



Develop policies and programmes to help urban poor avoid debt and save for the future

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Overview

Adequate income is a basic need in urban Afghanistan, since all daily needs from food to water to fuel must be purchased. Raising sufficient income to survive in urban Afghanistan is especially challenging for the poor who lack basic services, skills, education and other assets needed to obtain a decent living.

Longitudinal research conducted by the Afghanistan Research and Evaluation Unit (AREU) shows that the low and erratic incomes of poor urban households mean they face tremendous difficulties in generating enough cash to feed their families, to afford rental payments, or to buy fuel or medicine.¹ As a result, the urban poor are frequently indebted and unable to save the money necessary to lift themselves out of poverty. This Policy Note looks at how poor Afghans living in big cities earn so little, how they spend their income, as well as their savings and credit patterns. On page 4 it proposes policy recommendations on how to alleviate the burden of low income and high debt on vulnerable families.



Selling bread: one source of inadequate income

Cost of basic needs exceeds urban poor's income

The majority of poor urban households rely heavily on informal sources of labour (e.g. home-based production, non contract daily labour, self-employment) to earn their livelihoods.² But because informal employment is highly insecure and seasonal, most households end up spending their earnings immediately to meet daily needs, and are therefore unable to save money for lean times.

However, AREU research shows that on average and over time, the cost of the

most basic needs usually exceeds household income (see Table 1). This is based on monitoring the monthly earnings and expenses of 120 study households in three major cities (Kabul, Herat and Jalalabad). The only exception to these trends occurs in Herat, most likely due to the higher degrees of labour diversification and income opportunities and the large number of women contributing to household incomes in that city.

About the Authors

Stefan Schüte managed AREU's urban livelihoods project from 2004-2006. At present, he serves as Team Leader of a project on land policy and administrative reform, jointly implemented by DFID, ADB and Afghanistan's Ministry of Agriculture and Irrigation. Brandy Bauer managed publications on urban livelihoods, gender, political economy and governance issues at AREU until mid-2006. Most recently, she served as a Consultant to several US government agencies on related issues.

Table 1. Median per capita incomes and expenditures in three study sites, in Afghans (Afs)

	Median monthly per capita incomes	Median monthly per capita expenditures	Median share of total expenses		
			Food	Medicine	Fuel
Kabul	409 Afs	578 Afs	52%	8%	9%
Jalalabad	543 Afs	600 Afs	68%	11%	5%
Herat	640 Afs	555 Afs	58%	11%	9%

¹ Long-term research followed 40 households each in the cities of Herat, Kabul and Jalalabad, which was complemented by short-term reconnaissance studies in Mazar-i-Sharif and Pul-i-Khumri. For more information on the methodology and objective of this research, see Beall, J. and Schütte, S., 2006, *Urban Livelihoods in Afghanistan*, Kabul: AREU.

² For more information see Kantor, P and Schütte, S. 2006. Informal employment and urban livelihoods in Afghanistan. AREU: Kabul.

Monthly earnings spent mostly on food and medicine

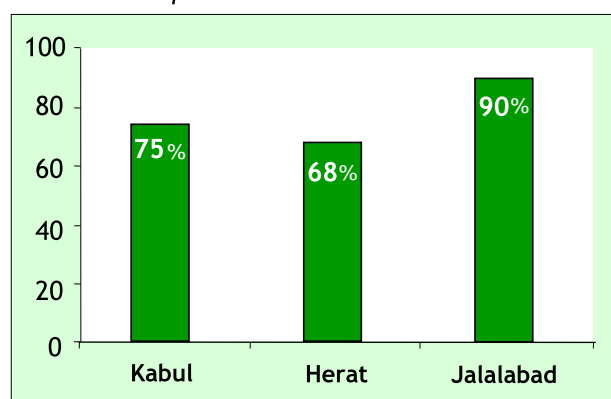
Consumption figures among study households show that a high share of income is devoted to basic food expenses. A high ratio of food expenditures to total expenses is typically considered a strong indicator of poverty, as shares usually decrease with a rising income. However, while the AREU study found that food expenses are significant, costs for fuel and medical expenses also represent major shares of monthly consumption for poor urban households.

Poor health is a major determinant of household vulnerability. Disability, incidences of serious illness, or when old people start requiring care are situations in which households can become extremely defenceless. Figure 1 illustrates that a significant share of households had to cope with health-related expenditures almost every month. This indicates how the poor face high risks of ill health likely related to their exclusion from basic services, including access to quality medical treatment. Jalalabad had the highest incidence of ill health, with medical expenditures reported in 90 percent of the monthly monitoring interviews across all households; median monthly spending on medicine or treatment reached 380 Afghanis. In contrast, Herat had the lowest reported incidence of medical expenditures, but the highest level of spending per month (median monthly expenditure: 450 Afghanis). This may be a reflection of the comparatively better availability of health care in the western city, so families spend more money on treatment. For residents of the capital, median monthly spending was only 280 Afghanis, which may be an indication that while Kabul households had comparable incidences of ill health, they had better access to lower cost medicine and treatment than in other cities. The reasons for these differences bear further study.

In most cases, coping with ill health depends on mobilising resources (i.e. money and credit) from one's social networks. What is more significant is that those families whose conditions of poverty worsened over the course of the study year were those who faced emergency health crises that required additional resources they were unable to procure.

Food and health are not the only concerns that put pressure on budgets, so too do rent and the cost of fuel and heating. Households that must pay rent on top of their basic needs are in the least advantageous position, and many cannot afford to pay rent in the first place, accumulating debt with their landlords. For those who are able to pay rent, this type of expenditure makes up a significant portion of total consumption – 30 percent in Kabul, 28 percent in Herat, and 17 percent in Jalalabad.

Figure 1. Share of households reporting monthly expenses related to ill health

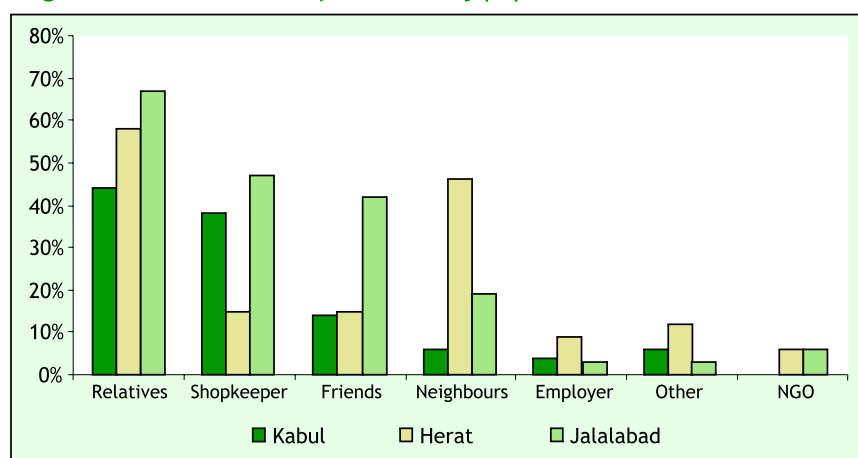


In addition, the cold winters of Kabul often mean that households have to purchase fuel or other materials for heating, which also eat into household finances. For those who cannot afford fuel at all, they tend to scavenge for other combustible materials, which may emit harmful fumes and exacerbate ill health. Such situation only creates a cyclical pattern in which households spend even more money on treatment and medicine.

High cost of living leads to debt and inability to save

Faced with the comparatively high cost of living in Afghan cities, a majority of households could not afford basic food consumption, let alone investments in health care and housing. As a result, they resort to borrowing. The income and consumption data collected clearly indicate that poor urban households are unable to establish savings that can cushion them in times of need, for example when coping with seasonality, income loss or shocks such as a health crisis. Under these conditions, people are forced to obtain cash through other means, which is where access to credit becomes a critical livelihood strategy.

Most of the study households reported approaching relatives, friends or shopkeepers for a loan on a regular basis. A great majority were almost constantly in debt because they could not pay for their basic needs with what they earn. Kabul had the most people relying on credit to afford basic consumption – 56 percent of respondents answered affirmatively when asked if they had taken credit in a given month over the study period. In Jalalabad, this value was 41 percent, and in Herat, 25 percent; this is consistent with findings on incomes and expenditures. With Herat's more diversified livelihoods, the study households in the city reported the least dependence on credit. However, the figures do not differ much between cities when it comes to outstanding debt. Virtually all households reported being presently in debt in varying amounts, often to finance big family events such as weddings or funerals, or to invest in income-generating assets.

Figure 2. Credit sources for the study population in three cities


Maintaining their houses was another reason to take out a loan, while an overwhelming number of families did so to afford basic food and medical expenses (see Table 2).

Sources of credit for study households, in almost all occasions, have been informal, and food assistance from shopkeepers and indebtedness to a relative, friend or neighbour were most frequently reported across study sites (see Figure 2).

Other important findings on credit and debt include the following:

- Having strong social networks allows families to maintain regular access to credit.
- For poor urban households, residing in a heterogeneous neighbourhood makes it easier to establish credit with neighbours. This was the case in Herat, where communities are usually more diverse and well-off neighbours serve more prominently as creditors.
- Having vertical social relations could determine access to the larger loans necessary to afford ceremonial events and income-generating investments.
- Repayment of credit often involves much hardship, but is necessary to keep up social relations and to access more credit from the same source. Strategies applied to repay debts often involve child-marriage to obtain bride price, having additional household members work to generate extra income, or simply counting on the patience of a creditor. Inability to repay often yields negative consequences. For instance, one household literally escaped from its debts by moving from Jalalabad to Kabul, while another household was raided by the lender and left bereft of any physical assets. Often, families living in rental housing accumulate debt to the landlord because they cannot afford to pay rent, leading to eviction and the loss of neighbourhood networks.

Table 2. Reasons for taking credit among the study population

	Median levels of indebtedness	Reasons for outstanding stocks of credit	Reasons for current flows of credit
<i>Kabul</i>	18,400 Afs	<i>N = 38 households</i> Consumption 90% Healthcare 76% Rent 18% House maintenance 18% Productive assets 15% Ceremonies 16% Other 7%	<i>N = 247 responses</i> Consumption 64% Healthcare 21% Fuel 11% House maintenance; rent 10% Productive assets 3% Ceremonies 5% Other 8%
<i>Herat</i>	5,000 Afs	<i>N = 35 households</i> Consumption 67% Healthcare 36% Rent 9% House maintenance 3% Productive assets 9% Ceremonies 15% Other 9%	<i>N = 119 responses</i> Consumption 56% Healthcare 19% Fuel 6% House maintenance; rent 6% Productive assets 5% Ceremonies 9% Other 4%
<i>Jalalabad</i>	15,000 Afs	<i>N = 36 households</i> Consumption 72% Healthcare 69% Productive assets 11% House maintenance 17% Ceremonies 22% Other 8%	<i>N = 195 responses</i> Consumption 68% Healthcare 31% Productive assets 2% House maintenance; rent 12% Ceremonies 3% Other 11%

RECOMMENDATIONS

1. Develop long-term employment opportunities beyond the existing seasonal and informal options, and provide greater security, especially to the most vulnerable groups.

- Develop demand-led vocational training and literacy programmes for household earners with weak access to labour markets and assist them in accessing more secure and better-paying jobs.
- Invest in asset diversification for the urban poor to help them out of poverty.

2. Protect the most vulnerable who cannot access labour markets.

- Obtain required resources to support national social protection programmes to provide a safety net to the most vulnerable groups (families without able bodied male workers, families dependent on disabled members for income, etc).

3. Create improved means for poor urban households to access credit.

- Explore alternative ways for households to access credit from more formal sources rather than overusing their informal social networks.

Review insurance models that can be adapted to fit the Afghan context. Poor households would benefit from joining community-run groups that provide pay-

out insurance to offset expenses from accidents, unexpected family crisis and other shocks.

4. Improve access to quality healthcare.

- There is a critical link between urban vulnerability and health, particularly among male breadwinners. Their physical wellbeing impacts their ability to secure income and food, which in turn influences the health of the entire family.
- Ensure that affordable and proximate healthcare facilities reach poor urban neighbourhoods, providing low-income families easy access to both preventative and curative care.
- Develop comprehensive public health education campaigns to encourage appropriate use of pharmaceuticals and preventive health and hygiene strategies.

5. Reduce burden of costs of basic needs.

- Develop a housing policy that deals not only with ownership, but also with rental housing, and provides incentives to increase the availability of affordable housing in cities.
- Review current energy policy to ensure that its focus is not only on fuel exports, but also on devising affordable solutions for domestic consumption.