

Afghanistan Research and Evaluation Unit
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Opium Poppy and Informal Credit



Adam Pain

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Adam Pain, October 2008

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Acronyms

AKDN	Aga Khan Development Network
MISFA	Microfinance Investment Support Facility for Afghanistan
UNDCP	United Nations International Drug Control Programme
UNODC	United Nations Office on Drugs and Crime

Glossary

<i>bukhar</i>	measurement of weight equivalent to 448 kg
<i>jerib</i>	unit of land measurement; approximately one-fifth of a hectare
<i>junbish</i>	unit of currency in northern Afghanistan during the 1990s
<i>peshaki</i>	one of the most common and widespread credit mechanisms in northern Afghanistan whereby products are bought by the lender as an advance sale but delivery by the borrower is deferred
<i>qarz-i-hasana</i>	credit on good terms with no interest
<i>qarz-i-nawqan</i>	loan without interest for up to two months before harvest
<i>paw</i>	measurement of weight equivalent to 450 g
<i>salam</i>	a well-known form of advance payment where the amount is provided for a future harvest at an already fixed (low) price
<i>ser</i>	measurement of weight equivalent to 7 kg
<i>sudh</i>	credit with interest
<i>taifa</i>	tribal lineage
<i>touli</i>	measurement of weight equivalent to 18.5 g
<i>zakat</i>	obligatory alms

Executive Summary

Credit relations around opium poppy in Afghanistan have had almost uniformly bad press. There are assumptions that opium-based credit is particularly exploitative and has driven households into deep, opium-denominated debt, thus causing further expansion of cultivation. Such assumptions appear to have fuelled a more generally negative attitude towards informal credit. This report argues that the key question to ask is not so much how to reduce opium-denominated debt and related credit. Instead, it should be: what does the cultivation of opium poppy say about the need for and the role of credit in rural Afghanistan?

The empirical literature on opium-based credit identifies the effect of the Taliban ban on opium cultivation and the subsequent rise in price in 2001. This was foundational in creating high levels of opium-denominated debt at that time and in specific opium-cultivating provinces. Since then, however, the evidence indicates a decline in opium-based credit and opium-related debt; the proportion of respondents in debt and the levels of accumulated debt have diminished, particularly for those provinces that expanded into opium poppy cultivation after 2001.

This evidence contrasts wider assertions about the links between opium and credit that imply opium-based credit inevitably leads to usury. The contrast between the field evidence and these more generalised and negative views raises three questions:

- what has been the historical role of credit for household survival prior to the growth of opium?;
- how has the growth of opium altered the scale and terms of credit and debt?; and
- to what extent could formal financial instruments substitute for the role that opium has played?

Drawing on fieldwork in Badakhshan and Balkh — two provinces that have seen a significant expansion of cultivation since 2001 — the evidence points to opium poppy cultivation being more debt-relieving than debt-creating. The more detailed evidence

from Badakhshan points to a rise in costs of credit that predates the expansion of opium and that was determined more by an environment of instability and economic risk. In both provinces, levels of debt were likely to have been higher prior to 2001 and primarily induced by drought rather than opium. The effects of the expansion of opium poppy have been similar though worked through in different ways. Generally, it has been beneficial for household economies and welfare security. In both contexts, potential transformatory effects of opium on social relations were noted.

This paper also challenges the assumption that the costs of opium-based credit are high. Credit costs should be seen in relation to the riskiness of the specific market for the commodity; opium prices appear to show greater price volatility than other commodities. In addition, it cannot be assumed that credit relations around opium poppy are different from other commodities — advances against future crop harvest have long been practised as one of many forms of informal credit. Similarly, the pervasiveness of informal credit cannot be attributed to the absence of formal credit. Informal credit long predates formal credit and is used more widely to address daily household needs not addressed by the latter.

Three wider implications can be drawn from this study.

First, the role of informal credit, including opium-based credit, has been to smooth consumption. Microcredit does not respond to this function although there is no reason why financial instruments should not be developed to help support informal consumption and welfare credit.

Second, the potential for reducing the costs of informal credit is limited; when interest is charged for informal credit, it is likely to be higher than for formal credit. It should be noted, however, that informal credit is often interest free. What drives the high costs of informal credit associated with opium is the context of risk and insecurity; it is this that must be changed.

Finally, social inequalities and a seasonal agricultural economy should be recognised as underlying the need for informal credit. Removing the opium economy does not resolve these factors; a new market agriculture, which opium has exemplified, will not resolve issues of risk and inequality experienced by most poor Afghans in rural areas. What is required is attention to the structural determinants of poverty inequalities and reducing such inequalities.

1. Introduction

There are widespread views that opium poppy as a crop is fundamentally bad and that the social relations that structure its production and trading almost inevitably carry negative consequences. **This view has led to wider assertions about the links between opium and credit that imply opium-based credit inevitably leads to usury.** One of these views claims that, for the poor, the cultivation of opium poppy is “a bargain with the devil” — **gaining short-term benefits at the expense of longer-term consequences — since immediate survival or food security often come with long-term costs of exploitative social relations that are held to be intrinsic to the commodity.** And there is, of course, the more immediate peril of being punished by eradication, particularly if one is poor or less powerful.

There is no more vivid illustration of this negative perception than when opium engages with money and credit. As the United National Office on Drugs and Crime (UNODC) has graphically described: “Opium traders frequently act as narco-usurers because opium serves as a means of *salam* (informal advance payments).”¹

As will be clear from this paper, opium poppy is not the only crop against which advance payments are made; indeed, the *salam* system has long been in existence prior to opium poppy acquiring its status as bankable collateral against which advance credit can be provided.² But the term “narco-usurers” is neither an innocent nor neutral label and is loaded with assumptions and judgement. “Usurer” implies an unacceptably high rate of interest, but rates of interest have to be seen in context of the riskiness of the market for the commodity. Evidence from Badakhshan, discussed

in Section 4, strongly questions whether the charges associated with opium-based credit are intrinsic to the crop and indicates that they more likely reflect the context of insecurity in which opium poppy cultivation has expanded.

The term “narco,” given its negative connotations, is also problematic since opium poppy is also grown legally for its narcotic ingredients for the pharmaceutical market. The fact that opium poppy cultivation can be legal in one market but not in another says a great deal about the social construction of what is legal and what is not. The point of this comparison is also to draw attention to the way in which opium as a commodity is loaded with social meanings and that it is this, rather than the material content of opium, that drives the ways in which it is viewed and responded to. The fact that commodities in general have this characteristic should not be surprising. Under modern market trends, however, the value of commodities is often expressed only in terms of their monetary exchange value — the price that they can command in the market — while the social values they represent tend to be downplayed. Consider, for example, the Afghan carpet, another iconic commodity and symbol of Afghanistan; rich in social meaning and roles, it has an exchange value well beyond its monetary value in Afghan society.

With respect to opium, its physical properties make it the poor person’s crop *par excellence*. These include: its agronomic features of maximising returns to scarce factors of land and water, its multi-purpose products apart from opium (straw, fuel, cooking oil and animal feed), high responsiveness to management and labour inputs, as well as the non-perishability of opium itself and its high value to weight.

Its social meaning is highly contested. This paper is a largely critical consideration of the way in which a socially determined and privileged meaning of opium in Afghanistan — the view that it is illegal — has influenced the way in which opium as a commodity is officially viewed. Of course, it is

¹ United Nations Office on Drugs and Crime (UNODC), “Opium Poppy Cultivation in a Changing Policy Environment: Farmers Intentions for the 2002-2003 Growing Season,” Strategic Study no. 9 (Kabul: UNODC, 2003).

² United Nations International Drug Control Programme (UNDCP), “The Role of Opium as a Source of Informal Credit,” Strategic Study no. 4 (Kabul: UNDCP, 1999).

this determination of opium as an illegal crop that defines its value and not the other way around, as shown by the significantly lower price for opium grown legally for the pharmaceutical industry. But the consequences of opium poppy cultivation are generally seen to be negative: trading systems around opium have lubricated corruption, contributed to the development of a shadow state and supported insurgency activity, even if the view from the field is rather different.

This paper focuses on the role that opium poppy has played in relation to rural credit, which is central to its effects on the poverty and wellbeing of rural households engaged in its production. As this paper will argue, the wider issue, which the cultivation of opium poppy illustrates but has not caused, is the fact that impoverished rural communities that are characterised by a strong seasonality of production and deep social inequalities “need to be indebted.”³ This need for debt in Afghanistan,⁴ found equally in non-opium growing areas, is fuelled by the need for consumption smoothing. The key question is not so much “How do we reduce opium-denominated debt and credit associated with it?” but “What does the cultivation of opium poppy tell us about the need and role for credit in rural Afghan households?” and “To what extent will formal credit respond to this?”

Credit relations around opium poppy cultivation in Afghanistan have had uniformly bad press although, as will be seen, there is evidence within the literature that does not fully support this. It is difficult to argue that opium poppy is linked to exploitative credit relations without separating out the shifting context of risk in the opium market (for example, the effect of the Taliban ban on production, price rises and opium-denominated debt) or risks around production (such as from crop failure and crop eradication) and how they are associated with terms and conditions. But the opinion that credit relations around opium are deeply disadvantageous to and

exploitative of the poor is widespread. It has been used to argue for a major microcredit programme to respond to, first, the heavy demand for credit that opium poppy cultivation is seen to evidence and, second, the levels of indebtedness that opium has been thought to create. Such a programme has never been implemented, although in 2005 the Microfinance Investment Support Facility for Afghanistan (MISFA) attempted to develop an opium debt refinancing facility, but its impact appeared to be limited.⁵

In all the arguments made against opium poppy, there are both implicit and explicit claims that opium poppy is “exceptional” and that the social relations associated with opium poppy cultivated in Afghanistan are implicitly different or worse than the informal credit relations formed around other commodities. Indeed, the attitude toward opium poppy appears to have fuelled a more generally negative attitude towards informal credit.⁶ But does the evidence justify these views and, if so, in what circumstances? Can conclusions drawn from the evidence of Helmand, for example, be assumed to be applicable in Balkh or Badakhshan? More generally, do the arguments around the levels of opium-denominated debt sufficiently account for the dynamics of opium prices over the last ten years? Do the arguments take into account the implications of households in different locations moving into opium cultivation at different points in that price trajectory? Could a rise in indebtedness, if this is indeed the case, be more evidence of the rapid growth of a commercial economy than the subjugation of growers to rapacious creditors?⁷ Is it valid to assume that “interest rates” and trader practices associated with opium are necessarily different from those associated with other commodities? To what extent do credit practices around opium poppy merely reflect the context under which it is commonly

⁵ C. Ward, David Mansfield, P. Oldham and W. Byrd, “Afghanistan: Economic Incentives and Development Initiatives to Reduce Opium Production” (Kabul: The World Bank and UK Department for International Development, 2008).

⁶ Klijn and Pain, *Finding the Money*.

⁷ A relevant comparison could be made with the rise in housing debt in the United States, in particular, driven by new financial instruments that drove housing loans to financially less secure households.

³ Polly Hill, *Development Economics on Trial: The Anthropological Case for a Prosecution* (Cambridge, UK: Cambridge University Press, 1986).

⁴ Floortje Klijn and Adam Pain, *Finding the Money: Informal Credit practices in Rural Afghanistan* (Kabul: AREU, 2007).

grown — that of acute risk and insecurity — rather than something intrinsic to the commodity itself? Is opium-denominated debt in areas that grow opium significantly different from informal debt in parts of Afghanistan that do not?

Section 2 reviews what has been reported with respect to opium-denominated debt and identifies a set of key questions to be addressed. Section 3 details the methods used in collecting the data presented in this paper, the particular role of case studies, and how and why they were selected. Section 4 presents the evidence from Badakhshan in relation to the key questions and Section 5 explores the material from Balkh in a similar way. Section 6 then debates the implications of the evidence from the field for the existing perspectives on opium debt and concludes with an exploration of the implications of the findings.

2. The Links between Opium and Informal Credit: Reviewing the Evidence

This section, drawing from a series of field studies since 1999 (cited below), argues that the empirical evidence on opium-denominated debt demonstrates a need to be highly specific about location and time in describing the linkages between the cultivation of opium poppy, the credit relations around this cultivation and the consequences of this for cultivators. While there is evidence of significant opium-denominated debt after the rise in price following the 2000 Taliban ban on production, this is specific to the key centres of opium production at that time. After 2001 when price-driven expansion of cultivation to new provinces took place, the evidence indicates an overall decline in opium-based credit and opium-related debt in provinces that had been or recently began cultivating. However, the effects of crop failure combined with the threat of eradication have continued to make opium poppy a risky crop for both producers and credit lenders. It is, however, the best option available given its functioning market and its value in providing informal welfare and security.

But there is a more general view that there are “high” costs of credit specific to opium, influenced by both the nature of repayment (often in kind) and various shocks (the Taliban ban, crop failure and, since 2002, eradication) that have led to deep opium-denominated debt which, in turn, has contributed to further expansion of opium poppy area. Furthermore, it is held that: the costs associated with informal credit in general are higher than with formal credit; the costs of informal credit are higher for opium than for other crops; informal credit is intrinsically linked to opium poppy cultivation; and, the need for access to informal credit has been a key driver of the spread of opium poppy. It has been suggested that the absence of an effective formal banking system in Afghanistan has led to the expansion of informal credit systems. These claims have resulted in the policy response that formal microcredit should be developed to provide cheaper credit and relief for opium-denominated debt. Effective microcredit, it has been argued, will neutralise one of the key drivers of opium poppy cultivation.

This section reviews the field evidence on opium and informal credit and some of the wider interpretations that have been drawn from it. Evidence will also be explored in relation to: the “need to be indebted” by poor, rural Afghan households; what underlies this need; and potential policy responses to the role filled by opium poppy.

2.1 The literature on opium poppy and informal credit

Key field evidence may be drawn from the United Nations International Drug Control Programme’s (UNDCP) 1999 Strategic Study No. 3, “The Role of Opium as a Source of Informal Credit.” This provides a basis both for the UNODC’s 2003 assessment of opium as a source of credit and for a series of five farmers’ intention surveys, carried out since 2002, which assessed whether or not and why farmers planned to plant opium in the forthcoming season. Additional information may be drawn from other publications that have been published since 2001 and link opium to credit in various provinces.

The UNDCP study draws its data from a survey undertaken in four districts in two provinces – three in Kandahar (Ghorak, Khakrez and Maiwand) and one in Nangarhar (Shinwar). It is built on a 1998 baseline study⁸ of 600 households undertaken in these districts; this found that 85 percent of these households obtained opium-based credit during the previous year. Strategic Study 3 conducted more detailed interviews with 108 households to explore the nature and scale of opium debt and how it differed among different landowning classes. Key findings from this study and analysis of the earlier baseline data are detailed below.

- The use of credit was widespread (over 95 percent of the 108 households); the debts of landlords, owner cultivators and landless, respectively

⁸ It had been intended that this would provide the basis of a panel set of households for follow up later. Changing conditions and challenges while doing fieldwork on opium poppy cultivation had not made this possible.

averaging US\$1,668, \$1,245 and \$695 and amounting to 22, 39 and 53 percent of their net household income. In absolute terms, therefore, the landless had less than half the debts of those with land, but this debt represented a higher portion of their total income.

- Credit was obtained from a variety of sources, including local shopkeepers and traders, and was used primarily to meet consumption needs and for purchasing agricultural inputs; the advance of credit against a fixed amount of future production (*salam*) appeared to be the most common system and applied to opium, wheat and cumin; opium was the crop against which most borrowers received an advance.
- The terms of credit were variable and improved closer to harvest; the value of the loan averaged 42 percent, 48 percent and 54 percent of the final harvest price of opium, wheat and black cumin.
- Poor growing conditions in 1998 led to a sharp drop in the yield of opium, causing a marked price rise. This led to repayment problems and created more debt for those who had taken loans. Repayment of loans was easier for landowners, with the landless seeking out scarce wage labour opportunities. As a last resort, assets were sold to meet debt obligations. Also noted was the low instance of default.⁹

Key points to note from the above summary are that: credit had importance in allowing households to meet their consumption needs; the terms of credit did not differ by socioeconomic group (therefore, applied to all — not just poor — farmers); and credit was available for a range of crops under the *salam* system and the terms of that credit for the range of crops were within 12 percentage points. Some interpretive elements of the report might be debatable, including, for example, the statement that “the high cost of borrowing in the target districts reduces the resources available for consumption and productive investment in agriculture.” What is “high” in relation to? What alternative sources

of credit were available and what is the primary role of credit? It has also been suggested that the “advance system seems to adapt to other higher value crops,” but credit advance against crops has been a long-standing practice¹⁰ and *salam* did not develop because of opium. Both these points will be explored later.

What stands out from the report is its relatively factual and sober account of what was found in the survey. As will be discussed later, however, there are some major problems of method in terms of attempting to assess levels of debt and calculate interest rates.¹¹

But how common or important were *salam* advances against opium? *Salam* accounted for 60 percent of all loans taken out against opium in the UNDCP study. But an earlier report on credit provided by opium traders found that, although 60 percent of the traders provided cash advances to farmers on their future production, only about 5 percent of the total trade in opium was reported to be done through *salam*; this was because “traders were cautious about the advances that they offered.”¹²

The reference to high lending costs with respect to opium has to be seen in context. Unfavourable weather conditions during 1998 led to the destruction of 20 percent of the opium poppy harvest across the country and a loss of yield of up to 50 percent in some parts of the country. While this, of course, caused major problems for producers who had received credit, it also identified the riskiness of opium as collateral for lenders given the vagaries of production according to weather conditions. Not only was there uncertainty over production but, as will be discussed in Section 6, high inflation

¹⁰ Note that UNODC (“Opium Poppy Cultivation in a Changing Policy Environment,” 117) explicitly comments that *salam* was “a form of credit traditionally given for wheat.” See also the discussion later and Save the Children USA, “Microfinance in Northern Afghanistan, 1995-1999” (draft, Islamabad: Save the Children USA, 2000), which describe *salam* practices in the north of Afghanistan where opium was not grown at that time.

¹¹ See Klijn and Pain, *Finding the Money*, Chapter 5.

¹² UNDCP, “The Dynamics of the Farmgate Opium Trade and the Coping Strategies of Opium Traders,” Strategic Study no. 2, Afghanistan (UNDCP, 1998).

⁹ This was, however, to change after the Taliban ban; see UNODC, “Opium Poppy Cultivation in a Changing Policy Environment.”

rates and volatility of local currency at that time undoubtedly led lenders to factor in the riskiness of lending and, as observed above, to be cautious about advances offered under such conditions. Interest rates should be seen in context.

The UNDCP's Strategic Study 3 appears to have been critical in establishing perceptions of the linkages between opium and informal credit. It should be noted, however, that this study was confined to Kandahar and Nangarhar provinces – the major opium producing areas – and to the period prior to the Taliban ban on opium production in 2000-01.

This ban, which led to the substantial price rise of opium, had two further effects.

The first affected those Kandahar and Nangarhar opium cultivators who had been in opium-denominated debt prior to the rise in price. Consequences of the rise in level of debt were severe since debt was recalculated to current prices of opium (see Drivers Study 1 below). This not only led to a rapid expansion of debt¹³ but also to default (prompting the debtor to abandon or the lender to confiscate the property) as well as an expansion of cultivation to respond to the debt. Secondly, the price rise drove an expansion of cultivation beyond these two provinces. For those households that were cultivating opium poppy for the first time, the effects of cultivation appeared to have been rather different, reinforcing the importance of context and time in exploring opium-credit linkages.

A series of studies on the drivers of opium poppy cultivation, essentially led by David Mansfield but conducted for various organisations, are labelled here as Driver Studies 1,2,3,4 and 5 (published annually from 2003 to 2007).¹⁴ These studies have

¹³ UNODC, "The Opium Economy in Afghanistan: An International Problem" (Vienna: UNODC, 2003).

¹⁴ The first report, Driver Study 1, was conducted during the 2002-03 growing season for the UNODC ("Opium Poppy Cultivation in a Changing Policy Environment," Strategic Study no. 9, 2003). The second study, Driver Study 2, was produced as a technical paper for the UNODC/UNDCP Second Technical Conference on Drug Control Research and covered the 2003-04 growing season (David Mansfield, "What is Driving Opium Poppy Cultivation? Decision Making Amongst Opium Poppy Cultivators in Afghanistan in the 2003-2004 Growing Season," A Report for the Drugs and International Crime Department of the Foreign and Commonwealth

Office (London, 2004).) The third, fourth and fifth studies (Driver Studies 3, 4 and 5) covering the 2004-05, 2006-06 and 2006-07 seasons, respectively, were produced for the Afghan Drugs Inter Departmental Unit of the Government of the United Kingdom; these are: David Mansfield, "What is Driving Opium Poppy Cultivation? The Pressures to Reduce Opium Poppy Cultivation in Afghanistan in the 2003-2004 Growing Season" (London: Afghan Drugs Inter Departmental Unit of the UK Government, 2005); David Mansfield, "Exploring the Shades of Grey: An Assessment of the Factors Influencing Decision to Cultivate Opium Poppy in 2005-2006" (London: Afghan Drugs Inter Departmental Unit of the UK Government, 2006); David Mansfield, "Beyond the Metrics: Understanding the Nature of Change in the Rural Livelihoods of Opium Poppy Growing Households in the 2006-2007 Growing Season" (London: Afghan Drugs Inter Departmental Unit of the UK Government, 2007).

taken forward the exploration of opium-credit linkages within a perspective of investigating farmers' intentions for cultivating opium poppy in the coming season: the reasons and underlying intentions, and how they vary by context and socioeconomic status. Starting with a 13-district survey in four provinces (Helmand, Nangarhar, Uruzgan and Badakhshan), its scope gradually expanded to other districts and provinces, including Balkh, Baghlan, Farah, Ghor, Laghman and Kandahar. The surveys have been based on an expanding set of household interviews. The methods reported indicate that researchers intended to track changes of households and districts. Fieldwork realities and the expanding remit of the surveys, however, have essentially produced a series of district longitudinal studies on household intentions and practices, rather than a specific panel set of household-level data.

The focus here is what the driver studies reveal about opium-credit linkages. Driver Study 1 (2003) captured the aftermath of the effect of an opium price rise on household debt; this effect, however, was confounded by eradication efforts since 30 percent of informants reported that their opium crop had been destroyed, leading 70 percent of these informants into further debt. The report argues that there was a continuing credit crisis reflecting both a general need for credit of rural households and the critical role of opium in providing it. It argues that "while the *salam* system offers a lifeline to the poor, it does so at a punitive rate, often locking households into a patron-client relationship with local traders."

Firstly, there is an unanswered question of causalities: is opium-based credit a cause of

Office (London, 2004).) The third, fourth and fifth studies (Driver Studies 3, 4 and 5) covering the 2004-05, 2006-06 and 2006-07 seasons, respectively, were produced for the Afghan Drugs Inter Departmental Unit of the Government of the United Kingdom; these are: David Mansfield, "What is Driving Opium Poppy Cultivation? The Pressures to Reduce Opium Poppy Cultivation in Afghanistan in the 2003-2004 Growing Season" (London: Afghan Drugs Inter Departmental Unit of the UK Government, 2005); David Mansfield, "Exploring the Shades of Grey: An Assessment of the Factors Influencing Decision to Cultivate Opium Poppy in 2005-2006" (London: Afghan Drugs Inter Departmental Unit of the UK Government, 2006); David Mansfield, "Beyond the Metrics: Understanding the Nature of Change in the Rural Livelihoods of Opium Poppy Growing Households in the 2006-2007 Growing Season" (London: Afghan Drugs Inter Departmental Unit of the UK Government, 2007).

inequalities or simply a reflection of existing inequalities? A 2003 UNODC paper indicates that it is more likely to be the latter¹⁵:

*The need for loans is a reflection of significant income inequality amongst farmers in Afghanistan, a result of heavily skewed land distribution... this helps explain why even people in the relatively rich poppy growing areas of Afghanistan were still so dependent on loans.*¹⁶

Secondly, drawing from the above quotation, an assertion of general dependence on loans should be seen in context that only 45 percent of respondents¹⁷ had taken an advance under *salam* for the 2002-03 crop and marked differences were found among Nangarhar, Helmand, Uruzgan and Badakhshan. In these provinces, 63, 61, 27 and 16 percent of respondents, respectively, reported receiving *salam* loans for opium. Driver Study 1 offers a potential explanation for these differences in terms of the later cultivation of the opium crop in the latter two provinces and thus after the survey dates. It is, however, equally plausible that there are real differences in the demand for opium-based credit between the provinces, reflecting cultivation and debt history.

The report argues that the incidence of accumulated debt varies little by province (ranging from 66 percent in Badakhshan to 72 percent of households in Uruzgan) although average levels of debt were much higher in Helmand (\$3,010) than in Badakhshan (\$428). What remains unclear is the extent to which debts across and within provinces are specifically due to opium-based credit or other debt that was accumulated as a result of the drought, for example, to which the cultivation of opium has been a response. However, the legacy of the Taliban ban and its effects on pre-existing opium-based debts were evident in all study provinces except Badakhshan. The report argues that:

¹⁵ An observation that appears to have been overlooked in UNODC and Ministry of Counter Narcotics (MCN), *Annual Opium Surveys* (Kabul and Vienna: MCN and UNODC, 2007).

¹⁶ UNODC, "The Opium Economy in Afghanistan."

¹⁷ UNODC, "Opium Poppy Cultivation in a Changing Policy Environment" (Strategic Study no. 9).

*the preference for cultivating opium poppy as a strategy for debt repayments may well reflect the high incidence of unpaid advances on opium amongst the accumulated debts of respondents.*¹⁸

A key conclusion from the report is that opium plays a critical role as a source of credit and, therefore, acts as a major determinant of opium poppy cultivation; those households with accumulated debts had strong motivation to continue cultivating opium both to receive further credit and pay off debts.

Driver Study 2 (2004) reported a marked decline in the provision of advance payments (*salam*); only 5 percent of respondents at the time of interview reported having taken an advance on opium poppy. The percentages of respondents who had taken loans were: none in Helmand; 9 percent in Nangarhar; 16 percent in Badakhshan; and 9 percent in Ghor. Again, the issue of the timing of the survey was seen as a possible explanation for this. Also noted was that traders were beginning to differentiate the terms of the loans among creditors, perhaps reflecting risks associated with eradication, with the landless receiving more disadvantageous terms. Slightly more than 52 percent of households interviewed had accumulated debt; again Helmand had the highest percentage of households with accumulated debt (69 percent) and highest levels of average debt (\$2,373). In Badakhshan and Ghor, 42 and 36 percent of households were in debt with reported average debts of \$337 and \$127, respectively.

Driver Study 3 (2005) found even further declines in advance payments on opium. In fact, no informants had taken loans, even though 85 percent of those interviewed had already planted a winter crop. This was explained by a lack of supply: informants reported that traders were unwilling to lend this early in the season given the risks of eradication and prices. On the other hand, 47 percent of respondents, mainly from Balkh (included in the survey for the first time) and Badakhshan, said they would take a loan later in the season. The report also noted findings from

¹⁸ UNODC, "Opium Poppy Cultivation in a Changing Policy Environment," 21.

a separate research study in Nangarhar,¹⁹ which found that high prices over the last two seasons in the province had led to a greater availability of interest-free cash loans under *qarz-i-hasana* from family members.

Driver Study 4 (2006) expanded to eight provinces (bringing in Farah) and continued to show the decline in availability of *salam*. Few respondents reported that they had taken opium poppy-based credit. Overall levels of debt appear to have declined, with only 33 percent of households in Helmand reporting debts (average \$844, compared to \$3,010 in Driver Study 1). In Badakhshan, more households reported debt than in Driver Study 1 (33 versus 16 percent) with higher average debts (\$632 in contrast to \$428 in 2002-03). The report argues that, where opium is concentrated, it “has proven to be one of the only means of accessing credit for the rural poor.” What remains unclear though are the effects of the apparent lack of opium-sourced credit from traders and whether credit has been found through other means.

Driver Study 5 (2007) shifts its focus in comparison with the earlier driver studies by looking at the spatially divergent trends in opium poppy cultivation. It examines contrasting areas of reduction and resurgence, and the differentiated effects of these dynamics by location and households. It argues that, where there is close proximity to markets and good natural resources, there has been a shift to other crops. In such areas, “vegetable traders are mimicking many of the practices adopted by opium traders, including purchasing the crop at the farm gate and offering advance payments.” One might wonder if these are indeed different traders or if advance payments and farm-gate collection have been long-standing practices, upon which opium-based credit was naturally built and expanded rather than the reverse. The study does not specifically present data on the number of respondents taking advance payments on opium. It does argue, though, that higher levels of debt

are characteristic of households moving back into opium poppy cultivation and monocropping it; this is in contrast to those who are abandoning it.

2.2 Discussion

A number of key conclusions can be drawn from the field data.

First, there are consistent differences between provinces regarding the proportion of households in debt and the levels of debt. Compared to those that started cultivation after 2000, provinces cultivating opium prior to the Taliban ban (Helmand, Kandahar and Nangarhar) are likely to have a higher proportion of households in debt and higher levels of debt.

Second, the driver studies describe a decline in opium-based credit and opium-related debt. In the period covered by Driver Studies 1 through 4, the proportion of respondents in debt and the levels of accumulated debt diminish.

Third, access to opium-based credit also seems to be in decline, largely attributed to lack of supply from traders. This seems to stem from perceived increased risks of lending, a result of price volatility, the high-risk nature of the crop (the frequency of crop failure) and eradication effects.

The inherently high risk involved in opium poppy production equally concerns both the threat and actuality of crop eradication or failure and specific opium trader-cultivator links. In turn, while understandably little evidence to explore this exists, informal credit relations often depend on location and the nature of the relationship between borrower and lender. This will affect the way in which opium-denominated debt is renegotiated and rescheduled. Opium eradication may be seen as a legitimate tool of a counter-narcotics strategy. Its effects, though, confound any analysis of the “exceptionalism” of opium-based credit contributing to debt: the role of eradication and crop failure potentially leads to rising debt itself.

¹⁹ David Mansfield, “Coping Strategies, Accumulated Wealth and Shifting Markets: The Story of Opium Poppy Cultivation in Badakhshan 2000-2003” (AKDN, 2004).

Running through the reports, there is a tendency to treat opium poppy-based credit as the model against which other crop advance payments have been based. See, for example, the references in Driver Study 5 to traders “mimicking opium-based credit practices.” But there are other sources²⁰ that show the widespread nature of *salam*.

Save the Children, for example, described the informal credit mechanisms available in the north prior to 2001²¹ (see Box 1). The report on the *salam* system (known as *peshaki* in the north) illustrates the long-running practice of advances against future crops (wheat, barley, sesame and flax) in a non-opium growing area. It also points out the costs: producers receive 60-70 percent of the final sale price. These costs are less than those reported in UNDCP’s Strategic Study 4 (1999) for *salam* against opium, wheat and black cumin (42, 48 and 54 percent); however, the actual year that this data is drawn from is not clear, however, and the market conditions in the north may have been different from those in the south. But the existence of advances against a future crop outside opium-growing areas questions the assumptions that *salam* is specific to or was originally developed for opium. It was also reported in Badakhshan that there had been a long history of advance purchase of the walnut crop on a *salam*-based system.

This is not to deny that the charges for opium-based advances are at least six percentage points higher than for other crops at this time.²² Two further considerations might explain this, however. First, the value of the loan for opium-based credit is likely to have been greater than for other crops although neither comparative prices (e.g. opium versus wheat or black cumin) nor values of loan by crop were reported in UNDCP’s Strategic Study 3. Second, and linked to the loan value, is the relative riskiness²³ of opium as a crop in comparison with

²⁰ including UNDCP, “The Role of Opium as a Source of Informal Credit.”

²¹ Save the Children USA, “Microfinance in Northern Afghanistan, 1995-1999,” 11

²² UNDCP, “The Role of Opium as a Source of Informal Credit.”

²³ It is likely given the responsiveness of opium yield to management and climatic conditions that yield fluctuations for opium are greater than for wheat or black cumin.

wheat or black cumin. It should be recalled that in 1998-99, untimely rains caused a significant decline in yield. Since then, there have been persistent reports of opium crop failure in various locations for agro-climatic reasons (disease, drought, excessive rain²⁴), pointing to the intrinsic risk of the crop under intensive cultivation or marginal conditions. This is a consideration to be factored in to any trader’s calculation.

While not designed to do so, these studies do not address whether opium poppy is exceptional in terms of the credit relations that it has engendered or whether opium-based credit outcomes are merely a reflection of the high value of opium as collateral in a risky environment. It is known that, outside opium-growing areas, there is an equally high demand for credit for consumption needs and that it appears to be met;²⁵ indeed this is the need for consumption smoothing that opium-based credit responds to.²⁶ In terms of the credit relations around poppy, the variation among provinces results more from context and time than from opium as the more significant factor. Indeed Mansfield makes precisely this point in noting that “advance payments on opium do not dominate throughout Afghanistan ... it is not as common in areas where opium poppy has not been concentrated for some years.”²⁷

However, what emerges from this review of the evidence contrasts some generalised assertions about the links between opium and informal credit. UNODC, for example, has concluded that:

Financing costs based on informal credit, without a proper banking system in place, have

²⁴ See, for example, William A. Byrd and Olivier Jonglez, “Prices and Market Interactions in the Opium Economy” in *Afghanistan’s Drug Industry: Structure, Functioning, Dynamics and Implications for Counter-Narcotic Policy*, ed. Doris Buddenbenberg and William A. Byrd (Washington, DC: UNODC and The World Bank, 2006), 121.

²⁵ Klijn and Pain, *Finding the Money*.

²⁶ Mansfield, “What is Driving Opium Poppy Cultivation? The Pressures to Reduce Opium Poppy Cultivation in Afghanistan in the 2003-2004 Growing Season,” 65.

²⁷ in Mansfield, “What is Driving Opium Poppy Cultivation? The Pressures to Reduce Opium Poppy Cultivation in Afghanistan in the 2003-2004 Growing Season,” 67.

Box 1: Credit mechanisms around Andkhoy prior to 2001

Traditional credit mechanisms

Peshaki: One of the most common and widespread credit mechanisms in northern Afghanistan is *peshaki*. Products are bought by the “lender” as an advance sale but delivered by the “borrower” as a deferred delivery. This often occurs in northern Afghanistan as a pre-harvest advance cash sale, for a fixed amount of prospective agricultural produce. However, the sale (or “borrowing”) rate is usually a sub-market rate, at times up to 40 percent less. This mechanism is used in the project areas most often for wheat, barley, sesame, flax, and occasionally for sheep or an incomplete carpet. This is not actually a loan, but a means of selling in advance and gaining cash for consumption rather than for productive investment.

Nasiya: Another common and widespread credit mechanism in northern Afghanistan (particularly Andkhoy) is *nasiya*, the standard advance purchase with a deferred payment by the borrower. This is essentially standard credit, which is the advance of commodities on credit that are subsequently paid in cash. The repayment value is fixed at the outset at an inflated level. The lenders often use a “10:12” (i.e. 20 percent) mark-up. For example, a certain amount of wheat is given at a rate of 100,000 Afghanis (Afs) per *ser* but the borrower agrees to pay back at a rate of 120,000 Afs per *ser*. This mechanism is used for a wide variety of commodities, most commonly for carpet weaving. For raw materials to produce carpet and wheat, most often the 10:12 and sometimes the 10:13 (30 percent) mark-ups are used. The same shopkeepers who lend carpet materials often lend household materials under this mechanism. Similarly, clothing materials are traditionally lent to nomadic migrants in northern Afghanistan and collected at a fixed inflated rate up to six months later.

*been extremely high in Afghanistan and have clearly contributed to the spread of opium poppy cultivation in the country.*²⁸

However, as noted earlier, particular attention has to be paid both to the period when the data was collected and the province from which the data is drawn. The evidence and analysis on opium poppy debt that was collected from Nangarhar or Kandahar prior to the rise in opium prices in 2001 cannot necessarily be assumed to apply to locations that have moved into opium poppy cultivation after 2001. In this sense, there is a need to unpack what is meant by “expansion.”

There is a big difference between the two types of expansion. Some expansion occurs when farmers increase the amount of opium they cultivate as a proportion of their total crop area (which arguably could be attributed to opium-denominated debt).

A second kind of expansion involves introducing opium cultivation into new provinces and districts that have not previously grown opium poppy. This latter type of expansion occurred after 2001 and therefore could not be attributed to existing opium-based debt, although there may have been debt for other reasons. One has to take into consideration the more general existence of household debt that was widely reported across the country in 2002 – not only that which is specific to core opium-producing provinces in early 2002. This raises questions about factors that led to debt in the first place.²⁹

UNODC also substantiated its position on the links among credit costs, informal credit and opium:

The integration of opium into the informal credit system makes it much more than simply

²⁸ UNODC, “The Opium Economy in Afghanistan,” 122.

²⁹ S. Lautze et al., *Qaht-e-Pool, A Cash Famine: Food Insecurity in Afghanistan 1999-2002* (Medford, MA, USA: Feinstein International Famine Centre, Tufts University, 2002).

an agricultural crop that can be easily exchanged by another one. If the role of opium is to be eliminated in any sustainable way, new savings and credit systems will have to be developed to cater for microfinancing requirements of the opium producing districts. As the foregoing discussion has shown, the existing savings systems are rather risky while the informal credit systems are very expensive for the farmers. Further expansion of opium poppy cultivation will continue to be driven by this microeconomic engine unless cheaper and safer credit systems are established in the opium growing areas.³⁰

Moreover, UNODC sees these high costs as evidence of usury – the act of lending money at unreasonably high interest rates, making repayment extremely difficult. UNODC, for example, justifies its label of “narco-usurers” as follows:

The annualized interest rate charged to poor Afghan farmers by these money-lenders exceeded 500 percent, thus making it appropriate to refer to them as narco-usurers.³¹

This view is not just confined to UNODC. In a World Bank working paper, Goeldner clearly implies that most informal credit is at high interest rates and is strongly linked to opium poppy cultivation:

However, most credits currently available in rural areas are at usury rates or are available only against a poppy crop. This has led to sky-rocketing debt levels after drought and eradication has caused many to lose their crops and have forced them to deplete their asset base in order to repay debts and meet household needs.³²

In an AREU study, Klijn and Pain have drawn, however, on an investigation of informal credit practices in non-opium poppy-growing areas to show that there is great diversity in credit practices. A large proportion

of credit transactions reported were undertaken on a no-interest basis, challenging Goeldner’s statement about most credit being available at usury rates. One must distinguish among the different purposes for which informal credit is used. This paper is specifically about the use of opium poppy as collateral for informal credit (regardless of what the credit is used for), and the modalities of advance payments against future crop. This is informal credit specifically linked to an agricultural commodity; one cannot generalise – as Goeldner and others have done – about commodity-linked informal credit in contrast to other forms of informal credit, which are widely available and mostly on a no-interest basis.³³

The World Bank-supported conference in 2005³⁴ essentially used the evidence of the expansion of opium poppy cultivation as an indicator of unmet demand for microcredit. Klijn and Pain have shown, however, that much of the use of informal credit is for consumption smoothing and not for productive investment, the role which microcredit is seen to serve. It appears that a failure to understand the difference between these two types of need for credit led to an assumption that the demand for credit was for the latter. This assumption seems to have led to a focus on microcredit as a way to remove what is seen to be a key driver of opium expansion and the effects of opium-denominated debt that keep households in opium poppy cultivation. In practice, however, MISFA has largely operated in urban and peri-urban areas and only 16 percent is reported to have been lent for agriculture.³⁵

Evidence regarding credit and debt should be examined to determine if areas which have not grown opium poppy are significantly different from those which have. Only such an investigation could adequately support claims for the “exceptionalism” of opium poppy. Given the relatively low proportion of farms that have cultivated opium even at its

³⁰ UNODC, “The Opium Economy in Afghanistan,” 123.

³¹ UNODC, “The Opium Economy in Afghanistan,” 12.

³² Karri Goeldner, “Roles and Opportunities for Rural Credit Initiatives in Afghanistan’s Opium Economy” in *Rural Finance in Afghanistan and the Challenge of the Opium Economy*, edited by Mohammed Ehsan Zia et al, PREM Working Paper Series, Report No SASPR-9 (Washington, D.C.: World Bank, 2005), 26.

³³ Klijn and Pain, *Finding the Money*.

³⁴ Zia et al, “Rural Finance in Afghanistan and the Challenge of the Opium Economy,” PREM Working Paper Series, Report no. SASPR-9 (Washington, D.C.: World Bank, 2005).

³⁵ C. Ward et al., *Afghanistan: Economic Incentives and Development Initiatives to Reduce Opium Production*, 38.

peak,³⁶ one might question the universalism of the credit-opium-debt linkages asserted by Goeldner.³⁷ One may also wonder about the reasons why opium poppy has not spread more widely and consider the availability, access to and terms of informal credit in non-opium growing areas. As Klijn and Pain state, such informal credit in non-poppy growing areas is both widely available and easily accessed.

Other deeper questions about causalities may be considered. To what extent is opium-based credit a causal factor in creating inequalities and poverty outcomes, as reflected in levels of debt? To what extent is it merely a symptom and product of existing structures of inequality? How has its characterisation as an “illegal crop” – and therefore subject to eradication – further compounded such inequalities, given the ability of the rich and powerful to escape eradication?³⁸

The contrast between existing evidence from the field and wider views on the links between opium poppy and credit identifies three key questions that need to be addressed. First, what has been the historical role of credit for household survival prior to the growth of opium; what have been its terms and how have these been linked to indebtedness? Second, how has the growth of opium altered the scale and terms of credit as well as levels of debt? Third, will formal financial instruments substitute the role that opium poppy has played and, if so, how?

This paper now focuses on the effect of opium on credit relations in two provinces where opium has expanded significantly since 2001. The paper will explore these questions and investigate: the effects of context on opium-based credit; the links between opium-based credit and debt; and, assumptions about the costs of opium-based informal credit being high. The following section, however, will first discuss briefly the choice of study areas and methods.

³⁶ In 2005, it was claimed that an estimated 11.2 percent of the rural population was involved in opium poppy cultivation (UNODC and MCN, *Annual Opium Survey 2005*). In 2006-07, this was estimated to have increased to 14.3 percent of Afghanistan's total population (UNODC and MCN, *Annual Opium Survey 2007*, 14). Note that the basis for the percentage estimate appears to differ between 2005 (rural population) and 2007 (total population).

³⁷ Goeldner, “Roles and Opportunities for Rural Credit Initiatives in Afghanistan's Opium Economy,” 26.

³⁸ David Mansfield and Adam Pain, *Evidence from the Field: Understanding Changing Levels of Opium Poppy Cultivation in Afghanistan* (Kabul: AREU, 2007).

3. Research Locations and Methods

3.1 Introduction

This section provides the background to the selection of the two study provinces, Badakhshan and Balkh, and the research locations. It also outlines the methods used in exploring the role and scope of opium-based, informal credit systems.

Badakhshan has a classic mountain economy with features of remoteness, inaccessibility, marginality, valley economies and grain deficits. Balkh, in contrast, is characterised more as an intensively irrigated plain economy that has historically generated grain and cotton surpluses for the market. Both, it should be pointed out, have had a long history of small-scale opium cultivation that predates the 1980s; in 2000, less than 6 percent of total national area of opium poppy was cultivated in the two provinces together³⁹ (see Table 1). From 1994 to 2000, they provided less than 7 percent of the total estimated area of the crop. Both provinces showed a significant rise in area of cultivation of opium poppy after 2001 and, riding on the crest and subsequent decline of the opium price, the provinces combined contributed nearly 17 percent of national area in 2003. Badakhshan's contribution to greater than 10 percent of national opium poppy area, however, dates from 2001 (the year opium poppy cultivation was banned by the Taliban in other parts of the country) while Balkh's rise to significance as an opium poppy-cultivating province did not take place until 2005.

The opium cultivation history of the two study provinces stands in contrast to Helmand and Nangarhar, which were the major opium-producing provinces prior to 2001 (accounting for over 75 percent of the opium poppy area in 2000). These provinces experienced the effects of the sharp rise in opium price from 2001 as well as its decline after

that year. In Nangarhar, the absolute area since 2001 has been characterised by a decline due to enforced reduction in area in 2005 followed by a subsequent rebound in cultivation.⁴⁰ These two provinces have been the subject of most reports published on opium-denominated debt (see Section 2).

3.2 Badakhshan and Balkh provinces as case study areas

One might ask why Badakhshan and Balkh were selected as the study areas and how the research findings may be used for and relevant to the wider understanding of links between opium poppy and informal credit. This relates directly to the value of doing case study research and its use in building context-specific, in-depth understanding. This method stands in contrast to large sample, cross-sectional research, which while providing breadth also significantly lacks depth. The merits of large sample research, whether done by random or stratified sampling, are seen to have the capacity to generalise and create what is often asserted to be more valuable, context-independent knowledge. Case study research is often considered to be unable to create such generalisations or test hypotheses or theories, and to only be able to generate new ideas; case studies are sometime viewed as unreliable because they are not "representative" and may be biased toward proving or confirming prior assumptions.⁴¹

Such views are misconceptions; the case study method has to be seen as fundamental to broadening knowledge of social processes and as a complementary method to large sample surveys, which remain the dominant mode of social science research practice. But much depends on how case studies are selected and are used to test more generalised propositions. The rise of studies on

³⁹ Adam Pain, "The Impact of Opium Poppy Economy on Household Livelihoods: Evidence from the Wakhan Corridor and Khustak Valley in Badakhshan" (unpublished study for Aga Khan Development Network Badakhshan Programme, 2004); Adam Pain, "Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh" (Kabul: AREU, 2007).

⁴⁰ David Mansfield, "Governance, Security and Economic Growth: The Determinants of Opium Poppy Cultivation in the Districts of Jurm and Baharak in Badakhshan" (Kabul: GTZ and AKDN, 2007).

⁴¹ see Bent Flyvbjerg, "Five Misunderstandings about Case-Study Research," *Qualitative Enquiry* 17, no. 2 (2006): 219-245.

Table 1: Percentage contribution of the core and non-core opium-poppy producing provinces to national area of opium poppy cultivation

Province	1994	1996	1998	2000	2001	2002	2003	2004	2005	2006	2007
Badakhshan	2.4	5.7	4.4	3.0	79.3	11.1	15.9	11.9	7.1	7.9	1.9
Balkh	0	1.9	1.6	3.2	0	0.3	1.4	1.9	10.4	4.4	0
Nangarhar	40.9	27.4	27.8	24.1	2.7	26.7	23.6	21.5	1.0	2.9	9.7
Helmand	41.7	43.7	47.9	52.2	0	40.5	19.2	22.4	25.5	42.2	53.2
Kandahar	5.1	5.4	8.2	3.7	0	5.4	3.8	3.8	12.5	7.6	8.6
Uruzgan	8.8	13.8	7.3	5.8	0	6.9	8.9	8.4	1.9	5.9	4.7
Farah	0	1.1	0.3	1.7	0	0.7	2.1	1.7	9.8	4.7	7.7
Others	1.0	1.0	2.5	9.4	17.9	8.4	24.9	28.2	31.7	24.5	14.1
Total (in thousands of ha)	71	57	64	82	8	74	80	131	104	165	193

Source: UNODC and Ministry of Counter Narcotics, *Annual Opium Surveys 2004, 2006 and 2007*

“positive deviance” or “success case studies,” in part, illustrates this – there is value in wanting to know why things have worked and what can be learned from this. Similarly, other valuable and necessary approaches include finding cases that might disprove the rule (and thus falsify a generalisation) or that are extreme or critical cases that test generalisations.

In light of this, Badakhshan and Balkh (and the study districts within them) can be seen as case studies testing some of the assumptions made about the linkages between opium poppy and credit. By selecting two provinces in which significant levels of opium production took place only after the price rise, this study aims to test the universality of assumptions about the role of credit and opium-denominated debt and their consequences as drivers of opium poppy cultivation and expansion. By selecting two provinces that contrast in agro-ecology and economy, this study explores whether patterns of opium poppy cultivation and linkages to credit are universal and independent of context or time – and location – specific. While evidence from these two study provinces will not challenge

other province-specific data, it may well challenge generalisations or normative statements concerning opium poppy-credit linkages.

A second aspect that is fundamental to case study research is its focus on complexity and the use of narrative to drive exploration and presentation of evidence. It is concerned with difference and variability, not similarity. For this reason, attention has to be paid to narrative as evidence, which often cannot be summarised easily into “typical case stories” that would be easier to translate into policy. This is not to create a deep division between qualitative and quantitative evidence or to suggest that case study research should combine both types of data. In this case, however, using quantification as a method of enquiry is doubly difficult and problematic. This is particularly true given both the subject of informal credit (which, it has been noted, cannot be successfully captured in its complexity by quantitative enquiry⁴²) and the linkage of such credit to opium poppy cultivation

⁴² Polly Hill, *Development Economics on Trial: The Anthropological Case for a Prosecution*.

Table 2: Badakhshan: selected villages and informants by district, location and wealth group

Village	District	Location	Informant codes by wealth group		
			I*	II*	III*
Bd-A	Baharak	Plain	8	6, 7	9
Bd-B	Baharak	Plain	4	3	2,5,29,30,31
Bd-C	Khash	Side Valley	10	13,	1,11,12
Bd-D	Jurm	Side Valley	16,32	14	15,17,18,
Bd-E	Jurm	Plain Edge	19	20,21	22,23
Bd-F	Jurm	Plain	25	24,26,27	28

* I, II and III: rich, middle and poor household classifications, respectively; these are relative and village-determined classifications.

in Afghanistan (the legitimacy of which has been the subject of controversy, for example, about the right to live and achieve food security versus the enforcement of the rule of law).

3.3 Methods

In both provinces, the research team – consisting of a key research associate and the author – held initial discussions with key NGOs working in the area. Through these meetings, researchers obtained: a general picture of the rural economy and how this varied by location and understanding of the dynamics of the opium economy; and how this related to landscape position and agro-ecology of villages. Villages were then selected to provide relevant points of contrast. An initial group-level discussion was held in each village to obtain a broad picture of village history and economy as well as the role of opium poppy within that.

After village selection, the research associate, working with a general checklist, undertook further informal discussions at village and household levels. On the basis of information given by both village groups and random contacts, households were selected to provide contrast in relation to relative wealth, based primarily on land ownership and sources of income. Household interviews were held exclusively with men due to the composition of the research team. The interviews focused on building a picture of

household livelihood trajectories over time and, within that, the changing demand, access to and conditions for informal credit and the specific role of opium poppy. Transcripts were prepared after each interview and follow-up was conducted on issues that needed further probing.

While the discussion on the opium economy is a sensitive area, careful explanation of the purposes of the research encouraged fairly open discussion with the research team at the village levels. Probing trading linkages further up the opium value chain inevitably proved more sensitive and difficult.

3.4 Study location selection

In Badakhshan, fieldwork was carried out in 2007 in and around the valleys of Jurm and Baharak – the core opium production and trade areas since 2001 by virtue of location and ecology.⁴³ Here, six villages were purposively selected to provide contrasts of location with respect to the main valley floors and history of opium poppy cultivation. Three of these villages are in the lateral valleys and, as will be seen, have a long history of opium poppy cultivation. The other three are in the main valley basins, which expanded into cultivation only after 2000. Two of these villages in the main valleys were located close to the district centres. Table 2 summarises

⁴³ Mansfield, "Coping Strategies, Accumulated Wealth and Shifting Markets"; Mansfield, "Governance, Security and Economic Growth."

Table 3: Location of villages by position on canal and district

Position on irrigation canal	Charbolaq District	Chimtal District
	Village code	Village code
Upstream	Char42,62,65	Chim62, 65,19, 20
Mid-stream	Char14,51	Chim13,14,15,16,32, 33
Downstream	Char02,08,28, 45	Chim08, 09, 34, 35, 36, 37, 38

the coding of the villages and informants (32 in total) behind the evidence reported in this section and a brief identification of location.

Fieldwork, carried out in Balkh during 2006 and 2007, was linked to exploring the dynamics and the spread of opium poppy in Balkh both in general and specifically in the two districts of Chimtal and Charbolak.⁴⁴ These two districts were the core of opium poppy cultivation in Balkh. Villages and informants were selected from upstream and downstream positions in the irrigation system. Representatives and researchers gathered for a total of 30 meetings to capture contrasting durations of opium poppy cultivation and the socioeconomic conditions under which opium poppy was cultivated. Due to security concerns, it was not possible to interview directly in the core opium-trading villages of Chimtal in either year.⁴⁵ The locations of the villages, for the purpose of this discussion, are summarised in Table 3.

As will be discussed in the section on village contexts, research undertaken in Balkh was not as detailed at the household level as that of the study in Badakhshan. This, in part, reflects greater insecurity and risk that affected fieldwork in Balkh. It also reflects the need to disentangle a more complex history of the spread of opium in Balkh and the reasons behind this, including key structural determinants related to social identity, settlement history and location on a large irrigation scheme.

With respect to settlement history, the key features can be summarised as follows:

What is evident is that settlement history is different for each irrigation canal. In the case of two canals in Charbolaq district, the top ends are settled by people almost exclusively of Pashtun origin although each village traces its origins to different parts of the south; the further downstream and north one goes in this district, the greater the populations of non-Pashtuns, particularly at the bottom ends of the irrigation systems. In Chimtal district, in contrast, the upper reaches of the irrigation systems contain non-Pashtun villages with the majority of Pashtun villages being located mid or downstream.⁴⁶

Since the patterns of the spread of opium were tied so closely to social networks based on ethnic identity and location, the research here (in contrast to Badakhshan) was more focused on village and location differences and group-based discussions rather than household differences within the village. The climate of insecurity within the two districts, particularly in Chimtal, also invited caution in terms of visibility and duration of visits. For this reason, more detailed group-level discussions were held and, where possible, these were followed up with individual interviews.

⁴⁴ See Pain, "Water Management, Livestock and the Opium Economy: Opium Poppy Cultivation in Kunduz and Balkh" (Kabul: AREU, 2006) and Pain, "Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh."

⁴⁵ For a detailed discussion of these locations, see Pain, "Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh," 10-11.

⁴⁶ Pain, "Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh," 15.

4. Opium and Informal Credit in Badakhshan

The evidence and analysis presented in this section are drawn from relevant literature on opium poppy in Badakhshan and from empirical fieldwork carried out during 2007. Particular attention is paid to drawing out the specific contexts of both history and location. The section concludes by reviewing what has been learned in terms of the historical role of credit in the study area and the degree to which opium poppy has transformed it.

4.1 Background

As noted in Section 3, Badakhshan is essentially a mountain economy although it contains regions with substantial areas of plain (for example, Kishim). Mountain economies are characterised by relatively high altitude, limited agricultural area, marked seasonality and remoteness, and diverse household activities. This diversification to achieve household food security, including seasonal migration, is a result of limitations in individual farm production. A key characteristic of mountains is their environmental heterogeneity and the significance of specificity of location in structuring opportunities and constraints.

Various published sources provide some dimensions to the trajectory of opium poppy cultivation in Badakhshan and its impact on households both before and since 2001. Goodhand reported on the development of the opium economy in one village close to Faizabad.⁴⁷ The report located the rise of opium production during the late 1990s resulting from the collapse of the state, the rise of local informal power structures, and economic and environmental factors; it did not, however, specifically address opium-linked credit.

In late 2003, the Aga Khan Development Network (AKDN) commissioned two parallel but complementary studies on the opium poppy economy

⁴⁷ Jonathan Goodhand, "From Holy War to Opium War?: A case study of the Opium Economy in North Eastern Afghanistan," Peace Building and Complex Political Emergencies, Working Paper Series no. 5 (Manchester, UK: University of Manchester, 1999).

in Badakhshan. The first⁴⁸ explored the impact of the opium poppy economy on livelihoods in the Wakhan Corridor and Khustak valleys, drawing from detailed village economy case studies and household interviews within these villages. The second⁴⁹ looked at the reasons for the expansion of opium poppy cultivation and its effects on household economies drawing from specific household interviews in the upper valleys of Wadooj Bala (Baharak) and Khustak (Jurm) as well as lower areas around the district bazaars of Jurm and Baharak. A follow-up study was conducted by Mansfield on the dynamics of opium poppy cultivation addressing its decline in central Baharak and its persistence in Jurm.⁵⁰

The Wakhan corridor study explored a specific dimension of the opium poppy economy in Badakhshan: domestic use and the links between an area of traditional consumption of opium and traders in opium coming from Ishkashim or Khustak. In this context, opium provided a crucial currency and form of credit for a barter exchange economy designed to provide basic household commodities and extract livestock and other resources from the Wakhan corridor. The terms of exchange were extremely unequal – to the advantage of the traders who sought to maintain the opium dependency and demand of addicts to gain the cheap acquisition of products from the corridor. Inevitably, this has led many opium consumers into deep debt and loss of assets. Examples of traders from Khandud who had acquired substantial assets of land and livestock through this trade were found. However, as the study noted, this specific dimension of the opium poppy economy in Badakhshan (based on domestic opium consumption) is context specific and forms only a very small part of the overall opium poppy economy of the province.

⁴⁸ Pain, "The Impact of Opium Poppy Economy on Household Livelihoods."

⁴⁹ Mansfield, "Coping Strategies, Accumulated Wealth and Shifting Markets."

⁵⁰ David Mansfield, "Governance, Security and Economic Growth."

The 2004 studies on opium poppy production by both Mansfield and Pain offered similar explanations for the dynamics of its cultivation and consequences for households engaged in cultivation. Attention was drawn to the effects of the drought prior to 2001 that drove many households, particularly those with limited assets, into serious debt (not generally linked with credit for opium poppy cultivation) and loss of assets (such as land and livestock) as they struggled to survive. This has led to increasing differentiation between those with and without assets. Mansfield pointed out that the returns from opium poppy cultivation sharply differ between landlord and sharecropper, to the distinct advantage of the former.⁵¹ Nevertheless, opium income has undoubtedly contributed significantly and positively to household economies. As Pain argued:

First there is considerable evidence that it [opium poppy] has allowed a large amount of debt to be paid off and land recovered from mortgage; second it has allowed households whose land area is insufficient to provide for their grain needs for the year to achieve food self-provisioning through growing a small portion of their land with opium poppy; third it has given a greater income stream that has allowed households first to increase food consumption both quantitatively and qualitatively, then buy clothes, then to buy items for the house, rebuild rooms or improve their houses or begin to invest in more livestock. For some of course in the opium trade, then, the acquisition of vehicles, satellite dishes, etc. has also been a possibility; there was also some evidence that increased liquidity may have eased up credit systems at least between networks of relatives and friends.⁵²

This was not to deny that debt did persist, although neither study specifically investigated or reported whether or not this was caused by opium-based credit in the first place. Moving into the cultivation of opium poppy may have shifted previous debts into opium-denominated debt; Mansfield argued that some evidence showed:

The sale of opium prior to harvest is becoming an increasingly important means of accessing credit in Badakhshan.⁵³

Mansfield's analysis of the evolving credit system pointed to the critical role of credit in the rural economy in meeting consumption-smoothing requirements (consistent with the findings of Klijn and Pain); the credit system demonstrated seasonal dynamics in demand and conditions of supply, and offered, as he put it, "exploitative rates of interests."⁵⁴ He argued that, with the growth of the opium poppy economy, opium had increasingly become the favoured agricultural good for which to receive an advance payment; this had potentially adverse effects, locking people into exploitative patron-client relations. He also noted that opium had not become the sole source of credit, particularly in the more remote lateral valleys where cash and in-kind loans were more common.

Mansfield's follow-up 2007 study⁵⁵ focused on the shifting patterns of opium cultivation in the context of its overall decline in the province. This study was more attentive to the reasons for the decline in opium in the Baharak valley floor in contrast to the Jurm valley floor. It argued that shifts in opium poppy profitability, relative to other crops and when combined with relative security and a growing provincial economy, were significant determinants of this decline. The study does not directly address issues of debt or opium-linked credit.

The picture, therefore, of the links between opium and informal credit and its historical and geographical base in Badakhshan is patchy. What does evidence from the study villages contribute toward an understanding of the opium-informal credit linkages and their effects?

⁵¹ Mansfield, "Coping Strategies, Accumulated Wealth and Shifting Markets."

⁵² Pain, "The Impact of Opium Poppy Economy on Household Livelihoods," 22.

⁵³ Mansfield, "Coping Strategies, Accumulated Wealth and Shifting Markets," 7.

⁵⁴ Mansfield, "Coping Strategies, Accumulated Wealth and Shifting Markets," 10-12.

⁵⁵ Mansfield, "Governance, Security and Economic Growth."

4.2 Village contexts

A number of features characterising the similarities and differences of the six study villages, three in the plain areas (Bd-A, Bd-B and Bd-F) and three in the side valleys or plain edge (Bd-C, Bd-D and Bd-E), should be noted.

Village Bd-A (in Baharak) was settled only during the 1940s, initially by Pashtun settlers from Logar and Faizabadi people with land grants from King Zahir Shah. It is characterised by extreme inequalities in landholdings; a few major large landholders, some of whom are absentee, have consolidated their holdings by buying out the original Logar settlers who started leaving during the 1980s. There are also numerous effectively landless sharecroppers, who have settled at various times since the 1950s from a number of remote valleys in Badakhshan.

Villages Bd-B and Bd-F are located in Baharak and Jurm, respectively. They are both peri-urban and richer households that derive their major source of income from shopkeeping and trading. Village Bd-B is located in a water-rich area that potentially allows for double cropping; the growing season, however, is more constrained by temperature than water availability. What villages Bd-A, Bd-B and Bd-F have in common, reflecting their location on the plains, is the presence of a significant irrigated area and the fact that none of them reported opium poppy cultivation prior to 2000-01.

In contrast, villages Bd-C, Bd-D and Bd-E are characterised by their position away from the main valley floor (Villages Bd-C and Bd-D are both located up significant side valleys and distant from Jurm centre; village Bd-E is on the elevated plateau above the Jurm plain, but relatively close to its centre.) They are also characterised by very limited irrigated land and for historically having an important livestock economy. In addition, these villages reported having cultivated opium poppy for several decades; according to various respondents, this dates back at least 50-60 years. All informants from these villages made reference to the fact that opium poppy, within their memory, had been planted on more than 25-30 percent of their land

area and had provided the critical means by which they have been able to achieve food security. It was reported that, at least until the 1970s, the villagers traded their opium to an official opium trading company based in Faizabad whose representatives visited annually to purchase their production. One respondent made reference to an official who came with equipment to check the quality of the crop. Informant 32 commented:

This valley, including villages like Village Bd-D, is famous for opium cultivation in the past. I remember from my childhood and had heard from my father that this village was a good place for opium planting in the past and was especially included in the government's list for providing opium to the "Opium Company." In our valley, the opium company was represented by a Finance department employee who was coming down every May and June to our valley and had tested the opium quality by tasting and then was collecting them for 1 [old] Af per touli [1968-71] and then we were hearing from Faizabad that the government was selling them for 10 [old] Afs per touli and I never understood who was buying it.

Even then, the terms of trade did not go unnoticed and the informant recalled "a witty villager in 1965 who has passed away last year" saying:

If we attempted to cultivate opium for the government to collect through its company ... the government sells it at 10 rupees⁵⁶ per touli but valued our harvest for 1 rupee per touli.

Some informants reported that opium was traded up to the Wakhan corridor for consumption there. There was also evidence of more informal credit relations around opium at that time, as reported by Informant 13 who narrated what happened after he inherited his share of land in 1973:

I worked hard on the land and cultivated opium and harvested more than 5-7 ser [35-49 kg] and sold it to Faizabadi people who were still coming to our village in connection with the opium company.

⁵⁶ The currency units, Afs and rupees, are quite often used interchangeably.

Through this linkage, I borrowed an additional amount of about 30,000 [old] Afs [roughly worth US\$3,000 in 1973] but repaid them within two to three years of opium harvest. The Faizabadi were coming down to Khash during summer time to collect opium for their loans that they had given to Khashi people and also collect Yarkand⁵⁷ carpets from Khash village as exchange for the loan that they provided for Khashi people.

As far as village Bd-C was concerned, residents had historically been authorised cultivators of opium poppy. After the “opium company” appeared to have ceased functioning in the 1970s, the opium trade from these villages continued through traders based in Jurm who travelled to the north and, reportedly, to Pakistan.

The point to note here is that opium as a medium of exchange has deep historic roots in particular villages in Badakhshan. The village in Goodhand’s 1999 study also remembered opium poppy cultivation in the past but reported that the government had burnt their crops.

The questions to ask are: to what extent was there opium-denominated debt prior to 2001? How different was opium-based credit from other commodity-based credit during this period? What legacy of debt had been created prior to 2001 and what drove it? In these villages after 2000, what were the consequences of transformation of the opium economy (through the effect of price and expansion of area) for credit relations and the effect of this transformation on household debt?

4.3 Credit and debt relations prior to 1978

In reviewing the evidence, it is useful to make a distinction between different opium-growing villages. The historic opium poppy-growing villages in the lateral valleys (Baharak and Jurm) and the valley floor villages should be considered separately for the period prior to 1978, which was the start of the era of political instability.

⁵⁷ These are apparently carpets from Yarkand in China, which were part of the commodities traded for opium in the northern districts of Badakhshan.

Villages in the lateral valley

The first aspect that needs further discussion is the issue of household economies. To what extent were households able to self-provide from their farm production? To what extent did households have to borrow in order to smooth consumption? The answer, to a large extent, depends on the resources that households had at their command and their engagement in opium poppy cultivation.

The landed households in these villages (informants 10, 16, 32 and 19) at that time had resources and sizeable livestock holdings. Informant 10 recalled that his father owned about 20 *jerib* (4 ha) of land, some 100 sheep, 20 goats, ten cows, four oxen and eight donkeys. There was more than enough grain for the household and even surplus to give as *qarz-i-hasana* to close relatives, as *qarz-i-nawqan* (loan without interest for up to two months before harvest), and as loans with charges. Although Informant 16 reported that their lands did not provide enough for their annual requirements, the ownership of the village mill, a fruit garden and walnut trees provided the means to meet their food requirements and still have surplus to lend.

For those with limited or no land resources, life was much tougher. Informant 11’s father was a livestock keeper; he had no links with opium poppy cultivation. He described his family as one of the poorest in the village, illustrating its extreme dependency on wealthier households, in-kind payment and informal credit for consumption needs.

*Even at the time of my father, we’ve always been poor. The flock keepers are the most poor and lowest-paid group of people within the villages. My father’s house was only 700 m². He never owned even 1 *jerib* of land for cultivation. He was normally getting into agreement with livestock owners during winter time and the initial negotiations were about the payment and working for the length of the contract on credit. It meant that either the flock keeper’s family would be given food items and household needs on demand or the flock keeper will be paid a certain amount at the end of nine months, which*

is now about 25,000-30,000 Af\$⁵⁸, along with one pair of clothes, one pair of shoes and one turban for the flock keeper. Giving a sheep or goat was included in the agreement, but normally the livestock owners gave this at the end. When I was 19 years old, my father was taking me with him to the pasture and we were grazing about 300-400 sheep or goats from the villages to Shiwa pastures for nine months from March through to November every year. In good years, there was no need to ask for advance payment from the livestock owner for rice, edibles, wheat and clothes because we had to manage through selling one goat per year as our share from the total flock population. In 1973 during the difficulties, we had no choice but to ask the livestock owners for advance payment or be provided with these items. The flock keepers are the most poor and the real hand-to-mouth group of people; we were receiving bread and other leftover food items from the livestock owner's house on a regular basis. It is common that from the livestock owner's house the flock keeper's house will receive at least food items during shortfalls.

Informants 12, 15, 17, 28 either had no land or only a few *jerib* of rainfed land. At best, these provided enough grain for two to three months. All worked as sharecroppers, particularly on opium poppy cultivation, and reported that there was sufficient food to support family consumption requirements for 12 months. Informant 17 specifically reported that he did not have any debt during these years. If he ran into a shortfall before the harvest (March to June), he was able to borrow *qarz-i-nawqan* from the landowner for whom he was sharecropping.

From all the informants, it appears that, certainly up to the Soviet invasion, while life might have been hard, there were sufficient opportunities to work as a sharecropper or borrow on an interest-free basis from landlords if a household grain deficit was looming in the period before harvest. The extensive cultivation of opium poppy during this period – an estimated 25-30 percent of the land area as noted earlier – appears to have paid a key role as a valuable cash crop, compensating for limited irrigated land resources. As Informant 23 commented,

My father was delivering the opium extract to his close friend in the village who was linked to one of the Jurmi shopkeepers. And according to the need of the family, he was bringing different commodities and goods for us, in exchange for 10 or more paw of opium. The selling or exchange of opium was a good source of income for us to pass the winter every year without difficulties. But I recognise and want to comment that the oil of opium was good, that we were never buying edible oil from the bazaar. The price paid was not in cash and mostly the deal was in exchange as it was practiced from years and years in our village. The growers were not paid hard cash for their harvest...but cash was also available when the grower was asking to receive cash for the remaining balance of his opium from the shopkeeper. I want to say that having a proportion of land with poppy always helped our cultivation and farming, otherwise, just relying on wheat can't be sufficient for family consumption over the 12 months.

In response to specific questions about levels of debt at that time, informants of these lateral villages report little recollection of such debt (and, in particular, opium-denominated debt) during the period prior to 1978. Informants 10, 11 and 23 clearly showed demand for credit, collectively illustrating both the supply and use side and a demand associated primarily with the need for consumption smoothing. A great deal of this credit appears to have been as *qarz-i-hasana* on a no-interest basis for close relatives or dependants and *qarz-i-nawqan* for short-term loans prior to harvest. Some loans on commodities were charged at 25 percent, somewhat lower than what would later be charged in the 1990s. What also emerges is a picture of a largely barter-based economy where commodities – and not money – were the medium of exchange, underpinned by a certain moral economy. As Informant 20 said, “There was a traditional way and pattern of deals of land which were based on equity and justice between two parties.”

One should be careful though not to paint a rosy picture, given the deep structures of inequality around land ownership. This was essentially a subsistence economy with little slack; the economy of

⁵⁸ The exchange rate at the time of research was US\$1 = 50 Af\$ (the same as the current rate).

households could collapse through debts. Informant 18 was engaged in disputes over the division of inheritance, resulting in the mortgage of land:

My father lost these lands (10 jerib [2 ha] of irrigated land and 20 jerib [4 ha] of rainfed lands) because we were left with lots of debts in 1972-73. My father was a very simple man ("simple" as in believing a person's word and being easily deceived) and at that time he had given his land on mortgage to two to three people of the valley. Slowly, he spent the amounts he got from them and then spent a percentage of this money on our wedding parties (for me and my younger brother). The money was finished and we fell into the position of sharecroppers for other people. Now I have only a house of 300 m² in size with my entire family. We are 15 members (three brothers, six sisters, unmarried paternal uncles and my parents) and our separation happened in 1974. In fact, there was an internal conflict over the land and finally the father and uncles decided to mortgage the land as a whole and divided the money among themselves rather than divide the lands into smaller pieces and give everyone his share. They did some stupid things and I was not able to prevent them.

This last report indicates the precariousness of life in a mountain economy and how random or idiosyncratic household events can lead to a rather quick collapse of the economy of even the relatively well-off.

Villages in the valley plain

The discussion of household economies starts by contrasting Village Bd-A with the two villages, Bd-B and Bd-F, which are located close to the district centres of Baharak and Jurm, respectively. It will be recalled how village Bd-A was characterised by deep inequalities in landholdings. Informant 8 represents one of the minority of landlords who are actually residents of the village.

He recounted how his father had moved from Logar with an initial land settlement grant of 3 *jerib* (0.6 ha) during the late 1940s and how he, by the mid-1970s, had been able to acquire about 40 *jerib* (8 ha) of irrigated land, funded in part by his work as a mason. His account of further attempts to accumulate land reveal his methods:

I bought 3-4 jerib [0.8 ha] of land from my father's relatives in Awghani village and as a hard working mason I was able to gradually buy land and add to my property. Around 1975, I increased my land to 30-40 jerib [6-8 ha] and in Taraki's era [1978], I attempted to take about 45 jerib [9 ha] of land on mortgage from four other people who were extended relatives as they were trying to minimise their land size since the Taraki regime had announced a new land reform decree...I made a mistake and had paid 120,000 [old] Afs for 45 jerib. They complained to Baharak district office and reported me as feudal. In front of the land reform officials, I acknowledged my fault and accepted to forgive the money that I had disbursed for their mortgaged lands. Since then I have never taken other people's land in my hand as mortgage.

His accounts of his economy give a picture of a considerable grain surplus and the use of relatives as sharecroppers. He reported that he provided wheat as informal credit with no charge:

I'm a well-known landowner in the village that has reserves and I am well prepared to support other people every year. I always supported the needy neighbours with wheat, straw and other crops during winter since I settled in this village. I do not expect any profit from my neighbours and relatives that are living near my household, but most of the people that I gave wheat or other crops to last year did not bring back even the same amount of grain they took from me.

His account of his role as provider to the village was not supported by other informants who commented on his practice of charging for loans even during the 1970s. It is significant, as will be discussed later, that during the peak time of opium cultivation after 2000, he brought in new sharecroppers from Zardew (a lateral valley). They were willing to work for less, unlike the sharecroppers residing in the village who, during this period, had not been available to harvest the landlord's wheat crop since they were busy working on sharecropped opium poppy elsewhere.

Informant 9, whose parents had migrated from Bokhara about 60 years ago, had worked for

Faizabadi landlords. He described life during his father's time as a combination of working as a sharecropper and daily labouring:

We have got only 1.5 jerib [0.3 ha] of irrigated land next to our house compound and we are cultivating this. The land had been given to my father about 20 years before when he was cultivating as a sharecropper and the land owner had given this land as a gift for hard work. I remember well when we were cultivating wheat at that time, we were harvesting 40-50 ser [280-350 kg], which was enough only for two to three months, and for the rest of year we were working as daily labourers in the village. We brothers always had been helping our father even when we were ten to 12 or even eight to nine years old. My younger brother is now 16 and is attending school and the other four brothers along with my father are working as labourers or sometimes as sharecroppers. You can imagine if there are five men working and bringing their earnings into one household, there would be a little balance for living beyond hand to mouth, but still we were borrowing sometimes in winter and when there was no daily labouring or farming jobs.

Life was clearly precarious at that time for many of the landless in this village. Borrowing for consumption smoothing was needed and according to accounts, landlords and shopkeepers were the sources of credit.

A middle-ranking household (Informant 7) remembered his father having to borrow from such shopkeepers:

When my father was alive, there were ten members in our father's household and, at that time, we had 24 jerib [4.8 ha] of irrigated land. My father just passed away eight years ago. The 24 jerib planting of wheat was producing enough for our family for six to seven months and, for the remaining months, he was borrowing from Baharaki and Faizabadi shopkeepers with a repayment charge of 20 or 30 percent.

Informant 6 (also a middle-ranking household) had similar comments about the need to borrow and the sources of credit. He emphasised the critical role of size of the family labour pool in ensuring repayment:

There were 30 jerib [6 ha] of land that my father and his 11 brothers and sisters had when they were living under their father's protection and when my grandfather passed away about 20 years before. His sons and daughters divided the forefather's patrimony and my father received 3 jerib [0.6 ha] of land as his share. As I have heard from my uncles (I do not remember my father, as he passed away when I was four to five years old), when my grandfather was planting on 30 jerib of land, the harvest was sufficient only for five to six months. And they were borrowing from local traders and rich people from Baharak and were able to repay after six months as he had many sons to work as sharecroppers.

Other than for the richest households, grain deficits were common in this village in Baharak and they had to be met through borrowing.

Most of the poorest households interviewed in the other two villages on the valley floor had not been living in the villages during the 1970s and were relatively recent immigrants (since 2000). These people were drawn by the potentially better opportunities of the increasingly prosperous district centres, unlike the prospects afforded by the higher altitude valleys from which they came.

One such case was Informant 5 who had come from a remote village. After his father's death, his uncle sold the land forcing him out of the household. He moved to the village outside Baharak more than 20 years ago to work as a labourer for one of the large landowners. In good years, his payment in kind was sufficient to feed his small family for most of the year and provide fodder for his one cow. If the harvest was poor, he went to his landlord or other households to collect grain given as *zakat* (obligatory alms). He reported that the only time he had borrowed money was for his wedding, amounting to the equivalent of \$1,000 from a shopkeeper and his landlord. He then worked for four to five years to repay this on a reported interest rate of about 10 percent. This was the only time he had been in

debt and he was now no longer in debt. For the last two to three years, he had a chronic leg problem: he had not been able to work and lived off charity. By travelling among four or five villages to collect 2-3 *ser* (14-21 kg) from each farmer's harvest, he was able to sufficiently meet his own needs.

Informant 4, a rich landlord from the same village with 37 *jerib*, headed a household self-sufficient in grain that also had substantial livestock holdings. He reported a flock of some 200 sheep and 20 cows in the past. He also reported that borrowing of grain took place in the village in the past; repayment was made in kind and for the same amount. In his view, prior to 1992 (the fall of President Najibullah from power), no *sudh* (credit with interest) had been associated with the lending of wheat.

The middle-ranked households (in terms of landholdings) gave a picture of the mixed livestock and grain economy of Jurm that, at that time, proved sufficient for households to survive. In the words of Informant 24:

*In my opinion, Jurm valley was the most important place for livestock 30-40 years ago because of fair access to many pastures in the surrounding valleys during spring and summer and as well as other fertile pastures in other parts of the province. I think we never recovered that population of livestock in 1968 because after the drought years 1970-71 and the consequences of those years, we lost huge numbers of livestock. When we attempted to recover it in 1978, the Taraki regime changed everything again as internal unrest began. And gradually the livestock keeping was also affected by these changes and the insecurity and its effects of unsafe pastures throughout the valleys. When my father was cultivating wheat in almost all 5 *jerib* [1 ha] of land in the two to three decades before, the harvest was sufficient for seven to eight months and the rest of months were covered by livestock and I still remember the abundance of income then from selling the livestock during the wintertime and meeting other needs such as tea, sugar, clothes, etc... I do agree that the existing generation has lost the most important assets for the wellbeing of its economy.*

The significance of the past role of livestock in ensuring food security in the Jurm economy should be noted. The collapse of the livestock population from the early 1970s was to have longer term consequences compounded by the instability of 1978. These accounts allow two more general conclusions to be drawn: first, there was a widespread need for informal credit to ensure household survival from one season to the next; second, this credit was largely available through dependent patron-client relations.

4.4 A period of increasing instability

From the late 1970s, the relative stability of the previous decade was disrupted by the Soviet invasion and resulting war, the ensuing political instability of the 1990s, and the subsequent drought, which affected in particular the lateral valleys in Jurm. These events brought increasing hardship and disruption to the Badakhshan economy and to poorer households, whose hand-to-mouth existence was progressively undermined.

The effects of this instability were experienced in several ways, partly determined by location. The Soviet-supported government forces occupying the district centres in the valley floors; the lateral valleys served as centres of opposition. For some, there was the direct conflict with government forces as Informant 19 reported:

First of all, the village played a major and significant role in supporting all groups of mujahiddin crossing Jurm valley to Taluqan and Kunduz during 1982-92. And all the time we were hosting mujahiddin groups during night-time in our village and they were on their way from Pakistan (via Chitral) with weapons toward Kunduz and Taluqan. This hosting position did create problems for us and, often during the daylight, our village was under the government rockets and heavy weapons from Jurm centre or Baharak. The government people did not attempt to enter the village as our village is located in the upper hills and they were afraid of possible ambush. This left us continuing with opium cultivation and as well as experiencing credit relations within the village from small shopkeepers and livestock owners who often travelled to other valleys selling their livestock or

sending them off for sale to Taluqan and Kunduz. I think the village's position as a mujahiddin supporter and accommodation provider left us with a hard time as we had no access to Jurm.

This was also a time when, as informants reported, the mujahiddin started imposing taxes particularly on the opium crop in the lateral valley villages. From the 1990s, with fading government presence, conditions became much worse with the rise of the local commanders who taxed and looted the local economy. Informant 4, the large landowner from Bd-B, related how they had gradually lost access to pasture outside Baharak, leading to a rapid decline in their livestock holdings. Informant 20 specified the effects:

Actually the overall situation at that time was very complicated. The faraway pastures were occupied by influential commanders in most districts of the province. And, at that time [1992-95], with the spread of local commander power at every village and every district, there were many people like my father who were thinking that before losing their livestock or having them hunted by powerful commanders, it was better to sell them and make money for other expenses. So my father was one of these people who attempted to sell off livestock and spend the money for other purposes.

The difficulties of this period of instability were then compounded by the effects of the drought that gradually penetrated Badakhshan from 1997 and onwards. For many households, this was a period of acute difficulties and the cause of significant debt. As Informant 6 (from Bd-A) commented:

We did face problems during drought times in getting credit and repaying it. We borrowed wheat and other commodities on a credit basis from Baharaki and Faizabadi lenders and mostly there were delays [in repayment] as we did not produce enough wheat and crops to repay on time. There was an enormous interest charged, two to three times [the principal amount], to put you in a situation to mortgage your land and then become his sharecropper. There are about 10-15 people from our village and neighbour villages that were small landowners in the 15-20 years before [the beginning of the

period of instability]; but during drought time and instability, they lost the lands through mortgaging.

Informant 19 (from Bd-E) recounted the story of one poor household:

I remember a man from our village who is still working as a daily labourer and has a small house with one cow. In 1999, when the effects of the drought really hit the people everywhere, he had gone to Jurm bazaar and bought a pair of shoes for his wife on credit from the shopkeeper. He was supposed to repay the cost of the shoes [60,000 old Afs or \$1] for 2 touli of opium [in 1999, 1 touli was 30,000 old Afs or junbish⁵⁹]. But he couldn't provide 2 touli of opium from the next harvest and went to the shopkeeper to make him aware of the situation. When the shopkeeper heard this, he added to the debt another 2 touli of opium for repaying in the next harvest (June 2001) when the borrower is to repay with 4 touli opium. When he did repay the 4 touli opium, his pair of shoes actually cost him 280,000 [old] Afs [in June 2001, 1 touli of opium was 70,000 old Afs]. To me, it means that the borrower repaid the shopkeeper more than three times the actual price.

Informant 20 from the same village had a similar story in relation to two households.

There were two men that mortgaged their land to one Jurmi shopkeeper at the rate of 12,000,000 [old] Afs⁶⁰ [junbish currency] per jerib. Each of these men had given 1 jerib of irrigated land on mortgage. The shopkeeper from the beginning intended to grasp their land forever...but the opium harvest in June 2000 made some things better than in the previous year and one of the men was able to repay the total amount of 12,000,000 [old] Afs back to the shopkeeper and freed his land after one year. But the second man, as his elder son was getting married, had spent lots of money for his son's marriage. He couldn't repay the mortgage price back in June 2000 and was left with 12,000,000 [old] Afs debt for the next year

⁵⁹ The currency of the Northern Alliance at that time.

⁶⁰ At that time in 1999, the exchange rate was US\$1 = 110,000 Afs.

to which the shopkeeper charged up another 10,000,000 [old] Afs⁶¹ [junbish currency] to bring the land owner to a position that he had to sell. And the shopkeeper achieved this as the land owner couldn't repay with the 2001 opium harvest either and he had to deliver the land document to the shopkeeper against the debt of 22,000,000 [old] Afs [junbish currency]. But the first man was able to repay his debt through 7 touli of opium to the shopkeeper in June 2000 [700,000 Afs per touli in junbish currency] and freed his land just after one year of mortgage.

It must be recognised that the opportunity to generate large profits from opium cultivation and trade after 2000 undoubtedly led to an undermining of previous norms of acceptable behaviour. Informant 20 described the changes as follows:

There was a traditional way and pattern of deals for mortgage of land, which were based on equity and justice between two parties. But after the instability period (1994-2000) and then high demand for opium cultivation on mortgaged land, it really affected the customs and rural institutions – everyone wanted to be richer and have more land under his control.

Several issues arise from the above household reports. First, the instability that had contributed to a significant collapse in the livestock population was compounded by drought. The resulting threat to household livelihoods and food security led to an increasing demand for credit as poorer households struggled to survive. Second, this rising demand for credit took place in the traditional opium-growing villages as well as in the non-opium growing villages in the valley plains. Third, what appears to have happened is a rise in interest rates in general – not induced by opium but caused mainly by the increase in instability and economic risk. Households growing opium had the collateral for the loans. Given the tradition of repayment in kind (noting that double or triple charges were applied to both opium and

non-opium-denominated debt) and the rapid rise in opium prices after 2001, lenders inevitably experienced windfall profits. It should be noted, however, that only one of the three cases of opium-denominated debt led to the household losing land or key assets.

4.5 Changing costs of informal credit

Reports from various informants were consistent with a change in the terms of credit relations onwards from 1979.

Informant 17 (from Bd-D) described the changes as follows:

In 1980-1992, it was the beginning of high-profit charging for credit by lenders. There was the time of the "Revolution Years" and everyone insisted on charging more than 25 percent of the original price of each item. Charges on wheat and other items by shopkeepers for six months or seven months was only 25 percent and was common before 1980. And I remember the Bangladesh year [1971] and people were feeling shame when hearing that X or Z shopkeeper is charging more than 25 percent, which was recognised then as a reasonable charge for a shopkeeper to recover his shop supplies after six months...

When asked when the charges for borrowing were highest, he responded:

During the peak of instability in the area and internal conflicts as well as during the Taliban fighting in Taluqan and the difficulties of transporting from Kunduz and Taluqan to Badakhshan. This period covered 1996-2000 and during these four years people were in their worst life conditions: having less food, providing food to mujahiddin and as well as [having] less harvest due to drought and losing the livestock due to the crisis in the pastures.

In summary, Informant 17 indicates that the increasing instability from 1979 led to a rise in interest rates. The instability affected access to assets by households due to loss of access to

⁶¹ It is not clear here whether this was for an additional loan or a charge for non-payment of the original loan. Land mortgage arrangements usually are a fixed loan against the land, which is then used by the lender with the harvest effectively providing interest, or the borrower sharecrops his own land for an agreed share going to the lender as interest. See Klijn and Pain, *Finding the Money*.

pastures, leading to a decline in livestock numbers as noted earlier. The instability also: caused asset loss perpetuated by the predatory behaviour of armed groups;⁶² affected traditional trading of livestock out of Badakhshan; and reduced traditional seasonal labour migration to the grain surplus province of Kunduz.

These effects deepened during the internal conflicts in the early 1990s after the Soviets left; they were compounded once the Taliban rose to power. Badakhshan, from the late 1990s, came under siege from the Taliban as the key Afghan province not under its rule. The drought from 1998, although its effects were not as widespread or severe as in other parts of Afghanistan, hit in particular the villages in the upper valleys that were more dependent on rainfed production and livestock. This led to an increase in demand for credit in order to survive. For those villages already growing opium, this provided the collateral for the credit although there was always the risk of crop failure, potentially leading to debt.

Informant 10 (from Bd-C) confirmed the link between the rise of instability and the increase in charges on credit:

The era of 1992-2001 was the worst period that we had ever seen and heard about. Wholesalers and commanders (from Faizabad, Baharak and Jurm) were the main winners; and middle and poorest groups were the losers. In one extreme case, a man from our village borrowed 1 ser [7 kg] rice at the price of 20 laks of junbish money [2,000,000 old Afs] equal to 20 toulis [the price being 100,000 old Afs per toulis] of opium at harvest time from a retailer in the centre of the district in 1998. Because of the drought, he couldn't repay the opium or the money. The shopkeeper increased the debt to 40 toulis of opium repayable from the next year's harvest, but again he had no luck for a good harvest and the shopkeeper doubled it again to 80 toulis for the following year's harvest time. Finally, the man harvested 1 ser in 2000, which is about 350 toulis, and the price for each toulis was 250,000

old Afs [junbish currency] at harvest time. And when the shopkeeper received 80 toulis of opium, it was equal to 20,000,000 [old] Afs. So, actually the borrower consumed 1 ser of rice in difficult times for 20,000,000 [old] Afs.

Informant 10 went on to describe three periods, each with characteristic interest rates.

To me and according to our elder people, the credit and charges had a rapid change over the last 29 years in our valley and it was because of the general situation in the area: Up to 1979, Ropa ra be Qeran, 1 Afs to 1.25 [old] Afs was common and acceptable; in 1979-89, it increased to Ropa ra ba Ropa, 1 to 1.5 Afs; the time of instability began with the Soviet invasion and support to the mujahiddin; in 1992-2001, it increased to Ropa ba 5 Ropa (1 to 5 [old] Afs and even 1 to 10 [old] Afs); the peak of instability, internal conflict, checkpoint charges in all districts and villages.

It is clear that the rise in credit charges, driven by instability and drought, predate the rise of the opium economy in these locations. Therefore, opium poppy cannot be seen as a cause of these higher charges.

4.6 Post-2000

The 2000 Taliban ban on opium poppy cultivation directly led to an expansion of cultivation of opium poppy in Badakhshan since it was not under Taliban control. Its subsequent effects on price fuelled a rapid expansion of cultivation of opium poppy in Badakhshan. Cultivation spread from the lateral valleys, which were still experiencing water shortages, to the well-watered valley floors of Baharak and Jurm. It is clear as seen in Informant 12's comment below, however, that the spread of opium into the valley floors had started during the drought period. Over the next five years from 2001, the area of opium poppy cultivation in Badakhshan expanded from an estimated 6,342 to 15,607 ha in 2004 before falling to 3,642 ha in 2007. What were the effects of this expansion and the subsequent decline on livelihoods and debt levels?

⁶² See Adam Pain, "The Impact of Opium Poppy Economy on Household Livelihoods" for a detailed description of the effects of inter-village conflicts in Khustak valley during this period.

Informants from all villages consistently described the period between 2001 and 2006 as the “opium revolution” or “opium festival years.” Villages in the upper valleys that had traditionally cultivated opium found that their traditional cash crop had gained substantially in value, generating a level of income that had never before been experienced.

Informant 11, the landless shepherd from Bd-C, commented as follows:

I was in Shiwa with more than 200 sheep and goats when the “opium festival” began in 2001, but I heard how the availability of opium and cash made the people happy and nobody was paying attention to livestock and its importance. Everyone was talking about the income and assets they earned from opium. When I returned at the end of autumn 2002, I was also enjoying the benefits through the interaction with the livestock owners and they were fully supporting (implying informal credit without cost) my family with wheat flour, edible oil (mostly the opium oil) and other commodities.

From the same village and also landless, Informant 12 noted the effects on the cultivation of other crops and his income.

To me, the main difference is the mass cultivation of opium from 2000 onwards, which made huge money available within every village, while in the previous years there was always a certain percentage of land for other crops (wheat, patak⁶³ and melon). From 2000 onwards, all farming was concentrated on opium poppy cultivation – every portion of land was a poppy growing field. The huge cultivation of opium attracted me to Jurm and I went up there for three to four months to work on opium poppy fields. We experienced the severe drought years in 1999 and 2000. At that time, I did not have any debts left with me but wanted to increase my income as we in Khash also faced the shortage of water and the consequences of smaller amounts of wheat and opium production in those years. As you know, Jurm centre and its suburbs are known for well-irrigated lands and there were

lots of opium poppy fields. And I chose to work for opium poppy fields rather than stay here and just wait for the patak harvest, which only pays 150 Afs⁶⁴ per day. When I went to Jurm, I was paid 250 to 300 Afs a day as a daily labourer in the opium field and I made about 40,000 Afs.

Informant 14 from Bd-D lost his family during a Russian air strike on the village in 1988 when he was 14 and then had the family lands seized by relatives linked to the mujahiddin. He migrated to Pakistan where he worked as a porter and learned tailoring. When he returned to the village in 1992, he began trading in opium in order to make a living.

When I returned from Pakistan in 1992 and was preparing for my wedding in 1994-95, I borrowed on opium at the rate of 7,000 [old] Afs⁶⁵ per touli of opium for nine months. I successfully transported it on my back to the Tajikistan border and sold it at a good price and paid off the 10,000,000 [old] Afs to my creditor and gained 15,000,000 [old] Afs for myself and I was able to have my wedding party. I recognise that 1995 to 1999 were the highest trafficking years for those people like me who had chosen a highly risky way. Then 2000 to 2005 were the highest years of huge planting and production of opium of all valleys and one could deliver to middlemen and big traders without walking out of the village. I would like to acknowledge that I'm the only person who was able to manage his life and his family life since 1995 out of hard work for trafficking, producing and dealing of opium/heroin. I played the role of local trader for opium, and once I even transferred about 2-3 ser (14-21 kg) of opium to Kunduz and Takhar successfully in 2002 and gained good income from it.

Villages in the valley floor reported on the experience of the expansion into opium poppy cultivation; they spoke of benefits similar to those observed in the lateral valleys from the cultivation, which were multiplied if they were also trading in the district centres. For example, Informant 4, who is a large landowner in Bd-B, noted that opium poppy cultivation had only started in the village towards the end of the 1990s and that it was sharecroppers

⁶³ A *Lathyrus* species grown as fodder but consumed as a famine food, which if eaten in more than small quantities can have permanent toxic effects because of the alkaloids that it contains.

⁶⁴ The respondent is referring to post-2001 when the exchange rate has been approximately US\$1 = 50 Afs.

⁶⁵ At this time, the exchange rate was US\$1 = 3330 Afs.

who came from Khash who brought the cultivation skills with them. In two sites, cultivation started in the valley and sharecroppers moved in from the lateral valleys. This was found both in Bd-A when sharecroppers from Zardew moved in as well as in Bd-F where labourers from Khash and elsewhere brought the cultivation skills.

In Bd-A and Bd-B, landowners benefited considerably, particularly if they hired sharecroppers from the lateral valleys. Others, particularly the sharecroppers in Bd-A, were less successful. Informant 7, owning a *jerib* of land and also sharecropping, reflected on the effects of their lack of skills:

From 2000 onwards, our village got gradually involved in planting poppy and the first skilled group on planting poppy flew from Khash and Jurm. We did not know how to lance it; that's why we people did not make as good a profit as other valleys did in the first and second years when the price was so high. My brothers, from 2000 onwards, only harvested 5-6 paw every year from half a jerib of land.

Landless households that migrated into the valley benefited considerably from the expansion of the district economy, as Informant 29 (village Bd-B) reported:

I worked as a flock keeper in Zardew until 1999 and then when the drought hit many parts of the country our area was also affected. I did not make enough for my family consumption so I decided to move from the village. And for about 2 years I was working as a daily labourer in Baharak, mostly for construction work. And then when the opium revolution began I found myself fully occupied with many options: working at the central bazaar for loading and offloading; good wage for construction work; and travelling to Faizabad to accompany the shopkeeper and his commodities with the truck.

The evidence is consistent on the expansion of opium poppy cultivation after 2000 and its spread from the lateral valleys to the main valley floors.

4.7 The effects of the expansion

As some of the informants' stories hint at above, the general picture on the effects of the expansion is one of economic transformation in the village economies both for the landless or land-poor as well as the larger landowners. Households were able to repay debts and increase consumption. Informant 14 observed:

Our village at the heart of this valley has also had a long history of opium and, if there is good rainfall and sufficient water, we can compete with Khashi cultivators. The peak years of producing made a significant change in the economy of this village, which was badly affected during the war era 1982-1992. Most villagers were left with 10 to 15 and even 20 years of debt [in the form of wheat], but they were able to repay their loan to big landowners within the village or the shopkeepers in Jurm and Baharak, with the first opium harvest in 2000 and then in 2001. To me, from 2000 to 2005 was an economic revolution; it was a rescue era for all of us, an extraordinary inspiration within the valleys where people experienced the freedom from stress and headaches for the first time in their lives. Even my son, who is now 12 years old and at that time he was only 7, was able to collect 10-12 touli of opium per day and was never coming to ask me money for his stationery and other needs. I would say it was the time of self-sufficiency of pockets regardless of age, gender [he mentioned that women were also involved in lancing and collecting opium from the matured fields], and occupation. I did not hear the loan or credit word between 2000 and 2005 in our village.

For Informant 14, the expansion of opium after 2000 led to a decline in — if not the disappearance of — the need for informal credit. This was supported by Informant 19, a *mullah* from Bd-E, who also noted the effects on the demand for credit during this period:

I think the opium revolution years [2001-2005] really played a major role in changing the rural economy positively. And almost all villagers for the first time enjoyed their farming and harvest because within these three to four years, rural people for the first time experienced a life without debts and without seeking credit. And

huge spending was noticeable everywhere and anytime. Even the carpeting and supplying of the mosque was another privilege that we grasped between 2001 and 2005. I noticed during the opium revolution years and my two brothers were telling me also, that no one approached them for getting credit from 2001 until spring 2006 and just after the decline of the price of opium in last autumn.

A landless household from the same village, Informant 22 drew on his own experience of the expansion of opium cultivation, reporting that he had been able to settle his debts:

Since I was sharing the house with my brother up to 2004, it was the peak of opium revolution or festival. And I benefited a lot and had no difficulties feeding my family for 12 months in good standing. During drought years, I had debt of about 500 laks junbish money [50,000,000 Afs⁶⁶] from a shopkeeper in Jurm. I had borrowed 30 ser [210 kg] of wheat at the price of 250,000 Afs per ser to be paid in the next harvest in 1998. But the next harvest did not help me and my loan fell into another phase [of debt] and the shopkeeper increased the debt to 350,000 Afs per ser or equal to a certain amount of opium at the rate of 700,000 junbish Afs per 1 touli opium in the next year. Then I had no luck for a good harvest in the following year and my debt went up to the equivalent of 50,000,000 Afs for 30 ser of wheat or the equivalent of opium at the rate of market price at harvest time. The opium harvest brought a big change in 2000 and I was able to pay off the debt for an equal amount of opium – 70 touli of opium at 700,000 Afs per touli – to the shopkeeper. Most of the shopkeepers...preferred to be repaid in opium because they were putting your borrowings in terms of a certain amount of opium.

This last comment above indicates a preference by traders to denominate debt in opium at this time, even if loans were taken out for other commodities. These informants' accounts generally depict an increase in income derived from both the expansion of opium poppy cultivation area and the price

⁶⁶ At this time, the exchange rate was US\$1 = 110,000 Afs.

increase in the period up to 2005. The increase in income allowed not only debts to be paid off but also increased consumption and meeting household food requirements, particularly for poor households. The net effect of this reduced and even eliminated the demand for credit from most households. Even if there were credit needs, the example of the shepherd (Informant 11) shows that for those not directly involved in opium poppy cultivation, the effect of cash surplus in the village was to generate a liberality of access to credit under non-cost or no-charge conditions, or as *zakat*.

This is not to say that households with opium-denominated debt did not exist. Informant 7 (from Bd-A), who also has debts himself, recounted how one household in his village had accumulated debts from opium cultivation and how a microcredit loan had led his situation to become worse, an outcome that led to reflection on the relative merits of informal credit and microcredit:

One person has got 70,000 Afs⁶⁷ loan for a livestock business and had given his land document as guarantee to the NGO. He bought a couple of cows but couldn't keep the cows as he had another debt from people from Jurm. And when they heard that he had gotten a loan of 70,000 Afs from the NGO, they came and took the cows to settle the credit on the old loan. Now he has lost the capital that he had and the document of his land is with the NGO. I think he has no way but to sell his land to repay the NGO money, which would be a big loss. Of course the NGO did not know that he had another big loan from the people from Jurm. I think, within the informal credit you can search for many ways and make choices to delay or vary deals with your creditor, but the NGO is strict and you have to be prepared to be punctual and regularise your economic situation to repay the NGO. Otherwise, you will fall into a bigger headache.

But, as will be seen below, when the effects of the decline in opium poppy price took effect from 2006 onwards, the traders in opium apparently found themselves more at risk than the cultivators.

⁶⁷ At this time, the exchange rate was US\$1 = 50 Afs.

For village Bd-A, however, the expansion of opium had more problematic effects. As reported by Informant 7, some sharecroppers found themselves displaced by others who had moved from outside the village and were prepared to accept less advantageous sharecropping terms than had been customary.

Since the opium cultivation began in 2000 and onwards, low-cost sharecroppers from Zardew valley came here. And for the first time they broke the price and mutual understanding in the Zardew area and began to provide fertiliser and the landowner only gave seed. This event left us with lots of difficulties as many Zardewi entered in these villages and it was associated with the opium revolution [2001-2005] and they gained more than we did on the poppy fields as well.

A further effect of the expansion of opium poppy cultivation was the decline in wheat area. While this did not affect grain supplies, it had a knock-on effect on the availability of wheat straw for winter livestock feed. The price of straw began to rise and, in time, challenged the relative profitability of opium poppy.⁶⁸

4.8 The effects of the decline of opium poppy cultivation

Starting from 2003-04 but significantly from 2005-06, there has been an overall but bumpy decline in the cultivated area of opium in Badakhshan. The reasons for this decline are complex and spatially specific; they relate to a combination of threats and actual eradication, combined with a decline in the relative profitability of opium poppy due to both a rise in price of wheat straw, other potential cash crops (e.g. potato), and a fall in the price of opium. The issue here comes down to the effects of this decline on the debt holdings and livelihoods of those engaged in the opium economy. These effects are multiple and complex.

The initial effect has been a decline in immediate income and employment. As Informant 14's report makes clear, there has been a loss of income creating

unemployment. There had also, however, been a shift in expectations driven by the economically better years of opium cultivation. This shift points to an unwillingness to revert to the status quo and prior social relations.

The declining era of opium cultivation which began last year gradually affected vulnerable families who were sharecroppers, daily labourers and poor families. It left a number of unemployed people walking up and down. Just within the last three to four months, there were 30-40 men married and unmarried who have gone to military service in Kabul to at least avoid themselves from borrowing from rich men within the village or Jurm. This is like prevention before the suffering – their message is clear: death or income.

When asked what was meant by "avoid...borrowing from rich men" and "prevention before the suffering," he replied:

The reason they have chosen that way is that the opium economy left them with high demand and expectations of a reliable income that would properly supply their household, having more fun and working for others on a high wage (500 Afs⁶⁹ per day in 2003 and 600 Afs per day in 2004 in a poppy field). They felt prouder and had pride and said, "Why should we stay here and accept working for others either in the village and elsewhere only for 150 Afs a day?"

In referring to "death or income," presumably the point here is that without a decent income, the risk of death from serving in the army is the choice to be made. Others have not been able to so fully extract themselves from local obligations. Informant 7 (from Bd-A), carrying consumption loans and hit by expenses for medical treatment for his wife, was in danger of having to sell off land in order to extricate himself from debt. He commented as follows:

Even now, I have debts [taken out last autumn when he was anticipating a good harvest of opium in spring 2007] for the following items from a shopkeeper in Baharak:

⁶⁸ Mansfield, "Governance, Security and Economic Growth."

⁶⁹ At this time, the exchange rate was US\$1 = 50 Afs.

- 42 ser [294 kg] wheat flour, at 170 Afs⁷⁰ per ser [against the then-market of 110 Afs per ser]; and
- 10 ser rice at 300 Afs per ser [against the then-market price of 200 Afs per ser].

I have to repay the loan to the shopkeeper at the end of October this year. I was anticipating a good harvest of opium this year but there was none and I have had another extra and unexpected expense, which was medication for my wife last spring. This has left me with a huge shortfall. I already mortgaged my 2 jerib of land (15,000 Afs per jerib) to two people in Baharak and I'm certain that I'll not be able to repay the mortgage price. And my intention is to sell half of the land this autumn to recover the mortgage price, freeing at least the half of the land for myself to cultivate for my own next autumn.

But he felt fortunate to be able to obtain a mortgage at all:

I feel lucky myself that I've been able to mortgage my land at the rate of 15,000 [Afs]⁷¹ per jerib. This year, there is less willingness from Baharaki and Faziabadi to get lands as mortgage, as there is not much hope for opium cultivation this year. If I can sell for 80,000 Afs... then I can pay off the mortgage price and free the other jerib of land for 30,000 Afs. Then I have a plan to spend the 50,000 Afs for winter supplies as well as wheat seed and fertiliser to plant this autumn. Before mortgaging my land, last year I cultivated poppy as a sharecropper on 2 jerib of land owned by a Faizabadi. And at the beginning, we had agreed to share the fertiliser, labour and all preparation, which cost us 6,000 Afs. I confidently got four bags of fertiliser as credit from a Baharaki shop at the price of 700 Afs per bag with repayment after one month (the actual price was 500 Afs per bag). When the poppy field failed last year, the landlord sent a message that he will not pay his share since the poppy field failed. Because he has got some linkage with powerful people, I couldn't do anything, I sold my cow for 4,000 Afs and paid off the shopkeeper 2,800 Afs for the four bags of fertiliser. While I was

sharecropping the Faizabadi land, I left my land without cultivation last year as I did not have the cost for fertiliser, labour, etc. So I lost 4,000 Afs from my own pocket to pay off my loan and keep alive my credibility in the bazaar.

The decline in the opium economy, and as noted by this informant on the difficulty of being able to mortgage land, has led to a decline in the value of land. But this account also highlights: the use of informal power to default on agreements against which the less powerful have less redress; a reluctance of lenders to advance funds against the cultivation of opium given its uncertain prospects; and, the need above all to keep credit worthiness alive.

But as Informant 12 made clear, some households appeared to have kept considerable reserves of opium as a hedge against price changes. This indicates in part the effects of increased income that allowed some degree of strategic planning and maintaining reserves for an uncertain future:

First of all, we are a small-sized family and, secondly, I managed to make some reserves. I thought to make some reserves and did not spend on general goods. Because as a sharecropper for any grains and crops, I never had tested such a hot market for opium in my life. My guess was true that there would not always be a hot market for opium and not always a successful harvest of opium as in previous years. I am confident that it can be something that we carry on until next year. The reserve made me able to avoid taking any action that may make me fall into debt. There are many villagers like me and even daily labourers that have small amounts of opium reserves – roughly between 100 and 200 toulis – that they kept at home for exchange for other commodities while needs arise.

Shopkeepers also reported that opium cultivators had even provided them with reserves of opium as deposits against future consumption needs. As a result, a number of these shopkeepers (located at the bottom end of the opium trading chain) became indebted to these customers because the price of opium had since fallen. Informant 26, for example, who was now in debt after borrowing for his son's medical expenses, commented:

⁷⁰ At this time, the exchange rate was US\$1 = 50 Afs.

⁷¹ At this time, the exchange rate was US\$1 = 50 Afs.

I did not fall into debt before 2001 myself and remember the overall deals between 1996 and 2000 as it was a prosperity period for us traders. But I have never heard of such stories of the big debts that now exist.

He then pointed to a closed shop facing his; the owner of the shop had disappeared for the past two months. This was because he had collected more than 30 kg of opium from different villagers; all these opium consignments had not been sold by his partner, a middleman, who had sent a message that, until he was able to sell them at a good price, he would not return to Jurm. This led the shopkeeper to shut down his shop because many villagers were coming to collect commodities as repayment for the opium they had delivered to him. He continued to say:

In 1376 or 1377 [1997 or 1998], even during these drought years, people were able to repay their loans in the following years little by little. Because, in my opinion, there is a balance between the borrower commitment and the creditor conditions, both parties were meeting their conditions and there were very few people that failed in meeting their commitment. I think the availability of opium, its influence on making deals, and the increasing demand for credit from 2006 to now have really changed the behaviour of the people. There is now a general sense of fear of losing money if someone asks you for a loan. I know the people are the same people as they were in the 1990s but the behaviour and the way of thinking has been quite changed since 2000 and because of the shock of opium and huge money flows in 2001 until 2005.

Local level traders were more directly and immediately hit by changes in market conditions than producers were. Informant 20 in Jurm very clearly commented on the dependency of these local traders on traders at higher levels:

There are some shopkeepers that built relationships in opium dealing with people in the village since the harvest of 2000. These shopkeepers were attracted to the village and its opium harvest after 2000 and had been in regular contact and dealt with these people.

It has been said that there are bilateral deals with shopkeepers in Jurm centre and that the shopkeepers are in contact with next level of wholesalers and, thus, opium middlemen and [maybe big opium traders]. But one thing is very certain, unless there is no previous contact or relationship between (or a recommendation involving) the big or middle shopkeeper(s) in Jurm and the next level, wholesalers and the middlemen for drug trafficking, these shopkeepers would never attempt to buy, exchange and accumulate the opium at their shops.

Thus, from 2005-06 onwards, trading in opium was seen to have become more risky and uncertain as the overall price declined. Various informants (e.g. Informant 30) reported how their trading partners, mainly from outside Badakhshan, had simply failed to maintain contact or defaulted on the sale.

4.9 Conclusions from Badakhshan

In summary, some villages in Badakhshan have had a long history of opium cultivation and the commodity has long played a role in barter or exchange relations, including those related to credit. The rise in the costs of credit prior to 2001 appears to have been a function of the considerable economic instability, independent of and predating the expansion of opium poppy cultivation. Many households were most certainly in debt toward the end of the 1990s, largely as a result of the drought and instability; this thus raised the demand for credit, which in the lateral valley villages may have been opium-denominated. The expansion of opium poppy cultivation after 2001, moving from more remote, higher valleys into more fertile and better-irrigated valleys, was largely driven by the price increase and not opium-denominated debt. For most households, the effects of opium poppy expansion were largely positive rather than negative: opium cultivation increased income, allowed repayment of debts incurred as a result of the drought, and led to a decline in demand for credit even though cash and credit were now more readily available. The effects of the decline in opium poppy cultivation are likely to vary. For farmers in the well-watered valley plains, the decline in the profitability of opium in comparison

with others crops will ease the transition away from opium production. For those households in the lateral valleys, constrained by land and water, the consequences have been more severe; the demand for informal credit is likely to rise along with pressures to migrate to seek labour and employment opportunities.

5. Opium and Informal Credit in Balkh

Even though the history and diffusion of opium poppy cultivation in Balkh is rather different, the experience of the expansion in this province has led to overall conclusions similar to those of Badakhshan. It will be argued that the effect of the expansion of opium poppy cultivation after the Taliban ban in 2001 has been generally positive, with little evidence of opium-denominated debt. The key contrast between the provinces, however, is that in Balkh, benefits of cultivation have been deeply skewed to the advantage of particular social groups located in better-irrigated areas. This relates to the history of opium poppy cultivation in the province.

5.1 Background

Balkh as an agricultural landscape stands in complete contrast to that of Badakhshan. With an almost featureless flat landscape (except for the southern backdrop of the Aruz Mountains), Balkh essentially has a plain economy characterised by a major irrigation scheme. This permits double-cropping and, since the 1930s, it has had a grain surplus economy with cotton as a major commercial crop. While Badakhshan's altitude and water availability differ between the main valley floors and the lateral valleys, the contrasts evident in Balkh's landscape tend to be human-made, defined by differential access to irrigation. Critical to this is an area's relative position on the irrigation canals; upstream positions are better watered than downstream positions. Therefore, like the case of Badakhshan, location matters in the context of livelihood opportunities.

The Balkh irrigation system is old; some parts reputedly date back to more than 1000 years.⁷² Its subsequent development and elaboration beginning from the 1900s, however, has led to the establishment of an intricate system with more decentralised and diverse informal management arrangements. During the 1990s, this system gradually broke down, caused by complex reasons related to:

decreased flows [of water], increased demands, crop intensification processes balancing decreased individual farm areas, and expanding non-agricultural uses [, combined with] abuse of power and corrupt government that have contributed to the collapse of former agreements on water distribution.⁷³

The development of this irrigation system since the 1930s appears to have been primarily driven by concerns to develop a taxation system for water distribution rather than a system focusing on efficient and equitable water distribution.⁷⁴ Indeed, there is evidence that structural inequalities have been built into the irrigation system — either by design or default with “no attempts or intention to allocate downstream villages’ longer irrigation times...to compensate for downstream effects of reduced water flow.”⁷⁵

Overlying the complexity of water distribution in the Balkh system are patterns of settlement history and ethnic identity that are partly the causes of existing patterns of distribution inequality. There has been a complex history of settlement since the 19th century.⁷⁶ The area had first been settled by Durrani Pashtuns and then, beginning in the 1930s, by Pashtuns of Ghilzai origin from Eastern Afghanistan. Both groups had been encouraged and coerced to settle to bring both the northern Turkmen plains and its people under the influence of the Afghan state and also, in part, as a means of handling political dissidence in the South.

The settlement process continues to this day and has contributed to establishing political and economic

⁷² see Pain “Water Management, Livestock and the Opium Economy: Opium Poppy Cultivation in Kunduz and Balkh,” 8.

⁷³ Pain, “Water Management, Livestock and the Opium Economy: Opium Poppy Cultivation in Kunduz and Balkh,” 9; drawing from Jonathan Lee, “Water Resource Management on the Balkh Ab River and Hazhda Nahr Canal Network: From Crisis to Collapse,” Report for UNAMA Northern Region, Central Asian Free Exchange (Kabul, 2003).

⁷⁴ Pain, “Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh,” 16.

⁷⁵ Pain, “Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh,” 16.

⁷⁶ Pain “Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh,” 15.

ascendancy of Pashtun peoples over the original of Tajik, Turkmen and Uzbek populations in the northern plains. Nowhere is this more evident than in the spatial patterns of settlement, which were primarily upstream of pre-existing settlements.

These patterns of settlement and water distribution – in a sense, the basic structural factors determining the Balkh context – are fundamental to an understanding of the history of the opium economy in Balkh. Previous publications by Pain as well as fieldwork in Chimtal and Charbolaq districts (which, until 2003, together provided more than 60 percent of opium poppy area in the province) indicate three distinct phases in the spread of opium poppy cultivation in the province.⁷⁷

Like Badakhshan, there has been a long history of cultivating opium poppy in Balkh. This cultivation has most likely been on an even smaller scale than in Badakhshan before 1978; like in Badakhshan, there were no reports of a government trading company collecting the production. Balkh differs from Badakhshan, however, because cultivation was not associated with particular villages until the 1990s; prior to this, it was small-scale and done by farmers on an individual basis. Small local demand drove the cultivation, which appears to have been generated exclusively by the Turkmen population, which traditionally consumes opium. While they may also have been the cultivators of opium poppy in Balkh, it appears that the opium poppy was largely cultivated upstream by non-Turkmen people for the local Turkmen market. (One should also note that there has also been a long history of marijuana cultivation in the province.) This first phase of opium poppy cultivation lasted until about 1992.

From 1992, a second phase of cultivation developed within Chimtal.⁷⁸ This can be characterised as a hot spot where highly localised, intensive

⁷⁷ Pain, “Water Management, Livestock and the Opium Economy: Opium Poppy Cultivation in Kunduz and Balkh” and “Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh” for an extended discussion of this.

⁷⁸ See Pain, “Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh” for the characterisation of three phases of cultivation of opium poppy in Balkh.

cultivation took place; but it was fairly limited in its extent overall. Apparently first initiated by opium trade linked to the north, opium production from 1994 came to be concentrated around mid- and upstream locations in Chimtal and associated almost exclusively with Durrani Pashtun villages, particularly after the Taliban captured the north in 1996. Production appears to have been driven by a change in market conditions, with the demand for the product coming from outside the province. From 1994, the appearance of Kandahari traders, probably building on prior trading networks (that involved birds of prey), also drove production. Contributing to the expansion was the importation of higher-yielding varieties of opium. Opium cultivation did not spread more widely during this phase because it appears to have been largely determined by informal market regulation and restrictions. Another contributing factor seemed to be the fact that the market for opium was closely linked to the trading networks of the Durrani Pashtuns and, of course, intimately connected to the Taliban’s means of power. Other villages were simply afraid to grow it.⁷⁹ Linking opium poppy cultivation to social networks based on ethnic identity is critical to understanding the spread of opium poppy prior to 2001 and the difference in benefits gained from its cultivation after 2001.

With the Taliban’s fall from power, a shift into the third phase of cultivation took place, characterised by cultivation spread much more widely over a larger area but of varying intensity depending on location. Water availability proved a critical factor in determining intensity of cultivation; opium poppy cultivation was concentrated upstream (south) in the areas using well water, often in areas that were double-cropped. The rate at which cultivation spread was also more rapid in the upstream parts of the irrigation system while the process was more gradual and uncertain in downstream parts.⁸⁰ The reasons for this are complex but relate to: lack of access to opium trading networks; the availability of skills and labour for cultivation; price; and the

⁷⁹ Pain, “Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh,” 19-20.

⁸⁰ Pain, “Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh,” 21-24.

availability of water. From 2006-07, a fourth phase of cultivation has potentially emerged: opium poppy cultivation has ceased in Balkh.⁸¹ Despite claims to the contrary,⁸² this phase has had little to do with the development of alternatives or of a more accountable administration. While opium poppy cultivation has dramatically declined, however, the cultivation of marijuana has expanded considerably in 2007.

What role has credit linked to opium played in this evolving history of opium poppy cultivation? The following discussion seeks to explore the key contrasts between Badakhshan and Balkh.

5.2 Credit and debt relations prior to 1978

Given the grimness of the previous two decades, one could understand the tendency of informants to romanticise the past. Informants nonetheless presented a consistent picture of relative prosperity and a secure agricultural economy, based largely on a double-cropped, intensively irrigated system, in the decades leading up to the 1970s. Villages located at the bottom end of the irrigation system only had secure water for a single wheat crop, but their large livestock herds supported a robust village economy. Others, such as villagers from Chim 09, for example, described a secure and prosperous economy around the cultivation of winter wheat, summer cotton, melon and vegetables, benefiting from the proximity to the urban market of Mazar. At that time, more than half the households in the village had land; those without land could secure sufficient grain to meet household requirements by working as sharecroppers.

Badakhshan reported no formal system of credit prior to 1978 (and certainly not after 1978). On the contrary, in Balkh, government-based credit was available for the cultivation of commercial crops for those with land and who had paid their taxes. Informant 16 (Chim 20) commented:

There was a system of formal credit for farmers through the agricultural bank who had a positive balance on their tax payment records at the agricultural department. The informal credit was mostly like the qarz-i-hasana experienced for decades among relatives and friends in this village.

If farmers did not take credit from the government, seasonal credit for inputs was always available from commodity traders. Reportedly given at the equivalent of a 25 percent mark-up, this credit is comparable to that reported for Badakhshan for this period. Informant 15 (Char 65) reported that he used to borrow chemical fertiliser from the cotton trading shop in Mazaar and repay at the time of harvest.

As Informant 16 observed above, *qarz-i-hasana* was also available among relatives and friends. Informant 18 (Chim 20) reported similarly:

My father was known as a benevolent person in the village. While we were harvesting good enough wheat in past years (1983-85), other poor villagers were coming to us to get credit and then repaid during the harvest and we never charged any surplus or profit on it.

As the informants from Badakhshan illustrate, people providing credit and people receiving credit are likely to have differing perspectives on the costs and consequences of giving or taking credit. However, the point here is to illustrate the relative prosperity of Balkh in contrast to that of Badakhshan. The former is likely to have had greater surpluses available for lending even though socioeconomic inequalities, particularly regarding landownership, may have been greater than for Badakhshan. What remains unknown is the extent to which the degree of ethnic heterogeneity in Balkh – and the related underlying power inequalities – restricted informal credit relations to inside a single village rather than between villages that may each have been inhabited by a different ethnic group. The extent to which these divides may have created greater bonds of solidarity within villages also remains unknown.

⁸¹ Pain, "Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh," 35-36.

⁸² UNODC and MCN, *Annual Opium Surveys 2004, 2006 and 2007*.

5.3 1978-2001: The emergence of instability and drought

During the conflicts of the Soviet era, Balkh experienced considerable disruption; its rural infrastructure was possibly damaged even more than in Badakhshan. Many households fled during this period as a result. After 1992, many refugees returned.⁸³ Underlying tensions began to surface between largely ethnically homogeneous villages as power swung among different political groups prior to 1996. After this year, non-Pashtun populations were subjugated by the Taliban. The consequences of this were major disruptions of traditional practices of water distribution, worsening with the onset of the drought in 1998. One informant from Char 51 recounted that during 1989-90, for example, internal conflict led a commander from Hezb-i Islami (under Hekmatyar) to block the irrigation systems so that water could not flow to downstream villages of the rival Jamiat-i Islami (under Rabbani). The same informant also described what happened to their livestock economy:

Our village has a background of keeping livestock and access to pastures, but unfortunately due to crisis over the pasture disputes in the last decade (1996-2006) we gradually lost the livestock and many villagers sold them to cope in the bad economy years. For keeping large numbers of sheep and goats, first of all, you need security in your village and the surrounding area and then a secure and free pasture that the government has control of. Otherwise you can't keep even ten sheep as flock. Besides the security problems, the three years of drought was another cause of losing livestock.

Many households left during the period of the Taliban and of the drought and worked as migrant labourers, as illustrated by Informant 9 (Char 51):

I used to borrow cash in advance from my employer, a building constructor in Mazar, while staying and working there during the Taliban era. I depended on day labour work whenever

it was possible. In the drought years, I used to work in Baghlan, Kunduz and Doshi on rice farms and construction projects. And my family were with my father-in-law in Mazar.

With the cultivation of opium poppy restricted to specific villages in middle and upper Chimtal, the potential for opium-based credit was also confined to these areas. The role that opium-based credit played in these villages is unknown, although the comments by informants from Chim 19 (see below) indicate that it was likely to have been available. What is clear is that for the majority of villages that were not growing opium at this time, the rural economy largely collapsed: many people lost assets and remained in considerable debt as the post-2001 era emerged.

5.4 2001: The rise and fall of opium poppy cultivation and its socially differentiated consequences

The story about the expansion of opium poppy cultivation in Balkh and its links with informal credit is rather different from that of Badakhshan. In the latter province, it spread from more marginal environments to those with better resources and greater proximity to district centres. In contrast, the pattern in Balkh saw opium poppy cultivation remaining concentrated in the better-watered areas, having had a more restricted spread downstream depending on water availability. The availability of irrigation water has remained a critical determinant of where poppy has been cultivated and the returns from its cultivation.

Overall the effect of the growth of the opium economy in the two study districts in Balkh was positive.⁸⁴ Describing the period as "prosperity years," most villages reported direct benefits through either cultivation or improved on-farm employment opportunities in the district, as described by villagers from Char 23.

As we are from the same tribe and living in one village, we normally borrow from our relatives

⁸³ Described in detail in Pain, "Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh," 20.

⁸⁴ As described in Pain, "Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh," 31-33.

for difficult times. But in the prosperity years (2001-04), we had a good time and it was an era for earning more money. We as a mass group of labourers, mostly earning a 25 percent share of the crop at harvest time, used to work on the poppy-cultivated lands in the upper-end villages, Char 055, Char 060, Char 024, Char 062, and Char 070. We were receiving advance informal credit (based on mutual understanding) from the landowners and they deducted it from our daily wage during harvest time. We were happy about this because the income source was guaranteed for us. And we were sure that, after such hard work during ploughing, sowing and the harvest, we would receive a huge amount of money after deducting our in-kind loans because during the winter we were receiving wheat flour, rice, vegetable oil and also straw for feeding our livestock from the landowner or his recommended local trader. There is the issue of trust and knowing each other very well to prove loyalty and to keep the confidentiality of the cultivated land's location, the size of the actual land with poppy...opium cultivation is a reality and we are not going to hide it and it seemed logical for us because we had a better-off life and were building up our assets.

Informant 9 from Char 51, who is landless, was specific in terms of the benefits:

Like other villagers, I recognise 2001-03 as the best years for income and prosperity and for reserving assets and livestock. Within those years, I was able to buy four goats, one cow and just last summer I sold them back to handle my shortfalls and economic difficulties. I used to work as a labourer on poppy farms in many villages including the top, middle and bottom end [of the irrigation system] and even in our village. The term of my work was getting one portion out of four during the harvest. In the top-end villages, it was daily payment and, even in villages like here and in the neighbourhood, I used to get advance cash of about 15,000-20,000 Af\$⁸⁵ to cover my family needs. And the terms of repayment was a deduction from the daily wage, which was 200 Af\$ for weeding and 300-350 [Af\$] during lancing per harvest. There are a variety of terms for payments for day labour contracting with a poppy land owner. In villages

where the chance of trafficking is more or less difficult and the land owner cannot process and sell huge consignments independently, they are paying the daily wage in-kind (opium) on the basis of 25 percent or whatever is negotiated. For villages with high trafficking opportunities and good networks, they never pay the daily wage labourers in kind but in cash.

Informant 9, commenting on employment in opium cultivation and its variation by location, highlights the way in which access to opium-based credit depends not only on where but also who one is. Obtaining credit from opium traders for opium cultivation depended on whether one was linked to a particular social network, primarily based on ethnic identity. A key informant from Chim 19 clearly stated:

Pashtun traders lend only to other Pashtuns cultivating here...there are traders coming in advance and giving credit packages as strong incentives to cultivate the crop, but these are mainly from Helmand and Kandahar.

The links between membership in social networks and credit access on the basis of opium cultivation was confirmed by another source from Daulatabad who was directly involved in giving opium-based credit:

There was a wide scale of informal credit that was introduced when opium poppy cultivation spread in the area between 1999 and 2005. The amount was between 100,000 and 300,000 Af\$⁸⁶ of credit to local farmers through local traders, preferably those involved in opium trade, and team leaders who were fully responsible for organising skilled and unskilled groups of day labour on the poppy fields. There was a high speed of opium cultivation, harvesting and trafficking in those years and we have heard the huge amount of loans (200,000-300,000 Af\$) to the team leaders and farmers who were responsible for a cluster. A cluster means five to ten farmers with a commitment of cultivating poppy in 1 or less than 1 jerib of land [1 jerib = 0.2 ha]. That was the first time that we were hearing about this size of a loan within the district. The majority of lenders were the local opium traders who were well linked to the district authorities

⁸⁵ At this time, the exchange rate was US\$1 = 50 Af\$.

⁸⁶ At this time, the exchange rate was US\$1 = 50 Af\$.

(particularly police and highway police). And they were helping the local traffickers in safely transporting [the opium] within the district and even sometimes within the province and to other provinces and particularly to Helmand and Nimroz in 2004 and 2005.

The above account points to a degree of organisation and scale of opium cultivation closely linked to credit and trading networks that were not reported in Badakhshan.

Thus, the linkages of opium-based credit and the benefits of opium cultivation have to be clearly disaggregated by location and social identity. Upstream, returns to opium poppy cultivation have been highest⁸⁷ because of access to irrigation water. This access leads to higher, more reliable yields and better prices because of more direct access to opium traders. The benefits from opium cultivation in these locations have been considerable. For households downstream, the upstream cultivation has provided direct employment opportunities. As described by informants from Char 23, these have offered direct access to informal credit for consumption purposes and transformed household food security. For those households seeking to cultivate downstream, however, not only was opium-based credit from traders essentially not available, but the scale of production was smaller and resulted in lower yields and prices. Where credit in relation to opium cultivation was required, it was reportedly obtained within the village through networks of relatives and friends.

Indeed, one informant from a Hazara village (Chim 14) reported that he had been able to obtain credit from a widow in the village to support his opium poppy cultivating activities:

When I got married in December 2004, I borrowed 80,000 Afs⁸⁸ from a widow and repaid her back in May 2005 with some small profit. Then she trusted me to give money for helping me in the cultivation of any crops. But, of course,

she was confident of production and generating more income via poppy growing. Repaying in time, with profit and being trustworthy will not come via wheat.

There was no doubt that the period 2001-04 was seen as a cash-rich time. For those with land, this came from the direct income from opium poppy; for those without land, this came from the employment that it generated. A number of people reported that the increased income led to an increase in the amount of *qarz-i-hazana* available, although there were mixed views in terms of the overall changes in levels of demand for credit. In a mid-stream village in Chimtal (Chim 14), there were comments on a dramatic decline in demand for credit because most people had cash as a result of being involved in the opium economy. A key informant in Char Bolaq pointed to ready access to credit in the district bazaars, which could easily be paid back by working as a labourer.

In contrast to Badakhshan, the more restricted spread of opium poppy in the Balkh districts points to more differentiated effects according to location, even though most derived some benefit. Unlike in Badakhshan, the view that the need for credit had entirely disappeared was not widespread. Indeed, examples of households in debt from growing opium were reported even in upstream villages (e.g. Char 65), but these were seen to be a minority of cultivators and not a cause of major debts. A cultivator with limited land (Informant 11 in Char 65) had clearly not seen major benefits from growing opium poppy on a sharecropping basis:

Last year, I harvested cotton from my own land and sold them for 15,000 Afs⁸⁹ to a cotton trader within the village who lends to me in difficult times. I'm also working as a day labourer for a shopkeeper to handle and transport their commodities and thus working on their land upon their call. My family livelihood depends on my horse cart and farming. I'm regularly receiving goods (sugar, tea, cloth, potato, etc.) as credit from the shops in my village and repaying them whenever I earned money with the horse cart. But mostly I prefer to work on

⁸⁷ Pain, "Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh," 24-25).

⁸⁸ At this time, the exchange rate was US\$1 = 50 Afs.

⁸⁹ At this time, the exchange rate was US\$1 = 50 Afs.

their land on a rotational basis. For example, a shopkeeper has got 2 jerib (0.4 ha) of land and wishes to have someone to supervise the land management (it means being responsible for irrigation, ploughing, sowing and harvesting). It makes sense for people like me to pick up a small amount of money from here and there to cover winter season consumption. I used to work as a senior farmer to supervise the land with poppy cultivation and other crops on the basis of credit. The landowner gives me the authority to supervise other labourers and my family members were working on the land during harvesting...last spring I was supervising 3 jerib of land, on which was poppy, and another 15 jerib (3 ha) of wheat. For both crops, the term was one-quarter of the share at harvest time. During harvest, I received 3 kg of opium and 3 bukhar [448 kg] of wheat from the other 15 jerib. I kept the wheat for winter consumption but, due to the low price of opium last spring [2006], I did not make much money from it.

Crop eradication that was carried out in the districts from 2005 appears to have been highly selective and discriminatory in its focus. It affected certain villages and households; one sharecropping household in Chim 19 was left with major debts after the crop was eradicated.⁹⁰

Undoubtedly, the views on the benefits of growing opium poppy were strongly influenced by the consequences of the sharp cessation of opium production during the 2006-07 cultivation season. For those at the top end of the irrigation system, it represented a major loss of income but did not undermine basic food security and the continued assurance of double-cropping. For those households downstream, the loss of substantial income from working on the crop and the scarce water resources – with unresolved water distribution issues – have meant that household food security has been undermined. They look back at the recent years of opium poppy cultivation as the “prosperity years” for good reason. As Informant 1 (Char 19) made clear, within one year after the crackdown on opium poppy cultivation there was a general decline in cash availability and a lack of labour-based credit.

⁹⁰ Pain, “Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh,” 29.

Access to credit tightened; as in the past, it became based more on close socially ascribed relations.

I have nothing except this land to cultivate on and have been forced to borrow from my close relatives recently. This borrowing is more in kind rather than in cash because, mostly when you are in need, it means that you are in shortfall of food items and the rich, close relatives give wheat and other goods. I borrowed a small amount of food items from the village shop and as well as from shops in the district centre. But borrowing money and items requires you to know shopkeepers from the same tribe and ethnicity; otherwise, you can't borrow anything. For the time being, I owe about 2,500 Afs⁹¹, the cost of food items (mostly wheat and edible oil) that I have to repay back to the shopkeeper in small amounts of money (250-300 Afs) each week.

5.5 Conclusion: Two provinces compared

A key contrast between Balkh and Badakhshan is the pattern of spread of opium after 2001, although both had a prior history of cultivation of the crop. In Balkh, the crop has spread from the high potential areas (upstream, well-watered) into the less well-irrigated areas; indeed, water availability has constrained further crop expansion. In Badakhshan, the reverse has happened; the crop spread from the more marginal areas into higher potential areas in the valley floor. Both expansions have been driven by the post-2001 price rise in the crop although, in the case of Balkh, the relaxation of control of the market during Taliban rule (which had restricted production) has also been an influence. The more detailed evidence from Badakhshan points to a rise in costs of credit that predate the expansion of opium and were determined more by an environment of instability and economic risk. In both provinces, levels of debt were likely to have been high prior to 2001 and primarily induced by drought rather than opium.

The effects of the expansion of opium poppy, however, have been rather similar but worked through in different ways. In Badakhshan, the generalised expansion of cultivation led to years of prosperity for

⁹¹ At this time, the exchange rate was US\$1 = 50 Afs.

many, if not most, providing the means to repay debt and recover assets. It would appear to have effectively reduced the demand for informal credit to achieve consumption smoothing. The expansion of opium in Balkh, on the other hand, has been somewhat more constrained through the interlinked effects of social regulation and water constraints.⁹² These reflect the more ethnically complex nature of Balkh in comparison with Badakhshan. For cultivators upstream in high potential locations who have ready access to credit and well-watered areas, opium cultivation has been a highly profitable enterprise for those with land; there has been some degree of the trickle-down effect for the landless in these areas. The upstream cultivation has also provided a large source of employment for labourers from downstream villages. Downstream cultivation has been more restricted and the returns to cultivation considerably less than upstream. Like Badakhshan, however, while the benefits of opium cultivation have been much less widespread, there is little evidence of opium-denominated debt originating during the boom years or emerging with the cessation of cultivation. This is largely because of the effect of opium poppy cultivation being mainly reported as necessary for reducing the need for credit. On the other hand, the cash that opium injected into the local economies appears to have made credit more readily available and more widely accessible if needed.

In both contexts, potential transforming effects of opium on social relations should be noted. In Badakhshan, opium poppy cultivation allowed for years of financial independence from prior dependence of clients on patrons; this had reportedly led, in some cases, to a reluctance to return to the old status quo. Even in Balkh, the expansion of opium poppy may have had some beneficial effects, opening up hierarchical power structures, possibly reducing conflict and contributing to stability. But one cannot ignore the effects that the opium economy has had on bolstering informal and formal power structures both in Badakhshan⁹³ and in Balkh.⁹⁴

⁹² Pain, "Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh."

⁹³ Mansfield, "Governance, Security and Economic Growth."

⁹⁴ Pain, "Water Management, Livestock and the Opium Economy: The Spread of Opium Poppy Cultivation in Balkh."

6. Opium and Informal Credit: The Wider Lessons

6.1 Introduction

To address contrasts between evidence from the field and wider assumptions about the links between opium and informal credit, three key questions were posed earlier. First, what have been the historical roles of informal credit and debt prior to the growth of the opium economy? Second, in what ways might opium-based credit have altered the nature and terms of such credit? Third, what wider lessons might be drawn to determine the most appropriate interventions that could respond to the role of opium poppy in informal credit transactions?

In response to the first, the evidence from the two study areas should be considered separately. In the case of Badakhshan, historically a relatively poor province, there is a need to further distinguish between the lateral valley villages that historically had grown opium poppy and the plain villages that only moved into its cultivation after 2000. In the valley villages, given their history, the trading of opium has been fundamental to their village economy and a part of the informal credit system. This has not been the case in the plain villages. In both settings prior to 1978, the evidence clearly shows a need for informal credit – particularly for the poorer sections of the community – almost entirely for consumption smoothing. Such informal credit appears to have been central to patron-client relations. This credit was largely obtained from landlords or shopkeepers and included both interest-free credit and, according to reports, credit at a cost of about 25 percent interest.

In Balkh, a relatively prosperous grains surplus economy, both formal and informal credit was reported to have been available before the Soviet invasion. The formal credit was linked into the production of cotton. Informal credit, largely village and patron-client based, was also available and used.

With respect to the second question about the effects of opium poppy cultivation on informal credit, the long conflict between 1978 and 2001 that was

compounded in the last year by a major drought, has to be taken into account. In Badakhshan, the period of instability saw a collapse in the livestock population; this had previously been a mainstay of the provincial economy. Conflict, instability and predatory behaviour by local power holders all contributed to a rising context of insecurity; the effects of this were then compounded by the drought that led many households into debt. This was the time when the costs of informal credit, according to the testimony of informants, began to rise prior to the start of the opium economy's expansion in the province in 2000.

The field reports from Badakhshan provided evidence that expanded opium cultivation after 2000 was more debt-relieving than debt-creating. The rise in the value of the crop after 2001 led to an expansion of cultivation in the main valleys; in many cases, this resulted in the recovery of debt induced by the drought and instability prior to 2001. For most, if not all, the peak years of opium poppy cultivation were described as “festival years” or “the opium revolution” and years of freedom from want.

There was evidence of opium poppy cultivation leading to debt but, interestingly, the dimensions of this were rather different from those reported elsewhere. Most of the debt reported was incurred by traders or shopkeepers hit by the price volatility of opium and its more recent decline. Some were left in debt to cultivators (rather than the reverse) after cultivators lodged opium with shopkeepers as advance payment against future demand for commodities. In other cases, due to major health costs, for example, some traders had taken on debts against future trade that then suffered from the fall in price. Some traders had simply overextended themselves and become decapitalised because of the recent fall in price.

In Balkh, the growth of the opium economy started prior to 2001 but had been highly regulated and restricted to a particular social group in an upstream, well-watered location in Chimtāl. Its expansion after 2001 tended to be concentrated in the areas

with the highest incidence of double-cropping in both Chimtal and Charbolaq. Driven by price and a relaxation of social control of the markets in this ethnically diverse location,⁹⁵ the expansion led to, as in Badakhshan, a recovery of the rural economy and a freedom from debt for many.

In sum, it is difficult to argue on the basis of the evidence collected in both Badakhshan and Balkh that opium-based credit has either altered the scale and terms of credit or even increased levels of debt. If anything, opium has largely reduced the need for informal credit.

Two more general issues require discussion before addressing the third question (financial instruments that could potentially respond to the need for informal credit). The first issue concerns the costs associated with opium-based credit; the second is the relationship between the demand for informal credit and the availability of formal financial services.

The cost question: Are the costs of opium-based credit high?

There are views that the costs of informal credit are unreasonably high and are exceptionally so when it comes to opium-based credit. This is exemplified in a working paper for the World Bank by Goeldner: "most credits currently available in rural areas are at usury rates or are available only against a poppy crop"⁹⁶ and in an UNODC paper that states "opium traders frequently act as narco-userers."⁹⁷ When referring to "high" costs of informal credit, the yardstick for comparison is in relation to formal credit, which had been notably absent in Afghanistan during the last two decades. But what is "high"? Are they high compared to informal interest rates in others countries?

Drawing on the Hariss-White and Colatei study on long-term village change in India, there is evidence of interest rates associated with informal credit;

⁹⁵ Pain, "Water Management, Livestock and the Opium Economy."

⁹⁶ Goeldner, "Roles and Opportunities for Rural Credit Initiatives in Afghanistan's Opium Economy," 26.

⁹⁷ UNODC, "The Opium Economy in Afghanistan," 12.

these rates are variable according to source, borrower, collateral provided and purpose of use. These rates consistently range from 20 percent to 140 percent annually.⁹⁸ In their work on informal financial markets in Africa, Aryeetey and Udry cited similar values and reported interest rates for informal loans for three-month loans of 25-30 percent. But they also commented:

*Annualizing such rates is often not realistic since annual loans are seldom considered and the rate determination process differs when annual loans are being made. In the cases that repayment went beyond six months to one year, higher interest rates ranging between 50 percent and 100 percent of the principal for the period became observable.*⁹⁹

As a point of illustration, it should be noted that the interest rates reported for Southern India and West Africa for informal credit do not differ greatly from those reported for informal credit in Badakhshan prior to 1992. The interest rates reported in relation to opium by UNODC and cited elsewhere are several degrees higher than this.¹⁰⁰ But to focus on the interest rates, as most observers have, is to miss the point of the role that informal credit plays. Aryeetey and Udry commented on the nature and role of informal credit:

In addition to performing their core role in the inter-temporal allocation of resources, however, credit transactions reflect the economic environment within which they occur. In rural areas in poor countries this environment is characterised by objective risk, with unpredictable variations in income as a result of weather and other exogenous processes. Complete insurance markets are

⁹⁸ Barbara Hariss-White and Diego Colatei, "Rural Credit and the Collateral Question" in *Rural India Facing the 21st Century, Essays on Long Term Change and Recent Development Policy*, ed. Barbara Hariss-White and S. Janakarajan (London: Anthem Press, 2004), 278.

⁹⁹ Ernest Aryeetey and Christopher Udry, "The Characteristics of Informal Financial Markets in Africa" (paper presented at the plenary session of the bi-annual research conference of the African Economic Research Consortium, Nairobi, Kenya, 1995), 28.

¹⁰⁰ UNODC's 2003 publication, "The Opium Economy in Afghanistan," cites costs of 58 percent of the harvest value of the crop for opium-based credit.

*absent, so credit transactions take on a special role in allowing resources to be transferred in response to income shocks.*¹⁰¹

As the Badakhshan informants made clear, it was the risky nature of the economic environment that led to a general rise in interest rates during the 1990s; this reflected Aryeetey and Udry's point on the need to understand the economic environment within which credit transactions take place. There is no systematic data on inflation and currency devaluation for Badakhshan. There were reports on the rise in interest rates and numerous anecdotal accounts of predatory behaviour of individuals; comparative data on inflation and currency devaluation from Faryab during the 1990s makes the point. Save the Children USA described the context and the problems of inflation and devaluation created in the financing of a group lending scheme for women:

*There was significant erosion of loan capital due to rapid devaluation of the local currency... from the period of January to August 1996, the Afghani gradually deflated by 253 percent compared to the dollar. At that time, SC/US [Save the Children USA] made efforts to retain the value of the loan fund by increasing management fees. However, from September to December 1996, the Afghani devalued a further 180 percent. This led to the decision to link the Afghani loans to the dollar and eventually to distribute loans in US Dollars.*¹⁰²

The document goes on to chart the specifics of the devaluation of the Afghani during this period as summarised in Table 4.

Under such conditions, it is not surprising that informal credit interest rates rose in response to the major currency risks that traders were facing. Save the Children notes that a number of carpet traders (in Andkhoy) failed to make the shift into dollar-based credit quickly enough, became decapitalised and went bankrupt.

¹⁰¹ Aryeetey and Udry, "The Characteristics of Informal Financial Markets in Africa," 2.

¹⁰² Save the Children USA, "Microfinance in Northern Afghanistan, 1995-1999."

Table 4: Devaluation of the Afghani, 1995-1999

Date	Exchange rate to US dollar
1995 May	4,500
1996 Jan	7,348
1996 May	12,000
1996 Aug	18,606
1996 Sep	25,548
1996 Dec	33,568
1997	60,700
1998	76,923
1999	93,800

While currency devaluation has not been a feature of the post-2001 economic context and the Afghani has been remarkably stable (and perhaps overvalued because of the opium poppy economy), price volatility has been a key feature of the opium market dating back to before 2001.¹⁰³ In part, this reflects the identity of opium poppy as an agricultural commodity as well as the seasonality of production (and associated risks of crop failure) and prices according to supply and demand. In part, it reflects the illicit nature of opium (at least since 2001), the effects of counter-narcotic activities and the associated risks of eradication, and the local political context. For pre-2001, Byrd and Jonglez drew from long-term UNODC price monitoring data and calculated yearly averages of monthly rates of change in price of between 7 and 35 percent for Nangarhar and Kandahar.¹⁰⁴ While these may have declined marginally since 2001, they concluded (drawing from data on yearly averages of monthly rates of change in opium prices from six provinces, including Badakhshan and Balkh):

There is substantial price volatility with prices changing by more than 10 percent each month on average in most localities, even apart from

¹⁰³ Byrd and Jonglez, "Prices and Market Interactions in the Opium Economy."

¹⁰⁴ Byrd and Jonglez, "Prices and Market Interactions in the Opium Economy," 123; opium price data is available from other locations but only since 2003. According to Byrd and Jonglez (page 120), "these exhibit broadly similar trends to those for Kandahar but at different levels and with fluctuations".

the period of the Taliban in late 2001, a time of very high price volatility due to the large step-change in prices. But it is hard to draw any conclusions about changes in price volatility over time. In fact the hypothesis that price volatility did not change significantly in recent years as compared with the late 1990s cannot be rejected. This suggests that market factors – in addition to, for example, changing intensity of enforcement efforts against opium – are major contributors to price volatility.

In addition to the measured monthly volatility of opium prices, there is also anecdotal information on daily price fluctuations which may vary by 20-30 percent within a day.¹⁰⁵ Indeed, three Ghor opium traders reported that only in about 50-60 percent of their transactions did they either break even or make a profit, and they regarded market-based risks as the greatest of the risks that they faced (which included theft, seizure and adulteration). The evidence from Badakhshan of the losses made by various opium traders, the effects of price declines in 2005-06, and problematic access to the main market (working through intermediaries) substantiates the point.

In summary, opium traders particularly at the village and district levels, and therefore towards the bottom end of the opium value chain, have faced considerable risk because of changes in price as they dispose of the crop to larger, middle-level traders. This is the group that provides the bulk of the informal credit advances to cultivators against a future opium crop; they carry the risk of losing payment on those credits if there is crop failure or eradication. Besides the uncertainty of the delivery, the risks that they face in the disposal of opium must be understood by explaining the terms under which they give credit and the costs that they attach to it. Certainly, when circumstances are good and the opium can be quickly sold at high prices, the profits are considerable. But as suggested by the evidence from the Ghor traders, there are probably many transactions on which they either break even or incur losses.

¹⁰⁵ Adam Pain, "Opium Trading Systems in Helmand and Ghor Provinces," in *Afghanistan's Drug Industry: Structure, Functioning, Dynamics and Implications for Counter-Narcotic Policy*, edited by Doris Buddenberg and William A. Byrd (Kabul: UNODC and The World Bank, 2006).

As Ayreety and Udry stated, "credit transactions reflect the economic environment in which they occur." Unless this is sufficiently taken into account, it is difficult to argue that the interest rates of opium are unreasonably high. The evidence shows a highly risky market for opium trading. Although there has not been a direct comparison of traders' risk for opium versus other commodities, the probabilities are that the risks for opium lending and trading are higher than for other commodities¹⁰⁶; consequently, so are the rewards when the trade is successful.

There is a final comment to be made about the perception of cost. To an external observer, the cost of informal credit may seem comparatively high, although (as noted above) this hardly factors in the specifics of economic risks. But what do the farmers think? Comments from Jurm district respondent cited in Driver Study 4 are revealing:

I have 8 jerib [1.6 ha] of rainfed land with a family of ten people. Last year my wife was very ill. We needed money for her treatment, so I took an advance payment of 49,000 Afs¹⁰⁷ against 15 kg of opium. I took my wife to Faizabad to see the doctor and get medicine. There was very little money left. Last year [2005] I cultivated 2 jerib [0.4 ha] of rainfed land with poppy, but I only got a yield of 3 kg of opium. I gave this to the trader who lent me the money. He converted the 12 kg of opium that I still owed him into cash at 4,000 Afs per kg [a total of 48,000 Afs]. I did not have cash so I sold 2.5 jerib [0.5 ha] of my land for 62,500 Afs. I repaid the trader and the rest of the money I used for my family expenses. I am very happy with this local trader; he is a very good person as he helped me with my wife's illness. If I had not cultivated opium poppy, I would not have gotten the loan and my wife would not be better.¹⁰⁸

¹⁰⁶ A preliminary look at price data since 2005 (http://www.fao.org/ES/esa/en/pubs_tfr.htm), indicating the major agricultural commodities in Afghanistan have much lower (less than 5 percent) monthly rates of changes in price. However, as noted by Lister and Brown, the raisin market can experience substantial daily fluctuations in price in response to strong demand and trader collusion (see Sarah Lister and Tom Brown with Zainiddin Karaev. "Understanding Markets in Afghanistan: A Case Study of the Raisin Market" (Kabul: AREU, 2004).

¹⁰⁷ At this time, the exchange rate was US\$1 = 50 Afs.

¹⁰⁸ Mansfield, "Exploring the Shades of Grey: An Assessment of the Factors Influencing Decisions to Cultivate Opium Poppy in 2005-2006."

Is this simply a case of false consciousness, in which the respondent should be made aware of the costs of the credit or of the treatment? Or is it more a case of his sense of reality that these are the only options available and he is grateful that the option exists? Perhaps, considering the plight of individuals in this position, the bigger question is: is there an opportunity for formal credit to be considered as providing some degree of insurance mechanism to handle medical expenses?

6.2 Is the rise of informal credit due to the absence of formal credit?

As noted earlier, it is implicitly assumed in some of the cited literature that a demand for informal credit exists due to the absence of formal credit or, at least, a proper banking system. Given that formal credit is highly unlikely to have been offered for opium poppy cultivation, it is difficult to predict what would have happened if this had been the case.

Comparative evidence from a study on rural India indicates that formal credit can have effects on informal credit rates.¹⁰⁹ With the spread of formal rural credit systems there (in this case, state-regulated rural credit), there was a decline — although not disappearance — in moneylender credit and beneficial effects on reducing informal credit interest rates. Formal credit, however, has never replaced informal credit and access to it has been concentrated disproportionately among those with assets. If anything, in recent years, there has been a resurgence of informal credit; the authors concluded that “the informal sector dominates rural credit, both in number of loans and in volume of money.”¹¹⁰

With respect to India, the authors also noted that formal credit systems do not displace informal credit in part because informal credit addresses the needs for consumption smoothing rather than productive investment for which formal credit is targeted.¹¹¹

¹⁰⁹ Hariss-White and Colatei, “Rural Credit and the Collateral Question,” 253.

¹¹⁰ Hariss-White and Colatei, “Rural Credit and the Collateral Question,” 279.

¹¹¹ Hariss-White and Colatei, “Rural Credit and the Collateral Question,” 255.

Indeed, the pervasive demand and successful access to informal credit in Afghanistan¹¹² point to a critical, second role: to provide informal insurance and security in a context of risk and insecurity.

Part of the problem is that viewing informal credit through the lens of formal credit misreads the nature of informal credit and the function that it serves.¹¹³ Informal credit is not simply credit operating outside formal regulation but is qualitatively different. An AREU paper on informal credit practices in rural Afghanistan points to, for example, the significance of non-interest bearing loans in informal credit;¹¹⁴ the evidence from Badakhshan points to the effects of opium-generating income on increasing the availability of *qarz-i-hasana*. Indeed as noted by Harriss-White and Colatei in their study of rural credit, loan cost arguments used to explain the high interest rates of informal credit “cannot account for the high frequency of loans to poor people at no interest.”¹¹⁵ This serves as a reminder that many forms of informal credit exist and that it is not just confined to advances against future crops.

The explanation for the existence of informal credit is partly an issue of collateral. Formal microcredit requires collateral provided either through land ownership documents or, in case of group lending, the burden of the risk of lending is not on the lender but based on collective collateral to ensure repayment through peer pressure. Collateral requirements reflect the attempts by lenders to reduce the risk of default on lending in a context where they have limited information on the trustworthiness or reliability of the borrower. Informal credit, on the other hand, is based on personal knowledge and reputation;¹¹⁶ this allows for a much greater flexibility both in the provision of

¹¹² Klijn and Pain. *Finding the Money*.

¹¹³ As discussed in Klijn and Pain, *Finding the Money*, 39-48.

¹¹⁴ Klijn and Pain. *Finding the Money*.

¹¹⁵ Hariss-White and Colatei, “Rural Credit and the Collateral Question,” 255.

¹¹⁶ Current research by AREU on microcredit has found that in Bamiyan that access to microcredit is also based in part on social networks and personal relationships (Erna Andersen, pers. communication, Kabul, January 2008).

credit and the uses of the credit. It does, of course, carry higher risk, but default is rare because of the role that it fulfils in providing informal insurance. While data was not collected specifically on this topic in Afghanistan (it would have been difficult to do so), a more exhaustive study on informal credit collateral and interest rates in southern India found that interest rates charged by moneylenders are largely a reflection of the transaction costs and the marketability of collateral offered.¹¹⁷

6.3 Conclusions and implications

This paper presented a number of key arguments and evidence from case study areas that had a long history of informal credit. Informal credit has particularly played a key role in consumption smoothing in the precarious mountain economy of Badakhshan. In addition, the growth of opium poppy in these areas has not been a direct causal factor in altering the terms of this credit or in creating new levels of debt and, if anything, has reduced the need for informal credit. Considering the above, the question to ask is: what are the wider implications?

First, attention has to be drawn to the fact that the opium cultivation areas of Badakhshan and Balkh expanded because of the opium price rise after 2000. In contrast to Helmand and Nangarhar, for example, no specific legacy of opium-linked credit and opium-denominated debt increased the levels of debt on account of the change in price. However, there was a legacy of significant household debt accumulated from the drought which, in many cases, the cultivation of opium poppy helped to repay. The expansion of cultivation in the two case study provinces was driven by debt and the need to meet consumption needs; in the core production areas of Balkh, it was additionally driven by profit. It cannot be argued that opium-based debt drove the expansion. In addition, respondents in neither case reported experiencing significant crop failure or, until 2006, the effects of eradication, thus removing two key risks associated with opium poppy cultivation.

¹¹⁷ Hariss-White and Colatei, "Rural Credit and the Collateral Question."

Second, these case studies illustrate the complexity of the opium economy. They do not at all dismiss specific evidence on opium-based debt and credit from other provinces, but they do falsify the general narratives that have been constructed around the nature of the opium economy and its effects on rural households' debt. In an explanation of opium poppy cultivation in Afghanistan, Mansfield asked, "Why is it [that] when it comes to a debate on opium poppy cultivation, the diversity that is at the forefront of discussion on Afghanistan is lost?"¹¹⁸ In the face of complexity, the tendency is to simplify, but doing so risks evidence-building becoming policy-driven rather than policy-driving.

What lessons should be drawn from this study? The first is specific and relates to the effects of the decline in opium poppy production on household welfare. It must be remembered that the primary function of opium poppy-based credit for poor farmers is to provide for consumption smoothing and not for investment in productive assets. Microcredit specifically is not intended to fulfil consumption-smoothing needs, but in practice it may well be used for this.¹¹⁹ Microcredit instruments, therefore, are highly unlikely to reduce the demand for opium-based credit and for informal credit in general; the exception, however, may be for those agricultural surplus producers with larger land holdings who have market access and the resources to produce for the market. While investment in productive assets may, in the longer term, generate some reserves that will provide the basis for consumption smoothing for poorer households, this cannot be assumed to be either a quick or secure route for many. The response to the need for consumption smoothing is more of a social policy issue than one to be addressed solely by financial instruments; there are, however, no inherent reasons why financial instruments to meet consumption and informal insurance needs should not be developed as part of an integrated package.

¹¹⁸ Mansfield, "Economical with the Truth: The Limits of Price and Profitability in Both Explaining Opium Poppy Cultivation in Afghanistan and in Designing Effective Responses" in *Reconstructing Agriculture in Afghanistan* (London and Rome: Practical Action and FAO, 2007), 213.

¹¹⁹ Paula Kantor and Erna Andersen, "Microcredit, Informal Credit and Rural Livelihoods: A Village Case Study in Kabul Province" (Kabul: AREU, 2007).

This is of particular significance given the recent decline in opium poppy cultivation in both Badakhshan and Balkh. The decline owes as much to a combination of wider counter-narcotics efforts, both informal and formal, as it does to the decline in the relative profitability of the crop. For the well-watered areas of Balkh or the main valleys of Jurm or Baharak, there may well be agricultural alternatives. For the marginal valleys of Badakhshan or downstream in Balkh, where altitude or water constraints severely limit crop possibilities, the need for informal credit and insurance products for consumption smoothing and income protection will increase when the opium crop disappears. Unless sufficient off-farm employment is generated in the rural economy (difficult to do in the short term), the prospects for welfare outcomes of households in marginal conditions are extremely grim if the constraints on the cultivation of opium poppy are maintained.

The second lesson concerns the potential for reducing the costs of informal credit, which are seen to be high compared to the costs of formal credit. Again, costs have to be seen in relation to the role that the credit fulfils and the collateral that is provided by the borrower. Where credit demands are for consumption smoothing, the reputation and need to maintain credit-worthiness for informal security purposes are paramount. Personal knowledge of the lender is fundamental and such loans may well be unsecured. Under such conditions and since microcredit is lent only with some form of collateral, informal credit is likely to be the only type of credit available; charges may be higher than those for microcredit precisely because of the associated risks. The question is whether the difference between the current costs of informal credit¹²⁰ and microcredit can be reduced.

As the evidence from Badakhshan shows very clearly, the rise in costs of informal credit had nothing to do with the expansion of opium cultivation but was largely determined by increased economic risk under conditions of political instability. Microcredit, if given in sufficient volume and scale,

¹²⁰ among those varieties of informal credit with associated costs (i.e. excluding *qarz-i-hasana*).

may have a subsequent effect in terms of the overall share of credit accessed through informal credit arrangements; it, however, will never replace informal credit. The issues then are more about changes in the context of chronic conflict and instability, as well as a reduction in insecurity and instability that would eventually spill over into reducing borrowing costs for informal credit.

Finally, this analysis raises a bigger set of issues that relates to existing perspectives on Afghanistan's rural economy with respect to the drivers of opium poppy cultivation, social inequality, informality, risk and markets. With respect to the drivers of opium poppy cultivation, the village case studies show a complexity of drivers determined largely by social position – profit for the resource-rich and powerful but debt relief and food security for the poor. But it must be emphasised that debt created by social inequalities is not caused by opium poppy although in some places opium poppy may have reinforced existing inequalities. Thus, and indeed as noted in Section 2 and drawing from UNODC¹²¹, opium-based credit is a reflection of existing inequalities, largely a result of a heavily skewed land distribution. The decline of an opium-based economy will not remove that fundamental driver; formal credit, even if it delivered its aims, also would not do so. On the basis of comparative evidence, informal credit is highly unlikely to disappear; indeed for the poor, it is likely to remain their primary source of access to credit.

Will a new, market-driven agriculture resolve issues of risk and inequality? In a sense, the opium poppy economy has been an example of market-driven agriculture and its tendency to create inequality. If opium cultivation ceases, the only risk that will disappear is the one associated with its illegality – eradication. All other risks – seasonality of production and prices, crop failure, markets structured and regulated by informal and formal power relations, price changes driven by globalised markets and limited assets among poor households – will continue to be a major source of insecurity for the poor. With limited formal collateral to offer, reputation and personal networks will be the primary means through which to access informal

¹²¹ UNODC, "The Opium Economy in Afghanistan," 116.

credit and, in some circumstances, microcredit.¹²² It could well be that the economic transformation set in place in Afghanistan by the opium economy will be consolidated in due course by a different market economy; this may occur without resolving the fundamental structural determinants that originally drove the rise of the opium economy and determined the distribution of its benefits. Addressing the structural determinants of poverty – and the causes of poverty inequalities – should be part of the state-building agenda. It is, however, conspicuously absent.

¹²² Kantor and Andersen, “Microcredit, Informal Credit and Rural Livelihoods.”

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