



ANNUAL REPORT

March 2019

Contents

BOARD OF DIRECTORS

Page 6 - 7

MESSAGES FROM THE CHAIRMAN OF THE BOARD AND MANAGING DIRECTOR

Page 8 - 11

THE MICROFINANCE SECTOR IN 2018: A SNAPSHOT

Page 16 - 17

MISFA CORE PROGRAM: ACCESS TO FINANCE

Page 20 - 37

MISFA STRATEGIC PLAN 2019 -2021

Page 40 - 41

CONCLUDING REMARKS

Page 42 - 43

FINANCIAL OVERVIEW

Page 46

STORIES OF EMPOWERMENT AND DEVELOPMENT

**Page 12 - 13 , 18 - 19,
38 - 39, 44 - 45**

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Farid Azim

ACRONYMS

AMA	Afghanistan Microfinance Association
CAD	Comprehensive Agriculture Development
CSPIs	Community Savings Promoting Institutions
DAB	Da Afghanistan Bank
DFIs	Development Finance Institutions
FMFB-A	The First MicroFinance Bank-Afghanistan
MFI	Microfinance Institution
NPP	National Priority Program
NRA	National Risk Assessment
OSS	Operational Self- Sufficiency
PAR	Portfolio At Risk
PPI	Progress out of Poverty Index
R&D	Research & Development
SDGs	Sustainable Development Goals
SHG	Self Help Groups
SME	Small and Medium Enterprises
TUP	Targeting the Ultra-Poor
WEE	Women Economic Empowerment



BOARD OF DIRECTORS



Mr. Muhammad Eesa Qudrat

Chairman and Deputy Minister

Mr. Muhammad Eesa Qudrat currently serves as Deputy Minister for Programs at the Ministry of Rural Rehabilitation and Development (MRRD).

Mr. Qudrat holds three master degrees in Project Management, Business Administration and Political Science and a Postgraduate Diploma in Sustainable Rural Development from National Institute of Rural Development (NIRD) of India.

Mr. Qudrat has worked with government, non-government and UN organizations.



Mr. Zahid Hamdard

Deputy Minister & Board Member

Mr. Hamdard currently serves as the Deputy Minister of Finance (MoF), He was previously working as the Director General of the National Budget at the Ministry of Finance.

Before joining MoF, Zahid served at the Office of the President as an aide to President Ghani on development and institution development files.

Mr. Hamdard comes with 13 years of development experience with private firms, International organizations such as UN, INGOs and Afghan government.



Ms. Manizha Wafiq

Board Member

President and Co-founder of Afghan Women Chamber of Commerce (AWCCI); Ms. Manizha Wafiq has over 16 years of experience in women's empowerment and gender equality, working with international, government and non-governmental organizations. She has earned her MBA degree from the American University of Afghanistan (AUAF).

Ms. Wafiq is the winner of several prestigious national and international awards.



Ms. Wagma Yameen Zia

Board Member

Board Member and Director of Youth Empowerment and Promotion organization (YEP). Ms. Wagma has more than a decade of working experience with several international and national organizations. She is pursuing her graduate studies in Gender and Women Studies.



Mr. Anand Raman

Board Member

Anand Raman has 26 years of leadership experience in inclusive finance, mobile telecommunications, and information technology businesses. As a consultant to CGAP he has published several technical and policy blogs and led work on national payments infrastructure. He holds a Master's degree in International Public Policy from Johns Hopkins SAIS, Washington D.C., USA, and a Bachelor's in Electrical Engineering from IIT Roorkee, India.

FROM THE CHAIRMAN OF THE BOARD

It is my pleasure to present to you MISFA's annual report reflecting key developments in the past year and focus areas through 2021 from the updated strategic plan.

We are also sharing in this report the remarkable findings from impact assessments of MISFA's core programs: microfinance and its landmark graduation program, Targeting the Ultra-Poor (TUP), which has lifted thousands of female-headed households out of extreme poverty in rural Afghanistan since it was piloted in 2010. The overwhelming message is that financial inclusion works and contributes to generating economic opportunities and jobs for the Afghan people, particularly those marginalized.

There is another inspirational message from this report that may be understated but must not be overlooked: the strength of MISFA as an Afghan institution founded on transparency, due diligence and sustainability. This did not happen overnight; it is the outcome of dedication, perseverance, and a people-centered approach. That MISFA is passing on its valued standards to its implementing partners, which are now all operationally sustainable, should give us hope.

On behalf of my fellow MISFA Board Members and fellow government officials, I would like

to acknowledge the hard work and dedication of MISFA's leadership and staff and those of its implementing partners.

They have been tirelessly working towards providing low-income families access to finance, despite the prevailing insecurities in some of the operating territories. We also acknowledge the consistent support of the Government of Afghanistan and our donors to MISFA, and encourage them and other stakeholders to continue their generosity and support for promoting MISFA initiatives in the years to come.

Lastly, I thank the Afghan people for their resilience, for not giving up, for pursuing their dreams of growing their own small businesses and believing in their own capabilities to provide a better future for their families. Your success stories give Afghanistan a great reason to hope.

Sincerely,



Muhammad Eesa Qudrat
Chairman, MISFA Board of Directors
Deputy Minister Programs, MRRD



MISFA's partner institutions disbursed a combined total of 125,735 loans worth AFN 11.5 billion for the year ending 31 March 2019

A MESSAGE FROM MISFA'S MANAGING DIRECTOR

This year's report features key findings emerging from independent evaluations of MISFA's core programs: Targeting the Ultra-Poor and microfinance. While we consistently hear the success stories from TUP participants and microfinance clients, it was important for MISFA to commission independent reviews of these programs to ensure that they are both fit for purpose.

The key findings have been heartwarming and have given our team the incentive to keep working on improving and expanding these programs and our partnerships. The studies show that through TUP and microfinance, MISFA is able to contribute to income and job generation, women empowerment, and poverty reduction in Afghanistan. This strengthens our sense of purpose and our resolve to continue paving the way for greater access to finance.

I would like to take this opportunity to acknowledge the firm guiding hand of our Board of Directors and the hard work of our staff over the years. Together, they have led MISFA to become the strong organization that it is today—built on transparency, due diligence, self-sufficiency—a beacon of hope for Afghanistan.

Special thanks goes to our donors, particularly the World Bank, whose continued support

has allowed us to expand both TUP and microfinance. Last but not least, on behalf of MISFA staff and Board Members, I extend our gratitude to the leadership and field staff of our implementing partners, who have delivered on the promise of TUP and microfinance, despite the operational challenges they've faced in some of the most insecure environments in the country.

To TUP participants and graduates, and to our microfinance and SME clients, there is a lot for us to build on based on your invaluable contributions to the economic growth of your communities. With the help of our supporters and stakeholders, from the President, to our line Ministry partners, to their provincial and district-level officials, we will strive to ensure that a greater number of Afghan men and women gain access to finance in the years to come.

THANK YOU VERY MUCH TO ALL!

Sincerely,



Bahram Barzin
Managing Director

MISFA and partner institutions continued to offer a more diversified and tailor-made set of loan products catering to the needs of their client base



Stories of Empowerment & Development

Discovering an eye for business

Lajaward, 48, is a participant of MISFA's Targeting the Ultra-Poor (TUP) project in Balkh Province.

Since joining TUP a year ago, she has been on a path to escaping abject poverty, but she will never forget that one morning when she found her husband dead in bed. It was a confusing moment of fear, panic, anger, and deep pain, and the brutal certainty of a future filled with struggles for her and her children.

"I was carrying my youngest son in my womb at that time," said Lajaward, recalling the day her husband succumbed to heart attack 12 years ago. "I had nothing; he left me when our children were still very small."

Lajaward was forced to assume the role of breadwinner for her family, taking on whatever day labour was available. For a very long time, food and money were always inadequate to meet the needs of the family.

"We ate less and sometimes we could not afford to burn our stove for a week or even more," said Lajaward. Her son, who has completed his 14th grade (equivalent to college level) neither could further pursue his studies nor could he find a job yet.

As a TUP participant, Lajaward received productive asset last year, including a cow, which has provided her family income-generating activities. The cow yields 6 to 10 liters of milk per day, enabling her to sell fresh milk and yogurt to neighbors and the dairy union in her village in Dawlatabad district, located approximately 230 km west of Balkh province's capital city, Mazar-i-Sharif. Lajaward sells the milk for AFN 18 per liter. Project staff has linked Lajaward to a dairy union called "PAKIZA" which collects the fresh milk from her residence.

In addition to selling dairy products, Lajaward receives a commission of AFN 1 per liter for collecting the milk from other villagers and delivering it to the PAKIZA dairy union. At peak times, the commission could amount to

AFN 80 per day.

Putting aside some of her income from her dairy production and sale, she was also able to put up a small shop attached to her home, based on items demanded by her village neighbors. Lajaward earns around AFN 150 per day from the shop.

She was also able to purchase a goat and a calf in one year.

"Villagers respect me because of my efforts," said Lajaward "I have good relation with my neighbors and villagers because I am taught that behaving well with the customers are very important."

Lajaward's membership in TUP has opened her eyes to so many possibilities she never had the time, space, or resources to think about. Her total monthly income is about to AFN 10,000 (USD 150).

She said she will continue looking for ways to earn income and take advantage of the TUP support team that pays her a visit every other week. The TUP team shares knowledge on good practices, such as saving money, hygiene, financial literacy, marketing; and helps link TUP beneficiaries to basic medical/health services and lending institutions, which could help with business development and expansion.



MISFA, with support from the World Bank and implementing partners, scaled-up the TUP project in Kabul and Kandahar, beginning in November 2016.



1. INTRODUCTION

This report has four main parts. Following this Introduction, section 2 provides a brief overview of the microfinance sector through some key indicators representing the consolidated portfolio of MISFA's implementing partners, which comprise 90 percent of the development finance sector of Afghanistan.

Section 3 outlines the key developments in the ongoing scale-up of TUP, as well as in the microfinance sector this reporting year. Emerging findings of two seminal reports on the impact of MISFA's core programs—TUP and microfinance—are also shared in this section.

Both are independent assessments commissioned by MISFA in its efforts to document lessons learned and good practices and continue improving its program design and implementation. Section 4 looks ahead to 2020 with the key focus areas from MISFA's Strategic Plan 2019-2021.

Finally, Section 5 provides some concluding remarks, followed by the key financial figures for 2018 under Section 6.

2. THE MICROFINANCE SECTOR IN 2018: A SNAPSHOT

• Sector Performance

The microfinance sector¹ remained relatively steady, despite continuing political and economic insecurities in the country. For this reporting year, MISFA's partner institutions disbursed a combined total of 125,735 loans worth AFN 11.5 billion for the year ending 31 March 2019.

Overall Portfolio At Risk greater than 30 days (PAR>30 days) of microfinance institutions for the year was at 3.5 percent; while Operational Self-Sufficiency was at 101.9 percent in March 2019.

Table 1. Sector Key Indicators 2018 - 2019

Key Indicators	March 2018	March 2019
Coverage by no. of Provinces	14	14
Coverage by no. of Districts	80	81
No. of Active Clients	232,164	261,857
No. of Active Borrowers	129,744	137,994
Gross Loans outstanding, AFN	8,255,748,697	9,336,127,435
Gross Loans outstanding, US\$*	119,512,565	123,754,354
Women as % of Total Borrowers	29%	35%
PAR > 30 days	2.2%	3.5%
OSS (Operational Self-Sufficiency)	109.8%	101.9%

* Based on the prevailing AFN-USD exchange rate.

MISFA and partner institutions continued to offer a more diversified and tailor-made set of loan products catering to the needs of their client base, namely: agricultural, group, individual, housing, SME, and Sharia-compliant (Murabaha) loan products.

MISFA also supported capacity building and innovation related to partners' efforts to diversify and develop demand-driven financial products and services, particularly those geared to serve harder to reach rural areas, women and marginalized groups.

¹ MISFA partner MFIs comprise about 90 percent of the microfinance sector of Afghanistan.

40% of female borrowers noticed a change in their ability to influence their number of children, since they had started their businesses.



Stories of Empowerment & Development

Paying it forward through internships

Life was hard for Madina as a refugee in Iran and as a returnee in Afghanistan. She had wanted to apply the tailoring skills she learned in Iran but without any seed money for a business she was unable to; until she was linked to FINCA-Afghanistan. FINCA-A approved her loan application worth AFN 50,000 to start her tailoring business.

Investing the first loan on a sewing machine, Madina proved herself to Mohammad, her husband and convinced him that they can do better if they join hands together. Gradually by receiving larger loans and with the support of Mohammad, Madina expanded the business, rented a shop in QalaiNaw of Dasht-e-Barchi, the area in Kabul where she lives. Madina is originally from Daikundi, a remote and disadvantaged province in central Afghanistan.

Madina is now repaying her fourth loan cycle

with a principal amount of AFN 100,000. A significant portion of her loans was invested in the purchase of asset and business inputs: tailoring machinery, such as automatic sewing machines; and raw material. To maximize profit, Madina purchased in bulk.

Currently, there are four automatic and four manual sewing machines installed in Madina's workshop. "I am grateful for the microfinance services," said Madina. "I barely knew anyone in the city (Kabul) when I returned to the country and it was not possible to borrow money from anyone." In addition to her tailoring business, she is also selling ready-made undergarments for women to augment the household income.

Madina now earns an average income of monthly AFN 25,000; and feels fortunate to have had the skills, the opportunities, and the support that she had access to. Having the personal experience of struggling to find a way to contribute to income generation for her poor family, Madina wants to share her skills and journey to success with young

women and men. She thought the best way to spread her fortunes is to "pay it forward" through internships and job creation, which she is now in position to create.

Having the personal experience of struggling to find a way to contribute to income generation for her poor family, Madina wants to share her skills and journey to success with young women and men. She thought the best way to spread her fortunes is to "pay it forward" through internships and job creation, which she is now in position to create.

Madina has hired four females and two males as interns in her workshop where they learn the skills required for a business like hers. In the first months, the interns need to pay a

monthly fee of AFN 1,000 to acquire tailoring skills in half a year. Once the tailoring skill is acquired, the interns are paid one third of the tailoring fee as a commission on each dress that they prepare. Currently, four of the interns earn an average income of AFN 10,000 each. Khadija, an intern of Madina has already graduated and has established a business of her own. "I always encourage my students and tell them the story of my journey," said Madina.

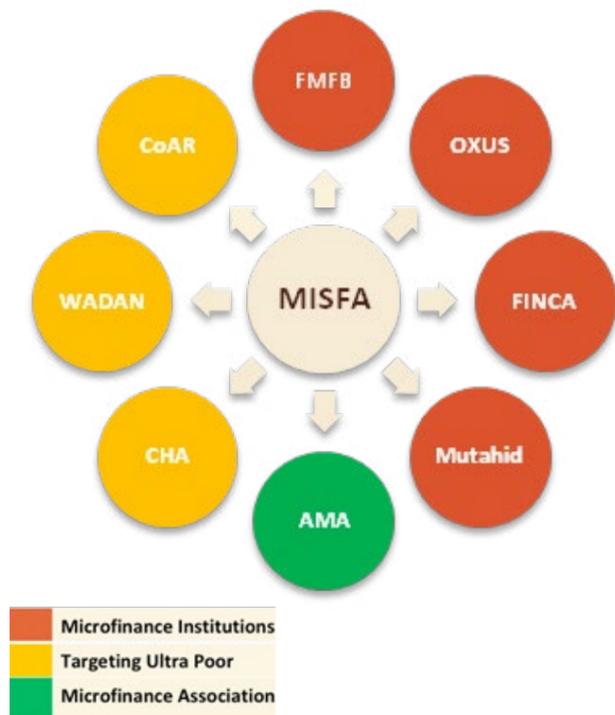
Although Madina is now well settled and enjoying a stable life with her husband and daughter. For her, this is just the beginning of her journey. "I want to prepare wedding dresses for brides," she said. "I might apply for larger loans in the future.



3. MISFA CORE PROGRAM: ACCESS TO FINANCE

Under the Afghanistan Access to Finance initiative, MISFA was able to build on its core programs: its flagship financial graduation program, Targeting the Ultra-Poor (TUP); and its support to the microfinance sector. Access to Finance is a national initiative implemented by MISFA and partners, funded by the World Bank's International Development Association (IDA). Below are some highlights.

Figure 1. MISFA Partners 2018



Microfinance Program contributes to the achievement of the SDGs.

3.1 MISFA Programs Update 3.1.1 Targeting the Ultra-Poor (TUP)

MISFA, with support from the World Bank and implementing partners, scaled-up the TUP project in Kabul and Kandahar, beginning in November 2016. To date, MISFA has provided support to more than 11,000 ultra-poor families, who have escaped poverty. Even with the success of TUP and its ongoing scale-up, these numbers remain extremely low, given the estimated 1.8 million ultra-poor households in Afghanistan.

TUP's end goal for participants is to get them up to a status in life when they could be eligible to access microcredit from financial institutions, in order to establish their own small businesses. This is not just going to improve the quality of life of thousands of families in dire situations in rural Afghanistan, it would also help reduce national poverty, create more economic activities, and contribute to strengthening the private sector. For the broader financial sector specifically, TUP graduates could expand the market base of formal institutions, such as MFIs and commercial banks as their potential clients/borrowers/savers in the future.

TUP is a grant based program designed to facilitate the escape of ultra-poor households from poverty. TUP participants receive a holistic, phased out package of assistance throughout two years, including productive livestock, animal husbandry training, subsistence support, and basic health and hygiene care and access to finance. Upon graduation, TUP members are linked with financial service providers, such as Microfinance Institutions (MFIs), Community Savings Promoting Institutions (CSPIs), Cooperatives, and Self Help Groups (SHG), to further expand their businesses and enterprises.



96% of the clients were 'satisfied' or 'very satisfied' with the products and services provided by MFIs.

3.1.2 Research and Development Projects

Over the years, MISFA has allocated budget for R&D in support of the various needs for knowledge and evidence among MISFA partners, stakeholders, and broader sector. Following are some of the research MISFA has commissioned and their status by last quarter of the previous year.

Table 4. MISFA R&D projects approved, last quarter of 2017

No.	Research and Development Project	Project Description	Status
1	Impact evaluation of TUP in Balkh province by DIME (Development Impact Evaluation, the World Bank's research group).	TUP, the only project in Afghanistan that DIME is evaluating at the moment.	Baseline and end-line surveys completed; the Consumption Survey will start in late 2019. To read the full report, click here .
2	Microfinance Impact Assessment	The purpose of this study is to measure the impact of microfinance services on the livelihoods of the clients and also estimate the overall contribution of microfinance services to the economic development and creating jobs in the country.	The assignment is completed. Microfinanza, an Italy based consulting firm conducted an impact assessment of the microfinance sector in Afghanistan. The report is available here .
3	Progress out of Poverty Index (PPI) Consultancy	PPI is an index developed to help MISFA partners measure the impact of their loans and the changes in the lives of their borrowers before taking credit and after repayment.	The assignment is completed.
4	Use of Technology in the Microfinance Sector	This consultancy's remit is to review and recommend technological innovations the sector could tap in order to expand outreach and improve efficiency/service delivery.	The assignment is in progress.

3.1.3 TUP Impact Evaluation: Emerging Key Findings

During this period, the DIME team (World Bank Impact Evaluation Team) was reaching the final stages of its Impact Assessment of the TUP Program in Balkh; the study will be fully completed in mid-2020. The Italian Cooperation is also to carry out an Impact Assessment of the entire ISAME project, part of which also includes the TUP program in Herat.

Similarly, the Ministry of Economy conducted an Impact Evaluation of the TUP program piloted

in Bamyan from 2010 to 2013 to help extremely poor families in Yakawlang, Punjab, and Bamyan City. The longitudinal study was conducted for the first five years following the graduation of the first batch of TUP participants.

Following are some of the key findings emerging from the Bamyan impact evaluation:

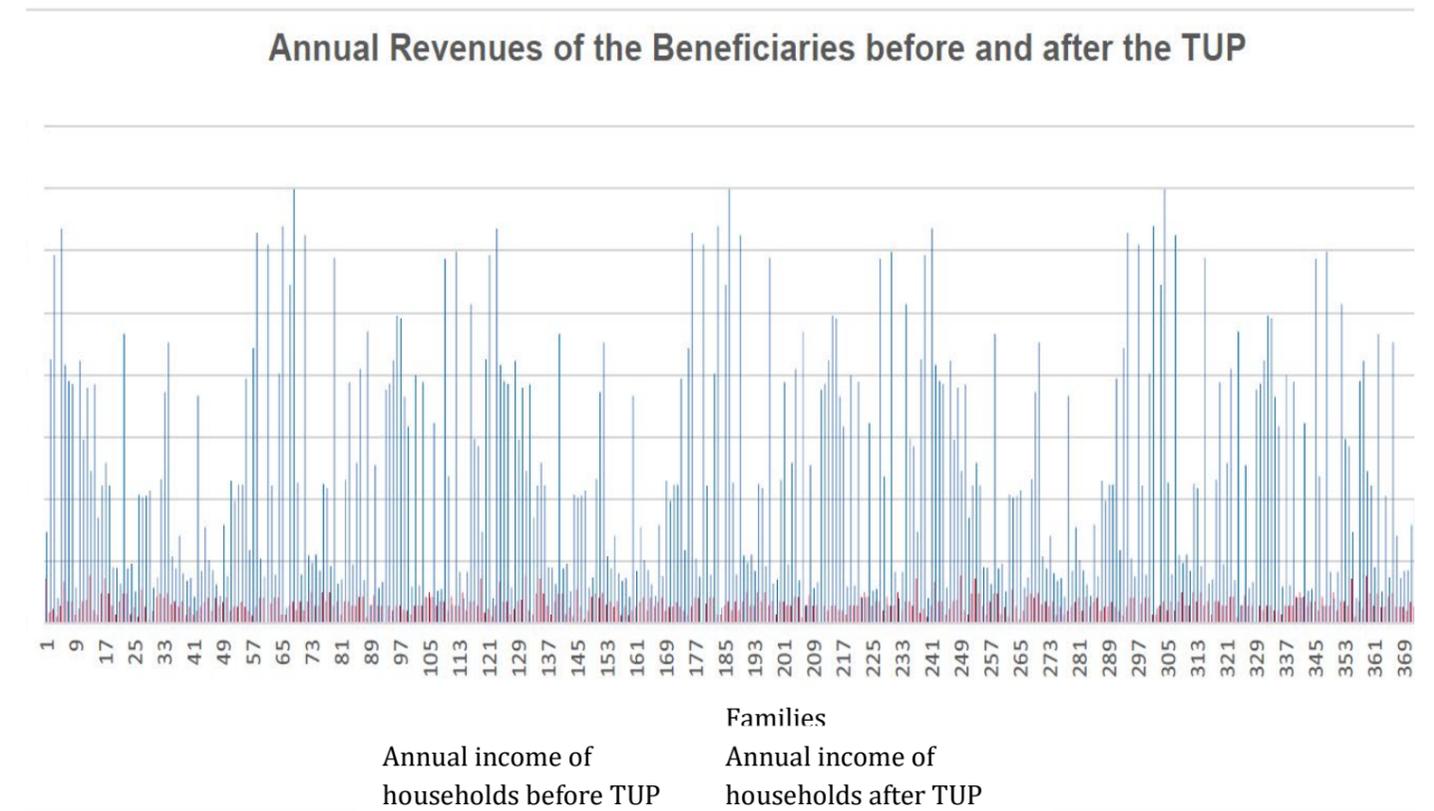
- **TUP graduation rate:** 90 percent. The graduation rate of the TUP program overall stands at more than 90 percent. This is an indication that this program has enabled ultra-poor households to come out of extreme poverty and improve their quality of life.

- **Livestock growth:** Over a period of five years, the number of distributed cows have increased from 192 to 794, the goats have increased from 73 to 810, and the number of sheep has increased from 850 to 5,147.
- **Increase in Revenue:** The average gross income that the project generated for 400 households is AFN 239 million through the production and sale of dairy and animal

products over a period of five years (after the project completion from 2013 to 2018). The average net annual income of families has increased from AFN 16,071 to AFN 119,461. Figure 3 shows the increase in revenues of all beneficiaries compared to the pre-project implementation level. The project generates an annual net income of AFN 47.83 million compared to the total invested amount of AFN 43.90 million.



Figure 3. Annual Beneficiary Revenues: Before and After



Total revenue per product 2013-2018
(in million AFN)

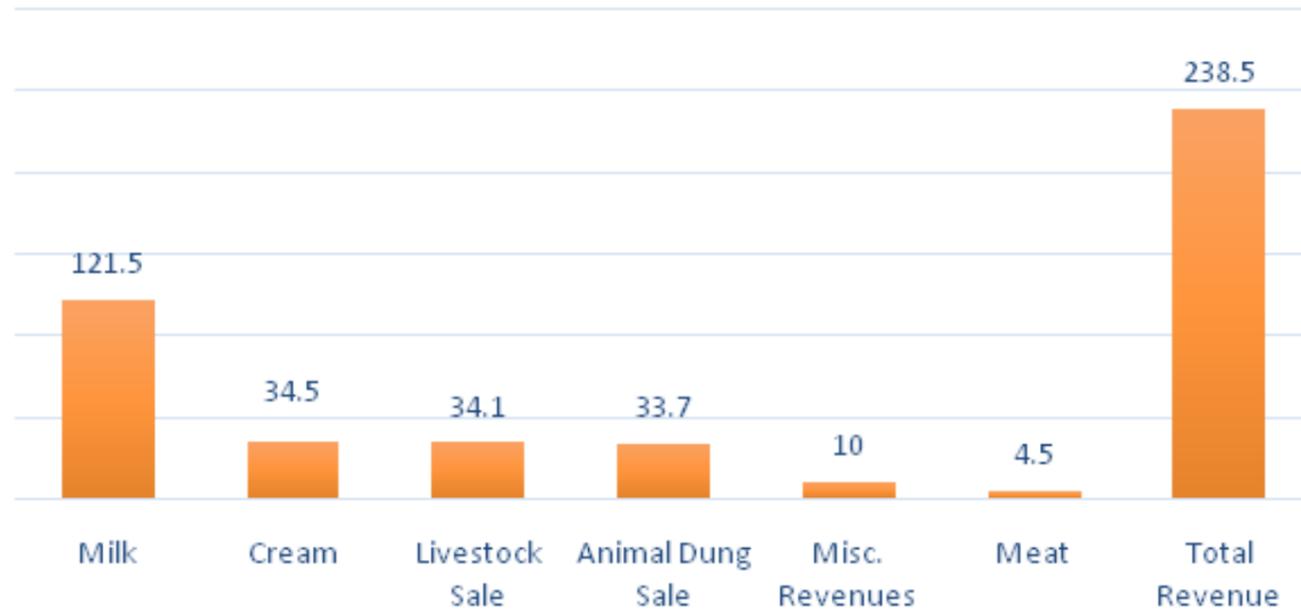


Figure 4. Five-year (2013-2018) total revenue per product

- **Job Creation and Income Levels:** The project has created 873 jobs of eight hours work per day, in Bamyan province, especially in the markets and localities of Yakawlang, Punjab, and Bamyan City. The distribution of livestock as a movable asset to eligible beneficiaries has raised their income levels

and the project activities have improved the lives of the beneficiaries. It should be noted that the report does not consider the value chain businesses developed by the project through the purchase and sale of dairy products, animal products, and essential materials for livestock services.

According to the findings of this evaluation, the implementation of this project in Bamyan province has resulted in 873 self-employed TUP participants across the livestock rearing value chain. Similarly, measuring the rate of self-employment at the level of the Yakawlang, Punjab, and Bamyan City; the project has generated 314, 351 and 209 self-employment opportunities respectively.

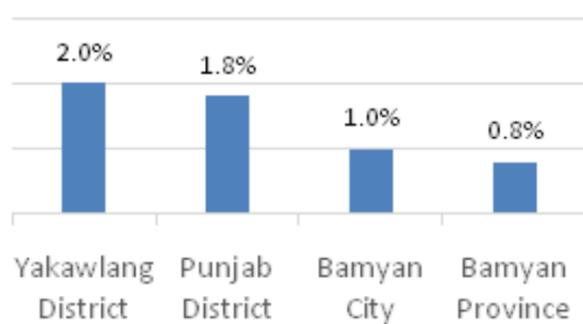


Figure 5. Unemployment rate decrease

- **Poverty Reduction:** Considering the income generated, the project has been able to remove 735 people in Yakawlang, 734 people in Punjab and 492 people in Bamyan city from the list of the poor and has thus reduced the percentage of poverty at the provincial level.
- **Food Security:** The project has provided food security to 2,800 direct beneficiaries through animal products (meat, milk, yogurt, cream, butter and other dairy products) from the productive asset they received through TUP.
- **Education:** The implementation of TUP has led to an increase of 429, 427 and 284 in the number of students at the primary, secondary and tertiary education respectively.
- **Access to Electricity:** As a result of the implementation of this project, 2,800 people, who are the direct beneficiaries of the project, benefited from solar energy and this represents an increase of 2.8 percent renewable energy usage at Bamyan province level.
- **Proper Shelter:** Approximately 2.2% of the population in Yakawlang district, 1.9% in Punjab district, 1.1% in Bamyan city, and a total of one percent of the population at the provincial level, have benefited from proper shelter through the implementation of this project.
- **Mobile Phone:** This assessment shows that the implementation of the project contributed to increased usage of mobile phones by 0.5% in the Yakawlang district, 0.5% in the district of Punjab and 0.3% in the center of Bamyan province.
- **Hygiene:** The findings suggest that the implementation of the project has increased the usage of the toilet in Yakawlang district by 36%, 32% in Punjab district and 17% in Bamyan city, and a total of 13% increase in Bamyan province. Although the prevalence of diseases has declined due to the increased use of toilets, most of the people in these areas still use the stream and river water to meet drinking and other water needs.
- **Gender:** This project has been implemented at the provincial level of Bamyan for ultra-poor women and all of the beneficiaries are females. Around 59 percent of TUP beneficiaries are women and the remaining 41 percent are men. Based on the findings of this evaluation, women in the project are financially, economically, socially and physically empowered.

The full report is available [here](#).

3.1. 4 Microfinance Impact Assessment: Emerging Findings

During the reporting year, some key findings were emerging from the MISFA-commissioned impact assessment of microfinance in Afghanistan conducted by Microfinanza. Following are some of the key findings emerging from the study:

Use of Loan

- 85% of microfinance clients had used the loan for business development purposes. There is evidence that some micro business have grown and scaled-up to the level of small and medium enterprise (SME).

Job Creation

- Over 1 million - estimated number of jobs microfinance created in the past 10 years.

Income and Expenses

- More than a third of the clients reported that sales, inputs, fixed assets, inventory and net income had increased since obtaining the first loan.
- 39% of microfinance clients reported increased savings since joining the program.
- 35% of the clients declared their household expenses increased since receiving the first loan as their income increased.

Women empowerment

- 40% of 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 79%.

- 43%, 38%, 10% and 8% of the female borrowers contribute up to 25%, 50%, 75% and 100% of the household income respectively.

Client Satisfaction

- 96% of the clients were 'satisfied' or 'very satisfied' with the products and services provided by MFIs.
- 90% of the clients are satisfied with their lives.

Contribution to UN- Sustainable Development Goals (SDGs)

Microfinance Program contributes to the achievement of the SDGs:

- SDG 1. End of poverty in all its forms everywhere
- SDG 5. Achieve gender equality and empower all women and girls
- SDG 6. Access to safe and affordable water; access to sanitation and hygiene.
- SDG 7. Access to energy
- SDG 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

The full report is available [here](#).

3.2 SUPPORT TO MICROFINANCE PARTNER INSTITUTIONS

In 2018, MISFA continued its technical and financial support to its partner institutions and signed grant and funding agreements with its partners: The First MicroFinance Bank-Afghanistan (FMFB-A), FINCA-Afghanistan, OXUS-Afghanistan, and Mutahid. Below is the summary of MISFA partner MFIs' status, including key targets, and funding agreement with MISFA.

3.2.1 Implementing Partners



The First MicroFinanceBank
اولین بانک قرضه های کوچک

3.2.1.1 The First MicroFinance Bank-Afghanistan (FMFB-A)

FMFB-A is MISFA's largest partner with an outreach to more than 192,435 active clients through 38 service centers across the country.

A grant of more than AFN 11 million was given to FMFB-A to improve the quality of its workforce. One way of achieving this is through training and development activities for staff at levels within the bank's hierarchy. Clearly, there is a need for comprehensive, relevant and integrated training modules on wide range of function specific areas to meet organizational goals. The staff will be trained on technical skills for branch banking and capacity building for strategic projects to help staff understand banking operations, and also prepare cross-functional teams to better manage the challenges in areas of SME product design and mobile money solutions.



3.2.1.2 FINCA-Afghanistan

FINCA-Afghanistan serves 27,300 active clients with almost 59 percent of its portfolio supporting women borrowers.

FINCA Afghanistan received AFN 3.8 million grant fund during April 2018 from MISFA to increase effectiveness and efficiencies of its internal audit function by automating the audit process by utilizing an audit software.

Another grant fund amounting more than AFN 15 million was provided to FINCA to transform its core banking system to evolve an efficient, secure and resilient technology based Microfinance Core Banking System in Afghanistan.

The internal audit function of FINCA Afghanistan is required to follow the policies developed by the Global Corporate Audit (GCA) of FINCA Microfinance Holding Company (FMH). For this purpose FINCA received AFN 2.9 million from MISFA in 2018 to in-line their audit policy with FINCA Microfinance Holding Company (FMH). GCA follows a professional internal audit methodology which requires specialized skills and knowledge of technical auditing standards and practices.



3.2.1.3 Mutahid Development Finance Institution (DFI)

Mutahid, now a full-fledged independent institution registered with the Ministry of Commerce and Industries; is able to cover operational costs with interests earned from its loans. Mutahid has outreach to at least 19,225 clients managed through eight branches in six provinces.

MISFA provided funding of AFN 79 million in December 2018 for MUTAHID to help the organization focus more on improving the efficiency and productivity of the existing loan staff and generate more business within the existing branches, rather than opening new branches and expanding in terms of geographical area. However, in some branches where there is potential for growth and expansion of the loan portfolio, MUTAHID will be hiring additional staff members. Similarly MUTAHID is planning to launch a new loan product to cater to the needs of the farmers. This will help the organization to make inroads into the rural/agricultural credit market, and also provide them first-hand and valuable experience, and based on the performance of this product they will expand it further as the rural credit/agricultural market that could potentially be a huge and profitable sub-segment of the overall credit market.



3.2.1.4 OXUS-Afghanistan

OXUS-Afghanistan has more than 22,897 active clients through 24 service outlets in 10 provinces.

MISFA signed a funding agreement in the amount of AFN 191, 000,000 to support OXUS Afghanistan's portfolio growth in 2018, ensuring substantial funding for ongoing, as well as expansion of OXUS operations in Afghanistan. With the partnership agreement, MISFA would be helping the MFI achieve its priorities, including the development of new financial products catering to the needs of different demographics. With the funding agreement, OXUS could continue strengthening its risk management, internal audit, and IT departments, and build staff capacity.

OXUS received AFN 1.7 million from MISFA to understand the needs of customers. A detailed research will be conducted to answer the primary question "what do customers need?" The proposed project aims to conduct a market feasibility study to determine the needs of customers and match their needs with the features of existing offering.

At the same time during 2018 OXUS received grant fund of AFN 1.6 million to get the manuals in the following areas reviewed and updated according to the best practices of the industry:

- i. Operations (Including Risk Management)
- ii. HR / HRIS
- iii. Regulations / compliance & Governance and donor relationships



3.2.1.5 Afghanistan Microfinance Association (AMA)

MISFA, being one of the founding members of AMA, has been providing technical and financial support to the Association since its inception. This continued in 2018 with MISFA signing a funding agreement with AMA for that year.

Under the agreement MISFA committed funding AMA's planned activities under its core functions: Lobby & Advocacy, Knowledge Management, and Coordination and Networking during the year 2018. The grant helped AMA provide better services to its members and stakeholders at national and regional levels. This is expected to lead to better access to financial services among low income Afghans across the country.

One of the key functions of AMA is to raise awareness among the general public and potential microfinance borrowers about development finance; and to address misperceptions and misunderstandings about the sector through solid messaging consistent with MISFA's and partner institutions.

MISFA supports AMA's networking and coordination activities, such as program and legal awareness seminars, general assembly meetings, and CEOs coordination meetings.

The coordination and networking activities of AMA have been effective in sharing lessons learned, good practices amongst stakeholders, as well as in promoting efficiency and collaboration around risk and fraud mitigation.

AMA is the national network of Development Finance Institutions (DFIs) in Afghanistan established by MISFA, microfinance practitioners and other stakeholders. AMA was registered with Afghanistan's Ministry of Justice in 2007.

Currently, AMA has 10 full-time members, including microfinance Institutions (MFIs), Community-based Savings Promoting Institutions (CSPIs), and other financial institutions; it has one associate member, the Afghanistan Institute of Banking and Finance.

3.2.2 Sector-wide Capacity Building

MISFA approved a number of capacity building initiatives last year as summarized below. Activities highlighted here were identified in annual institutional gap analyses of MISFA partners as the areas they needed to strengthen; partners were encouraged to develop proposals based on these identified areas for strengthening.

Table 2. Capacity building budgets of MISFA partners approved, last quarter of 2018

MISFA Partners	Projects	Budget
OXUS	Market Assessment for Modifications in Existing Loan products	AFN 2,820,460
OXUS	Strengthening the HQ Systems to Support Activity Growth	AFN 1,600,000
FINCA	Audit Software	AFN 3,867,300
FINCA	Transforming Core Banking System	AFN 15,800,800
FINCA	Internal Audit Team Capacity Building	AFN 2,097,800
FMFB	Staff Capacity Building Program	AFN 11,456,589

3.3 Advocacy, Communications and Public Awareness

Communication and sharing information with the sector stakeholders is a key priority of MISFA. Using different tools, MISFA has continuously and regularly shared the sector related information and data with donor community, DFIs, Government agencies, consultants and the general public.

During the reporting period, MISFA developed several case studies, newsletters, quarterly reports and several other publications shared with relevant audiences.

MISFA also continued its advocacy efforts for

the sector at different levels. MISFA is a member of financial inclusion policy development committee led by the Da Afghanistan Bank (DAB), the central bank of Afghanistan, National Risk Assessment (NRA) committee led by DAB with the purpose of assessing the financial institutions policies and procedures in order to avoid money laundering, terrorist financing and other financial crimes.

MISFA is also an active implementing partner of Women Economic Empowerment - National Priority Program (WEE-NPP) and Comprehensive Agriculture Development- National Priority Program (CAD-NPP) and Women Economic Empowerment working group led by H.E. CEO's office participated by relevant ministries and government entities.

85% of microfinance clients had used the loan for business development purposes.



TUP is a grant based program designed to facilitate the escape of ultra-poor households from poverty.



Stories of Empowerment & Development

Looking forward to graduation

Following a stroke that paralyzed her husband, Sakhidad, Nooria, mother to their four children, had to become the breadwinner. She started selling bread baked in a Tandoor (traditional mud stoves), and bolani (bread with potato filling) in the village. And while Nooria was generating some income from this business, it was far from enough to feed her family.

“There were times when we could not cook for days,” said Nooria, recalling how desperate hers and her family’s situation was. Being among the poorest of the poor in her village in the Dehdadi district of Balkh province, , Nooria and her family were subject to marginalization. Her eldest daughter, she recalled, came home one day in tears after some neighbors had made fun of how she appeared by wearing her father’s footwear.

“Everything will be fine some day,” Nooria reassured her daughter. This promise

had started becoming a reality when she was selected as a beneficiary of MISFA’s graduation program called Targeting the Ultra-Poor (TUP).

TUP beneficiaries receive a comprehensive support package including productive livestock, monthly consumption stipend, skills training and awareness messages in order to escape abject poverty and achieve sustainable livelihoods.

Nooria was provided with a pregnant cow. Unfortunately, the cow died after delivery and Nooria got the second pregnant cow, which gave birth a month later. Nooria now sells the milk and convert some into yoghurt. On average, she sells five 800 ml. cans of milk, each priced at AFN 20, earning her AFN 100 a day.

In addition to livestock rearing, Nooria had diversified her sources of income. She had also started a poultry business. “I wish you were here for lunch,” she told project staff visiting her one afternoon “I could have given you cream, yoghurt and eggs.”

There was a time when school attendance of her children was problematic for Nooria because she couldn’t afford to buy them school supplies. Nowadays, all her children are attending school. “My children grew up under a lot of hardship. I’m just glad that I no longer have to worry about where to get the money to buy them school supplies; my daily earnings can cover such expenses,” said Nooria.

The true test of Nooria’s much improved position in life came when one of her

daughters had a devastating accident that severely injured her. Nooria was in a position to bear her treatment cost. Although she had to spend part of her savings on the treatment of her daughter, Nooria still has more than AFN 8,000 in savings left.

As TUP, a two-year intervention program, comes to an end next month, Nooria is looking forward to graduation, knowing that what it means is she is able to stand on her own, confident that she can continue providing a better quality of life for her family.



4. MISFA STRATEGIC PLAN 2019-2021

MISFA's Strategic Plan for 2019-2021: Key Priorities

- Continue to fulfill its core mandate and programs, and support those of its implementing partners in the next phase of the Strategic Plan.
- Further scale-up of its core programs, but also contribute to strengthening regulatory framework around financial inclusion, savings, and technology-based innovations.
- Proactive engagement with new/non-traditional potential partners, with enhanced efforts to identify clients' financial needs for both savings and loan products and future product design.
- Promote stronger collaborations among development finance stakeholders.

Sector staff capacity building will remain a key component of MISFA's core business, particularly when it comes to using technology in enhancing internal controls, automating microfinance and SME processes, risk and data management, and other anti-fraud measures.

MISFA's true strength, however, lies in its transparency and the trust it has built over the years among its development finance partners. Looking ahead, MISFA will continue building on this trust through regular dialogue and collaboration with donors and government agencies, as well as with its partner MFIs, AMA, and NGOs.



TUP's end goal for participants is to get them up to a status in life when they could be eligible to access microcredit from financial institutions, in order to establish their own small businesses.

5. CONCLUDING REMARKS

The key findings emerging from the Ministry of Economy's impact evaluation of the TUP pilot in Bamyan Province in 2010 are quite significant. Similarly, the independent review of microfinance in the past 10 years show positive impact on key economic indicators. These longitudinal studies provide the evidence that access to finance through these two projects have direct impact on job creation, women empowerment, and poverty reduction. Most significantly, the studies reveal that both MISFA's core programs have provided poor Afghans a social safety net, making MISFA an integral partner to the Government of Afghanistan, in sustaining socioeconomic growth within the country. The recommendations from these evaluations will guide MISFA's strategic plan to expand the outreach of financial inclusion by developing more demand- and context- driven financial products and services in the years ahead.



More than a third of the clients reported that sales, inputs, fixed assets, inventory and net income had increased since obtaining the first loan.

Stories of Empowerment & Development

From retailer to wholesaler

Fahim and his uncle have been partners in a cart production enterprise located in the Pul-e-Tasadi area of Mazar-e-Sharif. When they started out in this business, they had lacked the capital to further expand it.

The scenario started changing gradually after Fahim heard about microfinance services available in the city. Fahim approached OXUS Afghanistan for his first loan worth AFN 50,000.

The loan helped Fahim purchase more raw materials at a less expensive price. Following the repayment of his first loan, Fahim applied for a total of six more loans, each larger than before. Fahim's last loan is worth AFN 200,000. The microfinance loans allowed them to keep expanding their business and eventually transform it from a retailer to a wholesale business which accepts only large orders. Fahim's daily production ceiling reaches to around 75 carts. Fahim's income

has increased from AFN 15,000 to AFN 30,000 in a month.

Although, some basic machinery are being used for the business, production is done manually to a great extent and requires a lot of manpower. Fahim knows the potential for the business to thrive with more machines that could speed up production, not only to meet increasing market demand, but also to expand market coverage. Currently, Fahim supplies cart to Balkh and neighboring provinces Baghlan, Samangan, Kunduz and Jawzjan . In addition to Fahim and his uncle, six more people are now working at the business, each being paid a monthly salary of no less than AFN 10,000.

Once repayment of the third loan is completed, Fahim is planning to apply for an SME loan with a larger credit line to purchase metal sheets in bulk. This would allow him and his uncle to continue expanding their cart production business, but also have enough to sell some metal sheets to water tank manufacturers.

Understanding the importance of education, Fahim has invested heavily on the education of his two children. "I want my kids to be educated," said Fahim " Look at me, how long could I continue to work? Maximum 10 more years?" Fahim recognized that the

loans address not only the need for capital to expand his business, build savings and assets, but most importantly, it is giving his children a better chance at having a bright future.



6. FINANCIAL OVERVIEW

MISFA Ltd. Overall Financial Summary

For the period from April 1, 2003 to December 21, 2018

	01 Apr 2003 To December 21, 2018
	AFN'000
INCOME STATEMENT	
Interest & similar income	4,730,906
Operating grants	230,758
Other income	46,790
Total operating income	5,008,454
Administrative & other expenses	(3,232,977)
Operating profit / (loss)	1,775,477
Income tax expense on taxable profits	(313,936)
Operating profit / (loss) after tax	1,461,541
Grant income (grants for loan funds or MFI grants)	12,579,314
Exchange gain / (loss)	45,972
Grant expenditure (grants to MFIs for operating or equity)	(4,519,847)
Provision against loans and advances to MFIs & Banks	(1,683,181)
Provision for MFI shut-down costs	(39,638)
Finance cost (For IDA Credit)	(155,245)
TOTAL COMPREHENSIVE INCOME	7,688,916
CASH FLOW	
Inflows:	
Total comprehensive income	7,688,916
Share capital	100
Long-term loans	800,000
Total inflows	8,489,016
Outflows:	
Net Loans and advances to MFIs & Banks	1,568,823
Loan note investments in MFIs	(98,336)
Investments	-
Operating fixed assets	(49,083)
Working capital (amounts receivable)	3,795,022
Total outflows	5,216,426
NET CASH FLOW	13,705,442
Opening cash & bank balances	-
CLOSING CASH & BANK BALANCES	13,705,442

Source: MISFA audited financial statements covering the period April 1 2003 to December 21, 2018



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