



## FROM RECONSTRUCTION TO COMMERCE

### *Community Development Councils Transform Social Capital into Economic Capital in Afghanistan*

Miki Terasawa, Zishan Karim, and Mio Takada

*A major premise of community driven development and livelihoods projects is that economic development will not be successful unless social and institutional problems that condemn large parts of the population to poverty are addressed. CDD and livelihoods seek to invest in people, institutions, and capacity that empower the poor and enable them to join in the growth agenda. This note describes the case of Afghanistan's National Solidarity Program (NSP), which has worked in the most difficult, conflict and post conflict circumstances to build the positive social capital in rural areas. After six years, that effort is paying off with the first "green shoots" of innovation and economic development in the project area.*

In 2003, the Afghanistan National Solidarity Project (NSP) was created to improve the lives of the rural poor through post-conflict, community-driven reconstruction. NSP operated through community development councils (CDCs), democratically elected local bodies that the project helped form to instill stable, participatory, and transparent governance in support of development efforts. After six years of implementation, the CDCs are not only recognized as the foundation of community development and local governance nationwide, they are proving to be entry points for much more. Microfinance institutions (MFIs) and the private sector are now working with CDCs to introduce financial and livelihood development among the rural poor and thus promoting much-needed local economic opportunity.

### Transforming Social Capital into Economic Capital

NSP is being implemented by the Ministry of Rural Rehabilitation and Development (MRRD) with the support from 28 NGOs and UN Facilitating Partners (FPs). As of August 2009, it has successfully mobilized almost 22,500 rural communities, forming CDCs throughout the country. CDCs are mandated to prepare community development plans in a participatory manner, and develop, implement, and manage sub-projects that benefit all community members. Approximately 90 percent of these sub-projects create social and productive infrastructure, such as water supply and sanitation, rural roads, irrigation, and electricity. The remaining 10 percent develop human capital, primarily addressing womens' demands for literacy and hygiene education, and build productive skills for enhanced livelihoods. They



provide support for various development activities, dispute resolution, and some administrative functions (e.g., civil registration, land title verification).<sup>1</sup>

As a foundation of community development and an inclusive community institution, CDCs are also promoting livelihood activities among different community members—e.g., women, landless, small land holders, and land owners.<sup>2</sup> In transforming the social capital developed by NSP into economic capital, several NSP Facilitating Partners (FPs), MFIs and aid agencies have been using CDCs as entry points to form credit or livelihood based groups as well as producer/business associations as a platform for participatory consultations and selection of participants in such groups/associations. Clusters of these groups or associations are emerging and being linked with private sector players, while some of these associations are being developed into SMEs to establish market linkages in higher value national and export markets. These livelihoods development activities by the NSP FPs are

not financed by NSP; however, NSP has made these activities possible by creating the social capital in rural communities and strengthening the NGO community.

## Forming Thrift and Credit Based Groups

In Afghanistan, nearly 80 percent of the population lives in rural areas, and approximately 0.6% of the rural population has access to rural finance.<sup>3</sup> In 24 of the 34 provinces, five NSP FPs have been mobilizing about 270,000 poor and poorest of the poor into thrift, affinity, and credit based groups, such as self-help groups (SHGs), self-help learning groups (SHLGs), savings and credit groups (SCGs) and village organizations (VOs) (table 1). CDCs work as entry points by informing community members about the new opportunities and by targeting women and men to participate in these groups. Moreover, the book keepers, who were trained by the FPs under NSP, help the groups maintain the books and records.

**Table 1 Number of SHGs formed by NGOs and MFIs**

Agency	No. of groups formed	Cumulative Savings (US\$)	Active Province(s)	MFI Linkages with MISEFA Partners
AKF <sup>a</sup>	750SHGs	230,000	Mostly rural areas: Badakhshan, Bamyan, Baghlan, Takhar	Afghanistan Rural Microcredit Program (ARMP)
Afghanaid <sup>b</sup>	148 SHGs/CIGs	130,000	Mostly rural areas: Badakhshan, Ghor, Samangan	CIGs linked with FMFB on a pilot basis
UN Habitat <sup>c</sup>	3,510 SHLGs	134,000	20 provinces, mostly in rural areas	MFI being identified
CARE	916 SCGs <sup>e</sup>	256,000	Urban and semi-urban areas, Kabul	Micro Finance Agency for Development (MOFAD) – already provided a cumulative disbursement of US\$11.1 million
BRAC <sup>d</sup>	12,407 VOs <sup>e</sup>	4,796,000	24 provinces, mainly in rural areas	BRAC has already provided cumulative disbursements of US\$ 181.7 million

a. Aga Khan Development Network (AKDN), figures as at October 2008

b. Afghanaid, “Case Studies from Afghanaid from Facilitating Rural Enterprise Development Programme (FRED) Provinces: Ghor, Badakhshan, Samangan”, October 2009

c. Figures as at August 2009

d. BRAC, “BRAC Afghanistan at a Glance as of April 2008”

e. Figures as at August 2009. SCGs are composed of all women.

<sup>1</sup> World Bank, “Afghanistan: Assessment of the scope for strengthening the role of NSP Community Development Councils in local governance”, draft, April 2007

<sup>2</sup> Shah, P., “Transforming Social Capital into Economic Capital: Learning from Andhra Pradesh and Bihar for Afghanistan”, Presentation at NSP workshop in August 2007

<sup>3</sup> As at July 2009; www.misfa.org.af



## Supporting Livelihood Groups and Emerging Microenterprises

While Afghanistan is developing one business model through building and strengthening groups in savings/credit and enhancing a bottom-up approach in micro enterprise development, different livelihood based groups such as producer or business associations, are also being formed by NSP FPs and others using CDCs or clusters of CDCs as entry points. As with

microfinance, CDCs are trusted intermediaries that can help agencies identify producers and groups of producers in need of assistance. The FPs provide a wider range

SCGs and VOs are linked to the Microfinance Agency for Development (MOFAD) and BRAC, respectively, both of which are Microfinance Institutions (MFIs) partnered with the Microfinance Investment Support Facility for Afghanistan (MISFA – see box 1). The SCG or VO members take individual loans with the group providing collateral. By establishing linkages with affinity, thrift, and credit based groups, MFIs expand their outreach and reduce their transaction costs. AKF plans to link with the Afghanistan Rural Microcredit Program (ARMP), which was set up by the Aga Khan Development Network (AKDN).

While the above mentioned savings and credit groups are the groups formed by the parent organizations of the MFIs, Afghanistan has, on a pilot basis, facilitated linkage for their groups with the First Microfinance Bank (FMFB), whose sponsor is the Aga Khan Fund for Economic Development. In 2007, Afghanistan had formed 90 SHGs and in parallel piloted formation of Common Interest Groups (CIGs), focusing on asset creation through a bottom-up approach—i.e., identifying livelihoods development opportunities and establishing micro enterprises. Both SHGs and CIGs were formed in rural districts of Badakhshan province.<sup>4</sup> In two years, one all-female CIG took a loan of US\$ 800 from FMFB to set up a permanent retail outlet in the district center, while another CIG (45% women) had a US\$ 3,000 loan to start a livestock enterprise. Afghanistan currently supports approximately 150 groups composed of 70 SHGs and 80 CIGs in three provinces and aims matured SHGs to graduate towards CIGs to identify livelihood opportunities and take up micro enterprise development.

### Box 1: Microfinance Investment Support Facility for Afghanistan

The Microfinance Investment Support Facility for Afghanistan (MISFA) is an apex funding and capacity building organization, registered as a private Afghan company. It is supported by donors through the Afghanistan Reconstruction Trust Fund (ARTF). A total of 183.3 million had been disbursed by August 2009 from the ARTF. The World Bank has, in addition, provided US\$30 million, out of which US\$17 million has been disbursed. MISFA is reaching out to 26 provinces out of all 34 provinces of Afghanistan, working through 16 Microfinance Institutions (MFIs), most of which have been established by international NGOs. There are almost 442,676 active borrowers, with the average loan size of US\$ 342. A total of US\$ 668 million has been disbursed so far, more than 60% of which is for trade and services. 30% of MISFA's current coverage is in rural areas, and women comprise 60% of the entire clients (as at August 2009). In 2010, MISFA will focus on deepening outreach within the provinces where microfinance is currently available. It is anticipated that a broader selection of product types and conditions will be piloted or offered to accommodate the needs of the rural entrepreneurs and farmers.

Source MISFA Web site <http://www.misfa.org.af/>

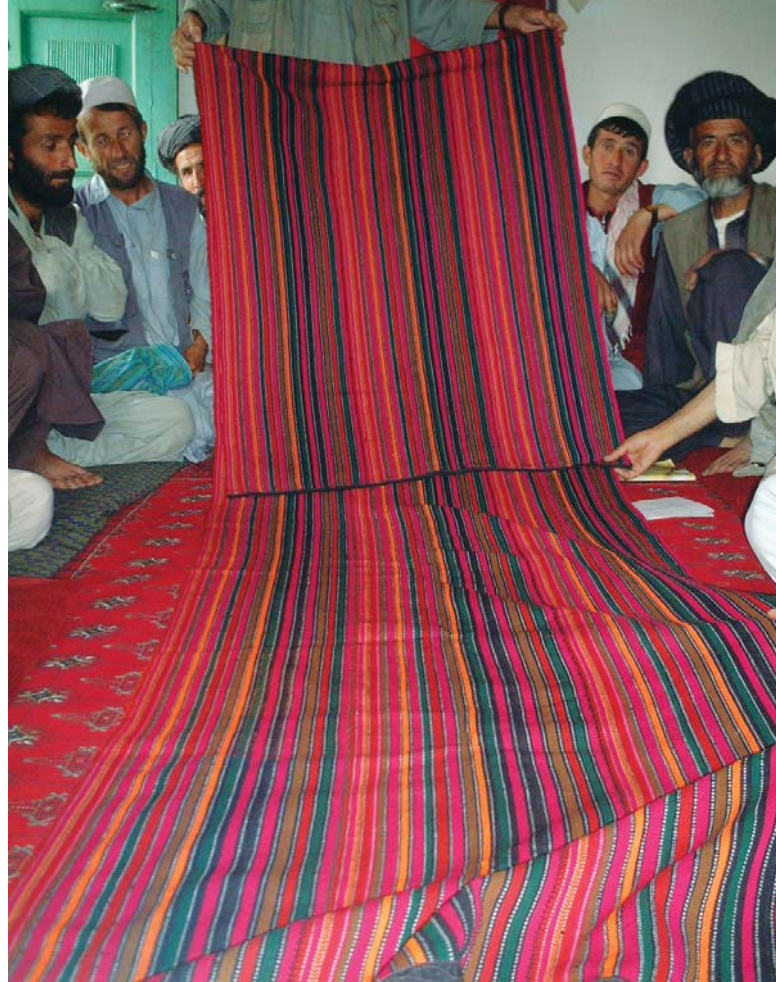
<sup>4</sup> Afghanistan, "Facilitating Rural Enterprise Development through Capacity Building of Self-Help Groups in Badakhshan", Quarterly Report, Sept-Dec 2007

of services that build producers' capacities to operate a business through making investments in at various stages of value chain, including social mobilization, capacity building, productive and commercial skills training (e.g., value addition, enterprise development) and marketing support (e.g., buyer-seller meets, certification). Some examples include:

The Danish Committee for Aid to Afghan Refugees (DACAAR) is supporting four saffron producer associations, each with approximately 150-200 members (almost 50 percent women) formed within clusters of 9-10 CDCs.<sup>5</sup> With DACAAR's assistance in input and extension support, training in value addition, marketing support through buyer-seller meets, producers experienced a 6-fold increase in both yield and price after three years. The learning from saffron associations is taking place on the ground through exposure visits and provision of training to farmers from other provinces.<sup>6</sup>

The *Aga Khan Foundation Afghanistan (AKF-A)* has clustered CIGs into four business associations at the district or provincial level, each of approximately 500 members, for seed multiplication and apiculture and provided various support, including group savings, building cold storage facilities, packaging and branding. Thus far, three seed multipliers associations of 1,600 farmers have produced 200 tons of domestically produced quality seeds, which are sold locally. The honeybee keepers association of 500 members (30 percent of who are women) has harvested, packaged, labeled, and sold 45 tons of honey to guesthouses in Kabul.<sup>7</sup>

*ICARDA*, a member of the Consultative Group on International Agricultural Research, is supporting eight mint producer associations, each with approximately 20-30 members at the CDC cluster level in three provinces. ICARDA has created links in local markets through community vendors for the associations to sell dried mint and mint water in labeled bottles. In 2006, alone, these producers sold more than 2,000 bottles in 2006 with profit margin between 30-100 percent.<sup>8</sup>



The livelihoods development activities by NSP facilitating partners are meeting a critical need of the rural poor to stimulate nano and micro enterprise and begin generating income within the local economy. As box 2, illustrates, producers quickly learn that the microenterprise support coupled with livelihood development support is doubly effective at tackling rural poverty.

## Challenges

CDCs have effectively facilitated group formation, promoted livelihood activities, and developed human capital at both the village and cluster levels in rural Afghanistan, and they have proven that they can also be effective in promoting better financial and market access.

The plan to scale up these pockets of innovation include: (i) developing cluster organizations of credit/livelihood based groups to achieve scale in their activities; (ii) providing integrated services in human

<sup>5</sup> Danish Committee for Aid to Afghan Refugees. "Annual Report 2007", February 2008

<sup>6</sup> DACAAR, *ibid.*

<sup>7</sup> Aga Khan Foundation Afghanistan, "AKF Badakhshan, Enterprise Development Programme: 2008 Briefing Paper"

<sup>8</sup> ICARDA, "Afghanistan: Research in Alternative Livelihoods Fund (RALF), Quarterly Narrative Report August 01-November 30, 2006"

## Box 2: Creating a Path Out of Poverty in Yakhdara

The community of Yakhdara is in the very remote district of Ishkashim in Badakhshan province, bordering Tajikistan. In 2007, the annual household income in Ishkashim was between US\$500 and US\$2,400. The poor worked in unskilled labor (32%), farm production (29%), and animal husbandry (11%). Farmers produced wheat (44%), barley (15%), and potato (11%). Eight percent of household needs were met through loans from relatives and moneylenders.

That same year, Yakhdara elected a CDC and completed an NSP-financed irrigation canal, benefiting 250 families. Though the CDC members believe this canal will significantly increase their crop yield, they emphatically stress the need for additional income generating activities to meet their basic needs.

AKF, one of the NSP Facilitating Partners, is undertaking a number of livelihood activities separate from their work with NSP as part of their long-term involvement with communities where they work. Under one livelihood program, AKF's Self-Help Group (SHG) Initiative, the Yakhdara community formed two male SHGs, one with 14 members and another with 20 members, which the CDC helped form based on their income levels. The SHG members decided to save 20-30 Afs per person per month. In two years, one group saved 700 Afs (US\$14) and the other 1,000 Afs (US\$20). AKF then gave the SHGs a credit of 15,000 Afs (US\$300) to establish a revolving fund, which members access at an interest rate of 2% per month. Half of the interest recovered by the SHG members is reimbursed to AKF, while the balance goes back to the revolving fund. Approximately 70% of the loans are used to set up kiosks within the community or to purchase sheep and goats.

Several SHG members have taken individual loans from the Afghanistan Rural Microcredit Programme using their land as collateral; however, many have been unable to repay because of high interest rates (e.g., 17% for business loans). SHG members assert that they would prefer to increase their savings within their group and provide lower interest loans to each other rather than receiving linkage loans from ARMP.

The SHG members are now accessing the AKF Enterprise Development Program (EDP) which provides supports the formation of CIGs and business associations in both the farm and non-farm sectors.<sup>9</sup> Services include input and extension services, value addition, commercial skills training, branding and marketing support in urban centers. Combined with an integrated productive and commercial skills training such as EDP, SHG initiatives can be successful in addressing livelihood needs in remote communities through maximizing the use of the loans.

capital development (e.g., para-professionals at community level), access to credit, and market linkages; and (iii) shifting away from NGO-driven activities to a community management model. In the current context of Afghanistan, there are a number of challenges to scaling up as elaborated below.

***Deteriorating Security.*** Security is the primary concern and constraint in post - or currently semi-conflict Afghanistan. The insurgency has dramatically increased over the past few years, especially in the east and southern parts of the country, where CDCs have been formed. The CDCs in these high-risk areas are demanding rural livelihood promotion activities that

could present alternatives to opium poppy cultivation. However, CDC members, FPs, and project staff face high security risks, which impede efforts.

### ***Reaching the most remote, dispersed rural communities.***

The CDCs that have successfully transformed social capital into economic capital tend to be concentrated in semi-urban areas. The transformation has been a serious challenge in more rural communities that are widely dispersed and remote from provincial and even district centers. The lack of access to markets is one of the sources of rural poverty and a constraint that hampers the transition from opium cultivation to legal rural livelihoods. As in Yakhdara (see box 2) SHGs members

<sup>9</sup> The business associations are formed in seed multiplication, apiculture, poultry, livestock, silk weaving, etc. See AKF's activities in the Table 2 "Livelihood based groups formed by NGOs" for details.



must be able to move beyond savings and credit to address their livelihood needs and move out of poverty. Afghanistan's emerging business model, which (i) forms and strengthens savings and credit based groups, and (ii) supports matured groups to identify livelihood opportunities and develop micro enterprises, could be scaled up and replicated in most remote rural areas, with continuous handholding support from NGOs, coupled with technical assistance in productive and commercial skills, value addition and market access, the affinity and thrift-based groups. Additionally, for the most remote communities, distance and the isolation from the private sector that it brings is critical obstacle to be overcome. Developing and strengthening the private sector at provincial and district levels and facilitating linkages with extremely remote rural areas would be the key to complement the efforts of CDCs and strengthen their "economic capital".

***Increasing livelihood opportunities for women.*** Cultural norms in Afghanistan present a major obstacle to promoting women's participation in livelihood activities. For instance, FPs have even had great difficulty in hiring female staff to facilitate group formation and livelihood activities. The World Bank is developing a policy note on women in trade, which will explore constraints and opportunities for women to participate and gain more control in the value chains of key export products for the regional and international markets, such as grapes/raisins, almonds and saffron. It is already known that key enabling factors include social mobilization of

women producers, development of women para-professionals to facilitate women-to-women service delivery, e.g., sales agents,<sup>10</sup> service providers and trainers in productive and commercial skills training. The study will also make recommendations to enhance the gender mainstreaming policy developed by the Ministry of Agriculture, Irrigation and Livestock (MAIL).<sup>11</sup>

## Lessons Learned

***CDCs are a powerful entry point in forming microfinance or livelihood based groups.*** Eighty percent of the population resides in rural areas, so reaching out to remote rural communities is a challenge in livelihoods development. CDCs, as locally elected institutions, can help NGOs and other agencies strategically target their interventions to those most in need. The social capital accumulated over time through CDC and NSP sub-project management seems to contribute to the smooth social mobilization to form microfinance or livelihood based groups.

***Building human capital contributes to subsequent livelihoods investments.*** Managing NSP sub-projects has given CDC members knowledge and experience in bookkeeping, financial management, accounting, monitoring, and project management. Many CDC members can now work as para-professionals in their own and other villages mobilizing communities into credit and livelihood based groups and providing training and services on business development at the community level. This would enable a shift towards more community managed livelihoods development in the medium to long term.

The NSP's human capital development (HCD) sub-projects have also generated a pool of women with productive skills—in business management, baking, trading, etc. These skilled women could form livelihood based groups through CDCs. Also, these good practices could offer learning opportunities for other CDCs through CDC-to-CDC exchanges. Such exchanges are taking place in three eastern provinces, facilitating learning and discussion on community development.<sup>12</sup>

<sup>10</sup> A sales agent links women producers with input suppliers and traders/whole sellers. The system is described in Mennonite Economic Development Associates (MEDA), "Internal Report – From Behind the Veil: Impact Analysis", May 2007 (<http://www.bdsknowledge.org/dyn/bds/docs/629/MEDA%20Pakistan%20impact%20analysis%20May%2007.pdf>)

<sup>11</sup> Takada, M., Solotaroff, J., Terasawa, M., "MDTF for Trade and Development: Understanding the Gender Dimension of Trade Markets in Afghanistan – Concept Note", November 2008

<sup>12</sup> NSP, "Ghazni Province Exchange – June 2005", "Cross Visit Report from Dec 2005"



*Cluster Organizations are critical to scaling up pockets of innovation.* In scaling up the on-going livelihood innovations initiated by NGOs, the credit/livelihood based groups and producer/business associations could be aggregated into clusters and developed into cluster organizations of producers. The World Bank supported Horticulture and Livestock Project (HLP) will adopt the “cluster approach” to aggregate “pockets of agricultural innovations”, and to address the needs of rural farming households more comprehensively. Each focus cluster will consist of 625 farmers/livestock keepers and concentrate on horticulture, dairy and poultry production and productivity enhancement, while intensive efforts will be made in forming farmers groups, clustering small producer groups into federations, linking with MFIs, enhancing the access to markets and the private sectors, and improving the

synergy with other IDA-funded projects (NSP and MISFA). Furthermore, HLP is piloting a grape value chain development in north of Kabul province, which will enable HIG farmers to move up on the value chain by undertaking value addition activities at the producer level. Implemented by Roots of Peace, a NGO, the pilot has developed a grape value chain action plan in a participatory manner, bringing HIGs, processors, and local and regional traders together. The farmers have been provided with extension services by HLP extension workers, training in grading and quality control, and simple equipments such as tents to help maintain quality during on-farm packing. With the packaging and branding provided by the pilot, test shipments of 650 mt have been sent to Pakistan and India through the participating traders<sup>13</sup>. The pilot will produce series of operation manuals, which will enable replication

---

<sup>13</sup> As of Nov 15, 2009

within and outside of HIG clusters and application in other products.

The Afghanistan Rural Enterprise Development Project which is expected to be effective by February 2010 will further develop the credit and livelihood based groups and producer associations and federate them into clusters through an integrated approach: (i) bottom-up community mobilization and (ii) a market driven approach, promoting champion products, i.e., import substitution and export ready products,<sup>14</sup> through supporting emerging private sector players to work with the cluster organizations of producers. CDCs and/or clusters of CDCs could work as a potential platform in: rolling out participatory training in marketing and enterprise development in preparing a demand-led

action plan at cluster level The cluster level action plan could feed into developing sector development plans in the key farm and non-farm sectors in Afghanistan, such as wheat, livestock, dairy, poultry, carpet and clothing.

By using CDCs as entry points, HLP and AREDP could: (i) develop a cadre of para-professionals to provide input and extension services, value addition and other productive/commercial skills training to community members, (ii) effectively link credit with livelihoods development through the savings and credit scheme and MFI linkage, and (iii) facilitate access to local, national and export markets through partnership development such as buyer-seller meets at provincial, regional, national and international levels.

<sup>14</sup> MRRD has identified 14 products as opportunities for import substitution, which almost amounts to US\$ 370 million. For example, 2 billion eggs and 55 tons of live/frozen chickens are imported to Afghanistan every year, which amounts to US\$ 78.2 million. 4% of Afghan economy, i.e., US\$ 471 million, is generated from export. MRRD's carpet value chain analysis indicates that the retail margin in UK (US\$ 157 per sqm) is 5 times more than the wage of Afghan weaver (US\$ 25 per sqm).



Series 2. Note No. 3. January 2010.

Miki Terasawa is Rural Livelihood Specialist, Consultant for South Asia Sustainable Development (SASDA) of the World Bank. Zishan Karim is Rural Development Specialist, Consultant for the World Bank Kabul Office. Mio Takada is Rural Development Specialist, SASDA of the World Bank.

Comments were provided by Mr. Marchuk Alishah, Director of Operations, National Solidarity Project, Mr. Sujeet Sarkar, Human Resource Development Advisor, Aga Khan Foundation - Afghanistan, Mr. Parmesh Shah, Lead Rural Development Specialist (SASDA), Mr. Norman Picconi, Lead Rural Development Specialist (SASDA), Ms. Susanne Holste, Lead Transport Specialist (SASDT), Mr. Usman Qamar, Senior Rural Development Specialist (SASDA), Mr. Qazi Azmat, Senior Rural Development Specialist (SASDA), Mr. Grahame Dixie, Senior Agricultural Specialist (SASDA), Mr. Henry Bagazonzya Senior Financial Sector Specialist (SASFP), and Ms. Naila Ahmed, Rural Development Specialist/Consultant (SASDA). Ms. Melissa Williams and Ms. Smriti Lakhey (SASDA) reviewed the document.



**The World Bank**

