

**SPARC**Supporting Pastoralism
and Agriculture in Recurrent
and Protracted Crises

POLICY BRIEF

WHAT DOES IT MEAN TO TAKE CONTEXT SERIOUSLY FOR CREDIT AND MICROFINANCE?

Lessons from informal credit in Afghanistan

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Why it matters

Informal credit is one of the most important economic institutions for most of Afghanistan's population. If you don't understand informal credit, you cannot understand the rural economy. That makes intelligent support for rural economic activities almost impossible and investments likely to give poor results – as was the case for reconstruction efforts in 2001–2021.

During that period, misunderstanding of informal credit was bound up with other preconceptions about markets and production. An attempt to understand informal credit – already known to be hugely important – might have led to questioning other false assumptions about the rural economy that resulted in the failure of much investment.

Informal credit relations range from the highly exploitative to mutual solidarity. The health of different types of informal credit offers a useful lens on changes in poverty over time. Those who are unable to maintain a position in the reciprocal informal credit economy are those most at risk of destitution, so informal credit is also a good entry point to understand how to target food security support. These opportunities were missed in Afghanistan.

What aid programmers got wrong

Informal credit was simply ignored. If noticed at all, informal credit was seen as inferior to formal institutions and generalised. There was little appreciation of the broad types of informal credit, their different roles and what these signified in terms of support, opportunity or exploitation.

There was a common assumption that the formal is always better than the formal (seen also in regard to trade and in governance). The dominant market models also insisted that a lack of credit was holding back entrepreneurial behaviour, and thus they saw demand for informal credit as a shortage of formal credit for investment capital. Consequently, support to credit institutions was tied to false models of rural entrepreneurship.

What was wrong with the assumptions?

Informal credit is rarely for financial investment only. It is often an investment in social relations, a form of social protection, and a part of how people spread risk and build social ties that will support them when needed.