



Microfinance Investment Support
Facility for Afghanistan



➤ Annual Report

MARCH 2024



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ACRONYMS

CGAP	Consultative Group to Assist the Poor
EMERGE	Empowering Microfinance and Enterprises for Resilience and Growth
SME	Small and Medium-sized Enterprises
GDP	Gross Domestic Product
MFI	MicroFinance Institution
MIS	Management Information System
PAR	Portfolio at Risk
OAF	OXUS Afghanistan
DFI	Development Finance Institution
MOU	Memorandum of Understanding
AAIOFI	Accounting and Auditing Organization for Islamic Financial Institutions
TUP	Targeting Ultra-Poor
IEA	Islamic Emirate of Afghanistan
C-Suite	Executive-level managers within a company
SB	Sharia Board



BOARD OF DIRECTORS

AMJAD ALI ARBAB - CHAIRMAN

Mr. Arbab has been working in the development and commercial banking sectors for the past 40 years, with a focus on financial inclusion, SME, Agriculture and digital finance. He has served as Senior Advisor, South Asia with CGAP/World Bank, Regional Director at Enclude, a global advisory firm that is supporting financial inclusion. Before joining Enclude, Mr. Arbab was the Managing Director of the Microfinance Investment Support Facility for Afghanistan (MISFA), an apex institution for the microfinance sector in Afghanistan. He was also a founding member of the management team of the Bank of Khyber in Pakistan's Khyber-Paktunkhwa Province, Head of BOK's small and microfinance division in the mid to late 1990s. In addition, he has served in senior positions with the Aga Khan Rural Support Program and the Agricultural Development Bank of Pakistan.



Amjad Arbab has a strong track record of successfully managing multiple donor and commercial projects and institutions in Pakistan and the region and has led diverse teams of international experts and consultants. He holds a Masters in International Relations from The Johns Hopkins University/SAIS, Washington DC as well as a Masters in Political Science from the University of Peshawar.

ASSOC PROF DR ZIYAAD MAHOMED - MEMBER

Dr Ziyaad is Associate Professor, Lead Researcher (Shariah) for the Centre of Excellence in Social Finance, and Head of Online Programs at INCEIF University. He is the former Associate Dean and Director of Executive Education and of E-learning at the same university. Dr Ziyaad has advised financial institutions and regulators in Islamic finance, regulation, social finance, fintech and sustainability for almost 25 years. His work spans over 20 countries, with more than 12,000 participants attending his training programs on various aspects of Islamic finance. Dr Ziyaad has led numerous consulting projects on policy and strategy for large financial institutions and governmental organisations including the UK, Malaysia, Kazakhstan and Pakistan in Islamic banking and takaful, sustainability, sukuk, fintech and social finance advancement. His advisory in the capital market has led to the certification of some of the largest sovereign and corporate Sukuk issuances in Malaysia and Nigeria. He is also a consultant to the World Bank for sustainable development of Islamic finance in South-East Asia and Adjunct Professor at the Asia School of Business in collaboration with MIT in the US.



ARMANDO MASSIMILIANO SIROLLA - MEMBER

Mr. Armando Massimiliano Sirolla is a senior executive with over 20 years of experience in finance, policy and digital transformation, including almost 15 years in C-Suite positions at financial institutions in Afghanistan, Madagascar, Tanzania and Zambia. A fintech and business professional, who has led digital transformations for stressed and growth-oriented organizations in the financial sector, with notable improvements to customer service, efficiency and profitability. He is a senior advisor for the International Finance Corporation (IFC - member of the World Bank Group) and the Aequitas Fund (Desjardins Group) on development finance. Armando is an economist by background and hold an MA from the School of Oriental & African Studies (SOAS), University of London and MSs from University of Padua. In 2020, he also completed a Fintech Programme with the Saïd Business School, University of Oxford.



NASRATULLAH MAHMOOD - MEMBER

Nasratullah Mahmood is currently serving as General Director of Treasury at Ministry of Finance (MoF). He has served at several senior level positions including the Director of External Affairs at MoF. Mr. Mahmood has strong academic background as well and was a lecturer in Islamic University. In addition, Mr. Mahmood has served in the Board of Directors of several companies including Spinzar Kunduz, Intercontinental Hotel, Kandahar Wool Textile. Mr. Mahmood has an MA in Dawa Usuludin and a BA in Finance from Islamic University, Islamabad.



MAULAVI MIRZA MUHAMMAD SHAKIB - MEMBER

Mirza Muhammad Shakib is a 44-year-old Afghan professional, originally from Zabul, a province in southern Afghanistan. He has a solid educational background, having graduated from Dar-ul-Ulum al Sharia in 2018 and obtained a diploma in international relations and diplomacy from the Directorate of Diplomacy at the Ministry of Foreign Affairs in 2023.

Throughout his career, Mr. Shakib has held various important roles within the Islamic Emirate of Afghanistan (IEA), including serving as a spokesperson, director of Shariat Ghag radio, director of Education Television, and currently as the Chief of Staff at the Ministry of Rural Rehabilitation and Development (MRRD).



FROM THE CHAIRMAN OF THE BOARD

The microfinance sector has rebounded strongly following the challenges posed by the regime change in mid-August 2021. The year 2023 marked a significant turning point for the sector's stability. After implementing transformative measures such as transitioning to Sharia-compliant practices, waiving interest, and rescheduling loan repayments in 2022, MISFA provided substantial Mudarabah capital to its partner microfinance institutions in 2023. This support allowed these institutions to expand their Islamic financing portfolios.

In 2023, MISFA's partner MFIs grew their portfolios fourfold nearing, and some even surpassing, the breakeven point. During the year, approximately 4 billion Afghanis were disbursed to over 40,000 MSMEs. The year under review saw an amazing demand for loans and a repayment discipline never witnessed before.

As operational viability and sustainability of the MFIs is ensured, MISFA and its partners are now addressing other key priorities, including expanding geographical coverage, diversifying products, building capacity, and innovating delivery channels.

Our sector's progress has attracted attention from other stakeholders, including the non-traditional donors from the middle east and as such microfinance has become a central topic for discussion at national and international conferences. The financial support of the World Bank to MFIs in the form of capital injection under EMERGE project will play a pivotal role in improving their capital adequacy and long term sustainability. The support from the government, particularly the Ministry of Finance and local authorities, has been crucial in achieving the current success.

On behalf of the Board of Directors of MISFA, I extend our sincere gratitude to our partner organizations who showed faith and resilience in the face of massive challenges and uncertainty and served their borrowers with a strong commitment. MISFA's management also deserve appreciation for their role and leadership in steering the sector from a crisis situation to the current state stability and growth.



We also offer our heartfelt thanks to the donor agencies, particularly the World Bank, for their steadfast support. We look forward to continued assistance from these vital partners to help support hundreds of thousands of low income households across Afghanistan in this critical stage of economic revival which offers huge potential for growth.

Regards,

A handwritten signature in blue ink, appearing to read 'Amjad Ali Arbab', with a horizontal line extending to the right.

Amjad Ali Arbab
Chairman, Board of Directors

MANAGING DIRECTOR'S MESSAGE

In 2023, while Afghanistan's economy experienced a deflationary trend at the macro level, the rising demand for microfinance signals a revival of Small and Medium Enterprises (SMEs), which are vital to the country's economy. SMEs make up 80 to 90% of Afghan businesses, contribute 50% to GDP, and employ 75% of the labor force (MoCI of Afghanistan).

For over a decade, MISFA has focused on strengthening the institutional capacity of development finance sector actors, proving crucial in enhancing the resilience of institutions that provide financial access to impoverished Afghans. Despite facing consecutive shocks, MISFA and its partner institutions have managed to regain stability and continue their essential work.

This annual report highlights MISFA's role as a key apex organization, offering vital support to partners, including necessary capital, to ensure access to finance amidst significant operational disruptions. It emphasizes MISFA's efforts in capacity-building to integrate its partners into Afghanistan's broader financial ecosystem. By aligning their strategies and services with current market conditions and recent legal and political developments, MISFA and its partners have successfully transitioned to Sharia-compliant institutions, leading to substantial portfolio growth during the reporting year. As a requirement of transition to Sharia-compliant institutions; MISFA and its partner institutions set up their Sharia Boards which are crucial for ensuring Sharia-compliance.

To support the economic recovery and MISFA tries to reduce the gap in demand and supply of SME financing; MISFA established partnerships with Ghazanfar Banks and Bank-e-Milli Afghan. The banks invest MISFA's funds in SME financing.

Furthermore, MISFA maintained its autonomy and operational independence which allowed the World Bank to nominate new members to MISFA's Board of Directors. The role of MISFA's advocacy and active engagement with the World Bank was pivotal in raising funds for the financial sector under EMERGE project.



Hence, I want to acknowledge the tremendous support from our international development partners, especially the World Bank, for their constructive engagement and commitment through the EMERG(e) project.

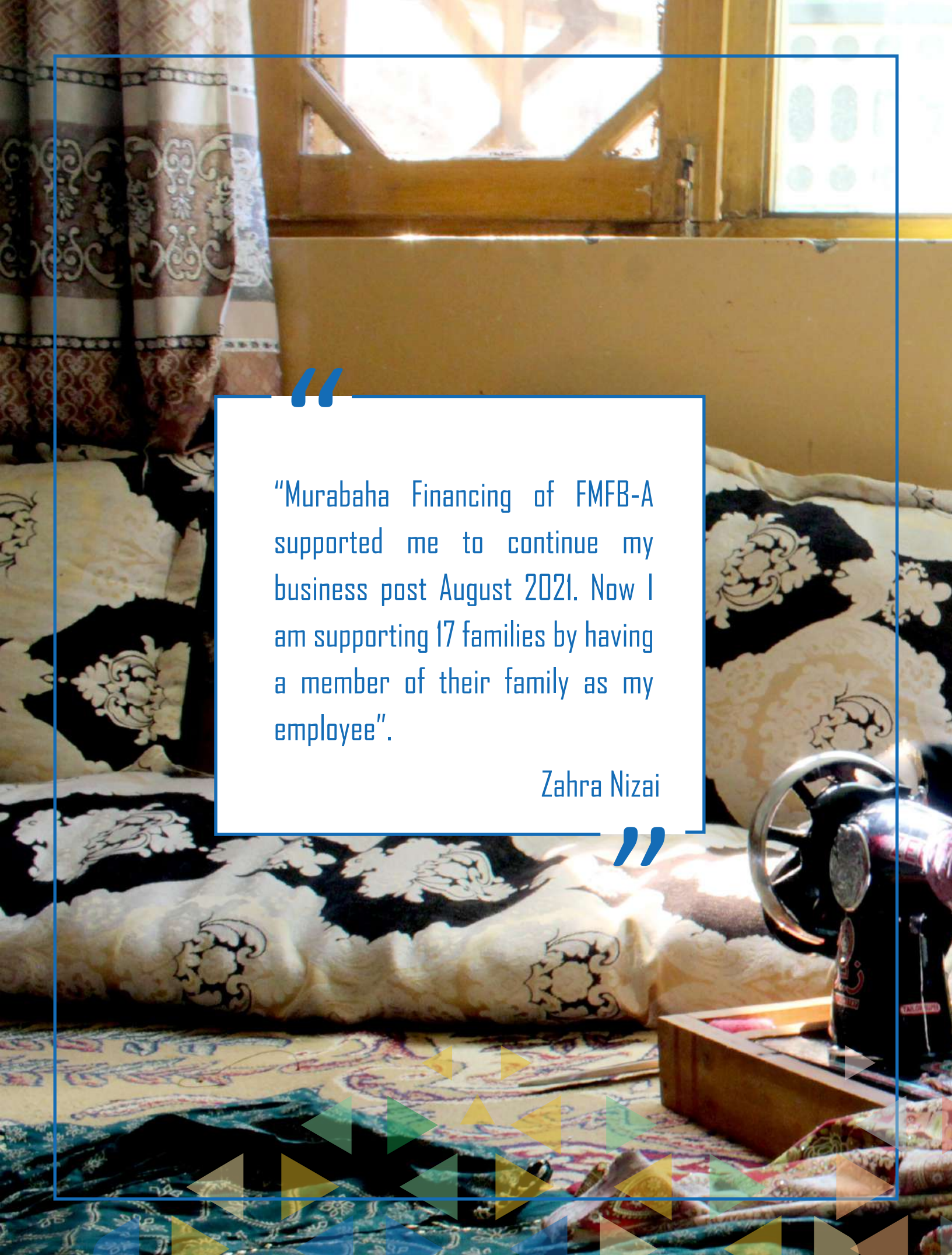
MISFA also owes gratitude to its dedicated Board of Directors, loyal staff, and committed MFI partners, who have continued to serve their clients through the past year's challenges.

Looking ahead, we are committed to expanding financial access to more Afghan men, women, and youth in the coming years

Sincerely,

A handwritten signature in blue ink, consisting of several loops and strokes, enclosed within a faint circular outline.

Khalil Baheer
Managing Director



“Murabaha Financing of FMFB-A supported me to continue my business post August 2021. Now I am supporting 17 families by having a member of their family as my employee”.

Zahra Nizai



INTRODUCTION

This report focuses on MISFA's core programs, Microfinance and SME financing.

Section 1:

Provides an overview of MISFA, the recent institutional developments and financing provided to the MFIs and banks under Mudarabah mode of financing.

Section 2:

Provides an overview of the microfinance sector as represented by the consolidated portfolio of MISFA's implementing partners by end of the reporting year.

Section 3:

Talks about the key developments and challenges of the financial sector and MISFA's advocacy efforts and its outcomes.



ABOUT MISFA

The Microfinance Investment Support Facility for Afghanistan (MISFA) was set up in 2003 at the invitation of the Afghan government — to get donor coordination right from the start and avoid the counter-productive efforts that have emerged from conflicting donor objectives in other post-conflict situations. It was established as a vehicle through which the Afghan Government and international donors could channel technical assistance and funding to build Afghanistan’s microfinance sector. MISFA was the first facility of its kind, pooling diverse donor funding mechanisms and converting them into streamlined, flexible support to microfinance institutions in Afghanistan, tailored to local priorities and accompanied by technical assistance and strong performance monitoring.



VISION

MISFA’s vision is to develop a sustainable, efficient, and commercialized development finance sector stimulating the economic growth in Afghanistan.



MISSION

MISFA’s mission is to be a strong and efficient organization contributing to Afghanistan’s economic growth by developing a viable, inclusive financial sector.



VALUES

Honesty & Integrity: Conduct business adhering to the highest international ethical standards and complying with all applicable Afghan laws and regulations including Sharia principles and guides.

Leadership & Accountability: Reward strong leadership, management and accountability.

Teamwork: Promote positive attitude and teamwork among staff. Recognize and reward outstanding performance of both individual and team efforts.

Commitment to Clients: Through partner MFIs, cover much of Afghanistan, providing inclusive financial services important to the development and wellbeing of clients, their families and communities.

Operational & Economic Success: Mainstream sound operating practices and policies; and establish a total cost-covering financial plan that ensures MISFA’s long-term sustainability critical to the economic wellbeing of employees, clients and the microfinance sector.



SHARIA-COMPLIANT FINANCING UPDATE AS OF MARCH END 2023:

As of March 2023, microfinance institutions (MFIs) partnered with MISFA have disbursed a total of 3.8 billion Afghanis to over 41,000 clients since the approval of the Murabaha product in September 2022. However, following the political changes in August 2021, these institutions temporarily halted loan disbursements for about a year, resulting in significant financial losses.

After mid-August 2021, MFIs resumed operations with a focus on recovering the principal amounts from previous loans, while waiving the interest payments owed by clients. The shift to Sharia-compliant institutions and the development of Sharia-compliant financial products were prerequisites for resuming their services. MISFA and its partners worked diligently to transform their operations by creating Sharia-compliant products, training staff, adjusting management systems, and establishing Sharia governance frameworks.

With the approval of Murabaha and Mudarabah products by the authorities, MFIs were able to secure funding from MISFA and quickly begin providing Sharia-compliant financial services to micro, small, and medium enterprises (MSMEs) across the country.

The performance of these new Sharia-compliant products has been impressive, with a Zero PAR rate (no non-performing loans) and 100% repayment. This strong performance indicates that the microfinance sector is on a positive trajectory, highlighting the resilience and potential for growth in Afghanistan's microfinance industry.



86,768
ACTIVE FINANCING CLIENTS



41,224
ISLAMIC FINANCING CLIENTS



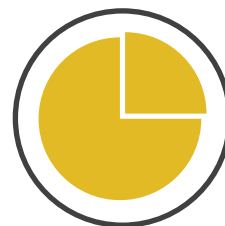
43%
WOMEN CLIENTS



AFN 3.76 billion
CUMULATIVE ISLAMIC FINANCING

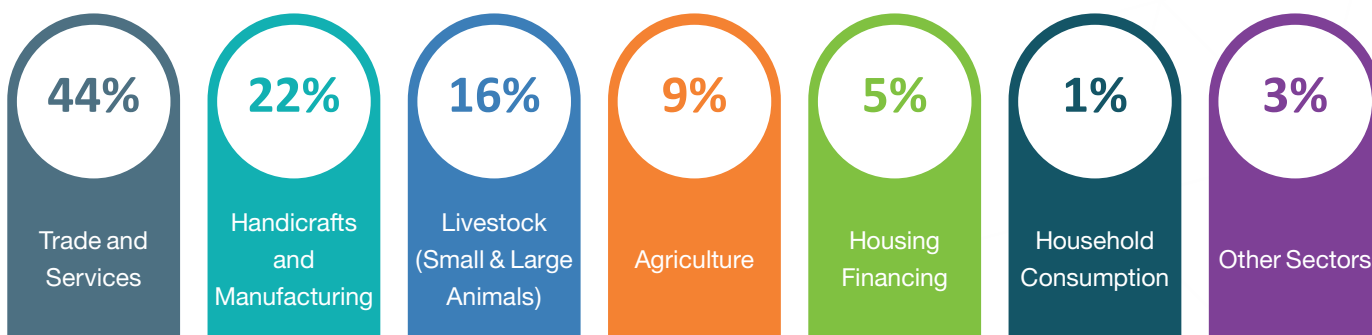


AFN 49,684
OUTSTANDING FINANCE PER CLIENT



AFN 4.31 BILLION
GROSS OUTSTANDING PORTFOLIO

OUTSTANDING AMOUNT OF FINANCING BY SECTOR



MISFA PARTNERS

MICROFINANCE INSTITUTIONS (MFIS):



The First MicroFinance Bank
اولین بانک قرضه های کوچک



OXUS



TUP IMPLEMENTING PARTNERS:



The Welfare Association for the
Development of Afghanistan



(CHA) Coordination of Humanitarian
Assistance



Citizens Organization For
Advocacy and Resilience

TUP IMPLEMENTING PARTNERS:



عزیزی بانک
Azizi Bank



غزنفار بانک
GHAZANFAR BANK



افغان ملي بانک
BANK-E-MILLIE AFGHAN



Bank Alfalah

CURRENT STATUS OF MISFA'S PARTNER INSTITUTIONS

MUTAHID-DFI

Mutahid-Development Finance Institution (Mutahid-DFI) , established in April 2011 and is one of the leading microfinance institutions in Afghanistan. Dedicated to empowering entrepreneurs and driving economic growth. Through Shariah compliant financial solutions, comprehensive guidance, and commitment to financial inclusion, Mutahid is trying to transform the landscape of entrepreneurship in the country.

The Mutahid-DFI's Islamic Financing figures (cumulative), raised from AFN 42.7 million in March 2023 to AFN 396.6 million in March 2024. Islamic Financing outstanding now makes up 43% of the DFI's gross financings outstanding, with a 100% repayment rate. In terms of operational self-sufficiency (OSS%), the DFI has shown a notable increase rising from 59.6% in March 2023, to 143.2% in March 2024 representing a significant 83.6% positive progress within a year.

OXUS-A

Created in 2007 with funding from MISFA, OXUS Afghanistan was able to build on ACTED's experience and past programmes in the country, in particular a micro-loan initiative to provide farmers with seeds and tools for sowing. OXUS Afghanistan operates 16 branches across the country and is today one of the country's biggest microfinance providers in portfolio terms.

The OXUS-Afghanistan (OXUS-A)'s Islamic Financing figures (cumulative), raised from AFN 443.4 million in March 2023 to AFN 1.58 billion in March 2024. Islamic Financing outstanding now makes up 76% of the DFI's gross financings outstanding, with a 100% repayment rate. In terms of operational self-sufficiency (OSS%), the DFI has shown a notable increase rising from 28.1% in March 2023, to 106.5% in March 2024 representing a significant 78.4% positive progress within a year.

FMFB-A

The First MicroFinanceBank-Afghanistan (FMFB-A) MISFA's largest partner started its operation in 2004 and is part of the Aga Khan Agency for Microfinance (AKAM), which has financial institutions operating in over 15 countries throughout the developing world. It is affiliated with the Aga Khan Development Network (AKDN). The primary objective of FMFB-A in Afghanistan is to contribute to poverty alleviation and economic development through the provision of sustainable financial services to the poor and underserved.

The FMFB-A's Islamic Financing figures (cumulative), raised from AFN 419.0 million in March 2023 to AFN 1.79 billion in March 2024. Islamic Financing outstanding now makes up 52% of the bank's gross financings outstanding, with a 100% repayment rate. In terms of operational self-sufficiency (OSS%), the bank has shown a notable increase rising from 31.5% in March 2023, to 62.6% in March 2024 representing a significant 31.0% positive progress within a year.

MICROFINANCE SECTOR STATUS COMPARISON 2023 - 2024

SN	DESCRIPTION	MARCH 2023	MARCH 2024
1	PROVINCES	14	14
2	URBAN DISTRICTS	212	212
3	RURAL DISTRICTS	101	101
ISLAMIC FINANCING'S OUTREACH			
4	ACTIVE ISLAMIC FINANCING CLIENTS	9,825	32,438
5	GROSS ISLAMIC FINANCING OUTSTANDING, AFN	799,638,723	2,180,587,572
6	NO. OF ISLAMIC FINANCING DISBURSED,(CUMULATIVE)	10,016	41,224
7	AMOUNT OF ISLAMIC FINANCING DISBURSED,(CUMULATIVE)	1,069,382,440	3,768,515,829
8	WOMEN ISLAMIC FINANCING CLIENTS	2,555	13,710
9	WOMEN AS % OF ACTIVE ISLAMIC FINANCING CLIENTS		
10	BRANCHES	65	73
11	MALE STAFF	1,199	1,262
12	FEMALE STAFF	421	440
13	ACTIVE ISLAMIC FINANCING CLIENTS PER FINANCE OFFICER	17	57
14	PAR ISLAMIC FINANCING (>30 DAYS), %	0%	0%
15	OPERATIONAL SELF-SUFFICIENCY, % (YTD)	33%	80%

MUDARABAH FINANCING AGREEMENTS

MISFA provided substantial financing to the partner MFIs and banks. In addition to fulfilling its former financial commitments, MISFA signed new Mudarabah agreements with Mutahid and OXUS and several other agreements are in pipeline expected to be materialized in 2024. Mudarabah is a Sharia-compliant partnership where MISFA “Rabb-ul-Mal” provides fund to the MFIs (Mudarib) for investing in profitable avenues. MFIs utilize the Mudarabah capital in financing the MSMEs through Murabaha and other Islamic financing products. The risk and reward of the pool are shared as per the rules of Mudarabah.

- MISFA – OXUS AGREEMENT

MISFA signed a Mudarabah agreements totaling AFN 150 million with OXUS-A. OXUS-A reached to its breakeven point and became operationally sustainable in January 2024. The total financing of MISFA to OXUS stands at AFN 1 billion at the end of period in reference.

OXUS-A has financed over 19,000 clients under Murabaha financing, the largest number of clients served by an MFI since the resumption of its Islamic financing in September 2022.

- MISFA – MUTAHID AGREEMENT

MISFA signed a Mudarabah agreement with Mutahid-DFI under which MISFA would provide AFN 100 million as Mudarabah capital to Mutahid DFI which will be financing the MSMEs across the country under its Murabaha financing scheme.

The approval of 100 million Afghanis to Mutahid by MISFA’s Board of Directors was to ensure that the institution does not face any liquidity issue while the exact amount of Mudarabah capital will further increase following the finalization of Mutahid’s 3-years business plan. Mutahid is expected to raise its disbursement rate significantly in 2024 and reach to breakeven point by mid-2024 with an outstanding Sharia-compliant portfolio of over 500 million Afghanis.

Mutahid is a key player in the microfinance market of Afghanistan which has been financing the micro and small enterprises at grass root level with its lower financing ticket sizes.

MISFA SIGNED AN MOU WITH AAOIFI OF BAHRAIN

In November 2023, MISFA and AAOIFI-Bahrain held discussions regarding potential collaboration, including the possibility of MISFA joining AAOIFI as a member and exploring capacity development opportunities at AAOIFI. A delegation from MISFA, led by Mr. Muhibullah Amini, the Finance Director, attended AAOIFI's Festival of Human Development and Capacity Building in Islamic Finance in Bahrain. During this event, the head of the MISFA delegation signed a Memorandum of Understanding (MOU) with AAOIFI to formalize cooperation and establish a framework for future collaboration. The two parties also explored the potential of organizing similar events in Kabul, with trainers from AAOIFI flying in to support these initiatives.

TUP LONG-TERM IMPACTS PAPER RELEASED

The TUP long-term impacts paper has been released. The study conducted by the World Bank's Development Impact Evaluation Team (DIME) unveils the long-term and enduring impacts of the intervention.

Five years after ultra-poor women in Afghanistan received a package including livestock assets, a monthly cash stipend and coaching, the study provides experimental evidence of economic and social impacts that endure through multiple concurrent health, violence and economic shocks. Treatment households have significantly higher levels of consumption, assets, market work participation, financial inclusion, children's school enrollment, and women's psychological well-being and empowerment, relative to the control group.

Households build resilience by diversifying productive activities and the program improves equality by reducing the gaps between ultra-poor and non-ultra-poor households across multiple dimensions. The persistent impacts of this one-off support package amidst multiple shocks highlight the potential and limitations of such multi-faceted interventions to support the most vulnerable populations and improve their resilience under increasing fragility in some of the harshest conditions in the world.

You can find the report and accompanying 2-pager summary with the links below:

- <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099837211062311087/idu0e486b8ed0e7a104d230a60d0848c87baeeb1>

- <https://documents1.worldbank.org/curated/en/099837211062311087/pdf/IDU1e486b8ed1e7a114d231a60d1848c87baeeb1.pdf>

OXUS-AFGHANISTAN BECAME OPERATIONALLY SELF-SUSTAINABLE

OXUS-A achieved operational sustainability within a year after it resumed Murabaha financing in September 2022. Following the change in regime in August 2021 and the directives from IEA authorities, all MISFA partner MFIs ceased conventional lending and waived interest on outstanding loans. This caused significant financial losses and resulted in a sharp decline in their operational self-sustainability (OSS) rate, as interest payments had been the primary source of income for these institutions.

After transitioning to Sharia-compliant operations and receiving approval from the authorities, the MFIs, including OXUS-A, restarted Islamic financing services, primarily through Murabaha, in September 2022. In a short period, OXUS-A successfully built a substantial Sharia-compliant portfolio, generating sufficient income to cover its operating expenses. By March 2024, OXUS-A had disbursed over AFN 1.6 billion to 19,806 clients.

MISFA DONATED AFN 1 MILLION TO THE VICTIMS OF EARTHQUAKE IN HERAT

As part of its Corporate Social Responsibility (CSR) efforts, MISFA donated AFN 1 million to support those affected by the earthquakes in Herat. The donation was handed over to officials from the Afghan Red Crescent Society (ARCS), who were tasked with distributing the funds to those in need in the earthquake-hit areas. The earthquake, which struck the Zindajan district of Herat with a magnitude of 6.3, caused widespread devastation, including thousands of casualties, the majority of whom were women and children, as well as the complete destruction of homes in numerous villages. The initial shock was followed by several aftershocks, some of which were also of high magnitude, resulting in further displacement of residents in Herat.

In addition to its response to this disaster, MISFA regularly participates in providing humanitarian assistance to victims of both natural and man-made disasters. The organization is also involved in city cleaning campaigns and other community support activities during times of need.

WORLD BANK NOMINATED TWO NEW MEMBERS TO THE MISFA'S BOARD OF DIRECTORS

In Accordance with the Articles of Association (AoA) of MISFA, The World Bank as the key development partner of MISFA nominated two new members, Mr. Ziyaad Ahmed and Mr. Armando to MISFA's Board of Directors. Mr. Ziyaad and Mr. Armando replaced Mr. Bijan and Ms. Frances in the Board whom their term ended on January 2024.

Dr Ziyaad is Associate Professor, Lead Researcher (Shariah) for the Centre of Excellence in Social Finance, and Head of Online Programs at INCEIF University. He is the former Associate Dean and Director of Executive Education and of E-learning at the same university. Dr Ziyaad has advised financial institutions and regulators in Islamic finance, regulation, social finance, fintech and sustainability for almost 25 years.

Mr. Armando Massimiliano Sirolla is a senior executive with over 20 years of experience in finance, policy and digital transformation, including almost 15 years in C-Suite positions at financial institutions in Afghanistan, Madagascar, Tanzania and Zambia.

WORLD BANK SUPPORTS THE MICROFINANCE SECTOR AND MSMES

A \$16 million grant from the Afghanistan Resilience Trust Fund (ARTF) has been approved to support financing for micro and small enterprises in Afghanistan, with a focus on women and women-led businesses.

The grant will support the Empowering Microfinance and Enterprises for Resilience and Growth (EMERGE) Project aiming to help revive microfinance providers active in Afghanistan by clearing their balance sheets of old loans that cannot be repaid due to economic conditions arising after August 2021. This will help increase their liquidity so they can provide new financing to micro and small enterprises. The project will also provide technical assistance to the microfinance providers to strengthen the micro-finance sector, digitize business processes, and train staff to prioritize lending to women and women-led businesses.

MISFA played a key role in raising the funds by its active advocacy and consultation with the World Bank team and on the other hand its significant support to the microfinance institutions ensuring their operational viability and sustainability.

ALIGNING STRATEGY WITH OPERATIONS

To ensure that its strategy and the operations of partner microfinance institutions (MFIs) align with the realities on the ground, as well as the needs and expectations of both current and potential clients, MISFA's senior management conducted field visits across Afghanistan. These visits allowed them to engage directly with various stakeholders, including field staff, who are key to the success of the operations. Key themes raised by local stakeholders, including MFI staff, included the need for product diversification, the expansion of operations, capacity building for staff, reducing service costs, and increasing awareness of available services.



SHARIA GOVERNANCE FRAMEWORK AND BOARD

As part of fulfilling its Sharia Governance Framework (SGF), MISFA has established a Shariah Board (SB) composed of three experienced Islamic finance experts: Mr. Sheikh Azizullah Mazhari, Prof. Noorullah Kawsar, and Mufti Noorullah Azzam. The role of the Sharia Board is to ensure that MISFA's operations and structures are fully compliant with Islamic finance principles.

The key responsibilities of the Sharia Board include:

Advisory Role: The SB will advise MISFA's Board of Directors (BOD) on matters related to financial arrangements and transactions, whether planned, proposed, or already undertaken by MISFA or on its behalf.

Sharia Compliance of Documentation: The SB will ensure that all documents related to Islamic financing adhere to Shariah rules and principles.

Training and Capacity Building: The SB will organize training, orientation programs, seminars, and workshops for MISFA personnel to support the Islamization of operations and enhance overall performance.

Public Awareness: The SB will arrange events such as workshops, seminars, and conferences for the public to raise awareness about Islamic finance practices, with a particular focus on the Shariah compliance of services and products.

Oversight and Monitoring: The SB will oversee MISFA's operations and activities related to Shariah matters. It will review reports from the Shariah compliance and audit unit, identify any potential Shariah issues, and recommend corrective actions if needed.

Accountability: The SB will be responsible and accountable for all decisions related to Shariah compliance.

STABILIZING THE HOUSEHOLD INCOME

CLIENT SUCCESS STORY

Fatima Sharifi, a 22-year-old woman married with four children is living in outskirts of Kabul. Fatima's husband is a tailor and manages a shop in the city. The political changes of August 2021 severely impacted the income of Fatima's family of eleven members including her in-laws. Since then, the income of the tailoring shop was not sufficient to make ends meet with a big family. Therefore, Fatima decided to roll up her sleeves and take part in increasing the household income. To start up her business, Fatima lacked the investment capital, however she had the technical expertise. Fatima had acquired carpet weaving skills at her father's house when she was a teenager. Initially, she tried to borrow from her relatives. Unfortunately, no one could lend her due to their own financial constraints. She was informed about the availability of financial services in the market and approached a branch of FMFB in Kot-e-Sangi few times. She was told to wait until the bank decides to resume its financial services. Finally, the waiting ended on October 2022 and Fatima received her first Sharia-compliant Murabaha financing worth AFN 100,000. Fatima was provided with the raw material as well as a carpet weaving set.



Fatima involved her sister in-laws as well and weaved the first carpet which she could sell at a higher price. The return on Fatima's investment was sufficient to meet her financial obligation with the bank as well as earn an additional profit to support household expenses. Fatima managed to revolve the fund several times and produce a dozen of carpets before the maturity date of Murabaha financing.

"It was a difficult period for us. My husband could hardly feed us. He was always embarrassed when he couldn't respond to the demands of the kids." said Fatima. "Now, I have purchased a refrigerator and washing machine and give my kids pocket money when they go to school."


Fatima's carpet weaving business helped her become confident and dream bigger for herself and the family, however she is just a primary school graduate. Fatima is now looking for a suitable place large enough to accommodate few carpet weaving sets so that she could apply for a larger Murabaha financing amount to expand her business. She is hopeful of generating employment opportunities to few more women who are facing financial hardships. "I have left the burden on my husband's shoulder" added Fatima "I can feel the pain of the women who are suffering from poverty and I will help at least few of them earn a decent income."



FINANCIAL OVERVIEW

MISFA Ltd. Overall Financial Summary For the period from April 1, 2003 to March 19, 2024	April 01, 2003 to March 19, 2024
INCOME STATEMENT	AFN'000
Profit & Similar Income	5,996,202
Operating grants	282,487
Other income	78,500
Total operating income	6,357,190
Administrative & other expenses	(4,422,683)
Operating profit / (loss)	1,934,507
Income tax expense on taxable profits	(374,614)
Operating profit / (loss) after tax	1,559,893
Grant income (grants for loan funds or MFI grants)	13,807,153
Exchange gain / (loss)	(9,201)
Grant expenditure (grants to MFIs for operating or equity)	(5,707,323)
Provision against loans and advances to MFIs & Banks	(1,917,716)
Provision for MFI shut-down costs	(39,638)
Finance cost (For IDA Credit)	(370,546)
TOTAL COMPREHENSIVE INCOME	7,322,621
CASH FLOW	
Inflows:	
Total comprehensive income	305,665
Share capital	100
Long-term loans	-
Total inflows	305,765
Outflows:	
Net Loans and advances to MFIs & Banks	466,441
Loan note investments in MFIs	-
Investments	-
Operating fixed assets	(123)
Working capital (amounts receivable)	4,625,413
Total outflows	5,091,731
NET CASH FLOW	5,397,496
Opening cash & bank balances	-
CLOSING CASH & BANK BALANCES	5,397,496
Source: MISFA audited financial statements covering the period April 1 2003 to March 19, 2024	



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