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FROM THE AMERICAN PEOPLE



# MICRO MAG *issue 1*

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## Exclusive Interview with Mr. Rupert Scofield

An agricultural economist with 40 years of experience, Rupert Scofield co-founded FINCA in 1984 and has served as its President and CEO since 1994. He also serves as President and CEO of FINCA Microfinance Holding Company LLC, a first-of-its-kind, socially responsible investment partnership for microfinance.

Mr. Scofield has two Masters of Arts degrees in agricultural economics and public administration from the University of Wisconsin, as well as a Bachelor of Arts from Brown University. In March 2013, he received an honorary Doctor of Laws Degree from the University of Roehampton in the UK.



Q1: What is FINCA's vision for Afghanistan?

Structurally we are interested in becoming a deposit-taking financial institution for two reasons: one, we want to offer this service to our clients, and second because we feel it can be a good source of working capital where it increases our lending portfolio, which right now is exclusively financed by debt and equity.

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

We are not going to be doing all these at once of course, but we are interested in getting this going and that is why we are quite pleased

today to have reestablished our relationship with MISFA, because they have agreed to discuss technical assistance projects with us to develop some of these initiatives.

Q2: How do you see the current microfinance sector in Afghanistan?

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

Now in the case of FINCA, we

## Exclusive Interview with Mr. Rupert Scofield

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

Q3: How do you see the role of AMA in the promotion of the microfinance sector in Afghanistan?

The role of associations like AMA is absolutely critical. Each MFI in a country is trying to serve its clients, take care of its employees and solve all kinds of problems on day to day basis but there are other things that, if they are not attended to, could ruin the environment of the sector. Initiatives by government might affect the microfinance sector, sometimes deliberately and sometime unintentionally. But somebody needs to keep an eye on what is happening in the political arena and the legislature here, and that is where an association like AMA comes in. There is also a role for an association to be staying in touch with what is happening out in the greater world, who is coming up with an innovation in microfinance that can be brought to Afghanistan, and also what is happening in financial services that might come to Afghanistan and be a threat to the microfinance sector.

So I think there is a clear role there for any association whether at a country level, global level, and or confederation level. Things are going so fast, the more eyes and ears you have focused on these different issues the better, and if you can figure out how to bring more resources to the sector,

both financial and human resources, you can get some really healthy growth here in Afghanistan.

Q4: What do you recommend for further improvement of the microfinance sector in Afghanistan?

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

Q5: In your recent book "The Social Entrepreneur's Handbook" what messages do you like to convey to the readers?

My goal in writing the book is to inspire younger people who are thinking about getting into microfinance or enter some kind of social enterprise and really do

something in the world, do something with their lives that improve the world.

I wanted to share through my book that we need more people in this social enterprise space coming up with innovations, not just in finance but in renewable energy, saving the environment, education, water, and even things like people coming up with creative solutions for conflict and war. So the more people we can inspire and get excited about doing this kind of work, the sooner we get to some kind of sustainable world. We don't have much time, the world is overpopulated, it is contaminated, it is filled with dangerous weapons and even more dangerous people, so we have to take away the things that people fear. And the big thing we fear is poverty and deprivation.

Considering the importance of agriculture and livestock in the Afghanistan economy that accounts for 50% of the country's licit GDP and supports 85% of the population, it is an important focus area of FMFB-A. Access to finance for this sector is critical as it contribute to poverty alleviation and economic development. The Bank has been providing agriculture finance since the start of its operation in 2004. FMFB-A has worked with the support of MISFA/MAIL to adopt a client centric approach to its services and that substantial investments have been done on demand and customer satisfaction surveys.

As of September 2014, FMFB offers agriculture loans in over 60 districts in 12 provinces. The Bank has about 20,000 active agriculture and livestock borrowers with USD 18.2 million outstanding. Agriculture and livestock loans comprises 33% of the bank's overall portfolio in terms of outstanding value and 35% in terms of number of active borrowers.

At the moment, the bank offers two types of agriculture and livestock loans with three different repayment facilities - Regular, Grace Period, and Seasonal. Loans with regular repayments are designed for the clients who are based in rural areas but have regular incomes such as shopkeepers, retailers, and government employees. However, most of the clients in the agriculture sector of Afghanistan harvest only once a year. Examples include people involved in dry land farming or animal husbandry. Considering their income schedule, the bank provides up to 11-month grace period. Seasonal repayment facility is developed for the clients who have seasonal incomes. Farmers in

lowland areas such as Baghlan, Kunduz, and Takhar harvests up to three times a year and thus the seasonal repayment method is designed to meet their needs based on their seasonal incomes.

The Customer Satisfaction Surveys (CSS), which have been conducted by the third parties, indicate that most of the clients are pleased with FMFB-A agriculture loan products. The latest CSS findings show that 92% of the clients are satisfied and want to borrow from FMFB-A again and 91% of the clients have used the loans for productive purposes. Also 94% of the clients believe that the loans have helped them by raising their incomes.

The First MicroFinance Bank (FMFB) Afghanistan is part of the Aga Khan Agency for Microfinance (AKAM), which has programs in over 20 countries throughout the developing world. AKAM is an agency of the Aga Khan Development Network (AKDN), a group of not-for-profit international development agencies working in health, education, culture and rural and economic development, primarily in Asia and Africa.

FMFB-A provides credit and saving products as well as local and international payment services. The lending products are available for small businesses, house improvement, agriculture, and Small-Medium Enterprises and ranges from USD 500 to 100,000. With availability of financing services, the Bank also provides commercial banking services including domestic and international remittances.



*Social Performance Management Framework for Afghanistan and Code of Conduct for Afghanistan Development Finance Sector are two new initiatives of Afghanistan Microfinance Association (AMA) in the year 2014.*

### **Social Performance Management Framework for Afghanistan**

Supported by USAID's Financial Access for Investing in the Development of Afghanistan (FAIDA) project, Afghanistan Microfinance Association (AMA) developed a social performance management framework for Afghanistan in April 2014. The framework focuses on the followings areas:

- Financial inclusion and outreach with a particular focus on rural areas, women, and youth;
- Client protection with a focus on transparency, preventing over-indebtedness and ensuring the fair and ethical treatment of clients, and;
- Advocacy to build support for socially responsible and effective microfinance.

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

### **Code of Conduct for Afghanistan Development Finance Sector**

Afghanistan Microfinance Association (AMA) developed a code of conduct for the development finance sector in Afghanistan for the first time. The codes were developed in close consultation of AMA members, donors and stakeholders. The codes will be piloted by AMA member organizations and will be finalized based on feedback received from the pilot phase.

Afghanistan development finance sector has earlier seen a rapid growth focused on numbers – outreach, loan disbursed and outstanding. This resulted in unbridled growth and competition, multiple lending to clients, ghost clients resulting in a negative opinion about microfinance and a subsequent exit of some microfinance institutions.

With an intent of not repeating the past mistakes, and move ahead with focus on a client centric approach and healthy competition, Afghanistan Microfinance Association (AMA), its members and Microfinance Investment Support Facility for Afghanistan (MISFA - the microfinance apex) have realized the need to have a Code of Conduct defining fair practices and values for implementers, to protect clients and the development finance institutions, and mutual trust among clients, DFIs, Regulators and Donors.

## New Products - Introduced by MFIs

### FINCA Afghanistan Introduces 'Emergency Credit Line' Product

FINCA Afghanistan designed the Emergency Credit Line (ECL) to meet the emergency needs of borrowers.

The emergency situations are defined as:

- ✓ An unexpected medical situation.
- ✓ Housing improvement emergency.
- ✓ Emergency obligations: school tuition payment, weddings, family member death expenses and etc.
- ✓ Car repair needs.
- ✓ Unexpected utility bills payments to stop service interruption.
- ✓ Purchasing of home/business assets such as furniture, electronics and etc.

The client who likes to be benefitted from this product should be a citizen and resident of Afghanistan and 18-65 years old. Must have an income. The loan size and term is AFN 25,000 – 100,000 and 6-12 months respectively. Financial and or family guarantors can guarantee the loan which the guarantors should be citizen and resident of Afghanistan, age between 18-65 years old and must have an active business. Repayment method is annuity (monthly).

### Zahra Product of OXUS Afghanistan

The name Zahra is adapted from the name of the Holy Prophet Muhammad PBUH's daughter, Saidatina Fatima Az Zahra RA, and means 'the shining one'. The Zahra program is offered by OXUS Afghanistan on behalf of Agriculture Development Fund (ADF) and is specially aimed at existing small to medium – scale enterprises either operated by individual entrepreneurs or cooperatives. The financing is not aimed at start – ups, but instead at providing support to strengthen already existing businesses.

Compared to a standard product proposed by OXUS, the Zahra products are Sharia Compliant and have been approved by the ADF Sharia Advisory Board (SAB). Not only are these products free from interest, they also abide by the other principles outlined in Sharia.

Although any enterprise in the Agri business could qualify, the main subsectors are considered to be

those in which women are typically active: annual and perennial horticulture, livestock husbandry and agro – processing.

Since start of the program on March 2014, OXUS Afghanistan disbursed Zahra loans to 199 clients valued more than AFN 10 million and the portfolio at risk is zero. The major portions of these loans have been disbursed in the rural areas such as Qaysar, Maymana and Andkhoy districts of Faryab province and Bamyan province.

Under the Zahra program a combination of four different Sharia product is offered which can be used on stand - alone basis or in combination. However, in the event multiple instruments are used to meet the client's requirement these may not be conditional on each other. These products are; Zahra Murabaha, Zahra Wakala, Zahra Ijara and Zahra Qard Hassanah.

## Workshops

### Workshop on Improving Livelihood through Microfinance in Afghanistan

AMA organized a one day workshop on Improving Livelihood through Microfinance in Afghanistan jointly with ACTED's promoted Afghanistan Livelihood Network (ALN) on August 27, 2014 at Park Star Hotel. A total of 120 delegates from 45 organizations attended the workshop. The participating organizations included Government Ministries, UN Agencies, national and international NGOs, MFIs, CSPIs and donors.

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

Mr. Najibullah Samim the Executive Director of AMA had a presentation on AMA functions, activities, achievements and on the status of microfinance in Afghanistan.

Representatives from Afghanistan Rural Enterprises Development Program (AREDP), National Skills Development Program (NSDP), Ministry of

Agriculture, Irrigation and Livestock (MAIL), Agriculture Development Fund (ADF), Ministry of Women Affairs, Ministry of Counter Narcotics, First Microfinance Bank (FMFB), FINCA Afghanistan, Swedish Committee for Afghanistan (SCA), Islamic Investment and Finance Cooperatives (IIFC) Group, and OXUS Afghanistan had separate presentations relevant to the workshop topic.

There were also two panel discussion moderated by Mr. Samim and Ms. Garewal.

The participants thanked USAID's FAIDA project for funding the workshop and AMA and ALN for organizing the workshop.

By end of the workshop, participants requested for follow up sessions on specific topics to make linkages between these projects and particularly with microfinance institutions.

UN-FAO, Ministry of Labor, Social Affairs, Martyrs and Disabled and Ministry of Counter Narcotics, in addition to other NGOs, showed their interest to have further discussions with AMA.



## Public Credit Registry in Afghanistan

A modern credit-based economy requires access to complete, accurate, and reliable information concerning borrowers' payment histories. Key features of a credit information system should address the legal framework, permissible purposes, privacy, integrity, consumer rights and supervision.

Afghanistan had never experienced credit information sharing system as centralized database in electronic platform prior to the establishment of the credit registry in December 2013. A traditional process of credit information sharing was in place through a manual system using paperwork which did not fulfill the requirements of a standard credit report.

Financial Institutions were making lending decisions without analyzing credit history of borrowers as there were no credit reports.

Considering the need to have an electronic platform of credit information sharing system in Afghanistan; World Bank, International Finance Corporation, Central Bank of Afghanistan (Da Afghanistan Bank), and HAKARAT have come together for the establishment of the first Credit Information Bureau called "Public Credit Registry" in Afghanistan.

Da Afghanistan Bank (DAB) launched a full electronic Credit Information Sharing System known as Public Credit Registry (PCR) on December 16, 2013 for the first time in Afghanistan. The system is fully automated based on international best practices. PCR will enable potential borrowers to have access to finance and increase credit penetration in Afghanistan. The system is helping financial institutions to have enough online information about the customers and their guarantors

to make better-informed decisions. On April 1, 2014, Public Credit Registry department of DAB introduced its first online Credit Report, which is considered a historic success for the financial sector in Afghanistan. PCR online reports will help lending sector to reduce fraudulent applications for credit, provide a consumer with the ability to assemble a positive lending history, reduce their cost of borrowing, and increase access to credit that enable banks to better control credit risks.

The registry is governed by Credit Reporting Regulation and currently the database is populated with more than 30,000 credit contracts which includes conventional and Islamic Finance advances. The existing subscribers of the registry comprise of all 16 commercial banks in Afghanistan and the registry office is working closely with the Afghanistan Microfinance Association (AMA) to begin utilizing the registry for its member organizations (MFIs).

Seven members of AMA that are directly dealing with credit are now in the initial stages of utilizing the system. The PCR organized a two-day workshop on August 24-25, 2014 for AMA members to generally discuss about the functional framework of PCR, Credit Reporting Regulation, and live demonstration of the system. After this workshop a kickoff meeting for discussing further processes and a three-day technical workshop was held to understand fully how the system works and how the data is collected and uploaded.

Furthermore, PCR will create online users for the focal points of these seven MFIs to start uploading their data, first to the test system and then when everything goes well, so the MFIs are able to utilize the live system.



## Members Feedback Survey

To get its members' feedback on the activities AMA has been doing since its rejuvenation in April 2011, and their input and suggestions for future activities and initiatives, AMA conducted Member's Feedback Survey in September 2014. The survey was administered by the Social Enterprise and Education Promotion (SEEP) Network using its worldwide recognized toolkit (MFT). The toolkit was customized in line with AMA activities and functions.

This is the first time AMA conducts such a survey where all its 15 members participate and respond with interest and enthusiasm.

The survey outcome shows that:

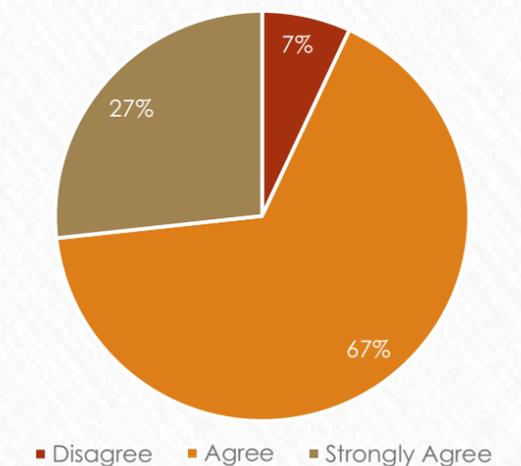
- Information exchange/communication, sector coordination and networking and trainings and workshops are among the services that more than 87% of the respondents ranked as good and excellent.
- According to 90% of the respondents, almost all AMA current services are valuable for their organizations.
- 93% of the respondents' overall experience with AMA has been satisfactory.
- Advocacy, access to donors/investors, research/studies and social performance management are the services that needs further improvements and focus.

The findings of the survey will be used as an input for the development of AMA's five year strategic and sustainability plan (2015-2019).

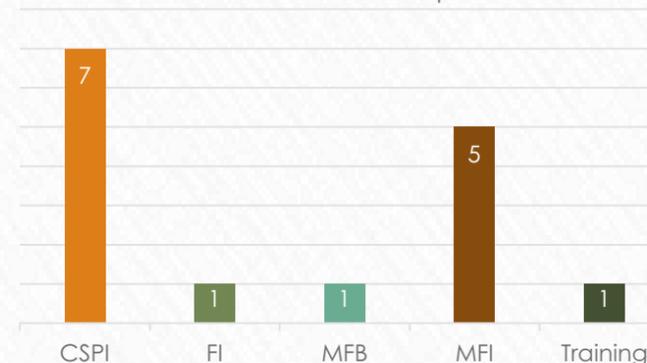
Building on the first survey, AMA will conduct such surveys every other year to get its members feedback, making sure the provision of demanded services with quality.

AMA acknowledges SEEP Network's support and also is grateful to its members for taking active part in completing the survey.

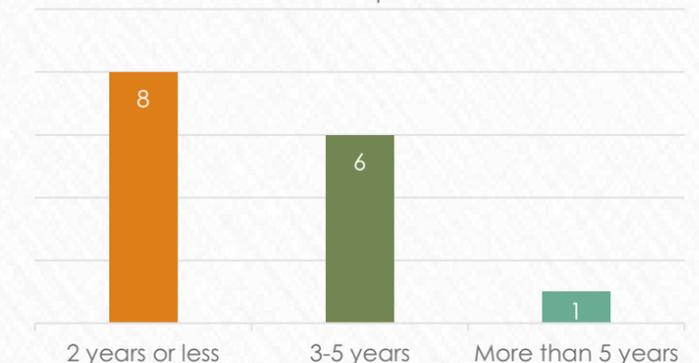
Overall experience with the network has been satisfactory



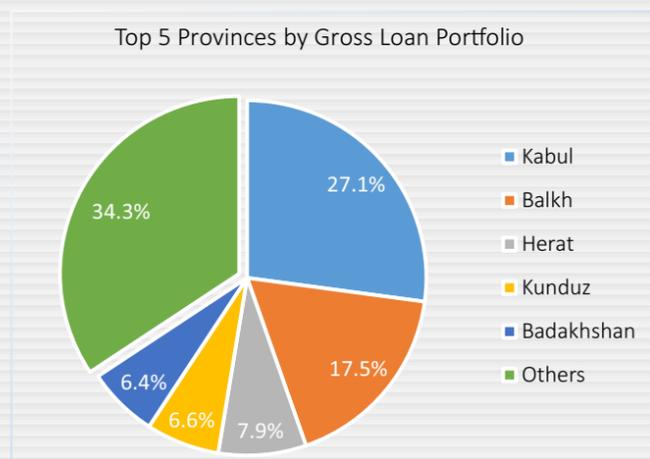
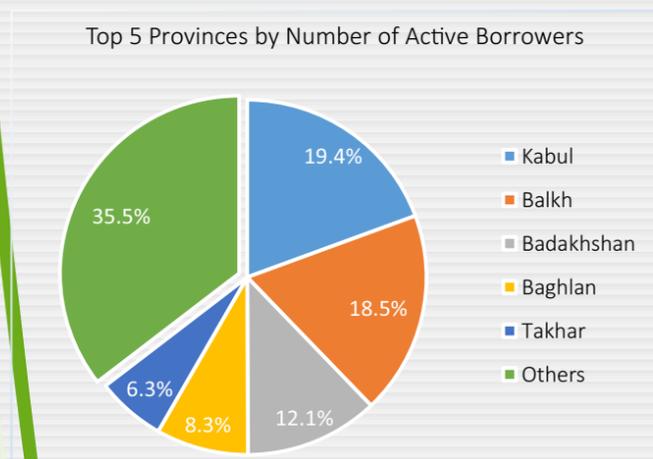
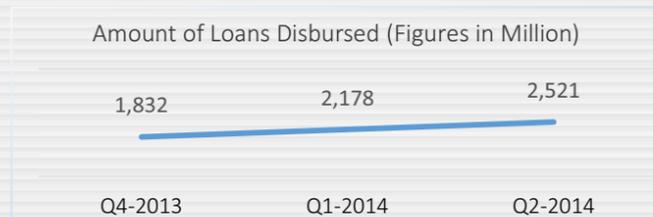
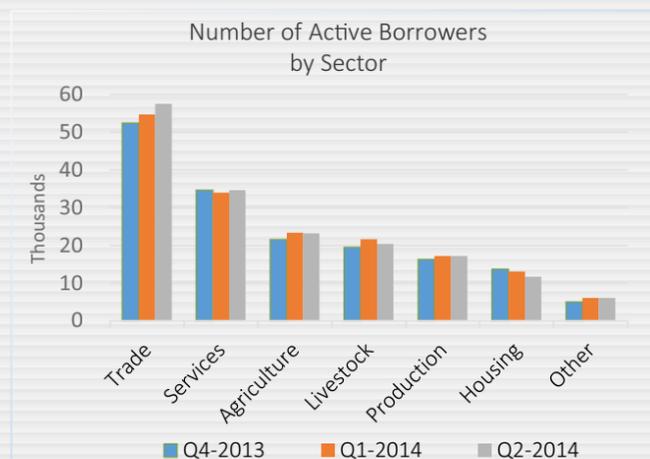
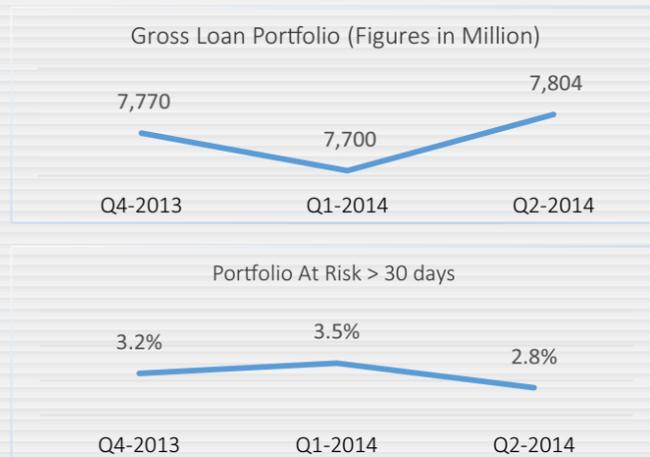
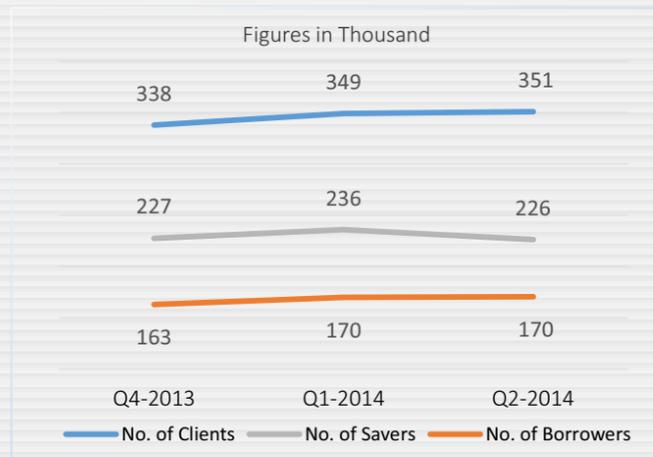
Institutions Participated



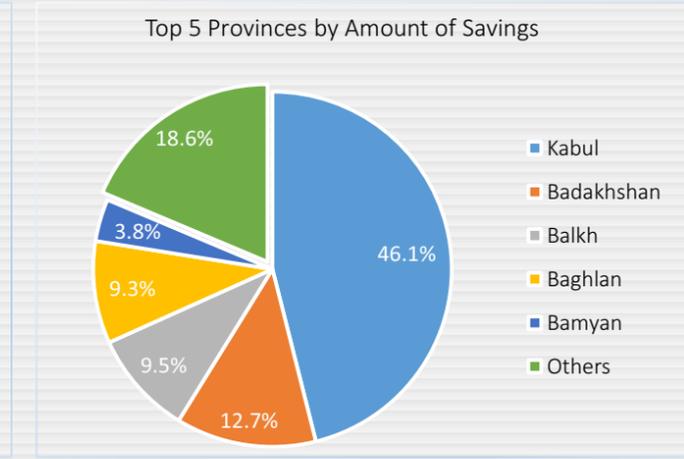
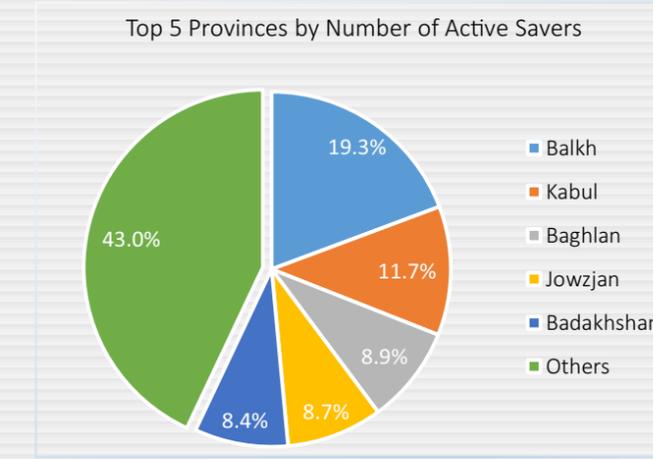
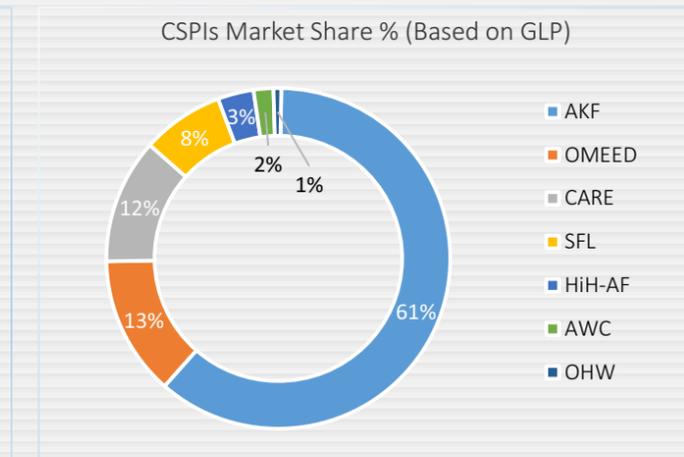
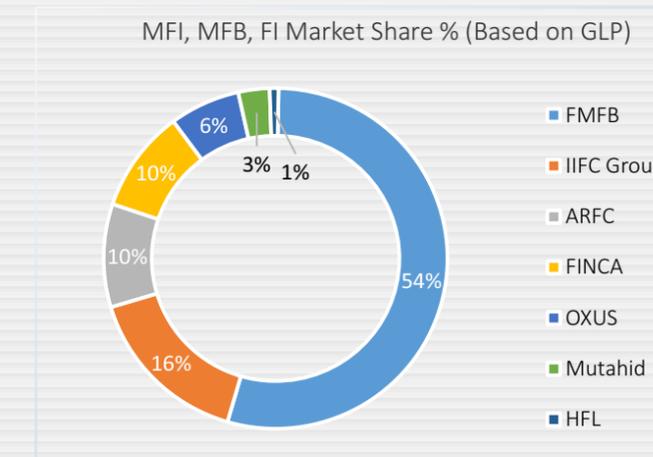
Membership with AMA



# Afghanistan Development Finance Sector Analysis



# Sector Analysis



Microfinance industry in Afghanistan after almost 10 years from its start, with lots of ups and downs, over the past few years witnesses positive growth and that is because microfinance providers considering the past experience and best practices are now moving towards sustainability. But still, security and some other factors are the challenges ahead of these institutions.

Looking at three previous quarters and comparing; the number of overall clients in the sector increased from 338 thousand in quarter 4 - 2013 to 351 thousand in quarter 2 - 2014 which shows enthusiasm of people valuing to these services (loans and savings).

Portfolio of the sector increased from 7.77 billion to 7.8 billion in the matter of two quarters. Looking at the portfolio at risk, it reduced from 3.2% and 3.5% in quarter 4 - 2013 and quarter 1 - 2014 to 2.8% in quarter 2 - 2014.

Trade sector has accounted 34% of the number of borrowers followed by Services with 20% and Agriculture with 14%.

Based on portfolio outstanding, FMFB Afghanistan with the market share of 54% is on the top followed by IIFC Group with 16% and ARFC and FINCA Afghanistan 10% each.

### International

#### Inclusive Microfinance Conference

Type: Event

Event Location: Kampala, Uganda

Event Date: November 11-12, 2014.

#### SAMN Regional Conference

Type: Event

Event Location: Islamabad, Pakistan

Event Date: November 18-19, 2014.

#### Microfinance India Summit

Type: Event

Event Location: New Delhi, India

Event Date: December 8-9, 2014.

#### Livelihoods Asia Summit

Type: Event

Event Location: New Delhi, India

Event Date: December 10-11, 2014.

#### Microfinance - Financial Services for the Poor

Type: Training

Event Location: Dhaka, Bangladesh

Event Date: November 1-7, 2014.

### National

#### Renewable Energy Summit

Type: Event

Event Location: Kabul, Afghanistan

Event Date: December 2014

#### Third Access To Finance Exhibition

Type: Event

Event Location: Kabul, Afghanistan

Event Date: January 2015

#### AIBF Courses/Trainings till December 2014

- Customer Relationship Management
- Branch Management
- Credit Appraisal
- Loan Portfolio Management
- Microfinance Forum
- Financial Statements Analysis
- Effective Communication
- Delegation and Supervision
- Internal Control and Auditing
- New Product Development
- Basic Microfinance

### Micro Enterprise Loan brought Stability in a Business



Mohammad Raziq Attaye, a 32 years old man, is involved in carpets threads dyeing since 10 years. He is married and has a son and daughter who are in school in nearby to their house. He has been in his own village in the past before coming to Kabul.

He passed difficult times; his two brothers have been killed during war and he was jobless on that time and decided to become apprentice with the owner of a carpet weaving company. In the beginning, he referred to First Microfinance Bank (FMFB) and got AFN 50,000 through which he started to buy few carpet weaving sets which he then increased the number of his sets with the repeated loans. So far he has 60 carpet weaving sets which he leases them to other women to weave carpets in their houses.

The different loans which he has received during few years from FMFB ranges from AFN 50,000 to AFN

250,000 which he spent all in increasing the number of carpet weaving sets as well as to buy silk and dye material.

Through this activity he could hire 70 women to do carpet weaving and usually pay them wages, ranging from AFN 5,000 to AFN 40,000, based on sizes of the carpets which they weave.

Recently he also started to sell the weaving sets to some women to help them do the weaving of carpets and rugs with their own sets, he only sells them the raw material and they can sell the carpets when finished to anyone who offers better price.

The loans which he received made some positive changes in his life; he could buy land and married twice as his first wife died due to a sickness she had.

His monthly income has also increased from AFN 5,000 to AFN 60,000 and his monthly family expenditure has also significantly increased from AFN 3,000 to AFN 20,000.

In future, he plans to have contract with some companies to directly sell them, carpets and rugs.

The positive changes which the business made in his life were the purchase of car which he has rented to a Korean construction company, the expenditure of his marriage, and his house construction.

His suggestion is to have future loans with bigger sizes and longer duration as well as lower interest rates, because this would bring more efficiency in the development of client's business.



## About ARFC

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

## Products & Services

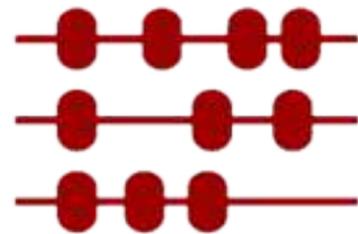
ARFC is providing Islamic banking services such as Murabeha and Musharakah Mutanaqisah and can help you with Islamic Murabeha and Musharakah Mutanaqisah Loans to Support Your Business in Sectors of (Production, Services, Trade & Construction).

### Islamic Banking conditions:

- Provision of goods,
- Provision of machineries for production,
- Provision of Raw Material,
- Provision of Construction machineries and equipment,
- Purchase of Vehicles,
- Agriculture business Investment in Storage, Processing and Marketing Facilities, and
- Provision of Special Murabeha loans for women businesses from \$5,000-\$100,000 and for other Murabeha and Musharakah Mutanaqisah loans from \$20,000-\$500,000.

### Islamic Banking Terms:

- For Trading Companies from 6 months up to 24 months/monthly repayment,
- For Production Companies for purchase of Raw material from 6 months up to 24 months/monthly repayment,
- For Production Companies for purchase of machineries from 6 months up to 36 months with 3 months possible grace period,
- For Service Companies from 6 months up to 24 months with monthly repayment, and
- For Construction Companies from 6 months up to 12 months/monthly repayment.



**ARFC**

## Photo Gallery

