AMA
Afghanistan Microfinance Association

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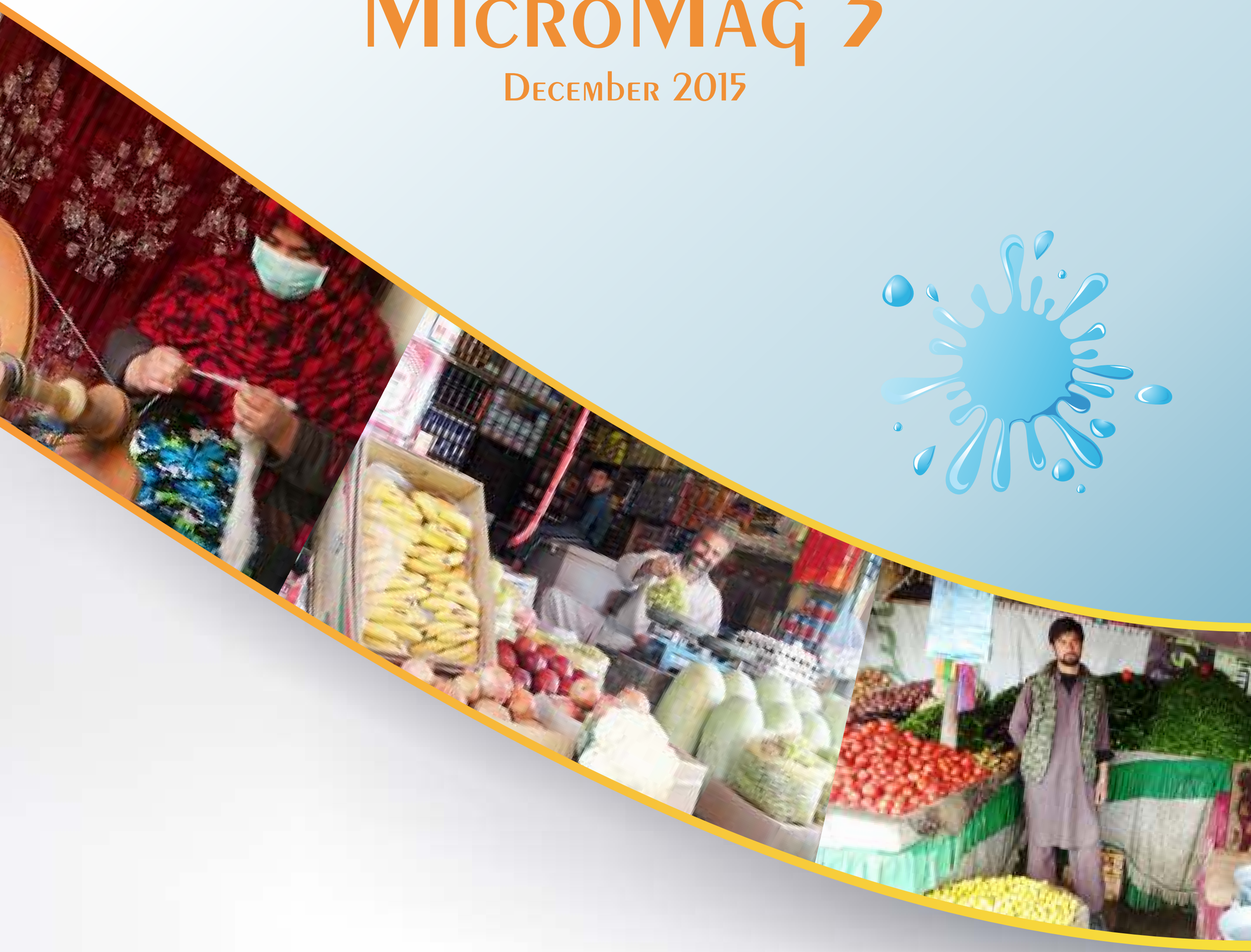


MISFA LTD
Microfinance Investment Support Facility for Afghanistan

Study on the Status of CSPIs in Afghanistan

In November 2015, AMA conducted a study to determine the status and potential of Community-based Savings Promoting Institutions (CSPIs) in Afghanistan, as an alternative model to provide sustainable access to financial services to poor people in rural and remote areas. Twelve CSPIs, two formal financial institutions, one microfinance bank and one telecom provider participated in the study, while 200 representatives of the saving and credit groups were interviewed.

The majority of the CSPIs (92 percent) provided some kind of training, including literacy, business and vocational training with less than half (42 percent) charging some kind of fee, such as interest, loan fee or profit sharing. Sixty percent of the borrowers were women. However, the challenges continued for the CSPIs because they remained dependent on donors while they lack long term funding and efficient working exit strategies. Security threats and long distances also hampered the deliver capacity of CSPIs.

The study report, finalized in January 2016, confirmed that the CSPIs play an important educational, awareness-building, capacity-building and cultural change role in the remote communities, but they lack institutional capacity and long-term business models to further enable their target groups' financial inclusion. The report concluded that a gradual merger of CSPI and MFI sectors would be necessary in order to end the banking exclusion of remote communities.

The study was funded under Access to Finance project implemented by MISFA. The detailed study report can be found on AMA website.

AMA Advocacy Efforts

One of the key priorities of AMA and its members, is to promote financial inclusion by creating an enabling environment for the development of the sector in Afghanistan. AMA, being the association of Development Finance Institutions, advocates on behalf of DFIs to influence government, legislators and other relevant stakeholders at national and regional levels. With this view in mind, AMA organizes meetings with the government top officials, provincial Governors and department heads to inform them about sector achievements, issues and challenges and to attract their support to cooperate with DFIs when needed.

During the second half of 2015, AMA organized meetings with the Governors of Takhar and Baghlan, as well as with the Deputy Governor and Mayor of Herat Provinces. These meetings aim to sensitize the provincial stakeholders and enhance their understanding on development finance to a great extent.

The meeting with the new Mayor of Herat province was organized in October 2015; representatives of DFIs also attended the meeting and briefed the Mayor on the achievements of the development finance sector in Herat but also on the challenges that DFIs face in the province. The regional coordinator of AMA, that was leading the delegation, asked for the Mayor's support to the DFIs in order to overcome the challenges. The Mayor expressed his satisfaction on the achievements of the financial sector and confirmed his support to AMA and DFIs, whenever it would be required.

In June and November 2015, the AMA West and Northeast Regional Coordinators, along with the representatives of DFIs, met with Deputy Governor of Herat province, and with the new Governors of Takhar and Baghlan provinces.

The AMA Regional Coordinators provided information on the activities of the AMA in these provinces and on the latest achievements of the microfinance sector in Afghanistan. Both Governors and the Deputy Governor, were briefed by the DFI representatives on the organization's activities and its role in job creation and poverty alleviation through provision of loans to entrepreneurs. The representatives highlighted the main challenges they face in the implementation of DFIs activities and solicited the support and the cooperation of the Governors and Deputy Governor.

The officials acknowledged the various challenges-especially those related to security- and praised the DFIs efforts to support the government in the implementation of income generating activities.

The meetings with the provincial stakeholders opened a direct channel of communication between the DFIs and the local authorities; both Governors and Deputy Governor recognized the efforts of the development finance sector and promised not only to support the DFIs and AMA but also to advise all relevant departments in their administration to facilitate and support development finance initiatives.

In addition to the above mentioned advocacy efforts, AMA also organized eight Program Awareness and Program & Legal Awareness Meetings for relevant government officials and community elders in Samangan, Balkh, Herat, Jawzjan, Badakhshan and Takhar provinces to enhance their awareness about the program and attract their support.

A total of 364 government officials and community elders participated in these meetings. The participants confirmed their support to DFIs.

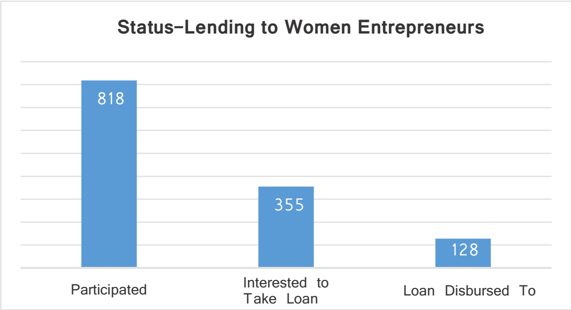
Women Access to Finance - An Update

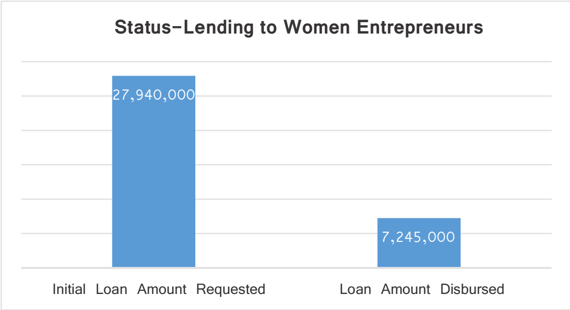
Since the took over of the responsibility of organizing Women Access to Finance and Islamic Finance Workshops from the USAID's Financial Access for Investing in the Development of Afghanistan (FAIDA) project in April 2015, AMA has conducted 16 workshops in 11 provinces. A total of 818 women entrepreneurs participated in these workshops; 355 expressed their interest to apply for AFN 27,940,000 (USD 410,882) loans from Microfinance Institutions (MFIs). Immediately after each workshop, AMA followed up with women entrepreneurs that wished to participate in the loan scheme and negotiated with MFIs to facilitate the requested loans.

As of December 31, 2015, MFIs disbursed 128 loans of a total amount of AFN 7,245,000 (USD 106,544) to women entrepreneurs.

AMA, with the support of USAID's FAIDA project, will be organizing such workshops in close collaboration with the Department of Women Affairs in the provinces, in order to promote women access to finance opportunities.

Through this training, AMA seeks to encourage women to become entrepreneurs and to gain confidence to expand their existing ventures. The overall aim is to promote entrepreneurial spirit among Afghan women, to provide information along with advice on tools that would help start-ups as well as growing business and bring together women from different walks of life to share their experiences and learn from each other.

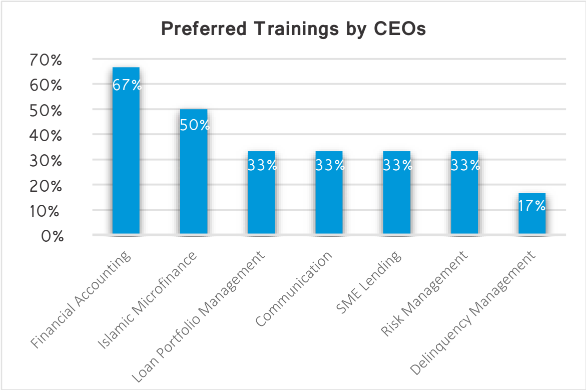




Second Training Needs Assessment (TNA) of the Sector

Afghanistan Microfinance Association (AMA) conducted the first Training Needs Assessment (TNA) in 2012 with the objective to identify the key capacity building needs of the Afghanistan Microfinance sector at different management levels. The findings of the assessment were summarized in a 2012 report, which provided useful information for sector practitioners, training providers and stakeholders. Based on the findings and recommendations of the report, the Afghanistan Institute of Banking and Finance (AIBF), tailored its training calendar and started delivering trainings accordingly.

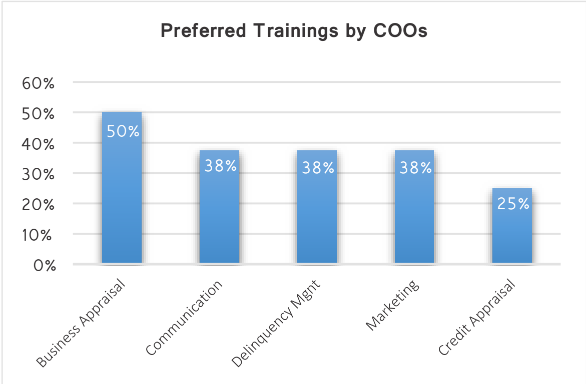
With the AIBF based in Kabul, it was becoming increasingly difficult to train employees of the Development Finance Institutions (DFIs) that were located in the provinces. In July 2015, AIBF and AMA signed a Memorandum of Understanding (MOU) to jointly organize trainings for DFIs staff in the provinces; the two institutions also collaborated in organizing a second TNA in August-September 2015 that would identify the capacity building needs and demands of the sector and would indicate ways to address them effectively.

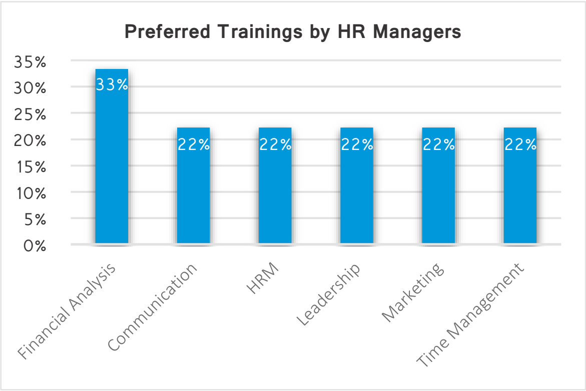


The assessment highlighted the high demand for trainings at provincial level, with more than 1500 employees citing the lack of training as their most urgent need while almost all the responders commented that low level of staff capacity and technical skills in respective fields hampers growth prospects of the development finance sector.

Nine out of ten HR Managers recommended trainings for operations and middle management staff; 56 per cent of them recommended trainings for junior management staff while only 11 per cent recommended trainings for senior management staff. Despite the high demand, only 67 per cent of the institutions have training departments.

The detailed assessment report can be found on AMA website.





'Khana' - Safe Incremental Housing Project by The First Micro Finance Bank (FMFB)

Every person has the human right to secure a decent place to live, which is fundamental to living in dignity, to physical and mental health, and to overall quality of life. But many years of war and political instability in Afghanistan have left the country in ruins and for whole segments of the society having decent housing, remains only an elusive dream.

The Khana loan initiative by FMFB-Afghanistan and Aga Khan Agency for Microfinance (AKAM) aim to change that.

In August 2009, The Aga Khan Foundation-USA, AKAM and FMFB-A, all agencies of the Aga Khan Development Network (AKDN), launched a $2.2 million program to scale up housing microfinance in Afghanistan. The initiative was funded with $991,100 from USAID and $1.2 million from AKDN.

By the end of August 2015, FMFB-A had disbursed a cumulative total of 35,568 housing improvement loans valuing $59.8 million.

Khana Loan:

The Khana Loan initiative aimed to address the housing gaps in Afghanistan by providing Housing Microfinance bundled with Construction Advisory Service (CAS). The program also sought to significantly improve the quality of housing by advising loan clients on the selection of building materials, construction techniques, innovative methods and interventions for improving the safety and quality of their living environments. The FMFB-A team, in partnership with Aga Khan Planning and Building Services (AKPBS), developed the internal capacity of branch and head office staff, to provide construction appraisal and advisory services. The team also set out to promote innovative housing upgrades that address earthquake resistance, sanitation, ventilation, energy efficiency, and limited infrastructure.

Terms and Conditions:

- All Afghan nationals, 18 years and above, are eligible for the housing loan.
- The loan ticket ranges from $200 - $5,000 and the maximum tenure is 24 months.
- The financing is designed for home repairs, structural changes, new home completion and upgrades and/or connections to basic utilities such as water, electricity, insulation as well as solar energy installation, and hygienic improvements such as septic tanks.
- It is mandatory that the home should be the primary residence of the client.
- The clients are expected to make monthly installments and a grace period is offered depending on the clients' income pattern.
- FMFB-A accepts household items and land title deeds document, livestock and savings with the bank as collateral. This product is coupled with complimentary CAS to all interested borrowers.

Meet Our Member!

'We believe in your abilities'

OXUS-Afghanistan was found on 2007 and is a wholly owned subsidiary of OXUS Holding, the investment vehicle of the OXUS Group. The OXUS Group was itself created in 2005 at the initiative of ACTED, a humanitarian non-governmental organization headquartered in Paris, which remains the group's majority shareholder. OXUS has the mission of providing financial services to the working poor and the under banked and aspires to improve the sustainable livelihood of its customers.

OXUS-Afghanistan has a portfolio of over US$10.6 million with an outreach of about 18,200 customers managed through 16 branches in 10 provinces to fight poverty through the provision of microfinance services and protecting and improving the lives of its clients while achieving solid financial results. Staff members of OXUS-Afghanistan are proud to offer adapted and socially oriented financial services to populations who are often excluded from the traditional banking system.

OXUS is dedicated to build teams of recognized professionals, create and provide the most efficient microfinance services. OXUS-Afghanistan provides conventional and Islamic financing and has group loans, individual loans and small and medium enterprises which helps Afghanistan people to have access to finance. In addition, OXUS-Afghanistan is financing women to empower Afghan women and youth entrepreneurs through Microfinance and financial support. OXUS-Afghanistan believes to empowering system and provides loans and financial support business ideas that serve the rural communities and low income families and create jobs and services.

OXUS Afghanistan Products

1. Agriculture Murabeha Agreement
2. Group Loan
3. Individual Loan
4. Small & Medium Enterprise
5. Social Loan
6. Salary Loan
7. Gold Loan
8. Staff Loan

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Exclusive Interview with Mr. Jeffrey Smith

Jeff is the Global Chief Auditor and the Chief Risk and Compliance Officer at FINCA International, a global, non-profit microfinance institution headquartered in Washington, DC, USA and executing its mission in 23 countries globally.

He has nearly 40 years of experience in auditing, finance, accounting, risk management, internal control and regulatory compliance. He has led the many restructuring efforts of global audit, risk management and compliance departments, as well as, many global efforts implementing effective risk controls and compliance monitoring systems.

Jeff has worked in both the public and private sectors, and has been an independent consultant and held positions globally at Citibank and Ford Motor Company. Most recently, he was the Chief Auditor at Rotary International.

Jeff is a Certified Risk Professional and earned a Master's degree in Business Administration from Wayne State University (Detroit, Michigan, USA) and a Bachelor of Business Administration from Eastern Michigan University (Ypsilanti, Michigan, USA).

Q1: How important is the risk management in microfinance institutions operations?

It is critical. Risk Management has the key function of monitoring liquidity, capital adequacy, interest rate risk, market, and credit risks. The countries we operate within can have volatile economies coupled with regulatory actions (e.g., interest rate caps) and foreign exchange risk provide strong headwinds for MFIs and a strong risk management function can provide some advance warning and rapid reactions. In addition, MFIs require strong internal control and compliance processes to manage strategic operational and regulatory risks.

Q2: What factors should the MFIs consider to mitigate risk?

First is establishing basic block and tackle internal controls. Next is investing in a strong internal control and internal audit departments. The Internal control department should be looking at the day-to-day operations for compliance with established policies and practices. The internal audit department should ensure the internal control department has a strong process and then focus on more strategic areas, including head office functions, new technology efforts, support service and data centers, etc. Next the MFI should invest in an enterprise risk management process that is based on quality data that must be accessible, accurate and timely.

Q3: What are some of the common risks that MFIs are exposed to?

Liquidity shortages, inadequate regulatory management, weak credit monitoring, market disruptions, weak project management process for technology investments, turnover in key positions, poor succession planning, under trained staff, political environment changes, maintaining capital adequacy, growing dependence on third-parties (vendors and partnerships) flaws in operations, and fraud.

Q4: What risk mitigation mechanism FINCA international follows in its subsidiaries including Afghanistan?

We have a number of risk mitigation techniques. Our practice is to decentralize the risk management function and provide global oversight through establishing minimum global standards that must be achieved. Subsidiaries are encouraged to exceed the minimum global standards as necessary. We have implemented a strong governance process with subsidiary board of directors and appropriate committees (Risk, ALCO, Audit, etc.). We have established ALCO (Asset & Liability management committees), for monitoring liquidity, market, foreign exchange, risks and capital adequacy. We have internal audit and internal control departments, and subsidiary risk managers, compliance officers, and legal counsel. Also, we have a strong anti-fraud program designed at early identification and minimization.

Q5: As a risk management expert, what do you recommend to MFIs in Afghanistan to mitigate their risks?

I recommend for the MFIs to invest in risk management and overall control processes, ensure a proper governance structure is established, adequate succession planning and training is in place, codify the risk management expectations in corporate policies, monitor compliance with policies, and improve data quality to ensure that decisions are focused on the correct facts.

Q6: Any other information you may want to share.

I want to thank you for opportunity to share my thoughts on the importance of risk management for MFIs. It should not go unsaid that a strong risk, internal control and compliance process is every employee's responsibility and the ultimate accountability falls on senior management to place these mechanisms in place.

FINCA Afghanistan

One of the strategic priority for FINCA Afghanistan is continue providing better clients services. Our branches (Kabul, Parwan, Sarepul, Shaberghan, Samangan, Baghlan, Takhar, Kunduz, Badakhshan, Mazar Sharif, and Herat) footprints are available across the country to facilitate and satisfy the financial needs of our clients. We value our clients' inputs for the advancement of our services to them. Our ultimate focus is to alleviate poverty and improve the lives of the people of Afghanistan through lasting solutions to assist people in building businesses and creating jobs.

For further information about our products and services please call our hotline at: +93(0)752 075 019 or visit our website at www.finca.af

International Events & Trainings

Professional Certificate in Microfinance

Type: Distance Learning

Event Location: London, United Kingdom

Date: Jan 01, 2016 - Apr 01, 2016

Financial Inclusion to Sustainable Development

Type: Event

Event location: New Delhi, India

Date: Mar 8 - 9, 2016

Digital Finance for Microfinance Institutions (D-MFI)

Type: Training

Event Location: Nairobi, Kenya

Date: 14 Mar 2016 - 18 Mar 2016

Making Microfinance Work: Managing Product Diversification

Type: Training

Event Location: Turin, Italy

Date: 14 Mar 2016 - 18 Mar 2016

18th Microcredit Summit

Type: Event

Event Location: Abu Dhabi, U.A.E.

Date: 15 Mar 2016 - 17 Mar 2016

12th Annual Global Microfinance Forum

Type: Event

Event Location: Berlin, Germany

Date: 17 Mar 2016 - 18 Mar 2016

Risk & Fraud Management in Digital Financial Services

Type: Training

Event Location: Nairobi, Kenya

Date: 04 Apr 2016 - 08 Apr 2016

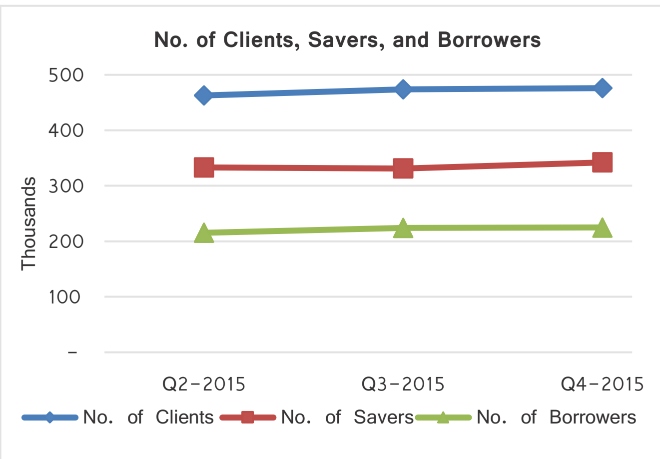
Product Development Accelerator (PDA)

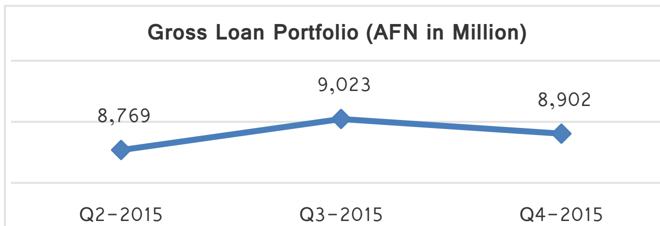
Type: Training

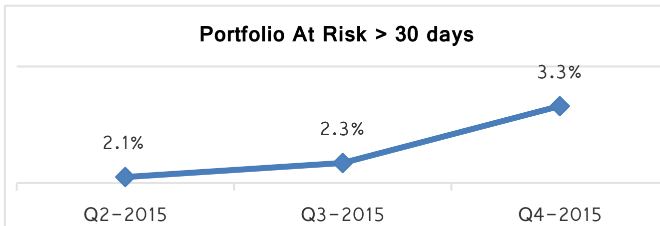
Event Location: Nairobi, Kenya

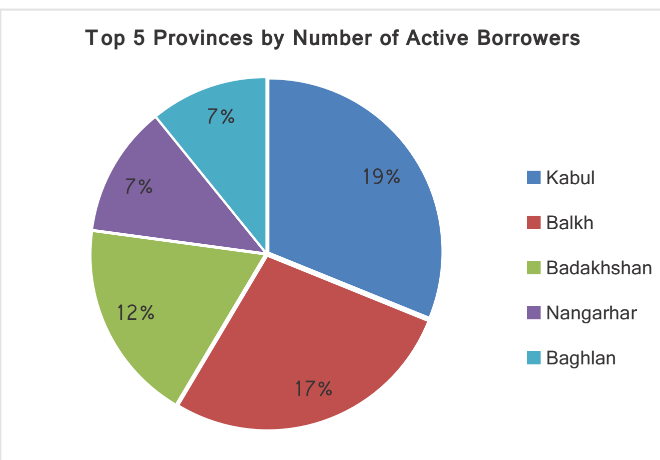
Date: 02 May 2016 - 06 May 2016

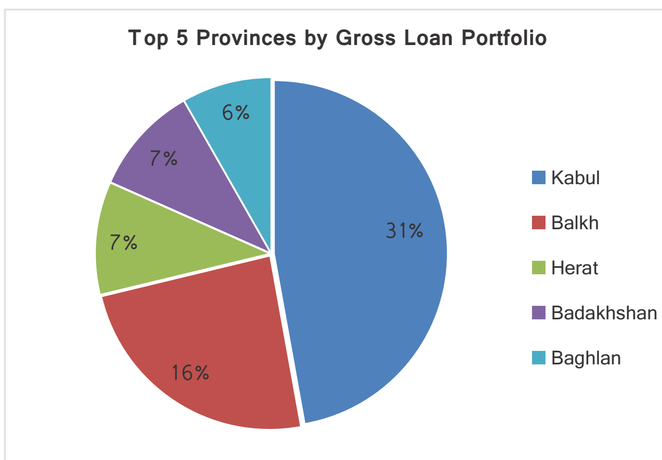
Afghanistan Development Finance Sector Analysis

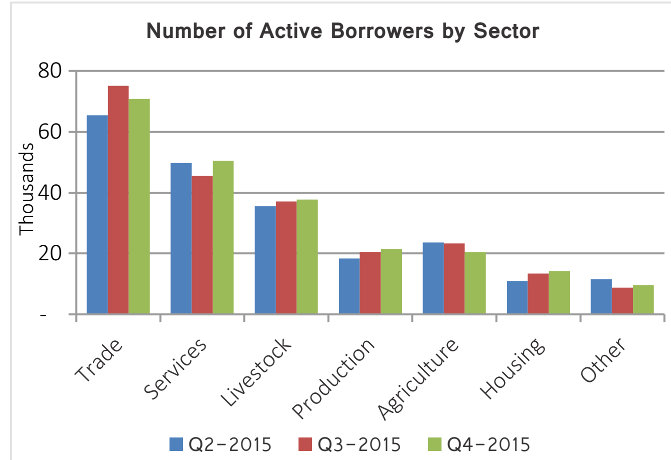


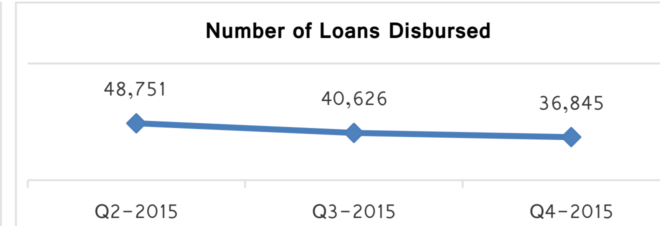


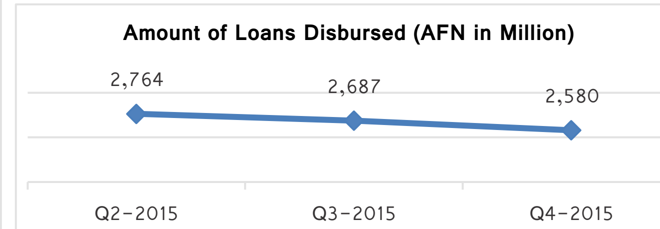


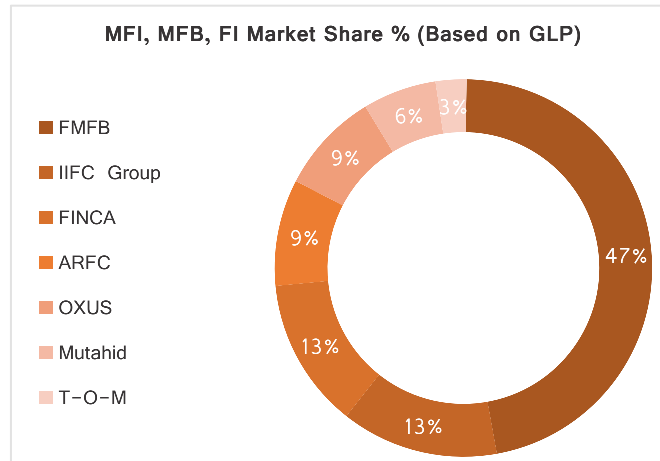


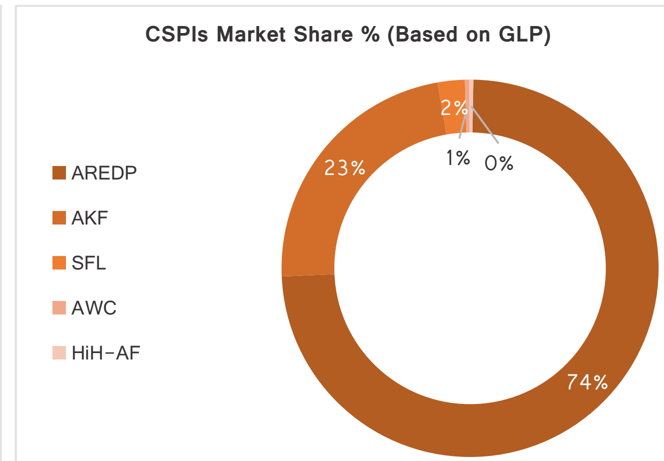


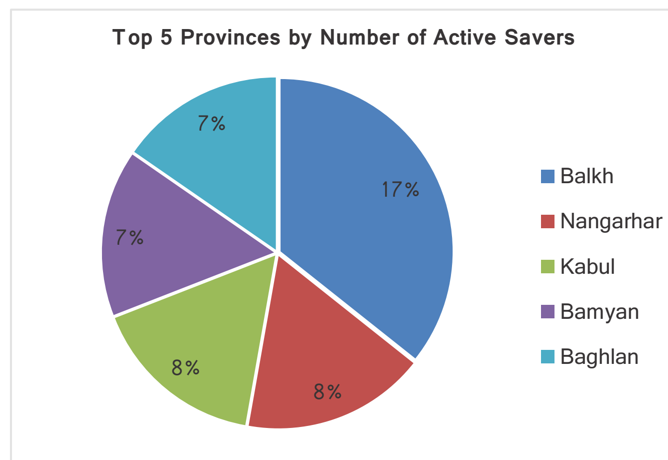


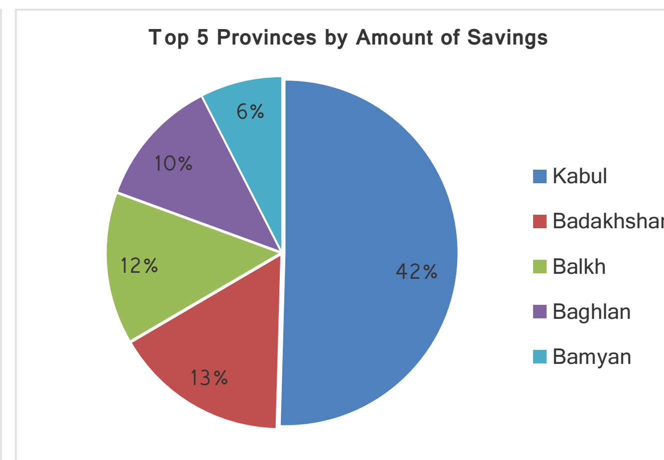












Microfinance Client Success Story

Abdul Motaleb, 26, had to give up his studies in the Afghan Army School to take over the role of breadwinner from his aging father.

When the health of his father - now 80 plus years old - began deteriorating, Abdul Motaleb knew he had to leave school and abandon his dream of completing his education.

"Nowadays in Afghanistan, it is really hard to continue your study if your family has very low income," said Abdul Motaleb. "The state universities and the army school are providing young people from poor families like me an opportunity to earn a degree for free, but this is only possible if there is at least one person, other than yourself, earning a living for the family."

This was not the case for Abdul Motaleb. Both his aging parents, his one sister and four young brothers in their village in Argoh Torouq, Badakhshan, were relying on him to bring the income to meet household needs, including the education of his school-aged sister, which was important to the family.

Thanks to FMFB, Abdul Motaleb was able to transition from being a student to becoming the income earner through a microcredit. Once he decided to pursue livestock rearing, Abdul Motaleb applied to FMFB for his first loan of AFN 120,000.

Since that first loan, he has never looked back. When his household income started stabilizing and he was able to fully repay the first loan, Abdul Motaleb applied for a second loan of AFN 160,000 to expand his business.

Today, he earns around AFN 8,000 per month where before he used to earn AFN 2,000 – 3,000 and he is able to put away some savings for the family on top of that. His sister is able to continue going to school, and someday soon, Abdul Motaleb, who recently got engaged, will marry and has no fears of not having enough money to support his extended family.

'This success story was developed by MISFA.'

Microfinance Clients

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