

PARWAZ MICROFINANCE INSTITUTION

Annual Report

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History and Mission

PARWAZ Microfinance Institution was established in 2003 in Afghanistan for Afghan women by Afghan women. PARWAZ is a grass-roots microfinance organization based on the belief that women's long-term success in society is dependent upon self-reliance and economic empowerment. PARWAZ provides financial services in the form of credit and savings to disadvantaged and poor women to start micro businesses and thus take a step towards empowerment. PARWAZ clients are able to undertake business activities such as agricultural endeavors, home based tailoring services, livestock, carpet weaving, jewelry making and shop keeping.

PARWAZ, a Dari word meaning "to fly", is the first woman-led Microfinance institution for Afghans by Afghans in Kabul. PARWAZ was established post 9/11 with the help of Global Exchange, a human rights organization in San Francisco Bay Area, Women's World Banking Advisor Ms. Nicola Armacost, two dedicated San Francisco Bay Area human rights advocates Tom Miller and T.T. Nhu, and Afghan-American Ms. Katrin Fakiri.

In March, 2002, Ms. Fakiri, first Managing Director of PARWAZ and Co-Founder of the Society of Afghan Professionals, accompanied members of the advisory committee that was established to research the possibility of Microfinance in Afghanistan. The team conducted a preliminary study and made vital initial contacts. The group included Nicola Armacost from Women's World Banking, Rona Popal, president of the Afghan Women's Association; Kirsten Moller, Global Exchange co-founder; human rights advocate Bianca Jagger; and journalist and Global Exchange board member, T.T. Nhu.

Carefully planned and run completely by an experienced Afghan staff, PARWAZ was one of the first organizations to provide Microfinance services in Kabul. The strength of PARWAZ lies in the fact that, as a national NGO, it is better able to understand the cultural values of the people, foresee potential problems, and to take appropriate measures when designing the methodology for its program. Parwaz' delivery of micro credit is based upon first hand knowledge of Afghan cultural boundaries and nuances combined with Microfinance best practices based upon Microfinance experience around the world.

Fundraising

Our work would not have been possible without the generous funding from various donors in and outside of Afghanistan. Major donors include The Overbrook Foundation and Buffet family members who provided our initial funding, UNIFEM, the American Jewish World Service, Flora Family Foundation, Dining for Women, the McCauley Foundation, the Montana Connection for Afghan Women; and the Afghan Women Funders Network. PARWAZ's biggest donor is the international community of donors to Afghanistan (CIDA, World Bank, DFID) channeled through the Government of Afghanistan and MISFA (Microfinance Investment & Support Facility of Afghanistan).

Criteria for Client Selection

Currently, in order to qualify for a loan, borrowers must be poor and female, a single head of household, married or a widow. Widows are given primary consideration. Borrowers must also possess a demonstrable skill and/or verbally provide a viable plan for their businesses and must not already have regular or permanent income. Many of our clients who do not have the necessary skills to start a micro business or are culturally prohibited, take loans for their sons or husbands' small micro retail activity; thus PARWAZ loans empower the entire family, not just the female. The types of loans and their details are as follows:

- **GROUP SOLIDARITY LOANS**

Promoters mobilize clients into solidarity groups of 10-12 members each, all living in a neighborhood. Shared poverty, shared oppression and especially, gender issues bring these women together to form a group. The solidarity groups have many more important

functions rather than mere savings/loan activity. Among other things, groups serve as a forum for the poor women to: (a) voice their opinions/views, (b) interact with one another, (c) share their experiences, (d) exchange ideas on various issues and (e) and initiate collective action on a wide range of social, personal and economic issues. To facilitate the above, and also constantly reinforce the rhetoric and philosophy of group solidarity, clients meet on a monthly basis during loan collection. Each solidarity group elects its own leader, who oversees the group payments. PARWAZ Loan Officers evaluate the unity and strength of each group before issuing loans to them. Clients start at a loan amount of \$200, payable in 8 months, and can gradually increase up to \$400 with good credit history.

The role of PARWAZ is essentially both social and financial intermediation: to mobilize poor clients, enable them to organize themselves into solidarity groups and build up the capacity of these groups (and their members) to function independently and effectively at the grass roots level.

- **SMALL BUSINESS LOANS**

To meet market and client demand, PARWAZ offers small business loans to clients who have graduated from the solidarity group program and new clients who have higher credit needs that are not being met by commercial banks. Clients are assessed on the basis of their own individual credit worthiness, do not belong to a group and must already have an established micro business and have a guarantor. The loan amounts range from \$500 to \$2,000 USD payable in 8-12 months. The majority of these borrowers are male.

- **HOME REPAIR LOANS**

As home ownership is the biggest asset in any country, Afghanistan is not an exception. After decades of conflict, homes have been destroyed or are in terrible disrepair. The poor in Afghanistan live under terrible housing conditions. To meet this need PARWAZ has developed a home repair micro loan for established and new clients to re-build their most precious asset that is used as living and working space. The clients must provide proof of income and a guarantor for the loan. The loan amount range for this product is \$500 to \$2,000 USD, payable in 8-12 months.

Geographical Areas of Operation

Currently PARWAZ operates only in Kabul, with plans to expand to surrounding provinces as conditions permit in the next 2 years.

Business Awareness Training

To ensure that our clients continue to prosper, PARWAZ implemented 12 business awareness training programs in various districts for our clients. This was made possible by a generous donation from American Jewish World Service (AJWS) and implemented by our partner organization KAWYAN-a successful local woman led training company. This is a specialized, visual and participatory business awareness training course designed for non-literate women, as most of Afghanistan and especially women are not literate. The training has been a huge success. Our clients enthusiastically attend to learn basic business concepts such as marketing, advertising, bookkeeping, production line, quality control, and conflict resolution - all in an Afghan context. PARWAZ will continue to offer these training and advanced courses with continuing assistance from AJWS. To date, PARWAZ has trained over 500 women in business awareness.

Business Activities

- ❖ Retail or commerce activities such as Kiosks, small Shops, wholesale selling, vending carts, hawking and similar activities
- ❖ Production activities such as jewelry making, food processing, metal works, embroidery, baking, carpentry, tailoring, tannery and leather works, carpet weaving, embroidery, and the like

- ❖ Service such as transportation, catering, hairdressing, tailoring, educational services and similar activities
- ❖ Agricultural activities such as dairy, poultry, goats/sheep rearing and related activities
- ❖ Carpet weaving or other production of raw materials

PARWAZ has gone through a tremendous change this past year. It was a year where our capacity as an institution was tested and we passed with flying colors. We have transformed ourselves from a small program to a full fledged Microfinance Institution, doubled our client size and outstanding loan portfolio; improved our operational self sufficiency ratio by 75%; and doubled our staff. The reason for this growth was one main factor: Funding. For the first time in the history of our organization, PARWAZ was able to obtain the funding needed to support our expansion plans, thus allowing us to not just meet but surpass targets. We are very proud of the achievements to date, but we have just started. The demand for micro credit is in the millions in Afghanistan and the majority of the clients are women. Out of the entire 300,000 now served by the micro entrepreneur sector, over 70% are women!

Indicators

The biggest indicators of a Microfinance institution's health are their "key ratios". The indicators demonstrate efficiency, financial and operational sustainability, the status of the Loan Portfolio, and client repayments. We are pleased that PARWAZ has met or even surpassed targets given to us by our major donors and compares well with other MFIs in Afghanistan in the same categories.

PARWAZ ANNUAL INDICATORS	2006-7	2007-8
Number of Total clients	5,574	14,708
Total Number of Employees	49	100
Loan Portfolio Outstanding	\$578,275	\$ 1,623,032
Saving Balances Outstanding	\$32,613	\$ 98,043
Yield on portfolio, %	20 %	35 %
Current repayment rate, % *	98.08%	92.73 %
PAR (>30 days)%	0.2%	2.4%
Yield on Portfolio	38%	40%
Operational Self Sufficiency	35%	75%

* **Note:** During the previous year the Repayment Rate has declined from 98.08 % to 92.73 %. This was partially caused by some of our operational areas outside Kabul becoming so insecure we had to withdraw immediately and stop our operations. We also recognize a need to improve internal controls and have established an Internal Control Department and entered into a two year collaboration agreement with ASA Bangladesh, which is recognized as one of the best run microfinance organizations in the world. ASA will provide PARWAZ with four consultants for the next two years to assist with management improvement.

Impact

Equally important is the "human" side of the coin when gauging microfinance success and that is the social and economic impact on the client. Are we really empowering women? By all of our indicators and monthly surveys, the answer is a big, resounding YES! Clients report higher income and an increase in household assets (such as home electronic goods, cell phones, household items, etc.). They also state they can go out and obtain contracts with local store owners for goods such as children's, women's and men's clothing, handicrafts, quilts, pillows, rugs, and dairy products among other things—something unheard of for women to do just 2 years ago. In fact, just 5 years ago, it was unheard of for women to be entrepreneurs in Afghanistan.

Women also state that they are respected more by their husbands, extended family members, and their neighbors since taking a loan. What we find most heartening though is that clients can now afford to send their children to school instead of having them work or beg in the streets, and they can take care of their medical expenses - things they could not do before. The over-all trend is that women have more confidence now than before taking the loan and they take great pride in the fact that they can provide for their families. We are so proud of them!

To substantiate these results, we are pleased that the World Bank has recently commissioned a study to more accurately measure the impact of microfinance in Afghanistan. PARWAZ is a proud partner in this study.