Secure Livelihoods Research Consortium

Researching livelihoods and services affected by conflict

On borrowed time

The limits of informal credit for livelihood security in Herat, Afghanistan

Working paper 69

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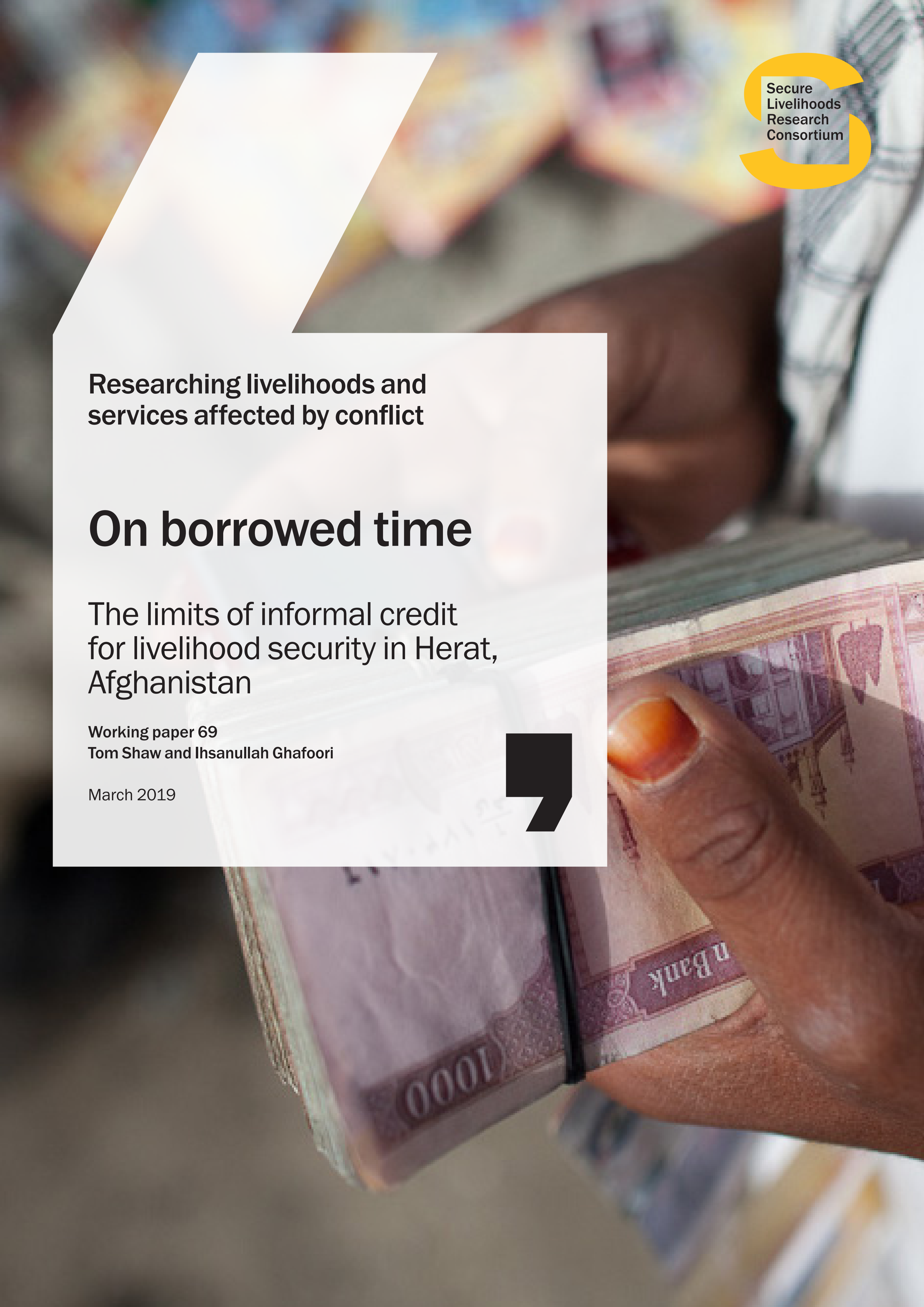

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SLRC publications present information, analysis and key policy recommendations on issues relating to livelihoods, basic services and social protection in conflict affected situations.
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Preface

The Secure Livelihoods Research Consortium (SLRC) aims to generate a stronger evidence base on state-building, service delivery and livelihood recovery in fragile and conflict-affected situations. It began in 2011 with funding from the UK's Department for International Development (DFID), Irish Aid and the European Commission (EC).

Phase I: 2011 - 2017

SLRC's research can be separated into two phases. Our first phase was based on three research questions on state legitimacy, state capacity and livelihoods, developed over the course of an intensive one-year inception phase. Findings from the first phase of research were summarised in five synthesis reports produced in 2017 that draw out broad lessons for policy-makers, practitioners and researchers.

Phase II: 2017 - 2019

Guided by our original research questions on state legitimacy, state capacity, and livelihoods, the second phase of SLRC answers the questions that still remain, under three themes:

- Theme 1: What are the underlying reasons for continued livelihood instability in post-conflict recovery situations?
- Theme 2: How does the experience of conflict link to how people experience trust, fairness and expectations of the future as part of their recovery?
- Theme 3: How does service delivery influence the negotiation of state legitimacy?

Theme 1: Livelihoods instability

This paper is one of eight pieces of research from Theme 1 conducted in Afghanistan, Nepal, Pakistan, Sri Lanka and Uganda. The research was conducted by the Afghanistan Research and Evaluation Unit (AREU), Centre for Poverty Analysis (CEPA - Sri Lanka), Feinstein International Center (FIC, Tufts University - Uganda), Nepal Institute for Social and Environmental Research (NISER), Overseas Development Institute (ODI) and the Sustainable Development Policy Institute (SDPI - Pakistan). The research lead was Vagisha Gunasekara.

The studies under this theme question currently held assumptions about the nature of exchange and economic behaviour in rural economies. These studies demonstrate that livelihoods in conflict and post-conflict settings are in socially embedded economies - driven by patron-client relationship and non-contractual obligations.

In Afghanistan, we delve into the role of informal borrowing as a buffer in sustaining livelihoods. In Sri Lanka, we examine the suitability of 'entrepreneurship' promotion as a development intervention for people in war-affected areas. The study in Nepal looks at work and livelihood patterns of women in migrant households. The Pakistan study investigates how households access credit, the impact of indebtedness on families, and develops a framework that explains household indebtedness and its impacts. Lastly, the research in Uganda focuses on the internal migration of young people and their experiences with employment, the livelihoods realities of the war-wounded, and how livelihood trajectories of the war-affected influence decisions related to education of young people.

The evidence generated by the studies offers a number of insights into why people in conflict settings can no longer sustain their own lives through direct access to a living wage, why policies and aid interventions aimed at socio-economic recovery fail and the mechanisms people use in order to stay afloat within these economies.

For more information on who we are and what we do, visit: www.securelivelihoods.org/about-slrc

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We pay tribute to the memories of Hosay, who was instrumental in data collection in the original Kandahar panel study, and to Paula Kantor, a wise mentor to both authors.

Acronyms and glossary

Acronyms

AFN	Afghani, unit of currency
AREU	Afghanistan Research and Evaluation Unit
CDC	Community Development Council
ODI	Overseas Development Institute
SLRC	Secure Livelihoods Research Consortium
SLRC I	Refers to the first phase of SLRC

Glossary

Arbab	A traditional village leader
Gerawi	Local term meaning mortgaging land
Haq-e hamsaya	Islamic tenet which obliges lenders to offer credit or charity to a relative or neighbour in need, sometimes referred to as 'the right of the neighbour'
Hawala	Informal money transfer system, operating through networks of moneylenders
Jammadar	A wage labour broker, recruiting on behalf of employer
Jerib	A unit of land measurement; approximately one-fifth of a hectare
Khosh hesab	Having a trustworthy character or reputation
Mozarebat	A deal in which one party lends or entrusts an asset, often livestock, to a second party. The second party rears or develops the asset, selling it at a profit which is then divided between the parties at a pre-agreed rate. The burden of any loss is borne by the second party
Qarz-e farzi	Loan taken with obligatory repayment, term emphasising the non-charitable nature of a lending transaction
Qarz-e hosana	Loan paid without any interest and with flexible repayment periods
Qarz-e khodadad	Loan to be paid when Allah provides the ability and without any repayment condition
Sawab	A spiritual reward or blessing

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Executive summary

Informal credit has been consistently highlighted in ten years of livelihoods research at the Afghanistan Research and Evaluation Unit (AREU), the Secure Livelihoods Research Consortium (SLRC) and the Overseas Development Institute (ODI) as a primary source of social protection – and one of the most pervasive social structures – in Afghanistan. However, there is little recognition or understanding of informal credit in policy-making and programming (Minoia and Pain 2017). Within Afghanistan's deeply socially embedded economy, informal credit is a key mechanism through which markets operate (ibid.) and through which the distributional economy provides access to land, labour and income for rural households. This study undertakes an in-depth examination of informal credit practices in two villages in Herat that differ in size and economy, exploring how credit operates. In particular, it looks at the ways in which credit is used and negotiated, its interaction with livelihood churning, how credit mechanisms are gendered and the extent to which social relations are underpinned by informal credit.

Our findings

The research finds a sharp decrease in the availability of credit in recent years. This is connected to shrinking wage labour opportunities in Iran, on which households increasingly depend due to drought, as well as water access issues, longer-term land subdivision and demographic trends reducing the viability of agriculture as the mainstay of livelihoods (Pain and Huot 2017a). Having male household members working in Iran is a determining factor in the degree of participation in informal credit networks, conferring creditworthiness and the ability to fulfil lending expectations within existing and new mutual exchange relationships. Nonetheless, credit access remains widespread with few exceptions (namely opium addicted individuals) and religious norms ensuring loans are cost free and often with indefinite repayment periods enable most households to manage remarkably large debts averaging USD 2500. The study does find, however, a credit system stretched to the limit, with poorer households in particular mortgaging their land, exhausting saleable assets and reducing consumption not just in the short-term but for years on end.

The social aspects of credit

Despite sympathetic lending terms, credit carries with it enormous anxiety for households, not least because what is at stake is not only money but reputation and an infinitely more valuable resource – social connections. Households invest in these relationships partly to use lending as a kind of self-insurance, creating relationships of reciprocity in order to establish the ability to claim credit at a future unspecified time. Credit is most often sought through immediate and extended family, who are more likely to agree to lend, offer the best terms and with whom the risks of reputational damage are lowest in the case of default. Conversely, households face high levels of reputational risk when borrowing from local elites, shopkeepers and those socially more distant, so these loans are avoided where possible and repayment to these lenders is prioritised. In the first of the two villages, where land distribution was more unequal, this was particularly found to be the case and households reported histories of hostile actions by local elites. In the second village, by contrast more equal in terms of land and wealth distribution, local leadership regularly mobilised loans for poor households in crisis.

Gender and credit

Informal credit systems are also highly gendered. Women frequently participate in small in-kind exchange but access to cash remains limited. The absence of men through work in Iran has to an extent increased women's access to credit, as permission to borrow is granted by husbands before departure. However, ownership of the loan and responsibility to repay remain with the men and women's agency is constrained by this as much as a lack of independent earnings. In rare cases, household factors combined with women's agency and ability to work enables them to circumvent these norms to a degree. However, the factors behind these circumstances cannot be replicated more broadly given that they are specific to the make-up, educational level and attitudes of specific households alongside the small and finite number of opportunities for women in the public sphere.

Credit and livelihoods

Informal credit systems appear largely responsible for protecting against livelihood churning and instability, offering an unrivalled safety net for households that is deeply rooted in familial and kinship ties. Churning as defined by the continual change in food security both positively and negatively within a sample of households by Maxwell et al. (2017). The majority of middle income and better off households use credit successfully for a range of consumptive and productive purposes, such as maintaining necessary investments in livelihood activities and, for the wealthier, accessing lucrative income-generating opportunities such as saffron cultivation. In poorer households informal credit systems often help avoid crises related to illness, death and consumption gaps, but with the result that households become trapped in debt. The resulting asset sales, land mortgaging and migration for work erode household capacities for recovery and force households to resort to damaging coping mechanisms and engaging in exploitative borrowing practices.

Credit in context

Owing to the fact that informal credit mechanisms are fundamentally and inextricably socially embedded, direct policy recommendations are not easy to draw from the research. Any attempt to formalise, institutionalise or regulate informal credit practices would be problematic and undesirable. The strength of informal credit systems hinges upon successful livelihood outcomes. The report therefore ends by framing informal credit within the wider economic and institutional context, particularly in terms of the urgent need to create opportunities for Afghanistan's surplus rural labour force and to meet the needs of migrants to and returnees from Iran.

1 Introduction

Informal credit is one of the most pervasive and enduring social structures in Afghanistan. Its role in consumption smoothing and its significance to the rural economy in creating access to land and facilitating trade has long been established (Norvell 1972). More recently, 15 years of research by AREU has underscored the role of informal credit as one of the most important social protection mechanisms available to the poor (Kantor and Pain 2010; Pain and Huot 2017a). Across Afghanistan, access to informal credit is extremely widespread, typically offered without interest and with flexible or indeterminate repayment periods, and often available to those without material collateral assets (Klijn and Pain 2007). The ability to draw on often sizeable sums at short notice appears almost universal, providing an unrivalled lifeline for households facing shortage or crisis. Despite this, there is a lack of recognition at the policy level of the importance of informal credit as a social protection mechanism and its role within the functioning of markets (Minoia and Pain 2017). This research aims to correct this by closely examining the informal credit practices and outcomes in two specific places and exploring how local institutional and contextual factors shape these practices. The paper begins by discussing current knowledge and understanding of informal credit, building particularly on recent SLRC work, before outlining the focus, scope and methodology of the research.

1.1 Informal credit in Afghanistan

This study builds on substantial research on informal credit conducted over a decade ago by AREU (Klijn and Pain 2007). As well as documenting the diversity of forms and purposes informal credit takes and highlighting its remarkable reach and inclusivity, the research looked at the contrast between regional economic settings and found that patterns of borrowing and lending, and even definitions of credit types themselves, varied between the provinces compared. This depended on factors such as land ownership distribution, urbanisation and labour opportunities. Beyond consumption smoothing and shock buffering, the 2007 study showed how credit is used to fund significant life events, invest in farm production or extend and diversify livelihood practices. In general, most loans were found to be interest free (*qarz-e hosana*) and repaid only when a household was able to do so (*qarz-e khodadad*). The research emphasised that the majority of households were found to simultaneously borrow and lend, rendering neat distinctions between borrowers and lenders redundant. Households were shown to be connected to others in a network of relationships that inferred both rights and responsibilities with regards to credit, as part of a wider moral economy reflective of the interdependency built into these local social networks. Household lending was motivated not only by compassion but also by the need to invest in reciprocal credit relations to ensure access to loans at a future unspecified time.

The social significance of informal credit is a key aspect of the way in which it operates at a community level and it is this aspect that has traditionally received less attention than the monetary aspect of credit (Tsai 2004). As Kantor (2009) notes, *'credit has meaning beyond the value of money itself, through its value in creating and maintaining relationships'*. As such, informal credit is the mechanism through which individuals and households spread risk and attempt to balance their own individual needs with social and community obligations (Guerin 2006). The 2007 AREU study sheds light on 'horizontal' versus 'vertical' social borrowing practices, highlighting how unequal relationships of patronage forced some households to accept a 'Faustian bargain' where short-term survival through borrowing comes at the expense of longer term welfare and independence (Wood 2003). Instances of such dependent security were noted among some labourers and sharecroppers in Kandahar, who were often bound by debt to large landowners (Pain et al. 2016). What is rather less understood is the way in which households manage multiple such relationships simultaneously, the extent to which those relationships are shaped by credit and vice versa.

This research explores the limits of informal credit, not only in terms of who is excluded from credit networks but also in terms of the conditions of mutual support. It investigates dependency, obligation and exploitation within credit relationships at a community level.

1.2 What markets tell us about informal credit

The context for the borrowing and lending studied in this report is a rural economy characterised by being deeply socially embedded (Kantor and Pain 2012). At all levels of the economy resources, services and opportunities are accessed through a network of social connections, both vertically and horizontally (Jackson 2016). The way in which credit operates in this economic sphere illustrates several ways that it interacts with power, identity and institutional structures. For example, a study of the cross-border onion trade in Nangarhar, which operates on credit at all stages of the supply chain, pointed to the importance of common ethnic and political identity in the participation in credit networks (Minoia et al. 2014). Trust, rather than the possession of assets, as well as frequent interaction was also found to be key to creditworthiness and maintaining access to credit (ibid.). In the case of the saffron market in Herat, vertical social connections were identified as significant in mediating access to the credit necessary for cultivation (Minoia and Pain, 2016). Participation in the saffron market was found to depend to a great extent on the presence of social connections with wealthy figures already in the market (ibid.) rather unlike the upfront and more widely offered credit afforded to farmers by traders in the opium economy (Pain 2008).

Existing informal credit practices in many markets do not promise a path out of poverty for many people owing to the structure and governance of those markets. In Kandahar, informal credit allows migrants from rural areas to become petty traders in the city's main bazaars, effectively getting a foot on the ladder, through acquaintance and solidarity (Minoia and Pain 2015). But earning a living in this manner is precarious and offers limited prospects for upward mobility, with lack of access to larger credit identified as an obstacle for progression. The aggression of authorities towards petty traders and the risk of dispossession undermines their creditworthiness (ibid.), in effect limiting the extent to which trust and frequent interaction enable credit. As such, prevailing economic and political conditions, which so often are hostile to the poor (Pain and Huot 2017a) not only contribute to livelihood insecurity but undermine the extent to which credit can enable the poor to get a 'leg up'. Commodity markets therefore often consolidate the role of social institutions, both exposing and reinforcing the existing power relations within them (Minoia and Pain 2017). The same can be said to be true of the way in which informal credit works in these markets.

This landscape means credit can act as an instrument of economic subjugation within markets, effectively keeping people poor by creating relationships of dependency. For example, in Sar-i-Pul province, wage labour opportunities in the Mazar-e-Sharif brick kilns are accessed through brokers known as *jammadars. Jammadars* are local individuals who extend credit to trusted family and neighbours on behalf of the owners of the brick factories. Men from many poor households were found to repay credit consumed in the winter through work the following summer (Shaw 2010). This trend means that, with poverty worsening recently, entire households in the province now effectively work as indentured labourers (Huot and Pain 2017). Elsewhere, informal credit provided by traders to women producing carpets in Faryab has also been shown to constrain choice and create dependency. Inputs and materials were provided to women in addition to cash loans, which were often consumed before income was earned from the carpet sale, effectively trapping them in debt and limiting their ability to seek alternative work (Nezami and Kantor 2010). This research, while not focusing primarily on markets, pays attention to the ways in which informal credit may be used to exploit or further the interests of those occupying privileged positions in the rural economy.

1.3 Dwindling opportunities and the distributional economy

The latest data from the World Bank on poverty and the rural economy in Afghanistan makes for grim reading. According to its *Afghanistan poverty status update: progress at risk* report, rural poverty, exacerbated by worsening security and diminishing farm labour opportunities, has risen from 38.3% in 2011/12 to 43.6% in 2013/14 (World Bank 2017). The report notes a generalised 'extreme vulnerability to shocks' by international standards among rural Afghan households, with coping capacity within communities limited by the covariate nature of most shocks. These observations are borne out by previous SLRC research which shows that, in large part, rural Afghans have struggled to achieve long-term livelihood security. For most rural Afghans agriculture alone is an unreliable, inadequate means through which to meet basic needs, particularly while the rural population expands but the amount of viable irrigated land does not (Pain and Huot 2017a). Compounding the problem is the issue of Afghanistan's 'surplus rural population' (Pain and Huot 2017b), alongside the inability of labour markets to absorb Afghanistan's growing and for the most part landless excess workforce. In Herat, relatively little of the provincial economic output comes from agriculture (30%) and the remittances from Iran on which many depend are under threat from economic sanctions on Iran, which drastically reduced wages and increased the expulsion of Afghans from the country (Leslie 2015).

In this context of rapidly dwindling and insecure opportunities, the role of informal credit in the distributional economy has become increasingly central to people's economic lives. With opportunities in agriculture, rural and urban employment failing to keep pace with demand, informal credit is one of the only means through which households can access land, labour migration opportunities and other resources. Evidence from the SLRC I panel study showed the strikingly non-commodified character of these productive assets and the dominance of social relationships rather than market relationships in governing access to them (Pain and Huot 2017a). On account of this, informal credit – through mechanisms such as mortgage, delayed payment and cash borrowing – may become more prominent in livelihood strategies during times of economic decline and distress, as well as during scarcity of opportunity in the productive economy. As such, informal credit is an increasingly important topic of study in order to better identify opportunities to support fragile livelihoods and to improve the existing systems that support them.

1.4 Turbulence and livelihood security

Previous SLRC research points to the fact that livelihoods in conditions of conflict, economic insecurity and uncertainty are never static (Mallet and Pain 2017). Powerful economic forces and political conditions that are out of the control of households combined with the relatively high risk of shocks mean that household fortunes churn in and out of success and failure with the vagaries of circumstance, a process that we refer to as 'livelihood churning'. The first phase of livelihood panel research identified several major drivers of livelihood change between 2002 and 2009. Falling agricultural production, an opium poppy cultivation ban and the intensification of non-farm work were some of the major trends underlining a generalised decline in earnings and increased livelihood instability (Kantor and Pain 2011). Where households succeeded, social and political connections were key for several reasons including gaining and maintaining access to credit (Kantor and Pain 2010). The need for broader social protection has been well established and the role of informal credit as an existing safety net has been emphasised as a resource of vital importance (Klijn and Pain 2007). As an endogenous coping mechanism, informal credit is naturally stretched at times of widespread livelihood decline, with availability dropping and household asset depletion affecting creditworthiness (Kantor and Pain 2011).

What is less known, however, is how informal borrowing and lending interacts with livelihood churning at the household level. To what extent is it a source of resilience, protecting against shock and the destabilising effects of the broader contextual conditions outlined above? With social connections so pivotal to livelihood outcomes, this research examines how credit is channelled through and affects social relationships by looking at two sets of households within one location as nested examples. The phenomenon of churning requires further study to be better understood (Mallett and Pain 2017) and this research contributes an understanding of it by looking at how household outcomes vary when dealing with informal credit, and why. With many contextual changes taking place in the ten years since the last informal credit study (Klijn and Pain 2007), this research offers an opportunity to identify any changes that have taken place within credit practices at a local level.

The key questions guiding the study are:

- How is informal credit used and negotiated by different socio-economic groups?
- How far are social relations underpinned by informal credit?
- How does informal credit impact on, and interact with, livelihood churning?
- How have the availability, terms and amount of informal credit changed with the wider economic and institutional context?
- How are informal credit mechanisms gendered, and why?

The next sections of the paper will outline the methodology employed by the study, present the findings, describe the credit practices encountered and explore how credit is negotiated (and how and why outcomes vary). The fifth section discusses the meanings and implications of the findings.

2 Methodology

The methodology closely follows the previous livelihood panel and informal credit research on which this study builds and is qualitative in nature. As such, it is broadly in the sustainable livelihoods tradition of research and has been designed paying attention to the observations of Levine (2014) on the importance of households' perceptions of what is or is not possible within the structural constraints of their lives and their own stated objectives in understanding livelihoods. Between November 2017 and May 2018, 42 semi-structured interviews were conducted with 16 households in two distinct villages of Pashtun Zarghun district, Herat. Herat province was selected due to the relatively cash-based nature of the rural economy owing to widespread labour migration to Iran, the sizeable (although declining) Herat urban economy and because security conditions made access to field sites feasible. It was also selected because a wealth of data on households had already been collected during the previous SLRC livelihood panel research and because Klijn and Pain's 2007 study had also been undertaken in the province (albeit in a different district). The research benefited immensely from the familiarity of the two field researchers from AREU with the villages and respondents themselves, with whom they had met many times over four years during several rounds of livelihood panel research. The researchers had therefore already established a good rapport with the respondents and possessed background knowledge of household histories on which to draw during interviews.

2.1 Study sites

The two villages were selected from the three in the panel study to provide optimum contrast in rurality, village economy and inequality of land ownership – factors which previous research indicates are influential in shaping informal credit practices (Pain and Klijn 2007). The latter factor is important in determining the level of social solidarity and the degree to which village elites and institutions are likely to operate for the public good (Pain and Kantor 2010). Inequality of land ownership may influence the nature of people's informal credit networks, namely the conditions under which they can borrow and from whom. Where land ownership is unequal and many are landless, observations from previous studies suggest credit relations may be more vertical, and patron-client relationships more present compared to where land ownership between households is more equal, and horizontal connections between those of similar socio-economic status are more common.

Village 1 and Village 2[1] are both located in the fertile Hari Rud river valley, around 40 kilometres from Herat city and 20 kilometres from Pashtun Zarghun district centre. The villages are geographically distinct in their access to water, with Village 1 being on the river's edge and Village 2 being located upstream, where it is liable to flooding and subsequent silting of irrigation canals. In Village 1 (around 300 households), land ownership is fairly unequal. The majority of households in the village hold just one or two *jeribs* of land or none at all, and a single landowner owns two thirds of the irrigated arable land available in the village (Huot et al. 2016). Grapes are widely grown, providing relatively higher incomes and a limited amount of low-level work for women in harvest and the production of raisins.

Village 2 (around 50 households) by contrast is markedly smaller and poorer, lying further from the district centre. Around 30 – 35 of the households owned three to four *jeribs* of land, with a few owning a little more. There are no very large landowners. Due to its irrigation problems, harvests are generally low. The irrigation problems relate to the diversion of water by another village upstream, an issue that village leaders have thus far been unable to resolve for several years. Remittances from abroad have been a mainstay of livelihoods in Village 2 for generations, but in light of the impact of the water scarcity on agriculture, they have become relatively more important for most households. In general, Village 2 was found in the previous research to have leadership that acted more in the interests of the village as a whole rather than village elites as in Village 1, as Pain and Kantor's (2010) theory on the influence of inequality of land ownership on credit systems indicates. A fuller discussion of the village economies and histories can be found in the Huot et al. (2016) study *Livelihood trajectories in Afghanistan: evidence from three villages in Herat province.*

2.2 Interviews and respondent selection

Eight households were selected in both Villages 1 and 2 from the 29 households surveyed in 2015 (Huot et al. 2016). In selecting the household, careful consideration was given to a range of wealth groups and female-headed households, and households with varied debt histories. After interviewing both the male household head and the woman most involved in household decision-making, data was reviewed, and seven households returned to for follow-up interviews giving a total of 21 household interviews in each village. Three unstructured interviews with local shopkeepers were also undertaken as it emerged that

Figure 1: Map showing approximate location of villages

Source: Google Maps

1 Village 1 and Village 2 are referred to as Village A and Village C respectively in the Huot et al. (2016) panel case study.

Table 1: Household Interviews

	1st round		2nd round		
Household	**Male**	**Female**	**Male**	**Female**	**Total**
1A	1	1	1	1	4
1B		1		1	2
1C	1	1	1	1	4
1D	1	1			2
1E		1			1
1F	1	1	1		3
1G	1	1			2
1H	1	1	1		3
Total	**6**	**8**	**4**	**3**	**21**
2A	1	1			2
2B	1	1	1	1	4
2C		1		1	2
2D	1	1	1	1	4
2E	1	1	1		3
2F		1		1	2
2G	1	1			2
2H	1	1			2
Total	**6**	**8**	**4**	**3**	**21**

they were the key providers of informal credit.

New wealth groups were assigned following interview to facilitate an analysis of livelihood churning and how informal credit may have contributed to any change. These wealth groups considered the same ‘regular’ household assets such as land and livestock that were taken into account when categorising wealth groups in the Klijn and Pain 2007 study, as well as the number of working males relative to dependents. A household was categorised as having changed to a lower wealth group if asset loss was deemed to be long-term such as the sale of land or a long outstanding mortgage, rather than more transitional periods of hardship or good fortune, and where dependency ratios (number of household members divided by number of workers) changed through death, illness or addiction and income sources were lost. Other households were re-categorised into higher wealth groups, where good fortune had brought higher incomes, the acquisition of land, diversification and the receipt of bride payments. As with previous AREU livelihood studies, wealth groups of households are relative to each village and are not absolute measures.

3 Case studies

This section presents a selection of household case studies, from across the wealth groups and each village, in order to examine more closely how households in different socio-economic groups negotiate and access credit, and with what end result. The examples given are selected for contrast and to illustrate various outcomes and aspects of informal credit encountered, rather than constituting a formalised typology. Several households are referred to again later in the report. Names have been changed.

3.1 Poorer households

Village 1 – 1F: reaching the limits

Ahmad, a middle-aged wage labourer, and his wife Samira live with their six children under 18. Their eldest daughter does occasional tailoring work to contribute to the household income. His son and daughter-in-law migrated to Iran but returned when the son became addicted to opium. Their daughter-in-law and two grandchildren now live with the family and they are struggling with the extra dependents, as well as Samira's ongoing poor health due to heart disease and diabetes, for which they recently borrowed AFN 16,000. Ahmad borrowed AFN 13,000 from five different sons-in-law to pay for his son's drug addiction rehabilitation and also mortgaged his land, but his son relapsed and is now living in Herat. He is no longer being supported financially by the family, but his wife and children remain with Ahmad and his wife. They are currently AFN 260,000 in debt.

Ahmad labours on construction sites and on farmland throughout the year. He owns some grape vines which give him a modest income and some collateral to borrow. In recent years, they have been living in debt and repaying when Ahmad can find work. Because of his regular work and good reputation for repaying on time, Ahmad is able to borrow from at least ten lenders and is currently in debt to eight. His son-in-law in another village is a vital source of credit. They borrow rice, oil and other foodstuffs on credit from a shopkeeper acquaintance in Herat, though they are now being asked to clear these debts. They have borrowed in many forms and for many purposes, including consumption, marriage and debt repayment.

The household have managed with debt up until recently, but things are becoming more difficult. Ahmad recently had to borrow AFN 5000 from somebody else to repay his farmland work boss and recently mortgaged his remaining land to quickly repay a lender who began to expect Ahmad to work on his land for free. As a result the household no longer has any land, but despite their large debts, remain confident of their ability to borrow:

> *'People do not consider [a borrower's] assets. On the contrary, I do not have land, only a small grape garden that's mostly on mortgage. But still, if I ask anyone for a loan they will lend to me. Because they consider me to be a fine human being and think that it doesn't matter if I have land or not, I can work and earn money to pay them back'*

Village 2 – 2D: shrinking incomes, shrinking options

Mubarak Khan and Khadijah are an elderly couple with four adult sons and two adult daughters. Mubarak Khan's two sons used to work in Iran and send remittances to supplement the household's income from growing wheat and occasional wage labour, but now only one son works in Iran . The household borrowed extensively to pay the bride prices and wedding expenses of their sons. One prospective daughter-in-law broke off the engagement around nine years ago, leaving the household AFN 400,000 in debt and marking the beginning of their debt problems. They have been unable to repay their debts for the last three years, have already mortgaged all of their land and manage only with a single remittance from the son in Iran. Their current outstanding debt totals AFN 250,000.

With few assets and dwindling income, the household has very few credit sources remaining in the village, and normally borrows from contacts in other villages, or asks their son to borrow money in Iran to meet the costs of marriage and to lease land. Mubarak Khan says that to borrow sizeable amounts, land is needed as collateral. He has resorted to borrowing from lenders on less favourable terms, for example one in another village who demanded 600 kg of wheat per year as interest, on top of a modest loan of only AFN 5000. With currently only occasional remittance, Mubarak Khan only takes small loans as he considers larger ones to be too risky:

> *'I needed AFN 200,000 for my son's wedding. If I had taken this money on loan, I'm sure I would not be able to take this amount of money for more than a month. After one month if I couldn't return the money, the consequences would be catastrophic'.*

Nowadays, most of their borrowing is in-kind or small amounts for consumption. For larger amounts, he considers mortgaging a safer option as it would give him longer to repay.

3.2 Middle-income households

Village 1 – 1C: the well networked migrant worker

Mullah Sharif lives with his two brothers, their wives and children and his mother. The men share their income from wage labour work. His daughter earns around AFN 5000 per month as a teacher. They mortgaged some grapevines for AFN 80,000 in order to buy some land in the last few years and one brother is in Iran working to pay off this debt and support the household.

Until now, the men have repaid debts built up to pay for health treatments and a debt of AFN 100,000 for one of the brother's marriages by migrating to Iran to work. They have also borrowed for agricultural inputs. They have had to sell land in the past to repay a debt when the lender urgently needed to pay a bride price, but have always been able to borrow to meet unexpected costs without resorting to selling productive assets. Mullah Sharif has a large and active credit network of around 20 people, including a shopkeeper in Herat who his father introduced him to. He is careful to develop relationships, borrowing first in-kind to establish trust before taking cash loans.

Because of her income, Mullah Sharif's daughter can borrow up to AFN 5000 from close relatives. The household borrowed AFN 24,000 in order to grow saffron on their newly acquired land, of which AFN 6,000 remains unpaid. Though they have borrowed significantly and often for various health problems, consumption and productive needs, they have always been able to make repayments between them and have built up a good reputation. They currently owe AFN 100,000. The household is able to frequently lend amounts of around 5000 to 10,000 AFN to relatives, with their four cash incomes.

Village 2 – 2H: climbing out of debt

Ghulam Akbar cultivates two *jeribs* of land planted with wheat to sell and currently rears cows and sheep. The household of eight has a long history of migration to Iran and he himself has been six times, each for one or two years. Now that his sons are older, three of them work in Iran on and off to support the household. After Ghulam Akbar's father died eight years ago of cancer, the household were in AFN 130,000 of debt that they were struggling to repay, as they had to return the land that they had leased to fund his treatment and found themselves unable to borrow much more. Owing partly to the number of healthy workers in the household, they are now doing much better. They have successfully bought and leased land using borrowed money, and repaid this money using remittances. They now produce more than they used to due to the expanded amount of land in their possession. They are often able to repay debts quite swiftly by selling livestock and as a result have no outstanding debts.

Because of income like this, households like 1C find it relatively easy to borrow when they need to. Most of their borrowing has been for health problems, consumption and investment. Their prosperity has increasingly led to others asking them for credit. Ghulam Akbar lent AFN 13,000 to a cousin's friend in another village. Six months later, he has been unable to retrieve the debt and the borrower no longer answers his phone. He has vowed not to lend to anybody outside the village again to avoid this risk in the future.

3.3 Better off households

Village 1 – 1G: the investment borrower

Shakeer and his wife Salma own a relatively large amount of land: six *jeribs* and a number of grape vines. Though their seven children are fairly young, two of their daughters contribute AFN 5000 each month to the household from their jobs teaching in the village and two of his sons are beginning to support him in farming. They recently received AFN 300,000 in bride price money for the marriage of one of their daughters and received the same amount ten years ago for the marriage of their eldest daughter. Shakeer, like many, has borrowed for medical treatment and funerals in the past, but he has also borrowed several times for investment purposes. He has not needed to go to Iran to work.

Recently, he borrowed AFN 100,000 from a brother-in-law in order to open a shop near the recently paved road to Herat and also from a well-known wealthy villager to cultivate saffron. The majority of their AFN 220,000 debt has been put towards productive investment. Shakeer can borrow large amounts from around ten people outside the village, including from wealthy city dwellers and his business connections. His wealthy mother-in-law is a regular source of credit. Ordinarily, he repays debts with his sizeable and reliable income from growing grapes. His lenders normally do not mind waiting until harvest time for repayment.

Village 2 – 2G: comfortable without credit

Atiqullah was formerly the head of a large joint household of 18. Following the death of his brother a few years ago, Atiqullah took in his late brother's family. In doing so, he also inherited three *jeribs* of land from his late brother, which added to his own three *jeribs* and increased his total wheat production. In the winter, he migrates to Iran using his passport and a visa join his son in wage labouring. His ability to make this journey legally is relatively unusual and is in stark contrast to men from the majority of other households, who are subject to significant levels of danger, exploitation and poor working conditions. Through this migration, Atiqullah has been able to build up his livestock and build a house in Herat city.

Atiqullah does not often need to borrow, but when he does he prefers to take loans from outside the village as he says people are less likely to pressure you to repay when they don't see you as often. Atiqullah is a member of the local Community Development Council (CDC), representing his ethnic group within the village. Though he didn't mention any benefits of this with regards to credit, it's likely that as a position of power and responsibility it may expand his social network and increase his bargaining power with other people. Currently, he does not have any debt but in the past has borrowed several times from one wealthy individual, including AFN 50,000 to grow saffron. When he is in Iran, his wife is able to take AFN 6000 to 7000 from relatives and neighbours on loan or borrowing in-kind from the village shop without prior permission.

3.4 Women headed households

Village 1 – 1B: getting by

Parveen lost her husband, a retired school principal, to cancer last year after a prolonged illness. The remaining 12 household members are made up of her two adult sons, four daughters, two daughters-in-law and their children. During his illness, Parveen took the decision to sell 1.5 of their 3.5 *jeribs* of land. In all, she borrowed AFN 1.4 million for his treatment in Pakistan and eventual funeral and AFN 500,000 for the marriage of her son when his fiancée became pregnant. It was Parveen's decision to take all of these loans, rather than that of her ailing husband or sons. Nonetheless, it will be the responsibility of her sons to meet the repayment.

Because of her husband's position, and the fact that four others in the household are teachers, Parveen was able to borrow relatively easily (as *qarz-e Khodadad*) given the other circumstances. Her sons are working hard on the land and as wage labourers in addition to their salaried work and may go to Iran if they are still unable to make the repayments. AFN 300,000 remains. The household rarely borrowed before the death of her husband and although the household has experienced a sharp economic decline, they have been able to manage thanks to multiple incomes and sympathetic lenders, not needing to resort to selling productive assets. She does not feel that these very significant debts have caused her family's reputation to suffer in any way, though they do cause significant anxiety:

> ***'Paying back the money is very difficult because we don't have a decent income, so everyone in the household is anxious and sad and wondering how we can possibly earn this money to pay back the loan.'***

Village 2 – 2F: sinking deeper

Buhara's husband Massoud died five years ago. The household was already in a precarious position following heavy flooding that destroyed their crops and led them to take credit for the family. Following Massoud's illness and death, Buhara borrowed AFN 200,000 from six villagers. 150,000 of this came from two wealthy individuals who the *Arbab* (traditional village leader) encouraged to offer support to the family. Before this, the household had not borrowed much.

Buhara's son goes to Iran every year to try to work off some of the debt, but this year he has been unable to find work. She relies on income from her teenage son undertaking wage labour after school as the main household income. So far they have only repaid AFN 50,000 and she is worried that the lenders are growing impatient. She mortgaged one *jerib* of her land to her cousin in order to repay a neighbour, who wants to arrange a marriage for their son. She is still able to borrow from relatives and in winter 2017 borrowed AFN 10,000 from her cousin and wheat from three people. She is able to access cash loans as people know that her son is away. Her prospects of repaying her debts in the near future are not promising and debt has put the household in a vulnerable position in the event of any other negative events or shocks. Currently, even buying enough food to eat is a challenge.

4 Informal credit practices

This section examines the borrowing and lending portfolios of households in both villages to generate an understanding of the contours of informal credit, and an understanding of how these practices have changed.

4.1 Widespread access

All households in the study, though not all individuals within them (often, for example, daughters and those addicted to opium) have access to cash credit and had borrowed in many ways since last interviewed in 2015. As Table 2 shows, most had quite substantial outstanding debts, averaging around AFN 180,000, or USD 2500.[2] With the exception of household 1D, which borrows almost exclusively from a relative in Iran, the majority of other households habitually borrowed in cash from between 5 and 10 lenders, irrespective of the borrower's wealth group. The wealthiest households (1C, 1G, 2A and 2G) stated that they had more than 10 sources of credit. With a few exceptions (1C, 2G, 2H) households continue to struggle economically since the 2015 study due to many of the same factors outlined in Huot et al. (2017), namely the stagnant local economy, idiosyncratic shocks such as illness and death, chronic water shortage in Village 1 and recurrent river flooding in Village 2. As a result, many households take informal credit to meet these costs, and many have found themselves unable to repay existing debts.

Informal credit takes a number of forms. In-kind borrowing from shopkeepers and neighbours is near universal and the majority are able to borrow small amounts of cash and amounts upwards of AFN 10,000, as Table 3 below shows. *Mozarebat*, a livestock pooling practice whereby the borrower rears the livestock and benefits from the produce as well as 50% of the animal's ultimate sale value, can be considered a type of in-kind credit. Five of the households surveyed are engaged in the practice. They are generally larger households with sufficient labour to tend to the animals. Mortgaging land (*gerawi*) is common among all households, but normally only when other options have been exhausted. *Gerawi* is typically a one-year arrangement, extendable by mutual consent. Only households headed by men addicted to opium were considered uncreditworthy and widely excluded from borrowing directly. These households (for example 1A, and 1F) generally relied on support from in-laws and parents, charity or credit obtained on their behalf by their families. Full debt portfolios of all households can be found in the Annex.

2 At the time of writing, USD 1 was equal to AFN 72.

Table 2: Household wealth group and debt

	Wealth group 2015	Wealth group 2018	Household members	Number of sources of income	Outstanding debt (AFN)
Village 1					
1A	3	4	24	2	75,000
1B	3	3	12	4	300,000
1C	3	2	13	4	100,000
1D	3	3	7	3	150,000
1E	4	4	5	1	60,000
1F	4	4	8	2	260,000
1G	1	1	10	3	220,000
1H	1	3	4	2	400,000
Village 2					
2A	2	2	12	3	165,000
2B	3	4	30	5	563,000
2C	4	2	8	4	4000
2D	3	4	9	3	250,000
2E	3	3	7	3	190,000
2F	3	4	13	1	160,000
2G	4	2	7	3	0
2H	4	3	8	3	0

Table 3: Type of credit taken by household

	Shopkeeper delayed payment	Neighbours in-kind	Petty cash	Cash (AFN 10,000+)	Mortgage	Mozarebat
Village 1						
1A	✓	✓	✓	✓		✓
1B		✓	✓	✓		✓
1C		✓	✓	✓		✓
1D		✓	✓		✓	
1E		✓	✓	✓	✓	
1F	✓	✓	✓	✓	✓	✓
1G	✓	✓		✓	✓	
1H	✓	✓	✓	✓	✓	
Village 2						
2A	✓	✓	✓	✓	✓	
2B	✓	✓	✓	✓	✓	
2C	✓	✓	✓	✓		
2D	✓	✓	✓	✓	✓	
2E	✓	✓	✓	✓	✓	
2F	✓	✓	✓	✓	✓	✓
2G	✓	✓	✓	✓		
2H	✓	✓	✓	✓	✓	

4.2 Women's access to credit

Women's access to credit is extremely limited. Cultural constraints on women's financial independence and free movement, as well as women's limited income activity, constrains the majority of women to small in-kind and petty cash exchanges with neighbours up to around AFN 1000. Previous rounds of study did not focus on women's role in or experience of credit to a great extent but it appears that, in general, the extent of women's access to credit is largely unchanged. All women surveyed reported being able to obtain small in-kind credit from shopkeepers. This was usually obtained through sending children or elderly women as intermediaries, due in part to limits on their movement but also to save face, avoiding the embarrassment of asking for credit themselves. Though small, these exchanges play an important role in household food security on a day-to-day level. Typically, women report keeping a detailed record of items and money borrowed and, generally expressed much greater anxiety around borrowing, emphasising often that loans were *qarz-e farzi* – in other words that repayment was obligatory. Literate daughters often played a leading role in keeping track of day-to-day debts, with household 2C stating: *'I have never forgotten a loan, because my daughter always writes the loan amount in her notebook, even if it is some rice, salt, sugar, etc.'* In the case of household 1F, the daughter was explicitly tasked with this responsibility by her father: *'Since my husband's aunt's death my husband told my daughter that she should write down any amount of loan that we take from people.'*

Credit taken by women is normally considered to be a household debt, with the responsibility to repay assumed by the men of the households. Women's creditworthiness is therefore often directly connected to the income of men within households and labour migration. However, interviews with certain households revealed that women's income can also be important in household debt repayments. For example, in household 1H, income from the daughters working as teachers contributed AFN 40,000 to a AFN 100,000 debt repayment. Where women do borrow cash it is almost exclusively from relatives, typically from their own side of the family. However, given men's responsibility to repay, permission from the husband is customarily required before borrowing large amounts of cash. The increasing frequency and duration of the migration of their husbands, and often sons in the case of female-headed households, has increased the frequency and, in some cases, the amount of debt that women have taken on. Men mention extending a 'pre-authorisation' to their wives during their absence to borrow if necessary – up to AFN 10,000 in the case of household 1A, but generally somewhat less across other households (for example, AFN 6000 or 7000 in household 2G). As mentioned previously, female heads of household such as Buhara (2F) may take loans directly and of their own volition due to the fact that their sons are away. More broadly, illness and death of the male household head can allow women, often through their sons, to borrow very large amounts. Households 1B and 2F, for example, were in AFN 1.4 million and AFN 200,000 of debt respectively through this means of acquiring credit. In such cases, credit is often mobilised by community leaders and offered or granted charitably. This was particularly found to be the case in Village 2 and while a positive factor in that it allows households to meet the cost of health treatments, it can lead others to spend large sums of money on funeral ceremonies, perhaps feeling expected to do so in order to include much of the community that has supported them financially.

Certain cases from the households surveyed provide interesting examples of how a combination of women's agency and circumstances can create the conditions for different outcomes to the norm. Household 2C's head is described as a 'simple' man and it was implied that he may be intellectually disabled. His wife is the de facto household head and uses her diverse economic activities to access credit up to AFN 5000 from a large network, including a taxi driver and a shopkeeper in the city. Unlike other women, she uses informal credit not just for consumption but for fertiliser, fodder and agricultural inputs. Though her circumstances are relatively unique, she describes her perception of herself as being an important factor in her ability to seek credit independently and with confidence: *'[My] creditworthiness is down to my personality, because I have a very close and friendly relationship with everyone in the village and build useful relations and connections.'* At the same time, she described other women as being 'feeble', 'ashamed', and 'accepting patriarchal regulation'. She credited her own relative independence to her hard work as much as circumstance. Elsewhere, in household 1H, two daughters working as teachers reported the potential to access salary advances of up to AFN 5000, or to borrow this amount, owing to their creditworthiness based on having a salaried income. Individual household marital dynamics can also give rise to different power balances and levels of influence over household finances, as well as autonomy, as the head of household 2G explains: *'Women are our life partner and they also have the authority to borrow and lend money. It is my moral duty to inform my wife to whom and how I lend during the day.'*

Marriage intersects with informal credit primarily through the role of bride price payments in repaying debts and giving loans. A number of households, such as the wealthy 1G, stated that it is after receiving a bride price that a household is likely to be approached for a loan. More commonly, however, households utilised bride price payments to repay debts. Household 1D cleared most of a AFN 10,000 debt using the bride price for their daughter, while female-headed households 1E and 2F have paid and planned to pay large portions of debt in the same way respectively. There was no evidence in this study of daughters being married explicitly in order to repay debt and the *Arbab* of Village 2 denied that this occurred. Beyond bride price, marriage is important in establishing new sources of credit. In-law family are primary credit sources, sufficiently socially acceptable in terms of immediacy of relation so as to be particularly important for women when seeking to borrow. Marriage is therefore an important mechanism through which households reproduce and extend networks, and subsequently the ability to make claims on the resources of others who are inclined or obliged to support them through custom, often in the form of informal credit.

4.3 Diverse use

Informal credit is used in several ways, broadly similar to those outlined by Klijn (2006). Poorer households relied mostly on in-kind credit and small cash loans from close relatives. Where larger loans were needed in the case of illness or death, these were often offered charitably by a number of villagers with little expectation of repayment (*qarz-e khodadad*) or by wealthier households on compassionate grounds to be repaid when the household was able to (*qarz-e hosana*). Poorer households, however, were also more likely to borrow to fund the migration of sons to Iran (1A, 1E, 2E) and marriage (because of the shame of leaving a bride price unpaid and the impracticability of earning large amounts quickly), as well as resorting to borrowing in order to service other debts (as seen in seven households). Middle-income households, as with all households, borrowed for consumption smoothing, health needs and household expenses within horizontal networks. They also borrowed for marriage, agricultural inputs and investment purposes such as building house extensions. Investment in land purchase or leasing, livelihood diversification such as opening a shop (1G) and growing saffron (1C) were activities limited to wealthier households.

Table 4: Uses of informal credit*

	Health costs	Consumption	Marriage	Debt repayment	Inputs	Investment	Migration
Village 1							
1A (4)	60,000	✓		✓			✓
1B (3)	1,400,000	✓	✓				
1C (2)	450,000	✓	✓			✓	
1D (3)	100,000	✓			✓		
1E (4)	60,000	✓	✓	✓			✓
1F (4)	30,000	✓	✓	✓			
1G (1)	110,000	✓			✓	✓	
1H (3)	0	✓			✓		
Village 2							
2A (2)	25,000	✓	✓				
2B (4)	300,000	✓		✓	✓	✓	
2C (3)	1200	✓			✓		
2D (4)	0	✓	✓				
2E (3)	0	✓		✓		✓	✓
2F (4)	200,000	✓		✓			
2G (2)	0	✓					
2H (3)	78,000	✓				✓	

* Wealth groups are indicated next to household codes

4.4 Changes in credit: shrinking availability, diminishing trust

The majority of respondents in both villages reported that although able to borrow when needed, the availability of credit had declined sharply in the last 10 years with lenders typically only able to offer AFN 2000 to 5000 in comparison with around AFN 10,000 to 15,000 in the past. Households stated that longer-term factors contributed strongly to this decline. A particular contributing factor was the average landholding size reducing, as land is subdivided among sons during the process of inheritance, meaning household agricultural incomes are lower than in the past. This has been compounded by environmental hazards in the two villages mentioned earlier, further reducing associated wage labour opportunities on the land. With households increasing naturally in size through birth, incomes are stretched further and most households are left with less surplus to lend others. Since the previous research (Klijn and Pain 2007), the credit gap has been filled by increasing migration of sons to Iran as one of the only means of coping with shock after the fact alongside a seemingly increased reliance on the incomes of those sons who in the past were able to save more effectively for marriage.

Numerous households in both villages linked the decline in the availability of credit to a weakening sense of solidarity between villagers as well as a generally lower sense of faith in others to repay larger amounts. In Village 1, household 1B said:

> *'During the past people were very compassionate and sympathetic to one another. During these last ten years people do [still] help each other, but everyone is taking care of their own family. Somehow people have become a bit more distant from each other.'*

In Village 2, household 2A similarly explained:

> *'I think it was easy to get loans in the past because people were a bit richer and relationships were much better than they are compared to now. And everyone could trust each other easily, but now people only trust their close relatives, friends and neighbours.'*

This decline in trust does not necessarily imply changes in the relationships between households or suggest a moral judgement by potential lenders on the character of others, but perhaps reflects the greater risk involved in lending higher amounts and the borrower defaulting. Village 2 also experienced a sharper decline than Village 1 in agricultural production, which has had a large impact on the local economy despite the fact that most households are only small landholders or landless. For many, it is necessary to borrow from several people to obtain higher amounts, or otherwise mortgage land, which 11 of the 16 households were forced to do.

The economic downturn in both villages has in some cases reduced the duration of loans, particularly for larger amounts. However, this was not to the extent found elsewhere, such as in Sar-i-Pul in 2008 to 2009 during a time of severe food insecurity, where loans were typically only offered for a matter of days (Shaw 2010). The terms of credit appear unchanged for households borrowing horizontally or vertically, unless borrowing from a previously unknown villager or shopkeeper, which could be on more unfavourable terms. There appears not to be great differences between the villages, perhaps since both village economies have come to rely much more on remittances from Iran. Households in both villages reported using credit more for consumption than marriage or investment purposes than in the past. Within the broader economic context of declining local wage labour opportunities within the villages and Herat city, the dependency on sons migrating to Iran is pronounced and increasing.

4.5 Shopkeeper credit

Shopkeepers in both villages, and often in Herat, were crucial sources of in-kind and cash credit for many respondents. For poorer households with irregular incomes, like 2B, deferred payment for goods is a lifeline:

> *'We have taken loans from [the village shopkeeper] more than ten times, but every time he mentions that we should pay back the previous loan. Any time my son or husband earns money, he is the first person we pay back.'*

Such in-kind loans are widely accessible, can be requested by phone and delivered by taxi, making it easier for female-headed and less mobile households to access credit. In-kind credit is offered interest free, often motivated by commercial reasons, so that existing and future customers don't go to competitors instead. In charitable cases, one shopkeeper explained, a discount was given on goods rather than cash loans or donations in kind.

The ability to borrow cash from shopkeepers depends on familiarity, loyalty and creditworthiness. Once established through regular cash purchasing and repaying goods taken on credit, households can often access much larger amounts of cash loans through shopkeepers than in the village, particularly in Herat. These links are extremely valuable and developed carefully. Customers can act as guarantors for other customers, according to one shopkeeper, and leverage credit on behalf of another. Household 2A for example said: *'When my son was in Herat city and studying at the madrassa, he called me when he needed money. I used to refer him to Hajji Safar and he lent cash to my son.'* Another better off household, 1B, explained how the father had introduced the son to his shopkeeper contact, explicitly in order that the shopkeeper would lend to his son in the future.

Credit from shopkeepers however is often offered for shorter periods, causing some households such as 2E to sell livestock to repay a shopkeeper when asked. The ability to defer repayment to harvest time was generally reserved for wealthier households with regular agricultural surpluses – no more than ten households in total according to one Herat shopkeeper interviewed. Cash credits, particularly larger amounts, depended also on the frequency of face-to-face interaction. The same Herat shopkeeper explained:

> ***'There are some people in these villages who come to the bazaar every one or two weeks. I can lend them as much as they want. However, I also have other clients who only come every month or two. There's a difference in the amount of credit they will each receive.'***

As similar findings in Nangarhar suggest (Minoia et al. 2014), trust is a function of the frequency of interaction, with the risk of default perhaps less because of the pressure arising from more regular direct exposure to the lender leading to shame and reputational risk, whether or not the shopkeeper actually applies pressure verbally for repayment.

4.6 Credit terms and negotiation

Cultural and religious norms lie at the heart of all credit activities, governing the terms on which it is offered and the way in which it is negotiated. The 'right of the neighbour', *haq-e hamsaya*, as a social norm obliges lenders to offer credit or charity to a relative or neighbour in need. In this way, *haq-e hamsaya* enables households to make claims on the resources of others by establishing a basis for reciprocation, since expectations of assistance are mutual among households within many horizontal credit relationships, i.e. between households of similar socio-economic status. Lending without interest, *qarz-e hosana*, and with flexible repayment periods remains the norm for credit exchanges within these networks. *Qarz-e khodadad*, a loan to be paid when Allah allows the borrower the means to do so, is given for religious blessings and often charitably primarily by lenders who may be relatively more wealthy than the borrower. Both of these types of credit are also commonly found in vertical credit relationships, although lenders who are less familiar with the borrower or who are lending large amounts are less likely to offer flexible repayment terms.

The vast majority of informal credit exchanges were perceived by respondents to be positive, acting as a mechanism for increasing trust, solidarity and mutual dependency. Typically, respondents described credit as strengthening relationships, particularly when respondents perceived loans to be given without expectation and with altruistic motivations. A duty to reciprocate, however, is a hidden cost of borrowing. These expectations may not be articulated by the lender but are commonly understood, as household 1H describes: *'If they did not support me in my difficult time, for sure I will not support them in future. It's a kind of social agreement that we have.'* When household 2H was in need of cash, a neighbour attempted to sell his sheep to obtain the cash to lend him. While this may seem on the surface an act of extraordinary kindness, the would-be lender may have wanted to maintain relations with household 2H in the hopes of reciprocation or other favour in future. As Goodman (2017) noted in India, active lending and reciprocation in this case are important prerequisites for membership of credit networks. No households described situations of overt exploitation, and poor borrowing terms were rare. Only one household reported being charged interest. One member of household 1F reported being pressured to compensate the lender in other ways. He described how a lender from another village had expected him to work for free on his land, and he felt under pressure to oblige other requests made of him. To avoid exposure to these demands, the household mortgaged their land in order to repay the lender immediately.

Cultural expectations of reciprocity mean the action of lending is often seen as a type of self-insurance. As household 1G stated: *'Lending and supporting other people is a kind of support for yourself... I should support others in order to get support from them.'* In one instance, when their house burnt down, a relative came to the aid of the household with a sizeable cash loan. *'Now I would be first in line to help them, if they needed'*, stated the householder, explaining how he would even borrow in order to support that person. In several instances, the illness and death of a household member led to spontaneous loans from relatives and neighbours. In Village 2, the *Arbab* mobilised AFN 78,000 worth of loans from wealthy households on behalf of household 2H following the death of the household head, which was promptly repaid within 3 weeks through livestock sales. For poor households, such as 2F, this credit was similarly mobilised by the *Arbab* from several lenders as charity, without the expectation of repayment. The household did however repay the debts through a son's wage labour in Iran, indicating the importance to one's reputation of repaying debts when possible, perhaps to retain honour, or perhaps because of the perceived sin of dying in debt. In another case, poor household 1F borrowed AFN 5000 from an aunt of the household head, who subsequently died. The repayment is now not expected, but nonetheless the family intend to perform a charitable distribution of the money for this reason, highlighting the importance to one's reputation of being seen as a 'good borrower'.

4.7 Creditworthiness

All households in the study, except sons within households where sons had become addicted to opium while working in Iran , were able to borrow in cash and in-kind. The reputation of the borrower and trust between parties were sufficient to allow all households to borrow small amounts with little difficulty, and to enable the majority to access amounts in excess of AFN 10,000 from at least one lender. Being *khosh hesab* (having a trustworthy character or reputation) was considered by most to be more important than assets in being able to access credit. Often, demonstrating the will and effort to repay a debt even when not succeeding to do so is sufficient for a borrower to retain his reputation intact (e.g. 1F). However, having land, sons in Iran or salaried income was necessary in both villages to access larger loans or to secure larger shopkeeper loans for longer periods. Being able to return a loan in advance of the agreed time was mentioned by several respondents as further increasing one's creditworthiness. Creditworthiness based on reputation and repayment history however does not alone govern access to credit. The size and quality of a households' social network is in many ways significantly more important.

4.8 Social dynamics of credit

As the case studies in Section 3 illustrate, most households seek to take credit horizontally, i.e. from relatives, neighbours and friends of similar socio-economic standing. This is particularly true of poor and middle-income households.[3] In this respect, little has changed in the years since it was observed in 2006 that the relatively monetised rural economy of Herat leads typically to more horizontal informal borrowing and lending (Klijn 2006). Naturally, relatives are likely to lend when asked out of compassion or duty, therefore households typically begin with the socially closest lending options and work outwards if unsuccessful. Credit is predominantly highly localised, for example taken within one's immediate neighbourhood in the larger Village 1, but also reaches to relatives in Herat and Iran. This allows better connected households to draw on large sums at short notice, for example through *hawala* money brokers (1C, 2H) despite their marginal location. In many cases, households spread borrowing across a number of horizontal social connections for several reasons, including a lack of choice for raising substantial sums from poor households, but sometimes also for more strategic reasons. When spreading out debt, the chances of repayment being asked for on all the loans simultaneously is low, therefore lowering the risk of being forced to mortgage or sell off key household assets.[4] Borrowing in this manner means that less pressure is put on any particular relationship at one time, or on oneself to have to repay a large amount at once. Repayment in instalments is generally viewed negatively as in essence it breaches the arrangement agreed by the parties at the time of borrowing and cast doubts on the borrower's ability to repay in full.

Vertical social connections and less familiar individuals were drawn on for credit much less by all respondents. Where instances of this type of borrowing were found it was often better off households seeking larger sums for investment, such as 2H borrowing AFN 50,000 from a *hawala* money broker for the purchase of land. Other households such as 2G obtained credit from wealthy saffron growers with whom they had a connection in order to begin cultivating themselves. Among the less wealthy, the elderly headed household 2D borrowed AFN 50,000 from the head of the CDC and 2E borrowed AFN 40,000 from a shopkeeper to pay a smuggler to take his

3 Full debt portfolios of all the households can be found in the Annex.

4 The head of household 1H adopts such an approach, borrowing from several sons-in-law and relatives simultaneously, increasing his confidence that 'they will never ask me to pay their loans' nor require repayment at the same time.

son to Iran. In all three cases, the loans were cost free but repayment was expected quickly, which 2H and 2D managed through remittance incomes and 2E was forced to borrow from another person to repay.

Households face high levels of reputational risk when borrowing from local elites, shopkeepers and those socially more distant, and hence these loans are avoided where possible and repayment to these lenders prioritised if they are taken out. For example, when the head of household 1H was kidnapped following a disagreement with the *Arbab* of Village 1 over a leadership contest, the household was driven AFN 400,000 into debt due to ransom demands and forced to relocate to the city, an incident from which it has yet to recover financially. The events reflect the 'silent violence' intrinsic to village and economic relationships where elites have co-opted local governance structures, and are fiercely protective of power, such as in Village 1. The household head is now wary of borrowing from the village elites, stating:

> ***'I've never asked any wealthy person from our village and I would not ask. If I took a loan from them, they would have other expectations and lend money for a small period of time. In the case that I failed to pay the money back on time, it would harm my relationship with them.'***

Several households, on the other hand, also remarked on the cultural taboo of becoming indebted to in-laws. Though heavily in debt, with her sons working, Buhara (2F) felt ashamed at the prospect of borrowing from the families of her sons' wives, saying that: *'It is not good to ask from them. It will bring down our reputation, because they would think that we don't have the money and we have to ask them because we are poor.'*

Households develop credit relationships in a number of ways. Borrowing and repaying small amounts regularly is a way of keeping credit links 'active'. Indeed, many households emphasise the importance of repaying smaller debt faster, partly as it is easier to do so from income surplus and cutting back, but also in order to maintain vital consumption-smoothing borrowing sources such as shopkeepers, and maintain a broad range of lending relationships. For small loans from horizontal social relationships, consideration is also given to the economic status of the lender in prioritising repayment. A minority of households preferred to develop a single credit source in particular, repaying regularly and faithfully in order to access potentially large amounts in the future. Many households buy in advance from one or two shopkeepers preferentially in order to build creditworthiness through loyalty and regular repayment.

Many women will do the same when borrowing from shopkeepers. Their options for broadening or deepening credit relationships are limited, however, even when they have the capacity to borrow as the result of an income such as a teaching wage. The female head of household 2C again proves the exception and has forged a role for herself in the community by organising wedding parties, ceremonially washing bodies before funerals and performing vaccinations. Through this work, she is well known in the community and is able to borrow from many local and city shopkeepers as well as taxi drivers in addition to her friends and neighbours. Though she borrows infrequently and often in-kind, she believes she is able to access such wide-ranging credit because of her outgoing and confident personality and reputation as a woman who is able to manage her household affairs while her husband is unable to on account of his intellectual disability.

4.9 Credit outcomes and livelihood churning

The livelihoods of all respondents in Village 1 were adversely affected by irrigation issues and by flooding and waterlogging in Village 2. Overall, a reduction in cultivation and damage to crops reduced the demand for wage labour, impacting the incomes of households in all wealth categories from both land production and labour opportunities. Many households started to borrow more and others were unable to service existing debts. However, though debts may be high, it is not large debts alone that are necessarily problematic when it comes to repayment as in the majority of cases repayment terms remained flexible and sympathetic. Many households found themselves struggling to repay debts due to the economic decline. Those satisfying their immediate needs with informal credit were led to undertake risky and detrimental livelihood strategies.

Table 5: Informal credit outcomes by wealth group

Wealth group	Struggling	Managing	Doing well
1			1G
2		1C, 2A, 2C	2G
3	2E	1B, 1D, 1H	2H
4	1A, 1E, 1F, 2B, 2D, 2F		

Struggling

Households with chronic and unmanageable debts, whose assets were at risk and relationships strained or damaged, shared certain characteristics. Three households in Village 1 had sons that had become addicted to opium, causing a loss of earnings, increasing the number of dependents in the household and building up debts related to treatment. Household heads had to borrow on behalf of addicted sons and their families, using available credit sources for consumption purposes. As with households impacted by sickness and death, the ability of these households to repay debts is impacted by the loss of labour and earning power. However, as well as being corrosive to household earning potential, addiction carries with it shame and by extension a serious loss of trust that may last beyond the recovery of an addict.

Village 2 in particular has a largely wage labour-dependent economy and struggling households were often those that lacked labour. Sons working in Iran face the competing pressures between sending remittances and raising large bride price payments at the same time, as well as repaying smugglers for their entry into Iran. Struggling households all still retained access to credit, though in some cases this was diminishing such as in 2D.

In fitting with the findings of Maxwell et al. (2017) across several countries, livelihood shock was the main driver of livelihood churning and food insecurity for struggling households in this study. For many, this shock came in the form of addiction, ill-health or the death of household heads. In Village 2, flooding and land damage were also major factors leading to large debt problems for households, including 2D and 2F. Where addiction, death and old age increased household dependency ratios and stretched incomes, informal credit functioned to enable immediate survival and a level of stability, but did so at the expense of longer-term recovery. For these households, when debt was added to a situation of increased household expenditure and reduced income earning capacity, cycles of debt were created. As such, remittance in many cases was effectively spent before it was received. In Village 2, the collective action of community lending following a death almost certainly averted a crisis for a number of households, including 2F, a female headed household that was lent AFN 200,000. Even though these loans were given with an expectation of forgiveness if they could not ultimately be repaid, total debts could be substantial and place a severe long-term strain on households, as households nonetheless felt compelled to repay fearing that people would judge them negatively if they could not.

Struggling households typically managed by sending sons to work in Iran where possible, or by mortgaging land. Where the former strategy for these households was unsuccessful in providing a route out of indebtedness, bad luck often played a role, for example through an inability to find work, captured by authorities and deportation. Consequences for the household were compounded where these men were the sole owners, sometimes also having to deal with the fallout of deportation, including further debt. However, a source of cash income from Iran opened credit lines for households, boosting creditworthiness and increasing the likelihood of being able to borrow. Struggling households mortgaged land to raise money for marriage, large healthcare expenses and sometimes for consumption. The majority of households in the struggling category had land mortgaged for many years beyond the initial one-year contract, which they were unable to repay. One household, 1F, began mortgaging land over 10 years ago and had now mortgaged it all, and another, 1E had sold it all in order to move to Herat. Though able to extend mortgages with relative ease, relinquishing land undermined earning capacity and the subsequent ability to repay debt. Struggling households were generally unable to accumulate buffers of assets such as livestock in order to protect against future shocks and unexpected expenditure, and often lacked the labour and resources to lease land in order to increase income through production or to diversify in other ways. Struggling households were therefore driven to consume tomorrow's earnings today, leaving them particularly vulnerable to future shocks or repayment demands.

Managing

Managing households were generally those with several salaried or wage labour incomes (e.g. 1B, 2A, 2C). These households typically have the largest debts, borrowing often and usually repaying swiftly, whether large or small amounts. Stable and multiple incomes throughout the year ensured creditworthiness, even when debts were large (such as in 2H). Many of these households were allowed longer term loans and committed to repay shopkeepers after harvest time, an option generally only open to trusted borrowers. The fortunes of some households had been improved by the receipt of bride prices (1B, 2C, 2E), providing a financial buffer and means of debt repayment if necessary. The regular instalments of such payments over several years acted as a source of livelihood security (Dekker and Hoogeveen 2002) both for consumption and in order to make larger investments, for example in marrying sons, accumulating livestock or building houses (2C). It also means that households are more likely to be approached for loans, with the associated potential benefits for maintaining or expanding credit networks. Managing households did not necessarily have more sources of credit, but sources tended to be more reliable, meaning households in general did not have to request assistance from many households – preferable from the perspective of keeping track of debt, saving time and potential embarrassment.

Most managing households effectively averted significant degrees of livelihood churning through their successful use of credit for short-term consumption smoothing and investment. Two households in this group had moved up a wealth group. Both of these households (1C and 2C) consciously and successfully developed a range of credit relationships, both vertical and horizontal to ensure the ability to draw on credit at will. Large borrowing networks and regular cash income meant households rarely had to resort to repayment strategies that would erode the household's asset base. In the case of 1H, although in severe debt to sons-in-law and cousins, the household was still managing repayments through substantial harvests. The household has good prospects of a full financial recovery from an incidence of kidnapping resulting in debt from payments to secure release.

Doing well

Households in which informal credit contributed to an upturn in household prosperity were relatively better off, and were the largest landowners, as was similarly found in the Klijn and Pain 2007 study. In addition, household 1G had a substantial income from grape cultivation, and benefited from the receipt of bride prices. The household has mortgaged some grapevines to build shops near the road and is well connected to wealthy villagers and people in Herat, as well as having business connections. Individual factors such as the household's sons coming of age and contributing to household income through work alongside the receipt of the two bride price payments has contributed to the economic security necessary for the household to use credit for investment. In Village 2, household 2G borrowed from a wealthy villager to lease land and grow saffron, as did household 1C in Village 1. A son in household 2G was able to migrate legally to Iran and access salary advances there and the household could usually also depend on a large wheat harvest from substantial land holdings. As such, incomes were sufficient that the household generally does not need to borrow, though they estimated that they would be able to borrow from 20 sources if necessary, which is probably due to the head of household being well connected through membership of the CDC. Household 2H was very creditworthy due to multiple incomes from Iran, enabling the household to clear debt relatively quickly and easily. These households also had large outputs from the land.

Households doing well experienced only minor financial anxieties in recent years. Large incomes and sources of large informal credit on good terms buffered them against the majority of shocks, although demographic household factors such as the coming of age of sons or the joining together of sub-households also contributed to livelihood stability or improvement. Household 2G borrowed AFN 78,000 during the illness and subsequent death of the household head from relatives, wealthy villagers and a money changer through whom the household normally received remittance from sons working in Iran. The debt was repaid within three weeks from livestock sales and stocks of livestock were replenished through salary advances in Iran from working sons. The household emphasised the role of the *Arbab* in setting an example for community solidarity and mutual support. This played a part in the household's ability to borrow large amounts quickly, though its success in repaying came more from having several decent cash incomes in Iran. Overall, both men and women within these households required credit less often than managing or struggling households.

5 Discussion

Just like the 2007 study, this research found wide ranging and far reaching informal credit practices that are by and large inclusive, mutually supportive and a crucial resource enabling households to achieve livelihood security, albeit to varying degrees. The majority of study households were in debt, and the fact that households were able to command such remarkable levels of debt, even when their chances of repayment seemed remote, speak to the informal credit system's pervasiveness and inclusivity. Indeed, large debts themselves, though obviously undesirable, were not necessarily problematic. Many households managed debt successfully, particularly through wage labour in Iran, though poorer households often struggled and were more likely to experience debt traps and resort to negative coping strategies. Their very presence in informal credit networks and ability to borrow, however, may often be the only thing preventing a household from being driven to dispossession, destitution and the abandonment of the village for the city following severe crisis.

Informal credit is inseparable from social relationships and the existence of credit is entirely dependent on these relationships. They may be given by direct relation, fostered through mutual exchange or created by other means, but where credit is concerned it is most commonly through direct relation. At the heart of all credit relationships is trust, explaining why social proximity is a primary factor in determining access to credit. In the Afghan village context, this is tied in with physical proximity, as relatives are often neighbours, and marriages between households create highly localised networks of kinship and association. Debt is a way of pooling risk and keeping debt within relationships of close social proximity reduces the risk of outstanding debt becoming a liability that causes reputational harm to a household or leaves it open to exploitation. Closely associated households are more likely to agree to lend to one another, whether through compassion or obligation, and it is in their interest to do so on good terms since, as the previous informal credit study pointed out, households invest in reciprocity and today's borrower may be tomorrow's lender (Klijn and Pain 2007). While studies in rural India found lenders preferring to borrow outside family connections to avoid pressure or interference with what the money is spent on (Guerin et al. 2012), borrowers in this study strongly preferred to borrow from relatives, and relatives were more likely than non-relatives to lend for any given purpose. Furthermore, requesting loans from close relatives is perceived as being less shameful than requesting from those more socially distant. These close relationships are less likely to sour than associational relationships, and borrowers are more likely to be afforded flexibility, leniency and extensions when asked for. Ultimately, where debt is forgiven or written off, this is seen as less of a loss when it is to a borrower with close social proximity.

The high level of anxiety expressed so clearly by most borrowers may seem incongruous with the fact that most credit is cost free, flexible and for many smaller loans *qarz-e khodadad* – to be repaid when Allah provides the ability. This anxiety speaks primarily to the value of the social connections themselves, which are more valuable resources than credit to livelihoods more broadly. Households stand to lose much more than the value of a debt itself by jeopardising these relationships through default or damaging trustworthiness in the eyes of the community. In addition to being a reliable borrower, several households indicated the importance of being perceived as a 'good lender' who could be relied on to offer support. Informal credit was spontaneously offered in this way to those in need, particularly in order to reciprocate a loan. Lending also enables individuals to boost their social standing and obtain spiritual reward *(sawab)*, and as well as to maintain or expand credit relationships.

Considering informal credit practices through a market lens could explain why, for example, debt is so prevalent given the widespread availability of credit, the low cost of borrowing and the low barriers to accessing credit. This lens falls far short, however, in explaining the bulk of borrowing and lending activity. A fuller explanation is provided by the fact that informal credit is deeply rooted in Islamic cultural traditions, obliging its extension to those in need through the principle of *haq-e hamsaya* (the right of the neighbour) on non-exploitative terms. As such, informal credit forms a large and significant part of the moral economy and is a primary mechanism of mutual assistance. Exclusion from credit tends to be not just on account of poor creditworthiness or fundamental inability to repay, but also because of some kind of perceived moral failing, such as drug addiction or a gambling habit. Indeed, as Minoia and Pain (2017) note, *'It is the inability to access informal credit that is the true hallmark of exclusion and destitution.'*

Another key feature of the informal credit system is its role in the distributional economy. Relationships, including those created through marriage, create an ability to make claims on the resources of others through borrowing. In-laws were found to be a major source of credit in this study, although in some cases it was considered shameful such as where fathers turn to their sons-in-law for credit. Whether in cash or in-kind, households find that they have little choice but to participate in mutual exchanges where they have the means to ensure the ability to claim credit from others when needed, rather than to rely on acts of charity. Higher social standing can be used to leverage credit on behalf of others and there are examples showing that it can be conferred upon others such as in cases where a man inherits his father's reputation and relationship with the shopkeeper, or where people act as guarantors to friends for shopkeeper credit. Exploitative credit relationships based on unequal power, where short-term survival needs are traded for long-term independence and well-being (as described in other studies such as Pain et al. 2016), were rarely found in this study. The proliferation of cash in the rural Herat economy as a result of widespread migration likely increases the chance that a household can access sizeable loans through existing horizontal lending relationships.

Credit relationships are handled as carefully as credit itself. Within horizontal relationships, spreading borrowing among several lenders as described in the previous section was a common way to spread risk. With others in a similar socio-economic position, it is important not to burden any one credit source with a larger debt (Goodman 2017) nor leave oneself at risk of reputational harm by doing so, particularly with a wealthier or more influential lender. For example, Ahmad (household 1F) bought himself out of a loan by mortgaging land to repay it when the lender indicated expectations of free labour and other similar but unspecified obligations. Ahmad, like other households in this situation, appeared to have calculated the cost of the patronage as part of the debt, weighing it up against the longer-term cost of a mortgage. Anecdotes of exploitative lending, or borrowers evading payment, usually related to credit exchanges with individuals outside of the village who were less familiar. The familiarity of the lender to the borrower as well as the community acts as a strong incentive to lend on favourable and customarily acceptable terms, and without expectations beyond repayment, as well as ensuring good conduct on the part of the borrower too. The cost to an individual of borrowing or lending in bad faith goes far beyond the immediate financial implications, causing irreparable damage to a person's creditworthiness and reputation (*khosh hesab*).

So why do outcomes vary? Household composition is a major factor, namely the availability of labour and daughters of marriageable age. Idiosyncratic shocks such as illness and death can be survived through credit, though repayment ability may be impaired. It is the presence of numerous active horizontal credit relationships, however, that enables a household to borrow sufficient amounts on manageable terms. In this relatively monetised rural context, horizontal credit relationships are more typical than vertical relationships (Klijn and Pain 2007). With sufficient labour to work in Iran, even poor households can repay large debts and avoid churning in and out of difficulty. Managing these relationships implies prompt repayments of smaller amounts which, longer term, is likely to be more important to many poorer and middle-income households than large single amounts of credit in consumption smoothing and managing episodes of ill-health. It is more important to keep credit relationships with close relatives active in order to increase the chances of accessing credit in the future and this is what households successfully managing credit exchanges do well. The mutual nature of these exchanges, however, means that a cost in making claims is implied. As found in other parts of the world (e.g. in Ghana (Schindler 2010)), difficulty in refusing loans when requested can create additional pressures on household incomes.

Informal credit mechanisms are highly gendered. Women's minimal access to cash credit however should not detract from the importance of the small in-kind exchanges of foodstuffs between neighbours that are perhaps the most common credit exchanges of all. Access to modest amounts of rice, oil and bread at short notice are vital in bridging income gaps and smoothing consumption on a day-to-day basis. Borrowing in this way is universal, and women's limited social lives are a conduit for such credit, and in some ways vice versa, giving women the opportunity to visit neighbours and relatives. Small tailoring incomes and teaching salaries can increase the amounts women can borrow from relatives, though women's economic independence in most cases remains limited. The absence of male heads of household has increasingly enabled women to borrow from relatives, with prior permission, and sometimes independently in the case of female-headed households while their sons are in Iran. The female head of household 2C, whose circumstances allowed her to subvert restrictive gender norms, took on the majority of socially accepted roles for women in village public life, for example wedding party organiser and midwife. Her sense of agency and perceptions of any limitations placed on her undoubtedly played a part in her pursuing these roles, which expanded her credit network. But in occupying these roles that are finite in number and range, other women are precluded from breaking the mould in the same way.

Institutionally, the mosque emerges as an important factor in village life that reinforces credit relationships through regular social interaction as well as creating new opportunities to borrow. Friday prayer is attended at larger mosques by men from several villages, facilitating the creation of new credit relationships, such as in the case of the head of household 2D, who attends the service in another village and borrowed AFN 100,000 in this way. The teachings of the mosque are also key in regulating lending behaviour and curbing exploitative practices. Other institutions, such as the CDCs, are reflective of existing local power relations. The CDC representative in household 2G has a wide credit network capable of lending larger amounts for investment purposes, which is facilitated by his membership of the institution. On the other hand, in household 1H a dispute with members of the village elite represented on the CDC caused the head of the household to be kidnapped, necessitating taking out large loans to secure his release and then to relocate to Herat. The household remains AFN 400,000 in debt ten years on. It is worth noting that it is the exercise of power through existing social hierarchies, rather than the institution of the CDC itself, that causes outcomes such as this. The head of household 1H, like the head of 1F who also resides in Herat, has no credit relationships in the city beyond advanced purchases from shopkeepers and returns to the village to borrow even many years after moving to the city. Though some powerful elements in the village are hostile to him, he is able to access credit through former neighbours and wealthy connections, indicating the endurance and fundamental importance of close social relationships and the village as the most important social institution in people's lives long-term (Pain and Sturge 2015).

During the last ten years, credit has become markedly more scarce in the two study villages, but also increasingly relied upon by struggling and managing households. There are numerous reasons for this, with the main ones being water supply problems; increasing household sizes combined with land division; declining wage labour opportunities locally and in Herat city; addiction; and increasing difficulties in working in Iran. What this study makes abundantly clear is the centrality of labour migration to Iran as both a means of earning a living and a risk management strategy. Since the Klijn and Pain (2007) study, the combination of factors mentioned above has led households to depend more on the migration of household heads and sons to Iran (be it occasionally, seasonally or cyclically), where wages were until recently significantly higher. To reach Iran, perhaps paradoxically, men become indebted to smugglers while migrating to try to repay family debts back home. Remittances from this migration not only sustain households but open up credit lines locally in Afghanistan for family. At the same time, work opportunities are increasingly scarce in Iran and the value of the Iranian currency is dropping due to increasing international sanctions on the country. The result is a heightening of the risks associated with an already perilous journey including deportation, violence and deportation by the authorities (Glinski 2018), which increases the chance of returning home with even more debt.

Informal credit as a mechanism for social protection clearly has its limits. Importantly, according to respondents, the amounts available have dropped dramatically in recent years, from around AFN 10,000–20,000 to AFN 2000–5000. Perceptions are also changing. In Village 1, respondents talked of attitudes becoming more individualist and of lenders questioning the need of others to borrow instead of raising funds by selling assets. Lenders were more likely to use surpluses to expand their own productive base, namely by leasing land given the land shortage in both villages, but particularly in Village 2. Credit reaches almost all households, but it is no longer enough. With larger amounts harder to come by, mortgaging land is significantly more common among the households interviewed than ten years previously. As a mutually beneficial and fixed longer-term credit relationship, mortgaging is seen as a lower risk strategy than borrowing large sums of money, though it undermines the capacity of households to meet both their own needs and repay debts longer term. For many, the prospect of taking back their mortgaged land now seems remote.

6 Conclusion

The results of this study have emphasised again the central and uniquely important role that informal credit plays in Afghanistan's distributional economy and in affording social protection at the village level. In the absence of credit, livelihood churning among the poorest segments of the rural populations in this study would very likely be more extreme. As such, the safety net that informal credit provides often prevents large sections of the rural population from needing to resort to damaging coping strategies in the wake of any number of the potential shocks inherent to Afghanistan's turbulent, high-risk environment. Debt traps experienced by these poorest households may be detrimental to the long-term economic health of the household, but the alternatives are clearly far worse.

Households that are managing or thriving through the informal credit system are able to do so primarily because of regular incomes from Iran. For these households, informal credit curbs the potential extremes of churning, providing a reliable safety net as well as more and better opportunities to access land and increase productive capacity. However, wage labour opportunities in Iran – a lifeline providing livelihoods and credit resources for all wealth groups – are rapidly diminishing, which will likely have a severe impact on informal credit systems.

Furthermore, what is abundantly clear is the centrality of informal credit to the social fabric of village life. More than just money, credit is a performance of moral virtue that serves dually to rearticulate social bonds through the Islamic principle of *haq-e hamsaya* (the right of the neighbour) and to establish trust as both a dependable lender and borrower. Earning and maintaining trust is important not just for the immediate credit relationship, but for one's status within the entire credit network. The importance of informal credit also goes beyond ensuring mutual survival as it is a core part of fostering solidarity and village identity. This was particularly true of Village 2, where more equal land ownership resulted in more equal wealth distribution, with the village leadership promoting collective action and acts of charity. On the other hand, in the large Village 1 credit networks were concentrated horizontally and within neighbourhoods. In Village 1 elites were rarely approached for loans due to the perception that the risk of reputational harm and obligation to provide unpaid work or other favours was high. As a result of this (and as argued in Wood (2003)), migration and its commonality is a logical alternative to such exploitative 'induced loyalty' to elites through patronage, particularly when credit availability dries up.

Broader economic and, to a lesser degree, social trends have markedly reduced the amount of credit available over the last ten years. For individual households, as the case study has shown, this means borrowing from more people in order to satisfy needs, including sometimes outside of immediate social circles where loans are offered on the most sympathetic terms. The result of this will likely be a reduced capacity among the poorest households to cope with and recover from shock, increasing further the dependence on migration. However, the clampdown on Afghan migrant workers in Iran and sharp devaluation of the Iranian currency is notably restricting this vital source of income. Compounding this pressure is a severe drought that has affected most of Afghanistan in 2017 and 2018 (though the two study villages here have not been affected to a particularly strong degree). The drought has driven many poor households into deep crisis, reportedly forcing young girls elsewhere in the province to be married in order to repay debt (Yuan 2018). As a result of all of these factors, informal credit systems are being stretched to an almost unprecedented degree, meaning that they no longer knit communities together in the same way or provide the protection that they did against households turning to damaging coping mechanisms.

Informal credit systems, as microfinance programs have learned the world over, are pervasive and enduring owing to their socially embedded nature. They are incompatible with external efforts to support them or make them more inclusive for the same reason. This is particularly the case in any initiatives aimed at boosting women's access to, usage of or ability to repay credit. As such, any attempt to influence informal credit systems directly is unlikely to succeed, making the formulation of recommendations around informal credit directly rather difficult. The report therefore concludes with tentative recommendations that aim to situate informal credit within its broader context:

- Governments and programme designers should resist attempts to formalise, institutionalise or regulate informal credit. As the 2007 study concluded, it is unrealistic for policy or legislation to protect the poor against exploitative credit practices. Furthermore, attempts to make informal credit more inclusive will first need to carefully consider local context and the barriers to movement and economic activity faced by women and marginalised groups.
- Microcredit and other formal credit programmes must invest in properly understanding local economies and village contexts if they are to appreciate the existing demands on household funds. External initiatives will always overlay existing informal practices rather than substitute for them.
- That said, agricultural credit may complement existing practices by offering what informal credit is less able to achieve in helping to pay for seeds and important inputs as well as to lease land where it is in short supply. Despite extreme pressures on households, in relatively more monetised and market-connected rural contexts such as Herat, many households do seasonally have surplus resources and there is scope for micro-insurance and rotating savings/self-help groups to complement informal credit practices. Migration may provide a greater role for rotating savings and credit associations (ROSCAs), self-help groups or similar micro-finance initiatives to support women and women-headed households.
- More broadly, it is imperative to provide wage labour opportunities for Afghanistan's large surplus rural population, as has been emphasised before. This is particularly important in light of land division, population increase, water crises and the decline of wage labour opportunities in Iran. These opportunities offer the best chance of debt repayment, sustained livelihood improvement and the strengthening of informal credit networks at the community level. This is obviously a much greater challenge and one without a quick fix, though as Minoia and Pain (2017) suggest, lessons in rural employment generation can be drawn from elsewhere such as India.
- Migration to Iran and elsewhere is no longer an exceptional or occasional livelihood strategy. Alongside recognising the importance of this income to the entire rural population and to the distributional economy, every effort should be made to protect the interests and safety of migrants.
- Wider recognition of the importance of informal credit to the distributional economy should encourage policy-makers to not always see debt as problematic and appreciate the role and value of credit connections in understanding what may superficially be viewed as irrational behaviour or unintended programme outcomes.[5]

5 For example, a recent survey of emergency cash distribution among IDPs in Kabul found that 7% of cash was used by recipients for debt repayment above consumptive needs (Samuel Hall 2015).

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Annex

Annex 1: Full household debt portfolios

HH	Amount (AFN)	Sources	Purpose	Means of repayment
1A	6000	Villagers	Medical treatment	Wage labour, migration
	440,000 (75,000 remains)	Relatives, neighbours	Medical treatment	Wage labour, migration
	5000 (paid)	Neighbour	Consumption	Wage labour
	4000 (paid)	Nephew	Consumption	Wage labour
	10,000 (paid)	Relative	Consumption	Wage labour
	5000 (paid)	Brother	Consumption	Wage labour
	15,000	relative	Consumption	Not yet repaid

HH	Amount (AFN)	Sources	Purpose	Means of repayment
1B	1,400,000 (300,000 remains)	Relatives, friends, villagers	Treatment, funeral	Land sale, wage labour and salary
	500,000 (partly paid)	Relatives	Bride price	Wage labour

HH	Amount (AFN)	Sources	Purpose	Means of repayment
1C	35,000 (paid)	Shopkeeper, friend	Treatment for sons	Harvest
	20,000 (paid)	Shopkeeper	Treatment	Remittance
	20,000 (paid)	Friend in another village	Treatment	Remittance
	10,000 (paid)	Cousin	Consumption	Remittance
	100,000 (paid)	Four cousins	Marriage	Brother went to Iran
	30,000 (paid)	Cousin	Father's funeral	Head of household went to Iran
	6000	Uncle	Saffron bulbs	Harvest

HH	Amount (AFN)	Sources	Purpose	Means of repayment
1D	150,000	Relatives outside of village	Treatment and consumption	Harvest and wage labour

HH	Amount	Sources	Purpose	Means of repayment
1E	60,000	Various relatives	Treatment	Remittance from Iran

HH	Amount (AFN)	Sources	Purpose	Means of repayment
1F	16,000	Son-in-law	Treatment	Wage labour
	60,000 (paid)	Neighbour	Son's engagement	Mortgage, some wage labour in Iran
	13,000	Neighbours	Son's drug addiction rehabilitation	Son undertaking wage labour when recovered
	4000 (paid)	Boss	Consumption	Borrowed to repay
	200,000	Unknown	Son's marriage	Mortgage land
	50,000 (paid)	Unknown	Son's marriage	Mortgage land, son working in Iran

HH	Amount (AFN)	Sources	Purpose	Means of repayment
1G	10,000	Doctor, relatives	Treatment, dental	Grape harvest and shop profit
	100,000 (Paid)	Relatives in Iran	Grandmother's treatment	Grape harvest and daughter's salary
	100,000	Brother-in-law	Land purchase, saffron and shop building	Grape harvest and shop profit
	100,000	Relative	Shop building	Grape harvest and shop profit
	20,000	Mother-in-law	Consumption, Persian new year	Grape harvest and shop profit

HH	Amount (AFN)	Sources	Purpose	Means of repayment
2A	150,000	Villagers	Son's engagement	Remittance from Iran
	15,000	Paternal cousin	Engagement celebration	Remittance from Iran
	10,000	Cousin	Consumption	Harvest
	25,000	Relatives	Wife's treatment in Pakistan	Remittance from Iran

HH	Amount	Sources	Purpose	Means of repayment
2B	150,000	Neighbours	Consumption	Daily wage labour, mortgage
	200,000 (Paid)	Brother-in-law	Consumption	Mortgage, wage labour
	60,000	Relative, neighbour and friends	Daughter-in-law's treatment	Wage labour, mortgaging land
	200,000	Relatives, friend and neighbour	Husband's treatment, house expansion	Wage labour, mortgaging land
	80,000	Relatives, friend and neighbour	Grandson's treatment	Wage labour, mortgaging land
	13,000	Brother-in-law	Wife's treatment	Wage labour, harvest, livestock or mortgaging land

HH	Amount	Sources	Purpose	Means of repayment
2C	1200	Clinic	Outstanding bills	Harvest
	5000	Shopkeepers	Food	Harvest

HH	Amount	Sources	Purpose	Means of repayment
2D	200,000	Friend in different village	Bride price	Remittance
	3000 (Paid)	Land leaseholder	Food	Remittance
	100,000 (Paid)	Friend in different village	Wedding expenses	Remittance
	50,000	CDC Head	Wedding expenses	Remittance

HH	Amount	Sources	Purpose	Means of repayment
2E	50,000 (Paid)	Brother-in-law	Funeral	Remittance
	40,000	Nephew in Iran	Smuggler fee	Remittance
	40,000 (Paid)	General store, cousin	Smuggler fee	Harvest and livestock sale, remittance
	40,000 (Paid)	Neighbour	Debt repayment	Migration to Iran and work with his son
	150,000	Neighbour	Son's engagement, illness	Harvest and remittance from Iran

HH	Amount (AFN)	Sources	Purpose	Means of repayment
2F	200,000	Relatives, neighbour	Husband's illness	Son migrating to Iran for work
	10,000	Cousin	Consumption, health	Son migrating to Iran for work
	550	Brother	Treatment	Son migrating to Iran for work
	600	Relatives	Son's treatment	Remittance from Iran

HH	Amount	Sources	Purpose	Means of repayment
2G	22,000 (Paid)	Relatives and friends	Consumption	Harvest

HH	Amount of loans given (AFN)	Lent to	Purpose	Received Back
1A	15,000	Relative	Consumption	Not yet
1C	11,000	Cousin and classmate	Consumption	Not yet
1E	3000	Various people	Unknown	Not yet
1G	25,000 to 30,000	Various people	Unknown	Not yet
1H	20,000	Cousin	Consumption	Forgiven
2A	16,500	Neighbour	Consumption	Not yet
2D	1000	Villagers	Unknown	Not yet
2E	20,000	Villagers	Consumption	Not yet
2G	22,000	Villagers	Unknown	Not yet
2H	13,000	Friend	To buy solar panel	Not yet

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