THE ROLE OF SOCIAL CAPITAL IN POVERTY REDUCTION:

A CASE STUDY OF SAVING GROUPS IN THE PARWAN
PROVINCE OF AFGHANISTAN

by

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KARIMI Abdul Tamim

July 20, 2015
DECLARATION

I, Abdul Tamim, hereby declare that this thesis titled, “The Role of Social Capital in Poverty Reduction: A Case Study of Saving Groups in the Parwan Province of Afghanistan” is my own independent academic work under the supervision of Prof. TSUKADA Shunso, submitted to Ritsumeikan Asia Pacific University (APU), in partial fulfillment of the requirements for the Master degree in International Cooperation Policy (ICP). Therefore, the literatures and sources that I used in this work have been acknowledged in appropriate manner of referencing.

I further hereby declare that this thesis has not been presented to any other university for the award of any other degree.
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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ANDS</td>
<td>Afghanistan National Development Strategy</td>
</tr>
<tr>
<td>AREDP</td>
<td>Afghanistan Rural Enterprise Development Program</td>
</tr>
<tr>
<td>ASCA</td>
<td>Accumulating Savings and Credit Association</td>
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<td>CDC</td>
<td>Community Development Council</td>
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<tr>
<td>CED</td>
<td>Community-based Enterprise Development</td>
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<tr>
<td>CSO</td>
<td>Central Statistics Organization</td>
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<td>EDT</td>
<td>Enterprise Development Training</td>
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<td>EG</td>
<td>Enterprise Group</td>
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<tr>
<td>GNI</td>
<td>Gross National Income</td>
</tr>
<tr>
<td>GRoA</td>
<td>Government Republic of Afghanistan</td>
</tr>
<tr>
<td>MDG</td>
<td>Millennium Development Goal</td>
</tr>
<tr>
<td>MRRD</td>
<td>Ministry of Rural Rehabilitation and Development</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Government Organizations</td>
</tr>
<tr>
<td>NRVA</td>
<td>National Risk and Vulnerability Assessment</td>
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<tr>
<td>NSP</td>
<td>National Solidarity Program</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>PEF</td>
<td>Provincial Enterprise Facilitators</td>
</tr>
<tr>
<td>SG</td>
<td>Saving Group</td>
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<tr>
<td>SI</td>
<td>Strategic Intent</td>
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<tr>
<td>SME</td>
<td>Small &amp; Medium Enterprises</td>
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<td>VF</td>
<td>Village Facilitator</td>
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<tr>
<td>VSLA</td>
<td>Village Savings and Loan Associations</td>
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<td>WB</td>
<td>World Bank</td>
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This study investigates the role of social capital in poverty reduction with a particular focus on rural households in the case of Parwan province, Afghanistan. The study examines the link between social capital and poverty - though until now no such study has been conducted to examine this relationship in the context of Afghanistan rural development, and it researches if social capital could be a better way to alleviate poverty in rural areas of Afghanistan.

To do that, a case study of Saving Groups (SGs) was conducted in three districts of Parwan province of Afghanistan. SGs are identified as a source of social capital in order to strengthen livelihoods of households and improve community development in rural areas of the country.

Both primary and secondary data were used to achieve the objectives of the research. For obtaining primary data, interviews were conducted with government officials and members of SGs, as well as focus group discussions in the villages. Secondary data were acquired from Afghan government’s documents and reports.

The results show that social capital is described as group membership and participation in social activities that play a vital role in poverty reduction. The impact of social capital is much higher than education and other social activities.
households who are engaged in social groups and activities such as SGs have higher per-capita expenditure than the non-members.

In addition, the result shows that SGs help the households to enable teamwork, create trust and networks, and increase information accessibility and cooperation. The study found that SGs in a community positively impact three factors, increasing ‘job opportunities, livelihood status, and trust and relationship’ among the households. It not only benefits the members, but also generates similar effects to the non-members by impacting community development and alleviating poverty.

Moreover, consideration of policies and strategies of social capital would go a long way for the improvement of an organization’s success and alleviation of poverty. Thus, it is required to establish more comprehensive policies for the poor and rural areas through focusing on the promotion and creation of SGs, other social groups, and development initiatives.
CHAPTER ONE

1 INTRODUCTION

1.1 Background of the study

Eradicating extreme poverty and hunger is the first Millennium Development Goal (MDG), and it is one of the main objectives of the Afghanistan National Development Strategy (ANDS). The profile of poverty is the key component in the information set of the policymaker, which assists in focusing on policy to achieve the goals. The profile of poverty is the methodology selected to illustrate the nature and extent of a country’s poverty, as well as to assess the measure of poverty. Furthermore, it provides information across geographic and socioeconomic domains and identifies the needs and correlations of the poverty of poor people.

Facilitating widespread and inclusive economic growth is the cornerstone of the Afghan government’s strategy for poverty reduction; thus, poverty reduction is one of the main themes of the Afghan government, as stated in the ANDS document published by the government in 2008.

At the inception of the Afghan government, which was re-established after the U.S. invasion and subsequently dismissing of the Taliban regime in 2001, the economic growth in Afghanistan has become very strong and has generated better livelihoods for the people (ANDS, 2008). Despite some green economic highlights, the main challenges for the beleaguered government are to prepare and adequately implement an effective poverty reduction strategy. However, in order to do that, accurate measurements and
more reliable data are needed to document the extent and nature of poverty in Afghanistan.

The government of Afghanistan, along with technical support of the World Bank (WB), collected and analyzed the National Risk and Vulnerability Assessment (NRVA) 2007/08 survey. The survey was conducted by the Central Statistics Organization (CSO) and the Ministry of Rural Rehabilitation and Development (MRRD), which compiled a detailed consumption data in both urban and rural areas in Afghanistan (NRVA, 2007/08). This national survey covers several topics and areas, which was collected based on household information in different aspects across the country.

The report concluded that the currently available data in Afghanistan shows that 36% of rural households struggle with chronic shortages of food. Social indicators are also not much better than this. Despite the success of the campaign of back-to-school, still almost half of school-aged children are deprived of formal schooling. And due to a lack of nutrition, more than 20% of Afghan children die before the age of five. These figures cover mostly the rural areas, which are the most vulnerable and poor (ANDS, 2008).

The NRVA (2007/08) survey noted that poverty is significantly a rural phenomenon, where it’s more severe in the rural areas of Afghanistan. It is more widespread among the west central, eastern, southern and the northern provinces of the country.

The three critical issues that Afghanistan is facing are rural poverty, local governance and unemployment, all of which will remain considerable challenges for an even longer period. MRRD has addressed these issues in its Strategic Intent (2010-2014), which was
developed to respond to the issues toward poverty reduction through implementing development projects and services for the rural communities in order to achieve sustainable rural development (MRRD SI, 2010).

The MRRD Strategic Intent (SI) document has highlighted the five poverty reduction strategic focus areas as “Rural infrastructure and economic development, local governance, rural development policy and planning, institutional strengthening, and human capital development” (MRRD SI, 2010). These strategic focus areas would go a long way to improve and strengthen the livelihood of rural communities and human capital. However, social capital, which is another form of capital, was not highlighted. Social capital is an alternative development paradigm that encompasses wellbeing and social development.

Many scholars define social capital in different views, but there is lack of a common established one. According to Grootaert (2001), social capital is defined based on networks and norms, which create interactions among people. On the other hand, Putnam (1993, p.167) defined it as “a feature of social organization, such as trust, norms and networks, that can improve the efficiency of society by facilitating coordinated action”.

Social capital is recognized as significant for economic advancement and wellbeing. For example, Grootaert (2001) found social capital an influential determinant of poverty and a productive manner for economic growth. Similarly, it was found that social capital influences economic advancement by better dealing with people and groups with three forms. First, social capital increases the availability of information and awareness as well as producing an effect on cost reductions. Secondly, it enables the groups to understand
collective decisions and actions. Thirdly, it reduces opportunism and misuse between group members (Grootaert, Narayan, Jones & Woolcock, 2004).

Based on the understanding of the literature, social capital’s role is significant in socio-economic conditions and wellbeing of households and communities. Therefore, the impact and necessity of social capital on economic welfare has a major indication in poverty reduction strategies (Yusuf, 2008; Grootaert, 2001). Thus, this study mainly focuses on additional outlooks to find out if investment in social capital can be a better possible way to reduce poverty in rural areas of Afghanistan.

This study examines the importance and the role of social capital and social relationship on poverty alleviation through a focus on three districts of Parwan province of Afghanistan. The study describes a case study of Saving Groups (SG) that could be one of the greatest sources of social capital in rural areas of Afghanistan. Thus, by using data from NRVA surveys (2007/08, 2011/12) and the collected data from field research interviews, it examines the impacts of social capital and the determinant of poverty alleviation.

1.2 Research problem of the study

Rural poverty is a key issue and more widespread in rural areas of Afghanistan. As such, MRRD with its five years strategic goal has declared its intention to respond to long-term poverty issues and challenges in the rural parts of the country. This ministry is committed to improving its services and projects while introducing itself as a poverty reduction policy-maker for the rural development sector. In addition, it will use its widespread
influence in the area and its full consideration to the rural communities in order to design evidence-based policies.

The main goal of the MRRD is nonetheless poverty reduction in rural areas of Afghanistan, and its five-year plan will go a long way in improving the livelihood of poor people. The government, however, is not focusing more on social capital, even though it is a highly important form of capital that literature has recognized as the best way of reducing poverty and improving the social life of the rural household.

Social capital is recognized as a positive force for economic advancement and welfare. It has a significant role in enhancing the socio-economic situation and livelihood of not only individuals, but also the whole community. Hence, the influence of social capital on the economy’s fortune has a major implication in developing policy and strategy, especially to alleviate poverty (Grootaert, 2001).

There are various numbers of institutions and groups widespread throughout Afghanistan, such as saving groups, cooperatives, farmers’ groups, charity groups and non-governmental organizations, whose impact is noteworthy on poverty reduction and economic development.

This paper is mainly focusing on saving groups that create social capital. However, no study or research to examine this relationship has been done so far in Afghanistan. In fact, saving groups are established in only 7 provinces of the country through a national program of the MRRD, the Afghanistan Rural Enterprise Development Program (AREDP Progress Report, 2012). As the SGs create social capital and are successful in
rural areas, in this connection the government should focus more on the creation of SGs in different provinces. It would be magnificent and beneficial to study the significance of social capital in poverty reduction. This study also considers whether the investment in social capital is acceptable to reduce poverty in the case of rural Afghanistan.

1.3 Research objectives

To understand the objective of social capital's role in poverty reduction, this research paper aims to address the specific objectives listed below:

- To examine the determinants of poverty, such as social capital and other household and individual characteristics, in influencing people to join groups;
- To determine the importance of social capital for poverty reduction in the rural areas;
- To describe a case study of saving groups on how it assists communities to generate and enhance income by strengthening the livelihood;

1.4 Research questions

- Is social capital a major determinant of poverty reduction in rural areas of Afghanistan?
- How can saving groups help individuals and communities enhance social capital to strengthen the livelihoods in Parwan province?
1.5 Significance of the study

This study describes an understanding of how to decrease the poverty and vulnerability in rural areas of Afghanistan through the consideration of social capital and socio-economic development of both rural and vulnerable communities.

The relation between social capital and poverty is significant for the socio-economic development of a country, and this linkage has not yet been studied so far in Afghanistan. Furthermore, the Afghan government has focused little attention on this issue. Considering the great differences in poverty rates at both urban and rural regions, the study of social capital in the fight against rural poverty is significant and necessary.

1.6 Summary

Afghanistan has experienced over two decades of war (1979-2001) that completely destroyed social, political and economic infrastructure of the country and more than 5.7 million people migrated to Pakistan and Iran. Due to that, nine million people (36%) of Afghan’s total population are still living in poverty; thus, poverty reduction has become a significant issue and key objective of the government. Since 2001 and with the help of the international community, economic growth of Afghanistan has become very strong and generated better livelihoods for the people. Despite some green economic highlights, three critical issues that Afghanistan is facing are rural poverty, local governance and unemployment. The government through its national programs responded to such issues, but still more needs to be done through focus on social capital in rural areas. Therefore, this study mainly discusses on the creation of social capital for poverty alleviation.
CHAPTER TWO

2 LITERATURE REVIEW

2.1 Theoretical framework of social capital

The literature review of this study will briefly describe the theoretical concept of social capital and discuss its type and role on how social capital impacts poverty reduction. Many of the literatures suggest that social capital is defined as social networks between the residents, which in turn lead to an understanding of how to cooperate among the residents in a community.

Having active membership in institutions, associations and groups is known as social capital, which has a strong link with poverty, as it was found by Putnam and Leonardi (1993); Narayan and Pritchett (1999); Grootaert (1999); Hassan and Birungi (2011). This chapter mainly discusses the network aspect of social capital, though other forms are described as well.

This thesis briefly describes the conceptualization of poverty and its measurement, followed by description of the concept and theory of social capital with its forms and scope.

2.2 The concept and determinants of poverty

The concepts of poverty were explained through different definitions and measures, hence there is no specific definition for it. However, it is significant to know the concept,
measurement and determinant of poverty in order to investigate particular economic, social, political and historical perspectives.

According to Ajakaiye & Adeyeye (2001) “most analyses follow the conventional view of poverty as a result of insufficient income for securing basic goods and services. Others view poverty, in part, as a function of education, health, life expectancy, child mortality etc.” (p. 5) Poor people can be recognized through use of their consumption and expenditure level (Blackwood and Lynch, 1994).

Based on Sen (1983), poverty relates to rights, where there are several types of goods and services and one has command over others, taking into understanding the meaning through which such goods (money and coupon) are obtained and needed. While based on some other analysts, poverty is a broader term, which focuses more on being “unable to meet the basic needs requirement” that covers both physical (e.g., food, health, education, shelter etc) and non-physical (e.g., participation and identity) for livelihood (World Bank, 1996).

According to the World Bank (WB) organization,

“Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom” (World Bank, 2010, p. 1).
Ajakaiye & Adeyeye (2001) described the four ways of the conceptualization of poverty: (1) lack of access to basic needs and goods, as the important economic aspects that cover nutrition, shelter, clean water, health and education, as well as defining the level and range of poverty and to identify the poor and the rich; (2) lack of access to productive resources that consists of land, physical and financial capital and thereby, indicate low income and unemployment in a society; (3) outcomes for the use of incompetent shared resources, which result from having unorganized policy, poor infrastructure, and not having access to technology; and (4) exclusive mechanisms, which are related to certain groups using specific mechanisms in order to dismiss the problems from participating in economic development.

It is complex and wide-ranging to measure poverty, but in third world countries, two economic indicators are used. First is the “poverty line” approach in terms of monetary indicators, which measures through the head count ratio of US $1 or $2 per day on a national level in order to define poverty and those who live below the line that are considered poor. The second indicator is “Unsatisfied Basic Human Needs” as a non-monetary measurement of poverty, which covers the access to basic needs (O’Hare et al., 2007).

The poverty profile of a country explains the pattern and shape of poverty; nonetheless it doesn't directly discuss its causes. The question therefore, is, “what causes people who are still poor to continue to live in poverty?”

Poverty can be determined at different levels of characteristics, such as the national, local, sectorial, community-based, household and individual levels (Haughton, Khandker,
2009). Below some of the poor characteristic levels are described through region, community, household and individual characteristics that can determine the causes of poverty.

2.2.1 Regional characteristics

In general, at regional or national level, there are several characteristics that might be linked with poverty. The poverty rate is higher in areas that are characterized through geographical isolation, lack of resources, lack of rainfall and some other environmental and natural issues (Haughton, Khandker, 2009). For example, some places are very poor due to being severely hit by natural floods and typhoons, which devastate the stock of capital or agriculture crops of a region.

On the other hand, inadequate public services, weak infrastructure systems and lack of communication are other major features that contribute to poverty. Moreover, having good governance, environmental policy, economic and political stability, participation, security and a better judiciary system are the other key characteristics that affect poverty. Inequality is also related to poverty, where gender, ethnic and racial inequalities are the sources (Haughton, Khandker, 2009).

2.2.2 Community characteristics

At the community level, there are many characteristics associating poverty for households. The main determinant of poverty is the infrastructure system, and its indicators are access to roads, electricity, schools, health clinics and large markets inside the community. Similarly, some other indicators of these characteristics involve human
resource development, employment opportunity, social mobility and distribution of the land (Haughton, Khandker, 2009).

At the community level, more emphasis is placed on social capital through creating social networks and mutual trust among the people. Furthermore, in order to reduce poverty, more efforts are needed for initiatives to create and expand the social institutions in the poor communities. For instance, an analysis of a study in rural villages in the North of India shows that the social institutions and groups impact significantly in the protection of basic human needs of a community (Kozel, Parker, 2000).

2.2.3 Household and individual characteristics

The characteristics of households and individuals would consist of the age of the household members, the level of education, the household head gender, and the level of participation in the workforce. These characteristics are structured as three groups: demographic, economic and social characteristics (Haughton, Khandker, 2009).

The two key factors, that determine the range of poverty reduction, are economic growth and the level of inequality. Poverty reduction is based on the condition of economic growth, which impact on pro-poor growth in a society.

However, there are several thoughts on how to create pro-poor growth in a community. Some case studies in different countries tested some possible ways and found that there are four ways for better poverty reduction. First, poverty can be reduced among poor people if there is a fast growing national capital of a country, rather than a labor force. Second, using the national capital of a country more efficiently will reduce poverty.
Third, the high level of agricultural productivity per worker can impact to lower poverty, but, this performance is critical in South Asian and Sub-Saharan African countries. Fourth, having open economies reduces a country’s poverty ratio; this means those countries with a better level of national income per capita and a higher proportion that had less constraint on international trade, faced with less poverty (Khalid, 2004).

Income inequality is a key issue for poverty reduction. Though decreasing the degree of inequality can positively affect the process of poverty reduction. According to Khalid (2004), poverty decreases rapidly in countries where income inequality is at a low level. The degree of income inequality in the household income distribution can be measured through the “Gini-coefficient” of a country, and it is measured that countries with a higher coefficient, have observed more inequality.

Moreover, Agriculture is a vital sector for poverty reduction, which strengthens the rural-based development strategy. It promotes the relation between farm and non-farm activities, which are important for poverty reduction (Khalid, 2004). In the rural areas, credit unions and associations are required as non-farm small businesses, which encourage livelihood creation.

2.3 The concept of social capital

The conceptualization of social capital was broadly - and controversially - analyzed by academics over the last twenty years. The term social capital has varied definitions. According to Grootaert (2001), social capital is defined as the “networks and norms that govern interactions among individuals, households and communities” (p. 1). However,
Putnam (1995) described it in three aspects of ‘networks, norms and trust’ to empower the members of a network or a group to reach a goal successfully through collective actions.

The principle concept of social capital was impressed in the 20th century by Hanifan (1916), in which he argued that social capital does “not refer to real estate or to personal property or to cash, but rather to that in life which tends to make these tangible substances count for most in daily lives of people, namely, goodwill, fellowship, mutual sympathy and social intercourse among a group of families and people who make a social unit” (p. 130).

Social capital was imagined systematically by James S. Coleman over two decades ago in 1988, in which he argued that human capital and physical capital are different as per the skills and capabilities; human capital is more incomprehensible than physical capital, whereas social capital is created through a network and relationships among individuals in a society.

Robert Putnam, in his 1993 publication Making Democracy Work, broadly discussed social capital and offered the most concise definition of social capital. Today the researchers and academicians prefer the concept of Putnam in their works. Putnam’s work is a pioneer and the best concept for doing research on social capital. He illustrated social capital in terms of community participation and studied institutional performance in Italy. In his research, he found out that the northern areas of Italy were becoming more developed than the southern region due to the cause of social capital inequality in both areas (Putnam & Leonardi, 1993). After analysis, he defined social capital as “networks,
norms and trust to enable participants to act together more effectively to pursue shared objectives” (Putnam, 1995, p.66). Hence, the researchers refer to and use the network form of social capital for their research and studies as the people call it by norms of cooperation and trusts.

In another of his publications entitled, *Bowling Alone*, written in 2000, Putnam argued, “the core idea of social capital is that social networks have value and social contacts affect the productivity of individuals and groups” (Putnam, 2000, p.18-19). In this he mentioned that social capital is created through the relationship of people and social groups along with the norms of reciprocity and having trust on each other.

According to Fukuyama (1995), who noticed trust with economical execution as the basic source of social capital, he compared and evaluated the economic performance of different countries as per the trust, and he found that a country’s economic development and progress is based on their trust level. Despite this, he was doubtful of individuals trust in the families (Fukuyama, 1999).

The idea of social capital is also defined by international organizations by their own sight. Whereas the WB¹ on its website describes it as:

“Institutions, relationships, and norms that shape the quality and quantity of a society’s social interactions”

¹ See World Bank website on Social capital:
Similarly the Organization for Economic Cooperation and Development (OECD) defined social capital on having shared networks, norms, values, and understanding that creates or enable cooperation and support in a group or in a society (OECD, 2001).

The idea of social capital might be in different manner for the people, but the definitions are close with the same idea, which focuses on network, norms and values that provide and create solidarity among people, groups, and community (Healy & Hampshire, 2002). Hence, social capital can be understood as three ideas - network, norms and trust - which are described below:

2.3.1 Network

A group of people who are living together as family, relatives, and friends in a community is called a network (Putnam, 1995). He added that the connection of a network among individuals and families in the communities is via greetings and friendship through regular visits and deeper relationships and better assistance to each other in a community. Networks can be created in two shapes - vertical or horizontal. However, a superior-subordinate network is a vertical network, but the connection and relation between the members of the network are horizontal. On the other hand, it is difficult to do voluntary cooperation in the vertical, whereas the collaborations and assistance are extensive in horizontal network (Putnam & Leonardi, 1993).

Groups and networks are very helpful for community people, which solve the problems and issues of a variety of actions through better managing and mobilizing of resources and enhancing social capital for the livelihood of the people, reducing cost, and providing
opportunities, communicating, creating trust, and solving the problems of the community (Grootaert et al, 2003).

Group participation is a factor of social capital, which can increase business market through sharing of knowledge and improving human resource with trust at the community level (Putnam and Leonardi, 1993).

2.3.2 Norms

Norms are the social behaviors, rules and values which are unwritten that demonstrate a community (Coleman, 1988). Norms are the social capital forms, which influence individuals and groups to have communication with each other as friends, relatives, and neighbors. According to Fukuyama (1995), social norms are defined by social groups or by people’s shared beliefs in which it affects as a whole on the society’s action.

2.3.3 Trust

The word “Trust” means to have faith on a person who has honesty, is trustworthy and is efficient and effective in an activity; or any activity that is performed or implemented effectively with honesty by individuals or groups in a community when the members have trust on each other; and to point to trustworthiness among the people in a community (Grootaert & Narayan, 2004). To believe in a person and to expect honesty in his or her effort and performance is called trust. Trust is identified as a significant issue in any business, which allows the business to run better and have a massive impact on economic growth (Arrow, 1972).
Trust is a form of social capital that maintains economic performance of a government (Putnam, 1993). Trust is also a mechanism that is included and is a part of social relations in daily life, where social relations are mainly creating trust in the social and economic life (Granovetter, 1985). Putnam (1993) has argued that norms of reciprocity make trust between individuals or groups, whereas by having trust, it creates social capital as well. Fukuyama defines trust as “the expectation that arises within a community of regular, honest, and cooperative behavior, based on commonly shared norms, on the part of other members of the community” (Fukuyama, 1995, p.26).

2.3.4 The forms and scope of social capital

Social capital is mainly revolve into the sense of network, norms, and trust, which are the three main aspects of social capital that exert their impact on development through the outcomes of two kinds of social capital “Structural” and “Cognitive” (Grootaert & Bastelaer, 2002; Krishna & Uphoff, 2002). The first type of social capital – structural - refers to the outward part of a society that can be seen and observable and enables data sharing among people, collective action, and making decision within social networks and procedures. Cognitive social capital looks on the internal part of the society and is an intangible concept that shows how people think about social capital (Krishna & Uphoff, 2002). Having membership in a group is known as formalized social capital, where the first form is related to objectives and could be visible social capital such as networks and institutions. The second one includes a subjective base such as norms, trust, beliefs, and values in a community or a society (Uphoff & Wijayaratna, 2000). However, the two
kinds of social capital are mutually reinforcing, but they observe it as not needed to be complementary.

Social capital can also be observed based on its scope (Grootaert & Bastelaer, 2002). Social capital as norms, values and trust among individuals and households is considered by networks at the micro level while, at the meso level, it is pointed to both horizontal and vertical relations between the groups. It is also broadly considered at the macro level in the form of institution of the state and political environment, which is working on the economic and social activity and for the governance arrangement. The concepts of social capital with structural and cognitive kinds are discussed along with the sequence of micro to the macro level in figure (2.1) below:

Figure 2.1 Forms and scope of social capital

![Diagram](image)

Source: Grootaert & Bastelaer (2002, p.343)

Scholars and researchers also identified social capital through its forms as bonding, linking, and bridging social capital, described below.
2.3.5 Bonding, bridging and linking social capital

According to Putnam’s argument (2000) bonding social capital is observed as inward, which “reinforces exclusive identities and homogeneous groups” and at the same time he describes bridging as “more outward looking and encompass people across different social divides” (p. 22). Most of the researchers observe network social capital from both bonding and bridging forms (Putnam, 2000; Woolcock & Narayan, 2000). However, bonding social capital arises among individuals and neighbors in a community through relationship and trust, but it cannot precipitate action to solve the problems among the neighbors. Robinson described bonding as ‘glue’, which consolidates and creates solidarity among bonds in order to have close relationships such as family and friends in a community (Robinson et al., 2002).

Bridging social capital is defined as “connections to people who are not like you in some demographic sense” (Woolcock & Sweetser, 2002, p.26). Bridging social capital happens when members of two groups connect for the knowledge and information exchange to support each other. For example, groups are getting together to raise complaints about their public and social problem.

Based on empirical works of some scholars, bridging social capital increases economic development, governance performance, and democratic participation in a society; it reaches different communities and groups, which positively affects the whole community (Knack, S. 2002).
The people tie connections with other networks or groups through both shapes (i.e., horizontal & vertical) of network that increases to linking social capital (Woolcock, 2001). Linking social capital depends on having a link with someone whom has political and financial powers in the community (Woolcock and Sweetser, 2002).

2.3.6 The ‘down side’ of social capital

It is considered that social capital impacts positively on a society; however, it also has some negative outcomes to be considered as well. The powerful network ties that create better relationships but can deprive people of participation and opportunities (Narayan, 1999). Social capital can restrict individual freedom, but it can lead to rich groups or networks as a whole. Portes (1998) argued that solidarity networks could be one of the causes of a downside mechanism. Moreover, Portes added that social capital deprive the people who are not the real member of the group; instead it makes strong the relationship, trust, and communication among the members.

Social capital also has a negative impact, which appears in powerful and strong social groups, where the groups are not respondent to all citizens at once, instead they create corruption (Evans, 1989; Mauro, 1995; World Bank, 1997).

Societies become strong by having social groups which impact to increase social capital, weakening and reduce poverty, corruption, and social conflicts. These can happen through “three phenomena; crosscutting ties among the groups; the nature of the state and the state interacts with distribution of social capital” (Narayan, 1999, p. 8).
2.4 Social capital and the poor

It is a factor in determining the poverty, vulnerability, and socioeconomic advancement in a society. Woolcock and Narayan (2000, p. 225) believed “it’s not what you know, it’s who you know” which is a normal advice that adds up its intellects and importance. Also quoted in their source that "communities endowed with a diverse stock of social networks and civic associations are in a stronger position to confront poverty and vulnerability (Moser 1996, Narayan 1995), resolve disputes (Schafft 1998, Varshney 2000), and take advantage of new opportunities (Isham 1999)” (p. 226). Moreover, they argued that the absence of social network ties and non-membership in groups can have the same equal impact on poor people, and also social exclusion from such ties can be characteristic of being poor.

It is recognized that understanding the concept of social capital helps to reveal the main reasons of poverty and the way to combat it (Robinson et al., 2002). It was also pointed out that poor people in society cannot sieve the chances and facilities when there is shortage of social capital agreements among the societies and even societies perpetually avoid doing business in public which has impact inconsistent result on the poor.

By doing some observation and research in Tanzania, it was found that social capital prevails and increases in the income of households and observed its impact and role in poverty reduction (Narayan & Pritchett, 1999). Meanwhile, Portes (1998) described and emphasized “economic capital is in people’s bank account, and human capital is inside their heads; social capital inheres in the structure of their relationships” (p. 7). Narayan
and Pritchett added up that social capital created through a relationship with others, not only with oneself who is the real person of his/her benefits.

A survey by Krishna and Uphoff (2002) was conducted of 2,400 households in rural India, in which they wanted to realize how cognitive social relation changed the social life of rural people and created collective action among the people; and they found the optimistic and a great relationship between social capital and the level of villages’ development.

Grootaert (1998) studied social capital on associations, relations and beliefs that having relationship, communication, and a collective action among the people move toward development and increase the social life. He also added that social capital influences and creates household happiness and reduces being poor in those who have more social capital. It was perused that social capital has positive effects on economic growth of a country; the countries that have formal institutions with effective rules are identified to have better trust and cooperation (Knack & Keefer, 1997).

Similarly, Grootaert (2001) also found that social capital is a substantial factor to reduce poverty, which has a positive impact on economic growth. The enhancement of economic growth can be achieved using social capital via deal-making and agreements between households and groups; this results in increased information flow, decrease costs, facilitating collective decision and implementation, and finally reducing the opportunism by better networks and communications (Grootaert, et al., 2003).
Moreover, governments and donors also have the same argument that social capital is the basic factor for poverty reduction. Such as the World Bank appreciated the research and the work of Narayan and Pritchett, which was conducted in 1999, on how social capital increases the household income and identified group membership on household income, as it was accepted the best and successful factor for poverty reduction.

The relation of social capital with poverty is clearly described by Woolcock and Narayan (2000). In the below figure the relation illustrated in five points through welfare and diversity of social networks, where at point A, the people use the social solidarity such as a bonding system in a society in order to achieve the goal or the work that individually could not be done which result in increasing the people’s welfare and pointed to B. Although, it shows the bonding form of social capital at point B, it fails due to limited economic resources seems by members and drop to point C, which occur when there are many people who do not know how to work and be an active member in a group. It will slowly turn to point D however; the welfare goes up gradually as some members are getting out from the group and finally, it increases from D to last point (E) which shows better welfare and as extended and wide network.
According to Warren, Thompson and Saegert (2001) “social capital is not an alternative to providing greater financial resources and public services to poor communities. Rather, it constitutes an essential means to increase such resources and to make more effective use of them” (p. 2). They also clarify remarkable indication that social assets of a community can increase economic wellbeing, health, safety, education, social participation and the quality of life in the communities.

2.5 Social capital and the saving groups

Access to credit is vital and important in any community, which helps the community to run their businesses and to provide basic needs for their family. In order to make possible sufficient access to credit in remote areas for poor communities, saving groups (SGs) provide the best means (World Vision, n.d.).
Saving can be defined as the resources or outputs that are created in the current period, but for future consumption (Gale, Sabelhaus, Hall, 1999). Or simply saving is a part of income, which cannot be spending on current expenditures, but will be saved for the future of unexpected, or emergencies, which bring changes in the wealth and is the supply for the capital. For this purpose, the idea of SGs initiated in order to increase social capital in a community.

SG is an informally owned institution composed of 5 to 30 poor rural people, who save together and get loans from the savings (Allen and Panetta, 2010). According to Wilson, Harper and Griffith (2010), “saving groups are miniature, unregulated banks where savers save and borrowers borrow” (p. 3). SGs include both men and women, but women around the world mostly run SGs. The SGs are supported through different local NGOs, government agencies and microfinance institutions (SAVIX, n.d.). World Vision Institution (2012) defined SG as a group of people who save together in a safe and appropriate way, which is managed and run by the members and convert the amount of cash into a saving.

SGs model originated by CARE International in Niger in 1990 based on the model of ‘Village Savings and Loan Associations (VSLA)’ which was structured and improved under Accumulating Savings and Credit Association (ASCA) approach as a low risk form of microfinance based on members’ own savings (Allen and Panetta, 2010).

This model is spread worldwide and in Niger approximately 197,000 women are members to these groups, hence, they are developed and promoted by international programs such as CARE, Catholic Relief Services, Oxfam and the Aga Khan Foundation.
with the help of some other national programs (Allen and Panetta, 2010). Overall, these agencies currently reach almost 2.3 million people, mostly in Africa. Table 2.1 shows the SG programs operating by facilitating agency worldwide.

Table 2-1 SG programs by facilitating agencies (as of July 2010)

<table>
<thead>
<tr>
<th>Continent</th>
<th>Aga Khan</th>
<th>CARE</th>
<th>CRS</th>
<th>Oxfam</th>
<th>PACT</th>
<th>Plan</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>24,343</td>
<td>17,078</td>
<td>0</td>
<td>66,162</td>
<td>131,600</td>
<td>0</td>
<td>239,183</td>
</tr>
<tr>
<td>Latin America</td>
<td>0</td>
<td>2,656</td>
<td>0</td>
<td>5,339</td>
<td>0</td>
<td>0</td>
<td>7,995</td>
</tr>
<tr>
<td>Africa</td>
<td>0</td>
<td>1,197,787</td>
<td>271,630</td>
<td>300,269</td>
<td>57,200</td>
<td>222,562</td>
<td>2,049,448</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>24,343</strong></td>
<td><strong>1,217,521</strong></td>
<td><strong>271,630</strong></td>
<td><strong>371,770</strong></td>
<td><strong>188,880</strong></td>
<td><strong>222,562</strong></td>
<td><strong>2,296,626</strong></td>
</tr>
</tbody>
</table>

No. of members | 24,343 | 1,217,521 | 271,630 | 371,770 | 188,880 | 222,562 | 2,296,626 |
No. of countries | 3 | 26 | 26 | 5 | 10 | 18 | 41 |
Average per country | 8,114 | 46,828 | 10,447 | 74,354 | 188,880 | 12,365 | 56,015 |

Source: Allen and Panetta, 2010

SGs are one of the most effective ways with low-cost mechanisms, which helps rural people gain access to financial services at a very large scale (SAVIX, n.d.). It is the most effective way to nurture savings habits, increase household income, financial assets, and social capital.

The VSLA model was created by poor women in a society, in which they were gathering for weekly meeting, and all of the members saved the same amount of money; the loans were given to the members when it was needed and finally all the money were divided equally to the members upon the end of the round.

Allen and Panetta (2010) in their paper argued that SG is a new idea and is the key sources of social capital, which has proven that to be famous and durable in a community level. Although, it can be the best way to provide the return on the member’s investment
and have long time survival, which creates large amounts of money inside a community. According to Fukuyama (2002), argued that social capital let the people get together to protect and to merge their shared needs. Though, it was observed that groups and networks enhance social capital that helps people to solve the problems of shared actions by strong mobilization of the resources.

SGs have both economic impacts and social empowerment, which are broadly believed as the safest method of social capital for the people to generate financial services for them for a long period and are very less expensive with high income generation and return for the members (World Vision Report, 2012).

SGs are functioning in various actions such as encouraging regular saving, giving loans to the members, creating solidarity and increasing social capital through regular meetings in the groups and cooperating in the society in emergency cases. It increases household financial assets and decreases vulnerability and poverty in communities.

It also empowers and enables people to save in small regular amounts and to borrow from savings, which result in members being able to have access to a larger payment through micro-loans and normally members use this amount of payment (cash) for their daily life expenses or do investment in a small business.

In the past while creating SGs, the transactions were recorded based on memorization; written records, laws and regulation with surplus cash were locked in a box. The groups were composed of 15 to 30 people who were elected every year by management members. However, today there are some different ways of having SGs; some use ledgers
for daily transactions, some groups use memorization - the same as in the past and some groups use passbooks (Allen and Panetta, 2010).

SGs are created through trust and belief among the members, where trust can create honesty, confidence, and strengthen the social ties. Some studies observe that if trust is limited to family ties, then the social capital will have less impact on economies; therefore there needs to be more trust among the members in a network in order to have a higher level of social capital (Realo, Allik & Greenfield, 2008). Pretty (2003) noticed that communities are having cooperation and working together in order to achieve a common purpose and to make sustainable the social bonds and norms in the society; and communities have more trust in each other where the social capital is higher in the groups.

SGs are created simply with fewer amounts of money, which are transparent, sustainable and durable; provides financial services and return to poor people who are members of the groups. SGs are flexible and created to allow the members to borrow money as a loan for any purpose (Wilson et al., 2010). Such as, members get a loan to buy dresses or supplies or for any other urgent needs. Mostly village people or group members are poor and have low incomes to arrange their basic needs; therefore, the groups provide loans to the members in order to respond to their needs. However, there are different types of SGs around the world that provides loans for different purposes.

According to Wilson, et al (2010), some of the groups would decide at harvest season that, whenever the grain market is flooded, members of the group can borrow more in order to save more crops for longer period; later on they can sell it for a high price at the
time when the market prices rise. For the return of the loan, there are varies interest charges by groups to the members, the lowest interest charges are two percent per month, but in Islamic countries there is no interest charges, and the groups may reject the charges (Wilson et al., 2010).

2.5.1 Kinds of saving groups

According to Financial Promise for the Poor, Wilson et al. (2010) describe the two kinds of SGs - Customary and Promoted SGs.

1. **Customary SGs** are groups “formed in the wild, as it were, without the oversight of an NGO (nongovernmental organization) or any other institution” (Wilson et al., 2010, p. 7). This kind of group is developed from the experience of the people and receives the group forming guidance from friends, relative, and leaders of the community. Mostly this kind of groups gets together to solve the issues of the community, such as clear land, home issues, repair fishing nets or harvest crops, and so on.

2. **Promoted SGs** are the groups created and supported by an agency or organization rather than support of a member. The organizations usually pay the trainers or facilitators to create and form the groups; and in some places the people themselves pay for the promoters to form and support their SGs through services (Wilson et al., 2010). The groups are promoted for different reasons; first it is believed that having SG is a better way of saving for households. The poor people in villages do not have access to bank accounts, where sometimes they need funds in emergency situations. Second, it is believed that, being a member of the SG creates trust and confidence among the members
and will give them the chance to increase their income and livelihood status. Third, it is found that SG can be a catalyst for other support too, such as the promoters provide health services or workshop in a village and it is considered that the group’s members may participate for any training. Hence, group training cost less rather than individuals, and collectively the groups take action on any services (Wilson et al., 2010).

2.6 Summary

Poverty does not have any specific definition, but it is related to hunger, lack of shelter and being sick. On the other hand, social capital is about having membership in institutions, associations and groups that create social networks in a community. The literature review mainly describe the theoretical concept of poverty, it’s determinant, and different characteristics. As well as it describe the concept of social capital with its different types and forms that how social capital impacts on poverty reduction.

This study more focus on the role of social capital and the formation of saving groups in Afghanistan. Saving groups are promoted to increase social capital and to improve the livelihood of the rural people of Afghanistan.
CHAPTER THREE

3 OVERVIEW OF SOCIAL CAPITAL AND POVERTY IN AFGHANISTAN

3.1 Brief overview of Afghanistan

The Government Republic of Afghanistan (GRoA) is a landlocked country located in the South Asia. It is bordered by China, Iran, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. At 2,340 km, its largest border is shared with Pakistan and the smallest border (76 km) with China (Blood, 2001). The country has a total population of 30.55 million (WB, 2013) and occupies approximately 652,000 km² of land, which is recorded as the 41st largest nation (Library of Congress, 2008). Based on its geographical location, the country is called the “Hearth of Asia” (Tadjbakhsh, 2012).

Afghanistan is classified as a lower income country with a Gross National Income (GNI) per capita of USD 690 (WB, 2013). In addition to having an abundance of natural resources such as copper, gold, iron, natural gas, uranium, precious and semi-precious stones, it still remains one of the poorest countries. Over two decades of war (1979-2001) completely destroyed the social, political and economic infrastructure of the country, and due to that nine million people, which means 36% of the population, are still living in poverty (NRVA, 2007/08).

The engagement of the international community at the end of 2001 was a turning point in the socio-economic reconstruction and development of Afghanistan, which brought rapid changes and socioeconomic transformations in both rural and urban areas. However, changes in economic and social development of communities in Afghanistan have
considerably moved the communities forward and provided paid work for numerous people. Despite crucial changes in different sectors, there remains a dauntingly high rate of poverty, unemployment, insecurity, and discrimination against women, a lack of sustainable revenue and a host of other social political and economic problems (Roberts, 2009).

It is obvious that the country is in need of socioeconomic development all over the country. It is found that the economic sector has a strong need for diversification of their economic base to meet the current conditions. Afghanistan is placed as the poorest and least developed country in the world; it is ranked alongside distressed and vulnerable nations like Democratic Republic of the Congo and Somalia. It faces poverty and a dysfunctional economy as, a result of a grueling and unrelenting war that lasted for over two decades – a conflict and insurgency that devastated the economy, agriculture, infrastructure, education and social infrastructure of the country. But, after the re-establishment of the government in 2001, its socio-economic indicators were identified and assessed. Table 3.1 indicates the data of the last decade, in which the economic growth rate and the GNI per capita (current US$) increased from US$ 210 in 2004 to US$ 700 in 2013. Similarly, the life expectancy increased from 55.67 to 60.51 during the past eleven years.
Table 3-1 Socio-economic indicators of Afghanistan economy

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted net national income per capita (current US$)</td>
<td>167.47</td>
<td>199.35</td>
<td>251.17</td>
<td>340.71</td>
<td>505.77</td>
<td>620.77</td>
<td>NA</td>
</tr>
<tr>
<td>GDP growth (annual %)</td>
<td>NA</td>
<td>1.06</td>
<td>5.55</td>
<td>3.61</td>
<td>8.43</td>
<td>14.43</td>
<td>4.23</td>
</tr>
<tr>
<td>GDP per capita growth (annual %)</td>
<td>NA</td>
<td>-2.74</td>
<td>2.38</td>
<td>0.99</td>
<td>5.8</td>
<td>11.68</td>
<td>1.75</td>
</tr>
<tr>
<td>GDP per capita, PPP (current international $)</td>
<td>867.83</td>
<td>921.29</td>
<td>1077.75</td>
<td>1260.4</td>
<td>1605.76</td>
<td>1926.17</td>
<td>1989.61</td>
</tr>
<tr>
<td>GNI per capita, Atlas method (current US$)</td>
<td>NA</td>
<td>210</td>
<td>270</td>
<td>370</td>
<td>510</td>
<td>690</td>
<td>700</td>
</tr>
<tr>
<td>Life expectancy at birth, total (years)</td>
<td>55.67</td>
<td>56.57</td>
<td>57.57</td>
<td>58.61</td>
<td>59.6</td>
<td>60.51</td>
<td>NA</td>
</tr>
<tr>
<td>Rural population (% of total population)</td>
<td>78.09</td>
<td>77.44</td>
<td>76.76</td>
<td>76.05</td>
<td>75.31</td>
<td>74.53</td>
<td>74.13</td>
</tr>
<tr>
<td>Poverty headcount ratio at national poverty lines (% of population)</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>36.3</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Net ODA received (% of GNI)</td>
<td>31.79</td>
<td>43.67</td>
<td>41.71</td>
<td>47.64</td>
<td>40.17</td>
<td>32.63</td>
<td>NA</td>
</tr>
<tr>
<td>Net ODA received per capita (current US$)</td>
<td>58.99</td>
<td>96.24</td>
<td>115.55</td>
<td>180.34</td>
<td>226.3</td>
<td>225.49</td>
<td>NA</td>
</tr>
<tr>
<td>Mortality rate, infant (per 1,000 live births)</td>
<td>90.6</td>
<td>86.2</td>
<td>82</td>
<td>78.5</td>
<td>75.3</td>
<td>72</td>
<td>70.2</td>
</tr>
<tr>
<td>Maternal mortality ratio (national estimate, per 100,000 live births)</td>
<td>1600</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>330</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Household final consumption expenditure, etc. (% of GDP)</td>
<td>112.2</td>
<td>123.78</td>
<td>112.81</td>
<td>104.9</td>
<td>102.72</td>
<td>104.4</td>
<td>111.72</td>
</tr>
<tr>
<td>Unemployment rate total (%)</td>
<td>8.3</td>
<td>8.5</td>
<td>8.5</td>
<td>8.6</td>
<td>8.7</td>
<td>8.4</td>
<td>8.7</td>
</tr>
</tbody>
</table>

Source: WDI, 2014

Despite the remarkable achievement in the socio-economic development, still the country is fighting against poverty, as 36% of the population is living under the poverty line (NRVA, 2007/08).
Due to the problems mentioned above, the International Community provides funds to the Afghan government during the past 13 years that reached its top level. According to the Ministry of Finance report as of July 2012, the donors pledged USD 119 billion for two main issues (security and economic development) of Afghanistan, but so far the disbursement and expenditure is USD 70 billion in support of projects and programs. For the year 2011, the donors committed USD 16 billion to development projects and security activities, where it was reported that only USD 13 billion was disbursed on the mentioned issues, though USD 2.3 billion was proceed through the government budget and the rest was disbursed through the development partners (Development Cooperation Report, 2012).

The Afghan government with mentioned cooperation by the international community is working in different sectors through its ministries and organizations; however, 75% of Afghan people are living in rural areas and have less access to social resources, due to the rural poverty, lack of local governance and unemployment which are the three critical issues currently facing the country and this will remain for some more years (MRRD SI, 2010). Hence, these issues are addressed in Strategic Intent (SI) document of Ministry of Rural Rehabilitation and Development (MRRD), that are develop to contribute toward the poverty reduction and to give rural communities development services package. The aim of this ministry is “to alleviate poverty in rural areas by empowering communities and fostering economic and social opportunities” (MRRD SI, 2010, p. 14). This ministry has addressed many of the rural communities needs through its five national programs and has displayed its activities through providing opportunity for the rural people to decide their future, build social capital, reshape men and women in different villages into
actors for their development, provide better access to market, job opportunities, education and health services.

3.2 The profile of the poor and poverty in Afghanistan:

Poverty reduction is a key priority objective of the Afghanistan National Development Strategy (ANDS); it has a significant component in the data package of the policies, which helps to emphasize this objective. The poverty reduction goal has a standard structure that presents the nature of a country’s poverty and measures and assesses that country’s poverty; it provides information across geographic and socioeconomic contexts and identifies the correlation of poverty among poor people. According to Oxfam (2009), some of the news broadcasts and Non-Government Organizations (NGO) suggest that the Afghans poverty picture has been incomplete, due to lack of the household data.

By passing the years, the problem of the lack of household data was solved through the official government survey known as “National Risk & Vulnerability Assessment” (NRVA); during 2007 and 2008, it shows that the overall poverty rate throughout Afghanistan is 36% (see table 3.2), which means that out of 29.82 million population, 9 million people still cannot provide for their primary livelihood needs and are living under the poverty line (NRVA, 2007/08).

3.2.1 The poverty measuring trends

To assess or measure the poverty issue in Afghanistan, the NRVA team used three main indicators, which are identified and classified based on poverty lines during 2007-2011. The first one is the headcount index that shows the percentage of those populations in
which their per capita monthly consumption is under the poverty line. It is the easiest and
most common index used to measure poverty and is a simple way of understanding it.

The second index to measure the poverty level is called the poverty gap index, which
shows the average gap among the consumption level of the poor people and the poverty
line. However, the most vulnerable people have no means of consumption, thus they
remain far below the poverty line. The third index of measurement is the squared poverty
gap, which is similar to the poverty gap index with the only difference being its relation
to an increasing weight at larger distances under the poverty line. Thus, it mainly focuses
on the severity of poverty (NRVA, 2011/12).

The table below shows the progress of poverty measurement during the years 2007/2008
and 2011/2012, which was measured through two NRVA surveys. The analysis in the
survey 2011/12 shows that poverty rate is still 36% and has not changed since 2007.

Table 3-2 Poverty measures trends by two surveys

<table>
<thead>
<tr>
<th>Poverty Indicators</th>
<th>Surveys years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007-08</td>
</tr>
<tr>
<td>Poverty Headcount</td>
<td>36.3</td>
</tr>
<tr>
<td>Poverty Gap</td>
<td>7.9</td>
</tr>
<tr>
<td>Squared Poverty Gap</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: NRVA, 2011/12
The poverty rate is also broken down based on the types of residences as Rural, Urban and Kuchi\textsuperscript{2} people in Afghanistan. The poverty rate in rural residence is the same as the whole poverty percentage of 36%; in urban areas it is partly less at 29%; and it is very high in Kuchi residence, at almost 54%. At the same time, the poverty gap index determines the same figure as the headcount rate. The figure shows the same rate at both rural areas and the national rate of almost (8%), for the urban areas it shows slightly lower (6.2%) and for the Kuchi residence it indicates higher – again the same as the poverty headcount (14%) (NRVA, 2007/08). Overall the figure indicates that Kuchies have suffered more than others, and the poverty rate is higher as to compare with other groups.

Table 3-3 Poverty measurement in Afghanistan

<table>
<thead>
<tr>
<th>Poverty Indicators</th>
<th>Urban</th>
<th>Rural</th>
<th>Kuchi</th>
<th>National</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty head count</td>
<td>29.1</td>
<td>36.4</td>
<td>54.3</td>
<td>36.0</td>
</tr>
<tr>
<td>Poverty gap index</td>
<td>6.2</td>
<td>7.9</td>
<td>14.0</td>
<td>7.9</td>
</tr>
<tr>
<td>Squared Poverty gap index</td>
<td>2.0</td>
<td>2.6</td>
<td>5.2</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: NRVA, 2007/08

The poverty rate based on the province and region indicates that it is lower in southeastern provinces (23%) and is twice in east and west-central regions (45%).

\textsuperscript{2} Kochis or Kuchis (from the Persian word: \textit{koch}; meaning "migration") are Afghan people, who are the most extreme poor that live in tend and always migrate from one place to another due to natural disasters and climate changes.
Poverty based on the regions in Afghanistan varies with its diverse terrain, climate and agriculture zone. According to NRVA survey, the central and southwestern regions of the country have the lowest level of poverty, while the west central region has the highest level due to its climate and geographical location as a remote area.³

³ Central: Kabul, Kapisa, Parwan, Wardak, Logar, Panjshir; South: Ghazni, Paktika, Paktya, Khost; East: Nangarhar, Kunarha, Laghman, Nuristan; Northeast, Badakhshan, Takhar, Baghlan, Kunduz; North: Samangan, Balkh, Jawzjan, Sar-I-Pul, Faryab; West: Badghis, Herat, Farah; Southwest: Nimroz, Helmand, Kandahar, Zabul, Uruzgan; West-Central: Ghor, Bamyian, Daikundi.
According to the NRVA survey (2007/08) there are important aspects of poverty that differ per the four seasons in Afghanistan. The NRVA team did field visit during the years 2007/08 to survey all over Afghanistan in order to collect data regarding how the living condition changes throughout different seasons and how the poor manage with their basic needs during unpleasant time. The poverty rate is different during the four seasons in Afghanistan (see figure 3.2). In winter and spring, it is normally higher than the fall harvest season. In winter season, the poverty rate was estimated 32% because most of the households are farmers and cannot earn any profit from the lands during the winter season.

However, the price of food such as wheat, flour, and other foods had rapidly increased during the summer of 2008, thus the poverty rate rose to 46%, as it was assessed that most of the rural people receive their income through agricultural activities and cannot maintain their main livelihood sources for half a year (NRVA, 2007/08).
Figure 3.3 Seasonal poverty rate

![Seasonal Poverty Rate (Four seasons)](image)

Source: NRVA, 2007/08

To compare the headcount ratio of Afghanistan poverty with regional countries based on World Bank data, (figure 3.3) Afghanistan’s poverty rate is the highest in the region than other countries and Sri Lanka has the lowest level of poverty than others.

Figure 3.4 Regional poverty comparisons

![Percentage of poverty in South Asia](image)

Source: WDI, 2014
3.3 Social Capital in Afghanistan

Overall the concept of social capital varies widely, where most people do not know how and through what way social capital is generated in a society.

Social capital concept is quite new in Afghanistan, in which the people start mutually cooperating and supporting each other to solve their problems and needs in the communities. The Afghan people value the reciprocity, friendship, hospitality, cooperation and helping each other for their social life. However, almost 75% of the populations of the country are living in rural areas, and at most 0.6% of the population has access to rural credits (World Bank, 2010). They try to find out how to create social capital through their participation in community activities and accessing a credit union.

3.3.1 The Afghan poor and their relation to social capital

The Afghan people are poor and suffer from poverty. The rural poverty is estimated upper than the urban areas. The main challenges that rural people in Afghanistan face are the lack of proper facilities and capacity. Based on the NRVA survey, gender inequality is one of the important characteristics of poverty. However, the majority of Afghan women do not take part in the economic and social activities, which are mostly dependent on their families due to having less access to education and other social facilities. The literacy rate between men and women is different, with the rate for women lower (17%) than that for men (45.4%). This means that the literacy rate for women aged 15 to 24 is estimated 12 percent, compared to 51 percent for men.
On the other hand, education is crucial in rural areas, where enrollment in primary school for girls (6-9) is 21 percent but is greater for boys at 28 percent. Lack of schooling and cultural barriers keep women far away from social and economic activities and inadequate to join in the workforce, thus they have less economic chances (ANDS, 2008).

In terms of access to health services, it is totally different in poor and non-poor households. Furthermore, it is estimated that Afghanistan has one of the highest infant mortality rates; access to both prenatal health care and skilled care at birth are much worse for the poor in rural areas. According to the data, only 24 percent of mothers receive antenatal care services, only 10 percent of poor mothers are attended by skilled health care workers while giving birth. With a high level of infant mortality and malnutrition, access to safe drinking water is very critical to the health status of the people. Less than 20 percent of the Afghan rural population has access to safe drinking water (MoE, 2010).

The NRVA survey was a very successful initiative to collect data from all over the country that covers every sector and helps the government to pay more attention to the challenges and to work extremely hard to create better livelihood for the people.

The country needs to focus on the political and institution building capacity for the economic growth, job opportunities, and reducing poverty in order to create long-term stability and prosperity. However, majority of Afghan populations are living in rural areas, and the instability, poverty, and unemployment are much higher in rural areas than the urban. In order to do that, the creation of social capital is required for the country. There are two reasons to value social capital: first, it can be the best sources of economic
production, and second, using social capital can generate and improve socio-emotional goods, which improve the emotional health of a country. “Those with high levels of social capital will have advantages over those who lack social capital because they can exchange both socio-emotional goods and physical goods and services” (Robison et al., 2002, p. 1).

The theory of social capital indicates that whenever it increases inside systems of transacting partners, the inequality of profits reduces, while the benefits average rises. This relation of both inequality and average income comes from involvement in social capital networks trade that favors the disadvantaged and decrease disagreement, from the increase of investments in civic goods and from social regulations between the people that share social capital (Robinson et al., 2002).

The Afghan rural people have less access to social capital and activities, due to that the poverty rate is high. In order to find out the solution and to increase social capital, the Afghan government with the assistance of the International Community (such as World Bank) created the National Solidarity Program (NSP) in 2003 under the supervision of the Ministry of Rural Rehabilitation and Development (MRRD) to improve the social lives of the rural people through post-conflicts and community-driven reconstruction (NSP annual report, 2012).

NSP is the single largest development program in Afghanistan. This program is a vital and successful program in the country, which creates and increases social capital through encouraging better local governance, empowers local communities in order to manage their society and livelihoods themselves, builds physical capital to provide rural
communities with access to services (Chona R. Echaves, 2010). Empowering local communities is defined as the method to increase, praise and build the capacity of individuals and groups in a community for making useful choices and to change the choices into required outcomes (Rahimi, 2013).

Though, the NSP program operates successfully in rural areas that focused on the political and institution building for the economic growth, job opportunities, reducing poverty in order to create long-term stability and prosperity. During the last 13 years (2001-2014) the government responded to above issues through several programs and projects, but still there was a lack of better relationships, trust, community enterprise development, and most importantly formal financial system such as affordable credit and other financial services in the rural areas. The poor rural people need repeated loans for the livelihood and to tackle the challenges, where mostly they borrow from traders or moneylenders during the crisis. At the same time, they need a support system for developing and strengthening their rural micro enterprises (AREDP Annual Progress Report, 2012).

Therefore, MRRD with the support of several donors take initiative action to respond to such issues by establishing a program in 2009 named the Afghanistan Rural Enterprise Development Program (AREDP) (AREDP, 2012). Mainly the objective of AREDP is to raise income and employment opportunities for both men and women through creating and promoting rural enterprises. To achieve the objective, the program created saving groups as a source of social capital and for income generation in several villages.
3.4 Community enterprise development activities

Based on the idea of AREDP program, its main aim is to generate income and job opportunities through its two components. (1) Community-based Enterprise Development (CED). (2) Small and Medium Enterprise (SME) Development. Associations of these groups have emerged as the best village level institutions that increase savings and provide credit services, and create access to microfinance and market services to the rural communities.

CED organizes the community into relevant community groups through forming and promoting Saving Groups (SGs), Enterprise Groups (EGs) and Village Saving and Loan Associations (VSLA), which are created as to increase social capital in the rural communities. CED provides facilities to these groups for different purposes such as access to microfinance and market for the product of the rural micro enterprises. Based on AREDP operational guideline (2012) the three mentioned groups are described as below:

- Promoting Savings Groups – facilitating community for community-based enterprise development. It consists of mobilizing community, forming SGs, supporting SGs for nurturing & strengthening SGs. Organizing rural men and women around savings and internal loaning as a regular binding activity. SGs are designed to create an opportunity for its members to undertake micro-savings regularly and access micro credits/microfinance in the need from own groups as well as provide a platform for their self-growth, development and strengthening of their livelihoods to enhance income.
• Promoting Enterprise groups - mobilizing rural entrepreneurs, which are members of various SGs into EGs, supporting EGs for nurturing & strengthening their capacity for development. EGs creates and provides opportunities to its members to draw technical services and helps to build linkages with markets for developing and strengthening their rural micro enterprises.

• Promoting VSLAs – mobilizing potential SGs towards VSLA, forming VSLAs and supporting VSLAs for nurturing & strengthening VSLAs to facilitate Access to Finance for community groups. VSLAs help SGs to access microfinance to fulfill larger volumes of credit needed by SGs members for investing in rural micro enterprises, strengthen further SGs around their core functions and developing their linkages.

This study is mainly focusing on SGs activities as one of the best sources of social capital in rural areas. Currently Saving Groups (SGs) exist in six provinces of Afghanistan and Parwan province SGs are selected as the case study of this research.

3.5 Saving group formation and nurturing stages

SGs like other institutions go through several stages of growth in their life cycle. The stages start from (1) mobilizing community to forming SG, (2) SG stabilization and (3) SG growth and graduation with the description of different indicators. These stages make a clear path for the facilitators to organize themselves to broaden the structure and help the SG and facilitator to take actions in every step and process in a timely manner regarding their input, task in every stage.
Table 3-4 Stages of saving groups formation and nurturing

<table>
<thead>
<tr>
<th>Stages</th>
<th>Time Duration</th>
<th>Stage Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage one</td>
<td>Up to 4 months</td>
<td>Mobilization and SG Formation: This stage include the inputs taken during SG formation and mobilization, which helps community people to understand the concept, idea of SGs through training, and the people have to agree to start forming SG with conducting meetings.</td>
</tr>
<tr>
<td>Stage Two</td>
<td>5-12 months</td>
<td>SG Stabilization: In this stage, the group members keep stabilizing the group and its norms regarding SG functions.</td>
</tr>
<tr>
<td>Stage Three</td>
<td>13-36 months</td>
<td>SG Growth and Graduation: SG in this stage grows/matures and functions well; members do livelihood activities and develop the SG through linking with other associations, agencies and organizations. The program at this stage will withdraw its support and let the SG function independently.</td>
</tr>
</tbody>
</table>

Source: AREDP operational guideline, 2012

The AREDP program executes community enterprise development activities through well-trained dedicated teams based in each province. A-team of provincial enterprise facilitators (PEF) in the guidance of a senior officer executes CED activities in selected villages. PEFs mobilize communities into SGs, form the SGs, EGs, and VSLAs and
extend structured support to SGs, EGs and VSLAs to nurture into strong people’s institutions (see figure 3.4). A sub-team of two PEFs (one male PEF and one female PEF) facilitates these community groups in several CDCs (Community Development Council) depending on population density and geographical spread. PEFs in a coordination of CDCs and provincial AREDP leadership place 2 Village Facilitator (VF) - one male and one female - in each CDC to work with established groups and act as a local sounding board. Relevant teams of AREDP departments (both main office and provincial departments) provide all necessary support and guidance to the provincial CED team for effective and smooth execution of CED activities leading to the promotion of strong SGs, EGs and VSLAs. The below chart diagram shows an operating structure of people’s organizations and CED.

Figure 3.5 Operating structure of people's organizations and CED

Source: AREDP operational guidelines, 2012
The AREDP program started its piloted idea of promoting and strengthening rural micro enterprises through organizing the community into Saving Groups in 2009 in Parwan province of Afghanistan. Based on its success stories, the program expanded its operation across six provinces in the country: Nangarhar, Parwan, Bamyan, Balkh, Kandahar and Hirat. However, it is growing into a national program and will be expanded to implement its activities in all 34 provinces in a short period (AREDP operational manual, 2009).

Figure 3.6 AREDP program coverage map

The cumulative number of SGs created and promoted in all six provinces is 7,947 SGs up to mid-2014. In Kandahar and Nangarhar provinces the number of created SGs is higher than the other four provinces, due to more rural population and interest of the households.

Below figure shows the number of SGs created and promoted by the program in six mentioned provinces.
The main functions of the groups are to do saving on a weekly basis and to provide loans for the members for a period of time to start a micro rural business or activity in the village in order to increase the income of the members, which as a result provide more facilities to the poor people inside the village (AREDP operational guideline, 2012).

3.6 Summary

During the last 13 years, Afghanistan has receive huge amount of grants from International Community for several sectors, but still the country is placed as one of the poorest and least developed country. This chapter highlights the current situation of the economy and key challenges. In addition it describe the poverty profile of the country that conducted through a national survey (NRVA), shows that the national poverty rate is 36% and the rural population is 75%, who have less access to social resources and basic services due to the rural poverty and vulnerability. Moreover, it describes the formation of saving groups as a source of social capital to combat again poverty in the rural areas.
CHAPTER FOUR

4 METHODOLOGY

To study the role and impacts of social capital on poverty through creating and supporting saving groups (SGs) in Afghanistan, this chapter examines the research methodology used for the study, which clarifies and describes the way for the collection of data and its analysis. The methodology chapter consists of five parts: the research questions, research description, research site, data collection and analysis and lastly research limitation.

4.1 Research questions

The main purpose of this research is to understand the determinants of poverty and the importance of social capital in rural areas of Afghanistan. It also intends to describe a case study of saving groups on how the groups generate social capital and social relationships in the rural communities in Parwan province. The overall purpose of this study is to answer the questions below:

• Is social capital a major determinant of poverty reduction in rural areas of Afghanistan?

• How can saving groups help individuals and communities enhance social capital to strengthen the livelihoods in Parwan province?
4.2 Description of research

As the best method for this research, the author selected a qualitative method through applying a methodological triangulation technique consisting of multiple methods such as in-depth interviews, focus groups and personal observations. Hussein (2009) describes methodological triangulation as a technique involving using more than two methods during the research at the same time for the same fact. Meanwhile, Berg (2004) argues that combining different views and methods provides “a better, more substantive picture of reality; a richer, more complete array of symbols and theoretical concepts; and a means of verifying many of these elements” (p. 4). The author aimed to analyze the phenomena in a comprehensive manner, thus a qualitative method was also selected for the research. According to Kalf, Dan & Dietz (2008), “Qualitative methods are particularly well suited for studying a substantive area about which little is known in order to describe phenomena in detail and to explore topics that are difficult to study by other means” (p. 83). Meanwhile, Mcqueen & Knussen (2002) argue that in qualitative research there is no use of numbers or calculations, so it neither focuses on measurement nor uses statistical data in the studies.

To conduct the qualitative research, the author used semi-structured interviews with government officials and staff of the Ministry of Rural Rehabilitation and Development for collecting primary data. The questions were prepared as open-ended questions (see appendixes) based on the related issue of previous reports and documents. Mcqueen & Knussen (2002) describe open-ended questions as “a type of questionnaire or interview
item in which there are no restrictions on the range of responses possible to a respondent” (p. 100).

Furthermore, to understand the presence of social capital and its role in poverty reduction, a case study of Saving Groups (SG) were carried out in three districts of Parwan province in Afghanistan.

Within each three districts, in-depth interviews were conducted with SG members. In total, 16 SGs (six male and ten female SGs) were selected and interviews were conducted face to face. The researcher aimed to selected 30 respondents randomly from the in charge program’s list with the help of the program for the interview. But, only 16 respondents were selected through phone calls and were ready based on their availability for the interview in the research area at the time of the field visit. Moreover, due to security reasons in some villages and also a lack of time, the researcher could not conduct more interviews with several members in the area. The interview questions were developed in a basic level, considering the respondent's education, to be simple, short, and easy questions to understand. Therefore, the respondents were willing to answer the questions and did not have any problem.

Moreover, focus group discussions with the SGs members also helped the researcher in data collection. As such, four to eight members of different groups gathered for the discussion and shared their experiences on how their social life gets better by being members of a SG in their community. Mcqueen & Knussen (2002) defined focus group as “a group of people (whom) are brought together to discuss a specific topic, under the direction or guidance of a moderator, and the resulting conversation is recorded and/or
observed” (p. 209). A focus group discussion is one of the best techniques, where a member cannot keep anything secret, lie or say something wrong, because the other members know about the issue and are thus involved; they have to share everything clearly and properly.

The other technique that the researcher used was personal observations, in order to find out and understand additional ideas regarding key issues of social capital in rural areas of Parwan province.

Moreover, the researcher observed the participants sharing ideas and experiences during the focus group discussion and creating opportunities for the researcher to note the feelings and expressions of the participants. Mcqueen & Knussen (2002) describe observation as a technique that “can be used to establish what actually happens in various settings, to generate hypotheses and theories, to illuminate findings or examine situations more closely, and to evaluate the impact of interventions” (p. 205). The researcher also visited some microenterprises in the villages, which were run by the SGs members; this helped the researcher to observe how members receive loans, invest on microenterprises, and earn profit and its impact on the society.

Meanwhile, secondary data and document analysis were also used as additional information, and the data were collected from different sources, such as government’s documents, books, journal articles, reports and Internet sources.
4.3 Research Site

This study was conducted in three selected districts of Parwan province (Bagram, Jabal Saraj, Salang) in Afghanistan. Parwan is located in the central region of the country, north of Kabul city. According to the Afghanistan Central Statistic Organization (CSO), this province is divided into 10 districts: Bagram, Charikar, Jabal Saraj, Ghorband, Kohi Safi, Salang, Sayed Khel, Shekh Ali, Shinwari, Surkhi Parsa; its population was estimated as 631,600 people (CSO, 2013).

The poverty rate of Parwan province is around 18.9% (NRVA, 2007/08), which seems higher compared to some other provinces. This study is mainly focus on SGs that are generating social capital in the rural areas, and Parwan province is one of those six provinces where currently the saving groups are active and promoted successfully under the supervision of Afghanistan Rural Enterprise Development Program (AREDP) of the MRRD.

On the other hand, the researcher selected this province as a case study due to its proximity to the capital city as well as for security concerns. Parwan is more secured compare to some other provinces, and only three districts of this province were selected for the research due to security issues. Moreover, the government of Afghanistan has done various activities and implemented several development projects in the mentioned province; due to this, job opportunities have increased and social life of the households and communities have become better than in the past.
Figure 4.1 Parwan province map with three highlighted districts


4.4 Data collection and analysis

To collect data and answer the research questions, the researcher used both primary and secondary resources for this study. For secondary data collection, official reports and websites were used as public sources, and academic journals, books, surveys and reports, which mainly focus on social capital and poverty reduction, were used as private sources. However, the collected data from secondary sources were not enough for this paper to answer the research questions comprehensively. Due to that, a field study was conducted from 29 of July to 03 September 2014 to collect data through interviewing government officials and members of saving groups. The author first spent four days in three selected districts of Parwan province to visit the saving groups to conduct interviews and focus group discussion as well as to make observations; the remaining days were spent in
conducting official interviews and discussions with high-level of MRRD staff and collecting secondary data.

As mentioned earlier, the researcher conducted semi-structured interviews with both official government staff and the villagers. Open-ended questions with official government staff was used to understand further ideas regarding social capital, poverty reduction, and saving groups activities with its challenges at the village level. According to Kalf et al. (2008), it was advised to ask the entire respondents the same questions in an ordered way to show how characteristics of the respondents are linked to the answers of the questions. On the other hand, the researcher conducted in-depth interviews with SG members individually at the villages in three districts of Parwan province, which were carried on with the help of MRRD provincial staff to provide a better outcome for the research.

The village level interviews and focus group discussions were carried out mainly with SGs. The groups are created through AREDP program of MRRD in rural and remote areas of Afghanistan. This program organizes communities among various groups to strengthen their livelihoods, and it creates opportunities for savings, internal loans, accessing services of microfinance, microenterprise development, technical services, and accessing markets (AREDP Operational Report, 2012).

Overall during the field research, 16 saving groups and enterprise groups were interviewed, and the ages of the respondents were between 25-50 years old. Furthermore, the researcher was trying to carry out the interviews in a simple and easy way in order to
understand the informants because most of them were illiterate, especially the female saving groups members.

Personal observation techniques were also used to let the researcher observe the group members’ active participation in supporting each other. The researcher had the ability to observe the participation of the village people and the way they work within their groups, which provides a better understanding regarding the social life and behavior of the people.

The researcher visited the rural micro enterprises that are created and run by the SGs members. The entrepreneurs who are the members of SGs were asked during the interview regarding income enhancement and access to the market for their products. The entrepreneurs are mainly employed in producing rural products such as dairy products, dry fruits, vegetable, flower, cheese, cookies, carpet, tailoring, honey bee, poultry, saffron, arts & crafts, embroidery, handicrafts, livestock, precious stones, gemstones, and so on.

The interviews were voice recorded, and photos were taken from the small businesses. Most of the respondents were willing to be recorded and share their success stories, but only three informants were unwilling to be recorded; hence the researcher took note of this to avoid concerns during the interviews. Before conducting the interviews, the aims of the study were informed to the interviewees, both at official and village levels. The data that were collected from the interviews, focus group discussion and personal observation by the researcher were transcribed into the texts as recorded data, and then
the data were analyzed based on tables, figure and percentages of the variables and factors.

This study analyses the collected data of both interviews and secondary information through descriptive analysis to provide a more thorough outlook of how several forms of social capital affect the creation of trust, confidence, and collective action as well as exchange of information and experience, which consequently impacts poverty.

4.5 Research limitation

The main challenges that the researcher faced while conducting the study were: (1) limited literature and resources on social capital issues in Afghanistan; (2) no research papers and publications have been written on saving groups activities in Afghanistan; (3) the weak security in some villages, which did not permit the researcher to conduct more interviews in several districts; and (4) the unavailability of some SGs members for the interview during the field visit.

4.6 Summary

This chapter describes the methodology that was used to conduct this research. A qualitative method was used throughout conducting interviews, focus group discussions and personal observations with SGs members. Furthermore, this chapter describes the data collection and analysis through five steps.
CHAPTER FIVE

5 FINDINGS AND DISCUSSION

This chapter investigates the role of social capital, its impact to poverty and the promotion of the saving groups (SGs) and enterprise groups (EGs) with their effects in the rural areas of Parwan province of Afghanistan. It also analyses and describes the findings of collected data by using the tables and figures, and it further summarizes the main outcomes and discussion of the study.

5.1 Background of the case study

The study is mainly focusing on how saving groups can create and increase social capital in order to reduce poverty in the case of Parwan province. This province was selected as a case study due to its improved security and the fact that the SGs in this province are more successful than the other five provinces. Since 2009, the total number of SGs is 972 in five districts that are created by the AREDP national program in Parwan province (AREDP quarterly report, 2014).

The SGs in this province are more developed by better participation, collective actions, and cooperation of the members, which help the members solve social problems and provide better facilities to the community.

Besides SGs, the program focuses on other social activities such as Enterprise Groups (EG), Village Saving and Loan Associations (VSLA), and Small and Medium Enterprises (SME) in the rural communities in order to help community development by providing
more facilities and job opportunities for the rural entrepreneurs and the people. The below figure shows the number of social activities created in Parwan province.

Figure 5.1 No of social groups created by AREDP in Parwan province

![AREDP progress in Parwan province (Oct, 2014)](image)

Source: AREDP database, 2014

5.2 Descriptive analysis

This chapter describes and analyzes the collected data from the SGs that are created as a source of social capital in the rural areas; and the study describes the other sources of social capital as well, such as EGs, VSLAs and SMEs.

The collected data shows that the AREDP program covers 149 villages in five districts of Parwan province. Since the beginning, 972 SGs involving 10,881 members - both male and female, have been established up to October 2014, and the details are as below:
Table 5-1 Saving groups data of Parwan province

<table>
<thead>
<tr>
<th>No</th>
<th>Coverage</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Number of districts</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>Number of villages</td>
<td>149</td>
</tr>
<tr>
<td>3</td>
<td>Saving Groups</td>
<td>972</td>
</tr>
<tr>
<td>4</td>
<td>Average SGs per village</td>
<td>7</td>
</tr>
<tr>
<td>5</td>
<td>SG Membership</td>
<td>10,881</td>
</tr>
<tr>
<td>6</td>
<td>Savings/ member</td>
<td>2,310</td>
</tr>
</tbody>
</table>

Source: AREDP MIS, 2015

Based on an interview with Jalil Forough, he reported that SG is a new phenomenon for creating social capital in the context of Afghanistan, and the rural people are very interested to join the groups for their social and community improvement. However, 75 percent of Afghans are living in the rural areas, where most of them depend on agriculture and livestock and some of them are engaged in processing and trading activities of agriculture products (ANDS, 2008). Therefore, in order to run their agriculture production in a better way, they join the SGs for both savings and receiving loans.

The SGs members of Parwan province have better progress in terms of saving and lending activities in their communities due to strong trust and performance of the members, which consequently has increased social capital in the communities. Mr. Forough stated, “whenever the SGs reach maturity level (regularity of meetings and savings, managing loan, repayment and re-lending), the members start borrowing money

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4 Interview with Jalil Forough (Community Access to Finance Specialist, AREDP), August 08, 2014.
from the SGs for the purpose of starting a micro business inside the village or for emergency cases”. The table below (5.2) shows the amount of saving by the SGs and the number of borrowers with the received loan.

Table 5-2 Saving and internal lending of the SGs in Parwan

<table>
<thead>
<tr>
<th>No</th>
<th>Activities</th>
<th>Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Savings</td>
<td>25,139,660 (AFN)</td>
</tr>
<tr>
<td>2</td>
<td>Borrowers</td>
<td>2,346</td>
</tr>
<tr>
<td>3</td>
<td>No of loans</td>
<td>2,660</td>
</tr>
<tr>
<td>4</td>
<td>Amount of loan disbursed</td>
<td>16,106,686 (AFN)</td>
</tr>
<tr>
<td>5</td>
<td>Loan amount recovered</td>
<td>13,841,852 (AFN)</td>
</tr>
<tr>
<td>6</td>
<td>Loan amount outstanding</td>
<td>2,264,834 (AFN)</td>
</tr>
<tr>
<td>7</td>
<td>Average loan per borrower (in AFN)</td>
<td>6,866 (AFN)</td>
</tr>
<tr>
<td>8</td>
<td>No. of SG maintaining records or meetings, savings and internal lending activities</td>
<td>891</td>
</tr>
<tr>
<td>9</td>
<td>No. of SG whose members manage their own records</td>
<td>360</td>
</tr>
<tr>
<td>10</td>
<td>No. of SG whose records maintained by Village facilitator</td>
<td>364</td>
</tr>
</tbody>
</table>

Source: AREDP MIS, 2015

In Afghanistan, the SGs function similar to those in other countries of the world (such as SGs in Africa, Latin America, and other Asian countries), where the AREDP program creates both male and female SGs in the rural communities separately, but the saving process of them is almost the same. The SGs are operating in a better manner according to the guidelines and policies of the program. The below tables are the comparisons of both male and female SGs.

\(^5\) (AFN) is the abbreviation use for the Afghan currency
Table 5-3 Comparison of male and female saving groups

<table>
<thead>
<tr>
<th></th>
<th>Female SGs</th>
<th>Male SGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of female SGs</td>
<td>533</td>
<td>439</td>
</tr>
<tr>
<td>SG members</td>
<td>5,832</td>
<td>5,049</td>
</tr>
<tr>
<td>Saving amount of SGs</td>
<td>14,463,785 AFN</td>
<td>10,675,875 AFN</td>
</tr>
<tr>
<td>Female borrowers</td>
<td>1,401</td>
<td>945</td>
</tr>
<tr>
<td>No. of loans</td>
<td>1,621</td>
<td>1,039</td>
</tr>
</tbody>
</table>

Source: AREDP MIS, 2015

The tables show that the number of female SGs is higher than the male ones; it shows that 55% of total SGs are the involvement of females and 45% are those of males. Females are involved in more saving, borrowing and loaning activities than the males. It shows that 58% of total saving is from female SGs and 42% is from male SGs. Similarly, female borrowers’ percentage of 60% is higher than the male borrowers’ of 40%. However, one of the main reasons for the formation of SGs is to create an environment for the females to participate in social activities; also, most of the women are housewives and are much more interested to be the member of SGs in order to create a source of income for their family.

Moreover, for this research data were collected through conducting interviews with 16 SGs in three districts of Parwan. Out of those, 10 SGs were female and 6 were male SGs.
Table 5-4 SGs interviewed in Parwan province

<table>
<thead>
<tr>
<th>District</th>
<th>Village Name</th>
<th>SG Type</th>
<th>SG Name</th>
<th>Formation Date</th>
<th>Total Members</th>
<th>Saving to mid 2014 (In AFN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bagram</td>
<td>Sayad</td>
<td>Female</td>
<td>Durikhsan</td>
<td>5/20/11</td>
<td>19</td>
<td>74,850</td>
</tr>
<tr>
<td></td>
<td>Sayad</td>
<td>Female</td>
<td>Danish</td>
<td>5/20/11</td>
<td>11</td>
<td>62,550</td>
</tr>
<tr>
<td></td>
<td>Sayad</td>
<td>Female</td>
<td>Morsal</td>
<td>5/14/11</td>
<td>18</td>
<td>84,750</td>
</tr>
<tr>
<td></td>
<td>Togchhi</td>
<td>Female</td>
<td>Khurshid</td>
<td>20/14/12</td>
<td>12</td>
<td>81,000</td>
</tr>
<tr>
<td></td>
<td>Deh Dowlat Shahi</td>
<td>Female</td>
<td>Hamisha Khandan</td>
<td>7/21/11</td>
<td>15</td>
<td>61,770</td>
</tr>
<tr>
<td></td>
<td>Sayad</td>
<td>Female</td>
<td>Hamisha Khandan</td>
<td>4/11/13</td>
<td>10</td>
<td>55,500</td>
</tr>
<tr>
<td></td>
<td>Deh Now Gulbahar</td>
<td>Male</td>
<td>Etifaq</td>
<td>9/8/09</td>
<td>10</td>
<td>74,100</td>
</tr>
<tr>
<td></td>
<td>Sangi Mohammad Khill</td>
<td>Male</td>
<td>Tolo</td>
<td>4/18/12</td>
<td>10</td>
<td>30,000</td>
</tr>
<tr>
<td>Jabal saraj</td>
<td>Deh Now Gulbahar</td>
<td>Female</td>
<td>Sulh</td>
<td>3/29/11</td>
<td>10</td>
<td>51,000</td>
</tr>
<tr>
<td></td>
<td>Chahar Burj</td>
<td>Male</td>
<td>Khurasan</td>
<td>9/15/09</td>
<td>30</td>
<td>59,900</td>
</tr>
<tr>
<td></td>
<td>Chahar Burj</td>
<td>Female</td>
<td>Sutara</td>
<td>9/18/09</td>
<td>30</td>
<td>59,250</td>
</tr>
<tr>
<td></td>
<td>Qalai Baqi</td>
<td>Male</td>
<td>Etifaq</td>
<td>9/22/12</td>
<td>12</td>
<td>31,820</td>
</tr>
<tr>
<td></td>
<td>Qalai Baqi</td>
<td>Male</td>
<td>Etifaq</td>
<td>4/7/12</td>
<td>15</td>
<td>61,040</td>
</tr>
<tr>
<td>Salang</td>
<td>Hijan</td>
<td>Female</td>
<td>Shabnam</td>
<td>9/3/12</td>
<td>13</td>
<td>34,710</td>
</tr>
<tr>
<td></td>
<td>Qalai Baqi</td>
<td>Female</td>
<td>Anar</td>
<td>8/23/12</td>
<td>30</td>
<td>29,400</td>
</tr>
<tr>
<td></td>
<td>Kalry</td>
<td>Male</td>
<td>Limer Azad</td>
<td>10/10/12</td>
<td>20</td>
<td>21,600</td>
</tr>
</tbody>
</table>

Source: Author’s collected data, August 2014

The collected data from the field research interviews show that all of the SGs have an average of 16 members and have good internal savings with a minimum of 20,500 AFN and maximum of 80,000 AFN (equivalent to 400-1600USD) saving money since their establishment; they are running in a smooth and proper way.

The researcher aimed to focus on 16 SGs consisting 265 members as a sample from the
Total 972 SGs of Parwan province. Due to a lack of time and security, one respondent from each 16 SGs was a representative, and samples were selected randomly for the interview. Respondents were selected through phone calls based on their availability in the research area during the field visit.

Table 5-5 SGs interviewed and their types of enterprises

<table>
<thead>
<tr>
<th>No</th>
<th>District</th>
<th>SG Type</th>
<th>SG Name</th>
<th>Received Loan</th>
<th>Type of enterprise</th>
<th>Main village economic activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bagram</td>
<td>Female</td>
<td>Durikhshan</td>
<td>15,000 AFN</td>
<td>Shop keeping</td>
<td>Agriculture &amp; Livestock</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td>Danish</td>
<td>10,000 AFN</td>
<td>Tailoring</td>
<td>Livestock &amp; Dairy</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td>Mursal</td>
<td>50,000 AFN</td>
<td>Shop keeping</td>
<td>Agriculture &amp; Livestock</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td>Hamisha Khandan</td>
<td>45,000 AFN</td>
<td>Potato chips machine</td>
<td>Livestock &amp; Shop keeping</td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td>Hamisha Khandan</td>
<td>10,000 AFN</td>
<td>Fishery</td>
<td>Agriculture &amp; Livestock</td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
<td>Khurshid</td>
<td>5,000 AFN</td>
<td>Pickle &amp; Tomato sauce</td>
<td>Agriculture &amp; Livestock</td>
</tr>
<tr>
<td>7</td>
<td>Jabil Saraj</td>
<td>Male</td>
<td>Etifaq</td>
<td>8,000 AFN</td>
<td>Livestock</td>
<td>Agriculture &amp; Livestock</td>
</tr>
<tr>
<td>8</td>
<td></td>
<td></td>
<td>Tolo</td>
<td>10,000 AFN</td>
<td>Bee Keeping</td>
<td>Agriculture</td>
</tr>
<tr>
<td>9</td>
<td></td>
<td>Female</td>
<td>Sulh</td>
<td>15,000 AFN</td>
<td>Small Business</td>
<td>Agriculture</td>
</tr>
<tr>
<td>10</td>
<td></td>
<td>Male</td>
<td>Shafaq</td>
<td>5,000 AFN</td>
<td>Small Business</td>
<td>Livestock</td>
</tr>
<tr>
<td>11</td>
<td></td>
<td>Female</td>
<td>Sutara</td>
<td>30,000 AFN</td>
<td>Handicraft</td>
<td>Agriculture</td>
</tr>
<tr>
<td>12</td>
<td></td>
<td>Male</td>
<td>Etifaq 2</td>
<td>5,000 AFN</td>
<td>Livestock</td>
<td>Agriculture &amp; Livestock</td>
</tr>
<tr>
<td>13</td>
<td></td>
<td>Female</td>
<td>Shabnam</td>
<td>8,000 AFN</td>
<td>Handicraft</td>
<td>Agriculture</td>
</tr>
<tr>
<td>14</td>
<td>Salang</td>
<td>Male</td>
<td>Limer Azad</td>
<td>13,000 AFN</td>
<td>Carpentry</td>
<td>Agriculture</td>
</tr>
<tr>
<td>15</td>
<td></td>
<td>Female</td>
<td>Anar</td>
<td>15,000 AFN</td>
<td>Livestock</td>
<td>Agriculture &amp; Livestock</td>
</tr>
<tr>
<td>16</td>
<td></td>
<td>Male</td>
<td>Etifaq</td>
<td>12,000 AFN</td>
<td>Dairy milk</td>
<td>Livestock</td>
</tr>
</tbody>
</table>

Source: Authors collected data, August 2014
Based on the table, all members responded that the main economic activities of the villages are agriculture and livestock, and most of the members obtain their daily income through those activities. Still, some people do not have any source of income to support their household. A respondent from ‘Etifaq’ SG reported that he had agriculture land in the village, but due to lack of money, he was not able to purchase the cultivation seeds for his land. Jan Mohammad stated that “I was not able to support my family in a better way and my income was very low from my land”. After joining the SG, he started saving same as other members. He said, “After six months I got a chance to get a loan in order to start livestock activity and I bought two calves”. It is now two years since he joined the group and has since earned good profit from selling the milk and yogurt inside and outside the village. He added, “I am very happy to support my family and be able to purchase seeds for my land”.

Similarly each other member responded that they received a loan for the purpose of starting a business and were engaged with different types of rural microenterprises (as mentioned in table).

5.3 Role of saving groups in the livelihood of rural communities

In Afghanistan, SGs play a significant role in the livelihood of rural households. Based on the interviews with MRRD officials, the concept and aim of the SG is to generate social capital, which increases income and job opportunities for the poor people. According to Forough, in the beginning the AREDP program does mobilization in the villages then creates SGs consisting of 10 to 20 members who are among the low-income, poor men and women. He expressed, “the members gather to meet, discuss,
learn, share knowledge and resources, solve problems and keep each other in the loop of full social awareness with each other”, which cause improvements in the social network and livelihood of the communities. Forough added that the program technically supports the SGs through providing training to enhance capacity, skills, a system of saving, internal lending and repayment based on Islamic banking system, accounting, book keeping, penalties, etc. Mohammad Salim Mastoor, another official staff, reported that SG helps the rural economy development by strengthening community livelihoods in rural areas. Mastoor added that currently the total number of established SGs in Afghanistan is 5,850; out of those, 3,058 SGs are women SGs (52%).

Whenever the SGs reach maturity level, the AREDP program then sets up a community bank as a Village Saving and Loan Associations (VSLA) in every community. Forough stated that “10 to 15 SGs gather and join one VSLA to create a big community bank for the purpose of saving and loaning”. The SGs members save 60% of their saving amount in the VSLA and the remaining 40% in their own SG. On the other hand, Abdul Latif Amin reported that the AREDP program also provides seed capital to both SGs and VSLAs, where for the SG it provides 1,000USD and for the VSLA 10,000USD in three installment. He added that, whenever a member requires a big loan to start a business, first he/she can request from the SG, and if there is not enough money in the SG, then the member can request from the VSLA (see appendixes for the table).

6 Interview with Mohammad Salim Mastoor, Deputy Director of AREDP, August 10, 2014
7 Interview with Abdul Latif Amin, Program officer at CED Department, AREDP, August 12, 2014
8 The initial capital used to start a business, often comes from the company founders’ personal assets. The amount of money is usually relatively small because the business is still in the idea or conceptual stage.
Moreover, if the SGs reach maturity and are promoted well, then the members can borrow money to start a rural micro enterprise inside the community. Mr. Mastoor stated that, “5 to 15 entrepreneurs who are actually members of different SGs join together and create enterprise group (EG) with the support and mobilization of village facilitators (VF)\textsuperscript{9} and provincial enterprise facilitators (PEF)\textsuperscript{10}. Then, they can earn profit from the sales, share knowledge, economies-of-scale in sales and access to key services, which create opportunities for the members to make better relations with having access to markets for inputs, products and services. A female respondent from ‘Sutara’ SG received a loan and joined the EG inside her village. She reported that “by receiving a loan, I started making different types of handicraft products with other 4 members, we are selling our products to the markets inside and outside the village and we make good profit from our business”. Their microenterprise is success and changed their livelihood.

Currently the total number of EGs has reached 1,489 in Afghanistan, and out of that 949 EGs are women-led EGs (63.7%). The total number of EGs in Parwan province is only 231, Mastoor reported. The EGs are engaged in production and process of different products, such as dairy products, dry fruits, vegetable, cheese making, cookies, carpet, tailoring, honey bee, poultry, saffron, handicraft, livestock and many more businesses (see appendices for tables and success stories). All of these activities increase economic opportunities and the availability of social capital, which impact the people’s livelihoods and community development.

\textsuperscript{9} VF: Village Facilitator is available right in each village and is expected to act as sounding board to SGs.

\textsuperscript{10} PEF: Provincial Enterprise Facilitator attends SG meetings and facilitates SGs meetings and provides necessary inputs and support.
As mentioned besides promoting the SGs and EGs, the program supports and promotes SMEs in the rural areas as well; through business advisory services, it connects the microenterprises with other credit services. The program also helps build capacity of SMEs through training on access to technical, financial and market services in order to improve and expand their business, which will result in the development and improvement of people’s lives in rural areas.

5.4 Findings of the study

Based on the NRVA survey (2011/12), 37.7% of Afghan’s rural population is poor and face a lack of facilities in their livelihood; furthermore, to promote and expand rural activities such as agriculture and livestock, people need capital in order to grow and increase their production and process to the market. According to Mastoor and AREDP provincial manager, to increase capital in a community, people’s participation is required in several types of social groups, especially participation and involvement in SGs activities. Participation in social groups increases the levels of income and per-capita expenditure. Members of social and institutional groups have higher per-capita expenditure compared to those of non-members in the rural areas. Mastoor added, “SGs members do participation and collective action to generate better social capital and create more opportunities for employment rather than those non-members who work individually”.

However, during the last 10 years most of the people were jobless or had less income due to the worse situation of the country as a result of the war, but by establishing SGs in the villages, people’s participation and social interactions increased, which impact
communities’ livelihood and well-being, as well as affect poverty. Hasina is a 45 year-old respondent an unemployed person who could not support her family, and was suffering from being jobless. She expressed, “I joined in ‘Mursal SG’ in my village and participate actively in regular savings, weekly meetings and other activities”. After 8 months she requested a 40,000 AFN loan from VSLA and returned back the loan after 3 months. She said, “I opened a ‘women general needs shop’ inside the village and earn good profit. SG helped me have a job and support my family as well as provide a facility to my village people”. Similarly, other SGs members also expressed their feelings and success stories, which led to changes in their lives.

The interviews with SGs members were mainly focusing on three perspectives that are very significant for poverty reduction. All 16 respondents (selected randomly) are representing each 16 SGs of Parwan province, and their responses are based on whether there was an increased or not in three perspectives that impact community development and alleviating poverty.

Table 5-6 Members response on three factors

<table>
<thead>
<tr>
<th>Perspectives</th>
<th>Increased</th>
<th>Not increased</th>
<th>By percentages</th>
<th>Increased</th>
<th>Not increased</th>
<th>By percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Female</td>
<td>Male</td>
<td>Total</td>
<td>By percentages</td>
<td>Female</td>
<td>Male</td>
</tr>
<tr>
<td>Job opportunities</td>
<td>9</td>
<td>3</td>
<td>12</td>
<td>75%</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Livelihood status</td>
<td>7</td>
<td>4</td>
<td>11</td>
<td>69%</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Trust &amp; Relationship</td>
<td>8</td>
<td>4</td>
<td>12</td>
<td>75%</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Author’s collected data, August 2014
The percentages describe the number of the respondents based on the member’s response. For further clarification the table is illustrated and separated into three figures below:

Figure 5.2 Percentages of the responds on three main perspectives

Source: Author’s calculation based on collected data, August 2014

Based on both table and figures, 75% (equivalent to 12 SGs) of the members responded that the impact of SGs increased job opportunities in their villages, and in terms of livelihood status, 69% responded on an improvement and positive changes after joining SGs, while the other 31% reported their life status the same as before. Similarly, 75% responded that SGs created an environment that strengthens the level of trust, reciprocity, cooperation and relationship among the community people. Consequently, it is determined that since the operation of SGs activities in the villages, the level of trust, relationship and coordination have increased among the people in the communities, and
moreover job opportunities have increased for the villagers. In terms of household income and expenditure, 11 members responded that after joining the SGs, they have better livelihood compared to the past, because they earned better jobs with more facilities by starting new enterprises or expanding their former businesses through receiving loans from the SGs and VSLAs.

5.4.1 Saving groups activities and outcomes

Whenever a SG is nurtured, it grows well, and its savings become bigger; on the other hand, the VSLA as a community bank becomes organized and rich, thus the members can request for a loan. The whole group of members of the SG or VSLA on their weekly meeting will decide whether the requested person can receive benefits from the business or not. Will the business planned by the member be suitable and required for the village or not? If they agree, then the requested loan will be given to the member.

Based on Mastoor, “the members receive loans either for emergency cases such as sickness, accidents, etc. or to start microenterprises inside the village. However, they have to return the amount of the loan to the SG or VSLA”. The duration of the loan to return will be decided by the members in advance. A commonly agreed group fee, additional money, and service charges will be charged on loans based on the loan product. This means that every member who avails the loans will pay a group fee or additional money or service charges against the loan as decided by the group, and this will form the common fund; though it cannot be called an interest of the loan. Mastoor added that according to the AREDP policy, the members have to return the loan without interest rates based on the Islamic banking system, which consist of ‘Murabaha,
Mudaraba and Hasana’ loans. Mastoor reported “13,000 loans have been provided and returned until August 2014 in all six provinces, which helped the members during the crisis, enhanced their income, and improved their livelihood”.

For the purpose of transactions (saving, borrowing, repayment), every SG appointed a member as an accountant, who will be responsible for writing the SG meeting register, member’s passbooks and other related documents. The accountant will record all financial transactions, discussions, and decisions made during the meetings and finally will prepare monthly transaction reports of the group.

Whenever a member returns the loan to the SG or VSLA, then the whole business will remain as a property for him/her. This creates an asset or source of income that facilitates and increases job opportunities for the members and even for the non-members inside the villages. During the focus group discussion, Baryalay, a respondent from Bagram district of Parwan province, expressed his feeling regarding how he benefited from being a member of SG. Two years ago, he lost one of his legs in an explosion while he was farming on his land. He reported, “I was not able to work anymore and lost my hope to live, but whenever I heard about SGs, immediately I joined the SG inside my village and attended a number of trainings and other activities”. Later he borrowed money from the SG and opened a shop for ‘vehicle spare parts’ inside the village; he returned the loan in three installments. He added, “the business changed my life, and I am happy with my family by having a better life”. He earns good profit - approximately 1500 AFN (30$) per day; and when he returned the loan, the shop became his own asset. Similarly, all the other members shared their success stories and the researcher observed the enterprises.
Based on focus group discussions with the SGs, all the members respond, “Receiving loans from the SG and starting new businesses changed our livelihood and solved social problems in our community”. The group discussion members also reported that SGs strengthen social networks, trust, reciprocity and cooperation among them in their villages.

Moreover, Mastoor added that membership in SGs and other social activities increased the level of awareness and capacity building of the members through receiving training on how to start savings, internal loaning, repayment, doing business and access to the market. Frough reported that AREDP program since the beginning has provided training to more than 10,200 SGs members in Parwan province.

Alongside SG activities, rural SMEs are the other social activity at the community level. Ahmad Zameer\(^\text{11}\), an official government employee, stated that the AREDP program supports and promotes rural SMEs through providing training, consultancy and advisory services, marketing assistance, information, technology development and business linkage. These services help the entrepreneurs to improve their enterprise activities, production and access to market. Zameer reported, “the SMEs have addressed the business needs, improved trading linkages with rural and regional economy, ultimately created occupations, and increased income enhancement opportunities for the rural men and women”. The owners of the SMEs are the local entrepreneurs and farmers who are engaged in different types of microenterprises. Zameer added that SMEs increased job opportunities, availability of the markets, and improved livelihood of people in rural communities.

\(^{11}\) Interview with Ahmad Zameer, head of SMEs of Parwan province, August 7\textsuperscript{th} 2014
The figure below shows the percentage of increases in direct, indirect and seasonal employment. The AREDP report shows 49,803 jobs were created in five provinces. The figure shows employment opportunity increased much more in Bamyan province compared with the other four provinces due to the creation and promotion of more SGs, EGs and SMEs.

Figure 5.3 Increases in employment opportunities through social activities

Source: AREDP annual report, 2013

Moreover, after receiving training and advisory services by the program, the SMEs’ sales production increased. Based on the AREDP annual report (2013), in all five provinces the percentage of sales increased to 44 percent after the program intervention (see figure 5.4), and this was mostly in Bamyan province, where sales increased to 153 percent, followed by Nangarhar with 72 percent. Similarly, rural SMEs in Herat and Balkh increased their sales to 20 percent and Parwan to 18 percent.
Whenever the sales percentages of rural enterprises increase, this will affect an increase in more production activities and more profit in the social groups.

5.4.2 Household’s characteristics, key variables and factors of poverty

Based on statistical analyses done by NRVA surveys during the years (2007/08) and (2011/12), the rural poverty of Afghanistan is constrained by the use of key variables and factors, which include education, work-related activities, physical assets, basic services and the household characteristics as describe below.

- The level of rural poverty is significantly different in every region, where the per capita expenditure in Western, Central, and Eastern regions is lower compared to that of the Southern region. The regional patterns are reflective of the location of opium poppy cultivation, which is mostly cultivated in the South and Northeast regions.
- Household size and composition have strong economic and social consequences. Larger families have more young children and elderly tend to be poorer, which means that the presence of additional members (child or elderly) decreases the per capita expenditure in the household. Having a big family increases vulnerability to poverty, illiteracy, lack of food and insecurity; therefore, there is a correlation among poverty and household size (NRVA, 2007/08). In Afghanistan, the average dependency ratio is 151%, while in poor households the ratio is higher (up to 167%). The more working age members (especially the men), the better able to respond to the challenges and income issues.

- Female-headed households tend to be poorer and more vulnerable, where most of the Afghan women in the rural areas are housewives. Based on NRVA (2007/08), the per-capita expenditures of women-headed households tend to be lower than the men-headed ones; moreover, households with fewer members of men have increasingly high vulnerability in terms of income security and social protection.

- The level of education also closely relates to poverty. The literate household per capita expenditure is higher than that of the illiterate households because education is one of the most important factors in determining poverty. The poverty rate among the households whose heads are illiterate is much higher at 35% and is lower in those who have a better education level.

- Access to basic service facilities such as safe water, sanitation, housing, and infrastructure are correlated with poverty. The poor households have less access to all services, which leads to disadvantages for them. Based on NRVA analysis, access to
clean water and healthy food has a positive effect on household’s better performance that increases their level of expenditure and wellbeing.

- Agriculture is critical for economic development and poverty reduction. Based on NRVA, 36% of people rely on farming, where landowners and farmers have more per capita expenditures by their agriculture production and labor wages than the non-farmers in rural areas.

- Poppy cultivation in Afghanistan is very high and is correlated with higher expenditures. However, eradication of opium poppy might affect negatively the livelihood of poor people who are engaged with opium production, but instead of poppy, it is better to be replaced with agriculture production, which creates higher expenditure and better livelihood.

- Poor health care has negative impacts on per capita expenditure. The poor households have less access to health services and the number of diseases in the rural areas is higher than in urban areas, which affects the increase in poverty and vulnerability.

- Unemployment is another factor of vulnerability to poverty; the unemployment rate is determined as 8.2%, and this has a strong link to insecurity and war in Afghanistan.

Based on the factors of household’s characteristics and the key variables of poverty, rural households face higher poverty and vulnerability and have less access to basic services and facilities than the urban households. More focus on the mentioned factors are required in order to improve the household’s livelihood. Mastoor reported, in response to mentioned factors, focusing on social capital activities is required by involving poor people in saving groups or any other social activities.
5.4.3 Relationship between social capital and saving group

Social capital is necessity for a community to support financially the households. To create and increase social capital in a community, people’s participation is required through joining the social groups (such as SGs). As mentioned earlier, SGs create access to financial services to poor people through providing loans for the purpose of business or emergency cases. However, Ledgerwood and Rasmussen (2011) argue that SGs not only provide financial services; but they also significantly build social capital among group members as well as their financial capabilities. Moreover, Allen & Panetta (2010) argue that SGs are not only viable alternatives for a large number of people served by financial institutions, but they also increase social capital, strengthen relationships, and provide community economic development.

There are different types of saving and credit arrangements that are established to increase social capital targeting poor people around the world. They are respectively, Rotating Savings and Credit Association (ROSCA), Accumulative Savings and Credit Association (ASCA), Self-help group (SHG), Grameen group system, and Saving Group (SG). These groups aim to do savings and provide loans for the members in order to generate social capital and strengthen social networks, as well as the socio-economic development of the communities.

A study conducted in South Africa in 2005 describes that SGs provide insight on the importance of social capital to group members. The study shows that SG members (especially the women) choose to participate in groups to benefit from a group’s social structure, where it increases the strength of social networks, such as creating bonds, trust
and relationship among the members, as well as increase economic opportunities (Christina, 2012).

During the field research interviews, the officials responded that social capital significantly impacts a household’s livelihood and poverty alleviation in rural areas of Afghanistan. They reported that SG is one of the most suitable social activities for the creation of social capital. By creating and increasing social capital through promoting SGs in rural communities, they will positively impact key variables and factors of poverty reduction. Mastoor reported that “through increasing social capital in a community, the household’s characteristics, mainly the per capita expenditure, increase”. Moreover, three officials responded that being a member of a social group or institution increases household’s expenditure more than being a non-member. Households with higher per capita expenditure will face lower poverty and vulnerability.

Indeed, women have less access to out-door economic activities and social capital in rural areas of Afghanistan, as they are mostly housewives and vulnerable. Therefore, SGs are created as a priority social capital for the poor women, as they have more chances to join such social groups than the men due to their better performance (AREDP operational guideline, 2012). In addition, women are much more interested in SGs activities because they are less migratory, value small amounts of money, and keep commitments on group decision better than men, which definitely impact their per-capita expenditure and livelihood.

In terms of education, it is expected to impact positively on household poverty reduction; similarly human capital, which is related to education, increases and develops capacity,
access to information and job opportunities. Based on analysis of NRVA survey (2011/12), data shows that literacy rates for both genders in rural populations is much lower compared to urban areas of the country.

Figure 5.5 Literacy rate by residence and sex (in percentages)

Source: NRVA 2011/12

But during the focus group discussion and interviews, it was found that the effect and role of social capital is much higher than that of education in poverty reduction; similarly, the scholars found this in the previous studies, too (Narayan & Pritchett, 1999; Grootaert et al., 2002).

This is because by creating social capital in a community, people’s participation and intervention is significant in every social activity, rather than having highly educated and professional people. The study found that there is a negative relation between education and group participation, because all the respondents whom were SGs members obtained primary or secondary school only, and even some were illiterate people due to lack of education facilities, family and social problems that did not allow them to continue their education, but they had good participation in SGs activities. The findings suggest that
rural people whom have less education tend to join SG, farming groups, cooperatives and other social networks in order to improve social capital and their livelihood.

Overall, the AREDP activities (SGs, EGs, VSLAs, and SMEs) are aiming to create and strengthen social networks, such as cooperation, relationship and trust among the village people. Through these groups (especially SGs), employment opportunity increased, which impact rural income and improve livelihood of households. SGs are able to create social capital that has a strong inter-relationship between each other, which effects socio-economic development in the rural areas and consequently strongly impacts poverty reduction.

5.5 Main Discussion

5.5.1 Combating poverty through increasing social capital

The descriptive analysis of data shows that social capital plays a significant role in positively affecting household per-capita income and expenditure. According to Narayan & Pritchett (1999), there is a relationship among household expenditure and poverty that runs inversely. Accordingly, those whose expenditure are higher are designated as being less in poverty, which was found in some other studies as well (Hassan & Birungi, 2011; Grootaert et al., 2002; Narayan & Pritchett, 1999).

The findings suggest that the impact of social capital is much greater in poverty reduction than any other types of capital such as education, human capital or physical assets at a community level. This is also mentioned in other research that the effect of social capital
is very high on wellbeing than other types of capital (Grootaert et al., 2002; Narayan & Pritchee, 1999).

The findings also indicate that social capital has considerable impact and a positive role on economic success of the marketing efforts through improving the mobilization of physical and financial capital. This helps people who are working together in order to reduce the transaction costs and reach economies of scale. However, it helps SG members or other social groups to strengthen their livelihood; meanwhile, it positively affects the economic livelihood of the non-members and the whole community too.

5.5.2 Role of demographic and other household characteristics

Education is essential for all human beings, which will forcefully determine poverty in every society. Thus, providing better education is needed for all; it is especially essential for the rural people. Improving the level of literacy and providing quality vocational trainings and skills will help to reduce poverty, which is also supported by many studies (Alesina & Ferrara, 2000). However, contrary to the findings in many studies, Hassan & Birungi (2011) identified that education has a negative connection with group participation, because most of the SG members were less educated or uneducated people who desired and tended to join social groups. This negative relation is mostly due to a higher number of illiterate rural people who are members of the SGs, EGs and other social institutions. Therefore, to understand more regarding social capital, the program provides technical training to the SGs members in terms of saving, borrowing, starting a business and marketing, which help the members build their capacity and operate their own SGs.
Non-farm income is also an important influence for the rural household’s expenditure. However, in Afghanistan the agriculture sector is very important and vital, where most of the rural people are dependent on farming and agricultural production, but the non-farm income has a good relation with livelihood. During the winter season, members of households or farmers chose to work in off-farm activities instead of farming in order to increase the income and support their family during crises.

Household size and poverty have a negative relation; it is because poverty is mostly higher in bigger family size with more members to feed and it reduces welfare more than in a smaller size family. Though, in terms of social capital, it impacts positively due to more members and workers in a household who will provide more income and are tend to join any social institution or group, such as SG or farming groups.

Lack of markets for agriculture and enterprise products also impact the livelihood of rural communities. Lack of access to markets has a negative relation with household expenditure, where most of the EGs and SMEs that are active in rural areas are faced with a lack of access to markets for their production.

According to AREDP provincial manager, “most of the villages in Parwan province are far from central markets, and it is difficult to have access to the market due to lack of transportation and infrastructure system in the villages”. Similarly eight SG members who have microenterprises respond that sometimes due to being far away from the market, they cannot earn good income from their products.
5.5.3 Organizational success and operational efficiency

The case study finds that social capital as a network and membership in a community increases organizational success and efficiency. In focus group discussion, the members responded that SGs are better sources of social capital that effects positively in their daily transaction cost, enriched information, and strengthened coordination in their livelihood. The findings match other studies that found network social capital effects on cost reduction and increased coordination, communication and solving collective problems in the community (Grootaert et al., 2003).

This also leads to a sense of healthy competition between the members of SG and EG in order to achieve more success on their activities without envying the success of other members, especially in terms of productivity and marketing. Existence of such competition and the creation of social capital not only benefited the members, but the non-members also benefited due to better performance, markets and facilities that are created through the group’s activities. Garforth and Munro (1995, p.30) argue that the institutional viability derives from its stability of structure and its active members, the system rules and its scale of economy, which permits specialization.

This study identified that social capital and SGs have a strong inter-relation in terms of household’s livelihood through people’s participation. The existence of SGs and EGs are not only one of the best and most significant forms of social capital for poverty alleviation, but they are also important for the socio-economic sustainability and livelihood in the rural areas of Afghanistan.
5.5.4 Success stories of the saving groups activities

Based on the interviews with the SG members during the field visit, the respondents were asked how their dreams come true and their socio-economic and livelihoods have improved during the SGs activities in their villages. Below are the SG success stories of Parwan province that were expressed during the interviews.

- On 17 August 2014, the researcher visited ‘Danish’ SG, located at Sayad village of Bagram district in Parwan province. This is a female SG established in May 2011. One of the members named ‘Gulalaye’ was interviewed. Although she was a poor housewife, experienced many challenges during her life and had no source of income for her family, she was a good tailor in the village. She reported that, “I started to join ‘Danish’ SG and attend regularly the meetings and saving. After nine months, I received 10,000 AFN as a loan and joined together with five other members in Danish EG”. This EG is a ‘woman and children tailoring EG’ created by AREDP. They purchased cloths, fabrics, tailoring machines and some other stuff for the EG. She said, “I returned 10,000 AFN in four month and got profit by sewing cloths for village women and children”. Now she is very happy by being a member of SG and EG; she can support her family through her job and has a better source of capital.

Danish is a well-developed SG and EG, and all of the EG members receive training on Enterprise Development Training (EDT) in which they learnt about how to develop a tailoring business at the village and district levels.

- Sabzah Gul, a poor Afghan woman, lives in the Ezatkhail village of Parwan province
and supports eight members of her family. Sabzah Gul had experienced many difficulties in providing food, shelter and the other basic needs of her family. One day, she realized that she had no other option but to start a small business in order to keep herself and her family alive. She wanted to buy a cow in order to generate income, but her dream did not come true until she received a loan from a Savings Group formed by AREDP.

Early in 2010, Sabzah Gul joined the ‘Darakht’ SG in her village. Shortly after joining and having contributed 30 AFN towards savings each week, Sabzah Gul applied for a loan. She said, “My prayers were answered and I received a loan”. Her dream finally came true, and she bought a cow; she was selling her cow’s dairy in the village and market, and through that she supports her family and gives them a new life.

She said, “I had experienced poverty and many difficulties in my life. Today, I am very happy that my wishes have come true and I can help my family”. Now she can smile again because she started a new life by supporting her family. Sabzah Gul thanks the AREDP Program for giving her and her family a chance to change their lives.

There are several success stories by the SGs, EGs and SMEs in all six provinces (see appendixes) that increased social capital. These activities not only affect group member’s income and livelihood, but they also provide facilities and opportunities for the non-members significantly impacting whole communities’ economy and wellbeing.
5.6 Summary

This chapter analyzed and discussed the collected data from the SGs that are created as a source of social capital in the rural areas; in addition, the study described the other sources of social capital, such as EGs, VSLAs and SMEs as well. To increase social capital, participation is needed in social groups that will impact the level of income and per-capita expenditure, awareness, and capacity building. SGs members do savings and borrow money either for emergency cases or to start microenterprises inside the village in order to increase capital and revenue. It is identified that SGs enhanced social capital and impacted an increase in three significant aspects: job opportunity, livelihood status, and trust and relationship in rural areas. Consequently social capital enhanced networks, cooperation, and solidarity that impact community economic development and significantly reduce poverty.
CHAPTER SIX

6 CONCLUSION AND RECOMMENDATIONS

Based on two NRVA surveys (2011/12 and 2007/08) and the collected data from the government’s documents and field research in three districts of Parwan province, this study described and analyzed how social capital plays an important role in rural poverty and its impact on households’ livelihoods. The study investigated the concept of poverty and its determinant; in addition, it examined the concept of social capital and how it can be a better determinant for poverty reduction in the rural areas.

This research derives that social capital is described as membership in a group and participation in social activities, which positively impacts on household expenditure, thus decreasing poverty, as was found in other studies too (Narayan and Pritchett, 1999; Grootaert, 1999). Members of households who have membership in social groups or associations in a community have higher per-capita expenditure than the non-members. Similarly, Hassan and Birungi (2011) confirm that household expenditure is related to the creation of social capital and group participation.

It also found that education is one of the essential determinants in poverty and group participation, where it necessarily determines household poverty. It is a difficult task to foster social capital and fight against poverty without human capacity building or human capital in a society. In order to reduce poverty in a community, strengthening the literacy rate and providing vocational skills and training opportunities for the households is needed. The result of another study also confirms a positive correlation between social
capital formation and education too (Hassan & Birungi, 2011).

However education positively impacts the fight against poverty. It has a negative relationship with group participation, as was found in this study and similarly in many other studies (Alesina & La Ferrara, 2000; Hassan & Birungi, 2011). The negative relationship between education and group participation was found during the field research, where people with low education can obtain membership or join a social group. This means that participation in social groups (such as SG, EG, cooperative groups) does not require higher education for poor rural people; rather, it requires trust and cooperation among people.

The study discussed a case study of saving groups, which are recognized as informal social groups created in rural areas of Afghanistan. It identified that SGs are created as one of the sources of social capital, which provide opportunities for the rural households to save, borrow and repay money in the groups for generating income and strengthening livelihood. Similarly, Allen and Panetta (2010), confirm this issue in their study, as SGs are catalysts to enhance social capital and social and economic development of the community.

Based on the field research, most of the rural households depend on agriculture and livestock incomes; however, the income that they earn through their activities could not support their expenditure and livelihood. Therefore, the people join SGs and EGs to enhance more capital or income. The SGs members receive training on the savings and loan system, and then they received loans for the purpose of starting microenterprises that create a good opportunity and a better source of income for them.
However, SGs and EGs are created for both male and female members, but it is recognized that the involvements and interests of females are more so than that of males. This is because the SG phenomenon is designed to create a better environment for the females to participate in the social activities in order to create a source of income on their own.

Mainly the case study focuses on how social capital actually helps households to reduce poverty. In addition, it reveals that social capital facilitates access to information sharing, cooperation, trust and relationships among people. It facilitates collective actions that reduce transaction costs and significantly increases job opportunities in the community. As a result, the organizational success positively impacts and enhances a household’s welfare and the community as a whole, which ultimately result in poverty reduction.

The main recommendations based on the findings and discussions are as follows:

- The government of Afghanistan must consider the existing communal structure and the strong social unity that exist in the communities or villages. Keeping consideration and control of the existing social structure and policies would not only save rare resources, but it also helps recognize appropriate intervention and strategies to assist development and poverty challenges. The existing government’s policy for development and promotion of the saving groups and other social groups and activities would go a long way in strengthening household’s livelihood and wellbeing. To move the existing policies and structure onto a greater scale, the government needs investments in such social groups through providing both tangible and non-
tangible support, such as financing, infrastructure support, training, and capacity building programs.

- In order to be more successful at the community level, all forms of social capital such as bonding, bridging and linking social capital needs to be followed and practiced. The creation and formation of the saving groups and other social groups may not be successful unless there is a lack of several forms of social capital. However, bonding social capital enables collective action between the group members, while bridging and linking forms of social capital connects the institutions and groups with other networks outside of the structure that provides them further opportunities and facilities for their long term sustainability. Bonding social capital needs to be promoted well through encouraging SG members to participate more actively in their group’s activities. Encouraging the members for more participation could be achieved through regular group meetings on a weekly basis and solving each other’s problem by exchanging their ideas. The quality of participation could be used as a good management tool to keep the groups’ performance and their long-term sustainability.

- Education is essential in every society, which specifies the household’s poverty; the delivery of better education is very serious in the rural areas. Improving literacy rates and providing better education facilities such as vocational training and skills, training opportunities, and capacity building would go a long way in combating poverty, as this was found in many studies (Alesina & La Ferrara, 2000). Education and group participation have a negative relationship due to low education levels in the rural areas; however their membership might be a social insurance to their low education level. To nurture social capital and combat poverty, investing in human
capital is needed; otherwise, it would be a hard task to respond to such issues. Hence, education and capacity building improve saving group’s spirit that would go a long way to enhance the livelihood of rural households.

- Rural infrastructure such as roads and bridges has a significant impact in the rural livelihood of the household, as they connect one village with another and with the district. Households with a lack of rural infrastructure such as rural roads tend to be poorer, and their per-capita expenditure is also less than others. However, most of the SGs members engage with different types of rural microenterprises that produce several products and need to reach markets, therefore roads and other infrastructure facilities are needed to bring their products to the markets in better condition and on time. Hence, the government should invest and implement rural infrastructure projects in order to create access to the markets for the microenterprises and social services, which as a result strengthen rural livelihoods and development.

- It is proven that both social groups and associations are useful in bringing limited resource for the rural households, who are mainly poor people that are faced with a lack of resources. It is found from the study that social capital is a better source for economic successes of collective actions in a society. Social capital also improves unity and solidarity of a community group that connects them with other groups or networks and increases participatory actions and development. Having rich social capital through saving group or any social group will promote collective actions and assist in creating a community with better coordination. A system of encouragement and praising should be created for the interactions and information exchanges between the groups, networks and the government, which is fundamental for the
success and improvement of the groups, especially for the saving groups and enterprise groups at the rural areas.

- Based on the informants during the field research interviews, SGs members are required for more capacity building as well as soft and technical training programs on business advisory, such as how to do saving, borrowing, starting business and marketing, in order to keep active their SGs or EGs in a good manner and to expand their microenterprises without facing bankruptcy or failure. Similarly, they need more government attention to provide them with better facilities or equipment for their enterprises and to facilitate new business ideas with profitable income for their livelihood.

- The government should regularly monitor and evaluate the SGs, EGs and SMS activities, and more mobilization is needed as well. They can encourage the members for more active participation and interest through visiting them regularly. Creating and promoting more SGs and EGs in the villages to influence more village people to join saving groups and other social activities through public awareness are needed. It creates a better environment for access to social capital that assists communities to generate and enhance income, and finally will result in strengthening their livelihood and alleviating poverty.

- Also covering more villages and districts in several provinces and the creation of more SGs and EGs are necessary and required, as it was found that the saving group phenomenon is a new concept of social capital in rural Afghanistan; and the poor people are much interested in joining in order to create better sources of income for their livelihood.
6.1 Summary

This chapter summarized the main outcomes and impacts of SGs as social capital in three districts of Parwan province. In addition, it highlighted how saving groups enhanced social capital among the poor people. It is found that social capital plays a significant role in poverty reduction in rural Afghanistan. This study provided some recommendations for the government to focus deeply on the creation of social capital and to improve its activities for the betterment of saving groups and other social activities in rural areas.
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APPENDICES

Annexure I

The below tables are collected data for further details regarding the SGs, EGs, VSLAs and SMEs activities of Parwan province. All the collected data are the records of up to October 2014.

Table 1: Female SGs details

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<thead>
<tr>
<th></th>
<th>Description</th>
<th>Value</th>
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<tbody>
<tr>
<td>1</td>
<td>No. of Female SGs</td>
<td>533</td>
</tr>
<tr>
<td>2</td>
<td>No. of FSG’s members</td>
<td>5,832</td>
</tr>
<tr>
<td>3</td>
<td>Number of FSGs disintegrated</td>
<td>222</td>
</tr>
<tr>
<td>4</td>
<td>Saving amount FSG</td>
<td>14,463,785 Afs</td>
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<tr>
<td>5</td>
<td>No. of borrowers Female</td>
<td>1,401</td>
</tr>
<tr>
<td>6</td>
<td>No. of loans</td>
<td>1,621</td>
</tr>
<tr>
<td>7</td>
<td>Loan amount disbursed (cumulative FSG)</td>
<td>8,466,886 Afs</td>
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<tr>
<td>8</td>
<td>Loan amount recovered (cumulative FSG)</td>
<td>7,256,632 Afs</td>
</tr>
<tr>
<td>9</td>
<td>Outstanding loan amount FSG</td>
<td>1,210,254 Afs</td>
</tr>
<tr>
<td>10</td>
<td>No. of FSGs forming FEGs</td>
<td>391</td>
</tr>
<tr>
<td>11</td>
<td>No. of Female EGs</td>
<td>170</td>
</tr>
<tr>
<td>12</td>
<td>No. of FEG’s members</td>
<td>1,010</td>
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<td>13</td>
<td>Loan amount disbursed (cumulative FEG)</td>
<td>153,500 Afs</td>
</tr>
<tr>
<td>14</td>
<td>Loan amount recovered (cumulative FEG)</td>
<td>143,500 Afs</td>
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<tr>
<td>15</td>
<td>Outstanding loan amount FEG</td>
<td>10,000 Afs</td>
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<tr>
<td>16</td>
<td>No. of FSGs federating to VSLAs</td>
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Table 2: Male SGs details:

<table>
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<tr>
<td>1</td>
<td>No. Male SGs</td>
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<tr>
<td>2</td>
<td>No. of M SG member</td>
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</tr>
<tr>
<td>3</td>
<td>Number of groups disintegrated</td>
<td>213</td>
</tr>
<tr>
<td>4</td>
<td>Saving amount MSG</td>
<td>10,675,875 Afs</td>
</tr>
<tr>
<td>5</td>
<td>No. of borrowers Male</td>
<td>945</td>
</tr>
<tr>
<td>6</td>
<td>No. of loans (M)</td>
<td>1,039</td>
</tr>
<tr>
<td>7</td>
<td>Loan amount disbursed (cumulative MSG)</td>
<td>7,639,800 Afs</td>
</tr>
<tr>
<td>8</td>
<td>Loan amount recovered (cumulative MSG)</td>
<td>6,585,220 Afs</td>
</tr>
<tr>
<td>9</td>
<td>Outstanding loan amount</td>
<td>1,054,580 Afs</td>
</tr>
<tr>
<td>10</td>
<td>No. of MSGs forming MEGs</td>
<td>122</td>
</tr>
<tr>
<td>12</td>
<td>No. of Male EGs</td>
<td>61</td>
</tr>
<tr>
<td>13</td>
<td>No. of MEG’s members</td>
<td>263</td>
</tr>
<tr>
<td>14</td>
<td>No. of MSGs federating to VSLAs</td>
<td>81</td>
</tr>
<tr>
<td>15</td>
<td>Existing businesses supported for Male SG members</td>
<td>10</td>
</tr>
</tbody>
</table>

Table 3: Number of Enterprise Groups created in Parwan province

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No. of EGs</td>
<td>231</td>
</tr>
<tr>
<td>2</td>
<td>No. of EG members</td>
<td>1,273</td>
</tr>
<tr>
<td>3</td>
<td>No. of PEF Female</td>
<td>14</td>
</tr>
<tr>
<td>4</td>
<td>No. of PEF Male</td>
<td>19</td>
</tr>
<tr>
<td>5</td>
<td>No. of VFs Female</td>
<td>84</td>
</tr>
<tr>
<td>6</td>
<td>No. of VFs Male</td>
<td>92</td>
</tr>
</tbody>
</table>
Table 4: Number of VSLAs established in Parwan province

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No of VSLAs</td>
<td>27</td>
</tr>
<tr>
<td>2</td>
<td>No. of VSLAs registered with MRRD</td>
<td>27</td>
</tr>
<tr>
<td>3</td>
<td>No. of VSLA with bank account opened</td>
<td>27</td>
</tr>
<tr>
<td>4</td>
<td>No. of VSLAs received matching grant</td>
<td>6</td>
</tr>
<tr>
<td>5</td>
<td>Total no. of SGs associated/members of VSLAs</td>
<td>222</td>
</tr>
<tr>
<td>6</td>
<td>Total savings with VSLA</td>
<td>3,385,572 Afs</td>
</tr>
<tr>
<td>7</td>
<td>Average savings per SG to the VSLA</td>
<td>15,250 Afs</td>
</tr>
<tr>
<td>8</td>
<td>Amount of loan disbursed by VSLA</td>
<td>4,630,230 Afs</td>
</tr>
<tr>
<td>9</td>
<td>Loan amount recovered</td>
<td>2,453,440 Afs</td>
</tr>
<tr>
<td>10</td>
<td>Loan amount outstanding</td>
<td>2,176,790 Afs</td>
</tr>
<tr>
<td>11</td>
<td>Borrowers</td>
<td>260</td>
</tr>
<tr>
<td>12</td>
<td>No of Loans</td>
<td>281</td>
</tr>
<tr>
<td>13</td>
<td>Average loan per borrower (in Afs)</td>
<td>1</td>
</tr>
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Table 5: SMEs covered by the program

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Application received</td>
<td>115</td>
</tr>
<tr>
<td>2</td>
<td>SME shortlisted for TF &amp; EV studies</td>
<td>67</td>
</tr>
<tr>
<td>3</td>
<td>TF &amp; EV studies completed</td>
<td>63</td>
</tr>
<tr>
<td>4</td>
<td>SME shortlisted for BP development</td>
<td>63</td>
</tr>
<tr>
<td>5</td>
<td>BP developed</td>
<td>63</td>
</tr>
<tr>
<td>6</td>
<td>LOU signed</td>
<td>63</td>
</tr>
<tr>
<td>7</td>
<td>No. of SME’s Received Training/ Exposure Visit</td>
<td>50</td>
</tr>
<tr>
<td>8</td>
<td>SMEs Supported more than one time</td>
<td>45</td>
</tr>
<tr>
<td>9</td>
<td>No of SME Trainees</td>
<td>190</td>
</tr>
</tbody>
</table>
Annexure II

Interview questions with saving groups members

**Research Title:** The Role of Social Capital in Poverty Reduction: A case study of Saving Groups in Parwan Province of Afghanistan

**Research site:** Parwan Province, Afghanistan  
**Duration:** 29th July – 3rd Sep 2014

**Respondent Name:** ( )  
**SG Name:** ( )

**Types of enterprise:** ( )

1. Sex  
   Male: ( )  
   Female: ( )

2. Age ( )

3. Martial Status  
   Single: ( )  
   Married: ( )

4. Level of Education:
   Primary: ( )  
   Secondary: ( )  
   High School: ( )  
   Diploma: ( )  
   Graduate: ( )  
   None: ( )

5. Do you have a job?  
   Answer: ( )

6. How many family members do you have?  
   Answer: ( )

7. How many households are living in this community?  
   Fewer than 25  
   Between 25 and 49  
   [ ] 1  
   [ ] 2
Between 50 and 99 [ ] 3
Between 100 and 249 [ ] 4
More than 250 [ ] 5

8. In the last five years, the number of people living in this community has:

Increased [ ] 1
Decreased [ ] 2
Remained the same [ ] 3

9. What are the two main reasons for the increase, decrease, or lack of change?

a: --------------------------------------------------

b: --------------------------------------------------

10. What are the two principal economic activities in this community?

a: -----------------------------------------

b: -----------------------------------------

11. In the last five years, availability of employment has:

Improved [ ] 1
Worsened [ ] 2
Remained the same [ ] 3

12. In the last five years, the overall quality of life of the people living in this community has: (consider job availability, safety and security, environment, housing, etc.)
13. Do people in this community generally trust one another in matter of lending and borrowing?
   Yes [ ] 1
   No [ ] 2

14. In the last five years, has the level of trust improved, worsened, or stayed the same?
   Improved [ ] 1
   Worsened [ ] 2
   Remained the same [ ] 3

15. What kinds of social capital can you see in this community?
   Answer: ( )

16. How long have you been member of the saving group?
   Answer: ( )

17. How much do you pay per month for the group?
   Answer: ( )

18. Have you receive any loan since you join the group?
   Answer: ( )

19. If yes, how much did you receive till now? If no, why?
   Answer: ( )
20. For what purpose did you received and used the loan?

Answer:  
( ) For business  ( ) For home expenses

( ) For debt payment  ( ) Other purpose

21. Did the loan you received solve your problem?

Answer: ( )

22. Being as a member of SG, how much you are satisfied from the program?

Answer: 100% ( )  50% ( )  25% ( )  0% ( )

23. How successful do you see SG in your village?

Answer: 100% ( )  50% ( )  25% ( )  0% ( )

24. What is your recommendation for MRRD in order to improve the Saving Groups in your village?

Answer: ( )

25. How much did the establishment of saving groups affected on poverty reduction in your village.

Answer: 100%: ( )  50%: ( )  25%: ( )  0%: ( )
Annexure III

Interview questions on SGs activities with official government staffs

1. Can you explain, what are the best sources of social capital at a village level in Afghanistan?
2. How MRRD strengthen social capital and poverty reduction in rural areas?
3. Does social capital can effect on poverty and can it be the best determinant of poverty reduction? If yes, how? If no, why?
4. What influences the village people to join saving groups and how they trust on it?
5. Does saving groups operate successfully and how it provides job opportunities, income for the poor people?
6. How saving groups play an important role on poverty reduction?
7. Do rural people access financial services only through saving groups or other credit scheme and how?
8. What challenges do you see in the current situation of the saving groups in Parwan province of Afghanistan and how can it be solved?
9. Do other agencies or government organizations assist MRRD on creating and supporting Saving Groups in rural areas?
10. What are your recommendations for the improvement and strengthening of saving groups in the villages of (Parwan province) Afghanistan?
Annexure IV

SUCCESS STORIES

1. Jams and pickles story

Shafiqa is a 42 year-old woman from Dadu village of Parwan province. She is living with her two sons, three daughters and husband. Her three daughters are going to school. Shafiqa is an illiterate woman, but can only read and write simple words, her husband is a farmer for neighbor’s lands and earning 2000 Afghani per month.

She joined AREDP four years ago as a member of saving group named ‘Talash’ in the ‘Dadu village’ and after one year she took a loan of 5000 Afghani with coordination of village facilitator and start having a jams and pickles shop and joined AREDP as an entrepreneur. At the beginning she had a small shop for one year and did not have good number of customers, but after attending the ‘Marketing and Leadership’ training, her business improved and she rent a room for her business. In the training she learned about cleanliness of keeping jams shop, good communications with the customers, loans taking process, and marketing system related to her business.

Shafiqa was a housewife about four years ago, but now as an AREDP entrepreneur she is having 4000 to 4500 Afghani (equivalent to 80 USD) per month. She find the ability to train other women in the village about making jams and pickles, marketing and teaching them how to start their own jams and pickles business to have their own income. Currently she has two students since a year and teaching them about jams making process. Shafiqa is one of the AREDP successful entrepreneurs in to Dadu Village.
Shafiqa thanks AREDP program for encouragement and providing training to her to develop her own jams and pickles business. She is very happy from the program and she suggested to encourage, provide trainings and loans to other women in the other villages and districts to start their own businesses and have their own incomes for their families.

2. A poultry story

Sayed Hamza is 57 years old living with his wife and has two daughters and four sons. He is a member of Murtaza saving groups and lives in ‘Pushti Baghi Ulia’ village in ‘Dehdadi’ district of Balkh province. He is the only breadwinner in his family. He migrated to Iran for 11 years and returned 3 years ago to Afghanistan. During his migration in Iran, he worked in several poultry farms where he learned the technical skills of poultry farms. Now he is professional in poultry, but due to lack of financial resources he could not apply his skill to start his business. He was working as a daily labor in some of the poultry farms in Dehdadi district and earn very low income, due to that his family suffered since they could not meet their daily needs.

He joined ‘Murtaza’ SG and started his saving program for almost 2 years. He applied for financing of 50,000 Afs from his SG with view of starting the poultry small farms in the village. The SG’s saved capital was not sufficient to accommodate his request; the SG then introduced him to a five-week-old VSLA newly established in the village. The VSLA in its 5th meeting approved the disbursement of Murabaha financing in favor of Mr. Humza. According to Murahabah financing conditions, the VSLA purchased the required inputs such as 500 chicks, 300 chickens and 100 KG feed. He has raised these chicks and chickens for 45 days and then started selling chicken meat and live chickens.
Now chicken meat is available in their village and a better facility created for the people to buy fresh meat inside the village, which shows improvement of the livelihood.

According to Mr. Humza, “I am happy to stared my business and earn a good income to support my family livelihood”. He expressed appreciation to AREDP program for the facilities provided to him to start his poultry farm.

3. Tailoring stories

Lala Enterprise Group (EG) is a tailoring enterprise group located at ‘Dan Nargas’ village in of Bamyan province. Four members from ‘Millad SG established ‘Lala’ EG. Fatima Akbary, a 40 years old woman from ‘Dan Nargas’ village initiated the group. Fatima is married and has four children.

Prior to AREDP support she and her group peers stayed home and were only taking care of their house and family. Once they become members of the SG, their lives have changed. Fatima and her group members participate in numbers of training through AREDP on marketing, management and bookkeeping. These trainings have given them extra confidence and skills to step out of their house and to establish women clothing and embroidery shops. Gradually, they have taken loan and established handicraft product processing shops. Fatima and her team took the loan and travelled to Kabul to get training from modeling company such as ‘Punjab Bluz’, ‘Gul dozi’ and others. These trainings have given new prospective to the EGs and they returned to produce new products. Right now Fatima and her team are getting orders from clients in Bamyan and as well as Kabul city, that gives them a very steady income. Each of the members in ‘Lala’ EG group is
making 5,000 Afghan ($100) per month and they are planning to expend their business by producing more clothes for women and children.