Microfinance Sector
### MICROFINANCE SECTOR

<table>
<thead>
<tr>
<th>Key indicators</th>
<th>As of June-2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFIs reporting to MISFA</td>
<td>15</td>
</tr>
<tr>
<td><strong>Provinces covered</strong></td>
<td>24</td>
</tr>
<tr>
<td>Districts</td>
<td>113</td>
</tr>
<tr>
<td>No. of Branches/service outlets</td>
<td>275</td>
</tr>
<tr>
<td>Active clients</td>
<td>445,827</td>
</tr>
<tr>
<td>Active borrowers</td>
<td>372,737</td>
</tr>
<tr>
<td><strong>Gross loans outstanding, US$million</strong></td>
<td>113.7</td>
</tr>
<tr>
<td>Client savings outstanding, US$m</td>
<td>12.3</td>
</tr>
<tr>
<td><strong>Amount of loans disbursed, US$m (cum.)</strong></td>
<td>471</td>
</tr>
<tr>
<td>No. of loans disbursed (cumulative)</td>
<td>1,185,071</td>
</tr>
<tr>
<td>Women as % of total clients</td>
<td>64%</td>
</tr>
<tr>
<td>Average loan size, US$</td>
<td>303</td>
</tr>
<tr>
<td><strong>Current repayment rate, %</strong></td>
<td>97%</td>
</tr>
<tr>
<td>No. of staff employed</td>
<td>4,831</td>
</tr>
</tbody>
</table>
MICROFINANCE SECTOR – OUTREACH

Number of active clients

<table>
<thead>
<tr>
<th>Year</th>
<th>Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>1382 (Mar-04)</td>
<td>28,848</td>
</tr>
<tr>
<td>1383 (Mar-05)</td>
<td>109,607</td>
</tr>
<tr>
<td>1384 (Mar-06)</td>
<td>176,069</td>
</tr>
<tr>
<td>1385 (Mar-07)</td>
<td>336,389</td>
</tr>
<tr>
<td>1386 (Mar-08)</td>
<td>436,777</td>
</tr>
<tr>
<td>1387 (Mar-08)</td>
<td>500,000</td>
</tr>
</tbody>
</table>
Distribution of loans per sector

- Trade and Services: 62%
- Agriculture and livestock: 20%
- Handicrafts and Manufacturing: 13%
- Household consumption (food, medical, house repair, education, etc.): 4%
- Others: 1%

Urban outreach: 60-65%; Rural outreach: 35-40%
Geographical coverage

WEST
5 MFIs
10% clients
8% portfolio

NORTH-WEST
6 MFIs
22% clients
22% portfolio

NORTH-EAST
6 MFIs
16% clients
22% portfolio

EAST
7 MFIs
10% clients
7% portfolio

SOUTH
4 MFIs
2% clients
2% portfolio

CAPITAL
12 MFIs
40% clients
39% portfolio

SME — Branches of financial partners
Is Microfinance Making an Impact?
“MISFA will have a positive economic and social impact by facilitating the development of the Afghan financial sector, increasing access to the unbanked, especially women, and rural and poorer households.”
In 2007, MISFA commissioned IDS to conduct baseline impact study of microfinance in Afghanistan.

A leading global organization for research, known for its focus on “Social Performance Management” (SPM).

Host of The Imp-Act Consortium, an international network promoting/supporting SPM integration into MFI operations.
IDS study methodology:

- Nationally representative, covering 7 provinces, 10 MFIs and a total of 1,019 individuals
- Statistically representative sample of male/female, urban/rural, client/non-client respondents
- Study embedded in the NRVA 2005 assessment for reasons of continuity and comparability
- 19 possible SPM indicators were identified
Since the sector was formalized in 2003, microfinance has had socio-economic impact on the lives of poor Afghans, particularly women.
MICROFINANCE – IMPACT

Some general observations by IDS study

- Sector is **young** and has a long way to go, but has catered to unmet demand for credit

- Microfinance is **inclusive**: spread across different Afghan provinces and ethnic groups

- Sector overcame urban bias in the early days – almost **40%** of all clients now come from **rural areas**
MICROFINANCE – IMPACT

Questions explored by the study include:

■ Does participation in microfinance lead to an increase in economic wellbeing?

■ Is the socio-economic status of women improving as a result of participating in MF?

■ Does MF accelerate economic activity and lead to job and wealth creation?
MICROFINANCE – IMPACT

IDS presents key findings in the following areas:

1. General trends in economic wellbeing
2. Economic opportunities/job creation
3. Women’s empowerment
4. Access to health services
### IMPACT – IDS KEY FINDINGS

1. General trends in economic wellbeing

<table>
<thead>
<tr>
<th>MFI clients vs. non-clients</th>
<th>MFI clients</th>
<th>Non-clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clients reporting improvement in economic situation (from the past year)</td>
<td>72%</td>
<td>51%</td>
</tr>
<tr>
<td>Client households with savings</td>
<td>46%</td>
<td>31%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Urban vs. rural – MFI clients reported these changes in the last 12 months:</th>
<th>Urban clients</th>
<th>Rural clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slight improvement in economic situation</td>
<td>76%</td>
<td>67.5%</td>
</tr>
<tr>
<td>Increase in savings</td>
<td>37%</td>
<td>26%</td>
</tr>
</tbody>
</table>
Afghans used microfinance loans mainly for starting or expanding business.
IMPACT — IDS KEY FINDINGS
2. Economic opportunities/job creation, cont’d.

- For every microfinance client, **1.5** employment opportunities were created
  - This figure, extrapolated to all MISFA partner clients, translates to **659,312** jobs for Afghans*

- **64%** female and **74%** male clients generated employment for themselves (start-up business)
- Nearly **45%** of all clients generated employment for others

* Extrapolated from the study sample to all MISFA partner clients (margin of error: 6%).
3. Women’s empowerment

% of women clients reported the following changes:

- “improved attitude” of their husbands and other relatives (both male and female) | 80%
- have good relationship with other group members | 91%
### IMPACT – IDS KEY FINDINGS

3. Women’s empowerment, cont’d.

<table>
<thead>
<tr>
<th>% of women clients reported the following changes:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>➔ have absolute control over income earned</td>
<td>44%</td>
</tr>
<tr>
<td>➔ made business decisions independently</td>
<td>34%</td>
</tr>
<tr>
<td>➔ made joint decisions on loan use</td>
<td>43%</td>
</tr>
<tr>
<td>➔ established savings for the first time</td>
<td>45%</td>
</tr>
<tr>
<td>➔ increased savings</td>
<td>32%</td>
</tr>
</tbody>
</table>
## IMPACT – IDS KEY FINDINGS

### 4. Access to health services

<table>
<thead>
<tr>
<th>Indicators</th>
<th>MFI Clients</th>
<th>Non-clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women seeking medical advice for sick children</td>
<td>77%</td>
<td>59%</td>
</tr>
<tr>
<td>Mothers obtaining immunization cards for children</td>
<td>91%</td>
<td>79%</td>
</tr>
</tbody>
</table>
MISFA – NEXT STEPS

- Building on initial results of 2007 baseline study:

  2008-2009
  - identify and integrate social indicators into current MFI system of data collection
  - use data tracked to improve impact

  2009-2010
  - follow-up to initial baseline study
Is the Sector Geared Towards Efficiency and Sustainability?
“As a double-bottom line institution, MISFA will promote a sustainable sector that operates without subsidies.”
SECTOR EFFICIENCY

Targets based on MISFA’s vision

- Reduce grant funding to MFIs gradually
- For MFIs to cover their expenses through:
  - their operating revenues
  - attracting capital from other sources
- Greater accountability and transparency
SECTOR SUSTAINABILITY

Grant to MFIs as % of total MISFA funding (2003-2007)
SECTOR SUSTAINABILITY

As of June 2008:

- **2** MISFA partner MFIs have achieved operational surpluses before even reaching 5 yrs. of operation
- **7** partners are **80% or more** operationally sustainable
- **12** partners are **above 60%** operationally sustainable
By end of 2008, 77.5% of client loans will be from operationally sustainable MFIs.

By comparison, Bangladesh reached this level of sustainability 20 years into the sector’s development.

Pakistan still lags behind Afghanistan despite a 10-year headstart.
SECTOR CHALLENGES

- Macro-level issues adversely affecting economic activities
  - high inflation and rising, at 35.8% in July 2008*
  - food crisis
  - deteriorating security
  - weather: harsh winter; and drought in the northeastern region

* Da Afghanistan Bank