



NOTE FROM THE FIELD

Developing Innovative Financial Products

Despite challenging conditions, the ARIES project is making a significant contribution to the development of an inclusive financial system in Afghanistan.



Two Afghan women work on their tailoring business.

Microfinance organizations working with ARIES disbursed over \$21 million to more than 50,000 clients in rural regions of Afghanistan in the first year of the program.

Abdul is a 33-year-old Afghan and disabled father of five who revived his rickshaw accessories business after receiving a 50,000 afghani (US\$1,000) Business Murabaha Agreement offered by one of FINCA International's newly opened branches in rural areas of Afghanistan. "Before these microfinance institutions, I was borrowing money and repaying it with a high interest rate, which was very expensive and also *haram* [illegal in Islamic law], but now this Islamic method, Murabaha, is legal and also improves my business," says Abdul.

Fewer than 2 percent of the estimated half million small and medium enterprises (SMEs) in Afghanistan have access to formal finance. For microfinance institutions operating in the country, it has been a tremendous challenge to help the rural poor gain access to financial services with the ultimate goal of transitioning the Afghan rural economy from poppy cultivation to licit agribusiness serving both domestic and international markets. Organizations working in Afghanistan are also under pressure to design financial products that are in compliance with *sharia*, the body of Islamic religious law, so that Afghans eager to enter the financial system do not need to compromise their religious beliefs.

Over the past year, the ARIES program has been successful in reaching out to rural Afghans and SMEs through innovative products such as that offered to Abdul. With his new loan, Abdul is employing two additional workers, increasing his profits by 30 percent, and restoring his credibility as a reliable businessman in his community. (See [Aries and Islamic Finance](#) for more information on efforts to develop Islamic microfinance products and systems through the ARIES program.)

As the largest USAID-funded rural finance program ever awarded, totaling \$100 million over three years, microfinance organizations working with ARIES disbursed over \$21 million to more than

October 23, 2007

This publication was produced for review by the U.S. Agency for International Development. It was submitted by Megan Greeley of the Academy for Educational Development.

50,000 clients in rural regions of Afghanistan in the first year of the program. The FIELD-Support LWA is under the management of the Academy for Educational Development (AED) and through five additional implementing partners—ACDI/VOCA, FINCA, World Council of Credit Unions (WOCCU), ShoreBank International (SBI), and the Microfinance Investment Support Facility for Afghanistan (MISFA). ARIES is providing a diverse range of financial services including loans from \$100 to \$1,000,000. The program targets rural farmers, microenterprises, small and medium firms, and larger agribusinesses in 18 of Afghanistan's 34 provinces.

“Now that I have started my own business, my income has increased and I earn 400 Afghani (US\$8) a day which is almost three times more than my income before,” says Shukria., a widow and mother of nine from Mazar province. “Two of my sons were working at a carpenter’s shop where they could not even earn 2,000 Afghani (US\$40) a month, and they were very uncomfortable. But now our life is changing for the better.” Shukria joined a women’s village banking group established by FINCA and received a Women’s Murabaha Agreement totaling 8,000 Afghani (US\$160) to expand her tailoring business.

ACDI/VOCA has played a key role in providing investment capital to SMEs and larger businesses through the creation of the Afghanistan

Rural Finance Company (ARFC). A for-profit Afghan entity, the ARFC provides direct loans ranging from \$20,000 up to \$2,000,000 to cooperatives, private agribusinesses, and rural SMEs, particularly in the eastern and southern regions of the country where poppy cultivation, and a dependence on poppy sales for investment capital, is high. Over the past year, the ARFC has approved and begun extending loans to various small enterprises including flour and feed mills, poultry cooperatives, dairy processors, and bakeries, creating at least 1,000 new jobs in the southern and eastern provinces.

The innovative Mobile-ARIES initiative is expected to further enhance the outreach and capacity of participating MFIs. Over the next year, AED will be working with Roshan, Afghanistan’s largest mobile service provider, to enable MFIs to use a new mobile phone money transfer service called M-Paisa. The M-Paisa service, provided in partnership with Vodafone, will be launched to the general public by Roshan in the next year. Through this initiative, AED will work to establish partnerships between Roshan and up to four other MFIs interested in adopting the system for loan disbursements and repayments. Use of the system should allow

MFIs to reduce transaction and security costs, enhancing their ability to extend services into rural areas.

Rounding out the ARIES program is WOCCU’s work to establish four Investment and Finance Cooperatives. These efforts were highlighted in a prior [Note from Afghanistan](#).

The first year of the ARIES program has been incredibly fast-paced. Over the next two years, ARIES will continue rolling out innovative approaches to rural finance in this challenging environment. With 50,000 enterprises already served, each owned by entrepreneurs like Abdul and Shukria, ARIES has already demonstrated its potential for further success.

For more information about ARIES, please contact Tim Nourse at tnourse@aed.org. More information about the FIELD-Support LWA can be found at www.microlinks.org/field.

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