Impacts of Microcredit Services on the Livelihood of Households in Injil district of Herat, Afghanistan

A case study on FMFB Credit program in Injil district of Herat Province (Afghanistan)

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Dedication

“The poor are the ones who can be sick today and be dead the next day”
A poor man in Bamyan province

This thesis is dedicated to the poor people of my country, Afghanistan.

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Preparation of this thesis would not have been possible without intellectual contribution and collaboration of many individuals and organizations.
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List of Abbreviations

AFN	Currency of Afghanistan, called Afghanis
AMA	Afghan Microfinance Association
ANDS	Afghanistan National Development Strategy
BRAC	Bangladesh Rural Advancement Committee
DMFI	Deposit taking Microfinance Institution
FMFB	First Microfinance Bank
FS	Food Security
IFAD	International Fund for Agriculture Development
IGA	Income Generating Activity
ISMFI	Islamic Microfinance Institution
MC	Microcredit
MFI	Microfinance institution
MISFA	Microfinance Investment Support Facility for Afghanistan
MRRD	Ministry of Rural Rehabilitation and Development
NGO	Non-government Organization
NRVA	National Risk and Vulnerability Assessment
SAMN	South Asian Microfinance Network
SIDA	Swedish International Development Agency
SME	Small and Medium Enterprises
UK-DFID	United Kingdom Department for International Development
USAID	United State Aid for International Development
WB	World Bank

Glossary

Haram	An economical business which is not in accordance with in Islam
Halal	A true dealing or interested and in accordance with Islamic rules
Murabeha	This is a Sharia compliant product, where the requested assets are provided to clients instead of cash. The client repays the amount in 12 month equal installment
Sudh	Interest
Shria	Islamic rules and regulations

Currency Exchange Rate

1 US$ = 45 AFN

1 Euro = 57.2 AFN

ABSTRACT

This masters' degree thesis was conducted to evaluate the impact of the FMFB microcredit on the livelihood of the client households in Injil district of Herat, Afghanistan. The case of FMFB microcredit program was chosen and its clients were interviewed during 15-28 July 2010. By use of open conversation and some close questions the researcher tried to understand the impact of microcredit on livelihood of clients' household.

The study found out that majority of the clients (70%) of the clients used the loans for income generating purposes. The income generated from their loan-based businesses is only sufficient to respond to the basic needs of the household. None of the clients are able to make cash savings from their income. This is the reason that their loan-based business is not stable for long term and it is vulnerable against any kind of shocks. In case of any loose and damage, they are not able to recover by themselves and they would be again depended on microcredit. In this regard the study also found that for some client microcredit is a tool in order to shift from their short-term informal loan into long-term formal loan. Those are mostly the clients who experienced shocks; such as illness, funeral and etc. Such shocks made them to barrow from the friends and relatives, but when they were not able to repay from their income, they found microcredit as the only source for repaying their informal loans. For such types of clients, microcredit highly associates to their vulnerability and put them in danger of repayment failure.

Unlike financial assets, physical asset accumulation is the main dimension of the livelihood which is positively affected by the microcredit. Of course, the accumulated assets are considered as enterprise capital that the clients directly purchased by loan. Majority of the clients could keep their loan-based physical assets and they are the main sources of their income.

The study found out that more than 50% of the clients are satisfied that their income is higher comparing to the time before access to loan.

In regard to the question that to what extent the clients are able to repay their loans, the findings based on the answers of the bank manager indicates that the level of repayment failure is about 1% (which is only in case of mortality). In the context of this study, the data indicates that all the clients paid their loans, but by analyzing the repayment ability, a better insight about capabilities of the clients was gained. Majority (70%) of the clients are confident that they repaid their loans on time, but only half (50%) of them were able to meet this obligation by their daily income.

For those who don't have a daily income, such as farmers and livestock keepers; meeting repayment obligation is difficult. Their common strategies are saving a small part of the loan for the first and second month, informal borrowing from the friends and relatives; and selling some assets that are not profitable for them anymore.

In summary, the study concludes that FMFB microcredit program has the potential to have a higher contribution to the poverty reduction and betterment of households' livelihood; but the main problem is with clients' wrong way of investment. The positive aspect about the FMFB microcredit programs is its appropriate loan size, which is sufficient for clients in order to establish enterprises; long loan duration; and also comparing to other MFIs in Herat, its low rate of loan interest.

Chapter 1: Introduction

1.1. Background

Afghanistan with population of 31 million has experienced 30 years of man-made and natural crisis including conflicts, consecutive drought and anarchy. The tragedy of war left Afghanistan as one of the poorest countries in the world; a country with lowest standards of life and lowest level of food security in the world.

According to a survey carried out by the government of Afghanistan approximately 10 million Afghans, around 42 percent of the population, live below the poverty line and do not meet their daily food and non-food requirements. While high rates of poverty exist amongst Kuchi and rural households, the incidence of poverty is increasing in urban areas and large city suburbs. (ANDS, 2008)

Poverty kills more Afghans than those who die as a direct result of the armed conflict. Malnutrition, particularly among the children and inaccessibility to the basic health services are the main aspects of poverty, which are blamed for the high level of mortality.

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National Risk and Vulnerability Assessment (NRVA) reported that 35 percent of Afghans are chronically food insecure. This is particularly true in most of the poor provinces such as Bamyan, Ghor, Day Kundi, Badghis, Faryab, Samangan, and Sari Pul provinces as well as the northern districts of Ghazni and Wardak. (USAID, 2009)

Having unsustainable income-generating activities, lack of means and sources to improve the existence income generation capacity and lack of access to financial services are the relevant reasons of poverty and food insecurity of those populations. Furthermore the rate of unemployment on the country is fluctuating around 42%.

Given widespread low productivity employment and the large number of jobless, employment generation has become one of the most important objectives in the policies frame work of the government for poverty reduction. Therefore considering this motivation, since 2003, partners of the Microfinance Investment Support Facility for Afghanistan (MISFA) [1] have worked to build a sustainable financial services sector to extend access to credit to urban and rural Afghans. The delivery of microcredit (MC) was prioritized since 2003 as a means to stabilize livelihoods, improve productive assets and stimulate economic development and job creation. (Paula Kantor, 2009)

Since fall of the Taliban regime and establishment of the new government, The MFIs have had a considerable progress both in number of the institution and number clients. Currently 15 state-owned, private and foreign commercial banks with 100 branches are operating in all over the country, however yet the sector can not meet the financial needs of the industries and individuals and is not able to provide adequate financial services to all of the small and medium enterprises. Access to credit for most private businesses and individuals, specially SME and micro businesses, remained a serious binding constraints for their development by highly collateralized lending practices and lack of financial intermediation capacity in the current financial sector. In 2007, only 6.7 % was the share of total credit to the country's GDP, which is far less than the average ration within South Asia at 43%. (Project Information Document, World Bank, 2009)

Most of the individuals and businesses resort on the informal sources of finance; such as relatives, shopkeepers, currency exchange dealers and local money lenders. However those sources are limited in their size and timing. (Project Information Document, World Bank, 2009)

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[1] MISFA registered as a limited non-profit company whose sole shareholder is the Ministry of Finance of the Islamic Republic of Afghanistan. MISFA Ltd is an independent apex organization which has16 implementing partners Microfinance Institutions. MISFA functions as either the exclusive or primary provider of funds for all MFI partners.

Hence, the large portions of the poor population and the above background on the country's financial sector highlight the existed gap in the financial sector. There have been significant numbers of unmet demand for financial services. Therefore, the need for microfinance specially credit services has been obvious in the country to fill partially the gap in the financial sector. There is an attractive potential market for microcredit in the country. At the time when there was the boost expansion of microfinance in the country (2003) the number of clients demanding for its services has been estimated to be at least 1 million (Mariono, Pascal, 2005 cited by Nazari, Rahim, 2010). Hence, microfinance, as an instrument for poverty reduction and also stimulating the private sector development (specially SME and micro business), attracted the attentions of the government, donors, development agencies and microfinance practitioners in the country.
The microcredit as the main product of microfinance programs had a rapid progress since it started. In 2009 SAMN estimated that there are almost 350,000 active borrowers in the country's loan programs (South Asian Microfinance Network, 2009). The large figures for the number of clients might convey the success of the program in the country.
With all the mentioned progresses, the frequent and relevant questions arise about the impacts of the microfinance services, particularly credits on the clients' situations. How far microcredit services have enabled the clients, mostly poor individuals and enterprises, improve their income generation activities; accumulate capital and to smooth consumptions.
This study aims to find answers for the questions about the impact of microcredit on the livelihood of the client household. The objective and the questions of the study are discussed in detail in the next page.

1.2 Problem Statement

Lack of financial resources to get involved in income generating activities is one of the main problems of the poor households in Injil district of Herat province. Due to this problem the households in this district are suffering from an insufficient income and this affects the quality of their life; as they can not sufficiently meet their daily basic needs such as access to healthy food, shelter health and education. To address this problem, entrepreneurizing of the poor households by provision of microcredit has been recognized as an appropriate development approach by the government of Afghanistan and international development agencies, which has been also considered as a key strategy for poverty alleviation in the Afghan National Development Strategy (ANDS, 2008).
To implement this policy, several MFIs initiated interventions by providing loans with this hope to engage these households in profitable economic activities and help them to build a better livelihood. But in many cases, their expectations have not turned into reality and some of their clients could not use or invest the loans in a profitable way. Diverse needs and urgent priorities of the clients such as repayment of the informal debts and spending on the urgent consumptive ways have significantly reduced the effectiveness, efficiency and sustainability of the loans. In contrast, there are some other clients who could successfully invest their loans in a long term profitable way.
This is the concern of the MFIs to know about the different factors, which impact and determine the effectiveness of the microcredits on the income and livelihood of their clients. It is also important to know the most common consumptive needs that the clients spend the loan on them instead of economical investment. Thus, analyzing these issues will help the MFIs in Herat province and other stakeholders such as the government to understand that to what extent the loans could increase the income of their clients, and how much the affordability of their clients has improved for having a secure livelihood.

1.3 Research Objective:

The objective of this research project is to find out and analyze the impact and effectiveness of microcredit on the livelihood of the households in Injil district of Herat province. This research analyzes the changes and improvements in the livelihood of the households caused by microcredit. To do so, the research looked the ways that the clients invest or used the loans. In additions, strategies of the clients in copping the repayment obligations are assessed. The conclusion and recommendations drawn from the data analysis can be help the policy makers, MFIs and microfinance practitioners to formulate sustainable and effectiveness MC programs in the targeted district.

1.4 Research Question:

Does microcredit contribute to improvement of the livelihood of the client households?

- Which aspects of the clients' livelihood have been improved in the result of access to microcredits?
- Do the households successfully invest MCs in a long-term income generating way?
- To what extent the clients are able to repay their loans.

1.5 Justification of the study

Many policy makers and practitioners of the microfinance believe that microcredit as a tool for poverty alleviation has the highest efficiency and sustainability for removing poverty and reducing hunger in the poor countries. Afghanistan as one the poorest countries in the world has recently welcomed several NGO-based and private microfinance institutions with the aim to involve the poor in the entrepreneurizing and income generating activities. In Herat province, for example, about five microfinance institutions are operating. Each one of them presents services with different rate of interest and collateralizing policies. FMFB (First Microfinance Bank) is one these institutions, which offers services mostly to the farmers. It claims to have about 7500 clients. Most of its clients can be characterized by their vulnerability against every economical and natural shock. Therefore, this study reviews the practices of the FMFB and evaluates the impacts of its microcredit programs on the livelihood of the households.

The motivating factors behind this study are: first, the importance of the microcredit for rural livelihood in and the development of fast-growing microcredit initiative in Herat; and second, concern about how these credit sources may affect - either negatively or positively- the livelihood, specially income of the clients. Both of these issues suggest the need to develop an in-depth understanding of how microcredit practices work and effect rural areas. The outcome of this research is an insight on the related issues which may be important for the policy makers, practitioners and MFIs. The MFIs to understand how their small loans bring socio-economic changes in a village community and based on the conclusion, they can adjust their policies and rules more effective. The clients can also get benefit from the result drawn from this thesis; the comparison of a successful client with an unsuccessful one can give them ideas that how to invest the loans in more productive ways.

1.6 Organization of the report

This thesis is designed into five chapters. Chapter one is the introduction as presented and describing the country background and imposed the questions of the research intended to be answered by the study. In this chapter also the objectives and justification of the study is discussed.

Chapter two is dealing with research and methodological issues, in this chapter research strategy, methods of data collection, site selection, and methods of data exploration have been explained. Another part of this chapter is about challenges and limitation of the study. This chapter is ended by operational definition of the key concepts. In chapter three, related topics regarding to various systems and components of microfinance are explained. Besides, there are topics about the rise of microcredit movement in the development countries. Previous impact studies are reviewed and discussed in Afghanistan and other countries. The issues of this chapter are the result of reviewing various related literatures.

Chapter four discusses and analysis the empirical finding of the study by summarizing and tabulating of the data in the charts. Chapter five, conclusion, summarizes the main findings of the empirical research and give suggestion for future researches.

Chapter 2: Research Design and Methodological issues

In this section the methodological approaches that were used in collecting data and assessing factors influencing the investment, consuming and repayment decisions of the clients of FMFB are explained in detail. It considers the process through which data was gathered using various data collection techniques, analyzed and interpreted to draw significant conclusions.

2.1 Research Strategy

This is mostly a descriptive and qualitative study. This research was conducted as a case study on FMFB loan program for the farmers of Injil district of Herat province. It was carried out in two phases, the first phase focused on literature study, aimed at collecting theories on the available literature to understand the concepts of microfinance, microcredit, poor clients, households, poverty and etc. The research theory was used to develop interview topics for the study. The second phase entailed determining respondents for the study.

2.2 Methodology

An empirical field research was done in order to assess the impact of microcredit on the livelihood of the clients' household. The study is mostly based on the interviews with the clients of FMFB. The research is done to study and investigate the outcomes and differences brought about by the mentioned MFI's program on the clients' socio-economic situation.

This study uses qualitative research approaches to collect data and gain in-depth insight to the relationship of MCs and different dimensions of livelihood. The research was carried out in two phases: the first phase focused on literature study, aimed at collecting theories on the available literatures for better understanding of the concepts of microcredit and livelihood and also accessing to reliable data about the current statue of MC and FS in Afghanistan. The literatures were also used as sources for defining, conceptualizing and operationalizing of the key concepts. The operationalization of the concept led the researchers to narrow down the main topic of the study and finally extracted the indicators which were asked through questionnaires from the interviewees.

The second phase is data collection processes from the research field, Injil district of Herat province. In this phase 30 poor households who have been financed by microcredit programs were randomly selected and interviewed. In this phase loan officers, managers of the MC organizations were also interviewed. The basic analysis of this research is based on the attitude of the clients towards the impact of the loans on their livelihood.

2.3 The methods of data collection

In-depth interviews with the clients of MF programs and unstructured field observations were the main tools for data collection. The researcher randomly selected 30 clients of the FMB microcredit program for interview. The clients were chosen from the poor households in 4 villages of Injil district. One focus group discussions conducted where 5 clients of the FMFB micro credit programs participate. Finally, information obtained from the FMFB's clients supplemented with information which gathered from two key employees of the FMFB.

During the data collection, the researcher tried to access to some documents which were helpful for gathering more data. But the Head of the FMFB refused this request and told that every official document is considered as the secrets of the organization and we are not allowed to publish, even for an academic purpose. These documents could include monthly activity reports, and financial aging reports and etc. Information derived from these documents could be use to support the information obtained through focus group discussions and the interviews.
As an additional source of data, field observations conducted on FMFB activities to ascertain the nature of their businesses, as well as the characteristics of their target groups.

2.4 Site Selection

The selected area for the empirical research is Injil district of Herat province where all the MFIs in Herat are delivering loan services for the loan requesters. Injil district surrounds the city of Herat. It is located 5km away from the Hirat city centre. The district consists of 159 villages and a population of around 232,915. (as of 2002), which includes a composition of four big ethnical groups with the majority of Tajiks (55%) and Pashtuns (40%).(UNHCR, 2002). Like other parts of the country, agriculture is the main occupation of the majority of its residents. The main corps cultivated in this area are cereals specially wheat and rice, fruits (grapes and apricot) and various types of vegetables. People are mainly poor with daily income of under $1. As most of the people depend on agriculture, therefore successive years of drought have worsened their economical situation and made them more vulnerable against every slight increase in the price of food stuff. Most of the people are chronically food insecure. Wheat and rice are their staple food and consuming rice with meat at least four times in a week indicates a reasonable food security condition of a household comparing to others and such a household considered a wealthy one.
For this study, 4 villages of this district selected to be treated by the interview question.
Villages were selected based on the following criteria:

1. There must be villagers (at least 10) who were financed by the microcredit program of FMFB.
2. The villages must be close to the city. This was essential for the researcher because of the time limitation, security and transportation.
3. Villages needed to be average in size and representative of ethnicity and livelihood activities within their district; and;
4. The four locations needed to represent both more affluent, relatively urbanized communities producing for the market, and more impoverished, rural communities exhibiting a predominantly subsistence economy.

Therefore, considering the above mentioned criteria the selected villages were Jebriel, Koshkak, Siavashan and Talaab. And finally households who were financed by the FMFB from each one of these villages were interviewed.

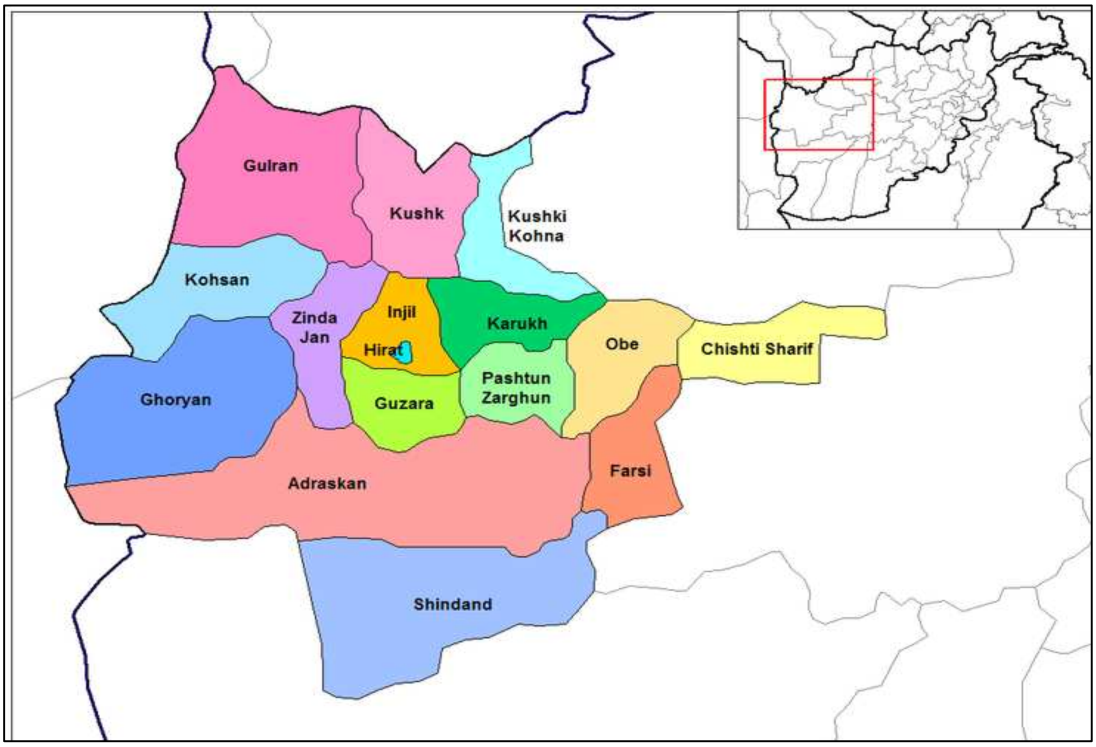

Figure 1 Map of Injil District, Herat (Afghanistan)

Source: Wikemidia website, 2009

2.5 Selection of the Respondent Clients

For the purpose of understanding the impact of the FMFB microcredit programs on the livelihood of the households, there has been a need to compare two different livelihood situations of the clients. At first, the researcher planed to select two groups of respondents; a treatment groups and a control group. A treatment group could be consisting of the respondents who have received microcredit; and a control group could be the respondents who have not been financed by any microfinance program. But, because of shortage of the time and limitations in accessing lots of households for interview, the researcher selected only one group but designed the questions as the treatment questions and control questions. In this case the current livelihood situation of the clients (the time the already financed by the microcredit programs) was compared to their livelihood situation before receiving the loans. In the questionnaire, besides the income and changes in the livelihood capital of the clients are considered. However, it was difficult to differentiate whether the changes in the income and livelihood capital are due to the micro credit or other factors. So, the researcher asked the respondents to give information about their other sources of income and also took it into consideration while analyzing the data.

The selected respondents were the clients of FMFB who were the villagers of Injil district of Herat province. They were homogenous in term of type of loan. All of them were under the individual lending program of the FMFB.

These are the general characteristics of the respondent clients:

1. All the clients have already passed at least one loan period (1 year). This was important particularly for the farmer clients, because the outcome of their investment is achieved after one year.
2. In a household, only one member has received loans.
3. Amount of the loans was between 20,000 – 80,000 AFS.
4. Clients were within age of 18-55 years old and should were mentally fit.

For selecting the respondents, the researcher asked the Injil loan officer to provide the list of the clients. He sorted the clients who have already passed one loan period. After that the clients were chosen from this list.

2.6. Data Sources

Tow sources of data were sought and explored to complete the empirical impact study. The main data source was field interview with the respondents where the discussion is based on these data. Besides, another data sources was various related literatures which is used as supportive evidence for the conclusion of the study.

2.6.1 Questionnaire development

Primary data is the core source of data for this research. These data has been collected through interviews with the clients of FMFB. A semi structured questionnaire was prepared for data collection. This type of questions was used because it allows the interviewees to raise new issues which may not been included in the questionnaires. Besides, this type of questions was helpful in order to reflect the livelihood situations of the clients through case studies and in a direct narrative method. Generation of the finalized questionnaires took some steps to complete. First of all a review of some previous impact studies of microfinance in the country and other areas is done. Then some helpful interviews and discussions with the managers and loan officers of FMFB, in order to get insight about the program, their clients, were taken place. After that a draft of the questionnaire for the clients was prepared and the questions once discussed with the institution's regional manager.

2.6.2 Secondary Data

The secondary data gathered through desk studies on literatures, past researches on the field, publications and program reports. The sources of the secondary data were mostly development agencies, governments and NGOs publications and internet and also some institutions reports constituted part of the sources for such data. The secondary data was one of the most important complement data source for the study completion.

2.7 Data Analysis

The primary data collected through clients were checked and entered in Microsoft Excel program for analysis. Some sort of descriptive analysis about the characteristics of the clients were prepared by use of tables know the clients and identify the difference and/or changes amongst them. Besides, in some cases the quotes of the respondents is directly narrated and then discussed.

2.8 Challenges and Limitations of the Study

There have been a number of factors that have limited the study to draw an overall conclusion about the microfinance impacts in the country level. Firstly, the number of respondents was not big enough to represent the overall situation of microfinance in whole of the country. This is due to the shortage of the time and shortage of finance. The study could only cover 30 respondents, which can only represent the situation of Injil district of Herat province. Furthermore, as the majority of Afghan society is conservative and traditional Muslims, the issue of microcredit is considered as an anti-Islamic act and has a bad reputation. Therefore, most of the clients don't like others to know that they have received microcredit. This was another reason that made it difficult to find lots of respondents for interview.

Besides, the data collection process was only restricted within the Injil district of Herat province, which again may can't claim to represent the actual scenario of the whole country.

The respondents were uneducated and most of them could not make an estimation of their capital, income and expenses. This brought some difficulties for the interviewer to make an exact analyzing of the impact of the microfinance on the income of the respondents. In most cases, women clients could not be interviewed directly in their residency or workplace because of cultural taboos. Therefore, understanding the real situation of food consumption within a household is difficult. Some clients were concerned that the interview would affect their relationship with the institution and therefore try not to participate in the interview or they were conservative about their answer to be in favor of MFI. This was a big challenge which could affect the reliability of their responses. In addition, despite of clarifying the purpose of the study by the interviewer; in some cases the respondents thought that may the interviewer is connected to another bank or any relief organization. Therefore, from some of their responses it was realized that they are not honest in some all of their responses.

These limitations and challenges reveal that analyzing the real impacts of microcredit through an empirical research is a very difficult job. On the other hand, because of several years of conflict and devastation of research and academic institutions in Afghanistan, accessing to reliable and confident information, to be used as secondary data, is also a big challenge.

2.9 Operational definition of concepts

In the research, a number of concepts were used and played an important role, in the clarification on what the study is all about and also the direction the study is intended to go. This section therefore, elaborates the definition of key concepts which were used in the research.

2.9.1 Microfinance

Microfinance refers to small-scale financial services, mainly credit and savings, to the poor people, whom these services are not available for them by formal financial sector of a country (Robindson 2001, cited by Rahimi, 2010).

The amount of money to be considered as microcredit differs in each country. In the context of this research microfinance services is provision of small loans (20,000 AFN – 60,000 AFN) provided for the villagers in Injil district of Herat province by FMFB.

2.9.2 Microcredit

Microcredit is a component of microfinance, which is the provision of small loans to the poor people with the goal of helping them engaged in economics activities. The “microcredit concept” was first introduced by Grameen Bank of Bangladesh in the mid-1970, (Lont & Hospes, 2004).

Microcredit is a program, which extends small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families. (Swider, nd)

Microcredit is a component of microfinance and is the extension of small loans to entrepreneurs, who are too poor to qualify for traditional bank loans. Especially in developing countries, micro-credit enables very poor people to engage in self-employment projects that generate income, s allowing them to improve the standard of living for themselves and their families. (Khan & Rahman, 2007)

The loan size is different in every MFI program. Mark Schreiner (2001) suggests that term of maturity is one of the factors that the MFI determine their loan size based on it. He argues that longer loans are larger than shorter ones. For lenders, longer loans generate more interest revenue from a single evaluation and disbursement. On the other hand, longer loans have more chances to fall into arrears and may lead to greater delinquency costs.

In the context of this research microcredit refers to the loans that their average size is 30,000 AFN ranging between 20,000 and 60,000 AFN, with maturity term of 12 months.

2.9.3 Livelihood

Livelihoods are defined as the capabilities, assets (including materials and social resources) and activities required for a means of living. A livelihood is considered to be sustainable when it can cope with and recover from stress and shocks and maintain enhance its capabilities and assets both now and in the future, while not undermining the natural resource base (Carney 1998, cited by Long 2004). In this study, the relation of microcredit and its impact on the assets and outcomes dimensions of a livelihood is considered.

2.9.3 Income

As income is defined as the output of activities, it measures both cash and in-kind contributions. All the goods and services produced in activities are valued at market producer prices regardless of their use. So, all own-farm products are valued at the same price as if they were sold (Ellis, 2000).

For corporations, revenues minus cost of sales, operating expenses, and taxes, over a given period of time is called income. For individuals, income refers to money earned through employment and investments. (Investor words, nd)

In this paper income is considered as the daily gross income of the clients which they earn from their loan-based enterprise or activity.

2.9.4 Income Generation Activity (IGA)

In this paper, an income generating activity, also known as a “productive use activity” is defined as the use of microcredit and human physical and managerial ability to produce income.

Examples of increased income generated from the incorporation of microcredit and human skill and ability, consider an entrepreneur who is financed by an MFI to purchases, for example, milking livestock. The entrepreneur uses his management ability to raise the live stock, which allows him to efficiently produce milk, sell in the market and gain income.
The poor usually engage in the production of goods and services by running a micro/small enterprise or supplying labor to the market. These are the most possible alternative income sources for the poor.
Financial access effectively can contribute to the income improvement of the poor through the influences which it can be bring about on the production process of the poor enterprise and on the poor household labor supply. Therefore, the possible impacts of financial services to the income generation or income generation capacity would be explored from the enterprise and household perspectives. (Nazari, 2010)

2.9.5 The Clients

A typical microfinance client is one who does not have access to the financial services of the formal financial sector. In other words, he/she is excluded from the formal financial system, in some literatures they are called “unbanked”. (Brigit, 2006. cited by Nazari, 2010).
Typical microfinance clients are self-employed individuals or households, that in more cases considered as home based entrepreneurs. In rural areas, they are mostly farmers with small pieces of land and some others which are doing some small income generating businesses.
Microfinance serves a wider range of clients in the urban and semi-urban areas. Among of these clients, street vendors, shopkeepers, rickshaw and taxi drivers, artisans and some others can be seen. In most cases, MFI’s targeting groups are women. Because it is perceived that women constitute the most marginalized part of population, especially in developing countries. Therefore, most MFIs’ somehow with social objectives, serve the poor entrepreneurs woman, mostly who are engaged in an income generating activity and poor households women. (Aghion et al. 2005).

2.9.6 Household

In this paper the term household refers to a residential unit in which economic production, consumption, inheritance, child rearing, and shelter are organized and carried out by members.
Here, a poor household is the one that its income is not sufficient to meet the basic needs of its members, such as food, shelter, education, health and etc. In the situation of Afghanistan as well as in the context of this research the per capita gross income of such households is lower than 1 US$ per day.
Poor households are confronted with a lack of sufficient wealth, food insecurity and they are often unable to send their children to school. However, access to the financial services may somehow contribute to the food security and education improvement. (Nazari, 2010)
Household structures often change to meet changing needs. There is a connection between the type of household structure and poverty. A household with a high number of dependants either sick, elderly or children, will have a lower level of assets than a household with able-bodied economically active members.
Tangible assets of household are used as collateral for loans with friends, family, moneylenders and microfinance institutions. These are an important source of assets to

be used for informal financial intermediation. They are also sold off to repay debts, when cash cannot be found from elsewhere. (Lont et al, 2004)

2.9.7 Microfinance Institutions (MFIs)

A microfinance institution is an organization providing financial services to the clients. Microcredit and loans are parts of its services delivered to borrowers for getting them involved in income generating activities and. In this paper, the concerned MFI is not a part of the formal banking industry neither it is governmental organization. It is usually referred to which also aims at making profit. The concerned MFI in this study is First Microfinance Bank, Herat branch, which is providing several types financial services including loans to the clients and its Farmers' Microcredit Programs is studied in this paper.

More information about this MFI, it studied product and its rules are loam scheme is discussed in the chapter three.

Chapter 3: Literature review

The chapter is dealing with various literatures on impact studies of MC around the world and also in Afghanistan. Besides, there are topics about the challenges and limitations of microcredit in poverty alleviations. In this chapter, background of MC in Afghanistan is discussed. It provides information about the FMFB and gives us insight about its performance regulations and types of loans.

3.1 The importance of Microfinance

Microfinance is considered as an instrument to fight against poverty. It is a movement with the perspective to see a world in which low income people have a permanent access to the financial products and services. (Brigit, 2006) These permanent financial services enable them to generate income, build assets, smooth consumption, cope with sudden harmful events and even in a longer period bring them out of poverty and integrate them in the formal economy.

Microfinance is a mechanism which bridges the financial sector gap. Low income individuals and households are not served by banks and other formal financial institutions. Therefore, microfinance can be used as an efficient tool to build an inclusive financial system in which it serves almost all the people in an economy. (Nazari, 2010)

Lack of financial services to the poor households and small or medium enterprises, which are excluded from the formal financial sector, prevents them to engage in the opportunistic income generating activities or further engagement in the investment opportunities. Therefore, being financially-constrained restrict their income generating activities. Whenever they find it necessary or profitable to invest more and expand their business or activities, they cannot find an appropriate financing source to solicit for doing so. This phenomenon keeps their poverty situation unchanged or even in some cases aggravates it. (Nazari, 2010)

Microfinance, as an almost newly innovated approach in the financial system, has made the provision of financial services to the aforementioned groups possible. Poor household, individuals and enterprises find the possibility to finance their businesses and activities through microfinance. The access to the financial services provided by microfinance enables the poor to use the opportunities available to them and start or expand their income generation activities and furthering their capacity for income generation. Hence, it can be argued that access to the financial services provided by microfinance sector can help the poor to improve their poverty situation and even enable them to getting out of poverty. By this argument, we can conclude that microfinance can be used as an important and more powerful instrument in fighting against poverty in developing countries. (Robinson, 2001)

3.2 Microcredit as a product of microfinance

Microcredits or micro-loans have been the main and most known products in microfinance. Therefore, lending had been the main and primary focus of MFIs in the past. MFIs have been innovative and provided different types of loans to the poor households and enterprises. Business loan, emergencies loan, housing improvement loan and consumption loan are the practices, undertaken by FMIs in different parts of the world. (Brigit, 2006)

Of course, it should be mentioned that the practices are not the same for all the MFIs and all countries rather they are specific regarding institutions, countries and areas.

3.3 The rise of microcredit movement

Over the last two decades, the microcredit sector has grown fast, as has the enthusiasm and belief of its proponents that lending to the poor will reduce global poverty. First the approach was introduced by the Grameen Bank of Banladesh in the mid-1970s. Since then, the Grameen Bank has lent to poor borrowers, primarily women, and promoted microcredit as an effective tool for poverty reduction and the empowerment of women. In recent years, microcredit has been broadly embraced as a programming tool for addressing global poverty. Governments in developing countries including Afghanistan and donor agencies are funding an increasing number of microcredit programs, many of them targeted towards women, currently, thousands of agencies – NGOs, credit unions, village banks, commercial and development banks (known collectively as Microfinance institutions or MFIs) – are providing lending services to poor families and are reaching millions of borrowers.

From the beginning of the development era in the 1950s, governments and international donors have tried to deliver subsidized credit to small farmers in many developing countries. However, there is a long and disappointing history of subsidized credit intended for the poor being manipulated and diverted to the rich and powerful.

3.4 Impact of microcredit on households

Impact of microcredit programs is reported in various literatures and much of them are based on extensive field research in many countries. Majority of the studies that I reviewed concluded that the microcredit had positive impact on the clients. However, some of these reports points to weaknesses and negative effects of microcredit programs.

A study on the impacts of microcredit projects on poor borrowers, which sponsored by World Bank was conducted in rural Bangladesh in 1991 – 1992 in 87 villages and covered 1800 households. The MFI involved in this study were Bangladesh Rural Advancement Committee (BRAC). This study considered to be one the biggest impact studies of microcredit on poor. The data collected in this study was analyzed in two different ways which lead to two different conclusions.

The main investigators of the World Bank research project, Shahidur Khandker and Mark Pitt (1998), found that increased incomes resulting from microcredit investments contributed to the net increases in the household consumption of clients, and microcredit had positive impacts on the school attendance of clients' children.

In contrast, Jonathan Morduch (1999), from the same data but in different way of analysis, found that Bangladeshi households with access to microcredit had no higher average consumption levels than the households in the control group (the interviewees who did not receive loans). He also found that the children of the clients were not substantially in school due to access to microcredit.

Jenefer Sebsat and Gregor Chen (1996), found three positive impact of credit services. They studied and summarized 32 research and evaluation reports on the impacts o microenterprise credit services. Their three findings are as bellow:

- Impact on enterprises: twenty-six of these thirty-two studies provided data on business enterprise impacts, and indicated that in general the impacts were positive. The average increase in enterprise earnings attributed to the loans ranged from 25 to 40 percent.
- Impact on the Households: eighteen of the studies provided data on households

impacts. Six studies examined household income and found that credit had a positive impact on household income, but the impacts of microcredit on consumption, on health, on the nutrition level of family member, and on children's attendance at school were not conclusive.

- Impact on empowerment of women: several of the program reports found that microcredit to women had positive impacts on their empowerment in Asian countries. However, reports from African programs found very little or no impacts of microcredit on the empowerment of women.

A synthesis report with the title of *Clients in Context: The Impacts of Microfinance in Three countries* prepared by Donald Snodgrass and Jennefer Sebstad (2002) provides an integrated summary and analysis of the findings from three impact studies funded by USAID. The microcredit projects for these studies were selected from three different geographic regions (Asia, Africa and Latin America). This study found that two out of the three regional studies demonstrated positive impacts on levels of household income.
The findings of the study regarding the impact on poverty in these projects are as follows:

- In india, the researchers found positive impacts on households. according to his findings, not only the household incomes (total and per capita), but also expenditure on housing improvements, expenditure on consumer goods, and school enrollment for boys were all positively affected.
- In Peru, they found that microcredit had a positive impact on both poor and non-poor clients, but the impact on the poor was smaller. The evidence also suggests that microcredit has a positive impact on a client's ability to move out of poverty.
- In case of Zimbabwe, the study concluded that the microcredit enabled extremely poor clients to meet their basic needs. This study suggests that rather than structure and size of client households significantly associates determine success of microcredit program in poverty alleviation in household level.

Susan Johnson and Ben Rogaly (2005) believe that providers of financial services aiming at helping people across the poverty line have focused on credit particularly to small micro-entrepreneurs and agricultural production. They further argued that, fluctuations in income are relatively related to unexpected shocks such as funerals, crop failures and illnesses. Thus interventions through credit can easily reduce this vulnerability and protect the livelihood.

In contrast to Johnson and Roglay, some articles in *The Journal of International Development* (2002) raise the concern that many of the MFIs usually try to gain their own benefit rather than to meet the needs of the clients. These articles pointed that in practice most of the MFIs do not reach, or even do not target, the real poor. Therefore, such MFIs can have effective role in poverty alleviation in household level. (Meyer 2002; Woller 2002).

In summary, the potential of microcredit in improving households' living conditions particularly those who are living over the poverty line, is evidenced by these studies. But we should bear in mind negative aspects of the microcredit for the pro-poor households, such as increasing their debt burdents and putting them in a tension situation because of repayment failure.

3.5 Microcredit and poverty alleviation in country level

In the book *Livelihood and Microfinance* edited by Hotze Lont and Otto Hspes (2004), rapid development in Europe and some Asian countries, such as India, Bangladesh and Indonesia is attribute with the availability of credit to the majority of the people.
This book also points that with insufficient funds, small scale farmers cannot invest or buy new equipments and machinery, and it becomes difficult to reach out to new market outlets and products. This should be kept in mind that without financial assistance, small-holder farmers would not be able to innovate and expand their business. So, this is a general perception that access to external finance is critical and important for the poor entrepreneurs, who may not have sustainable cash flow in their business.

The interest in lending to the poor is based on a set of commonly accepted assumptions that characterizes mainstream microcredit thinking and microcredit programming. These assumptions, which appear in the policy documents of donors and implementing agencies, are summarized here to further the discussion in the following sections:

- The poor are creditworthy and bankable. Access to credit enable the poor to lunch income-generating enterprises or expand their businesses and in general to participate in a free market economy.
- The promotion of self-employment through micro-enterprise is the most effective way to accomplish broad-based economic development and poverty reduction.
- To optimize the performance and social impacts of lending institutions, women should be targeted as the primary clients – women constitute the majority of the poor and they are better clients for micro-lending projects than men.

Institutions providing lending services to the poor families need to have access to public funding during the early years of their operations. The public funding will eventually be phased out as institutions achieve financial sustainability. Financially sustainable institutions will access long-term funds from national or international money and capital markets, becoming fully integrated in these markets. (Lont, 2004)

3.6 The Challenge and Limits of microcredit

Microfinance Institutions (MFI's) have made significant progress in providing credit and saving facilities to the poor. The extent to which these services are filling an important gap in poor communities is demonstrated by very high rates of repayment and rapid growth of demand for microfinance. Experience of these institutions show that provision of micro-financial services enables the poor to build strong micro enterprises, increase their income and participate in economic growth. However, while the achievements of MFIs are being increasingly acknowledged, it is also becoming more and more apparent that although financial services are indispensable, they are not sufficient to alleviate poverty.
The poor, more than a billion today, are deprived of the basic necessities of life. Poverty eradication implies improving every aspect of life of this segment of the population. It involves ensuring greater access to productive resources, such as land, capital and technology as well as to opportunities to develop skills needed to improve the living conditions and participation in the decisions that affect their lives.
Any effective strategy for poverty alleviation will have to move beyond financial and economic considerations and take into account the social and cultural dimension of development. The complex process of poverty alleviation cannot be resolved by successful intervention in any one area while education for example, is vital for improving

the quality of life, equality of educational opportunity will have little effect if access to financial resources and income generating opportunities are not made available. Similarly, well conceived programs in the field of microfinance will have limited impact if illiteracy prevails at the present scale. (UNESCO, nd)

3.7 Background of Microfinance and microcredit in Afghanistan:

There are 15 Microfinance Institutions (MFIs) providing microfinance (MF) services to 439,821 clients in 24 provinces (out of 34 provinces) as of February 2009. (SAMN, 2009)

The emergence of microfinance programs in Afghanistan can be related to some humanitarian activities of few NGOs in the early nineties, which were very limited and small scale in teheir areas of operation. However, the boos in microfinance programs was occurred in 2003, when the government of Afghanistan together with the World Bank (WB), CGAP, UK government Department for International Development (DFID), Swedish International development Agency (SIDA, United State Aid for International Development (USAID), The Government of Denmark and Canada founded the Microfinance Investment Support Facility for Afghaistan (MISFA, and independent apex institution to pool diverse donor's funding mechanism and to supply a streamlined flexible support to MFIs in Afghanistan. (SAMN, 2009)

Initially, MISFA came under the Ministry for Rural Rehabilitation and Development (MRRD), In 2006 was transformed into a company owned by the Ministry of Finance (MoF) and governed by an independent board of directors elected by donors. The shares of MISFA are non-dividend distributing and are currently owned by the MoF. The board has 2 members nominated and approved by MRRD and MoF, 3 members from the donors and two Afghan private sector members nominated by GoA. (SAMN, 2009)

To date, these donors, led by Canada and the UK, have provided more than US$ 100 million to the agency and the WB has further committed US$ 30 million in June 2008 to improve the MF sector in the country. The initiative has proven to be very successful in developing the MF sector in the country. 15 MFIs have emerged to render much needed financial services to the low income population, supported by MISFA funding and capacity building programs. Amongst the MFIs, Bangladesh Rural Advancement Committee (BRAC) Afghanistan is the largest player in the market with 140,366 active borrowers.

The Afghanistan Microfinance Association (AMA) acts as a network of MFIs operating in Afghanistan. It aims at promoting a sustainable MF sector through capacity building of MFIs, advocacy, lobbying and awareness rising, to establish itself as a voice of the MF sector.

Registered in 2007, AMA currently has 13 permanent members and 2 associate members but is still in a nascent stage.

Table 1 Statistical data about microfinance sector in Afghanistan

Microfinance Sector in Afghanistan	
Number of MFIs	15
Provinces Covered	24
Districts Covered	113
Clients	439,821
Active Borrowers	339,657
Share of Rural Clients	31%
Share of Female Clients	63%
Gross Loan Outstanding (US$)	103,861,799

Source: South Asian Microfinance Network, 2009

3.7.1 Growth of Microfinance in Afghanistan

Since its inception, the MF sector has made substantial growth in terms of active borrowers, loans disbursed; size of loans as well as provinces and districts covered. According to a research study from the Institute of Development Studies, the growth of the sector has led to increased business activity, employment opportunity and assets as well as improved socio-economic status for women.

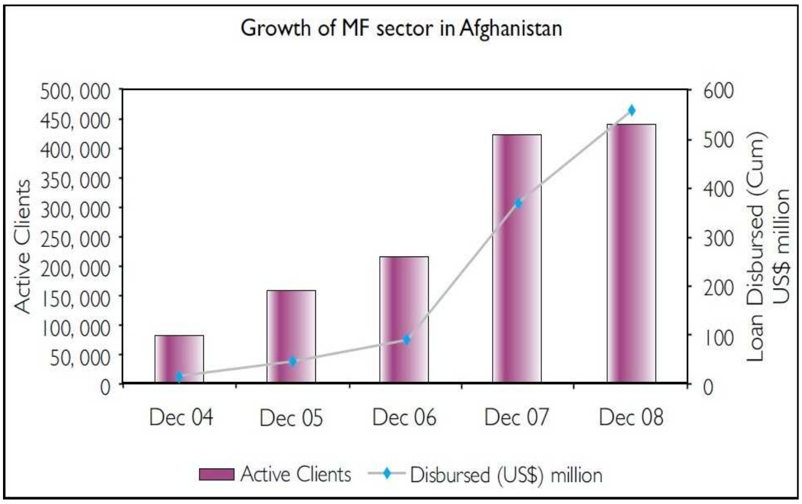

Figure 2 Growth of Microfinance in Afghanistan

Source: South Asian Microfinance Network, 2009

3.7.2 Services of MFIs

The credit services are the main products for all the MFIs across the country. However, these services are different in terms of methodology, amount and purpose. According to a MISFA impact stud, 89% of the loans were used for productive purposes. 53% of surveyed households used their loan to expand their business and 28% for start-ups. Although savings products are not very common, they are offered by few MFIs while made compulsory by others. Voluntary savings are forbidden by law as only mandatory savings can be mobilized; otherwise MFIs fall under DMFI regulation.

MISFA considers Islamic microfinance as a great opportunity and is paying close attention to its development. Currently 4 out of 15 MISFA partners offer Sharia compliant products and consider them as very promising not only for clients but also for community leaders and authorities.

Active banks in MF space, i.e. FMB-A and BAB, are targeting micro and small business owners. Other services such as micro-leasing, micro-insurance and micro-remittances are unknown.

3.7.3 Types of Microfinance Institutions in Afghanistan:

The types of institutions active in the MF sector are:

1. Deposit taking Microfinance Institutions (DMFI): Registered and regulated by DAB under DMFI license.
2. MFIs that do not take deposits and operate as general companies/corporations. All MISFA partners are registered under these forms.
3. NGO MFIs: MFIs registered as an NGO with the Ministry of Justice. Currently no MISFA partner is registered under this form.
4. Credit Unions: They are registered with AISA but are not regulated. Currently there are 20 Islamic Investment Financial Cooperatives supported by World Council of Credit Unions (WOCCU) with funding from MISFA and others.
5. Microfinance Banks (MFBs): They are registered and regulated by the DAB under the commercial banking license. There is no specific clause or regulation for these banks and they are considered as normal commercial banks for licensing, regulation and supervision purposes. There are currently two MFBs operational in the country and they have received significant financial support from MISFA via loan facilities, FMFB and BRAC

3.8 Review of studies on impact of microcredit on clients in Afghanistan

Access to literatures addressing the impact of microcredit in Afghanistan was not an easy for the researcher. The main reason is that number of the studies on microcredit and in particular on its impact is very rare, or if there are some studies, they are not all published in the internet or anywhere else to be available.

Afghanistan Research and Evaluation Unit (AREU) is the only reliable officially registered source that the researcher could access to its studies on microcredit.

This organization prepared a synthesis paper titled *From Access to Impact: Microcredit and Rural Livelihood in Afghanistan* which examines the effect that the availability of microcredit has had on existing informal credit. This paper which was published in 2009 used a qualitative approach and compared three local MFIs in three provinces in Afghanistan (Kabul, Balkh and Bamyan).

The key findings of Paula Kantor the researcher of this study is that providing access to credit is not in itself sufficient to ensure the desired positive impacts on client livelihood security or MFI viability. It also points to some variations which highly influence the degree of impact. A range of factors are out of the MFIs' control, such as security and climate. However, the study found that some factors affecting client outcomes that MFIs can influence are not necessarily adequately understood or implemented. Therefore, the microfinance (MF) sector in Afghanistan has scope for change to become more client-led. This will bring advantages to clients and MFIs alike.

This study did not draw a concrete conclusion whether the microcredit has a positive or negative impact on the client households in any of the studied areas. The study more focused on the variations and factors on which the success of the MFIs depends.

Floortje Klijn (2006) studied informal credit and its role in rural livelihoods in Herat province of Afghanistan, which is the place that this was carried out. Her also financed and facilitated by AREU.
She conducted her research in case study method and categorizes the respondent households into three categories of poor households, middle-income households and wealthy households. Her categorization is based on the assets portfolio of the respondents and also number of earners people in a household.
For each category she found both negative and positives effects of credit on their livelihood.
She found that for all wealthy households, credit is a means of overcoming lean periods, improve asset holding, Improve status and influence in community; and decrease vulnerability.
For poor and middle-income households she found that credit is a means of overcoming seasonal or short-term gaps in income.
Households from the middle-income group are more likely to become heavily indebted in times of urgent need, as they have greater access to credit. (Klijn, 2006)
The negative impact of credit on middle-income households is increased vulnerability to exploitative credit relations. (Klijn, 2006)

For poor household, according to her study the positive effects are overcoming lean period and cope with urgent crisis.
She also points that poor households attempt to access assistance through charity rather than credit (to which their access is more limited), while wealthy households generally have enough resources to overcome unexpected crises. In this way, indebtedness in the context of this study site in rural Herat was not necessarily a sign of extreme poverty rather it was a sign of increasing vulnerability for middle-income households in the accumulation of unmanageable debts and the selling of assets to repay them.

And finally; an unpublished master thesis research by Rahim Nazari (2010) evaluated the impacts of the BRAC loans on income level and asset holding of the clients in Herat city. This study compared the livelihood of the clients who were treated by microcredit program with the ones who did not. And from each group 100 clients were interviewed and after analyzing and comparing the data, the study concluded that microfinance services (loans) have significant impacts on the income and physical and human capital accumulation of the clients.

In conclusion, from these three reviewed literatures tow of them Klijn and Nazari agrees that that microcredit can bring changes in the livelihood of the clients, but none of them argued about the sustainability of the impacts.

3.9 First Microfinance Bank-Afghanistan (FMFB)

First Microfinance Bank Afghanistan (FMFB-A) is promoted by the Aga Khan Development Network (AKDN). FMFB-A was the first private commercial bank to be

licensed and incorporated in Afghanistan in 2003. Since its inception, the Bank has grown rapidly and is now operating 13 branches in 7 provinces.
FMFB-A's mission is to contribute to poverty alleviation and economic development through the provision of sustainable financial services primarily targeting at the micro and small businesses and households.
Poverty reduction, diminish the vulnerability of poor populations and alleviate economic and social exclusion are the mission of FMFB-A. It aims to help people become self-reliant and eventually gain the skills needed to graduate into the mainstream financial markets.

3.9.1 OPERATING PRINCIPLES

FMFB Afghanistan's underlying principles are long-term sustainability, broad outreach, optimal impact, and social performance:

1. Sustainability means that FMFB aims at fully covering its inflation-adjusted costs with its revenues, and generating a surplus to finance expansion.
2. Broad outreach means that FMFB aims at reaching to those who are currently not able to receive adequate financial services in rural as well as in urban areas, with women a particular target.
3. Optimal impact means that FMFB aims at serving primarily the underserved, and will put in place instruments that enable FMFB to monitor the impact on its clientele of the services provided.

Social Performance is defined as the "effective translation of an institution's social goals into practice, in line with accepted social values."
FMFB Afghanistan currently leads among the MFIs in Afghanistan in terms of outstanding portfolio, which was valued at over US$ 36 million at the end of 2008, and disbursed around US$ 160 million (95 thousand loans) since inception. In addition to its 35,000 current loan clients, FMFB Afghanistan also had close to 25,000 voluntary deposit accounts, nearly three times as many as at the end of 2007. The recent surge in opening of voluntary deposit accounts indicates that Afghans are becoming increasingly aware of, and comfortable with the use of, formal financial services. FMFB Afghanistan opened four new branches during 2008 and now has 17 branches spread throughout twelve provinces. Since 2006 the bank has maintained operational sustainability and generated modest surplus which is being used to fund further growth and expand the branch network.
The bank has a range of financial services and is offering both individual credit and group credit methodologies. The bank also offers cash management, deposit and remittance services to corporate clients. (MISFA, nd)

FMFB provides two types of products under its credit services program. Both of these products are delivered individually.

3.9.1 Individual Villager Loans:
This product is the focus of this study and all the respondents are the one who received this type of loan. These loans are provided for small enterprises and the FMFB regional manager believes that this product is suitable for the poor households in the villages. According to him the requesters for these loans are mostly the farmers; however the villagers who are not involved in farming activities also apply for these loans. Size of the loans is 20,000 – 60,000 AFN, the interest rate is 1.5% per month, this is a collateral free loan and the requester only need to be guaranteed by 4 people form villages including the

head of village council; and finally the duration of the loan 6-12 months. It means that once one received the loan, he/she can not repay the entire loan within less than six months and also he/she can not keep the loan more than 12 month. The repayment is in a monthly base.

According to Ali Ahmad a client of this product who is a farmer, this loan is suitable for him because it has a long duration (6 – 24 months):

> *For us this type of loan is very good. Its duration is long and we, the farmers need such type of loan because we need at least one year to harvest our products and sell it. The interest rate is also lower comparing to FINCA. If I borrow 50,000 AFN and pay it within 24 month, so in each moth my repayment is 2,833 AFN including interest which not so difficult me. But I and other farmers try to pay it as soon as possible, because if we keep it longer so we should pay the interest for each month.*

3.9.2 Individual Business Loans:

These loans are provided for medium enterprises. The amount these loans are between 50,000 AFN to 200,000 AFN. The requesters of this product, according to the regional manager of FMFB, are mostly the medium entrepreneurs who are living in the city. Duration of this product is between 6 – 12 months and the interst rate is 2.3% per month.

3.9.3 Women Group Loans:

These loans are provided for a group of 5 of 10 female members. Loan size for is 20,000 – 40,000 AFN with 1.5% interest per month and duration of 10 months. FMFB belives that this type of loans is suitable for the female headed households and their clients are mostly the urban poor women.

Chapter 4: Findings and discussions

In this study the data which were collected from the clients of FMFB are analyzed and discussed.

The respondents are those types of clients who, at least, completed one period of loan keeping. In regard to the study objective and research questions, the study will focus on the impact of microfinance on the livelihood of the respondents. Besides, repayment ability and investment strategies of the clients will also be taken into account.

This analysis is based on the 30 questionnaires which were responded by the interviewees.

4.1 Demographic characteristics of the respondents

Table 2 Demographic characteristics of the respondents

Characteristic/Indicators		No. of clients	Average
Age			37
Sex	Female	9	
	Male	21	
Marital status	Single	2	
	Married	23	
	Widow	4	
	Divorced	1	
Education	Uneducated	12	
	Elementary education	14	
	High school	3	
	University	0	
	Vocational sc	1	
Size of Family			6.3
Total		30	

Source: Own data

It provides us an overview about the composition of the respondents.

According to the above table, the average age of clients is 37 years old. Most of the clients are male and also most of them are married. Majority of the respondents have only elementary education or even uneducated. The average of their family size is 6.3, which is close to the national family size average.

4.2 Socio-economic characteristic of the clients

These categories of information would provide us with a deeper insight about the poverty position of the clients. Here income distribution, sources of income and asset holding of the clients are discussed.

Table 3 Monthly gross income of the client households

Based on their own estimation (AFN)

Income range	Frequency	Percentage
<5000	0	0
5,000 - 10,000	10	33%
10,001 - 1,5000	7	24%
15,001 - 20,000	6	20%
20,001 - 25,000	3	10%
25,001 - 30,000	2	7%
30,001 - 35,000	1	3%
35,001 - 40,000	1	3%
>40,000	0	0%
Total	**30**	**100%**

Average of all: 15,340 AFN

Source: Own data

Respondents were asked to estimate the gross income of their household earning from all income sources. The interviewer helped them to do this calculation. The interviewer asked them to clarify and categorize all the sources from which they regularly expect to earn money in daily, monthly or yearly basis. For the non-farmer clients this categorization was relatively easy, because they all had a regular daily income and most of them (8 out of 13 clients) had only one source of income. They estimated their income based on their daily experience of their business.

For the farmers, whose major income is in a seasonable base, estimating income was confusing, difficult and with poor reliability. Ten of them, who had milky cows, were able to distinguish and estimate their regular daily income considering the price of milk in the market at that time. But for rest of them, income estimation was based on their experience with the assumption to have a normal yield and price at that time.

Despite none of the respondents had a regular monthly-based income, researcher had to convert in a monthly base in order to be able to show all in one table.

Despite accuracy of the estimated income data is poor; in general the above table gives us an idea and overview about the income level and poverty of the clients.

The table shows that the majority (23 clients) have a monthly income of 5,000 – 20,000 AFN which is equal to 111 - 444 US$ in a month. So, in this group that covers most of the clients, the maximum income per capita is 70.4 US$ (average family is 6.3, as in table 2) or 2.3 US$ per day. In most literatures poor were defined as those whose income per capita is 1 US$ per day. There for this show that the majority of the clients are close to poverty line.

Table 4 Socio-economic characteristic of the clients

Characteristics/Indicators		Frequency	Percentage
Number of income source in a household (number of people earning money in a household)	Households with one source of income earner	20	67%
	Households with two sources of income	9	30%
	Households with three workers	1	3%
Total		**30**	**100%**
Main Source of Income	Agricultural	17	57%
	Non-agricultural	13	43%
Total		**30**	**100%**
Assets Holding Statue (physical and financial assets)	No house owning	11	37%
	Own House	19	63%
	Total	**30**	**100%**
	No shop owning	26	87%
	Own shop	4	13%
	Total	**30**	**100%**
	No agricultural land owning	14	47%
	Own land (0.1– 0.5 ha)	7	23%
	Own land (0.6 – 1 ha)	6	20%
	Own land (1.1 – 1.5 ha)	0	0%
	Own land (1.5 – 2 ha)	3	10%
	Total	**30**	**100%**
	No livestock owning	14	47%
	Own 1 – 2 milky cows	13	43%
	Own 3 – 4 milky cows	2	7%
	Own 5 – 6 milky cows	1	3%
	Total	**30**	**100%**
	No vehicle owning	19	63%
	Own car	0	0%
	Own motorbike	9	30%
	Own rickshaw	2	75
	Own two of them together (i.e. car + motorbike, motorbike + rickshaw or car + rickshaw)	0	0%
	Total	**30**	**100%**
	Bank savings	0	0%

Source: Own data

The table shows that 67 clients have only one source of income and 57% of them are involved in agricultural activities.
In term of asset holding, the table shows that 63% of the clients own house.

The average of land size for majority of the clients who own land is very small, which is less than 1ha. 53% of the clients own livestock (here only cow was considered). No respondent have bank saving. Considering land size and number of livestock that the agricultural clients own, they can be considered as poor small-holder farmers. There is no agricultural client, who own shop; and from all non-agricultural clients only 4 clients (13%) own a shop for their business.

4.3 Loan size distribution:

Loan size distribution enables us to understand the variation of different amount of the loans disbursed among the clients; and to know that what size of loan is mostly common among the sample clients.

Table 5 Loan size of and loan cycle distribution

Loan size (AFN)	Frequency N=30	Percentage (%)	Loan cycle distribution (Frq / cycle)			
			1 cycle	2 cycles	3 cycles	4 cycles
30,000	7	23.3%	7	-	-	-
40,000	5	16.6%	3	2	-	-
50,000	8	26.6%	7	1	-	-
60,000	7	23.3%	6	1	-	-
90,000	1	3.3%	-	1	-	-
100,000	1	3.3%	-	1	-	-
240,000	1	3.3%	-	-	-	1
Total	**30**	**100%**	**23**	**6**	**0**	**1**

Average loan size of all clients: 55,333
Source: Own data

As it is shown in the table, the smallest size of loan is 30,000 AFN, which is equal to 666 US$. For me it is interesting to know that why MFI calls it microcredit, because considering the Grameen microcredit model, in most of the poor countries microcredit is called to such loans which are very small; for example Abdullah Al Mamun (2005) stated that normally (50 – 340 US$) the range of loan size provided by BRAC, which is a flower of Grameen model.
The answer of FMFB for this was that:

> *In the context of our organization it is called microcredit, because this is the smallest size of loan that we offer to our individual clients. In additions, in the situation of Afghanistan where the costs for running even a very small enterprise are so high, loans smaller than 30,000 can not be used or invested efficiently. For example if we consider a farmers who wants to purchase a milky cow in order to add another income generating source. He needs at least 40,000 AFN for such an investment. Or a non-farmers clients, who want to buy, for example, a rickshaw for, he needs 60,000 AFN for that. Therefore, this amount of loans in itself is small.*

The table also provided information about the loan cycles that the clients experienced. The majority of the clients (23 clients) have received only one loan cycle and the remaining 7 clients have experienced more than one cycle.

4.4 Analyzing impact of the microcredit on the household livelihood

Sustainable livelihood framework is used as an approach (model) in order to analyze and discuss the role and impact of the MCs on client households. In relation to the two elements of the livelihood framework; livelihood assets and livelihood outcomes, the study is trying to find the answer that which assets are mostly - positively or negatively - affected by access the microcredit. In addition, the contribution of microcredit in achieving the livelihood outcome is assessed and will discussed that microcredit mostly contributed to achieving which expected outcome of the livelihood.
The figure bellow shows that in this study the relations of microcredit in livelihood assets and livelihood outcomes are mostly in the focus.

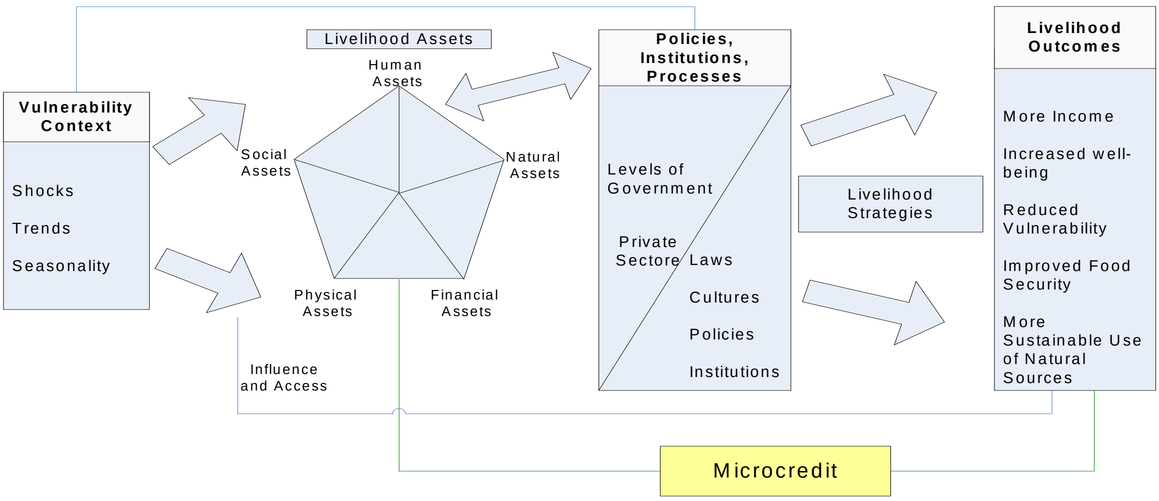

Figure 3 Sustainable Livelihood Framework

Source: Livelihood and Microfinance, 2004

Distribution of the respondents with regard to the following issues enables us to identify the role and impact of the microcredit in the livelihood context of the clients:

- The way that the clients invested or used the loans: This leads to know the purpose and meaning of the loans for the clients in their livelihood context. Clients vary in term of loan utilization and type of investment. Majority used the loans in order to make a business; increase their livelihood income and assets. In contrast, some other used the loans in order to respond to some urgent needs; such as illness, repayment of an informal debt or respond to natural shocks.
- Strategy and sources of the clients to meet repayment obligation: Repayment is a challenge for all clients, the way that they repay their loans definitely affects their

livelihood outcomes. As they all have low income, therefore it is possible that in some periods of loan keeping, repayment increase their vulnerability. Or even decrease their assets.

4.5 Clients' strategy in using and investment of the loans

By analyzing the ways that clients used or invested the loans we can understand the impact of the loan on their livelihood.

As it is understood from the responses of many of the respondents, categorizing the way that the clients use and invest their loans either for production or consumption purposes is really a difficult job and in some cases impossible; because it is most common that credits are used for a mix of purposes. However, according to FMFB's loan officer, credit applicants are at first asked to present a short and summarized plan and they are required to convince the bank that they use the credit through a productive plan. Some clients complain that diverting credit from planned productive use to a consumptive use due to a sudden crisis, such as sickness and natural looses, is inevitable.

As Nematullah, one of the clients says:

> *We, the poor people don't have any saving in the bank, so when an urgent need rises we have to use the loan in order to meet that need. Even for some, it happens to spend more than what they borrowed from the bank*

This quote asserts that consumptive use of credit is simply the reality of day-to-day life in rural areas of the country and the inability of the poor villagers to meet their daily needs from daily, seasonal income flows or savings.

For some clients, the consumption of the credit is their main purpose, and in order to be able to convince the bank they make a fake business plan.

A loan officer of the FMFB:

> *In some cases we know that the applicants are lying about their business plan; they really don't have any plan. They are in an urgent need and microcredit is the only way for them to obtain the money and meet their need. For such persons we assess their repayment ability with higher curiosity than others and ask them for stronger collaterals and especially their guarantor persons should be well-known bodies in the village. Of course, they increase the risk of our business, but we are a profit organization and if we assure that their collateral is enough, we mostly provide the loan to them without caring what they will do with the loan.*

According to FMFB's loan officer the most common consumptive purposes of the clients are as follow: repaying of an informal loan, sickness, dowry, funerals, house construction and etc.

In contrast, there are some other clients who really have a plan, and after getting the loan they can relatively use the money in the business they planed. But now the question is that to what extent their business is profitable and sustainable? This is dependent on their investment strategy.

For example, some of the clients who invested the loan on livestock believe that this is the easiest and appropriate way of earning money besides our other activities. They are optimistic and say that that by keeping livestock other household's members, particularly females and children can have an efficient contribution in the betterment of livelihood.

Ali Ahamd, a 37 years old farmer says:

> *I am receiving loan since four years ago. Till now I've received totally 240,000 AFN (5,000 US$). I invested most of the loan on livestock. I buy milky cows and sometime seep and goats. My children and my wife rear the animals for one year, then at days of Eid-e-Qorbaan or when the price of meat is high, I sell them for higher profit. It's good for us, my children and my wife can also take part in earning money.*

The table bellow provides an overview of all clients with amount of loan they received and the way they have invested their loans.

Table 6 Distribution of all clients in term of loan size and type of investment

Case (client)	HH Size	Loan Size AFN	Main Source of Income	Investing of loan on NEW or OLD IGA?	They ways that the loans invested or used by clients
1	7	100,000	Agriculture	Old	To Purchase cattle (calf)
2	5	40,000	Non-agricultural	Old	To Purchase materials (assets) of his shop
3	4	60,000	Non-agricultural	Old	To increase the materials (assets) of his shop
4	3	50,000	Non-agricultural	Old	To establish a tailoring shop
5	9	30,000	Non-agricultural	Old	To purchase equipment for his metal-working shop
6	12	30,000	Non-agricultural	Old	To increase the materials (assets) of his shop (Pharmacy)
7	5	240,000	Agriculture	New	To purchase cattle (goat and calf)
8	6	50,000	Non-agricultural	New	To start a tailoring shop
9	5	30,000	Agriculture	New	To make a vegetable greenhouse
10	7	40,000	Agriculture	New	To purchase milky cow

11	6	30,000	Agriculture	Consumptive	Payment of informal loan
12	8	40,000	Non-agricultural	New	Materials for starting a carpet weaving enterprise
13	5	50,000	Agriculture	New	To purchase of milky cow
14	5	30,000	Non agricultural	Consumptive	Repayment of informal loan
15	6	40,000	Non-agricultural	New	Establishing carpentry shop & repayment of informal loan
16	9	50,000	Agriculture	Old	Purchase of a cow
17	8	50,000	Agriculture	Consumptive	Wedding cost and repayment of informal loan
18	7	60,000	Non-agricultural	New	Purchase of a rickshaw (3 wheels taxi)
19	5	50,000	Agriculture	Consumptive	To pay wedding debts and purchase of some inputs for garden
20	4	40,000	Agriculture	New	To purchase goats
21	8	30,000	Agriculture	New	To purchase goats
22	9	30,000	Non-agricultural	New	To Purchase sewing machines and repayment of informal loans
23	5	60,000	Agriculture	Old + Consumptive	To pay informal loan and purchase Agricultural inputs
24	5	60,000	Agriculture	Old	To Purchase livestock
25	8	50,000	Agriculture	Old	To purchase livestock
26	6	50,000	Agriculture	Consumptive	Debt repayment for funeral expenses
27	4	50,000	Agriculture	Old	To purchase livestock
28	5	60,000	Agriculture	Consumptive	Reconstruction of house which was destroyed by flood
29	5	60,000	Non-agricultural	New	Purchase of a rickshaw
30	8	60,000	Non-agricultural	New	Running a shop in the village and loan repayment

Source: Own data

In order to be able to discuss about types of loan investment, first it is important to categorize them into different categories based on their type of investment or loan use. Then separately discuss about the relation of each category with the livelihood framework.

Table 7 Categorization of clients in term of loan investment

Type of loan investment	Frq	%	Type of income generating (Only from the loan-based investment	Discussing the relation of purposes to the livelihood framework
Purchase of milky cow	7	23%	Daily	For this category access to loans was a way to add a new asset (Milky cow) in their livelihood assets set. For 7 clients who own land; access to microcredit is a strategy to diversify their income source by investing the loan on the milky cows. And for the one who has no land, it is considered the main and the only source of income. from the perspective of these clients the income earned from the milky cows can greatly contribute to the livelihood outcomes, such as access to food and betterment of well-being
Purchase of goats and sheep	3	10%	Not clear (by selling the animals after 2-3 seasons)	For this category of the clients also access to loan caused adding new assets in their livelihood. The main different of them from the first category is that they don't have a daily based income from their loan based investment. The purpose of these clients for loan requesting indicates that from their perspective MC impacts their livelihood assets, accumulated income at the end of the season when they sell the animals and increased food security, they slaughtered one animal and preserve the meat for winter consumption. The main different of them from the first category is that they don't have a daily based income from their LBI. It reveals that access to microcredit is effective to decrease their vulnerability; especially against the shocks (they can't make savings from the MC).
Purchase of a rickshaws to start a new IGA	3	10%	Daily	They invested the loans on rickshaws. Purpose of these three clients is for getting loan is to start a new income generating activity. For them, the role of MC in their livelihood is to have a daily income, and have physical asset (rickshaws).
Increasing the assets and materials of the shop (food items shop, pharmacy & metal-	4	13%	Daily	By access to loan, they increased the assets of their shops and increasing the level of income were most important effects of MC in their livelihood.

working shop)				They all invested the loan on old IGAs.
Making a vegetable greenhouse	1	3%	Seasonally	She is head of a 5-members household owning 0.2 hac land. The importance of MC for her is to diversify her livelihood income. Her household structure is with poor human asset, therefore by access to MC and investing it on greenhouse; she used her own abilities. But her investment was not successful. Instead of improvement in livelihood, she faces the problem of low productivity of her business.
Establishing tailoring and carpet weaving enterprises	3	10%	Daily (tailoring) Not clear (for carpet weaving)	The way they used the loan illuminates the role of MC in the income aspect of their livelihood. They are all investing on new assets as well, so it is also related to the livelihood assets.
Consumptive purposes and repayment of Informal loans (debts)	5	17%	No income generated from the loan	They used loan to repay their debts that they borrowed from friends, village shopkeepers and etc. Three of them experienced shocks; such as destroying house by flood and loosing family members. So, the role of MC in their livelihood is related to the vulnerability context in order to respond to those shocks. Two of them repaid their debt that they borrowed for wedding. For them access to MC is fulfilling the cultural and traditional obligation (making a wedding party and other related expenses), which as part of their livelihood.
Mixed purposes (repayment of informal debts and investing on a carpentry shop and purchasing agricultural inputs	4	13%	Daily for carpenter and seasonally	They invested the loans in various purposes. One of them established a carpentry shop and also repaid the informal debts. So, in regard to livelihood context the importance of MC for him was to "generate income + social satisfaction by repaying loan". For three others, the purpose was to repay informal debt and purchase fertilizers and other agricultural inputs. So, in regard to livelihood context the importance of MC for them was efficient use of capital and social satisfaction by repaying friends loan.
Total	**30**	**100%**		

Source: Own data

In a descriptive analysis, all the clients who are divided into eight categories based on their way of loan use are described. Information about the credit statue of the group and the impact of their loan-based investment on their livelihood is discussed as bellow:

4.5.1 Investing of the loans on milking cows (milk production)

Seven clients invested their loans on milking cows. Their average loan size is 77,000 AFN (maximum 240,000 in four cycles; and minimum 40,000 in one cycle) and their average loan cycle is 2 cycles.

Impact on livelihood: In order to be able to judge about the impact of the loan on the livelihood of the clients, the fallowing issues should be described about these seven clients.

Profitability of their loan based business: Here the net profit generated from one milking cow which is purchased by loan is simply calculated. The information about milk price, feeding price and production rate of a milky cow is collected via email from Herat market.

The price of milk in Herat market is 30 AFN per kg. Averagely and in a normal rate one milking cow produces 4 kg milk in a day. Therefore, 120 AFN is the gross income of a client from one milking cow.

In contrast, the main costs for rearing a milking cow are feeding cost (30 AFN/cow/day); and also 1.5% loan interest rate per month. Here, we considered the most repeated loan size; which is 50,000 AFN, and 12 months loan period with 1.5% interest per month. In such a case, the cost of interest rate per day is 25 AFN.

Therefore, the net profit of a loan-based milking cow is (120 – 30 – 25 = 65 AFN). It should be kept in mind that the interest rate is only for 12 month and after that this amount will be increased by 25 AFN.

From this simple calculation it is realized that by having one milking cow as the only income source; a household can earn 65 AFN in a day (this is in an optimistic situation), which is not sufficient to meet even the basic needs (food) of household. For example if a household with six members consume 18 breads (3 per member) in whole of the day as the cheapest food, they need 90 AFN in a day. Thus, for five clients in this category, milky cow is not their main source of income. The have lands and also working as farmers on the lands of other people. For them it is a way of income diversification and asset accumulation.

But for two others, this is considered as their main source of living, so they are highly vulnerable and dependent on help of relatives and relief organizations. They also used a part of the loan to meet some of their urgent needs.

Impact on assets: Loan had significant impact on asset accumulation. After repayment, all the clients in this category could keep their milking cows. One of the clients who four times barrowed loans have 4 milky cows along with 5 sheep and goats. Apart form milking cows; one client was able to buy to a motorcycle from his loan-based earning.

Investment of loan on milky cows is also a good strategy for most of the clients in order to efficiently involve other members of the households (women and children) in income generating activities. Loan didn't help the clients of this category to save money.

Impact of the loan on the natural assets of this category was positive; all the clients use the common pasture more effectively as food for their livestock.

Women and children in the households have an efficient contribution in rearing, milk collecting and selling of the milk. So, the contribution of the loan on better use of potential use of human capital is remarkable in this case.

Impact on Income: All the clients in this category confirmed increase of their income by access to loans. As discussed above, for two of the clients loan provided their main source of income. However that income is still not sufficient for them. For the rest of them loan was a way to diversify their income. In average; loan provided a daily gross income of 247 AFN in this category.

Income on Food Security All the clients in this category responded that the main impact of the loan was on their food consumption. They spend about 70% of their income on food stuff; therefore any increase in income can directly increases the level of food consumption of households. For some of the clients; milk produced by cows is also a good source of nutrition that they didn't have before access to loan.

Repayment: Five clients from this group responded that their source of repayment was mostly their income. But, three of them also saved a small part of the loan in order to be able to meet the first two months of repayment obligation.

Two of them responded that their income was not sufficient to meet repayment obligation, therefore in order to repay the loan, they had to again borrow from relatives. They told that they are still in debt of their relatives. For them this is the negative effect of MC, they lost reputation among the society as they are still not able to repay their informal debt.

Table 8 Loan size and repayment information of the milking cows investor clients

Client	Loan Size (AFN)	Cycle	Loan duration (months per cycle)	Interest percentage per month (AFN)	Monthly repayment + 1.5% interest rate (AFN)
1	240,000	4	10	1.5	6,900
2	40,000	1	12	1.5	3,933
3	50,000	2	12	1.5	2,458
4	50,000	1	12	1.5	4,916
5	60,000	2	12	1.5	2,950
6	50,000	1	12	1.5	4,916
7	50,000	1	12	1.5	4,916
Average	**77,143**				**4,427**

Data Own Source

According to this table, the clients averagely should pay 4,427 AFN including 1.5% interest rate. The average monthly gross income of the clients from their milky cows is 6,685 AFN. It means that for duration of the loan, the clients should pay half of their loan-based earning to meet the repayment. For two clients that milky cow is their main source of income, there monthly repayment is even more than their income.

For them repayment is a great challenge which made them highly vulnerable and dependent on more debt from their relatives.

4.5.2 Investing of the loans on herds (purchase of goats and sheep)

Three clients invested the main part of their loans on goats and sheep. Besides, they used some of the loans in consumptive ways. The average loan size of this category is 56,600 AFN. Maximum is 100,000 in two cycle and tow others (30000 and 40000) took loans in one cycles.

Case of Abdul Rahim: He barrowed 100,000 AFNs in two loan cycles. At first cycle he borrowed 40,000 AFNs. He invested 32,000 on 8 goats and kept 8,000 in order to repay the first months. He said that he could rear the goats about one year using the available common pastures in the community and his own lands; and some times he had to purchase food for them. After 7 months rearing, he started to sell seven of the goats with price of 5,500 – 6500 AFN, and kept one of himself for winter meat consumption. At the end he was satisfied with the approximately 40,000 AFN that he earned from selling the goats.

In the second cycle he barrowed 60,000 AFN. He invested 42,000 on goats and sheep, saved 10,000 as cash for repayment and spent 8,000 on various consumptive ways. At time of interview, he was looking for money to complete the 4^{th} repayment. He was optimistic that he can gain 40% profit from selling the animals in case that he can keep them healthy. The two others had relatively the same strategy in loan investment.

The income of all three clients was not possible calculate accurately, because they didn't earn in a regular base and also they did not sell all of their animals yet. Only one of them, Abdul Rahim was satisfied with the business that he made by loan.

Despite all of them confirmed the profit that they can make by loan, two of them complained about the risk and looses that they might have.

Although loan based investment was not their main source of income, it was very important strategy for them in order to diversify their livelihood income.

Repayment: Loan repayment, particularly at the first months of the loan keeping period was difficult for them, this is because they don't have fixed and regular income. Their main strategy is that they keep a small part of the loan, so that they can repay in the first the first two month. For two others, who have low income, they are depended on informal debts at least for 2-3 repayment.

According to Habib, if he can not find loan from friends and shopkeeper he have to sell one or tow of the goats without profit in order to be able to repay.

In conclusion, this way of investment is appropriate for the wealthy clients like Abdul Rahim who have other income generating activities and don't face big challenge in repayment.

For the two others (Habib and Reza) the risk of asset loss, increase vulnerability to exploitative credit relations and increase tension due to repayment failure is very high.

Profitability All clients confirmed that their business is profitable. Averagely they buy a goat or sheep in 4,500 AFN and after 9-10 months rearing with low cost (mostly used of common pasture, waste and cheap feeding) they sell each goat/sheep in 5500-6500 AFN. But with an optimistic calculation I realized that after 10 months loan keeping their business is is not that much profitable as the claimed, with this calculation they gain only 13%.

Case of Reza: He took 50,000 AFN loan for 10 months; with this loan he bought 10 goats with total cost of 41,000 AFN and spent 9,000 in other consumptive ways. At the end he had to repay to the bank a total amount of 57,500 (including 1.5% interest in each month). If without any risk or loose he can sell of his goats with his maximum estimation (6,500 per goat), at the end his gross profit is 65,000 from which he has to pay 57,500 to the bank and his net profit will be 7,500 for 10 months. This is in a situation that according to him the rearing cost is zero.

Risk: comparing to milky cows, the risk of their business is very high. Any loose in animals causes nearly the whole profit of the clients.

Impacts on Assets: No significant impact on asset accumulation.

Income: based on the above calculation, their net income for a 50,000 AFN loan is about 8,000 AFN in ten months in an optimistic situation.

Impacts on Food Security: Only one of them confirmed that meat consumption increased by this loan.

Vulnerability: Because the risk of their business is high and also, the income relatively low and type of earning is not regular fixed. Investment of the loans on such type of activity particularly for very poor clients can make them more vulnerable and put them more in trouble of informal debt.

4.5.3: Investing the loans on Shop (increase of shop assets)

Four clients are in this category. Their average loan size is 40,000 AFN and all received one cycle loan. All of them invested more than 80% of their loan to increase the assets of their shops, and spent the remaining 20% in various consumptive purposes.

Share of loan on the assets of their shops: averagely 60% of their shops' assets were provided by loan.

Impacts on Income: Three of them confirmed that the income of their shops significantly (more than 50%) increased due to more assets, one of them stated that no increase happened in his shop's income. Averagely all of them had 1,750 AFN daily gross income from their shops.

Impacts on Assets: apart from the shop assets, only one of them was able to purchase a motorcycle from his shops income. Average impact on assets in this category is only significant on their shops assets which increased due to assets

Other impacts: three of the clients in this category are satisfied with the impact of the loan on their livelihood and stated that they feel the main impact on food consumption.

Repayment: three of the clients in this category told that they have no difficulty in repayment. One client in this group whose income is lower than average income of this category (his gross income is 1200 AFN per day) is not able to repay his loan from his daily income. He met repayment obligation by taking informal debts from friends, and sold his motorbike.

4.5.4 Investing the loans on Rickshaws (three-wheels vehicles)

Three clients invested their loans on rickshaws. Price of a new rickshaw in Herat market is 55,000 - 60,000 AFN. They use rickshaw as taxi and as small truck for transportation. They earn in a daily basis and the main costs in their business are purchase of fuel and maintenance of rickshaws.

Impact on Income Impact on income: One of these clients did not have any income before getting loan, therefore; the loan provided the main source of income for him. Two others were working as a daily non-skilled worker with irregular income of 150-250AFN per day.

All of the clients are satisfied that the loan significantly increased their income comparing to their past situations. Now they are earning averagely 350 AFN net income per day. For two of the clients in this category, loan-based activity is the main source of their household income.

Impact on Assets: vehicles are the main physical assets the loan provided for them. Apart from the vehicles, none of the clients confirmed accumulating of other significant assets due to loan. They hardly can make savings from their daily income. One of them still have repayment and he has to save a part of his daily income in order to be able to meet monthly repayment obligation. Two others who already finished their repayment followed the same strategy for repaying their loans.

In term of human assets, they got and learned new skills related to this use of vehicles. They are also using their own ability in a more efficient (economically) way for earning money; specially the ones were unskilled daily workers with daily wages. Their relations with the bank staff and as well as their stronger relation with a new working generation is considered as the social assets that caused by loans.

Impact on Food Security: The clients responded that nearly 85% of their income is spent on food stuff, therefore increased loan-based income has a direct contribution to more food consumption comparing to previous times.

Repayment: Daily income was the major source of repayment for all of them. For one of them who experienced unexpected costs for sickness treatment of one of his household members during loan keeping, repayment became a big challenge for him. His experience shows that all the clients in such level of income are highly vulnerable and fail to repay on time.

The clients of this category had to save more than half of their income in order to have a normal and on-time repayment. Apart from income, all of them for making some of heir repayment had averagely 2 times informal barrowing from relatives to make their loan repayment.

4.5.5 Invest of the loan on tailoring and carpet weaving enterprises

The clients who invested their loans on tailoring and carpet weavings are males or females (in this case 2 females and one male) who learned this skill by working as daily wage with tailoring and weaving companies. All of them were receiving daily wages during their employment time, which was maximum 250 AFN. After learning this profession, they decided to work independently as new entrepreneurs; but none of them had enough financial capital to start up. The most important elements they needed to provide, was to have a shop (rent or lease), machines and other related materials. In case of these three clients; two of them who are females used their own houses as shop and spent the loans to purchase the related materials, the another one used a big part of the loan in order to lease a shop inside the Jebriel (a small sub-urban area near the village of jebriel, one of the research location).

Three of the clients used invested their loans to start tailoring and carpet weaving. Averagely their loan size is 46,000 AFN (max 50,000 and min 30,000 AFN). Their average income is 480 AFN, according to their estimation. Their estimation is based on their experience of their daily earning.

All these clients stated that they used a small part of their loan (15-20%) in different consumptive ways; such as health, repaying informal debts and food.

Profitability of the loan-based enterprise: All three clients are satisfied about their earning from the business they started. This is because they compare their current earning with what they used to earn in the past (before taking loan).

Case of Fahim. Fahim, one of the clients in this category earns averagely 800 AFN per day as gross income, his main costs are rent of the shop which is 3,500 per month (135 AFN per working day); and also 300 AFN his other daily expenditures. So his net income is averagely 365 AFN. This amount is 60% higher bigger than the wage that he was earning while he was working as employee. There he was paid maximum 250 AFN per day, according to himself.

This improvement in daily income for two other cases is more significant. This is because their previous daily wage (income) was less than 200 AFN as they stated.

Impact on Income: All of the respondents in this category are satisfied the increase of their income which is caused by loan-based investment. However, their income (averagely 550 AFN) is yet not sufficient for them to meet all the basic needs of their households. For two of these clients, loan-based income is considered as the main income of their livelihood, which indicated the importance of MC in their livelihood.

Impacts on assets: All the clients have the sewing machines and other related tailoring materials as the main assets provided by loan. They couldn't accumulate other types of assets through loans. This is mainly because of two reasons. 1) Their business is new; and yet they don't have enough clients to gain higher income. 2) They still were in repayment period (minimum 3,600 AFN per month), or newly finished their repayment. So, considering their low income, it is not possible to accumulate any type of asset,

One of them even lost his motorcycle in order to do the repayments on time.

In term of human assets; the impact of loan can be evaluate positive; because after getting loan and establishing their own IGAs, they are using their tailoring and weaving skills more efficient. In this regard, they are also increasing their own entrepreneur skills.

Social asset, they have more confident and relationship as self-sufficient and they made a good relationship with Microfinance bank.

Food Security: They all confirmed that food consumption was the main dimension of their livelihood which was affected by increased income through loans. This is because the main share of income is spent on food stuff.

Repayment: At the time of interview, one of them completed all of his repayment obligations; and two others were still in repayment period. Saving from daily income was the main strategy of all three clients for repayment. Besides, in some cases selling of assets and informal lending were the available ways to meet repayment obligation on time.

4.5.6. Investing of microcredit on vegetable green house

Habiba, a 45 years old widow is the only client who invested her loan on making vegetable greenhouse using her land in her house. She took a loan of 30,000 AFN for ten months.

Habiba's case is a good example of a failed client, whose way of investment was not profitable and sustainable due to many reasons that will be discussed. Therefore, the impact of loan on his livelihood was all negative.

She is head of a five member household including her 19 years old son. They own a house with about 150 sqm free space appropriate for kitchen gardening and growing vegetables. They also own 1 jerib (0.2 ha) land, which is the main source of their income. Habib's son sometimes works with other farmers as daily worker with averagely 150-200 AFN daily wages. Another source of income is the vegetables they sell from their garden, which is only in the summer.

Habiba applied for loan in fall 2009. Her main purpose for taking loan was to make a greenhouse in order to produce vegetables from her house yard in off seasons (winter), when the price of vegetables; specially tomato, cucumber and pepper is high in Herat market.

She received 30,000 AFNs loan and spent all on making greenhouse on a 100 sqm land.

During whole season she could only have two harvests of her greenhouse products. Her low production was because two times damage of greenhouse, lack of skill about the green house cultivation techniques.

After the winter they removed the greenhouse from and sold some of its related materials in order to repay their loan.

Habiba was just motivated by her neighbors who had greenhouse last year with good production. This prompted her to apply for loan for this purpose. In fact her knowledge was not sufficient to measure and calculate well the profitability of her business comparing to loan. She also didn't receive any advice from the loan officer about the way the she intended to invest the money.

The loan badly affected Habiba's life; and put her in a big danger of informal debt. Furthermore, she sold some petty assets in order to be able to repay. According to herself, bad repayment practices caused her relationship worsen with the loan officer.

Impact on her livelihood: Reduced assets (physical, financial and social), increased vulnerability and increased their food insecurity.

4.5.7 Clients who used the loan on consumptive ways

Five clients are in this category. They used the loan to repay their debts they owed to relatives and shopkeepers. Three of the clients in this category experienced shocks; such as loose of family members, natural disasters and urgent illnesses. One of them was indebted to different people when he was making his marriage party. And one of them, due to low income, had to supply some of his daily needs in credit form many shopkeepers in the village and city. Therefore, all the clients in this category found microcredit as a way to get ride of their informal debts. The question that why these clients preferred to indebt of the bank rather than informal loan takers (shopkeepers and relatives) is answered by one of the clients as bellow:

> *I was indebted to many people and shopkeepers during the funeral of my mother who passed away one year ago. Whole of my debt was around 60,000 AFN. I owed debt to the small shopkeepers and my friends who are also poor like me. One month after the funeral, all of them wanted their money back. Some of them were in my door every day, which is not*

a good thing in our society. Therefore, I decided to take loan from the bank, because the banks ask the money to be paid during one year. Even with the interest, it was more possible for me to repay, than paying all at one time.

Provision of collateral was very difficult, I could provide home ownership document, but the head of the village didn't accept to become my guarantee at first. It took long time until I could convince him.

At the time of interview, he had already made six repayments. He had to pay 5,900 AFN per month including interest. His income source was his shop with averagely 450 AFN earning per day.

For such types of clients who are indebted to many persons, microcredit is a way to shift their loan from an informal form to bank loan. For all of them the benefit of his shifting is that in bank loan they have longer time for repayment.

Impact on Income All the clients used the loans in consumptive purposes, thus there is not impact on their income.

Impact on Assets

Physical Assets: Four of them confirmed asset selling (bicycle, carpet and TV) in order to repay their loans selling of assets is the most common way for such types of clients. This is because their low income was not sufficient for repayment.

Financial assets: Due to monthly repayment of a non productive loan, the chance of making savings was nearly zero for all the clients in this category.

Social asset: two of the clients confess that late repayment affected their social position in the community and they lost the thrust of the people and also bank.

Shocks: For all of them loan was the only way that they could respond the urgent shocks that they faced; such as urgent illness, death and natural disasters.

Repayment: As shown in the table bellow, all the clients in this category had to spend 41% of their income to repay their loans. Considering low income large size of these households (6 persons averagely), this share of repayment remarkably increases the vulnerability these clients. The direct negative impact is on food consumption. According to one of the clients, he had to cut some of the food cost of the households in order to be able to meet the repayment obligation. Furthermore, the majority of the clients confirmed asset selling in order to repay the loans.

Table 9 Comparison of Income and repayment of the clients who used the loan in consumptive purposes

Clients	Loan size	Monthly income (estimation)	Loan period	Monthly repayment interest	Percentage of income disbursed for repayment
1	60,000	11,700	12	5900	50%
2	50,000	7,800	11	5295.455	68%
3	50,000	13,000	11	5295.455	41%
4	30,000	15,600	12	2950	19%
5	30,000	13,000	10	3450	27%
Average	**44,000**	**12,220**	**11.2**	**4,578.182**	**41%**

Source: Own data

The difficulty of the repayment even compelled two of the clients re-shift to informal debt in order to make their bank repayment.

> *We are always indebted; all our life is passed with credit. We took credit from the bank to pay the shopkeeper, but again I took credit from other relatives to make at least one of the bank repayments. I don't know how I can repay whole of the bank loan. I'm very regretted that I took credit from the bank.*

This quote indicates the wrong decision of the clients in taking loan from the bank, and also their wrong perception about the formal microcredit.

They choose the bank loan in order to respond their urgent need, but after taking loan they put themselves in a prolong vulnerability.

4.5.8 Investment of the loans on mix purposes (consumptive and productive)

Four clients sued their loans both on consumptive and productive purposes. Three of them spent the majority of the loan in order to meet their urgent needs, and they injected the remaining part of the loan to their old businesses. One of them besides using the biggest part of the loan on consumptive ways, he also established a carpentry shop with the remaining.

Only the one who spent some of the on new IGA confirmed the benefit of the loan on his income, but three others were not satisfied with the loan that they took.

4.6. Summary of all categories

For 63% (19 clients), the microcredit had a direct positive impact on their livelihood; it particularly contributed to income generating. For majority of them (11 clients), loan-based business is the second source of their income. They are all agricultural clients who invested the loans on herding and milking cows. For four of these clients, microcredit provided the main and the only source of income. They are all the clients who invested the loans on rickshaws and sewing machines. And finally, for remaining four clients, microcredit was a tool for them in order to increase the potential of their old businesses, for example, the shopkeepers added the loan to increase the assets of their shop, and consequently improve their income.

For all the clients whose income totally or partly generated from the loan based investment, microcredit helped them to improve their food consumption with the households. This argument is supported by this evidence that the greatest part of the income of theses clients (70-85%) is spent on food items. therefore any change in income level is directly and significantly changes the food consumption of the households.

Microcredit helped 73% of the clients to accumulate physical assets. They accumulated the assets directly by purchasing from the loans. Only 3 clients were able to increase their assets by the income of the loan. It means that the productivity of their loan-business is only sufficient to meet the daily consumption of their households. None of the clients could accumulate financial capital; such as bank savings.

For 17% (5 clients), microcredit was a tool for shifting from the short-time informal loans to long-time formal loans. In the context of livelihood frame, they used the loan in order to transform their vulnerability form one form to another forms. For example, they barrowed informal loans when they were in urgent needs such as funeral, urgent illnesses such as surgery and house reconstruction. In order to renew their loan lenders, they again make a loan cycle for themselves by taking microcredit from bank and paying it to their relatives and shopkeepers they were indebted to. All the clients in this category put themselves in a more difficult situation by taking loan. In fact, the impact of loan on their livelihood is negatives.

4.7 Repayment ability of the clients

Repayment ability of the clients can be considered as an appropriate indicator illustrating the sustainability and profitability of their loan-based business. Repaying of the loan is the most important obligation that not all the clients could respond it by continual income.

According to FMFB repayment rules, the borrowers should repay their loan along with the interest in a monthly basis. Here in this section, it is discussed that to what extent the borrowers are able to successfully repay their loans on time and in accordance to their contract. Besides, the most common ways that the borrowers repay their loans especially the clients who don’t have a daily earning, is discussed. It is important to understand this issue, because some of the clients invested their loans on late-returning activities and for a long time they don’t have any income to repay their loan.

It is obvious that the objective of MC programs is that clients invest their loans in

productive activities and the returns from these investments are then used to support both household needs and debt repayment. This objective has not been attained among all the clients who were interviewed. There are different repayment strategies the clients use in order to meet the MFIs' set repayment rules, including: reserving some loan funds; informal borrowing; sale of productive assets; use of savings; and payment from income, either from the investment activity or other income sources.
All the respondents complain that repayment is difficult in the first months of borrowing, even the respondents who are investing the loan in an old business and have a daily return.

Wakil Ahmad says:

> *The first repayment was difficult for me. When I got the loan I purchased some more goods for my shop and I used some of that to meet my needs at home. And also, at the first month there was no significant change in the income of my shop.*

Before discussing in detail about various repayment strategies, it is necessary to have a general measurement about the quantity of the clients able or unable to repay their loans on the agreed time.

Table 10 Clients' repayment capacity

Indicator	Number of clients	Percentage out of 30 clients
Clients who are able to repay their loan on time	21	70%
Clients who repay their loan from the income of business	15	50%

Source: Own data

As shown in the above table 70% of the clients are able to repay their loan exactly on time and the remaining who fail to repay are those categories that don't have a successful income generation activity or their family expenditure is high.
This table also shows that only 15 clients repay their loan from the income of their business. This is true mostly for the clients who invested the loan on a late-returning activity, for example the ones who purchased goats or sheep to sell them in the next year. These clients have to repay the loan from another source. In addition, use of some or all of the loans for consumption and the low returns from many activities make repayment difficult for many MC clients.
In general, for all the clients repaying of their loan is in the priority of all their expenditures.
The ones who are involved in a daily earning business, the common strategy is saving a part of the money in a daily basis.
Nazifa: "*We used to save every day about 150 AFN (3 US$) and put it in a separate place just for repayment, even in very hard situations we tried not to use that*"

For those who don't have a daily income, such as the ones who invested the loans on goat and sheep; meeting repayment obligation is difficult. Their common strategies are saving a small part of the loan for the first and second month, informal borrowing from the friends and relatives; and selling some assets, which are not profitable.

Considering all the strategies and the difficulties of repayment for the clients, the bank manager claims that the rate of repayment failure is very less among the clients. He associates this to the suitability of their loan programs.

> *We have repayment failure only in case of mortalities, which is normally less than %1. In contrast, incidents of late repayment are higher, specially for the farmers loan and it's normally around %10, late repayment is common in the first and second moths of the loan, says* FMFB branch manager.

Chapter 5: Conclusion and Recommendations

The aim of the study was to evaluate and review the impact of the microcredit on the livelihood of the client households. The case of FMFB was chosen and 30 persons of clients were treated by the intervention. By use of open conversation the researcher tried to answer whether microcredit contributes to improvement of the livelihood of the client households?

In regard to this question, the frame of the study is made based on the following issues:

- Which aspects of the clients' livelihood have been improved in the result of access to microcredits?
- Do the households successfully invest MCs in a long-term income generating way?
- To what extent the clients are able to repay their loans.

For understanding the impact of the MC on the livelihood the clients all the respondents were divided into eight categories based on their type of investment and way of loan use. The study found that for each category of the clients, usefulness and impact of the loan on their livelihood was different. In general the following table answers the first sub question, the multidimensional impact of the microcredit on the clients' livelihood:

Table 11 Impact of microcredit on different components of livelihood

Livelihood components		Impact of microcredit	Evidence
Assets	Physical	73% of clients purchased enterprise assets which were the purpose for loan taking, but no significant increase in household assets in the result of loan-based income.	Case of clients who bought milking cows clients, case of clients who bought rickshaws, sewing machines.
	Financial	No increase	None of the clients confirmed having cash/bank saving.
	Natural	Better use of common pastures in the area for the client who invested on livestock	11 clients who invested on milking cows and herds.
	Human	Better use of family labor Developed skills on specific works	Clients who invested on livestock Clients who invested on sewing machines and rickshaws

	Social	Making relationship to FMFB In some cases, losing the trust and reputation in the community	All the clients who had a successful repayment. The clients who were not successful in repayment and took informal loan from relatives and could not repay informal loan also
Livelihood Outcomes	Income	Provided income generating source for the majority of the clients (63%) It diversified the income It increased the potential of their old business by increase of their shop assets	Clients who invested on tailoring shops and rickshaws (1st source of income) Clients who invested on livestock (2nd source of income) Clients who increased the assets of their shops (increased the shop income) Literatures, which majority found positive impact on income
	Food Security	Better food consumption comparing to previous times. But, for some clients MC worsen their food consumption because of continual repayment along with interest	All the clients whose income is generated from loan-bases sources five clients who used the loans for consumptive purposes.

Source: Own data

In regard to the first question (Which aspects of the clients' livelihood have been improved in the result of access to microcredits?) the study shows that asset accumulation is the main dimension of the livelihood which is positively impacted by the microcredit. Of course, the accumulated assets are physical assets and considered as enterprise capital that the clients directly purchased by loan. majority of the clients could keep their loan-based assets, which are the main sources of their income; also for some they are considered as the means of income diversification.

In regard to provision of income generating source, the study found that more than 50% of the clients believe that their income is higher comparing to the time before access to loans.

In regard to the second question (Do the households successfully invest MCs in a long-term income generating way?) the study found that 70% of the clients used the loans for income generating purposes. From these clients, only of them (case of the client who invested on greenhouse) was not successful to get income from her business.
The profitability and the income generated from their loan-based businesses is only sufficient to respond to the basic needs of the household. As they cannot have saving, the stability of their business for long term is not very high. Because in case any slight loose, they are not able to recover without loan.
The study also in this regard found that for some client microcredit is a tool in order to shift from their shot-term informal loan into long-term formal loan. these are mostly the clients who experienced shocks; such as illness, funeral and etc. Such shocks made them to barrow from the friends and relatives, but when they were not able to repay from their income, they found microcredit as the only source. For such types of clients, microcredit highly associates to their vulnerability and put them in danger of repayment failure.

In regard to the third question (To what extent the clients are able to repay their loans?), the findings based on the answers of the bank manager indicates that the level of repayment failure is about 1% (which is only in case of mortality). In the context of this study, the data indicates that all the clients paid their loan, but by analyzing the repayment ability, a better insight about capabilities of the clients was gained. Majority (70%) of the clients are confident that they repaid their loans on time, but only half (50%) of them were able to meet this obligation by their daily income.
For those who don't have a daily income, such as farmers and livestock keepers; meeting repayment obligation is difficult. Their common strategies are saving a small part of the loan for the first and second month, informal borrowing from the friends and relatives; and selling some assets that are not profitable for them anymore.
In summary, the study concludes that FMFB microcredit program has the potential to have a higher contribution to the poverty reduction and betterment of households' livelihood comparing what it offers now. This is because of the nature of its appropriate loan size for poor clients in order to establish enterprises, long loan duration; and also comparing to other MFIs in Herat, its low rate of loan interest.

Recommendations

In relation to the objective of the study; and in order to make the conclusion of this study more useful in action, the following recommendations are presented with aim at improving the performance of microcredit sector, particularly FMFB in responding the client needs and to increase the efficiency of the loans for their clients as well.

1. **The homogeneity of the clients in should be taking into consideration:** The clients of the FMFB are very diverse in term of occupation. They are from both agricultural and non-agricultural livelihood backgrounds. Therefore, type of their earning is different in regard to time. Non-agricultural clients are earning in a daily basis; whereas the agricultural clients are earning in a seasonally basis and they

are also highly in risk of harvest loose. So, it asserts that their needs for microcredit, and as well as their ability for repayment is different. For example, as complained by some agricultural respondents, monthly repayment is difficult for them in the first months of the loans keeping. Therefore, this study recommends that MFIs should consider the issue of homogeneity of their clients (in term of business type).

2. **Clients should be well informed and warned about the danger of repayment failure:** Some clients have a wrong perception about microcredits; they consider it as a financial aid in order to meet their consumptive requirements. Therefore when they receive and consume it, they fail to repay it on time. It put the clients in a trouble. Loan officers should inform and tell all the negative and risky aspects of the loans to the clients, when they apply for loan.

3. **Wrong decision and lack of basic entrepreneurial knowledge:** Some clients are not able to make a precise calculation about the profitability and outcome of their desired business. In some cases the outcome of their business is not even sufficient for repayment of their loan. Therefore, the microfinance policy makers and the government should provide this knowledge. MFIs, in particular, should advise them whether the loan fits to their desired business, and would they be able to successfully invest the loan on that business.

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Appendixes

Appendix 1 Interview Questionnaire

1. Name:
2. Sex:
3. Age:
4. Marital Statue: Single ( ) Married ( ) Widow ( ) Divorced ( )
5. Education Level:
6. No education ( ) primary school ( ), High school ( ) University ( )
7. Profession: Agriculture,( ) Non-agriculture (…………………………..)
8. Household size:……….persons
9. How many persons in income?
10. Which of the following property do you own?
11. Land ( ) House ( ) Shop ( ) Cattle (………. ….) Vehicle (…………….)
12. Please specify the size/number of each the properties that you own.
13. If your house is not an own property, how much rent do you pay per month?
14. How much does you family earn from all income sources per month (estimation)

<5,000 AFN ( ) 5,000 - 10,000 AFN ( ) 10,000 – 15,000 AFN ( ) 15,000 – 20,000 AFN

15,000 – 20,000 AFN ( ) 20,000 – 25,000 AFN ( ) 25,000 – 30,000 AFN ( )

30,000 – 35,000 AFN ( ) 35,000 – 40,000 AFN ( ) 40,000 – 50,000 AFN ( ) or>

15. Do you have another source of earning?
16. If yes, what and how much?
17. Can you save from your monthly/annually income?
18. If yes, in which of the following forms?
19. Amount of loan that you received from the bank?
20. How many cycles have you received the loan?
21. How much is the Interest rate?
22. For how long is your loan?
23. How often you should repay your loan (weekly, monthly, yearly or irregular)
24. Date of receiving the loan:
25. Is your loan an Individual loan or group loan?
26. What is the main source of your initial capital? (Personal Savings, Friends and relatives, Loan from MFIs or Others….)
27. Has your income increased since you received the loan? Yes ( ) No ( )
28. Please estimate how much was your daily income before you receive the loan?
29. What is approximately your current daily income from loan-based investment?

30. What are the most important assets that you could buy since you received the loan?
31. Did the loan help you to buy one or more of these assets? (House, Car, Motorbike, Bike, Horse, Donkey, Mobile, electricity, land, etc)
32. What was your most important need that the loan could help you to meet that?
33. Have the income had any impact on your food consumption?
34. To what percentage of the generated income is spent on food stuff?
35. What kinds of food stuff can you buy now that you didn't afford before receiving the loan and starting the entrepreneur?
36. How often in a week could you use rice in a day before receiving the loan and start the business? (0-2 times/ week, 2-4/week, >4)
37. How much in each time (the quantity will be divided on the number of HH members)
38. Is there any increase in the consumption of meat since your income increased due to investment of MC?
39. Approximately, how many times per week or how much kg per week? (the quantity will be divided on the number of HH members)
40. How was this before?
41. How much of the loan have you invested in an income generating way (Amount)
42. What was your main goal to get the loan?
43. How much did you spend to meet your other consumptive needs?
44. What was that need that you spend the money to meet that
45. Are you satisfied with the business you started with the loan?
46. Do you that think you can develop your entrepreneur more what it is now?
47. Do you have enough financial capital to continue your business without loan?
48. Did you invested on a new or old business?
49. What was that business?
50. How often do you repay your loan?
51. Do you always repay your loan on time?
52. What is/are the main reason(s) that you can't repay on time?
53. Do you think that you can repay your current loan?
54. From which source do you mostly repay your loan? (from your business/informal loan or other)
55. What happens if you can't repay your loan?
56. Does the MFI charge penalty on you in case of repayment failure? (if yes, how much is the%)
57. Can you judge that having access to the credit increased your overall quality of life?
58. Do you find it necessary to have further access to credit?
59. How was the impact of the loan on you income? (significant, slightly, no impact)
60. You thing that in improvement of which aspect of your life the loan was more effective? (Food, Education, Savings, Health, Housing ……..)