In line with its communication strategy, developed in January 2013, AMA started providing information on the development finance sector in Afghanistan to its targeted audiences at national and international levels through different publications. AMA publishes Newsletters twice a year and the first one was published in March 2012. In addition to newsletter, AMA also publishes bi-monthly e-newsletters.

AMA upgraded its existing newsletter to Microfinance Magazine branded as “MicroMag” which contains much more information compared to the previous newsletter. AMA is proudly presenting its first MicroMag and cordially welcomes your comments and suggestions for further improvements of the Magazine.

Najibullah Samim
Executive Director, AMA

The Afghanistan Microfinance Association (AMA), the national network of development finance institutions in Afghanistan, was created in 2005 by the Microfinance Investment Support Facility for Afghanistan (MISFA) and microfinance institutions (MFIs). AMA promotes the sustainable development of the Afghan financial sector through sector coordination, networking, knowledge management, lobbying, advocacy, and capacity building.

In 2011, the United States Agency for International Development (USAID)’s Financial Access for Investing in the Development of Afghanistan (FAIDA) project provided support to AMA through the provision of financial, technical, and infrastructure development assistance. USAID FAIDA assists the AMA to become the representative and voice of the Afghanistan development finance sector, achieve institutional sustainability, and play a key role in advocacy efforts. As of September 2014, the combined portfolio of 14 AMA member institutions stood over AFN 7.7 billion ($136 million) in outstanding loans to over 168,809 borrowers, of whom 38% are women.
AMA conducted a Member’s Feedback Survey in September 2014 to receive its members’:
• feedback on the activities AMA has been doing since its rejuvenation in April 2011, and
• input and suggestions for future activities and initiatives, including AMA’s Strategic Plan: 2015-2020.

The survey was administered by the Social Enterprise and Education Promotion (SEEP) Network using its worldwide recognized Members Feedback Tool (MFT). The toolkit was customized in line with AMA activities and functions.

This was the first time AMA conducted such a survey, and all its 15 members participated and responded with interest and enthusiasm.

The survey outcome indicates that:
• 93% of the members overall experience with AMA has been satisfactory or more.
• 90% of the members opine that almost all AMA current services are valuable for their organizations.
• 90% of the members evaluated AMA’s services relating to information exchange/communication, sector coordination and networking, and trainings and workshops as good or excellent.
• Advocacy, access to donors/investors, research/studies, and social performance management are the services that need further improvements and focus.

The findings of the survey will feed into the development of AMA’s five year strategic and sustainability plan (2015-2020).

Building on the first survey, AMA will conduct such surveys every alternate year to get its members’ feedback, ensuring that services are demand driven and of the quality that meets members’ expectations.

AMA acknowledges SEEP Network’s support and looks forward to continued feedback from its members to improve its activities.
Due to the two rounds of presidential election, the microfinance services providers planned for low-key operations for the past six months. Despite this and other challenges, the development sector saw a moderate growth in many indicators.

- Gross Loan Portfolio (GLP) increased from AFN 7.77 billion (US$ 134 million) to 7.80 billion (US$ 135 million), resulting in a net increase of AFN 30 million (US$ 517,000).
- An amount of AFN 4.7 billion (US$ 81 million) was disbursed to around 67,000 borrowers.
- A net increase of 7,000 borrowers and 13,000 clients.
- The overall portfolio quality also improved. PAR=30 days decreased from 3.2 percent to 2.8 percent indicating an overall decrease of 0.4%.

### Sector Analysis

#### Market Share

MFIs are focusing their operations in safer urban areas, and with the loans primarily being for trade and service sectors.

- Around 65 percent of the portfolio and borrowers are in only five provinces: Kabul, Balkh, Badakhshan, Herat and Kunduz.
- 45 percent of the portfolio and 38 percent of borrowers are concentrated in just two provinces: Kabul and Balkh.
- Among MFIs, FMFB leads with 54 percent of the overall portfolio followed by IFC Group with a 16 percent market share.
- Among CSPIs, Aga Khan Foundation (AKF) leads with 61 percent of the overall portfolio followed by OMEED with a 13 percent market share.
- The trade sector accounts for 34 percent of the number of borrowers, followed by services (20%) and agriculture (14%).

### Agriculture Lending

Agriculture and Livestock plays a very important role in the economy of Afghanistan supporting 85% of the population mainly in rural areas. The Agriculture and Livestock sectors are a focus area for the Government of Afghanistan, donors and development agencies. Considering its importance in poverty alleviation, Development Finance Institutions (DFIs) started expanding to rural areas through offering Agriculture and Livestock loans to rural population. AMA, through support of USAID's FAIDA project, developed a Social Performance Management (SPM) Framework for Afghanistan in May 2014 through which, AMA is working with its member DFIs to expand financial inclusion to rural areas with particular focus on women and youth. Similarly the MISFA and the Ministry of Agriculture, Irrigation and Livestock (MAIL) are supporting DFIs in agriculture and livestock lending. FMFB and OXUS Afghanistan have developed Agriculture and Livestock loan products while FINCA Afghanistan will soon launch its Agriculture loan product. As of September 2014, Agriculture and Livestock has a 25% share of the total number of 168,809 borrowers.

**Agriculture Lending by The First Microfinance Bank (FMFB) Afghanistan**

Considering the importance of agriculture and livestock in the Afghan economy and that accounts for 50 percent of the country’s licit Gross Domestic Product (GDP) and supports 85 percent of the population, it is an important focus area of FMFB. Access to finance for the agriculture and livestock sector is critical as it contributes to poverty alleviation and economic development. The bank has been providing agriculture finance since the start of its operation in 2004. FMFB has worked with support from MISFA and the MAIL to adopt a client centric approach to its services and that substantial investments have been done on demand and customer satisfaction surveys.

As of September 2014, FMFB offers agriculture loans in over 60 districts in 12 provinces. The bank has about 20,000 active agriculture and livestock borrowers with AFN 1 billion (US$ 18.2 million) portfolio outstanding. Agriculture and livestock loans comprise 33 percent of FMFB’s overall portfolio in terms of outstanding value, and 35 percent in terms of number of active borrowers. At the moment, the bank offers two types of agriculture and livestock loans with three different repayment facilities: regular, grace period, and seasonal. Loans with regular repayments are designed for clients who are based in rural areas but have regular incomes from livelihoods or employment, such as shopkeepers, retailers, and government employees. However, most of the clients in the agriculture sector of Afghanistan harvest only once a year. Examples include people involved in dryland farming or animal husbandry. Considering their income schedule, the bank provides up to 11-month grace period. Seasonal repayment facility is developed to meet the needs of clients, who have seasonal incomes, e.g. farmers in low lying areas, such as Baghlan, Kunduz, and Takhar, who harvest up to three times a year and thus would benefit from a seasonal repayment method.

The Customer Satisfaction Surveys (CSS), conducted by third parties, indicate that most clients are pleased with FMFB’s agriculture loan products. The latest CSS findings show that 92 percent of clients are satisfied and want to borrow from FMFB again; and 91 percent of clients have used the loans for productive purposes. In addition, 94 percent of the clients interviewed believe that the loans have helped them by raising their incomes.

FMFB provides credit and savings products, as well as local and international payment services. The lending products are available for small businesses, house improvement, agriculture, and SMEs and range from AFN 29,000 (US$ 500) to AFN 5.8 million (US$100,000). Along with these financial services, the bank also provides commercial banking facilities, including domestic and international remittances.

FMFB is part of the Aga Khan Agency for Microfinance (AKAM), which has programs in over 20 countries throughout the developing world. AKAM is an agency of the Aga Khan Development Network (AKDN), a group of not-for-profit international development agencies working on health, education, culture and rural and economic development, primarily in Asia and Africa.
AMA organized a one-day workshop on “Improving Livelihood and Job Creation through Microfinance in Afghanistan” jointly with ACTED’s Afghanistan Livelihood Network (ALN) on August 27, 2014 in Kabul. A total of 142 delegates from 45 organizations attended the workshop. Participants included representatives from government ministries, UN agencies, national and international NGOs, MFIs, Community Savings Promoting Institution (CSPIs) and donors. The workshop was supported by USAID’s FAIDA project.

H.E. Mr. Wais Barmak, Minister of Rural Rehabilitation and Development (MRRD), and Mr. Mohammad Asif Nang, Deputy Minister of Education had opening speeches on the occasion.

After a presentation on AMA’s functions, activities, achievements, future plan and the status of microfinance in Afghanistan, representatives from Afghanistan Rural Enterprises Development Program (AREDP), National Skills Development Program (NSDP), MAIL, ADF, Ministry of Women Affairs, Ministry of Counter Narcotics, FMFB, FINCA Afghanistan, Swedish Committee for Afghanistan (SCA), Islamic Investment and Finance Cooperatives (IIFC) Group, and OXUS Afghanistan had presentations on their organizations’ role in livelihood promotion and job creation.

In addition to presentations, two panel discussions were also organized to respond to the participants’ questions and concerns.

As an immediate outcome of the workshop, the participants agreed to establish/strengthen the linkages between Government’s and NGOs’ livelihood and job creation projects with Microfinance Institutions. These coordinated efforts will help in livelihood promotion and sustainable job creation in Afghanistan.

The name Zahra is adapted from the name of the Holy Prophet Muhammad’s (peace be upon him) daughter, Saidatina Fatima Az Zahra, and means “the shining one”. OXUS Afghanistan launched Zahra program in March 2014, supported by the Agriculture Development Fund (ADF). The product targets individuals and cooperatives with existing small to medium scale enterprises. Under the Zahra program, a combination of four different Sharia products is offered, which can be used on stand-alone basis, or in combination. However, in the event that multiple instruments are used to meet the client’s requirements, these may not be conditional on each other. These products are; Zahra Murabaha, Zahra Wakala, Zahra Ijara and Zahra Qard Hassanah. Zahra is a Sharia Compliant product approved by the ADF Sharia Advisory Board (SAB).

Although any enterprise in the agri business could qualify, the main sub-sectors are considered to be those in which women are typically active: annual and perennial horticulture, livestock husbandry and agro-processing.

Since its launch in March 2014, OXUS Afghanistan has disbursed 199 loans valued at more than AFN 10 million (US$ 172,500). The major portions of these loans have been disbursed in the rural areas, such as the Qaysar, Maymana and Andkhoy districts of Faryab province and Bamyan province, respectively. The products are well received by the clients and the current portfolio at risk (PAR) is zero.

FINCA Afghanistan designed the Emergency Credit Line (ECL) to meet the needs of borrowers, who suffer from unexpected life events or shocks. Below are some examples of household needs that may qualify for this type of loan:

- Unexpected urgent health/medical condition in the family
- Repair of a damage in the house that if left unchecked could threaten the safety of the family
- Immediate family expenses related but not limited to: school tuition, weddings, death/funeral
- Car repair needs
- Utility bills payments to stop service interruption
- Purchase of home/business assets such as furniture, electronics, and other appliances

Potential clients for this product are those with regular income to ensure on-time monthly repayments. The loan size ranges from AFN 25,000 to AFN 100,000 with 6-12 month terms, respectively. Financial and/or family members can guarantee the loan. Guarantors must have a verifiable active and legitimate business, and must be a citizen and resident of Afghanistan between the ages of 18-65 years.

As of September 2014, a total of 1,230 borrowers benefitted from this product, which has reached a portfolio outstanding of US$ 1 million.
Q1: What is FINCA’s vision for Afghanistan?
Structurally, we are interested in becoming a deposit-taking financial institution for two reasons: first, we want to offer this service to our clients; and second, because we feel it can be a good source of working capital where it increases our lending portfolio, which right now is exclusively financed by debt and equity.

We want to extend our geographical footprint in Afghanistan, depending on the security situation. We want to innovate more in our product line, introduce products like agriculture lending, so we can reach other sectors of the economy, which are unserved right now. We would also like to make the best use of new technologies that are being employed in other regions of the world like Africa, where we call them alternative delivery channels, working with mobile money, mobile wallets or electronic wallets. This will reduce our transaction costs.

We are not going to be doing all these at once, but we are interested in getting this going and that is why we are quite pleased today to have received some really healthy growth here in Afghanistan.

Q2: How do you see the current microfinance sector in Afghanistan?
I think the microfinance sector in Afghanistan is unfortunately still in the early stages of development. The MFIs grew with great enthusiasm in the past but they did not put solid structures and systems in place. The bigger problem was that the MFIs worked in areas where they did not have security and could not even monitor their programs. This was the case with MFIs who suffered big losses.

In the case of FINCA, we suffered some of these same problems and at one point, our very existence was threatened, but the new leadership at FINCA Afghanistan proved to be incredibly skillful in the turnaround of FINCA in the country. Similar to FINCA, I am sure other MFIs have learnt their lessons and have put solid structures and systems in place. The MFIs currently focus on quality rather than on quantity.

Q3: How do you see the role of AMA in the promotion of the microfinance sector in Afghanistan?
The role of associations like AMA is absolutely critical. Each MFI in a country is trying to serve its clients, take care of its employees and solve all kinds of problems on a day-to-day basis but there are other things that, if not attended to, could ruin the environment of the sector. Somebody needs to keep an eye on what is happening in the political arena and the legislature here, and that is where an association like AMA comes in. There is also a role for an association to be staying in touch with what is happening out in the greater world, coming up with an innovation in microfinance that can be brought to Afghanistan; and also with what is happening in financial services that might come to Afghanistan and be a threat to the microfinance sector.

I think there is a clear role for any association (such as the AMA) whether at a country level, global level, or confederation level. Things are going so fast, the more eyes and ears you have focused on these different issues, the better and if you can figure out how to bring more resources to the sector, both financial and human resources, you can get some really healthy growth here in Afghanistan.

Q4: What do you recommend for further improvement of the microfinance sector in Afghanistan?
We talked about our incentives with our credit officers to improve the quality of their portfolio. In some cases, we are eliminating incentives for portfolio size and just paying a straight salary. We discussed whether that would be a big thing to do here and we sort of concluded that it depends on the market. If the market is saturated and there are a lot of lenders and over-indebted clients, then you don’t want to incentivize the credit officers to push more and more money. You probably want them just to focus on the quality of the loans that they are making. But then in a market that is much more wide open and underserved like Afghanistan, then probably incentives still make sense to encourage the additional effort required for outreach to more people in remote areas. I actually was very impressed by something I heard today from FINCA’s internal control team: that they are detecting bad loans before they go bad and frauds before they occur. They seem to have a very clever way of assessing whether a borrower really has a business. They claim to prevent up to 200 frauds in a month and to have saved approximately AFN 174 million (US$3 million) in the past four years.

Q5: In your recent book “The Social Entrepreneur’s Handbook” what messages do you convey to the readers?
My goal in writing the book is to inspire younger people who are thinking about getting into microfinance or enter some kind of social enterprise and really do something in the world, do something with their lives that improve the world. I wanted to share through my book that we need more people in this social enterprise space coming up with innovations, not just in finance but in renewable energy, saving the environment, education, water, and even things like people coming up with creative solutions for conflict and war. So the more people we can inspire and get excited about doing this kind of work, the sooner we get to some kind of sustainable world. We don’t have much time, the world is overpopulated, it is contaminated, it is filled with dangerous weapons and even more dangerous people, so we have to take away the things that people fear. And the big thing we fear is poverty and deprivation.

Mr. Rupert Scofield
President and CEO, FINCA
AMA established its Resource Center in January 2014, with support of USAID’s FAIDA project. The resource center is equipped with 246 sector-relevant books, reports, studies, research, and publications, as well as internet facility for the users. The resource center is open five days a week (Sunday-Thursday) from 8:00am to 4:00pm and the books can be borrowed as per AMA library guidelines.

AMA member organizations and stakeholders are appreciative of the resource center and consider it a good step forward towards staff development. AMA will further enrich the library with new relevant books and resources. Afghanistan’s Development Finance sector staff are encouraged to visit and use the center and enhance their knowledge and capacity.


Social Performance Management Framework for Afghanistan

Supported by USAID’s FAIDA project, AMA developed a social performance management framework for Afghanistan in April 2014. The framework focuses on the following areas:
• Financial inclusion and outreach with a particular focus on rural areas, women, and youth;
• Client protection with a focus on transparency, preventing over-indebtedness and ensuring the fair and ethical treatment of clients, and;
• Advocacy to build support for socially responsible and effective microfinance.

This framework is not intended to be a stand-alone strategy document, but rather to guide AMA in the integration of social performance into its new strategic plan. This is a guide for AMA to do annual projections for achievement of financial inclusion/outreach, social objectives, integrate additional reporting indicators and support member MFIs to conduct self-assessments.

AMA, as per the framework, started collecting data from its members based on social performance indicators added on the data collection tool used for collecting data for MicroView reports. These reports, including the social performance indicators, are published on a quarterly basis and circulated widely to AMA contacts at national and international levels.

Code of Conduct for Afghanistan’s Development Finance Sector

In the early days post Taliban, when the urgent need was to generate employment and income for millions of Afghans repatriating to Afghanistan, microfinance proponents pushed for a rapid expansion policy. The intention was to provide the financial means to as many needy Afghans as possible to become micro entrepreneurs. This rapid scale-up brought to the surface, varying degrees of vulnerabilities among MFIs, leading to unintended results, such as ghost clients, corruption, and other fraudulent activities.

Learning lessons from the rapid expansion period, the AMA produced a Code of Conduct defining fair practices and values for development finance implementers and practitioners, to protect clients, promote mutual trust between financial service providers and clients, and uphold high standard operating procedures amongst development finance institutions, (DFIs), regulators and donors.

AMA has finalized the Code of Conduct following close consultations with members, donors and other stakeholders. USAID’s FAIDA project supported AMA in reviewing, editing and finalizing the codes. The Code is currently being piloted by AMA member organizations, and will be reviewed and finalized based on feedback received from the pilot phase.

AMA Initiatives

AMA Initiatives


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Mohammad Raziq Attaye, a 32 years old man, is involved in carpet threads dyeing for past 10 years. He is married and has a son and daughter, who are in school nearby their home. He lived in his own village in the past before coming to Kabul in 1997. Raziq went through some rough times; his two brothers were killed during the war and he was jobless for a long period of time before he decided to become an apprentice with the owner of a carpet weaving company. In the beginning (December 2007) he was referred to FMFB and received a loan of AFN 50,000 (US$ 860). With the capital, he was able to buy a few carpet weaving sets. As his business grew, he was able to expand his carpet-weaving enterprise through repeat loans.

The different loans he received during his first few years with FMFB ranges from AFN 50,000 (US$ 860) to AFN 250,000 (US$ 4,300). He spent much of this borrowed money on increasing the number of carpet weaving sets, as well as to buy silk and dye materials. So far, he has 60 carpet weaving sets, which he leases to other women to weave carpets in their houses. Through this activity he could hire 70 women to do carpet weaving and usually pay them wages, ranging from AFN 5,000 (US$ 90) to AFN 40,000 (US$ 700), based on the sizes of the carpets they weave. Recently Raziq also started to sell the weaving sets to some women to help them do the weaving of carpets and rugs with their own sets. He sells them only the raw materials and the carpet weavers can sell their woven rugs when finished to anyone who offers the better price. In the future, he plans to have a contract with some companies to directly sell them carpets and rugs.

The loans which he received brought some positive changes in his life – he could buy land, construct a house and was able to marry again after his wife succumbed to an illness. He also purchased a car, which he now rents to a Korean construction company.

His monthly income also increased from AFN 5,000 (US$ 90) to AFN 60,000 (US$ 1,035), while his monthly family expenditure also significantly increased from AFN 3,000 (US$ 50) to AFN 20,000 (US$ 350).

His suggestion is to have future loans with bigger sizes and longer duration, as well as lower interest rates, because this would bring more efficiency in the development of clients' businesses.
Meet our Member!

Afghan Rural Finance Company (ARFC) is an Afghan, non-bank financial institution registered with the Afghanistan Investment Support Agency (AISA), and operates throughout the country. ARFC is an SME business partner to help develop sound financial solutions that meet specific business requirements and spur economic growth in the country. ARFC offers commercial debt capital and provide a platform for growth of trade, manufacture, services or an individual that improves the local, regional or national economy by creating jobs and growing rural enterprises in Afghanistan. Urban-based companies and individuals will also be eligible when the activity of the enterprise being financed benefits rural areas.

As of June 2014 ARFC has a portfolio of AFN 745 million (US$ 13 million) with 68 active borrowers.

### Products & Services

ARFC is providing Islamic banking services, such as Murabaha, and Musharakah Mutanaqisah and can help with Islamic Murabaha and Musharakah Mutanaqisah loans to support business in sectors of production, services, trade, and construction.

#### Islamic Banking Conditions:

- Provision of goods,
- Provision of machineries for production,
- Provision of raw material,
- Provision of construction machineries and equipment,
- Purchase of vehicles,
- Agriculture business investment in storage, processing and marketing facilities, and
- Provision of Special Murabaha loans to women with businesses ranging from AFN 290,000 (US$ 5,000) to AFN 5.8 million (US$ 100,000) and for other Murabaha and Musharakah Mutanaqisah loans from AFN 1.2 million (US$ 20,000) to AFN 29 million (US$ 500,000).

#### Islamic Banking Terms:

- For trading companies from 6 months up to 24 months/monthly repayment,
- For production companies for purchase of raw materials from 6 months up to 24 months/monthly repayment,
- For production companies for purchase of machineries from 6 months up to 36 months with 3 months possible grace period,
- For service companies from 6 months up to 24 months with monthly repayment, and
- For construction companies from 6 months up to 12 months/monthly repayment.

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IDEA is Afghanistan’s first microfinance consultancy with over a decade of experience in Afghanistan’s development finance sector. IDEA has the expertise and in-depth knowledge to develop and strengthen institutions on their path to long term viability.

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- Institutional Strengthening - institutional assessments and mentorship
- Research - products, innovations and social impact
- Crisis management, turnaround and restructuring
- Program Development - women’s economic empowerment, financial literacy, technology

Microfinance Clients

Photo Credit:
- The First Microfinance Bank (FMFB) Afghanistan
- Islamic Investment & Finance Cooperatives (IIFC) Group
- OXUS Afghanistan

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