

# Microfinance Investment Support Facility for Afghanistan



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Zabiullah, who supplied his shop using Murabaha mode of financing.

## Afghanistan Microfinance Sector Revives

The microfinance sector of Afghanistan revives after it was hit hard by the regime change in mid-August 2021. A series of Sharia-compliant financing products including Mudarabah and Murabaha were developed by MISFA and partner Microfinance Institutions (MFIs) and approved by the central Dar-ul-Ifta (House of Decree) of the Supreme Court in September 2022, allowing the MFIs to resume providing financial services. Mudarabah is a partnership based product which allows the wholesale financing to MFIs and Murabaha (Mark up) is a sale based product which enables the MFIs to offer retail financing to the target clients. MFIs resumed offering financial services in September 2022 which was stopped since the new administration came on board in mid-August 2021. As of end February 2023, MISFA's partner MFIs have provided Murabaha (Sharia-compliant) financing to more than 6,500 enterprises amounting AFN 650 million. It is projected that MISFA partner MFIs will finance

more than 25,000 clients amounting around AFN 2.7 billion by the end of 2023.

MISFA signed a Mudarabah agreement with OXUS-Afghanistan under which MISFA would invest AFN 833 million in the sector and similar agreements are expected to be signed with Mutahid and FMFB-A as well.

In addition to the complex economic crisis triggered by the political events on August 2021, the microfinance institutions incurred significant financial losses as conventional financing was no longer an option, the interest payable to MFIs had to be waived off, the repayment rate declined sharply and the MFIs required time and resources to transform to Sharia-compliant financial service providers.

In response to the above challenges, MISFA and partner MFIs initiated the transformation process by designing Sharia-compliant products. MISFA is now a full-fledged Islamic wholesale financing institution

with all the Sharia-compliant policies, products and procedures in place and supports the partner institutions transformation process as well.

The resumption of offering financial services to the microfinance clients contributes to the economic development of the country and job creation which are at their worst status. According to the IMF forecast as of October 2021, the economy is projected to contract by 30% and UNDP's projections show that poverty may become nearly universal affecting 95-97% of the population by mid-2022.

The microfinance sector in Afghanistan plays an important role in the social and economic development of low-income people by enabling them to earn a livelihood. The sector that constitutes MISFA as an apex wholesale lending institution and microfinance institutions (MFIs) has been operating for almost two decades with a significant client outreach. When considering the country's high unbanked population and informal

sector, MFIs have had a vital role in supporting the underserved small and medium enterprises, especially in the major cities and rural areas. A microfinance impact assessment conducted in 2018 by the Microfinance Srl, an internationally recognized consulting firm reveals that microfinancing has created more than one million new jobs in the last ten years in Afghanistan and over 240,000 new jobs were created only in 2018. The study also outlines the contribution of the microfinance services in achieving UN-Sustainable Development Goals (UN-SDGs), women empowerment, improving living standards of the clients' housing, education and overall livelihood conditions and the growth of some small businesses to SMEs.

Considering the role of the microfinance in overall economic development of the country, the urgent reinstating of the MFIs to continue their operation is paramount.



*This is MISFA's quarterly newsletter. MISFA is a Limited Liability Company (LLC) established in 2003 as a vehicle through which the Afghan government and international donors could channel technical assistance and funding to build and strengthen Afghanistan's microfinance sector.*

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