

# **QUARTERLY REPORT**

## **Khana Loan Initiative**

Cooperative Agreement Number:  
EEM-A-00-09-00003

Project Period:  
August 18, 2009 – July 30, 2013

Reporting Period:  
January 1<sup>st</sup> to March 31<sup>st</sup> 2013

Location:  
Afghanistan

Submitted to:  
USAID

## **Executive Summary**

The Khana Loan Initiative aims to scale-up and expand First Microfinance Bank—Afghanistan’s (FMFB-A’s) urban housing microfinance portfolio and develop, pilot and rollout housing microfinance products for rural areas. The program also seeks to significantly improve the quality of housing by offering construction appraisal and advisory services.

At present, housing loan products are offered across FMFB’s entire branch network. The Bank disbursed 1055 loans equaling \$1,791,017 in the first quarter of 2013 of which 53 loans were to rural borrowers.

The first quarter of the year followed the same patterns as that of previous quarter due to seasonality. Over the winter season in Afghanistan, client priorities have shifted from housing improvement activities towards stocking of food, fuel and other supplies and weather conditions cause construction activities to slow/halt resulting in lowering of demand compared to previous quarters; this seasonal decline of demand was expected. While security remains volatile, it has not had a significant impact on the overall operations of FMFB in the past quarter.

During the quarter, a request for a no cost extension (NCE) through December 2013 along with a budget modification was finalized for submission to USAID in April.

From the sector perspective, FMFB continues to maintain its dominant position, while other microfinance institutions face challenges. At present, FMFB is the market leader with a total outstanding portfolio of \$80 million and an active client base of more than 60,000. FMFB is the only financial institution in the country that offers a housing improvement product, which constitutes about 17% of its microfinance portfolio by value.

## **Introduction**

The Khana Loan Initiative aims to scale-up FMFB-A's urban housing microfinance portfolio in all urban areas where FMFB has operation, expand to new urban areas and develop, pilot and rollout housing microfinance products for rural areas. The program also seeks to improve the quality of housing by advising loan clients on selection of building materials, construction techniques, and innovative methods and interventions for improving safety and quality of their living environments. Through the project FMFB-A is directly providing construction appraisal and advisory services to clients and promoting innovative housing upgrades that address earthquake resistance, sanitation, ventilation, and energy efficiency. FMFB has significantly surpassed the program's overall targets of disbursing 10,600 loans worth \$ 7. 4 million and the cumulative total number of loans disbursed by the end of March 2013 was 19,912 amounting to over \$35.39 million.

The loan disbursement shows a downward trend since the last quarter of 2012 with arrival of winter when construction activities slow down. The number of loans disbursed declined by 43% to 1,055 valuing \$ 1.7 million against 1,857 loans of \$3.1 million disbursed in the previous quarter. This is an expected seasonal impact, and demand will improve with arrival of spring.

FMFB-A continues to share its experience with housing improvement finance with the wider international development community. At the invitation of IFC MENA, during the quarter FMFB visited one of the IFC's local MFI partners in Egypt to assist the IFC with an evaluation of the housing product currently offered by their local partners and share FMFB-A's learning and advice. Following the evaluation, IFC has asked FMFB to take on an advisory role to help their local Egyptian MFI partner with improving their product and delivery system. IFC and FMFB have also partnered in the past for developing a housing microfinance toolkit in 2009-10.

## **Achievements during the Reporting Period**

### *Highlights*

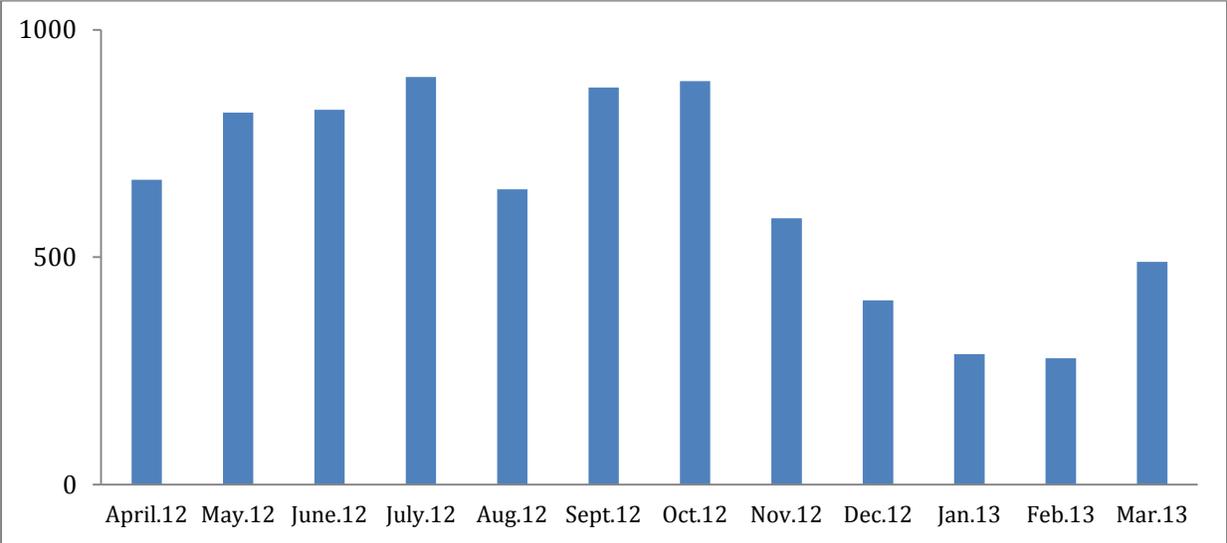
- 10,830 active housing loan clients with a portfolio outstanding of \$10,813,093
- Percentage of women borrowers was at 19%
- 1,055 loans were disbursed amounting to \$ 1,791,017 during the quarter
- PAR more than 30-days is 1.22%
- Average loan size in urban areas: \$ 1,801
- Average loan size in rural areas: \$ 801

## **Outreach & Performance:**

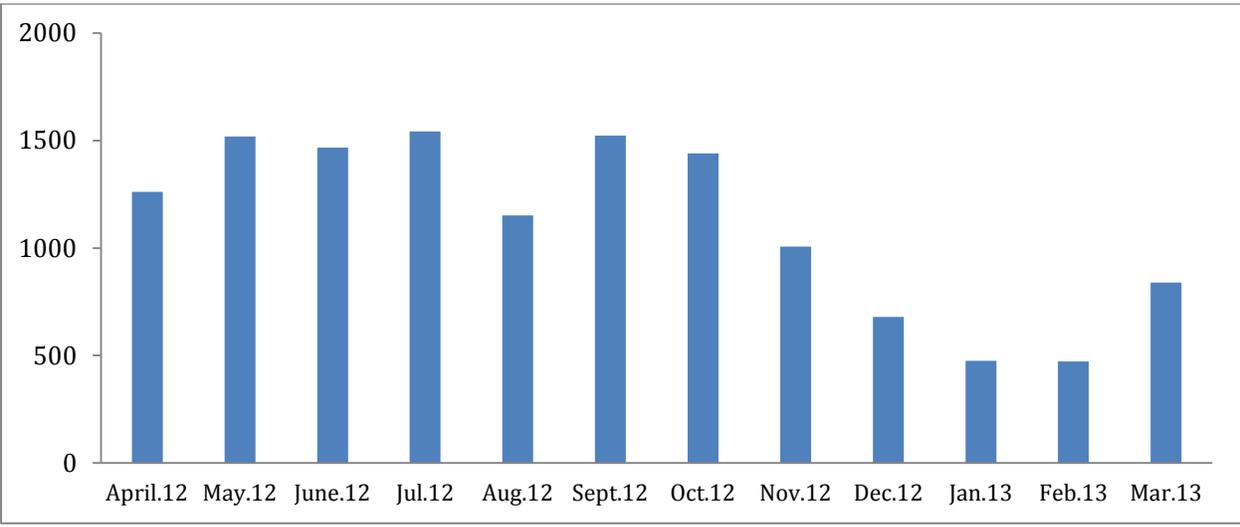
Active housing portfolio as of 31 March 2013 was 10,830 compared to 10,899 in December 2012, valuing \$10,813,093. The number of active female borrowers decreased from 2,093 in December to 2,044 in March 2013. PAR over 30 days is 1.22% compared to 0.87% recorded last quarter. For the quarter, 17% of the total loan disbursements were provided to female clients. During the reporting period 5% of the total number of loans disbursed were rural, valuing \$44,204.

Figure 1 and Figure 2 show the new and amount of disbursements during the reporting period, reflecting the seasonal impact on the overall performance of the housing product. With the arrival of spring, the demand for the housing product should increase, with early indications reflected in month of March.

**Figure 1: Number of Loans Disbursed**

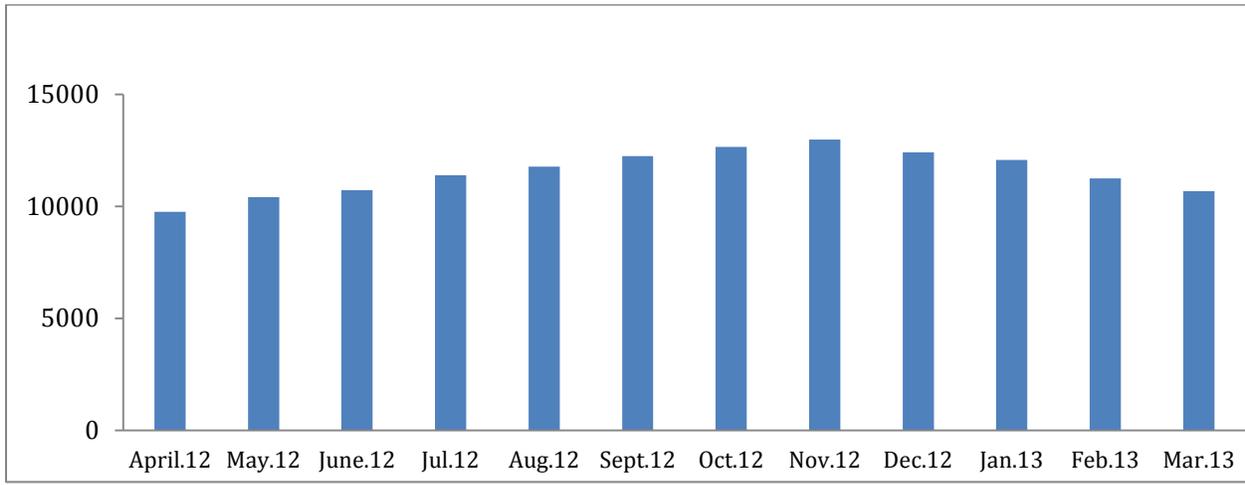


**Figure 2: Amount Disbursed**

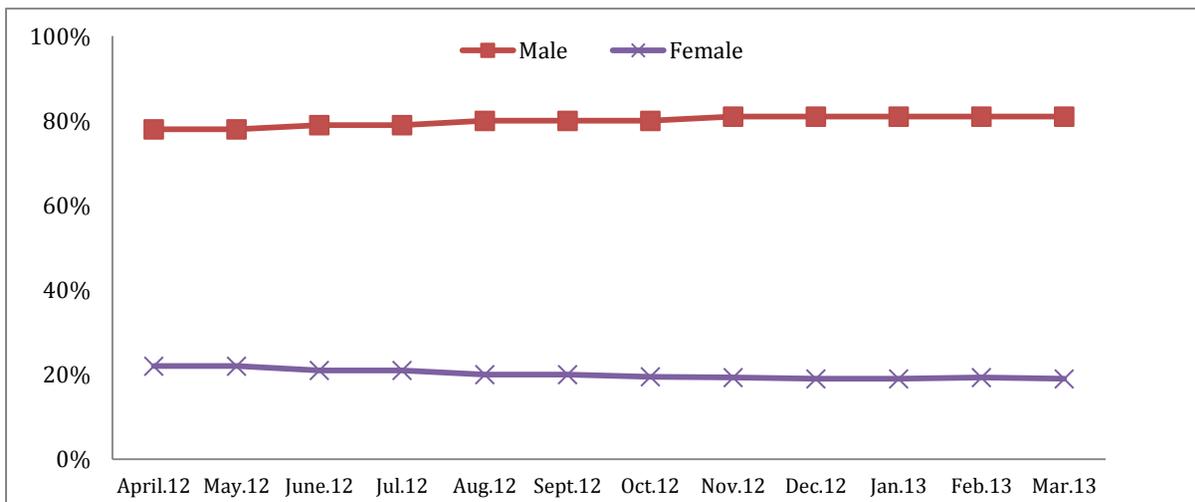


The decrease in the value of the outstanding housing loan portfolio is directly proportional to the decrease in disbursements over the quarter

**Figure 3: Changes in Housing Loan Portfolio Outstanding Value**



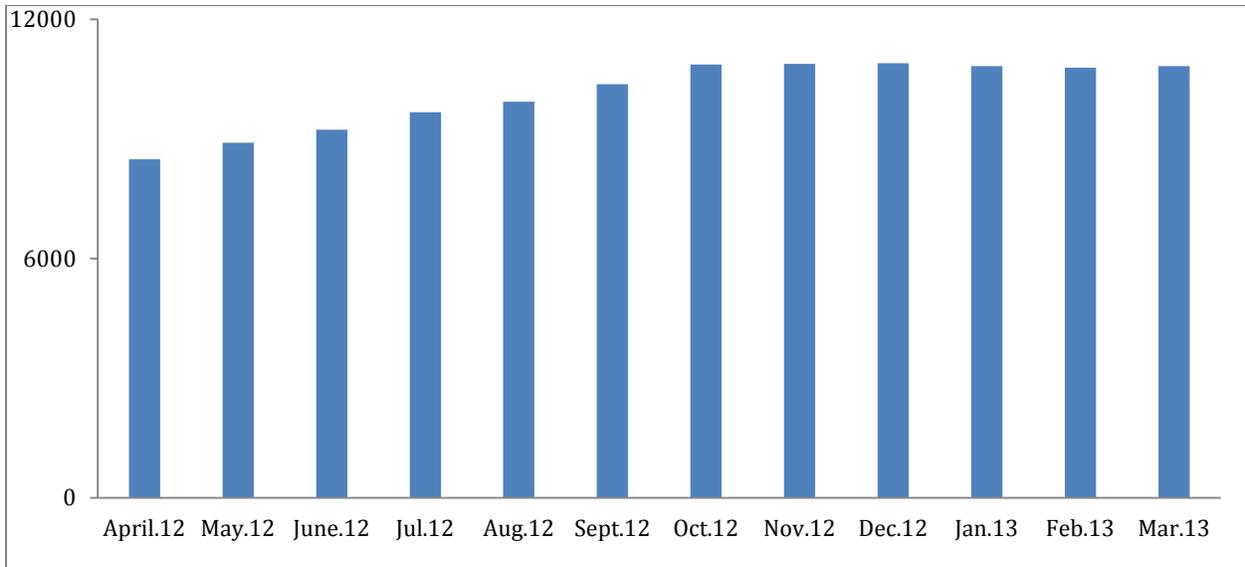
**Figure 4: Active Borrowers by Gender (Percentage)**



Women in Afghanistan have limited ownership of property, which is generally channeled through inheritance. For the quarter, 19% of the total outstanding portfolio comprises of female borrowers, 2,044 compared 2,093 reported in the previous quarter.

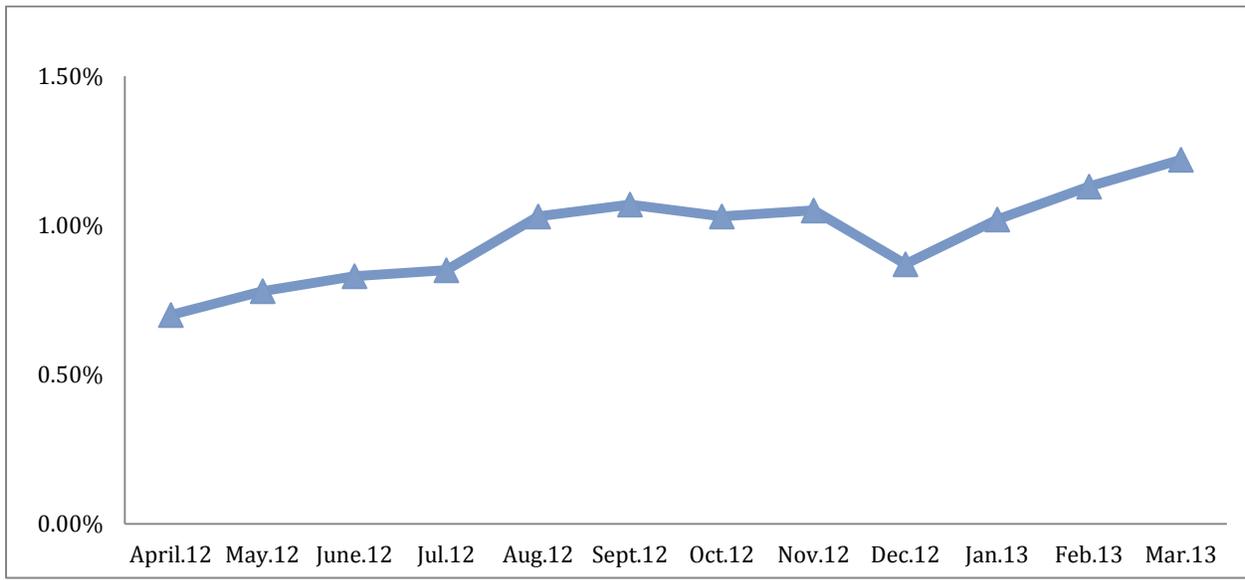
The number of total active borrowers also reflected a downward trend for the quarter due to seasonality of disbursements concluding at 10830 loans from 10,899 of the last quarter.

**Figure 5: Number of Active Housing Loan Borrowers**



PAR increased slightly up due to slowing of business activities during winter and the lower level of housing disbursements, though it still remains well below 6%.

**Figure 6: 30-Day PAR for Housing Loans**



## **Table of Indicators**

The table below shows achievements to date of the Khana Loan Initiative against indicators set in the Monitoring and Evaluation Plan shared with USAID in November 2009. Strong performance is reflected against all of the indicators and the Bank has exceeded all targets set at start of the project.

<b>TABLE OF INDICATORS FOR KHANA LOAN INITIATIVE</b>					
<b>Indicator</b>	<b>Target</b>	<b>Achievements (Y1) Aug 2009 to Aug. 2010</b>	<b>Achievements (Y2) Sept.2010 to Aug. 2011</b>	<b>Total to Date 31stMarch. 2013</b>	<b>Total this Quarter (Jan. to Mar2013)</b>
Cumulative number of Loans Disbursed	(2,850Y1)	3,642	-	-	0
	(6,200Y2.)	-	9,343		-
	(10,600Y3)	-	-	19,912	1,055
Female clients (%)	(10% Y1)	16%	-	-	-
	(10% Y2)	-	22%	-	0
	(10% Y3)	-	-	19%	19%
Cumulative value of housing loan Disbursed (000s)	(\$1,995Y1)	\$5,304	-	-	-
	(\$4,340Y2 )	-	\$16,433	-	-
	(\$7,420 Y3)	-	-	\$35,391.55	\$1,791.
Value of loans Outstanding (000s)	(\$1531 Y1)	\$4,746	-	-	-
	(\$2,990 Y2)	-	\$9,407	-	-
	(\$ 4,614 Y3)	-	-	\$10,813	\$10,813
OSS of housing loan product	(21% Y1)	-	-	-	-
	(45% Y2)	-	108%	-	-
	(87% Y3)	-	-	110%	-
PAR30	<6%	0.83%	0.60%	1.22%	1.22%

## **Progress towards Long-term Results**

**Result 1.1:** Improved quality of construction and construction techniques

**Result 1.2:** Adoption of housing improvement innovations and upgrades

**Result 2.1:** Increased outreach of the housing product

**Result 2.2:** Increased efficiency

As 2013 is the final year of USAID-AKF support for the Khana Loans housing improvement program, FMFB-A is focused on developing a comprehensive evaluation plan of the project including a product review. The evaluation will look at the impact of the Khana Loans product on quality of housing for clients as well as their overall quality of life. It will also evaluate the efficiency and effectiveness of delivery of housing product and technical assistance provided and the overall viability of the product. During the past quarter, FMFB-A finalized the scope of the evaluation exercise in line with the original grant agreement and a draft has now been submitted with the no cost extension (NCE) request to USAID.

The deteriorating situation in Afghanistan and severe winters has impacted FMFB-A's operational plans for 2013, particularly with regard to the evaluation. The situation in the country is deteriorating at a faster pace than before and during the first quarter; there has been an increase in attacks in the Northern provinces, which were considered peaceful before. The situation in Kabul is also becoming more difficult, as evidenced by the fact that the government claims that they prevent four attacks every week in Kabul due to their intelligence gathering. Besides attacks, there has also been an alarming increase in abduction cases targeting foreign nationals. Largely due to the aforementioned reasons, FMFB-A faces challenges to attract human resources for the evaluation exercise. With an unpredictable situation at hand and loss of the last quarter of 2012 and first of 2013 due to winters, AKF has requested for an extension from USAID through December 2013 to be able to perform the committed evaluation exercise which it does not expect to be able to complete by 17 June 2013.

Subject to approval by USAID of the NCE and budget modification request, FMFB will work with AKAM and AKF to develop and circulate Request for Proposals (RfP) for external consultants to conduct the evaluation.

### **Challenges/Problems encountered during the Reporting Period**

The challenges during the period were similar to what was reported last quarter with weather conditions impacting the credit demand. The limited number of qualified Technical Officers to monitor pre- and post-loan activities also limits the Bank's ability to gage adoption of technical advisory. The rural product again met its required targets, however the branches required continued training and support, both on-site and remotely, for managing seasonal repayment schedules.

### **Institutional Development /Management Issue**

The MIS patch for automating seasonal repayments has been received and will be installed in branches during the following quarter as travelling to remote and offline branches is limited during winter.

## **Financial Analysis**

Major expenses for the quarter were limited to staff salaries.

## **The Future: Major Activities for the Next Quarter**

In quarter two of 2013, AKF will finalization and circulate the RfP for the project evaluation; evaluate candidates; and contract the external evaluator.