Secure Livelihoods Research Consortium

Researching livelihoods and services affected by conflict

Household debt in Pakistan

Conflict, borrowing and structural indebtedness

Working Paper 86

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SLRC publications present information, analysis and key policy recommendations on issues relating to livelihoods, basic services and social protection in conflict affected situations. This and other SLRC publications are available from **www.securelivelihoods.org**. Funded by UK aid from the UK Government, Irish Aid and the EC.

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Preface

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

Phase I: 2011– 2017

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

Phase II: 2017–2019

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

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

Theme 1: Livelihoods instability

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

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

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

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

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

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The authors are Research Fellow, Project Associate and Project Assistant respectively at the Sustainable Development Policy Institute (SDPI).

Acronyms and glossary

FGD	Focus group discussion
HIES	Household Integrated Economic Survey
IDI	In-depth interview
IDP	Internally displaced persons
NGO	Non-governmental organisation
PPHS	Pakistan Panel Household Survey
UNDP	United Nations Development Programme

Arthi: a commission agent working on behalf of farmers to connect them to various markets for buying and selling, such as buying input or selling crops

Dependency ratio: the approximate expenditure burden in a household, constructed using the ratio of people in working age groups (16–64 years of age) to those in non-working age groups.

Depletion of civic entitlements: the inability of non-governmental organisations (NGOs) or community organisations to provide goods and services to public following the loss of public entitlements.

Depletion of direct entitlements: a lack in the production or consumption of goods and services. It is also known as subsistent production.

Depletion of market entitlements: a lack of access to work or inability to assert ownership.

Depletion of public entitlements: limited or no access to goods and services normally provided to citizens in times of peace.

Hujra: in Pashtun culture, a communal property where guests and travellers stay.

Jirga: a traditional assembly of leaders convened to settle disputes, primarily among the Pashtun people.

Naik: a ‘middleman’ who provides workers to an employer in return for a share of the salary, particularly for low-skilled jobs.

Nazim: a village-level local government representative.

Reverse entitlements: the forced transfer of assets, including land, property and other sources of livelihood, from vulnerable groups to new groups that emerge during conflict.

Structural indebtedness: where socioeconomic factors conspire to keep households persistently in debt over long periods of time

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Executive summary

Background

Household debt and indebtedness has earned increased attention the world over. In poor countries like Pakistan, expenditures on death and marriage ceremonies, health, education of children and repayment of previous loans remain major reasons for household borrowing from the informal credit market. Along with this, disruption of livelihoods in natural calamities and prolonged conflict has emerged as a further key driver of household borrowing. However, literature on household indebtedness in Pakistan is very scant, despite household borrowing being common in the country. This gap has motivated us to undertake an assessment of the general prevalence and magnitude of household indebtedness in Pakistan, along with the impact of prolonged conflict on household borrowing from the informal credit market, in particular.

Pakistan has recently faced severe challenges from conflict that have distressed the social, political, cultural and economic spheres of society. This complex conflict, with long-lasting violence, threatens the broader sociopolitical and economic stability of the region. Pakistan also encounters hurdles related to debt: specifically, structural indebtedness, where socioeconomic factors conspire to keep households persistently in debt over long periods of time. It has been against this backdrop and the Swat district's recent experience of conflict that we have conducted further research into the impacts of conflict on indebtedness, considering the socioeconomic implications of these impacts and how the local credit markets respond to – and functions during – conflict.

Our study is the first to have assessed household indebtedness in Pakistan while also analysing the impact of conflict. We estimate trends of household borrowing in Pakistan over the last decade and a half using data from Household Integrated Economic Survey [HIES] and Pakistan Panel Household Survey [PPHS]. Further, this paper examines how conflict-related shocks reshape the structure of the credit market and the borrowing patterns of poor households. Crucially, we also offer insights into the socioeconomic implications of indebtedness. We will tie this together by developing a conceptual framework using the loss of public entitlements and the creation of reverse entitlements to explain the interrelationship between conflict and indebtedness, as well as the associated socioeconomic implications.

Findings

Quantitative

We have analysed four rounds of the HIES segment of the Pakistan Social and Living Standard Measurement and data from the PPHS, covering the 2005 to 2016 period. Our results show that an average of one-fifth of households in Pakistan are indebted. The ratio is 2.5 times higher (at 51.63%) in the conflict-affected Swat district. In Swat, the number of over-indebted households – those using 30% or more of their income on debt repayments – increased fivefold from 11% in 2005-06 to 56.46% in 2015-16. At the time of our study, we also found that about 40% of over-indebted households were spending more than 100% of their income on the repayment of loans.

Our data further suggests that 75.86% of indebted urban households in Pakistan consume 30% or more of their income to repay their household debts. Various sources of informal credit constitute the majority of household borrowing in Pakistan, serving about 85% of total borrower household. Evidence suggests that 30% of borrowing households in Pakistan borrow for routine household consumption – for example, expenditure on food and clothing – while 29% seek loans for farm-related activities. The third most common reason for borrowing, at about 12%, is medical expenses.

Qualitative

We conducted focus group discussions (FGDs) and in-depth interviews (IDIs) in the Swat and Swabi districts. We found that the Swabi district was in many ways a case for comparison, as it has a similar demographic and socioeconomic makeup to Swat, but has not experienced recent conflict. Our research found that conflict in Swat altered the lending market in two key ways. First, the supply of credit was squeezed as lenders migrated to other safer parts of the country. Second, demand for borrowing increased multifold due to lack of livelihood opportunities and economic activity, as well as restricted mobility. The unavailability of formal loans and a shrinking informal credit market created imbalances in the supply and demand of credit, which led to strict terms and conditions being attached to borrowing.

We also documented the severe structural indebtedness experienced by poor households, with many perpetually indebted for the last ten to fifty years. Borrowers' vulnerabilities to exploitation by lenders led to consequences for households, such as being forced to engage in unpaid work, being subjected to public shaming and facing demands for two to three extra instalments above and beyond what was agreed.

Gathering the resources to repay loans often results in removing children from school, an inability to pay for health needs, poor quality diet, extra working hours, the forced sale of household valuables at a lower price and further borrowing. We found that women have a negligible role in decision-making on borrowing, but play a key one in raising and saving resources for debt repayments.

Recommendations

Offer support for livelihoods

Our research found that the destruction of livelihood sources remained the single largest factor leading to household borrowing. This indicates that strategies focused on reducing the risks conflict poses to livelihoods must be a top priority.

Ensure the availability of affordable credit

We found that, because of credit constraints, residents of Swat experienced considerable difficulties in smoothing consumption and making investments using the formal credit system, not only during the period of conflict escalation during 2006 to 2008[1] but also long after it ended. We therefore recommend that local government designs mechanisms to ensure the quick and effective post-conflict availability of affordable credit.

Make the informal credit market more efficient

As most borrowing takes place in the informal market, a mechanism should be designed to make this section of the market more efficient. The government must legally recognise informal borrowing without regulating it. Steps should also be taken to connect the informal lending market with microfinance institutions, so that informal lending can be directed towards more productive investments alongside the availability of higher amounts of credit when required.

Promote the insurance market

In order to maximise the efficiency of the informal credit market, the insurance market should also be developed. When the latter is under-developed, households instead turn to the informal credit to cope with unexpected shocks.

Offer targeted social safety net programmes

Social safety net programmes operating in the area must be tailored to households facing structural indebtedness. While the demand for borrowing increased after the conflict in Swat, the lack of credit availability meant that alternative sources of formal borrowing were needed in the area. In terms of the future, the government should act to support lower-income groups by providing them with access to easily available credit. Further, social safety nets programmes in the Swat and Swabi districts must focus on increasing households' access to affordable health services, as out-of-pocket health expenditures have emerged as one of the major reasons for borrowing.

Build local capacity

To devise and implement these strategies, the government needs to focus on building local capacity to reduce the risks and impacts of conflict. Local government institutions should be strengthened and used to design strategies that ensure quick and effective responses that save both lives and livelihoods in the event of conflict.

1 Swat has long history of conflict. Conflict in Swat or Swat conflict, in this study, refers to the conflict during 2006-2008. Interested reader may rrefer to Hussain (2011) for history of conflict in Swat Valley.

1 Introduction

Household debt and indebtedness have earned increased attention globally. Household expenditures on health, education of children, death and marriage ceremonies, and repayment of previous loans remain major reasons of household borrowing from the informal credit market in poorer countries like Pakistan. Further, disruption of livelihoods in natural calamities and prolonged conflict has emerged as a key driver of household borrowing. However, literature on household indebtedness in Pakistan is very scant, despite household borrowing being common in the country. This gap has motivated us to assess the general prevalence and magnitude of household indebtedness in Pakistan, along with the impact of prolonged conflict on household borrowing from informal credit market in particular.

Pakistan has in recent years faced severe challenges from conflict that has distressed the social, political, cultural and economic spheres of society. Conflict in the Khyber Pakhtunkhwa province and, particularly, in the Swat district, led to armed clashes between militants and the Pakistani armed forces. There have been various historical, religious and social factors behind the conflict in the district (Orakzai, 2011). The complexity of the conflict, with long-lasting violence, threatens the sociopolitical and economic stability of the region more broadly.

Pakistan also face challenges related to household debt – specifically structural indebtedness. This is characterised by two components. First, indebtedness persists over a longer period of time. Second, remaining indebted is not a choice. It is a setting where factors such as the socioeconomic structure of households, such as low and volatile income, a high dependency ratio, work in elementary occupations, and higher debt servicing costs, create a situation where those indebted households are i) unable to clear their debts given their lower income and/or ii) take fresh loans to clear the previous debt or to manage household expenditures. In either case, household debts persistently accumulate and debt servicing costs continue to inflate. In the words of David Graeber, these households have 'lived in a situation of permanent debt dependency' (Graeber, 2014). In our study, we have defined a household as structurally indebted if the indebtedness has persisted over the course of ten years or more.

Roughly one-fifth of households in Pakistan are indebted at any one time. Alarmingly, roughly 80% of indebted households across Pakistan were consistently unable to repay their loans during the 2005 to 2016 period. Conflict has also had profound economic implications for households in the region. For example, the conflict in Khyber Pakhtunkhwa and the neighbouring Federally Administered Tribal Areas (FATA) forced roughly 90% of the internally displaced persons (IDPs) to borrow money to overcome the problem of cash shortages and to purchase food (World Food Programme (WFP), 2010).

Provincial-level data indicates that the proportion of indebted households in Khyber Pakhtunkhwa and Punjab is higher than in the other two provinces of Sindh and Balochistan. The Swat district, in Khyber Pakhtunkhwa, has particularly high levels of debt, with our analysis showing that around half of households are in debt at any one time. Compounding this, in our study, more than half (56.46%) of indebted households in Swat were spending 30% or more of their income on the repayment of loans. It is against this backdrop and the district's recent experience of conflict that we have conducted further research into conflict's impact on indebtedness in Swat. Our study has considered the socioeconomic implications of these conflicts and debt, and also looked at how local credit markets respond to and function during conflict.

Our assessment contributes to the literature in a number of ways. It is the first study to assess household indebtedness in Pakistan while also analysing the impact of conflict. We have examined how conflict-related shocks reshape the structure of the credit market and the borrowing patterns of poor households.[2] We have also provided estimates and trends of household indebtedness in Pakistan over time. Crucially, this paper offers insights into the socioeconomic implications of indebtedness. We have tied this together by developing a conceptual framework that uses the loss of public entitlements and the creation of reverse entitlements to explain the interrelationship between conflict and indebtedness, as well as the associated socioeconomic implications.

In recent years, the social and economic impacts of indebtedness, particularly over-indebtedness, have posed particular concerns in Pakistan. In addition to directly shaping expenditures, household indebtedness has varying economic and social implications. In this context, assessing the size, nature and composition of household debts and resulting states of indebtedness has earned the interest of social scientists and political economists. One strand of the literature explores the drivers of household indebtedness, including the conventional drivers of household borrowing and indebtedness, as well as government policies, economic growth and macroeconomic stability (Endut and Hua, 2009). It also explores the impact of conflict on household indebtedness.

Conflict has far-reaching economic implications including, but not limited to, loss of gross domestic product (GDP) (Khan, 2013; Brück and Henning, 2016), increases in unemployment (Stewart, 2015), rises in inflation (Brück and Henning, 2016) and damage to buildings and infrastructure (Bachmann and Schouten, 2018). Conflict can also affect household welfare through the destruction of assets, forced displacement, poverty traps and changes in income distribution (Justino, 2011; Kumhof et al., 2015). There is a limited availability of reliable income sources, along with a reduction of livelihood opportunities in the presence of other insurmountable challenges, such as displacement. These further contribute to household indebtedness (Christelis et al., 2017).

The literature exploring the conflict in the Swat district is limited to examining the sociocultural change that occurs due to conflict and internal displacement (Elahi, 2015) and identifying the factors behind the conflict (Avis, 2016). Studies conducted in the conflict-affected areas of Khyber Pakhtunkhwa and Federally Administered Tribal Areas (Bhatti, 2015; Nyborg et al., 2012; Shahbaz et al., 2012; Suleri et al., 2017; Elahi, 2015; Maxwell et al., 2017) clearly suggest that the available literature does not consider the impact of conflict on household borrowing and the associated socioeconomic costs that poor households face.

This study intends to fill this gap. Our assessment has used both qualitative[3] and quantitative[4] methods to examine patterns of indebtedness both in Pakistan in general and among poor households in the conflict-affected Swat district in particular. First, we examined patterns of household indebtedness over time, conducting a trend analysis using data from four rounds of the HIES and one round of PPHS. Second, we collected primary data from both the Swat and Swabi districts. The study is the first of its kind in Pakistan, as it compares conflict and non-conflict areas in order to avoid false attribution.

2 We use Azar's (1990) definition of conflict: 'the prolonged and often violent struggle by communal groups for such basic needs as security, recognition and acceptance, fair access to political institutions and economic participation'. The four clusters of variables that are defined by Azar as pre-conditions for protracted social conflict include i) the communal content of a society, ii) human needs, iii) the state's role and iv) international linkages.

3 Conducting FGDs and IDIs.
4 Using data from the PPHS (2010).

When looking at Swat district, using the Swabi district as a comparison group has allowed us to assess the specific impact of conflict.

The concept framing our analysis is the depletion of entitlements, including those that are direct[5], market-related[6], public[7] and civic[8] (Verstegen, 2001). To capture the impact of changing power dynamics during conflict and immediately after it, we further propose the creation of the concept of reverse entitlements. This refers to the forced transfer of assets, including land, property and other sources of livelihood, from vulnerable groups to new groups that emerge during the conflict (Verstegen, 2001).

In this paper, we have produced a conceptual framework based on the findings from our study and review of exiting literature. Based on our finding, we have identified the primary transmitting mechanisms linking conflict to the evolving household credit market and the socioeconomic effects of household borrowing during times of conflict. We further support these transmission channels with evidence from the existing literature, to lay down the foundations for the framework. Overall, the framework traces the impact of conflict-led uncertainties and risks on the patterns and conditions of household borrowing and the lending market.

These risks include, but are not limited to: the higher risk of default because of the loss of the borrowers' property, sudden migration to other parts of the country and even the borrower losing their life. Evidence suggests that conflict-affected regions face capital flight and lack of investment opportunities because of limited credit market access and higher risk factors (Justino, 2009). We contend that these conflict-led uncertainties (which are discussed in detail in section 4.1) and risks lead to the loan market drying up, restricting access to finance for poor people due to the strict terms of borrowing during conflict, which adversely affects household welfare. In our study, we wanted to answer the following key questions:

1. What is the pattern of household borrowing and indebtedness in Pakistan and how have these patterns evolved over time?
2. Who are the borrowers and why do they borrow?
3. In what ways do people affected by conflict access and use credit?
   - What are their reasons?
   - Who are the lenders?
   - What are the terms of borrowing?
4. What are the consequences of indebtedness on the lives of poor rural people?

5 'Depletion of direct entitlements' refers to a lack in the production or consumption of goods and services. It is also known as subsistent production (Verstegen, 2001).
6 'Depletion of market entitlements' denotes a lack of access to work or an inability to hold one's ownership of assets/properties (Verstegen, 2001).
7 'Depletion of public entitlements' describes limited or no access to goods and services normally provided to citizens in times of peace (Verstegen, 2001).
8 'Depletion of civic entitlements' describes the inability of NGOs or community organisations to provide goods and services to public following the loss of public entitlements (Verstegen, 2001).

2 Methodology

2.1 Operational methods and study design

2.1.1 Quantitative analysis

Our quantitative analysis, primarily answering the first and second questions above, is based on the data from four rounds of the HIES (2005–2006, 2007–2008, 2011–2012, and 2015–2016). HIES is the national source for data on household income and consumption in Pakistan. It is a sub-component of Pakistan Social and Living Standard Measurement [PSLM]. Data for this study is extracted from section 9b of the HIES dataset, which primarily relates to households' borrowing and their repayment of the borrowed amount. In addition, the socioeconomic characteristics of relevant households have been extracted to assess their influence on household borrowing. Information on the purpose of borrowing has been extracted from PPHS, as HIES does not provide a detailed breakdown in this area. We were restricted to use PPHS round 2010, as this was when the latest round covering rural and urban households took place (see Nayab and Arif (2012) for a detailed analysis of sample size and iteration of PPHS).

To support our qualitative analysis in assessing the impact of conflict on rural household borrowing in Swat, the selection of the rounds of HIES has been guided by the timeline of conflict in the district. Data from the 2005–2006 HIES is pre-conflict, while data from the 2007–2008 and 2011–2012 HIES covers the period of conflict in Swat. Finally, data from 2015–2016 is from the post-conflict period and is the last round available. We were able to extract data for poor households in Swat from all rounds of HIES using the household identification code provided by the Pakistan Bureau of Statistics. The identification of the poor households in Swat involved in borrowing enabled us not only to assess the evolution of borrowing patterns in the area over time, but also provided us with space to compare findings from our qualitative analysis.

2.1.2 Qualitative analysis

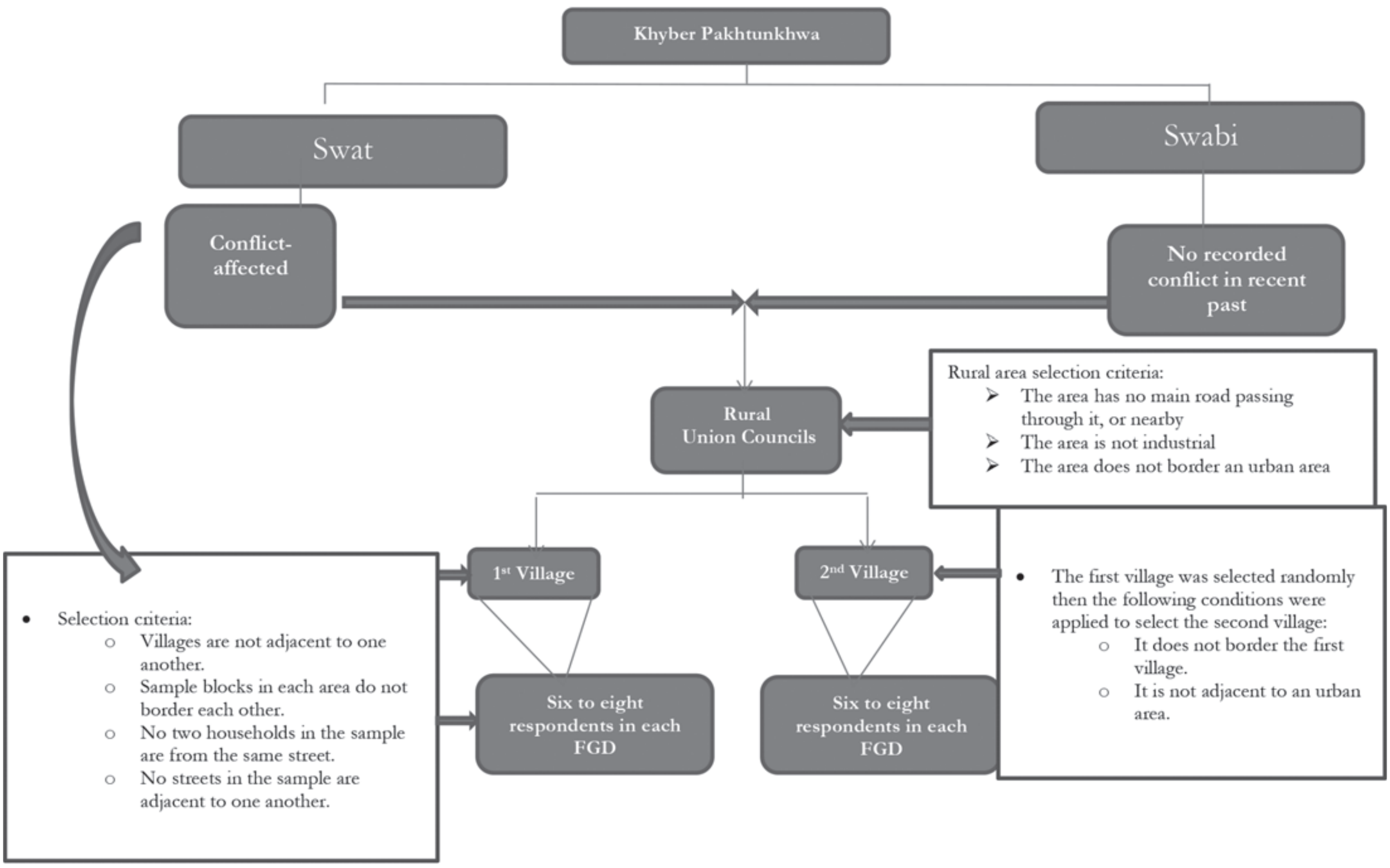
Our qualitative analysis answers the third and fourth questions above. The first study area for our qualitative analysis is the district of Swat, which is an administrative district of Khyber Pakhtunkhwa province. We selected Swat district because it was the site of major conflict between state forces and insurgents, starting around 2006–2007 and lasting for roughly five years (Avis, 2016). Since its merger with Pakistan in 1969, Swat has experienced a number of major shifts, including changing governance systems, militant conflict and internal displacement. Because of the complexity of long-lasting violence, the history of conflict in Swat has had diverse impacts on the sociopolitical and economic stability of the region (Salman, 2012). The conflict that began in 2006–2007 was no exception. It caused the forced internal displacement of around 2.3 million people in the spring of 2009, leading to one of the worst crises the world has seen in recent times (World Bank and Asian Development Bank, 2010).

To avoid attribution biases, we selected another administrative district in Khyber Pakhtunkhwa, in the Swabi district, as a comparison group to undergo the same qualitative analysis. Both districts have similar population compositions, with the main difference between the two being that Swabi has not experienced conflict. Comparison between the findings from these two districts has helped us to better understand the impact of conflict on household indebtedness. The next section broadly outlines the relationship between conflict and indebtedness in a systematic manner, with Figure 1 providing a schematic layout of the method used to select the sample for qualitative analysis.

The population sample for qualitative analysis included poor rural households that were either indebted at the time of the study or had borrowed at least once before. The methods used to gather the data were IDIs and FGDs, with six to eight people in each group. In Swat, we asked supplemental questions on how conflict-affected household demand for borrowing, the supply of credit and other relevant factors.

Ethical considerations were a top priority in our research. Participation was voluntary and participants were allowed to leave at any time if they felt uncomfortable. This paper only presents aggregated information, without disclosing the identity of participants. Before conducting the FGDs, we recorded consent by the participants and agreed that the data collected would only be used for research, as stated in the study.

Figure 1: Sampling framework



Note: Multiple villages were selected using this method. The schematic diagram uses a simple two village example for explanatory purposes only. To assess the supply side of local credit market, IDIs were conducted with lenders, for each type, including i) landlords ii) professional money lenders iii) shopkeepers providing loans iv) political representatives (village councillors) v) Aid agencies and vi) formal microfinance institutions (mainly from Zari Taraqiati Bank Limited-ZTB, but we interviewed one lender selected through convenient sampling).

2.2 Focus group discussions: borrowers

After selecting the sampling units as per the procedure outlined in Figure 1, we mapped out representative groups of poor borrowers with the help of a local guide. Before going into the field, we met with local government representatives, landlords and shopkeepers to map the poorest and most marginalised people in the village. Separate FGDs were then conducted with each of the mapped-out groups. These were selected according to gender, age, type of occupation and membership of a minority group. Given the focus of the study, a stratification method was applied to select different community groups that represented different types of poor households.

Variation within each FGD was ensured. For example, different types of casual daily wage workers, having similar levels of income but different occupations, were selected for the FGDs.[9] The method was applied to all groups participating in study. Each FGD comprised six to eight participants, who were asked to share information based on personal experiences, the experiences of their relatives and other families they knew, and their knowledge of general practice in the region. The enumerators were instructed not to mention conflict before the section of the FGDs that specifically focused on this, in order to avoid participants making associations with conflict that they would not have done if not prompted, as this would have led to false causal attributions. To ensure the information gathered was as rich as possible, we gave each participant in the FGDs a chance to be heard. In both districts, FGDs were held with each of the following groups:

1. Working women
2. Non-working women
3. Marginal and small farmers (landless tenants, owners and owner-cum-tenants)[10]
4. Casual daily wage workers in informal sector[11] (various occupations)
5. Self-employed people (various occupations)
6. Salaried workers (elementary occupations[12]
7. Minorities[13]
8. Young men (15–29 years)
9. Young women (15-29 years)
10. IDPs (who had returned to Swat or were settled in the Swabi district)[14]
11. Households with at least one drug addict or criminal present
12. Woman-headed households (with no man present)

2.3 In-depth interviews: lenders

To assess how the lending market is affected by conflict, IDIs were conducted with lenders. Based on a desk review of literature on the informal loan market in Pakistan, mapping of lenders in the study areas and pre-testing of interview questions, the following types of lender were identified and interviewed:

1. Landlords
2. Professional money lenders
3. Shopkeepers providing loans
4. Political representatives (village councillors)
5. Aid agencies[15]
6. Formal microfinance institutions (Zari Taraqiati Bank Limited-ZTB[16]).

For each of these, we interviewed one lender elected through convenient sampling from Swat and Swabi districts. The interview with ZTBL, a formal lending source, was set up to enable a discussion on the absence of formal credit market in conflict, its impact on the terms and conditions of borrowing and people's perceptions of formal borrowing per se.

9 The selected areas were visited to map household members to be included in respective FGDs. If selected household members were not available on the actual day of the FGD, we would select the person from very next household on our mapping list.

10 Owner-cum-tenants are commonly defined as farmers who have their own land but also some land on tenancy.

11 Informal work may be a monthly salaried job. Casual daily wage workers in the informal sector are defined as those workers who do not have a secure job and therefore look for work and are employed when needed on a daily basis. These workers are generally paid at the end of each day.

12 We have used the International Standard Classification of Occupations (ISCO-08) to define elementary occupations. Generally, these are the occupations that mainly require the use of hand-held tools and often some physical effort, which include, but are not limited to, Street Vendors, Shoe Cleaning, Building Caretakers, and Window and Related Cleaners (International Labour Organization, 2012).

13 If the group was not available for an FGD, we undertook a case study instead.

14 These FGDs were only conducted in Swat, as this grouping is not applicable in the Swabi district.

15 The two aid agencies interviewed, Islamic Relief and International Rescue Committee, were not operating in Swabi district, meaning IDIs with these aid agencies were only conducted in Swat.

16 This bank is dedicated to the promotion of the agriculture sector in Pakistan by providing microcredit.

3 Findings from quantitative analysis

3.1 Household borrowing trends: national sample

The prevalence of household borrowing in Pakistan over time is outlined in Table 1. Roughly, one-fifth of households are indebted at any one time, with only 20% of them able to repay their loans,[17] varying from 14% to 22% across the sample periods. In other words, roughly 80% of indebted households across Pakistan were consistently unable to repay their loans during the period 2005 to 2016, as covered by the samples.

3.2 Borrowing by province and urban or rural area

Table 2 outlines the variation in borrowing by province and by urban or rural population.

The data in Table 2 suggests that overall indebtedness is declining in rural areas while it is increasing in urban ones. This is unexpected, but similar results have been found in India (Rao and Tripathi, 2001), indicating excess demand, compared to supply, for borrowing in rural areas as one possible explanation (see Umdor (2008) for a discussion about rural people's behaviour in the lending market). Not every household willing to borrow was able to do so because of limited availability of credit opportunities, indicating a lack of available loans in rural areas. Another possible explanation is that this was due to the sampling design (Rao and Tripathi, 2001). Finally,

Table 1: Prevalence of household borrowing in Pakistan by HIES sample period

Survey duration	Households involved in borrowing	Households repaying debts (last year)	Households repaying but reporting zero income	HIES sample size	Households involved in borrowing (% of total HIES sample)	Households repaying debts (% of borrowing households)
HIES (2005–2006)	3530	641	386	15045	23%	18.%
HIES (2007–2008)	2612	510	20	15082	17%	19.5%
HIES (2011–2012)	3327	477	307	15298	22%	14.3%
HIES (2015–2016)	4383	968	573	23459	18.6%	22%

Source: Pakistan Bureau of Statistics (PBS) http://www.pbs.gov.pk/content/microdata.

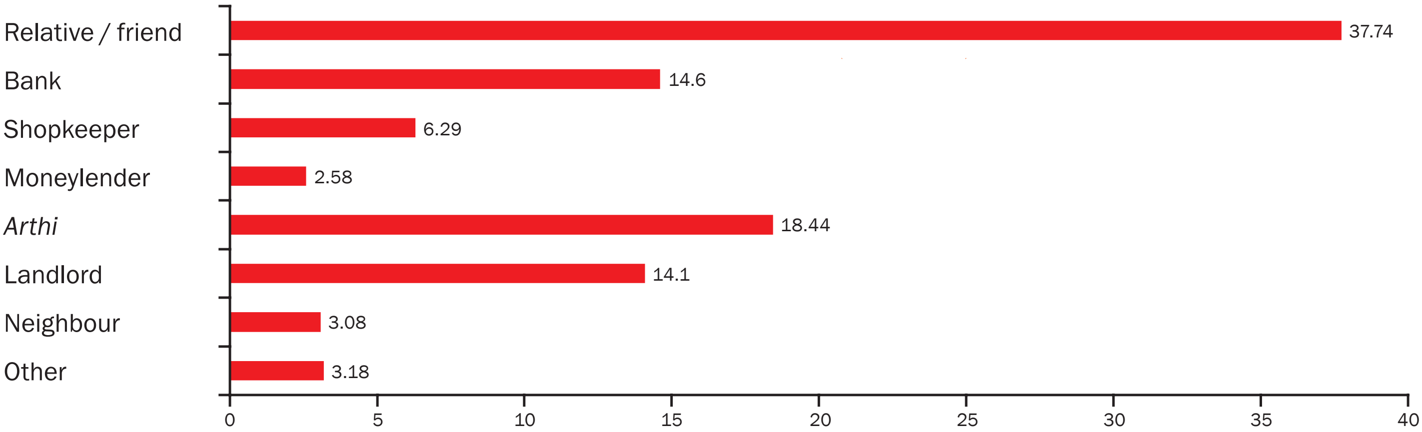
17 The HIES questionnaire asked 'Did you pay the loan last year?'

Table 2: Distribution of indebted households by province and region

Province and region	% of households in debt	Repayments taking up less than 30% of income*	Repayments taking up more than 30% of income*
HIES 2005–2006			
Rural	68.92	76.55	24.14
Urban	31.08	23.45	75.86
Khyber Pakhtunkhwa	38.39	64.16	48.28
Punjab	43.2	30.09	41.38
Sindh	12.15	1.77	6.9
Balochistan	6.26	3.98	3.45
HIES 2007–2008			
Rural area	67.99	65.66	72.15
Urban area	32.01	34.34	27.85
Khyber Pakhtunkhwa	40.93	42.47	36.71
Punjab	42.92	42.47	52.53
Sindh	8.61	5.72	5.06
Balochistan	7.54	9.34	5.7
HIES 2011–2012			
Rural area	66.85	25.31	62.5
Urban area	33.15	74.69	37.5
Khyber Pakhtunkhwa	41.09	32.1	37.5
Punjab	39.83	61.11	62.5
Sindh	12.77	5.56	-
Balochistan	6.31	1.23	-
HIES 2015–2016			
Rural area	43.49	66.28	64.57
Urban area	56.51	33.72	35.43
Khyber Pakhtunkhwa	34.31	55.81	34.08
Punjab	45.54	34.88	59.19
Sindh	12.3	6.98	4.04
Balochistan	7.85	2.33	2.69

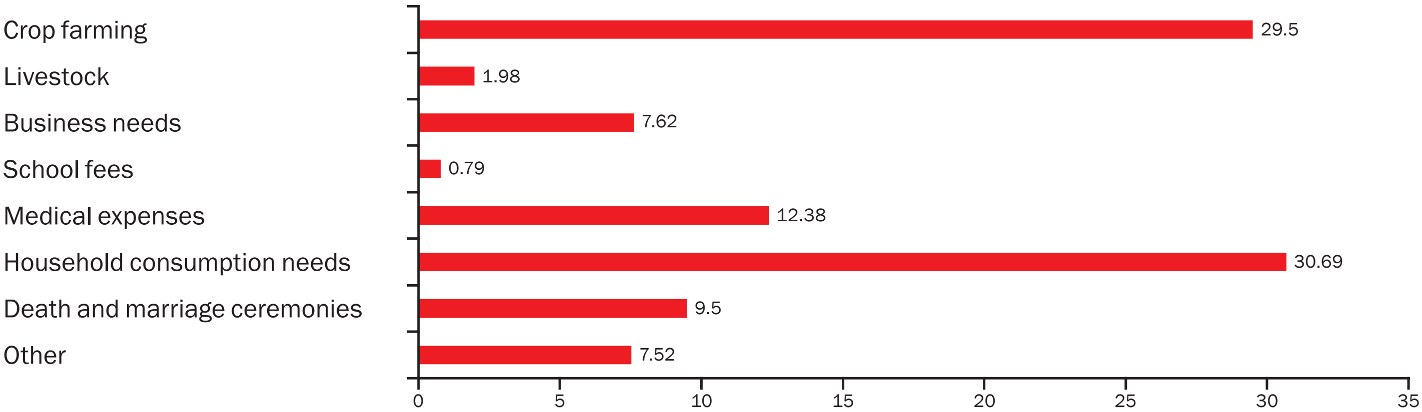
* Based on Giovanni and Iezzi's (2016) 'cost of servicing debt' criteria, households allocating 30% or more of their income to repay debts are considered to be 'over-indebted'

Figure 2: Sources of household borrowing in Pakistan [percent household]



Source: Authors' computation from PPHS (2010)

Figure 3: Purpose of household borrowing in Pakistan (percentage per household)



Source: Authors' computation from PPHS (2010)

provincial data indicates that the proportion of indebted households in Khyber Pakhtunkhwa (where the Swat and Swabi districts are located) and Punjab was higher during our study than in the other two provinces of Sindh and Balochistan.

3.3 Sources of credit

Figure 2 shows the sources and purpose of household borrowing using the latest available round of data from the PPHS (2010). It is important to note that the PPHS uses a different sample to HIES, meaning the results provide a means of making a proxy comparison rather than a direct comparison of samples. We have not been able to use the HIES data here, as it does not provide information on the sources of borrowing and the intended use of loans.

Figure 2 suggests that various sources of informal credit constitute the majority of household borrowing in Pakistan, serving about 85% of total borrowing households. (For details on the share of formal borrowing in Khyber Pakhtunkhwa, see Wahid and Rehman (2014)). People mostly turn to relatives and friends for credit, with around 38% of households borrowing in this manner. The next most common source of borrowing is *arthi* (middlemen in the agricultural market), with 18% of households borrowing from this source. The third most common way for households to borrow is from landlords, with 14% using this source of credit. Only 14% of households borrow from the formal credit market, which includes commercial banks.[18]

3.4 The purpose of loans

Figure 3 shows that 30% of households borrow for routine household consumption, including expenditure on food, clothing, household equipment, household

18 PPHS does not provide any data on household borrowing preferences. We compensated for this gap in our qualitative research design by asking the participants their reasons for choosing particular sources of borrowing.

maintenance, transportation and communication, while 29% seek loans for farm-related activities. The third most common reason for borrowing, at about 12%, is medical expenses followed by death and marriage ceremonies at 9% and business needs at 8%. These patterns align with the findings in the literature that informal credit is mainly used to smooth daily household consumption (Schindler, 2010) and that most loans are used for death and marriage ceremonies, health costs, the repayment of other debts, and education costs (Agier, 2012).

Most importantly, only 8% of the participants in our study borrowed for overall business needs. This has implications for the generation of resources to repay loans. Households using loans to generate income through their businesses are in a better position to repay loans compared to those who use loans for immediate consumption. It should be noted, however, that there are particular risks involved in starting businesses, especially for poor people, who are often capital constrained.

3.5 The socioeconomic characteristics of borrowers

In this section, we look at who the borrowers are. In order to assess the socioeconomic and demographic characteristics of borrowing households, we must first construct some variables. The available literature clearly suggests that the size of a household and its dependency ratio has a positive association with household borrowing (Farooq, 2017). The dependency ratio, which may approximate expenditure burden in a household, is constructed using the ratio of working age groups (16–64 years of age) to non-working age groups (those below 15 years of age and those above 64 years of age in a household). A low dependency ratio is a value below one while a value equal to one is defined as a medium dependency ratio. A value greater than one denotes a severe dependency ratio. Socio-demographic factors, including age, marital status, race, occupation and education, also affect the likelihood of household borrowing (Abdul-Muhmin, 2008). Table 3 shows the percentage distribution by particular characteristics.

The data in Table 3 indicates that the dependency ratio among borrowing households is higher, suggesting that a higher dependency ratio leads to greater borrowing. This is consistent across all the rounds of HIES used in the study. The data shows that over-indebted households also tend to have severe dependency ratios.

The data in Table 3 suggests that households with heads with no education have the highest share of participation in borrowing, at 43%. The same group also has the highest ratio of over-indebtedness, at 47.86% of households. One can clearly see that the share of households involved in borrowing and facing over-indebtedness declines as the education level of the household head increases. The data also shows that a higher share of households is involved in borrowing when the head of household works in elementary occupations or agriculture. The results are consistent across all the rounds of HIES, based on a simple descriptive analysis; though it is not within the scope of this study, the causal association between household characteristics and the likelihood of borrowing demands further analysis.

3.6 Household borrowing in Swat

We were able to extract information on poor households from the Swat district across the rounds of HIES by using the survey code book. The most recent poverty line estimated by the Pakistani Planning Commission was Rs3030.32 per adult equivalent per month in 2013–2014, calculated using the cost of basic needs approach (Ministry of Planning, Development and Reform, 2016). We used the same poverty line across our analysis of all four rounds of HIES data. Given the small sample size of each round of HIES, we pooled the four rounds of HIES data to give a more complete picture of the socioeconomic features of borrowers in Swat. The breakdown of each round of HIES (i.e. before we pooled the rounds of data, in terms of the share of households facing indebtedness in each respective year) is provided by Table 4.

The pooled sample for Swat from four rounds of HIES shows 736 households, out of which 380 households are indebted, which is just over half. There is a consistent trend across all four rounds of HIES that corroborates a higher prevalence of borrowing in Swat. The decline in indebtedness in the 2007–2008 and 2011–2012 data, which covers the period of conflict in Swat, and a further post-conflict decline in 2015–2016, may indicate that conflict leads to limited access to credit. The findings of our qualitative research confirm this, with respondents reporting that opportunities for borrowing decreased during the conflict as lenders migrated to other parts of the country. They also reported that access to credit remains lower than that in the pre-conflict period, even though the situation is improving.

Table 3: Percentage distribution of socioeconomic characteristics of indebted households in Pakistan

Socioeconomic characteristics of household	HIES Survey (2015–16)				HIES Survey (2011–12)				HIES Survey (2007–08)		
	Overall % indebted	Reporting non-zero income		Reporting zero income (%)	Overall % indebted	Reporting non-zero income		Reporting zero income	Overall % indebted	Repay <30%	Repay >30%
		Repay >30%	Repay <30%			Repay >30%	Repay <30%				
Low dependency ratio	49.14	48.26	55.61	55.67	43.07	46.30	25.00	54.07	40.39	41.87	46.84
Moderate dependency ratio	13.10	16.28	11.21	12.22	13.07	8.64	25.00	12.70	13.02	10.84	12.66
Severe dependency ratio	37.76	35.47	33.18	32.11	43.85	45.06	50.00	33.22	46.59	47.29	40.51
Household size <=3	8.16	2.91	8.07	9.42	9.50	13.58	12.50	7.49	9.84	6.63	8.23
Household size four to six	42.16	38.95	38.12	45.55	39.77	33.95	50.00	40.39	35.95	37.05	39.87
Household size seven to ten	38.26	41.86	39.91	35.08	39.65	43.83	25.00	40.39	43.95	44.58	40.51
Household size >=11	10.97	16.28	13.45	9.95	11.09	8.64	12.50	11.73	11.03	11.75	11.39
Head of household age <=25	4.08	4.65	4.04	4.01	13.29	24.69	-	7.82	8.58	5.72	9.49
Head of household age 26 to 35	21.20	10.47	13.90	23.39	19.96	16.05	25.00	20.20	18.38	16.27	19.62
Head of household age 36 to 50	43.49	43.02	39.46	43.28	37.39	32.72	50.00	37.46	40.58	46.39	32.28
Head of household age 51 to 64	22.88	31.40	27.35	23.04	20.08	20.37	12.50	26.38	23.51	23.80	29.75
Head of household age >=65	8.35	10.47	15.25	6.28	9.29	6.17	12.50	8.14	8.96	7.83	8.86
Head of household has no education	43.14	50.58	47.86	36.30	50.92	55.00	25.00	46.00	54.36	52.71	49.37
Head of household has primary education	17.50	18.02	17.97	18.15	16.36	13.75	37.50	17.00	15.47	16.27	15.19
Head of household has middle school education	13.76	9.30	10.89	17.45	13.05	16.88	25.00	15.67	10.07	10.24	9.49
Head of household has secondary education[19]	16.29	13.37	13.42	16.40	12.16	10.00	12.50	12.33	12.56	12.95	12.03
Head of household has at least higher secondary education	9.31	8.72	8.6	11.70	7.51	4.38	-	9.00	3.52	3.01	7.59
Managers	4.89	2.88	2.70	6.49	0.53	-	-	0.35	0.60	1.00	0.77
Professionals	3.72	2.16	4.86	6.52	3.36	2.56	-	5.36	2.93	4.67	3.85
Technicians	3.44	2.16	3.78	3.90	2.53	2.56	-	2.50	3.44	4.33	2.31
Clerical workers	2.27	1.44	0.54	3.03	2.19	2.56	20.00	2.14	2.46	2.67	3.08
Services/sales workers	20.41	17.27	16.76	23.16	18.22	18.80	20.00	17.86	45.03	12.67	13.85
Skilled agricultural workers	18.65	53.96	36.76	1.95	24.86	36.75	40.00	34.29	29.28	28.00	50.00
Craft and related workers	12.75	4.32	8.65	15.37	8.37	3.42	-	5.71	7.76	8.00	1.54
Plant-machine operators	9.87	2.88	6.49	15.15	9.81	8.55	-	8.21	8.88	10.67	7.69
Elementary occupations	23.91	12.23	19.46	24.25	30.14	24.79	20.00	23.57	28.62	28.00	16.92

Note: In HIES (2007–08) we could not find indebted households reporting zero income. Repayment-to-income ratio was calculated for the households reporting non-zero income

19 In Pakistan, primary education takes place from the ages five to nine. This is followed by the three-year middle school stage (sixth to eighth grades for children ages ten to 12), a two-year secondary school stage (ninth and tenth grades, culminating in 'matriculation') and the higher secondary or 'intermediate' level (11th and 12th grades).

Table 4: Sample distribution of Swat district in HIES survey (households below poverty line)

Survey round	Total households	Indebted households	% of households indebted
HIES (2005–2006)	126	87	69.05
HIES (2007–2008)	96	52	54.17
HIES (2011–2012)	128	72	56.25
HIES (2015–2016)	386	179	46.37
Total pooled sample	736	380	51.63

Note: information on households from the Swat district was extracted from HIES by using the coding-scheme file provided by Pakistan Bureau of Statistics (PBS), available at www.pbs.gov.pk/content/microdata

Table 5: Socioeconomic characteristics of indebted households in Swat from pooled sample (n=380)

Category of socioeconomic characteristic	Socioeconomic characteristic of household	% of households
Dependency ratio	Low dependency ratio	37.84
	Moderate dependency ratio	14.86
	Severe dependency ratio	47.30
Size of household family	Household size <= three members	4.50
	Household size four to six members	22.52
	Household size seven to ten members	50.45
	Household size >=11 members	21.62
Age of household head	Age <=25 years	13.06
	Age 26 to 35 years	23.42
	Age 36 to 50 years	36.49
	Age 51 to 64 years	18.92
	Age >=65 years	8.11
Education level of household head	No education	47.95
	Primary education	15.53
	Middle education	15.53
	Secondary Education	14.16
	Higher Secondary education	2.28
	Graduation	3.20
	Above graduation	1.37
	Household assets	16.27
	Livestock assets	29.67
Occupation of household head	Managers	0.61
	Professionals (health, education)	6.71
	Technician professionals	0.53
	Clerical support workers	3.19
	Services and sales workers	18.54
	Agricultural workers	28.19
	Craft and related trade workers	3.72
	Plant and machine operators	12.72
	Elementary occupations	27.50

Note: Due to the small sample size available for Swat in each round of HIES data, we pooled four rounds (2005–2006, 2007–2008, 2011–2012, and 2015–2016)

Table 6: Distribution of the repayment to income ratio across HIES data rounds

Repayment ratio	2005–2006	2007–2008	2011–2012	2015–2016
Repayment ratio below 30%	88.63	67.76	95.29	43.54
Repayment ratio above 30%	11.37	32.24	4.71	56.46
Total	**100%**	**100%**	**100%**	**100%**
Split in repayment ratio for those above 30%				
Repayment between 30–50%	58.62	46.84	87.5	26.46
Repayment between 51–75%	20.68	22.78	12.5	17.04
Repayment between 76–100%	10.35	8.23	–	11.66
Repayment between 101–150%	3.45	9.49	–	13.90
Repayment between 151–200%	6.9	1.9	–	8.52
Repayment between 201–500%	–	5.7	–	13.45
Repayment above 500%	–	5.06	–	8.97
Total	**100%**	**100%**	**100%**	**100%**

Note: 100% or higher debt repayment to income ratio denotes that households were selling real assets (such as livestock, jewellery or land) or borrowing further to repay previous loans. A household can face this situation for multiple reasons including i) the size of debt instalment is higher than the income ii) the instalment and interest rate accumulates faster than the income of a household can match iii) the income of a household drops due to shock or iv) a combination of all of these factors.

Table 5 shows the distribution of indebted households in Swat by socioeconomic characteristic, using the data pooled from the four waves of HIES. It is important to note that the data in Table 5 covers the periods before, during and after the conflict.

Table 5 shows that the size of a household is a major driver of borrowing: around 70% of households involved in borrowing have seven or more members. The percentage of households involved in borrowing declines to around 4% once the family size drops to three or less. Furthermore, 47% of households with a severe dependency ratio are found to be participating in borrowing. The data also shows that a majority of households involved in borrowing have a household head with an agricultural (28%) or elementary (27%) occupation.

3.7 The indebtedness level in Swat: how much income is allocated to debt repayment

To capture the level of indebtedness, we divided the indebted households into two categories. The first category includes households using less than 30% of their income to repay their debts, while the second category comprises those paying 30% or more of their income to clear their debts. In concurrence with Hurwitz and Luiz (2007), we use 30% of income going to repayments as the starting point for over-indebtedness. The second category constitutes an over-indebted household. Table 6 shows that the size of the second category increases in each round of HIES data except for 2011–2012.[20] These results must be carefully interpreted because of the much smaller sample size in each round of data, other than 2015–2016.

Constrained by data availability, we are not able to identify precise reasons for the sudden decline of households with a repayment ratio above 30% in 2011–12, except to note that the majority of these households reported zero income in this period. We may speculate that the conflict in Swat left more people with no source of income, which led to a greater number of households reporting zero income and thus not appearing in the data for repayment ratios at all.

Table 6 shows that more than half (56.46%) of indebted households in Swat, in 2015–2016 were over-indebted and spent 30% or more of their income on repayment of loans. Of these households, around 45% allocated more than 100% of their income to the repayment of loans. In 2005–2006, however, only 10% of households were spending above 100% of their income on debt repayment. The increase in households with a repayment ratio above 100%, from 10% in 2005–2006 to 45% in 2015–2016, indicates that more households are resorting to further borrowing or the sale of household assets in order to clear their previous loans.

20 This might have resulted from a sampling error. Given that we were using secondary data from the HIES survey, which we did not design, we were not able to find the likely reasons for this surprising drop.

4 Conflict and household borrowing: qualitative analysis

4.1 Conflict, household indebtedness and socioeconomic costs: a new framework

4.1.1. How we derived the conceptual framework

During our review of the literature on conflict-led borrowing and the resulting effect on household indebtedness, we found no standard conceptual framework for understanding these phenomena. Hence, this paper outlines a broad conceptual framework that can be applied in multiple situations and contexts. It is worth noting that the framework is a product of this study: the result of both what we have gathered from field work and the review of existing literature.

This framework comprises three primary streams. First, we have outlined how conflict creates situations that effect household borrowing. Second, we have shown that the credit market both during and post-conflict is primarily informal. Third, we have traced the impact of borrowing on household socioeconomic outcomes. In the process, we have also traced how indebtedness can pass down between generations. We call this structural debt, which denotes the persistence of debt over longer periods of time. These primary streams have been combined with existing literature to construct the theoretical and conceptual foundations of this framework.

Our process of grounding the primary streams of framework into existing work on the issue involved several areas of inquiry. We reviewed the related literature to understand the broader structures and transmission mechanisms through which conflict affects household borrowing. We took public entitlement loss as our primary transmission mechanism, as the disruption of entitlements to market and livelihoods, safety, property, and free movement is a major impact of conflict, with these disruptions immediately translating into household borrowing. This is particularly true when it comes to borrowing for daily routine consumption during a conflict. The loss of property and disruption of livelihoods also shapes post-conflict indebtedness, not only in the form of lower capacity to repay loans but also in terms of increasing borrowing to start businesses and repair properties. To capture the impact of changing power dynamics, where the previously weaker social groups may gain power in a conflict, we also used the concept of reverse entitlements.

We also traced the impact that the loss of entitlements has on the credit market, limiting our framework to explaining the nature of the credit market, how it evolves during the conflict and how it operates in the aftermath of the conflict. Combining the evidence from the literature on situational analysis of areas experiencing conflict with the findings from our study, we conclude that the credit market in conflict-affected areas is mainly informal. The formal credit market is almost non-existent during and immediately after a conflict.

This led us to take a closer look at informal borrowing and its consequences for household outcomes. We used these findings to identify and structure the transmission channels linking conflict to informal borrowing and associated socioeconomic impacts. As our study focused on poor households, the framework pays particular attention to outcomes most likely to occur in poor households. Once the broader structure of the framework was established, we then put it to the test against different sets of findings from Swat. Modifications to the conceptual framework were then made based on these tests.

Our framework can function as an overarching tool for assessing the impact of conflict on household borrowing and understanding the associated socioeconomic effects. We recommend, however, that users of the framework take care in tailoring it to the location and context in which it is being applied. For example, this study, with its focus on poor households, found that conflict led to high borrowing costs and more exploitative borrowing for these households. We were not able to identify any of the households who benefited from the situation. This may not be a necessary outcome in a study where the analysis of borrowing is not restricted to poor households or a study where lenders are the primary respondents.

4.1.2. The foundations of the framework

Our review of the existing literature and the evidence gathered in our study areas together form the foundation of our framework. The parts of the literature particularly relevant to it are as follows:

- The evidence underlines that in addition to the loss of human life, conflict damages buildings and infrastructure (Collier and Hoeffler, 2004; Bachmann and Schouten, 2018; Brück and Henning, 2016) and results in the loss of assets (Ibáñez and Moya, 2010).
- Conflict disturbs public entitlements and sources of livelihood on the one hand while raising the cost of living on the other (Further discussion of the poverty-conflict inter-relationship can be found in Goodhand (2017).)
- Conflict also imposes opportunity costs, such as poor health conditions (Sidel and Levy, 2008; Devakumar et al., 2014; Palmer et al., 2016) and disturbs the smoothness of economic activity (Serneels and Verpoorten, 2012). Broadly speaking, it creates new imbalances in the social, economic and cultural spheres of society.

Taking all these factors together, conflict both creates indebtedness and intensifies already existing indebtedness (Cappella, 2012; Brück and Henning, 2016). Conflict-affected regions face capital flight and a lack of investment opportunities because of limited access to credit and higher risk factors (Justino, 2009). The literature clearly shows that borrowing shifts from the formal to the informal sector during conflict. The downsizing of public enterprises and private firms during conflict also pushes households towards the informal sector for credit assistance (Looney, 2006). Overall, the lack of availability of formal credit leaves informal credit as the primary source of finance available to households (Wilson, 2002).

Smith (2016) found that the number of households participating in informal borrowing during conflict increased threefold in the Northeastern Kivu province of the Democratic Republic of Congo. It is also documented in the literature that low-income households face higher credit costs and more difficulty accessing credit during conflict (Coibion et al., 2016). The preference for informal credit during conflict is mainly rooted in many households being excluded from the formal sector (Germidis et al., 1991; Smith 2016) and lower transaction costs. Furthermore, those households in conflict-affected areas who do not have enough collateral to obtain credit by formal means gravitate toward informal lenders due to an informational advantage (Conning, 1996), as no collateral is needed to participate in informal borrowing (Guirkinger, 2008; Stiglitz and Weiss, 1981).

4.1.3. The structure of the framework

Against this backdrop, we developed our framework to explain the dynamics of the credit market during conflict on the one hand and to trace the socioeconomic implications of indebtedness on the other. The framework comprises three stages, as seen in Figure 4. The first shows how conflict leads to the evolution of a new credit market. This part of the framework emerges out of the deterioration of livelihood entitlements due to restricted mobility, damage to livelihoods and being deprived of civil and social entitlements.[21] Finally, the concept of reverse entitlements captures the 'winners', those who have gained from the conflict. These gains may include increased social, economic and political power or an increased capacity to influence the entitlements of the masses.

Block A in Figure 4 explains conflict shocks' effects on public entitlements, showing that the destruction and decay of public infrastructure boosts insecurity, resulting in a decline in the capacity of the state to collect tax, provide public goods and ensure security. This, in turn, generates a skewed distribution of public goods and services (Bhatti, 2015). Insecurity also increases the risk of violence, crime and theft of assets, as well as diminished access to public services, including health and education. Conflict also affects the financial and credit markets, leaving the formal credit sector dysfunctional.

Block B in Figure 4 extends the analysis to the loss of market institutions and livelihood entitlements, where a forced withdrawal of land and labour from production takes place. The lack of certainty in terms of profitability causes a withdrawal from investment. Amid the uncertainty and risk, capital and skills flight further undermines the livelihood opportunities. As noted in the preceding discussion, the decline of the formal economy, increased uncertainty, the failure of price mechanisms and market segmentation causes a contraction in formal employment, a decline in real wages, forced asset sales and the destruction of subsistence livelihoods. Together, this all creates demand for borrowing.

Block C in Figure 4 highlights the impact of conflict on civil and social entitlements. The evidence suggests that the effects of conflict are not only limited to the security and presence of law and order in an area. Rather, conflict also alters the functioning of the sociocultural system (Elahi, 2015), disturbing social values and social networks (Bangash, 2012; Fatke and Freitag, 2018; Khan, 2013). It alters norms, practices, structures and social actors, leaving a lasting impact on the community (Wood, 2008). In some cases, social networks may become more cooperative due to mutual interests (Bellows and Miguel 2006; 2009) but, in others, these networks may deteriorate (Colletta and Cullen, 2000).

21 Within states, social rights are considered 'constitutional essentials' (Rawls, 2005). Social entitlements could entail the right to housing, nutrition, water, health, education, social security, social assistance, work in a decent working environment, the ability to join or form trade organisations, and the right to strike (Gearty and Mantouvalou, 2010)

An example of this in the local culture of Swat is found in the effects of conflict on the *hujra* system. In the local Pukhtoon culture of Swat, *hujra* is communal property where guests and travellers can stay (Khan et al., 2008). *Hujras* also play an important role in providing help to those in need, with the assistance of aid agencies (Suleri et al., 2017). The study underpinning this paper found that the *hujra* system was disrupted during the conflict. Similarly, the institution of *jirga* – a traditional assembly of leaders convened to settle disputes, primarily among the Pashtun people – became dysfunctional during that time.[22]

The final part of our framework in Figure 4, Block D, outlines the creation of reverse public entitlements. These lay the foundation for new social inequalities through the transfer of assets to power brokers and their allies. This occurs through the appropriation of assets, land and sources of livelihood from vulnerable groups. Rent-seeking by those with access to power groups further undermines the capacity of the state. New forms of inequality rise due to rent-seeking as these power groups exert control over areas such as transport routes, food distribution and access to aid. Alongside the other effects of conflict outlined, reverse entitlements restrict access to borrowing.

When considered together, the four blocks show how the credit market evolves during conflict. It is important to note that these blocks do not operate individually – rather, they interact with one another to shape the dynamics of the credit market. During conflict, threats to people's safety shape their livelihood activities. The disruption of trade and local markets are direct effects of conflict (Pain, 2002; Longley and Maxwell, 2003). In the same manner, the absence of formalised provisions that are crucial to social collateral (e.g. contract enforcement, the rule of law and property rights) causes changes in power relations at the local level (Longley and Maxwell, 2003; Pain, 2002).

The destruction of public infrastructure and the risk of crime and violence directly affect participation in livelihood activities in multiple ways. The seizure and destruction of assets, such as land, shops and factories, reduce opportunities for work. This may leave many unemployed. For example, the destruction of girls' schools during the conflict resulted in the closure of almost all schools in the region. This resulted in the loss of livelihoods for many school staff. Another factor is that

22 See Yousufzai and Gohar (2005) for an analysis of the evolution, concept and working of *jirga*.

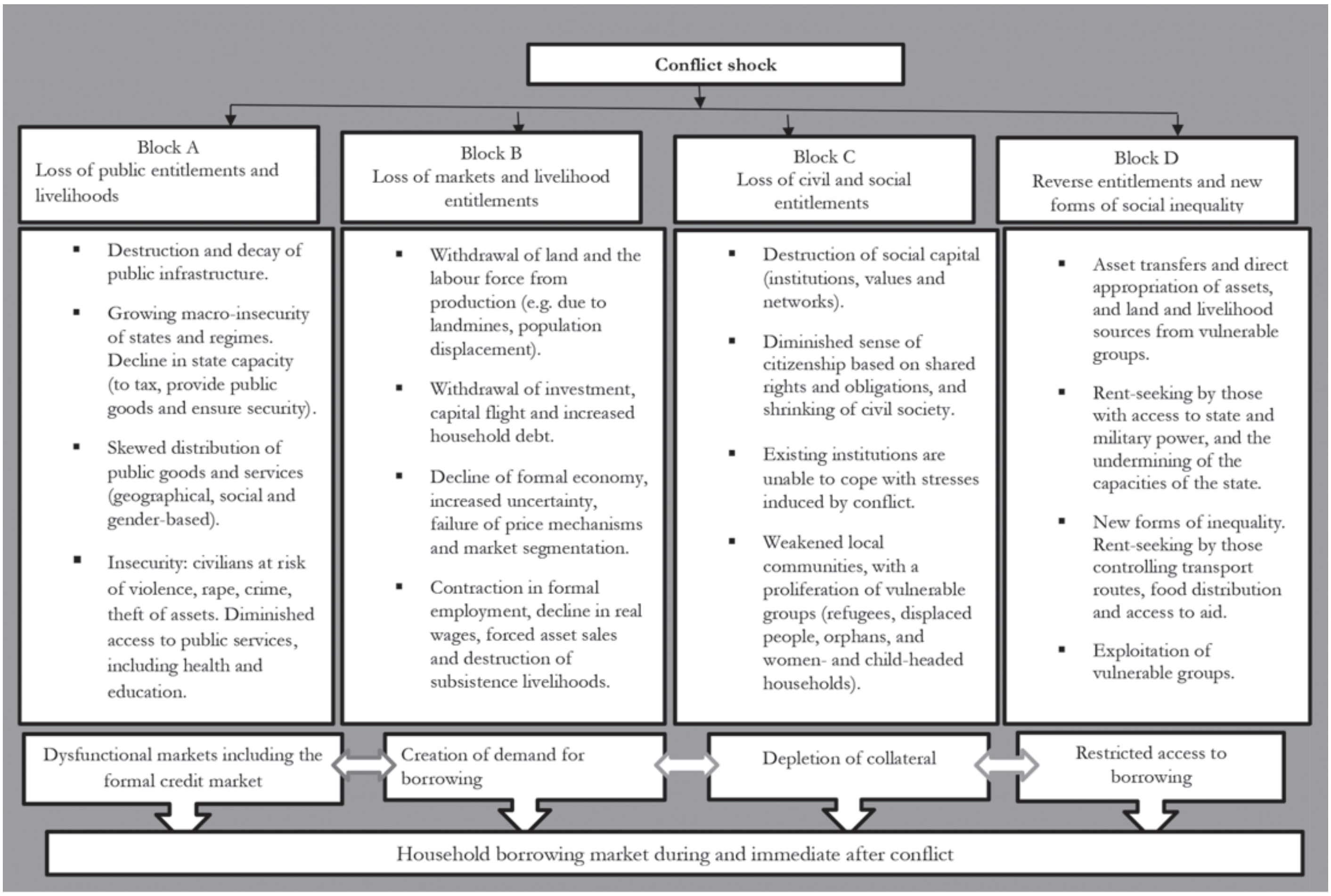
increased security risks limit movement, hampering participation in the livelihood market. Even where the market still exists, fear of losing one's life inhibits people from participating in it. The destruction of livelihoods in conflict alters sources of income generation and household consumption patterns, meaning that many have to borrow to maintain a threshold level of consumption.

Conflict also leads to capital flight and disinvestment. Evidence from Swat suggests that better-off households with larger asset holdings or those with strong political and social connections, such as landlords, political party members and business people, became attractive targets for violent armed groups. The larger asset holdings and businesses motivated these households not to migrate in the first place. However, when armed groups gained control of the area, these households suffered substantial losses before eventual displacement. Their businesses, lands and assets were confiscated by armed groups. Some households who migrated preventatively, in anticipation that the conflict would escalate, tended to face less severe asset losses and were thus better able to cope with the shock of displacement.

The risk of crime, violence and the destruction of infrastructure adversely affect the credit market through two primary channels. As well as depleting availability of formal credit as explained above, the availability of informal credit shrinks as the majority of potential lenders become displaced. In other words, the supply of credit lessens while demand for it increases due to the lack of livelihood opportunities. This mismatch often leads to tighter terms and conditions for borrowing, with household access to affordable credit decreasing and poor households being disproportionally affected.

Limited access to public and livelihood entitlements shifts credit demand from the formal sector to the informal sector (Smith, 2016). This shift in demand is due to the aforementioned destruction of livelihoods and local

Figure 4: Conceptual framework: overarching model



Note: The impact of loss of entitlements, listed in each vertical block is shown in sub-blocks in the fourth row from the top. The two-way arrows connecting these sub-blocks denote that loss of different entitlements interact with each other to shape the household borrowing market during conflict. The nature and magnitude of interactions may vary by region, type and severity of conflict shock.

economies, which leads to insecurity and poverty. In turn, this contributes to the violation of human rights including murder, sexual and gender-based violence, kidnapping and trafficking, and the forced recruitment of children and youths into combat. There is also economic and social insecurity due to the displacement and migration of households to safer places, household composition, different groups turning against each other, and the loss of trust amongst communities (Justino, 2007). Similarly, this affects participation in the livelihood market.

A depletion of social trust during conflict – emanating from the fear of violence, crime, breaking of contracts and unstable livelihood opportunities – combines with almost non-existent law and order, further adding to the adverse impacts. This situation provides a perfect opportunity for rent-seeking: the presence of reverse entitlements. Borrowing, which is already limited, becomes heavily conditional. The costs of borrowing, including non-monetary costs, may increase. This further contributes to the exploitation of vulnerable groups.

As discussed, the capacity and performance of financial institutions – the formal credit market – is decimated during conflict, with a lack of alternative financial service. Conflict also weakens the capital base. This leaves informal credit markets as the primary option for borrowing.[23] Figure 5 explains the rise of both the observable and hidden costs of borrowing due to future uncertainty arising from conflict.[24] Block A in Figure 5 outlines the factors that lead to a situation where the informal market emerges as the main source of household borrowing during and immediately after conflict. Block B provides list of major lenders operating in the informal credit market. The list includes professional money-lenders, pawnbrokers, friends, relatives and shopkeepers.[25] The choice of a lender may vary between households depending on the size of the loan and other factors.

The absence of formal credit market directly contributes to costs as the borrowers have no alternatives and are dependent on informal borrowing. In turn, the demand for borrowing increases and so does its cost. Predominant reliance on informal lending enables lenders to charge observable and unobservable costs without any fear of competition from formal lending market. Block D in Figure 5 indicates the observable and non-observable costs of borrowing in the informal credit sector. Observable costs, depending on the nature and size of risks may include early repayment, high mark-up, tight terms of borrowing or usurious interest rates.

Despite the above, hidden costs obligate the borrower to provide non-financial services to the lender in the form of forced marriages and unpaid work, including household jobs. Quoting the work of French anthropologist Jean-Claude Galey, Graeber (2014) points to the example of hidden costs of household debt where the daughter of the borrower would be classed as the 'security' for the debt. Once married, she had to report to the lender, mainly the landlord, and 'She would be expected to report to the lender's household after her wedding night' [and] 'spend a few months there as his concubine.'

We argue that hidden costs better denote exploitation, which deviates from the existing literature where higher mark-ups and other observable costs are what constitute 'exploitative lending'. Our contention is that tight terms and conditions for observable costs do not necessarily define exploitation, as the discount rate responds to the risks and uncertainties associated with lending. For example, higher risks of default technically result in the higher lending price. A detailed discussion of this is not within the scope of the present study.

Conflict considerably affects the terms and conditions of borrowing, including its cost. Block C in Figure 5 outlines some possible reasons. Uncertainty over the future and potential risks may lead to changes such as higher discount rates and shorter credit duration. The expectation of future conflict compounds the adverse impacts of any current conflict. The creditors speculate that borrowers will have a low capacity for repayment and thus may increase the discount, interest and mark-up rates. Conflict may also lead to the sudden unplanned migration of households, leaving the lender unable to trace the borrower and receive repayment of the loan. Finally, uncertainty over future income due to unsustainable livelihoods may also feed into higher rates for borrowing. The absence of formal credit, higher costs of informal borrowing and limited opportunities of livelihood together translate into structural indebtedness.

Figure 6 (opposite) demonstrates the framework by outlining the impact of exploitative borrowing on households, setting out the possible social, cultural, psychological and economic impacts of indebtedness. It is evident from the literature that, in the short term, household debt

23 See Irfan et al. (1999) for a detailed discussion of the structure of the informal credit market in Pakistan.
24 Hidden costs can help us better understand what is thought to be exploitative lending.
25 Figure 2 provides an assessment of major sources of borrowing in Pakistan.

Figure 5: Conflict, informal credit market and costs of borrowing

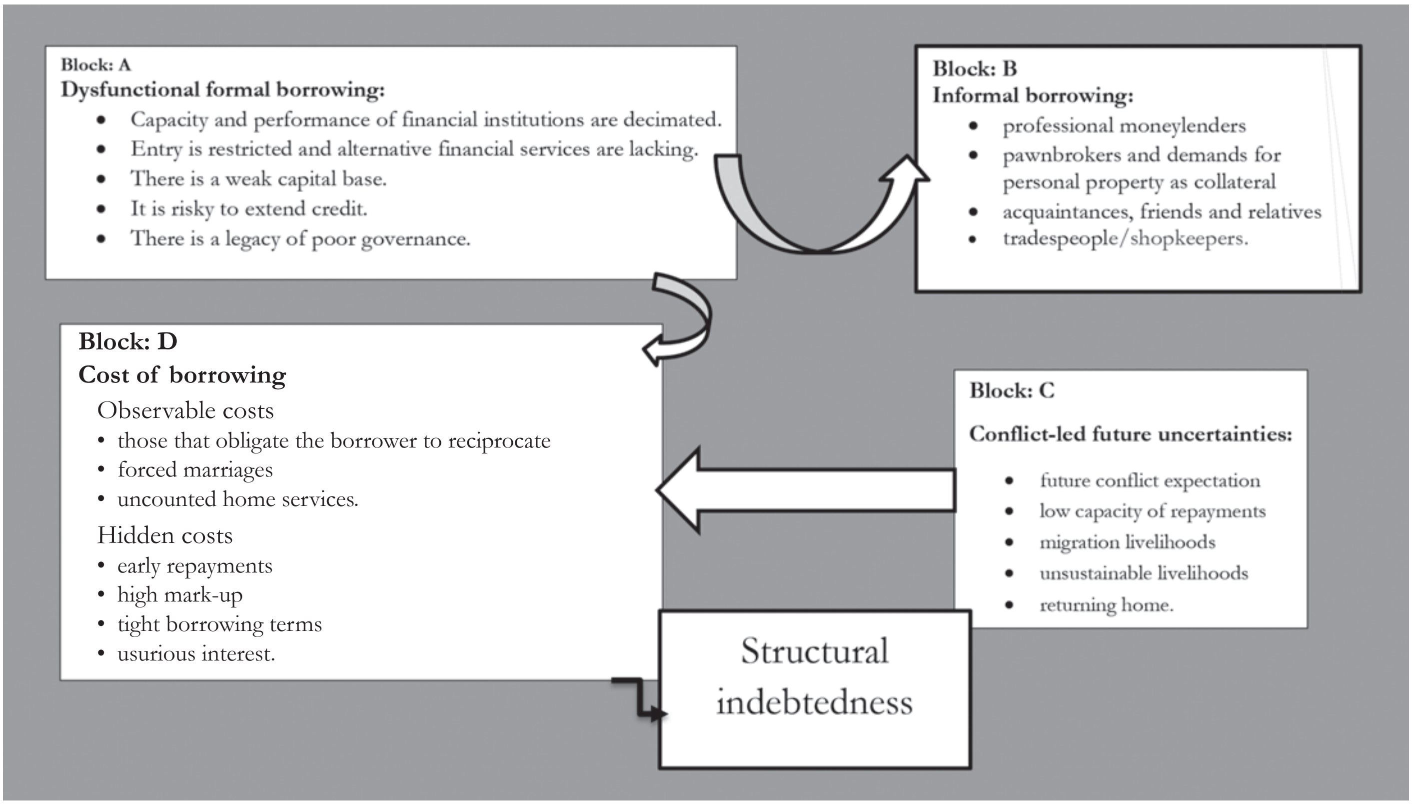
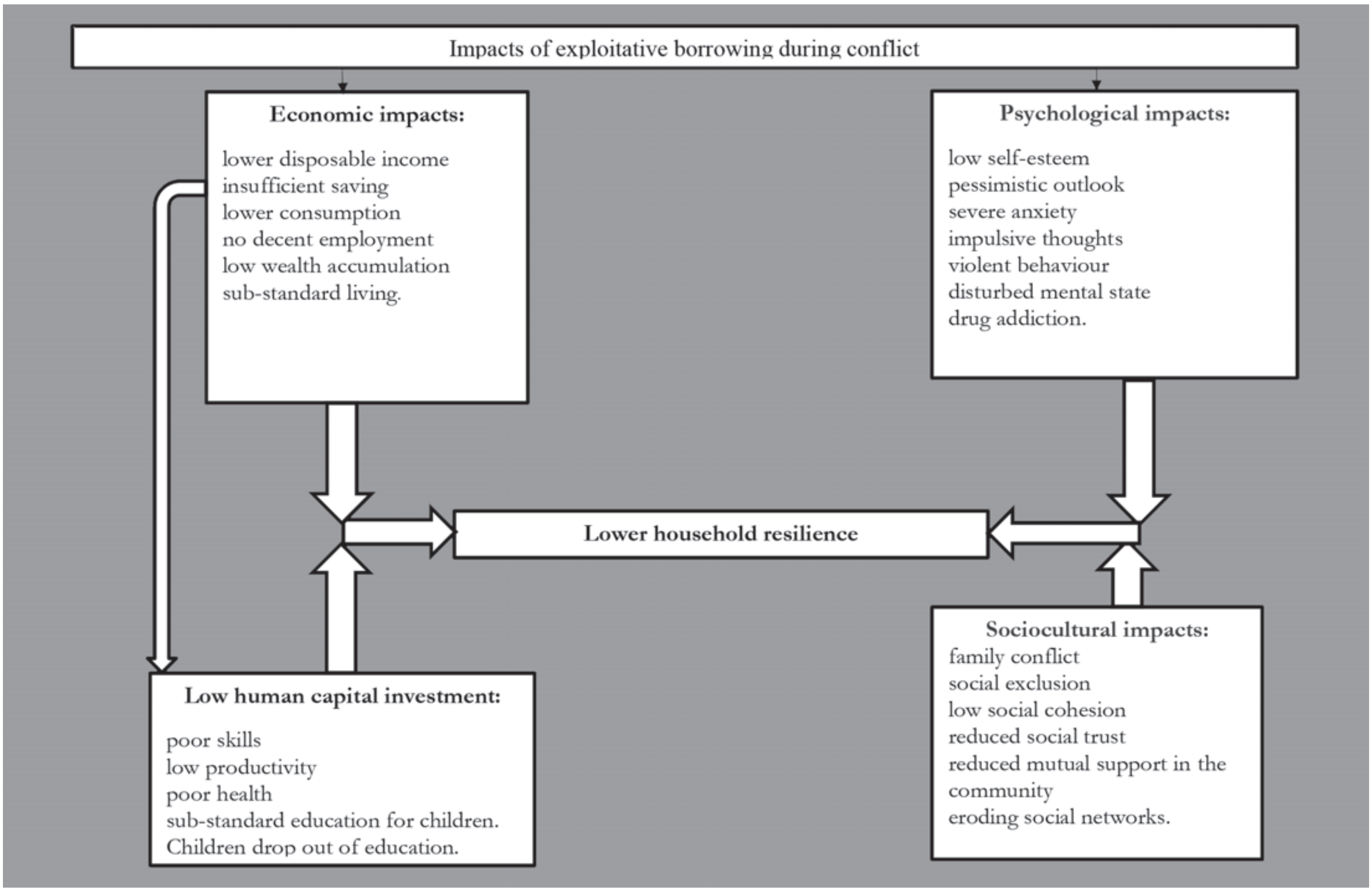


Figure 6: Economic and sociocultural impacts of exploitative borrowing on households



smooths consumption patterns. However, in the long term, it intensifies household debt (Lombardi et al., 2017). Borrowing from informal institutions helps temporarily reduce financial strain, but can lead to the borrower feeling guilt and shame, which sometimes results in strained or broken relationships with lenders (Braverman et al., 2018). As quoted in Doan et al. (2014), 'Coleman (1999, 2006) finds negative impacts of microcredit on healthcare spending by households in Northeast Thailand.' High-cost borrowing, in the absence of a reliable source of income, results in insufficient savings, lower consumption, a lack of decent employment, low wealth accumulation and a poor standard of living (as shown in the economic impacts section of Figure 6).

When combined, all these factors push households to cut expenditure on skills development, health and education. Many households opt to lower their food intake or shift to less nutritious food, as seen in the low human capital investment section of Figure 6. In many cases, cutting expenditure means removing children from school and reducing spending on health. Consequently, an indebted household may end up with a lower level of human capital in the next generation. This is part of what causes structural indebtedness.[26] For example, the findings from our study show that some respondents had been in long-term debt for periods ranging from ten to even 50 years. Being indebted over longer periods of time is typically caused by factors such as low and volatile income, a high dependency ratio, work in elementary occupations that pay lower wages and higher debt servicing costs.

Informal borrowing has sociocultural implications that depend on local cultural norms, including low self-esteem, family conflict and low social cohesion (i.e. where people are less willing to cooperate with one another) (Braverman et al., 2018). Social trust – defined as faith in other people's honesty, integrity and reliability – is also reduced by informal borrowing, as set out in the sociocultural impacts section of Figure 6. The evidence suggests that social trust impacts on livelihood success. A lack of social trust in indebted households depletes their social capital: their network of relationships with others in the community. This means any depletion in social capital may have the psychological impacts illustrated in Figure 6. Section 4.3 outlines the evidence from the Swat and Swabi district that clearly shows the socioeconomic costs of household over-indebtedness.

26 Respondents were asked how long they had been indebted and when they took their first loan and last loan. In our study, a household is considered structurally indebted if indebtedness persists over the course of ten years or more.

4.2 Analysis of findings: qualitative analysis

4.2.1 The persistence of borrowing, its sources and its purpose

We found that household borrowing was more prevalent and persistent in conflict-affected Swat than in non-affected Swabi district. As a result of asking respondents how long they had been in debt for, we found strong evidence for the persistence of household indebtedness across both the districts: respondents from farming communities in Swat reported that they had been indebted for up to 50 years, followed by informal wage workers who had been in debt for up to 20 years. The majority of people who returned to Swat after the conflict reported that they had been trapped in debt for the past 12 to 16 years. Though less severe than in Swat, structural indebtedness was prevalent in the Swabi district as well. Respondents from minority groups, non-working women and the salaried class reported that their household had been involved in continuous borrowing for the last 17, 15 and ten years respectively. One can see from these responses that structural indebtedness occurred across most of the various groups of poor people covered in this study. It was the farming communities, however, who faced serious structural indebtedness in both the areas.

Table 7 provides years of indebtedness in the Swat and Swabi districts. Along with the minimum and maximum years given by participants of each FGD, we provide average years of indebtedness to avoid an extreme values effect. Data for Swat indicates that working women, on average, were indebted for the shortest period: 1.5 years. Marginal farmers were, on average, indebted for the past 22.8 years, with many indebted for as long as 50 years [Range=4–50]. Similarly, daily wage workers in Swat were indebted for 15 years followed by the salaried class and self-employed people, each of which were indebted for the past ten years. Marginal farmers and families in the Swabi district with a drug addict or criminal present were indebted from past 11.5 and 11 years respectively while IDPs have been indebted for 15 years. The average period of indebtedness among woman-headed households was the lowest: 2.67 years in the Swabi district, whereas other groups – including the salaried class, working women, non-working women and minorities – are indebted from six, five and a half, seven, and eight years respectively. According to Malik (2002), minorities in Pakistan constitute 8% of the total population and comprise Ahmadis, Bahais, Buddhists, Christians, Hindus, Jains, Kalasha (of Chitral), Parsis and Sikhs. Christians, forming 1.59% of the total population

Table 7: Persistence of household indebtedness (years in debt]

FGD group	Time duration of indebtedness (year)			
	Swat		Swabi District	
	Range [min-max]	Average	Range [min-max]	Average
Salaried workers	5-17	10	3-10	6
Working women	1-3	1.5	3-6	5.5
Non-working women	3-15	7	3-15	7
Minorities	2-22	9	5-17	8
Young men	1-17	7	1-17	7
Young women	1-5	6	2-7	4.5
Households with at least one drug addict or criminal present	Not able to conduct FGD	Not able to conduct FGD	2.5-20	11
Woman-headed households	Not able to conduct FGD	Not able to conduct FGD	1-5	3
Casual daily wage workers	5-30	15	1-99	3.41
Marginal and small farmers	4-50	23	6-25	11.5
Self-employed people	2.5-22.5	10	1-8	5
IDPs	<2	<1	15-20	15

Note: Numbers have been rounded off. Average years= (Y1+Y2+Y3, with Yn)/N, where Y is years in indebtedness reported by each participant of an FGD and N is the total number of participants in each FGD.

of Pakistan, are the largest minority group in Pakistan (Population Census, 1998). In this study, the minorities category covers Hindus, Sikhs and Christians.

As per our definition, marginal farmers, daily wage workers, the salaried class and self-employed people in Swat, along with families with a drug addict or criminal present, marginal and small farmers, and IDPs in the Swabi district, were structurally indebted: namely, indebted for more than ten years. Swat not only has a higher prevalence of structural indebtedness but also a higher degree of it. Facing structural indebtedness in both the regions, small and marginal farmers in Swat were in debt for 23 years compared to 11.5 in the Swabi district. Similarly, the period of being in debt for daily wage workers in Swat was 4.4 times higher (15/3.41) than those in the Swabi district. Meanwhile, the majority of the groups in Swat were indebted for a longer time period compared to their counterparts in the Swabi district. We were not able to hold this FGD for households with at least one drug addict or criminal present member in Swat as no household was ready to disclose the 'drug addict or criminal present' status. We were also unable to hold an FGD with woman-headed households in Swat. This was probably because cultural barriers might not have allowed women to come forward as household heads despite there being women in our team conducting the FGDs.

The source of borrowing in Swat was mainly informal, such as from family and friends, village elders, fruit vendors, and *arthi*.[27] An *arthi* is a commission agent working on behalf of farmers to connect them to various markets for buying and selling, such as buying input or selling crops. The literature suggests that *arthis* remain the largest source of informal credit for agriculture in Pakistan (Haq et al., 2013).

It is difficult to assess the particular impact of conflict on informal borrowing as national data shows that informal credit caters for 85% of total household borrowing in Pakistan. However, respondents reported that the potential for difficulties in paying on time, due to livelihood uncertainty during conflict, pushed households to prefer borrowing from family and friends, as it was relatively easy to request extra time to repay the loans. Further, informal lending in Swat valley was said not to carry mark-ups or interest.

27 Lending from middlemen involved in providing employment is less common in Swat than it is in Swabi district as Swat is more agricultural.

Table 8: Reasons for household borrowing in the Swat and Swabi Districts

FGD Group		Reasons for borrowing					
		Routine Expenditures	Health Expenditures	Death and Marriage ceremony	Starting Business	Payment for previous loan	Expenditures on construction of House
Salaried workers	Swat	×	×	✓	×	×	✓
	Swabi	×	✓	✓	×	✓	×
Working women	Swat	✓	✓	×	✓	✓	×
	Swabi	✓	✓	×	×	×	×
Non-working women	Swat	✓	×	×	×	×	×
	Swabi	✓	✓	✓	×	×	×
Minorities	Swat	✓	✓	×	✓	×	×
	Swabi	✓	✓	×	×	×	×
Young women	Swat	✓	✓	×	✓	×	×
	Swabi	✓	✓	✓	×	×	×
Families with drug addict/ criminal member	Swabi	✓	✓	✓	×	×	✓
Woman-headed households	Swabi	✓	✓	✓	×	×	✓
Casual daily wage Workers	Swat	✓	✓	✓	×	×	×
	Swabi	✓	✓	✓	×	✓	×
Marginal and small farmers	Swat	✓	✓	✓	✓	×	✓
	Swabi	✓	✓	✓	×	✓	✓
Self-employed people	Swat	✓	×	✓	×	✓	×
	Swabi	✓	✓	×	×	✓	✓

In the Swabi district, households mainly borrow from shopkeepers, professional money-lenders, friends and relatives, NGOs and the *naik*: a 'middleman' who provides workers to employers. In return, the *naik* takes about 10–15% of the salary of each worker. This is common practice in low-skilled jobs. These workers tend to come from the same community and generally work in groups. We also found that marginal farmers and agricultural tenants usually borrow from their landlord. Other groups, such as informal wage workers, industrial workers, sanitary workers and housemaids usually borrow from friends, relatives and neighbours. People belonging to minority groups mostly borrow from their employer.[28] These findings are consistent with quantitative data from HIES. Multiple instances of borrowing, ranging from three to 15 times, from the same or multiple sources, prevail across groups in both districts. Importantly, respondents from both districts also reported turning to banks for loans only when there were no other options.

Table 8 shows the reasons for borrowing in Swat and Swabi. Households from these districts mainly borrow to repay previous loans, to meet out-of-pocket health expenditures and daily household consumption needs, and for death and wedding ceremonies. A look into the literature suggests that the poor households have been borrowing for these reasons for a long time. Graeber (2014) suggests that 'actually the most significant life expenses were weddings and funerals. These required a good deal of money, which always had to be borrowed'. Daily household expenditures include those on food,

28 This may partially reflect limited access to other sources of borrowing, particularly formal borrowing.

clothing and utility bills. Borrowing to pay off a previous loan is more prevalent in the Swabi district, where the salaried class, woman-headed households, daily wage workers, marginal and small farmers, and self-employed people spoke about borrowing to pay off previous loans compared to Swat, where working women and self-employed people reported the same. This has important implications. First, access to credit may not necessarily lift people out of poverty. For example, the borrowed amounts may be consumed to pay off previous loans. Second, repayment of loans does not necessarily reflect improvement in the capacity of households to clear debts. It depends on where the resources to repay loans come from. Repayments sponsored by extra loans may lower the capacity later on.

Table 8 further suggests that daily household and out-of-pocket health expenditures remained the major reasons for borrowing for all groups in both the Swat and Swabi districts. This denotes an absence of sustainable livelihood resources and health safety nets. Other major reasons for borrowing included family ceremonies, education expenditure and the purchase of agricultural inputs. The majority of households in Swat reported reconstructing conflict-damaged properties as a major reason for borrowing. Borrowing to start a new business was rarely observed, with this only being undertaken by some group participants in Swat. This may have been because people were not able to start a new business, either during or immediately after conflict, However, this trend was consistent with findings from the HIES data, where only 8% of people reported borrowing to start a business.

4.2.2 Access to credit, amounts borrowed and associated costs

The respondents from Swat told us that access to credit was limited during conflict due to the majority of lenders leaving the area to avoid associated losses. They said that the increased demand for borrowing during such times, alongside many lenders leaving the area, further intensified the credit supply-demand mismatch. During times of peace, accessing credit in both the Swat and Swabi districts has not been seen as a problem. Close community relationships limit the need for guarantors (or 'middlemen') in seeking credit from lenders. However, many respondents reportedly used guarantors when borrowing from multiple people or above a certain amount. (This limit varies between households depending on household assets and the source of income, along with credibility and links with local influential people.) Respondents in the Swabi district described using friends, relatives, elders and influential people in the community as guarantors, while in Swat people mostly used the imam of the mosque and the *nazim* (village-level local government representative) as guarantors.

Table 9 provides a comparison of household indebtedness in the Swat and Swabi districts. We have given group averages to avoid extreme values of income and borrowing being reported by individual participants of FGDs. A look at this table clearly suggests that the debt to income ratio is highest in Swat. The lowest debt to income ratio observed for Swat is 27%, which is ten percentage points higher than the lowest ratio (17%) in the Swabi district. Meanwhile, the highest debt to income ratio for Swat is 272%, compared to 160% in the Swabi district. Most importantly, the annual debt is more than double the income for three groups of poor people living in Swat; here, non-working women, self-employed people and salaried workers have a debt to income ratio of 202%, 272% and 230% respectively. The other three groups – minorities, young women and young men – have debt roughly equal to 75% of their income. Farmers in both the Swat and Swabi districts owe annual debt of 107% and 148% of their annual income respectively[29].

Table 9 also shows that average debt repayment is higher than 50% of income for a majority of the groups in the Swat and Swabi districts. Non-working women, marginal and small farmers, daily wage workers, self-employed people, and salaried workers in Swat allocate more than half their incomes to repay the previous loans. However, it is important to note that lower debt repayment does not reflect a better household. For example, it may be because the debt itself or instalment is smaller, or that there are higher household expenditures other than debt repayment. In summary, lower capacity to pay the actual debt may leave the debt repayment to income ratio lower. Another example is that the table shows farmers in the Swabi district having the lowest debt repayment to income ratio of 20%, but that they also have a debt to income ratio of 148%. Conversely, the non-working women's group in the Swabi district shows the lowest debt to income ratio of 17%, but with a debt

29 We were not able to provide any comparisons for woman-headed households, households with a drug addict or criminal present and IDPs. This was because we were not able to hold these FGDs as i) no household was ready to disclose that a drug addict or criminal was present ii) cultural barriers might not have allowed women to come forward as household heads and iii) IDPs settled in the Swabi district were not able to report either income or debt levels, with this meaning we were not able to calculate the ratios.

Table 9: Income and debt dynamics of various groups (group average)

FGD Group	Swat				Swabi			
	Reported Income (Rs/years)	Reported borrowing (Rs/years)	Debt to income (%)	Debt repayment to income (%)	Reported Income (Rs/years)	Reported debt (Rs/years)	Debt to income (%)	Debt repayment to income (%)
Working women	114000	31666.66	27%	23%	33600	18333	55%	46%
Non-working women	253333.33	513333.33	202%	54%	157200	27500	17%	59%
Marginal and small farmers	158000	170000	107%	50%	450000	670,000	148%	20%
Casual daily wage workers	166000	47000	44%	57%	109166	171666	157%	53%
Self-employed people	152000	414166	272%	58%	194004	183333	94%	26%
Salaried Workers	108800	249333	230%	55%	153000	136666	90%	20%
Minorities	162000	125000	77%	30%	174000	93333	54%	55%
Young men	90000	65000	72%	30%	85000	136000	160%	65%
Young women	216000	189000	87%	45%	73667	45833	62%	28%

*'Averages' refer to the average value of six group members' responses, while 'group' refers to FGDs participants. Group average = the sum of reported income or debt by each participant of FGD/total number of participants.

repayment to income ratio of 60%. The lower debt repayment should therefore be interpreted carefully and read alongside the debt to income ratio.

We found a crucial difference between the two districts when it came to the terms and conditions attached to borrowing, with the main ones in both districts including timeframes, the requirement of a guarantor (usually an elder) and unpaid work for the lender (particularly when the lender was a landlord). We also found that this sometimes included transferring ownership of the borrower's home to the lender if the borrower failed to repay the loan. We also found that lenders often took borrowers' crops as a loan repayment in addition to demanding extra money. The forced sale of household possessions was also reported by many groups.

In Swat, specifically, respondents from various groups told us that there was no direct cost for borrowing in terms of mark-up or interest rates, though they did sometimes have to pay higher prices to certain lenders. When we explored this further, the respondents told us that lenders, such as shopkeepers, do not attach mark-ups to loans. However, when they bought from a shop, the shopkeeper, being the lender, would charge a higher price than for other customers. The minorities and self-employed groups told us they often had to pay extra amounts, with this varying between them. This was similar to our findings from the Swabi district, where borrowers had to pay two to four extra instalments.

One plausible explanation for there being no mark-up on loans is that people residing in Swat are more religious in comparison to those in Swabi. Pakistani society tends to dislike people who charge interest rates on loans as these are not allowed in Islam. The respondents reported that in the case of loans from banks, the repayment period was strict, with interest rates doubling when it ended.

This might be one reason why people generally avoid borrowing from banks and other microfinance institutions.

The terms and conditions attached to borrowing seem to be more exploitative in the Swabi district than they are in Swat. Borrowers from the salaried class, along with farmers, minorities and informal wage workers, reported that they often have to pay two to three extra instalments in addition to undertaking unpaid work. Minority and farming communities specifically discussed having to pay three extra instalments in order to borrow. Such measures may result in markedly higher costs for large loans. If borrowers are offered a smaller number of instalments, this may lead to higher costs due to the size of the instalments necessary against the borrowing. Respondents in Swabi district also mentioned having to allocate two or three people from the household to do unpaid work for the lender. This meant they were less able to undertake paid work in order to make debt repayments. In summary, the greater the numbers of household members allocated to unpaid work, the fewer people are able to undertake paid work.

The main possible reason for the more exploitative terms and conditions in the Swabi district compared to those in Swat is that agriculture is the dominant source of livelihoods for poor people in the Swabi district, with the majority of the poorest working the land as a tenant with a landlord. Tenancy is mostly found in the tobacco growing areas of Swabi. This deeply rooted system leaves the poorest people persistently indebted to their landlords. This exploitation of the poorest people in the Swabi district is mainly due to the bonded nature of tenancy. People in this position have no option other than tenancy for survival, with tenants being offered food and accommodation on a monthly basis while their earnings from the crops are mostly taken by the landlord.

The situation is different in Swat, especially following the conflict. Around one-third of the people associated with agriculture lost their livelihood because of the conflict and the floods experienced in the area (Suleri et al., 2016). According to a perception survey conducted in Swat, only 25% of households were working in the agricultural sector after the conflict (UNDP, 2012). The remainder either took on private-sector jobs or migrated to Gulf countries in search of work. This has resulted in decreasing rates of agricultural tenancy in Swat.

The system of 'underplay', heavily practiced in Swabi district while reportedly non-existent in Swat, provides another plausible explanation for the prevalence of exploitative borrowing in the Swabi district in comparison to Swat. This is defined as the practice of buying an item, such as a car or household appliance, on an instalment plan and then immediately selling it on for cash. The buyer in this situation is generally an informal money-lender. They purchase the item for a much lower amount than the household will eventually end up paying for it through instalments. This practice is systemic in the Swabi district.

4.2.3 Women's participation in household borrowing

We received mixed responses on the involvement of women in household borrowing between the two districts. In Swat, larger loans are taken by a male head of the household, but there were some cases in our study where women also took out loans for sudden health issues or to meet basic needs. Respondents said that women in the household play a role and are consulted on decisions regarding borrowing, as well as being able to borrow from neighbours and relatives themselves. But in the Swabi district, women have less of a role in borrowing, usually only being able to borrow from shopkeepers and street vendors when hosting guests in the absence of the male 'head of the household'. Loan decisions are mainly taken by this figurehead.[30] The minority groups, informal wage workers and marginal farmers groups reported that if the household is headed by women, loans are only taken with the consent of men in the household, the sons or brothers of the husband, or other relatives. The greater role played by women in Swat regarding decisions on borrowing may have multiple explanations, including the literacy rate, cultural factors and post-conflict rehabilitation. We mainly focus on the latter below.

Post-conflict rehabilitation and reconstruction interventions provide work and participation opportunities for women through post-crisis development policies. (For example, women could not initially join the queues for collecting food in the displaced person camps. However, they eventually joined those that were for the items distributed by NGOs, despite cultural restrictions on women's mobility.) Access to resources and opportunities for both women and men were made possible via government-led and other non-governmental rehabilitation and reconstruction interventions. NGOs working in Swat promoted women's access to the judicial courts to exercise their rights. Due to the awareness raising of NGOs and government officials following the conflict,

30 This was reported by the young men, salaried class, young women and families with at least one drug addict or criminal present.

women now participate in livelihood activities. They are empowered to the extent that they are now participating in NGO- and government-led development projects.

The literature suggests that participatory development practices in Swat have boosted women's empowerment (Elahi et al., 2015). The implementation and execution of various projects in Swat have enabled women to exercise their autonomy in making decisions, at the household level, on matters such as marriages, family dispute resolution and their children's education alongside improving their socioeconomic wellbeing (Shah et al., 2010). The increased awareness and participation of women in developmental projects in Swat have made them more empowered than women in Swabi district.

In our study, women in both the Swat and Swabi districts were found to play an important role when it came to the repayment of loans. They contributed through activities to raise money for loan repayments, such as selling their jewellery or through the sale of milk and eggs to their neighbours. They also helped through handicraft activities such as making caps, sewing and embroidery, or agricultural activities such as farming livestock. More broadly, women sometimes save money from the Benazir Income Support Programme, which is a federally administered cash transfer.[31] Of particular concern are reports that women compromise their food intake and cut expenditures on medical treatment and children's school tuition in order to save money for timely loan repayments. This is a clear socioeconomic impact of indebtedness.

4.2.4 Borrowing: dispute resolution, defaults and associated costs

There is no systematic structure for dispute resolution at the local level. Here, the people involved include the village *nazim*, the imam of the mosque, influential friends or relatives, and wealthy people who cover repayments in the interim for borrowers unable to pay. Failure to make repayments on time results in extra unpaid work, public humiliation, the forced selling of assets and wage cuts.[32] In the majority of cases, repayment failures also impose new conditions on the borrower, typically including a rise in the interest rate, and with seizure or occupation of the borrower's home if late repayment persists. Women in households failing to make loan repayments face the additional threat of harassment by the lender/s or their representatives. Though rare, failing to make timely repayments can also lead to cases being filed with the police and courts. It is interesting to note here that all the lenders were men and we could not find any women lenders. This clearly describes the power structure at play in the rural informal lending market, at least in the Swat and Swabi districts.

Reasons given for default or late repayments included poor income due to lack of work, marriage and death ceremonies, health expenditure, school fees, repaying older loans, unexpected major shocks such as climate shocks and crop failure, and high agricultural input prices. The prevalence of these reasons varied among the groups. Informal wage workers reported construction work in the home delaying repayments, while marginal farmers described unfavourable seasons and high input prices as obstacles for meeting payments. The self-employed group gave business failure alongside the aforementioned reasons. Notably, most of these were not given as reasons for loans being taken out in the first place, although respondents did report taking out loans to repay previous ones.

Other reasons were given for struggling with repayments, such as the young men's group reporting low earnings due to the unavailability of work opportunities. The salaried class reported that sickness in the home with subsequent high expenses for medicine and other related costs was a factor, while the minorities' group told us that late payment of wages was often responsible for repayment problems. Informal wage workers indicated low income levels and a lack of alternative work opportunities as being behind this issue, while the farming group cited crop failure. It was disclosed that income generated by female workers generally either went to debt repayment or to support daily routine consumption. Participants from both districts discussed having to allocate a high proportion of income, varying from 20% to 60%, to debt repayment. This may have led to them defaulting on other loans. The largest proportion reporting this were the farmer and informal wage worker groups.

4.3 Socioeconomic implications of defaults

4.3.1 Forced migration

We found that households mainly migrated to avoid the extreme exploitation and public humiliation associated with the inability to repay debts, in addition to needing to

31 This was reported by the working and non-working women's groups.
32 This was reported by the informal wage workers', marginal farmers' and self-employed groups.

flee the conflict. We noted two types of migration. The first was permanent, where households sold their assets and moved to other parts of the province or country, not intending to return. The second was temporary, where households would return once they had the resources available to repay their debts. During an interview with minorities in the Swabi district, one of the respondents recounted the story of a borrower who could not make their loan repayment on time, increasing their debt service cost. The lender forced the borrower to work for him unpaid until the loan was cleared. Facing this, the borrower decided to leave the village, migrating to Punjab because of both the debt burden and the exploitation. In another case, the defaulter left the village with his wife and was not heard from again. There were other cases like this reported by the respondents.

In many instances, post-default terms and conditions resulted in multiple loans being taken out. Monetary and non-monetary servicing costs increase multifold under the new terms and conditions imposed once a household fails to repay loans on time. With already limited resources, the new terms imposed on households mean they are likely to also fail on future instalments. When a household has multiple loans, it may also fail to make repayments on new loans, even if it manages to pay the instalment of the loan where repayments have already been missed. Lenders then seize and sell household assets, or even houses and shops, to get their money back. Some borrowers then see migrating to another place without leaving a trace of their whereabouts as the only remaining option. These situations were common across both our study areas, but with higher prevalence in the Swabi district. Though rare, some respondents reported that, in extreme cases, lenders had attacked the families of defaulters, leading to loss of life.

4.3.2 Unpaid work

Unpaid work was the most common form of exploitation documented in this study. Borrowers are typically forced into unpaid work not just by lenders, but also by guarantors. Sometimes, even when simply seeking a loan rather than when encountering payment problems, a person can be made to promise unpaid services including house cleaning, cooking, laundry, and working on the land or in shops. Women are seen as the easiest target for unpaid work and are the most likely to be forced into it. The demands can be extreme. In the young men's group, one member reported that a person was taken as a slave for not repaying his loan. One respondent to our FGDs had himself tried to commit suicide as a result of exploitation from a lender when he failed to repay a loan. It is common for lenders to provide loans to the poorest people, who are less likely to be able to make their repayments on time, so that they can be forced into unpaid work.

4.3.3 Forced marriages, domestic violence and poor human capital investments

As outlined in our framework (Figure 6), we collected evidence showing that indebtedness can have serious social implications. For example, one participant from the marginal farmers' group reported that his friend's engagement was cancelled when the father of his fiancé found out that he was heavily indebted. We were also told that lenders were forcing women from defaulting households to marry the lender, or a close relative or friend of the lender. These findings concur with Graeber's account (2014) of Jean-Claude Galey, a French anthropologist, reporting that, in the Himalaya regions, a lender would take the daughter of the borrower as security, obliging her to live with them for months or even years. Many participants reported that domestic violence increased in households that were defaulting on loan repayments. Overall, it was indicated that the community disliked indebted households and that these households faced lower social trust.

It was also reported that households allocating a major portion of their income to debt repayment were left with lower disposable income. These households ended up with low savings and low physical and human capital investments, which then prevented them from attaining the skills required to be successful in the labour market. Other impacts included respondents in Swat reporting that had to borrow to pay for health-related expenditure. FGD respondents in both districts described spending less on the education of their children because of having little disposable income. Respondents also reported a higher dropout ratio for indebted households because the parents were unable to pay school fees or the children were required to support the family in livelihood activities to raise resources. These factors resulted in households having lower human capital and acquiring fewer skills.

Respondents in Swat also told us that they reduced their consumption of basic food items to ease their debt burden and that their household assets were squeezed by the lender. This resulted in indebted households enduring a substandard living situation. Furthermore, indebted households in Swat communicated that they felt a low sense of self-esteem when the lender repeatedly asked for loan repayments. Respondents said this mental pressure led to lower work productivity. Some participants told us that they were sometimes unable to work, as they had to hide from the lender until they could manage to repay their loans.

Most importantly, none of the respondents in either district considered borrowing a good decision. As previously mentioned, there was a view that people tend to dislike indebted people and exclude them from the community. Respondents from both districts stated that people do not want to have economic and social relationships with indebted households. The respondents believed that over-indebtedness in particular reduces the social and economic trust from the well-off segment of the community towards the poorest segment. The well-off segment considers the over-indebted, poor households to be responsible for all social ills in the community, which reduces mutual support in that community, especially between the rich and poor segments.

These findings have serious implications for household resilience, corroborating the conceptual framework in Figure 6. Higher debts, coupled with lower income, raise the level of indebtedness on the one hand and result in lower disposable income after debt repayments on the other. This has two-fold impact. First, it leads to the cutting of household expenditure and consumption. Second, it may lead to multiple loans if the consumption falls below the threshold level and needs to be made up. In either case, households face lower health and education investments, which translate into lower productivity in the future. Mental and social stresses further intensify the problem and the vicious circle of indebtedness sets in. These key factors play a role in lowering the reliance of households to shocks.

5 The lending market in perspective

The conflict in Swat imposed changes to the lending market, with the supply of credit squeezed as lenders migrated to other, safer, parts of the country. The demand for borrowing then increased as people sought to re-establish destroyed businesses and resume other livelihood activities. Health issues resulting from the conflict also led to rising demand. The unavailability of formal credit and the shrinking of informal credit created imbalances in supply and demand, leading to strict terms and conditions being attached to borrowing.

The shift in the lending market from formal to informal borrowing, as captured in the framework in Figure 5, occurred due to a lack of investment opportunities, rising uncertainty and limited access to credit during conflict (Justino, 2010). A previous Secure Livelihoods Research Consortium (SLRC) study (Mallett and Pain, 2017) on the credit market after conflict identified the influence of politics on resource distribution and the ways cultural norms and relationships shape the lending market.

In order to understand the supply side of the credit market, we conducted IDIs with both formal and informal lenders. Most of the informal lenders advance loans to exert influence on the people. For example, the people contesting in local politics lend money to oblige the borrowers and seek votes at the time of elections or ask borrowers to vote for a particular candidate. In this context, lending serves as a source for forming a voting bloc. Similarly, landlords may lend to form a strong group of aids in the village, as a show of power and pride. Few informal lenders in our study, however, had the intention of helping the poorest in their time of need. In most cases, credit provision was not their primary source of income. Instead, they tended to have different business in different parts of the district as, generally, earnings from loan advances are unpredictable in terms of size and occurrence and the borrowers may default or delay the payments. This then disrupts the earning stream of the lender if lending is their only source of income. However, the lenders are well aware that an unstructured credit market enables them to advance loans on their own terms and conditions, which are least favourable to the borrower.

Conventionally, local credit markets cover from one to a few villages. Most commonly, each individual village constitutes an independent credit market. Lenders prefer that borrowers are from their own village. In cases where borrowers come from another village, the lender demands a guarantor. Lenders in our study reported that they often lose their money when a borrower refuses to pay the loan back and leaves the village. Paradoxically, in order to maintain the status quo, lenders described providing emergency assistance to poor households rather than extending their loans (which would make them self-sufficient). This domineering behaviour by lenders makes repayment difficult, imposing intergenerational implications.

The shopkeeper is the main lender in rural life. Lending is attractive to shopkeepers in particular because they can boost sales by offering products on a delayed payment basis through a loan, with a higher amount paid in the end than there would be in an immediate sale. Shopkeepers are also sometimes involved in the real estate business and farming, with tenants borrowing from them in-kind. Shopkeepers usually provide the necessary items – and in some cases cash, for marriages and other ceremonies – recovering the costs later with an added margin. Shopkeepers reported being able to afford to wait for a maximum of six months for repayment before facing financial concerns themselves. They also described offering smaller loans of up to Rs15,000. Shopkeepers told us that, for an established customer, they would try to offer more than the usual amount in times of need such as sickness or shock.

Lenders generally stated that they preferred to offer long-term loans over short-term ones as they felt the return would be higher. A borrower's ability to repay the loan (judged by looking at their source of livelihood) was reported as the typical factor in deciding whether to offer a loan, alongside the borrower's past record in repayment and their perceived character. The default rate was said to be around 5%, with those borrowers who defaulted often leaving the village. In such cases as these, it is difficult to recover the loan, but lenders may try to by asking a friend in the village to trace the borrowers new location or by seizing assets such as motorcycles, livestock and crops. Lenders stated that they would generally avoid reporting to police or the court system if a household's default on a loan or payment was delayed, highlighting a fear that the police may start inquiring about the terms and conditions of borrowing, which may have counted against them. This may have also been partially due to the costs involved in seeking support from the police, who will not help for free. In the majority of such cases, the costs may exceed the amount of the original loan.

The *arthi* is the main lender in the farming community. These guarantors typically offer a loan for around a year, lending between Rs50,000 and Rs2,500,000. There are usually just two conditions attached to their lending: first, that they should receive the money back within the agreed time period and, second, that they have the right to buy the borrower's agricultural products and sell them in the market. These guarantors do not take direct commission from the farmers and, instead, generate a profit by selling the agricultural products at a higher rate than the very low prices they pay the farmers for them. In our study, it was reported that the professional *arthis* mostly take loans from Punjab State Cooperative Agricultural Development Bank and then re-loan the money to the farmers. Permanent defaulters in the farming community are dealt with by the elders. We were told that, in some cases, they are taken to the police and courts, depending on the size of the loan.

6 Conclusions

About one-fifth of households are indebted in Pakistan. Data from the Swat district shows that the ratio is about 2.5 times higher, at 51.63%, in conflict-affected areas. The proportion of households in debt across the country varied from 17% to 23% over the 2005–2006 to 2015–2016 period, but in the Swat district specifically, the figure was about 51.63%. (In Swat, 380 out of the 736 households [51.63%] were found to be in debt.) We found that the share of the population participating in borrowing has increased over time. Importantly, about one-third of those borrowing face over-indebtedness, using more than 30% of their income to repay their debts. The share of over-indebted households increased between the 2005–2006 and 2015–2016 period. Poor households from almost every segment of the population face structural indebtedness, with farmers and tenants experiencing the most severe persistent indebtedness. The majority of households in our study were found to be indebted over very long periods of time, ranging from ten to 50 years. Borrowers are vulnerable to exploitation by lenders, which can include unpaid work, public humiliation and two to three extra instalments above and beyond the agreed mark-up.

Findings from our qualitative analysis suggest that a major share of the population was forced to migrate to other parts of the province due to conflict. Those who migrated often experienced the death of loved ones, including babies and mothers, while travelling to safer places. In economic terms, they cited the loss of their livelihood as the major blow resulting from conflict. Family members being injured and becoming permanently disabled meant many families were unable to earn their livelihood. There was a consensus that the conflict distorted the livelihoods of almost all the villagers and that they had still not recovered from this, even a decade after the conflict ended. Further, the conflict forced the people to cease business activities such as shop keeping and farming.

These factors pushed households to borrow. Evidence from our qualitative analysis shows that major reasons for taking loans include marriages, out-of-pocket health expenditure, repaying previous loans and meeting daily consumption needs. Findings from both our quantitative and qualitative analyses corroborate that borrowing for business is not particularly common, with PPHS data showing that only 8% of households do this in Pakistan. The informal credit market remained the key source of borrowing in the study areas. Evidence from our quantitative analysis confirms that around 85% of borrowing households borrowed from informal sources. It was also found that, following the conflict, most young people had to drop out of education and start working as informal waged workers to support their families.

Decisions on taking out loans are usually made by men of the household, mostly without the consent of the women in the family. The majority of respondents reported taking out multiple loans, sometimes from the same lender but others described borrowing from multiple sources due to lenders being reluctant to extend another loan without repayment of the first amount. In certain instances, a man would engage a woman in a household in decisions regarding borrowing, with this mainly occurring when a woman could assist by asking a relative, friend or acquaintance to provide a loan. We have seen that, paradoxically, despite having little say in decisions on loans, women play an important role in their repayment by selling their jewellery in times of need and raising resources by sewing clothes, knitting carpets, doing household work and raising livestock to help the household clear the loans.

Strategies to manage the repayment of loans include:

- cutting household expenditure on education, health and food
- removing children from school and putting them to work
- borrowing from another lender
- the sale of household appliances and assets
- doing extra work for daily wages.

We found that households often sell their valuables at a very low cost in order to ensure timely repayment and avoid public humiliation by the lenders. Low income and a lack of alternative work opportunities for non-farming households, along with crop failure for farming households, emerged as major reasons for failing to make timely repayments. The respondents shared that they were trapped in a cycle of repeatedly taking out loans. Overall, borrowing depleted household assets and worsened economic conditions.

Conflict in Swat imposed variations on the credit market. The supply of credit was squeezed as lenders migrated to other safer parts of the country. At the same time, demand for borrowing increased multifold during the conflict because of the lack of livelihood opportunities and restricted mobility. Meanwhile, re-establishing destroyed businesses, recovering damaged assets and property, and health expenditure increased post-conflict demand for borrowing. The absence of the formal lending market and the shrinking informal credit market created imbalances in credit supply and demand, leading to strict terms and conditions being attached to borrowing. Households on average borrowed 15 to 20 times following the conflict.

7 Recommendations

The destruction of basic community services during conflict, such as infrastructure, village institutions, market places and energy sources, disturbs the socioeconomic structure, creating a demand for borrowing. We propose that investments to develop positive coping strategies and to maintain the community environment would help to reduce the impact of conflict.

Offer support for livelihoods

Our research found that the destruction of livelihood sources remained the single largest factor leading to household borrowing. Strategies focused on reducing the risks conflict poses to livelihoods must therefore be a top priority. We also found that conflict in Swat motivated people to adopt new livelihood activities. We therefore recommend that the government inputs strategies to increase the resilience of conflict-affected households, not just by restoring livelihoods, but also by supporting people in diversifying their income sources.

The most effective solution for restoring livelihoods is to support the development of decent and viable employment opportunities in the region. Households that are indebted expect the government to invest in employment opportunities, including those that support future generations, alongside providing support (potentially legal) to lift people out of intergenerational debt and bonded labour. Households that have the skills to set up businesses but lack the resources to do so must be provided with affordable financing to promote self-employment. Those who do not have skills should be trained, with special attention paid to local market demand. In this context, provincial Technical and Vocational Education and Training authorities should be used.

Ensure the availability of affordable credit

We found that credit constraints meant that residents of Swat faced considerable difficulty in smoothing consumption and making investments using the formal credit system, not only during the conflict but also long after it ended. We therefore recommend that the local government designs mechanisms to ensure the quick and effective post-conflict availability of affordable credit. Standard financial inclusion tools may not work during or after conflict because of a depletion of the required infrastructure and the unique borrowing needs of residents. For example, one of the key reasons for post-conflict borrowing given to us by respondents in our study was out-of-pocket health expenditures, which were particularly high for households with members who were injured during the conflict and had become disabled. The government needs to adopt targeted policies to reach such people. The provision of health insurance tools may meaningfully cut household reliance on borrowing to meet their health-related needs. This, in turn, will also help to correct the supply and demand mismatch in the credit system.

Make the informal credit market more efficient

As most borrowing takes place in the informal market, a mechanism should be designed to make this section of the market more efficient. First and foremost, the government must provide a working legal definition of the informal credit market, in order to distinguish it from illegal lending practices. Other interventions could include the constitution of representative bodies of informal lenders, as connecting different types of lenders could make the market more competitive. Steps should also be taken to connect the informal lending market with microfinance institutions, so that informal lending can be directed towards more productive investments alongside the availability of higher amounts of credit when required. As quoted in a report on the informal credit markets in rural India (Centre for Development Studies, 1988), Holst (1985) offers a socioeconomic approach for creating an interrelationship between the formal and informal markets, where the system accepts the informal credit market in order to retain its strong role in the economy.

Promote the insurance market

The informal credit market in rural areas solely functions to distribute credit in the form of loans. Policy steps should be taken to promote deposit mobilisation in this market as well. In order to maximise the efficiency of the informal credit market, the insurance market should also be developed. When the insurance market is under-developed, households instead turn to informal credit to cope with unexpected shocks. Complementary markets should also be introduced, which will increase the range of credit choices for rural poor households, especially farmers. Any government credit policy must be accompanied by other interventions such as land reform, pricing policies and infrastructure development. In combination, these policies will improve the saving and income capacity of rural poor households, and develop the repayment capacity of indebted households. (See Floro (1987) and Gyeltshen (2012) for details on complementary markets.)

Offer targeted social safety net programmes

Social safety net programmes operating in the area must be tailored to households facing structural indebtedness. While the demand for borrowing increased after the conflict in Swat, due to the loss of valuable assets and sources of income, the lack of credit availability meant that alternative sources of formal borrowing were needed in the area. Our study indicated that the government should act to support lower-income groups by providing them with access to easily available credit, with low or no interest, as most respondents said that they would prefer to take loans from formal lenders if they were available and affordable.

Allowing for community-level guarantees or shared collateral can also increase poor people's access to formal credit. A programme to build financial literacy should be launched, involving not only raising awareness of the sources of credit and the processes for accessing them, but also including advice on short- and long-term financial planning, budgeting and money management.

Build local capacity

To devise and implement these strategies, the government needs to focus on building local capacity to reduce the risks and impacts of conflict. The institutions of local governments should be strengthened and used to design strategies that ensure quick and effective responses to save both lives and livelihoods in the event of conflict.

Undertake further research

Finally, we would like to highlight that these findings are based on the qualitative analysis that flowed from a number of FGDs. For a better understanding of how conflict affects participation in the credit market and the dynamics of household indebtedness during and post-conflict, further rigorous research and analysis should be undertaken.

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