

Case Study Series

**INFORMAL CREDIT PRACTICES  
IN RURAL AFGHANISTAN**

**Case Study 1:  
Herat**

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## About the Author

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## Glossary

<i>Afs</i>	Afghan unit of currency; approximately 50 Afghanis = US\$1
<i>arbab</i>	appointed village leader
<i>baksheesh</i>	gift
<i>chadori</i>	an all-covering garment which covers a woman from head to toe
<i>gerawi</i>	mortgage in which the owner's rights to use the land pass to the mortgagee
<i>jens</i>	goods
<i>jerib</i>	unit of land measurement; approximately one fifth of a hectare
<i>khairat</i>	voluntary alms
<i>khana jangee</i>	fight between households
<i>komak</i>	assistance
<i>man</i>	approximately 4kg
<i>mahamela</i>	business partner
<i>mozarebat</i>	see <i>shariq</i>
<i>mazdar</i>	daily labour
<i>nang</i>	a feeling of either pride or shame one has when undertaking a certain action (when it is done pride is felt, is it not done shame is felt)
<i>paisadar</i>	rich man
<i>puli nakht</i>	cash
<i>qarz-i-hasana</i>	credit on good terms, with no interest
<i>qarz-i-khodadad</i>	a loan given on the understanding that the debtor will repay when God provides the opportunity
<i>qarz-i-sudh, sudh</i>	credit with interest
<i>qarz</i>	credit
<i>qawm</i>	kinship group, often a tribe or sub-division of a tribe; also used for the community where one lives
<i>sawab</i>	merits gained when doing a good deed, considered as "profit" from God or "credit" earned with God
<i>seer</i>	4–7 kg of grain (location dependent)
<i>shariq</i>	a partnership between an investor and a businessman in which one provides the money and the other provides the work; profit is divided between the two, while the loss is carried only by the investor
<i>shora</i>	group of elders
<i>sudh</i>	credit with interest
<i>sudhghor</i>	person who gives credit with interest
<i>toman</i>	Iranian currency
<i>tur</i>	a traditional scarf worn by women in the Herat region
<i>zakat</i>	in Islam, annual obligatory alms

## Acronyms

AREU	Afghanistan Research and Evaluation Unit
MISFA	Microfinance Investment Support Facility for Afghanistan
NGO	non-government organisation
CHA	Coordination of Humanitarian Assistance
NSP	National Solidarity Programme

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# 1. Introduction

This report presents the findings of fieldwork conducted in Herat province as part of a credit and debt study undertaken by AREU. The other field sites visited were villages in Balkh, Ghor and Kapisa provinces.<sup>1</sup>

There were two motivating factors behind this study: first, a growing recognition of the importance of informal credit for rural livelihoods in general; and second, the development of fast-growing micro-credit initiatives in Afghanistan and concern about how these external credit sources may affect, perhaps negatively, existing credit relations. Both of these issues suggested the need to develop an in-depth understanding of how informal credit practices work in rural Afghanistan, which would lead to recommendations on which practices to support and which to change, and to complementary research on the impact of micro-credit, building on the results of this study to provide insight into how micro-credit intersects with and affects informal credit practices.

Given the limited impact of formal banking and finance systems introduced into Afghanistan in the 1960s and 70s, and the absence or lack of functioning of formal credit systems over the last three decades, the “informal” system has been for many if not all Afghans the only credit system, offering the poor in particular a social safety net in the absence of any government welfare.<sup>2</sup> However, little is known about existing credit practices in Afghanistan, limiting the ability of policymakers and practitioners to develop effective pro-poor policies and programmes which support positive aspects of existing systems and improve on negative features. In order to understand the role credit plays in different livelihood strategies, as well as to provide better insight into how formal and informal credit might interact when micro-credit initiatives are implemented, it is important to approach credit “the Afghan way” and understand that it is more than just a delayed payment transaction; it is a medium that connects households in a web of social relationships and it is often used to build or strengthen both horizontal and vertical connections within this web, with the intention of improving livelihood security.

## **Box 1. Livelihood strategies**

*Accumulating livelihood strategies seek to increase income flows and assets.*

*Households with accumulating livelihood strategies own assets with which they accumulate surplus in food, goods, or cash which they in turn use to accumulate more.*

*Stabilising livelihood strategies seek to secure existing asset portfolios through diversifying income, accessing more resources and strengthening social networks.*

*Coping livelihood strategies seek to provide for sufficient household requirements on a daily basis. Food security and daily survival are the main concerns.*

This study aims to provide deeper insight into current informal credit practices and to understand their role in rural livelihoods. Key questions guiding the study include:

1. How is credit used by households to pursue different livelihood strategies such as coping, stabilising and accumulating?
2. What place does credit occupy in inter-household relations, and how does this vary across livelihood strategies?

<sup>1</sup> To protect respondents’ privacy, the actual names of the villages studied and respondents interviewed are not used in this report.

<sup>2</sup> In this study “informal credit” refers to local or indigenous credit forms and systems which have not been initiated by the central state or an assistance agency.

3. What role does credit play in the livelihoods of vulnerable households facing chronic indebtedness?

The basic unit of research was the household, defined in this case as a group which lives and eats together. Using in-depth interviews, attempts were made to understand households' livelihoods, their dynamics over time, and the role credit plays in their livelihood strategies. Equally as important was gaining an understanding of relationships between households (relative or non-relative) within or outside the village, and how these relationships affect access to credit and the achievement of secure livelihoods.

## 2. Methodology

### 2.1 Village and respondent selection

In order to establish whether credit practices differed in different types of village economies, it was decided that fieldwork would be undertaken in two villages where the majority of households were producing for the market and two villages in more isolated rural areas, where production was primarily for subsistence requirements. Initially, Herat and Balkh were selected as provinces featuring villages with market-based economies, while Ghor and upper Kapisa were selected for their villages with subsistence-based economies. After initiating fieldwork in a village in Balkh, the team realised that while the village had previously been a market-based economy, it could not currently be categorised as such because of problems with water shortages due to water being taken from the main irrigation intake higher upstream. Although the market was still important to the rural economy, it was mainly as a source of daily labour opportunities. After the initial study in Ghor was completed (in a village with a predominantly subsistence-based economy), the team selected a village in lower Kapisa where villagers were producing cotton for the market.

The following criteria were used in selecting the four villages:

1. All villages needed to be 30 minutes from a main marketplace. This criterion was chosen to allow comparison to be made between the four villages, even if they differed on predominantly subsistence- or market-based production. If the distance or accessibility to the markets was not similar, it would be difficult to establish if the differences in credit practices were related to physical distance or variation in livelihoods. Villages with subsistence-based production had “market connections”, but they were of a different nature than those in villages with primarily market-based production. Researchers expected that these differences would potentially affect credit practices. A second reason was logistics, as the research team was based in offices in or near the district centres and the village was visited daily.
2. Villages needed to be average in size and representative of ethnicity and livelihood activities within their district; and
3. The four locations needed to represent both more affluent, relatively urbanised communities producing for the market, and more impoverished, rural communities exhibiting a predominantly subsistence economy.

In each study location the research team was facilitated by a development organisation already working in the area.<sup>3</sup> In consultation with these partners, a village in each province was selected based on the above criteria. The staff of the assisting organisations initially introduced the research team to village representatives and asked their permission for the research to take place. Following this, group discussions were held with both men and women, often *shora* members, in which the aims of the research were explained, and the teams began to get a sense of the general context of the village and its credit practices. In-depth interviews were then conducted with male and female respondents representing their households. At first, respondents who served as village representatives (that is, on the *shora*) were selected, but the team gradually moved away from interviewing families related to or associated with village representatives.

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<sup>3</sup> Coordination of Humanitarian Assistance (CHA) both in Balkh and Herat; UN Habitat in Kapisa; and Oxfam GB in Ghor.

For the selection of respondents within the villages, a form of quota sampling was used in order to distribute respondents across socioeconomic status categories. The criteria used to differentiate respondents included: ownership of land (landlords versus landless); shopkeepers; households dependent on charity; and households dependent on daily labour. Researchers monitored how many households categorised by their estimated socioeconomic status were interviewed each day, aiming for equal representation in the low-, middle- and high-income groups. The interview teams also targeted specific respondents, such as: women heading households; women working; women known to have had experience with micro-credit; and educated people. This was not a fixed list, but depended on the village context.

This selection method meant that researchers often arrived in the village and initially selected villagers at random. When they had a better understanding of the village's livelihoods and the diversity of the households, they then targeted more specific respondents. When the results of an interview with a household member were of particular interest, the interview team sent the other team to interview other members of the household – in order to get different points of view from the same household. For example, the female research team would recommend interviewing the husband of a certain household, or the male interview team would recommend interviewing the wife of a certain interviewee. Similarly, the teams sometimes returned to a respondent for a follow-up interview, in order to gain further insight into a particular issue the respondent had raised.

During data analysis a more detailed and refined categorisation of the respondents by wealth groups (wealthy, middle-income and poor) was made. This was based on information collected during the interview on three key household characteristics, from which the researcher could identify the household's socioeconomic status:

- access to productive assets;
- number and type of income sources; and
- household composition.

## 2.2 Interviews

This study is qualitative in nature; it aims to understand the role credit plays in rural livelihoods, not to provide quantitative information on credit practices in Afghanistan. In the four villages studied, an average of 43 interviews was conducted with both men and women, based on an open-ended question checklist rather than a closed-ended questionnaire. The open-ended questions that were asked depended greatly on the interviewees, their specific livelihood situation and the dynamics of the discussion. The research team discussed and analysed their results on a daily basis, comparing information gathered and attempting to understand the reasons for differences and similarities between households and their credit practices. This ongoing process of field analysis was fed back into subsequent interviews so that new and emerging issues could be addressed.

The fieldwork was undertaken by two teams: one female and one male. The female team comprised two Afghan research assistants (one interviewer and one note-taker). The male team comprised an Afghan research assistant and a female expatriate researcher who conducted the interview and took notes.<sup>4</sup>

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<sup>4</sup> For the first two case studies, the research team comprised four national research assistants: two male and two female. The expatriate researcher took part in both the male and female interviews.

### 2.3 Herat respondents

Thirty-four respondents were interviewed in a village in Zinda Jan district, Herat.<sup>5</sup> Assistance was provided by Coordination of Humanitarian Assistance (CHA) in selecting the study village, by guiding the team to villages matching the selection criteria. The three villages covered in the other provinces under study were, despite being close to the market and producing small quantities for it, still fairly subsistent in character, and for this reason the research team selected a relatively affluent village in order to understand how credit practices vary under different economic conditions.

The “wealthy” group (N=13) in the Herat village were engaged in an accumulating livelihoods strategy, as they had surplus food, goods or cash and were able to earn more income than required for subsistence. The “middle-income” households (N=9) had a relatively stable income source (stabilising livelihood), or had such diverse income sources that they could rely on having sufficient income throughout the year – even taking into account expected lean times. In this group, the respondents themselves often expressed confidence in their income sources. The main difference between this group and the wealthy group is that while the wealthy have a known and assured cushion of available resources already in hand, the households in the middle-income group have a lower relative income along with networks of income, credit and support sources that they rely on to obtain resources – but there is always the possibility that these will not be able to supply needed resources, meaning this group faces more uncertainty than the wealthy in times of need. The middle-income households have achieved food security, and their current priority is to strengthen social networks, secure more assets and secure their livelihoods. “The priority in this household is not food but to build our own house,” said a settled *kuchi* and animal trader. The group of “poor” households interviewed (N=9) were coping with acquiring their household needs on a daily basis, and were unable to accumulate physical or financial resources.

Researchers felt that respondents were generally enthusiastic and eager to participate fully in the interviews – they often offered insights and information with little prompting. Although sometimes respondents were slightly wary initially, the unstructured interview approach appears to have resulted in people feeling appreciated for their opinion – both men and women, and respondents from various wealth groups.

To protect the privacy of respondents, the name of the village studied is not mentioned in this report (it is referred to as “the village in Herat” or “the Herat village”) and names of individuals have been altered to avoid identification.

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Halfway through the fieldwork a male member of the research member left the team and the expatriate researcher was needed to take part in the male interviews.

<sup>5</sup> One female respondent was suspected to be representing herself as “vulnerable”. The information she provided on her livelihood conditions did not add up and often conflicted with information provided earlier in her interview. The information she provided was therefore deemed untrustworthy, and was not used in the analysis. One respondent was interviewed twice, and two households were interviewed by both the male and female teams. The actual number of interviews undertaken was 35, the number of interviews used for analysis was 34, and the number of households covered was 31.

## 3. Research Setting

### 3.1 Location

The village studied in Zinda Jan district is located near the main road between Herat and Islam Qala, on the Iranian border. It is spread out along two main irrigation canals and the main road. It has three mosques: one large one built recently in the centre of the old village and two smaller ones, one on each side of the centre along the irrigation canal. There are around 1,500 households living in the village which are predominantly Turkic in ethnicity, but several *kuchi* families have also recently settled there.<sup>6</sup>

### 3.2 The village

There are 100–150 shops in the village, the majority of which are located along the main road that leads into the main square of the village. Most shops sell small basic food items like tea, sugar and sweets. There are also more specialised shops selling material, tin products and raw materials for carpets, and others offering tailoring or puncture repair services. The village has a high school for girls and boys, a health clinic run by an NGO and a school for disabled children (also supported by an NGO). As this demonstrates, there are several NGOs active in the village which are mainly focused on health, support for households with disabled family members, education and literacy, and income-generating activities such as silk worm breeding and raw silk production. There are also community-driven development programmes such as the National Solidarity Programme (NSP) for which the villagers selected the construction of a cultural centre which is now used for ceremonies such as weddings and funerals. However, of the three weddings which took place in the village during the fieldwork, only one was held in the culture centre, suggesting that not all families have access to the centre.

Both male and female *shoras* have been established through an implementing partner of the NSP. Another NGO had also established a *shora* dealing with health issues. However, the village has traditionally been, and still is, represented to the provincial government by an *arbab*. During the field research a change of *arbab* took place, and although a new candidate was chosen to represent the village as *arbab*, the “old” *arbab* remained head of the male *shora*. One female respondent called the male *shora* the “*shora e arbab*” (the *shora* of the *arbab*), as other members of the male and female *shora* were his relatives and associates (see box 1).

There was a lot of activity around education in the village, probably due to a combination of the villagers’ eagerness to educate their children (both boys and girls) and the significant NGO presence. Both boys and girls of many poor households interviewed went to school, often at the expense of the oldest son or daughter who had to work to contribute to the daily household expenses. Recently the village school had been expanded into a high school for both boys and girls, and a school for disabled children had opened. Currently there is a literacy course available for women, and researchers met several women on their way to or coming back from classes who were very proud that they were learning to read and write.

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<sup>6</sup> These people were not Turkmen; the respondents themselves said they spoke a Turkic dialect.

### **Box 2. The story of the three arbabs**

*In the previous year, increasing animosity had developed between a group of people in the village and the arbab, his relatives and his associates. Some villagers were complaining and accused him of corruption. The villagers were divided into those in favour of the arbab and those opposing him. Both parties were accusing the other of trying to “create conflict in the village”.*

*We didn't get any aid from NGOs that came to our village. Only the arbab and his relatives are involved. Poor people didn't get anything...There was an NSP programme but it was just for the arbab and his relatives. They made khana jangee (fight between households) and other poor people became angry with the arbab.*

*Aisha, mother of three disabled children, teacher at disabled school*

*It is good that people changed the arbab because the old arbab never helped poor people; he spent all of the money for himself. He builds the social and cultural centre which is useless, only people use it for some funerals and some khatom (reading the Koran). But from that money he could have made a good road or some water pumps.*

*Roiena, poor widow*

*Others were of a different opinion:*

*They [the new arbab and his followers] are the communists of the village, they are closely united, and they want to break the unity of the Muslim people. We support the old arbab because he supported the village a lot, he builds bridges and he is a good Muslim.*

*Baser Ahmad, farmer who now leases land*

*He [the old arbab] has been arbab for six years and has brought a lot of good to the village. He is a good man, he helps people. He put an end to robbery in the village, built small bridges, built the cultural centre (with help of the NSP) and constructed a girls' school (with help of USAID), but he built the boys' school with no help. He went to each household and asked for money to build the school. He did not help poor people, not individually, not from his own pocket. He does not have that much money...Some in the minority are angry with him and have convinced the majority.*

*Ghulam Rasul, shopkeeper and driver of own taxi*

*The problem grew to such an extent that the decision was made to elect a new arbab. The old arbab did not accept the result, and after the election the new arbab went to the provincial authorities in Herat to complain about the old arbab. There was further conflict within the village, which was only resolved when the community decided to settle the case by accepting two arbabs.*

*Harvest time came and traditionally all landowners had to provide payment in wheat to the arbab as salary. The landowners collected their payment for the arbab, but they gave it to the old arbab, not the new one. This caused financial problems for the new arbab as had resigned as a teacher to become arbab. He went to another former teacher in the village, Ustad Abdul Rahman, to request him to challenge the old arbab. They joined forces, and with all men above 18 years old participating in the vote, Ustad Abdul Rahman became the “second new arbab”.*

*Before this, only the big landowners came together to choose the arbab. Poor people were not allowed to vote. This is the first time all men voted. It was because of the presidential and parliamentary elections that people started to realise that they should have a one man, one vote system. It was also their awareness of the constitution. When they decided to again select a new arbab, the poor people said they wanted to have the same system as the elections.*

*Ustad Abdul Rahman, the latest “new” arbab*

*The women of the village, including the women's shora, were involved in neither the conflict nor the elections.*

### **3.3 Villagers and their backgrounds**

The villagers said that their tribe originated from four brothers from Uzbekistan. They had come to the current location of the village after being displaced by an

earthquake, or, as others suggested, by being pushed out of the area by other groups around 250–300 years ago. The villagers spoke a Turkic dialect as well as Dari.

The village had been directly affected by the conflict during the 1980s, when many households had fled to Iran or to Herat city. During the first half of the 1990s many returned, but had again been forced to migrate to Iran because of drought. Aside from the fact that farmers did not have enough water to cultivate their land sufficiently, daily labour opportunities diminished and with this, many livestock trading and shopkeeping businesses faced closure.

Many families went as intact units to Iran, but several households sent their young men to work in Iran, who then sent remittances back. During this period many families fell into debt with more wealthy households and were forced to sell their land or other assets, such as shops. Others migrated to Iran using smugglers who transport people to Iran on credit. On arrival in Iran, these people first had to repay their debts to smugglers before they could start repaying their debts in the village. The majority of households were able to recover from this period because labour opportunities in Iran allowed them to return with savings, and in some cases they were able to buy land. Of all this study's respondents, not one household was still facing debt problems in relation to the drought.

Over the last four years many families have returned to the village. Although some came back to an improved socioeconomic position in the village, such as the former landless who returned with capital, others expressed regret at having returned as income opportunities were scarce:

*We made a very big mistake coming back to Afghanistan, because in Iran we were living in a good house that we rented for 1000 tomans. My three sons and I were working as daily labourers. But here only my son is working [as a daily labourer]. During winter there is no work so we must take credit from shopkeepers throughout winter. Next year when my son goes to work again, then we repay our loans.*

*Nur Mohammed, elderly man, former daily worker,  
sons and daughters work*

Not only were there more job opportunities for men in Iran, relatively more women worked outside the home.

### 3.4 Household composition

In general in the study village people live as extended families: married sons and their families live together with their parents in one compound. However, often married sons and their families have separate economic units – referred to in this study as “households”. This does not mean they have totally independent livelihoods; although day-to-day expenses are separate, often there is economic assistance and mutual support in times of need between the households.

Six of the 32 households interviewed were female-headed households, of which five were considered poor (the other was in the middle-income group). Eight other female respondents were either widowed or married

#### **Box 3. Female-headed household**

*A female-headed household is a one that is run by a female member; she makes all major decisions and has the main responsibility of supporting the household in its daily needs. No able-bodied adult male (husband, father, brother, son) is available to support her.*



to a disabled or sick husband, but lived together with adult sons with income sources and often a family. These households were not considered female-headed households in this study.

### 3.5 Village economy

The Herat village's economy was vibrant and well off in comparison to those in the other three studies. Apart from agricultural and livestock activities, there were many business ventures being undertaken such as shopkeeping and passenger transportation, and, due to the village's proximity to Herat city and Iran, there was access to relatively well-paid daily labour opportunities. The village economy and standard of living was considered to be relatively urbanised, based on the comparatively extensive labour market, number of shops, diversity of products and services available to residents (health clinics and secondary education), reliance on cash economy, and social context and conditions.

The various income activities were in:

- agriculture (wheat and barley cultivation, vegetable gardens and fruit trees)
- livestock (breeding and trading)
- silk worm breeding and production of raw silk
- shopkeeping
- passenger transportation
- daily labour (*mazdar*) in the village
- daily labour in Herat or Iran
- investing in businesses (*shariq*)
- carpet weaving and other handicrafts; cleaning other people's clothes and houses
- baking bread
- working on a monthly salary basis with a school or clinic in the village or in Herat

In this village, wealth was not defined by respondents solely as owning land, but also by ownership of other productive assets like cars and shops, and having surplus capital with which to do business. Following this, the researchers assessed poverty and wealth by a combination of access to productive assets, multiple income opportunities and household composition.

In general, the more wealthy the household, the more diverse their income sources (defined here as the activities through which income is earned, not the number of workers). The wealthy group had four income sources on average, the middle income group three, and the poor two.

**Table 1.** Average income sources and percentage of households where men and women contribute to the total income, by wealth group

	Wealthy	Middle-income	Poor
Average number of income sources	4	3	2
% households in which men are active in income activities	100%	100%	66%
% households in which women are active in income activities	66%	70%	55%

The wealthy households were more active in farm and livestock sales, business (shopkeeping and transportation) and credit provision in the form of investments, while the middle-income households were more active in daily labour, contract employment (teachers, cleaners, guards, nurses) and agriculture mainly for subsistence purposes. Among the poor households there was no specific income activity that emerged as being undertaken only by the poor, however it was apparent that men from these households only worked on a daily labour basis either in the village, in Herat or in Iran.

Interestingly, both labour migration and carpet weaving were accessible for all wealth groups and these two pursuits were almost equally represented among the wealth groups.<sup>7</sup> However, the importance of household composition in relation to this should be noted. A household can only send a son to Iran if there is at least one adult male available to remain at home. Similarly, a household can only engage in carpet weaving if there are also women available to do the day-to-day chores. There was only one exception to this: a female-headed household (the husband was in Iran earning money to pay off debts) relied on the income generated by five women doing carpet weaving. There were three sons in this household, but they were too young to work.

**Table 2.** Number of households reporting a worker in each income-generating activity (both men and women), by wealth group

Income activity	Wealthy	Middle-income	Poor
Agriculture	11	5	-
Livestock breeding and trading	8	3	-
Business: shopkeeping and transportation	5	1	-
Credit provision, investment	3	-	-
Contract employment	2	6	-
Daily labour in village (farm and non-farm)	1	7	4
Labour in Herat or Iran	4	4	3
Silk production	5	2	
Carpet weaving	3	2	3
Handicrafts	3	2	-
Cleaning houses, washing clothes and baking bread	-	-	3
<b>Total number of households</b>	<b>12</b>	<b>10</b>	<b>9</b>
<b>Average number of income sources</b>	<b>4</b>	<b>3</b>	<b>2</b>
<b>Average number of household members working</b>	<b>4</b>	<b>2</b>	<b>2</b>

Women in all wealth groups were active in income-generating activities, although with the wealthy group this was predominantly self-employment such as carpet weaving, silk production and handicrafts. Women from poor households were active in self-employment as well as daily labour, including cleaning houses, washing clothes and baking bread for other households. All the working women in the poor category of households were from female-headed households. The importance of women's contribution to the total income of a household varied between the

<sup>7</sup> The high participation of women across socioeconomic groups in carpet weaving and handicrafts was also found in: World Bank, 2005, *Afghanistan National Reconstruction and Poverty Reduction: The Role of Women in Afghanistan's Future*, Washington DC: World Bank, p. 64.

different wealth groups. For poor households, which have an average of two income sources per household, women's work is essential. Children also often contribute significantly to poor households, with girls involved in handicrafts and carpet weaving, and boys in daily labour or fuel collection.

In middle-income and wealthy households, the contribution of women's activities such as carpet weaving is possibly more significant than suggested by the household members. The example in box 4 shows that while the income from the son's daily labour was regarded as the household's main income source for daily needs, the daughters were providing an equal, if not more stable, income source.

Respondents stated that fewer families were active in carpet weaving today than during the Taliban era (when there was a ban on girls' education and restrictions on women's movement in general), and suggested a number of reasons for this: prices of carpets have gone down, reducing profitability; women and girls have more opportunities to become actively engaged in teaching, going to school or attending literacy classes; and changes in the socioeconomic environment.

*In the current situation women do not weave carpets, except for a few women, because they are learning something at school or at courses. Even the old women go to literacy courses.*

*Aisha, mother of three disabled children, teacher at disabled school*

Another trend identified in the village was the relatively open land market. During the drought several households were forced to sell their land, however these days more households tend to sell small plots of their land. Other households in the village buy these plots to build new houses for their expanding families, which complements the new trend of married sons wanting to live separately. These developments seem to have disrupted the ideal of selling land within the paternal kin group:

*I am indebted; if people want their money back and I cannot repay them, I will first sell [my land] to the person who gave me the mortgage then to someone else in the village. He is a rich man from the village, not a relative.*

*Gulam Mohammad, daily labourer, sole income provider and indebted*

#### **Box 4. Carpet weaving and daily labour**

*During an interview with the middle-income household of Nur Mohammed and Atifa, in which both spouses were contributing on an equal basis to the interview, they mentioned that their daily household expenses was provided by their son – a daily labourer in the village. As well as this, two daughters and a daughter-in-law were weaving carpets and producing a two-metre carpet every month. Nur Mohammed goes to Herat and sells these at the carpet bazaar for 4,000–5,000 Afs. From the money he gets for the carpet he buys new raw material for the next carpet for around 2,500 Afs. In this way the carpet provides the family with a net monthly income of 1,500–2,500 Afs, which would be the equivalent of 10–16 days of daily labour per month with a salary of 150 Afs per day. During labour-intensive periods in the village this demand for work can be met, but taking into account the four months of winter with few labour opportunities available, the income provided from carpet weaving is more stable and reliable.*

## 4. Credit Practices

Taking and giving credit is a common practice among all wealth groups in the Herat village. The different credit practices found are:

- buying on credit;
- small cash and in-kind credit;
- larger cash credit;
- mortgage; and
- business credit (including credit for productive inputs and micro-credit).

The most common credit practices are buying on credit and small cash and in-kind credit. These credit practices are used for daily household expenses and for “consumption smoothing”: to cover times when households do not have cash or to overcome lean times. As the new *arbab* stated, “In this village the majority of people are indebted from season to season.” The third most common credit practice is larger cash credit. This is primarily used for significant expenses such as bride price and wedding expenses, (re)building houses, buying small plots of land to build new houses for married sons, or for major health costs. A range of business credit practices were also found in the village.

**Table 3.** Number of households engaged in different credit practices, by wealth group (livelihood strategy)<sup>8</sup>

Credit practice	Wealthy (accumulating)		Middle-income (stabilising)		Poor (coping)	
	Number	Percentage	Number	Percentage	Number	Percentage
Buying on credit	8	62%	7	78%	9	90%
Small cash and in-kind credit	3	23%	7	78%	6	60%
Larger cash credit	~	~	6	67%	~	~
Mortgage (past and present)	2	15%	1	11%	1	10%
Business credit (received)	6	46%	1	11%	~	~
Business credit (provided)	3	23%	~	~	~	~
<b>Total number of households</b>	<b>13</b>		<b>9</b>		<b>10</b>	

### 4.1 Buying on credit

Twenty-four out of 32 households buy on credit – nine out of ten from the poor wealth group, seven out of nine from the middle-income group, and eight out of thirteen from the wealthy group (table 3). Most households buy on credit from the village shops, although some households also buy on credit from shops in Herat owned by villagers who moved to the city during the conflict years.

#### Why buy on credit? The demand side

The main reason for buying on credit is consumption smoothing. Many households do not have a regular income and are periodically short of cash. Buying on credit allows them to purchase their daily requirements and pay for them at a later date when they have cash.

<sup>8</sup> These figures do not necessarily represent all the credit practices engaged in across wealth groups. Respondents from wealthy households in particular were not as eager to respond to the direct question “Do you receive credit?” Wealthy households in general were not as open in describing their income sources and credit practices compared to other households. Based on all data collected, it appears that almost all households occasionally borrow either small cash amounts or goods from other families.

*It is a custom here that the shopkeeper gives credit to people. There are two seasons here in the village: during the winter they take credit. In spring they kill the silk worms and sell the raw silk, and from the income they repay their debts. After that again they take credit for food expenses. At the end of autumn they harvest their land, and with that income they repay their debts – after which they again take credit.*

*Ustad Abdul Rahman, new arbab, former shopkeeper*

It is not only those families with agricultural income sources who need access to credit. Families dependent on labour migrants for remittances, daily labourers in the lean time of winter when there is little work in the village, teachers who receive their salary late, carpet weavers before the carpet is completed and sold, or poorer households trying to cope with a period where there is no income or not enough income – all fall back on buying on credit. In essence this form of credit is a financial transaction, however social relations play a central role in building and maintaining links to shopkeepers.

In the village it is not common for women to go shopping: this is primarily the men's responsibility. When men are absent, women often send children or ask a male neighbour to go to the market for them. Female-headed households, who are just as dependent on credit from shopkeepers as other households, either send an elderly woman or a child as the go-between for buying on credit. There was no indication that female-headed households had less access to this form of credit because of their limited mobility.

### **Why give credit? The supply side**

Shopkeepers have several reasons for giving credit to their customers: it is a way of binding customers to their shops; it encourages people to spend more; it adds to the prices (as shopkeepers often ask higher prices when providing goods on credit); it covers the costs of their own delayed payment as shopkeepers themselves buy on credit with other shopkeepers and wholesalers; and it is often a social obligation to relatives and the needy.

*I sometimes close the shop and drive to Herat three to four times a day. My customers will not go to other shops because they are my regular customers. I know them. They will not go somewhere else because I give them credit. If my shop is closed they will wait till I come back. Yes, that is one reason why a give credit. But also people do not have much cash. They have money when they collect the harvest in the month of mizan and that is when they repay me. People pay their bills once a year.*

*Ghulam Rasul, shopkeeper and driver of own taxi*

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

*Abdul Fatah, teacher and sharecropper*

Taking into account the fact that a shopkeeper needs to restock, they need to find a balance in clientele between those who pay directly in cash, those who repay their debts every month and the more irregular repayments (longer than one or two months). The majority of the shopkeepers purchase their goods on a credit basis with a *factor ba factor* agreement (bill to bill agreement).<sup>9</sup>

*The customers who pay once a year are farmers, but there are also daily labourers, people who work in Herat or Iran, who pay on a regular basis. Those who are daily labourers in the village give on a daily basis.*

*Ghulam Rasul, shopkeeper and driver of own taxi*

### **Repayment timeframe, price and accumulated debt**

Buying on credit is not unlimited and the conditions differ by household. The term of the loan, the amount of accumulated debt a certain shopkeeper allows, as well as the actual price of the goods bought varies by customer depending on the nature of the relationship and the repayment capacity and practice of the customer. Regular repayments ensure ongoing access to credit, as well as keeping prices low (more irregular repayments over a longer term lead to higher prices).

Although many respondents mentioned they had to pay higher prices (often referred to as “double prices”), respondents were not able to say exactly what the surcharge is when buying on credit; this is not negotiated during purchasing. The accumulated amount of debt is recorded only by the shopkeeper, putting him in a position of power over the debtor. Although customers know that prices increase the longer the repayment takes, and some disapprovingly call this *sudh* (interest) which is forbidden in Islam, they must accept these conditions as this credit resource is essential to their livelihood strategies.

*I do the shopping in the village. Most of the time I buy goods like tea, oil, rice and sugar on credit, and after one or two, or sometimes six months, when my son works and makes money, then I repay the shopkeeper my debts. They give double price for the things, because we did not have puli nakht (cash) to pay for the goods we bought. But if we do not repay the shopkeepers' loans, they will not give us goods on credit anymore.*

*Nur Mohammed, elderly man, former daily worker, sons and daughters work*

Poorer households reported taking credit from more than one shopkeeper so that they would not accumulate unaffordable debts – which would undermine their creditworthiness and access to future credit.

The relationship the customer has with the shopkeeper can affect the acceptable repayment timeframe, as well as the prices. Respondents using shopkeepers who were relatives (N=5) prefer to buy goods on credit from their relatives instead of other shopkeepers, mainly because of lower repayment pressure. This is especially important for poorer households with unstable livelihood strategies often related to limited labour resources within the household, such as widows with young children and no working sons or daughters, or households with disabled members. Having a relationship with the shopkeeper can be considered a valuable asset. Three of the five respondents who have relatives who are shopkeepers mentioned that they had accumulated high debt over long periods of time.

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<sup>9</sup> Goods are purchased on credit but need to be repaid before a new stock of goods can be purchased.

*I am in debt from my maternal uncle who has a shop in the village. I bought goods such as tea, sugar, wheat, rice, oil and clothes on credit. It is five years since I have given him any money. Now I am 150,000 Afs in debt and I do not have money to pay it back. My uncle knows this but it is a nang [shame] for him if I buy goods on credit from another shopkeeper. So every month he gives me credit from his shop.*

*Bibi Hur, widow, works as cleaner in other people's house*

In Bibi Hur's case, the accumulated debt has reached an exceptionally high level which seems impossible to repay on a cleaner's income. However, she was currently organising the marriage of her daughter from which she would receive a bride price equivalent to the debt she owed her maternal uncle. Although her maternal uncle has helped her for five years with unconditioned credit, the debt has grown large and is expected to be repaid at some point in the future. This demonstrates how high accumulated debt may push borrowers into negative repayment strategies, such as early marriage of daughters, or removing children from school to work.

## 4.2 Small cash and in-kind credit

Sixteen households reported taking small cash and in-kind credit (table 3) which is also used for consumption smoothing. Many households lend each other small amounts of money (or food) for household needs or unexpected minor health costs. This credit, referred to as *qarz-i-hasana*, is often between relatives, neighbours and friends, is characterised by its good terms (no interest and flexible repayment); access to it depends on the household's breadth and depth of relations. It is often, though not always, small in size due to the limited funds available among those willing to offer it, and also as a reflection of the favourable terms.

These smaller credits can be repaid either in cash or in kind, regardless of how the initial credit was taken. In general it is men who take small cash credits from each other, whereas women are more often engaged in day-to-day, in-kind credit exchanges as well as some small cash requirements up to around 300 Afs (US\$6). These small-scale credits between women who are close relatives or neighbours are expected to be repaid within a few days. The cash credits that men deal with can usually be repaid within one or two months.

*I normally have my salary every month but sometimes the state is late with payment and then I take credit from brothers and neighbours – only from those people who we know have money. Usually they are close relatives. We give and take credit from each other.*

*Abdul Fatah, teacher and sharecropper*

*Sometimes I borrow jens (goods) and cash from my sister-in-law and other relatives who are living near our house or in the village. When I find some money or products I will pay them back.*

*Latifa, widow, female-headed household*

Small cash credits are often used for the same kinds of products that are bought on credit from shopkeepers. Households may decide to take *qarz-i-hasana* instead of increasing an accumulated debt with a shopkeeper (to avoid exceeding repayable amounts of debts with shopkeepers, which would jeopardise creditworthiness with that source). Households prefer to spread out their debts not only over several shopkeepers but also over several households with whom they have these small credit

relations. To support this strategy of spreading credit sources, households need an extended network from which to take such credit – this requires investing time in building and maintaining social relations. There tends to be more flexibility in repayment of credit taken from close relatives, neighbours and friends.

*If he cannot pay back now he can pay back in one or two years. If he then still cannot pay back his debt, he can mortgage or sell his land.*

*Woman speaking about her neighbour, a widower who is heavily indebted*

Small cash credits may be used to repay old debts with shopkeepers or other *qarz-i-hasana*, to avoid the shame of not repaying old debts and to remain creditworthy:

*For maintaining his reputation [a debtor] will go to his close relatives and will take a sheep or a cow, it depends on the amount of credit he needs to repay. He will sell it and pay the money he owes. He then can give the money of the sheep or cow slowly to his close relative.*

*Abdullah, former butcher, now daily labourer*

### 4.3 Larger cash credit

Larger cash credits are loans of more than around 5,000 Afs (US\$100).<sup>10</sup> These were observed as being primarily used for marriage costs, (re)building houses and buying small plots of land to build houses on. Respondents also mentioned using these loans for setting up businesses, significant medical costs and, in the past, to migrate to Iran.

Large loans are generally given and taken within a network of close relatives in a similar manner to smaller credit exchanges. Some shopkeepers also give cash credits to their customers. The new *arbab*, a former shopkeeper, mentioned:

*As a shopkeeper you do not give qarz-i-hasana, only those who have sympathy give qarz-i-hasana. If you give credit in cash it is mostly around 5,000–10,000 Afs (US\$100–200). Or 100 man (400kg) of wheat.*

*Ustad Abdul Rahman, new arbab, former shopkeeper*

The poor wealth group in this study had no access to these loans. This is not to say that they did not accumulate larger debts, or engage in activities that could require large borrowing. For example, within the poorer wealth group there were three households with large accumulated debts of 18,000–150,000 Afs (US\$360–3,000); two of these were accumulated debts from shopkeepers (US\$360 and US\$3,000) and one was a combination of accumulated debt from other households and a mortgage taken to repay an earlier accumulated debt (US\$2,000). Of the poor households interviewed, none had accessed large cash credits.

Poorer households were engaged in strategies to avoid accumulating debt for large lifecycle events, particularly marriages. For example, there were three ways they married their sons: one was to simultaneously marry a daughter and use the received bride price from the daughter to give bride price to the family of the son's bride; another was to organise "sister exchange" in which two families would agree to not pay bride price but exchange their daughters to marry their sons; or thirdly a son

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<sup>10</sup> This level was set by researchers based on data collected in this study in order to distinguish between accumulated debts with shopkeepers and single large credit amounts (small cash credits are rarely accumulated).



would first go to Iran to work and save money before getting married. The study did not come across poor households investing in new house construction. Often they were staying in houses owned by other people, and were not able to save enough to purchase land and build their own house.

#### 4.4 *Gerawi* (mortgage)

*Gerawi* (mortgaging of land in which the owner's usage rights pass to the mortgagee, delivering, for example, more than 30,000 Afs or US\$600 for 1 *jerib* of land<sup>11</sup>) is used in two ways: either as a planned strategy to access large amounts of cash for events such as marriages or building a house, or in situations of crisis where a large amount of cash is needed at very short notice – where such finance could not otherwise be accessed without a guarantee. This source of credit is only available to those who own land, and the ability to repay the mortgage very much depends on the household's remaining productive and non-productive assets and income sources.

Although many respondents mentioned the frequency of mortgage, only four respondents had actually mortgaged their land. Two respondents from the wealthy group had mortgaged their land during drought, but had recovered it by receiving bride price and through money saved during labour migration to Iran. One household from the middle-income wealth group had sold their land after first mortgaging it, and one poor household had recently mortgaged their land to repay accumulated debts.

*When I married my husband he had 12 jerib of land. His family mortgaged their land to pay my bride price. Then after a few months they married my sister-in-law and received her bride price. They gave the money to the person who had their land in mortgage and took back their land.*

*Atifa, active in silk production and carpet weaving with sister-in-law*

In comparison to the other research sites in this study, mortgaging was not a common way of accessing credit. A possible explanation for this was that land holdings were relatively large; those who owned more than five *jerib* of land (N=11) held an average of 30 *jerib*. In times of need they were probably more inclined to sell a part of their land than mortgage it. Another explanation is that there are now alternative ways of accessing large amounts of cash; for instance, many young men now go to Iran to work and save money for their bride price. Three examples of this practice were noted in each of the three wealth groups. Furthermore, given the relative wealth of the village and availability of income opportunities in comparison to the other research locations, large cash credits were more widely available as *qarz-i-hasana*.

Of the mortgages taken, two were planned in that a repayment arrangement was made when the mortgage was settled. The other two were cases of crisis borrowing, where the money was used to pay outstanding bills, unexpected health costs or household expenses.

*I had five jerib of land, but mortgaged it when I had an accident and broke my leg and arm. I needed the money for the medical bills but also to pay for household expenses.*

*Abdul Rahman, farmer who now leases land*

<sup>11</sup> 1 *jerib* = approximately half an acre = one fifth of a hectare.

Respondents mentioned (but had not personally encountered) a new practice of mortgage in which the cash obtained by the landowner by taking out a mortgage on his land was used to invest in business ventures. This has been encouraged by two new developments: returning labour migrants who are landless but have accumulated savings in Iran and so mortgage others' land to cultivate; and economic growth in the village which has provided greater business opportunities.

*During the drought people mortgaged their land because of lack of water. Now also people mortgage their land to those coming back from Iran because they don't have land. The people who are mortgaging their land will start a shop, buy a car or work as a taxi driver, or use it for household expenses.*

*Sayed Yahya, large landowner, sharecrops out land*

## 4.5 Business credit

There are four credit practices used for business ventures and trading in the village:

- buying wholesale goods or business inputs on credit;
- *shariq* (partnership or business investment);
- *sudh* (credit with interest); and
- micro-credit.

Agricultural productive inputs such as seed and fertiliser are not provided through business credit; a farmer can access *qarz-i-hasana* to purchase such inputs or buy them from a shopkeeper on credit. However, valuable long-term assets such as tractors are accessible through *shariq* as the profit from renting them out can then be shared with the investor.

### **Buying wholesale goods on credit**

Buying on credit is similar to villagers buying goods from shopkeepers on credit. In this case it involves shopkeepers buying goods from wholesalers on credit, carpet weavers buying raw material for carpets from shopkeepers on credit, or animal breeders and traders buying livestock on credit. Buying on credit exceeds village credit relations, and shopkeepers only buy on credit from other shopkeepers or wholesalers in Herat. With sheep breeding, business credit relations were with neighbouring villages and *kuchis*. These credit practices are linked to a commodity chain in which clients buy on credit, shopkeepers buy on credit from wholesalers, and wholesalers in turn buy goods from other locations on credit.

### ***Shariq* (business investment)**

The most commonly used business credit in the village is *shariq* (partnership). *Shariq* involves an investor providing capital for a business in exchange for a percentage of the profit (depending on the amount invested). The profit will continue to be shared between the business owner and the investor either for as long as the business lasts, for an agreed time, or until the money is repaid by the business owner to the investor. If the business fails, for whatever reason, no money needs to be repaid to the investor.

In the Herat village, *shariq* is used primarily with shopkeeping, passenger transportation and livestock trading. Many shopkeepers and owners of cars in the village had set up the business together with one or more partners (*shariqs*).

*When families have, let's say, 20,000 Afs extra, they give large amounts of money for shopkeeping but as a shariq, as a "stockholder", in that they will get a percentage of the profit. Sixty percent of all shops have shariqs and 70 percent of the transportation, the cars, have shariqs. They can also do this with buying a tractor, but not with seeds for instance.*

*Abdul Shekebanee, larger farmer*

### **Sudh (credit with interest)**

*Sudh* is credit given with a predetermined interest rate. This credit form is considered un-Islamic and is therefore often conducted in secret as both the creditor and the debtor are considered to be acting sinfully. Two respondents specifically mentioned that there was *sudh* given and used in the village, while many others, perhaps trying to protect the honour of the village, said *sudh* was not practised there and never had been.

*Sudh* was reported to be only used for businesses; households do not resort to *sudh* in times of need. *Sudh* is unlike *qarz-i-hasana* or *gerawi* that are flexible in repayment practices: as one respondent mentioned, "A *sudhghor* [one who gives credit with interest] has no patience, every day he will knock on your door." On the other hand, a *sudhghor* is not interested in giving a needy person credit with interest, as there is a greater likelihood that the person will not be able to repay it, and enforcing repayment is difficult (and cannot involve the intervention of a *shora* or *arbab*) as the transaction is agreed on in secrecy.

*Sudh is done in secret. It is usually big landowners, or those who have a large number of livestock, or who have businesses. There is no document of agreement and sometimes the profit is not in cash but in livestock.*

*Abdul Fatah, teacher and sharecropper*

However, for those in business *sudh* has its advantages:

*Shopkeepers do not want to do shariq because then they will always have to share the profit. With *sudh* they will have to pay for the credit but afterwards they will benefit from the profit on their own without sharing it with someone.*

*Abdul Fatah, teacher and sharecropper*

The desire to avoid *shariq* is common and some can avoid *sudh* as well, depending on their existing credit relations. In the following case the shopkeeper was able to avoid using a *shariq* as he had access to a large cash loan from a relative:

*I used to have a shariq but under the Taliban thieves robbed my shop, and there was nothing there anymore. At that time the shariq, who was my cousin, pulled out. He did not get any money because the shop was empty, there was nothing there anymore. Before he had given me 500 lakh [the equivalent of 50,000 current Afs] when I set the shop up, and he took 50 percent of the shop's profit.*

*After this happened, I took a loan from my father in Herat, also 50,000 Afs, and started the shop again. I have since repaid my father in four instalments from the profits I made from my shop, but also from the money I make from driving passengers to and from Herat. Now I have no shariq.*

*Ghulam Rasul, shopkeeper and driver of own taxi*

Others with no access to large cash credits from friends or family would also be willing to engage in credit transactions involving *sudh* as it avoids having to share the profit and leaves the debtor with more autonomy once loan is repaid.

### Micro-credit

In this study three cases of micro-credit were observed in which different organisations had provided small loans for business initiatives. All cases identified were with women (one from each wealth group), although it was reported that men also had access to micro-credit. Of the three respondents who had used micro-credit, one had accessed a revolving fund and the other two had accessed micro-credit business loans. In all three cases the outcome had been successful in generating income. Two of the loans were provided by aid agencies and one was described as having been given by “the government”. The woman from the poor wealth group was from a female-headed household; her family (with no male adult family members) now relies solely on the investment provided by the micro-credit loan. The other two women were from the wealthy and the middle-income groups of households.

Of the two micro-credit business loans, one was provided four years ago and the other six years ago, in the amounts of 2,500 and 10,000 Afs. The credit was directed at supporting women, specifically targeting households with disabled members and only being provided to those households where members already had a skill. Although the credit was accessed in one case through the husband, it was used for women’s income-generating activities – namely handicrafts and carpet weaving. Both households used the credit to purchase a loom, one for carpet weaving and the other to make *tur* (a traditional scarf women in the Herat region wear as *chadori*). The households repaid their loans at the rate of 100–300 Afs per month following a six-month grace period, and had paid off their entire loan in two to three years.

*Our house was destroyed during the war when we were in Iran. When we returned we didn’t have that much money to rebuild it. From the money we got from [the NGO] we started carpet weaving. From the money we earned we were able to rebuild our house and repay [the NGO].*

*Aisha, mother of three disabled children, teacher at disabled school*

When this respondent was asked for her opinion about this new form of credit in comparison to her normal access to credit, she replied:

*The loan was good for us. It was a lot of money and we could do business from that money. The credit that we get from other people is not that much that we could do business. And also we have to repay the credit we get from other people all at once. With [the NGO] credit we repay in instalments.*

When asked if she would take credit in this way again, she answered:

*Yes, it is very good. Women can make a business for their husband to work with. Because almost all the women are busy with courses and school, they will not do business, but it will be useful for their husbands.*

Three years ago an assistance agency introduced two charity boxes in the village – one for men and one for women. The cash collected was to be used as a revolving fund from which contributors could access credit. However, as the villagers explained, the men had used their collection to rebuild the central mosque in the village. According to the head of the women’s *shora*, the women’s fund is used the following way:

*Every woman in the community should put some money in the box. That money is for women and they can use that money for credit. I started a business for the first time with that money. I bought some cosmetics from Herat and gave them to three other shora members for selling the products in the village. I also brought some of the products with me to school and sold them to my friends. I got 500 Afs profit from that and returned the money I took from the box. The second time, the shora cashier used that money for buying phone cards. She put them in her husband's shop which is in the village. In one year she got 500 Afs profit from that money. This time I do not know who will use that money for business.*

*Muslima, head of female shora, teacher*

No women outside the female *shora* had used the money from the revolving fund. Based on interviews with other women, very few understood what they had given their money for when they had contributed to the charity box. When the head of the *shora* was asked if other women in the community could use that money for business, she replied, "I do not know exactly because it is only two times that we have used that money."

## 4.6 Creditworthiness

Creditworthiness depends on:

- former repayment practices;
- income sources or valuable assets (including daughters); and
- access to social relations for assistance in repayment.

Not all three are of equal weight in determining creditworthiness. Wide and strong relations are most important – these can outweigh a lack of the other two. Only when one has no known good relationships and no valuable assets, or when a household's livelihood has been affected by misfortune, does repayment practice become more important. This is mostly the case with poorer households.

Once a household has established a creditworthy reputation and good credit relations, the conditions of taking and repaying credit can be reasonably flexible. Having a diverse network of credit sources also provides flexibility in periods of need – an important function of credit relations is access to credit to repay old debts.

Credit practices (giving as well as taking credit) are guided by a strong sense of both pride and shame. One respondent referred to her long-term receipt of credit without repayment from her maternal uncle as *nang*. The concept of *nang* was explained to be both pride and shame: the feeling on one hand of an obligation to give credit, and on the other to repay credit. In the case of giving credit, the creditor feels pride, while refusing credit to a needy relative, fellow villager or *qawm* member is considered shameful – in both cases this is called *nang*. For the debtor too there is a feeling of shame when a debt cannot be repaid. Many respondents mentioned that they would do anything, including sell their assets, to repay a debt in order to not lose face.

Close relatives' need for assistance can be felt as a strong social obligation, however this can also be felt as a liability. Households which are doing well financially and have more assets than others may be asked for credit more often – reducing their capacity to improve their individual circumstances. Refusing to provide credit is

difficult as it is considered shameful to appear “unwilling to help out”. From the perspective of the debtor, this “helping out” can put them in an ongoing state of indebtedness, gratitude and dependency.

## 5. Household Wealth Group and Credit Use

Although taking and giving credit is a common practice for all households in the Herat village, credit plays different roles across households in different wealth groups (table 3). While for better-off households which have confidence in their future income sources, buying on credit is a planned transaction that will not affect their livelihoods, for a poor household it is a response to a crisis situation or a survival strategy, which can have a major impact on future livelihood decisions.

### 5.1 Quality of credit relations

The outcomes of credit use differ depending on which wealth group a household belongs to. In all cases social relations are vital for accessing credit, but as the importance and uses of credit differ across wealth group, so too do the quality and type of social relations associated with credit. This study found two main types of relations between households with credit links: horizontal and vertical credit relations. Horizontal credit relations are those between households with more or less the same wealth status who exchange credit primarily on a reciprocal basis. Vertical credit relations are those between households from different wealth groups that engage in one-sided credit exchanges. Credit taken through horizontal or vertical relations can have positive or negative outcomes depending on the circumstances and the livelihood strategies households employ. Horizontal credit relations can provide security and are often integral parts of larger mutual support mechanisms, but they also increase liabilities since they are clearly forms of debt. Vertical credit relations can provide assistance for those households in chronic need or experiencing crises, but they can equally be a means of earning extra money at the expense of those in need, or appropriating valuable and productive assets.

Most households in the Herat village have a fixed set of households from whom they borrow as well as to whom they give credit. These networks do not involve only credit exchange but also include broader economic relations, and they are often confirmed by social relations such as marriage. They are not structured institutions; rather each household has “web-like” networks with other households. Vertical credit relations are also part of this network (such as buying on credit from shopkeepers). For poorer households their relations with shopkeepers are not equal: the household is in need, while the shopkeeper decides whether or not to assist and sets the price of the goods. This relationship with the shopkeeper is a vital part of a poor household’s network, but it is a link that, while providing security, also increases dependence.

#### Horizontal credit relations

Households continuously re-establish the groups with which they engage in active exchange of credit, which is often reciprocal. The type and extent of assistance exchanged is in constant flux, and varies by wealth group. Poor households, although also engaged in reciprocal credit relations, tend to limit this exchange to in-kind and small cash credits, whereas households with stable and relatively prosperous household incomes engage in more cash credit relations, often involving larger amounts.

*Usually people give credit between their paternal cousins or sometimes with friends. Because credit relations are like this, sometimes you give, sometimes you get, therefore the needy people do not come to us for credit as they know we do not have a credit relation with them. For example, if someone borrows 5,000 Afs which he cannot pay back at once but he can pay*

*it back in instalments, we still give credit. If he cannot we do not give credit. Then we can give khairat (voluntary alms) or zakat (when one has a certain wealth, obligatory annual alms should be provided to the needy families within your community).*

*Abdul Shekebanee, large farmer*

*Because I do not have much cash income but more a wheat income I give wheat to the neighbours. It is up to them if they want to give it back in wheat or money. Also my colleagues borrow wheat sometimes; they also buy some onions and vegetables from in our garden. It is actually not enough for selling but when they ask we cannot say no.*

*Abdul Fatah, teacher and sharecropper*

*People who receive or give credit are specified, they are known to one another. If I go to a house for credit and he does not have it, I go to another. These are all people that I too have given credit to.*

*Dillawer Khan, old farmer, receives remittances from son in Herat*

Households from the middle-income group are particularly active participants in these reciprocal credit exchanges. Reciprocal credit relations are quite flexible, especially within an active group of households giving and taking credit, and the trust between the parties is significant. Repayment, although often agreed upon at the time when the credit is taken, can be flexible if the creditor is not in need.

From the perspective of the relatives of households suffering from impoverishment and accumulating debt, reciprocal credit and support mechanisms can also entail a certain liability. When an unplanned crisis occurs with close relatives, they are likely to depend on credit or assistance from their relatives. As there is a social obligation to provide this assistance, the stability of closely connected households (and thereby their creditworthiness in the eyes of others), may also be reduced. These situations can lead households to want to break family connections, which does happen occasionally (as in Baser Ahmed and Kobra's case, box 6). Several households in the Herat village mentioned that they did not receive any support or assistance from close relatives – neither offspring, nor siblings nor other relatives.

Some households with financial problems may gradually see their network of credit relations collapse because of their failure to actively participate in credit exchanges. However, households can also actively re-establish old networks, or establish new networks or new relations within their already established network, as the case of Nuzamudeen illustrates (box 7).

### **Vertical credit relations**

Apart from reciprocal credit relations between households with more or less similar wealth statuses, respondents also mentioned receiving credit from wealthier villagers and relatives – households with which they do not have reciprocal credit relations. These vertical relations can be a part of the web of networks each household has, although the quality and outcome are different from those resulting from the horizontal relations. Respondents in the Herat village defined credit practices between households of different wealth status in two ways: as a way for the wealthier villagers to assist needy households; and as a way for the wealthier villagers to appropriate land or obtain other valuable assets, including marriageable daughters. Although close relatives are known to be important in mutual support networks (with reciprocal credit exchanges), respondents also mentioned several



cases where close relatives engaged in credit practices with the purpose of gaining control over others' assets.

### Assistance credit

Traditionally and based on Islamic obligation, wealthier families are obliged to assist poorer families in the village. The most common support mechanisms are *zakat* (obligatory annual alms), *khairat* (alms), *baksheesh* (gift) or *komak* (assistance). Although people mainly speak of *zakat* when referring to assisting fellow villagers, *khairat* and the other forms of support for needy families are more crucial for the day-to-day livelihoods than *zakat* – which is given annually. Credit is also a significant form of assistance for the poorer people in the village, and this is usually provided as *qarz-i-khodadad* – a loan given on the understanding that the debtor will repay when God provides the opportunity.<sup>12</sup> The difference between *qarz-i-khodadad* and *khairat* was explained by one respondent as follows:

*Qarz-i-khodadad is something people come to you and ask for, you give it and when they can, when they find money, they will give it back. With khairat it is something you decide by yourself to give, you are prepared to do this of your own accord, and you do not expect to get anything back.*

*Abdul Shekebanee, large farmer*

The new *arbab*, who used to be a shopkeeper and provided goods on credit (and currently provides cash and business credits), gave the following reasons for giving credit to the needy:

*I gave a lot of credit. During the drought I was selling material for carpet weaving and people would buy the material on credit and repay me after they made the carpet and sold it. Also those families who needed cash, I gave credit in cash or kind with the agreement they will pay me back after the carpet they were making was sold. They were those in need. I have been a teacher for a long time and know those who are in need and helped them with credit. Some did not pay back but I do not force them to repay, otherwise they will have to sell their daughters and I do not want them to do that...If I ask people for my money back I will not get the profit I get from God – sawab.*

*Ustad Abdul Rahman, new arbab, former shopkeeper*

Not only poorer households rely on assistance credit. In times of urgent need of cash, households from the middle-income group take credit from close or distant family members as a form of assistance, exceeding the mutual support of horizontal credit relations. Providing *shariq*, a business investment, can be considered an act of providing assistance even though the provider of the credit will share in the profit when made.

When a household in crisis has no relatives to fall back on for assistance or *qarz-i-khodadad*-like credit, or if the crisis situation extends for too long (jeopardising a family's creditworthiness and capacity to reciprocate credit and support in the future), there is a risk that they will fall into borrowing practices which can undermine the few assets they have. They will be obliged to seek credit outside their

<sup>12</sup> This kind of assistance credit is provided between households of different wealth groups as a way of assisting a family in need. Although this form of credit was practised frequently, respondents did not always refer to it as *qarz-i-khodadad* – rather, it was often referred to as *qarz-i-hasana*.

direct network of households, or previous credit taken from either horizontal or vertical credit relations will change in character from assistance to credit offered with the aim of appropriating the borrowers' assets.

### **Credit given for asset appropriation**

Some credit is given with the aim of appropriating the debtor's assets. This may either be in a single transaction or through the accumulation of small amounts of credit, which the creditor knows the debtor will have difficulty repaying. This type of credit is given by both outsiders and by relatives.

Households access this type of credit in times of crisis, but these are often not the poorer households as they do not have valuable assets to use as a guarantee for repayment (unless they have a beautiful daughter of marriageable age). Valuable assets used as a guarantee for credit taken in large sums can effectively be confiscated by, or transferred to, the creditor. This is not always explicitly agreed upon when the credit is taken, although many households acknowledge that if they are forced to repay they will have to sell their assets, and this includes marrying daughters at a young age for the bride price.

#### **Box 5. The case of Ghulam Mohammed**

*Ghulam Mohammed's household's gradual impoverishment had set in one generation earlier, when Ghulam Mohammed's father was the sole income provider for his family. He had eight sons, of whom all but one, Ghulam Mohammad, died at an early age. He married a second wife in the hope of more sons, but to no avail. Being the only income provider as well as paying for a second marriage and bride price, his father fell into greater debt, and had to sell his land piece by piece. Ghulam Mohammed only has 1 jerib of his father's land left.*

*Like his father, Ghulam Mohammed is the sole income provider for a household of eleven, including his stepmother, seven daughters and two sons. The oldest son is only four, too young to work. Ghulam Mohammad is a daily labourer in the village and cannot go to Herat or Iran for work because he is the only male adult in the family. During winter there is not much work in the village, although some people give him work "because they feel pity for him."*

*The situation worsened when his wife fell ill and died. Not long after this, his mother also died. To pay for the costs of the funerals as well as for household expenses, he mortgaged his land for 50,000 Afs to a wealthy villager he has no relationship with. "Usually 1 jerib of land is worth 30,000 Afs but this person had sympathy for me and gave me 50,000 Afs." After mortgaging his land he continued to take credit from various people and shopkeepers for daily household needs because daily work was not generating sufficient income to support his family of eleven. He is now 100,000 Afs (US\$2,000) in debt. Even though he is indebted, he is still thinking of taking a new wife: "I cannot live without a wife." But he acknowledges that no family will give their daughter to him in marriage when he is already so indebted, and falling more and more into debt.*

*"People have sympathy for me," is Ghulam Mohammed's reply when asked why people continue to give credit even though he has no way of repaying his debts. A neighbour sitting in on the interview explained further: "They will not give assistance or khairat unless you have land or a beautiful daughter. Eventually they will take your land or daughter. First they give you one or two pieces of bread as khairat, then they say 'I'll give you credit', and give you 100 or 200 Afs every month. Then after five years they will suddenly demand their money back and if you do not have it, they will say then give me your land or your daughter. It happens here in the village. Those who give credit want the family to become more indebted so that they can get their girls."*

*Ghulam Mohammed added: "It might happen to me also after a year or two. They might ask for my daughter". The researchers all looked at the oldest daughter, a beautiful 15-year-old, who was playing with her youngest brother. She smiled back, seemingly unaffected by what was said.*

As land is rarely sold to non-family members outside crisis situations, one way of acquiring land is to provide a mortgage or ongoing credit to a landowner with the ultimate aim of obtaining the land due to debt default. Mortgage is the only credit form this study observed in which the guarantee was specifically defined prior to the transaction, and with this situation the benefits for the creditor are two-fold: he earns profits from the land which he can use until the debt is repaid, and he may potentially acquire the land if the debt cannot be repaid. In the Herat village mortgage was rarely practised by the respondents – only one currently mortgaged out his land. It was mentioned that land was acquired through defaults on debt repayment rather than the inability to repay the mortgage.

Daughters are considered valuable assets as a bride price can be as high as 150,000 Afs (US\$3,000) in the Herat village. While mortgaging may prevent the distress sale of land by allowing time for the household to find the amount owed and regain possession of the land, marrying off a daughter is a last-resort solution, and is viewed negatively by many as “selling” a daughter.

*Every one takes bride price when their daughters get married, but when someone does it to use the money to repay his debts people say “he sold his daughter,” which is not a good thing. But they are very much in need and would sell other things first. But it is a shame.*

*Ustad Abdul Rahman, new arbab, former shopkeeper*

Many respondents acknowledged the value of daughters as an asset in the context of the bride price system, as families with daughters are considered more creditworthy than those with only sons – since in the future a large sum of money can be expected to come to the former. During an interview with a male respondent and several female neighbours, respondents were asked which family was more likely to receive credit – a family with five daughters or a family with five sons: all said the family with five daughters, including the children present.

*Having an income and therefore being able to pay back the debt is not the only reason why people give credit to someone. If he has no income but he has a young daughter they will also give credit. Also if he or she has land will people give credit to them. Instead of repaying the credit, the creditor can marry his son to the debtor’s daughter. Or the creditor takes the debtor’s land in mortgage.*

*Zakia, wife of a disabled man but with monthly income, makes handicrafts for sale*

Some credit arrangements initiated ostensibly as a means of assisting a household in times of need, such as shopkeepers providing goods on credit (potentially growing into large accumulated debts), mortgaging land and marrying a daughter from an indebted family can simultaneously be used as a means of acquiring cheap assets.

Ghulam Mohammed’s household currently has a debt of 100,000 Afs, as well as 1 *jerib* of land which is mortgaged out. He has seven daughters; the oldest is fifteen. He will have to “sell” his daughters and/or his land in order to overcome his debt and marry a second wife, and stabilise his household’s economy which is now in a continuous cycle of accumulating debt. This will take some time (if it will succeed at all) as his sons and several daughters are still too young for work or marriage. What is notable with this household is the absence of relatives (due to lifecycle developments) to support Ghulam Mohammed. Furthermore he has no horizontal

credit relations as he cannot reciprocate credit or other forms of support. The impoverishment of Ghulam Mohammed's household also clearly illustrates how vertical credit sources can change in character from assistance to accumulation intentions, when the debtor has no choice but to engage in them – stripping him of his productive assets, land and other valuable assets like marriageable daughters.

The following cases also exemplify this point about assistance credit from relatives changing over time into credit for appropriation (either by chance or by plan):

*I had a piece of land which I inherited from my mother. Sometimes I bought goods from my father's shop on credit. But if I asked for 1 kg of sugar he sent me 2 kg of that. I thought that he loved me and that is why he is sending me a lot of goods. Finally my husband became indebted from other people and shopkeepers, so we decided to sell my land. But then my father came and said I will buy your land. He repaid the debts we had with other shopkeepers, gave 1 lakh to one of our relatives with whom my husband was indebted from, and said to us, "The remaining 1 lakh for your land is paid by the debt you have with me from all the goods you bought from my shop in credit. That debt is the remaining money for the land". And he got my land.*

*Marian, wife of farmer with several outstanding debts*

*My husband is a partner with one of our relatives in a vehicle [used for transportation] and he earns 12,000 Afs (US\$240) per month. My father-in-law also has a partnership with my aunt's son in a vehicle; he receives 5,000 Afs (US\$100) monthly. Three years ago my father-in-law was "two-part partner", meaning two parts of the profit went to my father-in-law and one part went to my cousin. But when my younger brother-in-law got married my father-in-law took credit from my cousin for wedding expenses and finally became 40,000 Afs (US\$800) indebted to him. After a few months my cousin asked for his money and my father-in-law did not have the money to pay him. So my cousin asked for a larger share in their business. The debt of 40,000 was added to my cousin's investment in their business which resulted in his share of the profit being two thirds instead of one third, whereas my father-in-law lost one third of his share and now receives only one third of the profit of their business.*

*Muslima, head of female shora, teacher*

After the debt is repaid with land, daughters or other valuable assets, the household's creditworthiness changes considerably as it holds fewer assets. Depending on the productive and valuable assets a household has left, it may have to readjust its livelihood strategy as well as seek out new relations and build on networks of mutual support and assistance.

## 5.2 Credit use in poor households

All but one poor household reported taking credit from shopkeepers, and this form of credit represents the majority of loans taken by this group (nine of fifteen).<sup>13</sup> Poor households rely less on small cash and in-kind credit than middle-income households; when they did take such loans they were more often in-kind than cash. Often small

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<sup>13</sup> The only household which did not buy goods on credit was an old woman living with her brothers' families in one compound; she says she forms a household on her own and lives predominantly from the *zakat* and *khairat* other villagers give her.

cash credit was used by these households to repay outstanding debts with shopkeepers, in order to guarantee future credit possibilities with the shopkeepers.

*I do not have credit relations with any of my relatives or my friends because I do not have money to give them. I know that they also do not have money to give to me or to repay me if I had given them money. But sometimes if some of my close relatives need some wheat or grapes I will give it to them in credit but not as baksheesh [gift].*

*Omira, widow with working sons but with no fixed cash income*

Six out of ten households reported having outstanding cash debts ranging from 700–150,000 Afs (US\$14–3,000). While two of these six households had large debts of 100,000 Afs (US\$2,000) and 150,000 Afs (US\$3,000), the other four debts were all less than 18,000 Afs (US\$360). Five of these were accumulated small cash loans from shopkeepers. Only one household (originally from the middle-income wealth group but experiencing a loss in income status, see box 5) had accessed a large cash credit in the form of *gerawi* (mortgage), however this was to repay accumulated debts from other households and shopkeepers.

Although these poor households do have small networks with which they exchange in-kind credit, their access to cash credit is more difficult. The main reason for this is uncertainty of repayment. When these households do receive cash credit, it is usually from households of other wealth groups and is provided as a form of assistance – with no or low expectations of repayment, at least in the short term. These represent vertical credit relations which can help households survive, but may also create ties from which it is hard to break free.

*My relatives are very poor. They do not have that much money and wheat to give me. Until last year I was working in shopkeepers' houses, baking bread for them or washing their clothes. They gave me tea, sugar, rice, oil and clothes in return. If sometimes I go and ask for something from them they will give it to me. But I try not to ask because it is a shame for me if I ask something from people without asking for credit or for work.*

*Sardar, female-headed household, old widow with no sons, lives with her brothers and is left to provide for herself*

This responsibility is acknowledged by the wealthy who give assistance:

*Since we are all from the same qawm (tribe, or kinship group within tribe), we do take care of the poor people in need. They don't have to ask.*

### **Box 6. Losing the security of the network**

*Baser Ahmad is married with seven children. He used to be a sharecropper and “had a good life”. He explains how all that came to an end:*

During the war I stepped on a mine and lost both my legs. I had to stay in hospital for six months, and took two years to recover. Before that I had a good economy, I was a sharecropper. When I became disabled I had good credit relations for one or two months, but then these relations slowly ended because of my physical situation. Now I have no credit relations. I had saved some money and we lived on that for two years but after that we had no income. Then my wife started working. She cleans people’s houses, washes clothes and bakes bread.

*His son of 12 years earns some extra income with the collection of fuel for other households. Baser Ahmad has brothers who used to live in the village but they have all moved out to other villages and started a new life there. “They do not support me. When you have physical power everybody is your brother, when you are disabled brotherhood means nothing”. Baser Ahmad’s wife’s family, who live in Iran, only support them by letting her family stay in their house while they are away in Iran. Kobra (Baser Ahmad’s wife) is afraid they will have to leave if her family decides to return to the village.*

*The household now relies on the work of Kobra and their oldest son. But together they earn little, and they often still have to request other families for credit or assistance. They also depend on zakat and khairat from wealthier households.*

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

*Kobra explains how they sometimes do take credit:*

*Sometimes my children buy things on credit from the shops. We are 3,000 Afs in debt from the shopkeepers. We have taken rice, oil and wheat from them. We also take credit in cash. We are 3,000 Afs in debt from the neighbours too. My husband took money from them because we did not have anything for household expenses. We did not repay them back yet. I don’t know how my husband will repay them. They come and ask for their money and if we have money we repay them. But if we do not have money we tell them to give us some more time, when we make money we will pay them.*

*Nevertheless, Kobra did express confidence in finding credit when needed.*

*Although a poor household enduring times of crisis, based on their own account their livelihood has become steady and they are not falling into further poverty. A subject discussed during the interview with the father (in which his teenage daughters were present and actively participating in the discussion) allows insight into more long-term strategies of the family: marriage.*

*The household sends their daughters and younger sons to school which is free of charge, although Baser Ahmad mentioned that girls’ education does not really benefit his household as they leave the family when they get married. However, the family confirmed that educated girls are valued more in wedding arrangements (although they do not receive a higher bride price) – there is more demand for educated girls than non-educated girls.*

*Although not mentioned explicitly, the forward-looking strategy of this household with three educated daughters reaching marriageable age may be because they are factoring in future bride price income sources or a wedding match for their daughters from a more wealthy family (as the daughters were “beautiful”, this increases the household’s social asset base considerably). Also, when the remaining three sons grow older they will be able to go to Iran for work. Perhaps this future expectation is what underlies Kobra’s confidence in accessing credit.*

Often poor households prefer not to receive credit as they have little means of

repaying their debts and would prefer to receive *komak*, *khairat* or *baksheesh* – although these are not always openly asked for out of shame.

*I am afraid to ask for credit from the neighbours because I can't pay it back. I took one bag of rice from the shopkeeper in this village, so I am 400 Afs in debt, I didn't repay it yet. As I don't like to take credit most of the time, if some people or neighbours give me something it is fine.*

*Sughra, widow, female headed household, lives on cleaning, baking bread and carpet weaving*

It is in cases like this that people ask for credit but receive *khairat* or credit which only needs to be repaid when the debtor has the means to repay. For those providing credit with the intention of assisting others, the creditor's aim is to earn "merit" with God.

*We take credit from shopkeepers in the bazaar. They give it to us because we are poor even though they are not relatives, but they feel pity for us and help us.*

*Fauzia, cleans houses and clothes and bakes bread*

Not all poor households can openly ask for assistance. Ghulam Mohammed, whose household is currently experiencing drastic impoverishment with accumulating debts (see box 5), was asked whether he received assistance in the form of *komak*, *khairat* or *baksheesh*, to which he replied: "No, because I can work. They do assist me with giving me work if they have it." He also mentioned people providing him credit as a form of assistance "because they have sympathy for me".

The uncertainty characterising Baser Ahmed and Kobra's household (box 6) illustrates how for some households credit ends up forming the basis of a livelihood strategy – they have no other means of acquiring food and they have depleted the already uncertain alms they will receive with the harvest. For these poor households with few other options, buying on credit or taking small cash loans is a sign of extreme vulnerability: it may help them survive today, but at the expense of food or other items in future. The price they pay for basic needs is higher when they buy on credit, and added to this they need to set aside funds from already uncertain future income flows to repay the debt. As one respondent said, "If you take credit, everything becomes double, then I need money for both household expenses and credit." There is also the danger of losing credibility and jeopardising future credit sources.

For poor households the second situation in which credit is needed is during crises or special lifecycle events. It is notable that no respondents from this group of households mentioned using credit for health costs, perhaps indicating that poor households often do not consult a doctor or seek further medical care as they cannot afford it. As a neighbour listening during an interview noted when a heavily indebted widower told us his wife had died: "He was already very poor when his wife got sick. He could not take her to a doctor, and then she died." Credit is often given to poor households as a form of assistance in times of crises, such as during illness and in the case of deaths in the household.<sup>14</sup> While the general public may give small amounts of cash as *khairat* or *baksheesh* relatives often support this with larger amounts of

<sup>14</sup> Crises caused by illness or death do not only weigh heavily on the household's economic situation due to possible medical or funeral costs, but also for the poor due to loss of income sources.

cash given as *qarz-i-hasana* which does need to be repaid, but only when the family is able to repay. For those respondents from poor households who mentioned having to access crisis credit, it was always distant relatives who eventually helped out.

*When my husband was sick we decided to bring him to Iran. At that time my two sons were in Iran so I asked people to help me. I put a shawl in front of the mosque on Friday so that people could put money on it. But the money I collected there was not enough. So I took 10,000 Afs credit from my relatives who are living in Herat. For three years I have not had the money to pay them back. My two sons did not give any money for their father or for his treatment. They said to me, "If you did not have money, why did you bring him here [to Iran]?" After 20 days I brought my husband back. One month later he died. When he died the people of this village helped me a lot and gave wheat and other assistance for the three days for his funeral.*

*Shah Jan, widow, working as cleaner in community centre*

For poor households with coping livelihood strategies, social relations are vital for their day-to-day needs as well as during crises. Besides their small networks of households with whom they exchange mostly in-kind and small cash credits, there are also social relations with households from other wealth groups, including relatives, that assist these households. As soon as a poor household needs assistance, it ideally "does not need to ask".<sup>15</sup> The reality of this ideal is obviously much harsher, and for these households it is crucial to present their "vulnerability" to the wealthier households rather than asking them directly for assistance. Asking for credit or work can be a way of presenting one's vulnerability, with the aim of receiving charity instead. Connections with wealthy families and shopkeepers are the vertical relations within a poor household's social network. These relations are just as vital as the reciprocal credit relations of small and in-kind credit. Although for a poor household charity is preferred as there is no direct repayment involved, accessing credit can have its advantages even though it can increase their vulnerability. This is particularly the case for *qarz-i-khodadad*, as the constant state of indebtedness a poor family has in relation to a wealthy family can bind them together to the immediate, if not long-term, benefit of the poor household in terms of present livelihood security.

### 5.3 Credit use in middle-income households

The most common credit practices that middle-income households pursuing stabilising livelihoods engage in (as with the poorest wealth category) are buying on credit and taking small cash and in-kind credit. These households were the only ones to admit to accessing large cash credits: six out of nine of these households had large outstanding loans from 3,000–50,000 Afs (US\$60–1,000), averaging around 20,000 Afs (US\$400). Apart from using credit for day-to-day household expenses, credit (especially large cash credit) was used for health costs (n=3), purchasing land to build a house (n=2), livestock and a tractor (each n=1), illustrating this group's use of credit for both consumption and investment purposes.

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<sup>15</sup> This may explain the differences between interviewing respondents from poor households in comparison to households from the middle-income or wealthy households: they are used to presenting their vulnerability in order to access assistance.



**Box 7. Re-establishing a network: a new qawm**

*Nuzamudeen settled in the village five years ago with his two wives and twelve children. They are kuchi, and before coming to the village they migrated with their herds.*

*“Before the drought, we were always moving, with 20–40 households. The economic situation was good, there was a lot of grass and less population. You can only move around when you have more than 100 sheep, otherwise you do not have enough products to live on. Now we do not have the ability to do that. I used to have 100 sheep and two camels but during the drought there was not enough grass and water and they died. Or we were forced to sell them for household expenses.”*

*After losing his economic base, Nuzamudeen could no longer move with other kuchi families and he was forced to settle. “It was fortune and luck which brought me to the village,” although he also said he chose this village because of the many job opportunities available. He bought a small plot of land (less than one jerib) for 60,000 Afs, on which he is planning to build his own house. “The priority in this household is not food but to build our own house”. He bought the land from a man in the village. “We had some relations with this village before. My uncle’s daughter married a man from this village. So we were allowed to buy land.”*

*When Nuzamudeen came to the village, some wealthy people had given him money with which to trade sheep (shariq). He was honest and did good business. “The people with money were happy and said I could stay in the village.” Nuzamudeen is still working as chulee (animal trader) together with four shariq (partners) from the village. Every 15–20 days he buys sheep from the kuchi at the animal bazaar and sells them in Herat. The shariq from the village gives him money for a period of four months to buy and sell sheep. When the four months has passed he divides the profit with the different shariq and himself.*

*Nuzamudeen is now 30,000 Afs in debt from taking credit to buy the small plot of land. He has also borrowed smaller amounts (2,000–4,000 Afs) from different people in Herat city and kuchi relatives or acquaintances. He describes his relationship with his creditors as: “We exchanged daughters with them” and “we know them from trading sheep”.*

*Today Nuzamudeen has no plan for how he will pay back the debts. “I said I would repay in one or two years. God knows better what will happen in the future. If they force me to pay back the money I will take credit from other people, from people here in the village. The people who have money here will give it to me.” He explains further, “The day I had sheep I had qawm (tribe), the day I lost my sheep I had no qawm. Now this village is my qawm”. When I borrowed the 30,000 Afs I did not have that many relations with the villagers to ask for credit. Since the partnership in sheep trading with the villagers “I have become more trustworthy for them, people know I am honest and that I can do a good job.” He ends with a saying:*

*The man who has good mahamela (business partners) has a 100 mahamela; the man who has a bad mahamela has one mahamela.*

*“Till now people from the village have not given any credit to me. I would be able to get it from shopkeepers but I do not want that. If I cannot pay back on time they will easily disrespect you in the village. In Afghanistan you need to have something in your hand [money] otherwise you have no respect.”*

The credit taken by middle-income households was predominantly from shopkeepers, relatives and neighbours. Only one household had taken credit from a wealthy villager who was not related, and one household had taken credit from outside the village. This last household was a settled *kuchi* family who, at the time of taking credit, had no credit relations with other villagers in order to access an amount of 30,000 Afs (US\$600). He used this loan to purchase land in the village on which to build a house (see box 7). Although five out of nine households in this wealth group owned small plots of land, none of these plots was larger than 1.5 *jerib*. Only one respondent reported having mortgaged his land in the past, which he then had to sell to pay off accumulated debts due to health-related costs and

**Box 8. Debt repayment between brothers, and between two non-related villagers**

*Abdul Rahman is an elderly man who is the head of an extended family of seventeen members: his second wife and fourteen children, of whom the eldest son is married with five children. Five daughters have married and left the family. He and six of his unmarried sons work on leased land. His eldest son works in Mazar-i-Sharif as a truck driver but has no fixed income. The household engages in livestock breeding, and plough people's land with a tractor they recently had bought on credit from Abdul Rahman's brother. The women are engaged in carpet weaving.*

*Abdul Rahman has three brothers living in the village. When his father died they all received five jerib of land. However, when he was young he had a car accident and was hospitalised. Medical bills and loss of income resulted in accumulating debts, after which he mortgaged his land. Still unable to make ends meet, he eventually had to sell several plots of his land (to his brothers and paternal uncle) until he had none left. His brothers have accumulated wealth over the years and now belong to the wealthy group of households within the village: all have gone on haj and one brother is member of the shora. Although Abdul Rahman is not a poor man, there is a definite difference between his middle-income status and that of his brothers who are considered wealthy. Nevertheless, his brothers still engage in credit relations with him.*

*Two months ago, Abdul Rahman bought a tractor from his brother for \$2,000 on credit. He was hoping to repay this loan from the money his son would bring with him from working in Mazar. His brother, who wants to go on haj for the second time, came and asked for his money back. Abdul Rahman replied to the question of how he will repay, "My brother will have to wait to go on haj until I have collected the money to pay him back." Already the brother had taken the tractor back three times. Every time Abdul Rahman went to the arbab who was able to convince the brother to allow some more time for repayment and return the tractor. The tractor was being used by one of Abdul Rahman's sons to plough other people's land and was earning 400 Afs per hour.*

*Abdul Rahman had also recently bought a small plot of land for 150,000 Afs by taking a large cash loan from a villager he knew. Abdul Rahman had already repaid 100,000 Afs but still needed to repay 50,000 Afs. He agreed with this man to repay it before naw roz. Again when asked how he will repay this loan, Abdul Rahman replied, "I hope that my son will bring some money when he comes from Mazar... I have given my tongue to him. I have to give it back to him. If my son does not come or does not have enough I will go to a relative and ask money from him. I don't want to lose my trust, then I cannot get any more credit."*

*The son came home during the field research and had not brought money with him but a second bride.*

income loss after he had a serious car accident. It was only in this middle-income wealth group that households had used large cash credits for health costs.

Although the average outstanding debt was 20,111 Afs (US\$402), all households were confident that they would be able to repay their debts (although they did not mention how this would be done). Similarly, these households expressed confidence that if they needed more credit they had enough relations with the resources to provide this credit. Even though they did not own sufficient productive assets or have reliable, stable income sources to guarantee repayment, their confidence was based on their access to other households that could provide credit.

Maintaining these credit relations also means providing credit to others. Small cash and in-kind credit has a strong reciprocal character, and it is not conducted with every household arbitrarily. Credit is often provided and asked from households "we know" or from people "we have a relationship with". The situation of Nuzamudeen (box 7) illustrates the importance of extended social relations for access to credit, but also for stabilising livelihood strategies in general. His story illustrates the strategies households undertake to improve their social asset base.

Nuzamudeen had lost his direct family connections and original social network due to loss of income sources during the drought which made him a potential burden within the network. However, he still had connections which were useful. The social relations he and his family had established in the past (such as the settled *kuchi* families in Herat city who had lent him money to buy land in the village) were vital in his attempts to rebuild a new life in the village. And through his skills as an animal trader which were of interest to those who gave him credit, he was able to invest in re-establishing a new socioeconomic network in the village. By engaging actively and profitably with the villagers, he is slowly gaining their trust; the next step is to seal it with a marriage. When asked if Nuzamudeen was able to marry his son within the village, he replied; “Yes, land and daughters have equal value. If someone can give land, they can give a girl too.” He had already engaged his first son before the drought to a girl from a *kuchi* family, but now he wants to marry his second son within the village.

Nuzamudeen’s situation is exceptional within this community in that he is a *kuchi* who has chosen to settle in a location outside his original community and *qawm*. However, the importance of marriage as a means of confirming economic relations as well as initiating mutual support mechanisms for the longer term, (including credit exchanges) is also common among other households within the village. When the new *arbab* was asked who his credit relations were, he answered; “Families with whom we have exchanged daughters. Neighbours we have made close to us through family relations.”

Among the middle-income households there is often a need for larger cash credits that exceed reciprocal expectations; these are one-sided credit transactions. While the credit relation is not reciprocal, it may be used to reinforce economic and social relations between households. Households would prefer to access larger cash credits within their existing network of credit relations, but they often need to move outside these networks to obtain required loan amounts. This one-sided credit form is less flexible when it comes to repayment, and the lack of reciprocity in the transaction means that households can only receive it when they have access to reliable income sources and productive and non-productive assets. To guarantee future creditworthiness and preserve honour, timely repayment is critical.

Often households fall back on credit sources within their networks to repay their one-sided outstanding debt. This is primarily done with close relatives who can be considered a guarantee for credit sources. It is better to be in debt with close relatives within the network than with non-relatives or distant relatives, because of the high level of flexibility it provides and the less shame associated with it when repayment is delayed.

Why are one-sided larger cash credits only found to be used by this middle-income wealth group? Wealthy households have enough savings to pay for these costs directly. Poor households have no savings or other buffer to guarantee loans of this extent, so they rarely request these kinds of loans. Furthermore, they have no ability to invest in housing and or expensive marriage arrangements, the prime uses of these loans.

The confidence that many households expressed in being able to repay high outstanding debts, as well as to access new credits when needed, reflects their strong social networks. Although they do not own sufficient productive assets nor have access to stable income sources, they have enough resources to be active providers

of small credit, thereby maintaining their presence within social networks which in turn provide opportunities for them to access larger cash credits. These are used to overcome sudden shocks such as health-related costs or, for those able to move long the continuum toward accumulation, to invest in the future – through improved housing and purchasing land or other productive assets like farm machinery.

#### 5.4 Credit use in wealthy households

A smaller proportion of households in the wealthy income group compared to the poor and middle-income groups mentioned buying on credit or taking part in give-and-take of small cash and in-kind credits: eight out of thirteen bought on credit and only three mentioned taking small cash credits. None of these households mentioned accessing large cash credit – but this does not necessarily mean they did not take it. Often the wealthier households were less open about their economic situation and the extent to which they had outstanding debts, while they were more open about their provision of larger credit and business credit to others, as well as their provision of assistance in the form of credit to poorer people. Another explanation for this relatively

##### **Box 9. Downfall of a wealthy household**

*Gul Ahmad was a wealthy man before the drought. He had a shop and did business in cultivating and trading in cumin. He had bought a large amount of cumin seed to cultivate on credit. "That year we didn't have rain and I became totally indebted (150,000 Afs). I sold my shop; I had a pair of cows and I sold them too; I also sold my wife's jewellery. Then I decided to go to Iran for work. I worked there for almost two years. Meanwhile I married my daughter and took 120,000 Afs for the bride price. I made a dowry worth 80,000 Afs for my daughter and I used 40,000 Afs of the bride price to give to my creditors." Gul Ahmad now no longer has debts.*

*While the wealth status of Gul Ahmad's household is lower than it was before the drought, his household's situation is not bad. He is now a daily labourer in the village and his son is a teacher – they provide an income for a household of seven members. They have 1.5 jerib of land and two cows. Gul Ahmad is now trying to have his son accepted at university.*

less frequent use of cash credits is that in general the wealthy have more savings on hand with which to manage lean times, and the diversity of their income sources means that they generally face fewer lean times. Nevertheless, there are still some gaps in income flows where wealthy households need to buy on credit.

Households in the wealthy group are the ones in a position to invest surplus cash into the business ventures of other households (from the middle and wealthy income groups). It is also in this group that *sudhghor* (those who give credit with interest) are most probably found, although this is not publicly acknowledged.<sup>16</sup>

Only three respondents (all in the wealthy group) acknowledged providing *shariq*. Six out of thirteen households in the wealthy group had taken business credit in the form of *shariq*, while only one household from the middle-income group had done so (see box 7). Providing *shariq* is clearly a predominant practice among the wealthier households which have the capital to invest in partnership. Although there might be more *shariq* provided from within the village than the number reported indicates,

<sup>16</sup> Only two respondents were willing to talk more freely about the practice of *sudh* in the village after researchers expressed interest not in the names of those involved but in the practice itself. However, from these respondents' descriptions the team was able to guess who was providing *sudh* (which also fitted the descriptions an individual gave on his credit practices without mentioning *sudh*).

*shariq* was also reported to be provided by relatives living outside the village, mainly in Herat.

Households within the wealthy group should not be seen as either those that just “give” or “receive” business credit. For example, the new *arbab* was considered a *paisadar* (rich man) in the village and an active provider of credit for others as assistance or for business. His income sources were shopkeeping and business credit (*shariq*). As well as providing others with credit, either for assistance or to earn money for himself, he initially set up his shop with a *shariq* – demonstrating that he was both debtor and creditor.

Interestingly, of the four households which had mortgaged land in the past, two were from the wealthy group. Both households had mortgaged their land during the drought to pay for household expenses, reclaiming it later through savings accumulated from labour migration to Iran and bride price received for their daughters’ marriages. No wealthy households reported using credit to pay for health costs. Only two households out of thirteen had borrowed money to pay for a bride price. These households own enough assets or have access to sufficient savings to provide for unexpected costs, and for them, mortgaging or borrowing cash is a planned strategy within which sufficient assets are owned to recapture land and repay debts in good time.

Although the households with an accumulating livelihood strategy have extended networks through which also credit is provided or received, these networks seem to be more often used for business transactions than for daily needs or for crisis borrowing since these households are able to draw down the assets they already hold and can more easily avoid accumulation of debt.

## 6. Conclusion

Credit plays different roles in different livelihood strategies. Almost all households in this study were involved in credit exchange – both providing and receiving credit. However the role credit plays within these strategies varies by wealth group, as table 4 highlights.

**Table 4. The role of credit in three livelihood strategies**

<b>Poor households with coping livelihood strategies</b>		
<b>Credit types practised</b> Buying on credit Small cash and in-kind credit (reciprocal) Assistance credit (receiver)	<b>Credit purposes</b> To overcome lean period To overcome crisis Reinforcing social relations and mutual support networks A way to promote one's vulnerability in order to access assistance	<b>Outcomes</b> Positive: Overcome lean period Cope with crisis Negative: Asset loss Increase vulnerability to exploitative credit relations (particularly where creditor aims to appropriate assets)
<b>Middle-income households with stabilising livelihood strategies</b>		
<b>Credit types practised</b> Buying on credit Small cash and in-kind credit (reciprocal) Larger one-sided cash credit (receiver) Business credit (receiver) Assistance credit (receiver and provider)	<b>Credit purposes</b> To overcome lean period To overcome crisis Reinforces social relations and mutual support networks To secure and build on asset portfolio: physical, human, financial, social and natural assets To fulfil social obligations and expectations To assist the needy	<b>Outcome</b> Positive: Overcome lean period Support overall precautionary stabilising strategy Improve asset base Obtain credit with God Improve status and influence in community Negative: Increase vulnerability to exploitative credit relations (particularly where creditor aims to appropriate assets)
<b>Wealthy households with accumulation livelihood strategies</b>		
<b>Credit types practised</b> Buying on credit Small cash and in-kind credit (reciprocal) Larger one-sided cash credit (receiver and provider) Business credit (receiver and provider) Assistance credit (provider)	<b>Credit purposes</b> To overcome lean period Reinforces social relations and mutual support networks To make money by either receiving or providing credit To build on asset portfolio: physical, human, financial, social and natural assets To fulfil social obligations and expectations To assist the needy To accumulate assets from dependent households	<b>Outcome</b> Overcome lean period Improve asset base Credit with God Improve status and influence in community Decrease vulnerability

For almost all households in all wealth groups, credit is a means of overcoming lean periods, but it is also the “glue” that connects households. However, the manner in which credit connects, and the purpose and outcome of such relations, vary widely depending on the livelihood strategies employed by the household. Reciprocal credit practices are for many households, in particular poor and middle-income households, a means of overcoming seasonal or short-term gaps in income, but just as importantly they reinforce participation in mutual support networks. These networks are essential for day-to-day support, and they are especially important in times of crisis. For wealthy households the importance of reciprocity in small cash and in-kind credit exchanges is not as vital for their livelihood strategies. However, these households too have a practice of reciprocal exchange in which credit, in particular business credit, is not necessarily reciprocated through repayment of money but through other means of support – economic, social and even political.

Although households may be confident in their ability to access credit through their social networks, there is never any guarantee that this will continue in the future. For example, periods of conflict and drought have resulted in an overall downturn of the village economy which has affected all households, reducing access to resources through credit practices across the board. Equally significant is when particular households experience economic decline over the years due to illness or changing household composition. As a result of this, fewer households within the network trust their creditworthiness, which can eventually result in them being dropped from the network. This causes impoverishment and requires the establishment of new social networks that can assist the household in developing new livelihood strategies.

Households from the middle-income group are more likely to become heavily indebted in times of urgent need, as they have greater access to credit. Poor households attempt to access assistance through charity rather than credit (to which their access is more limited), while wealthy households generally have enough resources to overcome unexpected crises. In this way, indebtedness in the context of this study site in rural Herat was not necessarily a sign of extreme poverty,<sup>17</sup> rather it was a sign of increasing vulnerability for middle-income households in the accumulation of unmanageable debts and the selling of assets to repay them. This was found to be the case with households that were experiencing economic hardship as a result of negative financial events and their failure to stabilise their asset portfolio to the point where they were merely coping on a day-to-day basis. In these cases accumulating debts contributed to the situation, particularly because of the risk of creditors shifting from assistance to appropriation aims. All households which had recently undergone this process of impoverishment had been households in the middle-income bracket. In light of this, two vital keys to reducing vulnerability to poverty emerge: household composition and social networks. The latter in particular includes close family but also involves a larger network of relatives, neighbours and friends. Often when the household composition is unfavourable (for example many young children or elderly, or no adult male workers), support networks eventually fail in providing assistance as there is no capacity to reciprocate in the long term.

Informal credit practices facilitate relations between households and are the basis of mutual support networks which help a range of households cope with daily life as

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<sup>17</sup> This must be seen as *relative* poverty, as the village in Herat was a comparatively affluent village. The middle-income wealth group with stabilising livelihood strategies are still vulnerable in times of risk, but cannot be considered “poor” households in relation to Afghanistan as a whole.

well as crises. However, often these credit practices do not provide the level or type of support necessary either to move poor households out of poverty or to protect middle-income households in the face of decline. This is due to the limited level of cash available through these networks, and the risk for some that such informal relations may shift from assistance to accumulation, leaving the debtor in long-term relations of dependence. While the importance of informal credit relations to rural livelihoods cannot be discounted, more attention must be provided to alternative ways of intervening to provide more opportunities for autonomous growth to the rural poor.



## 7. Appendix

**Table 5. Asset portfolios of the wealthy households**

	No. household members	No. working household members	Land (jerib)	Livestock	Other	Agriculture	Livestock breeding/trading	Shopkeeping/ transportation	Business	Daily labour	Labour migration	Other	Silk production	Carpet weaving	Handicrafts	Cleaning	Other (with contract)	Income-generating activities	Subsistence activities	Multiple income sources
1	6	2	100	3	Garden	X		X					X	X				X	X	4
2	10	4	20	2		X				X			X		X			X	X	4
3	11	2	20	6	Garden	X	X					Pension						X	X	3
4	9	4	10	2	Car	X				X			X	X				X	X	4
5	20	5	8	7		X	X	X		X			X					X	X	5
6	15	2	60	7		X	X	X				Gov. employee						X	X	4
7	11	4	36	6		X	X					Driver		X	X			X	X	7
8	13	8	10	2		X	X			X			X					X	X	4
9	7	4	70	4		X	X								X			X	X	3
10	6	2	1	1	Car shop	X		X					X					X	X	4
11	7	2	20			X			X	X								X	X	3
12	8	1		10	car		X		X			Arbab						X		2
13	9	3	8	27	2 cars	X	X	X	X								Teacher	X	X	5
Total/ Average	11	4	30	6		12	8	5	3	1	4		6	3	3			13	12	4

Table 6. Asset portfolios of the middle-income households

	No. household members	No. working household members	Land (jerib)	Livestock	Other	Agriculture	Livestock breeding/trading	Shopkeeping/ transportation	Business	Daily labour	Labour migration	Other	Silk production	Carpet weaving	Handicrafts	Cleaning	Other (with contract)	Income-generating activities	Subsistence activities	Multiple income sources
1	5	3										nurse	X					X		4
2	7	2	1.5	2		X				X		teacher			X			X		2
3	18	4		8	tractor	X	X			X				X				X	X	6
4	4	2															cleaner	X	X	3
5	8	3	1.5	1		X			X								teacher	X		3
6	10	5								X			X					X	X	3
7	8	3	1		motor					X		guard			X			X		3
8	9	2	0.5				X											X	X	2
9	7	1	0.5	1		X	X					teacher			X			X	X	4
Total/ average	6	2	1	1		4	3		1	4		teacher	1	2	3			9	5	3

Table 7. Asset portfolios of the poor households

	No. household members	No. working household members	Land (jerib)	Livestock	Other	Agriculture	Livestock breeding/trading	Shopkeeping/ transportation	Business	Daily labour	Labour migration	Other	Silk production	Carpet weaving	Handicrafts	Cleaning	Other (with contract)	Income-generating activities	Subsistence activities	Multiple income sources
1	9									X			X					X		2
2	5														X			X		1
3	8								X						X			X		2
4	11								X									X		1
5	2																			1
6	1																help			1
7	10									X								X		1
8	4												X		X			X		2
9	8								X									X		1
10	7								X	X		pension		X				X		4
Total/ Average	7								4	3				3		3		8		1.6

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