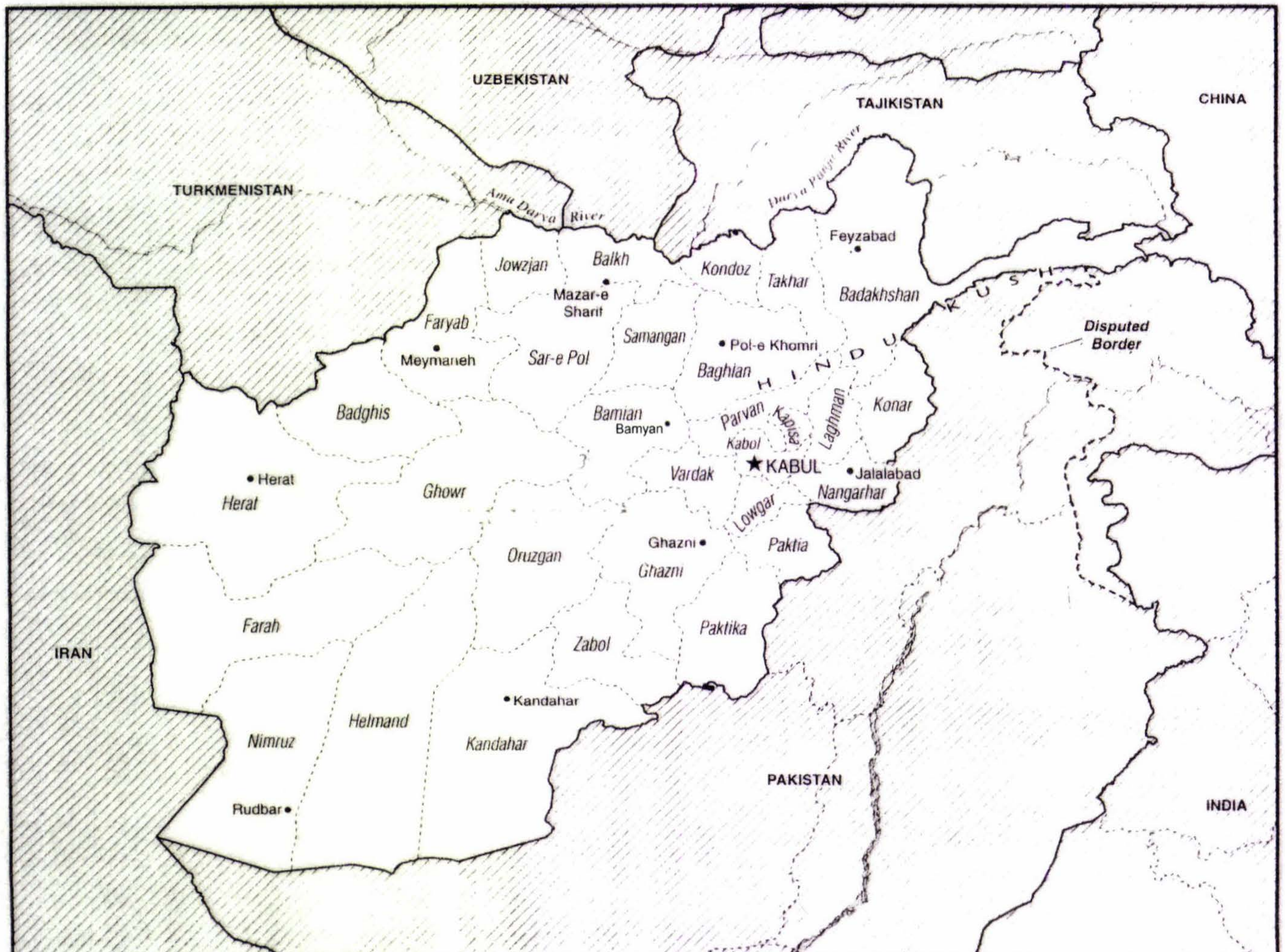
a survey of MFPs in nine conflict-affected countries. The paper includes a number of MFP anecdotes which illustrate MF's potential mitigating impact. The current thesis expands the Heen typology to create a 'conflict sensitive framework', while primary data from Afghanistan, Marino's anecdotes, and other examples from the PCM literature are used to provide the flesh for the framework.

To reiterate, there are two primary aims of this thesis. The first is to gauge the impact microfinance has had on the livelihoods of Afghans, to determine whether MF is helping them climb out of poverty. The second is to consider the role microfinance might play or is playing in building peace in post-conflict Afghanistan. The second point can be broken down further into several research questions:

- Should MFPs be pro-active (maximalist) in peacebuilding or be content to focus on financial matters (minimalism) and assume their interventions will build peace indirectly, e.g. through improving the economy?
- Which approach do MFPs in Afghanistan follow?
- Whichever approach they take, what impact are their interventions actually having on the progress of peace in Afghanistan?

Those who believe MF should stick with a minimalist approach would object to this second research aim. After all, poverty is an important cause of conflict, and since MF helps to alleviate poverty, it is *already* playing a key role in conflict mitigation. Therefore, MFPs need not concern themselves with peace and conflict issues. However, the argument herein is that poverty is only *one of many* causes of conflict, which may include ethnic strife, non-disarmed militias, or weak local governance, and under certain conditions MF could play a role in addressing these matters as well. Unless sources of conflict are dealt with holistically in a postwar setting, violence could reassert itself and destroy assets, and any gains the poor may have made through MF assistance will have been lost.

Figure 1.1: Provincial Map of Afghanistan



5. Overview of Research Activities

The research took place from January 2005 to February 2006 and can be divided in three stages:

5.1 Pre-fieldwork

In the early months of 2005, contact via email with various people in Kabul was established. Most correspondence was with MFP directors. The objective here was to introduce the research and researcher, obtain background information about their programmes, enquire about the possibility of one-on-one interviews, and in some instances, seek permission for their MFP to be included as a case study (described below). Other non-MFP organisations were contacted, a translator was found, and accommodation was arranged.

During the same time, a review of a wide range of literature was conducted, including books, journal articles, and publications of aid and research organisations both within and outside Afghanistan. In addition to the PCM literature mentioned above, the works targeted for study were those which dealt with general microfinance theory, microfinance practice within Afghanistan, theory and practice of post-conflict peacebuilding, urban and rural livelihoods in Afghanistan, the design of livelihood and peace/conflict impact assessments, and the history and political economy of Afghanistan. This review provided direction about the kind of questions which were asked on the field.

Lastly, interview schedules (including an impact assessment based on several models obtained from the literature) were prepared for use with microfinance clients and non-clients,[23] MFP directors, MFP field staff, village or community leaders, and other organisations in Afghanistan. See appendices 4 and 8 for the interview schedules used with clients and MFPs.

5.2 Fieldwork

Timing and Locations

The field research was conducted in Afghanistan in June and July, 2005. Six weeks were spent in and near Kabul, the national capital, and for ten days in late July, research was conducted in and around Bamyan 'city'[24], the capital of Bamyan province in the central mountainous region of the country (see figure 1.1). In each region, MF

[23] The non-clients served as a control group. See chapter 5.
[24] ...what we would call a 'town' in the West.

clients in urban, peri-urban and rural settings were interviewed. See appendix 2 for specifics regarding research locations and descriptions.

Case Studies

Case studies involved semi-structured interviews with MFP directors (all expatriate), MFP office and field staff (Afghan), and clients/non-clients. Each client interview took about an hour, and raw notes from the interview were transferred onto a respondent information sheet (RIS) (see appendix 6), a one-page summary which made it convenient for later transferring of data onto response analysis grids (RAGs) (see appendix 7, and section 5.3 below).

The original intention was to conduct three case studies, one in Kabul proper, and two in villages near Kabul, in order to obtain a good rural/urban mix. Concern about security, the logistics of travelling, and accommodating a translator discouraged any thought about venturing into any of Afghanistan's provinces. However, both concerns were allayed during the course of the initial weeks, and Bamyan became a possibility, the villages around which provided a more authentically rural setting than those around Kabul could.

Table 1.2: Overview of the Four (Plus One) Case Studies[25]

Acronym	Name of organisation and related MFP (if applicable)	Setting researched	Main target group	MISFA partner?
IAM-MED	International Assistance Mission Microenterprise Development (known locally as 'Hope for Life')	urban	middle poor	no
CHF-AMI	Cooperative Housing Foundation[26] Afghanistan Microfinance Initiative	rural	middle poor	yes
AKDN-ARMP	Aga Khan Development Network Afghanistan Rural Microcredit Programme	small town and rural	higher poor	yes
BRAC	Bangladesh Rural Advancement Committee	semi-rural	lower poor[27]	yes
WWI[28]	Women for Women International	per-urban	middle poor	yes

The other plan was that each of the three case studies was to include interviews with ten clients and five non-clients, for a total of 45 interviews. In the end, however, four case studies were done and about ten client interviews in each MFP were conducted,

[25] More details about each MFP are presented in chapter 4 section 1.2 and appendix 1.
[26] There is some confusion among the public and even within the organisation about what CHF stands for. The original name is as above, but CHF's own history webpage and other development websites indicate that it also known by a newer name: Community Habitat Finance.
[27] 'Lower poor' here does not mean 'poorest of the poor' but one level above that. Explanation and terminology regarding poverty levels can be found in table 2.2 (chapter 2).
[28] The fifth MFP studied closely was Women for Women International (WWI). Nine of its clients were interviewed, but see box 5.3 in chapter 5 for why WWI could not be considered a full-fledged case study.

for a total of 40 respondents. Almost half of the interviewees were female, ten different occupations were represented, and at least ten participants from each wealth group[29] were included. This broad range of interviewees came about partly by design and partly by fortune. The case study MFPs are listed in table 1.2.

Non-case study MFPs and MISFA[30]

'Non-case study' MFPs are those with which some communication took place, whether in person or by email (clients of these MFPs were not interviewed). This included, for example, an interview with Mercy Corps' microfinance director in Kabul, a one-day visit to SERVE's programme north of Kabul, and email contact with the MF directors of four other MFPs.[31] In addition, there was significant contact with MISFA, the microfinance coordinating agency. An interview with MISFA's Harish Chotani, documentation from MISFA, and information gathered from the non-case study MFPs mentioned above provided a broad overview of the MF sector in Afghanistan. This allowed a scan of the forest, while the case studies gave a view of the trees.

Peacebuilding and its Link with MF

The strategy here was to approach the topic from various directions, from the view of peace organisations, MFPs, and ordinary Afghans.

From the pre-field research, it appeared that the two organisations most directly involved in peace advocacy and education were the Afghan Independent Human Rights Commission (AIHRC), set up in 2002 with the help of the UN, and the Cooperation for Peace and Unity (CPAU), an Afghan NGO established in 1996. An interview was held at each office[32] and documentation from each was obtained.[33]

Questions about peace and microfinance were also asked to MFP directors. These questions were initially incorporated into the regular MFP interview schedule (appendix 8). However, it quickly became apparent that the kind of answers which would be useful for this thesis required some time for reflection about the issues at hand, more time than an interview setting allowed. Therefore, a reflection paper and

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[29] That is, higher poor, middle poor, and lower poor. See table 1.2.

[30] MISFA = Microfinance Investment and Support Facility for Afghanistan.

[31] See appendix 1 for details about these organisations.

[32] I spoke with the Deputy Chair of AIHRC and the Programme Director at CPAU. Both were Afghans.

[33] There are other Afghan-run peace organisations in Afghanistan, such as the Afghan Development Association (ADA) and the Coordination of Humanitarian Assistance (CHA). They are part (as are CPAU and AIHRC) of a Human Rights Research and Advocacy Consortium (HRRAC), a group of six international and six Afghan NGOs "working in the fields of humanitarian relief, reconstruction, human and women's rights, peace promotion, research, and advocacy" (HRRAC 2003: i). However, time restrictions limited my choices and it appeared that AIHRC and especially CPAU would provide the most relevant information.

questionnaire (see appendix 10) was sent via email, not only to case study but also non-case study MFPs. As of February 2006, five responses were received.

The field research also sought to learn from ordinary Afghans: what peace meant to them; if they felt their communities were becoming more or less peaceful; what inter-group relationships were improving or deteriorating; and what role they thought microfinance could play in building peace. Three strategies to obtain this data were devised:

1. An extra questionnaire (see appendix 5) was attached to the client interview schedule. Depending on time and willingness of the participant, the interview was extended to explore these questions. In the end, ten participated;

2. Afghan field and office staff of MFPs were asked to speak to a combination of the questions in appendix 5 and to issues which arose during the course of visits which seemed to relate to peace and conflict;

3. A group peace mapping exercise (appendix 11) was drawn up during pre-field work. The intention was to use this in a short discussion with groups of clients, groups of MFP staff, or a group of community elders. Another option was simply to ask the appendix 5 questions in a group setting. Unfortunately, neither of these options was able to be implemented.

5.3 Post-fieldwork

The last stage of the research, from August 2005 to February 2006, involved the analysis of fieldwork data, continued correspondence with organisations on the field, and the writing up of the results. Responses from client and non-client interviews were processed in two ways. First, information about their livelihoods (i.e. the changes, if any, in each livelihood aspect) was recorded onto various RAGs (appendix 7) so that the data of an entire group of clients could be viewed on one page. The data was rearranged into different grids in order to answer different research questions. Second, more qualitative information (i.e. how and why certain aspects of client livelihoods were or were not improving, or interesting points clients made) was coded so that recurring themes might stand out and be reported. Finally, correspondence by email with MFPs continued in order to follow up on new questions raised by the analysis and to obtain up-to-date data, e.g. client numbers, loan amounts disbursed, funding status, etc.

6. Chapter Outline

Chapter 2 provides an synopsis of the history and current political economy of Afghanistan, as well as a description of Afghan livelihoods at the household level. It examines some of the historical tensions in Afghan society, how these led to the Soviet occupation, and the consequences of the resulting 22 year civil war. Although Afghans have been remarkably resilient, serious damage has been done to their social and economic structures. Further, the war has given rise to *new* sources of tension with which Afghans and the international community must deal. The chapter is summarised in an 'Afghan context' table (table 2.3), which then forms the backbone of a schema introduced in chapter 3.

Chapter 3 switches the focus onto the practice and potential benefits of microfinance provision, in normal (non-conflict) environments but especially in post-conflict settings. Basic microcredit[34] does lead to some benefits, but extra financial and non-financial services can further help the poor climb out of poverty. MFPs in a post-conflict situation face special obstacles which make these extra services more difficult to provide than if they were in a normal situation. However, if the microfinance sector chose to implement pro-active strategies to deal with sources of conflict, perhaps these very obstacles would be removed, or at least lessened in severity. While keeping in mind the operational constraints many MFPs face, practitioners are urged to adopt at least some features of 'conflict sensitivity' – that is, that they take measures to ensure they do not exacerbate the prevailing tensions in the region in which they work. The chapter then presents examples of pro-active peacebuilding, which are categorised into a 'conflict sensitive framework.' During the course of the discussion in chapter 3, potential benefits of the various approaches are matched against the issues outlined in the 'Afghan context' table in chapter 2.

The Afghan context merely provides the backdrop to the discussion in chapter 3. It drives the discussion of how microfinance has worked or *could* work to alleviate poverty and mitigate conflict. In this sense, chapter 3 is general and hypothetical. **Chapter 4** looks at the specific realities of how microfinance actually *is* working in Afghanistan, primarily from the MFP perspective. After an introduction to the MF sector, the chapter uses the data collected from MISFA, interviews and email correspondence with MFP directors, and internal MFP documents to examine the extent to which strategies and product designs attempt to address poverty, conflict, and specific problems in Afghanistan. Since some of these issues are multi-faceted and costly to address, both coordination within the MF sector and partnership with other non-MFP organisations in Afghanistan are recommended.

Chapter 5 discusses the methodology used for the fieldwork, specifically with respect to the impact assessment designed for the interviews with Afghan clients and non-clients. The livelihood framework, upon which the assessment was based, is

[34] Providing loans only, not savings and insurance. See glossary. See also the start of chapter 3.

introduced, and the modifications made to the framework for the purposes of this research are justified. Theoretical issues around impact assessments, including the problems of attribution and using control groups, are discussed. Finally, there is reflection upon the strengths and limitations of the research design, and upon some of the practical challenges experienced on the field.

Keeping in mind the aforementioned limitations, **Chapter 6** considers the impact microfinance is having in Afghanistan, based primarily on results from the interviews with Afghan clients and non-clients. Using the livelihood framework, the chapter analyses the scope and magnitude of improvement, in terms of financial, material and human capital. Although most clients interviewed had been taking loans out for a year or less, they are appreciative of the positive boost microcredit has already given them. Some concerns, however, might be raised in several cases about deeper indebtedness. In terms of MF's relationship to peace, chapter 6 records no evidence that MFPs are causing or exacerbating tensions . In addition, there are indications that the MF sector could be building peace in an indirect fashion, but more direct methods of conflict mitigation, which would heighten the probability of positive impact, were found to be generally lacking.

Chapter 7, the closing chapter, reviews the findings of chapters 2-6. It argues that the future 'success' of the microfinance sector in Afghanistan should not be judged solely on the typical measures of high repayment rates and financial growth, but should be judged primarily on the impact it is having on clients and the society. It asserts that client livelihoods are being *promoted*, but not necessarily *protected*. As for society, *incidental* by-products of MF which contribute to peace could be supplemented by the impacts of *intentional* peacebuilding efforts. Some practical suggestions are offered and the importance of collaboration and coordination (see chapter 4) is reiterated, though partnership may raise additional problems. A checklist is offered to determine whether an MFP should take on pro-active conflict-sensitive practices. Finally, areas for further research are suggested.

Chapter 2: History and Post-Conflict Setting of Afghanistan

This chapter provides an overview of the history and current political economy of Afghanistan, as well as the impact of conflict on Afghan livelihoods. It is not intended to be an exhaustive description, but rather one which sets the context in which the microfinance sector operates. On the one hand, many Afghans are remarkably resilient and were able to survive the war without outside help by utilizing assets and social capital. In other respects, however, Afghanistan is a shattered society presenting a series of daunting obstacles to any development intervention, including microfinance. Yet it is these very obstacles which need to be addressed if Afghans are to recover from the trauma of 22 years of war.

The following discussion of Afghan livelihoods and society is summarised at the end of the chapter in an 'Afghan context' table (page 35) which will underpin a schema to be constructed in chapter 3. This schema will frame our investigation into how microfinance can help address the damage to Afghan society as well as support the resiliency of its people. Such assistance is crucial, for as this chapter will make clear, post-conflict Afghanistan is still unstable and the renewal of large-scale violence is a distinct possibility.

1. Fragmented Society Leading to War

Obviously, a complete history of Afghanistan is beyond the scope of this study (see table 2.1 for a brief timeline),[1] but some broad themes can be drawn out. A number of historians and observers have characterized Afghanistan's society, for example, as being plagued by fragmentation, leading to frustration and violence. The theme of fragmentation reaches back centuries, for Afghan societies before the twentieth century were "marked by extreme statelessness. Power was limited to social microcosms [with] overlapping loyalties" (Schetter, 2005: 54). There was also a crisis of identity, as the delineation of Afghanistan's people and its territory fluctuated over the years. In the 18th century, Persian speakers[2] referred to the ethnic Pashtun area (the shaded area in figure 2.1, page 17) as Afghanistan,[3] but by the end of the 19th century, Afghanistan was being defined by outside powers and came to be the "*ungoverned* buffer zone between Russia, British India and Persia" (ibid: 56, emph. added), which included not

[1] Several respected treatments of Afghan history are Dupree (1978), Arney (1990), and Rubin (2002).
[2] Persian speakers consisted of various ethnic groups living in the north and west of current-day Afghanistan.
[3] Thus, the Persian speakers designated Pashtuns as 'Afghans' and did not call themselves that.

only Pashtuns, but Tajiks, Uzbeks, Turkmen, and Hazaras[4] (see figure 2.2 on the next page for the current ethnic makeup of Afghanistan). Therefore, 'Afghanistan' by definition has at various times denoted neither a homogeneous people nor even a governed people.

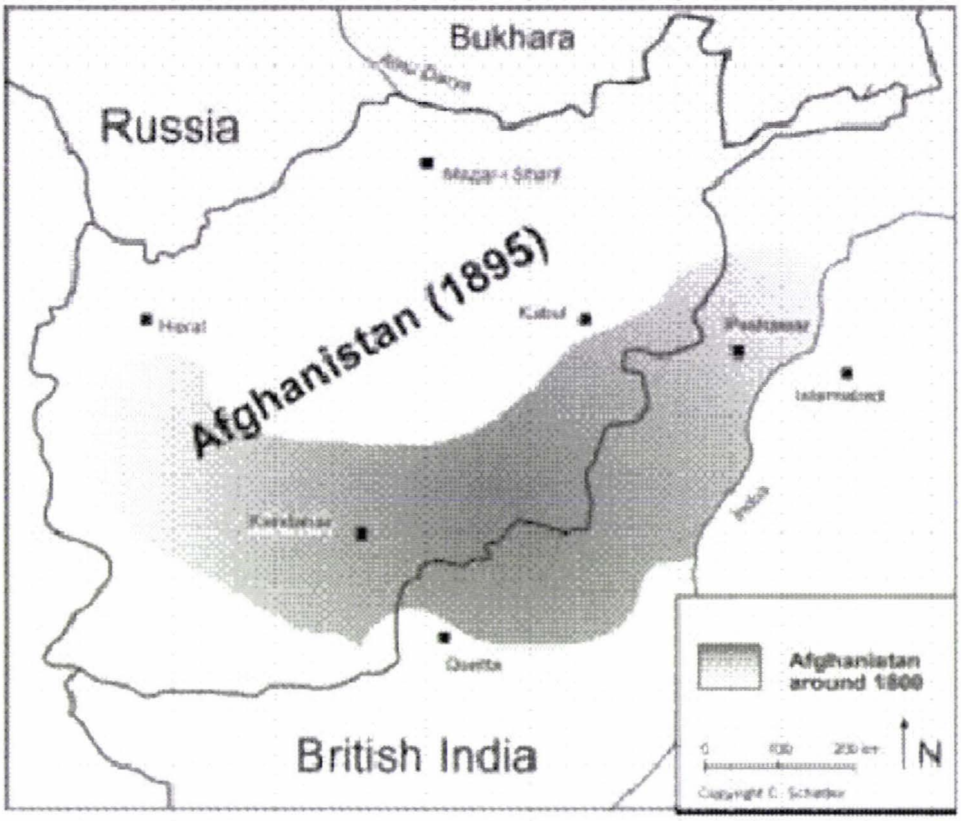
Table 2.1: Sketch of Afghan History

1747	Considered by most historians as beginning of an Afghan state	1992	*Mujahideen* overthrow government.
1893	Southern border with India (the Durrand line) is fixed. Afghanistan in process of becoming a modern state	1992-6	*Mujahideen* factions fight among selves. Half of Kabul destroyed
1919	Formal independence from Britain	1994	Taliban begin movement in south. Kandahar taken. Herat taken in 1995
1950s - 1979	Heavy bilateral aid from US and USSR (as they battle for influence) but also from China and Iran	Sep 1996	Taliban take Kabul. Continue on to take 85% of Afghanistan by 1999. Opposed by "Northern Alliance"
1973	Coup of Western-oriented Zahir Shah, replaced by Moscow-friendly government	1998 – 2002	Drought
1979	USSR invades Afghanistan. Puppet government installed	2001	9/11 leads to American invasion and overthrow of Taliban. Karzai installed as interim leader.
1979-1989	Civil War begins between government and *mujahideen* (jihad fighters)	Oct 2004	Presidential elections. Karzai elected
1989	Russians pull out. Communist government remains	Sep 2005	Parliamentary and Provincial elections

Afghanistan's borders (especially the Durrand Line, which still defines the border with current-day Pakistan) began to be more legally established[5] in the 1890s. It is tempting for some to view this artificial construction as the spelling of doom for Afghanistan, in that it forced the various ethnic groups together. However, inter-ethnic tension has notbeen a major problem until very recently (see section 6.1) as the various groups had "mingled into one distinct identity, historically, politically, and socially" (UNDP, 2004: 101). Instead, the setting of the borders changed the nature of state-local power relations. This "territorialisation" meant that the power of a ruler was now no longer based on his ties with, and support from, local tribes and leaders, but on how much of the Afghan territory he could keep under his control (Schetter, 2005: 57-58). The urban-based ruling elite became more concerned with affairs of state and less connected to the rural provinces; meanwhile the rural population saw the state as at best an abstract notion with no local legitimacy nor relevance to daily rural life, and at worst, a meddling nuisance (ibid).

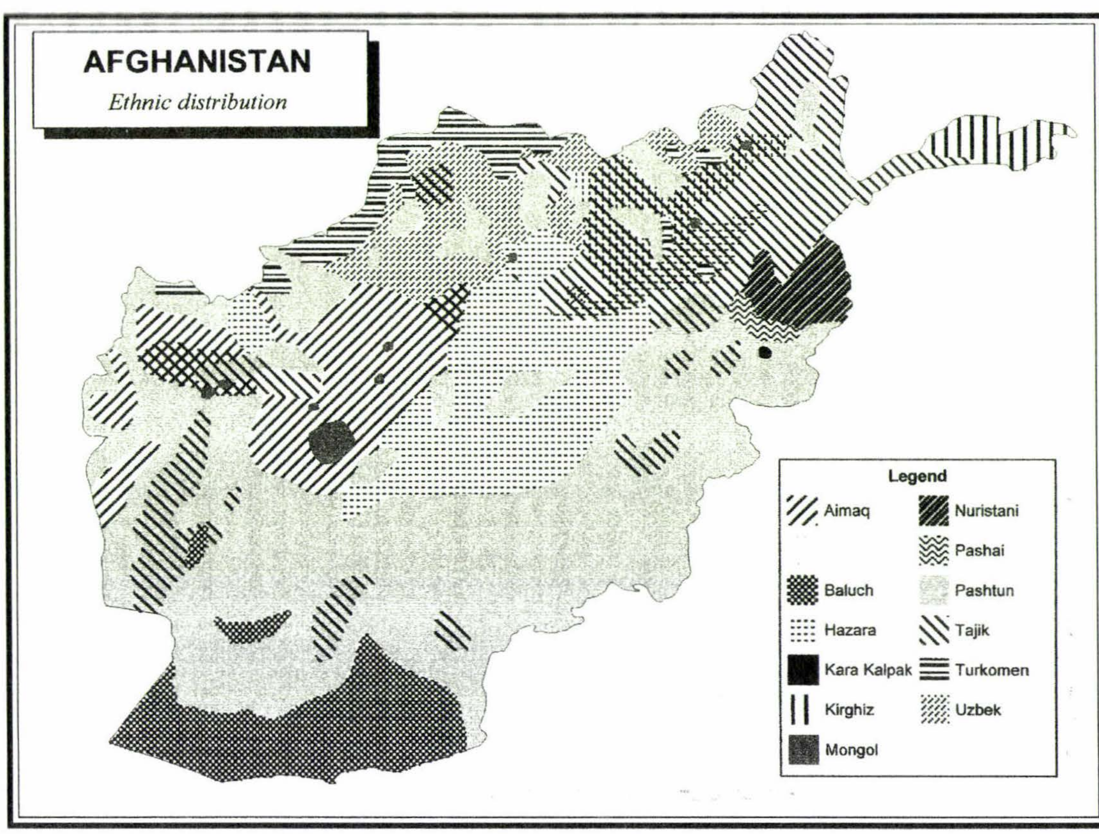
[4] These are the major ethnicities in Afghanistan. Pashtuns are the largest group, but are not the majority. Arney (1990, 4) states that there are 22 distinct ethnic groups.
[5] ...from an international point of view.

Figure 2.1 The Spatial Shift of Afghanistan in the Course of the 19th Century



Source: Schetter, 2005: 56

Figure 2.2. Ethnic makeup of Afghanistan



This state-society disconnect was intensified as the Afghan government remained reliant on foreign support, despite its formal declaration of independence from Britain in 1919 (Arney, 1990: 30). Led by the US and USSR, who were battling for influence in the region, foreign loans and grants accounted for 80% of Afghanistan's investment and development expenditure in 1956-1973 (Rubin, 2002: 65), about a third of it going towards defence and security (ibid: 67ff). This meant that the government could largely ignore rural issues and quell any local discontent by payoffs or force, instead of honest engagement. "Rentier incomes were used to develop means of coercion and social control, allowing the domestic elite to rule without being domestically accountable" (Goodhand, 2004: 49).

Afraid of any large competing power bloc, the government's strategy was to divide local governance into smaller and smaller groups, recognizing *qowm* representatives where *qowm* was seen as no more than a large extended family or village. (See box 2.1 for *qowm* and a description of local power structures.) No geographically larger organisations were allowed. Meanwhile, the government appeased local leaders with a process called "encapsulation", whereby "local khans and ulama were given symbolic roles without real [regional or national] power" but were given a form of local autonomy (Rubin, 2002: 62). In short, Afghanistan became a patchwork of disconnected enclaves. Sometimes, locals formed their own parallel networks as a "defense against the state, not a part of it," but in any case, "Qawm remained an active force locally, but was powerless regionally or nationally" (ibid: 72) and provided no counter-balance to state power (Johnson and Leslie, 2004: 39). Desires and grievances may have been heard, but not acted upon,[6] leading to despair and frustration.

As early as 1972, at least one observer was predicting "sudden and violent change" (Sawitzky, cited in Rubin, 2002: 80). Not only was civil society impotent, the state was also increasingly weakened by infighting, and since it had so distanced itself from society, no faction could call upon any popular support. In other words, neither civil society nor state had enough collective political capital to get anything accomplished. Meanwhile, the USSR had won the battle for influence over the US, but became increasingly entangled in Afghanistan's internal politics as coup followed coup in the late 1970s. Growing nervous about an increasingly unstable neighbour, the USSR accepted an invitation to send its troops into Afghanistan in 1979, setting off 22 years of horrific civil conflict.

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[6] For a time in the 1950s and 1960s, there was a parliament, but it was un-elected and no political parties were allowed, thus "representative bodies allowed society to express but not to govern itself" (Rubin, 2002: 73, 81).

Box 2.1 Local Power Structure of Afghan Society

Qowm* or *qawm:
This is a protean term which can refer to extended family, tribe, clan, ethnic group, regional group, or even a professional association. In this thesis, it retains some ambiguity but refers to a "loose network of extended families"[7]

Tribe:
In Afghanistan, it is mostly the Pashtuns who are organised by tribes, not the Tajiks, Hazaras, Uzbeks, or Turkmen. The Pashtun societal structure is by nature egalitarian between tribes, which means there is no 'supreme tribe' to unite the rest, and this lends itself to inter-tribal feuds and cycles of revenge. The lack of large-scale cohesion also made previous government attempts at 'encapsulation' (see above) much easier (Rubin, 2002: 9-12, 20).

***Shura* (in Dari) or *Jirga* (in Pashtu):**
Shura is a council, at either village, district, or provincial level. Traditionally, they were formed by villagers themselves (not by the state), but their existence and power varied widely from place to place (Johnson and Leslie, 2004: 42), and usually it did not entail any democratic process. Today, they can be formed by commanders or warlords, by the state, or even by NGOs for development purposes (see box 4.4).

***Ulama* or *Ulema*:**
Islamic scholars. These groups can represent various geographic levels. They came to have more political power in the 1980s when the different *mujahideen* parties had to act along certain religious lines to comply with their foreign sponsors (e.g. Saudi Arabia) who had evangelistic motives to intervene in Afghanistan. (Johnson and Leslie, 2004: 28f; Rubin, 2002: 227-9). Ulema are still respected today as a source of guidance and aid agencies should not ignore their influence (Johnson and Leslie, 2004: 40).

***Arbab*:**
A person chosen to represent the village to the district or provincial council (Rubin, 2002: 42).

Khan:
Wealthy landowner. The 'khan of a village' is not a feudal lord, not necessarily the arbab, and not necessarily the richest in the village, but one who skilfully uses wealth and kinship ties to accumulate political clout (Rubin, 2002: 41).

Malik: Head of an extended family (Wily, 2004: 5).

The war can be broken down into three eras. During the Soviet era (1979-1989), Russian helicopters and jet fighters pummelled the countryside and by 1988, food production was less than half what it was before 1979. Meanwhile, the Afghan economy was becoming increasingly monetized. Thus, the need grew for a hardy cash crop and was met with the expansion of opium-poppy cultivation.[8] The resulting opium network (not to mention American support) helped to fund the *mujahideen* resistance (Weiner, 2004: 19-21), which eventually forced the Soviets out of the country after a

[7] This comes from a personal reflection by an Afghan himself, Tamim Ansary, who has lived in the West many years. He attempts to explain *qowm* (though he does not use that term himself) in Western terms: "[In the West] if I'm too much with other people I need to balance it with some downtime...When we're alone, we're free from obligations, we don't need to put on a show...My Afghan relatives achieved this same state of being with one another. Being at home with the group gave them the satisfactions we [in the West] associate with solitude—ease, comfort, and the freedom to let down one's guard...I don't know what term applies to this type of group. *Family* doesn't cover it. Even *extended family* feels too small. *Tribe*, however, is too big...[It is not] a formal entity...no recognized chief, and no exact boundaries. It [is] more like a loose network of extended families" (Ansary, 2002: 17).

[8] Poppy growing has a long history in Afghanistan going back to the 18th century, although early in the 20th century cultivation was reported in just three provinces (Weiner, 2004: 19).

decade of occupation. In the second era (1989-1996), especially after 1992 when the Communist government was finally ousted from Kabul, the different *mujahideen* factions turned on each other as the war became increasingly ethicized. Anarchy reigned in the countryside as the *mujahideen* raped and pillaged, but during this era, Kabul itself became the main battleground. By 1996 half of the city was destroyed. The Taliban expelled the *mujahideen* from Kabul in 1996, initiating the third era. Though they generally brought order and security to most of the country, they also imposed a strict interpretation of Islamic law; their most grievous practice in Western eyes was not allowing women to work or girls to go to school. The war continued in the centre, north and northeast of Afghanistan between the Taliban and what became the 'Northern Alliance.'[9] The war became more vicious after 1997 as Al-Qaeda's influence over the Taliban grew and the Alliance became more desperate. Stories of mass killings by both sides were reported and the Taliban implemented a scorched earth policy just north of Kabul. Against the odds, the Alliance tenaciously held on to 10-15% of the country, but it seemed doomed to ultimate failure.[10]

The balance of power dramatically changed after 9/11, as the Americans entered the scene, and joined forces with the Northern Alliance to drive the Taliban from Kabul late in 2001. As a parting body blow to the Afghan people, however, a debilitating four-year drought, the worst in living memory (Lautze et al., 2002: 4),[11] had begun late in 1998 Afghanistan and lasted into the early postwar era. By 2002, the numbers were appalling: at least 1.5 million dead, "four million refugees,[12] 1.5 million internally displaced people, one million handicapped by landmines, and seven million—out of a population of an estimated 26 million—vulnerable to food shortages" (Wali, 2004: 75). How these pair of disasters impacted upon the Afghan economy, society, and livelihoods is the subject of the next several sections.

2. The Broken Economy and Household Financial Stress

Afghanistan has never been an economic powerhouse, at least in a legitimate sense. Lautze et al. (2002: 10) distinguish three economies in Afghanistan which have varied in magnitude over the years and at times have co-existed, including today: first, a war and narcotics economy; second, an artificial economy of external assistance; and third,

[9] With the threat of the Taliban taking over the entire country, the *mujahideen* factions put aside their differences and formed the Northern Alliance early in 1997.

[10] Some of what is written in this chapter, especially in this paragraph, is based on my own 'common knowledge' of the Afghan situation. I worked in Kabul from 1996-1999.

[11] The authors note that no one in 1000 people interviewed could recall a similar period of dryness. The drought broke in the winter of 2002-3 and the 2004-5 winter was especially good with abundant snow and rain.

[12] During the 1990s, the refugee numbers I heard of during my stay in Kabul were higher: 4-5 million in Pakistan, 3 million in Iran.

a 'struggling' economy of legitimate enterprises that includes agriculture and small business. As mentioned above, pre-1979 Afghanistan was a rentier state; further, it was a state distrustful of private enterprise and followed a state-led development model. Most large-scale infrastructure projects, factories or businesses were financed and managed by foreign or government agencies, and the private sector was "largely confined to trade" (Rubin, 2000: 1791; cf. Dupree, 1978: 623-648). During the war, the factories that did exist were stripped clean, their parts sold for cash, and infrastructure was damaged deliberately (for war purposes) or through neglect. Also, individual regions started trading with bordering countries rather than with other regions or the capital, partly for security reasons, but also because of growing international links as opium was exported (Weiner, 2004: 23). Thus the Afghan national market became increasingly fragmented (Rubin, 2000: 1793). Today's legal economy, while growing, still resembles that of the 1960s and 1970s, dominated by primary products and trade, with very few small to medium industries to add value to those products (Chotani, 2005a: pers. comm.) or to provide employment opportunities (UNDP, 2004: 194). As Chotani[13] remarks, "The private sector is almost nothing." The current paucity of formal financial institutions[14] only makes private sector growth more unlikely. "The Afghan economy will not flourish until its domestic entrepreneurs can set up business [through access to credit]" (Bray, 2005: 38).

An important parallel development that the war induced was the monetization of the Afghan economy (Klijn, 2005: 11). This was due to: 1) refugees coming into contact with Pakistan's and Iran's monetary economies; 2) *mujahideen* fighters bringing in cash from Pakistan to fund the war effort; and 3) massive note printing by the post-Soviet communist government to fund its increasingly tenuous grip on power (Rubin, 2000: 1792). The latter development led to hyperinflation in the early-to-mid 1990s. The Afghani (Af) had been typically around 50 Afs to one US dollar before 1987. By 1991, it was 1000 Afs to the dollar and by 1996 the rate reached 18,000 Afs. (Rubin, 2000: 1793).[15] Unfortunately for waged employees, salaries did not climb proportionally, so an Afghan government civil servant was making the equivalent of just $8-10 per month during the late 1990s.

Among rural citizens, who had been at least partially self-sufficient from their agricultural activities, the demand for cash rose dramatically as well. The various warring parties of the 1980s and 1990s had already abducted or killed farm workers,

[13] Harish Chotani was the manager of the Monitoring and Evaluation Unit at MISFA at the time of my interview with him in June, 2005, and had spent two years in Afghanistan. He now works for another MFP there.

[14] More is said about the financial sector in chapter 4, section 1.1

[15] The rate was up to 60,000 Afs by 1999 when I left Kabul.

wrecked infrastructure, or torched or landmined their plots of land. The 1998-2002 drought led to further deficits in crop and livestock production (Lautze et al., 2002: 10). This led to at best an increase in cash-based livelihood diversification strategies or at worst stress selling of assets, pawning of land (called *gerao*; see box 2.2), starting poppy cultivation, joining an armed militia for employment (UNDP, 2004: 98), or going into heavy debt (Pain and Lautze, 2002: 35).

Box 2.2 The Afghan custom of G*erao* (Pawning)

Most writers on Afghanistan equate *gerao* with a mortgage, but it is more equivalent to pawning since the creditor takes over the use and production of the land (Wily, 2004: 29). The staff of CHF in Bamyan told me that the debtor must let the creditor get at least one year's benefit from the land. After that, the borrower can redeem the land after any harvest. Usually, the loan is paid back through the crop-share within two or three years, but if interest is charged, it can take up to five years. In Wily's survey, half of those who had pawned land were never able to redeem it. Wily believes the practice of *gerao* unfairly favours the creditor to a great degree and believes the practice needs reform (ibid: 69). It is also possible to *gerao* a house or a room of a house. The downside for the creditor here is that he has to move out as soon as the *gerao* is redeemed.

Being in debt is nothing unusual for Afghans historically,[16] but in 2002 Lautze et al. (p.12) were heralding the onset of a "debt disaster". Formal or semi-formal finance institutions (micro- or otherwise) were as yet nowhere to be found, leaving borrowers, if they could not find friends or family for assistance,[17] at the mercy of usurious moneylenders. Somewhat ironically, the situation worsened for those already in debt after the arrival of the Americans, as the value of the Afghani strengthened from 80,000 Afs: 1 USD on 9/11 to around 5,000 Afs just before Christmas (ibid: 16). Suddenly, an Afghani-based debt seemed 16 times larger as market prices, which were always unofficially tied to foreign currency, dropped radically.[18] Debt insecurity rates thus rose from about 30% in 1999 to about 70% in 2002 (ibid: 15).[19] Some were even selling daughters off in marriage to settle a debt (ibid: 13).[20]

[16] Rubin (2002: 33-34) calls debt "ubiquitous". Most commonly, loans were taken for weddings, funerals, or family crises. In a related footnote (p.305), Rubin notes the relative paucity of data on indebtedness in Afghanistan, especially before 1978.
[17] This was increasingly the case as more and more simply had no cash to loan out. Lautze et al., 2002: 13.
[18] The debt problem hit small shopkeepers especially, for as creditors they were losing money because their customers defaulted, and as borrowers of goods on credit which they were on-selling, the value of those goods suddenly dropped. See Lautze et al., 2002: 16-17.
[19] Lautze et al. (2002: 15) offer a rather vague definition of debt insecurity, and so it is not clear how exactly they arrived at the percentage figures. See chapter 6, section 2.6 for an attempt to define it more precisely.
[20] Rubin et al. (2005: 25) claim the practice continues today.

Box 2.3 Boys in Kabul Speak of Debt's Shame

Most of the fathers in the neighbourhood are in debt and are too ashamed to go to the stores so they force us to go and borrow. It makes us feel as though we are in the middle of the shopkeepers and our fathers. This makes us embarrassed in front of our friends. Being in debt has caused a lot of problem for families – it is just destroying them.

Lautze et al., 2002: 14

The "debt disaster" had implications on personal capital – it was a "crippling source of shame" for many – and social capital, as relationships were strained due to fear of encountering moneylenders (ibid: 13; also see box 2.3). Although the currency has stabilized since late in 2002,[21] indebtedness remains a serious social problem, especially in poppy-growing areas, where average debt was over $1800, according to a 2003 survey (Goodhand, 2004: 68). In other non-poppy areas, debt burdens frequently reach the neighbourhood of $760 (World Bank, 2005: 59). As we shall see in section 6.2, such debts lead to increased tensions and violence.

These debt amounts may not sound like much to most people in the world, but they are to Afghans. An unskilled wage earner can normally make between $500-1000 per year, according to the Asian Development Bank (ADB, 2004: 16),[22] and average annual income per *person* is about $300 (DFID, 2005b: 2). Remenyi (1991: 8) introduces a helpful categorization of the poor (table 2.2) which will be used in the remainder of this thesis. For his purposes, a household on the poverty line (depicted as the dashed line in the table) is defined as one which earns half the national average (ibid: 3). Yet for our purposes, when the *average* for all of Afghanistan is among the lowest in the world,[23] and $65 below the globally defined poverty line ($1/day, $365/year), it would be meaningless to use that measure to decide who is and is not 'poor'. It makes more sense, then, to use the common $1/day poverty line used worldwide. According to this definition, 53% of Afghans can be classified as lower to middle poor (i.e. below the dashed line in table 2.2) living on less than $365/year (ADB, 2004: 16).[24] Despite these discouraging figures, many Afghans have somehow managed to survive. This is explained in the next section.

[21] By January 2003, a new Afghani had been installed, set at the value of 50 Afs for 1 USD. It has stayed stable since then, trading at 48 or 49 Afs.

[22] The figures noted in ADB (2004) are actually $1.70-3.20 per day, which I have multiplied by six days/week and 52 weeks/year to arrive at the yearly figures. This may sound like a good amount, above the $1/day poverty line, but remember that most workers have large families to feed.

[23] The $300/year average compares poorly with the lowest ranking countries in the HDI. See UNDP, 2005: 302.

[24] Beyond this, the exact income distribution of Afghans is not available (UNDP, 2004: 18), and so it is difficult to say how many there are in each of Remenyi's categories. Remenyi argues that in most poor developing countries, the pyramid figure (larger numbers of vulnerable poor compared to labouring poor, for example) is justified. These categories are very rough, and it is important to remember that income is not the only indicator of wealth or poverty.

Table 2.2: Remenyi's Poverty Pyramid. (from Remenyi, 1991: 8) (cf. Table 4.1)

Remenyi's categories		**Description according to Remenyi**	**Language more often used in this thesis**
Near Poor	*Poverty Line* ↓↓ $365/yr	Above the poverty line, ~~but below national average income~~[25]	Higher Poor
Entrepreneurial Poor	.... *Afghan avg: $300*	Small enterprise owners. May employ more than five persons. Still below poverty line	Middle Poor
Self-Employed Poor	......	Running own farm or business. May employ up to five persons	Middle Poor
Labouring Poor	...	Unskilled, relying on others for jobs. Day labourers perhaps.	Lower Poor
Vulnerable Poor/Ultra Poor	...	Children, enfeebled women, elderly. Essentially dependent on others	Poorest of the Poor

NB: The pyramid shape and contents in column 1 are directly lifted from Figure 1.1 in Remenyi, 1991:8. Column 2 represents a summary of his descriptions of each category in ibid: 8-10.

3. Barely Managing to Cope: Food Security and Livelihood Diversity

Without a doubt, food security[26] is near the top of the list of concerns among the poor of Afghanistan. During my time in Kabul in the late 1990s, I heard of a father so frustrated that he could not provide enough food for his family, that he threw his daughter against the wall one night after he came home. More disturbing stories of food deprivation came out in 2002 in the last year of the drought; Memmott (2002: A1), for example, wrote of a couple who made soup from boiled grass as a matter of course. These stories, though, did not present the entire picture; the World Bank (2005: 2) notes the remarkable fact that despite the immense difficulties faced in the last 25 years, there has been no large-scale famine in the country. While around 50% of respondents in the National Risk and Vulnerability Assessment 2003 survey showed evidence of chronic malnutrition, just 6-10% were experiencing acute malnutrition (ibid). By the same token, it is not a particularly encouraging statistic considering that the survey took place in the late summer of 2003 after a drought-breaking winter. The survey also found that 21.5% nationwide were consuming less than 2100 calories per day,[27] but that average food availability was 2800 calories/day. This suggests that the low calorie intakes were not so much due to a supply problem but due to the fact that some households simply could not purchase or grow enough to feed themselves adequately (ibid: 87-89).

[25] In Afghanistan's case and for our purposes, the national average ($300) is below the global poverty line ($365). Hence I have crossed out Remenyi's definition.

[26] The term 'food security' has over 200 definitions but one of the most common is having "physical, social and economic access to sufficient, safe and nutritious food which meets dietary needs and food preferences for an active and healthy life" (Maxwell and Slater, 2003: 532).

[27] This 2100 calorie/day threshold is another standard used worldwide as an indicator of poverty.

The fact that many Afghans have somehow managed to avoid widespread crushing poverty and famine (as seen in other parts of the world) can partly be attributed to their wise practice of not putting all their eggs in one basket.

> A key contributing factor [to their survival] is undoubtedly the diversity of economic activities...within communities and even within most households, facilitating a wide range of private and informal risk management arrangements (ibid: 2).

During the fieldwork for the current research, such diversity was especially found in rural areas, where families tend to stay together in bigger groups, whereas in urban areas family groups are smaller and people generally depend on wage employment (Hunte, 2004:7). It is commonly thought that the vast majority of rural Afghans are solely involved in cultivation and pastoralism, and the oft-quoted (but rather vague and unsupported) assertion that "over 80% of the population is dependent on the agricultural and natural resource management sector" only continues the myth.[28] However, from the results of a 21-village, 390-household longitudinal monitoring study conducted over 18 months, Grace and Pain (2004) found that:

- 196 out of 390 rural households obtained at least 50% of their grain through purchase, not own-production (p. 18).[29]
- 50% of rural households had five or more income sources. Some households in Faryab province had ten sources (p.28).
- in 18 of the villages, non-farm labour was the most important source of income (p.31ff).

The World Bank report (2005: 3) also rightly downplays the importance of own-production:

> Field reports highlight that agricultural production is not necessarily a good proxy for the overall welfare of rural households given the diversity of livelihoods and risk management strategies.

More evidence of Afghans' livelihood diversity is presented in chapter 6, section 3.9, as is the positive role MF can have in supporting this strategy.

[28] Grace and Pain (2004) quote this remark from Government of Afghanistan/International Agencies (January 2004), *Securing Afghanistan's Future: Accomplishments and Strategic Path Forward, Natural Resources Technical Annex*, Paragraph 2. Grace and Pain (p.8) note that "it remains unclear what the statement...actually means, or where this claim comes from." It is quoted without remark also in UNDP, 2004: 99.

[29] An additional 119 households obtained 26-50% of their grain through purchase.

4. Psychosocial Health: Support and Trust Reduced to a Minimum?

According to some observers, another important factor which helped Afghans avoid widespread disaster was their notable social support system at the village, and especially at the *qowm*, level (see box 2.4, which illustrates the strength of *qowm* ties).[30] "Social capital, [the kind that has to do with] relationships around reciprocity and sharing, is a buffer between extreme vulnerability and the total collapse of livelihoods" (Bhaita et al., 2003: 13). The obligation Afghans feel toward one another and particularly the poor is partly an Islamic norm, but seems to also be a distinctly Afghan characteristic;[31] their readiness to help is indicated by results of Grace and Pain's research, where 20 of the poorest households (out of 390 total) were able to obtain at least part of their grain gratis from family or neighbours (Grace and Pain, 2004: 19). In the fieldwork for this thesis, several families were encountered who were staying free of charge in a room of a friend or a relation.

> Box 2.4 *Qowm* Solidarity
>
> "You may have moved to Kabul, or even abroad, but you still have obligations to your family, and through them to the village. It is part of an Afghan's sense of honour to meet such obligations."
>
> "Afghans survive because people do not operate only as individuals; they also operate as members of networks. You look after those in your network: a salary does not just feed your immediate family, it supports an entire group of people to whom you have obligations."
>
> (Johnson and Leslie, 2004: 35, 38)

There appears to be some debate, though, about whether this social support system was weakened by the war and drought or grew stronger through resistance. On the one hand, Rubin et al. (2005: 21, 67) speak of social fabric being disrupted and in need of repair. Alternatively, Pain (2002: 8) disputes such claims: "the strength of association and solidarity at household and village level...is a striking feature of rural Afghanistan...Rural communities are far from enfeebled."[32] Similarly, the World Bank (2005: 63) claims that "community support mechanisms" were a key to avoiding mass starvation. There is probably some truth to both views, and which side is 'more right' depends on location[33] and whether one is talking about social *support* or social

[30] Sometimes, *qowm* and village are the same social group: "The basic solidarity group in rural areas is often...the village, which in small settlements is usually no more than an extended family" (Johnson and Leslie, 2004: 35).
[31] One does not see the 'in-your-face' poverty that you do, for example, in Pakistan or India. Afghans living in the West are shocked to see homeless on the streets, since *qowms* in Afghanistan would never allow that fate to befall one of their members.
[32] Later, Pain posits that "one might conclude that it is the very failure of the state and the maintenance of local ties that has allowed households to survive so well" but admits this is "entirely speculative" (p.21).
[33] I.e. according to province and whether it is a rural or urban setting. Rural communities tend to more closely knit (World Bank, 2005: 53).

cohesion. There are overlaps between the two concepts, but for now the focus will be on the former. Social cohesion is discussed in the next section (section 5).

Mutual social support in a community depends on inter-personal trust and the resources available in that community. Regarding the latter, the war and drought caused such strain that even the relatively well-off were running out of resources to help the poor. For example, a 13-province 2002 survey found that "for the households...who were unable to obtain credit, the primary cause was a lack of money available for lending within extended family or neighbourhood networks" (Lautze et al., 2002: 14).[34] Regarding the former, Afghans tend to not trust people from outside their *qowm* very readily in any case,[35] an attitude that the war only served to exacerbate.[36] "Manipulation of the prejudices by the warlords in Afghanistan has been consistent strategy that has not only reduced trust, cooperation and positive interaction between different social groups, but has also created a lot of hatred and enmity" (Suleman and Nawabi: 2005: 5).

Another strategy to create distrust was the use of fear and intimidation tactics. During my stay in Kabul in the late 1990s, Afghans would share how they were afraid of neighbours and friends spying and reporting on their activities. The paranoia was not misplaced; aid organisations (including the one I worked for) regularly had to fire staff who had been found to have shared sensitive information with *mujahideen* or Taliban spies. Lack of trust is still a problem today, indicated by the fact that several MFPs have had to form MF groups of just 5 instead of 15-20 as was their original plan. As some Afghans in Kabul have put it, if US and foreign forces left, "it would be neighbour against neighbour" (Linder, 2005: 8).

This harm to the social fabric is not unusual for a post-conflict situation; it is one element of what is often termed 'psychosocial' damage, which is a mix of personal and community-wide trauma (Maynard, 1997: 203-208). In Afghanistan, the strains discussed thus far built up over the years of distress and took their toll on individuals:

> Mental disorders are another of Afghanistan's war wounds, yet they have been largely ignored. WHO [World Health Organisation] estimates indicate that 95 per cent of the population in Afghanistan has been affected psychologically, and one in five people suffers from mental health problems. In fact, as many as 30 per cent of Afghans may suffer from anxiety, depression, psychosomatic problems such as insomnia and forms of post-traumatic stress disorder (UNDP, 2004: 60).

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[34] As the authors note, Afghans normally obtain loans first through family, then shopkeepers, but "over the past three years, informal mechanisms of credit have increasingly failed due to stress" (p.13).

[35] Evidence of this from the fieldwork is presented in chapter 6, section 4.5.

[36] There is some evidence of even intra-family strain as well. See, for example, Hunte, 2004: 14.

The scale of these individual cases leads in turn to wider social damage, a vicious downward spiral. "Poor individual psychological health erodes community stability through the exhibition of paranoia and blatant mistrust, irrational behaviour, and the need for constant care" (Maynard, 1997: 208). This ultimately impairs community "interdependence and mutual protection" (ibid, 207). It should be noted, however, that Maynard's article on psychosocial damage is theoretical and general. How much these statements apply precisely to Afghanistan is up for debate.

As mentioned at the beginning of this section the magnitude of damage to Afghan safety nets is not yet clear. Statements made by observers seem to be based on conjecture rather than hard data, and thus the World Bank (2005: iv) calls for further study "to measure the extent to which communities share available resources through local support networks ... to improve the welfare of poor households." A balanced summary of this section and of the discussion thus far on the economy, household poverty and food security, is found in Lautze et al. (2002: 23):

> More than two decades of conflict in Afghanistan have generated complex webs of social and political risks and vulnerabilities... Instability and insecurity limit coping capacities, in part because economic and political crises have had deleterious effects on the kinship and social networks that previously served as safety nets for the most vulnerable in Afghan society. The years of conflict and the legacy of the Taliban shaped the coping strategies used for survival by the majority of people in the study. While most of these strategies were remarkably successful, they were formed out of brutal necessity, and forced individuals, households and communities to adapt in ways that were financially, morally and socially difficult. Nonetheless, these strategies carried Afghan's diverse population through very troubled times.

5. Still Fragmented: The Lack of Social Cohesion

The previous section showed that despite war and drought in Afghanistan, the level of social capital, in the sense of social *support* for individuals and households, may have stayed at a sufficiently high level to enable many families to survive. However, there is also social capital in the sense of organisational *cohesion,* which is needed for communities, districts, and provinces to make decisions and move forward in developing their society. It is in this sense that Rubin (2000: 1794) states:

> The years of war had destroyed much of Afghanistan's social capital as communities and institutions were dispersed or destroyed. The prevalence of predatory economic activities reflected the fragmentation of social power.

Earlier (section 1) it was shown how Afghan civil society is fragmented by its very nature, with local governance rarely extending beyond the village level, and how successive governments deliberately kept the periphery in such a divided state. The situation deteriorated with the onset of war in the 1980s, as many local traditional leaders and wealthy khans fled to escape the fighting (Rubin, 2002: 227; Johnson and Leslie, 2004: 49), and so "existing social capital eroded, but new associations and organisations emerged" (Pain and Lautze, 2002: 12). Some of these associations were new community groups, but they were unable to establish themselves as wielding real power, or "social control" as Weiner (2004: 43) puts it.[37] A power vacuum therefore resulted.

Naturally, it was those with new-found money and "strong coercive capabilities" (ibid) which filled the vacuum, that is, the *mujahideen* commanders and warlords.[38] If any traditional structure did remain in an area targeted by a commander, he would either dismantle it, co-opt it, or create a new one (Johnson and Leslie, 2004: 42, 48-9). Some commanders would wield control directly, while others would stay in the background. In the present, there are still many areas of Afghanistan which are ruled in this unofficial manner, where government or traditional power structures are impotent. As one local government official in Mazar-i-Sharif complained: "These *shura*, they cannot act, there is no space, they are not independent, all are controlled by the factions, they are a device for commanders to legitimate their activity" (ibid: 42). Many Afghans and Western observers see this as a continuing barrier to lasting peace (see below), though it should be noted that some warlords appear to rule justly.[39]

6 Current Proximate Sources of Tension

6.1 Commanders, Warlords, and Ethnicity

It is generally accepted that many warlords/commanders and their militias brought unspeakable suffering to the Afghan population, either through direct violence, unfair and negligent policies, or by doing further damage to the social fabric of the population.[40] One of their enduring legacies is the hardening of ethnic divisions in Afghan society. As one Afghan put it, "The ethnic problem started in communist times

[37] Weiner (2004: 30) notes that when the state's "social control" is fragmented, then "alternative actors" are sought to restore some kind of order, such as "community groups, vigilante gangs, militias, or organised criminal syndicates."

[38] Johnson and Leslie (2004: 50) make a helpful distinction between commanders and warlords: "Warlords are essentially commanders who have extended their power beyond their own group to build a wider regional base. Their power rests not primarily on direct control of territory but on influence through networks of commanders."

[39] Johnson and Leslie (2004: 51) use Ismael Khan, longtime 'governor' of Herat, as an example. While an accused reactionary and abuser of human rights, he makes sure that "unlike in many other provinces, government employees are paid in Herat, investments are made in public services, and security is taken seriously."

[40] It should be noted I am talking primarily about the *mujahideen* commanders here, not the Taliban. People I knew in Kabul hated the Taliban and the Communists, but they would save their most venomous language to describe the *mujahideen*, often calling them "animals".

[the Soviet occupation era]...People used [ethnicity] to try and get individual benefits. After, with the *mujahideen*, it became a big problem" (Johnson and Leslie, 2004: 53).

Of course, this widening of ethnic divisions is nothing new in areas of intrastate war, but aid agencies must resist jumping to easy conclusions:

> Relief workers often encounter conflicts that seem on the face of things to be about ethnic or religious distinctions...However, inter-group violence is often the result of a situation being deliberately manipulated to serve the power and economic interests of specific groups (Le Billon, 2000: 5).

For example, in an attempt to fragment local cohesion in Ghazni, the Taliban tried to ignite Hazara-Pashtun land disputes by applying different legal codes (Sunni or Shia) in different cases (Bhatia et al., 2003: 13). The Northern Alliance resistance was just as manipulative, accusing the Taliban of ethnic cleansing of the Shamali[41] even though local minority Pashtun residents had to leave and suffered just as much as the majority Tajiks (Johnson and Leslie, 2004: 70). Entire regions, heretofore fractured into *qowm*-based groupings, became united under ethnic identities, "not because they expressed pre-existing social interests...They emerged, rather, as a result of political and military mobilization over areas larger than the space of solidarity of the qawm" (Rubin, 2002: 226; cf. Johnson and Leslie, 2004: 53).

That inter-ethnic hatred was not the root cause of conflicts in the 22-year civil war is further indicated by the following points:

- Warring groups would frequently build alliances which bridged ethnic fault lines (Bhatia et al., 2003: 13). "Countless commanders" changed sides out of political opportunism and economic gain, independent of ethnic considerations (UNDP, 2004: 101).
- The Afghan population detested their own warring factions "as much as those of other ethnicities" (ibid).
- Pashtuns in Jaghori district (southeast of Ghazni) defied the economic blockade of the Hazarajat[42] imposed by their Taliban brothers in 1998, refusing "to see their Hazara neighbours starve," even risking their lives to smuggle food to them in the dark (Johnson and Leslie, 2004: 8).
- Afghans themselves understood that commanders were only manipulating ethnicity (UNDP: 2004: 101). In a 2004 survey of over 4000 Afghans, 63% "felt that the conflict in Afghanistan was not primarily ethnic in nature" (AIHRC, 2005: 10).

However, the unfortunate reality is that ethnicity *has* become a real problem in present-day Afghanistan, due to the years of war and manipulation. In some rural areas

[41]The Shamali, a plain just north of Kabul, was the main front line between the Taliban and Northern Alliance in the late 1990s. See map in appendix 2, figure A2.1.

[42] The central high mountain region of the country. It includes the province of Bamyan and parts of Ghazni, Oruzgan, Vardak, and Ghowr.

immediately after the war, Pashtuns were being denied access to land and water by non-Pashtuns (Lautze et al., 2002: 25), and they feel they have to take off their traditional turbans when visiting Kabul, lest being labelled a Taliban (Surkhe et al., 2004: 4). Surveys indicate a reluctance among Afghans to speak about ethnicity, suggesting grudges or fears simmering beneath the surface. For a 2005 survey conducted by the Feinstein International Famine Center (FIFC), a focus group (FG) question was, "Are some people in the community more insecure than others?...The first reaction in the FGs was to say 'everybody is the same,' perhaps fearing that the interviewer was hinting at ethnic differences" (Donini et al., 2005: 18). During the field study for this thesis, a close friend bitterly shared his memories of racial discrimination during the war.[43] If ethnic antagonism resurfaces in Afghanistan, it could yet contribute to widespread violence (UNDP, 2004: 102).[44]

Although Afghans are hesitant to discuss ethnicity, they are quite ready to blame warlords and commanders for current tensions. Afghans surveyed in 2004 were agitated that most commanders have not yet been formally charged for past atrocities, but what is worse in Afghan eyes is that they are still holding positions of power, either locally or in Kabul (AIHRC, 2005: esp. p.10), and that they continue to commit abuses (HRRAC, 2004: 3); In the HRRAC survey 65% argued that disarmament is the "single most important action for improving security" (ibid: 5). One village elder says,

> Warlords are our biggest problem. The villagers are not afraid of the Taliban but they fear the warlords. They steal from the people, they threaten the village elders...If Karzai removes [them], things will improve, but if he does not fulfil his promises we will hate him (Donini et al., 2005: 18).

6.2 The Opium Sector (and Weapons)[45]

The power of these commanders and warlords, however, will not be easy to break, for over the years they have built up a formidable amount of financial and social capital themselves via the opium sector (UNDP, 2004: 103). It is estimated that 60% of Afghanistan's warlords profit from drug trafficking (Weiner, 2004: 25). Commanders are either involved peripherally (simply allowing cultivation and processing, and then skimming off 'taxes') or directly, encouraging farmers "to grow opium by providing cash advances and loans" and assisting them to protect their crop with weapons or guards

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[43] See Preface and Acknowledgments. Although I did not ask any direct questions about ethnicity during interviews, I did sense an uneasiness among several respondents whenever the subject happened to come up, and a desire to sweep it under the carpet.
[44] See more on Afghan ethnicity in chapter 4, section 3.4.
[45] This section focuses on the opium issue, and although weapons are mentioned briefly (since the two are connected in some ways), the issue of disarmament also needs separate discussion; this is done in chapter 4, section 3.3.1.

(ibid: 27). Poorer farmers, however, become stuck in spiralling cycles of debt,[46] and become objects of bullying:

> Creditors have...been using more authoritarian tactics to ensure repayment, including kidnapping daughters, confiscation of domestic possessions, and compulsory land purchases. Failure to repay debts has become a major source of conflict (Goodhand, 2004: 68).

However, it is the statistics with which policy-makers seem to be preoccupied. True, the numbers are not encouraging. In the Afghan year 1383 (March 2004-March 2005), the narcotics trade contributed to 40% of the Afghan economy (Rubin et al., 2005: 8), and it is believed that 87% of the world's opium supply originates in Afghanistan. Regrettably, though, misguided policies emphasizing coercive reduction of weapons and poppy growing over addressing livelihoods issues have been put in place. Obsession with headline statistics regarding number of poppy hectares eliminated or guns collected overshadows the reality that "holding on to Kalashnikovs or engaging in poppy cultivation...are still considered ways to survive" for the rural poor (UNDP, 2004: 120) and that viable livelihood alternatives for the poor need to be offered.

This short-sightedness applies especially toward drug policies. Out of $778 million the US offered to the Afghan government for poppy intervention for the 2005 fiscal year, Washington only earmarked $120 million for alternative livelihoods (ALH)[47], the remainder going to eradication, aerial spraying, and interdiction. The government of Afghanistan (GOA) and the US embassy in Kabul protested and were able to get some funding reallocated towards ALH, but "the strategy still errs in introducing crop eradication too early in the process, before either alternative livelihoods or interdiction have a chance to change the decision-making environment of the peasantry" (Rubin et al., 2005: 64).

The devastating impact of such a blunt policy is outlined by Mansfield and Pain (2005: 6) in the results of a 2005 study of Nangahar province, where the opium ban was fiercely enforced in the 2004-5 growing season, resulting in a 95% drop in cultivation. The livelihood losses are especially notable; it was estimated that 3.1 million days of hired farm labour was lost as well as 5.6 off-farm jobs created for every hectare of opium eliminated. This had serious knock-on effects, as there was a "significant downturn in the licit economy" and a "growing incidence of permanent migration to Pakistan" (ibid). As mentioned before, the opium sector represents 40% of

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[46] See chapter 3, section 2.2.3b.

[47] 'Alternative livelihoods' is sometimes used as a technical term, but in this thesis I adopt its face-value meaning, so that any intervention which helps to offer an alternative way of life to those involved in the opium sector can be considered an ALH activity.

the Afghan economy; half a million people are connected to it in one way or another (Johnson and Leslie, 2004: 130). As one UNODC[48] administrator has observed, "Just like people can be addicted to drugs, countries can be addicted to a drug economy. That's what I am seeing in Afghanistan" (quoted in Rubin et al., 2005: 28). Similar to curing an addict, then, only gradual and well-ordered interventions will have the desired effect (see chapter 4, section 3.3.2).

The experience in Nangahar also illustrates the danger of interventions actually causing increased tensions, which is dangerous to do in a fragile post-conflict setting. In Nangahar last year, not only did the potential for conflict increase intra-regionally as damaged livelihoods and increased indebtedness led to increasing disparity and frustration,[49] but already-tenuous state-region relations worsened as discontent and resentment rose over the state's heavy-handed tactics. Mansfield and Pain (2005: 6) note the "growing political discontent, particularly in more remote areas where licit livelihood opportunities are most scarce," which has "potential implications for democratic processes and support for the state." Thus, it is not only the drug sector itself, but also an ill-conceived war on drugs, which has led to heightened tensions in the province. Rubin et al. (2005: 64) call the current coercion-first strategy a "sure recipe for destabilization."

7. Conclusion

Considering recent Afghan history, then, we discover that in some respects Afghanistan has come full circle. For example, this chapter started by describing strained state-local relations, and concluded by showing how the war on drugs is renewing those strains. In other respects, *new* tensions have arisen, as often occurs in protracted conflicts. Inter-ethnic enmity, a *consequence* of the war, has become a *cause* of current tensions.

Understanding Afghan livelihoods and society can be a daunting challenge: "Undoubtedly, Afghanistan represents one of the most complex and difficult environments in which humanitarian agencies could operate" (Langenkamp and Bruderlein, 2002: 1). This is made more complicated since there has been limited research "of how macro-level political and economic processes interact with micro-level

[48] UNODC = United Nations Office for Drugs and Crime.
[49] One of Mansfield and Pain's notes on Nangahar: "Selling of assets including livestock and land, and a growing inability to meet loan repayment schedules on seasonal and accumulated debts. Potential for increasing local conflict over debts, absconding and greater concentration of assets in the hands of the wealthy and those involved in illicit trade" (2005: 6).

coping and survival strategies" (Bhatia et al., 2003: 3).[50] This chapter, summarised in table 2.3, weaved some of these micro- and macro- threads together. In table 2.3, the assignment of certain items under certain headings is somewhat artificial (i.e. some items could go under more than one category) and there are innumerable links and feedback loops between them. Furthermore, it is certainly not an exhaustive list of the issues and sources of tensions Afghans have faced and face today.[51]

What the table does, however, is lay the foundation for the next chapter, where a schema for microfinance intervention will be constructed. It would be excessive and unfair to ask MFPs to tackle all of these issues themselves. Microfinance is no silver bullet and instead must be one small part of an integrated intervention package. But what roles exactly can microfinance play? On which of the stresses and strategies in table 2.3 can microfinance have a positive influence? Can it impact upon socio-political stresses and sources of conflict on top of its traditionally accepted economic role in bolstering livelihoods? These are the questions the next chapter attempts to answer.

[50] This knowledge gap has been closing quickly since 2002, however.

[51] For example, Afghans are bitter about the chequered history of external meddling in internal affairs, not only by foreign governments but by the UN and aid organisations. There are also various internal disputes over natural resources and land ownership.

Table 2.3: Realities of Present-Day Afghanistan ('Afghan Context' Table)

Livelihood/Society stress *or* ***Coping mechanism***			
1. Household Livelihood Stresses and Coping Mechanisms			
a)	Broken Livelihoods... Loss of Physical, Natural, Human capital . which leads to... ↘ Frustration and Increased Possibility of Conflict		
b)	**Livelihood Diversification**		
c)	Increased indebtedness (which leads to tensions)		
2. Psychosocial Damage			
a)	Trauma, fear, loss of confidence		
b)	Lack of inter-personal trust (could be because of ethnic problems)		
c)	Strained **but resilient** social support systems		
d)	Bitterness, War mentality		
3. Fragmentation: Socio-Political Stresses			
a)	State-Regional strained relationship		
b)	Weak local organisational cohesion (partly leading to rise of commanders and warlords)		
4. Struggling Economy			
a)	Few medium to large businesses		
b)	Monetization of economy		
c)	Weak licit economic sectors		
5. Current Proximate Sources of Tension or Conflict			
a)	Opium Economy and War on Opium (→ strained state-regional relationship)		
b)	Armed Militias		
c)	Ethnic Tension		
d)	Commanders and Warlords (who sustain all three of the above)		

NB: The blank cells will be filled in as chapter 3 proceeds.

Coping Mechanisms are in different font. See 1b and 2c. In future versions of this table, they are highlighted in yellow.

Chapter 3: Microfinance: Poverty Alleviation Tool, or Weapon against Conflict?

This chapter begins by examining the traditional benefits microfinance can bring to the livelihoods of the poor. Poverty is not only a financial condition. It is a condition reflecting multi-dimensional deprivation of finances, health, education, social capital, and psychological well-being,[1] all of which are depleted in post-conflict environments. Even the simple provision of basic microcredit[2] can have a positive incidental impact on several of these non-financial, more intangible areas. Therefore, by helping reduce economic and social ills, microcredit can play a role in dealing with potential sources of future conflict. It is argued, however, that these positive impacts can be multiplied if financial and non-financial services are added, i.e. that microfinance, especially when combined with health, education and business assistance, lends greater assistance to postwar recovery and conflict prevention. However, the post-conflict context also makes provision of such services difficult and costly.

In the second half of this chapter, the idea of 'conflict-sensitive microfinance' is introduced. It includes the prescription that microfinance practitioners should become more aware of the conflict complex in which they work, so that their strategies and procedures do not create new or exacerbate existing tensions. More controversially, it also suggests that microfinance could be a weapon to attack *other* sources of conflict, not just poverty. While basic microfinance may result in *incidental* social benefits, 'conflict sensitive' microfinance providers use *intentional* methods to increase the probability that those benefits actually happen. Conflict-sensitive microfinance thus becomes an even more powerful tool in conflict prevention.

This chapter refers frequently to the issues and problems Afghans face today, especially with the use of the 'Afghan context' table introduced at the end of chapter 2. However, the Afghan situation is largely the driver behind, not the object of, the following discussion. The bulk of this chapter is a general examination of the roles microfinance *could* play in any post-conflict context. Chapters 4 and 6 then look at the roles it actually *does* play in Afghanistan specifically.

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[1] White 2002: 33. Also see chapter 5, section 2.3 about the psychological aspects of poverty.

[2] Note the switch in terminology from 'microfinance' to 'microcredit'. 'Microcredit' is the provision of loan products only (hence I use the phrase '*basic* microcredit' to emphasise its uni-dimensionality), while 'microfinance' can include loans, savings, insurance, and remittance services. *This is a key distinction to keep in mind during the first half of this chapter.*

1. Microfinance and Postwar Recovery: Dealing with Poverty

1.1 The Potential Benefits of Basic Microcredit

1.1.1 Supporting Livelihoods

Basic microcredit is a flexible development tool which can be used to support a variety of income-generating activities for the poor. The extra income a family earns can go towards improved food security, better housing, purchase of medicines, schooling, etc., or be re-invested into such activities. These activities might generate benefits other than cash as well. Using a micro-loan for the purchase of sheep, for example, can directly provide a family with added food security (from their milk), additional income (from selling the milk and wool), or extra fertilizer for use in cultivation. One of the obvious advantages of microcredit over other development interventions is that in the latter, the form of assistance is decided from the top,[3] while in the former, the household is freer to decide the course of its own development. (A range of possible choices is illustrated in Table 3.1). Thus, microcredit interventions can not only help to relieve poverty, but can also empower people with choice over their own lives. It is a growing belief among theorists that this kind of empowerment should be the very definition of development itself (Sen, 1999; UNDP, 2004: 3-4).

Table 3.1: Loan Uses of Afghan Clients Interviewed for This Research

Loan use	Client ID numbers
retail stock	006, 008, 018, 027, 028, 047
productive stock	002, 003, 005, 007, 009, 010, 029, 037, 066, 068, 069
productive fixed asset	004, 005, 009, 016, 017, 023, 043, 050, 062, 063, 065
livestock	015, 016, 017, 022-5, 032-5, 040, 042, 044
seeds/fertilizer	023, 024, 041
'consumption credit' (see section 1.2.1)	015, 037

NB: There are occasional repeats of numbers, showing that a client has used loans for different things. Client 023, for example used her first loan for goats and a sewing machine, and her second for a donkey and potato seeds.

Climbing out of poverty is not only about earning additional income or increasing an asset base, but about protecting against shocks (e.g. drought, a death in the family, an outbreak of violence) and costly social obligations (e.g. weddings). One way the poor do this is to vary income sources: "Poor people strive to diversify risk associated with household income. They achieve this by maximising the number and type of business activities undertaken [by household members]" (Wilson, 2001: 58).[4] Microcredit provision is often seen as a strategy to develop *existing* income generating activities (e.g. Grace and Pain, 2004: 48), but it also can help a family start a *new* activity, which acts as insurance in case another income-generating activity fails (Wilson, 2001: 9; cf. fieldwork results in chapter 6, section 3.9). This is especially important in fragile

[3] Even participatory community development may result in interventions which are not exactly what any particular household desired.

[4] Recall the importance of such diversification during the Afghan war. Chapter 2, section 3.

post-conflict settings, where violent outbreaks are a threat and economies are still weak and unstable (ibid: 67). Unfortunately for the poor, simply diversifying income sources does not completely protect a household against such shocks nor the costs of the social obligations mentioned above. Therefore, other products besides credit may be needed. These will be examined shortly in section 1.2.1.

1.1.2 Fair Access and Tackling Indebtedness

Microcredit provided by semi-formal MFPs can also help the poor avoid or escape from exploitative debt arrangements. As described in chapter 2, section 2, the Afghan war and drought not only made the poor more desperate for loans (especially cash loans since the Afghan economy was becoming increasingly monetised), but also deprived them of their normally preferred loan sources (family and friends). With high demand and low supply, the cost of finance rose as informal moneylenders took advantage, charging enormous loan interest rates. Semi-formal MFPs can offer a more reasonably priced source of credit, which can even force moneylenders to lower their rates to the benefit of customers, as happened in Cambodia.[5]

There is still the problem, though, of poor people who are *already* under a burden of debt when the MFP arrives on the scene. It was shown in chapter 2 that the numbers of indebted in Afghanistan was increasing 1999-2002, though it is difficult to ascertain what the situation is currently nationwide.[6] One could hope that poor people can recover from indebtedness by either using their MFP-supported activity's profits to slowly pay off old loans, or by an MFP itself refinancing their debts (see Chapter 4, section 3.3.2). However, there is significant documentation that some borrowers have sunk even deeper into debt since joining an MFP program, as they have had to "refinance loans to make payments (often by borrowing from moneylenders), have had to sell household assets or [food]," or have had to migrate to cities to find wage labour (Pretes, 2002: 1343).

In sum, the provision of semi-formal microcredit can certainly help ensure fairer access to credit for the poor, and although it can help clients climb out from a burden of pre-existing debt, there is no guarantee that it will always work out that way; indeed,

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[5] In one village, moneylenders dropped their rates from 20% per month to 10%, and some even to 5%, after an NGO established a village bank which charged 7% (Wilson, 2001: 75).

[6] In 2003, a longitudinal survey found that both debt amounts and number of people indebted stayed about the same or decreased during the year in four out of five provinces. In one province (Laghman), both amounts of debt and number of people indebted increased (Pain and Grace, 2004: 42ff). In my own research, I found a significant number who still owed debt outside that owed to the MFP. See Chapter 6, section 2.6.

there is a genuine risk that semi-formal microcredit can plunge someone deeper into indebtedness.

1.1.3 Psychosocial Healing

Finally, MFPs themselves and the activities they encourage can bring psychological relief to a broken society. Post-conflict situations are characterized by psychosocial damage,[7] a mix of post-traumatic stress disorder symptoms among *individuals* – these include anxiety, depression, social withdrawal, hostility, estrangement, despair, and hypervigilance (Maynard, 1997: 206) – and dysfunctional social patterns in the *community* marked by "distrust, apprehension, and outrage," which impairs "cohesion, interdependence, and mutual protection" (Maynard, 1997: 203-208; quotes from p.207). At the very least, basic microcredit can jump start a shattered local economy and thus return a sense of normalcy to everyday life. Furthermore, individual stress can be eased as "credit officers become agents of trauma healing through their interaction with loan recipients" (Marino, 2005: 2). Finally, since most MFPs use group lending schemes, the group can be used to rebuild trust and cooperation (ibid), as well as provide an extra source of social support. These benefits, for example, were reported by CARE Sri Lanka, which ran a project with a MF component in Jaffna in the midst of that country's civil war. They found that "credit and savings associations were a way to bring people together, focusing on economic activities and cooperation, rather than on differences." Psychological benefits occurred on the personal level as well, as "having community meetings in individual houses was a way to boost the host family's self-esteem, and to develop social relationships." (ibid: 8-9).

With reference to table 3.2 on the next page (cf. table 2.3 from the last chapter), it is seen that so far basic microcredit can have a positive impact on various socio-economic and conflict issues that Afghanistan faces, but that many issues remain unaddressed (green-coloured cells). Furthermore, the empty pink cells suggest that basic microcredit may only *partially* address certain issues, and that more holistic approaches (to be discussed in the remainder of this chapter) may enhance positive impacts in those areas. Before proceeding, however, we should not discount the very significant impact basic microcredit can make (and does make – see Chapter 6) on Afghan livelihoods and society. Indeed, Table 3.2 indicates that basic microcredit can make positive contributions in eight of the 16 issues, a significant impact for such a simple tool. This fact becomes important as it is now considered whether adding on to microcredit is worth the extra effort it entails.

[7] Refer to the discussion of psychosocial damage in Afghanistan in chapter 2, section 4.

Table 3.2: The Roles Basic Microcredit Can Play in Addressing Afghan Issues

Livelihood/Society Stress or Coping mechanism		*Approach*	*Role approach plays*
1. Household Livelihood Stresses and Coping Mechanisms			
a)	Broken Livelihoods... Loss of Physical, Natural, Human capital. which leads to... ↘ Frustration and Increased Possibility of Conflict	Basic Microcredit	Opportunities for investment in productive activities
b)	Livelihood Diversification	Basic Microcredit	Can sometimes open up new income generating activity
c)	Increased indebtedness (which leads to tensions)	Basic Microcredit Savings	Access to credit and savings reduces dependence on informal moneylenders
2. Psychosocial Damage			
a)	Trauma, fear, loss of confidence	Basic Microcredit	Business activity restores sense of 'normalcy'
b)	Lack of inter-personal trust (could be because of ethnic problems)	Basic Microfinance, especially if **groups** are used	Clients, through interacting with others as part of their business activity, or interacting with the MF group, will slowly learn to trust others again
c)	Strained but resilient social support systems	Basic Microfinance with **groups**	MF group can become an additional source of social support
d)	Bitterness, War mentality	Peace(Culture)Building	Changes the mindset and attitudes, so that people are less likely to resort to violence
3. Fragmentation: Socio-Political Stresses			
a)	State-Regional strained relationship		
b)	Weak local organisational cohesion		
4. Struggling Economy			
a)	Few medium to large businesses	Basic Microcredit	For small businessperson, only a stepping stone toward larger lines of credit
b)	Monetization of economy	Basic Microcredit	Helps meet demand for cash
c)	Weak licit economic sectors		
5. Current Proximate Sources of Tension or Conflict			
a)	Opium Economy and War on Opium (→ strained state-regional relationship)		
b)	Armed Militias		
c)	Ethnic Tension		
d)	Commanders and Warlords (who sustain all three of the above)		

1.2 Benefits of 'Credit Plus' Approaches

1.2.1 Additional Financial Services

As suggested above, the provision of microcredit alone may not be enough to protect livelihoods from shocks and may even lead to a debt trap. In order to reduce risk, which is "perhaps the most pressing need especially for the poorest households" (Fisher and Sriram, 2002: 26), savings and insurance products are also needed. In the past, basic microcredit predominated in MF discussion and practice, but a welcome transition is occurring, "a growing realization that low-income households can profit through access to a broader set of financial services than just credit. Practitioners are taking the lead in the transition...ahead of mainstream economic research" (Armendariz de Aghion and Murdoch, 2005: 147). The security which savings and insurance afford is outlined by Johnson and Rogaly (1997: 44):

- **daily financial management**: to deal with day-to-day expenses, including emergencies.
- **consumption smoothing**: dealing with seasonality or unemployment by holding over income from one time period to another.
- **accumulation**: building up savings for future large expenditures, such as for housing, agricultural inputs, or school fees.
- **insurance**: dealing with irregular events such as illness, marriages and funerals.[8]

The need of the poor for consumption smoothing (the second item) has led to debates between theorists and practitioners about whether to provide 'consumption credit' to clients, as opposed to the normal credit which must be used for productive or income-generating purposes. Theorists argue that MFPs which insist on productive purposes unwittingly drive away many risk-averse poor who may not have skills or desires to start a business, that consumption credit products have worked in some cases, and that cash credit is fungible anyway. Writing about Afghan livelihoods, Grace and Pain (2004: 50) state:

> Credit for the purchase of food and health care is often essential for the poor. While recognising that microfinance organisations do not like to provide such loans, for reasons of financial sustainability, these types of loans *must* be available if microfinance is really to reach the poorest and play a large role in social protection. Providers, with a large enough portfolio of wealthier clients, should be able to provide credit to the poor on terms that enable repayment over time in small instalments.

Practitioners counter that consumption credit will lead to high default rates and that it is not terribly difficult to make sure the loan is being used properly, either through informal

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[8] How Johnson and Rogaly categorized items is certainly debatable. It is probably more appropriate for marriages and funerals to go under 'accumulation' and emergencies to go under 'insurance'.

checking by the loan officer or through peer monitoring.[9] However, the debate would be of no practical significance if more MFPs would offer savings and insurance products, which are more appropriate than credit for consumption-smoothing (Fisher and Sriram, 2002: 27). Even an MFP which holds only inflexible mandatory savings accounts[10] could offer consumption credit products but require that the balance of a client's savings account is at least a certain percentage of the loan amount, to act as collateral. In fact, Mercy Corps in Afghanistan is planning to introduce such a scheme in the near future (Breton, 2005: pers. comm.).

Another debate is whether savings and insurance should even be offered exclusively, such that credit to the poor would be scrapped. Kabeer (2002: 19) seems to support this view by stating that the old 'promotional model' (i.e. microcredit only, and used only for productive purposes) of the 1980s and 1990s has failed to reach the lower poor, "whose livelihoods are extremely insecure and who are in need of preventative [i.e. savings] and protective [i.e. insurance] rather than promotional support." This debate is addressed in section 1.4. However, Kabeer's statement is indicative of the growing conviction that savings and insurance products are at least as important as credit for the livelihood security of the poor.

[9] Peer monitoring is when members of an MF group keep tabs on each other to check how the loan has been used.
[10] Mandatory savings mean that a client must save first, up to a certain percentage of the desired loan. The savings act as collateral. The client normally cannot withdraw the savings until exiting the programme.

1.2.2 Non-Financial Services (Integrated Approach)

Table 3.3: Examples of Integrated Services

Health	In Ecuador and Honduras, Project HOPE runs both village banks (see glossary) and 'health banks'; in the latter, bank members are required to attend 15 minute biweekly health lectures on top of the normal village bank activities. In a quantitative comparative study done in 1994-1996, HOPE found that the incidence of diarrhoea among Honduran children of health bank members was lower than among those of village bank members. In both countries, members of health banks began visiting the doctor more often. Other impact results (e.g. home hygienic practices) were ambiguous (Smith, 2002).
Education Literacy	CRECER (Crédito con Educación Rural) or (Credit with Education), Bolivia: "The [MF] field agent's role [after each MF group meeting] in education is to introduce a topic, help participants understand its relevance to issues in their lives, offer basic information about practical changes they can make, identify obstacles to such change, encourage any participants who have mastered these obstacles to share their successful experiences, and promote solidarity to help each other persist in their efforts to change. The field agents are not experts in the education topics. Their training focuses on techniques for presenting simple information messages and on facilitation skills for drawing the participants into learning from each other as much as from the field agent. Topics might include nutrition, business management, family planning, etc." (Dunford, 2001b: 6)
Business development services (BDS)	CARE International ran a business training course in Uganda. Many of the participants were ex-soldiers. Some had a business already, some did not. The latter were shown how to analyze their skills, the funding required, and market prospects in order to choose a new business. Financial management skills were also taught. Three-quarters of the participants were able to start up or expand their businesses, and everyone was given contacts if they needed loans or more technical support (Alidri et al., 2002: 113).
Psychological Counselling or Reconciliation Courses	A report on activities in Sierra Leone in 2002 states: "Christian Children's Fund (CCF) supports youth clubs involved in agriculture and livestock production and is implementing the Skills Training and Employment Generation (STEG) project... to increase the social reintegration of ex-combatants and war-affected youth through community-based strategies of skills development, employment and psychosocial support. [Another project offers] skills training and loans for income-generating activities...CCF has child centres and child well-being committees in 19 project communities in the northern and eastern provinces of Sierra Leone and provides psychosocial interventions for children and adolescents affected by ongoing violence" (Precious Resources, n.d.).

An MFP may also provide one or more non-financial services, examples of which are given in table 3.3. This bundling of services with microfinance is sometimes known as an 'integrated approach'[11] and a number of MFPs see it "as essential in addressing the causes of poverty ...[since] it is rarely the case that savings and credit activities alone will reduce poverty" (Johnson and Rogaly, 1997: 52). The poor themselves often have a felt need of these services, as the experience of BRAC in Bangladesh shows:

> When BRAC has prioritized one area (e.g., economic activities or social mobilization work) more than another, members have shown that they needed and demanded a more integrated package which would address several of their problems, not simply one area of their lives. This stems from the fact that all areas of poor people's lives are interconnected and

[11] What 'integration' means exactly from an operational point of view is discussed in chapter 4, section 2.2.

that a general improvement in their position is not possible without fighting on all fronts—health issues, education issues, legal issues, political issues and economic issues (Dunford, 2001a: 26).

Providing integrated services means that microfinance interventions become more robust. The empty pink cells back in table 3.2 indicate that basic microcredit might deal with an issue only partially or incidentally. For example, just because basic microcredit *may* lead to greater human capital through better health care or education, there is no guarantee that it *will*, and any improvement that does happen will be *incidental* rather than *intentional.* The filling in of some pink cells (see table 3.4, below) with more intentional, targeted strategies indicates a higher probability that mitigation of post-conflict livelihood and psychosocial stresses will occur.

Table 3.4: The Enhancement of Benefits Through Additional Financial Services and Integrated Approaches

Livelihood/Society Stress or Coping mechanism		***Approach***	***Role approach plays***
1. Household Livelihood Stresses and Coping Mechanisms			
a)	Broken Livelihoods… Loss of Physical, Natural, Human capital . which leads to… Frustration and Increased Possibility of Conflict	Basic Microcredit	Opportunities for investment in productive activities
		Savings and Insurance	*Protection of livelihoods against life cycle costs and sudden shocks*
		Integrated Services (health, education, BDS)	***Extra targeted support for livelihoods.***
b)	Livelihood Diversification	Basic Microcredit	Can sometimes open up new income generating activity
c)	Increased indebtedness (which leads to tensions)	Basic Microcredit Savings	Access to credit reduces dependence on informal moneylenders
2. Psychosocial Damage			
a)	Trauma, fear, loss of confidence	Basic Microcredit	Business activity restores sense of 'normalcy'
		Integrated: Counselling	***More targeted assistance to trauma***
b)	Lack of inter-personal trust (could be because of ethnic problems)	Basic Microcredit, especially if **groups** are used.	Clients, through interacting with others as part of their business activity, or interacting with the MF group, will slowly learn to trust others again

1.3 The Finance School vs. The Poverty School

Whether an MFP decides to follow a finance-only model or more of an integrated approach mostly depends on its ultimate goals or bottom line, or perhaps those of its donors. Those from 'the poverty school' believe that social benefits for clients (especially poorer clients) should be the top priority, despite the extra expense to the MFP, and thus would be in favour of integrated programmes. The bottom line for them is 'outreach', i.e. the number of poor reached and the depth of their poverty. On the other hand, MFPs adhering to the 'finance school' emphasize the importance of arriving at operational, then financial sustainability,[12] as soon as possible, so that donors do not tire and give up on the MFP, which would then collapse. As Nagarajan (1999: 24) puts it bluntly: "Sustainability ensures outreach of tomorrow." The integration of health, education, and other programmes with microfinance is often seen as incompatible with the finance school, as these would raise costs and delay the attainment of sustainability.

In the last decade or so, more and more MFPs are adopting the 'finance school' approach, and this phenomena has sometimes been termed the 'new wave' of microfinance. There are several overlapping reasons for this trend:

- An awareness of increased competition in the MF industry, as people in MF-saturated areas, such as in the Philippines, can now shop around for the lowest-priced loan product (Tyndale, 2004: 265).
- Increased donor pressure to reach sustainability sooner (Fikkert, 2003: 16). This is not altogether a regrettable development, for there have been MFP disasters and irresponsible wastage of donor money, but one wonders if the push for efficiency has become unreasonably intense.[13]
- The recent ascendancy of the neo-liberal, market-oriented mindset in all development interventions, including microfinance. "The 'new wave' MFI model that emerged [from this mindset] refers to the delivery of financial services...on a large scale through commercially oriented, competing, independent, financially self-sustaining lending bodies" (Bateman, 2003: 57).

Thus, Wilson (2001: 12) captures the prevailing doubts about integration when she states that not only is it costly, but that "multiple objectives have caused confusion and damaged microfinance markets," and therefore the best chance for success, whether in a post-conflict situation or not, is when MF is "managed in a business-like manner as a minimalist service."

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[12] It is universally accepted that most new MFPs need working capital (in the form of donations) to cover startup costs, but it is expected that most would reach 'operational sustainability' in the first few years. This means that they would be able to cover operational costs (rent, staffing salaries, etc) with the revenue they earn from interest on loans. 'Financial sustainability', defined as operational sustainability plus coverage for the provision of cash for loans, is expected by some within five to six years, 7 years for a post-conflict situation (Nagarajan, 1999: 22). Others, however, claim that only 5% of MFPs ever become fully financially sustainable (Fikkert, 2003: 16) MISFA sets targets of 5 and 7 years for MFPs in Afghanistan to reach operational and financial sustainability respectively (Chotani, 2005a: pers. comm.). For more details on these terms, see the glossary.

[13] Dunford (2000: 43) notes, "The bar keeps getting raised...What is most important here? [Does sustainability mean] to build social enterprises that can last long enough to bring about major improvement in the lives of very large numbers of people? Or it is to become certified as totally subsidy- free... The reality is that subsidy is available. Traditional businesses have thrived on it for centuries. There is a market for subsidy to traditional social services. It is called philanthropy or charity."

1.4 The 'Beyond Microcredit' Paradigm

Proponents of another school, what might be termed the 'beyond microcredit' school or paradigm, believe that the sustainability vs. outreach argument is too narrow in focus. MFPs which emphasize sustainability are accused by 'beyond' proponents of losing sight of "the development impetus which first gave rise to micro-finance...[They] may be well-managed financial organisations, but are they developmental?" (Fisher and Sriram, 2002: 21). The poverty school, meanwhile, is argued to pay too much attention to the poorest of the poor, when "many others also have valid and developmental financial needs" (ibid: 22). The beyond paradigm, born out of experiences of various microfinance interventions in India, and expressed in the book *Beyond Micro-Credit*, includes goals such as developing the local economy, empowerment, building democratic people's organisations, and changing wider systems or institutions within society (ibid: 21). This paradigm is essentially about creating, deepening and sustaining connections and relationships over both time and space, and thinking holistically both in terms of the needs of a household and in terms of the wider socio-economic conditions.[14] Holistic development is the aim; microfinance is simply one important means towards that aim.

In this paradigm, for example, the narrow arguments over whether the poor are in need of savings *or* credit (section 1.2.1) are made somewhat redundant, for lump sums are required for *all* life-cycle needs (savings), emergencies (insurance) and investment opportunities (credit). "Poor households therefore need access to a basket of financial services," not just one service (Fisher and Sriram, 2002: 50; cf. Armendariz de Aghion and Murdoch, 2005: 4). One example of an MFP which offers all three in an integrated fashion is the Self-Employed Women's Association (SEWA) bank. It has a 'savings first' approach,[15] with 120,000 depositors but only 12,000 borrowers in 2001 (Fisher and Sriram, 2002: 52). The savings portfolio provides SEWA with all the capital it needs for granting loans (ibid: 56). Insurance products can cover anything from fire and earthquakes to gynaecological disorders (ibid: 59). The authors state: "Few other MFPs anywhere in the world...provide such a diverse portfolio of financial products, and with such flexibility" (ibid: 64). SEWA's holistic and personal approach to individual clients is shown also through provision of 'hand holders', bank officers who make home visits and offer financial advice (ibid: 55, 64).

[14] By introducing this paradigm, I do not wish to draw hard lines by dismissing all other strategies as 'non beyond'. The strategy of using integrated services, for example, indicates a 'beyond' way of thinking, even though these services are not discussed in *Beyond Micro-credit*.

[15] 'Savings first' organisations are such that savings are voluntary (as opposed to mandatory) and where most, if not all, money loaned to members comes from the savings portfolio and not from outside subsides or from loan interest payments. See glossary.

Box 3.1: Examples of Building Market Linkages

CARE [Bosnia-Herzegovina] plans to create a national Nonfinancial Services Provider called 'MikroBizNiz.' The institution will offer technical assistance and training, on a demand-driven basis, along with trade promotion services designed to address the lack of dynamic markets and trade links in present-day Bosnia. (Doyle, 1998: 25)

"An agency trained some conflict-affected people in tailoring skills, then linked them to several city schools to market their services. The trainees soon got several contracts to make uniforms for the schools on an ongoing basis. They agency then linked them to a microfinance programme [to obtain loans for equipment and clothing material]" (Alidri et al., 2002: 117) [No information was given on where or when this took place]

This paradigm also goes beyond individual-based business development services (cf. Table 3.3). It encourages market linkages in order to enhance the economic condition of the wider society, not just individual beneficiaries. Box 3.1 offers some examples which begin to go in that direction, but India's second largest MFP, BASIX,[16] is even more innovative in this regard. BASIX's ultimate goal is "livelihood promotion...not the delivery of credit" (Fisher and Sriram, 2002: 80), where 'livelihood promotion' is defined in terms not only of individual livelihoods but also "reducing variances [between people] in income, reducing rural to urban migration...[and] enhancing the money that circulates within the local economy" (ibid: 74). One distinctive strategy BASIX employs for its rural clients is using market agents[17] as contracted loan officers. This strategy cuts BASIX's costs and helps poor farmers and key input suppliers establish a business relationship by linking them together (ibid: 84-87). Another interesting intervention is the Rural Infrastructure Revival Programme. In one case, BASIX found three struggling milk chilling plants in Andhra Pradesh whose procurement from local farmers was down to 270 litres a day in 1997.[18] When BASIX intensively granted cow and buffalo loans in villages along the procurement route, the plants were revived and by the year 2000, 10,000 litres a day was being collected. This "adds value locally through job-creation" and was expected to have positive ripple effects, such as new demand for services and infrastructure and economic confidence. (ibid: 88, 90, 93).

1.5 Stepping Back: The Restrictive and Costly Post-Conflict Context

The rather obvious point this chapter has made thus far is that the wider the net is cast in terms of providing additional services on top of microfinance, the more social and economic benefits a society will experience. However, such services are costly to implement. Additionally, up to this point in the chapter, we have left the consideration of

[16] BASIX is not an acronym.
[17] E.g. agricultural commission agents, input dealers, wholesale merchants, agro-processing firms, and seed production organisers (ibid: 84).
[18] Fisher and Sriram do not make it clear what 270 litres per day refers to, whether it be 270 litres for each plant, an average among the three plants, or the total among the three. The same ambiguity applies for the 10,000-litre figure later in this paragraph.

post-conflict contexts and the hurdles they present temporarily to one side. Postwar Afghanistan, for example, is not India. Theorists may think that MFPs should employ multi-pronged approaches, but from an MFP perspective, a post-war setting makes even basic microcredit provision, not to mention integrated service provision, much more difficult and thus more costly than in a normal (non-conflict) development setting.

From an economic and financial perspective, an MFP working in a post-conflict society first of all faces deeper and broader poverty than in normal settings (Doyle, 1998: 13). Clients have no collateral to offer and have a limited capacity to save, meaning that loan sizes and savings deposits (if savings products are offered) have to be smaller, raising transaction costs for the MFP. Immediately after a conflict, clients lack confidence in the economy and are thus risk-averse, requiring an extra effort (and thus startup costs) by MFPs to break through the inertia.[19] Secondly, banks may be non-existent or barely functioning, which means that MFPs have to hold cash themselves[20] and makes the provision of savings products more problematic as extra security has to be considered. Besides the financial apparatus, the physical infrastructure is often heavily damaged, especially after protracted conflicts. This slows down communication, delays delivery of services and restricts expansion of MFP operations into rural areas. With respect to a 'beyond' approach, it is very difficult to build market linkages if roads are impassable or if factories are stripped bare of their parts.[21] Hyperinflation and currency instability is another common feature of post-conflict societies, which can make many forms of micro-credit and savings "all but impossible" (Wilson, 2001: 43).[22]

Human resources are at a premium in post-conflict settings as well, affecting both MFP clientele and staff. Wilson (2001: 47) notes the poor health services common in post-conflict countries and states that "bad health is one of the most commonly stated reasons for default." Brain drain, resulting from war deaths and emigration to other countries and exacerbated by a broken down education system, is another hurdle to overcome as MFPs find it difficult to fill their staffs with competent nationals. Often, those less qualified are hired by default and are then in need of extra training and capacity development. Even more difficult is assembling a local board, which often has to come years after an MFP is operational (D. Larson, 2001: brief 5, p.4; cf. Doyle,

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[19] However, Doyle (1998: 23) notes that after the inertia is broken, demand for micro-loans can shoot up significantly.

[20] Some get around holding too much cash by collecting loan repayments and disbursing on the same day or as soon as possible.

[21] This is an example of how post-conflict Afghanistan is behind India (recall the milk-chilling plant example). Afghanistan barely *has* any factories and what factories there are were stripped during the war. See chapter 2, section 2.

[22] Fortunately for Afghanistan, the Afghani has been stable and inflation appears to be under control.

1998: 51). Doyle (ibid: 50) quotes a Catholic Relief Services practitioner in a private letter: "Achieving the institutional development upon which we build the program is *the* challenge in a post-conflict situation" (emphasis his). All of this requires "more time and money than would normally be the case in other developing countries" (Wilson, 2001: 100; cf. Doyle, 1998: 50).

Finally, the post-conflict damage to the socio-political fabric of a society exacts further costs. One implication of psychosocial distrust (section 1.1.3) is that MFPs are often forced to adopt solidarity group lending schemes (five to six clients in a group) as opposed to employing the larger (and more efficient) village bank model: "Requiring 30 people to guarantee each others' loans can present a major deterrent to program participation if individuals have been conditioned against trusting anyone" (Doyle, 1998: 32). Thus, World Relief in Cambodia (ibid), Plavi Most in Bosnia (ibid), IAM in Afghanistan, and Beselidhja in Kosovo (D. Larson, 2001: brief 3, p.3), among others, have all had to adjust group sizes downward.[23] Beyond the client level, MFPs also face continued social and political instability and insecurity, making strategic planning difficult and forcing them to take expensive security measures (see Doyle, 1998: 44 for a list of measures).[24]

The higher expenses MFPs face in order to overcome post-conflict challenges can incline them to restrict services to basic and cost-effective microcredit-only provision. This inclination is further strengthened when field managers perceive "intense pressure" from donors who expect sustainability goals to be reached as quickly as in a non-conflict situation and "do not allow for the uniqueness of the post-conflict environment when they make strategic plans and evaluate programs" (Doyle, 1998: 50).[25]

Finally, trying to integrate health, education or business development services, not only increases costs but can send a mixed message to clients, who receive something (like health services) for free on the one hand, but have to pay for financial services (including interest) on the other. Survivors of a conflict have often been the recipients of large scale (and of course, free of charge) aid and development, creating a "handout mentality" (Wilson, 2001: 38). The argument continues that providing integrated services would only strengthen this mentality, lead to loan defaults as borrowers would

[23] Having smaller group sizes increases costs as more staff are required to manage more groups (Doyle, 1998: 32).
[24] Doyle (1998: 43) documents four separate attacks on MFPs in 1996 and 1997, from Tajikistan to Cambodia.
[25] This comes on top of an already increasing pressure worldwide for MFPs to reach sustainability – section 1.3.

feel no need to repay, and that this would further hamper progress toward sustainability.

2. The Battle Against Other Sources of Conflict: Microfinance on the Offensive?

Thus far, this chapter has considered how both basic microcredit and credit-plus approaches can help a society recover from conflict, and examined some of the difficulties MFPs face in bringing these services to clients (especially credit-plus services) in a post-conflict setting. How an MFP decides to integrate or not integrate extra services is an important issue, but beyond that is the question of whether an MFP (alone, or in coordination with others) should attempt to tackle *other* sources of conflict, not just poverty. This could not only increase the benefits to society, but could help to remove the very barriers which are making MFP operations so difficult in the first place. Table 3.5 shows that, in the case of Afghanistan, there are still seven more issues (green cells) to be addressed and two issues which could be handled more completely (pink cells). Can pro-active strategies which include the tool of microfinance deal with these remaining issues?

Table 3.5 Microcredit and Related Services Helping Society Recover from Conflict

	Livelihood/Society Stress or Coping mechanism	***Approach***	***Role approach plays***
1. Household Livelihood Stresses and Coping Mechanisms			
a)	Broken Livelihoods… Loss of Physical, Natural, Human capital . which leads to… ↘ Frustration and Increased Possibility of Conflict	Basic Microcredit	Opportunities for investment in productive activities
		Savings and Insurance*	Protection of livelihoods against life cycle costs and sudden shocks
		Integrated Services (health, education, BDS)	Extra targeted support for livelihoods
b)	Livelihood Diversification	Basic Microcredit	Can sometimes open up new income generating activity
c)	Increased indebtedness (which leads to tensions)	Basic Microcredit Savings	Access to credit and savings reduces dependence on informal moneylenders
2. Psychosocial Damage			
a)	Trauma, fear, loss of confidence	Basic Microcredit	Business activity restores sense of 'normalcy'
		Integrated: Counselling	More targeted assistance to trauma
b)	Lack of inter-personal trust (could be because of ethnic problems)	Basic Microfinance, especially if **groups** are used	Clients, through interacting with others as part of their business activity, or interacting with the MF group, will slowly learn to trust others again**
c)	Strained but resilient social support systems	Basic Microfinance with **groups**	MF group can become an additional source of social support**
d)	Bitterness, War mentality		
3. Fragmentation: Socio-Political Stresses			
a)	State-Regional strained relationship		
b)	Weak local organisational cohesion (partly leading to rise of commanders and warlords)		
4. Struggling Economy			
a)	Few medium to large businesses	Basic Microcredit	For small businessperson, only a stepping stone toward larger lines of credit
b)	Monetization of economy	Basic Microcredit	Helps meet demand for cash
c)	Weak licit economic sectors	Beyond – Market Linkages	Business support and building linkages to wider economy
5. Current Proximate Sources of Tension or Conflict			
a)	Opium Economy and War on Opium (→ strained state-regional relationship)		
b)	Armed Militias		
c)	Ethnic Tension		
d)	Commanders and Warlords (who sustain all three of the above)		

**However, some intentionality from the MFP would enhance probability of success. It is not guaranteed that desired outcome will 'just happen'. See sections 2.1 and 2.2 below.

2.1 Arguments Against Going on the Offensive

Adding conflict-targeting programmes onto microfinance, such as running classes on peace or holding activities which bring differing (e.g. ethnic) groups together, is similar to integrating programmes like health and education with microfinance. Thus, some of the arguments against peacebuilding activities are similar to those against integration. For example, financial, human, and time constraints have to be considered. Wilson (2001:95), the strongest anti-integration figure in the PCM literature, writes:

> The varied objectives of past microfinance interventions demonstrate that some organisations believe microfinance can be used for reducing dependency and conflict, supporting housing initiatives, [etc]...[However] Providing a financial service is in itself an ambitious and worthy objective. By integrating additional objectives like community health, staff are forced to become good generalists, wearing for example a supportive health visitor cap one minute followed by a strict bankers hat, the next.

In other words, minimalists are concerned about 'mission creep'; this happens when 'secondary' goals become a distraction and detract from effectively dealing with the 'primary' objectives of financial delivery. Furthermore, confusion over which goal takes priority may result in intra-organisation tensions and squabbles. One practitioner complained about pressure from colleagues who "try to place even more baggage on what is already a completely full table. In other words, resolving conflict, reaching the poorest clientele possible, *and* ensuring a financially self-sufficient institution is perhaps one expectation too many" (Doyle, 1998: 31).

> Box 3.2 Poverty Leading to Localized Conflict: Are Peace Courses Irrelevant?
>
> An agency held a training in a rural community to teach young people, who were often involved in the violence, the basic skills of communication and speaking, including eye contact, how to confront non-violently, etc. A participant pointed out that what caused him and his peers to fight was not an inability to communicate. He said, "You do not understand. I need cattle to be respected and be able to get a wife. Therefore, I am going to continue to carry out raids to get cattle, since I have no other options" (Anderson and Olson, 2003: 79).

In addition to these arguments, minimalists also point out that basic microfinance already contributes significantly to peace by reducing poverty. After all, "the intersection of conflict and poverty is undeniable" (Doyle, 1998: 5; cf. Box 3.2), although there is not always a one-to-one relationship.[26] In the case of Afghanistan,

> Poverty and lack of progress on development indicators exacerbated and sustained the conflict, while the absence of viable and alternative livelihoods perpetuated the sense of frustration and created new tensions. While underdevelopment may not have directly caused violent conflict in

[26] Rwanda was considered one of the three most advanced sub-Saharan countries in 1990-93 and a "prototypical model for successful international development" yet fell apart in the 1994 genocide (Heen, 2004a: 7). Tanzania has been relatively peaceful since its independence and yet is 164th out of 177 in 2005's HDI (UNDP, 2005: 222). Still, nine of the bottom ten countries in the HDI have experienced violent conflict at some point since 1990 (ibid: 151).

> Afghanistan, [it] certainly diminished the society's capacity to manage social tensions in a non-violent manner (UNDP, 2004: Summary, p.8).

Thus, for example, many of the poor joined a militia just to secure a livelihood (ibid: 98,104), and this still happens today (ibid: 120). It is not only the fact of poverty or even the fact of horizontal inequalities which bother many Afghans, however. It is the collective feeling of "unfairness" (ibid: 98) when development assistance or government agencies either stand aside or even show favouritism as a wealthy landlord or powerful commander is able to gain an unjust advantage over others. Ideally, then, helping the poor to earn extra income will give them a boost in terms of political capital and they will be less likely to be recipients of unfair treatment. Therefore, minimalists argue, if microfinance helps to alleviate poverty and narrow the gap between rich and poor, it is helping to eradicate one of the key roots of violent conflict. True as this may be, this thesis argues that there are *other* sources of conflict, many of which microfinance interventions can also address.

Minimalists further assert that the economic boost which MF provides can lead to broader psychosocial benefits, again reducing the possibility of future conflict:

> Economic revival is critical to rebuilding these [postconflict] countries...[T]he ripple economic and psychological effects of business creation are enormous (A World Relief practitioner, quoted by Doyle, 1998: 29).
>
> Civil society development professionals propose using microfinance programs as a vehicle to increase grass-roots, cross-ethnic cooperation...[through] interaction and trading (Doyle, 1998: 30).

However, as argued before (section 1.2.2), just because the provision of microcredit *may* lead to other non-financial side benefits, there is no guarantee that it *will* in every case. As Simanowitz and Brody (2004: 2) argue:

> Wider impacts are not automatic and depend on the implementation of strategies designed to achieve these ends...[F]or microfinance to achieve its potential, a distinction is needed between *intentional* and *incidental* outreach and impact. A deliberate and context-specific strategy is needed (emphasis added).

From reading the account of CARE's program in Jaffna,[27] for example, one wonders if the psychological and social benefits experienced by the clients were more by chance than by design. Deliberate strategies would increase the probability for MF's success in conflict mitigation. The next section introduces examples of such strategies as part of a conflict sensitive framework.

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[27] See section 1.1.3.

2.2 Conflict Sensitivity

Although some development organisations in the past liked to believe that their interventions into a conflict or unstable context were neutral, it was very rarely the case. By their very presence, they were already changing the economic and power dynamics of a region. In fact, experience has shown that in many cases, their interventions, while bringing some good, also caused unintended harm. Thus, many development organisations working in tense situations are seeing the need to adopt 'conflict sensitivity':

> the need for organisations, in particular national governments, donors and civil society, to be sensitive to the (conflict) environments in which they operate, in order to reduce the negative impacts of their activities - and to increase their positive impacts - on the situation and its dynamics (Conflict Sensitive Approaches, n.d.)

There are three elements to this definition: awareness, reducing negative impacts, and increasing positive impacts. How these may apply to microfinance interventions is the subject of the remainder of this chapter. After arguing that minimalist MFPs should at least become 'enlightened minimalists' (i.e. being aware and 'avoiding harm'), pro-active and direct conflict mitigation strategies are offered for consideration.

2.2.1 Awareness

The economic-focused arguments of minimalist MFPs in the above section (2.1) are certainly compelling and there is no doubt that conflict-affected areas have seen considerable benefits from minimalist MF interventions. However, there is a danger if financial-oriented MFPs "see themselves as purely financial entities making apolitical decisions" as if they were a completely neutral player in the conflict complex (Heen, 2004a: 5).[28] "Such a stance is problematic because providing access to financial resources involves inherently political decisions" (ibid), such as who to target and where and how to operate. Each of these decisions has the potential to do harm as well as good depending on the conflict or post-conflict context. Even minimalist MFPs, therefore, need to have both a keen awareness of context and prudence of how to proceed. This awareness is the first element of conflict sensitivity.

> Conflict sensitivity requires aid organisations to be fully cognisant of the dynamics of the conflict situation in which they operate...and constantly updating their assessments on the direction of the conflict and the parties involved (Canham-Harvey, 2003: 61).[29]

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[28] In unstable situations generally, even the International Committee of the Red Cross (ICRC), especially noted for its impartiality, cannot be perfectly so, as Canham-Harvey (2003: 65) points out:
"[R]elief interventions have never truly been neutral and impartial in character, nor perceived as such. The insertion of resources [and the presence of external agents] in a situation of instability and lawlessness ... creates additional dynamics that can affect the power differentials within the community."
[29] More discussion on 'awareness' is in chapter 4, section 4.2.

2.2.2 "Do No Harm" or "Avoiding Harm"[30]

The second element of a conflict sensitive approach encourages agencies to detect and minimise any potential negative impact of their presence and work on the conflict. In chapter 2, section 6.2, it was seen how misguided interventions in the Afghan opium sector created new local and region-state tensions. Other well-intentioned development programmes may similarly cause unexpected damage, such as:

- *creating or exacerbating inter-group friction.* For example, an aid agency in southern Sudan was about to open a health training centre when the southern resistance split into two factions. The agency compensated by building two centres, one for each faction. A staff member later noted, "We rewarded the split!" Later, the agency made plans to teach different topics at each centre to encourage trainee flow, and thus connections, between the two areas (Anderson, 1999: 34).
- *damaging community cohesion.* Hakim (2005: pers. comm.) spoke of INGOs who come along with their own workers into a village to, for example, fix a canal. Many Afghan villages, however, have an old tradition called *hashar*,[31] whereby the villagers volunteer time to handle the maintenance project corporately. "Sometimes, they would even sing songs together to pass the time," Hakim noted. INGO 'help' has ironically taken away this aspect of community life.

MFPs also need to be cautious not to cause harm. For example, they may rightly feel they have an obligation to target especially vulnerable groups, such as war widows, landmine survivors, or returnees. However, *exclusionary* targeting of such groups could create jealousy and tension in communities (Doyle, 1998: 13). Similarly, MFP service preferences based on province, ethnicity, or gender can reinforce or create new social cleavages (Heen, 2004a: 13). Rahman (1999: 74), for example, argues that Grameen Bank's[32] decision to target women and exclude men explained the fact that 70% of 120 women clients reported increased domestic violence since joining the Bank. Writing in 1998 about an MFP in post-conflict Bosnia, Doyle (p.34) relates that the "program's branch structure will be triplicated to ensure equal access in a region inhabited by each ethnic group." Was this 'rewarding the split' as in the Sudan case above, or 'ensuring equal access' as Doyle claims? This shows that the 'right' decision about targeting is not always straightforward. However, careful consideration of the context should precede action.

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[30] The first phrase has become very common in peace and conflict literature since Anderson's (1999) book, whose main title is "Do No Harm". It is somewhat misleading because Anderson's book is also about taking pro-active peacebuilding measures, not just about 'not causing harm'. In this thesis, I prefer to use the phrase 'avoiding harm'. Of course, my real meaning is 'avoiding *doing* harm' but that is an awkward phrase to use.

[31] There is no exact English translation of 'hashar.' According to a Dari-English dictionary, it is "a kind of collective work done for a neighbour, friend, relative, or community, without pay."

[32] Grameen Bank, established in Bangladesh in the 1970s, is considered the founding institution of the modern microfinance movement.

Bateman (2003) shows how, in many south-east European countries, 'new wave' microfinance, with its emphasis on sustainability and cost recovery (over and above social goals) has damaged the wider economy and socio-political solidarity, the latter of which is the focus here. In 1998, an idea in Bosnia to create a Development Fund for small-scale, high-risk, manufacturing and technology businesses from the sale of state businesses was blocked by international financial institutions because the proposed structure would not be 'market driven'. This was an example of a spoiled opportunity for "reasonably competent and now democratic local state structures" of Bosnia to strengthen socio-political cohesion and confidence "as they are attempting to rebuild their capacity and vision to help their constituents, including the poorest" (ibid: 62). In Albania, MFPs originally established in the early 1990s to help very poor farming communities "migrated into the cities and towns in search of higher returns,"[33] causing an urban/rural and rich/poor fissure:

> The very evident and growing cross-community inequality was clearly dissolving the previously strong bonds of local solidarity and mutual support across rural and small urban communities that had been determinedly established in the face of the old communist authorities (ibid: 64).

Microfinance clients and groups themselves can also create new tensions. For example, the lower poor might be shut out of a newly-forming group because group members doubt their ability to repay loans (Wilson, 2001: 84-85). Meanwhile, "the nebulous requirement of being a person of good 'moral character'"[34] could be used to exclude individuals "deemed undesirable by [an MF group] management committee" (Heen, 2004b: 23), perhaps because of race or religion, or even simply because the person is not liked or respected. Marr (2003), from her study of nine 20-member MF groups in Peru, found that many intra-group and client-MFP relationships deteriorate after just several years due to financial pressures and internal power plays, leaving behind inter-personal bitterness and further exclusion of the poor. One especially problematic practice MFPs often employ is peer monitoring and peer auditing,[35] which can enhance suspicion and distrust, and was even considered by clients in Cambodia as "synonymous with the conditions that prevailed during the conflicts that required

[33] This drifting away from poorer segments of society is a very common phenomena when MFPs are under pressure to reach financial sustainability.
[34] The MFP Heen researched for her thesis included this as part of their 'client criteria', and she was not able to get from them what this actually meant (Heen, 2004b: 3). CHF in Afghanistan has a similar criterion, but it is probably better-worded: "good reputation in the community."
[35] For peer monitoring, see section 1.2.1. Peer auditing is when group members check on each other, investigating "the causes of loan non-repayment...to determine whether the non-payer is unable to repay her debts or is unwilling to honour them" (Marr, 2003: 26).

spying on their neighbours" (Nagarajan, 1997;[36] cf. Marr, 2003: 26ff). In some cases, violence erupts:

> Clients of BRAC [in Bangladesh]...tore down the house of a defaulting borrower, and there were reports of suicide amongst defaulters of the Grameen Bank, allegedly resulting from peer pressure from other borrowers (Fikkert, 2003, p.23).

Some MFPs may believe that such problems arising from clients are not their responsibility, but addressing intra-group conflicts ought to be the norm out of enlightened self-interest if nothing else. Nagarajan (1999: 20) notes how WWI in Bosnia had trouble starting off its microcredit programme:

> Group formation was difficult due to lack of trust among the community members and hatred between refugees and inhabitants. Extra efforts were made by program staff to build trust among women through initiating conversations during the meetings when loan repayments were collected. Eventually, the groups became cohesive and stable.

Another example is from ASKI[37] in the Philippines, who require that a group form a cooperative and be functioning for one year before the first loan is given. Relationship-building is emphasized so that group members see each other as "partners, not competitors" (Ducai, 2004: pers. comm.).

The above listing of possible harmful effects is not meant to scare MFPs into paralysis or cause anyone to believe that MF must not create conflicts of any kind. Empowerment to the poor or women will challenge the status quo, for example, and could provoke backlashes by the powerful. However, as demonstrated above, "there can be more serious consequences [of MFP intervention] than might meet the eye" (Heen, 2004a: 14), and thus MFPs have a responsibility to at least minimize the probability and magnitude of such negative consequences.

2.2.3 Attacking Strategies: Introducing and Modifying the Heen Typology

After increasing awareness of the conflict context and minimizing the potential for negative impacts, the third element of conflict sensitivity is addressing the root causes of conflict by looking for ways to positively build peace rather than negatively avoiding harm. A helpful mechanism to consider how MFPs might take on board this third element of conflict sensitivity is a typology constructed by Heen (2004a). This section presents, then expands on, this typology to complete the construction of a conflict-sensitive framework.

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[36] Section IV, subsection H of Nagarajan (1997) is where the quotation may be found.
[37] Allay Sa Kaunlaran Sa Gitnang Luzon Inc (a Philippine MFP)

Heen's typology was born out of research done in Cameroon in the middle of 2003. An MFP director there believed that the business of doing microfinance,[38] "[cause] people to get together regularly and opens doors for social dialogue" (Heen, 2004b: 2). However, Heen subsequently found no evidence that this was happening: "Loan recipients did not discuss or resolve ...tensions in the course of implementing their...loan projects" (ibid: 23). From Heen's description, one receives the impression that the director believed that conflict resolution would 'just happen'[39] without any plan or intentionality on the part of the MFP. This spurred Heen on to consider "how, exactly" (ibid) microfinance could be used to mitigate conflict. The resulting typology is presented in the following table. *It should be made clear that any one MFP may use one, two, or all three of these approaches.* The purpose here is not to pigeonhole MFPs but to offer a menu of options.

Table 3.6. Heen's Typology for Conflict Sensitivity

	Main Idea	Underlying theory	Interpretation/examples
Indirect Mitigation	General alleviation of poverty yields benefits in conflict arenas fueled by persistent lack of revenue.	Relative deprivation; Horizontal inequalities	MFP focuses on issues directly related to micro-economic conditions and individual livelihood support. Not focused on conflict issues as such.
Direct Mitigation	Credit may support substantive projects that directly resolve or reduce conflict pressure(s)	Conflict escalatory pressure can be interrupted	Targeting specific proximate and visible causes of conflict.
Process Mitigation	Contact between hostile groups during credit delivery, implementation, or payback period helps reduce mutual prejudice	Contact hypothesis	Bringing people together, either in a gentle fashion or in a more forceful way. Similar to 'social engineering'

NB: Columns 1 and 2 are directly from Heen's table (2004a: 42). Column 3 contains my own interpretation and thoughts.

a) Indirect Mitigation

The thought processes and arguments for indirect mitigation – that is, that relieving poverty addresses a key root of conflict – have already been discussed (section 2.1), but it may be helpful to hear from Heen (2004a: 35) as she expounds the two theories in the above table (row 1, column 2):

> The gist of these two theories is that discrepancies between some social group's economic and political expectations and their attainment of those expectations can spur collective violence by that group against the government or other culturally defined groups. Providing credit to an underserved social group may thus, over time, reduce the discrepancy between their expectations and reality. This reduction may in turn dampen the "extent and intensity" of shared discontent that might otherwise lead a given segment of society toward collective violence.

[38] That is, planning among MFP local staff, the collection and disbursement of loans, and the resulting business activities.

[39] My own words, cf. previous arguments about incidental vs. intentional impact at the end of section 2.1.

Obviously, every MFP working in a conflict-affected situation possesses this mindset, for the basic premise of microfinance is that it reduces poverty. It would be regrettable, however, if every MFP in a country *only* considered indirect mitigation, for opportunities for additional positive impacts resulting from direct and process mitigation approaches would be missed.

b) Direct Mitigation

Heen here has in mind giving loans to projects in which the recipients will address some resource-related problem (2004a: 32). For example, she proposes a hypothetical loan product in which a group of Cameroon farmers would take a loan collectively and work together to build fences around their properties, thus protecting their crops from the grazing animals of pastoralists and thus reducing the chance for farmer-pastoralist conflict (ibid: 48-51). The direct mitigation mindset looks for specific, perhaps one-off, projects:

> In this respect, an MFI is not interested in any and every conflict manifestation in a given community, but only those identifiable problems that could be part of an escalatory dynamic (ibid: 32).

Widening Heen's definition slightly, we could take 'direct mitigation' to mean any intervention (where MF is a key component) which targets a specific and proximate cause of current tensions. In the Afghan context, for example, this might mean contributing to the demobilization and reintegration of militia members. Exclusive targeting of ex-combatants is not recommended (Doyle, 1998: 21), but they can still form a significant proportion of any MFPs clientele (see Table 3.3 – the example of CARE's programme in Uganda): "[A]fter undergoing an initial reintegration program, excombatants who are held to the same standards as any other client group are observed to react well" (ibid). Of course, this is a risky group to serve, both in themselves and the reaction they may provoke from non-combatant clients. Further, they could require special services like mentoring and counselling. Thus, extra care and planning, as well as coordination with other NGOs, would be necessary. In chapter 4, we examine what is actually happening in Afghanistan in this regard.

The other target for direct mitigation in Afghanistan would be the opium sector. Microfinance here would be used to service poor (and often landless) farmers who have been trapped into a cycle of dependence on growing opium poppy. The common belief is that farmers grow poppy for profit, but "it is not just the price that opium fetches...that is attractive for farmers, but the possibility of obtaining credit" (Anand, 2004: 8). This occurs through the '*salaam* system', where a farmer receives a cash advance (usually at the beginning of winter so that the poor farmer can survive the lean season) from a shopkeeper, merchant, or commander with the promise of repayment in poppy the following spring. The arrangement is often exploitative, with the farmer receiving only half the current market price of opium (Goodhand, 2004: 67). The landless farmer is then able to use that money to enter into a sharecropping agreement with a landowner, agreeing to provide certain inputs for a share of output (he is thus able to at least grow some food for his family, next to the poppy). Here, too, the landed enjoy huge benefits from the agreement: "Those with land...profit, while those with few assets merely survive...A landowner may get a net return of US$ 1,957 for every hectare [of poppy] cultivated, while a sharecropper receives $212 per hectare" (ibid: 66). Poor harvests, price fluctuations, normal inflation or shocks lead to repayment failures, in which case the opium financier normally charges an extra 100% interest to carry over the loan until the following harvest (Goeldner, 2005: 3). Thus, "the salaam system locks the poor into a patron-client relationship with local traders" (Goodhand, 2004: 67). A 2003 UNODC survey found average debts in Helmand province to be over $1000 (Goeldner, 2005: 13).

Microcredit, therefore, could ideally serve as a substitute for opium credit (Anand, 2004: 38ff). However, one should consider the significant amounts of debt, the political danger of upsetting the patron-client relationship which is so advantageous to the patron, and the fact that there are many other reasons for poppy-growing. These factors mean that special financial products, careful planning and analysis, and coordination with other development and political efforts are advisable. There has been recent major movements in this area, starting with a December 2004 workshop in Kabul on "Rural Finance in Afghanistan and the Challenge of the Opium Economy" sponsored by the Afghan government, DFID, and the World Bank. Strategies and objectives were designed at the workshop so that microfinance could play an important role in promoting alternative livelihoods (MISFA, 2005a: 1; Opium Workshop, 2004). What has been done as a result of this meeting will be reviewed in the next chapter.

c) Process Mitigation

In Heen's last category, she borrows from social-psychological explanations of conflict which focus on the dynamics of 'in-group love' and 'out-group hate', where the antidote to 'out-group hate' is found in 'contact hypothesis', "the idea that under certain conditions, exposure between individuals who are members of hostile groups helps reduce prejudice toward the other group" (Heen, 2004a: 39). She briefly proposes some ways in which such inter-group contact could occur in a microfinance context. Upon further reflection, however, one should consider the varying magnitudes of 'push'

MFPs might have to exert to bring opposing groups together under each of these ways, and how wise that would be.

The first grouping might be gathered under the heading named 'soft push' process mitigation. At the most minimal level, this would mean that the MFP makes sure its clients comprise a fair representation of each of the opposing (ethnically-based or otherwise) groups in the area, so that they "come into contact, however intermittent, through the institution's lending processes" (Heen, 2004a: 38). This is probably as far as the Cameroon MFP manager (above) thought would be necessary to build inter-group peace. A slightly more intentional strategy would be to organise events or meetings (e.g. soccer games, MF group leader meetings, training workshops) which would be open to each of the opposing groups.[40] These would be similar to other postwar (non-MF) efforts, such as when aid agencies in Bosnia and Herzegovina "supported reconnections among people of different ethnicities...through small orchestras, choirs, academic journals, and youth clubs" (Anderson, 1999: 30).

'Hard push' process mitigation, on the other hand, might involve actually forming an MF group whose members must be (for example) ethnically mixed, or giving large group-based loans to "income-generating projects run jointly by members of opposing social groups" (Heen, 2004a: 38). This latter idea is endorsed by Maynard as a way to rebuild inter-personal trust following conflict. A related idea is that:

> [S]mall business startup credit may be granted more readily to those proposing cross-conflict partnership, those hiring across identity lines, or those intending to locate in shared areas, high-tension zones, or areas traditional to other groups (Maynard, 1997: 220).

Indeed, this kind of approach was planned by Mercy Corps in postwar Bosnia. They located one of their offices in a formerly multi-ethnic area which was now divided into three ethnically-based communities. After starting with small loans, a microbusiness wanting to graduate to larger loans would have to service all three communities (Doyle, 1998: 28).

There is some hesitancy among many, however, about adopting the tactics of 'hard push' process mitigation as the wisdom of forcing groups together is questioned:

> When asked about these issues [how microfinance could mitigate conflict], microfinance development practitioners are cautious. For instance, the thought of engineering solidarity groups around reconciliation goals is considered going too far. A World Relief program designer states that the most he would strive for is heterogeneity within a program comprised of homogeneous community banks. In some cases, he thinks it may be

[40] Of course, a 'harder push' would be to make such gatherings mandatory.

> possible to encourage polyethnic community banks [20+ members] with monoethnic solidarity groups [about 5 members]. Field staff contend that it is not necessary to force reconciliation. In several contexts, this occurs naturally. A growing body of anecdotal evidence supports this general observation (Doyle, 1998: 30-31).

d) 'Beyond' Revisited: Local Governance and The Indian Self-Help Group Model

Another factor in encouraging renewed social cohesion is "rebuilding the community decision-making capacity" (Maynard, 1997: 221). Indeed, Maynard suggests that the rebuilding of local governance may be the most important need for postwar psychosocial recovery. In chapter 2 it was seen how this lack of local cohesion was a major contributor to Afghanistan's conflict. Microfinance at first would seem to have little to do with local governance, and Heen's thesis does not relate the two either. However, if we revisit the 'beyond' paradigm, we find that the Indian phenomena of 'self-help groups' may have something to contribute to the discussion.

Self-help groups (SHGs) were initiated in the 1970s by NGOs in India to encourage local development. In the mid-1980s, MYRADA[41] started forming SHGs as savings and credit groups and was able to link many of them to commercial banks willing to take on joint accounts (Fisher and Sriram, 2002: 107-108). Normally, SHGs start out by saving and circulating their own money and then "it is only after a few cycles of mutual savings and credit have been successfully completed that an external financial agency may come into the picture by providing additional capital for on-lending to members of the group" (ibid). By 2001, 285,000 SHGs[42] had taken loans from 41 commercial banks (Harper, 2002: 175).

However, the intriguing thing about SHGs is not the details about their savings and credit mechanisms, but that the primary purpose of NGOs who form them is "to promote cooperatives as local democratic organisations" which "poor people own, control and manage" (Fisher and Sriram, 2002: 24, 105), not to form microfinance groups. The NGOs found that to form these groups, "poor people need to organise around concrete activities in which they have a direct stake...[They] discovered that micro-finance provides just such a concrete activity" (ibid: 105). Although SHGs are not always well-managed nor successful, the results of one study of SHGs promoted by MYRADA (85% of which were women's groups) were impressive. Besides members' increased access to and confidence dealing with formal financial institutions, the study found:

[41] MYRADA = Mysore Resettlement and Development Agency.
[42] Average membership is 17.

- the poorest members of SHGs were just as likely to take on the role of office-bearers as the middle or upper poor members.
- 200 members of the SHGs had been elected to village councils.
- Half the SHGs after their third year had been approached by other groups in the village to help solve social problems. "Note that this is unusual for poor, marginalised and generally lower-caste women…who are not usually accepted as agents of change"
- By the fifth year, 90% of SHGs were also in charge of maintaining at least two infrastructural assets in their village.[43]

Commenting on these results, Sriram and Fisher (2002: 113) assert, "it is not the credit that is empowering, but the management of credit."

e) Peace(Culture)Building[44]

Finally, MFPs may want to focus instead on changing underlying attitudes of hatred and/or violence which a conflict has fostered. As Olson (2001: 5) writes: "One agency may prioritize creating new institutions to manage conflict while another may see 'building attitudes of tolerance' as the critical first step." One option is to incorporate recitations during MF group meetings to reinforce peace messages the MFP may think are important. Grameen Bank's famous 16 Decisions, for example, not only speak of good financial management, hygiene, and healthy eating, but also of peaceful relationships:

> Rule # 12: We shall not inflict any injustice on anyone, neither shall we allow anyone to do so.
> Rule # 14: We shall always be ready to help each other. If anyone is in difficulty, we shall all help.
> (Hossain, 1988: 28)

A second approach is to employ relationship-building exercises as part of MF group meetings, as was done by ASKI in the Philippines and WWI in Bosnia (section 2.2.2). The groups would then become an extra source of social support for each of the members. Finally, focused courses on peace or reconciliation might be initiated. In some cases, the felt need for such courses is expressed by the clients themselves:

> Save the Children in Tajikistan is considering using lending and savings groups to transmit health and women's rights advocacy education. A basic understanding of women's human rights and legal recourse is important due to the large number of new, female-headed households. After recent violence in the program area shut down markets for a week, clients also told promoters they wanted to use their groups to learn about peace (Doyle, 1998: 28).

[43] These bullet points are taken from Fisher and Sriram (2002: 112), who summarize the findings of Fernandez.
[44] That is, building a culture of peace, or helping to change a violent-oriented mindset.

2.3 A Conflict Sensitive Framework

The various threads of section 2 are now brought together into the following 'conflict sensitive framework', based on Heen's typology (in grey). As indicated above, all MFPs in a post-conflict setting would adopt indirect mitigation, for it as at the heart of what microfinance is all about. If they *only* focus on financial issues, however, and conduct themselves as if they were in a normal development setting, we would consider that 'minimalist' (and not conflict sensitive) for our purposes. If they strove to become more aware of the conflict context and took steps to avoid harm, that would be partially conflict sensitive, or indicative of 'enlightened minimalism'. Finally, if they also attempted to address sources of conflict (besides economic poverty), we would designate them as 'more fully conflict sensitive.'

Table 3.7. Conflict Sensitive Framework (Original Heen Typology in Grey)

		Main idea	Interpretation/ examples			
1. Awareness		Being fully cognisant of the dynamics of the conflict situation	Conducting peace and conflict analyses. (See chapter 4)		Enlightened Minimalism	More Fully Conflict Sensitive (MFCS)*
2. Avoiding Harm		Consciously taking steps to reduce probability of conflict resulting from MFP intervention	Not showing favouritism. Being aware of potential group problems			
3. Attacking Causes of Conflict	a) Indirect Mitigation	General alleviation of poverty yields benefits in conflict arenas fueled by persistent lack of revenue.	MFP focuses on issues directly related to micro-economic conditions and individual livelihood support. Not focused on conflict issues as such.	Minimalism		
	b) Direct Mitigation	Credit may support substantive projects that directly resolve or reduce conflict pressure(s)	Targeting specific proximate and visible causes of conflict.			
	c) Process Mitigation	Contact between hostile groups during credit delivery, implementation, or payback period helps reduce mutual prejudice.	<u>Soft approaches:</u> Multi-ethnic clientele Sports matches Workshops <u>Hard approaches:</u> Multi-ethnic groups			
	d) Local Governance Building	Encouraging local leadership and decision-making.	SHG Model *Working with shuras? (see chapter 4, section 3.5)*			
	e) Peace (Culture) Building	Replacing violent or confrontational mindset with one of cooperation and mutual support.	Reciting Techniques Relationship building Peace Courses			

* MFCS means having an approach which includes *one or more* of the following: 3b) direct mitigation, 3c) process mitigation, 3d) local governance building, 3e) peace(culture)building

3. Conclusion

At the end of chapter 2, the 'Afghan context' table summarised the issues and tensions Afghanistan has faced and continues to face. This table served as the impetus for chapter 3 as we have discovered how various microfinance approaches, whether basic microcredit, credit plus, or conflict sensitive, could address each of those issues. These approaches can be found in column 2 of table 3.8 at the end of this chapter. This 'schema for microfinance intervention' (SMFI) is quite striking in that it shows how microfinance could play a role in all but two issues (green cells). Obviously, then, it would be desirable for at least some MFPs in Afghanistan to take on various 'credit plus' or 'conflict sensitive' strategies so that livelihoods can be further enhanced and the possibility of renewed violent conflict can be reduced.

Whether these approaches are feasible and effective, however, is a more difficult question to answer, and probably dependent on MFP goals, funding, and the specific context they face.[45] Among PCM authors, we saw earlier that Wilson was the most stridently against these approaches since they lead to mission creep and eventual ineffectiveness. At the other end of the spectrum, Marino (2005: 12) states (perhaps overstates) with certainty that MF is "a tool for conflict resolution, social and political reconciliation, reintegration, and empowerment, leading ultimately to peace." Doyle (1998) takes a more balanced view. While acknowledging the problems of MFPs being overstretched, she nevertheless leaves an open door:

> Predominantly, it [MF] remains an economic development strategy that focuses on rebuilding and restarting local economies by providing needed financial services for enterprise creation. But there is also consideration of its use as a relief and survival strategy in the immediate wake of disaster, and as a tool for peace and reconciliation (p.vii).
>
> As the international community tackles the dilemma of how to mitigate problems associated with conflict, experiments linking microfinance to conflict mitigation and prevention goals will become more prevalent (p.30).

At the very minimum, MFPs need to adopt 'enlightened minimalism'; that is, being aware of the conflict complex around them and taking active steps to minimize any potential negative impacts of their interventions. Even large international for-profit companies are coming to a greater awareness of the risk of 'doing harm' in post-conflict settings and the importance of corporate social responsibility (Bray, 2005: 44-45). Furthermore, MFPs need to avoid the deception that social support and trust will automatically 'just happen' by the formation of MF groups.

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[45] This is more fully explained in chapter 7, section 8.

Obviously, no one MFP can do everything suggested by the SMFI table, but a group of coordinated MFPs could cover most approaches. Even then, MF by itself can only be *part of the solution* to the issues. The opium problem, for example, requires intervention from many angles. Finally, there are other problems[46] which MF has no connection to whatsoever.

> It is ...important to not lose sight of the fact that microfinance is only one tool amongst others that contribute towards economic development in post-conflict situations. Microfinance neither can end conflicts nor can become a primary vehicle for peace building (Nagarajan, 1999: 4).

Therefore, it is crucial that MFPs are not only coordinated among themselves, but also that they collaborate with non-MFP agencies so that problems are tackled holistically. The extent to which this is happening in Afghanistan is discussed in the following chapter.

This chapter has focused on the role MF could play in rebuilding livelihoods and peace. Although Afghanistan has been in the background to frame the discussion, it is considered that the ideas here could apply to most post-conflict situations. In the next chapter, Afghanistan comes to the fore as the role MF actually *is* playing in its reconstruction process is examined.

[46] The two problems in rows 3a and 5d. There are other sources of tension as well in Afghanistan, which are discussed briefly in chapter 7.

Table 3.8: Schema for Microfinance Intervention (SMFI)

Livelihood/Society Stress or Coping Mechanism		*Approach*	*Role Approach Plays*
1. Household Livelihood Stresses and Coping Mechanisms			
a)	Broken Livelihoods... Loss of Physical, Natural, Human capital . which leads to... ↘ Frustration and Increased Possibility of Conflict	Basic Microcredit	Opportunities for investment in productive activities
		Savings and Insurance	Protection of livelihoods against life cycle costs and sudden shocks
		Integrated Services (health, education, BDS)	Extra targeted support for livelihoods
		Heen – Indirect Mitigation (This incorporates the three approaches above)	Reducing poverty means lower frustration and conflict
b)	Livelihood Diversification	Basic Microcredit	Can sometimes open up new income generating activity
c)	Increased indebtedness (which leads to tensions)	Basic Microcredit Savings	Access to credit and savings reduces dependence on informal moneylenders
2. Psychosocial Damage			
a)	Trauma, fear, loss of confidence	Basic Microcredit	Business activity restores sense of 'normalcy'
		Integrated: Counselling	More targeted assistance to trauma
b)	Lack of inter-personal trust (could be because of ethnic problems)	Basic Microfinance, especially if **groups** are used	Clients, through interacting with others as part of their business activity, or interacting with the MF group, will slowly learn to trust others again**
		Heen: Process Mitigation	Intentionally bringing opposing (ethnic or otherwise) groups together will build inter-group trust
c)	Strained but resilient social support systems	Basic Microfinance with **groups**	MF group can become an additional source of social support**
		Peace(Culture)Building (Relationship building)	Encourage clients to help others, whether inside or outside the group
d)	Bitterness, War mentality	Peace(Culture)Building (Peace courses)	Changes the mindset and attitudes, so that people are less likely to resort to violence
3. Fragmentation: Socio-Political Stresses			
a)	State-Regional strained relationship	Non-MF strategies needed	
b)	Weak local organisational cohesion	Beyond – Local Governance Building	Builds local democratic organisations or at least builds individual confidence to participate in local bodies.
4. Struggling Economy			
a)	Few medium to large businesses	Basic Microcredit	For small businessperson, only a stepping stone toward larger lines of credit
b)	Monetization of economy	Basic Microcredit	Helps meet demand for cash
c)	Weak licit economic sectors	Beyond – Market Linkages	Business support and building linkages to wider economy
5. Current Proximate Sources of Tension or Conflict			
a)	Opium Economy and War on Opium (→ strained state-regional relationship)	Heen – Direct Mitigation	Reduce reliance on opium as a credit access mechanism
		Beyond – Local Governance Building	Can generate socio-political power to combat 'opium power'
b)	Armed Militias	Heen – Direct Mitigation	Provide livelihood opportunities for ex-combatants
c)	Ethnic Tension	Heen-Process	Encourage inter-ethnic contact or even collaboration
d)	Commanders and Warlords (who sustain all three of the above)	Non-MF strategies needed	

**However, some intentionality from the MFP would enhance probability of success. It is not guaranteed that desired outcome will 'just happen'.

blue = where MF could also do harm

Chapter 4: The Microfinance Sector in Afghanistan and Its Role in Conflict Mitigation

The traditional role for microfinance is to help alleviate poverty, but in a post-conflict context, there is a wider potential for microfinance to be used as one tool among many for conflict recovery and prevention. Chapter 3 outlined the *possibilities* for microfinance in each of these roles, and was thus hypothetical and suggestive. Following a similar structure, this chapter now compares these possibilities with the *realities* of current-day microfinance in Afghanistan. Section 1 introduces the young MF sector and some of its key players, and explains how those in the sector have reason to be optimistic but cautious about the future. Section 2 reviews what 'credit plus' approaches are being implemented, such as savings products, health and education courses, and marketing assistance. Section 3 examines the extent to which MFP strategies appear to be conflict sensitive – that is, avoiding harm and attempting to deal positively with sources of conflict. The findings reveal a conservative, minimalist approach, although there are some encouraging initiatives going forward. Because of the size and complexity of poverty and conflict in Afghanistan, a recurring theme of this chapter is the importance of coordination, both within the MF sector and in terms of partnering with other non-MF agencies.

1. Overview Of Microfinance Sector

1.1 History

The microfinance sector is still quite young in Afghanistan, as 'true microfinance' – that which is provided by a financially stable semi-formal provider, committed and able to achieve long term sustainability – was not possible during the civil war era (1979-2001). This was due not only to the violence, but also because of hyperinflation and the devaluation of the Afghani, and the rising Islamic fundamentalism (especially in the form of the Taliban) which prohibited the charging of interest on loans.[1] Aziz (2000) catalogued 15 NGOs[2] which provided some form of microcredit and/or savings facilities as of the late 1990s. However, these were mostly small scale microcredit schemes implemented by "agencies involved in integrated development...and not MFIs exclusively dedicated to microcredit" (ibid: 17). These schemes "achieved limited outreach (12,000 clients total as of October 2002) and low sustainability due to a handout approach," and due also to the inflationary and Islamic hurdles mentioned

[1] Aziz (2000), writing before the fall of the Taliban, argued that in fact *Islamic* microfinance *was* possible and urged NGOs who were providing credit at that time to switch to that mode of provision. There are several types of Islamic finance, but it essentially based on the idea that a creditor should not use money to make money (hence interest is not allowed); instead he should enter into a partnership with the borrower, sharing the risk or benefits of the borrower's income-generating activity.

[2] plus one organisation who chose not to participate in his study (ibid: 7).

above (Marino, 2005: 5). One large MFI, Grameen Bank, did attempt to begin operations in Kandahar in 1996, but was forced out after five months when the Taliban objected to Grameen's preference for women clientele and staff (Latifee, 2002: 28). This "foreclosed the prospects of any major MFI venturing in[to] Afghanistan in the foreseeable future" (Aziz, 2000: 17).

The formal finance sector, in the meantime, was virtually defunct, existing "more in form than substance" (Bray, 2005: 36) and offering no loan services during the war. Private commercial banks had been nationalized in the 1970s and by the fall of the Taliban, "there were still six state-owned banks, but...their principal activity was drinking tea" (Burnett, cited in ibid). On top of this, informal lending between family members and friends was increasingly impossible as the war and drought had depleted resources even among the relatively well off (see chapter 2, section 4). Thus, post-2001 demand for financial services was high, and since the ultra-conservative Taliban were now gone and security was expected to improve , 'major' MFIs, such as the Bangladesh Rural Advancement Committee (BRAC) and Foundation for International Community Assistance (FINCA), *did* start venturing into Afghanistan, with BRAC beginning MF services as early as July 2002. There remained, meanwhile, at least half of the NGOs which ran the aforementioned small-scale microcredit schemes, potentially offering their valuable long in-country experience to the sector.[3] Finally, completely new players entered the sector, such as Parwaz, an all-Afghan MFP established in 2002 which has received a Pro-Poor Innovation award from CGAP and IFAD (Marino, 2005: 4).[4] The combination of the heavy demand for financial services and the eclectic mix of MFPs meant it was critical for a coordinating body to emerge to give overall guidance to the semi-formal financial sector. Thus, the establishment of the MISFA (see below) in mid-2003 was a welcome development.

1.2 Some Key MF Players

This section introduces MISFA and some of the key MFPs in Afghanistan, including the case studies for this research. There are 12 MISFA partners and perhaps eight to ten other MFPs, but it is difficult to get an exact number of MFPs in Afghanistan because there are many small credit schemes which may or may not be MFPs, depending on one's definition.[5] Suffice it to say, the MISFA partners probably represent around 98%

[3] However, to reiterate Marino's point above, MISFA's early opinion of these small schemes was quite clear: "Most NGOs have little knowledge of global best practice; only a few programs are judged to be of reasonable quality" (MISFA, 2003: 4).
[4] CGAP = The Consultative Group to Assist the Poor; IFAD = International Fund for Agricultural Development.
[5] During the course of the year of research, I would discover another credit provider once or twice a month, so I gave up trying to count and catalogue them.

of the market. A list of MISFA's partners and several other MFPs can be found in appendix 1.

Microfinance Investment and Support Facility for Afghanistan (MISFA)

MISFA is an example of what is known as a national 'apex facility', whose most basic function is to channel donor money to various MFPs in the country. It both opens up new opportunities for MFPs to gain access to large-scale funding and saves the donors' time in finding competent MFPs to which to grant funds (Levy, 2002: 5). The World Bank (2004) says that MISFA is a "first of its kind" facility, an odd claim considering that Levy (2002: 31) catalogued 37 microfinance apex facilities in 28 countries worldwide. Other possible functions of an apex facility include:

- *technical assistance*: Because such a facility is a "specialized centre of expertise, and with the carrot provided by its funding capacity," (Levy, 2002: 5) it is well placed to offer, for example, training sessions for MFP staff. MISFA runs such sessions monthly, and the handful of interviewed Afghan staff members who have attended them all commented positively. As of September 2005, 358 Afghans had attended at least one training session (ARTF Administrator, 2005: 29). A more intensive internship programme (one to two months of courses followed by three months of on-the-job training) had its first 17 graduates in July 2005 (MISFA, 2005b: 4). One MFP director believes it would be helpful if MISFA could provide more personalized case assistance on occasion.

- *quality control*: i.e. providing "oversight consistent with the special demands of sound microfinance" (Levy: 2002: 6). MISFA requires monthly reporting from its partners, sets sustainability targets,[6] and in mid-2005 was thinking about requiring partners to conduct more formal impact assessments.

- *direct a nationwide strategy*: This is to avoid MFP overlap and to foster growth in underserved population segments and provinces. Thus, MISFA has been researching ways for MFPs to serve the disabled, nomads, and the "absolute poor" (MISFA, 2005a: 2), and in 2005 introduced a "special funding window to promote and enable the expansion of microfinance in poppy growing provinces" (ibid: 3).

- *provide a forum for shared ideas*: D. Larson advises that, in order to assist newly-formed and struggling MFPs in post-conflict situations, there should be "greater interaction and dialogue between experienced microfinance practitioners and donors and those who are already on the ground" (brief 1, p.3), as is the case in Afghanistan (section 1.1 above). Although MISFA's website claims MISFA serves "as a mechanism for networking, sharing information..." (misfa.org), it has not really taken on this function,[7] so in spring of 2005, a separate Afghan Microfinance Association was begun.

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[6] MISFA believes MFPs should be 100% operationally and 80% financially sustainable after 5 years, and 100% financially sustainable after 7 years (Chotani, 2005a: pers. comm.).

[7] This according to one MFP director, who says MISFA-led meetings usually have to do with the latest government regulations.

It should be noted that MFPs who are not officially partners of MISFA can and do still benefit from the technical assistance MISFA provides, and can stay abreast of developments in the MF arena through bulk correspondence which MISFA sends out. Some non-member MFPs, like IAM-MED, also choose to submit monthly reports to MISFA as they feel responsible to maintain good communication.

Box 4.1 MISFA

Established mid-2003 by the World Bank and CGAP, under the GOA's Ministry of Rural Rehabilitation and Development (MRRD).
Donors: CIDA, DFID, SIDA, USAID[8], Novib (Oxfam Netherlands).
Budget for March 2005-March 2006: $41.7 million.
MISFA's MFP Partners: 12 partners. From 2003 to mid-2005, most partners had received between $50,000 and $2.5 million for on-lending, with BRAC receiving $8 million. In August 2005, the GOA agreed that $125 million of donor funding (pending) in the next three years could be funnelled through MISFA to four partner MFPs: BRAC, FINCA, WWI, and AKDN. See appendix 1 for the list of partners and more information.
Relation to GOA: Ambiguous. Part of MRRD initially. Was to be independent from MRRD by March 2005. However, 2005 was also the year that the GOA and international community were trying to work out their relationships and the issues around who controls donor money (this resulted in a new NGO law), so MISFA remained a government agency. In January 2006, the GOA was moving toward allowing MISFA to become a private 'non-distributive' company, i.e. no shareholders and therefore no profit distribution, with some form of oversight by the Ministry of Finance.

The case studies for this thesis are as follows.[9] More details about each organisation's loan products and statistics can be found in appendix 1, table A1.1. Appendix 1 also gives some brief information about other MFPs in Afghanistan.

<u>Bangladesh Rural Advancement Committee (BRAC)</u>

This is by far the largest MFP in Afghanistan, controlling two-thirds of the microfinance sector – in terms of number of clients, more than 87,000 as of December 2005 – and serving in 17 of Afghanistan's 34 provinces. Microfinance is only one component of its work, as it has significant outreach in health, education, and agriculture. Probably because it has so many beneficiaries in its home country, BRAC can claim that it is "one of the world's largest multi-sectoral NGOs" (BRAC, 2005: 4). Established in 1972 in Bangladesh, Afghanistan represents BRAC's first major venture into another country.[10] In microfinance language, it is considered part of the 'Grameen family' with its emphasis on highly structured group lending methods. Despite communication hurdles, being able to include BRAC as a case study was deemed absolutely crucial to this research, not only because it is the largest provider in the country, but because it

[8] These first four acronyms represent the bi-lateral funding agencies of Canada, the UK, Sweden, and the USA respectively. See the Acronym page for the spelling out of each.
[9] The last MFP listed, WWI, cannot be considered a 'full-fledged' case study because of problems with the way client interviews were conducted (see box 5.3). However, enough information about its organisation was gathered to justify its inclusion in many parts of this thesis.
[10] In 2005, BRAC also established offices in Sri Lanka. (Biswas, 2005: pers. comm.).

was the only case study MFP which: a) tries to reach the lower poor; and b) has a somewhat integrated approach to microfinance (cf. section 2.2).

Aga Khan Development Network (AKDN)
MFP Name: Afghanistan Rural Microcredit Programme (ARMP)

ARMP is the second largest MFP in Afghanistan, with 13,586 clients (Dec. 2005) in nine provinces. This is the only MFP in Afghanistan with primarily *individual* borrowers, targeting the middle and near poor, who are able to put up some collateral, especially land.[11] In a male-oriented culture, this tilt toward the landed meant most of ARMP's clients were men, and so in 2004 it started experimenting with group-lending methods to increase their female enrolment (Sirolla, 2005: pers. comm.). Among the MFPs studied, ARMP clearly had the widest range of loan products, with regular agricultural loans for landowners, fixed-asset farm equipment loans for landless farmers (so that they can sharecrop), quick-turnover loans for traders, and long-term 'reconversion' loans. The latter are "designed for over-indebted farmers, poppy-growing farmers seeking alternative crops and the containment of non-poppy growing farmers/traders in poppy growing areas."[12] AKDN also had some urban clients, especially in Kabul, Pul-i-Khumri, and Mazar-e-Sharif, and those portfolios have now been transferred into the fully formalized First Microfinance Bank (FMB).[13] Similar to BRAC, AKDN implements other programmes as well in health, education, agriculture, and so forth.

Cooperative Housing Foundation (CHF)
MFP name: Afghanistan Microfinance Initiative (AMI)

CHF was established in 1952 and undertakes disaster relief, post-conflict response, environmental management, infrastructure, and economic development programmes (including MF) in about 30 countries each year. It entered Afghanistan in 2002 and has been involved in the construction of roads, homes, schools, and clinics. In March 2004 it started its microfinance project in Bamyan and opened operations in Ghazni a year later. Its 2300 clients are organised into solidarity groups of five to seven people and each group can negotiate the loan size and term with CHF, but permitted loan sizes are smaller for women than men. After each successful repayment, loan sizes are increased on the next cycle. CHF targets the middle poor clients who usually have a shop, a small plot of land, and/or who raise animals.

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[11] ARMP often keeps the land title deed of the client.

[12] This information comes from interviews with the Programme Manager of ARMP, Armando Sirolla, and a power point file he provided (dated April 2005). See section 3.3.2 for more on the reconversion product.

[13] FMB received the first-ever license under Afghanistan's new post-Taliban banking laws in September 2003 and opened its Kabul branch in August 2004. The Pul-i-Khumri branch opened in June 2005. The Aga Khan Fund for Economic Development (AKFED) is the majority shareholder of the bank.

International Assistance Mission (IAM)
MFP name: MicroEnterprise Development (MED) (locally known as 'Hope for Life')

IAM is an INGO established in Afghanistan almost 40 years ago (and works exclusively there) and has had a relatively high expatriate presence ever since. Over the years, it has established projects around the country in a range of services including eye care, mother and child health, physiotherapy, community development, English education, micro-hydroelectricity. MED began lending in February 2004 and has 1370 clients, all in Kabul city. Prospective clients must already have an established shop or from-home income-generating activity (clients with only push carts for petty trading, for example, are not allowed). Like CHF, the middle poor are targeted and clients are organised into solidarity groups. On the third loan cycle, the loan amount reaches $450. If a client wants a larger loan after that, a letter of credit will be written and he or she can referred to FMB. Not a MISFA member, the success thus far of IAM has been a surprise to some in the MF sector, especially considering that its founder, Dan Obenschain (although working in Afghanistan for many years) had no previous experience in microfinance. Even MISFA has been impressed, with one official there asking Dan in amazement, "Where did you learn all this?" Dan's simple answer was, "I read a lot" (Obenschain, 2005: pers. comm.).

Women for Women International (WWI)[14]

WWI currently works in nine in-conflict or post-conflict countries, providing women's rights awareness and leadership education, job skills training, and business development support. It began work in the peri-urban areas of Kabul city in 2002. Its core programme is a one-year course which includes the elements listed above, and many of their microcredit clients are graduates of this course. WWI began lending activities in July 2004 and by December 2005 had reached over 3000 clients. Again like CHF and IAM, its clients are middle poor and self-selected into small groups. As its name suggests, WWI works 'only' with women clients, but importantly, involves the husband or other male members in the loan and decision-making process as well. WWI plans to expand into three surrounding provinces in 2006.

These five MFPs represent about one-fourth of the number of MFPs in Afghanistan and over 80% of microfinance coverage in terms of number of current active clients. Table 4.1 shows where they could be placed when it comes to their target populations. The table is an adaptation of a pyramid scheme by MRRD (2003: 5). In 2003 the MF sector was extremely young, and this MRRD planning paper was envisioning service to three levels of poor: "By financing and supporting all three types, MISFA [will ensure] the broadest outreach is achieved and greatest number and type of clients are reached"

[14] The former acronym was WfW. MISFA still uses WfW in its documents.

(ibid). MRRD's pyramid listed the MFPs AKDN, BRAC, CHF, Mercy Corps, FINCA, and CARE into the respective tiers each was expected to serve. Since IAM and WWI are case studies for this thesis, these two organisations have been included in the table.

Table 4.1: Levels of Business Activity, Poverty Served by Select MFPs (cf. Table 2.2)

	Kind of businesses served and products offered	**MFPs in Afghanistan**	**Poverty targets:** Remenyi's Poverty Pyramid	**Targets:** Language more often used in this thesis.
Tier 1	Serve well-established businesses & individuals. More complex financial services	AKDN (ARMP and FMB) BRAC's SEP (see appendix 1, table A1.1)	Near Poor	higher poor
Tier 2	Serve newly established businesses. Medium-complexity loan products.	IAM CHF WWI FINCA Mercy Corps	Entrepreneurial Poor and Self-employed Poor	middle poor
Tier 3	Serve startup and early business. Single simplified loan product.	BRAC CARE	Labouring Poor	lower poor
MISFA is currently researching ways for MFPs to reach this group (MISFA, 2005a: 2)			Vulnerable Poor or Ultra Poor	poorest of the poor

NB: Adapted from MRRD (2003: 5). Grey cells indicate the original wording on MRRD's pyramid scheme. Case studies for this thesis are highlighted.

1.3 Cautious Optimism and the Challenges of Post-Conflict Afghanistan

This brief overview suggests that there is reason for hope in the microfinance sector. It has been growing steadily over the last couple years (figure 4.1), and table 4.1 shows that most levels of the poor are being reached by different MFPs. Ninety percent of the clients nationwide are women, an important fact considering Afghan women are especially vulnerable because of Afghanistan's conservative culture and post-war problems.[15] These facts and statistics are encouraging.

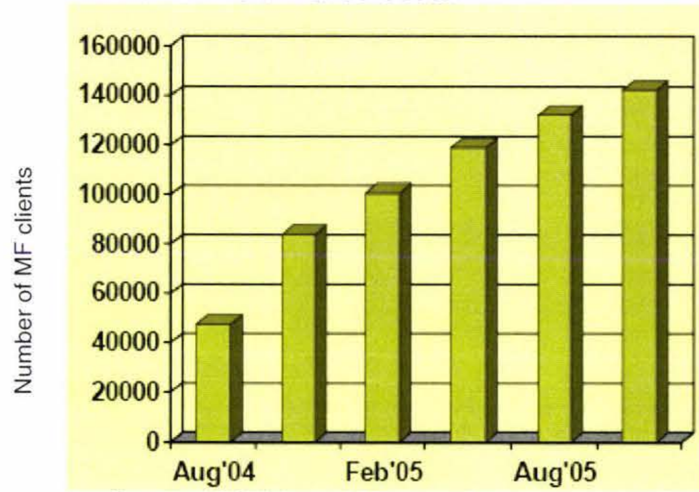
Observers and practitioners on the ground also strike a note of optimism. All MFP directors interviewed were quite pleased with their near 100% loan recovery rates, and every Afghan staff member I spent time with or interviewed (20-25 in all) showed enthusiasm for their work and for the difference MF was making in clients' livelihoods.[16] Mulligan (2005: pers. comm.) of CHF says that microfinance is helping to kick start the formal financial sector after its long slumber during the war. MISFA Monitoring Unit

[15] Women and microfinance is an extensive topic which this study chose not to focus on. There are additional comments, however, in chapter 6, section 3.10. This section explains also explains why women in post-conflict situations need special assistance.

[16] There is more about staff attitudes and the psychological boost they have experienced in chapter 6, section 4.1c.

Manager, Harish Chotani (2005a, pers. comm.) commended the MFPs for "working hard in a difficult situation", and MISFA itself has been already been heralded as one of the few "successful national programs" (World Bank, 2005: 69). The GOA's Deputy Finance Minister, in a December 2005 speech, noted that MF's growth has far exceeded expectations (Shahrani, 2005: 3).

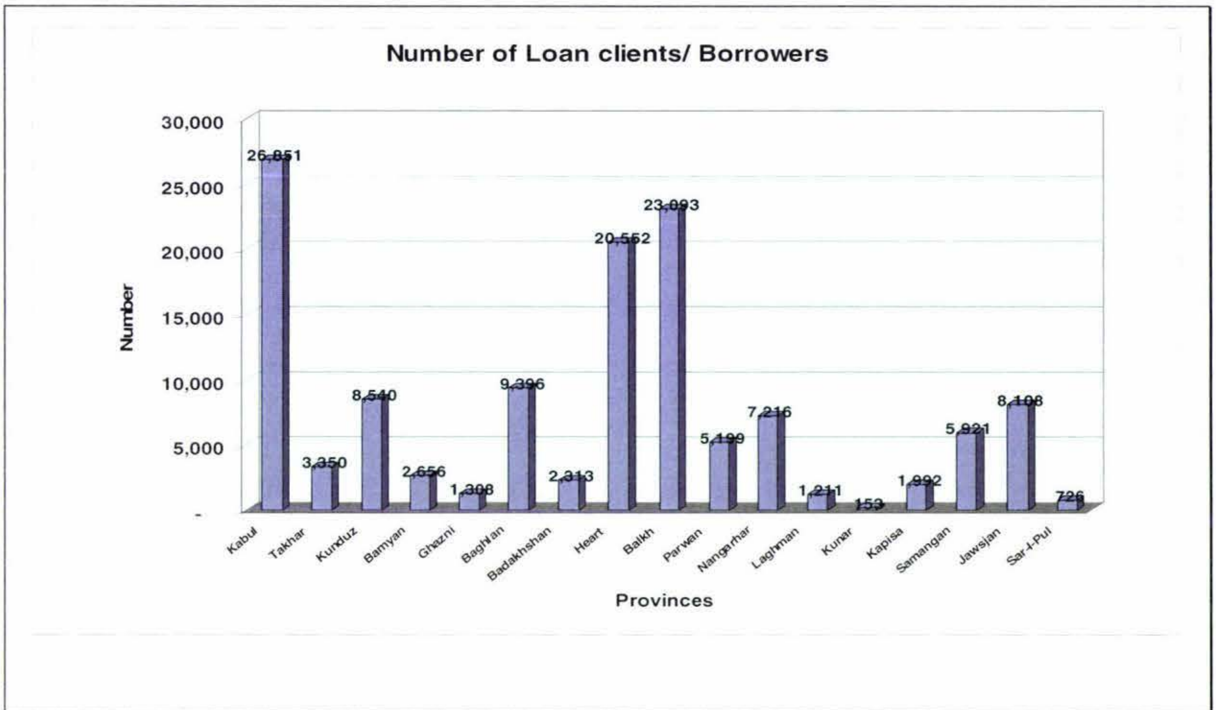
Figure 4.1: Growth of Microfinance Sector



Source: MISFA internal document
NB: Number of clients are totals from among MISFA partners only.

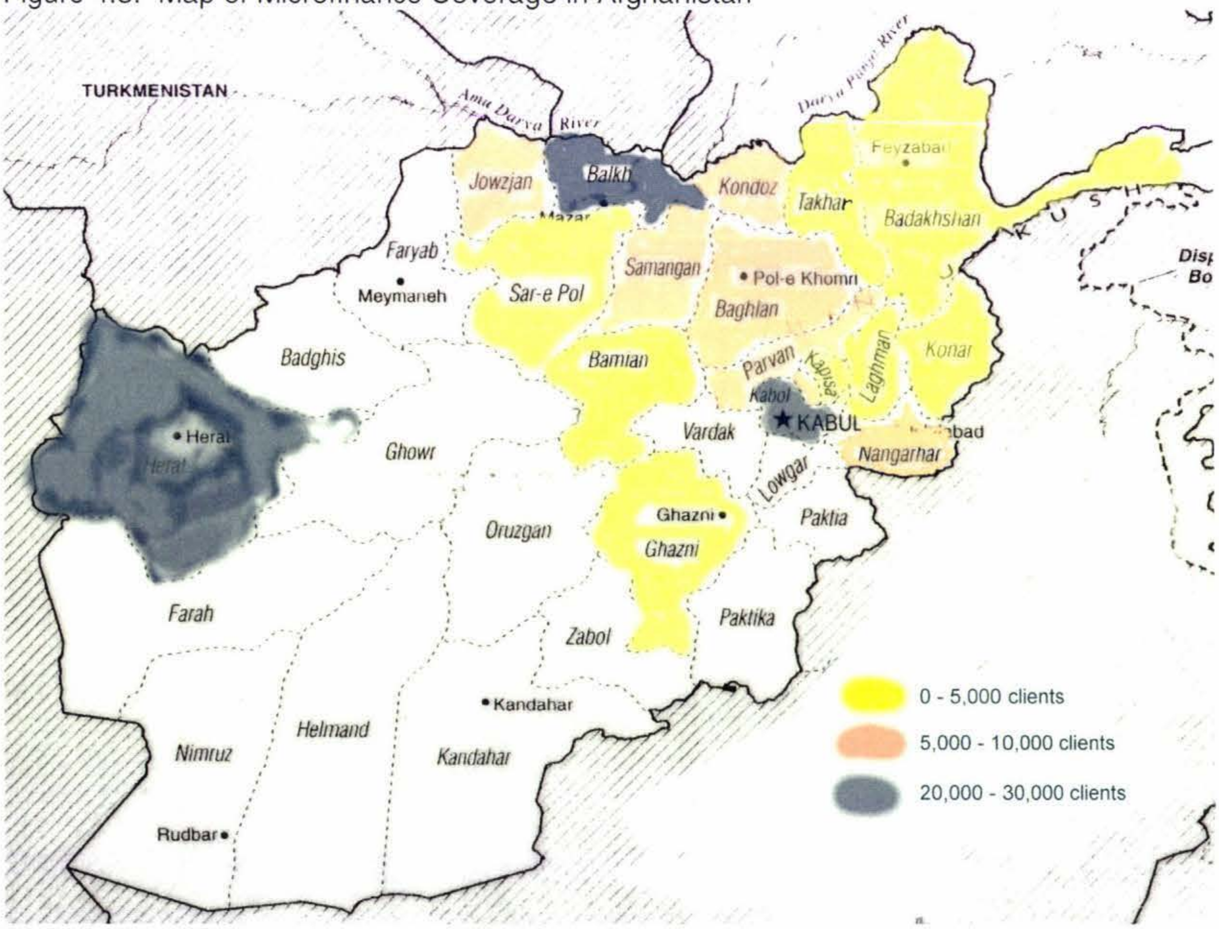
However, there is also a healthy dose of realism about the challenges ahead. While acknowledging the faster-than-expected progress, Chotani (2005a: pers. comm.) asserted that it was "too early" to call MISFA a success. Sirolla (2005: pers. comm.) of ARMP colourfully described the current era in Afghanistan as "the honeymoon of microfinance," implying that such 'success' is often seen in the early stages of MF intervention and that more serious difficulties lie ahead. The high repayment rates, for example, are bound to fall somewhat as they do in most countries. This is due to businesses over-extending themselves, and "repayment fatigue" as loan sizes get larger (Mulligan, 2005: pers. comm.). Some comment that Afghans have a "strong repayment culture" (Opium Workshop, 2004: 5; cf. Sirolla, Obenschain, 2005: pers. comm.), but the research uncovered four MF schemes, past or present, which suffered from very low repayment rates. In any case, MF costs will also rise as MFPs move out into sparsely populated provinces or try to tackle some of the problems associated with the opium sector. This does not mean that ultimate success will not happen (witness MF's continued growth in Bangladesh over three decades), but that the upcoming years will be more challenging, not less.

Figure 4.2: Microfinance Clients in Afghanistan by Province as of December 2005



Source: MISFA internal document. Figure 4.3 below is a personally made adaptation of these statistics.

Figure 4.3: Map of Microfinance Coverage in Afghanistan



The additional reality is that Afghanistan belongs not just to the class of post-conflict countries, but to the bottom of that class. Afghanistan experiences most of the problems characteristic of conflict-affected areas (outlined in chapter 3, section 1.5; e.g. poorer clients, lack of infrastructure, 'brain drain', psychosocial distrust, etc), but their intensity is greater due to the length and depth of the war. In a comparison of post-conflict Liberia and Kosovo, D. Larson (2001: brief 3, p.4) summarises: "Liberia shows a tougher environment for microfinance: a poorer human capital base from which to draw staff, a weaker credit mentality among clients, poorer infrastructure and a smaller economic base." Obviously, Afghanistan is more like Liberia than Kosovo in this regard. The director of Oxus-Afghanistan, who has worked in three other post-conflict settings, and her colleague (who has worked in Kosovo) concur and refer to the brain drain problem:

> The biggest difference that we notice here compared to other post-conflict countries is the lack of knowledge/low levels of education of the population in general due to the very long period of time of the conflicts (Richardson-Rohrscheib, 2005: pers. comm.).

Thus, clients as well as staff often need extra assistance to reach competent levels. Both IAM and WWI noted particularly the lack of qualified Afghan accountants as no accounting school exists, even in Kabul.[17] Among other problems, CHF mentioned the still sub-standard roads which make expansion into rural areas difficult, as well as the tasks of simply disbursing loans to and collecting repayments from clients.[18] Mercy Corps alluded to the lack of banks, which creates security concerns as they plan to hold savings deposits for some of their customers.

Although thinking about security does not appear to cause a great deal of stress among MFP directors interviewed, since most MFPs do choose to open branches in relatively stable areas, almost everyone admitted that such concerns do limit their expansion choices. The problem is not just instability in general, but even the possibility of directed violence toward MFPs themselves. Somewhat unique and new to Afghanistan, the presence of international (especially US) forces means that NGOs, no matter how 'independent', are perceived by some Afghans as US allies, especially after the infamous and divisive "you are for us or against us" remark by President Bush after 9/11 (Johnson and Leslie, 2004: 102). Thus, even AKDN, whose ultimate head is the Imam for Shia Ismaili Muslims of the world, had one of its ARMP offices in Badakhshan

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[17] Bookkeeping courses exist, but no accounting courses. CHF found that young returnees from Pakistan or Iran, who had been educated there, made the most capable staff.

[18] This is especially true where CHF set up its first office, in Bamyan, which sits at 8000 feet. No roads at all in the area are sealed, making winter driving almost impossible at times.

attacked and burnt down in May 2005, after the erroneous *Newsweek* article about Qur'an desecration at Guantanamo (Sirolla, 2005: pers. comm.). A more fundamental hurdle is the distrust Afghans have toward NGOs (especially INGOs) as many believe that INGO money never reaches the people but lines the pockets of expatriates or already-powerful Afghans (Hunte, 2004: 13).[19] The government of Afghanistan (GOA) has also complained that 35-60% of overheads on INGO reconstruction projects were going to overpriced foreign consultants (Morarjee, 2005).[20] Although most MFPs interviewed did not raise this public antagonism as an issue, Richardson-Rohrscheib (2005: pers. comm.) does feel that "gaining the trust of people and the government has been much more challenging here than anywhere else."

The next two sections of this chapter compare: a) the ideal holistic version of how microcredit can be integrated with other services so that poverty and conflict are addressed comprehensively; with b) the extent of integration actually happening today. Gaps will be identified between reality and the 'ideal', but the difficulties outlined above present an extraordinary challenge to MFPs working in Afghanistan, and this should be kept in mind as we proceed.

2. Credit Plus in Afghanistan: Adding Services to Microcredit

Section 2 reviews what 'credit plus' approaches are being implemented in Afghanistan, such as savings products, health and education courses, and market analysis and assistance. Such products would help protect the poor, increase the probability of positive human capital impact, and boost the wider economy.

2.1 Financial Services

Chapter 3 (sections 1.2.1 and 1.4) showed how savings and insurance products can protect livelihoods of the poor from shocks and help with consumption smoothing. Table 4.2 shows the five most significant MFPs in Afghanistan in terms of number of savers and average savings per client. BRAC is the only case study MFP which currently has a savings product.

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[19] I remember more than a handful of Afghans making this complaint during my stay in Kabul 1996-9.

[20] GOA-INGO relationships had been strained because of this issue, but a new law passed in June 2005 gives the GOA more oversight of INGO activities. It is not clear yet whether this has eased tensions.

Table 4.2. Savings Clients in Afghanistan (December 2005)[21]

	Number of savers	Average savings per client	Kind of savings product offered (Note: BRAC, FINCA, and CARE offer mandatory savings products.[22])
BRAC	105,310	$21	Savings: Members must deposit 10 Afs/week for 2 months before first loan is given, from which 5% is also deposited in the savings account. Weekly deposits of at least 10 Afs (more if client wishes) are mandatory during duration of membership. 6% annual interest awarded. Normally, savings can only be withdrawn at the end of membership.[23] Life Insurance: 5,000 Afs ($100) payment to a surviving family member in case a client dies. Premium: 20 Afs/year. Any outstanding loan must also be cleared before 5,000 Afs given.
FINCA	10,576	$7	Details unknown
WOCCU	3047	$48	Members can buy up to shares (10 Afs each) and receive dividends on profits.[24] Further details unknown.
CARE (MoFAD)	5790	$25	Organizes savings and credit groups (SCGs) composed of 15-30 women members who are willing to pool their resources together to assist each other. Once the SCGs reach loan eligibility criteria, they can apply for loans from Afs1,000 to Afs50,000 per member with a 2% administrative fee per month, deducted in advance.
Parwan	2514	$8	Details unknown

Among the other (i.e. not BRAC) case studies, only CHF indicated that a savings product may be down the road. Again, though, the restrictive context of Afghanistan must be remembered. Morduch and Haley (2002: 64) comment that even though most studies acknowledge the great demand for savings in developing countries, they "also agree that there are still a number of unresolved regulatory and management concerns for the safety and security of savers' funds"; this is especially so in Afghanistan, where no law regulating MFPs (sometimes called an NBFI law) yet exists.[25] This means that a poorly managed MFP could lose savers' deposits and thus cause a loss of consumer confidence in the MF sector as a whole (Chotani, 2005b: 16). It is probably wise, then, for most smaller and relatively inexperienced MFPs to wait until the NBFI guidelines are established late in 2007.

[21] The figures come from MISFA internal documentation. Among these five MFPs, only BRAC was a case study, so getting savings product details for non case studies was not a priority for this thesis.
[22] 'Mandatory savings' means that a client must save first, up to a certain percentage of the desired loan. The savings act as collateral. The client normally cannot withdraw the savings until exiting the programme. Cf. chapter 3, section 1.2.1.
[23] From the regulations in a BRAC client 'passbook'. The passbook characterizes the end-of-membership payout as a pension. The regulations go on to say that, under special conditions and pending application, up to half the amount can be withdrawn in any one year.
[24] Chotani, 2005b: 8.
[25] Early in 2005, MISFA began working on such a law, known in many countries as a non-banking financial institution (NBFI) law (MISFA, 2005a: 4). It is due to be implemented by the end of 2007 (The London Conference on Afghanistan, 2006: 12).

If MFPs *can* manage to provide a savings product, they and not only their clients might see significant benefits.[26] BRAC is singled out by Chotani (ibid: 12) as being *the* example in Afghanistan of savings facilities leading to a win-win situation, as the rapid mobilization of deposits has led to increased sustainability and rapid growth. This is because, for example, their deposit holdings averaged 27% of their loan portfolio between April 2004 and March 2005, making BRAC less dependent on donor funding for financial capital (ibid: 15).

Still, there would be greater protection for poor clients if more insurance and more *flexible* savings products, such as what SEWA provides in India,[27] were available in Afghanistan. Mandatory savings products, it is argued by many observers, ultimately repel the poorest of the poor partly because of the weekly pressure to deposit, but also because clients are generally forbidden to withdraw from their accounts until they leave the programme. This limits "a potentially important source of consumption-smoothing, an important aspect of the demand by the poor for financial services" Kabeer (2002: 18). Then again, greater flexibility in savings products stretches the MFP's capacity. Fisher and Sriram (2002: 57) note that SEWA "has to manage a large number of accounts across a wide range of products, making demands on management, staff, and information systems." That kind of institutional capacity may exist in India, but it does not yet exist in Afghanistan.

2.2 Integration

If an MFP provides non-financial add-ons to its financial services, it is said to follow an 'integrated' approach,[28] but before proceeding with examining the case studies, it is useful to understand what is meant exactly by the term in this context. A good working definition is provided by Dunford (2002: 111): "[S]ervice 'integration' refers to the coordinated delivery of different-sector services *to the same people*" (emphasis added). WWI and the mother organisations of ARMP, AMI and MED (AKDN, CHF and IAM respectively) all implement a host of other projects – in health, education, infrastructure, etc – but the beneficiaries of those projects are not the same as the MFP's clients. We may want to call this 'unintegrated' mutli-sector services (see table 4.3)

Naturally, there are fuzzy lines in this regard. For example, there may be incidental crossover, whereby a client will also happen to be a beneficiary of another intervention.

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[26] Some of the benefits BRAC clients are reaping from savings are presented in chapter 6, section 2.5.
[27] chapter 3, section 1.4.
[28] This was briefly introduced in chatper 3, section 1.2.2.

In the remote Eraq valley,[29] several ARMP clients noted with appreciation the school and health clinic AKDN had built and funded in the valley. In what might be termed 'sequenced' or 'vertical' integration, WWI's core programme (section 1.2), which includes literacy, human rights lessons, and vocational training, is a first step for many poor women who then can continue on to the microcredit programme.

Dunford (2002) helpfully distinguishes three mechanisms of how (in terms of who does what) integration can be delivered; he terms these linked, parallel, and unified delivery. A summary table of his typology is presented below, with the addition of the 'unintegrated' approach.

Table 4.3: Multi-Sectoral Interventions: Delivery Mechanisms

INTEGRATED:			
Linked[30]	different organisations	(obviously) different staff	same recipients
Parallel	same organisation	different staff	same recipients
Unified[31]	same organisation	same staff	same recipients
UNINTEGRATED:	same organisation	different staff	different recipients

BRAC, for example, runs a parallel delivery system.[32] In Bangladesh, besides the weekly meetings of the 'village organisation' (VO)[33], there is a monthly *Gram Sobha* (village meeting) where "various socioeconomic, legal, health and political issues are discussed" facilitated by a Programme Organiser (PO) who specialises in social development. Another person, a health PO, also runs more in-depth health classes, open to VO members and anyone else in the community (Dunford, 2002: 111-112). BRAC-Afghanistan also employs these specialised POs, but the monthly *Gram Sobha*s seem not to occur; instead the POs come to the weekly meetings to teach the various topics.[34] Although providing these services raises costs, "evidence of the importance of a holistic approach to development and of specific positive impacts on clients of the combined services maintains BRAC's commitment to providing a broad package of services" (Dunford, 2001b: 22).[35]

[29] See map in appendix 2, figure A2.2 for the Eraq valley.
[30] An example: BRAC in Bangladesh has an Income Generation for Vulnerable Groups Development (IGVGD) programme whereby the poorest of the poor are asked to form savings groups and start an income-generating project. Basic education/training is given as well, so that after two years, these women might enter the normal microfinance programme. The 'linked delivery' comes into play as WFP (World Food Programme) provides these women with monthly wheat rations for these two years (Dunford, 2002: 111; Kabeer, 2002: 19).
[31] See the example of CRECER in chapter 3, table 3.3.
[32] It should be made clear that BRAC also provides 'unintegrated' services. In other words, they run development projects independently of their MF programmes, with different recipients.
[33] That is, the microfinance group. In Bangladesh it usually consists of about 35-40 people. In Afghanistan, there are about 20 people.
[34] This appeared to be the case at least in Mir Bacha Kot, the site of my research. Again, communication with BRAC was difficult, both on the field and since then by . I have not been able to clarify this point.
[35] Dunford, in the quoted references, is writing about BRAC in Bangladesh.

BRAC's long history and size give it a distinct advantage over the other case study MFPs in this regard. Its reputation attracts larger donor money, and in Bangladesh these extras are subsidised by profits from their microfinance and sub-sector programmes (ibid). Meanwhile, the other case study MFPs (IAM-MED, AKDN-ARMP, CHF-AMI, WWI), which do not run any integrated programmes for their clients, are still focussed on reaching sustainability. As the CHF director points out:

> Creation of a sustainable [MF] institution is going to take a long time. It's going to be a challenge as it is, so if you try to add broader social goals, it will be even harder (Mulligan, 2005: pers. comm.).

Mercy Corps-AFSG[36] was not a case study, but its director was available for an interview and had similar views:

> We [the AFSG arm of Mercy Corps] are not a charitable organisation. We have to run it like a business. We have social goals, but sooner or later we have to be more business-oriented (Breton, 2005: pers. comm.).

The one extra that Mercy Corps and IAM were considering was providing BDS for their clients,[37] as both directors indicated that such services were in the pipeline. During the interview with ARMP's director, the subject of integration did not arise, but an early 2005 proposal to MISFA for additional funding for credit provision in poppy-growing areas in Badakhshan "includes elements that link the household receiving credit to [BDS] providers" (Goeldner, 2005: 2), an example of Dunford's 'linked delivery'.[38]

2.3 Looking Beyond Microfinance to the Wider Economy

According to the 'beyond microcredit' school of thought,[39] providing BDS does have value, but a wider perspective encompassing the economy as a whole is needed, if nothing else for the ultimate benefit of the clients an MFP is trying to serve:

> Micro-credit is necessary but not a sufficient condition for micro-enterprise promotion...Other [interventions] are...required, not just business support and training [i.e. BDS], but also...establishing market linkages for inputs and outputs, adapting technologies, organising producers, sub-sectoral analysis and policy reform (Fisher and Sriram, 2002: 75).

MISFA's Chotani (2005a: pers. comm.) similarly spoke about how Afghan farmers and businesses need "linkages backward and forward."

For example, there needs to be a robust *supply chain* (backward links) so that farmers can have affordable access to important inputs like seed, fertilizer and equipment. According to a MISFA internal document, seven aid organisations were running seed

[36] Ariana Financial Services Group, the MF arm of Mercy Corps.
[37] Obenschain (2005: pers. comm.) did also say that if IAM's Community Development Programme (CDP) wished to add a microcredit scheme to its intervention in any particular village, IAM-MED would be willing to team up with CDP in that effort.
[38] It is not known whether ARMP integrates BDS with MF at the current time.
[39] Chapter 3, section 1.4.

banks at the end of 2004, and according to Goeldner (2004), five were using 'contract growing' methods, whereby seed was loaned out on the condition that the organisation received back a share of the harvest for on-selling to the market. Ideally, in a functioning market system, such inputs should be provided by private suppliers, not by NGOs or the government. Goeldner wondered out loud:

> What can be done to jump start the private sector and assist local businessmen in accessing new markets and providing these kinds of services to growers? (ibid).

A good answer seemed to come a couple of months later. Early in 2005, MISFA received a proposal from the International Fertilizer Development Center (IFDC), a new player in the Afghan scene. Goeldner (2005: 3) summarises the proposal:

> The loan product is higher than most microcredit loans, averaging $4,400. The credit is provided to agricultural input traders, who then on-lend (as they sometimes do with their own limited funds) to farmers. Technical assistance is provided to input dealers in management of their funds and improved agricultural technology methods, and monitoring ensures that the terms and rates at which farmers borrow are not exploitative.

Goeldner (ibid), a consultant to MISFA, recommended approval of the proposal, in part because of IFDC's proven track record of "understanding...supply-chain agricultural issues."[40]

Forward linkages are equally important. For instance, there are few cold storage facilities for produce, resulting in 'stress selling', as when one farmer had to sell his potatoes for just 35 Afs (70 US cents) per *ser* (seven kilograms) (Chotani, 2005a: pers. comm.). Similarly, the abundance of fruit Afghanistan produces results in much of it going rotten, but the waste could be avoided if juice-making or canning facilities were constructed, which would also add value. Without this enhancement of the *product chain*, "the demand for [micro]-credit [among cultivators] will not be much" (ibid).

As the last few paragraphs might suggest, this wider perspective on markets leads us to the edge of microfinance, and it might be debated as to whether it is really the place of MFPs to concern themselves with such issues, much less design products to address them. Fisher and Sriram (2002: 76ff) certainly believe they should, arguing also that a step up in scale in loan amounts need to be made (see chapter 6, section 2.3 for details). However, it must be noted they are writing from an Indian context, where many large MFIs, like BASIX, have existed for years and are large enough to afford to disburse larger loans, as well as afford staff to do research on market linkages. Meanwhile MISFA (2005a: 4) instead suggests that a coordinated

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[40] I was not able to get the full story on how this turned out, but apparently USAID came in and funded IFDC with free money anyway, so I believe the loan scheme part of the programme never materialised.

government/aid community "overall strategy and common approach", which includes finance to larger enterprises, market infrastructure schemes, building private sector supply chains, *and* microfinance, is the way to boost livelihoods. There is probably validity to both views, and how it actually works out in a country will depend on context. Certainly larger MFPs, for example, may have the financial and institutional capacity to address wider economic issues. In either case, MISFA has an important function, coordinating within the MF sector to support scaled up MFP activities, and coordinating with the government and aid agencies to ensure the sector plays its part in an overall development strategy.[41]

Table 4.4

Cumulative Number of Loans Disbursed and Loan Usage by Sector		
As at December. 2005 (since mid-2003)		
Activities	**Total**	**Percent**
Commercial/Retail/Trade	**116,621**	**47%**
Services	**27,563**	**11%**
Craft/Handicraft	**41,918**	**17%**
Agriculture (crop, livestock, poultry)	**39,229**	**16%**
Manufacturing/Production	**18,703**	**8%**
Agro-traders	**70**	
Land acquisition scheme	**315**	
Leasing	**25**	
Other	**3,914**	**2%**
Total	**248,358**	**100%**

Source: MISFA internal document.

At the very least, a wider economic perspective gives MISFA and MFPs direction when they consider who and where to target. Despite the report by Pain and Grace (2004) cited earlier (chapter 2, section 3) which showed that an 80% dependence rate on agriculture was an exaggeration, it is nevertheless true that agriculture "dominates the [legal] economy with over half of legal Gross Domestic Product" (DFID, 2005a). Yet as table 4.4 shows, only 16% of MF clients thus far have used their loans for agriculture, mostly because MFPs have so far tended to establish themselves in town and city centres. An exception is ARMP, which was the object of compliments from MISFA's Chotani (2005a: pers. comm.) for having over half of its clients in pastoralism or cultivation.[42] This support for agriculture will be one key to stemming the tide of opium

[41] In practical terms, this might mean, for example, either a) supporting IFDC directly (if MISFA believes it falls within 'microfinance'); or b) (if it believes IFDC does not) passing on IFDC to another government agency for oversight, and perhaps referring multi-cycle mature MF clients on to IFDC-type projects.
[42] A couple of qualifications should be made up to this point in the paragraph: 1) Table 4.4 gives totals from MISFA partners only, so the percentages could be slightly different for the whole sector; 2) As we have seen, clients can have diverse livelihoods, so a shopkeeper (retail) who uses his loan to improve his shop might use the resulting profits to buy an extra goat or fertilizer for his farm. Indeed, there were two

production (Johnson and Leslie, 2004: 127). The authors quote two Afghans, one a Western-educated landowner, the other the head of a well-respected Afghan NGO:

> Why does the international community not have proper coherent programmes; not just emergency measures, but support for mechanization and marketing that could make licit agriculture once again profitable?
>
> I am afraid that if we ignore agriculture it will be a disaster. If agriculture is not made profitable, they will just grow poppy.

These were sentiments probably spoken between 2002 and mid-2004, and there seems to have been increased attention to agricultural issues more recently (section 3.3.2). As far as MF goes, the percentage *has* been steadily increasing; the figure was just 7% at the end of 2004 and 10% in mid-2005. The figure (now 16%) is likely to continue rising as MFPs are starting to expand into more rural areas (Chotani, 2005a: pers. comm.).

3. Conflict Sensitive Microfinance In Afghanistan?

The remainder of this chapter examines the extent to which microfinance in Afghanistan is being used in a conflict sensitive manner, following the framework introduced in chapter 3, section 2.2. The previous section indicated that MFPs have tended so far to take a conservative (cost-saving) approach when it comes to adding on financial or non-financial services to basic microcredit. A similar minimalist tendency appears to exist when it comes to conflict sensitivity.

3.1 Indirect Mitigation Mindset

Not surprisingly, the consensus among MFPs in Afghanistan is that the local economy comes first into their thinking. Through correspondence,[43] nine MFP directors were introduced to the Heen typology and asked in which category (Indirect, Direct, or Process mitigation) they would place their organisation. Of the five responses (three of them from case study MFPs), all placed themselves in the indirect mitigation category. The three responses given below emphasize the primacy of the local economy and of sustaining an efficient MF institution:

> ADKN-ARMP: I agree with NAGARAJAN[44] that peacebuilding is a secondary (not necessary conscious) objective of an MFI and as DOYLE underlines the primary goals of an MFI, even in a post conflict country, remains economic development providing final services for the

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cases like this in Bamyan found during the field research. See chapter 6, section 3.3. Thus, even a 'retail' loan may indirectly support local agriculture.

[43] See appendix 10 for a 'Reflection Email on MF and Peace' which was sent to all nine MFPs,

[44] The names mentioned in this and next quotation refer to various PCM authors. See appendices 9 and 10.

> entrepreneurial and ultra poor. Microfinance is not a "Silver Bullet" but a tool for economic development, and in a broad context a tool for achieving peace and reconciliation. I agree with WILSON when [s]he says that microfinance success in post conflict countries depends upon simple, focused and realistic lending operations, objective and targets (Sirolla, 2005: pers. comm.).
>
> CHF: You try to achieve some social goals by the kind of outreach you do, but in terms of the basics of establishing a sound industry and institution, you kinda gotta go with Wilson, because if you can't do that, if it fails, you run the risk of doing more damage...One can't be overly ambitious (Mulligan, 2005: pers. comm.)
>
> CARE: Microfinance primary objective is on economic. Secondary are the social impact that it can bring to the community and the clients (sic) (Sobrevega, 2005: pers. comm.).

It is clear that these MFP practitioners see the value of helping to rebuild the economy as intrinsically sufficient to justify their presence. Noting how the semi-formal MF sector is at the moment ahead of the formal financial sector, Mulligan (2005: pers. comm.) asserts:

> MF is driving the whole credit and banking system in Afghanistan...that fact alone means it's a tremendous development tool.

This does not mean, though, that they are not mindful of the social benefits that can occur as a by-product either of their day-to-day operations or of their promotion of business activity in the community. FINCA's director believes the day-to-day interaction among staff and between staff and clients can help overcome racial divides, although some extra intervention is sometimes needed to smooth tensions (Greenwood, 2005: pers. comm.). Several shopkeepers during the field research noted how their improved business has widened their circle of contacts and friends. This economic-social connection is succinctly summarised by Deputy Finance Minister Shahrani (2005: 1): "[MF] serves as the economic glue in bonding communities and this is vital in post-conflict situations."

Yet these are still *incidental* social benefits, rather than the result of *intentional* efforts to which we turn in section 3.3. Before that, though, we need to examine whether MFPs are fully aware of the context and taking steps not to exacerbate the conflict around them. In other words, are they at least 'enlightened minimalists?'[45]

<u>3.2 Being Aware and Avoiding Harm</u>

As outlined in chapter 3, the first two interrelated steps of conflict sensitivity are being fully cognisant of the dynamics of the conflict situation and taking steps to ensure development interventions 'do no harm' in exacerbating existing tensions or creating

[45] See chapter 3, section 2.3.

new ones. Judging an MFP's status on the first element is a nebulous task; after all, how does one measure an organisation's 'awareness' of the conflict? One possible measure is to discover if an MFP, or the larger organisation to which it belongs, has conducted conflict assessments or analyses (CAs)[46] before deciding on an intervention, and is doing or plans to do peace and conflict impact assessments (PCIAs)[47] to judge whether the intervention is helping to reduce the potential for conflict. Five MFP directors who were directly asked said that their organisations had not performed any CAs or PCIAs in Afghanistan.[48] However, several limiting factors should be kept in mind:

1. Such analyses are time-consuming and expensive. Many MFPs, wherever they work internationally do not even have time or funds available for more-commonly-done *social* impact assessments, much less CAs or PCIAs.
2. To date, PCIA methodology and practice is "still less developed and practiced compared to conflict assessment. Criteria and procedures for PCIAs have not been elaborated in much detail, and there are still few rigorous and data-rich PCIAs" (Lund, 2004: 49).
3. Even a well-regarded peace organisation in Afghanistan, CPAU,[49] is reluctant to perform PCIAs for fear of appearing "too political in the sense of trying to start a big movement" (Suleman, 2005: pers. comm.), indicating the still-fragile nature of post-conflict Afghanistan.

Furthermore, it should be recognised that this lack of 'formal knowledge' can be somewhat compensated for by the wisdom gained from life and work experiences of those who operate and direct the MFPs. Indeed, six of the nine current directors contacted for this thesis have previously worked in a post-conflict setting in at least one other country besides Afghanistan. Still, some amount of analysis is strongly advised, a point reiterated later in this section and in chapter 7, section 7.

The next step is then working to ensure that an MFP 'does no harm' in making tensions worse (chapter 3, section 2.2.2). At a most basic level, this would mean that any outside intervention should not reinforce social cleavages, important advice in a seriously fragmented society like Afghanistan's, whose violent conflict could yet

[46] CAs: "Systematically examine country conditions to identify conflict sources and processes that may be helping to keep such conflicts under control. The aim is to understand conflict drivers in order to begin to pinpoint possible entry points for preventive action" (Lund, 2004: 50).
[47] "[PCIA's] assess more rigorously whether one or more development or other programs...are reducing sources of conflict and are fostering capacities for peace, or are worsening conflicts. Essentially, PCIA's marry the methods of program evaluation that have long been applied to development and other programs to impact criteria drawn from empirical research on conflict sources and peace capacities." (Lund, 2004: 49).
[48] I received no answer from the other four.
[49] CPAU = Cooperation for Peace and Unity.

re-ignite if divisions are widened.[50] One way this happens is if one group obtains some unfair advantage over another, perhaps through favouritism.

Favouritism could be shown by the MFP itself, especially if it exclusively targets certain segments of the population, for example landmine survivors, war widows, or ex-combatants, important as those groups may be. No evidence surfaced that exclusion was happening in the case studies. BRAC, for instance, while stressing the importance of serving widows, nevertheless targets all "women aged between 18 and 60" meeting certain criteria (BRAC, 2004: 28); indeed, five out of the eight female clients interviewed in Mir Bacha Kot were non-widows, and thus the chances of inter-household jealousy are reduced (cf. Kumar, 1997: 24). *Intra*-household tension, however, could build if a programme focuses exclusively on women; recall the increase in domestic violence reported by Grameen Bank clients (chapter 3, section 2.2.). WWI in Kabul could have run into the same danger (since all of their clients are women), but WWI wisely includes men in the loan process and planning, and encourages income-generating activities in which both the husband and wife participate.

Aid organisations also must be careful not to favour one ethnic or religious group over another. Since AKDN is an Ismaili Shia development organisation, there was some question in this researcher's mind about whether they were only helping the Afghan Ismailis, who comprise less than 5% of the Afghan population. From what was observed, that does not seem to be the case. In the Eraq valley,[51] for example, where a little more than half the 400 households are Ismaili (Wily, 2004: 32-34), 12 of the 30 AKDN clients in the valley were non-Ismaili, a reasonable balance. Both the Afghan staff and expatriate director of AKDN-ARMP confirmed that such divisions do not even enter into their thinking when selecting clients.

Exclusion could be an issue even with individual loans, for MFPs who offer this service often require a guarantor. AKDN-ARMP, for example, requires a '*shura* guarantee', vouching for the borrower[52] (CHF also requires *shura* approval for an MF group to begin borrowing). While it is important for development organisations to work with (and not bypass) traditional power structures, a concern is that a particular *shura* might unfairly refuse support of a potential client simply from dislike, rivalry, or other political motives. When this was raised with an Afghan manager of AKDN-ARMP, he replied that an applicant would be considered if he could alternatively find a well-respected

[50] See appendix 5 for potential divisions in Afghan society.
[51] Eraq valley was one of the research locations. See appendix 2.
[52] This does not mean the *shura* would repay an overdue loan, but would put some social pressure on the client and work out some arrangement for the payment to finally be made.

member of the community to act as guarantor. In any case, neither he nor the CHF credit officer had heard of any such political or personal motivations affecting their programmes in the Bamyan region.

Section 2.2.2 of chapter 3 also warned of deteriorating relationships within MF groups over time, and that sometimes 'extra efforts' are needed to build intra-group cohesion, especially in post-conflict settings. No intra-group troubles were reported during the field research, but most groups were only one year old or less. There is some cause for concern in this regard. Although BRAC's groups meet weekly, no evidence was found that they were anything more than payment-collection and teaching sessions. More concerning is that IAM and CHF do not even require their groups to meet regularly, although some do voluntarily. Thus the chances for group deterioration increases, and in some cases broken relationships can even lead to wider community violence (Marr, 2003: 30).

Overall, the practices of the MFP case studies seem to have little potential to do any harm. A lot of 'avoiding harm' is based on common sense, and the fact that three of the five directors have had previous post-conflict experience certainly helps.[53] Except for BRAC, the MFPs have also introduced MF into areas where their parent organisation was already working, and so good relationships and understanding of local realities had already been formed. However, as they expand into more unfamiliar areas, where the local power dynamics may be different than previously experienced, conflict assessments would be advisable; even though they are expensive to do, it could be even more so *not* to do them:

> ...intervening without proper analysis can prove extremely costly to both agencies and populations – in terms of security incidents, wasted resources, missed opportunities or exacerbation of the conflict (Le Billon, 2000: 26).

3.3 Direct Mitigation: Targeted Intervention

To some extent, then, the MF sector in Afghanistan appears to be 'partially conflict sensitive' in that harmful, conflict-producing impacts have been avoided. The remainder of this chapter describes and analyses the more pro-active strategies MFPs are implementing to build peace. Following the conflict-sensitive framework, we begin with direct mitigation. Chapter 3, section 2.2.3b discussed two possible targets for direct mitigation in Afghanistan, the militias and the opium sector.

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[53] As far as the other two directors: IAM's has lived in Afghanistan for many years and so knows the culture well; BRAC's staff are mostly Muslim, so that it is an important bridge also to understanding Afghan culture.

3.3.1 Weakening the Warlords?

According to Afghans, warlords are the "biggest problem", one of the greatest sources of tension today,[54] as they still exert power over much of the countryside and even hold positions in the newly-formed Parliament. Many young and impoverished men still join their militias since there is a lack of any other viable livelihood.[55] A warlord will certainly not be enticed to give up power with the offer of a micro-loan or savings product, but perhaps MF can deplete his pool of employees. Mohammad Naseem, Global Microentrepreneurship Awards (GMA)[56] second prize winner of the Demobilized Soldiers category said, "...the war is over and time has come for us to live in peace. A friend told me of this (microfinance) scheme and loans, which I borrowed to start over as a farmer. Life has never been any better" (UNDP, 2005, November 20). This is only one success story, however, as the evidence gathered for this thesis suggests that MF is being under-utilized, or used in a half-hearted fashion, when it comes to helping ex-combatants start a new livelihood.

The main intervention in Afghanistan which deals with the Disarmament, Demobilisation and Reintegration (DDR) process is the Afghanistan New Beginnings Programme (ANBP), managed by UNDP, started in April 2003, and due to wrap up in June 2006 (AREU, 2005: 31). Criticised by some for the sluggish pace it has set (e.g. Rubin et al., 2005: 22), ANBP has nevertheless disarmed 60,000 men[57] and reintegrated 30,000 into society, 50% of those through agricultural packages and 30% through vocational training or small business courses (ANBP, 2006; ICG, 2005: 8). These courses and packages are offered by contracted NGOs, not UNDP-ANBP itself.

Judging from ANBP's website (undpanbp.org) and literature, it seems microfinance is almost an afterthought. UNDP-ANBP's main implementing partner (IP) in terms of microfinance has been Child Fund Afghanistan (CFA)[58], who had 3574 'regular' clients and 248 ex-child-combatants in October 2005 in its MF programme, and earlier in 2005, 238 ex-combatants (adults) in its special DDR programme (Guansekera, 2005: pers. comm.). Nagarajan (1999: 19) notes that, "Microcredit made to demobilized soldiers in Uganda and Mozambique was considered as a compensation for their participation in the war and therefore need not be repaid," and unfortunately, this has

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[54] chapter 2, section 6.1.
[55] Goodhand (2004: 62); cf. chapter 2, sections 2 and 6.2.
[56] GMA is a programme established in 2004 by (among others) the United Nations Capital Development Fund (UNCDF) to award those who have succeeded in building a micro-business using MF. In 2004 eight countries participated and in 2005 it expanded to 26 countries (yearofmicrodit.org).
[57] The original target was 100,000 (ICG, 2005: 3), but this referred only to the number of men in 'official militias' (basically those of the Northern Alliance). Another criticism of the DDR process is that 'unofficial militias' were outside its mandate (ICG, 2005: 1). A new programme to deal with the latter was started late in 2005 (AREU, 2005: 31).
[58] CFA is part of the international organisation, Christian Children's Fund (CCF)

happened in CFA's programme as well. "Also maybe they still have the militant characteristics [so that] if they do not pay nothing can be done about it" (Guansekera, 2005: pers. comm.). CFA has also realised that young age is a problem. CFA has decided to cancel the programme to the adults, and 60 of the 248 in the MF programmes (who are still too young) will not be getting a second loan.

Not about to give up, apparently, UNDP announced in January 2006, that it has found another IP (they do not name who) for a new microcredit project for those who have already completed the reintegration process and started a business: "Since 20 November 2005 to date 258 ex- combatants in 24 groups have been registered and 159 ex-combatants have received loans up to [$200]" (ANBP, 2006). UNDP may be on to something here; perhaps loans should be given to ex-combatants only after they have gone through the entire DDR process and have had time to mature.

Overall, however, MF seems to have been used in a rather ad-hoc uncoordinated way with respect to ex-combatants in Afghanistan, the special needs they may have (recall chapter 3, section 2.2.3b) not being taken into account. The argument here is not that MF *must* be used in all cases to help reintegrate returning soldiers into society, but that it either be used in a coherent, whole-hearted, and coordinated fashion, or not at all. A possible model of such coordination is presented in the penultimate section of this chapter (section 3.6).[59]

3.3.2 Microfinance and the Opium Sector

As illustrated in chapter 2 (section 6.2), over-emphasis on and mal-sequenced use of eradication not only causes strain on individual livelihoods of those Afghans dependent on the drug sector, but can lead to increased risk of local and region-state conflict. A more comprehensive and coordinated approach is needed, and the government of Afghanistan's recognition of that fact is reflected in the eight pillars of a new Counter Narcotics Implementation Plan (box 4.2), unveiled in August 2005. The long-neglected third pillar, alternative livelihoods (ALH), seems to be the new focus of attention and funding. It was the "top priority of 2005" for GOA's new Counter Narcotics Trust Fund (GOA, 2005: 3), and the target of half of DFID's $160 million contribution to Afghanistan this year,[60] representing its "primary contribution to counter-narcotics" (DFID, 2005b: 1,7). There is some dispute on the meaning and nature of ALH as a concept,[61] but here we take it as its face value: providing other ways for people to earn

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[59] This analysis is admittedly based on sketchy information, but this very paucity suggests that the MF-DDR connection goes largely unconsidered in Afghanistan.
[60] March 2005-March 2006.
[61] See Pain and Mansfield (2005: 4,5).

a living and improve their lives besides involvement in the opium sector. The GOA thus targets six areas within ALH for increased investment: agriculture, infrastructure, [state-assisted] employment, economic regeneration, social safety nets, and rural finance.[62] MISFA is noted as *the* channel for the latter (GOA: 2005: 8-10).

Box 4.2: Eight Pillars of the Counter Narcotics Implementation Plan (CNIP)

1. Building Institutions
2. Information Campaign
3. Alternative Livelihoods
4. Interdiction and Law Enforcement
5. Criminal Justice
6. Eradication
7. Demand Reduction and Treatment of Addicts
8. Regional [i.e. surrounding countries] Cooperation

Source: GOA (2005).

There have been recent major movements in boosting MF interventions in poppy-growing areas, starting with a December 2004 workshop in Kabul on "Rural Finance in Afghanistan and the Challenge of the Opium Economy" sponsored by the GOA, DFID, and the World Bank (Opium Workshop, 2004). Seven poppy-growing provinces[63] were targeted at the workshop, and after a round of MFP proposals were submitted to MISFA a couple of months later, the GOA in August approved to channel $125 million in donor funding through MISFA to three MFPs (AKDN-ARMP, FINCA, and BRAC) so that they can start or expand their ALH-related products in those provinces over the next three years (Goeldner, 2005b; MISFA, 2005b: 4).[64]

AKDN-ARMP has been the pioneer MFP with respect to designing and implementing a pilot loan product specifically designed to draw over-indebted farmers away from poppy cultivation by refinancing the opium debt they owe to landlords, merchants, etc. (see box 4.3). Typically the average debt of their clients has been about $500, and so ARMP has discovered that their average loan of $400 has been too small, for not only must a client pay off his debt to the previous financier, he also needs extra capital to start an alternate income-generating activity, assumed to be around $500 (Goeldner, 2005a: 6); thus by early 2005 ARMP was planning to offer $1000 loans, half for repayment and half for startup. Goeldner, in her recommendations to DFID in early 2005, had seemed particularly impressed with AKDN's pilot and urged that that it be "immediately" expanded (2005a: 12; cf. 2005b: 2). With the new round of funding

[62] Recall the discussion in chapter 3, section 2.2.3, about how microcredit could serve as a substitute for credit gained from poppy-growing.
[63] Badakhshan, Nangahar, Kandahar, Helmand, Uruzgan, Ghor, and Farah.
[64] This 'contract' does not mean the $125 million is already there; it still needs to be raised through appeals to donors. As part of the same contract, WWI was also approved as a recipient MFP, but WWI will continue to focus on its regular loan product and will not concern itself with ALH.

announced in August, AKDN hopes to reach 1000 clients with the product (Sirolla, 2005: pers. comm.).

Box 4.3: ADKN-ARMP 'Reconversion Credit' Pilot Product:

- For over-indebted farmers and poppy-growing farmers seeking alternative crops.
- Average loan has been $400, but being upscaled to $1000 in future.
- Loan term: average 15 months[65]
- 1.25% per month, plus a 1.5% loan arrangement fee
- Began late 2003
- Location: Badakhshan province
- Total of 150 loans disbursed, as of July 2005. 72 were outstanding.

Other New Pilots:

- 'Special loans' for opium-addicted, indebted (due to habit) clients. Loan given to non-addicted member of family, partly for refinancing, partly for income generation.
- Micro-leasing farm equipment (about $1500). AKDN owns until loan paid off.
- Short term, high value ($3000) loans for traders.

NB: The final two products listed are not necessarily ALH products, and they are still in planning stages. Special loans have already been disbursed.

These new developments may seem exciting for the MF sector, but one should not over-estimate MF's importance in tackling the massive and complex opium problem in Afghanistan. After all, MF is just one of a handful of approaches within the ALH agenda, which itself is only one of the GOA's eight pillars in the CNIP. As one World Bank official in South Asia states:

> [M]y view is that microfinance can only be one (very) small part of trying to push the alternative livelihoods agenda. The potential role of microfinance has gained more prominence than it might deserve just because MISFA and the MFIs were better prepared to respond to donor interests in this regard, thus getting more donor support to expand the sector than would have been available otherwise (Rasmussen, 2005: pers. comm.).

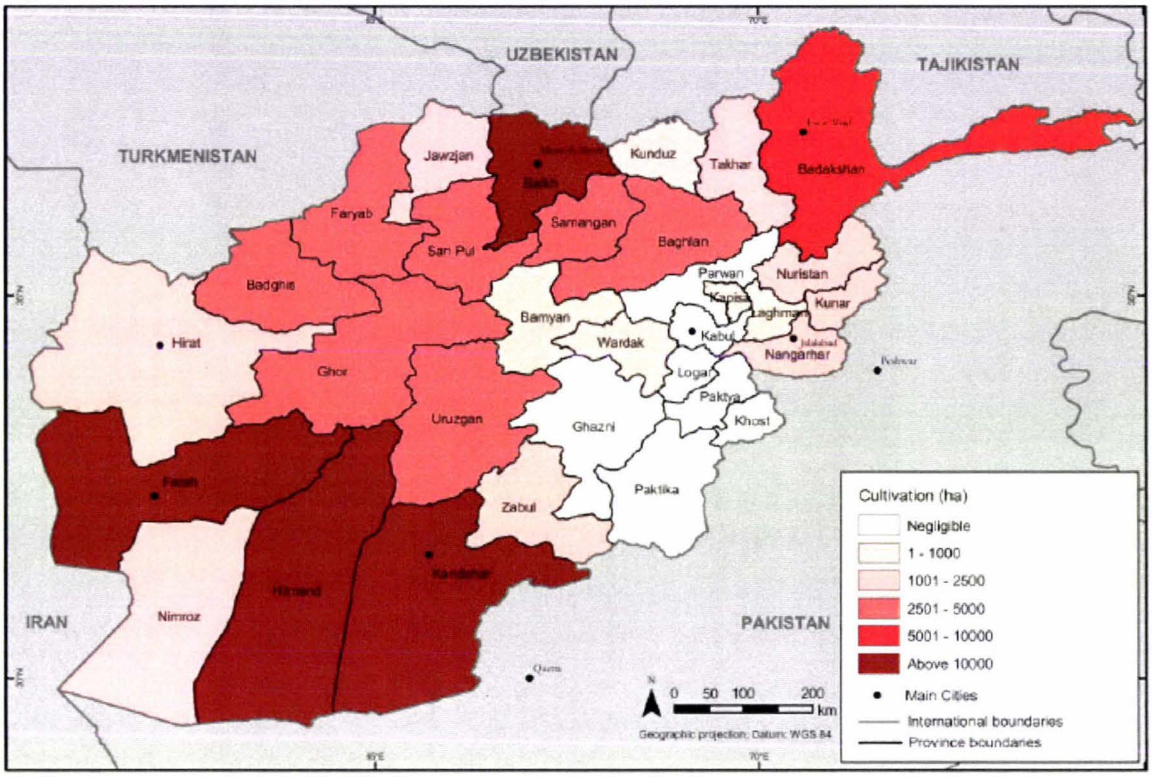
Obviously, then, a huge coordination effort is needed to combine the various pillars together, a geographically daunting task since opium cultivation and production is spread over many provinces (figure 4.4). Good coverage has not yet been achieved, even within the ALH pillar. Besides MISFA, two other well-regarded GOA development programmes are NSP and NEEP,[66] and yet these three are...

> ...not implemented in the same communities or even the same districts. While households in a village may benefit from some improved infrastructure and employment provided by NEEP, they may not have established local decision-making bodies and received a block grant from NSP, or have improved access to credit through MISFA. Other sectoral

[65] Goeldner (2005a), however, generally recommended 5-6 year loan terms for any opium debt refinancing scheme. It is not clear if ARMP has taken this on board.
[66] NSP: National Solidarity Programme – village-level community development programme; aims also to build local governance. See box 4.4.NEEP: National Emergency Employment Programme – government-funded infrastructure projects, giving local employment opportunities.

> interventions such as irrigation and agriculture may well be completely absent. It cannot be expected that a uni-sectoral intervention will...develop an 'alternative livelihood' given the multifunctional role that opium poppy plays in rural livelihood strategies (Pain and Mansfield, 2005: 8).

Figure 4.4: Opium Poppy Cultivation in Afghanistan, 2005



Source: UNODC (2005: 16)

Some patience could be called for here, however, since all three programmes are still relatively new. MISFA (2005a: 5) has acknowledged the gaps mentioned above and plans to "identify places where MFIs could expand...following on from the successful work done by NSP and NEEP." Besides geographical coverage, successful coordination entails coherent targeting of the right people with the right intervention as well. For example, eradication more often than not hurts the landless farmers who, as has been shown earlier, are actually suffering (rather than profiting!) enough already under a heavy opium debt,[67] and so...

> ...immediate enforcement tactics should be aimed at the top end of the value chain in Afghanistan, not farmers...The credibility of the [US-led] program will ultimately rest on showing that it will attack the powerful, not just the powerless (Rubin et al., 2005: 71).

It is way far early to tell if MF and these other interventions will succeed, but in contrast to the scattered attempts integrating MF and DDR, a strong political and institutional will and a coordinated strategy are at least in place to attempt to tackle the opium problem.

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[67] See chapter 3, section 2.2.3b.

3.4 Process Mitigation: Bringing People Together?

From the material collected on the field, it appears that the most MFPs in Afghanistan do in terms of trying to build inter-group (e.g. inter-ethnic) bridges is consistent with a very minimal 'soft push process mitigation' approach.[68] It has already been noted (section 3.2a) that MFPs do not practice exclusive targeting and so any MFP will certainly have a mix of ethno-religious identities among its clientele. But villages in Afghanistan, and thus solidarity groups, tend to be mono-ethnic (Obenschain, 2005: pers. comm.) and so it would be impractical and in any case "going too far" to force ethnicities together into an MF group (Doyle, 1998: 30).[69] Yet there might be scope for at least a more 'moderate push' approach, such as the soccer games or training workshops mentioned in the last chapter. However, none of the five MFP directors who answered the 'Peace Reflection Paper'[70] could think of any such examples in their own organisation or elsewhere in Afghanistan. This does not mean such inter-ethnic interaction does not happen (at the MISFA training workshops as an example), but rather it indicates that these 'process mitigation' strategies are not in the forefront (if anywhere at all) of current thinking among MFPs in Afghanistan. As FINCA's director notes, preoccupation with overcoming the brain drain problem[71] has meant that "integrating the different communities was not a priority" (Greenwood, 2006: pers. comm.).

On the one hand, MFPs in Afghanistan do not have to worry as much about ethnic problems as in other post-conflict situations. Surkhe et. al. (2004:3) share their impressions:

> Despite ethnically targeted massacres and some brutal 'cleansing' [especially in the mid- to late 1990s] the [Afghan] population did not seem as divided by deep-seated ethnic hostilities as was the case in some other post-war situations (e.g., Bosnia and Rwanda).

This is confirmed by FINCA's director, who was also the director of FINCA in post-conflict Kosovo, where it "took an enormous amount of my energy" to get Serbian and Albanian staff to work together and for the latter to work with Serbian clients because the inter-ethnic hatred was "much stronger" than anything in Afghanistan (Greenwood, 2006: pers. comm.). The top three managers of FINCA's Kabul office are a Tajik,

[68] Cf. chapter 3, section 2.2.3c.
[69] Cf. chapter 3, section 2.2.3c
[70] Appendix 10; see esp. question 3.
[71] He notes "the enormous amount of energy and time need for training for Afghan staff" (Greenwood: 2006).

Pashtun, and Hazara, and while it took some effort (but not as much as in Kosovo) to get them to work as a team, it has been successful (ibid).[72]

Yet on the other hand, ethnicity is a greater source of tensions today than before Afghanistan's conflict, as argued earlier (chapter 2, section 6.1). Many of the commanders and warlords who manipulated ethnic divisions for political purposes in the past are still in power today, and could yet employ similar strategies. MFPs should consider additional ways to encourage, but not force, ethnic harmony to reduce the chance for success of such strategies.

3.5 Building Local Governance

Closely related to process mitigation's attempts to foster social cohesion is MF's potential to encourage local governance. There are two basic ways microfinance can play a role in this regard: by forming *new* decision-making groups around the MF project, or involving *existing* local bodies in the project in some fashion. The latter would seem to have the better chance of success in Afghanistan, at least for the moment.

The former has been suggested before,[73] with the description of Indian self help groups (SHGs), self-starting[74] and self-managing bodies originating as savings groups but which eventually find a formal bank willing to offer capital for on-lending to its members. Except for two small projects,[75] the field research in Afghanistan did not uncover any SHGs, probably for good reason. As mentioned earlier, Afghanistan is no India. The most obvious difference is that there are hardly any banks in rural Afghanistan at this point, whereas the Indian financial sector is "substantially more developed" (M. Larson, 2005: pers. comm.). Harper (2002: 171) notes that an "existing bank network in rural and poor areas" is a necessary precondition for SHG formation. The robust network in India "enables the groups to leverage their own savings and reserves much more than the comparable group in Afghanistan who, apart from minimal grants from the NGO are limited to what they themselves can put into it"

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[72] Some may feel that assisting in hiring multi-ethnic staff or encouraging intra-staff or staff-client ethnic tolerance would count as 'process mitigation.' Possibly, but these are things that *any* NGO should do. In this thesis, the framework is looking at how MFPs in particular can use MF in a conflict sensitive way.

[73] Chapter 3, section 2.2.3d.

[74] That is, without any outside help. There is normally little or no outside subsidy, grant, or loan to kick start such SHGs.

[75] SERVE (not an acronym) was established in the 1980s to help Afghan refugees in Pakistan. It began the formation of SHGs in a village 30 minutes north of Kabul in 2004. As of September 2005, there were 29 SHGs comprising 607 members. I visited the project for one day and although I saw potential benefits, I could see the small size and relative infrequency of the loans being a problem, since there is not enough financial capital to upscale. For this and for reasons later in this paragraph, the sustainability of these SHGs is in doubt. Through SERVE, I came to know about another SHG scheme, run by ORA (also not an acronym), but it was too late in the research to do follow up.

(M. Larson, 2005: pers. comm.). Second, there are the barriers "of literacy and low computational skills" (Fisher and Sriram, 2002: 111) (not to mention managerial skills) which are much larger in rural Afghanistan.[76]

Third, the idea of local democracy and grassroots 'people power' is not yet an established concept in Afghan thinking. An article by Harper (2002) provides a relevant discussion on this matter. He is interested to know why SHGs are so prevalent in India, but can hardly be found in neighbouring Bangladesh, where Grameen style MFPs are found. In contrast to SHGs, most management decisions are made by the MFP, not the members themselves. The Grameen system is highly structured and "is often criticised for being over-disciplined, or even militarist" (ibid. 178). However, considering Bangladesh's history of military governments, Harper (ibid) conjectures that people may be more accustomed to, and feel a certain safety in, this top-down approach. With little corporate decision-making capacity, poor groups would be vulnerable to takeover by individuals. Even in India, this sometimes happens: "SHGs are...vulnerable to capture by vested interests, and to inequitable distribution of the benefits, because they are less closely supervised by [outside agencies, banks, etc]" (ibid: 194). Harper (ibid: 195-196), concludes that SHGs are more empowering yet less protected against internal and external threats, and thus "Grameen groups are more suitable for poorer, more vulnerable groups." Perhaps this holds true in Afghanistan as well, at least at the present time.

However, something in between Grameen and SHGs may be possible, as there are countless other MF models in the world which involve varying degrees of client ownership versus NGO oversight, such as the Small Farmer Cooperative Limited (SFCL) model in Nepal (Shrestha, 2004) or the Capacity Building of Community Based Organisations in Jaffna (CAB-J) project.[77] The important point here is not the details of each model, but that each emphasises capacity building and indigenous management over and above microfinance; MF is simply the concrete activity around which to organise. Again, no schemes of this type were found in Afghanistan during the this research. Of course, an outside INGO wishing to promote such models has to commit major funding to institutional development for the first few years to build up capacity.

[76] Even in Bangladesh, "NGOs that aimed for a similar model were still involved in training groups including writing up their books etc some ten years after starting the group" (M. Larson, 2005: pers. comm.). This obviously raises serious sustainability issues.

[77] SFCL's were established by the German Technical Cooperation. They are extremely structured, with layers of management from local to national levels, but it is all Nepali-owned. It does take a substantial time, or course, for such institutional development before operations can begin (Shrestha, 2004: 11-12). CAB-J strengthened the capacity of 20 pre-existing Sri-Lankan Community Based Organisations and taught them how to also be MFPs. CARE capital loan funds were then channelled through those new partners to clients.

However, such a scheme will eventually be less costly[78] and so the chances for long-term sustainability are increased. Further, social cohesion is fostered, reducing the probability of recurring conflict. For example, Shrestha (2004: 49) shares about a SFCL which has gained so much power that the higher caste members of the community[79] are either threatened by it[80] or desperately want to join. At least in this village, this levelling of the playing field means that it is much less likely that Maoist rebels can capitalise on the normal frustration lower castes normally feel, a common recruitment ploy.

Box 4.4: The Local Civil Society Organisation (LCSO) Universe in Afghanistan

Traditional *shuras/jirgas*: local councils which villages or tribes have established themselves. As mentioned earlier, the existence and power of them varied widely from place to place (Johnson and Leslie, 2004: 42).

Village Organizations (VOs) or 'new *shuras*': established by INGOs or Afghan NGOs to oversee the administration of development interventions.

Community Development Councils (CDCs): established by the GOA's National Solidarity Programme (NSP). CDCs decide on what development project(s) are desired by the community. They then apply to the GOA for a block grant (up to $200 per family in the community) to implement the project(s). The GOA has contracted about 15 INGOs an five Afghan NGOs (called 'facilitating partners') to form these CDCs. 5,000 of an eventual 20,000 have been formed so far, with 800 per month being added.

Main source: Ayrapetyants et al. (2005: 19-20).

The second way to link microfinance to governance-building is by involving existing local bodies in some fashion. As box 4.4, illustrates, the LCSO universe in Afghanistan is highly complex and not geographically uniform. An MFP will have to determine the exact power structure of a community before deciding how to work with local bodies and with whom to work. Each type of organisation in box 4.4 may have legitimacy issues with the local population; traditional shuras are rarely democratic and its members may not be representative of the community, while the establishment of VOs or CDCs might be seen as external attempts to exert influence (Ayrapetyants et al., 2005: 35,39). Therefore, involving an LCSO in microfinance will at least motivate its members to organise around a tangible project, and at most (if the project is successful) increase its standing in the community, helping it to gain legitimacy. Having *shura*s approve loanees, the practice of CHF-AMI and AKDN-ARMP, is a step in this direction. Alternatively, MFP involvement could bolster efforts by local CDCs:

> Many of the partner organizations that are working with MISFA to develop their microfinance programs are also NSP facilitating partners. The widespread development of CDCs under the NSP and the block grants

[78] ...because in such models, the local organisations are self-managed.
[79] By charter, SFCL members can only be from the lower castes.
[80] This obviously creates some tension, but as one SFCL member put it, "it does not make any difference...as long as it benefits 99% of the people and enjoys their support" (Shrestha, 2004: 49).

> provided to the CDCs helps to create social capital and awareness at the village level, rehabilitates and adds essential infrastructure, and fosters an environment of increased economic opportunity where MFIs could initiate programs and scale up more quickly. The NGOs that are facilitating partners with NSP and also have microfinance programs find this linkage useful and important (MISFA, 2005a: 4-5).

Although so far, the MFIs "also find that that the CDCs themselves are not the best mechanism for directly managing a credit program," (ibid) maximising *shura* or CDC involvement as much as possible ought to be considered.[81]

Thus it appears that this second option (working with existing LCSOs rather than forming new groups) is a more feasible approach in current-day Afghanistan. In any case, the importance of building this local cohesion cannot be overstated. It was the lack of same, the fragmentation of society, which led to increased frustration among common Afghans as they felt they had no real voice in local, much less national, decision-making (recall chapter 2, section 1). More immediately today, local cohesion can also stem the tide of poppy-growing:

> In the enthusiasm of doing [any development project], community organizations begin to take on a life of their own, becoming bodies that can partner with NGOs, government, private business, etc. They also become bodies that can take collective decisions, including stopping people from growing poppy, at least those small farmers who did not want to grow it but felt they had no alternative. Many people will grow poppy to make money almost no matter who says or does what, but there are many more who really do not want to be in this business who can be influenced by community organizations that provide some benefits and link people into a sense that government can work for them (Rasmussen, 2005: pers. comm.).

This 'link' is often referred to as the 'social contract' between government and communities, which "has proven so important in other illicitly drug crop-producing countries" (Mansfield and Pain, 2005: 8) and which has been missing in much of Afghanistan's history (UNDP, 2004: 205).

3.6 Peace(Culture)Building

The last category in the conflict sensitivity framework has to do with changing underlying attitudes of hatred and/or violence. This has overlaps with previous categories, and so, for example, having a multi-ethnic staff (like FINCA) can serve as a model to the community of inter-ethnic cooperation. As mentioned before[82] the recitation of slogans may be another method to change attitudes. Similar to Grameen's

[81] Anand (2004: 46-47) suggests a number of ways district *shuras* can be of service, such as offering information to the MFP about various villages, assistance in settling disputes, or having the district *shura* building also serve as a MFP branch.

[82] Chapter 3, section 2.2.3e.

16 Decisions, BRAC lists 18 promises on the back of its passbook, several of them related to peaceful relations:

> Promise #1: We will not commit crimes.
> Promise #10: We will always help others.
> Promise #11: We will struggle against polygamy and laws which don't comply with the rights of women.

Box 4.5: Description of Co-operation for Peace and Unity (CPAU)

CPAU began in 1996 when a small group of Afghans gathered in Peshawar to seek ways to foster peace in Afghanistan. With some support from the international community, they formed a new Afghan NGO and began to run forums and workshops with other NGOs to help them "integrate peacebuilding into their own organisations." In 2002, the focus switched to working directly with Afghan communities. One of CPAU's major activities is establishing four district-level and 24 village-level "peace *shuras*" (similar to the 'new *shuras*' described in box 4.4). These *shuras* in fact partly inspired the GOA to initiate the CDC idea under NSP, but sadly in the view of CPAU's director, CDC's exist for furtherance of the project, whereas CPAU projects exist for the furtherance of local capacity and peacebuilding (Suleman, 2005). Among CPAU's other activities are:

- *Peace education*: helping to redesign school curricula to be less conflict-centred. In some old textbooks, maths is taught by counting the number of dead Russian soldiers in the picture (Hakim, 2005: pers. comm.)[83]
- *Peacebuilding courses*: CPAU still runs training workshops for the staffs of various NGOs.
- *Research and advocacy*: this is in order to "influence actors at the national and international level improve policy and practice in shifting towards incorporating social development for peace into all reconstruction efforts of Afghanistan."
- *National peace conferences*: In 2004, four such conferences were held, averaging 300 in attendance. Many of the attendees are from the peace *shuras*, and since each *shura* is either Pashtun, Hazara, Tajik, etc., these conferences build cross-ethnic friendships and understanding.

Sources: CPAU, 2005a, 2005b; interviews with Suleman, Hakim.

Beyond this, the field research discovered little evidence that case study MFPs were attempting any relationship building[84] or attitude transformation strategies. While it is understandable considering they are busy enough, a suggestion would be that they partner with an organisation like CPAU,[85] described in box 4.5 above. MFP staff, for example, could undergo training in a CPAU peacebuilding course. Alternatively, if an MFP chose to include ex-combatants in its programme, the potential clients could be required to take a special course as a condition of their enrolment. As CPAU directors Suleman and Nawabi (2005: 5) write, "The problems with DDR...lies in a [lack of] a holistic approach." That is, guns are taken away and vocational training is provided, but "without psycho-social, peace and conflict resolution trainings." The account below

[83] Hakim is the former director of CPAU. He now works for AIHRC.
[84] Cf. Chapter 3, section 2.2.3e
[85] There are other Afghan NGOs like CPAU, but I did not have time to contact or visit them.

shows how AGEF,[86] another implementing agency of the ANBP, teamed up with CPAU in this regard:

An Example of co-operation

> CPAU provided peace education for a total of 32 ex-combatants for six months in Kalakan district, Kabul Province. The peace education for ex-combatants was part of the reintegration program where the 32 ex-combatants received vocational training from AGEF each day in the morning for a period of six months while CPAU provided one and half hour peace education each day for the same period of six month. The peace education component had weekly and monthly evaluation where significant changes were noticed in both the attitude and behaviour of the trained ex-combatants. The success of this project encouraged continuation and expansion of the peace education for another groups of 70 ex-combatants in Kalakan and Mir Bacha Kot districts for the year 2005. (CPAU, 2005b)[87]

4. Conclusion

From a purely developmental point of view, microfinance in Afghanistan is largely being conducted in the accepted 'best practices' fashion. Clients of most poverty levels are being served, the sector is growing, MFPs are becoming more sustainable, and MISFA has thus far proved to be a professional and enabling apex facility. Although certain gaps (such as the lack of flexible savings and insurance services) exist, they are not surprising, given the newness of the MF sector and the difficult post-conflict setting. If donor funding continues for a few more years and MFPs become more self-sustaining, perhaps those gaps will soon be filled.

From a peacebuilding point of view, a statement from Heen's thesis on conflict-sensitive microfinance can serve as a starting point. After reviewing the literature on post-conflict microfinance (PCM), Heen (2004a: 27) makes the following assertion:

> Microfinance providers seem to largely view conflict sensitivity as a secondary goal that comes in at a very distant second to the short-term challenges of successfully doing microfinance in conflict affected environments.

It is understandable how she came to such a conclusion, for much of the PCM literature (with the notable exception of Doyle's paper) indeed leans towards promoting a minimalist approach to microfinance. Doyle (1998) does, however, introduce us to a number of MFPs who do try more proactive strategies in conflict mitigation. These examples, and the examples presented in this chapter, show that some conflict sensitive practices do take place.

[86] AGEF, a German organisation: Association of Experts in the Fields of Migration and Development Cooperation (translation of Arbeitsgruppe Entwicklung und Fachkräfte im Bereich der Migration und der Entwicklungszusammenabeit).

[87] It was not discovered how these programmes progressed in 2005 or whether they are continuing.

One question this chapter has tried to answer is whether Heen's criticism applies to MFPs in Afghanistan. At least among the case studies and other MFPs contacted for this thesis, the answer is generally yes. Every director of these MFPs emphasized the importance of efficiency and sustainability over the consideration of social or peacebuilding goals. A more important (and complex) question is, however, whether these MFPs are justified in adopting this minimalist mindset. As argued in chapter 3, a 'more fully conflict sensitive' (MFCS) approach might help to remove the very difficulties which makes PCM so challenging. Yet MFPs can turn that argument around and say the magnitude of difficulties themselves prohibit more maximalist strategies (the old chicken and the egg dilemma). Further, as has also been shown, Afghanistan represents a particularly challenging post-conflict setting, making basic microcredit, not to mention credit-plus or MFCS strategies, much more difficult to implement.

Although there are no easy, one-size-fits all, answers to these issues, the argument still holds that MFPs ought to at least be 'enlightened minimalists'. While MFPs in Afghanistan do seem to be avoiding harm (perhaps more from common sense and past work experiences in post-conflict contexts), there is room for further institutional learning of the Afghan conflict complex, perhaps through PCIAs.

In terms of more fully conflict sensitive approaches, relatively little is happening in Afghanistan, especially with process mitigation and 'peace(culture)building,' which again may be justifiable. What the examples given in the last two chapters have done, however, is to present a menu of options rather than present a systematic prescription. It must be remembered that MF in Afghanistan is still just in infancy, and as time goes on MFPs may yet take on broader social goals more consciously, as Doyle (1998: 27-28) found in other post-conflict contexts.

If MFPs in Afghanistan do decide to become more active in peacebuilding, cooperation and coordination with other non-MFP agencies, such as ANBP, CPAU, the GOA and CDCs, will be critical. The *Example of Co-operation* (previous page) is a case in point, with three different organisations (ANBP, AGEF, CPAU) working together to help ex-soldiers reintegrate into society. MFPs cannot possibly do everything in a developmental sense (otherwise they would not *be* MFPs), but they can possibly do more through effective partnerships. MISFA, with its view of the big picture and its connections to the GOA, could play a role here, not only coordinating the MFPs themselves, but helping MFPs coordinate with other specialised agencies.

This chapter has described the strategies which the microfinance sector has employed to deal with poverty and conflict. Chapter 6 examines the effect those strategies are having on Afghan livelihoods and society. In order to measure that effect, an impact assessment was designed for this research to be used in the field on a sample of MFP clients and non-clients. Theoretical issues surrounding impact assessments and sampling methodology must first be addressed, therefore, prior to proceeding with the presentation of fieldwork results. The next chapter, chapter 5, deals with these issues.

Chapter 5: Issues in Methodology

This chapter describes the methods and frameworks used to collect and analyse the primary data for this thesis, particularly data from clients and non-clients of microfinance providers (MFPs). Issues regarding impact assessments are discussed, and the livelihood framework, the basis on which client data was collected, is introduced. Theoretical justification for the methodology is offered as this chapter proceeds, and we conclude by examining some strengths and limitations of the research.

1. The Impact Assessment: How Deep?

As was pointed out in chapter 1, section 4, the purpose of this thesis was to go beyond the operationally-oriented PCM literature to examine whether the lives of clients in post-conflict settings[1] are actually changing for the better. The most common tool to determine livelihood effects is the 'Impact Assessment' (IA). IAs are different than evaluations in that the latter measures inputs and outputs (what was accomplished) while the former measures outcomes (how the accomplishments changed livelihoods or society) (Hulme, 1999: 3). They are typically used by MFPs[2] to *improve* their services to recipients or to *prove* the value of their intervention to donors, or a combination of both (ibid., F. Sinha and S. Sinha, 2002: 284).

Unfortunately for MFPs, IAs are not simple to conduct, which means quality is sometimes sacrificed. Because there is a lack of any MF industry standard or set of norms on how to conduct IAs and which tool or tools to use (Copestake, 2004: 12), MFPs (and this researcher) normally have to design their own tool from scratch and/or borrow ideas from the many tools available from practitioners and the internet. A weakness of many MFP-designed IAs is that they lack "academic muster" (Cheston et al., 1999: 6; cf. Copestake, 2004: 17), for example in the use of invalid sampling techniques or the neglect of using control groups. On the other hand, more sophisticated IAs, perhaps executed by an outside contractor, can be too expensive and time consuming (Cheston et al., 1999: 7). An MFP thus has to balance cost versus quality and depth of information.

The issue of cost, and one's assumptions about impacts, are two factors which help determine the nature of the IA used. As table 5.1 shows, MFPs or researchers have a

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[1] In this case, the setting of Afghanistan.

[2] Other development practitioners (besides MF directors) use IAs as well. However, all references cited in this section have to do with IAs for MF interventions specifically.

choice about how deep their analysis will be. Many MFPs will choose to do analysis on levels 1 and 2, not only because the data is relatively easy (thus inexpensive) to collect, but because of reasoning along the lines of the following:

> Clients exercise market choice and therefore an increase in clients means that the service is meeting their needs on acceptable terms, whilst the ability to repay...and take repeat loans must mean [they use loans] productively and profitably, enabling an increase in income. [Also if many women are clients, that would imply] a significant contribution [by the MFP] to gender equity and women's empowerment (F. Sinha and S.Sinha, 2002: 283).[3]

However, a recurring theme in this thesis is that just because microcredit *might* lead to some benefit does not mean that it actually *will*, especially without intentional strategies. For example, how do we *know* that the husband is not actually controlling the use of a loan given to his wife (ibid; cf. chapter 6 section 3.10), or that microcredit is not indeed sinking an already-indebted client deeper into a burden of debt (chapter 6, section 2.6)? Only a level-4 analysis can answer such questions.

Table 5.1 Possible Levels of Social Performance Assessment

Level of research *Questions MFPs may ask themselves...*	**Examples of data needed**	**Notes:**
Level 1. Are we hitting our target clientele?	Gender, poverty level, business activities, or education level of client	
Level 2. Are we meeting client demand?[4]	Enrolment rates, exit rates. Use of other microcredit (e.g. informal) services	This was the focus of Wilson's 2001 paper. See chapter 1, section 4.
Level 3. Are we satisfying the clients?	What do they like and dislike about MFP? How is their use of services changing?	
Level 4. Are we improving client livelihoods?	Material impact, changes in knowledge and skills, changes in social capital.	This is what normally is meant by 'impact assessment'
Level 5. Are there any indirect benefits to the communities or economy?	community activity, healthy business competition, inter-group peace, psychosocial health	

Adapted from Imp-Act (2004: 2)

NB: Grey rows indicate the levels of analysis this thesis attempted to conduct

It is important, however, to conduct analysis at the community level as well, as was made clear in the discussions on conflict sensitivity. Development organisations which *only* consider impacts on the household might be forgetting that their livelihood interventions (even if positive for some individuals) can also have adverse impacts on

[3] The authors do not agree with this reasoning. They are only caricaturizing it.

[4] For example, a CHF field officer reported that more and more people were coming up to him wanting to join the programme. Would not that be enough to justify CHF's programme? It is definitely good news for CHF, but in development terms 'meeting demand' does not necessarily mean positive impact; it might even mean the opposite. Many I spoke to wanted bigger loans, but might that trap some into increasing indebtedness? Some also preferred individual loans, but might recently-fractured Afghan communities need a gentle push toward greater social cohesion which can be fostered through groups?

the wider community. The health training centre in Sudan and the Afghan canal projects (chapter 3, section 2.2.2) are good examples of this phenomena, as more harm than good may have come to the community as a result of those projects.

Therefore, the impact assessment designed for this thesis (appendix 4) was focussed on the deeper levels (levels 4 and 5 in table 5.1, shaded in grey) of social impact analysis. By the kind of data required (see column 2) at these levels, it should be clear that the research required a primarily qualitative rather than quantitative approach. Such approaches do not preclude the use of quantitative data (Brockington and Sullivan, 2003: 59); enquiries were made about income, assets, livestock numbers, and so on.[5] But this research primarily asked the why and how questions: why is their income increasing? How are they using credit to improve their livelihoods? How is microfinance building peace, if at all? These questions require conversation and interpretation more than number-crunching (F. Sinha and S. Sinha, 2002: 284-285).

2. The Livelihood Framework

2.1 The Basics

The investigation into each of the two levels (4 and 5 in the table above) requires an analytical framework for each. In terms of level 5, the SMFI and conflict-sensitive frameworks (chapters 3 and 4) have already been discussed at length, so there no need to review them here. Instead, this section introduces a scheme for household level analysis, a level of analysis which PCM literature, and MF practitioners (according to Wilson, 2001: 49), have largely neglected. Therefore, MFPs "have not always supported the specific coping mechanisms of households operating in the war-torn environment" (ibid: 96).

A helpful tool in analysing such mechanisms and assessing intervention impacts on households is the 'livelihood framework' (LHF) presented by Ellis (2000: 28ff).[6] A simple reading of table 5.2 is that the access to and utilization of household's assets (or capital; column A) depends on micro- and macro-contextual factors (column B and C respectively), which results in a livelihood strategy consisting of specific activities (columns D,E), with effects on a household's security and the environment.[7] Ellis (ibid: 29) points out that the diagram is meant only to organise ideas into manageable categories and does not "capture the dynamics of livelihood systems that in practice

[5] Indeed, in retrospect such data should have been pursued more vigorously. See section 5 below about how incomplete quantitative data effected the results of the research.
[6] It also goes by the name 'sustainable livelihoods framework'.
[7] The framework is presented in a book on *rural* livelihoods; hence the emphasis on natural-resource activities and environmental impacts. The framework can easily be adapted to include urban livelihoods as well.

involve innumerable feedbacks and complex interactions between components." Thus, for example, a government policy to ban poppy ('rules and customs' in column B) will simultaneously: force farmers to adopt another livelihood strategy (column D); reduce the financial capital available for households (column A); and produce and economic shock (column C) to the society as a whole, impacting on other household assets (column A). As illustrated in table 5.3, the LHF formed the foundation of the impact assessment for this research. However, two more forms of capital, personal and political (italicized in the table), were added to the basic framework. A discussion of each follows.

Table 5.2: The Basic Livelihood Framework (LHF).

A **Livelihood platform**	B **Access modified by**	C **In context of**	D **Resulting in**	E **Composed of**	F **With effects on**
	Social relations	*Trends*		*Natural resource (NR) - based activities*	*Livelihood security*
	Gender	Population			Income level
	Class	Migration		Collection	Income stability
	Age	Technological change		Cultivation (food)	Seasonality
	Ethnicity	Relative prices		Cultivation (non food)	Degrees of risk
		Macro policy		Livestock	
Assets		National economic trends		Non-farm NR	
	Institutions	World economic trends	*Livelihood strategies*		
Natural capital					
Physical capital	Rules and customs				
Human capital	Land tenure				
Financial capital	Markets in practice				
Social capital					
		Shocks		*Non-NR-based*	
					Environmental sustainability
	Organisations	Drought		Rural trade	
		Floods		Other services	
	Associations	Pests		Rural manufacture	Soils and land quality
	NGOs	Diseases		Remittances	Water
	Local admin	Civil war		Other transfers	Rangeland
	State agencies				Forests
					Biodiversity

Source: Ellis (2000: 30)

Table 5.3: Livelihood Elements Considered in the Client Interview Schedule (CIS)

Business	Business income Business profit Business assets Business skills	Human capital	Clean drinking water Access to medical care and medicine Food quantity and quality Education / skills
Household financial capital	Income Savings Non-indebtedness	*Personal capital*	Self-confidence Peace of mind Hope
Household physical capital	Productive equipment Consumer goods Housing (renting/owning and maintenance/quality)	Social capital	Relationships/friendships Cooperation Support/safety net Inter-personal trust
Natural capital	Land ownership and crop production Animals Water (for agriculture)	*Political capital*	Connections (*waseta*) Influence in community Respected by others Not feeling vulnerable

2.2 Political Capital

Probably the most common critique of the LHF is "its failure to deal adequately with social relationships and power" (Hulme and Shepherd, 2003: 414). This view is expounded in a later article in the same issue of *World Development*, by Geof Wood, who considers those in chronic poverty due to a "hostile political economy". Having an adequate capital base may be necessary but will not be sufficient to climb out of poverty if others intentionally hinder their progress:

> Even for the capable poor [who have opponents] the constant probability of retributive action, by those in power over them, sets severe limits to their social action for poverty eradication...Perversely [they choose] a coping level of poverty as the social condition of securing a sustained...livelihood. (Wood, 2003: 456).

Thus, for example, poor land labourers in Badakhshan were unable to join a new NGO food-for-work programme because their rich landlord would not permit it (Johnson and Leslie, 2004: 37); their absolute dependence on him prevented a choice to improve their livelihoods. During the late 1990s when I was in Kabul, I heard many stories of the Taliban extorting money by kidnapping for ransom or demanding 'protection' fees. To account for these power relationships, it is widely believed that 'political capital', the 'missing dimension' of the LHF, should be added to the mix (Hulme et al., 2001:27).

In the Afghan examples above, those with low political capital were vulnerable to personal violations, but there is also the notion of *structural* violations or structural violence, situations where unequal, unjust and unrepresentative societal structures prevent humans from realising their full potential. Examples of such structures might be excessive taxation or unreasonable fees, poor market regulation, unfair or discriminatory public policies, corruption, and cronyism. These harmful structures are especially prevalent in conflict-affected areas, where "institutions and systems themselves are vulnerable to outright destruction or harmful co-option, including schools, hospitals, courts, religious establishments, market structures, transportation networks, etc." (Pain and Lautze, 2002: 20).

Thus, this research attempted to gauge whether participation in microfinance as a client helped to increase that client's political capital, either through an improved financial situation or his or her improved relational skills by being part of a MF group. This increased capital would make the client less vulnerable to targeted or structural violations, improving his or her capacity to utilize other livelihood assets. Time constraints (see section 4 below), however, meant that little data was obtained, and even the data that was collected yielded no interesting results.

2.3 Personal Capital

There is an increasing awareness in the development community that, although most poor households in low-income countries are primarily concerned with basic physical needs, more intangible aspects of livelihoods also need to be addressed, such as 'self-esteem' and 'self-respect' (Desai and Potter, 2002: 2; Pain and Lautze, 2002: 15). One of the major findings of the well-regarded book, *Voices of the Poor*, is that "poor people's definitions reveal important *psychological aspects* of poverty" (Narayan et al., 2000: 31, emph. theirs). Therefore, it was decided to include in the LHF the idea of 'personal capital';[8] this idea was partly inspired by the Chen Framework (see box 5.1; note its similarity to the LHF) and its inclusion of 'perceptual change', the third pillar.

Box 5.1: The Chen Framework

In 1993, Martha Chen and Simeen Mahmud were asked by BRAC-Bangladesh to develop a conceptual framework and a research plan for monitoring the impact of BRAC's interventions on women's lives. Based on their research on, and work with, low-income women in Bangladesh and India, Chen and Mahmud postulate that there are four pathways, each one leading to the next in a sequence, through which women might experience change. By 1997, they had incorporated the ideas of two other frameworks into their original structure. The result (below) has become known as the 'Chen Framework'. Note the common elements with the LHF.

I. MATERIAL CHANGE
Participation in microenterprise services leads to:
A. Income: increased income and income security;
B. Resources: increased access to, control over, and ownership of assets and income;
C. Basic Needs: increased or improved health care, child care, nutrition, education plus housing, water supply, sanitation, and energy source; and
D. Earning Capacity: increased employment opportunities plus ability to take advantage of these opportunities.

II. COGNITIVE CHANGE
Participation in microenterprise services leads to:
A. Knowledge: increased knowledge;
B. Skills: improved skills; and
C. Awareness: increased awareness of wider environment.

III. PERCEPTUAL CHANGE
Participation in microenterprise services leads to:
A. Self-Esteem: enhanced perception of own individuality, interest, and value;
B. Self-Confidence: enhanced perception of own ability and capacities:
C. Vision of Future: increased ability to think ahead and plan for the future; and
D. Visibility and Respect: increased recognition and respect for individual's value and contribution.

IV. RELATIONAL CHANGE
Participation in microenterprise services leads to:
A. Decision-Making: increased role in decision-making within the household and community;
B. Bargaining power: increased bargaining power;
C. Participation: increased participation in non-family groups, in local institutions, in local government, in political process; and
D. Self-Reliance: reduced dependence on intermediation by others for access to resources, markets, public institutions plus increased mobility and ability to act independently. Further, in those programs which organize their clients, participation in microenterprise services leads to:
E. Organizational Strength: increased strength of local organizations and local leadership.

Chen, 1997: 3-7

[8] My own label for it, to stay consistent with the other 'capitals'.

Including these 'personal' aspects in any micro-analysis is especially critical in a post-conflict setting, since "armed conflicts have devastating consequences on development, not only in terms of depleting economic and organisational capital, but also [in losses of human and social capital], loss of self-esteem, and trauma" (Marino, 2005: 1). One may have high education and skills (human capital), but psychological damage from war or low self-esteem may impede the full use of those skills; similarly there may be a social support network around you which may be useless because war has created mistrust of others. This is personal dimension of 'psychosocial' war damage:[9] "the incapacity to attend to personal and communal needs unfettered, and the inability to sustain healthy relationships" (Maynard, 1997: 205). Thus, similar to political capital, personal capital acts as a gateway to utilize one's other assets. In contrast to the investigation of political capital in this research, some interesting data on personal capital *was* retrieved and is presented in chapter 6.

3. Measuring and Attributing Impact

One message from much of the literature on microfinance impact assessments is that they need to be done periodically. Ideally, a baseline survey of a number of clients is conducted before the MF project is started, or before they take their first loans. Then similar data is taken from the same clients annually or at some other regular time period. This would allow for trend analysis, examination about which livelihood aspects were improving or declining over time. After a review of over 100 IAs worldwide, Cheston et al. (1999: 8) expressed surprise and disappointment at how many of them were not longitudinal, but in fact were simply one-time surveys.

The appeal by Cheston et al. and other writers to do longitudinal studies is directed towards MFPs, not Masters thesis students. Obviously, the short-term nature of the current research prohibited any time-series analysis. Instead a client's memory was relied upon to compare his or her situation currently with the previous year. Hence the questions in sections 5-8 of the CIS (appendix 4) ask clients if certain aspects of their livelihoods have become a lot better, a little better, worse, or have not changed. In a longitudinal study, more precise (numerical) data could be gathered and compared over time. This general lack of precision, both in terms of possible answers (how much is 'a lot' better?) and dependence on memory are definite limitations. However, one possible advantage was that general 'getting better/worse' questions are less intrusive than asking clients specific details about their income or asset holdings.

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[9] Psychosocial damage was discussed in chapter 2 section 4, and chapter 3 section 1.1.3.

Even when longitudinal studies are possible, another key issue is how to handle the question of tracing impact to the microfinance intervention. After all, if the livelihoods of *everyone* (or most people) in the community has improved in the community because of (for example) a growing economy or support from other NGOs community then we cannot be sure that a client's improved life is really due to his or her access to microfinance.

> To what extent can observed levels of household outcomes be attributed to credit and not something else? This attribution problem remains the most challenging part of [impact] studies (Sharma and Buchenrieder, 2002: 224).

One common way in social research to address the attribution problem is to conduct research of control groups. Here again, MFPs worldwide seem to be falling short. Morduch (UNCDF, 2005) cites a survey which found that one of 17 MFPs used control groups in their IAs.[10] Although this method opens up a whole package of other complexities (see box 5.2) it was believed to be a particular strength of the design of this research.

Box 5.2: The Complexities of Control Groups

In any social experiment or study, a control group should have the same characteristics as the 'treatment' group.[11] (In this research, MF clients would be the latter and non-clients would be the former). The problem with measuring MF impact, though, is that while two households (a client's and a non-client's) might be found with similar levels of measurable characteristics (such as asset base, income level, number of working members, etc), there are certain *unmeasurable* factors as well, such as "entrepreneurship, management abilities, social skills, and other abilities [which] make some households more productive than others" (Sharma and Buchenrieder, 2002: 225). In other words, a client's household may already have had "initial advantages over their neighbours" which made them more eager to become MF clients and/ or more attractive candidates to the MFP (Armendariz de Aghion and Morduch, 2005: 200, 203), and so their greater livelihood improvement over the months and years, compared to the non-client's household, might be due to those immeasurables rather than simply the microcredit. This kind of selection bias has led some IAs to overestimate MF profit benefits by as much as 100% (ibid: 201).

Several examples of how researchers have tried to get around this problem are analysed by Armendariz de Aghion and Morduch (2005: 206ff). In one, the researcher compared eight operational village banks with six village banks. The latter, for some reason,[12] were allowed to form themselves into groups but were not allowed by the implementing organisation to take loans out for one year. Thus, one could assume the future clients would have similar characteristics (even immeasurable ones) with the current clients. Another attempted solution is to <u>compare old borrowers with new borrowers</u>. Morduch and de Aghion are not too enthused about this, raising the 'initial advantage' problem again: "Why didn't the new borrowers sign up earlier? Why were the older borrowers first in line? If their timing was due to unobservable attributes [as mentioned before], the comparisons may do little to address selection biases" (ibid: 209). Further, older borrowers have not dropped out over the years and so have the "positive qualities of survivors", while new borrowers are untested (ibid), again a bias problem.

[10] In fairness to those MFPs, however, Cheston et al. (1999: 9) point out that doing a longitudinal study of a control group is not only costly but raises an ethical issue of continuously withholding credit from that group "just so that we can prove the value of that credit."

[11] For example, after several interviews with clients in a particular bazaar, we found non-client shopkeepers in the same marketplace. In rural areas, we would interview non-clients who were in the same village as clients we visited.

[12] The reason was not given by de Aghion and Morduch.

Another strategy to deal with the attribution problem is to ask clients themselves what they believe the causes are of their improved livelihoods. Thus, the interview schedule includes so-called 'generative' questions (such as "How has MF changed your family's life?") and more direct and specific 'closed' questions (e.g. "Why have your household assets increased?").[13] Of course, this raises questions about reliability. The respondent may answer the 'why' questions without really knowing precisely, or may say what he or she thinks the interviewer wants to hear.[14] Part of this bias, at least when it comes to tracing the causes of material well-being, may be removed by also asking about the income-generating activities of the other family members. For example, if the client's father has also earned more in his own business and her brother has found a new job in the last year, then household asset increases, for example, may not be as directly linked to her own business (which was helped with micro-credit) as she claims.

A third possibility to assess impact is a nuanced version of the old borrower/new borrower strategy solution mentioned in box 5.2 (see underlined phrase in the box). This idea was borrowed from Chen (1997: 11-12), who proposes a set of 13 "participation variables", which include not only a client's length of time as part of the programme, but such items as the size of the loan and whether he or she is involved in integrated activities. A condensed version of Chen's list resulted in a 'Participation Depth Index' (PDI) which was developed for this thesis (see Table 5.4).[15] Thus, a client of 14 months, on his second loan, whose size is $600 would have a PDI of 2+1+3 = 6. (Obviously, a non-client would get a score of zero). A higher score means the client has more deeply participated, and a higher impact on his or her livelihood would be expected.

Table 5.4: PDI: Participation Depth Index. Max is 10

Length of time	Score	Number of loans	Score	Amount of biggest loan	Score
0-6 mos	0	1	0	$0-200	1
7-12 mos	1	2	1	200-500	2
12+ mos	2	3	2	500-1000	3
24 + mos	3	4+	3	1000+	4

NB: If client attends MFP-run or –supported extra health/education/peacebuilding meetings, one was added to the 'extra' column on the CIS. This was the case for BRAC and WWI clients.

Finally, a rough wealth ranking scheme was employed. In many research projects, a more sophisticated method of ranking is used, either by observing or measuring certain

[13] Generative questions are open-ended and encourage the respondent to give lengthy answers, even when subsequent more closed questions are asked (Imp-Act, 2004: 4). Other advantages and disadvantages of open questions are covered in Sarantakos, 1998: 231.

[14] An Afghan head of an NGO says he no longer trusts any research precisely because of this problem (Johnson and Leslie, 2004: 58).

[15] The name was my own idea, as was the points system employed in the table.

variables and plugging them into a pre-determined formula, or by having villagers (in a focus group discussion) themselves characterising different wealth groups (such as very poor, poor, and better off) and naming who should belong to which one. The latter is known as participatory wealth ranking (PWR), and while it can have certain advantages, the experience of some is that it has been too time-consuming to use (Wilson, 2001: 26), and in this research the benefits of PWR would not have made a significant contribution. Instead, clients were placed into three categories (low, medium, high) based on such aspects as how many family members were earning income, their asset base, housing conditions,[16] and other factors as they presented themselves.[17] There were two purposes in doing a wealth ranking. First, it was to determine whether the case study MFPs were indeed hitting their target clientele (eg. BRAC aims for the lower poor; AKDN the higher poor. It was found that, on the whole, the MFPs *were* reaching their target clientele). Second, the wealth ranking helped to provide some context as each client's progress was analysed.

4. Strengths and Limitations of Research

4.1 Design and Planning Issues

It is felt that the impact assessment was well-designed, as it took into account the limitations of attribution and the complexities of using control groups. Despite the fact that conclusions using control groups have to be treated with caution, there were some interesting contrasts between clients and non-clients which came through (see chapter 6). Because time ran short, however, it was felt in the end that an insufficient number of non-clients were interviewed, and so comparisons made in chapter 6 between clients and non-clients should be held even more loosely. Using the PDI was perhaps an even better idea than using control groups; it was a more robust method since other aspects were taken into account, not just length of time of a client's membership. Chapter 6, table 6.3 will show how livelihood impact across a range of categories (taken cumulatively) increased consistently with PDI. Perhaps this PDI analysis should have been carried through for each category as well, but it again was felt that numbers were too small at each PDI level to do a proper analysis. In sum, this research got caught in between the control-group method and the PDI method and conducted each halfway instead of focussing on one method only.

One of the keys if the research was to be successful was obtaining a good mix of clients, in terms of male/female ratios, poverty levels, and having different occupations.

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[16] Sometimes, an interview in the client's household was not possible, in which case I asked the client to describe his or her house. Still, in these cases it was often very difficult to assign a category.
[17] For example, some have had enough money to hire farmers or shepherds, which tended to place them in a higher category.

Thus the choice of clients sometimes came close to what Sarantakos (1998: 152) calls quota sampling.[18] In a similar vein, the research sought to include visits to a range of settings – urban, peri-urban, and rural – and to have a mix of different kinds of MFPs, in terms of their size and experience, and in terms of whether they tried to serve the lower poor or higher poor. These mixtures would not only provide a wide range of perspectives about microfinance in Afghanistan, but also would allow for instructive comparisons between different sets of clients and MFPs.

Although it did succeed in achieving this representative mix, one should not assume that this study claims 'representativeness.' The conclusions drawn from the sample analysis may not necessarily apply to even the Bamyan or Kabul provinces (which contain over 2600 and 26,000 clients respectively) as a whole, much less to the entire nation. However, this is nothing unusual for qualitative studies, since non-random sampling procedures (such as quota sampling) used in qualitative research, by their very nature, can not claim representativeness (Sarantakos, 1998: 151).[19] This limitation is also not unusual for Afghanistan, which is notorious for its ethnic and cultural diversity, making any attempt at broad conclusions difficult. Bhatia et al. (2003: 3) note that while their qualitative, case study-based research on conflict and aid "may yield rich data about particular contexts, comparisons and generalisations are difficult, given Afghanistan's varied geography and political economy." The results herein, therefore, can be said to be suggestive rather than conclusive.

Another reason the results cannot be said to be representative of Afghanistan as a whole relates to the particular places researched (see appendix 2), in that they were (odd to say) 'too safe'. Afghanistan is diverse today as well with respect to security. An Afghan friend noted that there are really "two Afghanistans" these days, while Donini et al. (2005: 9), perhaps more accurately, speak of *three* zones: the womb-like secure 'Kabul bubble', the northern half of the country where pockets of insecurity remain along with relative calm, and the south and east, where insurgency activities are widespread and where few international aid workers venture. The fieldwork for this study remained in the Kabul bubble and in a secure pocket in Bamyan, and thus the research could not capture how MF was impacting Afghans in an insecure setting.

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[18] Quota sampling is a form of non-probability or non-random sampling, which is often used in qualitative research (ibid, p. 151-2). Outside of wanting 5 non-clients and 10 clients per case study, I did not have a set number of, say, women or carpet weavers, in my head beforehand. However, I did try to mix it up as I went along. One day in the Bamyan bazaar, we had interviewed two grocery shopkeepers in a row, so I asked the field officer to next take us to a different kind of shop, perhaps one that actually made something. He took us to a tinsmith and it was a very valuable interview.

[19] Clients and non-clients were introduced to the researcher by MFP field officers (except for non-clients in Kabul), so the possibility that the officers chose only those whom they though would be 'good-for-publicity' examples can not be ruled out.

Conversely, attributing positive impacts to MF in *secure* settings such as Kabul and Bamyan is dubious. Perhaps the livelihood of the client's household is improving because family members have found new jobs, because food and supplies are more available and inexpensive, or because their shop's sales are up since more money is floating around the markets. All of these are indicative a healthy local economy, which happens to the case in the research locations. To separate out those factors from the credit factor, and to know the magnitude of impact of each one, is very difficult. This is true when it comes to peace as well. When the region's population seems to already feel at peace[20] irrespective of any MF intervention, it becomes difficult to determine the impact MF has or could have on peacebuilding. It is like looking for salt on a white tablecloth. Indeed, in chapter 6 (section 4.1a), we find that most respondents *already* felt optimistic and secure because of the general peace in the area, which waters down any impact MF might be having.[21]

Besides the 'wrong' places, it may have been the wrong time for these research questions to be asked. The MF sector is still very young in Afghanistan,[22] with the first MFP starting late in 2002 and most programmes not gearing up until 2004. Since impacts take time to accumulate and become noticeable, this 'newness' again makes it difficult to measure MF's impact on peace in the community, as well as on individual livelihoods. Partly out of bad luck, the researcher had difficulty finding people who have been clients for even one year or more. During an interview, Chotani (2005a: pers. comm.), having worked with MISFA for two years, expressed scepticism as to whether the current research would indeed find much impact. However, chapter 6 does show some positive results.

4.2 Implementation Issues and Data Gaps

Practical on-field issues also arose which led to several shortcomings in relation to the data collected from the impact assessment. First, as is evident from the analysis grids in appendix 7, there are significant gaps in the data, i.e. not all interviews succeeded in obtaining a complete livelihood data set. There were a handful of reasons for this:

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[20] This is not to say Kabul and Bamyan are completely without conflict and violence, but to a person, no interviewee seemed concerned about war or their own security. I was personally amazed at the optimism I saw in the eyes and attitude of Afghans, compared to the depression and hopelessness I witnessed daily during my three years in Kabul in the late 1990s.

[21] However, choosing the safe bubbles of Kabul and Bamyan may have been understandable and unavoidable, considering the concern for the researcher's and translator's personal security and the fact that most MFPs do tend to work in the safer areas in Afghanistan. See figure 4.3.

[22] Doyle (1998:54) speaks of MFPs in Cambodia being "only" six years old in the context of the limited information she was able to obtain on PCM. Afghanistan's oldest MFP is three years old; BRAC started lending in September 2002.

- The CIS was revised at least five times while on the field; this meant, obviously, that new or revised questions were not asked to the initial clients.
- The CIS, especially earlier versions, were too lengthy. The aim was to have an interview last no more than one hour, but often by the time an hour was gone, several sections had not been covered. Yet gaps were left not only due to time pressure, but also to an occasional sense that too many questions were becoming an intrusion on the interviewee.[23]
- This 'time/quantity of questions' problem was exacerbated in rural areas. As noted in chapter 2, rural livelihoods are more complex, with families relying on various types of income streams. Furthermore, there tend to be larger family groups in a single rural household, widening the complexity. Sorting these complexities out took a great deal of time in the initial stages of rural interviews, and so later questions about social and political capital were, unfortunately, sacrificed.
- Three different translators were used, so besides the normal 'lost in translation' problems inevitable in cross-language research, the first two or three interviews conducted by each translator hit some rough patches. At other times, interviews just did not go well because the interviewee was nervous, defensive, or in a hurry.
- Being a male, the whole issue of interviewing females in the conservative Afghan culture presented problems, as exemplified in Box 5.3.

Box 5.3 - The Case(?) of Women for Women International (WWI)

Because 90% of microfinance clients in Afghanistan are women and because initially I thought it wise to stay near Kabul, I was drawn to study WWI (which only works in Kabul). I knew I would probably face the inevitable hurdle of figuring out how I (a male) and my translator (also male) could interview female clients of WWI without disturbing cultural sensitivities. The WWI microcredit manager, despite also realizing the difficulties, was nevertheless very supportive of this research and was curious what answers clients would give in the impact assessment. She therefore suggested that her Afghan credit officer, fluent in English and Dari, conduct the interviews for me. Knowing this was not an ideal solution but being out of options, I decided not to look a gift horse in the mouth. The data collected (interviews with six clients and three "non-clients" who were just about to receive their first loan), unfortunately, did contain some significant gaps, despite my attempt beforehand to explain the interview schedule to the credit officer. It is difficult, therefore, to justify designating WWI as a full-fledged 'case study', and thus I will not include WWI data with statistical results from the four case studies, unless otherwise indicated. Some data and client statements will, however, be presented when appropriate.

Doing MF research in rural areas merit special considerations. First, it was difficult to find 'high PDI' clients.[24] As explained earlier, the Afghan MF sector is young, which especially becomes a problem in rural areas, where income cycles are seasonal or annual instead of weekly or monthly, as in urban centres; thus it takes longer for a rural client to experience MF impacts. Further, it was discovered that instead of conducting

[23] Johnson and Leslie (2004:58-9) suggest that much social research in Afghanistan has indeed been intrusive, extractive, and done arrogantly, and that Afghan villagers do sometimes prefer to be "unknown" unless the researcher builds trust and earns "the right to knowledge."

[24] High PDI means a PDI score of 6 or more. Eight urban clients had a high PDI, compared to just three rural clients. Compare the second columns of tables A7.1 and A7.2.

impact research in the summer (as was done for this thesis), rural interviews are probably best done in the late autumn or early winter, just after crops have been harvested and sold, and after livestock is either kept for winter milk and breeding the following spring, or sold for urgently needed cash to get through the winter. An early or mid-winter interview would provide more exact comparisons with the same point in time the previous year in terms of: a) income earned from the harvest and/or livestock sold; b) asset base (especially in terms of livestock numbers); and c) how the household is coping this winter as compared to last winter, a critical issue in many Afghan mountain villages which can experience heavy snow and isolation.[25]

What made the 'wrong season' problem worse was that I kept getting introduced to six-month clients, despite my continued insistence to MFP staff that I wanted to meet clients of at least one year. These clients had not gone through a harvest and winter yet with credit access, so my questions had to be awkwardly rephrased, such as: "How much income do you *think* you'll earn this harvest?"; or, "How do you *think* this winter will compare with last?" Obviously, these were difficult questions for them to answer.

Finally, there could be concern about the reliability of the data. We have earlier touched on possible causes of inaccuracy or bias, such as the 'lost in translation' or 'saying-what-we-want-to-hear' problems. One IAM field officer pointed out another possible problem, that is that Kabul shopkeepers, in his opinion, do not keep good books and so do not know their monthly income and expenses exactly. Yet another issue: a credit officer in Bamyan noticed how clients were being asked to compare their situation with 'last year'; he pointed out that Afghans do not have a good sense of time, and so some respondents may have been comparing their life with 'Taliban times', even though the Taliban left the area four years ago.

5. Some Important Definitions

The respondents were divided into two major groups: shop-based and land- or home-based. A 'shop-based' client denotes a client who has a shop in Kabul or in the Bamyan bazaar. A 'land-based' client is one whose loan use is primarily for crops or rearing animals. A 'home-based' client is someone who uses the loan for home businesses, such as tailoring or carpet-weaving. Chapter 6, section 1.1 explains the reasoning behind this division.

[25] This was especially true in and around Bamyan, whose region is at 8000 feet or higher.

As noted above, I was being introduced to too many new clients (about 6 months) for interviews, especially in the rural areas. After a while, I decided that if I met more, I would mentally separate them and treat them as "non-clients". As a consequence, I next decided that I did not need to look for pure non-clients, since the former group would act as a kind of control group. In the end, however, this had a knock on effect: the size of the control group of pure non-clients ended up being small. This illustrates the problem mentioned in section 4.1 about getting 'caught' between the PDI and control-group method.

In chapter 6, then, **"non-clients"** in quotes will actually stand for the new clients interviewed in the home-based division, i.e. clients 015-017, 022, 032, and 040, all with a PDI of three or less.[26] The word **non-clients** (without quotation marks) denote true non-clients who are in the shop-based group. The word ***non-clients*** in italics will stand for those in both major divisions, i.e. the pure non-clients in the shop-based group and the "non-clients" in the home-based group.

[26] Clients 041, 044, and 048 also had PDIs of 3, but they were one-year clients and were very close to getting a PDI of 4, while several of the 3s in the control group were very close to having a 2 PDI

Chapter 6: The Impact of Microfinance in Afghanistan

1. Introduction: Microfinance's Positive Impact

Having examined the practice of post-conflict microfinance in Afghanistan in chapter 4, and addressing methodology and impact assessment issues in chapter 5, this chapter now describes and analyses the impact microfinance interventions have had on the clients themselves. As box 6.1 illustrates, the kind of impact sought in this research is not simply a matter of a client earning a higher income, but also has to do with food security, housing, education, as well as more intangible aspects such as personal confidence, and independence, and respect from peers. The research was also interested to find if microfinance was a vehicle for community-wide peacebuilding, as the final example in box 6.1 shows.

There is a significant amount of data to which this chapter refers, much of which is contained in the appendices. For the reader, it would be well worth while to scan through the explanations and tables presented there before proceeding. The following list is a guide to the relevant appendices:

Appendix 4: Client Interview Schedule (CIS) Appendix 5: Peace Questions for Clients	Appendix 6: Respondent Information Sheet (RIS) Appendix 7: Respondent Analysis Grids (RAGs)

Especially recommended are appendices 4, 6, and 7. By reading through these, it should be clear how a client answer comes to be a data point in the analysis grids. Finally, because this chapter is lengthy and somewhat detailed, key findings have been *italicized* for the convenience of the reader.

Box 6.1. Stories of Microfinance Impact

A woman in Ethiopia used to have to sell charcoal stoves illegally on the streets. The MFP Concern helped her get a more permanent corrugated iron booth and enrolled her in their micro-credit scheme. For her and other women like her, "our situation has improved a lot...Before we had to go to moneylenders who charged high rates of interest...As a result of joining the co-op I can help support the other women and they help to support me. If a woman is sick and can't repay her loan one week we help her out. Working with the other women has given me more confidence in public and to make decisions independently of my husband" (Towards a Fairer World, 2005: 4).

Marzia is a 32-year old Afghan widow with four children who used a BRAC loan to start up a carpet-weaving business with the help of her oldest son (17 years old). Soon, they were buying fruit four times a week and eating meat three times. By the fifth month, she had enough extra income to start rebuilding her house and was planning to now send her 13-year-old daughter to school. She earns $140 a month and can save $35 of that after paying for family expenses. "Her status in the community has increased as she is a widow and is taking care of her family" (BRAC, 2004: 30)

In Sri Lanka, an MF project "contributed to changing people's attitudes towards each other, and created a base for reconciliation and coexistence. Microfinance was a key instrument to turn an atmosphere of violence into progressive development and peaceful cohabitation. Second, by undertaking activities that encourage trust, goodwill and cooperation between people, microfinance contributed to re-establishing the social capital of conflict-affected communities. The credit methodology used small groups mixing host and relocated families, which turned to be the ideal vehicles for sharing experiences, discussing problems and solving conflicts. The requirement of savings mobilisation through a community-based approach also generated trust and cooperation between people, and a feeling of belonging and solidarity among community members" (Marino, 2005: 9).

1.1 Data Description

Table 6.1 provides an overview of the 51 microfinance clients and non-clients (21 men and 30 women) interviewed for this research However, for reasons given in chapter 5 (section 4), not all interviews were of adequate quality. Those that were so poor that they did not contribute hardly any new understanding to the research were cut from the analysis (the rows are shaded in dark grey), and thus their cases do not appear on the response analysis grids (appendix 7). Further, the gaps and reliability doubts about the WWI data (see box 5.3) mean that those women are also excluded from most, but not all, of the analysis. (WWI rows in table 6.1 are shaded in lighter grey.) Subtracting these two groups, the number of men and women from whom adequate data was obtained comes to 21 and 19 respectively. Their ages ranged from the 20s to the 60s, but most of them were in the 30s and 40s. The results for each of the five MFPs are presented in tables A7.3-A7.7.

Much of the analysis in this chapter depended on dividing the interviewees into shop-based and land/home-based[1] respondents (see column 5); hence the two tables A7.1 (shop-based) and A7.2 (home-based). The fact that the home-based clients tend to have longer loan terms and thus experience slower impacts relative to the shop-based means that mixing together the two groups would have been like mixing apples and oranges. Furthermore, income and expense flows in shop-based activities can be measured monthly, while the same flows for home-based[2] clients are more seasonal. This distinction between home- and shop-based clients is superior to a rural and urban distinction for two reasons: firstly, because of the occasional trouble of defining which setting is which (e.g. Mir Bacha Kot is more than a village but less than a city, in the countryside yet only 20 minutes from Kabul); and secondly, because of the fact that, for example, a 'rural' shopkeeper's livelihood in small-town Bamyan has more in common with a Kabul shopkeeper's than that of a farmer living in a village minutes away from the Bamyan bazaar.

[1] See chapter 5, section 5 for the definitions of each.
[2] From now on 'home-based' will mean 'land/home-based' for brevity.

Table 6.1: Overview of Client/Non-Client Interviews

	ID Number	Male (m) Female (f)	Client (c) Non-client (nc) "Non-client" ("nc")	PDI	Shop/home based
IAM Kabul (see table A7.3 for more details)	002	m	c	6	shop
	003	m	c	6	shop
	004	m	c	3	shop
	005	m	c	8	shop
	006	m	c	7	shop
	007	m	c	7	shop
	008	m	c	5	shop
	009	f	c	4	shop
	010	f	c	5	shop
	011	m	nc	0	shop
	012	m	nc	0	shop
	013	m	nc	0	shop
CHF Bamyan (see table A7.4)	015	f	"NC"	3	home
	016	f	"NC"	3	home
	017	f	"NC"	3	home
	018	m	c	3	shop
	019	f	c	3	shop
	020	f	c	3	home
	021	f	nc	0	shop
	022	f	"NC"	2	home
	023	f	c	5	home
	024	f	c	5	home
	025	f	c	5	home
AKDN Bamyan and Eraq Valley (see table A7.5)	027	m	c	8	shop
	028	m	c	6	shop
	029	m	c	9	shop
	030	m	nc	0	shop
	032	m	"NC"	2	home
	033	m	c	7	home
	034	m	c	6	home
	035	m	c	5	home
	037	f	c	7	home
	038	f	c	?	home
BRAC Mir Bacha Kot (see table A7.6)	040	m	"NC"	2	home
	041	m	c	3	home
	042	f	c	4	home
	044	f	c	3	home
	047	f	c	3	shop
	048	f	c	3	home
	050	f	c	4	home
	051	f	c	4	home
	052	f	c	4	home
WWI Kabul suburbs (see table A7.7)	061	f	nc	0	
	062	f	c	2	
	063	f	c	4	
	064	f	nc	0	
	065	f	c	4	
	066	f	c	3	
	067	f	nc	0	
	068	f	c	4	
	069	f	c	2	

<u>IMPORTANT:</u> "NC" = "non-client", basically a new client. See chapter 5, section 5, for definitions of "non-client" and *non-client.*

NB: Data from clients 061-069 (light grey) not included in most of the analysis. Data from 020 and 038 not included in any of the analysis.

1.2 General Results

Analysis of the grids in appendix 7 provides indications that microfinance does have a positive effect on Afghan lives. Comparison of clients with the control group, the *non-clients*, seems to confirm that, on average, livelihoods of the former will improve more than those of the latter. This is especially apparent from a quick glance at tables A7.1 and A7.2,[3] but a closer analysis of both grids provides more conclusive evidence. Box 6.2 is an example of how to calculate a client's 'livelihood improvement' (LHI) score. Table 6.2 is a stratification of the clients after averaging the scores. There is a fairly clear percentage advantage of clients over non-clients in the higher score ranges. Note that, for the moment, we are ignoring whether or not a client's data cell is coloured (which indicates a change linked to MF; see appendix 7); we are only looking at the numbers. Thus, table 6.2 appears to show that even though there might be no clear link (to the client or researcher) between a category's improvement and MF, MF nevertheless supports, however indirectly, a whole range of livelihood dimensions.[4]

Box 6.2 An Example of Averaging a Client's Livelihood Improvement (LHI) Score

No.	5. Physical Capital			6. Natural Capital			7. Human Capital				8. 'Personal' Capital			9. Social Capital			
	a) HH productive equip.	b) consumer goods	c) housing	a) Land & Ag. Prod'n	b) Animals	c) Water (for agric)	a) clean drinking water	b) doctor/med. access	c) food qual. and quant.	d) education/skills	a) Self-confidence	b) peace of mind	c) hope	a) relationships	b) cooperation	c) support/'safety net	d) trust
009				0	0		3	2		1	2	3	3	2			

Client 009's LHI is 0+0+3+2+1+2+3+3+2 divided by # of data points collected (9) = 1.78

Note: LHIs are calculated using sections 5a to 9a only.[5]

Table 6.2 : Average LHIs. Comparing clients and *non-clients*.

Average LHI score	Number of clients	Number of *non-clients*
2.1+	4 (15%)	0
1.6 – 2.0	6 (21%)	2 (25%)
1.1 – 1.5	11 (39%)	2 (25%)
0.6 – 1.0	7 (25%)	0
0 – 0.5	0	4 (50%)

[3] Zeroes predominate in the non-client rows of table A7.1 particularly, and the numbers of both tables generally become higher as you work down to higher-PDI clients.

[4] For example, if a client attributes his improved food security to MF, but the purchase of household consumer goods he attributes to a household member's new job, we might still suppose that MF has had a supporting role, since money is fungible.

[5] The data in sections 1-4 are of a different nature, and there are too many missing data points from 9b onwards to make a fair comparison. See tables A7.1 and A7.2.

The above data may not be entirely convincing, however. First, the number of *non-clients* constitutes a very small sample size. Secondly, even if the sample size were large enough, it is possible that, generally speaking, clients have initial advantages over non-clients, such as entrepreneurship and management abilities, and it may be the fact of these advantages, not MF, which is the primary cause of their livelihood improvements.[6] Thus more convincing data might be generated when respondents are stratified into their PDI values (table 6.3); indeed, it makes more sense in any case to consider a multi-stepped PDI spectrum, with *non-clients* as simply part of the lowest category (PDI 0-2), rather than an overly-simplified client/non-client division. *The table shows that average improvements in livelihood steadily increase with deeper participation in microfinance.*

Table 6.3: Average of Clients' Average LHI scores

	PDI 0-2 *non-clients (n = 8)*[7]	PDI 3 (n = 7)	PDI 4 (n = 5)	PDI 5 (n = 6)	PDI 6 (n = 3)	PDI 7 (n = 4)	PDI 8 (n = 2)	PDI 9 (n = 1)
Average of average LHI scores	0.80	1.12	1.28	1.57	1.43	1.63	1.65	2.40

The picture continues to be encouraging when one considers the number of categories in which clients attributed improvement (at least partly) to their participation in the MF programme,[8] represented by the colour cells in the appendix 7 tables. Out of 15 shop-based clients, 13 reported linked improvements in two or more livelihood categories,[9] and just two reported none in any category. On the home-based side, eight out of 14 reported two or more such increases, five said only one item had improved, and one reported no item had changed for the better. Out of all clients interviewed only one negative linked impact was reported: client 007 said his now-successful business was making him too busy to visit his friends.

Table 6.4: Number of Linked Positive Impacts Among Clients

	PDI 3	PDI 4	PDI 5	PDI 6	PDI 7	PDI 8	PDI 9
Shop based	2,1,2,3	4	3,2	0,0 hi wealth rank	4,8	2,7	6
Home based	1,2,3	3,4,4,4	5,4,0,2	1 eraq valley	0,1 eraq val'y		

An example: In the shop-based PDI 3 cell, there were four clients. The first and third clients reported two linked improvements. The second reported one linked improvement. The fourth reported three linked improvements.

[6] See box 5.2 for more details on 'initial advantages' of clients.
[7] Table 6.1 shows that there were 11 *non-clients*, not just eight, between ID numbers 002-052. However, interviewees 015-017 were of moderate quality and the data collected was sparse. Hence they are not included in the analysis in this section (1.2).
[8] If a client attributes an improvement to MF, that is henceforth called 'linked improvement' or 'linked impact'.
[9] That is, in categories besides the category for which the MF loan was specifically used.

However, some anomalies appear in table 6.4. Although the very general trend is toward a higher number of linked impacts with higher PDI, it is not necessarily a hard and fast rule. There were two shop-based clients with PDI 6 who reported no linked impacts, and three home-based clients (PDI 6 and 7) who also reported very little direct impact of MF. All five of these cases (see dark cells in table) had high wealth rankings, and thus we may assume that their varied and plentiful resources means they are less dependent on MF. Indeed, the two shop-based cases (002 and 028) are examples of where the MFP involved may have missed their target, i.e. accepted a relatively well-off client to whom a small loan would not make much difference. The other three cases were all in the Eraq valley, where AKDN had already provided other development support in the form of a school and clinic, and thus some positive changes might instead be attributed to those interventions.

2. Livelihood Analysis: MF's Financial Impact

Having given a broad overview of MF's impact on clients in the case studies, the next two sections (2 and 3) turn to an examination of the specific types of impact being made at the business and household level. Most of the livelihood categories will be covered one by one. In this research, respondents were not asked if certain categories were more important than others, but from an April 2005 survey of 1,609 Afghans, the Center for Strategic and International Studies reported that "there is no clear consensus...about which needs take priority. Afghans listed health, education, roads, electricity, and water all as vital priorities" (Linder, 2005: 16). However, since MF's basic function is to provide cash capital, the logical starting point is a look at its financial effects.

2.1 Business income and profit[10]

Naturally, the most immediate impact of microfinance on shopkeepers is on their business, since they are given the loan specifically for that purpose. Every client interviewed bought current or fixed assets, and the overwhelming effect has been positive. Eleven out of 15 clients reported a positive change (table 6.5); five said their business had increased by 25 to 60%, and three claimed two- to threefold rises in income or profit.[11]

[10] This analysis applies to shop-based clients only.

[11] Unfortunately, our questions and their answers were often not specific enough, so in some cases I do not know if they were talking about increases in income or in profit. My sense is that most of the time they meant income, but I can not be completely sure in all cases. Note especially the question marks on client 003 and 004, table A7.1, columns 3a and 3b.

Because of design limitations, the research was sometimes unable to obtain very precise information about a client's business. However, two examples are given in tables 6.6 and 6.7 of increases in business profitability. In the latter case, the hope in the man's eyes was palpable. He used to ask members of his extended family to invest in his shop. He felt bad about having to ask, and the investors were often disappointed in the small return. Access to more formalized credit through an MFP has freed him from this awkward situation. "It has helped a lot," he said.

Table 6.5: Shop-based Respondents' Reports of Change in Business Income or Profit over the Last Year

	Positive change	No change	Negative change	No information
Clients	11	1	0	3[12]
Non-clients	1	1	2	1[13]

Table 6.6: Client 008's Improved Business (a children's clothes and women's cosmetics shop in Kabul)

	Income/month	Expenses/month	Profit/month
Last year (2004)	\$240	\$140	\$100
This year (2005)	\$480	\$250	\$235
% increase	100%	70%	135%

Table 6.7: Client 027's Improved Business (dry grocery shop in Bamyan)

	Income/month	Expenses/month	Profit/month
Last year (2004)	\$300	\$150	\$150
This year (2005)	\$600	\$170[14]	\$430
% increase	100%	13%	287%

The few non-client shopkeepers did present somewhat of a contrast. In one case, sales income had fallen from \$130-140 to \$80-100 a month, the shopkeeper explaining that some customers were now going to a newly refurbished marketplace 10 minutes away. Meanwhile, rent for his shop had gone from \$60 to \$80 per month and government taxes from just \$6 to \$30 monthly. Hence he was currently operating at a loss. One wonders whether a loan would help him move to the new marketplace.

Still, not too much should be made of the difference between clients and non-clients just from these very few examples. It also should be noted that a handful of clients reported that their non-client family members were finding increased success in their businesses, unsupported by any MFP.

[12] Two of these cases were female clients whose male relative was the shopkeeper and user of the loan. In neither case was the male present during the interview, and the woman did not have detailed information about the business.
[13] One business in Bamyan was too new to make a definitive judgment.
[14] The shopkeeper only said rent had increased, and gave the same figure on expenses for his stock. However he later claimed he now had \$4000 worth of stock in-store instead of \$2500 last year. Thus the 287% increase in profit per month might not be accurate.

2.2 Business Assets

Clients used micro-loans to increase either their fixed or current assets, and occasionally both. In one case, a man used the loan to boost his shop stock. Subsequently, his now-higher profits partially contributed to three additional carpet frames (he had two before), and so now he is expanding his second business in which he employs several carpet weavers. In most cases, exact asset increases over the past year were not recorded, but three clients reported that the value of their in-store stock had risen by $500, $1000, and $1500 respectively.[15] For these retail shopkeepers, a full shop visually attracts customers, increases availability, and reduces the frequency (and thus transaction costs) of having to replenish supply. For manufacturing retailers, a higher amount of current and fixed assets translates into greater production. Three clients – a tailor, carpet maker, and metalworker -- noted how MF had helped them in this way. The tailor says that his business could make 40 *pehran tunbans* (shirt/pants sets) per week before receiving the micro-loans, but now can make 70 per week.

Another advantage of having access to MFP credit is that it reduces a shopkeeper's dependence on commodity credit, whereby materials are loaned out by a supplier on the promise of a cash payback at some later date. A handful of clients said they used to borrow in this way, one of them stating that his creditor would impose a 5% markup on the materials as the price of the loan.

The story of the metalworker highlights the importance of assets. At first, his statement that his business was much stronger this year despite the same level of income and expenses caused some confusion. However, he went on to explain that he has a larger stock of materials this year and $5000 worth of new tools and equipment. In the past, he would have to borrow from friends to obtain enough materials and equipment to meet demand. This would significantly slow production and create a backlog. "I felt like my hands were tied," he said, but now production is keeping pace, and "AKDN has helped me get out from these debts."

2.3 Business skills

Most clients had pre-existing skills and none had learned anything new with respect to technical or managerial skills as a result of joining an MFP. This is not particularly surprising since none of the case study MFPs offered business development services (BDS),[16] though a few were planning to in the coming year or two. A couple of clients

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[15] The last year and this year figures were: $1000 to $1500, $4000 to $5000, and $2500 to $4000.
[16] ...with the exception of AKDN in some provinces.

had learned a new technical skill (e.g. carpet weaving or tailoring) with the help of courses run by other NGOs.

A note on improved businesses

Of course, credit access is not the only reason these businesses are improving. The fact that Kabul and Bamyan are peaceful and their economies are healthy is no doubt of critical importance as well, and the fact that other businesses are succeeding without access to MFP loans should also be kept in mind.[17] When a woman was asked if other reasons such as these could be helping her business, she said, "No. Microfinance is the only reason." That is probably overstating the case, but it does illustrate how *appreciative most business clients were of these new MF services*, and how crucial a role MF is playing for at least a small portion of Afghan businesspeople.

It was encouraging as well to see three businesses which employed at least five workers, which means they can be classified as small enterprises, not just microenterprises.[18] Eventually, these medium-size ventures need to be supported with marketing analysis and larger loans; as Fisher and Sriram (2002:76-77) note:

> The micro-finance industry has become fixated with microenterprises...[which are] simply subsistence enterprises...Productive *small* enterprises [a step up], that can fill the missing middle between micro- and larger enterprises, [and] that can provide wage-employment to poor people...need to come back into focus for livelihood development.

In Kabul and other major urban centres, it is entirely plausible that growing small enterprises can indeed find larger sources of credit such as the First Microfinance Bank. Those in the smaller towns and the countryside will have a harder time, although BRAC's relative omnipresence (17 provinces) and Small Enterprise Programme[19] offer some hope even in those places.

2.4 Household Income

Even though an entrepreneur may see his or her business earn more, does that translate into an income increase in their household? Not necessarily, for some might reinvest in their business. Still, of the 11 clients who experienced positive change in their business, nine reported increased household income or expenditure capability (see table 6.8).

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[17] On the other hand, many of those businesses probably do have some access to *informal* credit and/or investment sources.

[18] Microenterprise: a business with up to 5 employees. Small enterprise: a business with more than five employees. See glossary.

[19] See appendix 1, table A1.1.

Table 6.8: Changes in Household Income	Linked improvement	Unlinked improvement	No change	Decline	Unknown	Notes
Shop-based clients	9	4	1		1	
Shop-based non-clients		2	2	1	0	
Home-based clients	6	6	0	1*	1	* The mother now lets her kids go to school instead of having them work, so income is down.
Home-based "Non-clients"	1	1	1			

From this point forward, home-based clients are also considered, and it is in this very category where the biggest difference between them and shop-based clients exists. Note (in row 3) that half of those whose household incomes increased could not attribute it even partially to MF. In Kabul, where families tend to form households in smaller groups and livelihoods are less diverse, a direct and tidy link from microcredit to a healthy business to a better household income can normally be made. However, because of the larger and more activity-diversified families in rural areas, such clear linkages sometimes cannot be made. Indeed, upon closer inspection of the six home-based 'unlinked improvement' cases in Table 6.8 (row 3, column 2), five of them included family members who had other occupations and contributed significantly to the household income, and so it was these contributions, and not those of MF, which clients pointed to as the key reason their household income was rising.

Box 6.3 -- Client 040: Income Improvement

This BRAC client appeared to be in the middle poor category. He has 10 *jeribs*[20] of land and a well-furnished large house. From the harvest late in 2005, he was hoping to earn about $1000. In addition, one of his nine daughters is a teacher who brings in $240 per year. From the BRAC loan early in 2005 and a loan from his friend, he bought an $800 cow, from whose milk he can get $20 a week, about $6 of which goes back to pay the BRAC loan. Thus, from the cow he hopes he can profit about $740. Thus, instead of an annual income of $1240 (harvest + daughter), the $740 extra would get him to almost $2000, representing about a 60% increase. If we reduce this down to daily income per family member (11 members), the figures would be: before the loan...31 cents/day; after...50 cents/day, still below the global poverty line ($1/day), but a significant increase.

Box 6.4 -- Case 044: Income Improvement

This BRAC client is in the lower poor category. She is a widow with four teenage children, has no land, and she receives no help from her (or her former husband's) extended family. The children do not go to school because they are too poor and have to work to earn enough money. Her two sons work in a bakery and together earn $14/week. With her BRAC loan, she bought three sheep, from whose milk she was getting $6-$8 per week. Three dollars of that goes to repay the loan. Thus the household income increased by 20 to 35%. She wants to learn sewing and buy a sewing machine with a future BRAC loan. Before loan...40 cents/day per person in the family; after...51 cents/day.

[20] One *jerib* is about 2000 square metres. See glossary. A 10-*jerib* farm would be considered medium size in Afghanistan. Many clients in Bamyan, for example, had just two or three *jeribs*.

One may still be tempted to highlight column 1 and note the impressive numbers (16 in all) of household incomes which *are* being boosted through credit access. However, it is the *magnitude* of that support that needs to be examined. In two cases, a fairly exact measure of the magnitude was possible (see boxes 6.3 and 6.4). Obtaining exhaustive details on the income streams of every household was beyond the scope of this research and in some cases (e.g. if the family was large) would have caused interviews to be too long. Table 6.9 does represent an attempt to hold a microscope to those 16 linked-improvement cases. The data indicates that the increase of six household incomes can *solely* be connected to credit access (see red and orange rows). In the remaining 10 cases, income-generating activities of other family members are also contributing to household finances. It is a complicated table to read, but the main gist is that the further down one goes the table, the clearer it is that household improvements in income can be attributed to other activities of the family besides those connected to the MF loan. The clearest example of this is client 007; while a 35% business improvement (with MF help) is impressive, it translates to just a 10% rise in household income.

Table 6.9: Households Whose Income Has Increased Due To Microfinance

Red rows show linked improvement, only because of MF. The MF-supported activity is the only activity of the family.

Orange rows show linked improvement, only because of MF. Other family members do have income generating activities whose income hasn't increased over the past year.

Green rows show linked improvement, but it is not clear if the income from other household activities has also increased. Also it is not known the percent the MF-supported activity contributes to household expenditure.

Blue rows show the percent the MF-supported activity contributes to household expenditure, but it is not clear if the income from other household activities has also increased

Yellow rows: It is confirmed that other family members' income has also increased over the past year, so we know that the MF-supported activity's success is only part of the household's success.

Client number	Shop- or home-based	Percent contribution of MF-supported activity towards household expenditure	Number of other family members who work	Notes (HH in this table = household)
003	s	100%	0	
004	s	100%	0	
010	s	100%	→	The whole family weaves carpets together
040	h	37%	1	Daughter works as teacher. Steady salary. He also gets income from crops. The MF-supported new cow (sales of milk) might contribute to a 60% increase in income. (Box 6.3)
044	h	20%	2	Two sons work in the bakery. Steady salary. MF-supported sheep milk sales have contributed to 20% increase in income (Box 6.4)
042	h	?	2	Family is involved in some cleaning, tailoring, and petty selling, none of which has caused an increase in HH income in the last year. The extra $3-5 per week they get now is from MF-supported sheep milk.
051	h	?	2	Husband is a day worker. Son sells things from a cart. Client used loan for a sewing machine. She could be contributing a significant portion, but she could not say how much.
052	h	?	4	1 son is a driver, 1 training to be a soldier, husband and daughters are teachers. Probably making $20/week extra from MF-supported cow's milk, which is probably making a moderate contribution to HH income.
024	h	?	2	They already had land, regular income. MF probably not making much impact
018	s	?	2	His two brothers work. Not clear how they contribute. In any case, the client himself had multiple income streams already, was very well off. MF's impact probably minimal.
009	s	60%	1	Husband charges batteries. Don't know if his business has got better, but her MF-supported tailoring still bringing in the bulk of the HH income
023	h	40%	3	40% comes from son who is a policemen, 20% from husband's mason job. Probably those two incomes have remained steady, so the MF-supported farm land's improvement making some contribution to HH increase.
027	s	25%	3	Each working man contributes to 25% of HH expenses, so he is now more capable of fulfilling that obligation and can reinvest in business. Not clear if the other men's businesses have also earned more recently.
006	s	40%	1	Father is shopkeeper also, whose business has improved in the last year.
007	s	38%	2	Father earns 10,000 Afs/month. Brother 15,000/mo, a 50% increase on last year. Client himself earns 15,000/mo, a 35% increase, thanks in part to MF. So MF's contribution is about (15000/1.35) 4000/mo, 10% of what they bring in for one month.
029	s	< 50%	2	The client's father, who earns most of money, had a 25% increase in business. Client's brother's business also has been better.

2.5 Household Savings

As mentioned in chapter 4 (section 2.1), none of the case study MFPs for this thesis, besides BRAC, provided a savings facility for their clients. Hence it is not very surprising that their interventions have had nearly no impact on client savings, even home savings. No non-BRAC client reported that their respective MFP was helping them save.[21] Among BRAC and the other MFPs which have savings facilities, new believers in the value of savings are being made (see box 6.5).

Box 6.5: BRAC Clients Learning the Value of Saving

"Ziagal says her savings account balance is small because at present she needs cash to buy raw materials and equipment to expand production. However, the saved money is indeed a comfort to fall back on in the event of hardships that may come in the household or in business"

"[Akima] has increased her weekly savings [from] Af 50 [to] Af 100 [$1 to $2]. Akima thinks that the savings are important to meet the emergency needs as there are no loans for such purpose. Sometimes she may be able to borrow from a friend or relative, but having own savings is good especially when the family has 8 members to take care of their needs including festivals and other social celebrations."

"[In a focus group discussion] clients identify that the savings facilities with an MFI restrain them from various potential temptations and abuses. Some clients feel that when a mother is savings regularly, the children are observing the activity and this may help them to do so as they grow."

Source: Chotani, 2005b: 10-11

In interviews of non-BRAC clients, seven out of 15 who were asked mentioned that they did try to save, quite apart from any reason related to MF intervention (some sample responses are presented in box 6.6). However, some encouragement and incentives offered by MFPs would seem to be needed in Afghanistan to at least strengthen any culture of saving that may exist.

Box 6.6: Client Responses To Questions About Savings Habits.

008: He will try to save for his future wedding; needs $1000.
009: They used savings in the past to build new rooms on their house; they still try to save.
061: They do save -- for emergency, weddings, funeral, sickness.
062: They try to save for ceremonies, emergencies.
035: They have about $100 for consumption purposes.
023: They have about $400 for consumption purposes.
034: They try to save for winter.

013. They used to save, but not these days.
027: He doesn't save. He re-invests everything into his shop
033: They say they can't save; they have to spend it right away.

Note: Mercy Corps recently conducted a survey of its clients to gauge interest in a savings facility. The top two reasons clients gave for needing savings are for education of their children and retirement. Only 5% said they need it for big social occasions like weddings
(Breton, 2005: pers. comm.).

[21] In fairness, the question was probably not worded very clearly (see CIS 4b question 3). It probably should have been, "Have you been better at saving money since joining the MFP?" One WWI client did say that the organization tried to teach her how important it is to save.

2.6 Indebtedness

As discussed in chapter 2 (sections 2 and 6.2), debt insecurity is a serious problem in Afghanistan which can lead to social strain and even violence. In the field research, 13 clients and three non-clients were found to have taken informal loans from friends, family, or shopkeepers. If the burden of that debt is heavy, the borrower is said to be 'indebted' or 'over-indebted'.[22] Ideally, one would hope that MFPs in Afghanistan are helping its clients out of informal indebtedness. On the other hand, some believe that semi-formal microcredit[23] "has merely replaced older dependency relationships...with new forms of dependency between poor people and purportedly pro-poor [MFPs]" (reported by Kabeer, 2002: 19). In the worst case scenario, MFPs could even be adding to the debt burden, whereby a client would be heavily indebted to both the MFP and an informal source.

Defining 'over-indebtedness' is an enormously complex task,[24] as it is not simply related to the size of the loan. It is important, for example, "that debts are considered against the asset portfolio and income level of [the] household" (Pain and Grace, 2004: 39), or to determine whether the loan is being used for consumption or income-generating purposes (ibid: 41). One guideline for MFPs is recommended by Bolani (2005):

> We have to ensure that microfinance service providers do not lend clients more than 33% of their gross salary. If we lend more than that, we are creating a debt trap for consumers and this may have very serious social implications.

However, one wonders if Bolani was leaving out the possibility of a client being under informal debt as well. Perhaps one good indicator of over-indebtedness, then, is if the total outstanding amount is more than one-third the annual income.

As mentioned in sections 2.1 and 2.4, exact business and household income figures were not pursued vigorously for every case. Thus Table 6.10 (page 134) is really a 'best guess' on the question of whether MFPs are helping clients out of informal indebtedness or in fact only adding to the burden. The good news for MFPs is the six people in category 1 who do seem to have escaped disadvantageous informal loan schemes by having access to semi-formal MF. Shopkeepers, for example, no longer need to ask suppliers for commodity credit at marked up prices. Especially noteworthy is the metalworker (client 029) whose borrowing of materials and equipment slowed

[22] Obviously, that is a very simple definition. A more nuanced definition is below.
[23] In general worldwide, not just in Afghanistan.
[24] See 'additional note' below.

down production and made him feel like his hands were tied. More worrisome to MFPs, however, are the seven cases where the client is now under a double debt. In five of these situations (category 2), there is reason to believe, but not enough information to state conclusively, that a client is actually coming under a more inescapable debt burden. In the other two (category 3), the evidence of extra indebtedness seems to be more clear.

The non-client results are equally mixed (although the small sample size of three must be kept in mind); on the one hand, case 011 shows that informal credit can lead to debt trap (see table 6.10 for full story), but on the other hand client 030 from Bamyan appears to profit from the informal system. He almost seemed proud of the IOUs as he held them up during the interview and expressed no desire whatsoever to join AKDN or CHF, both of which he was well aware.

In sum, the case study MFPs do appear to help some out of debt. On the other hand, because of sketchy client data as well as doubts as to what 'indebtedness' actually means (see below), one cannot be certain as to whether MFPs are also leading some into more of a debt trap, though there might be enough evidence here to raise suspicions.

Table 6.10: Indebtedness of Clients

General Situation of Indebtedness	Client number	Notes
1. MF is helping client to escape an exploitive (or at least disadvantageous) informal loan scheme. code + in appendix 7 tables	003	Before, had to pay markup (unknown percent) to get commodity credit, i.e. obtained leather from a creditor for his craft shop.
	007	Before, had to pay 5% markup on cloth to get commodity credit
	027	Used to ask for loans from relatives for his shop, with a promise of a percentage return. Client felt bad about asking them. Now he's indebted to no one.
	029	In the past, would have to borrow from friends to obtain enough materials and equipment to meet demand. This would significantly slow production and create a backlog. "I felt like my hands were tied," he said, but now production is keeping pace, and "Aga Khan has helped me get out from these debts."
	033	At end of Taliban rule, had to take a $2000 loan from a rich person, who charged 100% annual interest. It's paid off now and he says he needs nothing [no loans] because of AKDN, but he did not make it clear exactly how.
	065	Likes the small regular repayments instead of one big repayment, the normal custom in informal loan situations.
2. Hard to tell if MF is helping or in fact making client MORE indebted. code ? in appendix 7 tables	005	On top of the $300 IAM loan, has a $1200 AKDN loan. However, he's in a very high wealth group and does not seem worried.
	019	Before joining CHF, had to get a loan from a friend for son's operation. Amount is unknown, but loan is still outstanding.
	025	On top of $300 CHF loan, has a $800 loan (to buy a lorry) being charged at 60% annual interest. From the low wealth group. but exact income unknown.
	037	On top of a second $600 AKDN loan, has informal $1000 loan for a wedding. Used part of first AKDN loan to partly pay for a previous large house loan. One wonders if they are in cycle after cycle of debt. Income unknown.
	042	On top of the $100 BRAC loan, took a $100 (not sure when) from brother in law. $60 of that is still outstanding. They do not feel very confident about paying it back, but there's no due date. Annual income perhaps $300.
3. Seems like MF is indeed making client more indebted. code --? in appendix 7 tables	022	On top of CHF $400 loan, $800 in debt. Had borrowed $800 worth of potatoes in Bamyan and was going to sell them in Kabul for profit, but they all went rotten in transit. Due date for $800 loan was September 2005. Entire family makes just $100/month.
	040	Already had a $2000 debt to a nephew. Then got a $200 BRAC loan and wanted to buy an $800 cow, so borrowed $600 from a shopkeeper friend to cover the rest of the cow's price. Did the BRAC loan 'encourage' him to climb further into debt? Is that necessarily bad, if cow is investment? Annual income: $2000.
4. Non-client situations	011 'serious'	For the last few years, has been on average $2000 in debt. In one year, for example, got $1000 each from two friends. Two months ago asked for two more loans partly to cover previous loans. Afraid that the creditors will ask for money back ahead of time. Doesn't feel able to repay, so will pay back some of it, then ask for more time. Shop barely breaks even month to month and no one else in family earns income.
	013 'mild'	Often takes $60-80 consumption loans from extended family. Latest one he's a little worried about, that the person will want it back soon. Makes about $80/month from his shop.
	030 'no worries'	A heavy user of the commodity credit system. Buys supplies (on credit) in Kabul and resells them in Bamyan. On the next trip to Kabul, repays his debts with the profit and starts the cycle again. At the time of the interview, held IOUs totalling over $2000, and was not worried at all about it. Appears his shop runs at a good profit.

Attitudes toward their debt, if known	
Worried about debt, but still optimistic about life in general.	011, 013, 042
Not known if they are worried about debt, but optimistic about life.	019, 025, 037, 040
Specifically stated or showed they were not worried about debt.	005, 022, 030

----------------------*Additional Note: Clarifying 'indebtedness'?*----------------------------------

The purpose of this note is to both show the complexity of 'indebtedness' and suggest a way forward for researchers interested in examining whether MFPs add to debt burdens. Upon reflecting on the large amount of MF literature studied for this research, it is striking that almost none of it attempts to deal with this important question. As Mitra et al. (n.d.) assert: "'indebtedness' is a term surrounded by several overtones and therefore, the concept must be freed from the penumbra of fuzziness caused by the cacophony." To do so, they propose ten measures of indebtedness, which include both numerical measures and more intangible qualities (#8-10). Several other elements have been added from other sources (#11-13).

Box 6.7: Measures of Indebtedness

1. Amount of unproductive or consumption loans (per capita) incurred by the household
2. Per capita interest payment by the household
3. Per capita loan as a ratio to the value of productive assets held by the household
4. Amount of loan per cultivable area of land owned by the cultivator household
5. Per capita loan as a ratio to the repaying capacity of the household. The repaying capacity of the household may be defined in terms of savings, that is, the net income of the household over and above consumption expenditure and working expenses
6. Percentage of land holding/labour days made available to the lender on mortgage
7. Forced sale of produce when prices are low (e.g. in the harvest season) or working for the lender in the seasons of peak demand for labour, as a ratio to total disposable produce/labour days
8. An appropriate measure of the feelings of compulsion, guilt and helplessness
9. An appropriate measure of the feeling of offence to social status/erosion of social status
10. An appropriate measure of a feeling about the coercive powers exercised by the lender.
11. Selling assets to cover a loan.[25] (Wilson, 2001: 87; Grace and Pain, 2004: 39)
12. Taking out new loans to cover old loans (See interviewee #011 in table 6.10)
13. Total loans more than one-third of annual salary (Bolani, 2005)

Sources: 1-10 are quoted from Mitra et al. (n.d.).

Of course, one has to then provide benchmarks and weight the importance of each variable so that an indebtedness 'score' can be attributed to each client. Then the client must be tracked longitudinally to determine if an MFP is helping to decrease or increase that score. Such detailed analysis was beyond the scope of this thesis, but table 6.11 shows an initial attempt to use the 13-point framework of box 6.7 to compare several respondents.

[25] See Wilson (2001: 87). A Cambodian woman reports that three or four MFP clients had to sell assets to make the monthly repayments; she says that did not happen before when having to repay moneylenders.

Table 6.11: Three Client Profiles Measured Against Indicators in Box 6.7 (loosely applied).

	011	040	042
Some data	$2000 informal debt non-client 6 person family # who work: unknown	$2600 informal debt $200 BRAC debt 11 person family # who work: 2	$100 informal $100 BRAC debt 7 person family # who work: 3
1	no consumption loan	no consumption loan	$100 consumption loan (informal)
2	0% informal	17.5% BRAC 0% informal	17.5% BRAC 0% informal
3	very few productive assets	farming equipment	very few productive assets
4	no land	10 jeribs (medium size)	no land
5	seems like almost no profit from business	$2000/year	about $300/year
6	no pawning	no pawning	no pawning
7	no forced sales	no forced sales	no forced sales
8	feels fairly helpless	doesn't seem worried	a little worried
9	feels socially accepted	feels socially accepted	gets social support from MF group
10	no coercion	no coercion	no coercion
11	no information on selling assets	no information on selling assets	no information on selling assets
12	covered loan w/another	no	no
13	loan > 33% salary: yes	loan > 33% salary: yes	loan > 33% salary: yes
Analysis	Very much indebted. If a client, would need long-term refinancing plan.	Moderately indebted. BRAC loan is perhaps harmfully adding to load.	Somewhat indebted, and BRAC loan ($100) is on the edge of Bolani's 33% criteria.

------------------------------------- end of Additional Note ---

2.7 Summary

Basic microcredit is certainly improving the financial status of many clients. A respectable proportion (16 out of 28) of clients link increased household income to their access to semi-formal credit, though the magnitude of those increases should in some cases not be overstated. As it is seen below (sections 3.3 and 3.4), additional financial rewards are being reaped through increased land and livestock production (both due to microcredit support). *However, many of the households appear vulnerable to shocks* (economic downturn, drought, etc) as few or no savings/insurance facilities are available. Finally, there are several cases where the MFP loan could only be adding to the debt burden of a client. More careful screening of clients[26] and consideration of more protective services might be in order.

[26] However, MFPs should not necessarily be blamed for dual indebtedness, as client applicants often do not share whether they already have taken loans from other sources.

3 Livelihood Analysis: Material and Human Benefits

Table 6.12 below is a summary of the results of the client (not including non-client) interviews conducted for this thesis, with respect to key livelihood categories. In sections 3.1-3.7, we look especially at the grey-shaded rows. the question we are asking is the following: with the new credit access and generally improved income, what *other* material livelihood benefits (that is, benefits besides what was purchased with the loan) are clients experiencing, and to what extent can those benefits be linked to MF?

Many of the tables in the remainder of this chapter follow a similar format to table 6.12 and are basically condensations of tables A7.1 and A7.2. Yellow or green-coloured 2s and 3s in those tables means that clients felt that a particular livelihood category improved moderately or greatly, thanks to MF. The number of clients who believed this was counted and the total put into column 1 below. The number who believed in that MF helped them, but the improvement was small, was placed in column 2. And so it proceeds. See the notes beneath table 6.12 for details.

Table: 6.12. How MF Changed Client Lives (not including how they used the loan)

	1	2	3	4	5	6	7	
	Medium or large (2s or 3s) Linked improvement	Small Linked Improvement (ones)	Unlinked improvement	No change	Decline	Unknown	Linked improvement ratio among known data	Notes
Household income	16		9	1	1	2	16/27 (59%)	
Household Productive Equipment	2	0	4	11	0	8	2/17 (12%)	but four clients used loan to buy prod. equipment
Consumer Goods	6	1	10	9	0	3	7/26 (27%)	
Housing	7	1	13	5	1	2	8/27 (30%)	
Land	8	0	3	17	0	1	8/28 (29%)	
Livestock	2	1	1	14	0	2	3/18 (17%)	but nine clients bought livestock with loan
Medical Care	4	3	10	7	0	5	7/24 (30%)	
Food	12	0	13	1	0	3	12/26 (47%)	
Personal Capital	8	0	16	0	0	5	8/24 (33%)	
Relationships	7	0	8	8	0	6	7/23 (30%)	

How to read this table: Let us take 'housing' for example. The question was, "How has your housing situation changed in the last year, and why?" (See appendix 4, question 5c). This table shows that it improved significantly for seven clients and they felt that MF had a role in the improvement. One client said it improved a little, with MF also having a role. 13 clients noted improvements, but the reasons for them were other than the help from MF. Five said there was no change. One said the housing had become worse over the last year. In two cases ('unknown') no data was collected, either because there was not enough time for the question, or the client did not give a clear answer. Thus, among the data we know about, we can say that eight out of 27 clients believed that MF had a role to play in improvements to their housing situation (column 7).

NB: Based on information from 29 clients

3.1 Household Productive Equipment and Consumer Goods

As is clear from table 6.12, household productive equipment (not obtained through the MF loan) is among the lowest of priorities among the sample, which is understandable. A poor family will first need more basic essentials such as food and shelter, and in any case cannot afford high-priced productive equipment. Apart from one respondent, who bought a plough, everyone in the 'improvement' categories bought a sewing machine. The table below summarizes the findings.

Table 6.13 Household Productive Equipment	Medium or large linked improvement	Small linked improvement	Unlinked improvement	No change	Decline	Unknown	Notes
Shop-based clients (15)	2	0	1	5	0	7	
Shop-based non-clients (5)			1	3	0	1	
Home-based clients (14)	4*	0	3	6	0	1	
Home-based "non-clients" (6)	1*		2	1	0	2	
*Four home-based clients and one new client used their loan directly to buy sewing machines for business purposes. However, these are not counted in table 6.12, the purpose of which is to look at the knock-on impacts of the loan, not the direct impact (i.e. not the loan use).							

Table 6.14 Consumer Goods	Medium or large linked improvement	Small linked improvement	Unlinked improvement	No change	Decline	Unknown	Notes
Shop-based clients (15)	4	0	5	3	0	3	
Shop-based non-clients (5)			1	4	0	0	
Home-based clients (14)	2	1	5	6	0	0	
Home-based "non-clients" (6)			4*	1	0	1	
*Three of the four improvements were reported as "small" (score = 1)							
Items purchased: TV/DVD players, carpets; floor cushions (used for guests to sit on, and for sleeping), motorcycles, generators, computer, washing machine.							

The accumulation of consumer goods ranked slightly higher than productive equipment. Not everyone specified the recent items they purchased, but of those who did, nine said they bought carpets or *toshaks* (floor cushions), which for an Afghan family are an essential part of what makes a 'home', and makes the guest room presentable.[27] On the more non-essential side, nine TVs and/or DVD players were

[27] Because of this, it is possible one could put carpets and *toshaks* under the housing category instead of under 'consumer goods'.

purchased (all by clients); eight of these nine clients were from the middle to high poor categories.[28]

3.2 Housing

There were two aspects to exploring the housing question: whether their living situation was improving because of rental or ownership arrangements; and whether their housing conditions were being kept up through maintenance and perhaps improved through construction. Except for the one shop-based client 'decline' case below[29], all of the results in table 6.15 have to do with the maintenance.

Table 6.15 Housing	Medium or large linked improvement	Small linked improvement	Unlinked improvement	No change	Decline	Unknown	Notes
Shop-based clients (15)	4	0	4	4	1	2	
Shop-based non-clients (5)			2	1	2	0	
Home-based clients (14)	3	1	9	1	0	0	
Home-based "non-clients" (6)			1	4	0	1	
Types of housing improvements and maintenance: painting, small repairs, adding new rooms, building entirely new compounds.							

Because of the wartime destruction of homes and property alluded to in chapter 2 and appendix 2, housing construction and repairs have been a major priority in each of the three study areas (Kabul, Bamyan, Mir Bacha Kot) since 2001. A number of NGOs in the postwar period have made this a development priority; several of the improved cases reported that it was another NGO who helped them rebuild their house. Most of the people interviewed in Bamyan and Mir Bacha Kot were returnees to their former property, and it was striking how many of them mentioned how their newly-found peace of mind and hope were due to being "back in our own home."

It does appear that access to credit gives a boost to clients in this regard when compared to the control group. Among 27 clients, 21 had made some improvement to their household in the past year, whether it be maintenance, repair, or expansion. In

[28] Buying TVs and DVD players may seem incongruous for a poor person, but it is not altogether surprising from my personal observation of Afghans. Even in a Peshawar refugee camp in 1990 filled with mud huts, I walked into one guest room immaculately decorated with a nice TV and video player. My Afghan friends in America, scratching by on petrol station attendant salaries in the mid 1990s, nevertheless had better furniture and bigger stereo/TV systems than my own middle-class parents! It may have to do with guest and host customs. In Afghanistan, the host earns honour by a lavish display of hospitality, and perhaps the setting, the room where the hosting is done, should be equally lavish for honour to be imparted.

[29] A cousin was moving back into a flat that the cousin had let the client use for free, and so the client soon had to move out.

contrast, only three of eight non-clients had done any repairs or construction.[30] Still, of course, there are some clients who have been so poor that it is going to take a while longer for credit access to make an impact in this area. One Kabul family, for example, comprises ten people who have to squeeze into one room. They actually do own a two-room house, but out of financial necessity, they have to rent the other room out.

3.3 Land

Similar to the housing section, two questions were asked: one about ownership or renting arrangements, and one about land production. The former seemed to be rather static; only one of the 11 improved cases (see table 6.16, columns 1 and 3) experienced a positive change in rental/ownership matters; the remaining improvements had to do with land production. All non-Kabuli landed clients indicated no change regarding the land they owned, and no evidence of land disputes was uncovered, either from clients or from interviewing village elders. Thus, the remainder of this section discusses only land production and not land arrangements.

Table 6.16 Land and Agricultural Production	Medium or large linked improvement	Small linked improvement	Unlinked improvement	No change	Decline	Unknown	Notes
Shop-based clients (15)	3	0	1	11	0	0	
Shop-based non-clients (5)			0	4	1	0	
Home-based clients (14)	5	0	2	7	0	0	
Home-based "non-clients" (6)			2	3	1	0	
Non-Kabuli landed clients	7	0	3	2	0	0	just looking at production
Non-Kabuli landed *non-clients*			2	0	0	0	just looking at production
The first two rows of this table need to be interpreted carefully. Most of the respondents in those rows live in Kabul and so questions of land and land production are somewhat irrelevant since most Kabulis do not own land for cultivation. Three out of the four improved cases in row 1 are shopkeepers in Bamyan who have land. The one Kabul case recently bought 500 sq. m. of land in the far north of the country.							

The numbers in the first four rows of table 6.16 present an unclear picture because: a) they include Kabulis, to whom land issues normally do not apply; and b) they include non-landed Afghans, and since all but one of the changes had to do with land production (rather than ownership), again the data assigned to them really has no meaning. Thus, if we only look at the production changes for the non-Kabuli landed (the grey rows), the picture comes more into focus. Seven out of 12 clients attributed

[30] One of those three had only done some painting; the non-client was dissatisfied with his housing overall; he wanted to add on a room but did not have enough money.

(at least partly) better land production to credit access, quite an impressive number considering the fact that nearly every respondent in the grey rows also acknowledged the plentiful snow and rain of the 2004-5 winter.[31]

Taking a closer look at how the seven attributed improved land production (table 6.17), four cases stand out as particularly interesting. In two cases (027 and 029), Bamyan shopkeepers reported that MF helped their business. Later in the interviews it came out that fertilizer was bought with the extra profits from their shop, leading to better production on their land. Clients 034 and 035 (interviewed together) stated the linkages even more explicitly: they both have over 20 sheep or goats (plus offspring), most of which were bought with AKDN loans; this means that they now have a lot more fertilizer to use on their small farms, greatly helping land production. *Both pairs of cases demonstrate that microfinance assistance not only have immediate impact, but can also have positive flow on effects.*

Table 6.17: Microfinance Role in Improving Land Production

Client number	Income generating activities	How land production improved
023	family does various jobs & has land	bought potato seed with micro-loan
024	various jobs & has land	bought fertilizer with micro-loan
027	shop, land	fertilizer bought from business profits
029	metalshop, land	fertilizer bought from business profits
034	land, animals, tinsmith	loan → more animals → more fertilizer
035	various jobs & has land, animals	loan → more animals → more fertilizer
041	various jobs & has land	built a well (to help irrigate the farm) and bought fertilizer with the loan

3.4 Livestock

Bamyan province, like the entire Hazarajat region of which it is a part, is a high mountain area with a short growing season. Thus, "Hazarajat [including Bamyan] is a chronic food deficit area. Livelihoods are heavily dependent on sales of livestock and migration to make up for this deficit" (Christoplos, 2004: 19). Wily (2004b: 6) also notes that "Hazaras have historically been agro-pastoral rather than solely farmers." This was certainly confirmed by the field research in Bamyan; 11 out of 12 home-based clients there purchased livestock with some or all of their loan money. In Mir Bacha Kot, on the

[31] I.e. the seven people in column one were able to separate out the effects of the good winter and affirmed that other factors (helped by credit access) also had a role. Incidentally, the good winter was the reason given by the 'unlinked improvement' clients and non-clients for 2005's better land production. Finally, the very small control sample in this case prohibits making any meaningful comparison between clients and non-clients.

other hand, 'only' five of eight did so, but at a much smaller scale since the first BRAC loans are only $100 (women) to $200 (men). One male client compensated for this small amount by borrowing another $600 from a friend to buy an $800 cow, which raised concerns regarding indebtedness (client 040 in table 6.10).

The livelihood benefits of livestock have been partly illustrated earlier in this chapter; fertilizer and milk production can lead to increasing agricultural (table 6.17) and financial (boxes 6.3-4) yields respectively. Another benefit is the draught power they provide, which a few clients mentioned. Finally, needless to say, they are a valuable asset which can be sold in a pinch, or preferably kept in order to reproduce and create additional living assets. With the help of microfinance, a client can help push the numbers up dramatically. Compared to summer 2004 when she had three sheep, a one-year client now has 20. A two-year client (#033), with two AKDN loans in that time span, has purchased 26 sheep, and from having zero sheep two years ago, he now has 100. *Among most agricultural clients in Bamyan, then, MF seems to be playing a key role in revitalizing a key livelihood strategy (raising livestock) which had been obstructed during years of war and drought.*[32]

3.5 Water (for agriculture and drinking)

Except for a few cases, most respondents had adequate access to both drinking water and (for farmers) irrigation. Two clients used micro-loans to dig personal wells. A handful of others commented that water access had improved over the last year either because of the excellent winter of 2004-5 or because a new community well had been built by an NGO or from the village's initiative.

3.6 Medical Care

A pair of questions were asked of respondents, regarding their ability to pay for medicine, and their ability to pay doctors. There are quite a number of unlinked improvements because Bamyan hospital provides very cheap service and medicines, and free clinics were available in Mir Bacha Kot and the Eraq valley.

[32] Cf. chapter 2, section 2.

Table 6.18 Access to Medical Care	Medium or large linked improvement	Small linked improvement	Unlinked improvement	No change	Decline	Unknown	Notes
Shop-based clients (15)	3	0	5	3	0	4	
Shop-based non-clients (5)			0	1	3	1	
Home-based clients (14)	1	3	5	4	0	1	
Home-based "non-clients" (6)			2	1	0	3	

Although the control group size is small, row 2 column 5 (highlighted) is somewhat striking in the number of non-clients (3) who note a decline in their felt ability to deal with medical costs. All three Kabulis complained about higher doctor fees and medicine prices, while only one client out of the nine Kabuli clients made a comment about "greedy doctors". Two female IAM clients in Kabul seemed particularly pleased that because of the help from the credit programme, "we are now able to buy medicine."

A BRAC client (a widow) also illustrated her appreciation with a revealing story. She said that the day before she had taken a small loan from a neighbour in order to get some medicine. She was confident she could easily pay back that loan because of the income she now earns every week from selling sheep's milk. In contrast, "last year [before joining BRAC], when I fell down and hurt my head, I couldn't afford to go to the doctor."

The research did not include questions about whether the actual health of family members was improving, mostly because the answers would be too subjective; a longitudinal analysis based on verifiable indicators is really necessary to examine such a question. Because BRAC integrates lessons about health and hygiene (chapter 4, section 2.2), it would indeed be interesting to compare the improvement of health indicators of BRAC clients compared to clients of another minimalist MFP which targets a similar population (as was done for Project HOPE in South America. See table 3.3 in chapter 3).

3.7 Food

Not surprisingly, credit access had food consumption impacts on more people than in any other category, besides income (tables 6.12 and 6.19), with 12 clients explicitly or implicitly linking microfinance to their improved diet. Food consumption improvement also appeared to be the quickest effect of microfinance; the two "non-clients" (really new clients) of row 4 of table 6.19 reported that their better diets were in fact the *only* linked impact of MF so far in their lives.[33]

Table 6.19 Food Consumption	Medium or large linked improvement	Small linked improvement	Unlinked improvement	No change	Decline	Unknown	Notes
Shop-based clients (15)	6	0	6	0	0	3	
Shop-based non-clients (5)			1	3	0	1	
Home-based clients (14)	6	0	7	1	0	0	
Home-based "non-clients" (6)	2	0	2	1	0	1	

The question remains as to how and why diets were improving. Because this thesis was attempting to cover the whole spectrum of livelihoods (breadth instead of depth), the research could not examine deeper questions such as the magnitude and makeup of dietary improvement[34] or precisely what percentage of food consumed came from which sources, (i.e. from purchase, own-production, non-market exchange, gleaning, gifts, etc).[35] *Most of the linked-improvement cases did suggest that micro-credit led to greater incomes which led to more food on the table*, suggesting that clients purchased a significant portion of their food, rather than solely relying on own-production or other means. This would fit with data presented by Grace and Pain (2004: 18), which showed that 196 out of 390 rural households obtained at least 50% of their grain through purchase (see chapter 2, section 3 for more details on their study).

3.8 Education

Unfortunately, because the education question on the CIS was too general and attempts to make it more specific and meaningful failed, this area was often skipped during later interviews and thus not much data was retrieved. Thirteen people did report improvements, all unlinked to MF (except for one who said she now could afford school supplies for her kids, with money from sheep milk sales). One lower poor Kabuli client with two very young children said that because of the help from MF, "we now think our children [when they are older] can go to school instead of going out to work." Another in Bamyan has indeed now let her children go instead of working at home on

[33] In contrast, only one of four shop-based non-clients (that is, 'true' non-clients) reported improved food consumption.
[34] Questions would have examined how many times meat and vegetables were eaten per week, and/or would have attempted to measure average calorie intake per day.
[35] Again, early versions had these questions as well, but they had to be cut to shorten the schedule.

carpets, even though she knows the income is a bit less. Finally, a BRAC client in Mir Bacha Kot says her family is still too poor and so her teenage boys must work.[36]

3.9 Contributing to Diversity

In earlier sections of this thesis[37] the importance of diversifying income-generating activities was noted, both at the regional and household level. In terms of the former, it was also observed that Afghan MFPs, as a whole, were indeed helping to support a range of activities. It was also noted that there was an encouraging upward trend in the percentage of loans being used for activities related to the important agricultural sector, 16% as of December 2005 as compared to just 7% at the end of 2004.

In terms of looking at the household level, the research question might be: from their involvement in an MFP programme, have clients (or their family members) added at least one new income-generating activity to their portfolio? Clients of IAM-MED have naturally not done so since one of MED's criteria of acceptance is that the candidate must already have an established business (and the loan must go towards supporting that business). Among the 39 clients of the four other MFPs (including WWI), however, 11[38] were found to have added (or were planning to add) an activity with the help of the MFP; the details are shown in table 6.20.

Table 6.20: Microfinance Leading to Livelihood Diversification

Client Number	Activities already performed by family	New activity supported by micro-loan.
015	crops, carpets, shepherd	raising own animals
022	cooks, day porter	raising a cow
023	policeman, crops, mason	raising animals, tailoring
025	lorry	raising goats
032	teacher, raising animals, crops	(future loan use): start wood-selling business
035	stonework, crops	raising animals
037	watchman, day worker, porter, crops	carpet weaving
042	tailor, casual retail	raising sheep
044	baker	raising sheep and in future wants to learn tailoring (use loan for sewing machine)
048	farmer (for others)	raising a cow
066	shoemaker	thinking about starting some other business

[36] The question on the CIS was: has the education and/or skills of your family, not just children, improved in the last year? I did not realize that they would still primarily think of their children in this question, and the issue of children having to work instead of going to school had not been in my mind until a client talked about it. In the end, three questions should have been asked: 1) Has the education of your kids improved? How and why? 2) Some families are so poor that the children have to work instead of going to school. Was that true for your family in the last few years. Is it true now? Why or why not? 3) What about yourself or other adults in your family? Have they learned anything new recently, for example by taking a course?

[37] Chapter 2, section 3 and chapter 4, table 4.4.

[38] The number may be higher; this theme was not explicitly explored until after the fieldwork had finished.

Thus, by adding another income-generating activity, MF clients are helping to protect their livelihoods from future shocks. Showing their entrepreneurial spirit, several (032, 044, 066) are plotting to adjust or expand their strategies with future loans; client 066, in fact, is thinking about replacing her shoe-making business with another kind of business because she realizes she cannot compete with cheap Chinese imports. As mentioned before, this flexibility of loan usage is certainly one of MF's distinct advantages over other development interventions. If 'development' is taken to mean the elimination of "unfreedoms"[39] and the expansion of life options, as Sen (1999: xii,3) suggests, then microfinance is certainly fulfilling that developmental role among a good number of interviewed clients.

3.10 Empowering Women?

Has the expansion of choice and realization of new freedoms reached to women clients as well? The relationship between conflict, microfinance, and women (and especially the politically sensitive topic of *Afghan* women) was by design not a focus of this research for fear of overly broadening its scope.[40] Suffice it to say, however, that women in a post-conflict situation are normally the ones who both require MF the most and contribute towards peace and MFP sustainability the most. They have lost male family members (causing both economic and psychological hardship), have been often sexually abused, carry the burden of caring for increased numbers of wounded, orphans, etc., and their economic options (wage labour or starting a business) are often restricted by cultural norms, which is especially the case in Afghanistan. On the other hand, it has been well documented that women are more responsible borrowers than men when it comes to repayment and their use of the loan (e.g. in Doyle, 1998: 22). Women can be mobilized easier in peacebuilding efforts (ibid), though not always (Anderson, 1999: 31). MFPs are both fulfilling developmental objectives and contributing to their own sustainability when they extend MF services to women.

Women can be empowered through microfinance by, for example, being integrated into the local economy and thus gaining individual political clout, or increasing their collective social and political capital through MF solidarity groups. This thesis, however, originally aimed to (briefly) examine MF's empowerment impact at the household level only. Unfortunately, the one question on the CIS related to this[41] was eliminated in the final versions due to fears it would create husband-wife tensions. Thus, the 'results'

[39] I.e. unwanted situations from which people do not have the choice or opportunity to escape.
[40] However, it was deemed to be critical to interview women for this research since they comprise about 90% of microfinance clients in Afghanistan.
[41] The question was for women only: "Who in the family makes decisions about spending money and using the loan?"

below are based on observations during the interview, inferences, and outside opinions.

An important concern for MFPs who target women as beneficiaries is whether the women they have selected turn out to be merely 'ghost clients', applicants who "serve as a 'front end' or entry point to the loan scheme by male borrowers" (Alidri et al., 2002: 75). If so, if the male is actually pulling the strings, the MFP could in fact be entrenching the very household power structure it is attempting to modify. Hunt and Kasynathan (2002: 71) cite studies that show that only 28% of BRAC-Bangladesh female clients actually control the loans. As for the field results (if we exclude the six widow-led households), male power clearly dominated in three out of 14 cases where women were supposed to be the clients. One woman, in fact, hardly knew any details of her husband's shop to which the loan went. An MFP female field officer said in resignation, "99% of Afghan homes are like that, where the man controls everything."

However, it may not be as 'bad'[42] as all that. In most of the remaining 11 cases, the woman was either using the loan herself or at least appeared to have equal say in the decisions about loan use. Of course, with the lack of data from the past, it is impossible to tell whether the women involved have always had this decision-making power or whether MF has somehow empowered them. But in any case, one Afghan credit officer pointed out that MF can have a more subtle impact, in that female clients who do use the loan for their own income-generating activities can serve as an example to other women in the community. Indeed, a new WWI client noted that she was attracted to joining the MFP because she saw the benefit MF was having on other women in the community.[43]

3.11 Summary

Summarising section 3, there are sure indications of improvement in the livelihoods of clients interviewed during the field research, in terms of their material well-being and in terms of human capital. Furthermore, there is a diversity of impact, as some choose to use their new-found relative wealth to improve their housing while others decide to improve their diets or their children's education. Thus, microfinance is helping to relieve

[42] The word 'bad' is put in quotes to indicate a value judgment. Admittedly, championing empowerment for women can reveal, whether we like it or not, a culturally coloured viewpoint, as the concerns Afghan women have may differ from what the West believes those concerns should be. Johnson and Leslie (2004: 35) cite a UN commissioned study during the Taliban where "Afghan women interviewed...seemed mostly concerned for the rights of their children...and *then* concerned for their own rights as women" (emphasis added).

[43] This kind of subtle, slow, 'transformation by stealth' method is probably the only way Afghan culture *can* ever change. If it happens, it will be a long process, "and yet often the international community has talked of women's rights as if someone could just flick a switch and bring them into being" (Johnson and Leslie, 2004: 34).

material and human poverty, as well as enabling people (with the exception, however, of many women 'ghost clients') to have a greater decision-making power over their own lives. This reduces the feeling of powerlessness and frustration, potentially reducing tensions and the potential for conflict. This needs to be kept in mind as it is now examined whether MF is building peace in other ways as well.

4. Microfinance Building Peace?

One of the main research questions of this thesis has been whether or not microfinance in a post-conflict setting can be a vehicle for peacebuilding in ways including, and in addition to, its traditional role of poverty alleviation. Chapter 3 (section 2) introduced a conflict sensitive framework (table 3.7) which suggested a number of such alternatives, while chapter 4 (section 3) examined whether and in what manner MFPs in Afghanistan were employing such approaches. This section now investigates the impact these conflict sensitive approaches (or lack of same) have had on clients and the communities in which they live.

4.1. Is Microfinance Building Peace through Indirect Mitigation?

As was pointed out in chapter 3 (section 2.2.3a) every MFP in a post-conflict setting believes in indirect mitigation, i.e. that firstly: microfinance reduces poverty, which decreases the probability of conflict; and secondly, enhancing economic activity will have important side-effects in terms of conflict reduction. Regarding the first assertion, sections 2 and 3 have already discussed MF's impact on poverty, but we do return to this theme in section d) below. For now we focus on the second idea. Through the course of discussing the indirect mitigation mindset in chapters 3 and 4,[44] some specific psychosocial by-products were hypothesized. They are as follows:

> a) Restoring economic activity through MF helps the individual *recover from postwar psychological trauma*, bringing a sense of 'normalcy', boosting confidence, and offering hope (chapter 3, section 1.1.3).
>
> b) Closely connected to the first point, increased business activity will naturally '*bring people together*' during business transactions and thus heal psychosocial damage through inter-personal contact (chapter 3, section 2.1; chapter 4, section 3.1). We might also hypothesize that, simply, wealth also helps to bring people together.
>
> c) The transactions of *MF activity itself*, i.e. the disbursing and collecting of loans, *restores individual and collective psychological health*. (chapter 3, section 1.1.3, chapter 4, section 3.1)

Each of these is examined in turn below.

[44] Chapter 3, section 2.1 and chapter 4, section 3.1

a) Recovering from individual trauma

This is exceedingly relevant for Afghans, 95% of whom have been affected psychologically by the war (chapter 2, section 4). There were three components to this area: an interviewee's self-confidence, peace of mind, and optimism. In this case, shop-based and home-based clients have been combined as there seemed to be no reason to separate respondents into the two groups; hence the shortened table 6.21 below.

Table 6.21 Self-confidence, Peace of Mind, Optimism.	Medium or large linked improvement	Small linked improvement	Unlinked improvement	No change	Decline	Unknown	Notes
Clients (29)	8	0	16	0	0	5	
Non-Clients (11)			7	1*		3	Respondent 021 is worried about her children out of normal maternal concerns

NB: in six of the 23 unlinked improvement cases, the reason for the change was not asked or made clear.

A couple of related features of table 6.21 stand out; first, almost everyone interviewed expressed an improved frame of mind and state of emotion.[45] Secondly, there does not seem to be any difference between clients and non-clients in this area; both appear equally confident and optimistic. Especially notable were two non-clients (011 and 013) in Kabul, who seemed to be struggling in every other livelihood aspect and were somewhat downcast, but who still answered that they were more hopeful and 'at peace' than in the past.[46]

This suggests that the reasons for improved 'personal capital' had more to do with factors outside the particular situation of the respondent than with his or her personal situation. Indeed, 21 respondents said that the general peace[47] of Afghanistan and/or their community was the primary reason for their mental and emotional well-being, while just nine said it was due to their family's business or financial situation. In other words, for most, the linkage between mental health and peace works from the latter to

[45] This positive outlook was apparent not only in what they said, but in *how* they answered. As mentioned elsewhere, I was struck with the new-found confidence and hope in Afghan faces, and in the optimism in their tone of voice, quite a contrast to when I was there during the Taliban.
[46] Still, considering the small non-client sample size, we cannot say how much of this 'optimism' really pervades society. A recent FIFC report found that "some women and unemployed youth felt that two years ago people were more hopeful but that their expectations had not been met" (Donini et al., 2005:17).
[47] To be precise, 14 respondents said "peace", "security", or "no more Taliban". Four mentioned that it was because they were back in their own homes. Three others said it was the good economy. As one woman in Mir Bacha Kot said, "[The previous] war made economic trouble for us."

the former (peace → mental health), the reverse of our hypothesis (MF → mental health → peace).

Therefore, even though a fairly high number (eight – table 6.21, row 1 column 1) of clients affirmed a link between MF and their personal capital (MF → mental health), the fact that *nearly everyone's* capital has gone up for exogenous reasons dilutes the strength of that link. This is not to say that MF has no impact in this area, but simply that it is difficult to separate MF out from the other factors and prove conclusively the magnitude of its impact.

b) Bringing people together

It has been shown (sections 2,3) how microfinance does indeed seem to be improving the financial health of businesses and households. Does that translate into, for example, more friendships, social visits, and greater trust? That financial poverty becomes a social problem especially for Afghans is illustrated in Box 6.8 and is explained by the fact that "hospitality is a key aspect of Afghan culture and is linked with…cementing positive social relations, reciprocity and gift-giving." Thus, poorer households "cannot keep up with [these] many social obligations" (Hunte, 2004: 10). *By boosting their financial health, microfinance can assist Afghan clients in meeting these obligations and thus increase their social capital.*

Box 6.8: Poverty and Visiting

"People don't come to visit us much these days because they know we have economic problems and they don't want to eat our food" -- Kabuli woman

"If someone is rich and can serve a lot of rice…people will come like cats to eat. They don't come to see people who are poor like us, though…and my brother didn't even come to visit when my grandson was in the hospital!" -- Kabuli man

"No…we're too poor for that" -- Kabuli woman, when asked if they brought gifts when visiting

"When we became poor [during Taliban times], even our family went away from us" -- woman from Mir Bacha Kot.

First three quotes are from Hunte, 2004: 10-11. Last quote is from client 047 of this study.

To a certain degree, the results indicate that this is happening, but there are other causes of social health as well. Table 6.22 shows that 18 people in all (columns 1 and 3) indicated increased social contact, while table 6.23 explores the reasons those 18 gave for that improvement. There does appear to be some causal link leading from financial to social health, as the first two rows of table 6.23 indicate. The majority of those six respondents stated that the success of their business had simply brought them into contact with more people, business colleagues, competitors, and clients alike. Two of them (in row 1) also hinted that their now higher status had attracted more visits to their homes, and the client in row 2 stated that she was so poor before that she could not bring something for a social visit, but now she can. However, one should exercise caution in making the link too strong. Eleven respondents gave *other* (non-financial) reasons their social life was improving (rows 3 and 4); furthermore, most of the 'no change' respondents (column 4 of table 6.22) appeared to have very good social connections from a long time ago, and thus credit access would have minimal, if any, impact in this regard. Indeed, it is possible that some of the clients in rows 1 and 2 had (and needed!) ample social capital to get their business started in the first place.[48]

Table 6.22: Changes in Friendships and Visiting	Medium or large linked improvement	Small linked improvement	Unlinked improvement	No change	Decline	Unknown	Notes
Shop-based clients (15)	6	0	2	3	1*	3	*more contacts, yet more busy because successful business. 007
Shop-based non-clients (5)			3	1	0	1	
Home-based clients (14)	2	0	4	5	0	3	
Home-based "non-clients" (6)			1	2	0	3	

Table 6.23: Reasons for More Friendships and/or More Social Visits

Healthier business	4 clients, 1 non-client
Now able to bring something to the host because has enough money, and so visits more often.	1 client
Being part of a microfinance group	3 clients
Peace has made visiting more possible and friends have returned from Pakistan, Iran, etc.	6 clients, 2 non-clients
Unknown reason	1 non-client

There appeared to be some link as well between financial health and trust. Asked if their trust in others or others' trust in them had increased, several BRAC clients said the latter had happened recently as they have climbed somewhat out of poverty: "When we were poor, no one could trust us." The field research found an interesting by-product of this new-found trust, in that three women and one other male client remarked that, because their financial status had improved, friends and neighbours now trusted them to repay small loans. *In other words, semi-formal microfinance had ultimately led to better access to informal microfinance!* Of course, there is a danger of

[48] In other words, the causal link may work the other way as well, from social to financial capital. For example, client 009 is well-known in the community, and thus she is able to operate out of her home as a tailor.

dual indebtedness, but if the informal loans are simply small, very short term (a few days) consumption loans (as they often are between family and friends – Wilson, 2001: 74), then semi-formal microcredit, in a very roundabout fashion, is actually helping with consumption smoothing, so important for the poor (chapter 3, section 1.2.1).

c) MF activity itself as a healing mechanism, in staff-staff or client-staff relationships

This was not a particular focus of the research; however, in response to a question regarding psychosocial improvements noted in clients, the director of one MFP instead wrote about her staff:

> To be a part of a local institution, to define your own mission, design your own logo, make your own decisions, watch the changes in your clients, know that you have impacted the lives of their children or themselves, has been an incredible experience for the team. Their attitude has changed, they show greater pride in their work and are dedicated to serving their clients. An example, whenever they talk about hating the paperwork one of them reminds the other about how this helps the client and they continue working - weekends and late evenings - I'm now having to chase them out by 18:00 (even on a Thursday!)[49] and not allow them to come in on Saturday. Loan Officers are "sneaking" visits to the clients on the weekends. The staff wants the guards, cooks, and cleaners to come out with the loan officers and meet/see the clients in their homes/places of business so that they get to know them better (Richardson-Rohrscheib, 2005: pers. comm.).

d) Afghan view

Finally, Afghans themselves came up with interesting answers to the question: "How does microfinance contribute to peace in Afghanistan?" Returning to the basic idea that poverty alleviation reduces conflict, three clients and two MFP staff replied that MF could help poor people start a business and thus, for example, they would be less inclined to get involved in criminal activity. "Microfinance will make people think about their business instead of making trouble," a Kabul shopkeeper said. Another shopkeeper said that it would reduce theft and begging, and added that, "This way, poor people can get an education." A CHF field officer said he actually noticed a drop in theft in the communities he works in. During the CHF interview, my translator commented on this by sharing an Afghan proverb: "be kari madar-e-maraza ast" (Idleness is the mother of all [social] diseases [i.e. crime]).[50]

It is possible that microfinance also reduces tensions which may be well below the surface. A credit officer for WWI gave this explanation:

[49] In an Afghan week, Thursday is the day before the weekend, which is Friday and Saturday for most.
[50] A teacher in Paghman, just west of Kabul, told a FIFC researcher, "If young people don't have jobs, they will go and steal." A tailor there also said jobless people "go to the warlords" for a job (Donini et al., 2005: 17).

> [Before, during the war,] at a funeral or wedding party, women would usually gossip about each other because they had no self-respect, so they did this to make themselves feel better. But with access to credit, they can have work, gain self-respect and won't gossip. Also they will be busy with their work.

The results of this section, while lacking in robust evidence, indicate that microfinance can and has indirectly led to psychosocial healing and peace in some cases.

4.2 Is the Microfinance Sector Avoiding Harm?

In chapter 4, section 3.2, it appeared that the practices of MFP case studies had little potential to do any harm in the sense of causing conflict or exacerbating existing tensions. This is borne out by the results of the client interviews and observations. During the fieldwork, no Afghan client, non-client, or community member complained about favouritism or unfair exclusion. At one point in Bamyan, a client's neighbour did grumble that AKDN-ARMP staff were paying a lot of attention to the client and ignoring her (although it was unclear if she wanted to be a client herself). Several Afghan staff noted isolated cases of upset people who were excluded from joining, but said that it was not a big problem so far. In sum, *MF (in the case study areas) does not appear to be creating or adding to divisions at the local level via favouritism or unfair exclusion.*

However, there are several issues which could be the objects of ongoing monitoring. First, the MF sector has the potential to exacerbate inter-provincial or regional jealousy and rivalry. This is a problem the entire aid community is facing, not just MFPs, as NGOs understandably tend to avoid the volatile south and east regions of Afghanistan. Looking at the map in figure 4.3, we find that nine out of ten south and east provinces[51] had zero MF clients at the end of 2005. These are largely Pashtun areas, so continued neglect could inflame ethnic tensions as well. From the NGO point of view, it is a difficult downward spiral to break, since the region's volatility "means less assistance for the most vulnerable areas, which will lead in turn to growing resentment and an even more fragile security environment" (Donini et al., 2005: 14). However, several MFPs do have expansion plans for 2006 to move into some of these provinces, such as Kandahar and Helmand, partly to deal with the opium problem.

Secondly, it is sometimes argued that microfinance has the potential to create or worsen divisions between wealth groups. As discussed in chapter 3, section 1.3, there is an increasing industry-wide pressure to reach sustainability. This, along with

[51] ...defined here as provinces along the road between Kabul and Kandahar (if we imagine a fairly straight line between the two cities) and those east of the road, plus Helmand. Only Ghazni province has MF activity, with 1308 clients.

competition, drives many MFPs to seek out clients who can afford to take out higher loans, leaving behind the lower poor groups. This is sometimes referred to as "mission drift" (Heen, 2004a: 5; Counts, 2004: 1), the implication being that these market-driven MFPs have strayed from MF's original mandate to reach the lower poor.[52] Bateman (2003: 64) showed how this drifting to richer towns in Albania led to the dissolution of cross-community solidarity and mutual support.[53]

When one considers the MF sector nationwide, it appears that there is little danger that such a split between wealth groups will happen. As table 6.24 shows, MFPs have spread themselves out in terms of targeting different levels of the poor. Further, thanks to BRAC's basic microfinance programme, which has 84,000 of the 128,000 borrowers nationwide (66%),[54] the lower poor are being well served. There might be concern that the poorest of the poor are not yet being reached, but MISFA (2005a: 2) is currently researching how this could be done. It depends also on why someone is in the 'poorest of the poor' category; if it is age or severe disability – these are called extremely vulnerable individuals (EVIs) by Alidri et al. (2002: 108) – which rules out an income-generating activity, there is not much MFPs can do besides help the helpers; "experience has demonstrated that...reaching the caregivers of EVIs has been more successful [than reaching EVIs directly]" (ibid).

Table 6.24: Poverty Coverage

MFPs in Afghanistan	Levels of poor
AKDN (ARMP and FMB) BRAC's SEP	higher poor
FINCA, CHF, IAM, WWI	middle poor
BRAC, CARE	lower poor
Pending? (MISFA, 2005a:2)	poorest of the poor

When the MF sector is considered region-by-region, there might be more reason to pause. In one of the research areas, Bamyan province, only CHF and AKDN-ARMP are operating, and thus only the higher and middle poor are being served. One wonders if tensions might increase if the lower poor of Bamyan feel they are being left behind. When this factor is contemplated along with the proposed expansions into underserved provinces mentioned above, it is clear that the MF sector faces a double challenge: meeting the need to expand into unstable regions but somehow

[52] Cf. 'mission creep' in chapter 3, section 2.1, which referred to an MFP straying from its original mission to be financially sustainable. Ultimately, the meaning of mission 'creep' or 'drift' depends on one's original mission.
[53] Recall chapter 3, section 2.2.2 for more details.
[54] See appendix 1.

coordinating plans such that different levels of poverty are targeted by different MFPs in the same area.

Finally, there is the issue of Islamic financing, which is based on partnership in ventures rather than the charging of interest, technically forbidden within Islam.[55] Most MFPs in Afghanistan do not follow an Islamic model. Is that creating friction with the religious establishment? The evidence here is sketchy and mixed. The IAM director said it has not been a problem so far and tells a story of a mullah who stormed out of an introductory meeting, saying that the charging of interest was anti-Islamic. The potential clients followed him but returned five minutes later to get down to business. Other directors also believed the Islamic issue was not a major problem yet. However, a couple of IAM field officers told of several potential clients who chose not to join on religious grounds, and a CHF client near Bamyan said many in his village did the same. Afghans are perhaps some of the most devout and conservative Muslims in the world, and although some mullahs may be holding their tongues now, they may yet protest the non-Islamic[56] practices when it is politically opportune. MFPs ought to be careful not to dismiss this issue easily.

From the field research, then, microfinance appears to be 'doing no harm' in Afghanistan. When asked point blank whether MF was creating conflict or worsening divisions, no one out of eight clients, a handful of Afghan field officers, and nine expatriate directors answered in the affirmative. However, the MF sector is still young and any problems which may be simmering below the surface may yet boil over in the next few years.

4.3. Any Impact Results from Direct Mitigation?[57]

No MFP contacted for this research claimed to be working on conflict through direct mitigation, except AKDN-ARMP in its interventions to deal with the opium sector. Although ARMP was a case study, the research was conducted in Bamyan, not a poppy-growing province. As described earlier (box 4.3), ARMP "successfully implemented" (Goeldner, 2005: 2) a pilot MF programme in Badakhshan starting late in 2003, but it is unclear whether Goeldner meant 'successful' in terms of impact or simply in terms of on-time repayment (probably the latter). Both Rasmussen (2005, pers.

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[55] Some MFPs in Islamic countries, including Afghanistan, get around the problem by calling it a 'service fee' instead of 'interest'.

[56] Note the use of 'non-Islamic', not 'un-Islamic'. Several MFPs in Afghanistan have cleared their methods with local religious authorities. The charging of a 'service fee' to cover operational costs is acceptable to many mullahs. If an MFP sought to profit from charging interest, that would be 'un-Islamic'. On the other hand, MFPs are also not running 'Islamic' microfinance schemes, i.e. entering into business partnerships with clients.

[57] Cf. chapter 3, section 2.2.3b; chapter 4, section 3.3.

comm.) and ARMP director Sirolla (2005, pers. comm.) stated that no livelihood impact assessments have been completed yet in Badakhshan, but the fact that 150 ARMP clients (as of mid-2005[58]) have stopped growing poppy, at least for a time, in favour of some other livelihood is encouraging. The three-year contract with the GOA, which allows millions of dollars of hoped-for donor funding to be passed on to ARMP, BRAC and FINCA to expand into other poppy-growing areas, is another significant step in the right direction.

As far as Disarmament, Demobilisation and Reintegration (DDR) of militias, no case study MFPs were involved[59] in helping reintegrate ex-combatants, and as explained in chapter 4, the MF sector has thus far underserved this portion of the Afghan population. Communication with CFA, the main player so far in this regard, was difficult and so its impact information is not available. Two other isolated incidents of positive impact were reported in chapter 4: first, the ex-soldier who said his life "has never been any better" since joining an unnamed MFP (section 3.3.1); second, that "significant changes were noticed in both the attitude and behaviour of the trained ex-combatants" who took CPAU peace courses as part of the MF programme (section 3.6).

4.4. Process Mitigation and Local Governance Building[60]

As the reader may recall, process mitigation had to do with bringing opposing social groups (especially ethnic groups) together in either a subtle or more proactive way so that they could learn to co-exist and trust each other again after the war had caused division. Again, the case study MFPs were not doing much in this regard outside of being careful not to exclude any ethnicities in their clientele. During the research, most MFP groups were found to be mono-ethnic, and no client spoke of improved or deteriorating ethnic relations, either personally or in the community.[61]

In terms of building local governance, chapter 4 section 3.5 offered two possible ways MF could contribute in Afghanistan. The first was utilizing SHGs – two small MF projects, run by SERVE and ORA,[62] employ this model – so that Afghans could at least be empowered by learning to manage their own accounts and at most learn leadership skills. However, it was shown in chapter 4 that the SHG model was not feasible at this time, partly because of the literacy shortcomings of Afghans:

[58] See box 4.3, chapter 4.
[59] As far as I could tell.
[60] Cf. chapter 3, section 2.2.3c and d; chapter 4, sections 3.4 and 3.5
[61] However, it should be noted that I did not press the question of inter-ethnic relations, for fear of making the respondent uncomfortable.
[62] Neither SERVE or ORA are acronyms.

> In SERVE's case, the fieldworkers remain [after more than one year] heavily involved in writing up the books for the groups. Even where a sufficiently literate group member exists to keep the books, the other group members are not sufficiently literate to provide adequate accountability for this person. (M. Larson, 2005: pers. comm.)

The other way was for MFPs to link up with *shuras* and CDCs so that Afghan local capacity could be built up and encouraged. As was seen in chapter 4, MFPs *are* partnering with local bodies to various degrees, but because the concept of MFP-*shura* partnership came to this researcher's realization after the fieldwork, measuring the extent of local capacity growth through microfinance was not an objective pursued on the field.

4.5 Is a Culture of Peace and Social Support Being Built?

As chapter 4, section 3.6 reported, no MFP strategies were found that were attempting attitude transformation, outside the recitation of BRAC's 18 promises. *MF groups would also seem to be an ideal way to build friendships and a new network for social support. It appears from the case studies, however, that MF has had a minimal impact in this regard.* Recall from table 6.23 that three clients believed that being part of a MF group had helped them gain new friends. In addition, when answering how MF built peace, a WWI client responded that new friendships do occur when groups are formed. Yet overall, there seemed to be a general ambivalence among clients about any social benefit a group might offer. With so many wonderful stories about MF groups elsewhere in the world, this result was somewhat surprising; however, it can be partly explained by the fact that Afghans are generally very private people and it takes a lot of time before one is accepted as a close friend. One Afghan woman near Bamyan, when asked if her group had helped the members to become closer, responded, "Well, no. We usually just keep the private things in our lives private."

Even if group members do not multiply or enhance friendships, the question then becomes whether MF groups at least provide an extra social safety net or perhaps enhance a kind of social/political cohesion in the community. But on the one hand, the premise that Afghans even *need* such support might be doubted, because on the whole, the cohesion found in Afghan *qowms* is a quite remarkable feature of Afghan society.[63] One Eraq Valley farmer (having six children himself) is one of five adult (all married) sons, four of them who still live with their father in an impressive two-story compound. All of them share income and meals together; even the son who is only a

[63] Refer to box 2.4.

simple porter in Kabul sends home part of his salary. A Bamyan shopkeeper had to use a calculator to count up the number in his family (a low estimate of 15) who lived with his father; unusually for Afghan culture, the father's five married daughters have all stayed with the father[64] at what must be another massive compound. Sometimes, an individual's familial network is even wider: "The basic solidarity group in rural areas is often... the village, which in small settlements is usually no more than an extended family" (Johnson and Leslie, 2004: 35). With the support of so many people who live with you, why indeed would you need to depend on your MF group for closeness or a safety net?[65]

Yet on the other hand, while *qowm* networks provide livelihood security at one level, they also seem to be a barrier to wider social cohesion. Out of 14 clients who were asked to whom they could turn if they had problems, only four felt they could ask help from outside their *qowm* as well as from inside. Similarly, just four out of ten clients said their trust in outsiders has grown over the last couple years. CPAU director Mohammad Suleman confirms that this "family based" culture has hindered wider development: "We are suffering from that lack of community initiative" (Suleman, pers. comm.). The atomized nature of Afghan society also leads easily to instability and conflict (Rubin, 2002: 41-44; Johnson and Leslie, 2004: 45).

This is not to say that MF groups in Afghanistan have no role or success in building cohesion. One CHF client did speak highly of his group, which even has a name for itself:

> [It is] creating a support community. For example, when someone's [farm] work is too much, the others in the group help him or her. It was like this before, but the group has made this spirit of cooperation even better.

Another female IAM client told of how group members call on each other for help. Yet these examples seemed to be the exception rather than the rule. However, this may be more due to the case studies chosen and may not reflect the true situation country wide. Although IAM, CHF, and WWI organise clients into groups, they do not require them to meet regularly, much less encourage them to build group cohesion. AKDN's clients are mostly individual, and even though BRAC groups meet weekly, the meetings are used for repayment and teaching, more than as a vehicle for social support.

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[64] Usually, when a woman marries, she goes to the house/compound of the husband's father.
[65] Not that such *qowm* support is there for everyone in Afghanistan. Several clients' nuclear families lived alone in small homes and claimed they received no support or help from anyone in the extended family. One odd case was a female client in Bamyan with a husband and four young children who lived in a single, unfurnished room, and yet she lived just next door to her very well-off cousin (another client) who apparently was offering minimal assistance.

Table 6.25: Impact Summary of MF in the Conflict Sensitivity Framework

Avoiding Harm		• No exclusionary targeting taking place. • WWI includes men in decisions and plans even though women are the clients. • So far, no reported conflicts in MF groups. • Lower poor and/or unstable regions being left behind; is MF causing rich/poor or inter-provincial divisions? Little evidence so far. • Non-Islamic modes of finance – cause for future concern?
Attacking Causes of Conflict	a) Indirect Mitigation	• Significant increases in financial, physical, and human capital, but some concern about indebtedness and lack of livelihood protection. • Difficult to determine whether individual psychological healing is a result of MF or because of the peaceful conditions in Kabul and Bamyan. • Some increase in friendships or contacts (through business). • Several reports that better financial situation leads to more social visits. • A number of Afghans see MF as giving the poor an occupation, thus reducing crime. (No hard data to show that is actually happening).
	b) Direct Mitigation	• AKDN's intervention in Badakhshan to assist poppy growers. No impact data yet available. • ANBP and demobilizing soldiers. One failed MF project. No impact data available. Another MF project just started.
	c) Process Mitigation	• No evidence found of improved inter-group (esp. ethnic) relations; lack of MFP intentional strategies.
	d) Local Governance Building	• SHGs: only two small projects. No impact data gathered. • Using local *shura*s: CHF, AKDN use *shura*s at a minimum level, but no impact data gathered for this research.
	e) Peace (Culture) Building	• BRAC's 18 promises. Impact unknown. • General ambivalence among most clients about social benefits of their MF groups, but a few clients report that such groups are acting as an extra source of social support.

5. Overall Client Feelings about Microfinance

Before concluding this chapter on the impact of microfinance in Afghanistan, it is wise to step back to realize that *thus far, most clients are very happy with the help MFPs are providing.* The question was asked: "Has MF made a small, medium, or large impact in your life?"[66] Table 6.26 shows that 20 clients were very or moderately positive about their experience thus far with microfinance. A client in Mir Bacha Kot said that BRAC was "a very good programme for poor people like me." A village elder there who knew

[66] I did not think to ask this question until after a few interviews in Bamyan (around client 027). The results in Table 6.26 mostly reflect answers given after client 027. However, inferring from their answers and remembering their attitude during the interview, I projected the answers six earlier clients would have given. These results are included in the table as well.

about the research stopped us on the street and offered unsolicited praise of BRAC, telling how much it had helped the village poor. For example, "Before if they wanted to buy a sheep, they did so on credit at twice the price, 4000 Afs [$80] instead of 2000 Afs [$40]. Now with a BRAC loan they can pay the normal price."

Table 6.26: Responses to:
"Has MF made a small, medium, or large impact in your life?"

'Big difference' and/or very positive attitude	14	'Small difference', but happy with programme and hopeful.	5
'Moderate difference' and/or positive attitude	6	Very little impact. Client seemed indifferent	4

Even when the impact so far has been small, MF has at least changed the mental and emotional outlook of a client, which can be powerful. Five clients said the differences have been minimal so far but are looking forward to better things. One IAM client said she wants to stay in the programme "until we can stand on our own legs."

As with any intervention, some will not be completely happy. Four people seemed fairly indifferent about the loans or said it made little impact. A couple of them were not sure if they would stay. One Mir Bacha Kot woman said, "When I first took the loan, I thought it would make a big difference, but I realize now it wasn't so much. I haven't even been able to buy a pen."[67] Another unsolicited set of comments came from a very emotional Mir Bacha Kot man who said the BRAC loans have not helped him at all.[68]

Knowing that clients are generally positive so far about microfinance may temper some of the 'negative' findings earlier in this chapter as we progressed through the various categories of the livelihood and conflict-sensitive frameworks. One might be disappointed that MF is not leading to great improvements in social capital and peace, but from the perspective of Afghan clients, at this point in their own individual postwar recovery, perhaps those things are not as important as food on the table or their children's education. Further, their current positive attitude will likely keep them constructively engaged with the MFP, which in turn may eventually lead to enhanced and wider impacts, even those related to social capital and peace.

The next and final chapter offers additional conclusions based on the findings of this chapter, reviews the lessons learned in the course of this study, and offers recommendations for further action and research.

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[67] She may be overstating slightly. With her first loan (which she had just paid back) , she did buy three sheep and so at least she has those assets now.

[68] The man seemed upset initially because we were about to attend a women's weekly meeting. In the end, I decided not to go in if it was going to make a big fuss in the village. The man went on to explain his dissatisfaction with BRAC.

Chapter 7: Conclusion

1. Returning to the Research Questions

On 31 January 2006 at the London Conference on Afghanistan, Britain's Prime Minister Tony Blair sat beside Afghan President Hamid Karzai and made a public pledge regarding Afghanistan's postwar recovery:

> This is a struggle that of course primarily concerns the Afghan people, but it is also a struggle that concerns all of us, and it is why we are here today and it is why we are determined to see this through. It is why whatever your challenges we will be there with you, at your side, helping you. It is in your interest to do so, it is in our interest to do so, it is in the interest of the whole of the international community (Blair, 2006).

Knowing the job of post-conflict reconstruction is not nearly finished, the international community (70 nations at the conference) followed Mr. Blair's promise with a total pledge of $10.5 billion over five years. A week later, Russia promised (on some conditions) to forgive the $10 billion debt it believed Afghanistan owed (Cooney, 2006). After disbursements totalling almost $12 billion since 2002, the new pledges indicate the international community's commitment and determination indeed to "see this through".

Part of this medium-term commitment will need to go to microfinance if the sector is to survive, as most MFPs need several more years of subsidies before becoming self-sustainable. Because microfinance has so far been hailed as a success by observers of Afghanistan (e.g. Goeldner 2005a: 11), and because of its projected role in alternative livelihoods, the sector does look set to receive a larger slice of the donor pie. Having disbursed just $17 million since 2002,[1] MISFA plans to disburse at least $125 million over the next three years, assuming the funding eventuates.[2] This renewed and larger commitment would help to ensure continued success for the recipient MFPs in the foreseeable future.

A question must be raised, however, regarding what measure of 'success' is being used when it comes to microfinance in Afghanistan. One suspects that it mostly has to do with high repayment rates of clients and the financial performance of MFPs. Important as these are, it is also crucial, perhaps more so, to know how successful MF has been in impacting client livelihoods. Remarkably little hard data[3] on this question was found during the research. The isolated positive anecdotes in annual reports or on MFP websites may be heart-warming, but only careful social impact assessments can

[1] As of August 2005. ARTF Administrator (2005: 29).
[2] See chapter 4, section 3.3.2.
[3] That is, secondary data.

show how, and even if, most Afghan clients are benefiting and climbing out of poverty. This is the first gap this study attempted to fill.

Because Afghanistan is a post-conflict country, susceptible to outbreaks of violence, the thesis further argued that the MF sector should be judged a success if it does not create or intensify situations and causes of conflict, and if it contributes positively to peacebuilding. Strangely, to what extent microfinance could or should work *on* conflict and not just *in* conflict is a topic of discussion which has been largely ignored in the literature. As Heen (2004a: ii) points out, there has little work which relates the subject of post-conflict microfinance to "the broader discourse on the development-conflict nexus and the growing international momentum toward conflict-sensitive programming." How conflict-sensitive microfinance might look in a postwar context, specifically Afghanistan, was the second main aim of this thesis. The study also attempted to gauge whether microfinance was indeed having an impact in building peace in the country.

The conclusions drawn in this chapter, especially with respect to perceived impacts, need to be treated with caution. Firstly, the microfinance sector in Afghanistan is "still in a nascent stage" (Malwadde, 2005: 1); referring to the $125 million 'contract' mentioned above, the World Bank's Rasmussen (2005, pers. comm.) remarks:

> ...if we can raise all the funds needed over the next three years and if the MFIs do not fail, we might actually have a microfinance sector to talk about in Afghanistan.

Indeed, three of the four case study MFPs had been giving out loans for little more than one year at the time of the field research. Because the impacts[4] of microfinance and of peacebuilding efforts take a number of years to manifest themselves (Chotani, 2005a: pers. comm.; Greenwood, n.d: 2), any indications of impact from the data in this thesis should be considered preliminary and tentative. One should also keep in mind the various limitations mentioned in chapter 5, section 4 with respect to the methods and results of the research. With these qualifications, this study revealed the following lessons.

2. Impacts on Livelihoods

Regarding MF's traditional role of livelihood support, some positive indications of impact were uncovered. In urban areas, shopkeepers reported significant improvements in their businesses, while in rural areas, rises in livestock rearing and land production could be directly traced to microloans. Household incomes of client

[4] Indeed, positive or *negative* impacts.

families are increasing, although it was difficult (in some cases) to determine to what extent the increase was directly the result of the micro-loan since other family members were also contributing income. It is also possible that business or farm income was being re-invested rather than spent on the household. Definite advantages over non-clients with respect to food security, housing improvements and (in Kabul) medical access were also recorded. Another strong (if less 'tangible') indicator of MF's positive impact is the difference this researcher noted between the attitudes of clients and non-clients. Over 90% of the interviewed clients were confident, optimistic, and appreciative of the help the MFP was giving them. Most of the non-clients, meanwhile, seemed more discouraged, lacking the glimmer of hope evident in the eyes of clients. Although this has been a brief overview of the positive side of MF in Afghanistan, and the remainder of this chapter largely highlights the gaps and shortcomings of the sector, one should not overlook these positive impacts. The case study MFPs should be congratulated.

Although livelihoods are being *promoted* in these ways, the research raised concerns about whether some of them are not being completely *protected.* In other words, some households might still be vulnerable to shocks, whereby a sudden severe illness or other unfortunate event could push a family back into desperate poverty. It is true that microcredit was shown to contribute to livelihood diversity (chapter 6, section 3.9), which in turn is an important form of protection against shocks (chapter 2, section 3). *Qowm* solidarity (chapter 2, section 4) is yet another mechanism of protection. Still, a poor household in a state of negative equity may be teetering on the edge of survival, and by offering credit without any savings products, one wonders whether MFPs are actually prolonging that fragile condition for some households. Alternatively, clients who are encouraged to accumulate savings might be able to "move upwards out of negative equity" (Fisher and Sriram, 2002: 63). Of greater concern was the discovery of seven clients who already had loans outstanding (table 6.10), and there was reason to suspect that semi-formal credit access was actually moving some of them downwards into deeper indebtedness.

The research also raised doubts about whether livelihoods were being *holistically promoted*, whether it be through integrated health and education classes, business development services, or other business support that establishes market linkages backward and forward. Even BRAC's health and education strategy appears to be a scaled-back version of its approach in Bangladesh.[5] During the field research, this lack

[5] Chapter 4, section 2.2.

of integration was (admittedly) not an issue explored with clients, nor did they volunteer any dissatisfaction with the minimalist service they were receiving. However, it is probably a case of 'not knowing what we are missing'; when BRAC cut back integrated services in Bangladesh, clients would immediately complain (Dunford, 2001a: 26). In any case, this research has shown that, in other countries, integrated services have multiplied positive livelihood impacts, and (in the case of market linkages) benefited the wider economy and created additional wage employment for the poor.[6]

Although there has been some success with MF in Afghanistan supporting livelihoods, the addition of flexible savings and insurance products should be considered. The context of Afghanistan makes this extremely problematic, because: a) the savings capacity of Afghans is quite low; b) the institutional capacity to manage savings accounts does not yet exist for smaller MFPs; and c) there is no regulatory structure, no NBFI law which would provide guidelines on the holding of savings accounts, until the end of 2007. Yet BRAC, FINCA and others have somehow managed and ought to be consulted on how they have succeeded so far. Perhaps it would be wise for smaller MFPs to wait until the NBFI law comes into effect,[7] but they would do well to start planning now. Meanwhile, BRAC's savings scheme needs to become more flexible, as withdrawals are not normally permitted until exit from the programme. At the very least, insurance products should be possible.

MFPs may also want to consider adding integrated services. Again, constraints must be taken into account. Extra activities may distract the MFP from its main purpose, and in post-conflict countries, provision of free services along with credit products may confuse recipients who have been used to getting *everything* free from NGOs.[8] Most constricting is the extra costs involved when doing PCM is already costly enough. However, using 'linked delivery' integration (that is, partnering with other NGOs)[9] would solve most of these issues. The trick, of course, is finding a suitable partner with which to collaborate.

3. A Tool for Peacebuilding?

The second main research question had to do with whether microfinance was successful in contributing to peace in Afghanistan, but immediately we confront a problem. While it may be relatively easy to measure improvements in livelihood categories (e.g. income, number of children who go to school, etc), how can one *know*

[6] Sections 1.2.2 and 1.4 of chapter 3.
[7] This would give them time to upgrade their institutional capacity as well.
[8] Recall the 'handout mentality' problem; chapter 3, section 1.5.
[9] See chapter 4, section 2.2.

if a conflict-sensitive strategy has actually succeeded in making a difference in peacebuilding? As Hulme and Goodhand (2000: 10) remark:

> It is difficult to attribute and measure impacts...We have limited knowledge about the impact of NGO projects on poverty, and tools for measuring their impact on peace and conflict are embryonic. At best we can talk about NGO activities increasing or decreasing the *probabilities* for peace or conflict (emph. theirs).

It is even more difficult to assess 'non-impact', that is, attributing the lack of any peace progress on the inaction of organisations. It is advisable, then, to consider the following results as 'indications' of success or failure rather than 'indicators'[10]

There are mixed indications, for example, about whether microfinance is contributing to peace indirectly by helping individuals and society recover from psychosocial damage. A number of clients reported an increased number of friends, social visits, or other inter-personal contacts, partly through the activity of their businesses, through the extra wealth they were experiencing, or through the activity of MF itself (e.g. meeting in groups). Some clients also linked their improved personal mental health to the support MFPs were offering, but the fact that almost everyone interviewed (including non-clients) felt more optimistic suggests that other factors (e.g. peace itself in their own regions) may be more responsible than MF for their recent psychological improvement. In any case, the research did not uncover any examples of psychological post-trauma counselling being integrated with MF. A rather surprising result was the fact that MF groups did not play a more significant role in building inter-personal trust or serving as an extra source of social support. This may be because Afghans tend to be of the private sort, but also because MFPs were not including relationship-building activities into their group schemes. To sum up, the lack of any pro-active strategies means that the few psychosocial benefits that *were* noted can be considered *incidental* by-products rather than *intended* outcomes.

This lack of intentionality is apparent in several other areas as well. No strategy appears to be in place to build inter-ethnic healing and cooperation, outside of having multi-ethnic staffs and clientele. Regarding the reintegration of ex-combatants, a rather half-hearted and ad-hoc effort to use microfinance has yielded little fruit.[11] When it comes to building local governance, the lack of which was partly responsible for Afghanistan's pre-war fragmentation, again very little is being attempted. The SHG

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[10] This distinction is borrowed from Anderson (2004): " 'indicators' is a term commonly used to refer to scientific precision, we knew that, in the context of aid in conflict, we did not want to mislead our colleagues into believing in - or even seeking - such 'proof' of the single, identifiable source of causation." The term 'indications' allows for more uncertainty as to cause, and for our purposes, magnitude of success.

[11] At least no results that this researcher could find.

model may not be feasible at this point in Afghanistan's history, but other models with varying degrees of self-governance are available for experimentation.[12] *Shuras* are being used by two case study MFPs to help screen clients, and, as MISFA (2005a: 5) reports, some MFPs are finding their linkage to CDCs "useful and important", but one suspects that in each case, the priority is the success of MF itself, not the success of building the capacity of a local governing body. Backing the SHG idea, Fisher and Sriram (2002: 105) write:

> Is this reversal of ends and means, making micro-finance the instrument rather than the end, merely a game of semantics?...the answer is no. While the process of [group] organising on the one hand and the [microfinance] service delivered on the other are to some extent inseparable, the hierarchy of means and ends is important, and may lead to very different outcomes.

The one area where microfinance *is* being used pro-actively as a peacebuilding tool is in battling the opium sector. Although no impact data is yet available and the fight is just beginning, MF will be only one strategy among many, requiring collaboration and coordination with other non-MF agencies. This in itself raises another set of issues, which are discussed shortly. In the meantime, the following intentional approaches are offered for consideration:

1) If using group-based lending, take advantage of the opportunity to build local cohesion and social support networks. Relationship-building exercises should be considered, even if the clients know each other well. MFPs could prepare a topic of local concern to discuss at each meeting, offer peace courses, or encourage the group to think of a small-scale project group members could do together. Of course, none of these should be forced on the group; cultural appropriateness and their own time constraints need to be considered.

2) Bring together the various solidarity groups at special events, such as district conferences or sports days. Many Afghans enjoy playing soccer and volleyball, for example. If the solidarity groups are of different ethnic groups, these occasional low-pressure events could help mend any inter-ethnic rifts. Again, none of these should be mandatory.

3) Where possible and if they are co-operative, consider greater use of and interaction with local *shuras*, to help build their legitimacy and capacity. Whether these should be traditional *shuras*, new *shuras*, or CDCs (see box 4.4) is a difficult and complex issue, as different areas will have none, one, or all three. Further, there has "as yet been little

[12] Chapter 4, section 3.5

debate" (Donini et al., 2005: 15) on the demarcation of their development or governance roles, or their precise relationship with the GOA. This is causing considerable confusion among NGOs and local people (Ayrapetyants et al., 2005: 7). In any case, building local decision-making capacity and empowerment gives people a voice, and is thus crucial in easing frustrations which can boil over into violence, as happened in Afghanistan's past (chapter 2, section 1).

4) Along the lines of CPAU's national peace conferences (box 4.5), hold annual or bi-annual national microfinance conferences. These could be designed especially for MF group leaders, but select clients and MFP staff could be invited as well. This would be another opportunity for different ethnic groups to rub shoulders and foster a national identity. MISFA could be responsible for organising such conferences.

4. Taking Stock

Through the course of chapter 3, the 'schema for microfinance intervention' (SMFI) was constructed which hypothesized the different roles microfinance could play in helping Afghans recover from war, alleviate poverty, and prevent further conflict. Based on the findings from chapters 4 and 6, the following table (table 7.1) represents an assessment summary of the current-day roles of microfinance and their impacts.

Table 7.1 SMFI Revisited (compare with table 3.8)

Livelihood/Society Stress or Coping mechanism		***Possible approaches***	***What's happening in Afghanistan?***
1. Household Livelihood Stresses and Coping Mechanisms			
a)	Broken Livelihoods… Loss of Physical, Natural, Human capital . which leads to… ↘ Frustration and Increased Possibility of Conflict	Basic Microcredit Savings and Insurance Integrated Services (health, education, BDS) Heen – Indirect Mitigation (This incorporates the three approaches above)	Microcredit helping clients enhance business and agricultural income, but clients still vulnerable to shocks due to lack of flexible savings and insurance products. BRAC integrates health and education lessons into group meetings – no direct impact noted. BDS minimal but being planned.
b)	Livelihood Diversification	Basic Microcredit	Evidence of diversification because of microloans.
c)	Increased indebtedness (which leads to tensions)	Basic Microcredit Savings	Helping many escape unfair arrangements. Concern in some cases where clients already had informal debts. MF could be doing some harm?
2. Psychosocial Damage			
a)	Trauma, fear, loss of confidence	Basic Microcredit	Most feeling more mentally healthy. Difficult to separate MF out as a contributing factor.
		Integrated: Counselling	No such services found.
b)	Lack of inter-personal trust	Basic Microfinance, especially if **groups** are used Heen: Process Mitigation	Some friendships and social support being formed as a by-product, but general ambivalence among clients about the social benefits of MF groups, matched by lack of intentional relationship-building strategies among MFPs. No evidence of MF doing harm.
c)	Strained but resilient social support systems	Basic Microfinance with **groups** Peace(Cult)Building (Relationship building)	
d)	Bitterness, War mentality	Peace(Cult)Building (Peace courses)	No peace courses found in case studies. CPAU giving courses to ex-combatants as part of AGEF's MF programme.
3. Fragmentation: Socio-Political Stresses			
a)	State-Regional strained relationship	Non-MF strategies needed	
b)	Weak local organisational cohesion	Beyond – Local Governance Building	SHGs not feasible at this time, but other models may be possible. Some cooperation with *shura*s happening. Impact unknown. No evidence of harm.
4. Struggling Economy			
a)	Few medium to large businesses	Basic Microcredit	Several clients seemed keen to expand their businesses with larger loans.
b)	Monetization of economy	Basic Microcredit	Demand for cash being met.
c)	Weak licit economic sectors	Beyond – Market Linkages	No attempts by MFPs or MISFA noted on how to build market linkages.
5. Current Proximate Sources of Tension or Conflict			
a)	Opium Economy and War on Opium (→ strained state-regional relationship)	Heen – Direct Mitigation	AKDN successfully piloted programmes for poppy farmers. Large upgrade in activity happening in MF sector in 2006. Little impact data available.
		Beyond – Local Governance Bldg.	No data available on if social capital being built up.
b)	Armed Militias	Heen – Direct Mitigation	Haphazard, limited MF interventions. Impact data not available.
c)	Ethnic Tension	Heen-Process	No specific strategies found. No evidence of harm.
d)	Commanders and Warlords (who sustain all three of the above)	Non-MF strategies needed	

blue = where MF could also do harm

5. Asking Too Much?

The above scorecard may seem disappointing, but there must be care taken not to lay heavy expectations on the microfinance sector in Afghanistan, and particularly not on any one MFP. To add "more baggage on what is already a completely full table" (Doyle, 1998: 31)[13] could put undue strain on the institution and negatively impact its performance in credit provision. The smaller and less-experienced MFPs, such as IAM-MED, would do well to focus on the basics. As shown in chapter 4, section 1.3, Afghanistan is a country whose post-conflict problems are more intense than most, making the challenges and costs of even basic microcredit daunting enough. Thus some MFPs might be justified, especially at this early stage, to concentrate on efficient, minimalist service in order to attain sustainability.

Patience is also advised. The nascent MF sector needs time to establish itself before branching out experimentally, and some benefits need to accumulate over a period of years before becoming noticeable, especially those having to do with trust and cohesion. When asked if the MF groups formed by CHF (many of them less than a year old) are helping to build a greater sense of community, CHF's credit officer said, "Maybe the groups will have some effect, but if they do it will happen slowly and perhaps not obviously."

Lastly, when it comes to pro-active peacebuilding specifically, it is advisable not to exaggerate potential MFP (or any NGO) impacts on peace or conflict in a society, especially at a macro scale. As Hulme and Goodhand (2000: 10-11) report:

> Our macro surveys help put NGO interventions in perspective; CPEs[14] are the result of long term historical processes and are rooted in failed development, political and institutional policies. They are extremely complex and multi faceted and involve multiple patrons including governments, transnational networks and non state entities... Therefore, NGOs are unlikely to be a leading edge in peace-building processes.

However, that does not mean MFPs should stand aside and let opposing sides of a conflict get on with the fight. Outside aid "has a responsibility" to support and empower people who feel powerless in the face of warring parties, Anderson (1999: 68) argues. She recognises aid's limitations, but...

> ...even small amounts of aid have power. Although aid may be marginal when compared with the total resources devoted to wars, there is sufficient evidence showing its influence on the course of warfare.

Hulme and Goodhand (2000:11) concur, particularly with respect to aid's impact at a local level, where...

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[13] See chapter 3, section 2.1.
[14] CPEs = complex political emergencies, another name for (possibly internationalized) intrastate conflicts.

> ...NGOs were found to have a significant impact on local incentive systems, relationships and institutions, which in turn influenced (positively or negatively) the local dynamics of peace and conflict.

6. Collaboration and Coordination

Although we should not lay heavy expectations onto MFPs – after all, no one MFP can do everything – we could suggest that they coordinate among themselves and collaborate with non-MFP agencies in order to cover gaps in service. This thesis has shown MISFA to be a capable coordinator of the MF sector and donors should continue to support it. As far as partnering with other agencies to provide integrated services (health, education, business support, etc.),[15] the case study MFPs could certainly improve in this area, as the impression[16] gained during the field research was that they are isolated actors. If they hope to impact the wider economy of a region, for example, by building and enhancing market linkages backwards and forwards, "such a strategy cannot be achieved by one microfinance or other organisation alone. It must involve extensive collaboration with a wide range of actors that influence those economic systems" (Fisher and Sriram, 2002: 102).

Microfinance is no panacea. It is only effective insofar as other development sectors are also effective, and in the case of post-conflict peacebuilding in Afghanistan, even *non*-development actors (e.g. diplomats, the military) are also required. In her study of the role of aid in a complex political emergency (CPE), Canham-Harvey (2003: 161) concluded that a coherent agenda "signifies the necessity for co-ordination and complementarity between humanitarian, development, diplomatic, economic and military actors in attending to the causes and effects of CPEs." This is contrast to the situation whereby aid and development actors alone are left with the dirty job of political negotiation and using aid as carrots and sticks while diplomatic actors abandon a country, such as happened in pre-2001 Afghanistan.

In post-2001 Afghanistan, however, with international attention and presence at such a high level, development interventions (including MF) have a chance to make a significant impact on peacebuilding, even at the national level. Of course, there are some sources of conflict (such as disputes over natural resources, or religious extremism) MF cannot help to address. But this study has revealed, particularly in chapter 4, that MF *can* play a role in tandem with other non-MF actors in addressing a number of issues which cause or exacerbate conflict. In Afghanistan, the ultimate

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[15] See chapter 4, section 2.2.

[16] Admittedly, this was just an impression, as no direct question such as -- "Do you partner with other organisations to provide another non-MF service?" – was asked.

example of this collaboration will be when MF plays a part in the battle with the opium sector, as military, criminal justice, and government actors will all be involved.

7. Importance of Analysis and Caution

The case of the opium sector, though, illustrates the importance of not simply rushing headlong into an opportunity to mitigate conflict. Proper analysis of the conflict complex, as well as of the potential effect of the intervention, should be done beforehand. As Canham-Harvey (2003: 160) asserts:

> Conflict resolution, peace building and development essentially seek to transform the conflict system, thereby impinging on the political and economic variables creating and sustaining conflict. Subsequently these activities are apt to be perceived as politicised interventions by the benefactors of a conflict dynamic, such as warlords and conflict entrepreneurs. There are many potentially adverse consequences for the access and safety of humanitarian agencies.

Such an adverse consequence was tragically experienced in March 2005 by Stephen MacQueen, then head of MISFA, who was murdered on the streets of Kabul two weeks before he was due to leave. One of the prime theories behind the murder is that drug traders were responsible (Easton, 2005: 5), perhaps upset at the impact microfinance was already having in drawing farmers away from poppy cultivation. This is not to suggest that MFPs should pull out of poppy-growing areas for fear of retribution, but that the grievances of those holding power do need to be addressed and not ignored. Rubin et al. (2005: 71) reports that the GOA is "considering an amnesty" for drug traffickers willing to halt their business, and suggests that "amnesty should be conditional on measures of restitution, such as contribution of a portion of illicit profits to public purposes;" this is a step in the right direction but other positive and significant incentives need to considered as well, since drug traffickers already hold considerable wealth and political power (and might not be enticed by mere amnesty). Such 'solutions' may not be ideal, but occasionally pragmatism has to rule the day.

Another potentially thorny problem for MFPs to continually analyse is how their objectives are meshing with a partner's, or with the international effort in the case of the war on opium. Collaboration sounds great in theory, but can get messy in practice. Strangely, Helmand province is due early this year (2006) for a round of blunt eradication interventions similar to the ones carried out in Nangahar last year, despite the obvious harm to livelihoods there.[17] Should the MFP who gets assigned to that province support such a policy? Will the MFP be expected to act as a caretaker for devastated farmers whose livelihoods have been instantly wiped out? Will it become a

[17] See chapter 2, section 6.2.

target of retribution because of its perceived connection to the military effort? These philosophical and practical issues need to be considered before a partnership is forged.

8. A Final Word on Pro-active Peacebuilding

All microfinance practitioners in post-conflict situations, by virtue of their commitment to alleviate poverty, contribute to peace. The crucial question is whether MFP should attempt to pro-actively deal with other sources of conflict as well. This thesis has come to no easy answers, but it is maintained that all MFPs be at least partially conflict-sensitive, being aware (through careful and ongoing analysis) of the conflict complex and taking steps to mitigate against any negative impacts their interventions may have. Whether an MFP should go on to attempt more pro-active measures depends on the following:

- the cost and risk of the particular strategy
- the contextual restrictions and hurdles
- the MFP's financial status and whether donors will support the strategy.
- the MFP's previous experience in post-conflict settings.
- the MFP's experience in the host culture. Perhaps Afghan-run MFPs would be ideal candidates in this regard. "Those NGOs that were most likely to make a contribution to 'probabilities for peace' were deeply embedded within their societies" (Hulme and Goodhand, 2000: 2)
- if the strategy is complex and on a national scale, finding partners with compatible goals and policies.
- a commitment to ongoing peace and conflict impact assessments.

Thus, neither a tunnel-vision 'neutrality' which attempts to sidestep conflict, nor a blind rush to implement peacebuilding activities, is advocated, but rather sober analysis which leads to measured action.

> A blinkered humanitarianism that attempts to ringfence aid from the 'messy' world of politics may be as misguided as the 'wishful, try-to-do-everything' ambitions of the humanitarian maximalists. For this reason, approaches must be based on a realistic assessment of what is possible and what is desirable. In practice this will probably mean occupying the middle ground, somewhere between the 'minimalist' and 'maximalist' approaches, something that might be termed a humanitarian pragmatism. For aid agencies this means incrementally continuing to improve practice, rather than a radical change of approach (Atmar and Goodhand, 2002: 63)

9. Areas for Further Research

This thesis has taken a broad approach to conflict sensitive microfinance rather than investigating one particular area deeply. This was by design, in order to present a menu of options of how microfinance could mitigate conflict. A considerable amount of ground has been covered, and many questions were raised which have been left partially unanswered. This may be seen as a shortcoming, but hopefully these questions will spur further investigation into MF's impact on clients and its proper role in post-conflict recovery and conflict prevention, both worldwide and in Afghanistan specifically. Further study should be done in the following areas.[18]

The impact of MF over time on Afghan livelihoods. The impact assessment (IA) implemented for this research was only a point-in-time study, as opposed to a longitudinal study, which tracks the same clients over a period of time. Sometimes called a 'cohort tracking system' (Grace and Pain, 2004: 10), this system would not have to depend on clients' memories, would allow for double-checking of information gathered at previous interviews, and ultimately would "provide a much richer and potentially more reliable source of...understanding" positive and negative impacts (Pain, 2002: 27). In rural Bamyan, for instance, clients could be interviewed annually for three years, some weeks after the autumn harvest or in mid-winter.[19] This would certainly be expensive and time-consuming, but the load could be shared among agencies. For example, MISFA might design the IA and ask MFPs to actually conduct the interviews with their own clients. This is similar to how Grace and Pain (2004) conducted their livelihood impact research.

Whether MF does indeed lead some into deeper indebtedness. The field research uncovered a surprising number of clients who were already in considerable debt from informal sources. Are MFPs adding to the problem, or indeed, *is* it a problem? Obviously, a more sure-footed definition of indebtedness is needed before investigation begins. People in the West are in debt from mortgages and credit cards, but many do not seem too bothered by it, just as many Afghans were not too worried. When does debt become an emotional burden to a client? Is that the only measure we should use? Once defined, this issue could be part of the longitudinal IA above.

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[18] The following is not an exhaustive list. Hopefully, the thesis has encouraged reflection in many areas.

[19] This time of year would provide more exact comparisons with the same point in time the previous year in terms of: a) income earned from the harvest and/or livestock sold; this is the largest income stream of the year for those in Bamyan; b) asset base, especially in terms of livestock numbers; and c) how the household is coping this winter as compared to last winter. See chapter 5, section 4.2 for more details.

A detailed conflict analysis of Afghanistan. Chapter 2 of this thesis outlined some of the sources of stress in Afghan society, but which one or ones are the most important causes of strain, in terms of having the potential to reignite widespread violence? Do these factors vary from province to province? Do they vary in importance over time? How has the opium sector or the presence of Al-Qaeda changed power relations? A wide range of tools, such as conflict mapping and conflict trees,[20] is available, but they should be used by professional Afghans who understand their own culture and can use the tools in a sensitive manner. CPAU, an Afghan peace NGO, would be an ideal implementer, and has probably used such tools in the past (but if so, they are quiet about it[21]). MFPs could approach CPAU for either existing analysis of a region, or for assistance in designing such analysis, especially before they expand into new geographical locations.

An analysis of potential or actual MF impact on peace. Again, this thesis presented a menu of options for conflict-sensitive microfinance, but if it came down to having to choose, which approaches should take priority? The MF sector appears set to spend millions on direct mitigation, i.e. addressing the problems of the opium sector. Loan amounts will be high, the risk of default will be high, and there will be strong resistance. Would those millions be better spent on lower-amount, low-risk loans? That is, should MF simply stick to the basics of poverty alleviation? In the end, which approach builds more peace, and how does one even tell that one builds 'more peace' than the other? We also explored the idea of MFPs partnering with *shuras*. What if the *shura* does not truly represent the interests of the village or district? What if there is more than one *shura* or local body? With an MFP coming in to work with one of them, does that change the balance of power in the area? Can that have serious consequences, and if so, how could MFPs minimise the severity of those consequences?

10. No Time For Complacency

The 22-year civil war in Afghanistan ended late in 2001, meaning that the country is just over four years into its post-conflict stage. One may be tempted to believe that long-lasting peace is now a foregone conclusion since so much time has passed. Such a belief may be premature. Sri Lanka, whose war ended just a few months after Afghanistan's, is on the brink of renewed violence at the time of writing. In south and

[20] My own attempt at such a tool is found in appendix 11. However, this was never tried.

[21] The directors of CPAU told me they do not produce a lot of documents because they would rather have CPAU remain under the radar screen and go about their work quietly, lest CPAU be perceived as 'political', endangering their existence.

east Afghanistan, low-level but sustained military activity continues. After an April 2005 survey of 1600 Afghans, a report published in July comments:

> Despite Afghans' view that their country is headed in a positive direction, one still has the sense that Afghanistan remains at an extremely fragile moment in its development. Our interviews tell of a country in which the poor tend to feel powerless, where most are poor, and where violence remains just under the surface (Linder, 2005: 23).

It would be an overstatement to say that microfinance will be the deciding factor as to whether or not Afghanistan plunges back into widespread conflict. On the other hand, it would also be erroneous to assume that microfinance practitioners can sit on the sidelines and passively watch the country teeter between peace and war. The 'success' of the microfinance sector should be judged on not only how it helps to alleviate poverty, but also on whether it positively contributes to peace through conflict sensitive practices.

Appendix 1: Microfinance Providers (MFPs) in Afghanistan

- **Table A1.1: Microfinance Providers – Case Studies**
- **Table A1.2: MISFA Partners and Statistics as of December 2005**
- **Table A1.3: Notes on Non-Case Study MFPs in Afghanistan**

Table A1.1: Microfinance Providers – Case Studies

Core MF product shown. If other products are offered, shown in the Notes section. All statistics are as of December 2005.

Name	Locations Served	Location of Case Study	Loan Sizes	Loan Terms	Cost of Borrowing	Target Borrowers	Number of Active Borrowers	% women	Outstanding Loan Portfolio (USD)
BRAC	17 provinces urban and rural	Mir Bacha Kot, 20 min. north of Kabul	1st: $160-300 2nd: 160-400 3rd: 160-500	1 year	17.5% flat	lower poor women, having no or little land	83,556	100%	7,421,694
Notes:	Among case studies, only MFP to include a savings component. BRAC also runs a Small Enterprise Project (SEP): Loans of $800-10,000 to (usually) men with pre-existing businesses and collateral. 1 year term. Cost 17.5% flat. At the end of 2005, SEP had 617 active borrowers. Outstanding portfolio nearly $360,000. Another product is the Agriculture & Livestock Development and Credit Support Program (ALDCSP). $300-700. 17.5% flat repayment, 1 year term. Half of the clients are male. At end of 2005, ALDSCP had 2980 active borrowers. Outstanding portfoio just over $400,000								
AKDN-ARMP	9 provinces, most in north-central/east and West	Bamyan city and Eraq Valley in Bamyan province	Avg: $700	12 months average	Non ag: 1.5%/mo. 1.5% fee Agric: 1.75%/mo.	near poor, middle poor	13,586	10%	8.4 million
Notes:	Largest # of individual (i.e. not group) borrowers in Afghanistan (95% of its clients). In 2004, started some group lending, esp. for women's groups: Avg. $150, 6 months. 1.5% monthly, 1.5% fee. ARMP also has opium "reconversion" loans, "special" loans for opium addicts, and is piloting micro-leasing and loan-for-traders schemes. First Microfinance Bank (AKDN-operated) has taken over loan portfolios in Kabul, Pul-i-Khumri and Mazar cities. Statistics not included here.								
CHF-AMI	Bamyan city and environs Ghazni city and environs	Bamyan city and environs	1st : $400 – 500 2nd : $600 – 700 3rd : $800 – 900	5-10 months	1.5% per month	middle poor	2,289	30%	666,415
Notes:	Each group can negotiate with CHF the exact amounts and term length of the loans. For female clients, the possible loan sizes are smaller: 1st--$150-300; 2nd--$350-400 3rd--$450-500								
IAM-MED	Kabul city	Kabul city	1st: $200 2nd: 300 3rd+: $450	4-12 mos. Usually 6 months	1.7% per month	middle poor usu. shopkeepers	1370	48%	160,000
Notes:	Among case studies, the only MFP not funded through MISFA. After a successful 3rd loan cycle, IAM-MED will write a letter of credit for the client if he or she wishes to seek a larger loan elsewhere.								
WWI	Peri-urban areas of Kabul city	Three different peri-urban locations	1st: $150-180 2nd: $200-400 but can be smaller	4-10 mos. Usu. 8-9 months	15% fee	middle poor, women only	3044	100%	350,000
Notes:	Applicants who have completed WWI's core programme (1 year) are automatically eligible to join the microcredit project, but others are welcome to apply for the project as well. In its first venture outside Kabul, a WWI office was opened in Parwan province December 2005.								

Table A1.2: MISFA Partners and Statistics as of December 2005. From MISFA internal document.

MISFA Partners Client Consolidate					
MFI Name[1]	Amt. Disbursed this month	Amt.Disbursed. Cummulateve	Amtount Outstanding	Total # Clients	Borrowers
AFSG	118,918	1,952,277	504,372	4,007	4,006
ARMP/AKDN	1,605,710	15,661,966	8,433,365	13,586	13,586
BRAC / MF	2,069,231	19,960,017	7,143,079	105,310	84,173
BRAC / ALDCSP[2]	63,374	615,131	367,514	4,159	2,980
CARE	45,987	615,013	104,582	5,790	2319
CHF	144,700	1,467,700	666,415	2,289	2,289
FINCA	553,361	6,345,600	1,391,602	10,576	10,092
WOCCU	84,592	572,480	316,615	3,047	962
WWI	84,970	908,050	349,826	3,044	3,044
MADERA	36,785	247,118	131,254	2,358	2,358
ACTED (Oxus)[3]	3,226	17,704	10,153	104	104
PARWAZ	50,560	577,531	189,168	2,514	2,514
DACAAR	11,500	15,800	14,851	1,425	158
Total Clients	4,872,915	48,956,389	19,622,796	158,209	128,585

* Portfolio reports for the month of November.05 and December.05 from ACTED are not received. Therefore, the data entered is for the month of Oct.05. Similarly report from MADERA for the Month of December is not received and the data entered is for the month of November 2005.

[1] See table A1.1, table A1.3 or List of Acronyms page for the spelling out of these names.

[2] See table A1.1 under BRAC.

[3] See Acronym page for ACTED, an INGO. "Oxus" is named after a river and is the MF arm of ACTED in Afghanistan.

Table A1.3 Notes on Non-Case Study MFPs in Afghanistan
(and level of contact by researcher)

Name	MISFA partner?	Number of Active Borrowers (Dec 05)	Notes	Contact made by Researcher
Foundation for International Community Assistance (FINCA)	y	10,092	Pioneered 'village banking' model in Latin America. Started in 2003 in Herat. A trusted MFI worldwide.	Email contact with director
CARE: The Micro Finance Agency for Development (MoFAD)	y	2319	Targets lower poor, esp. vulnerable women/widows. Savings and credit groups. Started July 2004.	Email contact with director
Mercy Corps: Ariana Financial Services Group (AFSG)	y	4006	Group lending. Targets middle poor. In Kabul only but may be expanding to Kandahar soon.	Interview with AFSG director
WOCCU: *World Council of Credit Unions*	y	962	No information available	None established
Parwaz (a Dari word meaning "to fly" or "to rise")	y	2514	Completely indegeous MFP run by and for Afghan women	None established
DACAAR[4] Community Microfinance Services (DCMS)	y	1425	No information available	None established
MADERA: Mission d'Aide au Dévelopement des Economies Rurales	y	2358 (Nov 05)	Started in Afghanistan in 1998 but in 2005 began to institutionalize its programme.	None established
ACTED/Oxus	y	104	Started operations in mid-2005. Group and individual loans. Will target northern Afghanistan.	Several emails with director
SERVE (not an acronym)	n	607 (Sept 05)	Small credit scheme in one village outside Kabul. SHG model.	1 day visit to village. Email contact with staff.
Agency for Rehabilitation and Energy Conservation in Afghanistan (AREA)	y?[5]	Not available	No information available	Some contact but no real info obtained
Save The Children (USA)	n	0	Ran the largest pre-2001 microcredit scheme in Faryab province. Plagued by inflation, combat, low repayment rates. Finally gave up portfolio early 2005.	Interview with former manager
CCF/CFA Christian Children's Fund Child Fund Afghanistan	n	3575 (Oct 05)	Was the main implementing partner for ANBP microcredit to adult ex-soldiers, but scheme failed. In October 2005 had 248 ex-child soldiers as clients.	Email contact with director

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[4] DACAAR = **Danish** Committee for Aid to Afghan Refugees, involved in many non-MF projects
[5] According to Marino (2005: 4), AREA, an Afghan MFP, is funded by MISFA. However MISFA nowhere mentions AREA in its literature.

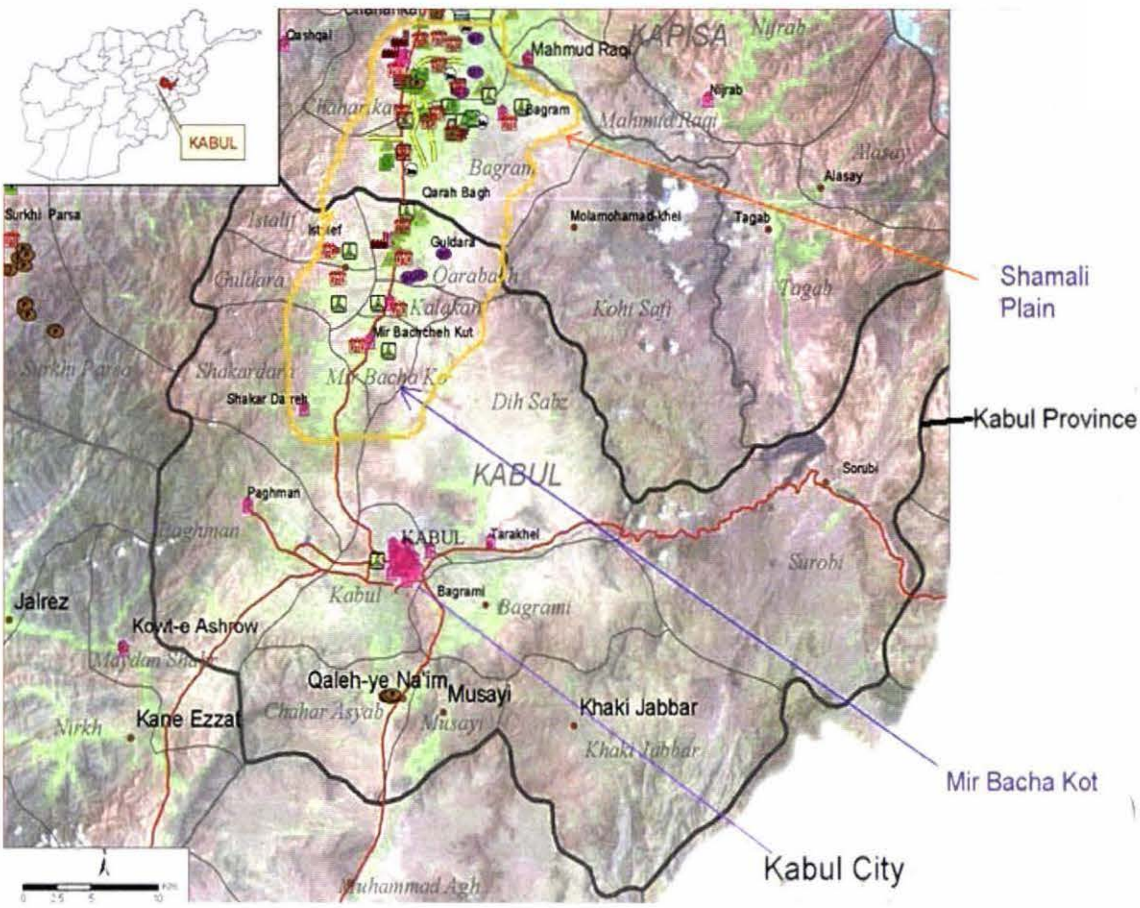
Appendix 2: Places of Research

Kabul

- Capital of Afghanistan
- Population: 3 million (pre-1979: 800,000) (Rubin, 2005: 26)
- Ethnic Group: Mix of Tajik, Pashtun, Hazara, Uzbek, Turkmen, etc.
- History: During Russian occupation, Kabul was virtually untouched. During the mujahideen era, especially 1992-1994, several frontlines criss-crossed the city between rivalling parties. On 1 January 1994, one faction fired 3000 rockets into one of the main shopping centres. Overall, 63,000 housing units were badly damaged or destroyed (Hunte, 2004: 4).
- One-third of Kabul's population are returnees or IDPs (as2k24)
- Because of huge international presence, real estate prices rival those in New York City (as2k24)
- MFPs researched: IAM, WWI
- Microfinance Clients: Mostly shopkeepers. Several home-based businesses, like tailoring and carpet-weaving.
- Other organisations contacted as well: MISFA, AREU, CPAU, etc.

(For map see next page)

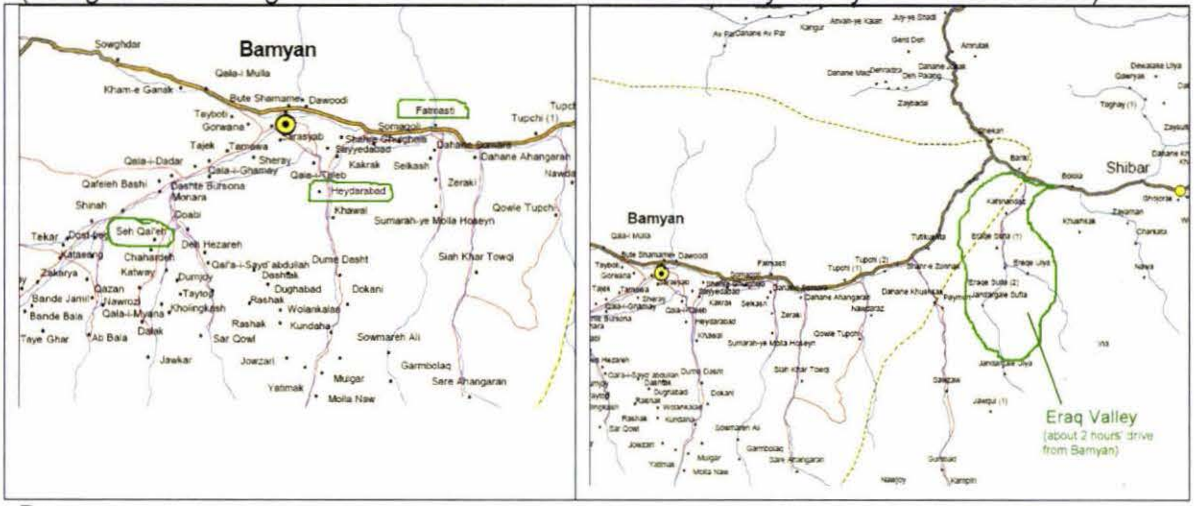
Figure A2.1: Map of Kabul, the Shamali, and Mir Bacha Kot



Mir Bacha Kot (MBK)

- District / town about 20 minutes from Kabul
- Population: 55,800
- Ethnic Group: Mostly Tajik, some Pashtun
- Part of the Shamali Plain, considered the breadbasket of Afghanistan
- History: After the Taliban took Kabul in 1996, the Northern Alliance (not called that then) retreated to the Shamali Plain. For the next 5 years, the front line fluctuated up and down the plain, its average place about where the Kabul provincial line is (northern black border in map). Because of continued local resistance against them, the Taliban initiated scorched earth tactics in areas of the Shamali they controlled, including Mir Bacha Kot.
- Arazi: a village of MBK where this research took place. 500 homes. 300 familes have land, from 3 *beswat* to 10 *jeribs*. (1 jerib = 20 biswat).
- MFP Researched: BRAC
- Microfinance Clients: Most had no or very little land. Home based activities like tailoring. *All of them (those interviewed) had to leave during Taliban times.*

Figure A2.2 Maps of Bamyan, Eraq
(Villages circled in green were visited. Also clients in Bamyan city were interviewed)

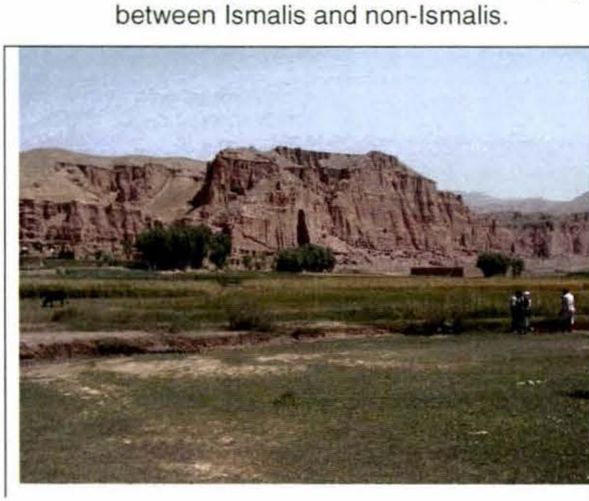


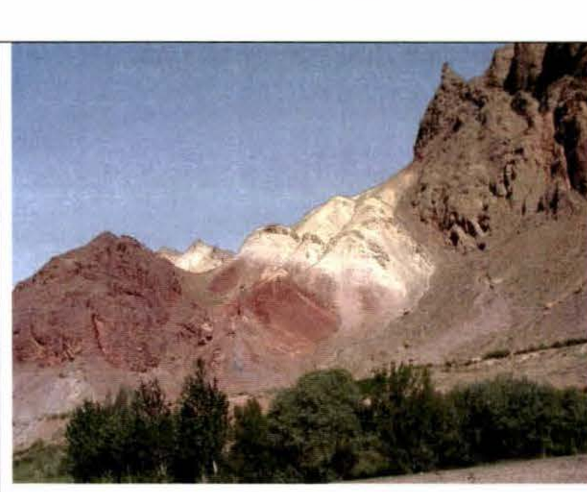
Bamyan

- Population: Bamyan City: 11,500 Bamyan District (rural, not incl. city): 57,300
- Bamyan province: 392,000
- Ethnic Group: Hazara
- Cultural centre of the Hazarajat (not a provincial name), the high and mountainous central part of Afghanistan, the home of the Hazara ethnic group. (Elevation of Bamyan city is 8000 feet)
- History: The Hazaras fiercely resisted Taliban occupation. In 1997, the Taliban initiated an economic blockade of the Hazarajat. In September 1998, they took Bamyan city. In the spring of 1999, the Hazaras launched counter attacks and the city changed hands several times: "The bazaar was looted, 17 percent of houses were destroyed, people were summarily executed and nearly 90 pecent of the population fled" (Wily, 2004b: 13). The Taliban finally "won" and held on to the city until 2001. "Bamyan province now cautiously boasts stability and peace, encouraged by the presence of Coalition forces" (ibid).
- MFPs researched: CHF-AMI and AKDN-ARMP
- Microfinance Clients: Most were in villages and had some land, involved in both cultivation and pastoralism. Several shopkeepers in the Bamyan bazaar were also interviewed. Like Mir Bacha Kot, everyone I talked to was a returnee, having fled during the Taliban times.

Eraq Valley

- In 1978, there were 1000 households. In June 2003, there were 400 households (people slowly returning after the Taliban)
- Very narrow valley. A farm of 3 jeribs is considered large. Many involved in pastoralism on the upper plains.
- More than half the population is Islmali Shia. AKDN has built a school and clinic. 18 of the 30 AKDN-ARMP borrowers in the valley are Ismali Shia. Interviewees report no tensions between Ismalis and non-Ismalis.





Appendix 3: List of Interviews with Directors. Kabul: June/July 2005

Andrews, Meagan	Senior Consultant/Microfinance Project Manager for Mennonite Econcomic Development Associates (MEDA) (contracted by WWI to serve as MF director)
Biswas, Ibrahim	BRAC Microfinance Programme Manager
Breton, Michele	Mercy Corps - AFSG Microfinance Manager
Chotani, Harish	Manager, Monitoring and Evaluation Unit, MISFA
Haider, Zulfiqar	AKDN Bamyan Regional Program Manager
Hakim, Ahmad Fahim	AIHRC Deputy Chair
Mulligan, Christine	Afghanistan Country Director, CHF International
Obenschain Dan	IAM-MED Program Manager
Sirolla, Armando	AKDN-ARMP Programme Manager
Suleman, Muhammad	CPAU Programme Manager

Appendix 4
Interview Schedule (Clients and Non-Clients)
(Rural Shopkeeper version 1. 17 July 2005)

Interviewee ID Number: ________
CONSENT: How did interviewee indicate willingness to participate?

Audible affirmative answer _______. Nod of the head _______.

Client _____ Non-client ______
Inhabitant? ________ Returnee? __________ IDP? __________

Details if Returnee or IDP (eg. how long in Pak/Iran and when returned):

(Near end of interview) Judge the attitude of the interviewee:
Overly positive? ____________ Overly negative? ________________
Happy to share? _____________ Reluctant to share? _______________

Location of Interview (approx area and shop/home)

Who was there:

Lots of personal qs. won't give info to anyone. just want to see what kind of life you live and if MF is helping support that kind of life.

1. BACKGROUND INFORMATION (and Wealth Group Indicators)

1.1 IMMEDIATE FAMILY IN HOUSEHOLD (cf 7: Human) (spouse/children)	
How many people in your immediate family?	
Can you tell us about them? What do they do? *(don't write names on this form)*	
children go to school?	
1.2 EXTENDED FAMILY (cf 7: Human) (siblings/parents/cousins/etc)	
Where is your extended family?	
How do they help you? (e.g. income, meals, equip, etc)	

1.3 HOUSE, LAND

1. House and Land Arrangements (see annex to draw out more details, eg. why, how long)

a. own house _______
b. gives rent _______
c. landlord provides shelter ______
d. they own a house but it's under gerow ________
e. the house they live in is under gerow ______

a. IF owns land amount ______
b. arrangments* and number of each _____________
c. amount sharecropped out ________
d. amount under gerow ________
e. IF not owning land: amount he works on _______
f. arrangements* _________
g. amount under gerow ________

2. Animals?

*Arrangements: Nisfa Kari, char kot, panj kot, using mard-i-kar; gerow

1.4 BUSINESS	
1. What kind of business is it?	
2. How long have you had it?	
3. (if shop) Do you own the shop?	

Your judgment of Wealth Ranking: Hi Med Low Give reasons:

2. DEPTH OF PARTICIPATION IN MFP (for clients only)

	Answers	Adjusted score
1. How long have you been in the MFP?		
2. How many loans have you taken out from the MFP?		
3. What's the largest loan you have taken?		
4. Are there extra meetings (health, education, etc) which you attend which are part of the MF programme?		
	Total Score>>	
If a non-client, go to *Annex 1: Extra Questions for Non-Clients.* Afterwards, return to section 3. From now on, you may need to rephrase questions slightly to fit the context, e.g. use "the past year" instead of "since you joined the programme". or may need to skip qs.		

3. BUSINESS HEALTH AND TREND

1. What have you used the MF loans for? (non-cl: what have use used loans for in your business?)
2. Is it OK if we ask you some information about your business?

	Sales/Income (3A)	**Expenses**	**Net Profit (3B)**	**Assets (3C) (stock + prod)**
Before (1 yr ago or b/f MF)				
Now				
% increase				

3. Have you bought any productive assets (e.g. machines) in the last year? Because of loans? Because of increased profit? (3C)
4. Have you learned new business skills? (how to make something, bookkeeping, managerial skills)
5. (for client) Are there other reasons (besides getting loans) your business is getting better?
   (if not getting better: Do you think it will? Why?)
6. What do you plan to use future loans for?

SIDE section. OVERALL PERCEPTION OF CHANGES (Volunteered)

1. Do you think being part of the MFP (and/or your better business) has made a big, medium, or small difference in your or your family's life?
   (let's not talk about differences in your business for the moment)
2. Even if it's a small difference, can you give me two of the most important examples?
3. Do you think that, 2 or 3 years in the future, having access to microfinance services (like credit, savings, and insurance) will (or would) make a bigger difference in your family's life? How so?
4. Have there been any negative changes in your or your family's life by being part of the MFP?

4. HOUSEHOLD FINANCIAL HEALTH

4A: Income of Household

1. What does each member of your family do to earn income? Does it change with the seasons?

FS = Farm Sales LS = Livestock Sales BS = Business sales FL = Farm Labour
JI = Job income (Local) MJ = Migrant Job* R = Remittance B = Begging
*MJ means the member lives away from home (within Afghanistan) but sends home/brings money home at times.

2. What percent (or how much) does each contribute?

3. Have there been any changes in how your family earns income in the last year or 2? Do you hope there WILL be changes?

4. Did you and do you get things by trade or providing services? (eg.eggs for potatoes; food for a job)

5. Has (or WILL!) your family's ability to obtain things increased or decreased? Why do you think that is? (more than one reason is OK)
a) My business is healthier due to credit access. b) Other family members have found new jobs.
c) Afghanistan's economy is improving d) Things are easier to find and cheaper
e) The MF programme has helped in other ways ___________ f) other reason ______________

4B: Savings

1. Does or did your family try to save money? What for?
2. How do or did you save? Sunduq-e-tawani? Dokandar?
3. Does the MF programme help you save money? How? Do you think it will in the future?
4. Has your savings balance increased or decreased in the past year?
5. (if applicable) Have you withdrawn money from your savings account? (How many times?) What did you use it for?

4C: Indebtedness

BEFORE
1. Did you/your family take out loans before joining the MFP? [including salaam or commodity credit?]
If yes
a. Who did you take them from?
b. What did you need them for?
c. What were the terms of repayment? Due date(s), Interest?
d. How did you feel about taking one? (Shame?)
e. Did you feel like the debt(s) were a big burden?
f. Were you able to repay the loan(s)? If no, do you still owe money?

If no,
g. Did you need a loan? (If yes), Why couldn't you get one?

NOW
2. Does your family feel like it's under a debt burden now?
3. Does your household have other loans out?

	Loan 1	Loan 2	Loan 3
Loan from who?			
Original amount (Afs or Seers/kgs) or item			
Interest charged?			
What is the repayment schedule?			
How much have you paid back so far?			
Collateral: Land,house,produce,none Group, other..			
Why did you take it? F=food H=health C=ceremonies D=death H=house maintainance P=productive			
Do/Did you feel it was a fair loan? Did it match what you needed? (size and timing)			
Do/did you feel able to repay it? Why/Why not?			

5 and 6: PHYSICAL and NATURAL CAPITAL

At your household, could you describe the changes in these things in the last year or two. (*Put n/a for doesn't apply, e.g. on 6c. if the family doesn't have any land)*

	Lot Better	Little Better	No Change	Little Worse	Lot worse
5a: Productive Equipment (not connected to your business)					
5b. Consumer goods (e.g. radios, carpets, bicycles, etc)					
5c.1 Condition of House you live in and/or house you own. (paint, walls, plumbing, war damage etc.)					
5c.2. Housing Arrangments (Paying rent, gerao, mumber of houses your family owns, etc)					
6a.1 Land arrangements (owning sharecropping, gerao, etc.)					
6a.2 Farm or Garden Production					
6b. Livestock Assets and Production					
6c. Water for Farming					

IMPORTANT point 1: Ask the why questions for the above!!! You can write the reason in the chart or in the margins or in a separate notebook. Example of why questions:

1. If any improving, why? The loans? Profits from business? Other NGO programme? Government help?
OR if worse: 2. "How has it got worse?" Why?
OR if conditions are bad and haven't changed: 3. Why are they bad? What would solve the problem?

Jump to Appendix 2 to clarify housing and land arrangements

7. HUMAN CAPITAL

At your household, could you describe the changes in these things in the last year or two.

	Lot Better	Little Better	No Change	Little Worse	Lot worse
7a: Access to clean drinking water					
7b.1: Ability to pay Doctors/hospitals					
7b.2 Ability to buy medicine					
7c. Food quantity and quality					
7d.1 Education (not only of children)					
7d.2 Development of Skills					

Ask respondent to expand on any of the above, esp. WHY. (like under section 5,6)
7c follow up: Is your family eating more meat and vegetables than before? Can you specify
7d.1 followup: Are your kids getting better education? Are you yourself learning any new knowledge? Are you taking a course? How about other adults in your family?

8. PERSONAL CHANGES

	Lot Better	Little Better	No Change	Little Worse	Lot worse
8a. Self-confidence					
8b. Peace of Mind					
8c. Hope for Future					

Ask respondent to expand on any of the above, esp WHY. Better business? Improving economic situation in the country? Fall of the Taliban?

9. SOCIAL CHANGES (at personal level)

a. reln b. group/working together c. support (safety net) d. trust	Lot Better	Little Better	No Change	Little Worse	Lot worse
9a.1 Number of friends (have you made friends in the MF group?)					
9a.2 Visits to and from friends					
9a.3 My level of "balad" (people who know me)					
9b.1 I have joined or plan to join a group, eg. sports, games, religious, community service, etc.					
9b.2 I feel comfortable working with other people, even if I don't know them, on a group problem or a community problem.					
9c.1 If I am in trouble, I know I can get help from my qowm? (ext. family)					
9c.2 From people outside your qowm?					
9d.1 I trust other people					
9d.2 Other people trust me					

If better: Why better? Because you have a business? Because you are part of a MF group? Because you are more wealthy?

10. POLITICAL CAPITAL CHANGES (at personal level)

	Lot Better	Little Better	No Change	Little Worse	Lot worse
10a My "waseta" (connections)					
10b Influence I have in community or group decisions					
10c. Respect from other people					
10d. Feeling of strength, that people can not harm me or force me to do something.					

If better: Why better? Because you have a business? Because you are part of a MF group? Because you are more wealthy?

11. CONCLUSION

1. Any rules of the MFP which make you feel uncomfortable?
   What new rules would you like to see? (interest rates, charges, loan repayment, etc)

2. What have you used the MFPs savings or insurance products for? (or) What would you use them for?

3. Are you planning to stay in the MFP? Why? Why not?

4. Have there been important events/decisions recently (since you joined programme)? Has being part of an MFP made a difference in that event/decision? What about the future?

5. What things have got better in your village/manteqa? Why do think that is happening?

6. What are some things that are still bad or getting worse? Why do think that is happening?

7. Anything else you want to say? or ask?

If interviewer and interviewee have time: "There is one more page of questions on the subject of peace in Afghanistan. It should take 20 more minutes and we can pay you another 50 Afghanis. Would that be OK? No pressure if not." Interviewer may want to consider asking another client who did not get a chance to do the main interview. These qs are in Appendix 5

Annex 1: Extra Questions for Non-Clients

1. Have you been part of an MFP before?
(if no, skip to question 4)
(If yes)
Who decided that you should leave the programme?
Why did you leave?

2. Do you plan to re-join at a later time? Why or why not?

3. Would you encourage a relative or friend to join the programme? Why or why not?

4. Are you aware of the local MFP?
(if yes) Tell us what you know about it.

(if no) go back to section 2.

5. Have you wanted to be part of an MFP?
(if yes)
Why haven't you joined?

What difference do you think it would make in your life?

(if no)
Why not?

Annex 2: Extra Questions for House and Land Arrangments

HOUSE
Does your (extended or immediate) family own this house/compound? Y/N
(if yes) How long have you owned it?
(if no) Is it rented?
Would you like to own a house? (If yes) what is stopping you from owning a house?
OR
Is it under *gerao (mortgage)*? Y/N
(If under gerao)
Do you know why the owners needed to "gerao" the house?
Why did you agree?
Do you fear the day they "buy" it back from you?

Does your immediate family own other houses? Are they rented or under gerao?
(if under gerao, why?)

LAND
How much land do you own? (jeribs or hectares)
Is any of that land under mortgage (gerao)? To whom? How much? When? Why?

Has it ever been? Did you "buy" it back? How did you pay for it?

Is any of the land sharecropped-out? How much?
If yes, what is the arrangement?
(inputs: water, fertlisiser, seeds, draught power, labour) output ratio share.

Do you sharecrop-in?
If yes, what is the arrangement?

Have any of these house/land arrangements changed since you joined the MFP? Is it because of the MFP or just a coincidence?

Appendix 5: Peace Questions for Clients

1a. What does "peace in the community" mean to you? How do you know there is or isn't? Can you tell us if those things are increasing or decreasing? And why?

1b. (if person can't answer). Here's some things other people have said. Which one or ones do you agree with?

- *peace is to live together like we did before 1983* (Sri Lanka)
- *peace is the non interference of foreigners in Afghan affairs* (Afghanistan)
- *peace is when our children can go to school* (Liberia)
- *peace is when an unmarried girl can go out at night in all her jewellery and come back home safely* (Sri Lanka)
- *peace means unity, for us to live together in our country* (Afghanistan)
- *peace means the absence of fear (Africa)*

2a. I'm going to list ways that one can divide people into groups. Think about which divisions cause the most serious problems in Afghanistan:

ethnic, religious, gender, rural/urban, rich/poor, different working classes, education level, former soldiers/non-soldiers, divisions between provinces, divisions between political parties, Westernized/conservative, aid recipients/non-recipients , different qowms

2b. Can you choose two or three divisions which cause the most problems? (list them again) What problems are they? Is one side treated unfairly?

3. In the past year or two, can you think of any inter-group relationships that are getting better? Why do you think that is happening?

4. In the past year or two, can you think of any inter-group relationships that are getting worse? Why do you think that is happening?

5. Does any group have too much power over another group? How can the power become more even?

6. What contribution do you think MF and/or growing businesses can make to improving inter-group relationships or balancing power? Have you seen that happen?

7. What about MF programmes creating more conflict? Do they sometimes cause or worsen divisions? Do they make one group too powerful?

8. Comment on Changes in your community in the past year or two.

Item	up	down	How much and why?
Inter-group friendships			
Inter-group marriage			
Crime			
Disagreements in the marketplace			

9. When you look at the whole Kabul region and beyond to the country, is there feeling that tension is increasing or decreasing? Why?

10. Do the upcoming elections have an impact on that? Do you think it will be better afterward?

Appendix 6: Example of Respondent Information Sheet (RIS)

ID: 029	Age: late 20s, male	C/NC: c
IDP/Returnee/Inhab:	Details:	
Location and Who Present of interview: shop, some extended family around (who are also employees)		Attitude: very positive
Field/Loan Officer:	Group details:	

Wealth group indicators

Family details: # who work: 3 1 of 6 bros. 1 sister. but 2 bros married and off. 2 bros go to school. father: shopkeeper b: also metalworker	Housing: father owns Appearance:	
	Land: 3 jeribs	Land use:
	Shop, kind: metalworks rents	Shop appearance: lots of good equipment
Other:		Final rank: med/hi last yr. hi this yr

Participation Depth index (PDI)

Length: 2+ yr	No: 3	Amt: $1500	Extra:	Final PDI: 9

have used loans to buy fixed assets (equipment/tools/generator) and metal.

blank: not covered ng: not given (perhaps q misunderstood) na: not applicable 0 = no change Nw = no war
mf = microfinance programme b = business success. (Sections 3,4: judgment of interviewer according to answers. lot better/little better choice not offered to interviewee. So multiple +++ no possible)

Item	+ / - / 0 ng / na	Reason: mf / b / nw	Notes
3a. Business income	0		40,000 sales and 10,000 expenses then & now*
b. profit	+	mf	b/c doesn't have to borrow to get materials
c. Assets	+	b	new generator. $5000 in fixed assets over last year. also has better base of stock
d. Bus. Skills			
4a. Hh income	+	mf/b/family	
b. Savings	0		
c. non-Indebtedness	+		used to borrow from friends for his shop. felt "like my hands were tied". AK "has helped me get out from those debts"
5a. Productive equip	+++	b	new sewing machine
b. Consumer gds	+++	b	computer, printer, tv, motorcycle
c. Housing	+++	b/family	paint, new doors/windows. also bought new land for a compound. just starting to build.
6a. Land	+++	b/family	more water, fertilizer
b. Animals	++	b/family	3 goats 5 sheep. 3 of them bought this yr.
c. Water (for agric)	+++	[good winter]	
7a. clean water			
b. doctor&medicine acc.			
c. Food quant & qual	+++	??	
d. Educ. & skills			
8a. Self-confidence	++		peace security
b. Peace mind	++		
c. Hope	++		
9a. relationships	+++		probably all of 9 have increased. his job has incr. # of friends and contacts (peacebuilding?)
b. coopereration			
c. support 'safety net'			
d. trust			

* he says it was "much weaker" last year b/c had to borrow here and there just to get enuf materials to meet the demand. Now has a comfortable base with proper equipment. He also used to take a loan from one to cover another.
father still earns the most. he's had a 25% increase in last year. brother's business also doing better. (they are both non-clients)
5a,b. those he got for personal use, so money came dirctly from business profits.

He feels it's been very useful b/c now he doesn't need to ask other people for help.
small or big diff? "It's made a big difference"

Appendix 7: Respondent Analysis Grids (RAGs)

Guide to Reading the Grids

The basics of reading the data cells of the various analysis grids are as follows:

1. Numbers indicate the magnitude of change (usually over the last year) according to the client. "3" = "much better", "2" = "better", "1" = "little better", and "0" = no change. Negative numbers mean that the item has become worse. An empty cell means that the question was not asked (because the interview schedule was too long – see appendix 3, chapter 5) or occasionally, not understood or answered appropriately.

2. The 0, 1, 2 number scheme above is not used in sections 3 and 4 because clients were not asked the magnitude of change. Instead, other kinds of questions were asked and a "+", "-", "0" or in some cases numerical data (e.g. percentage increase) was entered.

3. Colours show the impact that MF has had on a livelihood. Magenta indicates a direct impact, i.e. either what the loan was used for, and, in the case of BRAC clients, the fact of mandatory savings (column 4b). Green means that the change can be directly and mostly linked to MF. (e.g. loan → better business → better diet, or loan → more animals → more fertilizer → better land production). Yellow shows a partial link, i.e. that the client mentioned credit access as one of several reasons why something has improved. No colour indicates that MF was not mentioned as a cause of change.

4. Square bracketed entries (e.g. [+]) indicate that the client did not directly report an improvement, but the change can be inferred from other information the client provided.

5. Notice in Table A8.2, there is no data presented in Section 3 on business income, business profit, business assets or business skills. This is because: a) when I wrote the initial client interview schedule, I had shopkeepers in mind, not rural residents; b) the major income cycles of rural residents tend to be less frequent (e.g. a large income flow around harvest time) and since most of the rural clients I interviewed had been clients only for around 6 months, there was not much basis for comparing the magnitude of income streams past and present.

Table A7.1: Shop-Based Response Analysis Grid (RAG) (ordered according to PDI)

purple = direct impact (eg. loan use) green= causal link (eg. mf > business > better food security) yellow = partial causal link (mf one among many causes) Sections 3,4: + or - 5ff: number
C = increase in current assets F = increase fixed assets. [+] = direct question not asked, but + is inferred. "0—" = no change and the current situation is not good. $+_s$ = small positive change

			BUSINESS WELL-BEING				HOUSEHOLD WELL-BEING														CLIENT WELL BEING										
No.	1. WG	2 PDI	3. Business				4. Financial Capital			5. Physical Capital			6. Natural Capital			7. Human Capital				8. "Personal" Capital			9. Social Capital				10. Political Capital			
	Wealth group	Participation depth	a.) business income	b) business profit	c) business assets	d) business skills	a) HH income	b) Savings	c) Non-indebtedness	a) HH productive equip.	b) consumer goods	c) housing	a) Land & Ag. Prod'n	b) Animals	c) Water (for agric)	a) clean drinking water	b) doctor/med. access	c) food quality and quantity	d) education/skills	a) Self-confidence	b) peace of mind	c) hope	a) relationships	b) cooperation	c) support/safety net	d) trust	a) waseta	b) influence	c) respect	d) not feeling vulnerable
011	low	0	-30%	--			[--]		---	0	0	-2	0	0	na	0	-2	0		0	1	2	1		1	0	0	0	2	2
021	low	0	0	0	0		[0]		0	0	0	0	-1	0	1	0	[0]	0	0	0	0--	0								
012	lo/m	0		--			0		0		0	1	0	0	na	2	-2		0	?	0	2	0			0	0		0	
013	lo/m	0	25%	+			$+_s$		0--	0	0	-2	0	0	na	1	-2	[0]		2	2	2	2				0	0	0	
030	med	0	-?		[+C]		$+_s$		?	2	2	2	0	0				2		2	2	2	2		2					
004	low	3	25%?	??	F	+	[+]		0		0	-1	0	0	na	-1		2		2	2	2	2		0	0	2	2	2	
047	low	3			C		+	+	0	0	0	2	0	0	na	0	0	2	1	2	2	2	1			0				
018	hi	3	[+]	[+]	CF		[+]			0	3	3	1		2	2	2	2					[g]							
019	low	3			C		0			0	0	1	0	1	2	3	0		2	2	2	2								
009	lo/m	4	+	+	CF	0	+		0				0	0		3	2		1+	2	3	3	2						2	
008	lo/m	5	2x	2.3x	C	0	[+]	0	0	0	2	0	0	0	na		3	1			2	2	0			1w	0	0	0	2
010	low	5	3x		CF		+		0				0	0		2	2			2	2	2			3					
002	hi	6			C	0	+		+		2	2	0	0	na	0	0	1	2	0	0	3	0							
003	?	6	25%?	??	C		[+]		+			1	0	0	na		3	3												
028	v.hi	6	0	0	25c%		+			2	2	0	0	0	0			2		2	2	2	2			2	0	2	2	
006	md	7	25%		C	0	+	0	0	0	3	0	0	0	na	2	2	2	1	2	2	2	2		0	2	2	2	2	2
007	m>hi	7	35%		C	0	+	0	+		3	3	3	0	na	2	2	3	1	3	3	3	mix		0	2	2	2	2	2
005	hi	8	60%		CF	0	?		?		3	0	0	0	0	0	2	2		1	3	2	2		2	1w	2	2	2	
027	m>h	8	x2	x2	60c%		[+]		[+]	2	3	3	2	1	2	1		2	0	2	2	2	3	0		2	0	2	2	2
029	m>h	9	0	+	CF		+	0	+	3	3	3	3	2	3			3		2	2	2	3					[g]	[g]	

Table A7.2 Home or Land Based Response Analysis Grid (RAG) (ordered by PDI)

purple = direct impact (eg. loan use) green= causal link (eg. mf > business > better food security) yellow = partial causal link (mf one among many causes) Sections 3,4: + or - 5ff: number
C = increase in current assets F = increase fixed assets. [+] = direct question not asked, but + is inferred. "0—" = no change and the current situation is not good

			BUSINESS WELL-BEING				HOUSEHOLD WELL-BEING																CLIENT WELL BEING										
No.	1. WG	2 PDI	3. Business				4. Financial Capital			5. Physical Capital			6. Natural Capital			7. Human Capital				8. "Personal" Capital			9. Social Capital				10. Political Capital			
	Wealth group	Participation depth	a.) business income	b) business profit	c) business assets	d) business skills	a) HH income	b) Savings	c) Non-indebtedness	a) HH productive equip.	b) consumer goods	c) housing	a) Land & Ag. Prod'n	b) Animals	c) Water (for agric)	a) clean drinking water	b) doctor/med. access	c) food quality and quantity	d) education/skills	a) Self-confidence	b) peace of mind	c) hope	a) relationships	b) cooperation	c) support/'safety net	d) trust	a) waseta	b) influence	c) respect	d) not feeling vulnerable
022	lo/m	?					0?		--?	0	1	0	0	2		0--	[0]	2		3	3	3	[g]							
032	med	2					[+]	0	0	1	1	0	1	2	2	0	2	1		2	3	3	2		2					
040	m/hi	2					60%	+	--?	1	1	0	1	2	1		1	2		1	2	2	[g]							
015	lo/m	3											0	3	f			[2]		1	1	1								
016	med	3								2	0	0	0	3	0					2	2	2								
017	hi	3									2	2	-1					0		2										
041	m/hi	3					+?	+	0	0	0	3	2		2	2	2	1		2	2	2	[g]							
044	low	3					20%	+	0	0	0	0	0	2	na	0	2	0	0--	2	2	2								
048	low	3					+	+	0	0	1	1	0	1	na	0	0	2?	0	2	2	[2]	1			0				
050	low	4					+	+	0	2	0	2	0	0	na	0	1	2		2	2	2	1			2				
042	low	4					+	+	?	+	0	1	0	2	na	0	1	2	1	2	2	2	2							
051	l/md	4					+	+	0	2	2	2	0	[0]	na	0	1	2			0--	2	0			2				
052	med	4					+	+	0		1	1	0	2	na	2	2	2	[1]	2	2	2	0			2				
023	m/hi	5					+	0	0	2	3	2	3	2		3	[0]	3	2	3	3	3	0[g]							
024	m/hi	5					+		0	0	2	3	3	2	2		[0]	2		2	2	2	[g]							
025	low	5					[+]		?	0	0	2	0	2	0	2	[0]	2	0	2	2	2	2						2	
037	l>m	5			C		--		?	3	2	2	2	0	0	0		1	3	1	2	2	2					2	2	
034	med	6					[+]		0	3	3	2	2	3	3	0	2	2		2	2	2								
033	hi	7					+	0		0	0	1	2	3	2	0	2	1		2	2	2	2							
035	m/hi	7					[+]	0	0	1	1	2	3	3	2	0	2	2		2	2	2								

Table A7.3 IAM Clients/Non-Clients

purple = direct impact (eg. loan use) green= causal link (eg. mf > business > better food security) yellow = partial causal link (mf one among many causes) Sections 3,4: + or - 5ff: number
C = increase in current assets F = increase fixed assets. [+] = direct question not asked, but + is inferred. "0--" = no change and the current situation is not good

			BUSINESS WELL-BEING				HOUSEHOLD WELL-BEING														CLIENT WELL BEING										
No.	1. WG	2 PDI	3. Business				4. Financial Capital			5. Physical Capital			6. Natural Capital			7. Human Capital				8. "Personal" Capital			9. Social Capital				10. Political Capital			
	Wealth group	Participation depth	a.) business income	b) business profit	c) business assets	d) business skills	a) HH income	b) Savings	c) Non-indebtedness	a) HH productive equip.	b) consumer goods	c) housing	a) Land & Ag. Prod'n	b) Animals	c) Water (for agric)	a) clean drinking water	b) doctor/med. access	c) food quality and quant	d) education/skills	a) Self-confidence	b) peace of mind	c) hope	a) relationships	b) cooperation	c) support/'safety net	d) trust	a) waseta	b) influence	c) respect	d) not feeling vulnerable
002	hi	6			C	0	+		+		2	2	0	0	na	0	0	1	2	0	0	3	0							
003	?	6	25%?[1]	??	C		[+]		+			1	0	0	na		3	3												
004	low	3	25%?	??	F	+	[+]		0		0	-1	0	0	na	-1		2		2	2	2	2		0	0	2	2	2	
005	hi	8[2]	60%		CF	0	?		?		3	0	0	0	0	0	2	2		1	3	2	2		2	1w[3]	2	2	2	
006	md	7	25%		C	0	+	0	0	0	3	0	0	0	na	2	2	2	1	2	2	2	2		0	2	2	2	2	2
007	m>h	7	35%		C	0	+	0	+		3	3	3	0	na	2	2	3	1	3	3	3	mix[4]		0	2	2	2	2	2
008	lo/m	5	2x	2.3x	C	0	[+]	0	0	0	2	0	0	0	na		3	1			2	2	0			1w	0	0	0	2
009	lo/m	4	+	+	CF	0	+		0				0	0		3[5]	2		1+[6]	2	3	3	2						2	
010	low	5	3x		CF		+		0				0	0		2	2			2	2	2			3					
011	low	0	-30%	--			[--]		---	0	0	-2	0	0	na	0	-2	0		0	1	2	1		1	0	0	0	2	2
012	lo/m	0		--			0		0		0	1	0	0	na	2	-2		0	?	0	2	0			0	0		0	
013	lo/m	0	25%	+			+s		0--[7]	0	0	-2	0	0	na	1	-2	[0]		2	2	2	2				0	0	0	

[1] It's ambiguous as to whether clients 003 and 004 meant 25% improvement in income or profit. 004 said 25% better to financially healthy question
[2] Client 005 (IAM's programme) also has a loan of $1200 from AKDN, which adds 5 points to his PDI. Current assets from IAM. Fixed assets from AKDN. Hard to know impact b/c family was already rich.
[3] 1w = one way. Others trust him more, but he doesn't trust others more than before.
[4] 007 has more contacts because of his business, but he's also getting too busy to spend time with his friends.
[5] 009: possibly a mis-use of the loan? Dug a well with loan money; didn't use for productive purposes
[6] 009 is going to a literacy course. However, later she remarked how she has fresh hope that her young children will go to school once old enough, instead of having to work to help support the family. Reason for hope unclear.
[7] 013 averages $80 in debt (informal credit from friends) Latest one he's not sure he'll be able to pay back.

Table A7.4 CHF Clients/Non-Clients

purple = direct impact (eg. loan use) green= causal link (eg. mf > business > better food security) yellow = partial causal link (mf one among many causes) Sections 3,4: + or - 5ff: number
C = increase in current assets F = increase fixed assets. [+] = direct question not asked, but + is inferred. "0--" = no change and the current situation is not good

			BUSINESS WELL-BEING				HOUSEHOLD WELL-BEING																CLIENT WELL BEING										
No.	1. WG	2 PDI	3. Business				4. Financial Capital			5. Physical Capital			6. Natural Capital			7. Human Capital				8. "Personal" Capital			9. Social Capital				10. Political Capital			
	Wealth group	Participation depth	a.) business income	b) business profit	c) business assets	d) business skills	a) HH income	b) Savings	c) Non-indebtedness	a) HH productive equip.	b) consumer goods	c) housing	a) Land & Ag. Prod'n	b) Animals	c) Water (for agric)	a) clean drinking water	b) doctor/med. access	c) food quality and quant	d) education/skills	a) Self-confidence	b) peace of mind	c) hope	a) relationships	b) cooperation	c) support/'safety net	d) trust	a) waseta	b) influence	c) respect	d) not feeling vulnerable
015	lo/m	3											0	3	f[8]			[2]		1	1	1								
016	med	3								2	0	0	0	3	0					2	2	2								
017	hi	3									2	2	-1	2				0		2										
018	hi	3	[+]	[+]	CF		[+]			0	3	3	1		2	2	2	2					[g][9]							
019	low	3			C		0			0	0	1	0	1	2	3	0		2	2	2	2								
021	low	0	0	0	0		[0]		0	0	0	0	-1	0	1	0	[0]	0	0	0	0--	0								
022	lo/m	2					0?		--?	0	1	0	0	2		0--	[0]	2		3	3	3	[g]							
023	m/hi	5					+	0	0	2	3	2	3	2		3	[0]	3	2	3	3	3	0[g]							
024	m/hi	5					+		0	0	2	3	3	2	2		[0]	2		2	2	2	[g]							
025	low	5					[+]		?	0	0	2	0	2	0	2	[0]	2	0	2	2	2	2						2	

[8] planning to dig a well in the near-future

[9] Assumed to be good already (for all of sections 9 and 10)

Table A7.5: AKDN-ARMP Clients/Non-Clients

purple = direct impact (eg. loan use) green= causal link (eg. mf > business > better food security) yellow = partial causal link (mf one among many causes) Sections 3,4: + or - 5ff: number
C = increase in current assets F = increase fixed assets. [+] = direct question not asked, but + is inferred. "0—" = no change and the current situation is not good

			BUSINESS WELL-BEING				HOUSEHOLD WELL-BEING																CLIENT WELL BEING										
No.	1. WG	2 PDI	3. Business				4. Financial Capital			5. Physical Capital			6. Natural Capital			7. Human Capital				8. "Personal" Capital			9. Social Capital				10. Political Capital			
	Wealth group	Participation depth	a.) business income	b) business profit	c) business assets	d) business skills	a) HH income	b) Savings	c) Non-indebtedness	a) HH productive equip.	b) consumer goods	c) housing	a) Land & Ag. Prod'n	b) Animals	c) Water (for agric)	a) clean drinking water	b) doctor/med. access	c) food quality and quantity	d) education/skills	a) Self-confidence	b) peace of mind	c) hope	a) relationships	b) cooperation	c) support/'safety net	d) trust	a) waseta	b) influence	c) respect	d) not feeling vulnerable
027	m>h[10]	8	x2	x2	60c%		[+]		[+]	2	3	3	2	1	2	1		2	0	2	2	2	3	0		2	0	2	2	2
028	v.hi	6	0	0	25c%		+			2	2	0	0	0	0			2		2	2	2	2			2	0	2	2	
029	m>h	9	0	+	CF		+	0	+	3	3	3	3	2	3			3		2	2	2	3					[g][11]	[g]	
030	med	0	- ?[12]		[+C]		+s		?[13]	2	2	2	0	0				2		2	2	2	2		2					
032	med	2					[+]	0	0	1	1	0	1	2	2	0	2	1		2	3	3	2		2					
033	hi	7					+	0		0	0	1	2	3	2	0	2	1		2	2	2	2							
034	med	6					[+]		0	3	3	2	2	3	3	0	2	2		2	2	2								
035	m/hi	7					[+]	0	0	1	1	2	3	3	2	0	2	2		2	2	2								
037	l>m	5			C		--[14]		?[15]	3	2	2	2	0	0	0		1	3	1	2	2	2					2	2	
038[16]																														

[10] One might say he was medium last year but high this year
[11] [g] = assumed to be good, from observation. I could tell his employees respected him.
[12] 030 ended up an interview of two brothers, each with a shop. Second brother, probably with more profitable shop, came halfway through interview. First brother's shop income was on the decrease, but he has been open only 6 months.
[13] 030. One brother was heavily in debt (via commodity credit) but did not seem at all worried about it; he's sure he can repay. So it's difficult to judge him to be "indebted"
[14] However, 037 says that reason for income drop is that sons now go to school (instead of weaving carpets, which indicates she feels she can afford to let them go.
[15] 037: mixed really. First AK loan was used to partly pay off a house loan (a misuse of loan?) and they're still under $1000 of debt.
[16] interview went badly for several reasons.

Table A7.6: BRAC Clients/Non-Clients

purple = direct impact (eg. loan use)   green= causal link (eg. mf > business > better food security)   yellow = partial causal link (mf one among many causes)   Sections 3,4: + or -   5ff: number
C = increase in current assets   F = increase fixed assets.   [+] = direct question not asked, but + is inferred.   "0—" = no change and the current situation is not good

			BUSINESS WELL-BEING				HOUSEHOLD WELL-BEING													CLIENT WELL BEING											
No.	1. WG	2 PDI	3. Business				4. Financial Capital			5. Physical Capital			6. Natural Capital			7. Human Capital				8. "Personal" Capital			9. Social Capital				10. Political Capital			
	Wealth group	Participation depth	a.) business income	b) business profit	c) business assets	d) business skills	a) HH income	b) Savings	c) Non-indebtedness	a) HH productive equip.	b) consumer goods	c) housing	a) Land & Ag. Prod'n	b) Animals	c) Water (for agric)	a) clean drinking water	b) doctor/med. access	c) food quality and quant	d) education/skills	a) Self-confidence	b) peace of mind	c) hope	a) relationships	b) cooperation	c) support/'safety net	d) trust	a) waseta	b) influence	c) respect	d) not feeling vulnerable
040	m/hi	2					60%	+	--?	1	1	0	1	2	1		1	2		1	2	2	[g]							
041	m/hi	3					+?	+	0	0	0	3	2		2	2	2	1		2	2	2	[g]							
042[17]	low	4					+	+	?[18]	+	0	1	0	2	na	0	1	2	1	2	2	2	2							
044	low	3					20%	+	0	0	0	0	0	2	na	0	2	0	0--	2	2	2								
047	low	3			C		+	+	0	0	0	2	0	0	na	0	0	2	1	2	2	2	1			0				
048	low	3					+	+	0	0	1	1	0	1	na	0	0	2?[19]	0	2	2	[2][20]	1			0				
050	low	4					+	+	0	2	0	2	0	0	na	0	1	2		2	2	2	1			2				
051	l/md	4					+	+	0	2	2	2	0	[0]	na	0	1	2			0--	2	0			2				
052	med	4					+	+	0		1	1	0	2	na	2	2	2	[1]	2	2	2	0			2				

[17] The data here is actually a combination of 042 and 043. 043 is the former's daughter and has also received a BRAC loan. Both live in the same house.
[18] Still takes out loans from others, but feels more able to repay.
[19] 048 says food security has improved partly because of husband's work, partly because of dry cow (from the BRAC loan), but I'm skeptical; don't see how cow is bringing any extra income at this point.
[20] When asked, Has BRAC made a difference, she said "Life is going to be better. We're very happy"

Table A7.7: WWI Clients/Non-Clients

purple = direct impact (eg. loan use) green= causal link (eg. mf > business > better food security) yellow = partial causal link (mf one among many causes) Sections 3,4: + or - 5ff: number
C = increase in current assets F = increase fixed assets. [+] = direct question not asked, but + is inferred. "0—" = no change and the current situation is not good

			BUSINESS WELL-BEING				HOUSEHOLD WELL-BEING														CLIENT WELL BEING										
No.	1. WG	2 PDI	3. Business				4. Financial Capital			5. Physical Capital			6. Natural Capital			7. Human Capital				8. "Personal" Capital			9. Social Capital				10. Political Capital			
	Wealth group	Participation depth	a.) business income	b) business profit	c) business assets	d) business skills	a) HH income	b) Savings	c) Non-indebtedness	a) HH productive equip.	b) consumer goods	c) housing	a) Land & Ag. Prod'n	b) Animals	c) Water (for agric)	a) clean drinking water	b) doctor/med. access	c) food quality and quant	d) education/skills	a) Self-confidence	b) peace of mind	c) hope	a) relationships	b) cooperation	c) support/'safety net	d) trust	a) waseta	b) influence	c) respect	d) not feeling vulnerable
061	md	0					+									3	1	3	2	3	3	3	3	0	2	3	0	3	3	
062	md	2	+		FC		+	+?[21]								3	2	0	3	3	3	3	mx	mx	3	3	3	3	3	
063	md/h	4	+		FC		+									3	0	3	3	3	3	3	2	2	0	3	3	3	3	2
064	md	0														3	2	3	2	3	3	3	3	1	0	3	3	0	3	3
065	low	4			FC		+									3	0	3	3	3	3	3	3	1	0	3	3	3	3	3
066	low	3			C		0									1	0	1	1	2	3	3	3	mx	1	3	3	1	3	3
067	md	0					+									3	1	3	3	1	1	3	3	3	3	3	3	3	3	3
068	md	4	+		FC		+									3	3	3	3	3	3	3	3	1	0	3	3	3	3	3
069	md	2	+		C		+									3	1	3	3	1	1	3	3	1	1	3	1	1	1	3

061,064 and 067 have gone through core programme and will be clients soon.

[21] not sure how much (if at all) 062's savings has increased, but they do try to save and she remarked that WWI taught them how to save.

Appendix 8: MFP Interview Schedule

This appendix consists of two sections. The first contains the questions asked of MFP directors, all of whom happened to be expatriate. The second consists of questions asked of MFP office or field staff, all of whom were Afghan.

Section A: Questions for Directors

1. Background

Of NGO worldwide, in Afgh.
Of MFP part, worldwide in Afgh.
What areas of Afg, how long in each. New plans?
How funded.

2. Targeting

Who's your target?
Do you also try to search for any particular gps, eg. , returnees, widows, demob soldiers, disabled, etc.
For such groups, do you have any specially designed programmes for them?
Who would be disqualified?
Why did you choose this village (these areas) to work in?

3. Basic Info

Design features, size of loan, term, interest or fee, etc.
Do you follow your own traditional designs and adapt (doy32), or do you look at what other PCMFPs have done?
If former, how adapted? If latter, what specific things have you "copied"?

4. Main Aim of MFP

What's your overall goal? Where would you place yourself on the spectrum between financial sustainability and reaching the "poorest", or in other words, how do financial and social goals fit together.

5. Products Offered

Any savings/insurance. Any plan?
Any in-kind loans?
What do you insist on for collateral?
What can clients use loans for?
Is there some allowance for larger loans for weddings, etc?
How do you handle late or non repayment? Have you found it effective?
Is microfinance integrated with other programmes (health, education, etc)?
(if yes): Do those programmes include mandatory participation?
Do you team up with other organisations to offer other programmes?

Do you practice Islamic MF? Why or why not?
If yes, what form is it: mush, mur, or Mud. (have chart handy)
What are some practical problems you face in implementation? (eg. harder work checking on their businesses?)

6. Operational Issues

Dollar-based, Afghani-based.

7. Challenges.

Do you notice any difference in this post-conflict environment which makes MF difficult or easy?

1. lack of banks. (demand, but nowhere to store money)
2. no regulations on savings
3. lack of trust/social capital
4. insecurity (not go, disbursement same day)
5. pressure from donors
6. easier: high demand?
7. easier: extra donor attention and foreign investment?
8. brain drain (added costs at beginning for capac. bldg)
9. dependence culture, mixed msg.

Is there anything about Afghanistan and/or the 22 years of war which makes doing microfinance especially difficult?
Have you had to overcome any cultural barriers?

8. Strategies

Have you had to be more flexible in this post-conflict setting than you have been in other "more stable" countries?
Have you had to adjust your design since you started? If yes, how and why?

loan guarantees to build trust (doy9)
extra time building close-knit gps.
reducing gp size
being softer at beginning
BRAC: I heard that you were one of the first to set up here after the war. Some MFPs in other post-conflict settings did soft loans or even grants at first just to help get things going and then switched to more normal MF after a while. Did BRAC do this?
For groups like IDPs, etc, do you adjust your products for them? (doyle15)

Are any members ex-combatants? Any special problems there? How deal with it?

Do you think that sustainability will take longer to achieve in this post-conflict setting?

9. Successes

Can you give me a few examples of how your programme has improved someone's situation? (Not just physical, but psychological and relational situation)
How has the community as a whole changed since your programme started?
Can you attribute that only to your programme? Are there other factors?

10. MFP Assessment of Progress

Do you or a consultant do impact assessments? Can you tell me about them? What do they reveal?

11. Peacebuilding Approach

Possible tension-increasing consequences:
- MF group pressure
- MF intra-group monitoring reminded clients of "spying"
- self-selecting MF groups excluding cross-group members
- MFP doing exclusive targeting

Positive strategies
- non-exclusive targeting and design for special PC groups, eg. ex-soldiers, returnees, etc.
- trust-building exercises in MF groups
- cross-group (eg. interethnic) MF group formation (i.e. social engineering)
- psychological counselling
- requiring business to serve in cross-group areas
- inter-group joint businesses
- if mono-ethnic solidarity groups with cross-ethnic banks, having special cross-ethnic events such as workshops or sports matches.

Where would the MFP sit in Heen's typology?

12. Misc:

How has MISFA been helpful?
What more could MISFA do? (or what "less" should they do?)
How is your relationship with donors? Does MISFA help to be a kind of buffer?

What about the poppy problem? Does your MFP work in any areas where that is a problem? Has your programme had a positive impact?

Qs for BRAC: has your long exp in MF helped you here? how?
Do you find that less-experienced MFPs in Afghanistan come to BRAC for advice?
Is there a forum for exchange of ideas?
BRAC: Do you cross-subsidize from other countries?

Can I use the MFP name? Your name?

Section B: Field Officer Questions

How long have you worked for the MFP?

How many clients are you officer for?

How do you find new clients?

How do the groups form?

Has there been any trouble from someone being excluded?

Aside from their business plan, are there other requirements before you accept a group?

Can you describe the relationship inside each group?

Do they trust each other?

Is there pressure if someone feels he can't pay or is late?

What are one or two of the biggest success stories, where someone's business or home has improved greatly.

Are there cases where someone's life hasn't changed that much? Or got worse in some way?

Of course, everyone wants peace. What does peace mean to you?

What things are still causing conflict in Kabul? in the country?

Do you see MF as way to build peace? How so?

Do you see that happening with the groups/communities you work with?

Do you know about other MFPs? How do you think your MFP is better than others?

Have you attended a MISFA training? Is it helpful?

Appendix 9: Notes on Post-Conflict Microfinance (PCM) Literature

Although microfinance had been tried in post-conflict settings since 1992, no sustained writing on what had been learned appeared until 1997. PCM authors emphasize the importance of sharing these lessons and experiences in written form because of the relative inexperience of MFPs in PC settings:

> Traditional microfinance players are often wary of entering risky areas. As a result, microfinance programs in post-conflict environments are often dominated by those with the least experience and technical expertise in microfinance. That's why much post -conflict microfinance is plagued with lower results than might otherwise be achieved (Larson, 2001: brief 1, p.3).

Wilson (2003: 21) outlines in detail what those results are:

> All too often, microfinance projects in war-affected countries are marked by poor repayment discipline, confusion over grants and credit, the collapse of projects and little evidence of any sustained positive impact on the lives of beneficiaries.

The following are the major works done on PCM since 1997.

a. Nagarajan (1997) and (1999)

The 1997 report by Nagarajan, who was at the time a researcher at Ohio State University, is primarily a desk review of MFPs operating in Cambodia, El Salvador, Mozambique, and Uganda, although experiences from other countries are also mentioned. She describes the unique conditions MFPs face in those post-conflict settings.

Among her findings are the following:

- Grants and concessionary credit[1] are often appropriate interventions immediately following conflict (section IV.D; cf. 1999: para. 43).[2]
- Particular targets of MFPs are women, internally displaced people (IDPs), returnees, those who wish to start a microenterprise, and demobilized soldiers; attempting to serve the last group is fraught with difficulties but is sometimes a political necessity. (section IV.B; cf. 1999: para. 53,56)
- Normal collateral-based lending is often not possible in postwar settings; even the normally popular group models may not be appropriate; thus, creative "collateral substitutes" have to be found, such as character references or business plans (Section V.B; cf. 1999: para 60-62, 72).
- Savings products are often impossible to offer immediately post-conflict (IPC), due to a "lack of trust, unstable monetary environment, and a prohibitive legal and regulatory environment" (Section V.B)
- Becoming financially sustainable is indeed possible in postwar countries but it may take longer. (Section V.A; cf 1999: para 70)
- NGOs in particular tend to either offer or require linked non-financial services, such as business training or health and education assistance (section IV.D). Social goals may be appropriate immediately post-conflict (section I), but there is some concern that such bundling is not cost-effective and thus damages long-term sustainability (IV.F). Thus, bundling should not be tried until economies of scale has been reached (VI.B).

Nagarajan's 1999 effort was a paper prepared for an International Labour Organisation/UNHCR workshop, and thus it is somewhat more prescriptive than descriptive. The net seems to be cast more widely, and through study of additional then-current reports, some of her 1997 findings are modified:

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[1] Concessionary credit refers to low interest or interest-free loans with borrower-friendly terms. Part of the credit is usually a grant.

[2] Her 1997 report is found in html format only, so only section numbers (and not page numbers) can be offered. Her 1999 work comes in a pdf file with page numbers, but also paragraph numbers, which other authors have used to reference her material.

- "Microfinance is easier to promote among returnees and internally displaced populations compared to refugees and demobilized soldiers" (para 53) Indeed, there might be other non-MF interventions more suited to ex-combatants (para 56).
- On group-based schemes, Nagarajan adds a nuance that while village banking (40-50 clients) often fail in PC settings, solidarity groups (5-6 people) are more successful. Other adjustments to the non-trust factor include having repayments done at the MFP office rather than at group meetings. (para 60-62)
- Nagarajan somewhat softens her stance on not offering savings products IPC, noting a report of seeming success in Ivory Coast (para 59).

b. Doyle (1998)

Supported by USAID, Doyle's team of researchers collected information from 16 MFPs in four postwar countries (Bosnia-Herzegovina, Rwanda, Cambodia, and Mozambique) through phone calls, emails, etc. In the executive summary, Elaine Edgcomb calls the report "a snapshot" and regrets that it could not have been based on longitudinal research, which would "not only demonstrate *what* level of results can be achieved in terms of outreach, scale, sustainability, and impact, but also *how* these results are achieved" (p.vii, ix: emphasis hers).

She starts off with the surprising finding that most MFPs consider only a few environmental conditions as *essential* before they initiate activities in an area: a) the conflict being of relatively low intensity; b) evidence of some restoration of market activity (at least 30% re-opening of small businesses for example); and c) a certain level of confidence that potential clients will stay in the area for at least 18 months (obviously needed to be considered if serving refugees or IDPs) (pp.7-9).

Preferred conditions, which, in the IPC stage, are not necessary but which do need to come about eventually if the MFP hopes to achieve sustainability,[3] include the absence of hyperinflation, a certain level of interpersonal trust and confidence in social institutions among most of the population, the existence of at least a bare bones formal banking system, and, for the MFP itself, an educated and skilled local staff (pp.9-11).

Doyle's other findings include:

- It is advisable not to exclusively target a specific group, such as landmine survivors, war widows, returnees, demobilized soldiers, etc. It risks creating bad will toward clients in the community and distracts the MFP from a proper "financial services perspective" (p.13). Rather, a broad base of clients will contribute to MFP sustainability. Nevertheless, as Nagarajan implied (see above), an MFP must be aware of the characteristics of such groups and design products to match. For example, returnees may have a very high demand for savings services, since they are likely to have cash from labour they did in another country, and/or remittances from family members who have not yet returned (Doyle, p.16).
- In the IPC stage, once client passivity and inertia (due to low confidence) are overcome by a successful loan cycle, demand leaps dramatically upward (p.13,23).
- The primary goals of most MFPs are economic, but sooner or later, depending on the institution type (eg. a micro-bank vs. a development organisation), some MFPs eventually concern themselves with noneconomic issues. This may result in links to health and education interventions (as mentioned by Nagarajan), but also in experiments in direct conflict mitigation (pp.27-30). Doyle cautions that such multiple goals may cause confusion over priorities and spread an MFP too thin (p.31).
- Doyle (pp.32,33) lists a set of specific adjustments MFPs make in a PC setting, having to do with group size, savings, and concessionary credit and grants in IPC stages. The findings are similar to Nagarajan's. One addition is that more technical training, both for staff and clients, is often required than in a normal setting. She also lists a set of detailed operational adjustments MFPs have tried to ensure security (p.44).

[3] "Sustainability" means different things to different people in the microfinance world. In this context, I believe we could take it in its general sense which is less and less reliance on donor support, but not necessarily complete independence.

c. Larson (2001)

This is a set of eight technical briefs authored by Dave Larson of World Vision and published by the USAID-funded project Microenterprise Best Practices. Many of the topics introduced by Nagarajan and Doyle (especially Doyle's essential and preferred preconditions) are revisited. However, there are some new points of note:

- Larson asserts that, in order to assist newly-formed and struggling MFPs in PC situations, there should be "greater interaction and dialogue between experienced microfinance practitioners and donors and those who are already on the ground" (brief 1, p.3). As we see later, this appears to be happening in Afghanistan.
- Cambodian MFPs, soon after the war ended, resisted government attempts to introduce restrictive policies and regulations with respect to microfinance. However, as the industry grew and became somewhat anarchic and as trust in government officials slowly built, MFPs then welcomed a legal and regulatory framework (brief 2, p.3).
- In a comparison of two countries, it was found that Liberia was a tougher PC environment for MFPs than Kosovo because of poorer infrastructure, poorer human capital base, a weaker credit mentality among Liberians, and a period of renewed violence (brief 3). It is fairly obvious that Afghanistan would be more similar to Liberia than Kosovo in this regard.
- Similar to normal situations, running a businesslike operation (eg. by setting a market interest rate) engenders higher repayment rates and client confidence in the MFP, whereas "temporary microfinance *projects* which are not serious about loan collections, cost containment...will quickly be seen by clients as relief organizations to whom repayment is not needed" (brief 5, p.3).

d. Wilson (2001)

This DFID-supported paper by Tamsin Wilson at the Springfield Centre for Business and Development was a synthesis of research done in Angola, Cambodia, Mozambique and Rwanda. Unlike the reports thus far reviewed which were primarily desk studies, this one was based on 4-7 weeks of field research in each country, entailing interviews with not only MFP staff but also MFP clients, along with a range of other human sources (p.20). This methodology reflects two of the three research questions: "What are the coping mechanisms of the poor for managing household finances...in post-conflict situations?" ,and consequently, "What types of microfinance products are in demand in post-conflict situations" (p.8), which naturally leads to a follow-up question: are MFPs providing such products?[4]

Thus, Wilson's research differs markedly from the previous works by examining closely the *demand* side of PCM rather than simply the *supply* side. What she and her team found was a remarkable disconnect between what clients desired and what semi-formal providers were offering; indeed, it was often the *informal* providers, despite often high interest rates, whose products were preferred (pp.74,101).

Even though Wilson is not accusing MFPs of being completely off the mark, the point she does emphasize is that MFPs do not invest enough time and resources in pre-programme research to discover existing informal markets and client demand. It is only by doing so that their products can support the livelihood coping mechanisms of their clients (pp.96-97).

[4] Wilson's first research question was: "What environmental conditions have the greatest impact on [both the supply and demand for] microfinance?"

e. Alidri et al. (2002)

This work, published by the ILO and UNHCR in a glossy binder and whose seven authors include Larson and Nagarajan, is essentially an introductory manual for practitioners wishing to set up microfinance operations in a post-conflict setting, comprehensively covering a range of topics, from product design to impact assessment to providing business development services (BDS).

Points of interest include:

- The authors suggest that the "poorest of the poor", or "extremely vulnerable individuals" (EVIs) as they call them, cannot be reached directly by microfinance,[5] and so suggest that MFPs target the *caregivers* of EVIs (p.108, cf. p.12).
- They note (p.14) that successful MFPs have started slowly, which has helped them to adapt quickly in the first few years following a conflict. This is complemented by Wilson's suggestion (2001, p.98) that experienced and MFPs committed to long-term sustainability need to enter the MF market as soon as possible before heavily subsidised non-serious MF players ruin the sector. This "start fast but small" advice was followed by BRAC in Afghanistan, which is one reason they now control two-thirds of MF in that country.
- A chapter is devoted to examples and lessons of MFPs providing non-financial services, such as BDS, skills training and marketing assistance. For example, "an agency trained some conflict-affected people in tailoring skills, then linked them to several city schools to market their services. The trainees soon got several contracts to make uniforms for the schools on an ongoing basis" (p.117).

f. Manalo (2003)

This short World Bank Working Paper returns to the form of the pre-Wilson works, being a supply-side-focussed desk review. However, it does add a new element to the literature in that it examines the responses of one MFP in each of three "in-conflict" (rather than post-conflict) countries: Eritrea (1996-2001), Palestine (1999-2001), and Haiti (1999-2001).[6] Instructive responses include:

- The height of the conflict (May-December 2000) in Eritrea did cause refugee flows and thus suspension of the MFP in several communities, but because the communities evacuated and then returned to their locations after a relatively short conflict, a "quick spring back ensued as clients regrouped" (p.9, sic).
- The MFP in Haiti took extra security precautions in Port-au-Prince (and trouble there usually lasted only a few hours to a few days) and decided to expand into the relatively peaceful provinces. (p.10)
- After the second *infatada* began, Israeli-imposed sanctions meant significant closures to external markets. Thus, in Gaza, the MFP decided to grant only a few new loans and only for businesses which relied on the local market. The MFP hoped that the comparatively stronger West Bank branches (because the West Bank has a more self-reliant economy) would be able to cross-subsidize the Gaza branches (p.10).

In sum, Manalo found that even in countries currently facing low-intensity and/or sporadic conflict, microfinance could achieve some success (with difficulty however) if MFPs were flexible and adaptable, were committed to long-term presence and eventual sustainability, and could find long-term donors and higher-than-normal funding in order to compensate for conflict factors (p.24).

Note: Because the contributions of Heen (2004) and Marino (2005) are noted at length in chapter 3, it was decided not to review them here.

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[5] The view that the poorest of the poor cannot be reached by MF is fairly common among non-PCM authors as well.

[6] The years in brackets refer to those for which documentation was provided by the MFP to the researcher.

Appendix 10: Reflection Email on Microfinance and Peace

This appendix contains a portion of a six-page paper I sent by email to nine MFP directors in Afghanistan, in order to understand their views on the relationship between microfinance and peacebuilding. The following is the introduction to the paper:

Dear Microfinance Provider (MFP),

These few pages are a reflective supplement to the interview questions I asked MFPs for my thesis "The Challenges of Post-Conflict Microfinance in Afghanistan". The kinds of issues discussed here, I believe, were somewhat difficult to cover in an interview setting. I would appreciate your reflection and response to some questions at the end of this file. This is a 6-page file, the reading of and responses to which may take from 30 to 90 minutes, but I believe that taking the time for such reflection will be helpful to yourself as you chart the direction of your organisation's microfinance provision in the next few years.

In chapter 4 of my thesis, I wish to explore the extent to which MFPs should be an actor in the peacebuilding process in a post-conflict setting. Much of the literature on post-conflict microfinance (PCM) discusses the operational challenges MFPs face, but there is less discussion on whether MFPs can also work ON conflict, not just IN conflict. Personally, as I've read and thought about it, I do not know where I myself would line up in this minimalist-maximalist spectrum, so please be candid in your responses. Feel free even to insert comments into the text as you read along.

Following is a summary of various PCM writers, of where they might stand on this particular question:

In this section, I shared with the directors the writings of various PCM authors, including Nagarajan (1997, 1999), Doyle (1998), Wilson (2001), D. Larson (2001), and Heen (2004). The writings included both opinions of the writers on the MF-peacebuilding connection and examples of what MFPs have done in the past to build peace. Heen's writings also included examples of how MFPs have caused increased tensions in conflict-affected situations. Finally, I offered a summary of Heen's typology in table form. After this survey (of about 4 pages), the following questions were asked. In the end, five of the nine MFP directors responded.

1a. What are your personal views? Would you place yourself alongside any particular author examined here?

1b. Where would be your organisation's view?

2. As far as MFPs doing harm which Heen discusses, can you think of similar examples which have occurred in Afghanistan?

3a. As far as the more positive examples, have you heard of similar stories in Afghanistan?

3b. Would any of the above positive examples (especially of more pro-active intervention) not apply to (or not work in) the Afghan context?

4. Where would you and/or your organisation be placed in Heen's typology? (Of course, it is possible to do a mixture of all three or four approaches). Can you give examples of what you have done?

5. Any brief statement you would like to make on your overall position?

Appendix 11: Conflict Mapping Exercise

A: Ranking and Tree

1. What are the problems of this community?

(*make list in front of client*) (*might be a problem if not literate. have to use pictures?*)

2. Can you rank them for us?

3. Next to these problems listed here, can you tell us over the past year, has problem got much worse (- -) , worse (-) , no change (0) , bit better (+) or a lot better (+ +).

4. Can you tell us why? (if not, it's ok)

5. Let's take the most important problem. Are other problems here outgrowths (branches) of the core problem? Are any the roots? Can you think of other branches or roots?

(make tree with client)

6. (repeat 5 with other main problems, if any)

B: Conflict map

7. Now let's make a map of the people/orgs involved in this problem.

C: ABC triangle

8. How would you describe __________'s behavior. (2 or 3 of the main players in #7)

9. What attitudes do ________________ have?

10. What are other things about the situation (instit. rules, context, reality) which make the problem continue?

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