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ACGF

MSME Access to Finance for Livelihoods in Afghanistan (MALA) Programme (2023-2025)

€49.4 million
in financing provided to
14,624 MSMEs
in Afghanistan

Women Youth Rural

reached effectively through targeted incentives, **outperforming targeted amounts by 2-3 times**

Results (at the impact level)

24% weighted average sales growth of ACGF-supported companies

67,673 jobs supported at MSMEs at baseline

90% of MSMEs reported higher turnovers, with 88% becoming more profitable

11,000 new jobs created at MSMEs, (+25%)

Results (at portfolio level)

0.4% Portfolio-at-Risk (>30 days)
exceptionally low default rates

71% of the microfinance sector is covered by ACGF-backed partner institutions

4 out of 5 supported MSMEs accessed formal finance for the first time through ACGF guarantees — rising to over 9 in 10 for women-owned businesses.

2,514 bank officers trained through TA initiatives, including on Islamic financing, women finance and E&S trainings

Stories behind the numbers

- A large majority of supported MSMEs had never accessed formal finance before. For many, especially women-owned businesses, MALA did not replace other funding; it created access where none existed.
- The transition to Sharia-compliant finance created uncertainty for banks and MFIs. TA supported product redesign, staff training, and compliance, allowing institutions to lend again under the new rules.
- Saffron stands out as one of the few value chains that generates large-scale paid employment for women in rural areas. Harvesting and processing are labour-intensive, time-bound, and culturally accepted, enabling thousands of women to earn seasonal income.

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MALA supported Afghan MSMEs in surviving and recovering from the 2021 economic shock — delivering credit guarantees, matching grants, and technical assistance to restore access to finance, protect jobs, drive inclusive business growth, and reinforce financial sector stability.

"At a time when others withdrew, ACGF was willing to take exposure to Afghan banks

- ABA representative

"The guarantee facility was essential to our survival, as it helped limit losses that threatened our ability to continue operating

- PI representative

"The guarantees provided a level of comfort at institutional and board level, when making decisions related to risk capital and lending

- PI representative

"Technical assistance helped us address structural gaps, particularly in the credit function

- PI representative

"ACGF's previous collaboration with the EU served as a quality mark for us

- UNCDF representative

"Access to finance allowed me to build my own capital and strengthen my business during a very challenging period

- Female entrepreneur

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About the evaluation

This evaluation assesses the performance and results of the MSME Access to Finance for Livelihoods in Afghanistan (MALA) programme, implemented by the ACGF Foundation with EU support during 2023–2025. MALA was launched in response to the post-August-2021 economic and financial collapse, which severely constrained access to finance for MSMEs, particularly women-owned, youth-led and rural enterprises.

Using a mixed-methods approach combining a representative survey among 448 Afghan MSMEs, stakeholder interviews, and portfolio and document analysis, the evaluation finds that MALA made a timely and substantial contribution to restoring credit flows, safeguarding livelihoods and sustaining private-sector activity in a highly fragile context. Through its integrated design, combining credit guarantees, matching grants, technical assistance and outreach incentives, the programme exceeded most targets, demonstrated strong additionality, and delivered measurable employment and business outcomes.

Based on the findings, the evaluation identified several lessons learned and recommendations.

Key messages

Financial outreach vastly exceeds targets. By June 2025, 14,624 MSMEs had been supported through guaranteed loans and matching grants. Total financing mobilised reached EUR 49.4 million, comprising EUR 45.9 million in guaranteed loans and EUR 3.5 million in matching grants. MALA exceeded 17 out of 22 targets of its results framework by June 2025 and is on track to reach the remaining targets by programme end.[1]

The portfolio was dominated by microfinance, enabling scale and strong portfolio quality. ACGF-backed partner institutions accounted for 71% of the microfinance market, indicating substantial market coverage. Microfinance accounted for 96% of loans by count and 69% by value, supporting rapid outreach and exceptionally low default rates.

Lending was concentrated in the north due to PI presence. Southern regions remained underserved because of limited branch networks and higher operational constraints. Digitalisation offers a pathway to extend outreach beyond physical branches.

Financing was used mainly for working capital and physical investment, with limited flexibility due to Islamic financing constraints. Most MSMEs used financing for working capital and physical capital investments. However, the heavy reliance on Murabaha-based financing limited cash-flow flexibility, particularly for seasonal needs and agricultural activities.

Priority groups were reached at scale. Women-owned MSMEs received EUR 9.16 million (19%) across 4,516 loans (31%), achieving 196% of target. Youth-led enterprises received EUR 4.64 million (10%) across 1,966 loans (13%), reaching 243% of target. Rural MSMEs received EUR 15.85 million (33%) across 5,976 loans (41%), corresponding to 300% of target.

Portfolio quality was exceptionally strong. As of Q2 2025, Portfolio-at-Risk (>30 days) stood at 0.4%, reflecting very low default rates driven by strong capacity building, prudent client selection, and social, religious, and legal enforcement mechanisms.

Employment and business growth effects were significant. Based on PI loan appraisal data, 44,049 jobs were supported at baseline, and based on the evaluation MSME survey, an estimated 11,000 new jobs were created by Q2 2025, both vastly exceeding initial targets. Supported MSMEs recorded 24% sales growth and 25% employment growth on average, indicating business expansion beyond short-term survival.

[1] Due to the timing of the evaluation, the analysis and findings presented are based on data available up to the end of Q2 2025.

Additionality at MSME level was high. Nearly four out of five MSMEs accessed external finance for the first time. Among women-owned businesses, more than nine out of ten were first-time borrowers, indicating strong financial additionality.

Lessons learned

Integrated design is essential. The combined use of guarantees, matching grants, technical assistance and outreach incentives was critical; no single instrument would have delivered comparable results on its own.

Subsidised guarantees remain critical. Guarantee fee subsidies were essential to sustain MSME lending under high risk and uncertainty and played a stabilising and confidence-building role for partner institutions.

Reaching underserved groups requires tailored approaches. Outreach fees, female-only branches, female loan officers and dedicated TA were effective in expanding access for women, youth and rural MSMEs, though they required closer monitoring.

Data quality from partner institutions needs continued improvement. Limitations in PI-reported data, particularly on employment and post-disbursement outcomes, constrained impact measurement and increased reliance on surveys and assumptions.

Limited flexibility of Murabaha financing constrains MSME growth. Reliance on Murabaha restricted financing for working capital, wages and seasonal needs, especially in agriculture and other cyclical sectors.

Microfinance enabled scale and portfolio quality, while SME impact potential remains underutilised. Microfinance drove high outreach and low risk, while SMEs showed higher transformational potential but remained limited due to higher risk and operational complexity.

Digitalisation is a critical enabler of efficiency. Manual, document-based processes increased administrative burden; greater digitalisation is key to increased outreach, efficiency, and scalability.

Recommendations

For ACGF

1. Focus grants and TA more strongly on MSMEs with higher growth and employment potential, while continuing to prioritise women-, rural- and underserved MSMEs through clear eligibility criteria and differentiated support.
2. Monitoring should progressively shift to a risk-based and data-driven approach, with differentiated oversight by portfolio risk, client segment and partner maturity.
3. Client protection should be strengthened to ensure productive use of finance and to limit repayment stress among vulnerable MSMEs, particularly informal and home-based businesses.
4. Impact measurement should be strengthened through clearer employment metrics, improved loan-closure data, and tracking of firm survival and follow-on finance.

For partner institutions

5. Partner institutions should receive continued support to strengthen data quality, digital systems and institutional capacity, including staff skills and internal processes required for reliable reporting and monitoring.
6. Islamic finance products should be further diversified beyond Murabaha to better address MSME working-capital and seasonal financing needs, subject to regulatory approval.

For the EU and other donors

7. Continued donor engagement is needed to strengthen partner-institution capacity, particularly in data systems, digitalisation and staff capabilities, recognising the persistent fragility of the operating context.
8. Learning-focused pilots should be encouraged to test practical, cost-effective approaches to strengthening impact evidence and results management, with scope for adaptation and scaling based on lessons learned.

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