Microfinance: Making a Difference in Afghanistan

August 2008
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1. Microfinance: Making a Difference in Afghanistan

Since its creation in 2003, MISFA has become one of the largest development programs in Afghanistan in terms of outreach, number of clients, and resources deployed in the field. This achievement is particularly impressive given that the microfinance sector is young in age: although it was formalized as a sector in 2003-04, it didn’t gain real momentum until 2005.

In such a short period of time, the progress attained by microfinance has surpassed the levels that other countries in the region reached in the same period of development. This progress is all the more impressive given the country context — in 2003 Afghanistan was faced with a high degree of devastation and countrywide insecurity.

Overall, good progress has been made towards achieving the objectives of increased outreach with improved sustainability of microfinance. This has been recognized in government circles, by the donors and in supervision reports issued by the World Bank.

### Table 1. Sector overview

<table>
<thead>
<tr>
<th>Key Indicators</th>
<th>June 2006</th>
<th>June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provinces covered</td>
<td>20</td>
<td>24</td>
</tr>
<tr>
<td>Districts</td>
<td>93</td>
<td>113</td>
</tr>
<tr>
<td>Branches</td>
<td>183</td>
<td>276</td>
</tr>
<tr>
<td>Active clients</td>
<td>204,277</td>
<td>448,307</td>
</tr>
<tr>
<td>Active borrowers</td>
<td>175,140</td>
<td>372,677</td>
</tr>
<tr>
<td>Gross Loan Portfolio, US$million</td>
<td>31.8</td>
<td>112.7</td>
</tr>
<tr>
<td>No. of loans disbursed (cumulative)</td>
<td>365,778</td>
<td>1,184,623</td>
</tr>
<tr>
<td>Amount of loans disbursed, US$m (cumulative)</td>
<td>84.2</td>
<td>470.0</td>
</tr>
<tr>
<td>Client savings outstanding, US$m</td>
<td>3.3</td>
<td>12.3</td>
</tr>
</tbody>
</table>

In addition, this young microfinance sector, as it stands today, has proven to be an integral and important part of Afghanistan’s overall financial sector, filling the gap between informal credit and the formal banking system. Microfinance has shown to be more effective in reaching poor Afghans in rural areas, who have less or no access to the financial services offered by banks — this despite dealing with smaller loans, which require higher per loan transaction cost.

Going forward, the sector faces the challenges which come with such rapid growth. These include the challenge of managing and sustaining growth with quality, ensuring the path to sustainability is maintained, new products are developed and outreach is widened even further and that the sector is mainstreamed with the financial sector in the years to come. This note delves into two key issues, which have been and remain, important focus areas for MISFA — social impact (Section 2) and efficiency (Section 3).

Before examining the social performance and efficiency of the sector today, it is important to understand the context of Afghanistan's financial sector at the time microfinance came about.

### 1.1 The emergence of microfinance in Afghanistan

In 2002, after the fall of the Taliban regime, the microfinance was a nascent industry in Afghanistan. The World Bank estimated at that time that the demand for microcredit in Afghanistan was over one million households (demand has significantly expanded since
then). However, the local and foreign NGOs involved in microfinance only served around 12,000 clients. Clearly, there was room to grow, and for strategic donor support to facilitate this growth.

In the spring of 2003, the World Bank and the Consultative Group to Assist the Poor (CGAP) initiated the development of an apex institution for microfinance in Afghanistan. Apex institutions typically act to channel donor funds for microfinance institutions (MFIs), monitoring their usage, promoting “best practices,” providing technical assistance, acting as an industry advocate for enabling legislation, and building systems for transparent reporting.

MISFA was established in 2003 as a vehicle through which the Afghan Government and international donors could channel technical assistance and funding to build Afghanistan’s microfinance sector, though more recently this mandate was expanded to include the lower ranges of SME lending, another underserved market. MISFA at the outset was an arm of the Afghan government, under the auspices of the MRRD. Later, it transformed to an LLC fully owned by the Ministry of Finance.

Table 2. Microfinance milestones

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Before microfinance was established as a sector, an estimated 1 million poor Afghan households were in need of microcredit.¹</td>
<td>• Microfinance was formalized as a sector: MISFA was created to channel donor funds toward building and strengthening the sector.</td>
<td>• 9 more MFIs joined MISFA as partners.</td>
<td>• The number of MISFA’s MFI partners grew from only 4 in 2003 to 15.</td>
</tr>
<tr>
<td>• A few NGOs were offering microfinance services as one among other programs, serving only 12,000 clients.</td>
<td>• 4 MFIs, including BRAC, signed up with MISFA.</td>
<td>• MISFA converted into non-profit LLC fully owned by the Ministry of Finance.</td>
<td>• 12 MFI partners became independent from parent INGOs and registered as non-profit LLCs with AISA.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• MISFA opened an SME window for small-medium Afghan businesses in rural areas.</td>
<td></td>
</tr>
</tbody>
</table>

MISFA has received funding contributions and technical assistance from donors, such as the World Bank, CGAP, USAID, CIDA, DFID, Embassies of Denmark, The Netherlands and Finland, SIDA, AusAid and Oxfam-NOVIB. MISFA’s work has been integrally linked to the Afghanistan National Development Strategy (ANDS), which envisions a central role for microfinance in the reconstruction of the country. Microfinance services are viewed to have an impact on employment generation, levels of household income, gender equity, access to health and education facilities and alternative livelihoods.

While well-run MFIs can be profitable businesses in the long run, they typically depend on subsidized funding at the initial stage — on average, it takes five years for an MFI to become financially sustainable. MISFA was created to subsidize early-year operating losses of start-up MFIs in order to create a financial sector for the economically disadvantaged — a result that the free markets would not have achieved within this short time period.

Another objective tied with the creation of MISFA was to develop a mechanism for ensuring a microfinance sector built on best practice methodologies which would facilitate financial sustainability within a reasonable period. MISFA has accomplished this by tightly linking funding with performance targets and with the close monitoring of product design and

procedures. The targets and monitoring have perhaps provided the most significant type of “technical assistance” to MFIs by motivating them to improve and achieve. MFIs unable to reach minimum performance levels will be released from the apex institution.

The following figures demonstrate how MISFA’s partners have made great strides in establishing a robust sector, despite the challenging context of the environment and volatile security conditions.

Figure 1. Outreach by number of active clients over time: 2004-2007

![Bar chart showing outreach by number of active clients over time: 2004-2007.](chart1)

Figure 2. Outreach by geographical coverage

![Map showing outreach by geographical coverage.](chart2)
Figure 3. Outreach by distribution of loans per sector

It is clear from these figures that MISFA, in its initial years, focused on outreach in a major way. Resources were deployed to partners, who were encouraged to reach large numbers of poor Afghans and provide them with access and the ability to use financial services. Such access to small-sized loans benefited households in various ways — for some families, a credit line allowed them to establish a small business; for others, a small loan helped with consumption smoothing and made them less vulnerable.

Whatever the case may be, the strategy to spread microfinance services on a large scale, in both urban and rural areas, guaranteed that the vulnerable, the poor and very poor were not excluded.

But does the sector’s wide scale outreach today — projected to have half-a-million clients by the end of this year — really contribute to reducing poverty in Afghanistan? And if so, is the sector efficient enough to be a permanent tool toward poverty alleviation? These questions will be answered in the following sections.
2. Measuring Social Impact: Is Microfinance Reaching Poor Afghans?

In 2005, Grameen Foundation commissioned Nathaniel Goldberg to review all existing, credible studies measuring the impact of microfinance in reducing poverty. The review concluded that there is a wide range of evidence that microfinance programs can increase incomes, decrease vulnerability and lift families out of poverty. In addition, access to microfinance can improve children’s nutrition and increase their school enrollment rates, among other outcomes.2

It is well recognized by many countries that within a conducive environment and applied as an integral part of an overall development strategy, microfinance can play an important role in poverty reduction.3 This contribution toward poverty alleviation and development and the subsequent peace and security that emerge from such conditions was also recognized by the Nobel Peace Prize committee in 2006.

In addition, microfinance is often cited as a key part of the global strategy to fulfil the Millennium Development Goals (MDGs),4 not only for its potential to reduce poverty, but also for the fact that it contributes to the economic empowerment of women, considered a vulnerable group in the context of many developing countries, including Afghanistan.

Poverty reduction has always been an implicit goal of MISFA and its partners, but it was recognized that the sector needed to make this more explicit. As a first step toward this goal, MISFA commissioned the Institute of Development Studies (IDS) of the University of Sussex in England to conduct a baseline impact study.5 The findings of the research ascertain the general impacts of microfinance and provide the basis for future work in the area of social performance.

The study aimed to measure the impact of the microfinance initiative in Afghanistan since its inception in 2003, as well as to test and establish a few key socio-economic indicators that MFIs could monitor to track the wellbeing of their clients.

The research was designed to answer a number of key questions, among them:

- 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 microfinance?
- Does microfinance accelerate economic activity, thereby leading to job and wealth creation? (see Annex 1 for the baseline impact study’s research design and methodology).

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3 In February 2005, 44 out of 56 country Poverty Reduction Strategy Papers (PRSP) and interim PRSPs reviewed by the International Monetary Fund (IMF) identified microfinance as a key strategy to achieving broad-based growth and poverty reduction. (http://www.imf.org/external/np/prsp/prsp.asp#gp)


The following sections (2.1 and 2.2) highlight some of the study’s key findings (the full report is enclosed). They show that in the last five years, microfinance has had both social and economic impacts on the lives of poor Afghans, particularly women (see Client Profiles 1 and 2 for anecdotal stories).

### 2.1 Economic opportunities for a greater number of poor Afghans

**Microfinance coverage**
- The program is spread across 23 provinces and covers all major ethnic groups.
- Nearly 70% of total clients are women.
- 40% of total clients live in rural areas.

**Trends in economic wellbeing**

<table>
<thead>
<tr>
<th>Table 3. Key findings: Trends in economic wellbeing</th>
<th>MFI clients</th>
<th>Non-clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clients reporting improvement in economic situation</td>
<td>72%</td>
<td>51%</td>
</tr>
<tr>
<td>Client households with savings</td>
<td>46%</td>
<td>31%</td>
</tr>
</tbody>
</table>

**Economic opportunities and employment creation**
- More than 80% of the loans were used for setting up or expanding businesses; 4% was used for household consumption, healthcare costs and other non-income generating activities; while the rest served as operating capital for the business.
- These start-ups and expansions have:
  - generated self-employment for 414 entrepreneurs in the sample, and
  - allowed 264 clients to employ other people from within and outside the household, either full time or part time.
- Considering that the above numbers are a representative sample, it is estimated that:
  - for every microfinance client, 1.5 employment opportunities were created, and
  - all MISFA clients generated 659,312 jobs for Afghans.⁷
- 64% of women clients and 74% of men clients generated employment for themselves.
- 47% of urban clients generated employment opportunities for others; and 39% of rural clients did the same.

### 2.2 Microfinance and Afghan women

Women have played an important role in making microfinance a successful intervention all over the world. Microfinance, on the other hand, has elevated the socio-economic status of female participants. The baseline impact study’s key findings below show that this is happening in Afghanistan where the majority of microfinance clients, nearly 70%, are women.

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⁶ At the time of the study, MISFA’s partners covered 23 provinces; as of June 2008, the sector covers 24 provinces.

⁷ This figure was extrapolated from the study sample to all MISFA partner clients; margin of error: 6 percent.
Microfinance: Making a Difference in Afghanistan

Socio-economic empowerment of women

- 80% of women clients reported “improved attitude” of their husbands and other relatives, both male and female.
- 91% of women clients interviewed reported enjoying a good relationship with other group members.
- 47% of the women clients reported that they could rely on their group members for social advice.

Access to services

<table>
<thead>
<tr>
<th>Table 4. Key findings: Access to services</th>
<th>MFI clients</th>
<th>Non-clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women having absolute control over money earned</td>
<td>44%</td>
<td>18%</td>
</tr>
<tr>
<td>Women with young children having immunization cards</td>
<td>91%</td>
<td>79%</td>
</tr>
<tr>
<td>Women seeking medical advice for sick children</td>
<td>77%</td>
<td>59%</td>
</tr>
</tbody>
</table>

In a society where women have historically been restricted to the household, having hundreds of thousands of Afghan women clients is a significant breakthrough. Even if women are acting merely as a channel for loans, their participation opens them up to new opportunities.

Client Profile 1. Masooma, 45 years old, female

Behsood, Wardak Province

Masooma is a 45 years old woman who lives with her husband and six children. For eight years prior to the Taliban reign, her family used to live in Behsood, in Wardak, a province in the Central Region of Afghanistan. Behsood was hit by massive flooding causing damage to a lot of properties and forcing Masooma’s family to move to Kabul to seek employment opportunities that would enable the family to recover from their loss. But soon after, civil war broke out in Kabul and Masooma’s family had to move yet again. They moved back to their hometown, Behsood, only to realize that the entire area offered no productive farming opportunities at all.

Moving back to Kabul in 2002, Masooma sent her children to neighboring houses where they could learn carpet weaving. Masooma and her daughter Gulbanoo who was 19 years old, heard about Women for Women International (WWI), one of MISFA’s partner MFIs, which provides women access to loans.

Masooma, along with her daughter, formed a group that receives loans from WWI. The first amount she obtained from her first loan cycle was 16,000 Afs, which was invested in buying material for carpet weaving. The next investment was on a carpet weaving frame so that Masooma can set up and run her own workshop from home with the help of her children. To purchase the frame, she and Gulbanoo took out their second cycle loan for the amount of 24,000 Afs.

Having their own frame generated more income than the family ever experienced before and there was also more demand for the carpet they produce. Now Masooma and her daughter are on their third loan cycle from WWI and they invested it on a second carpet weaving frame to accommodate the orders they were receiving.

At the moment, they produce an average of two large carpets a month, the earning from which they spent on rebuilding their home, which was completely damaged by the war. Masooma’s and her daughter’s business enabled the family to leave their rental house and move into their own home. In addition, the income from carpet sale provides funding for healthcare and education in Masooma’s house.
situations that they would not experience otherwise. As microfinance clients, they would have to step out of their homes to attend MFI meetings, where they get to interact with other women and MFI staff. Mobility alone could be an empowering experience in and of itself. But beyond that, knowledge, skills, success stories and challenges are shared in these meetings and every interaction builds up a woman’s self-confidence.

In addition, being the channel for loans desperately needed by the family has helped improve the standing of Afghan women, both within and outside the household. As indicated earlier, 80% of female clients interviewed for the study reported that their family’s, friends’ and other relatives’ perception of them has improved since joining the microfinance program.

While this is an important development, the impact of microfinance on the lives of Afghan women goes beyond positive changes in perception. While only 12% of male clients started new businesses (most investing loans in pre-existing businesses), nearly 36% of female clients started new businesses.

This higher percentage of female clients starting new businesses can be linked with many women stating that they tried out their entrepreneurial skills for the first time, only in the wake of the microfinance program. If this is true, microfinance could be viewed as a catalyst for Afghan women’s “emancipation”. Most of these female clients have invested their loans in sewing activities, handicrafts and other small businesses, mostly run from home. Starting new businesses or investing in existing businesses has generated employment opportunities for female clients. About 64% of female clients, compared to 74% of male clients, have been able to generate employment for themselves with the help of microfinance loans. About 42% of female clients, compared to 43% of male clients have been able to generate employment opportunities for others (see Client Profile 2 for an example of a female client whose business created jobs for others).

While many female clients have used the loans in consultation with their male relatives and there are some who are unaware of how the loan is being used, over 34% of female clients take business decisions independently. This is an impressive figure but also one that is likely to increase. In post-conflict societies, the participation of women in social and economic life is generally lower as compared to the conflict period due to the return of men. However, close to 43% joint decision making in loan use suggests that this may not be the case in Afghanistan.

Client Profile 2. Nasrin Dost Mohammad, female, Kabul Province

A refugee returns to rebuild her life through microfinance

Nasrin Dost Mohammad suffered deeply during the Taliban period. Her husband lost his leg during the factional fighting. Her five year-old son froze to death one winter, when she was too poor to buy wood for heating fuel. When 20 of her family members were gunned down by the Taliban before her eyes, she and what remained of her family fled on foot over the mountains to Pakistan.

In 2002, Nasrin returned to Kabul. Determined to start fresh back in her home country, she borrowed $100 from Parwaz, a local microfinance institution, to make quilts and curtains from her home. Her tiny business grew, and she took out a second, larger loan. She worked hard day and night to produce quality quilts and curtains and as a result, she secured contracts with stores to sell her products.

Her hard work paid off and now, she grosses US$600 every month in sales and employs five other women in her business. Not only does her micro-business support her own family, but the income her employees earn supports five other families in Kabul.
Participation in microfinance has certainly brought a number of benefits to female clients:

1. Economically, they are in a better position than their peers who did not join the program.

2. Their financial status is better than it was 12 months ago, and many report savings, however small. For instance 45% of female clients reported savings, while 32% reported an increase in savings.

The results on gendered impact of microfinance in Afghanistan are positive. A lot has been achieved, largely due to the concerted effort of MFIs and the emphasis that the sector has placed on female clients. Four of MISFA’s partners offer programs and services geared exclusively for Afghan women: PARWAZ, MoFAD, Ariana Financial Services (AFS) and Women for Women.

The trends seen in the impact study suggest that participation in the microfinance program has led to economic betterment. A follow-up survey, planned for 2009, will compare endline and baseline data to study the full impact of microfinance on borrowing households. Monitoring and evaluating the social impact of microfinance, identifying the appropriate indicators and collecting data over the long term is one of MISFA’s top priorities in its strategy moving forward (see Section 4).
3. Evaluating Efficiency:  
Is the Sector Geared Toward Self-Sufficiency?

3.1 Decreasing dependency on grant funding

Successful microfinance programs are efficient and consequently, sustainable. They are able to cover their costs with their service charge, to generate capital through profits from operations which, in turn, enable them to attract any further capital required to strengthen their capital base. This is essential for leveraging additional financing resources, which then goes to microfinance clients as loans.

This state of self-sufficiency is what enables microfinance institutions to provide long-term services independent of grant funding — which tends to be unreliable and, in the long term, inadequate. The longevity of microfinance providers is critical as finance is a long-term proposition. Financial entities, which are perceived as “here today, gone tomorrow,” are not trustworthy. If borrowers think an MFI will not be around or that it would not give them future financial services, why should they repay?

MISFA was established as a multi-donor funding facility for microfinance activities in Afghanistan. MISFA grants, after its creation in 2003, have provided the capital base for MFIs in the country to cover start-up costs and operating expenses.

In the long-term, MISFA’s vision is to reduce grant funding gradually and for MFIs to cover expenses through their operating revenues and through attracting capital from other sources.

Despite challenges, the trend since 2003 has been living up to MISFA’s long-term goal. From 50% of the total funding from MISFA being grants in 2003, this ratio has reduced dramatically to just over 20% in 2007 and is projected to go down steadily, just as microfinance partners of MISFA continue becoming more operationally self-sufficient and gain scale and benefit from the efficiencies that emanate from such growth.

Figure 4. Grant to MFIs as percentage of total MISFA funding (2003-2007)
3.2 Toward operational and financial sustainability

By the end of 2008, it is projected that 77.5% of all clients in Afghanistan will be getting their loans from operationally sustainable MFIs.

By comparison, Bangladesh did not reach this level of sustainability until about 20 years into the development of its microfinance sector and Pakistan still lags behind Afghanistan despite having a ten year headstart.

At present, two of MISFA’s 15 MFI partners have already achieved operational surpluses even before reaching five years of operation. A total of seven partners are 80% or more operationally sustainable, while a total of 12 are above 60%.

As its next step in sustainability, MISFA assisted one of the Tier 1 MFIs, BRAC, in accessing its first commercial loan in Afghanistan, working toward its goal of building a sector not wholly dependent on concessionary donor funding.

Some MFIs have been held back from operational surplus due to emphasis on geographic growth and the need to spend additional funds on security. And as could be expected in any country, but especially one like Afghanistan that is rebuilding its economy, a couple of small MFIs might not meet this goal. If not, other options will have to be considered, including possible mergers with stronger MFIs.

It is worth noting that MISFA, as it moves forward, is putting a lot of emphasis on performance-based funding as a strategy. More rigorous monitoring mechanisms are being adopted and a culture of linking MFIs’ funding with their operational performance and focus on operational self-sufficiency is being promoted unequivocally. Such approach is unique to Afghanistan, considering that apex organizations in the region, much older than MISFA — such as India’s NABARD8 and SIDBI9; Pakistan’s PPAF10; and Bangladesh’s PKSF11 — have not made this link as explicit.

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As of June 2008:

- 2 MISFA MFI partners have achieved operational surpluses before even reaching five years of operation.
- 7 partners are 80% or more operationally sustainable.
- 12 partners are above 60% operationally sustainable.

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8 National Bank for Agriculture and Rural Development (http://www.nabard.org/).
9 Small Industries Development Bank of India (http://www.sidbi.in/).
4. MISFA’s Vision and Social Impact Strategy Going Forward

**VISION STATEMENT**

*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.*

*As a double-bottom line institution, MISFA will promote a sustainable sector that operates without subsidies.*

Looking ahead, MISFA is expected to be able to achieve its core beliefs — expanded outreach, improved sustainability and the creation of a truly Afghan microfinance sector. In addition, it has set the following workstream priorities for social performance management (SPM) in the short term, as well as its other areas of focus in the medium and long terms.

**SHORT-TERM (2008-2009)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Quarter</th>
<th>Priority</th>
</tr>
</thead>
</table>
| **2008**   | 4th     | • Lay the foundation for SPM strategy that will integrate social indicators into current systems of data collection by MFIs. This builds on the 2007 baseline impact study findings. MISFA’s approach to the SPM process recognizes that:  
  o systems must be practical, low cost and not too difficult for clients, as well as MFI staff to implement; and  
  o it cannot always account for other adverse events that might reduce the overall wellbeing of a particular household.  
  • Expand Technical Support Department (TSD) team to ensure high quality portfolio monitoring and evaluation and to make room for new SPM component. |
| **2009**   | 1st–2nd | • Work closely with vendor on SPM strategy, including monitoring systems, and a detailed workplan with timelines and deliverables reflecting attention to improving depth of outreach, among others.  
  • Assess MFIs capacities; select MFIs for pilot.  
  • Conduct introductory workshops and development trainings with pilot MFIs.  
  • Begin SPM pilot, working with MFIs on systems of collecting indicators at the household level (including livelihoods) in order to track client progress, as well as satisfaction. |
| 3rd quarter|         | • Circulate report on pilot exercise to stakeholders and conduct presentations to all MFIs on pilot outcomes, challenges, etc. |
| 4th quarter|         | • Commission follow-up study to the 2007 baseline impact study to compare endline and baseline data and determine the full impact of microfinance on borrowing households. |
MEDIUM-TERM

- Continue synergies with other programs, e.g. the National Solidarity Program (NSP) and the proposed Afghanistan Rural Enterprise Development Program (AREDP). MISFA will do this while formulating new initiatives with IFAD and ADB, specifically focused on rural and agricultural activities.
- Continue improving monitoring mechanisms.
- Ensure that a good enabling environment continues to exist.

LONG-TERM

- Measure social performance of MFIs.
- Strengthen communications and advocacy.
- Increase outreach to underserved groups and provinces.
- Continue financing growth.
- Expand SME lending.
References


National Bank for Agriculture and Rural Development (NABARD), India’s apex organisation for microfinance, information retrieved 23 August 2008 from: http://www.nabard.org/.


The MIXMarket benchmark and analysis reports: global and regional, retrieved 20 August 2008 from http://www.themix.org/


ANNEX 1

Research design/methodology
“Microfinance in Afghanistan: A baseline and initial impact study for MISFA”
By Martin Greeley and Mohit Chaturvedi

Research Objectives
The study of the microfinance sector in Afghanistan, commissioned by MISFA, was conceived with three broad objectives in mind:

- To establish a baseline database of clients to assess the subsequent impact of the microfinance program.
- To measure the impact of the microfinance programme in Afghanistan since the inception of the programme.
- To test and establish a few key socio-economic indicators that MFIs could monitor to track the well-being of their clients.

Coverage by region
The study covered five regions of Afghanistan:

- National capital region (NCR)
- Western region
- North-western region
- North-eastern region
- Eastern region.

These five regions account for 97 per cent of the MISFA clients and portfolio. The remaining 3 per cent are located in the south-west and south-east of the country. These regions were excluded from the study for security reasons.

Within each region, provinces were selected with an eye to balancing coverage against cost, logistical support and exposure to security risk. In all, nine provinces were selected for the study. The number of provinces selected from a region depended on the degree of concentration of clients, ease of travelling and stay, and the security environment of the region. Table 2.1 shows the provinces that were selected and what such a selection means in terms of client coverage. The nine provinces selected for the study accounted for 79 per cent of the client population.

Table 1. Provinces selected for survey

<table>
<thead>
<tr>
<th>Region</th>
<th>Province</th>
<th>No. of clients in province</th>
<th>Percentage of total MISFA clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>NCR</td>
<td>Kabul</td>
<td>90,389</td>
<td>29.00</td>
</tr>
<tr>
<td>East</td>
<td>Laghman</td>
<td>6,583</td>
<td>2.11</td>
</tr>
<tr>
<td></td>
<td>Nangarhar</td>
<td>19,744</td>
<td>6.33</td>
</tr>
<tr>
<td>West</td>
<td>Herat</td>
<td>28,718</td>
<td>9.21</td>
</tr>
<tr>
<td>North-west</td>
<td>Balkh</td>
<td>41,362</td>
<td>13.27</td>
</tr>
<tr>
<td></td>
<td>Jawzjan</td>
<td>14,536</td>
<td>4.66</td>
</tr>
<tr>
<td>North-east</td>
<td>Baghlan</td>
<td>17,671</td>
<td>5.67</td>
</tr>
<tr>
<td></td>
<td>Kunduz</td>
<td>16,240</td>
<td>5.21</td>
</tr>
<tr>
<td></td>
<td>Takhar</td>
<td>10,948</td>
<td>3.51</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>246,191</td>
<td>78.97</td>
</tr>
</tbody>
</table>
Coverage by MFI
As MFIs could vary in their targeting approach, loan size, loan product, etc., the study was designed with the aim of covering as many MFIs as possible so as to make the sample representative. It was also decided that at least two MFIs should be covered from each region. Furthermore, it was decided that each MFI selected for the study should have at least 30 clients in the sample. The figure of 30 was chosen to enable large sample tests on the data of clients of individual MFIs to be carried out if wished. Ten MFIs were selected for the study.12 Some MFIs could not be considered as they did not operate in the provinces selected while others were excluded as they were in a transition phase and, therefore, already overburdened.

Analytical domains13
The study was designed keeping in mind the development issues rife in Afghanistan today. These include questions such as who is benefiting from development programmes, what has been the impact of such programmes on the socio-economic status of women, what has been the impact of development programmes on rural areas as compared to urban areas, are such programmes generating additional economic opportunities and thereby contributing to the economic reconstruction of the country, etc. When combined with the objectives of the study, these concerns resulted in the following analytical domains:

1. Analytical domains for inferential purposes:14
   - male versus female clients
   - urban versus rural clients15
   - old versus new clients
   - clients versus non-clients

2. Analytical domain for summary statistics:
   - Dropouts.

Data collection methodology and instrument
The study employed a structured questionnaire to conduct household surveys across the five regions and was administered by enumerators from Afghan Marketing and Management Consultancy (AMMC) (see Appendix 1 for questionnaire in full). Respondents were interviewed in private, one at a time, at their homes or in MFI offices. If the interviewed client was male his wife or mother was asked questions pertaining specifically to females. The questionnaire comprised 11 sections and covered such themes as household demographic information, housing, amenities, assets, access to social protection schemes of the government, crisis and coping strategies, participation in the microfinance programme, and women and access to services. The questionnaire also included a small section addressed to those households that had dropped out of the microfinance programme.

Sample design
The three broad objectives of the study mentioned at the beginning of this chapter, together with the analytical domains listed above, guided the sample size and the process of sample selection. Using the formula $N = \frac{Z^2 \cdot P \cdot (1-P) \cdot D}{E^2}$ the minimum sample for each analytical

12 Ariana Financial Services Group (AFSG), Afghanistan Rural Microcredit Programme (ARMP), Bangladesh Rural Advancement Committee (BRAC), Foundation for International Community Assistance (FINCA), Microfinance Agency for the Development and Rehabilitation of Afghan Communities (MADRAC), Micro Finance Agency for Development (MoFAD), OXUS Development Network, Parwaz, Sunduq, Women for Women International (WFW), (Afghanistan Microfinance Initiative (AMFI) and Child Fund Afghanistan (CFA) were originally included but were later dropped as explained in the notes for Table 2.3).

13 By analytical domains we mean broad categories by which data would be analysed and findings projected.

14 For these domains, a minimum sample size of 267 per category is needed at standard error of 6 per cent and 95 per cent significance.

15 In the absence of any clear definition of rural and urban, the study relied on the criteria employed by MFIs to define their clients as rural or urban.
domain at 6 per cent standard error and 95 per cent significance level was calculated to be 267.\(^\text{16}\) This was rounded off to 300.

To establish a baseline database of clients, the study interviewed 300 ‘new clients’. New clients were defined as those households that either had not taken any loans or were in the process of repaying the first loan, also called first cycle. While most MFIs have a six-month cycle, some MFIs (BRAC being the most prominent example) have a one-year cycle. The study, in defining new clients, did not distinguish between six-month and one-year cycles.

To establish the impact of the microfinance programme, the study included 300 ‘old clients’ (second-cycle clients or clients older than second cycle). The study also included 300 non-clients (meaning those households that lived in close proximity to clients but were not and had never been members of any microfinance programme) as a control group to explore whether clients, old or new, were different from non-clients in one or more of the various parameters employed by the study.

The study also included 99 households (the target was 100 households) that had dropped out of the microfinance programme, to establish trends among dropouts, if any, that could be explored further at another time. The dropouts came exclusively from BRAC and were residents of urban areas.

The sample size for the study was thus set at 1,019 households. The sample included:

- 616 clients
- 304 non-clients
- 99 dropouts.

For reasons of analytical domains and to satisfy the criterion of minimum sample size required per domain, the sample was divided equally between male and female, urban and rural and, as already stated, old and new. The proportion of male and female and urban and rural for non-clients was fixed at 50 per cent each as well. This was done to ensure that non-clients were as similar to clients as possible in gender and location and, therefore, comparable.\(^\text{17}\)

The sample of 1,019 was divided among regions with the aim of giving NCR the same weight in the sample, about 33 per cent, as it enjoyed on the ground. The remaining four regions were given equal weight, about 16.66 per cent each. The details are given in Table 2.2.\(^\text{18}\)

Table 2. Sample distribution across regions and provinces

<table>
<thead>
<tr>
<th>Region</th>
<th>Province</th>
<th>Client</th>
<th>Non-client</th>
<th>Dropouts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>NCR</td>
<td>Kabul</td>
<td>212</td>
<td>102</td>
<td>19</td>
<td>333</td>
</tr>
<tr>
<td>East</td>
<td>Laghman</td>
<td>24</td>
<td>14</td>
<td>0</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>Nangarhar</td>
<td>75</td>
<td>37</td>
<td>20</td>
<td>132</td>
</tr>
<tr>
<td>West</td>
<td>Herat</td>
<td>100</td>
<td>50</td>
<td>20</td>
<td>170</td>
</tr>
<tr>
<td>North-west</td>
<td>Balkh</td>
<td>100</td>
<td>50</td>
<td>20</td>
<td>170</td>
</tr>
<tr>
<td>North-east</td>
<td>Baghlan</td>
<td>65</td>
<td>32</td>
<td>8</td>
<td>105</td>
</tr>
<tr>
<td></td>
<td>Kunduz</td>
<td>40</td>
<td>19</td>
<td>12</td>
<td>71</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>616</td>
<td>304</td>
<td>99</td>
<td>1,019</td>
</tr>
</tbody>
</table>

\(^{16}\) Where N stands for the minimum sample size required, Z refers to Z score, P refers to the anticipated proportion to be measured, D refers to design effect, and E refers to the margin of error.

\(^{17}\) The study came close to the sample target but could not achieve absolute proportions delineated in the sample design.

\(^{18}\) Takhar was dropped from the survey for a logistical reason: the refusal of survey team to travel up to Takhar. Jawzjan was dropped from the survey for security reasons. This, however, did not change the sample size. It led to adjustment of numbers in other provinces in the same regions.
To the extent possible, and depending on the number of clients to be interviewed, two branches were selected from each MFI included in the sample in any province. These branches were selected randomly. From each branch a certain number of groups were selected randomly and from each group thus selected, a certain number of clients were selected randomly. The number of branches, groups, and clients approached in practice was determined by the need to balance the categories such as old and new clients, male and female clients, rural and urban clients, clients and non-clients, and dropouts. Original interview plans had to be revised sometimes depending on the prevailing security situation, ease of travel and readiness of groups to be interviewed. Table 2.3 presents details of coverage across MFIs.

Research questions
The research questions stem from the second and the third objectives of the study. They are:

1. Who are the people participating in the microfinance programme?
2. What are the characteristics of the households participating in the microfinance programme?
3. Does participation in microfinance lead to an increase in economic well-being?
4. Is the socio-economic status of women improving as a result of participation in the microfinance programme?
5. Does microfinance have any impact on the health and education status of participating households?
6. Does microfinance act as a safety net?
7. Does microfinance accelerate economic activity, thereby leading to job and wealth creation?
8. Are there some key indicators that can accurately predict the welfare of participating household?

Research hypotheses
The study would test the following hypotheses:

1. Microfinance clients do not come from specific income or ethnic groups or geographical areas.
2. Microfinance clients are economically better off than non-clients as a result of participation in the microfinance programme.
3. Long-standing clients of the microfinance programme are economically better off than new clients.
4. Women participating in the microfinance programme enjoy a higher socio-economic status than those women who are not participants.
5. The level of awareness is higher among those women who are participants in the microfinance programme.
6. Participation in the microfinance programme has empowered women.
7. The educational status of the members of client households is higher than the educational status of the members of non-client households.
8. More client households than non-client households access health services.
9. Microfinance plays a key role in the livelihood calculations of the participant households and acts as a safety net in times of crisis.
10. Microfinance has helped to start new economic activities and expand existing economic activities.
11. Microfinance has created jobs and thereby contributed to reduction in unemployment.
12. There are key socio-economic indicators that can help track the trends in the welfare status of the participant households over time.
Table 3. Sample distribution across MFIs

<table>
<thead>
<tr>
<th>Region</th>
<th>Province</th>
<th>AFSG</th>
<th>ARMP</th>
<th>BRAC*</th>
<th>CFA**</th>
<th>FINCA</th>
<th>MADRAC</th>
<th>MoFAD</th>
<th>OXUS</th>
<th>Parwaz</th>
<th>SUNDUQ</th>
<th>WFW</th>
</tr>
</thead>
<tbody>
<tr>
<td>NCR</td>
<td>Kabul</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>East</td>
<td>Laghman</td>
<td></td>
<td></td>
<td></td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nangarhar</td>
<td>30</td>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>West</td>
<td>Herat</td>
<td>30</td>
<td>30</td>
<td></td>
<td>20</td>
<td>20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North-west</td>
<td>Balkh</td>
<td>30</td>
<td>25</td>
<td></td>
<td>20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td></td>
<td>Jawzjan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>25</td>
</tr>
<tr>
<td>North-east</td>
<td>Baghlan</td>
<td>20</td>
<td>20</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Kunduz</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>Takhar</td>
<td>15</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>30</td>
<td>95</td>
<td>170</td>
<td>40</td>
<td>100</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
</tbody>
</table>

* AMFI clients were eventually not interviewed because of failure to establish contact and liaise with the management of AMFI. Their part of the sample was transferred to BRAC.

** CFA was subsequently dropped from the study as the research team could not contact the management during the planning phase.
Afghan Gul was 35 years old when she returned to Afghanistan from Pakistan in 2003. She settled in Qila Pir, a village in the Behsood district of Jalalabad. When she, her family arrived from Pakistan, her husband couldn’t find work. As an immediate recourse, Afghan Gul turned to the investment the family made before repatriating to Afghanistan: two cows they brought all the way from Pakistan. She started selling the milk and yogurt she processed from the cow, but her income was not enough even for basic daily food consumption. Her family was suffering.

One day, some female loan officers from Sunduq, a microfinance institution affiliated with MISFA, visited the village where Afghan Gul and her family reside. Sunduq loan officers invited her to join the meetings and advised her to apply for membership in a village bank so she can take out loans.

Afghan Gul discussed with her husband the opportunity of applying for a microfinance loan and when he expressed his support, she immediately went through the application process and received the first cycle loan of 5,000 Afs in 2005. She used the money to buy one heifer (a young female cow, especially one that has not yet had a calf) and when it was approaching maturity, she sold the heifer and made profit out of the purchase price. She successfully repaid the first cycle loan and got the second cycle loan of 10,000 Afs, with which she used to buy another heifer. After the repayment of the second cycle loan, she applied for third cycle loan of 25,000 Afs, this time to buy a cow. The money helped her not only to increase her livestock but also to start selling a variety of other items, milk, yogurt and cheese. Afghan Gul’s family had two cows when they arrived from Pakistan and today they have four cows, thanks to her entrepreneurial spirit.

Afghan Gul is now in the process of applying for another loan to increase her livestock and to extend the sale of her products. Her dream is to grow her business to a level where she will be able to meet all the financial needs of her family, especially on education, proper medical care for her children and home investment.
Eid Mohammad, 25 years old, lost his father, who disappeared from Kabul during the war. For most of his young adult life, he has been the breadwinner of the family and he takes this role very seriously.

At first, he set up a food cart in front of a school but after a while, he was not making enough to make ends meet for his family.

When CHF International’s “Afghanistan’s Microfinance Initiative”, also known as AMFI, launched its lending program in Ghazni Bazaar, Eid Mohammad was among the first ones to apply for a loan.

He joined a three other people in a group lending scheme and received a US$500 loan from the first cycle. At that time, his daily turnover was US$5 per day, collecting US$150 per month. After receiving the loan from AMFI, he rented a small shop. From there he started selling food stuffs and daily needs, working hard to improve his family’s standard of living.

Mohammad’s turnover steadily increased after his initiative to expand his business. At the time of writing, his was earning US$20 per day, four-times more than he was earning before his first loan. His average earning per month was approximately US$600.

Mohammad was planning to take out a new loan to expand his business further and improve the quality of life of his family.