

# Microfinance Investment Support Facility for Afghanistan



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MISFA, APS and MFIs senior officials discussing the integration with APS

## MISFA supports the launch of Digital Financial Services (DFS) and targeted product development for under-served groups

Although the exact implications of the Coronavirus pandemic on the economy is still unknown, the probability of devastating effects on the Afghan economy are high, based on the adverse impact being experienced by even the wealthiest nations around the world.

Micro, Small and Medium Enterprises (MSMEs) as a major driver of economic growth in Afghanistan are severely affected due to negative impacts on consumption, exports and remittances.

MISFA's decades-long investments in ensuring that low-income households can access financial services are part of a national social protection principle to reduce poverty, promote self-reliance, and build resilience to shocks, such as this Covid-19 pandemic.

Through its "Access to Finance" project, funded by the World Bank's International Development Association, MISFA is strengthening its partners'

capacity to scale-up financial services vertically and horizontally to a greater number of Afghans, in preparing for a sector-wide Covid-19 response strategy. Access to credit and industry-specific technical support, and other financial products and services would be one of the primary needs of micro- and SMEs to survive and recover their losses.

To ensure the availability of the tailor-made microfinance services across Afghanistan; MISFA signed grant agreements with partner Microfinance Institutions (MFIs) to support the integration of the MFIs with the Afghanistan Payment System (APS), the national e-payment switch of Afghanistan.

The integration would offer interoperability and connectivity among all the financial institutions including MFIs, state-owned banks, private/commercial banks, Electronic Money Institutions (EMIs) and Payment Service Providers (PSPs) across Afghanistan.

The integration will enable the MFIs to increase their outreach and reduce the cost of the services through innovative service delivery mechanisms such as branchless and mobile banking.

In addition to supporting the launch of DFS; MISFA also signed grant agreements with FINCA, OXUS and First Microfinance Bank-Afghanistan (FMFB-A) to develop tailor-made loan products for agriculture, women entrepreneurs and youth respectively.

The financial products will be developed based on comprehensive market assessments to be carried out by the respective institutions and will contribute substantially to financial inclusion, a high priority in the aftermath of Covid-19.

- **Scaling up financial inclusion through digital payment technology**

MISFA released grant funds to its partner MFIs to establish inter-operable systems with the National e-Payment Switch (APS), which will be adopted by private/commercial banks, Microfinance Institutions (MFIs), Electronic Money Institutions (EMIs), and payment service providers across Afghanistan, under the purview of the Central Bank.

For MISFA's MFI partners, this investment in Digital Financial Services (DFS) would eliminate some of the barriers to scaling up their services. Specifically, through DFS, MFIs are able to:

- Provide "branchless" services; and
- Expand their reach through mobile payments/banking.

Development finance has been serving predominantly urban areas across the country for decades.

This is in part due to the security issues in many of the rural parts of Afghanistan, which makes it unsafe and unsustainable for MFIs to open branches in such high-risk environments.

With DFS, MFIs will have the capacity to deliver financial services without needing to open conventional branches.

MFIs could scale-up its services to what were previously hard-to-reach communities through a set of technology channels, such as e-cards, point-of-sale (POS) systems, ATMs, mobile phones and other digital platforms.

- **Scaling up financial inclusion through products customized for rural farmers, the youth, and women**

MISFA recently awarded grants totaling more than 20 million AFN to three of its partner microfinance institutions: FINCA, First Microfinance Bank, and OXUS.

The grants are intended to develop and implement tailor-made loan products and services for three of the most under-served, often marginalized sub-groups among the low-income, unbanked Afghan population.

Afghans in agriculture and livestock, the youth, and women will soon be able to avail of credit and other financial services geared to meet their specific needs in starting or growing a small business.

- **FINCA: Financial inclusion of Afghans in the agriculture sector**

With an estimated 75 percent of the population reliant in part on agriculture livestock for livelihood, it has been important for MISFA and its partner MFIs to reach farmers and livestock breeders, and those working across the agriculture value chain.

With this grant, FINCA will develop a credit facility and other services, including digital platforms for business development support to farmers and agriculture-based entrepreneurs. This agriculture product line intends to address some of the prevailing challenges rural farmers face, that have prevented them from maximizing their earning potential and growing their livelihood.

Farmers need financial support to purchase high-value seeds, machinery, and other agriculture inputs, which are costly.

They also need technical support on sustainable methods of farming, modern equipment, livestock nutrition and husbandry that could raise their production. In addition, they need support to invest in cold storage facilities, as well as in marketing their products.

FINCA's grant will provide end-to-end financial services and business development support to this underserved segment of the population.

- **FMFB-A: Financial inclusion of the youth**

An estimated 64 percent of Afghanistan's population are under the age of 25 and according to the Ministry of Labor and Social Affairs, around 400,000 young Afghans enter the labor market every year. With rising university enrollments seen in the past several years, the public and private sectors are unable to absorb the newly graduates leading to high unemployment rates among the youth.

FMFB-A's focus on the youth population intends to promote, not only financial inclusion, but also entrepreneurship as a viable livelihood option for newly graduates and the young Afghan population as a whole. Securing start-up capital for a business is often perceived as a huge hurdle

to overcome by young people due to their young credit history, if any, or the absence or lack of collateral and guarantees that banking institutions require.

The youth population is also often perceived by lenders to be a high-risk group, given their lack of experience in business and management.

Through the MISFA grant, FMFB will be able to purposely engage young people economically and given their significant population size, they represent an untapped market and an opportunity to contribute to long-term recovery of the national economy.

- **OXUS: Financial inclusion of women**

Women entrepreneurs is a rapidly growing segment of the business population and the creative and entrepreneurial potential of women is a latent source of economic growth. Despite this increasing trend in women's participation in business, the percentage of female entrepreneurs remains low.

MISFA's grant will enable OXUS to develop a tailor-made financial product and services for women that takes into consideration their specific needs, including the lack of avenues for them to link their products to different levels of markets, to increase their earning potentials and the sustainability of their businesses.



*This is MISFA's quarterly newsletter. MISFA is a Limited Liability Company (LLC) established in 2003 as a vehicle through which the Afghan government and international donors could channel technical assistance and funding to build and strengthen Afghanistan's microfinance sector.*

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