Agriculture, Rural Investment and Enterprise Strengthening (ARIES) Program in Afghanistan

FINAL REPORT

September 30, 2006-December 31, 2009

Associate Cooperative Agreement No.: 306-A-00-06-00520-00
under the FIELD-Support Leader with Associates

Submitted to: **U.S. Agency for International Development**
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In consortium with:

ACDI/VOCA
FINCA
MISFA, Ltd.
ShoreBank International
WOCCU

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Abbreviations and Acronyms

ADP	Alternative Development Program
AED	Academy for Educational Development
AIB	Afghanistan International Bank
AISA	Afghanistan Investment Support Agency
ANA	Afghan National Army
ANP	Afghan National Police
ARFC	Afghanistan Rural Finance Company
ARIES	Agriculture, Rural Investment and Enterprise Strengthening
ARMP	Afghanistan Rural Micro-credit Program
ACSP	Afghanistan Credit Support Program
ASAP	Accelerating Sustainable Agriculture Program
ASMED	Afghanistan Small & Medium Enterprise Development
BAB	BRAC Afghanistan Bank
BAL	Bank Al-Falah
BRAC	Bangladesh Rural Advancement Committee
CFA	Child Fund Afghanistan – Microfinance
CIDA	Canadian International Development Agency
DFID	Department for International Development (United Kingdom)
FINCA	Foundation for International Community Assistance
FMFB	First Microfinance Bank of Afghanistan
GOA	Government of Afghanistan
IED	Improvised Explosive Device
IIFC	Islamic Investment & Finance Cooperative
MADRAC	Microfinance Agency for Development and Rehabilitation of Afghan Communities
M-Commerce	Mobile Commerce (Mobile Phone Money Transfer)
MFI	Microfinance Institution
MIS	Management Information System
MISFA	Microfinance Investment Support Facility for Afghanistan, Limited
MOU	Memorandum of Understanding
PAR	Portfolio at Risk
PMI	Parwaz Microfinance Institution
PMP	Performance Monitoring Plan
PRT	Provincial Reconstruction Team
RIF	Rural Investment Fund
SBI	ShoreBank International
SME	Small and Medium Enterprise
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions
WWI	Women for Women Afghanistan

Executive Summary

The Academy for Educational Development (AED) is pleased to provide the U.S Agency for International Development (USAID) with this final report for the Agriculture, Rural Investment and Enterprise Strengthening Program (ARIES) in Afghanistan. The ARIES Program is an Associate Cooperative Agreement, No. 306-A-00-06-00520-00, under the FIELD-Support Leader with Associates (LWA) Cooperative Agreement.

In 2006, USAID began its largest-ever rural finance program, ARIES, in Afghanistan. The program's goal was to create a strong foundation for a sustainable, market-driven rural finance program in Afghanistan that would also expand employment opportunities. AED served as the prime recipient and the managing partner for all ARIES activities. Our implementing partners included: ACDI/VOCA, Foundation for International Community Assistance – Afghanistan (FINCA-A), Microfinance Investment Support Facility for Afghanistan (MISFA), ShoreBank International (SBI) and World Council of Credit Unions (WOCCU).

After the rule of the Taliban, Afghanistan's financial sector was in shambles. It had no operative central bank and its currency was highly inflated. The six state-owned banks did not take deposits or make loans. The commercial banking sector was non-existent, leaving farmers without access to credit to diversify their crops. The microfinance sector served a paltry 12,000 clients in a country of over 28 million. Unemployment was nearly 40 percent, and as many as 85 percent of households in certain provinces depended on opium-based credit for their economic survival. Beyond farming, licit jobs in Afghanistan are overwhelmingly provided by micro, small and medium enterprises. For these businesses to survive and create more jobs, they need access to financial services like banking and lending. ARIES has been able to build a variety of financial institutions to provide this needed access.

Despite a deteriorating security situation, ARIES accomplished most of its targets, including more than 222,000 loans to 65,000 borrowers and injecting $130+ million in capital into the economy through 119 financial services outlets. This is more than double the pre-ARIES capacity of Afghanistan's financial services sector. Many of these loans were for less than US$1,000 each, yet together these activities have created and/or sustained an estimated 226,000 jobs within the legal Afghan economy. ARIES was particularly successful in reaching out to female borrowers who represent 49 percent of clients by loans made, greatly surpassing the target of 33 percent. In September 2009, ARIES had ongoing activities in 24 of Afghanistan's 34 provinces. Models for expanding access for formal financial services under ARIES included:

- Creating a network of Sharia-compliant Islamic Investment and Finance Cooperatives (IIFCs), which offer nearly 40,000 formerly unbanked Afghans access to savings, loans, and leasing services.
- Establishing a wholesale window for small and medium enterprise lending in the Microfinance Investment Support Facility for Afghanistan (MISFA-A), which supports commercialization of the Afghan financial sector.
- Establishing a non-banking financial services company, Afghanistan Rural Finance Company (ARFC), which guides and lends to rural and agribusiness small and medium enterprises.

ARIES built on and benefited from lessons learned from USAID precursor programs and we now share our own lessons learned and offer recommendations for continuing and future work in the financial services and rural finance sector in Afghanistan. This report includes a general overview of program accomplishments and impact, detailed sections on the activities under specific program components, along with sections on challenges and lessons learned.

AED would like to take this opportunity to recognize the support and collaboration of USAID, our implementing partners, and our Afghan counterparts without whom ARIES would not have been successful.

I. Introduction

A. ARIES Scope and Objectives

With the award of the $100 million ARIES Program, USAID/Afghanistan engaged the Academy for Educational Development (AED) and its implementing partners in USAID's largest rural finance program to date with the aim of creating a strong, private sector foundation for a sustainable, market-driven rural finance system in Afghanistan. ARIES was managed by AED in partnership with ACDI/VOCA, Foundation for International Community Assistance (FINCA), Microfinance Investment Support Facility for Afghanistan, Limited (MISFA), ShoreBank International (SBI), and World Council of Credit Unions (WOCCU). AED's management role comprised monitoring and evaluation, project reporting (programmatic and financial), communication, coordination and an overall technical leadership of the program. Each partner focused on a different component of the financial landscape from microenterprise credit of less than $200 to loans of over $1 million to larger businesses. In addition, WOCCU's affiliate in Afghanistan also offered leasing, insurance and savings services to members.

ARIES was originally designed to target USAID/Afghanistan's Alternative Development Program (ADP) regions in the East, South and North of Afghanistan, as well as Herat Province in the West. However, the ADP regions expanded to cover the whole country over the course of the program. ARIES activities complemented the efforts of other USAID programs, such as Afghanistan Small and Medium Enterprise Development (ASMED), Accelerating Sustainable Agriculture Program (ASAP) and the Alternative Development Programs (ADPs), which focus primarily on developing new market and enterprise opportunities through technical assistance and grants.

ARIES supported USAID/Afghanistan's strategic objective of "promoting a licit economy led by the private sector." Specific targets established for ARIES included support for 121 financial service outlets and disbursement of a cumulative total of 303,907 loans worth $152 million, by the end of the program.

B. Overview of ARIES Activities

With an emphasis on rural finance, ARIES offered five different approaches to expanding access to formal financial services for rural and agri-based micro, small and medium enterprises (MSMEs), especially those offering significant job creation potential in the ADP regions. By partnering with formal institutions, ARIES supported the development of a viable and comprehensive financial system in Afghanistan. Listed below are AED's primary implementing partners for ARIES and a brief description of the specific market segment that they served under ARIES and continue to serve beyond ARIES' funding:

i. AED

AED provided technical leadership, overall program management and support services for the ARIES program. This included strategic direction, monitoring and evaluation, project reporting, knowledge management, technical training, and coordination of partner activities.

The ARIES activities in the initial year focused on the implementation of partner field operations and AED's establishment of data collection and knowledge management tools to collect and report on progress. The latter years focused on sustainability and building upon this recently laid foundation of rural financial pilot operations with the view to moving many of these organizations and their activities to scale and sustainability. AED used effectively two types of monitoring tools to support the growth of our partner organizations in the last year of operation. AED documented ARIES partner progress using GIS mapping tools to track their rural finance lending activities on the ground. AED also prepared historical records of the partners' development as a tool for planning a future course for these organizations. AED worked with our partners on various levels of engagements based on their needs and the findings of regular program reviews.

AED undertook a series of financial sector reviews to essentially fill in service and strategic planning gaps identified by our partners and the GOA during the first two years of ARIES. These reviews were designed to strengthen the ARIES strategic vision for the growth and expansion of the rural financial sector.

AED conducted semi-annual data quality assessments designed to consider five data quality standards: validity, integrity, precision, reliability, and timeliness. This ensured that the data collected and reported by our ARIES partners could be relied upon for evaluating program results and making program decisions. AED visited our partners' country and branch offices in more than a dozen provinces. MIS and other software data and hundreds of credit files were reviewed during these assessments and confirmed that the data reported was of good quality and reliable.

A client visitation program (CVP) was initiated and carried out by AED as part of our monitoring responsibilities under the approved Performance Management Plan. The CVP was aimed at ensuring that ARIES funds reached the target clients in the target regions and had a positive impact on the businesses of individual entrepreneurs while also contributing to the overall socio-economic development of the country. Monitoring visits were conducted to most of the ARIES partner 113 field offices located throughout Afghanistan. Visits included observation of field operations, confirmation of outlet monitoring data and interviews with the borrowers which were conducted to learn about the impact of access to the loan and the borrower's perception of the services provided by the ARIES implementing partners. Information from the client visitation was incorporated into monitoring reports.

AED coordinated a two-day Small and Medium Enterprise Development Workshop in Kabul in July 2009. With the objective of identifying major issues and barriers to SME growth and to chart a path forward with specific solutions, this event was attended by more than 100 people. Attendees represented a wide spectrum of stakeholders that included USAID officials, Afghan government officials, other donors, implementing partners, financial institutions, business development service companies, SMEs, and NGOs. A comprehensive report was produced and disseminated to all participants and many others who were unable to attend.

AED completed two research studies on *Designing a Financial System from the Ground Up*, and *Pros and Cons of Separating Financial Services Development from Enterprise Development*. They drew from experiences and lessons learned under ARIES and other USAID-supported programs over the last few years. As a useful knowledge management piece, the research papers will assist the Mission with future programming in the areas of financial sector development and enterprise development. The papers are also relevant to the larger development practitioner community working on these issues in Afghanistan and other post-conflict countries. AED also finalized a series of project briefs discussing the business model and strategic development associated with ARIES partners' activities in Afghanistan.

In cooperation with MISFA, AED compiled a list of all points of contact for MFIs and SME lenders nationwide as well as a comprehensive listing of all microfinance and SME finance product terms. The lists were submitted to USAID/Afghanistan for distribution to PRTs and on as-needed-basis to key personnel of enterprise development programs of various donors to help link promising enterprises to financial services.

Additionally, AED completed draft Scope of Work (SOW) for an agriculture finance market research that may be implemented by USAID and/or the Ministry of Agriculture, Irrigation, and Livestock (MAIL) following closeout of the ARIES program.

AED and Roshan completed a training program on M-Paisa for eight staff members of OXUS and then worked with OXUS-Afghanistan and Roshan to initiate a pilot M-Commerce (M-Paisa) project in Afghanistan. The aim of this initiative was to introduce innovative technology for microfinance transactions, increase transparency and efficiency of payments, increase the pool of borrowers, provide easy and rapid access to information, increase the reach of microfinance services, and improve the efficiency and capacity of the MFIs to spread this technology into rural/underserved areas. Further work on M-Commerce is expected to be taken up by the ARIES follow-on program.

ii. Training and Technical Assistance

In October 2006, the USAID RAMP report noted a total of 12,000 microfinance loans in the entire country of Afghanistan. During the three years of ARIES, a total of 226,000 loans were issued. This achievement has been made possible because of a dedicated training and technical assistance effort by all ARIES partners. ARIES partners designed and implemented both client training and staff training at all levels within each partner organization. ARIES supported the training of thousands of Afghan men and women in financial intermediation.

AED was directly involved in providing strategic training courses for partner organizations. For example, AED held training workshops for over 30 individuals, representing various Afghanistan-based MFIs in Kabul. The training included Design and Implementation of Performance-based Staff Incentive Systems, Market Research and Innovations in Micro Agriculture Loan Product Development, Microfinance Product Development, and Improving Internal Control of MFIs. The training program was designed to build the MFIs' human and institutional capacity to provide sustainable, demand-driven financial services to their clients.

SBI, in conjunction with MISFA, trained over 300 loan officers and other staff members of the SME lending partners on SME lending methodology, financial analysis (balance sheet, income statement and cash flow), loan monitoring and problem loan management.

WOCCU assigned two experienced credit union professionals on a long-term basis to each IIFC to assist the local communities in the development and operations of these new entities. This hands-on technical assistance was critical to ensure a successful handover to community management. Ongoing coaching and classroom training for staff of the IIFCs continued throughout ARIES.

The scope for expansion of the rural finance sector in the future will be directly linked to the continued expansion of training of new Afghan professionals interested in service in the finance sector, and MFI's continued commitment to providing finance and credit literacy to clients seeking first time and repeat loans.

iii. Partners

FINCA, through its local affiliate, FINCA-Afghanistan (FINCA-A), offers lower tier individual and group microfinance loans from under $200 to $2,000 using their village banking methodology which they have adapted to the Afghan context;

WOCCU, through its local affiliate, WOCCU-Afghanistan (WOCCU-A), offers individual and group microfinance loans as well as savings accounts from under $200 to $5000 using a credit union model customized to the local environment;

MISFA, a wholesale lending institution, on-lends to 15 **microfinance institutions (MFIs)** that offer individual and group loans ranging from under $200 to $5,000. With technical assistance from SBI, MISFA also supports four **SME finance partner institutions**, which disburse loans of $2,000 to $100,000 or more;

ACDI/VOCA established the Afghanistan Rural Finance Company (ARFC), as an independent Afghan financial services company that serves the upper range of SME finance with loans from $20,000 to over $1 million.

iv. Financial Products and Services

The ARIES partners offer a wide range of financial products and services. WOCCU-A, FINCA-A, and the other MISFA microfinance partners provide small-scale loan products ranging from less than $100 to $5,000. In response to local demand, WOCCU-A and FINCA-A refined their customary loan products to be in line with Islamic law or *Sharia-compliant*; both partners now offer group and individual *murabaha*[1]—deferred financing in which an intermediary makes the purchase and the client pays a higher amount later or in installments. WOCCU also now offers Sharia-compliant leasing loans, insurance services and savings accounts.

SME loans offered by AED's partners ranged from $5,000 to $100,000. MISFA on-lends funds to its SME finance partners for a return of 5% per annum. They in turn on-lend funds via conventional or Sharia-compliant loans at effective returns of around 16-24% per annum. For larger SME loans ranging from $20,000 to over $1 million, ARIES partnered with ARFC, which also offers conventional and Sharia-compliant loans at effective returns of around 10-12% per annum.

[1]To conform to Islamic principles, ARIES and several of its partners offer *Murabaha* financing, whereby clients request the bank to purchase certain goods for them. *Murabaha* is not a loan per se; it is a pre-approved and mutually agreed upon sale contract that explicitly itemizes the sale of a commodity for cash plus a markup, including administrative costs associated with the transaction.

II. ARIES Accomplishments and Impact

A. The Context for ARIES

i. Precursor Programs

ARIES built on and benefited from lessons learned from USAID precursor programs, particularly RAMP, a $150 million initiative which was implemented in 13 Afghan provinces from 2003-2006. RAMP's rural finance component aimed to provide financial services to the agricultural sector through a range of options, including support to microfinance and SME lending. RAMP provided funding to MISFA, a multi-donor microfinance apex institution, for on-lending by select MFIs, including BRAC, FINCA-A and Afghanistan Rural Microcredit Program (ARMP). RAMP supported SME lending through the Afghanistan International Bank (AIB), as well as through an equipment leasing company and a venture capital firm.[2] RAMP's partnerships with MISFA and AIB yielded promising outcomes which were continued and expanded under ARIES.

ii. Microfinance Market Context

Pre-ARIES providers of formal credit for the rural and agri-business sectors included Afghan and international banks, as well as MFIs of primarily NGO origin. World Bank estimates in 2002 suggested that there were about four million poor Afghan households in need of microcredit. At that time, the nascent MFI sector served only about 12,000 clients.

With ARIES funding and technical support through November 30, 2009, the number of MISFA's partner MFIs grew to 15, including one bank (FMFB) and a network of credit unions (ARIES partner WOCCU-Afghanistan's Islamic Investment and Financial Cooperatives-IIFCs). ARIES' microfinance partners included FINCA-A and WOCCU-A as well as six other MFIs that received a total of $9 million in ARIES funding that was passed through ARIES' partner MISFA.[3] ARIES-assisted MFIs account for over half of the total number of MFIs operating in Afghanistan (8 out of a total of 15 MFIs in operation as of November 30, 2009). Through November 30, 2009, these funds provided access to financial services to over 56,000 borrowers in 19 provinces through 98 MFI outlets.

MISFA's 15 MFI partners have 309 branches that serve 27 of 34 provinces (79% coverage) and have a combined number of 306,803 microloans outstanding worth $108.6 million, indicating about 8% microcredit market penetrations of as September 30, 2009. The ARIES-funded outstanding loans of partner MFIs (e.g. ARMP, BRAC, CFA, FINCA-A, MADRAC, OXUS, SUNDUQ and WOCCU-A) contributes approximately $16.5 million or just over 15% of the total micro-lending in the country.

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[2] The equipment leasing company was the Afghanistan Finance Company; the venture capital firm was Afghan Capital Partners. For an overview of the RAMP program, and its economic impacts, see "Rebuilding Agricultural Markets Program: RAMP Economic Impact", Chemonics International, Inc., June 2006, available at http://pdf.usaid.gov/pdf_docs/PNADH197.pdf; for details about its rural finance component, see "Rebuilding Agricultural Markets Program: RAMP Impact Assessment No. 9: Rural Finance", Chemonics International, Inc., June 2006, available at http://pdf.usaid.gov/pdf_docs/PNADH144.pdf.

[3] The six MFIs and respective funding amounts are: ARMP $2,477,585; BRAC $3,029,199; CFA $1,393,366; MADRAC $996,150; OXUS $357,000; and SUNDUQ $746,700.

MISFA MFIs had an average PAR_{30} of 8% as of the same date, which although still relatively high, represents an improvement from the 11% PAR_{30} figure reached in early-2009 following a two-year period of rapid growth in the microfinance industry.[4] Due in part to the efforts of ARIES, outreach is progressively getting both wider and deeper:

- almost 61% of microfinance clients are women,
- the average microloan size is just $350, and
- approximately 30% of clients live in rural areas.

iii. SME Market Context

The SME lending that was supported under ARIES primarily happened through licensed banks. It is important to note that the banking sector is still young, with formal banking only beginning with the passage of the Law on the Central Bank and the Law on Banking in 2003. Since the passage of these laws, 17 banks, 111 money service providers and 373 foreign exchange dealers have been licensed. Total deposits of the banking sector currently exceed $2.1 billion; commercial bank lending to more than 79,000 businesses, virtually all of which are SMEs, has reached about $1 billion. Banks are now active in more than 30 out of 34 provinces of Afghanistan with a branch network of more than 244 full service and limited service branches providing financial intermediation and facilitating payments throughout the country.

Based on research completed by ARIES partner SBI, outstanding credit to the SME sector is at most $45 million; roughly $30 million of SME outstanding credit is from commercial banks and $14 million is from ARFC as of November 30, 2009. This indicates less than 1% market penetration. At most, around $60 million in loans have been disbursed to SMEs over the past four years, the approximate age of the nascent Afghan banking sector. About $42.5 million (around 70%) was disbursed by ARIES partners. Much of the remainder can be attributed to efforts of the now completed USAID-sponsored Afghanistan Credit Support Program (ACSP), begun in 2005.

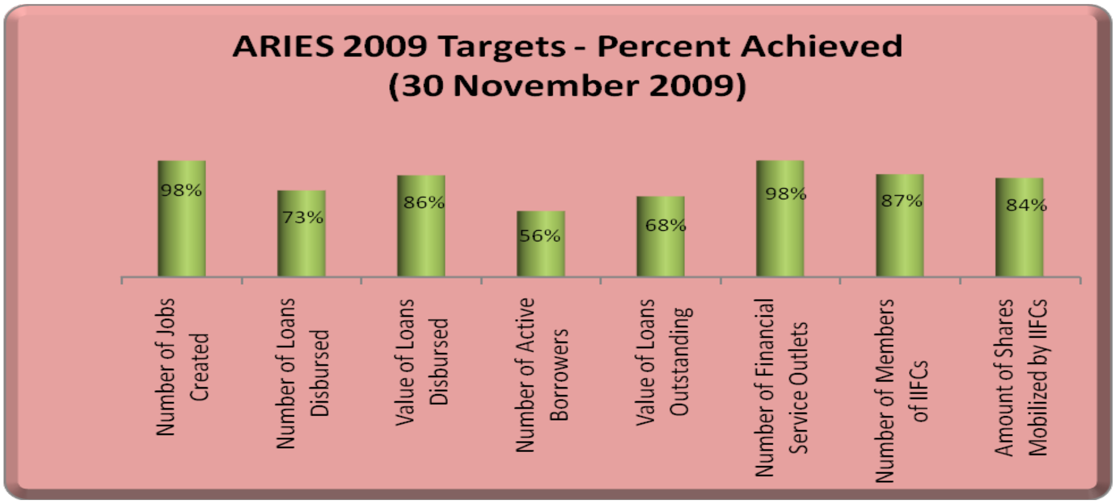
ARIES SME lending efforts focused on select partners, with the primary objective to expand the frontier of the financial system into more rural areas. Hence, ARIES SME data includes provincial branch disbursements exclusive of Kabul. The ARIES partner, ACDI/VOCA, founded ARFC, which lends primarily to lead firms in agricultural value chains. ARFC disbursed 87 loans worth $20.5 million on a cumulative basis through November 30, 2009. The ARIES-supported MISFA SME Unit leveraged the initial $15 million in loan capital with technical assistance provided by SBI to partner with seven institutions (four banks and three MFIs) to reach SMEs. MISFA SME lending partners cumulatively have disbursed 1,624 loans worth $27.3 million cumulative as of November 30, 2009.

B. ARIES Performance vs. Performance Monitoring Plan Targets

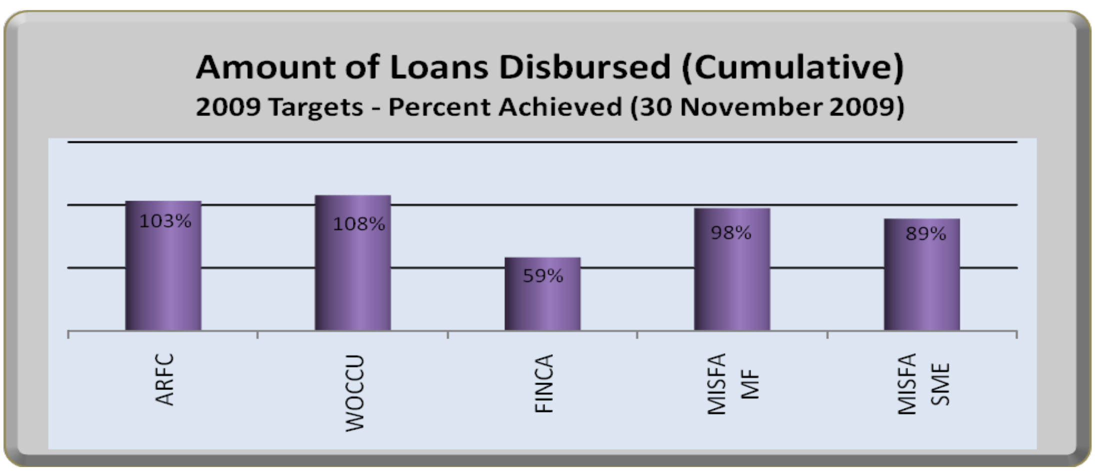
It is against the relatively weak level of financial sector development in September 2006 that the comparably ambitious ARIES performance targets were set. Annex I shows the indicators that are used to

[4] Portfolio at Risk (PAR) is calculated by dividing the outstanding balance of all loans with arrears over 30 days, plus all refinanced (restructured) loans by the outstanding gross portfolio as of a certain date. Since the ratio is often used to measure loans affected by arrears of more than 60, 90, 120 and 180 days, the number of days must be clearly stated (for example PAR_{30}).

determine whether the overall objectives of ARIES were met. Annex II includes the report on PMP Indicators as of November 30, 2009 on which date the sub-agreement between AED and its partners ended. Despite deteriorating security conditions in Afghanistan, ARIES exceeded what was expected at the program's outset in 2006, and accomplished most of its targets (see chart below). The fluid security situation increased both the complexity and cost of field operations for AED and our partners. Nonetheless, a total of 222,049 loans, with a cumulative amount of $130.4 million were made through the ARIES' partners as of November 30, 2009 (see chart below).



ARIES was particularly successful in expanding outreach to female borrowers who collectively represent 49% of their clients by number of loans made; this greatly surpasses the three-year target of 33%. Furthermore, ARIES helped to create or sustain more than 226,000 full time, part-time and seasonal jobs and supplier livelihoods. Most of these are in the ADP regions. One of ARIES' greatest accomplishments is the presence it established across the country. ARIES' partners have 119 financial service outlets throughout the country and reach 24 of Afghanistan's 34 provinces.



In addition to being on track to meet most of its performance targets despite human capacity and physical infrastructure constraints and deteriorating security conditions, ARIES achieved a number of important intermediate results. Some of key achievements of individual ARIES partners are described in the next section.

C. Key Achievements

Some of Afghanistan's most vulnerable poor have been served under ARIES with approximately 50% of FINCA-A's client base being women. FINCA-A also developed Sharia-compliant loan products. It has cumulatively disbursed more than 90,000 loans worth $27.9 million through its ARIES-supported branches.

ARIES played an important role in building a savings culture and expanding access to Sharia-compliant savings, loan and leasing products in Afghanistan through the establishment of a network of 27 IIFCs and Points of Service[5], including cooperatives for the Government of Afghanistan's public service employees.

MISFA further developed as an efficient and sustainable wholesale institution, advancing professionalization of the Afghan microfinance sector through loans and capacity-building assistance to its 15 microfinance partners. The latter collectively have an outstanding loan portfolio of about $108.5 million and a cumulative repayment rate of 94% as of September 30, 2009.

With technical assistance from SBI, MISFA created a functional $15 million wholesale window for SME finance and developed the SME finance capacity of five financial institutions; this market segment was previously virtually unserved by the banking sector.

The ARFC was established as an independent and operationally self-sufficient rural finance company through which ACDI/VOCA applied an innovative value chain finance approach to stimulate rural and agribusiness SMEs. For example, in its support of the Omaid Bahar Fruit Processing Facility, ARFC has demonstrated the model's potential to align Afghan businesses with locally and globally competitive market opportunities.

While these results are important in themselves, they do not provide the entire picture of the program's achievements. Under AED's coordination and oversight of these projects and initiatives, ARIES was able to make collective contributions to the development of a sound financial system that exceeds the sum of its parts. Specifically, ARIES:

- **Demonstrated the "bankability" of poor rural Afghans in a culturally acceptable way**. Not only did most of ARIES' partners develop Sharia-compliant products, they adapted to accommodate the realities of rural Afghanistan. For example, WOCCU-A supported community development projects as a way to build support in the community, and engaged local religious leaders in the governance and financing decisions of their IIFCs.

- **Exposed local financial institutions to international best practices in microfinance and SME finance**, building on lessons learned in other countries and environments. All ARIES-supported training and technical assistance integrated international best practices, and built upon templates and systems that had proved to work in similar environments. This helped the Afghan

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[5] Each IIFC serves as an independent, member-owned and operated financial institution. The IIFCs are supported by Point of Service centers that serve as outlets for the basic functions of the IIFC in areas that are more geographically convenient to the IIFC member.

microfinance and SME finance sectors to avoid making some of the mistakes of the past, facilitating rapid market-oriented expansion in a market-oriented fashion.

- **Emphasized the importance of sustainability in Afghanistan as well as the sustainability of the partners and institutions** supported directly and indirectly the ARIES Program. Despite the push for rapid results, ARIES' initiatives focused on building permanent financial institutions that would increasingly be managed and run by local Afghan professionals. To do so, ARIES emphasized local training and capacity building with more support going to those institutions that demonstrated progress toward operational self-sufficiency. In contrast to many short-term projects, this approach conveyed to clients the importance of repaying their loans to ensure access to future loans.

- **Rapidly created broad outreach, serving various sectors and niche markets, including special adaptation to serve women and the rural poor.** ARIES and its partners created a broad network of financial services for numerous sectors and niche markets including those adapted specifically to serve women and the rural poor. Microfinance partners undertook additional efforts to serve female entrepreneurs who represented about half of its microfinance clients as of November 30, 2009. For example, microfinance providers often hire female loan officers to facilitate better outreach to poor rural women.

- **Supported the development of viable alternative livelihoods to poppy farming and to taking up arms for hire**. By coordinating with other USAID-funded programs and supporting financial services outside of urban areas, ARIES helped to numerous rural enterprises, particularly in areas of heavy poppy cultivation and in severely conflict-affected regions.

III. UPPER TIER SME FINANCING – ARFC

A. Activity Overview

ARIES partnered with ACDI/VOCA to establish the Afghanistan Rural Finance Company (ARFC). ACDI/VOCA is a US-based, non-profit economic development organization that employs a value chain approach to enterprise development and finance. The ARFC was supported through a $25.6 million grant under ARIES to ACDI/VOCA; of this, $17.5 million was allocated to loan capital and the remainder covered project costs.

ARIES' objective in supporting the establishment of ARFC was to advance the upper tier of SME financing with loans ranging from $20,000 to over $2 million in USAID's target ADP areas. This activity complemented ARIES' efforts to promote SME investment at the middle tier through the establishment of a wholesale SME window within MISFA. ARIES' SME finance support complemented its efforts to stimulate microfinance in rural areas through support of MISFA's microfinance wholesale lending as well as WOCCU-A's and FINCA-A's retail microfinance lending.

The primary targets set for the ARFC were to disburse a cumulative total of 57 loans worth $19.8 million by the end of the ARIES Program. By November 30, 2009, ARFC had disbursed 87 SME loans worth $20.5 million on a cumulative basis.

The ARIES vision for upscale SME financing was to create a significant number of sustainable jobs linked to growing value chains in the ADP regions. The initial strategy for this involved the creation of agriculture-related cooperatives. However, a study by ACDI/VOCA in early 2007 quickly determined that this approach would not be viable within the project's three-year timeline.

As a result, the ARIES strategy transitioned to direct investment in existing cooperatives and other private sector agriculture-related firms. ARFC was established in February 2007 to implement this revised strategy, which allowed activities to commence almost immediately. In addition, it was more appropriate to the Program's timeframe than the lengthier period that was required to develop local capacity. It was also more appropriate to the local conflict context, which called for rapid interventions.

ARFC's objective is to support the creation of sustainable employment through long-term value chain financing. Its portfolio includes investments in both agricultural and non-agricultural rural SMEs and in construction and service sector firms. As of November 30, 2009, ARFC had 54 active clients, most of whom were located in urban and peri-urban areas outside of Kabul. As all are linked to growing value chains, the client firms have significant potential to create jobs in the ADP areas. For example, ARFC's single largest commitment, a $4.8 million loan to the Omaid Bahar Fruit Processing Facility in Kabul, is expected to create or support approximately 200 full, part-time and seasonal jobs. It directly improves the incomes of over 30,000 growers of pomegranates, apples and other fruits primarily located in the Southern and Eastern provinces of Afghanistan.

ARFC is registered as an Afghan for-profit, limited liability company with the Afghanistan Investment Support Agency (AISA). ACDI/VOCA and its subsidiary own ARFC. The ARFC Board of Directors comprises two expatriates from ACDI/VOCA and three Afghans.

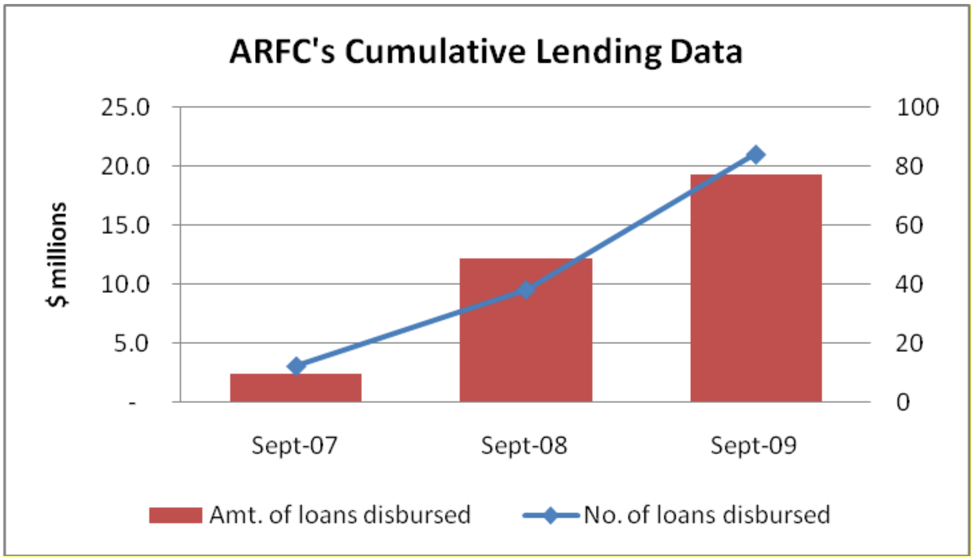
With ARIES' support, ACDI/VOCA provided ARFC with a comprehensive technical assistance package as well as leadership for the ARFC Board of Directors. ARFC is currently led by an expatriate management team; however, its management will be nationalized over the medium term. ARFC is headquartered in Kabul; it does not have branch offices.

In strategic collaboration, ARFC has worked closely with other USAID rural enterprise projects, particularly the Alternative Development Program – East (ADP-E) and the Afghanistan Small and Medium Enterprise Development (ASMED) program. These "sister programs" identify and support SMEs that require grant funding and technical assistance, while ARFC provides financing to those SMEs determined to be "investment ready."

ARFC offers operational working capital loans via lines of credit and long-term project loans. All loans require the firm to directly invest at least 20% equity capital. Sharia-compliant financing options are available at costs that compare to 10-12% annual interest rates.

B. Performance

As mentioned above, ARFC exceeded many of its performance targets. Against a primary target of disbursing 57 loans worth \$19.8 million by the end of the ARIES Program, ARFC had disbursed a total of 87 loans (153% of target) worth a cumulative amount of \$20.5 million (103% of target) by November 30, 2009. ARFC's portfolio has 54 current borrowers (102% of target) with a combined outstanding balance of over \$14.3 million (86% of target) as of November 30, 2009. ARFC's steady growth over time can be seen in the chart below.



ARFC had clients in all of the ADP regions, as well as in Herat Province and Kabul. Approximately 70% of ARFC's loan clients are sourced through other USAID projects. Despite ARFC's emphasis on lending to agriculture-related SMEs, which comprised over half of the loan portfolio as of September 30, 2009, its PAR_{30} was 5.2%, with only one write-off as of the same date. ARFC is operationally self-sufficient with revenues covering 97% of its operational expenses as of November 30, 2009.

C. Key Achievements

- With the aim of increasing incomes and creating sustainable employment through long-term value chain financing, ARFC supported or created nearly 35,000 full time, part-time and seasonal jobs and supplier livelihoods in the ARIES target regions as of November 30, 2009. For example, ARFC's loan to the Balkh Dairy helps to provide some 200 dairy farmers with a market for their milk.

- With the aim of diversifying its risk as a sole provider of large loans to SME borrowers, ARFC co-financed two loans with the Afghanistan International Bank (AIB). It is actively seeking similar opportunities to partner with other commercial banks.

IV. MIDDLE TIER SME FINANCING – MISFA

A. Activity Overview

MISFA was established in 2003 at the request of the Government of Afghanistan to coordinate donor funding and technical assistance to strengthen the microfinance sector. MISFA functions as an independent apex organization. Bilateral grant support for MISFA is channeled primarily through the Afghanistan Reconstruction Trust Fund (ARTF). MISFA's vision is to "have a positive economic and social impact by facilitating the development of the Afghan financial sector, increasing access to the un-banked, especially women, and rural and poorer households." As a double-bottom line institution, MISFA aims to promote a sustainable sector that operates without subsidies. In pursuit of that goal, MISFA currently coordinates with 15 MFI partners in 24 of Afghanistan's 34 provinces.

MISFA played two major roles in the ARIES Program. First, it on-lent funds to MFIs that operated in the ARIES target areas that were not served by the Program's primary partners. Second, through ARIES support, the scope of MISFA's wholesale lending expertise was expanded beyond microfinance with the development of a SME window.

The SME Wholesale Lending Department at MISFA was established and capitalized in late 2006 with a $15 million loan capital from ARIES – its sole donor to date. This department is dedicated to developing SME lending for local financial institutions through wholesale credit lines and loan guarantee facilities. These loans range from $5,000 to over $100,000, also known as the so-called "missing middle" of SME financing. In Afghanistan, this approach to SME lending is highly innovative and was previously less structured and under-developed within the formal financial sector.

Staff members within the SME Department created at MISFA as part of the ARIES Program received technical assistance from SBI, the international consulting branch of a US bank corporation. SBI was well positioned for this task: it had been active in Afghanistan since 2003 when it supported the rural finance component of the USAID-funded RAMP Program, a precursor to ARIES.

The objective of creating a SME wholesale finance window at MISFA was to support investment in this sector in areas outside of Kabul and to build the capacity of local financial institutions to provide ongoing SME financing. This component of ARIES complemented the SME investment at a higher scale that was to be done through the ARFC. Specific targets established for the MISFA/SME effort were to disburse a cumulative total of 1,200 loans worth $30.6 million over the life of the ARIES program. As of November 30, 2009, a total of 1,624 loans worth $27.3 million had been disbursed by ARIES' MISFA/SME lending partners.

The MISFA SME Unit partners with seven financial institutions, including four banks and three upscaling MFIs.[6] Each of the seven MISFA SME partner financial institutions offers a different size of loan to the

[6] The four banks are Afghanistan International Bank (AIB), Bank al-Falah, BRAC Afghanistan Bank (BAB) and The First Microfinance Bank (FMFB). The three MFI partners are Parwaz, Oxus and the Afghanistan Rural Microcredit Program (ARMP).

SME market. With ARIES' support, MISFA made much progress in the SME sector and now operates as a self-sufficient organization.[7]

With ARIES' support, SBI provided the MISFA SME Department and its seven partners with a comprehensive technical assistance package. This included wholesale credit lines and guarantee facilities as well as training in appropriate lending methodologies. SBI assisted MISFA in establishing SME partner selection criteria by adapting a more thorough due diligence process. SBI also expanded MISFA's SME services to regions across the country and created a series of SME financial products and incentives. Additionally, SBI trained over 300 credit officers in partner financial institutions.

Potential partners are selected for the MISFA SME initiative based on their capabilities and commitment to SME lending. They must be legally registered in Afghanistan as financial institutions. In addition, they must receive a sound due diligence report. Other selection criteria include area of operations and congruence of the MISFA SME initiative with the institution's strategy in Afghanistan.[8]

Foreign-owned institutions active in Afghanistan are also eligible to participate in the MISFA SME initiative. Generally, the MISFA SME program targets only privately-owned companies, but a government-owned bank may also be accepted if its proposal is exceptionally strong.

Though MISFA is based in Kabul, the SME partners to whom MISFA lends are active in several provinces within the ADP regions as well as in Herat province. The following table illustrates where MISFA/SME partners operate by region:

MISFA SME Finance Partners							
ADP Region	**FMFB**	**AIB**	**BAB**	**Bank al-Falah**	**Oxus**	**Parwaz**	**ARMP**
North (Balkh, Badakhshan, Takhar and Kunduz)	X	X	X		X		X
South (Helmand and Kandahar)		X					
East (Nangahar)		X	X	X			
Other	Herat, Kabul	Herat, Kabul	Kabul	Kabul	Kabul	Kabul	

[7] As a wholesale apex institution, MISFA on-lends funds to MFI partners at an interest rate of 5% per annum. While this is not necessarily a commercial interest rate as it does not fully cover the country risk of lending in Afghanistan, it reflects progress toward commercialization of the microfinance sector, which previously relied on grants and 0% interest loans. At this interest rate, MISFA is able to cover the full costs of its lending operations.

[8] For a full list of selection criteria see www.microlinks.org/ariesprojectbriefs.

Through the MISFA SME window, both lines of credit and loan guarantee facilities are offered to financial institution partners. Interest is charged with both types of products; therefore, neither is Sharia-compliant. MISFA SME partners, however, offer a range of conventional as well as Sharia-compliant products.[9] Through SBI, the ARIES Program assisted MISFA in the development of Sharia-compliant products.

i. Lines of Credit

MISFA manages credit lines in Afghan currency for its SME partners. Partners use credit lines to finance SME projects in the ARIES-targeted economic zones based on their own lending terms. The duration of a credit line may be up to five years.

An original credit line may be as high as Afs 100 million ($2 million). If the MISFA SME partner uses its credit line satisfactorily, it may have access to additional tranches of up to Afs 200 million ($4 million). If the partner does not utilize the funds, MISFA has the option to reduce its commitment to the partner.

Credit lines are disbursed from MISFA's SME account to a partner in tranches corresponding to approved business deals. MISFA offers credit lines at interest rates of 3% to partners in the ADP-South region, and at 7% to partners in the ADP-North and ADP-East regions. Rates are differentiated to take into account the higher security risks of operating in the South.

ii. Credit Line with Partial Guarantee

This product is similar to the line of credit described above with the addition of a partial loan guarantee. MISFA provides credit line funding at a rate of 4.5% to partners in ADP-South and 8.5% to partners in the ADP-North and East. Again, rates are differentiated due to the higher risk of operating in the South. The interest rate is higher in this program than for the regular credit line, due to the inclusion of the partial guarantee. In the event of default by a SME client, the financial institution will be exempted from repayment of 50% of the outstanding balance on the day of default, which will be deducted from the next installments of principal due to MISFA.

Under the ARIES Program, acceptable uses of MISFA SME funds included purchases of equipment, inventory or raw materials for growth or a new line of business; purchases or renovations of real estate for business production or provision of service; and working capital for specific purposes. [10]

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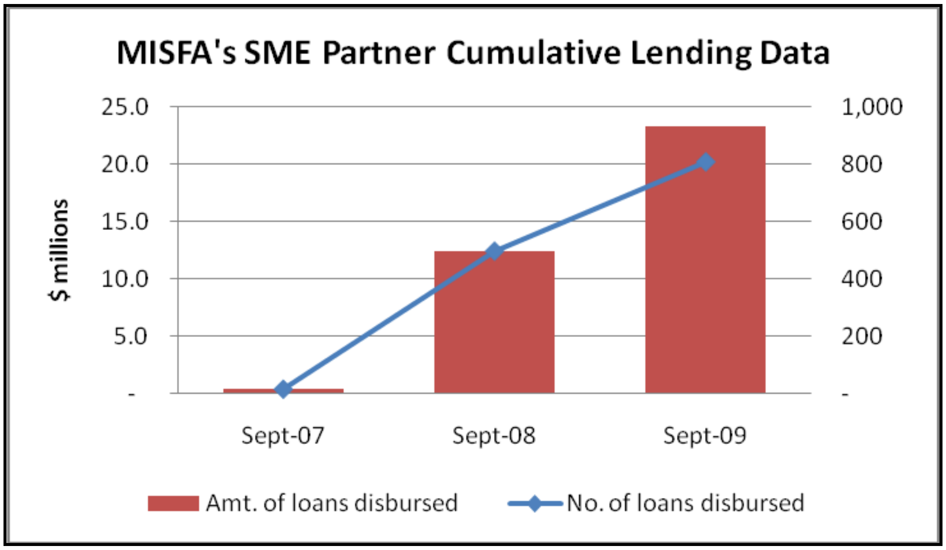
[9] Sharia-compliant products offered by some MISFA SME partners include *murabaha* for business expansion and *ijara* for leasing of fixed assets. Bank al-Falah offers both conventional as well as Sharia-compliant products and services. Separate staff, books and MIS are used for Sharia lending.

[10] Unacceptable uses included: military-connected production; tobacco production or products derived from tobacco; casinos or other forms of gambling; production of nuclear energy or other radioactive products; activities identified as environmentally hazardous (as included in the relevant list of USAID); currency speculation; securities investment; speculative investments in real estate or commodities; refinancing of existing debt; and production or processes that do not comply with Afghan laws.

B. Performance

As of November 30, 2009, three credit lines and two loan guarantees totaling $15 million had been established. The seven MISFA SME Partners disbursed a total of 1,624 loans to over 1,000 SME clients with a cumulative amount of almost $27.3 million, reflecting a strong demand for credit from the SME sector. The steady growth in lending by the ARIES-supported MISFA/SBI SME lending partners can be seen in the chart below. The MISFA SME portfolio had an outstanding balance of over $8.1 million and the PAR_{30} was 4.9 percent, with only 10 write-offs.



Although loans were made to a wide range of businesses in the agricultural, service and trade sectors, 82% were issued to traders based in the larger provincial cities of Herat, Mazar and Jalalabad. This reflects the banks' reluctance to lend to agri-business producers whom they view as high risk clients, despite their strong demand for credit. It is also indicative of a general hesitation to invest in businesses outside of the relatively more secure urban areas.

C. Key Achievements

- A functional SME wholesale department was created at MISFA, and an Afghan SME Department Manager was hired and fully trained to lead the Department. MISFA now includes SME lending as an integral part of its services for local financial institutions.

- Not only has SME lending dramatically increased from its low starting point at the beginning of ARIES but also it has gained momentum as partners have become increasingly comfortable lending to SMEs operating outside of Kabul. As mentioned, as of November 30, 2009, MISFA SME partners had processed some 1,624 loans worth $27.3 million to SME borrowers in target areas outside of Kabul; the average monthly output is now over $1 million.

- In addition, over 4,900 jobs have been created and/or sustained[11] as a result of MISFA's SME lending activities.

V. MICROFINANCE WHOLESALE LENDING – MISFA

A. Activity Overview

The objective of ARIES' support to MISFA's microfinance wholesale lending was to increase the Program's overall coverage by providing loan capital to selected MFIs operating in the target regions while also contributing to MISFA's institutional development. This "MISFA/MF" component complemented ARIES' direct microfinance support to WOCCU and FINCA. In addition to direct support for MISFA, this $9 million project component indirectly supported six MFIs to which ARIES funds were on-lent: the Afghanistan Rural Micro-credit Program (ARMP), BRAC Microfinance Afghanistan, OXUS, MADRAC, Children's Fund Afghanistan (CFA) and SUNDUQ. The MISFA MFI partners offer microfinance loans ranging from under $200 to $2,000. ARIES' other microfinance partners provide loans of $100 to $2,000.

At the project's outset, AED and MISFA established parameters for support from the project, which included: areas of operations, target market and institutional capacity. From this, partners with the greatest potential to advance USAID's objectives were selected. BRAC, for example, has a particular focus on attracting and retaining female clients, and more than 30% of ARMP's borrowers are recently repatriated Afghans (performance against targets is examined in the next section). As illustrated in the table below, the partners operate 65 financial service outlets across 13 provinces within the ADP regions, as well as in Herat province.

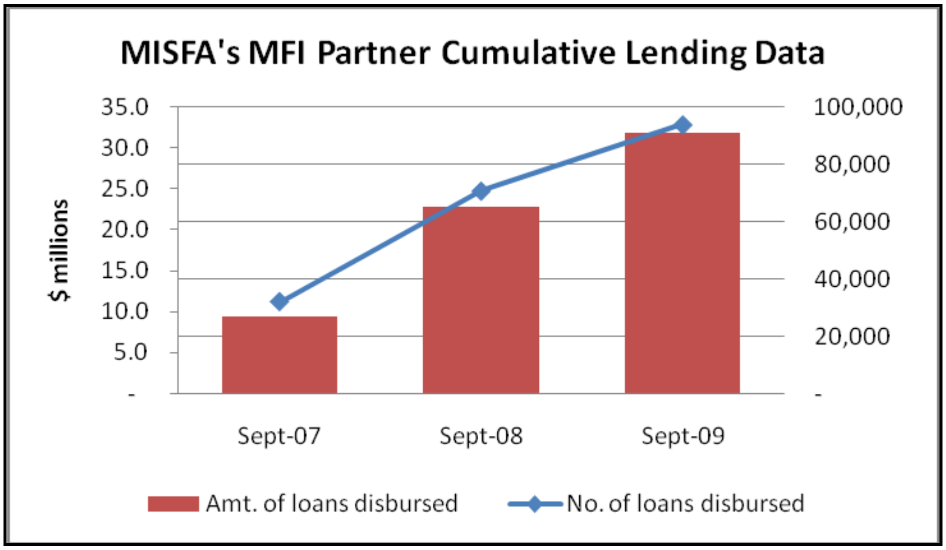
MISFA MFI Coverage under ARIES	**MISFA MFI Partners under ARIES**					
ADP Region	**ARMP**	**BRAC MF**	**CFA**	**MADRAC**	**Oxus**	**SUNDUQ**
North Balkh, Badakhshan, Takhar, Kunduz, Faryab	X	X	X		X	
East Nangahar, Ghazni, Kapisa, Laghman, Logar, Kunar		X		X		X
West Herat, Badghis		X		X		

B. Performance

Specific targets established for the MISFA/MF effort were to disburse a cumulative total of 110,500 loans worth $32.5 million in USAID's ADP target regions over the life of the ARIES program. Each of the six selected MISFA/MF partners has significantly grown operations since the program's inception and, as of

[11] This figure is based on data from the partners' loan files and data quality checks by AED staff.

November 30, 2009, they had disbursed 93,805 loans worth $31.7 million, representing 85% of the cumulative number of loans disbursed target and 98% of the cumulative amount of loans disbursed target. [12] Approximately 57% of the clients supported were women and the total value of outstanding loans stood at $8.6 million to about 35,000 active borrowers, representing an average outstanding loan size of about $250.



The substantial loan volume demonstrates strong demand for microfinance across a wide range of ADP regions. Loans are primarily used to expand the trade and services sectors (about 61%), followed by household manufacturing, agriculture and income-smoothing purposes.

C. Key Achievements

- The lending by MFIs that was supported by ARIES created or supported over 82,300 jobs, many of which were in rural Afghanistan.
- During the period of ARIES, the supported MFIs issued 93,800 loans worth $31.7 million in USAID ADP areas as well an additional $90 million in other parts of Afghanistan.
- The ARIES-funded MFIs supported nearly 18,800 women through direct lending. ARIES also encouraged progress toward commercialization and professionalization of the microfinance sector by providing training and institution building support to MFIs as well as the application of best-practice standards.

[12] The targets and actuals included here only include the ARIES-supported portion of each.

VI. MICROFINANCE - ISLAMIC INVESTMENT AND FINANCE COOPERATIVES

A. Activity Overview

The ARIES implementing partner for the expansion of the Islamic Investment and Finance Cooperatives (IIFC) network was WOCCU. WOCCU is a US-based international trade association and credit union development agency that operates in 97 countries. Globally, the organization’s goal is to promote access to affordable financial services to underserved communities through the development of credit unions that are owned, controlled and operated by their members.

WOCCU began its operations in Afghanistan in 2004 with a one-year, $1 million grant from MISFA to develop Afghanistan’s first network of credit unions. Though the credit union concept of cooperative ownership is largely in line with Sharia law as it is interpreted in Afghanistan, WOCCU re-labeled its credit unions in Afghanistan “Islamic Investment and Financial Cooperatives” to avoid the use of the word ’credit,’ a term often associated with interest which is prohibited according to interpretations of the Qur’an. Furthermore, WOCCU developed its product set in conjunction with local *Shuras* and *Mullahs* in order to ensure compliance with local Islamic interpretations of Sharia law.

The objective of the ARIES partnership with WOCCU was to support the growth of the microfinance sector by expanding WOCCU’s network in the Program’s targeted regions. The WOCCU/IIFCs offered Sharia-compliant individual and group loans as well as savings products from under $200 to $5,000. Within the overall scale of ARIES’ partners’ financing, this was the upper range of microloan sizes as ARIES’ other microfinance partners provided loans of $100 to $2,000.

Each IIFC is a community-based entity that offered a broad range of financial services. While most microfinance providers offer only credit, the IIFCs also provide access to savings accounts. These savings are heavily subsidized through grant capital for the purpose of establishing the necessary deposit base for a well functioning credit union. As shareholders, not just clients, IIFC members elect their own Boards of Directors and help determine how IIFC funds will be used in their communities and share in the risk. The institutions thus serve as vehicles for developing civic participation and democratic processes.

To ensure local acceptance of the program, WOCCU also provides grants to its IIFCs for community-articulated development projects or “CDPs,” such as refurbishing mosques. The WOCCU grant is described to the community as a type of *zakat* or almsgiving. In addition to their social development dimension, the CDPs have played an important role in developing local infrastructure, as well as building positive public relations with the general public.

The administrative headquarters for WOCCU’s Afghanistan operations is in Kabul. WOCCU‘s ARIES-supported IIFCs remain active in 11 provinces across the ADP regions as illustrated in Table 1 below:

To meet the needs of its target clients, WOCCU worked with its IIFCs and local stakeholders to develop a portfolio of financial services, which includes both savings and loan/lease products. WOCCU is piloting a health and life insurance product but the results of this three-month test will not be known until early 2010.

Table 1: WOCCU's IIFC Locations[13]

Region	Province	IIFC
North	Balkh	Balkh IIFC
		Balkh Employee IIFC
	Jawzjan	Jawzjan IIFC
		Aqcha IIFC
	Faryab	Andkhoy IIFC
	Samangan	Samangan IIFC
	Baghlan	Baghlan IIFC
East	Nangarhar	Nangarhar IIFC
	Laghman	Laghman IIFC
	Kunar	Kunar IIFC
South	Kandahar	Kandahar IIFC
	Helmand	Helmand IIFC
		Garmsir IIFC
		Gereshk IIFC
	Uruzgan	Uruzgan IIFC
		Deh-Rawod IIFC

i. Savings Products

Current Accounts: This product offers no return to the depositors. IIFC current accounts are essentially a safekeeping, or *al-wadiah*, arrangement, whereby depositors may withdraw their funds at any time.

Investment Accounts: This product is based on the *mudaraba* principle, in which the financier (i.e. WOCCU) takes all risk, but shares the returns with the client through a pre-agreed upon contract. Similar to certificates of deposit, IIFC investment accounts are term deposit accounts that may not be withdrawn before maturity.

Savings Accounts: These products were designed to encourage asset accumulation by matching deposits with funds from WOCCU's USAID/ARIES grant. The *Individual Development Account (IDA)* is intended for women,[14] students and other low-income earners. *Business Individual Development Accounts (BDA)* are intended for individual male and female members who have demonstrated earning potential, including private or public sector employees, as well as entrepreneurs. Only individuals with BDA accounts are eligible for loans.

[13] As of November 30, 2009

[14] Aqcheh Branch Manager, March 2, 2009 interview.

Savings Product Name	Current Account	Investment Account	Savings Accounts		
Group Size	Individual	Individual	Individual Savings	Individual Development Account ("IDA")	Business Development Accounts
Client Focus				Women, students, other low income earners	Individuals who may be either public or private sector employees
Minimum Amount				400 Afs/ US $8	First year deposits may be up to a maximum of 10,000 Afs/ US $200 Second year deposits may be up to a maximum of 15,000 afs/ US $300
Maximum Amount				2,500 Afs/ US $50	15,000 Afs/ US $300
Terms		Term deposits		Funds must be deposited for a two year period	Funds must be deposited for a two year period
Return	None	Ranges from 3%-7.5% depending on IIFC	Depends on IIFC, usually 3% - 5%	Initial deposit amount is matched by IIFC grant	Initial deposit amount is matched by IIFC grant

ii. Loan and Lease Products

Individual Productive Loan. These loan terms range from six to nine months and rely on payroll deduction to ensure repayment (with maximum loan sizes equal to 50% of the employee's annual salary). These loans support a variety of sectors and purposes, with 40% going to trade, 38% to agriculture, 14% services, 5% other sectors and 3% for consumption**.**

Group Productive Loan. These loans generally have terms of six to nine months, with some longer terms available. All of these loans support agricultural investments.

Both individual and group loans are based on *murabaha* transactions, and therefore comply with Sharia laws, with the pre-agreed mark-up resulting in an effective rate of 2% flat monthly. Approximately 46% of both individual and group loans range from $200 to $500 in size, 32% of the loans are $501-$1,000, and 17% of the loans are $1,001-$10,000.

Eligibility requirements for an individual loan include being between 18 and 60 years of age; demonstrating permanent residency in the area in which the IIFC is located[15]; and having a demonstrated income from a job, business or productive skill. For both individual and group loans, at least 20% of the loan amount must first be deposited in the applicant's account with up to 80% of the amount loaned. The loan also requires at least one guarantor, such as a member of the local *Shura* or local council.

Loan Product Name	Cooperative Group Loan	Business Loan – Line of Credit (LOC)
Group Size	5-10; groups may be either male or female	Individuals and groups
Client Focus	Home-based women and family businesses, male farmers	Individuals are usually traders or employees of private or public sector
Maximum Agreement Amount	250,000 Afs/ US $5,000	For employees, up to 50% of annual salary
Loan Terms	6 –9 months	6-9 months
Pricing/Mark-up (all flat rates)	2% monthly	2% monthly

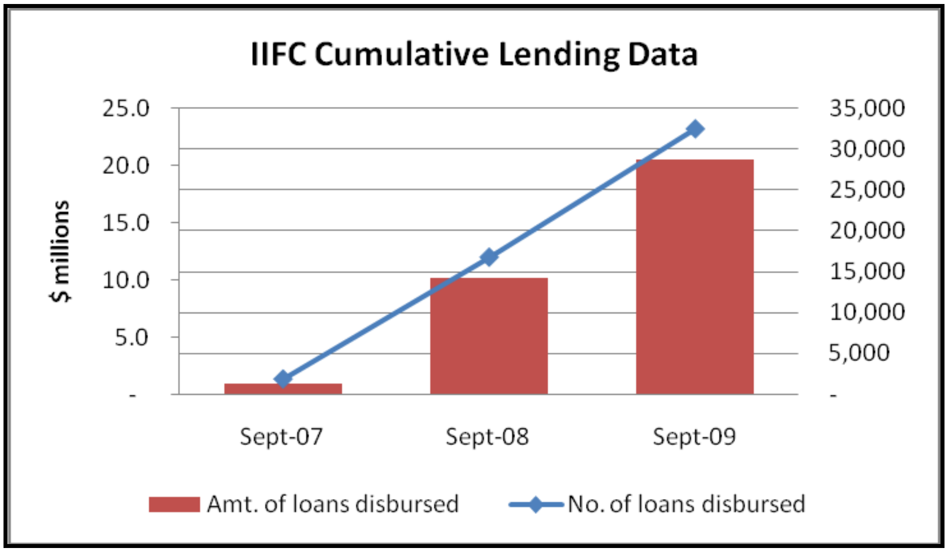
Leasing Services (*Ijara Wa Iktina*) for agricultural and other equipment through IIFCs is a recent, innovative program developed by WOCCU to further deepen Afghanistan's rural financial markets. In an *Ijara* transaction, the IIFC purchases equipment (e.g. tractors) or machinery (e.g. sewing machine) and leases it out clients who buy the items eventually, in which case the payment consists of two components – rental for the use of the equipment and installment toward the purchase price. This technique, as applied by the IIFCs, includes the requirement that the leased items be used productively and in ways permitted under Islamic law.

WOCCU aims for its IIFCs to become permanent and sustainable financial institutions, able to cover all operational costs with revenues. Toward this objective, WOCCU is currently developing a national IIFC apex organization, which will provide long-term, post-project oversight and capacity building for the IIFCs. As there is no regulatory framework for credit unions in Afghanistan currently, the apex will play an important oversight and support function, which should help the IIFC's integration into the country's financial sector over the long-term. ARIES supported the initial stages for setting up the IIFC apex organization.

[15] Previously, the IIFC loan officer would do a reference/character check with the client's employer; now this is done through the local *Shura*. Shura, Arabic for "consultation," is the method by which Islamic leaders make major decisions.

B. Performance

Specific targets set for WOCCU by the end of the ARIES Program included the expansion of their network through the creation of 27 IIFCs and points of service and the disbursement of a cumulative total of 36,700 loans worth $21.2 million. As of November 30, 2009, WOCCU had established 25 of its target of 27 IIFCs and Points of Service. The ARIES-supported IIFCs disbursed 35,812 loans worth a cumulative amount of more than $22.9 million since September 2006. The greatest number of loans fell within the $200-$500 range. The steady growth in lending by the IIFCs can be seen in the chart below.



As of November 30, 2009, there were currently over 11,100 active borrowers, 15% of whom (about 1,700) are female. The low percentage of female clients is mainly due to having a large proportion of operations in more conservative areas in Southern and Eastern Afghanistan.

By the end of the program, three of the Northern region IIFCs in Samangan, Baghlan and Aqcheh had already achieved operational self-sufficiency and no longer require direct grant support. When factoring in the costs of WOCCU's head office in Kabul, however, overall its IIFC network remains below 50% operationally self-sufficient. WOCCU expects that the establishment of the apex organization and continued professionalization and maturation of the existing IIFCs will help the system become operationally self-sufficient over the next two to three years.

C. Key Achievements

- The IIFCs had 46,865 clients nationally as of November 30, 2009.
- 31,459 jobs were created or sustained through the ARIES-supported IIFCs.
- Two IIFCs established under ARIES now operate without grant support.
- The IIFCs have established financial cooperatives in Balkh and Kandahar for Government of Afghanistan public service employees.

- As of November 30, 2009, WOCCU had completed or was implementing 27 community development projects through its IIFCs, which have proven to be effective in expanding outreach and building local support.

- Through consultation with local councils of *shuras*, WOCCU developed customized, Sharia-compliant products appropriate to the Afghanistan context, including pioneering work in the area of leasing and micro-insurance services.

VII. MICROFINANCE – VILLAGE BANKING and SHARIA-COMPLIANT MICRO-LENDING

A. Activity Overview

In March 2007, AED initiated its ARIES partnership with FINCA-International (FINCA-I), a US-based global network of microfinance institutions, to support the activities of its affiliate program in Afghanistan (FINCA-A). By November 30, 2009, the total ARIES support to FINCA-A was just over $16 million, comprising $4.85 million in grant funds for operational expenses and $11.2 million in grant funds for on-lending. As one of MISFA's microfinance partners, FINCA-A also received a combination of grants and loans separately from MISFA for microfinance operations in its non-ARIES branches.

FINCA-A was established in 2003, and with grant funds from MISFA, began operations in early 2004. FINCA-A is one of the 15 MFIs now partnering with MISFA to provide microfinance services nationally, and it is registered with AISA as a not-for-profit organization. With support from ARIES as well as MISFA's multi-donor trust fund, FINCA-A now offers financial services compliant with Islamic principles (*Murabaha* financing) in eight provinces in Afghanistan.

The objective of the ARIES partnership with FINCA-I was to support the growth of the microfinance sector by expanding FINCA-A's lending in targeted regions. This complemented the Program's other efforts to stimulate microfinance lending in rural areas through selected MISFA microfinance partners, and through WOCCU's IIFC network.

FINCA-A offers individual and group microfinance loans from under $20 to $2,000 in accordance with Islamic principles. Within the overall ARIES Program, this was in the lowest tier of loan products supported as the MISFA/MF and IIFC activities provided loans of $100 - $5,000, as described previously in this report. FINCA-A was also unique among ARIES' partners in its particular focus on attracting and retaining female clients.

When FINCA-A first began operations in Afghanistan, the institutions offered clients a conventional group loan product, which carried a service charge like other MFIs. However, conservative Afghans viewed this product as non-Sharia compliant due to a lack of risk-sharing. In response to significant local opposition to FINCA-A and its loan products, FINCA-A consulted with various stakeholders and redesigned its products to be more acceptable to a potential Afghan clientele.

FINCA-A rolled out three refined, Sharia-compliant loan products in 2006. Details of each product are presented in the second table below: FINCA-A Loan Product Descriptions. The immediate market response to FINCA-A's new m*urabaha* products was extremely positive. The launch of these products coincided with the start of its partnership with ARIES to expand its village banking network; and both were significant factors in FINCA-A's rapid growth from mid-2006 to early 2008.

With growth, however, came challenges to ensure proper financial oversight and due diligence. The internal controls required for monitoring this were inadequate. The issue was exacerbated by increasing restrictions on the movement of staff due to security concerns, which resulted in FINCA-A's operations increasingly being managed at a distance, without direct supervision.

FINCA is now in the process of addressing the negative impacts of this confluence of issues on its portfolio. Specifically, the institution, which now serves just over 10,000 clients, is in the final stages of a restructuring following an action plan that involved the consolidation of branches, a slowdown of loan disbursements, and an increased investment in the training and professional development of its staff.

As of December 2009, FINCA was operating six branches in five provinces[16] within the ADP regions, as illustrated in the table below with support from ARIES. In addition, FINCA-A operated five branches in Kabul, funded by MISFA.

ARIES-Supported FINCA-A Branches							
ADP Regions	North				East	West	Grand Total
Provinces	Balkh	Jawzjan	Baghlan	Kunduz	Nangarhar	Herat	
Number of branches	1	1	1	1	1	3	8

FINCA offers three types of Sharia-compliant group and individual loan products. Group loans are based on the group solidarity model, with the risk shared between the borrowers and FINCA:

- Women's *murabaha* loans are targeted to home-based women and family businesses, and they are made to eligible groups of up to 40 women. Loan amounts range from a minimum of Afs 1,000 ($20) to a maximum of Afs 40,000 ($800). Clients use these loans primarily for cottage level initiatives like tailoring and carpet weaving. For loans under Afs 19,000 ($380), FINCA offers a "cash" *murabaha* option.[17]

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[16] FINCA-A previously operated additional branches with ARIES support. As part of its restructuring plan, FINCA has consolidated its branches in Laghman and Kunar into its Nangahar operations.

[17] In this loan option, FINCA appoints the client as its agent for 24 hours, and provides cash. The client subsequently purchases the goods on behalf of FINCA, delivering the items and the receipts to FINCA within one day. FINCA in turn sells the goods to the client with an agreed markup. This reduces FINCA's time and expense of processing a loan.

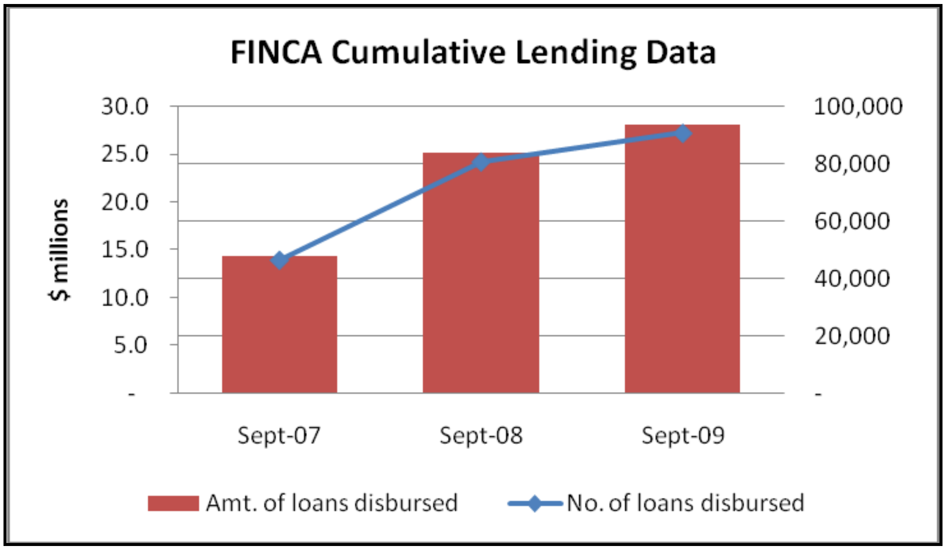
- Market *murabaha* loans are targeted to males in market-based retail and service businesses. Clients are primarily small traders with no credit histories or capacity to collateralize loans. Loan amounts range from Afs 10,000 ($200) to a maximum of Afs 40,000 ($800).

- Business *murabaha* loans are collateralized individuals up to a maximum of $2,000.

FINCA-A Loan Product Descriptions			
Product Name	**Women *Murabaha* Group**	**Market *Murabaha* Group**	**Business *Murabaha* Agreement**
Group Size	10-40	5-40	Collateralized Individual Lending Program (Includes SME loans)
Client Focus	Home-based women and family businesses	Males in market-based retail and service businesses – primarily small traders with no credit histories or capacity to collateralize loans	FINCA group clients with good credit history, stable businesses and who are able to pledge collateral
Minimum Agreement Amount	Afs 1,000/ US $20	Afs 10,000/ US $200	Afs 40,000/ US $800
Maximum Agreement Amount	Afs 40,000/ US $800	Afs 40,000/ US $800	Afs 100,000/ US $2,000
Loan Terms	6 – 12 months	5 – 12 months	Up to 18 months
Pricing/Mark-up (all flat rates)	2% flat monthly	1st cycle: 3% flat monthly for 5 month loan 2nd cycle: 2.33% lat monthly for 6 month loan 3rd cycle or higher: 2% flat monthly	2% flat monthly (includes both principal and mark-up components)

B. Performance

After September 2006, with the support of ARIES, FINCA-A opened new branches in Balkh and Kunar provinces. During the first quarter of its partnership with ARIES, FINCA-A distributed more than $3 million in loans to 9,400 clients. Between mid-2006 and early 2008, FINCA-A staff numbers increased from approximately 400 to 771, and its portfolio grew at a rate of approximately 75% during the period (see chart below). The beginning of this growth curve corresponds both to the introduction of FINCA-A's Sharia-compliant products, as well as to the start of its support from ARIES. In mid-2008, when portfolio quality issues became apparent, AED fully engaged with the FINCA-A Board and USAID to address them through a comprehensive corrective action plan through September 2009.



Specific Year III targets established for the ARIES-supported FINCA-A effort were to disburse a cumulative total of 155,322 loans worth $47.7 million through branches in the ADP target regions by the end of the Program. With ARIES' support through 30 September 2009, FINCA-A had disbursed a cumulative total of 90,721 loans worth over $27.9 million in the Program's targeted areas. FINCA-A had 10,612 active borrowers in its ARIES-supported operations. FINCA-A's PAR_{30} was 27.04%. About half of FINCA-A's clients are female. Although loans have been made to a wide range of microfinance clients in the agricultural, service, trade and non-agricultural manufacturing sectors, the majority have been issued to borrowers in latter sector, reflecting the urban and peri-urban location of FINCA-A's branch locations and the fact that FINCA-A's loan products are not tailored to the needs and seasonal cycles of agricultural borrowers.

C. Key Achievements

- In 2006, in response to local demand, FINCA-A developed and introduced three Sharia-compliant loan products, which have cumulatively generated over 86,000 loans worth over $26 million in its ARIES-supported branches.

- As of September 30, 2009, FINCA-A had disbursed a cumulative total of 90,721 loans worth $27.9 million through its ARIES-supported branches. While FINCA-A did not achieve the ARIES Year III targets due to their need to retrench their operations as part of their recovery plan, FINCA-A did surpass the performance targets for numbers and value of loans set at the program's outset.

- According to MISFA's current calculations on the numbers of jobs created by microfinance loans,[18] FINCA-A microfinance loans created or sustained over 76,000 full-time, part-time or seasonal jobs in the ADP regions and Herat, with ARIES support.

- In its ARIES-supported branches, FINCA-A succeeded in attracting and retaining a high proportion of female clients (approximately 50%), through a variety of strategies appropriate to the local context.

VIII. Conclusion

A. Challenges, Adjustments and Lessons Learned

Despite considerable cultural restrictions, poor infrastructure and increasing security concerns, AED and our ARIES partners clearly demonstrated our commitment to overcoming obstacles to achieve Program goals. Some issues, such as fluid security conditions, the local demand for Sharia-compliant products and limited human resource capacity were faced by all of the ARIES' partners. This section highlights some of the major challenges we faced, how they were addressed and the lessons learned that may be applicable to others working in similar contexts.

Challenge: Adapting microfinance products to comply with Islamic law and how credit is conventionally offered by MFIs is widely interpreted in Afghanistan as contrary to Islamic or Sharia law. The root of this issue is that Islam prohibits *riba* (interest) emphasizing the need for shared risk and return in all financial transactions. To offer Sharia-compliant products, ARIES partners were obliged to adapt their standard products, as well as monitoring and delivery mechanisms.

- ***Adjustment:*** Both FINCA-A and WOCCU-A customized their traditional loans to be Sharia compliant in consultation with local clerics and communities. In addition, MISFA has engaged two Sharia scholars to review the products offered by its MFI partners and to recommend ways to standardize the Sharia-compliant loans they provide. Though there appears to be less demand for Sharia compliance among SMEs, the ARFC also offers traditional and Sharia-compliant loans. The development of these products has also driven changes in partner MIS platform requirements and in the ways they approach new product development and marketing. Although challenges to achieving Sharia compliance remain, the adjustments made by ARIES' partners and by Afghanistan's microfinance industry are some of the broadest ever taken in the country toward Sharia compliance. (For example, much of the funding provided to these institutions carries a traditional interest rate.)

- ***Lessons Learned:*** When adapting microfinance products to Afghanistan's conservative Islamic environment, consultations with community members and local religious authorities on product design and structure are essential to their success. Some Afghan MFIs offer both conventional

[18] MISFA has revised its calculations of numbers of jobs created through microfinance loans to "one loan equals one job created and/or sustained." This is a reduction from its previous formula of "one loan equals l.5 jobs created," to more accurately reflect the use of microfinance loans for consumption smoothing as well as job creation.

and Sharia-compliant loans. By offering clients both options, MFIs have largely been able to deter local resistance.

Challenge: Security constraints to project implementation**.** Field-based work in Afghanistan, particularly rural outreach, has become increasingly more difficult as the security situation has continued to deteriorate since ARIES was launched in 2006. Along with Afghanistan's limited infrastructure, a fluid security situation has complicated the transfer of funds to and from partners' local headquarters and branch offices, as well as loan disbursement and collection. Program outreach was therefore limited to the areas where operations could be safely conducted, supervised and monitored by both international and national staff.

- ***Adjustment:*** ARIES, with MISFA, advocated alternative cash management strategies to reduce the risks of cash-handling by staff and clients; for example, some MFIs currently use the *hawala* system for cash transfers. The M-Commerce initiative piloted by AED with ROSHAN, Afghanistan's largest mobile phone provider, and two MISFA MFIs, is one way in which the ARIES partners' security risks can be reduced, as it will eliminate the physical transfer of cash to and from the field.

- ***Lessons Learned****:* Although macro conditions, such as insecurity in the field, are beyond the control of AED and other US Government program implementers, they are realities that impact the work of both international and local implementers. Programs serving insecure rural areas must be creative in identifying ways to recover the higher costs associated with risk management, for example, by using urban clients to cross-subsidize the costs of reaching rural clients. In addition, new technologies, such as cell phone banking, can help both to overcome security constraints, and to reduce transaction costs in reaching more remote markets.

Challenge: Extremely limited human resource capacity, especially in the skills needed to expand financial services. The degree of capacity building necessary to establish a solid and vibrant financial sector in Afghanistan is enormous, requiring significant time and resources to train local staff in concepts and methodologies of Western financing previously unknown in the country. The intensive technical assistance required is costly.

- ***Adjustment:*** All of the ARIES partners, and particularly SBI, MISFA and WOCCU, placed substantial emphasis on building the capacity of their managers and loan officers. As high-level financial institution management experience among their Afghan professionals is often insufficient, several of ARIES' partner MFIs are managed by expatriates who are striving to build local capacity as part of their mandate.

- ***Lessons Learned****:* In conflict-affected countries that have endured "brain drain" and limited educational opportunities, significant time and investment is required to build local capacity to manage and lead formal financial institutions. Development professionals and donors must be patient and willing to make substantial investments in local capacity building, through training, retraining, mentoring and one-on-one technical assistance, as needed. In addition, support organizations must recognize that short-term training cannot easily compensate for a lack of higher education.

Challenge: Maintaining portfolio quality amid calls for rapid expansion and increasing security restrictions. While portfolio quality issues are often muted by rapid portfolio expansion, increasing security concerns made it particularly difficult for microfinance partners to conduct thorough internal audits—especially in remote areas—to validate portfolio quality.

- ***Adjustment:*** AED and MISFA were committed to supporting the development of a sound financial system, including institutions with controls adequate to guarantee that savings are safe, clients repay loans and the potential for internal or external fraud is minimized. MISFA created two-year benchmarks and "report cards,"[19] to which it now holds its partners accountable in order to achieve certain standards for continuing to access loans. With support from AED, MISFA closely monitored the performance of MFIs with portfolio quality issues, to ensure that their restructuring plans were in place and appropriately implemented.

- ***Lessons Learned***: Programs must be careful to ensure that the proper incentives are in place to balance growth with portfolio quality. If too great an emphasis is placed on expanding outreach, especially in a conflict-affected country, portfolio quality will suffer. This in turn can poison the entire financial sector, as word gets out that loan repayments are not expected.

Challenge: Banks are reluctant to do SME lending, particularly to agricultural producers whom they consider too risky. They prefer to lend to traders. Approximately 80% of the MISFA SME current clients are traders based in urban areas. Furthermore, bank management continues to have a very conservative approach to the sector overall, generally considering it not to be a profitable line of business.

- ***Adjustment:*** With assistance from SBI, MISFA looked beyond banks to MFIs and other institutions for SME lending. For example, the latest MISFA SME partners are the MFIs Parwaz and Oxus. It is hoped that the more risk-averse banks will become less conservative as the MISFA SME partners demonstrate the growth and profit potential of SME finance.

- ***Lessons Learned:*** Due to the need to safeguard public deposits, regulatory requirements and other factors, banks are much more conservative than MFIs, and they are more likely to be followers rather than leaders in exploring new markets. As a result, banks may not be the partners of choice for SME lending, particularly for agribusiness financing in Afghanistan.

Challenge*:* Coordination with other donors, the host government, related USAID projects and other key development stakeholders. In a complex aid delivery context like Afghanistan, multiple donor interventions can result in inefficient duplication of efforts.

- ***Adjustment:*** AED was pro-active in contacting CIDA, DFID and other donors regarding activities in regions of mutual interest. We communicated with key Government of Afghanistan departments and programs such as AISA and AREDP as part of the important effort to leverage donor investments to achieving maximum benefits in rural finance interventions.

[19] The report cards include indicators for governance and capacity, as well as for MFI sustainability, portfolio quality and impact.

- ***Lessons Learned:*** Dialogue and coordination with other stakeholders involved in the same sector reduces costly duplications of effort and ensures that all market gaps are adequately addressed.

B. Recommendations for Future Work

The ARIES Program served as an important "pilot phase," with the Program necessarily focused on the implementation of a variety of approaches to expanding the financial services frontier throughout Afghanistan. While ARIES ended on December 31, 2009, the financial service partners each have ongoing activities. AED offers the following recommendations regarding future work for each of the partners:

i. ARFC

In ARFC's initial two-year pilot phase, a positive response to its services and products has been well demonstrated. Over the medium to long term, ARFC aims to grow its loan portfolio assets and leveraging its donated equity, to ultimately become a commercial lender to support anchor firms.

To diversify risk, ARFC should continue to develop partnerships with commercial banks for SME financing, such as they have already done by co-financing one project with AIB. Furthermore, ARFC should continue to concentrate its investments in the ARIES target regions, and to have loan origination facilitated by USAID partner projects.

ii. MISFA's SME Department

MISFA's goal for its SME department is to have a greater influence in the overall SME lending sector. To achieve this goal, MISFA should continue to develop its internal capacity to provide technical advice regarding SME finance and to increase the number and diversity of its financial partners. MISFA is a development institution that aims to become commercially viable and is looking beyond banks to other institutions for SME lending. It is therefore anticipated that additional MFIs who wish to upscale lending products will become MISFA SME partners[20], as will some of the private banks recently established in Afghanistan.

MISFA should continue to help develop innovative products for SMEs, such as those operating in the agricultural sector. MISFA should actively pursue its expressed desire to increase its numbers of female SME borrowers, who, at the close of ARIES, constituted less than 1% of its SME clients.

iii. MISFA's MFI Support

MISFA should continue to build local institutional capacity for microfinance by supporting training and institutional capacity building efforts, as well as requiring that MFIs apply international best practice standards to their operations. This would mean an increased emphasis on achieving operational self-sufficiency including preparation to pass the baton to local management and control, and solidification of portfolio quality.

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[20] The MFIs Parwaz and Oxus became MISFA SME partner institutions in 2009.

MISFA should consolidate financial intermediation in the microfinance sector by facilitating the transition of sound microfinance clients to MFIs that have met the minimum requirements in order to access MISFA's funding and technical assistance support.

In its position as the microfinance apex institution in Afghanistan, MISFA should continue to be an initial point of contact for any potential interventions in the microfinance sector. This ensures that MISFA can facilitate a balanced and managed approach to developing the sector. It also reduces the chance of interventions that can undermine natural market mechanisms, such as the use of inappropriate subsidies. In addition, MISFA should continue to the play role of supervising the sector, as Afghanistan still lacks a regulatory framework for microfinance.

iv. FINCA-A

FINCA-A should continue to implement its country-wide plan, which involves the consolidation of branches, loan disbursements, improved internal controls, and increased training and professional development of its staff.

v. WOCCU's IIFCs

WOCCU-A is the only ARIES partner currently active in the southern provinces, where it intends to increase the number of its IIFCs. WOCCU should continue to liaise with the PRTs on program-related issues. As a priority, WOCCU should also continue to develop and initiate a national credit union apex organization to provide oversight and technical advice to the IIFCs after the exit of WOCCU and its technical advisors. In addition, WOCCU should expand its Sharia-compliant equipment leasing and finalize its micro-life and health insurance products.

Annex I: ARIES Results Framework and Indicators

USAID's Mission: Support the rapid transition of Afghanistan to a more stable and productive state through the promotion of democracy, rule of law and sustainable economic and social development that is responsive to citizens' needs.

SO 5: A Thriving *Licit* Economy Led by the Private Sector

IR 5.1: Accelerated Growth in the Rural Economy

IR 5.2: Increased Incomes through Economic Growth

AR 1: Growth in Rural Economy through Financial Services

Sub AR 1: Access to Credit Facilities Enhanced

Indicator 1: # of loans disbursed (cumulative)

Indicator 2: Amount of loans disbursed (cumulative)

Indicator 1: # of loans disbursed (cumulative)

Indicator 2: Amount of loans disbursed (cumulative)

Indicator 3: # of active borrowers

Indicator 4: Value of loans outstanding

Indicator 5: # of financial service outlets

Indicator 6: # of members of Islamic Investment & Finance Cooperatives

Sub AR 2: Sustainable Rural Financial Services

Indicator 1: # of clients per staff member

Indicator 2: Overall operating expense ratio

Indicator 3: Overall operating self-sufficiency

Indicator 4: Overall yield on portfolio

Indicator 5: Amount of shares mobilized by Islamic Investment & Finance Cooperatives (cumulative)

Indicator 6: Portfolio at risk (> 30 days)

Indicator 7: Current repayment rate

Indicator 8: Cumulative amount of loans written off

Indicator 9: Cumulative # of loans written off

Indicator 10: Client dropout ratio

USAID Mission, SO, & IRs

Annex II: Report on PMP Indicators

ARIES Final Indicators (Table 1)

Activity Result	Sub Activity Results	Indicators	Unit of Measure	2009 Target	November 2009 Data
Growth in Rural Economy through Financial Services	**AR1 Indicator 1: No. of Jobs Created**		Number	229,849	226,024
	Access to Credit Facilities Enhanced	Indicator 1: # of loans disbursed (cumulative)	Number	303,907	222,049
		Indicator 2: Amount of loans disbursed (cumulative)	Amount of Money (USD)	$152,032,554	$130,433,117
		Indicator 3: # of active borrowers	Number	103,523	57,688
		Indicator 4: Value of loans outstanding	Amount of Money (USD)	$57,213,100	$38,927,659
		Indicator 5: # of financial service outlets	Number	121	119
		Indicator 6: # of members of Islamic Investment & Finance Cooperatives	Number	54,000	46,865

ARIES Final Indictors (Table 2)

Activity Result	Sub Activity Results	Indicators No. 1-9	Unit of Measure	2009 Target	September 2009 Data
Growth in Rural Economy through Financial Services	***Sustainable Rural Financial Services***	Indicator 1. # of clients per staff member	Number	IIFCs: See Page 24 FINCA: 125	IIFCs: See Page 24 FINCA: 51
		Indicator 2. Overall operating expense ratio	Percentage	ARFC: 16% IIFCs: See Page 24 FINCA: 65%	ARFC: 3.8% IIFCs: See Page 24 FINCA: 162%
		Indicator 3. Overall operating self-sufficiency	Percentage	ARFC: 135% IIFCs: See Page 24 FINCA: 60%	ARFC: 97% IIFCs: See Page 24 FINCA: 21%
		Indicator 4. Overall yield on portfolio	Percentage	ARFC: 12.5% IIFCs: 25% FINCA: 42%	ARFC: 10.6% IIFCs: 20.7% FINCA: 32%
		Indicator 5. Portfolio at risk (> 30 days)	Percentage	ARFC: <5% M. SME: See Page 26 IIFCs: See Page 25 FINCA: < 5%	ARFC: 5.19% M. SME: See Page 26 IIFCs: See Page 25 FINCA: 27.04%
		Indicator 6. Current repayment rate	Percentage	ARFC: 98% M. SME: See Page 26 IIFCs: See Page 25 FINCA: > 95%	ARFC: 65.88% M. SME: See Page 26 IIFCs: See Page 25 FINCA: 96.41%
		Indicator 7. Cumulative amount of loans written off	Amount of money (USD)	ARFC: $300,000 M. SME: $100,000 IIFCs: $314,000 FINCA: $1,700,000 MF:$270,000	ARFC: $251,621 M. SME: $139,000 IIFCs: $146,744 FINCA: $1,835,152 MF: $736,654
		Indicator 8. Cumulative # of loans written off	Number	ARFC: 3 M. SME: 10 IIFCs: 600 FINCA: 16,000 M. MF: 1,223	ARFC: 1 M. SME: 10 IIFCs: 490 FINCA: 15,072 M. MF: 5,401
		Indicator 9. Client Dropout Ratio	Percentage	IIFCs: See Page 25 FINCA: 40%	IIFCs: See Page 25 FINCA: 46.69%

Portfolio Quality Indicators (MISFA/SME Partner)

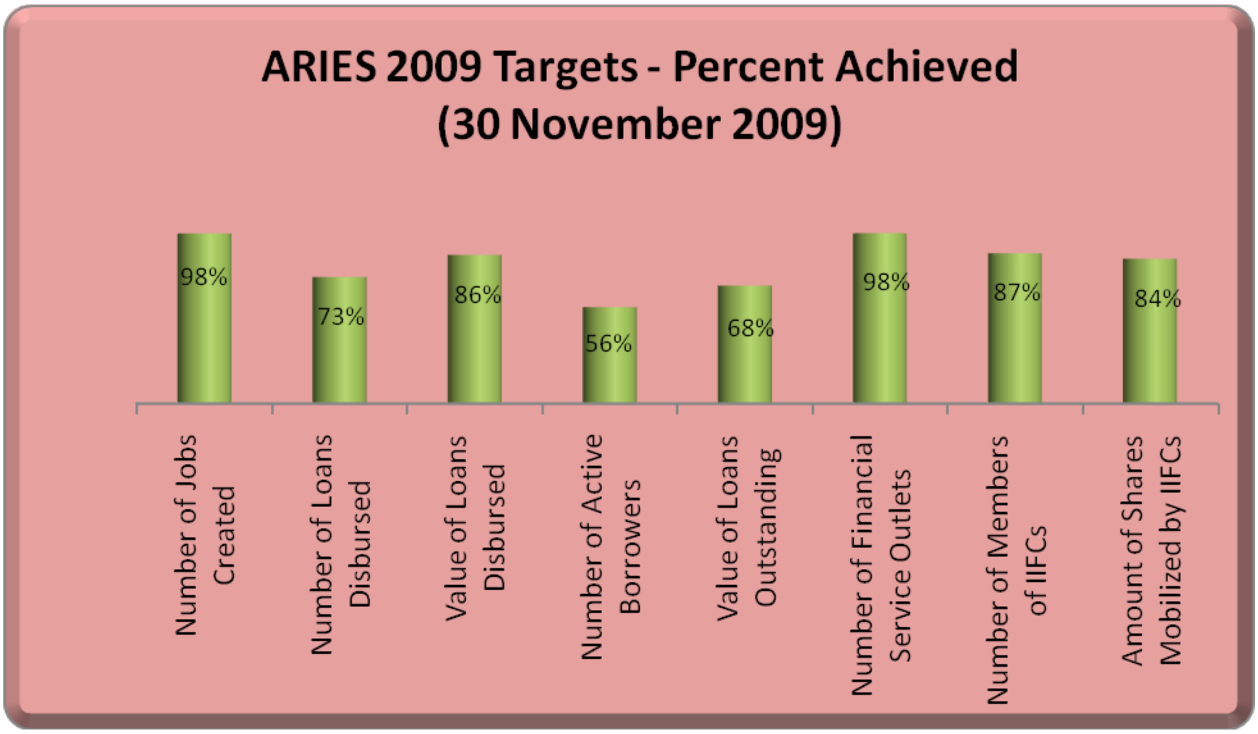
Indicators		Sub AR2 Indicator #6 Portfolio at Risk (> 30 days)		Sub AR2 Indicator #7 Current Repayment Rate	
Unit of Measure		Percentage		Percentage	
Target/Actual		Target	Actual	Target	Actual
MISFA/SME	Afghanistan International Bank (AIB)	<5%	N/A	95%	N/A
	First Microfinance Bank (FMFB)	<5%	6.46%	95%	98.07%
	Bank Alfalah	<5%	0.00%	95%	100.00%
	BRAC Afghanistan Bank (BAB)	<5%	N/A	95%	N/A
	ARMP	<5%	0.00%	95%	94.57%
	OXUS	<5%	9.95%	95%	94.30%

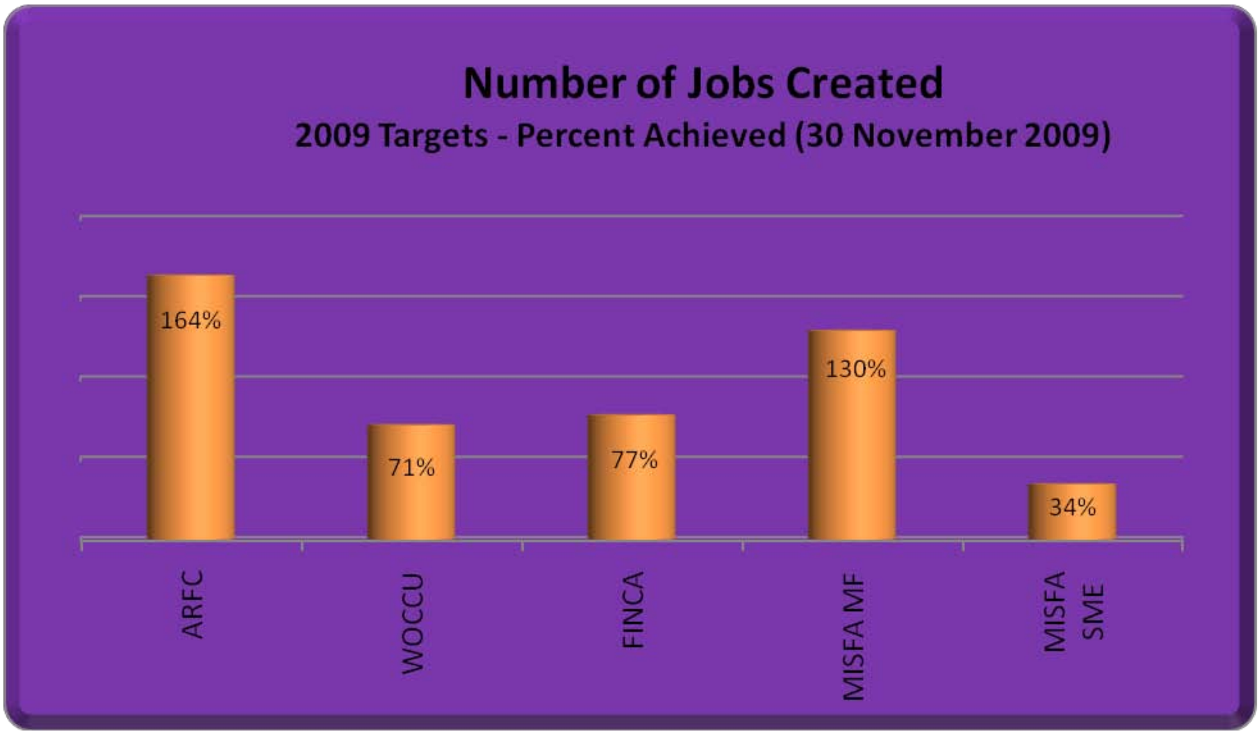
Sub AR2 Indicators 1-3 (IIFCs)

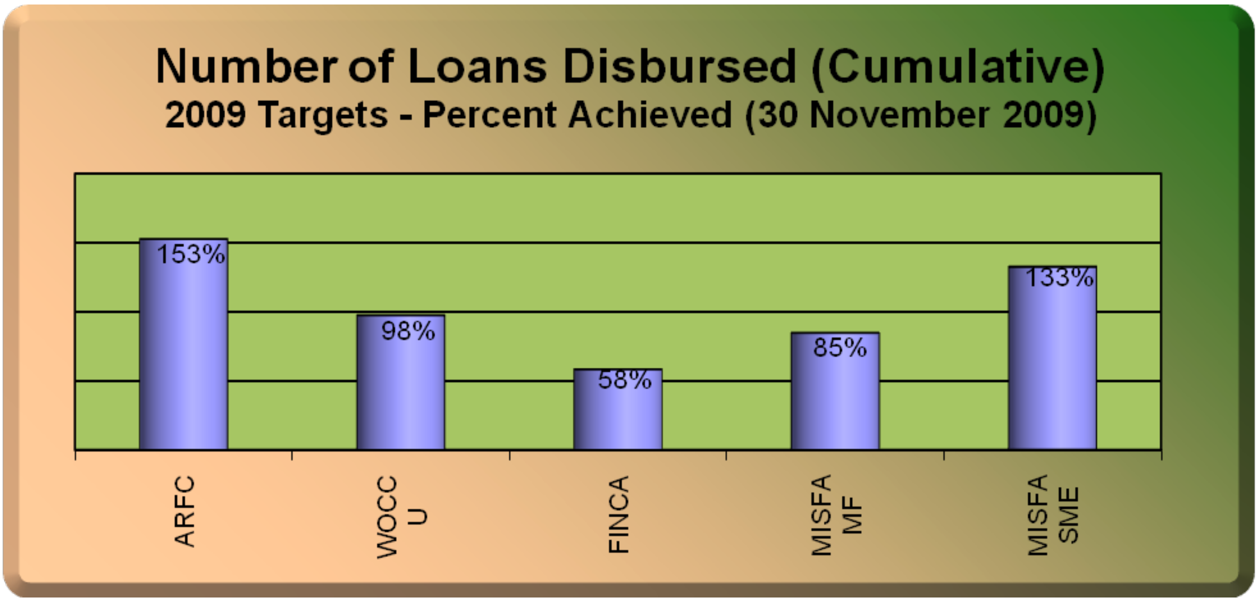
Region	Province	IIFC	Portfolio at Risk (> 30 days)		Current Repayment Rate		Client Dropout Ratio	
			Target	Actual	Target	Actual	Target	Actual
North	*Balkh*	Balkh IIFC	<5%	2.86%	100%	73.87%	<5%	0.04%
		Balkh Employee IIFC	<5%	2.86%	100%	63.00%	<5%	0.00%
	Jawzjan	Jawzjan IIFC	<5%	2.25%	100%	62.67%	<5%	0.00%
		Aqcha IIFC	<5%	5.94%	100%	55.94%	<5%	0.00%
	Faryab	Andkhoy IIFC	<5%	1.04%	100%	63.52%	<5%	0.00%
	Samangan	Samangan IIFC	<5%	5.79%	100%	54.00%	<5%	0.00%
	Baghlan	Baghlan IIFC	<5%	3.66%	100%	59.00%	<5%	0.00%
East	*Nangarhar*	Nangarhar IIFC	<5%	31.10%	100%	25.70%	<5%	0.00%
	Laghman	Laghman IIFC	<5%	0.00%	100%	77.22%	<5%	0.00%
	Kunar	Kunar IIFC	<5%	5.85%	100%	46.35%	<5%	0.00%
South	*Kandahar*	Kandahar IIFC	<5%	6.00%	100%	55.00%	<5%	0.00%
	Helmand	Helmand IIFC	<5%	8.39%	100%	39.53%	<5%	0.00%
		Garamsir IIFC	<5%	5.97%	100%	22.03%	<5%	0.00%
		Greshk IIFC	<5%	5.15%	100%	31.82%	<5%	0.00%
	Uruzgan	Uruzgan IIFC	<5%	5.12%	100%	47.26%	<5%	0.00%
		Deh-Rawod IIFC	<5%	7.49%	100%	26.90%	<5%	0.00%

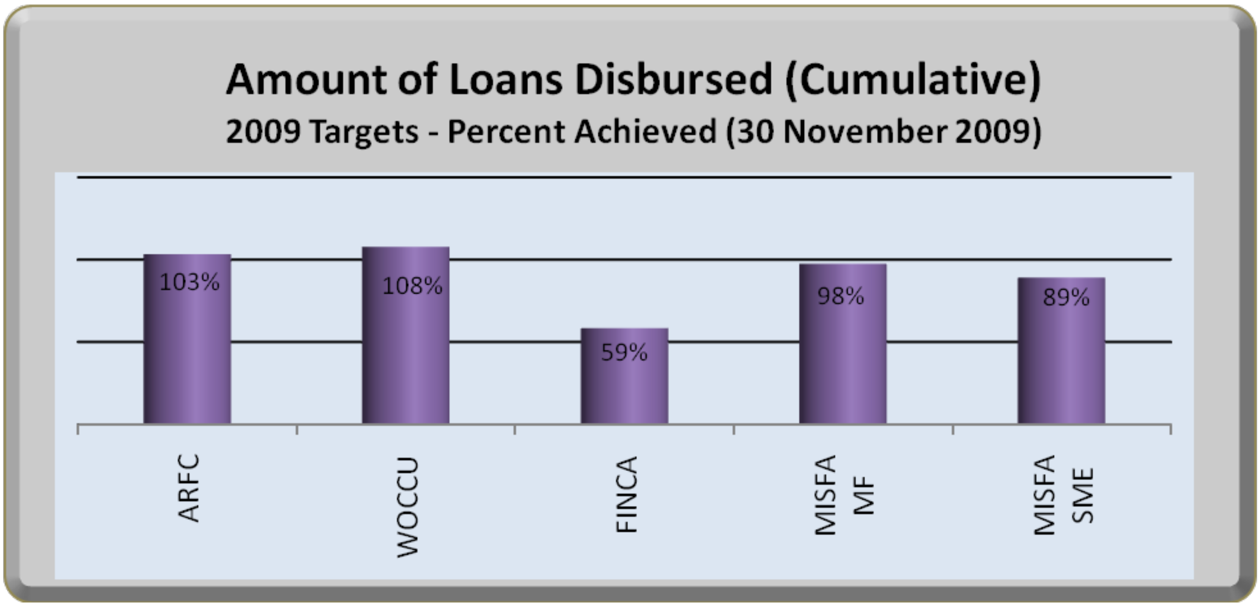
ARIES' Impact and Outreach Indicators

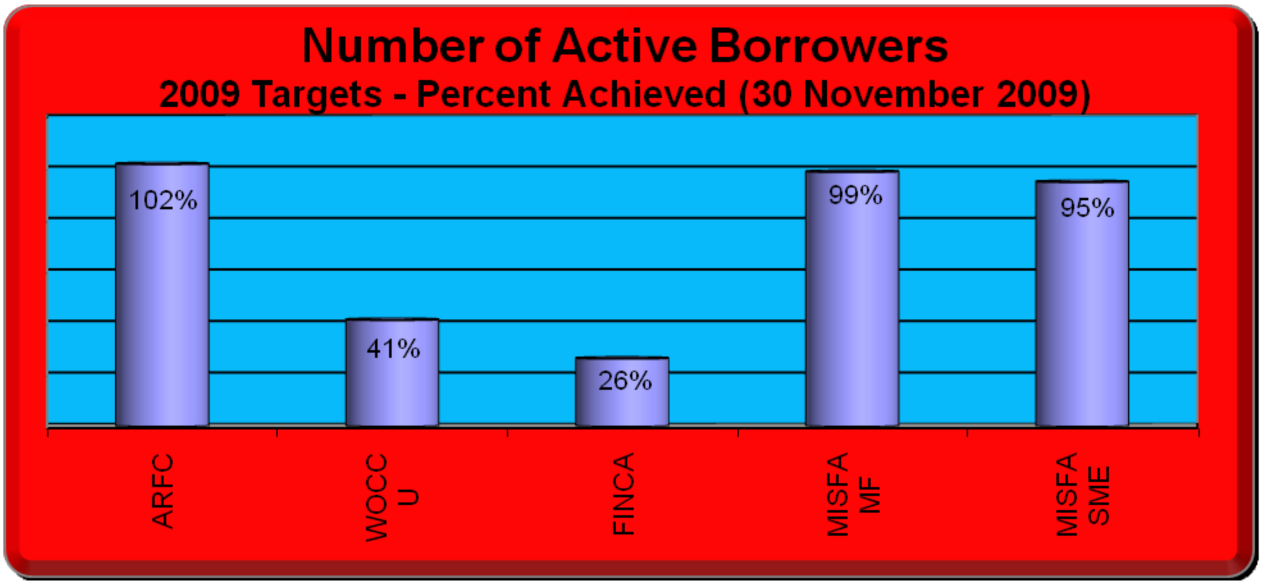
FY2009 Targets vs. Percent Achieved

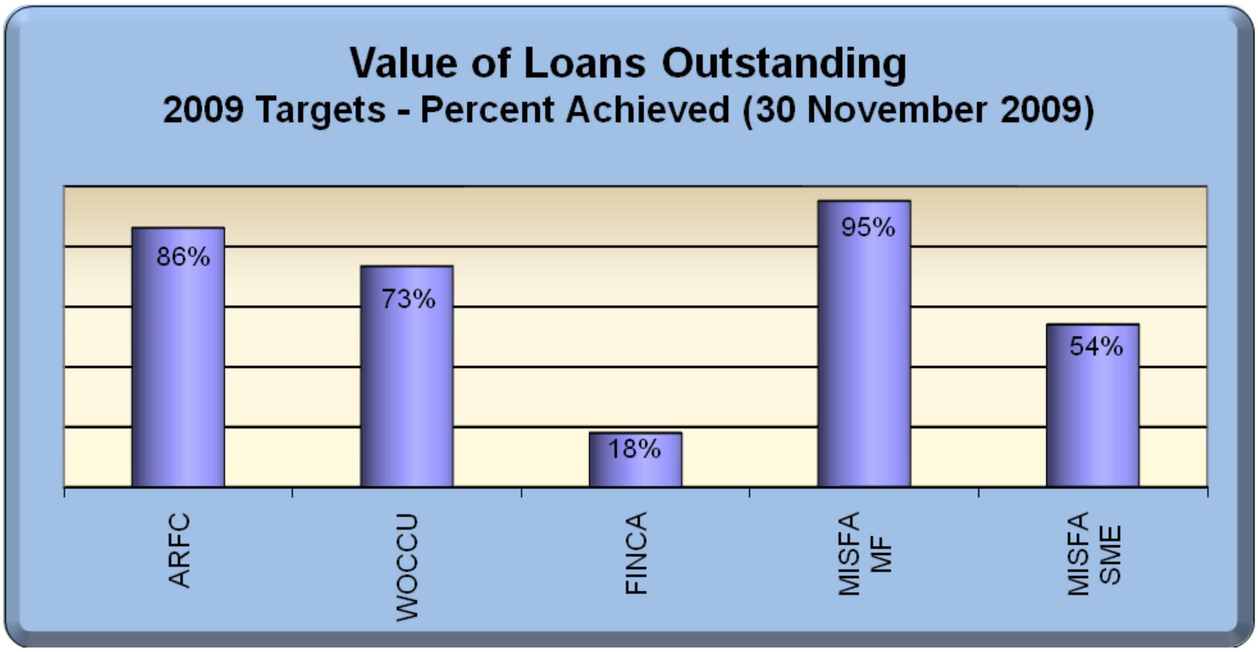


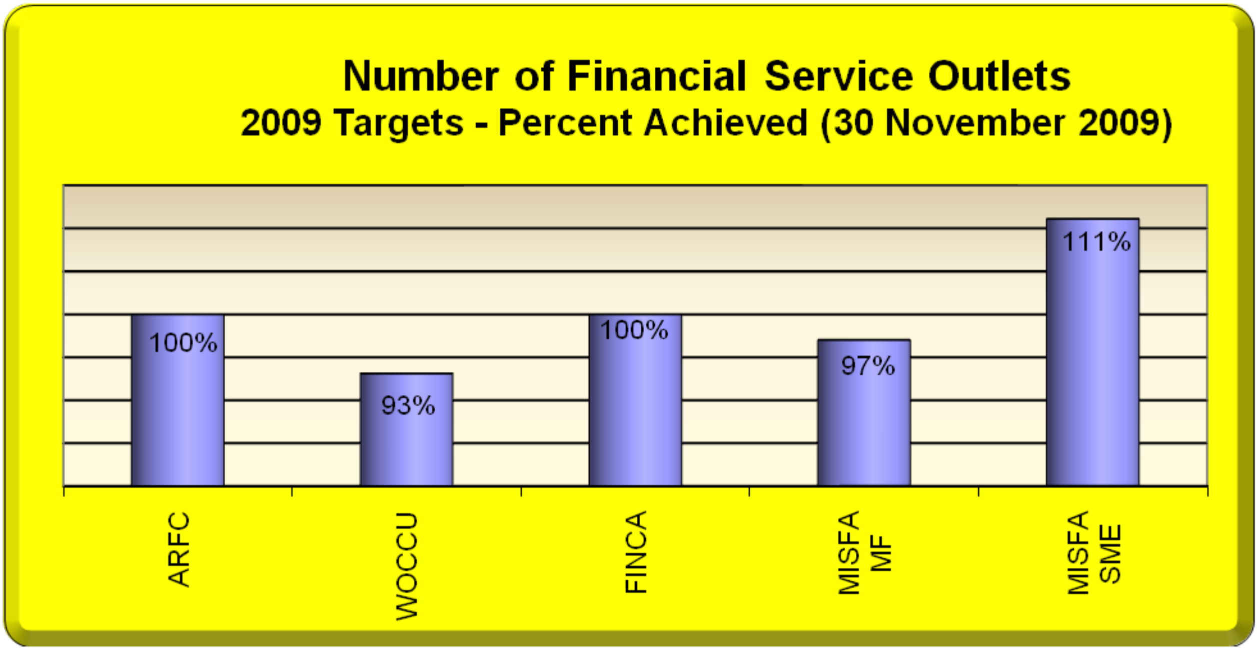



Number of Loans Disbursed (Cumulative)
2009 Targets - Percent Achieved (30 November 2009)
153%
98%
58%
85%
133%
ARFC
WOCC U
FINCA
MISFA MF
MISFA SME


Amount of Loans Disbursed (Cumulative)
2009 Targets - Percent Achieved (30 November 2009)
103%
108%
59%
98%
89%
ARFC
WOCCU
FINCA
MISFA MF
MISFA SME


Number of Active Borrowers
2009 Targets - Percent Achieved (30 November 2009)
102%
41%
26%
99%
95%
ARFC
WOCC U
FINCA
MISFA MF
MISFA SME


Value of Loans Outstanding
2009 Targets - Percent Achieved (30 November 2009)
86%
73%
18%
95%
54%
ARFC
WOCCU
FINCA
MISFA MF
MISFA SME


Number of Financial Service Outlets
2009 Targets - Percent Achieved (30 November 2009)
100%
93%
100%
97%
111%
ARFC
WOCCU
FINCA
MISFA MF
MISFA SME