

Assessing Potential for Micro Finance in Rural Livelihoods



A Market Study in Bamyan and Kunduz

Amidst high levels of aid dependency and a gradual drawdown of international aid, Samuel Hall is undertaking economic research for stakeholders who aim to encourage independent economic growth and private sector development in Afghanistan.

Microfinance is at the grass roots of this focus, and aims at providing financial autonomy and purchasing power to the average citizen. Microfinance draws people into formalised market transactions and lays the foundations for greater participation in the national economy – both of which are critical components of Afghanistan’s economic development.

As the focus on economic growth continues, the First Micro Finance Bank Afghanistan (FMFB-A) is developing new products for rural markets in Bamyan and Kunduz provinces. Understanding the market is key, particularly in a context of low literacy, suspicion of international organisations and poor access to local markets.

The guiding questions behind this research on the potential for micro-finance are:

What financial support do people want? What types of credit do they need? How familiar are local communities with microfinance? How should FMFB-A tailor its products to the local markets? What is the level of demand for these services? How can these products be marketed? What are the social and cultural barriers to developing microfinance services in these areas?

What is Micro Finance? Microfinance provides access to credit markets for the world’s economically underprivileged. Typically, micro financing provides clients with small-sized loans and financial packages – sometimes a matter of a handful of dollars. Unlike traditional financial services, microfinance systems have a social obligation to keep the client’s economic welfare as its primary interest while maintaining commercial viability.

Research objectives

To answer these questions and to help FMFB-A develop new products for rural markets, Samuel Hall was commissioned to:

1. *Inform FMFB of the main social and economic characteristics of potential clients in Bamyan and Kunduz;*
2. *Understand demand volume and composition for micro finance services;*
3. *Identify preferences for micro-credit, micro-savings and money transfer services.*

Methodology

A quantitative survey of 250 agricultural value chain actors was conducted in the provinces of Bamyan and Kunduz in August-September 2013. Qualitative focus groups, depth interviews and market observations were also conducted to provide a detailed understanding of local market dynamics.

Demand for Microfinance?

The survey found that demand for microfinance services was muted – 28% of respondents said that they would take a loan from a microfinance institution (MFI).

Nevertheless, the large proportion of people who had taken a loan from informal networks (59%) – such as friends and family – shows that demand for loans is much higher than first perceived.

Resistance to MFIs

Paradoxically, the strong reliance on these informal networks is one of the main barriers to encouraging people to use formal microfinance institutions. Deeply held cultural values mean that many people are reluctant to engage with formal loan services because interest is considered *haram* (57%), they lacked collateral (32%) and because informal networks offer greater flexibility on repayment. Trust was a key feature too. Naturally, respondents trust their friends and family more than formal institutions. In addition, respondents complained that MFIs have short grace periods for loan repayment, and charge high fees for defaulting on loans. People also complained that the application process was often complicated and drawn out.

What do people use loans for?

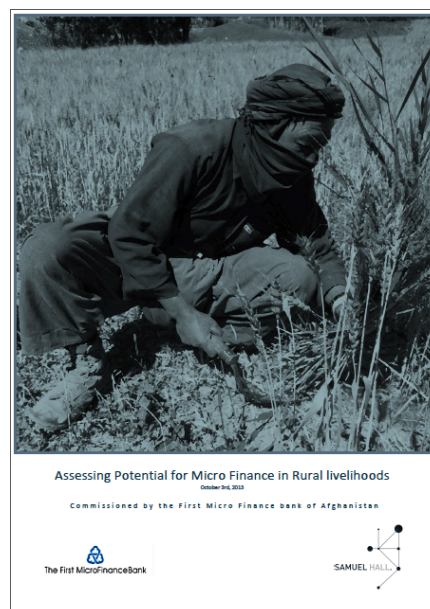
Encouragingly, of those who would like a loan from an MFI, 57% said that they would take a loan for investment into their business. These investments included buying more inputs for shop owners, buying seeds and fertilizers for farmers and buying cattle, sheep and goats for livestock owners. 83% of urban respondents from Kunduz said that they would use the loan in their business.

How should MFIs respond to market demands?

There are two overarching and enduring strategies for all MFI actors that are relevant across Afghanistan. These are:

1. ***Increase awareness about micro finance*** – people are unaware of Sharia compliant products, group lending opportunities, repayment flexibility and low-ticket value loans.
2. ***Mirror informal lending mechanisms in rural areas*** – adopt features of the informal lending networks such as greater repayment flexibility and tailoring repayment schedules to household income flows.

For the summary and full-length report, visit our website: samuelhall.org



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