



## Annual Report

For the Year Ended March 2014



**PHOTO CREDITS**

Matin Ezidyar

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Mutahid DFI

AMA

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## ACRONYMS



<b>AIBF</b>	Afghanistan Institute of Banking and Finance
<b>AISA</b>	Afghanistan Investment Support Agency
<b>AMA</b>	Afghanistan Microfinance Association
<b>ANDS</b>	Afghanistan National Development Strategy
<b>CGAP</b>	Consultative Group to Assist the Poor
<b>DAB</b>	Da Afghanistan Bank
<b>DAIL</b>	Directorate of Agriculture Irrigation and Livestock
<b>DfID</b>	Department for International Development (UK)
<b>DoWA</b>	Directorate of Women's Affairs
<b>FAIDA</b>	Financial Access for Investing in the Development of Afghanistan
<b>IFAD</b>	International Fund for Agricultural Development
<b>M&amp;S</b>	Monitoring and Supervision
<b>MAIL</b>	Ministry of Agriculture Irrigation and Livestock
<b>MFI</b>	Microfinance Institution
<b>MISFA</b>	Microfinance Investment Support Facility for Afghanistan
<b>MoU</b>	Memorandum of Understanding
<b>MoWA</b>	Ministry of Women's Affairs
<b>MRRD</b>	Ministry of Rural Rehabilitation and Development
<b>NGO</b>	Non-governmental Organization
<b>PRRD</b>	Provincial Rural Rehabilitation and Development Department
<b>USAID</b>	United States Agency for International Development


**H.E. Wais Ahmad Barmak**
**Chairman and Minister**

Chairman, and Minister, Ministry of Rural Rehabilitation and Development (MRRD). Before this appointment, he served as MRRD's Deputy Minister for Programs, and Executive Director of the National Solidarity Programme (NSP). He is an MSc graduate (Development Studies) from the School of Oriental and African Studies (SOAS) at the University of London, UK.


**Mr. Ahmad Shafiq Qarizada**
**Deputy Minister & Board Member**

Board Member, and Deputy Minister for Policy of the Ministry of Finance (MoF). Mr. Qarizada also served in different capacities at the Ministries of Education and Public Works, and worked with international organizations, including the United Nations, prior to joining MoF. Mr. Qarizada has a Masters Degree in General Management from Preston University in Islamabad, Pakistan.


**Mr. Mohammad Qurban Haqjo**
**Board Member**

Board Member, and Chief Executive Officer of the Afghanistan Chamber of Commerce and Industry since 2008. Mr. Haqjo also worked as legal advisor to different projects funded by the European Union in Afghanistan, as well as with the Embassy of Italy in Kabul. He has a degree in Political Science from Balkh University and completed a degree in International Business Relations in Germany.


**Ms. Nicola Armacost**
**Board Member**

Board Member, and Managing Director of Arc Finance, formed in the spring of 2008 to link the fields of finance, energy, water and sanitation. Ms. Armacost has the following degrees from institutions in Canada: a Bachelor's degree in international relations from the University of Toronto, an LLB from Queen's University, and an LLM from Osgoode Hall Law School.


**Ms. Kathryn Imboden**
**Board Member**

Kathryn Imboden is a Policy Advisor for bilateral and multilateral development agencies, including CGAP. She chairs the Board of FIDES Microfinance Senegal, and serves on the boards of Azure Partners, and the Womanity Foundation. Ms. Imboden has a B.A. on Economics from Mount Holyoke College, U.S.A. and a diploma from the Institute of Political Studies in Paris, France.


**Ms. Joyce Lehman**
**Board Member**

Board Member, and Independent Advisor to global donor organizations on Financial Inclusion. Previously, Ms. Lehman was a Program Officer on the Financial Services for the Poor team at the Bill & Melinda Gates Foundation. She spent four years in Afghanistan working in the microfinance sector. She is a Certified Public Accountant and holds a Master's Degree from the Bentley College Graduate School of Business.

## FROM THE CHAIRMAN OF THE BOARD

Since its introduction into Afghanistan through the Ministry of Rural Rehabilitation and Development (MRRD) just over a decade ago, and through the efforts of MISFA over the years following, microfinance has been a central element in assisting the country's economic growth and development, helping to create jobs and support income-generating activities, as well as playing its part in revitalizing markets and expanding the private sector, especially in relation to financial provision.

For Afghanistan, as elsewhere, the purpose of microfinance is to address disparities in access to finance, especially for those in remote areas and those most in need. In particular, microfinance offers a way of addressing the lack of assets, which are seen as essential by the formal finance sector if loans are to be made available to build new businesses or expand existing ones. This lack of access to fresh capital is one of the continuing factors in preventing poverty reduction and limiting the ability of Afghanistan's formal and informal business sectors to grow.

With MISFA's guidance and support, microfinance institutions have been assisted to provide thousands of families and entrepreneurs over the past decade with access to financing they would otherwise not have been able to obtain. During that period, MISFA has become an increasingly Afghan-led institution, benefiting from and building on the technical support and assistance provided by our international partners.

As we move forward, it is important that MISFA's core values of supporting poverty alleviation and financial inclusion are kept to the fore. Our awareness raising, advocacy, stakeholder consultations, context-based programmes and continuing product development all operate in support of those values, which themselves help motivate our staff at every level to achieve a truly transformative effect in tackling poverty and promoting inclusive economic growth.

I would like to take this opportunity to thank MISFA's national staff for their hard work that has enabled MISFA to become the kind of Afghan-led organization it is today. I would also like to thank MISFA's Board of Directors for resolution and commitment, especially for the integrity and foresight they bring for MISFA's work. I acknowledge the continued support of MISFA's donors and stakeholders, including Da Afghanistan Bank, the government of Afghanistan, the World Bank, IFAD, among many others.

And finally, I would like to thank the Afghan people, who, despite decades of hardship, continue to display an astounding level of resilience and entrepreneurial spirit, and whose committed hardwork and perseverance will, I am sure, help them both to realize their dreams and to build a strong, prosperous and stable Afghanistan.

Sincerely,



**Wais Ahmad Barmak**

Chairman, MISFA Board of Directors  
Minister, Ministry of Rural  
Rehabilitation and Development (MRRD)



People's lack of access to capital is one of the factors that prevent poverty reduction and limit the ability of Afghanistan's formal and informal business sectors to grow. Microfinance has been effective in providing poor Afghans access to finance.

## A MESSAGE FROM THE MISFA'S MANAGING DIRECTOR

This year has been quite a milestone for MISFA and myself. After years of advocacy on all fronts and at all levels to create an enabling environment for microfinance, MISFA can finally report on concrete achievements towards its core mandate.

Two of the accomplishments we are highlighting in this report are worth calling attention to, given their macro-level significance:

- the approval by Da Afghanistan Bank (DAB), the country's Central Bank and main regulator, of the "Deposit-taking Microfinance Institution (DMFI) Regulation"; and
- the roll-out of the first Sharia-compliant loan product/service approved by the Ulema Council (religious scholars) of Afghanistan.

Both the DMFI Regulation and the Sharia-compliant loan product took years in the making. MISFA had been considering these two initiatives even before I joined the organization in mid 2010. In the succeeding years, sector consolidation and ongoing political upheavals in Afghanistan made it look impossible to get any traction on these policy decisions.

Their coming to fruition this reporting year is an affirmation that MISFA has gained credibility and recognition among government leaders, donors, and the Afghan public as a whole. Moreover, such policy-level endorsements indicate that key stakeholders

recognize the critical role of MISFA and microfinance in the rehabilitation and long-term economic development of Afghanistan.

It is a great privilege for me to have this opportunity to lead an organization that allowed me to learn on the job, to grow from within, and more importantly, to make a meaningful contribution to the future of Afghanistan.

I am indeed most fortunate to be in this role, supported by a dedicated staff and a scrupulous Board of Directors, who together have made MISFA a model of leadership, Afghanisation, and integrity.

Thank you very much for your vote of confidence and continued support.

Sincerely,



**Bahram Barzin**  
MISFA Managing Director

Murabaha financing became the first loan facility approved and endorsed by the Ulema Council (religious scholars) of Afghanistan. Mutahid, a subsidiary of MISFA, piloted the product in Herat province in January 2013, and launched it in Kabul later in March. Since then, hundreds of Afghan micro entrepreneurs have been opting for this Islamic, no-interest product.



## 1. INTRODUCTION

### MISFA: Making inroads in poverty alleviation...

While MISFA will continue to work on fulfilling its mandate of strengthening the micro/development finance sector, it is now seeing some tangible results in its decades long work. Poverty alleviation, the intended outcome of a stronger microfinance sector, has been happening—albeit not at scale yet—in some parts of Afghanistan, as a direct result of some of MISFA’s key initiatives.

### ... by strengthening Afghanistan’s development finance sector, and...

This Report will provide an overview of MISFA’s current partners and their combined portfolio. It will also include MISFA’s strategic partners in creating an enabling environment in Afghanistan for development finance in general, and microfinance in particular.

With the continued support of these key actors, MISFA will endeavor to establish an ecosystem conducive for development finance to flourish, with the ultimate goal of poverty reduction in Afghanistan.

### ... by ensuring that the poorest Afghans have access to finance.

This Report will also highlight what has become—in only a few years time—a flagship initiative for MISFA: Targeting the Ultra-Poor project, also known as TUP.

In 2010, with funding from IFAD and in collaboration with the Ministry of Agriculture, Irrigation and Livestock (MAIL), MISFA piloted TUP in Bamyan, providing direct intervention to help the poorest 400 Afghan women in the province escape abject poverty. The women, many of whom had been begging for bread and money before joining the project, received a package of assistance for 36 months, including a monthly stipend to meet food and household needs; productive assets (livestock); trainings in animal husbandry and hygiene; linkages to public services, such as schools and health facilities, and many more.

The majority of the pilot group graduated from the program and, more importantly, from being desperately poor. Most of the women managed to double—some triple—their livestock assets by the time they graduated and were engaged in income-generating activities.

Moreover, their children have been going to school and clinics for regular check-ups.

Some women, who used to be living in makeshift, temporary spaces, or caves, and were far out of the socio-political circles, have been able to: afford constructing more durable mud-brick houses; purchase carpets, television, satellite dishes; and gain awareness of the current social and political events in Afghanistan.

Their remarkable success has led to TUP’s scale-up to the poorest 800 women in the farthest-flung northeastern province of Badakhshan along the border with China. The core offerings of the TUP package of assistance is the same, but MISFA has fine-tuned the process using lessons learned from the pilot, and has partnered with a local non-governmental organization (NGO) to implement the program.

During the reporting year, TUP’s significant contribution to poverty reduction has been praised by local and provincial government authorities, as well as by the beneficiaries. Donors, such as IFAD and the World Bank, have both pledged multi-year funding for the national scale-up of the project.

Through TUP, MISFA has been given a golden opportunity to make a serious dent on poverty in Afghanistan, one province at a time.

*“Everyone used to ignore us. I swear to God, there were times when we used to turn our stomach towards the sun, hoping it would make our hunger disappear. It would be lucky if we found enough bread for the day; forget about other food items. Once, one year went by when we did not eat rice at all. TUP saved my life and that of many others. Now we can afford to purchase everything available in the market: fruits, meat and vegetables. I cook meat at least once a week. My six children are all in school and I can meet their expenses. I am ever so thankful!”*

*Najiba  
TUP Beneficiary, Bamyan*



MISFA's TUP project provides direct intervention to rural Afghan women in abject poverty. They receive a package of assistance, including productive assets (livestock), trainings in animal husbandry, hygiene, and linkages to public services, such as schools and health facilities. Through TUP, MISFA has been given a golden opportunity to make a serious dent on poverty in Afghanistan, one province at a time.

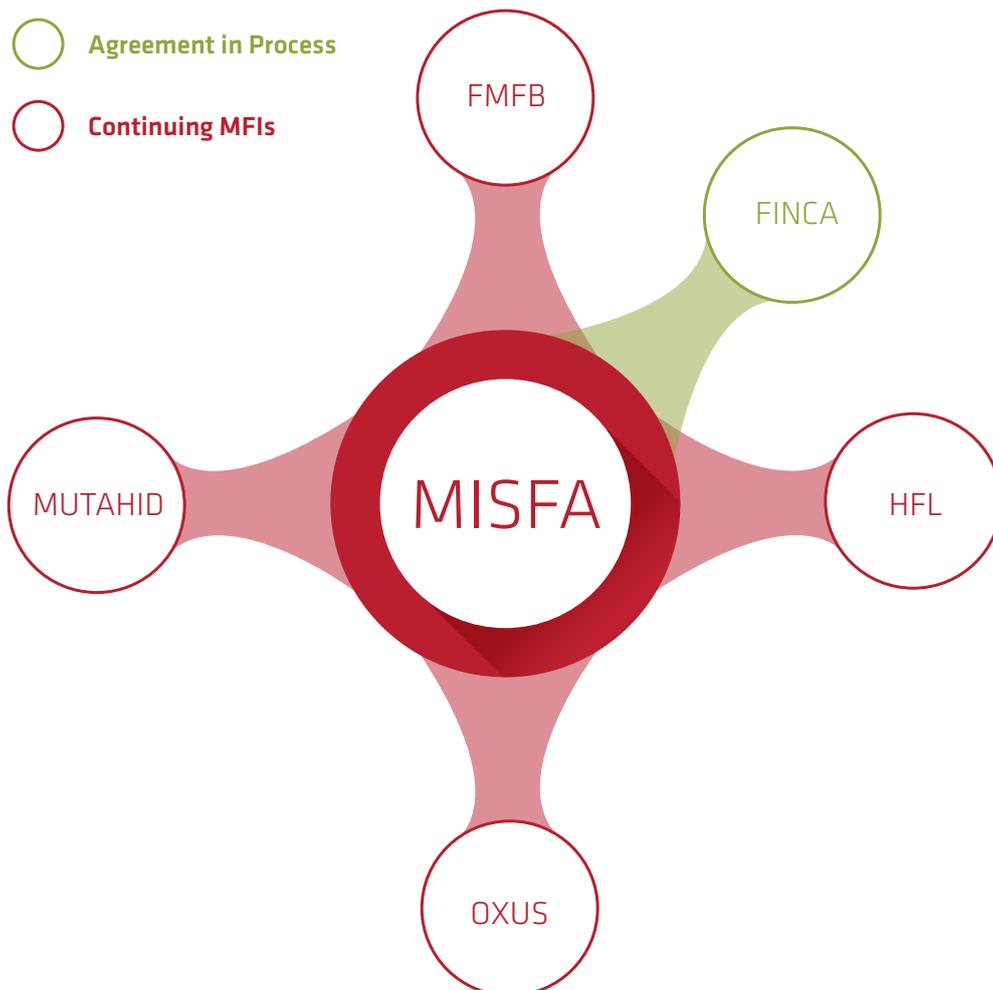
## 2. MISFA PARTNERS: PORTFOLIO OVERVIEW

MISFA has been supporting three partners: First Microfinance Bank (FMFB), OXUS and Hope for Life (HFL), plus its subsidiary Mutahid.

It should also be noted that MISFA provides support to non-partners and the sector overall through its engagement with the Afghanistan Microfinance Association (AMA), and other key stakeholders (more on this in Section 3).

Since the past year, MISFA has been open to considering applications for funding from potentially new partners. At the time of writing, MISFA is undergoing due diligence evaluation of FINCA Afghanistan's application for MISFA funding. If all goes well, MISFA will have an additional partner by the end of 2014.

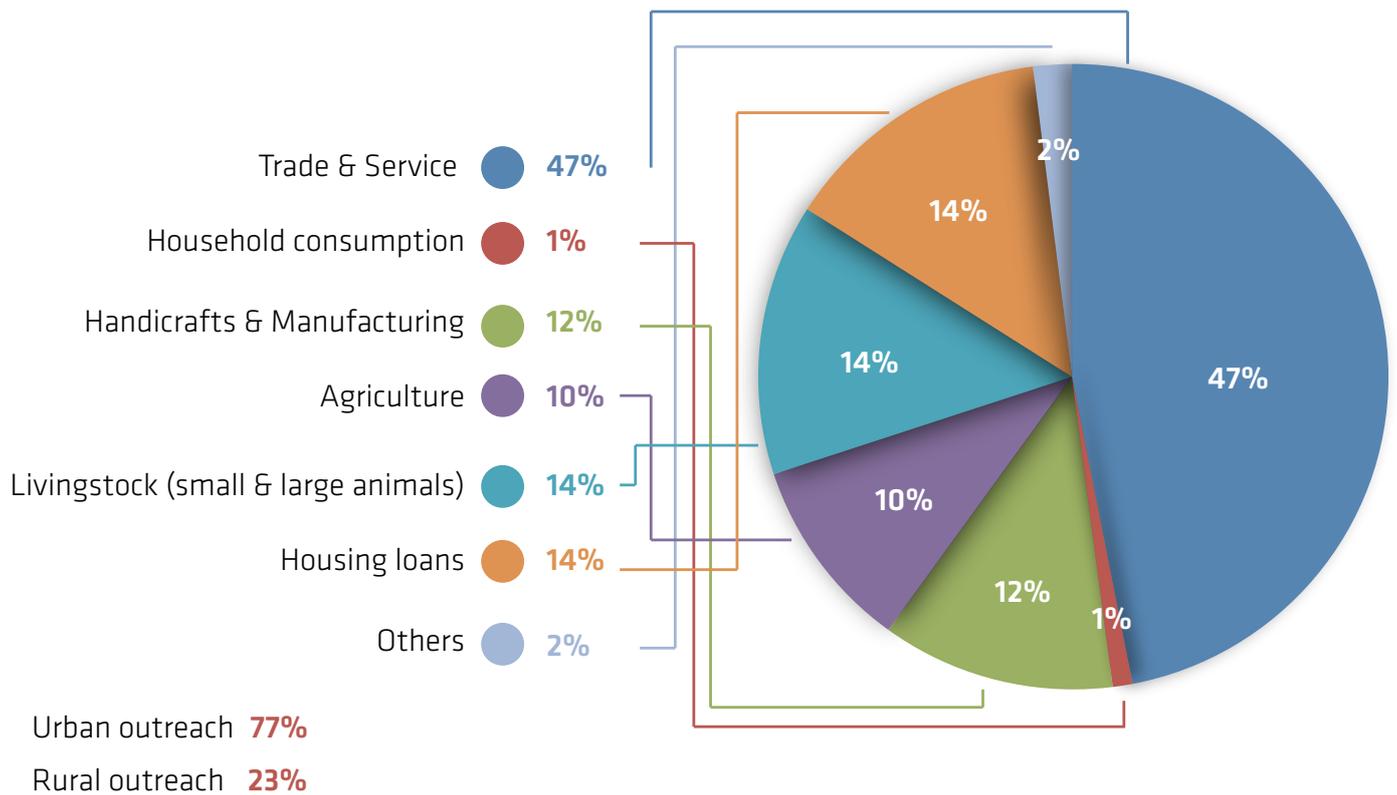
### MISFA's MFI PARTNERS As of 31 March 2014



**MISFA PARTNERS' PORTFOLIO:  
A SNAPSHOT**

	As of 31 March 2013	As of 31 March 2013	As of 31 March 2013
Number of loans disbursed (cumulative)	2,018,074	2,018,074	2,018,074
Amount of loans disbursed (cumulative), AFN	62,598,716,468	62,598,716,468	62,598,716,468

**PARTNERS' OUTREACH PER INDUSTRY:  
LOANS BY BUSINESS TYPE**  
As of 31 March 2014



### 3. STRENGTHENING THE DEVELOPMENT FINANCE SECTOR

While MISFA continues to strengthen the microfinance sector, it is also making inroads in its efforts to improve access to finance and reduce poverty in Afghanistan. Through some of its initiatives, which have demonstrated impact in the past year, MISFA and the sector (including non-partners indirectly supported by MISFA) are reaching the underserved, the unbanked, the marginalized rural poor of Afghanistan.

#### 3.1 Strategic Support to MFI Partners

Two initiatives of MISFA partners are worth highlighting. FMFB piloted a rural agriculture loan product in 2012, which by all indications, has been well received. Mutahid also piloted a Sharia-compliant loan product, designed specifically to serve the financial needs of Afghans in the lower income bracket.

A study commissioned by MISFA indicated a significant number of potential microfinance clients are abstaining from the traditional loan offered by MFIs due to their moral opposition to taking interest-bearing loans. Based on demand, MISFA supported Mutahid to pilot murabaha, the first Sharia-compliant loan product officially endorsed by the Ulema Council (religious leaders) of Afghanistan.

By supporting its partners in the development and implementation of both demand-driven products, MISFA is not only contributing to a stronger microfinance sector, it is also ensuring that Afghans left out by the formal financial sector have a safer alternative other than unscrupulous money lenders in the informal sector.

#### ► FMFB's Rural Agriculture Loan Product

The First Microfinance Bank (FMFB), funded by MISFA, piloted its rural agriculture product in Badakhshan, Baghlan, Kunduz, and Takhar provinces in 2012.

The product was developed based on an agriculture product demand survey conducted in Bamyan, Kunduz, and Takhar, also supported by MISFA. The uptake of this agriculture product has been remarkable, as seen in the disbursement table below.

Historically, microfinance has been urban/peri-urban biased, with more than 70 percent of loans disbursed in these areas. Long-running security issues and inherently tough terrains have hampered outreach to rural Afghanistan, where the vast majority of the population resides, particularly the poorest Afghans. They cultivate land, herd cattle, manage poultry, and participate in other types of agricultural production—the backbone of the country's economy. Yet they have no access to formal credit to develop or expand their enterprise.

MISFA's support to FMFB to develop and roll out this loan product is intended to reach these households in rural parts of the country mainly reliant on agricultural activities for a living. The rural ag product is designed to meet financial needs and repayment capacities tailored to the seasonal nature of agriculture.

Given the fast uptake of this loan product in the four pilot provinces, it is likely to get support for scale-up to other provinces. MISFA, in line with its core principle of financial inclusion, will continue to support innovations in product design to expand access to financial services throughout Afghanistan and cover the needs of the historically underserved rural populations.

Province	No. of the loan disbursed	Amount of loans disbursed cumulative (in AFN)
Badakhshan	3,808	200,564,500
Baghlan	792	88,565,000
Kunduz	2,554	282,407,100
Takhar	1,738	154,879,000
<b>Total</b>	<b>8,892</b>	<b>726,415,600</b>



MISFA provided support to its partner MFI, First Microfinance Bank (FMFB) to develop and roll out an agricultural loan product intended to reach households in rural parts of the country mainly reliant on agricultural activities for a living. This product is currently offered by FMFB in Badakhshan, Baghlan, Kunduz and Takhar.

### ► Mutahid's Sharia-compliant Loan Product

The introduction of this Islamic service by Mutahid, as an alternative to the traditional loan product, is intended to reach out to Afghans, who need financial assistance to build up their livelihoods, but are not comfortable taking interest-bearing loans on religious grounds.

As early as 2009, MISFA has conceptualized an Islamic product based on the Afghan context. A study was commissioned in 2010 to look closely into the demand for a Sharia-compliant facility and its findings indicated that there were Afghans within the target microfinance client base, who needed credit, but eliminated microfinance institutions as an option due to the interest.

However, the development process of this product was stalled when the sector entered the consolidation phase. In 2011, Mutahid Development Finance Institution (DFI) was created as a subsidiary of MISFA to facilitate the smooth consolidation of the best clients, staff, and resources of exiting MFIs. After transitioning out of the consolidation processes, Mutahid, with the full backing of MISFA, became the natural test bed for product development and innovations.

Thus, murabaha (also referred to “mark-up” or “cost-plus financing”), the most popular and common mode of

Islamic financing worldwide, was incubated at Mutahid until it was ready for piloting. The one last crucial step was to get the approval/endorsement of the country's religious leaders.

In June 2012 Mutahid's murabaha financing became the first loan facility approved and endorsed by the Ulema Council (religious scholars) of Afghanistan. Mutahid piloted the product in Herat province in January 2013 and last March, it launched murabaha in Kabul.

Since its sluggish start early this year, murabaha has taken off quite dramatically, with hundreds of Afghan micro entrepreneurs opting for this Islamic product. According to Mutahid, some of its traditional microfinance borrowers have even shifted to murabaha after paying off their outstanding credit in full.

Both the agricultural and Sharia-compliant products took a lot of time and effort, but seeing how both these facilities have been well received by their intended end-users, MISFA will continue to support both FMFB and Mutahid DFI in their implementation of or expansion plans for these two innovative loan products. MISFA support will also be extended to other future partners in this regard.



According to Mutahid, some of its traditional microfinance borrowers have shifted to murabaha after paying off their outstanding credit in full.



By supporting its partners in the development and implementation of demand-driven products, MISFA is ensuring that Afghans left out by the formal financial sector have a safer alternative other than unscrupulous money lenders in the informal sector.

### 3.2 Support to Non-MISFA Partners

Over the years, MISFA has been cultivating relationships with stakeholders at all levels. Strong partnerships have been established with officials of key line agencies within the national government, whose seat of power is based in Kabul. However, MISFA was cognizant in the early days that for microfinance to be effective operationally, it needed to also get the buy-in especially of stakeholders on the ground.

MISFA paved the way for a more enabling environment for MFIs across many regions by establishing a platform for coordination and communication among stakeholders. Moving forward, given the shifting nature of the sector following consolidation, it is important for MISFA to partner with an institution founded on the membership of more home-grown, more Afghan-led groups.

#### ▶ Afghanistan Microfinance Association (AMA)

AMA is the national network of development finance institutions (DFIs) in Afghanistan. MISFA, along with microfinance practitioners and other stakeholders, established AMA in 2005. It was registered with the Ministry of Justice of Afghanistan in 2007, but due to limited resources and activities, AMA was inactive until 2010.

Meanwhile, in the same year, MISFA began establishing coordination and communication mechanisms region by region. The goals were to: minimize parallel and counterproductive activities, mitigate misperceptions about microfinance, and improve cooperation and communication among stakeholders across regions, which can only make microfinance service delivery more efficient. This required opening regional offices and recruiting staff, who were consensus builders and experienced at building relations with local government stakeholders.

MISFA established its first regional offices in Nangarhar and Herat provinces in 2010, in Balkh in 2011 and in Kunduz province in the succeeding year, to fill the gaps in coordination and networking among MFIs, local government, Community Development Councils (CDCs), District Development Associations (DDAs) and other microfinance stakeholders in the field.

In 2011, amidst sector consolidation, MISFA led the revival of AMA with funding support from USAID's Financial Access for Investing in the Development of Afghanistan (FAIDA) project. For MISFA, it was clear then that the shrinking of the microfinance sector, particularly the imminent exit of foreign-based MFIs, was an opportunity to engage other actors outside the scope of microfinance through AMA.

Since its revival, AMA restructured its governance and management systems, expanded its membership to go beyond microfinance institutions and include other types of development finance institutions, such as community-based savings promoting institutions (CSPI) and SME lenders. Currently, AMA has 14 full-time members and one associate member.

By continuing to support the newly-branded, more inclusive AMA, MISFA would also be contributing to the growth of a more organic development finance sector, which would help MISFA reach the intended outcomes of micro- and development finance: poverty alleviation and financial inclusion.

During the reporting year, MISFA signed a Memorandum of Understanding (MoU) with AMA to institutionalize the role of advocacy and regional coordination and communication within AMA. This move signaled MISFA's level of confidence and commitment to AMA as a partner in

strengthening, not just of the microfinance sector, but also of the development finance sector as a whole.

Following the signing of the MoU, MISFA handed over to AMA coordination responsibilities in Parwan, Nangarhar and Kunduz provinces in Central, East and North East regions. The handover of other coordination hubs is ongoing. AMA is also taking over the function of program and legal awareness raising as part of the regional coordination role.

### 3.3 institutionalizing the microfinance sector

Since MISFA's inception in 2003, there have been a number of initiatives to formalize the establishment of a microfinance sector in Afghanistan. MISFA's leadership in the past 10 years have advocated strongly for a branch of the Government of Afghanistan to assume the critical role of regulatory body in charge of overseeing microfinance institutions. This was particularly important given that in the early days, there were around 14-16 MFIs operating in the country, mostly sponsored by foreign-based organizations.

Although government structures and capacities were quite fragile in the first few years following the fall of the Taliban, MISFA began discussions with stakeholders then on the possibility of MFIs reporting to Da Afghanistan Bank as the country's main financial regulatory body. However, DAB's capacity at that time was not sufficient yet to regulate the country's entire financial/banking system; thus there was no room to expand its scope to include MFIs.

MISFA became the de facto regulatory body for MFIs. It was a huge responsibility that required MISFA to



Following the signing of a bilateral MoU, MISFA handed over to AMA coordination responsibilities in Parwan, Kabul, Nangarhar, Herat and Kunduz provinces, in the central, east and northeastern regions of Afghanistan.

strengthen its own governance and due diligence systems.

The first real window of opportunity came in 2005 when DAB accepted the concept of MFIs coming under DAB when they reach deposit-taking status. Since then, MISFA has been advocating for this to translate into the Deposit-taking Microfinance Institution (DMFI) Regulation.

In March 2014, after years of advocacy with DAB, MISFA's efforts paid off when DAB approved the DMFI regulation in principle. The new regulation drafted by MISFA and the USAID-funded FAIDA project will enable the MFIs become deposit taking institutions and fall under the supervision of the central bank of Afghanistan. MISFA is planning to work with the Central Bank to build the capacity of their supervision department to provide supervision of DMFIs in Afghanistan. Additionally, MISFA will provide technical assistance to MFIs planning to become deposit-taking institutions.

#### 4. ENSURING POOR AFGHANS HAVE ACCESS TO FINANCE

During the reporting period, MISFA received a strong vote of confidence for its Strategic Plan for the next several years, underpinned by financial inclusion and poverty reduction. The World Bank committed to supporting MISFA through a multi-year project grant worth US\$32 million titled, "Afghanistan Access to Finance".

The project, funded by the International Development Association (IDA) administered by the Bank, aims to: (a) provide continuing assistance to the microfinance sector through MISFA; and (b) support MISFA's broader role as a catalyst for innovations to increase access to financial services to micro and small enterprises.

Support to partner MFIs and other non-partner institutions, which comprise the microfinance sector, is an important prerequisite to MISFA's financial inclusion and poverty reduction mandate. The consolidation phase was a manifestation of how weak institutions inevitably lead to poor service delivery.

As such, MISFA's priority post-consolidation was institution and capacity building, and the institutionalization of rigid control systems within MISFA and among its partners. While these will be ongoing processes for years to come, they have already led to appreciable and

positive inroads during the reporting period towards innovations to increase the access to financial services of micro and small enterprises.

Two such innovations to the traditional micro lending model are the agricultural loan product targeting this underserved sector, and the Sharia-compliant product, murabaha, both described in Section 3. With donor support, MISFA will be able to provide continued support to partners to develop and refine these products to serve a greater number of poor Afghans left out of the traditional microfinancing.

Another initiative that honors the true spirit of financial inclusion is the Targeting the Ultra-Poor (TUP). In 2010, MISFA and MAIL became the direct implementers of a multi-year project, the Rural Microfinance and Livestock Support Program (RMLSP) funded by IFAD. MISFA implemented the microfinance component of RMLSP, targeting women in abject poverty living in rural areas, providing them a holistic package of assistance for 36 months intended to lift them out of poverty and get them to a point when they are capable of sustaining agricultural/livestock income-generating activities.

The package includes a monthly stipend for daily household needs; basic healthcare and hygiene training for the family; enrolment assistance for school-age children; productive asset (livestock) transfer; animal husbandry and basic numeracy trainings. Graduates are referred to MFIs operating in their areas, so they could access loans, and to the Afghanistan Rural Enterprise Development Project (AREDP) to avail of business development services and market/value chain linkages.

TUP was piloted in Bamyan and Badakhshan, two of the poorest and most rural provinces of Afghanistan and has by far been MISFA's most comprehensive, meaningful intervention with visible impact on the quality of life of hundreds of rural poor women and their families.

*"MISFA's TUP project was designed to focus on the poorest of the poor in Afghanistan. Traditionally, Afghanistan has been serviced by microfinance organizations which are unable to reach the very very poorest people; and so this program was designed to be able reach that group of people and in my view it has been very successful. We as board members are excited with the result we have seen and we hope to be able to expand it in the future."*

Nicola Armacost  
MISFA Board Member

#### 4.1 TUP Pilot: BAMYAN (2010-2012)

**No. of Target Beneficiaries:** 400 rural women

**Outcomes:**

- 80% of the 400 TUP women successfully graduated from the project;
- 62% of participants linked with financial institutions;
- Number of livestock assets increased from 1,046 animals to 2,977;
- 159 beneficiaries purchased televisions, 202 acquired solar panels, 326 have mobile phones;
- 227 TUP participants extended the size of their houses;
- 820 children of the TUP members, who were child laborers prior to the program, are now attending formal schools;
- 40% of project beneficiaries now use more hygienic toilets;
- All 400 members have been engaged in savings practices, 264 of whom with financial institutions, while 136 saved in their private homes; and
- Once isolated from society due to extreme poverty, a majority of TUP participants now have increased social interaction and get invited to weddings and other community events.

A TUP participant in Bamyan reviews the training modules for livestock rearing.





Once isolated from society due to extreme poverty, a majority of TUP participants now have increased social interaction and get invited to weddings and other community events.

## TUP Bamyan Graduate: **Mazari**

**About Mazari:** migrated from Dara-e-Suf district of Bamyan; breadwinner for three children; widowed for seven years before joining TUP when husband succumbed to cancer.

### **Mazari Then: Pre-TUP situation**

- **Housing:** lived in a cave with family.
- **Food and nutrition:** could hardly afford one meal a day; family subsisted on bread and spare crops from occasional farm work.
- **Source of income:** sporadic day/child labour; occasional farm work, e.g. potato harvesting, paid in kind: spare potatoes
- **Productive asset:** none
- **Savings:** none
- **Health/hygiene awareness:** extremely low.
- **Children in school:** none
- **Household appliance:** bare necessities befitting cave dwelling
- **Social status:** Completely isolated from society; not invited to any social gatherings, e.g. weddings and funerals.



### Mazari Now: Post-TUP situation

- **Housing:** living in a recently built, double-room house
- **Food and nutrition:** can afford to meet family's daily food consumption
- **Source of income:** livestock rearing and dairy product processing and sale
- **Productive asset:** 5 sheep; sold a number of lambs to support the family
- **Savings:** more than AFN 20,000
- **Health/hygiene awareness:** very high
- **Children in school:** all 3 children
- **Household appliance:** carpets, solar system, battery, TV, mobile phones
- **Social status:** regularly invited to and attends social ceremonies; frequently visited by relatives, well-known to her community



## 4.2 TUP Pilot: BADAKSHAN (2012-2014)

**No. of Target Beneficiaries:** 800 rural women – 400 in Faizabad district; 400 in Khash district. On top of the basic package, beneficiaries also received financial literacy and cash flow management training. In addition to the livestock assets provided, TUP participants also received animal feed, windows, doors and stakes for making animal shelter for the harsh weather conditions.

### Outcomes:

- 80% of the 800 TUP women successfully graduated from the project; have alternative sources of income; started saving with MFIs; know their social rights; and are linked to markets and veterinary services.
- 99% of graduates have access to cash income;
- more than 75% of beneficiaries' household income are sufficient to meet basic needs;
- 99% of graduates have improved housing conditions, installed doors and windows, painted rooms;
- 98% purchased household needs, e.g. kitchen items, carpets, clothes for the whole family, school supplies for the children, materials for house painting and repair, among others.
- 97% of graduates linked with government and other NGOs operating in the area;
- 94% involved in some type of savings, worth a combined total of 3.2 million AFN

To ensure that none of the participants relapse to their pre-intervention situation, MISFA developed an exit strategy. For the first six months following project completion, MISFA will conduct post-project follow-ups to ensure participants are moving on the right track. In addition, MISFA ensures that the TUP caseload is handed over to Community Development Councils (CDCs) and the Directorate of Agriculture, Irrigation and Livestock (DAIL) for longer-term follow-ups and consultations.

With the success of the TUP model, MISFA will be scaling up the project to six other provinces over a period of five years under the Access to Finance Project, funded by the World Bank. TUP will be expanded to Balkh, Takhar, Kandahar, Laghman, Kunar and Herat provinces.

*"It's not enough to say we've helped hundreds of rural women and their families escape from abject poverty. TUP's real success can only be measured by how many graduates can actually make their escape permanent."*

*Khalil Baheer  
Director Program, MISFA*



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### TUP Graduate: **Arefa**

**About Arefa:** illiterate; breadwinner for 10 other family members—5 daughters, 2 sons, a seriously ill husband with malfunctioning lungs, an aging father-in-law, and her ailing, 110-year old mother; herself beset by an undiagnosed/untreated abdominal illness that intermittently throws her off squirming in agonizing pain.

#### **Arefa Then: Pre-TUP situation**

- **Housing:** storage-sized rented space that acted as the living/bedroom/kitchen/everything space
- **Food and nutrition:** could hardly afford one meal a day; family subsisted on donated food from neighbors, relatives, or scavenged from wedding parties
- **Source of income:** begging; had to go out begging right after giving birth
- **Productive asset:** none
- **Savings:** none
- **Health/hygiene awareness:** completely unaware of what hygiene is about
- **Children in school:** none
- **Household appliance:** none; used to use Pepsi cans as tea cups; worn-out winter blankets
- **Social status:** completely isolated



### Arefa Now: Post-TUP situation

- **Housing:** larger rented space
- **Food and nutrition:** can afford to meet family's daily food consumption
- **Source of income:** livestock rearing and dairy product processing and sale
- **Productive asset:** two cows, two calves and several hens
- **Hygiene awareness:** very high
- **Health:** Arefa herself has become more confident, hopeful, often smiling; using monthly TUP stipend and health allowance, Arefa's husband has managed to address his health issues
- **Children in school:** all school-aged children
- **Household appliance:** managed to purchase kitchen and other household appliances enough to serve all family members
- **Social status:** Integrated in society; enjoys good relations with neighbors and relatives and takes part in social and political events



## 5. CONCLUSION

When MISFA came into being ten years ago, its starting point was an Afghanistan wrecked by decades of war; an in-country population euphoric over their freedom from the repressive Taliban regime; a diaspora eager to reclaim their heritage, while helping to rebuild their ancestors' devastated homeland; the international community ready to fund rehabilitation and reconstruction; and millions of refugees streaming back in from Iran and Pakistan to regain their lost homes and livelihoods.

It was amidst such hope and enthusiasm, and with much of Afghanistan's physical and governance infrastructure decimated that MISFA was created—to help rebuild by acting as one of the catalysts for economic change at the community level.

As such, the imperative for MISFA's leadership then was to come up with an immediate strategy for rapid expansion. With the country's economy broken by years of conflict, and with a non-existent banking system, the priority then by the fragile government, including MRRD—the host ministry of the imported microfinance program—was to create jobs for the millions of Afghans coming back home.

A decade later, MISFA's strategy has come a long way from that starting point. From rapid expansion, it has shifted to the longer-term vision of ensuring that the most vulnerable, the most marginalized have access to finance as a means to empower themselves enough to escape poverty for good.

Without this service that MISFA helps provide the impoverished, marginalized Afghans left out of the formal financial systems, who comprise the majority of the population, national economic growth in Afghanistan will remain elusive.





MISFA's longer-term vision of ensuring that the most vulnerable, the most marginalized have access to finance is coming to fruition after a decade of institutional strengthening, policy outreach and advocacy, a nationwide awareness campaign, and demand-driven product development.

## 6. FINANCIAL OVERVIEW

### MISFA LTD. OVERALL FINANCIAL SUMMARY

For the period 01 April 2003 to 21 December 2013

<b>INCOME STATEMENT</b>	
Interest & similar income	2,141,048
Operating grants	131,598
Other income	17,610
<b>total operating income</b>	<b>2,290,256</b>
Administrative & other expenses	(1,719,647)
<b>Operating profit / (loss)</b>	<b>570,609</b>
Income tax expense on taxable profits	(179,096)
Operating profit / (loss) after tax	391,513
Grant income (grants for loan funds or MFI grants)	10,422,679
Exchange gain / (loss)	36,180
Grant expenditure (grants to MFIs for operating or equity)	(3,166,828)
Provision against loans and advances to MFIs & Banks	(1,348,778)
Provision for MFI shut-down costs	(39,638)
<b>TOTAL COMPREHENSIVE INCOM</b>	<b>6,295,128</b>
<b>CASH FLOW</b>	
<b>Inflows:</b>	
Total comprehensive income	6,295,128
Share capital	100
Long-term loans	800,000
<b>Total inflows</b>	<b>7,095,228</b>
<b>Outflows:</b>	
Net Loans and advances to MFIs & Banks	(2,533,204)
Loan note investments in MFIs	(98,336)
Investments	-
Operating fixed assets	(23,782)
Working capital (amounts receivable)	146,726
<b>Total outflows</b>	<b>(2,508,596)</b>
<b>NET CASH FLOW</b>	<b>4,586,632</b>
Opening cash & bank balances	0
<b>CLOSING CASH &amp; BANK BALANCE</b>	<b>4,586,632</b>

Source: MISFA audited financial statements covering the period April 1 2003 to December 21, 2013





**Microfinance Investment Support Facility for Afghanistan**

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