
Innovative financial mechanisms for improving the livelihoods of rural Afghans currently economically dependent on opium poppy

RALF Project 01-08

Joint project between

Natural Resources Institute – University of Greenwich
and

Aga Khan Foundation

Presentation Objectives

- **Project Progress to date**
- **Review draft micro-finance products**
- **Discussion at Stakeholders' Workshop of 10-11 October 2005**
- **Action Plan for remainder of project**

1. Project progress to date

- Review of experience, Oct 2004
- Training of AKF staff in Badakshan, Dec 2004. Field survey guidelines, Feb 2005
- Survey of 12 villages: Jan-March 2005
- Analysis of field data
- Draft design for 4 micro-finance products

Conclusions of Analysis of Survey of 12 villages in Badakshan

- Variable land and livestock ownership within and between villages
- Variability in opium production/ consumption patterns between villages and districts
- Multiple, but precarious, income streams
- **Debt very common; worst incidence, levels and conditions among poor**
- All villages have *shura* / CDC

2. Suggested Microfinance Products

Product	Purpose	Support
Debt conversion finance	Replace expensive debts with cheaper ones	Financial training, debt management advise, addiction treatment
All-purpose loans and saving	Funds for basic needs	Financial training, debt management advise, addiction treatment
Land redemption finance	Recovery of mortgaged land for non-opium production	Land management Alternative agricultural enterprises
Finance for enterprises	Promote businesses and productive agriculture	Business development Financial training Alternative agricultural Enterprises

Debt Conversion Finance

- Target clients: economically active poor
- Service charge and loan size to be discussed
- Loan duration and repayment schedule
 - Service charge repayment monthly; capital flexible
- Collateral: social
- Delivery:
 - Individual through groups
 - Creditworthiness vouched by CDC and villagers
 - Contract

ALL-PURPOSE SMALL LOANS

- **Aim:** Loans for basic needs, not production (not for opium production or consumption)
- **Target:** economically active poor
- **Terms:**
 - ❑ Service charge to be set
 - ❑ Loan size: \$50 max to start with, rising with good repayment record
 - ❑ Loan duration: short
 - ❑ Repayment: small, but frequent
 - ❑ Collateral: social (CDC or Group members)
 - ❑ Penalties for late payment (charge, disqualification)
- **Delivery:**
 - ❑ Groups (benefits, risks and safeguards to be assessed)

LAND REDEMPTION FINANCE

- Similar to ARMP scheme, but linked to maintenance and productive use of recovered land
- Service Charge: to be set
- Size: equivalent to land mortgage debt – ceiling \$US1000. Could couple with enterprise loan for production/business
- Repayment: monthly
- Collateral: recovered land
- Delivery: Individual; CDC/group approved; contract.

ENTERPRISE FINANCE

- Farm, off-farm and non-farm enterprises
- Beneficiaries: economically active poor
- Service charge: to be set
- Loan size: Suggestion is max. \$US250
- Repayment: tailored to enterprise
- Collateral: CDC/group guarantee
- Delivery: Individual; contract
- Links: Enterprise Development/NR

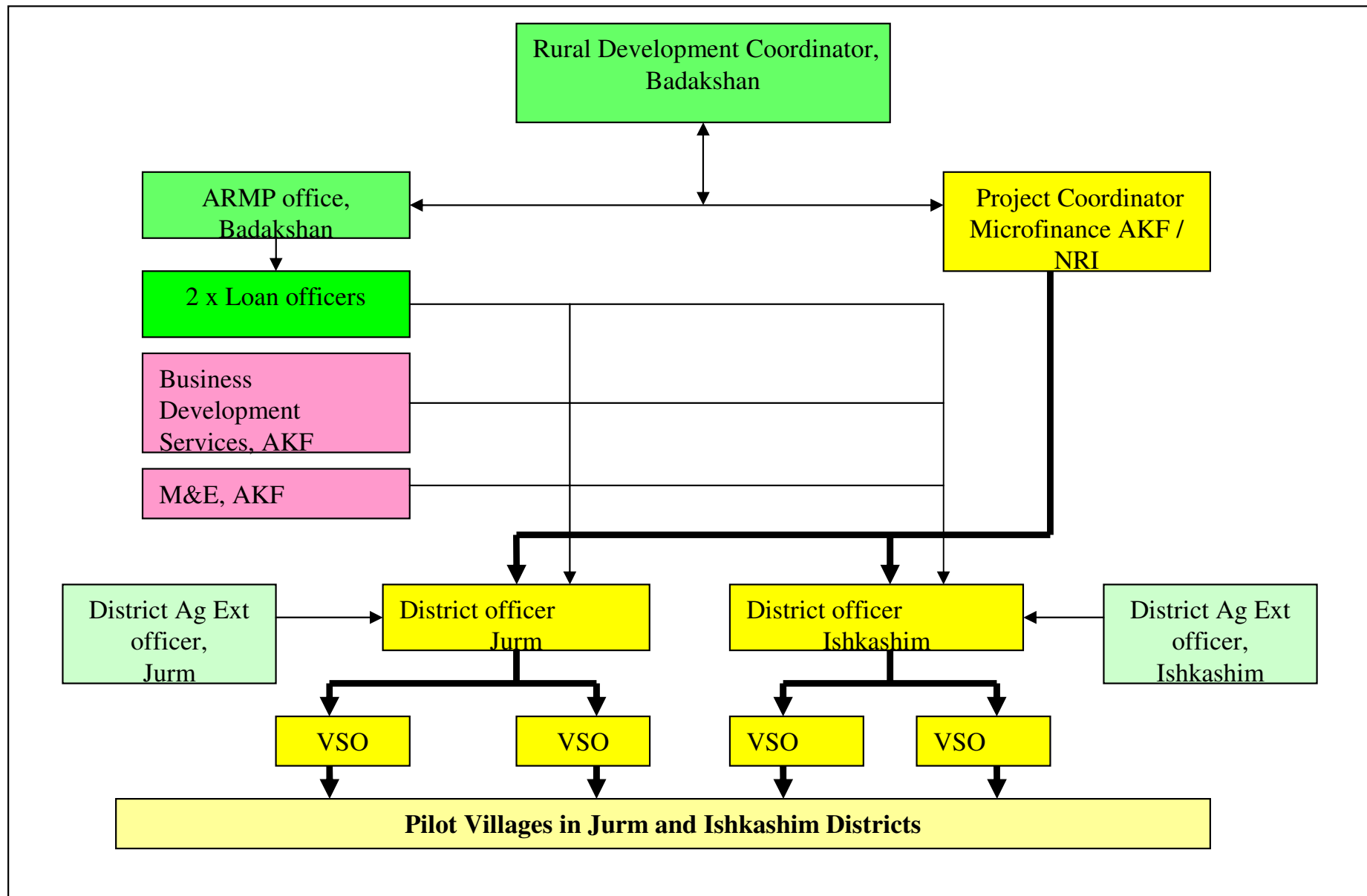
3. Discussion at Stakeholders Workshop

- Microfinance products existing were almost exclusively for the economically active poor
- Need to look at consumptive credit as well
- Explored a Group Model
- Groups of men and women would be facilitated and supported
- Cautious start-up: promotion of programme, group formation, facilitation, skills development
- Groups would begin by internal savings
- Loans would be to groups – the group would then lend to its members for whatever purpose the member of the group required the loan – consumptive or productive

3. Discussion at Stakeholders Workshop

- Mechanisms for assessing the strength and capacities of the groups will be set up
- Loan amount would be determined by the capacity of the group to absorb and manage the loan
- Intra-group social collateral would replace physical collateral
- Pilot programme in 2 districts only
- Lending mechanisms will be simple both for communities and for the agency
- CDCs will assist loan officers to identify creditworthy groups

Organisational structure



ACTION PLAN

- Refinement of selected financial products, Nov/Dec 2005
- Recruitment of in-country co-ordinator, Dec 05 (done)
- Preparatory work prior to implementation, Jan-Mar 2006
- Implementation of financial products, begins in Mar/Apr 2006
- Participatory monitoring and evaluation
- Peer review workshop, Oct 2006
- On-going dissemination of results
- Final workshop, Dec 2006