microfinanza

IMPACT ASSESSMENT MICROFINANCE SERVICES IN AFGHANISTAN

EXECUTIVE SUMMARY

REPORT - JUNE 2019

CONTENTS

ACKNOWLEDGEMENTS

Having the opportunity to carry out this research was a chance for Microfinanza Srl to get in contact with Afghanistan's rich culture, to understand how its people manage the risks and to see what MISFA and MFIs have successfully been doing for more than 15 years.
We want to express our gratitude to MISFA management for constant and efficient support during the mission, to MFIs for providing valuable data about their work and for being very responsive to all our requests for information, and to TADBEER, our local partner. Without local support the work could not have been completed, the wonderful effort of the enumerators who travelled within the country has to be acknowledged. Last but certainly not least, we thank all microcredit borrowers, who quite often left aside their business, clients or small children to take the time to share their experience with us.
We strongly hope that the findings in the report could be used to improve present services and that microfinance will better serve Afghan entrepreneurs.

Microfinanza Team

METHODOLOGY

PORTRAIT OF A MICROFINANCE CLIENT

His/her age would range from 25 to 45, he/she would be married, self-employed and would probably have completed at least primary education. He or she would come from a family of at least seven, in which one or two have a full-time job. If he/she has a business, he/she would have started it by using his/her own resources and the business would not be registered. He/she would have a visible need of training, as well as the will to learn more about money management and to receive financial education. 96% of microfinance clients were satisfied/very satisfied with MFIs service.

More than 1,600 clients interviewed

More than 1,600 clients belonging to the selected Microfinance Institutions (MFIs), namely FMFB, FINCA, MUTAHID and OXUS, were interviewed. Thanks to these interviews, the Focus Group Discussions (FGD), and the MFIs management interviews, we managed to obtain the portrait of the average microfinance client.

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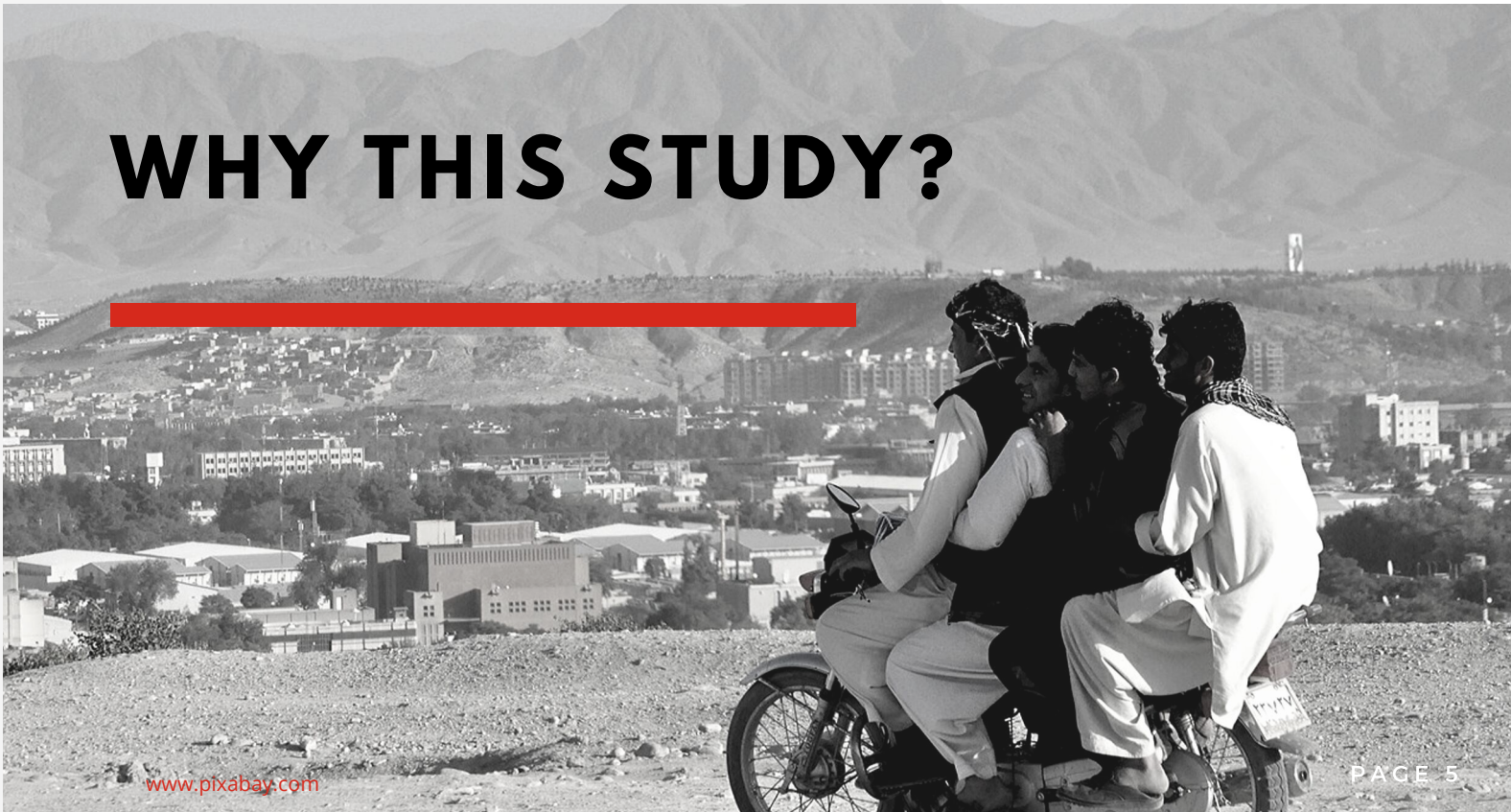
Are microfinance services reaching the intended clientele? How?

To determine the impact of microfinance interventions on the clients' households in Afghanistan, the study investigates 'if and how' the microfinance services are reaching the intended clientele, and highlights the characteristics of clients who decide to remain in the programs and those who leave. Data collected will improve communication between microfinance stakeholders and will also contribute to their understanding of the sector successes and challenges.

MISFA

The study has been required by **MISFA**
Microfinance Investment Support Facility for Afghanistan

WHY THIS STUDY?



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CONTEXTUAL FRAMEWORK

85% of the clients had used the loan for business development and more than a third of the clients reported that sales, inputs, fixed assets, inventory and net income had increased since obtaining the first loan. There is evidence that some micro businesses have grown and moved to the level of Small and Medium Enterprise (SME), thus creating new jobs. This is a strong evidence of the microfinance services impact and their sustainability. We calculated that the average number of employees working for microfinance clients was 2.3, increased by 15% since the clients had received their loan.

The clients who decided to withdraw from the program reported that their businesses benefited from it: they had more money to spend on health, education, food and household equipment. 42% of the dropouts also claimed to have left the program because they had received all of the assistance needed and that it was time for their business to use other means of financing.
The great majority (81%) of them, when prompted, told us that they would take part in the program again.

Special attention was also given to non-financial services, since all of the participants in the FDGs had shown interest in receiving different types of training from loan management to business management, and technical skills for their job.

Women empowerment: 40% of the female borrowers noticed a change in their ability to influence their number of children, since they had started their businesses. Moreover, they seem to have more choices as far as household expenditures are concerned. The change seems to be caused solely by the fact that they contribute to household income.

Generally, microfinance can also be considered a safety net: several people that participated in the FGDs declared their poverty and confirmed that, thanks to the loan received, they could start an income-generating activity capable of covering daily expenditures.

85% of the clients used the loan for business development. There is evidence that some micro businesses have grown and moved to the level of SMEs.

CONTEXTUAL FRAMEWORK

According to the data collected, 39% of microfinance clients reported increased savings since joining the program and 35% of the clients declared their household expenses increased since receiving the first loan. The data collected proves that security is affecting some habits, as a matter of fact, we noticed that clients living in higher security risk areas are tempted to save more money (+50%) compared with the rest of the sample. This group also monitors their expenditures more carefully, spending less on health, education and food or choosing to decrease the overall quality of their diets.

Microfinance also offers social protection and contributes to social capital development: 27% of clients provide support for their families, while 18% of them receive support from their families. 29% of clients simultaneously provide and receive support from families.

The result of the analysis outlines evidence that the microfinance programme is also on the path to achieve Sustainable Development Goals (SDGs) and more specifically, balancing the poverty eradication, economic and social dimension, gender equality, access to clean water and sanitation, affordable and clean energies and decent work and economic growth (SDGs 1, 5, 6, 7 and 8).

Microfinance is becoming an integral part of Afghanistan's financial system, although there is still a need for more specific sector regulation. We found there are a number of microbusinesses which are growing, and transforming themselves into Small and Medium Size Enterprises. The MFIs are tracking those and have records about such examples, while they are using different criteria. On the other part, the Central Bank declared there is no common accepted definition for SME.

Microfinance is having a relevant contribution in job creation. This is extremely valuable in a country which is facing different challenges, since it reduces part of the social and economical preassure. There is not enough relevant information to have a solid modelling, but based on the existent data, we estimate in the last ten years the microfinance created about 1 million new jobs.

In addition to this, microfinance supported the jobs created by existent microfinance clients and the exiting ones (drop outs). In fact, dropout clients are still running (and employing people) but they are not using the microfinance services because they don't need it anymore. More details in Business and Employment section (page 22).

CONTEXTUAL FRAMEWORK

When comparing qualitative and quantitative data with Afghanistan Living Condition Survey 2016-2017, it seems that the microfinance clients are better off than the regular Afghanistan citizens from different perspectives. They are coming from larger families, a higher rate of microbusiness owners have access to a garden plot, they graduated secondary or tertiary education in higher percentage, use more financial services, have better access to electricity, drinking water, and clean energy sources for cooking, heating or lighting. Overall it is possible to observe microfinance clients have a better life, comparing with average Afghanistan citizens.

Despite all those challenges, there are a lot of microfinance clients which developed their businesses, created jobs and economic security for their families and for their employees. All the positive achievements should be seen and analyzed through this perspective.

About 377 persons declared their yearly salary and the average salary we calculated equals USD 3,797 which is much higher compared with USD 580 indicated by the Gross National Index, for 2017, estimated by using Atlas Method, developed by the World Bank.
Besides we discovered there are 21 people which declared yearly salary below the poverty level of USD 1.5 per day, as defined by UN.

All those achievements were obtained in an adverse environment: security challenges, 40 years of high social, economic and political instability, corruption, high need to enforce rule of law, dispersed population, different cultures across the country and many other variables which complicated the life of any microbusiness across the country.

Microfinance contributes in creating new jobs

AFGHANISTAN AT A GLANCE

The controversy surrounding the political situation in Afghanistan since 2007 can be divided into two phases, before and after the 2014 security transition. This dichotomy reflects the economic picture in Afghanistan: according to the Central Statistics Organisation (CSO), from 2007 to 2012 per-capita GDP registered a constant growth from USD 381 to USD 691 and the country experienced an economic growth ranging from 5% to 20% per year. After 2013, the Afghan economy has slowed down significantly, growing at an average of 2.1% per year. Its per-capita GDP has constantly decreasing reaching pre-2011 levels in 2016.

The attacks carried out by terrorist organisations in high security risk areas and other acts of violence deeply influenced the economic situation resulting, for instance, to a constant decrease of new firm registrations, as pointed out by recent studies [3].

Afghanistan labour market was under stress in 2017: almost one quarter (24%) of the country's labour force was unemployed. Employment in agriculture dominated the labour market in Afghanistan, with the 44% of all jobs being in the agriculture sector.

Manufacturing employment as a proportion of total employment remained low (18%), indicating that the transition to a more advanced and resilient economy was still at an initial stage [4].

[3] World Bank 2017b, UNAMA
[4] Afghanistan Living Conditions Survey (ALCS) 2016-2017

Afghanistan ranks 169 out of 188 in UNDP Human Development Index.

In 2017 the unemployment rate was 24%.

RECENT MICROFINANCE HISTORY AND GROWTH

Since its inception in 2002/03, microfinance in Afghanistan has experienced a rapid growth. In 2008/09, due to external factors (e.g. a weakened security environment and drought), as well as internal ones (e.g inadequate control measures), the whole microfinance sector suffered a serious sustainability crisis. Consequently some MFIs were closed down and others were merged. After this massive scale-down, the sector has been growing again at more sustainable rates. According to the latest data available (Dec-18), MISFA partner MFIs cover 14 provinces, 81 districts and around 135,000 active borrowers.

MODELS OF MICROFINANCE AND OUTREACH

Around 90% of the loans outstanding are categorized as “Individual lending”. The remaining 10% is equally split between solidarity group lending and Islamic finance product loans. The average loan amount ranges from AFN 20,000 to AFN 120,000, depending on loan product type. The global average loan amount increased from AFN 71,421 in 2014 to AFN 87,249 in 2017.

Female clients account for a third of the active clients; however, in terms of outstanding portfolio account, they represent less than 20%. Rural clients are 23% of the total active clients and account for 28% of the outstanding portfolio. According to survey data, old clients (for definition, please refer to full report's Methodology section) received an average of 2.3 loans in the past.

Total loan portfolio (AFN)	Dec 14	Dec 15	Dec 16	Dec 17
Outreach (end of the period)				
Total Outstanding portfolio	5,290,808,143	6,115,290,300	7,283,587,914	**8,180,693,577**
Outstanding portfolio, **FEMALE**	949,022,056	1,234,161,482	1,350,323,734	1,579,609,069
Outstanding portfolio, **RURAL**	1,476,434,531	1,688,227,415	2,029,173,638	2,326,519,198
Total number of active **borrowers**	103,864	122,103	122,297	127,258
Number of active borrowers, **FEMALE**	37,431	44,490	38,959	42,082
Number of active borrowers, **RURAL**	21,819	25,833	27,568	29,589
Number of loans disbursed (during the period)	103,891	122,021	119,245	119,298
Amount disbursed (during the period)	7,420,042,102	8,847,157,338	9,898,903,640	10,408,667,030
Loan methodology (end of the period)				
Outstanding portfolio, **Individual** lending	4,666,125,524	5,241,363,103	6,415,965,100	7,222,800,558
Outstanding portfolio, **Solidarity group** lending	242,551,307	362,938,974	423,319,295	484,604,917
Outstanding portfolio, **Islamic finance** product	382,131,312	510,988,223	444,433,836	473,288,101
Sectors (end of the period)				
Outstanding portfolio, **Trade and Services**	4,018,226,504	4,722,305,415	5,571,717,289	6,134,276,744
Outstanding portfolio, **Agriculture**	1,033,929,922	1,225,439,405	1,478,884,767	1,817,015,005
Outstanding portfolio, **Consumer**	170,375,730	129,206,310	185,740,791	183,183,982
Outstanding portfolio, **Emergency**	68,275,986	38,339,170	47,244,968	40,591,836
Number of active borrowers, Trade and Services	83,003	99,216	96,044	98,631
Number of active borrowers, Agriculture	18,287	21,082	23,427	25,200
Number of active borrowers, Consumer	889	721	1,603	2,102
Number of active borrowers, Emergency	1,685	1,084	1,223	1,252
Active Borrowers / Loan Officers	112	125	122	122

Main sectors

According to the data we received from the four MFIs, the outstanding portfolio can be classified into four sectors:

Trade and services, which considers products and services for microbusiness and SMEs. It is certainly the main sector (75% of the total outstanding portfolio) and its growth rate ranges from 18% (2015 and 2016) to 10%, (2017);

Agriculture and livestock loans account for 20% of the total outstanding portfolio. Since 2015 the sector has been constantly growing at an average rate of 20% per year. For more information please refer to Focus on Agriculture section, in the report;

Consumer: only FMFB offers consumer loans and they account for less than 5% of FMFB's outstanding portfolio;

Emergency: Only FINCA has an emergency credit line product, which accounts for less than 5% of FINCA's outstanding portfolio.

GEOGRAPHICAL DISTRIBUTION OF THE CLIENTS

Due to the fact that some MFIs had closed operations and given the low population density and high security risk of some provinces, microfinance does not cover the entire country.

The highest concentration of loans is in the Central Region, while the smallest is in the Eastern provinces. The Northern provinces are also well-served. Kabul, being the capital, has always had the highest concentration of clients: as of Dec. 17, it accounts for more than 30% of the clients and outstanding portfolio.

Comparing the number of clients with an estimation of population for each province, we found that the provinces with the highest penetration rates are Balkh (1.5%), Badakhshan (1.3%) and Jawajzan (1.1%). It is worth noting that well-populated provinces like Kunduz, Nangarhar seem to be under-served.

The geographical overlapping between traditional banking and microfinance shows that, except for a few provinces like Kabul and Herat, microfinance outstanding portfolio is comparable with the banking one.

KEY FINDINGS

PORTFOLIO QUALITY AND FINANCIAL RELATED RISKS

According to the data provided by MFIs, the average Portfolio at Risk 30 days (PAR30) is equal to 2.14%, well below the industry accepted value of 5% and far away from pre-crisis levels (10%). From all our discussions, both with branch managers and with C-level management, we discovered that MFIs have straighter and stricter rules to manage the loan, to deal with MFI employees, as well as to mitigate operational risks. Loan officers (LOs) keep closer relationships with the borrowers to remain updated on the businesses' progress: on average, each LO looks after 120 clients and this figure has remained stable for the last four years. As a result of a stricter collateral policy, many borrowers have started to complain: 14% of the active clients and 18% of dropouts stated that they had difficulties in providing the collateral required by the MFIs.

22% of the active clients and 32% of the dropouts had encountered some difficulties in paying back the loan on time, urban more than rural (24% vs 10%). When prompted to clarify the reasons behind the problems, 46% mentioned a reduction in revenues, 21% claimed that cash-flow did not match the repayment schedule, 18% faced an unexpected shock (either private or business-related) and 14% reported that the instalment was too high. On the other hand, 38% of the active clients have fully repaid in advance a loan at least once. This practice is more common in urban areas than rural ones (41% vs 27%).

Only 6% of the sample used a loan to repay back a previous loan. Nevertheless, this practice is more common in the North-West and West regions, respectively 10% and 13%, compared with the Central and North-East regions, around 3%. It is important to note that, in order to maintain a good reputation with the MFIs (i.e. repaying the loan on time), 32% of the clients had to reduce food, health or education expenditures. This pattern is more common among women than men (39% vs 28%) and urban than rural (33% vs 23%).

PAR >30 days for central provinces ranges from 2.53% in Kabul to 0.44% in Bamyan. At first glance, North-Western provinces have lower PAR >30 days than North-Eastern ones. All provinces report a PAR >30 days below 2%, except for Kabul, Kunduz and Nangahar. The later two have a very small number of clients compared to the others and also a high level of PAR >30 days, respectively 6.68% and 9.40%.

KEY FINDINGS

EXTERNAL CHALLENGES

In Afghanistan there are some specific idiosyncratic challenges and issues that have a huge consequence on microfinance activities and its impact. Security, population density and corruption translate into more challenging operations, higher fixed costs per active client and lower client coverage, resulting in less access to finance for the clients.

Security – Afghanistan is undergoing a major transition in terms of security, which remains uncertain and highly volatile. The challenges that MFIs are facing to run their daily operations, and the costs related to them are too unique and difficult to compare them with other countries. For instance, when visiting his/her clients, a Loan Officer (LO) is exposed to high risks whose mitigation is the MFI's responsibility; means of transportation and special security measures must be provided in case of female LO.

Population density – On average, a Loan Officer in Afghanistan manages around 120 clients. In other South-Asian countries, such as India and Bangladesh, a LO can manage up to 600 clients riding his or her own bike to visit the clients. Security risks apart, the reasons behind this gap is related to the fact that population density in Afghanistan is very low, especially in rural areas where clients are widely dispersed. Moreover, group lending methodologies are marginal in Afghanistan.

Corruption and unofficial money lenders – It is common that clients who stop paying the loan have unofficial relationships with people working in public administration. These can help the delinquent client who is delaying any legal attempt to recover the owned amount initiated by the MFIs. Moreover, in some areas, especially where MFIs are not present, there are unofficial money lenders and charge higher interest rates, probably three times higher compared with MFIs. This, coupled with a generally low literacy rate, distorts the lending market and negatively affects client credit culture.

KEY FINDINGS

FINANCIAL INSTITUTIONS STRATEGIES

Today **First Microfinance Bank Afghanistan** (FMFB) is the largest MFI is Afghanistan, in terms of clients' outreach, number of provinces covered and staff. It began operations in 2004 and was established by the Aga Khan Agency for Microfinance (AKAM). FMFB provides credit and deposit products to a wide range of clients including micro, small and medium enterprises along with commercial banking, and international and domestic remittance services. Individual enterprise loans and agriculture loans account for 80% of the outstanding portfolio. Housing loans and Personal loans account respectively for 13% and 4% of the outstanding portfolio. Since 2017, FMFB has been using only "Individual lending" loan methodology.

FINCA Afghanistan is the second largest MFI. It is headquartered in Kabul and focuses on rural and urban areas of the country, primarily in the North, West and Central regions. Seven loan products are being offered (of which two are Sharia compliant) ranging from SME to agriculture loans. FINCA has also an emergency credit line product, which accounts for less than 5% of FINCA's outstanding portfolio. Sharia compliant products account for the 33% of the total portfolio.

OXUS started operating in Afghanistan in 2007 with funding from MISFA, and is built on ACTED's experience and past programmes. It is focused on providing micro-loans to farmers. OXUS Afghanistan operates 13 branches across the country and is today ranked third microfinance provider in portfolio terms. Since 2015, OXUS Afghanistan has disbursed 107,828 loans worth USD 80 million. Due to the low penetration of commercial banks in rural areas and the lack of microfinance institutions (MFIs), Afghanistan is an extremely promising market. With a population of just over 30 million and a growing economy, many micro entrepreneurs and small and medium sized enterprises are in need of funding and investments.

Mutahid DFI was established in 2011. Until September of 2012, the focus was mainly on the collection of loan portfolios of consolidated MFIs. Currently Mutahid has eight branches – three in the Kabul province/city (Taimani, Chaman and Khushal Khan) and five in the provinces outside of Kabul: Balkh, Herat, Kunduz, Takhar, Badakshan. Mutahid offers both conventional and Islamic loan products (it is one of the first MFIs in the country to offer Sharia-compliant loan products that have been approved by the Islamic Religious Council of Afghanistan (IRCA)). It is worth mentioning that the "Solidarity Group" loan methodology accounts for the 74% of the outstanding portfolio.

Outreach – overall as of Dec 18	FMFB	FINCA	MUTAHID	OXUS	TOTAL
Provinces	14	11	6	10	**14**
Districts	80	17	-	-	**81**
Active Clients	185,661	26,591	18,844	22,821	**253,917**
Active Borrowers	66,874	26,591	18,844	22,821	**135,130**
Number of loans disbursed (cumulative)	608,312	416,488	96,745	179,536	**1,301,081**
Amount of loans disbursed, AFN (cumulative)	60,963,294,785	14,021,574,735	4,807,767,838	9,231,977.481	**88,924,614,839**
Number of loans outstanding	66,874	26,591	18,844	22,821	**135,130**
Gross loan outstanding, AFN	6,296,393,025	1,230,176,005	628,248,650	1,022,387,282	**9,177,204,963**
Client voluntary savings	2,579,380,457	-	-	-	**2,579,380,457**
Client compulsory savings	-	-	-	476,331	**476,331**
Women Clients	41,633	15,892	5,866	10,616	**74,007**
Women as % of Total Clients	22.4%	59.8%	31.1%	46.5%	**29.1%**
Women Borrowers	14,208	15,892	5,866	10,616	**46,582**
Women as % of Total Borrowers	21.2%	59.8%	31.1%	46.5%	**34.5%**
Total staff	1,137	380	290	423	**2,230**
Total Loan Officers (as of Dec 17)	501	167	142	229	**1,039**

14
Provinces

253,917
Active
Clients

34.5%
Women
on total
borrowers

HOUSEHOLD FEATURES

More than 1,600 clients belonging to the selected Microfinance Institutions (MFIs) were interviewed. Overall, 84% of the clients are between 20 and 49 years old.
84% of the clients are married. The typical microfinance client comes from a family with an average of 8 members.

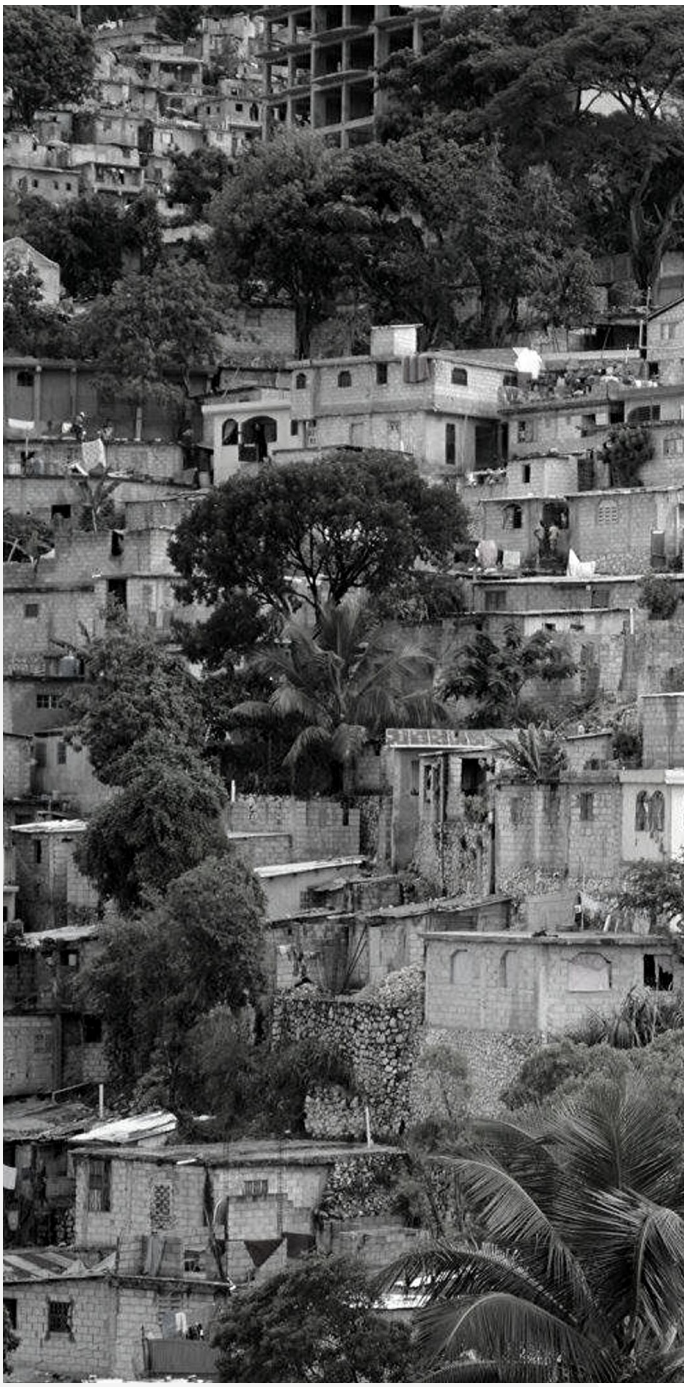
77% of men taking the loan are the decision makers in the household, while women doing this account for 23%. In the women's case, most often the decisions are made by the husband (57%) or the father (11%). In contrast, there is no case of male client in which the decision is made by the wife, there are, however, cases in which the decisions are made by their parents.

During the FGDs we got the impression that the businesses were a product of a collaboration between fathers and sons, this ensures inter-generational transmission.

The level of education is not homogeneous among clients. Firstly, 56% of women clients have not attended primary school compared with only 35% of men. Women score badly also for primary, secondary and high school attendance rates.

There are some visible differences also from a geographical point of view: only 25% of western clients have not attended primary school compared with 47% of north-western clients. Central and North-Eastern clients are somewhere between the two; differences among those who attended primary, secondary and high schools are less evident. Furthermore, new clients tend to be more educated than old clients.

Old and new clients describe their dwellings very similarly. 84% of the clients live in a single family house. Concerning clients living in temporary shelter/shack, 11% are females and 4% are males, 10% are urban clients and only 1% are rural ones.



CLIENTS

ACCESS TO FINANCE

Only 1% of the clients claimed to have applied for a loan in the past and that it had been refused by the MFIs. 33% of females and 43% of males reported that the lack of collateral was the main reason for refusal. In the West provinces the lack of collateral was the only reason that the loan applications were refused, while the North East region did not have such problems.

For those who are not novices in the microfinance sector, we aimed to ascertain the reasons behind their conversion to another MFI: the competitiveness of the product was the main reason, followed by better repayment frequency and looser collateral requirements. It is interesting to see that women don't consider the competitiveness of the product as a valid reason to change institution as much as men do.

As expected, the majority of clients are solely relying on MFIs lending services and only 8% are also taking advantages of commercial banking lending services. Most of the clients are avoiding commercial banks because they are afraid of higher operational costs and more selective processes. We found a gap between males (11%) and females (1%) using commercial bank lending services. The use of commercial banking in urban centers is more common than in rural areas. As far as regions are concerned, the use of commercial banking lending services among MFI clients is more frequent in the North East (15%) and North West (14%) and not visible at all in the Central and Western regions.

FINANCIAL

PRODUCTS AND SERVICES

There are only two types of services provided by MFIs: credit and savings.

Regarding credit, MFIs tend to offer similar products. The only dissimilarity is that Mutahid and OXUS offer group loans (for Mutahid they represents the vast majority of the outstanding portfolio) and all MFIs except Mutahid offer agriculture and SME loans. As already noted, Mutahid and FINCA offer *Sharia* compliant products.

Generally speaking, the amount borrowed is invested in development of an existing business. However, some clients with previous business experience chose instead to invest in a new business venture.

We observed some differences between how gender, vicinity to urban centers and regions affects one's decision on how to invest the money. We noticed that the loans were more frequently used for working capital expenditures (39%) and for the acquisition of productive assets (20%).

When investigating the reasons for loan's request, compared to the actual usage of the loan, the greatest consistency is observed in agriculture and farming. In fact, the businesses that provide services to entire population, such as transportation, agriculture and consumer services, seem to be the most consistent. Variables like income and employment status may influence the clients and become the main cause for deviations. For more information regarding which sectors are most commonly funded by microfinance in Afghanistan please refer to report's annex XIV.

Around 20% of the clients mentioned that they partially used the amount received for personal use, consumption and savings. When it comes to savings, such services are offered by FMFB only, which is a bank. Nevertheless, we found that, even though only 8% of clients interviewed have a savings account, the distribution was similar across MFIs. This might suggest that non-FMFB clients use FMFB, or other commercial banks' savings products. Four percent of the clients use commercial banking savings products. It is worth noting that clients from North-East region tend to have a savings account more often (14%) than clients from the West (3%). 39% of microfinance clients reported increased savings since joining the program.

Although this can be considered a simple achievement, being able to save more money means that clients have managed to turn the increase in sales, inputs, fixed assets, inventory and net income into savings, which, in the long term, will results in a more secure life style. The results regarding an increase in savings that are worth highlighting concern the difference between males (36%) and females (44%).

NON FINANCIAL SERVICES

Special attention has been dedicated to non-financial services, since all of the participants in the FDGs had shown interest in receiving different types of trainings from loan management to business management, and technical skills for their job. Terms and conditions of loan products and services are explained to 64% of the clients. Females receive (or require) generally more training in all verticals (loan, business, technical skills, financial skills). For more details please refer to report's annex XIV.

MFIs have already started to deliver different training in a standard way, and even some technical training (e.g. agriculture) but at the moment of data collection those initiatives were in early stages or in pilot tests. Also we learned about dedicated materials to be distributed, or videos playing inside MFIs branches.

BUSINESS AND

EMPLOYMENT FEATURES

Employment– Almost two thirds of the microfinance clients consider themselves as self-employed, with a big gap between males (75%) and females (34%). It must be taken into consideration that the females' traditional role in the household is that of a housewife. Only about 8% of the clients in urban areas consider themselves in full time employment, while, in rural areas, it has reached 11%.

Formal economy– We found that out of three businesses, one is registered, one is not registered and one is not registered because registration is not applicable. The registration is higher in urban areas (40%) than in rural ones (18%). Male-owned companies are more often registered (43%) than the female ones (17%). We found no major differences between new and old clients. These results are in line with the 2005 World Bank estimation that between 80% to 90% of the economic activity in Afghanistan occurs in the informal sector.

Business level– Most of the clients have business experience - about 60% said they have business experience, and about 20% have "very little business experience". Looking at the questions related to what type of training they would like to receive. We see that 43% are interested in learning more about loan management and 34% are interested in business planning.

In addition to have at least basic experience in business and loan management, they understand their weaknesses and what they should do in order to improve their management skills and their business competitiveness. Almost two thirds of the clients are relying on own resources to fund their businesses and this suggests that MFIs take into consideration the resources already in possession of the client.

Business development– A third or more of clients reported that sales, inputs, fixed assets, inventory and net income had increased, since obtaining the first loan. Innovation (e.g. new products or services introduced after receiving the loan) was recognized more in female businesses (64%) than the male businesses (42%). Innovation also seems to be higher in rural areas (54%) than in urban ones (46%). The same goes for regions in the North-West (60%) compared to the ones in the North-East (36%). Dropouts and their businesses benefited from the loans: their expenditure in health, education, food and household equipment increased.

BUSINESS AND

EMPLOYMENT FEATURES

Employment creation– We calculated that the average number of employees working for microfinance clients was 2.3, increased by 15% since the clients had received their loan.

In order to estimate the total number of jobs created by microfinance, we need to take into consideration that the average loan maturity is 17 months and that 60% of the clients in 2017 were at their first loan cycle (i.e. new clients).
In 2018, the total number of clients served by microfinance in Afghanistan were roughly 135,000.

We estimate in the last ten years the microfinance created about 1 million new jobs.

The total figures of created and supported jobs are as follows.

Employment Creation (in '000)												
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Jobs created in new businesses	179	155	125	117	100	44	54	65	64	65	69	1,037
Jobs in other businesses benefiting from the loans	628	543	440	410	350	154	191	228	223	228	242	(Flow)
Jobs in existing businesses exiting the MFIs	216	260	149	180	109	26	78	79	97	152	109	(Flow)

It is challenging to estimate the "stock" of total jobs supported without facing double-counting issues. For this reason, we decided to estimate the "flow" of supported jobs.

AGRICULTURE

18% of the male clients and 5% of the female ones describe their business activities as related to agriculture and farming, such as growing crops and livestock. As expected, those clients are mainly based in rural areas of northern provinces.

We notice some relevant differences between those clients and the general sample in the variables linked to employment creation. Firstly, the average number of employees per business is 1.67, that is 25% less than the general sample. This is reflected in all type of employment status, namely full-time and part-time, family members and wage employees. Given the seasonal nature of the agricultural and farming business, the seasonal/occasional employment is more frequent than the other sectors. Secondly, employment creation for agriculture and farming business is lower than the general sample (11% vs 15%).

30% of those clients' household experienced events that had strongly and negatively affected members of the household, slightly more than the general sample. In particular, 75% of the clients working in agriculture have experienced reduction of agricultural water confirming that agriculture in Afghanistan is very vulnerable to external factors such as drought and global warming.

It is worth noting that 18% of the clients working in the agriculture and farming sector have a negative perspective of their business, well above the general sample (10%).

REGIONS COMPARISON

The highest concentration of people with no **education** is in the North West (44%), while the West displays a lower percentage (15%).

The clients with the most **business experience** are the ones living in the Western provinces. This is based on 75% of clients living in this area who claimed that they have had previous business experience. This number drops to 48% in the North-East region. In addition, 70% of clients in the Western region declared that they had started their business with their own resources. The same can be said only for 56% of the ones living in the Central region.

The highest rate of **business registration** can be found in the West (69%), while the North West lags behind with only 20% of the businesses registered. This is half of the general average of 40%.

When examining the clients who declared **earning** over AFN 41,000 per year, 62% of the ones living in the North East and 60% of the ones in the West consider themselves Self-Employed. It is not as much in the Center (46%) and the North West (49%).

Only 20% of Western clients reported **savings** since obtaining the first loan compared with the 49% in the North West and 39% at a national level. When asked the question regarding household income, 25% of clients in the West reported higher income and 48% of the ones in the North-West claimed their household income had risen.

As far as **house improvements** are concerned, clients in the Central region declared that they had spent 14% of their extra revenue on furniture/appliances. Not only is this number higher than in other regions (3% and 4%), it is also double that of the national score (7%).

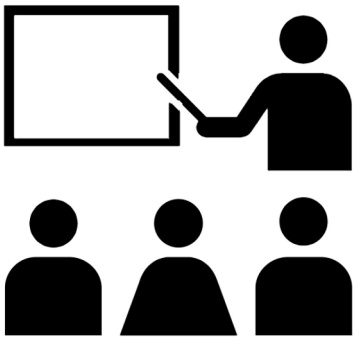
Moving on to **new asset acquisitions**, clients in the West lead on house/land purchases focused on furniture and mobile phone/computer (12%).
This is double that of the other regions.

Observing the **social capital development** potential, we found that the lowest score is in the West region in which only 12% claimed to "both provide and receive support" and 15% "Provide support for their family", this totals 27%. In the North-East region, 38% simultaneously provide and receive while 37% just provide for the family for a total of 75%.

Adverse events affected 26% of total borrowers; 77% of clients in the West and 20% in the North East claimed to have experienced disadvantageous situations.

The question about **delaying a necessary medical treatment** for a family member due to risk events evoked an affirmative response from only 10% of total clients; more specifically, 20% of clients in the West and 8% of the ones in the North West.

WOMEN EMPOWERMENT



40% of the female borrowers noticed a change in their ability to influence their number of children, since they had started their businesses. Moreover, they seem to have more choices as far as household expenditures are concerned. The change seems to be caused solely by the fact that they contribute to household income.

The possibility of making decisions, regarding the household expenditure, is higher in rural areas (85%) than urban ones (79%). According to the data, there are regional differences. Please refer to report's annex XIV.

Before the assessment, our hypothesis was that the amount of money that one contributes to the household income would automatically increase the decision making power. The data provides no evidence to support this, as far as child bearing is concerned, however the decisions regarding household expenditure are more related to the percentage of household income generated. For more details on regional difference please refer to report's annex XIV.

40% of women empowered

SUSTAINABLE DEVELOPMENT GOALS

The result of the analysis outlines the evidence that the microfinance programme has for stretching towards the UN Sustainable Development Goals indicators (SDGs) and more specifically balancing the poverty eradication, economic and social dimension, gender equality, access to clean water and sanitation, affordable and clean energies and decent work and economic growth. SDGs - 1, 5, 6, 7 and 8 closely mirror the microfinance programme objectives and expected impact.

CONCLUSIONS

The role of microfinance in Afghan economy – According to the data we collected, microfinance seems to help the Afghanistan Government attain its own development objectives. Moreover, it is becoming an integral part of Afghanistan financial system, although we found that there is a need for more specific and sectorial regulation.

Microfinance plays as a safety net, not only for those living in poverty, but also for the already flourishing businesses. On one hand, there is a part of the population that simply needs a roof over their head and food. On the other, more experienced business men and women are using the same safety net to prevent their company from crashing down.

There is evidence that some micro businesses are growing and graduating to SMEs, thus creating new jobs: we found that the average number of employees working for microfinance clients is 2.3 and increased by 15% since the clients took their loan. By paying special attention to what the client needs and by helping them understand what they require to develop their businesses, the MFIs increase the probability of transforming a microbusiness into a SME.

The data draws the image of a community struggling to get back up after having been stuck in the soil for so long. The attitude demonstrated by the clients is positive and determined (96% of clients declare that they are satisfied, or completely satisfied, with their life today).

When living in a post-conflict country, positivity is vital for the regeneration of a sustainable economy and safe social environment.

MFIs are influencing (96% of the microfinance clients declared that they are satisfied and very satisfied with the services provided by MFIs).

Microfinance sector's performances, products and services – The average Portfolio at Risk - 30 days (PAR 30) is 2.14%, which is lower than the industry's accepted value of 5%.This demonstrates that good risk management systems are in place.
By taking into account the various social and economic factors that influence the clients, the MFIs could tailor specific services to the client's needs. For example, clients in the Western region run manufacturing businesses more than the other three regions. Accordingly, manufacturing-oriented services could automatically be concentrated on the West.

Several clients mentioned during the FGDs that Sharia compliant products are required and that a deep discussion within the microfinance sector would be needed.

Several clients mentioned they would like to have insurance for their businesses but, having no previous relationship with insurance companies, they find it hard to trust them. Many clients declared that they would trust the MFIs if they were to offer insurance services.

The vast majority of clients present in the FGDs complained about collateral and the challenges tied to providing collateral. Having a National Guarantee Fund could solve some of the issues tied to collateral. Culture, social and economic environments, and security risks make their situations different.

CONCLUSIONS

Since joining the MFIs, 39% of clients have seen their household income increase and their savings improve.

Female clients noticed an increase in their authority over decisions tied to child bearing and household expenses. In some cases, women even manage to contribute the entire household income. What one could deduce from this information is that by contributing to the overall income, women have found themselves in the position to make decisions for the house and for their own bodies.

The majority of clients show interest in possible training sessions. Some MFIs are already in the process of delivering such services, though they are still in the test phase. For example, some clients lack the ability to recall savings or manage loans. A skill specific training course would increase their competence in this area. Another problem that training can solve is payment delay. The issue with loan repayment may derive from a simple chain reaction of the customer not meeting the payment deadline, causing the MFI client to do the same. Risk management courses would be ideal in these cases.

Technology and digital financial services – Mobile banking, and services like M-Pesa are dragging out the hidden potential of underdeveloped countries; the digital revolution makes finance accessible to unbanked individuals and entrepreneurs without a secure credit past.

MFIs in Afghanistan are in the process, some more than other, of embracing digital finance and absolute digitalization. Given key variables, like low population density and high security risk, Information and Communication Technologies (ICT) would help reduce costs and increase coverage.

Supporting and encouraging innovation and technology use in microfinance would create long term benefits for all actors involved. Save time and travel for clients, save operations and security costs for MFI, and hopefully giving them access to a lager customer base.

Measuring constantly some performance indexes (the full report contains some suggestions) would provide a constant and updated information sources to understand MFIs' impact on the society.

Consistent strategy to promote and advocate microfinance achievements and their long term benefits would be beneficial for the microfinance sector and for the whole Afghanistan economy.

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