



PROGRAM BRIEF AFGHANISTAN

Promoting Economic Freedom and Providing Islamic Finance



■ Afghan provinces with IIFCs and/or points-of-service



PROGRAM OBJECTIVES

With initial funding from the Microfinance Support Facility for Afghanistan (MISFA, 2004-05), World Council of Credit Unions (WOCCU) established the first two credit unions in Afghanistan, known as Islamic investment and finance cooperatives (IIFCs), in Mazar-i-Sharif and Sheberghan in the north. From 2006 to 2009, WOCCU expanded the network to 16 member-owned IIFCs with 11 branches in the eastern, northern and southern provinces with additional funding from the U.S. Agency for International Development (USAID, 2006-09), as well as the Dutch Government and U.K. Department for International Development through MISFA (2005-11). In December 2009, USAID awarded WOCCU additional funding to continue its work expanding financial services to the underserved rural areas in southern and eastern Afghanistan (2009–12).

WOCCU is working in partnership with local communities to:

- Establish an additional 15 IIFCs with multiple points of service in the southern and eastern provinces.
- Establish the Afghanistan Islamic IFC Banking Association to supervise the IIFCs and provide a framework for consolidation.

BACKGROUND

WOCCU began building Afghanistan's first credit unions in 2004. In a country where the vast majority of people are unbanked and have been denied civic participation, WOCCU provides Afghans the opportunity to join a financial institution that is owned, controlled and operated by the members. The credit unions, known as Islamic investment and finance cooperatives (IIFCs), offer Afghans access to affordable financial products and services that are compliant with Islamic law. Overall membership in IIFCs is increasing by approximately 1,000 members each month.

KEY INDICATORS

Promoting Economic Freedom		3/10
No. of IIFCs and Points of Service		27
No. of Members		49,369
Total Share Savings (USD)		\$2,490,959
Total Financial Contracts Outstanding* (USD)		\$7,540,940
Total Financial Contracts Disbursed* (USD)		\$27,949,381
Average Loan Size (USD)		\$654
Delinquency >30 days		2.3%
Total Assets (USD)		\$10,805,082
No. Jobs Created (cumulative)		64,099
Diversifying Outreach (Dec. 09)		% of # loans disbursed
Agriculture		40%
Commerce		36%
Consumption / Consumer (may be better)		5%
Microenterprise		19%

* Financial contracts are Shari'a-compliant loans

PROGRAM HIGHLIGHTS

IIFCs offer communities a broad range of financial services, enabling members to control their capital and ensure the money is invested locally to promote economic development in the community.

Complying with Islamic Law and Jurisprudence

WOCCU consulted with Islamic scholars and local *mullahs* in modifying WOCCU's traditional credit union development methodology to establish the first fully *Shari'a*-compliant financial institutions in Afghanistan. The IIFCs were the first institutions in the country to manage both assets and liabilities in accordance with Islamic principles. All IIFCs offer savings and financial services that heed the Islamic prohibition on paying or receiving interest.

As WOCCU began opening IIFCs in the south, it was apparent the traditional credit union governance approach of electing volunteer directors from the broader membership conflicted with tribal, ethnic and traditional governance structures in the country. As a result, membership growth declined and delinquency grew. WOCCU tapped local *shura* leaders (tribal or village council elders) to serve as board members. They ensure members seeking financing are part of the local community and of good character. Almost immediately, membership grew and delinquency declined.

Muslim sects interpret the servicing of *Shari'a*-compliant financial products differently. As such, WOCCU consults *mullahs* in each new community to ensure IIFC compliance. By tailoring products and services to the local area, more Afghans have access to finance.

Increasing Access to Rural Finance

Thirty-seven percent of IIFC loan volume has financed agriculture or agricultural enterprises. Farmers who do not qualify for individual loans obtain the capital they need to finance and expand their farms through a type of cooperative group lending product that uses peer pressure to encourage timely repayment.

Building Local Capacity

WOCCU designed its training materials to ensure that local Afghan staff and board members—many of whom have limited education—are prepared to work in, manage and govern the IIFCs as well as expand and sustain the IIFC network. Afghan staff members receive training in credit union operations, basic accounting and lending. Afghan directors participate in a three-part course focused on governance, financial management and volunteerism.

Empowering Women

By observing local customs, IIFCs are able to provide women the opportunity to join, staff and participate in IIFC affairs. Membership meetings are held separately for women, who represent 16% of total membership. A female teller is always available to verify the identity of members dressed in burkas when they conduct transactions. A local representative from the Afghanistan Women's Association serves on many IIFC boards.

FEATURED IIFC MEMBER

Tahir, father of eight, was a sidewalk vendor with a makeshift stand in Metharlam City. Every day, he and his eldest son traveled 3km to sell onions and potatoes in the city.



When Laghman IIFC opened its doors in October 2007, Tahir and his son were among the first to join. They borrowed 25,000 afghanis (US\$500) each to improve their business. After successfully repaying the IIFC, Tahir borrowed an additional 50,000 afghanis to expand. With savings and a third financial advance of 75,000 afghanis, Tahir rented a building at the city center for his business. His family converted it into a three-bedroom apartment and opened a restaurant on the first floor, where his son serves as the chef. Today, Tahir and his family have a good business that provides them an income to send their

children to school and give them hope for a brighter future.



Tahir continues to patronize the IIFC, no longer as a borrower but as a saver.

COLLABORATION WITH UTAH CREDIT UNIONS

For 13 months, in the absence of donor funding, the Utah Credit Union League and America First Credit Union (U.S.) helped financially sustain IIFC project activities that had begun under the first MISFA project.

ABOUT CREDIT UNIONS

Credit unions, called by various names around the world, are financial cooperatives that provide savings, credit and other financial services to their members. Credit union membership is based on a common bond, a linkage shared by savers and borrowers who belong to a specific community, organization, religion or place of employment.

ABOUT WOCCU

WOCCU is the global trade association and development agency for credit unions. WOCCU has implemented more than 275 international development programs in its 35-year history. Learn more at www.woccu.org/microfinance.

SPOTLIGHT: WOMEN'S TRAINING CENTER



Community development programs through *zakat*, or charitable contributions, are an important part of the IIFC mission. IIFCs have worked with the Ministry of Women's Affairs to establish tailoring and embroidery training centers to teach unemployed women, primarily widows, income-generating skills. Six training centers have been established throughout the country.

More than 200 women have graduated from the six-month program and joined the IIFCs to access start-up funds for their new microbusinesses.

IIFCs also fund mosque refurbishment projects as part of their community development programs.

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