



Aga Khan Agency for Microfinance

A N N U A L R E P O R T 2 0 0 5



AN AGENCY OF THE AGA KHAN DEVELOPMENT NETWORK

COVER: EBRAHIM MOHAMMED, A TILE-MAKER, HAS TAKEN SEVERAL LOANS, STARTING WITH US\$ 500 IN 2002, TO BUY MACHINERY AND EXPAND HIS BUSINESS. HE NOW HAS SIX EMPLOYEES, ONE OF WHOM IS SHOWN POLISHING TILES WITH MACHINERY PURCHASED WITH A LOAN. "EVENTUALLY," EBRAHIM SAYS, "I WANT TO SELL MY TILES ACROSS AFGHANISTAN."

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THE AGA KHAN AGENCY FOR MICROFINANCE: INAUGURAL STATEMENTS

His Highness the Aga Khan, Chairman, Aga Khan Development Network

Often when we speak of microfinance, we think of small loans. But microfinance is moving beyond microcredit and now includes a range of new products and services to meet the needs of the poor. Simply put, the poor in the developing world require access to just about every kind of financial product and social service that individuals or small-enterprise owners require in the developed world.

The Aga Khan Development Network agencies have been involved in microcredit for more than 60 years. During that time, a variety of institutions offering a range of products tailored to specific needs have been established in many countries. We offer small saving accounts, housing loans and microinsurance for individuals. We provide international money transfer and short working capital loans to small businesses. We have also extended loans for education and health care, which we believe can be important ways to break down the barriers to access to those services for the poor. It is important to note that the issue is not only the provision of services, but making them accessible to the poor.

In the process of offering these services, we have discovered that the poor are bankable. Our loan-loss experience of two percent is less than many of the small business portfolios of Western commercial banks. We must be prepared to bank good character, good ideas and the willingness to work hard.

If we do bank those attributes, microfinance can be a formidable tool for poverty alleviation in large parts of the developing world. Its versatility allows it to be adapted to the needs and circumstances of the poor in urban and in rural environments. I am convinced we have only begun to tap into its potential.

22 February 2005, Palais des Nations, Geneva, Switzerland



James Wolfensohn, Former President, The World Bank

What is remarkable about the Aga Khan Development Network is that they have taken their experience of 60 years and are formalising it in a way which essentially takes us to the next level of microcredit. We have gone beyond lending women US\$ 50 and US\$ 100 for chickens and sewing machines.

Today, we are probably reaching 80 million people. If you think that four or five people are dependent on those 80 million people, you find that the impact of microcredit is now approaching 400 to 500 million people.

This year, the UN Year of Microcredit, is the coming of age of microcredit. We have gone beyond the original perception to something that is becoming professional. Therefore, the governments need to set up a framework in which microfinance can be established within the normal financial community. Secondly, we need to set up credit bureaus to try and take advantage of the knowledge of the credit of poor people.

Thirdly, we need to diversify the types of products that are now available in terms of insurance, business loans, educational loans and work on cultural-related activities. In a sense, we are taking what was not expected, which is a financial product, and making it available not just to the rich, but to the poor who need it the most. It is work like that being done by the Aga Khan and this new entity that I think deserves all our support.

From being a fringe activity, something that was done in Bangladesh and a few other places, we are now finding that microcredit is really addressing the needs of five billion people in the developing world... As we look at the next 25 years, when we will see an addition of two billion people to the developing world, microcredit becomes not a fringe activity but a central activity.

22 February 2005, Palais des Nations, Geneva, Switzerland



OVER 4,000 WOMEN HAVE BEEN PROVIDED WITH CREDIT PRODUCTS AND SERVICES BY WOMEN CREDIT OFFICERS AT THE FIRST MICROFINANCE BANK IN AFGHANISTAN AND AT THE AFGHANISTAN RURAL MICRO-FINANCE PROGRAMME.

THE YEAR IN REVIEW

The year 2005 has been momentous for the Aga Khan Agency for Microfinance (AKAM). Legally established in late 2004, it was formally inaugurated in February 2005 by His Highness the Aga Khan and James Wolfensohn, then President of the World Bank.

AKAM brings together, under one umbrella, all the microfinance activities previously managed by various entities within the Aga Khan Development Network. AKAM's mandate is to alleviate poverty, diminish the vulnerability of poor populations and reduce economic and social exclusion. Underpinning this mandate, AKAM's guiding principles are to achieve long-term sustainability, provide a broad range of services, expand its geographical outreach and realise substantial impact.

Within this context, AKAM is pleased to report that 2005 was characterised by significant growth. While the number of borrowers grew from 25,000 to 56,000 and the number of depositors grew from 20,000 to 31,000, AKAM's overall loan portfolio grew from US\$ 14.3 million to US\$ 35.5 million. Deposits grew from US\$ 11.1 million to US\$ 30.8 million. The capacity to deliver financial services to the poor also grew as the overall staff size increased from 528 to 888 and the number of branches grew from 50 to 103. AKAM also began operations in Burkina Faso and Mali, thereby bringing the total number of countries in which the Agency is actively involved to 12. In addition to Central and South Asia, the Middle East and Eastern Africa, these developments add West Africa as a new regional focus for AKAM.

The First MicroFinanceBank in Pakistan, established in 2002, now has a five-diamond public disclosure status on the MIX Market, a global microfinance platform that provides information on microfinance to sector actors and the public at large. The Bank in Pakistan won the 2005 Consultative Group to Assist the Poor (CGAP) Financial Transparency Award, making it one of five microfinance institutions internationally to win this prestigious award. The First MicroFinanceBanks in Afghanistan and Tajikistan also became sustainable in the course of 2005 – less than 18 months after starting operations. Both of these banks now have

	DEC. 2004	DEC. 2005
BORROWERS	25,000	56,000
LOAN PORTFOLIO IN US\$	14.3 MILLION	35.5 MILLION
DEPOSITORS	20,000	31,000
DEPOSITS IN US\$	11.1 MILLION	30.8 MILLION
BRANCHES	50	103
STAFF	528	888

AKAM AND THE AKDN



□ AKDN Countries of Activity

● AKAM Countries of Activity

a four-diamond status on the MIX Market. In aggregate terms, all of AKAM's field operations became operationally sustainable during the year, despite the difficult environments within which they operate and the fact that many entities are still extremely new and not fully deployed.

At the same time, two maturing programmes, in Syria and in the Kyrgyz Republic, are undergoing institutional transformations, which will make them full-fledged microfinance banks. In 2006, AKAM expects to witness continued growth by doubling its portfolio while expanding outreach to 150,000 borrowers. The total portfolio is expected to reach US\$ 67 million in 2006.

The year witnessed continued efforts to expand the range of services, which now include a wide variety of credit products – in urban and rural areas – for productive purposes, housing improvement, education and healthcare. These are complemented by leasing products, deposit taking services, payments, remittances, microinsurance products, as well as other special initiatives.

Finally, with the support of a grant by the Bill & Melinda Gates Foundation to the Aga Khan Foundation, AKAM began an ambitious project to develop innovative microinsurance solutions to serve the poor.

As it looks to the future, AKAM intends to continue expanding and building capacity. It will reach out to the poorest through an extensive range of adapted services with the hope that its efforts will play a useful role in helping to meet the ambitious goals set by the international community in terms of poverty alleviation and the elimination of economic exclusion.

THE FIRST MICROFINANCEBANKS IN AFGHANISTAN AND TAJIKISTAN BECAME SUSTAINABLE IN THE COURSE OF 2005, LESS THAN 18 MONTHS AFTER STARTING OPERATIONS. BOTH OF THESE BANKS NOW HAVE A FOUR-DIAMOND STATUS (OUT OF FIVE) ON THE MIX MARKET. THE FIRST MICROFINANCEBANK IN PAKISTAN RECEIVED A FIVE-DIAMOND STATUS ON THE MIX MARKET.

Jacques Toureille
General Manager

Iain Cheyne
Director General

THE AGA KHAN AGENCY FOR MICROFINANCE

For more than 60 years, agencies of the Aga Khan Development Network (AKDN) have offered microfinance products and services through integrated development programmes and self-standing microfinance institutions (MFIs) in over 12 countries of the developing world. Established in November 2005, the Aga Khan Agency for Microfinance (AKAM) functions as the umbrella organisation for all of these programmes. Its mission is to alleviate poverty, diminish the vulnerability of poor populations and reduce economic and social exclusion. Continued collaboration with its sister agencies in the AKDN provides AKAM with unique development expertise and perspectives that aid AKAM to fulfil its mission.

AKAM'S MICROFINANCE PROGRAMMES ARE HELPING ACHIEVE FOOD SECURITY IN TAJIKISTAN, A COUNTRY HIT HARD BY THE TRANSITION FROM A CENTRALLY PLANNED ECONOMY TO A FREE MARKET. IN ADDITION TO LOANS, AKDN PROGRAMMES PROVIDE FINANCIAL ADVICE AND TECHNICAL EXPERTISE TO HELP FARMERS MARKET THEIR PRODUCE.

Headquartered in Geneva, Switzerland, AKAM is a not-for-profit international development agency established under Swiss law. AKAM is governed by an independent Board of Directors that is chaired by His Highness the Aga Khan.

Operating in both rural and urban settings, AKAM's microfinance programmes, institutions and banks have helped poor people from a variety of cultures and backgrounds to expand their incomes, improve their quality of life and become self-reliant. In



Afghanistan, they have supported returning refugees to start and expand businesses. Residents of one of the poorest districts of Cairo have improved and rehabilitated their homes with loans from AKAM. The microfinance programme in Syria is contributing to the development of civil society through unique partnerships between the Ministry of Health, the World Health Organisation and various village health organisations.

In South Asia, AKAM's programmes have helped indentured workers break the grip of multigenerational debts and liberate themselves from perpetual servitude. Loans have helped Tajik farmers expand yields of critical foodstuffs and enabled entrepreneurs to open vegetable processing plants, hardware stores, pharmacies and bakeries.

At the end of 2005, AKAM was operating in over 100 branches and loan offices in South and Central Asia, the Middle East and sub-Saharan Africa. Its then 900-strong work force had collectively distributed over 116,000 loans totalling over US\$ 92 million to beneficiaries.

In all the contexts in which they operate, AKAM's microfinance programmes, institutions and banks aim to achieve a level of long-term sustainability that covers both operational costs and contributes to expansion in the future. In this process, emphasis is placed on enhancing the quality of financial services through transparent and detailed lending procedures, as well as the use of best practices that ensure financial discipline and efficiency.

To maximise the impact for beneficiaries, AKAM has devised a variety of institutional approaches and instruments that facilitate access while addressing different contexts, cultures and local requirements. These efforts are intended to ensure that resources flow to the poor and excluded. This process is greatly strengthened by working in concert with other agencies of the AKDN as well as governments, international agencies and professional organisations. Such collaborations allow AKAM not only to reach greater numbers of vulnerable populations, but also to develop new services and products that are appropriate and relevant.



ABOVE: IN DAROOTEKORGON, IN THE KYRGYZ REPUBLIC, A FOUNDRY RECEIVED A SMALL LOAN FOR PURCHASING MATERIALS NEEDED TO FABRICATE VALVES USED IN DIKES.

BELOW: AKAM HAS PROVIDED CREDIT FOR TRAINING PROGRAMMES AS PART OF A BROAD INTEGRATED DEVELOPMENT PROGRAMME TO IMPROVE HEALTHCARE IN SALAMIEH, SYRIA.



WORKING IN CONCERT WITH THE AGA KHAN DEVELOPMENT NETWORK

Despite the existence of more than 12,000 microfinance institutions in the world, the promise of microfinance faces several challenges. Chief among these is the application of microfinance in isolation from social and cultural issues. Without addressing other determining factors, the effect of microfinance is circumscribed, especially where infrastructure is poor, trade is impeded and transaction costs are high. For example, when an entrepreneur creates a new product or a farmer grows a surplus, he or she might not be able to take the output to a market due to a lack of transport. Other factors such as armed conflict, a lack of access to basic healthcare and education, endemic corruption or a weak enabling environment can inhibit entrepreneurial activity.

As an agency of the Aga Khan Development Network, AKAM is well-placed to benefit from the complementary development activities and initiatives of its partner agencies. Indeed, as the heir of the microfinance activities of the Aga Khan Fund for Economic Development, the Aga Khan Foundation and the Aga Khan Trust for Culture, AKAM enjoys strong support and working relationships within AKDN.

Founded and guided by His Highness the Aga Khan, AKDN brings together a number of international development agencies, institutions and programmes that work primarily in the poorest parts of South and Central Asia, Africa and the Middle East. All AKDN agencies are non-denominational and conduct their programmes without regard to faith, origin or gender. They all operate in concert with the other agencies of the Network.

The Aga Khan Foundation (AKF) focuses on rural development, health, education, environment and the strengthening of civil society, with a special emphasis on the needs of rural communities in mountainous and other resource-poor areas. Its community-based development approach, first developed in Pakistan and India, has been replicated in many other environments in Asia and Africa.



ABOVE: A SMALL VILLAGE COMMUNITY IN JALALABAD, AFGHANISTAN RECEIVED MICROFINANCE ASSISTANCE TO BUILD A GIRLS SCHOOL.

BELOW: RICE PRODUCTION HAS INCREASED IN MADAGASCAR AS MUCH AS 600 PERCENT THANKS TO A COMBINATION OF AGRICULTURAL INPUTS AND MICROFINANCE.

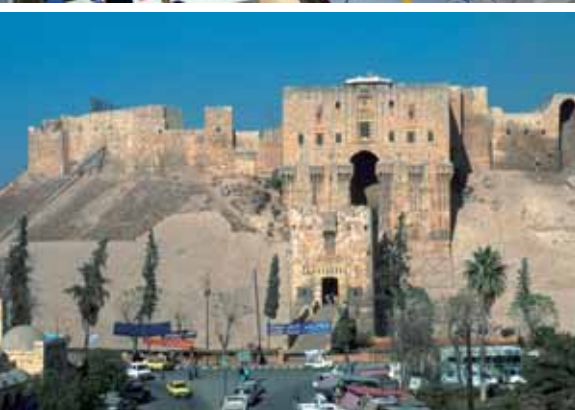
LEFT: TO INCREASE INCOME FROM NON-AGRICULTURAL ACTIVITIES, AKAM OFFERS SMALL LOANS FOR THE PURCHASE OF LIVESTOCK AND RELATED PROJECTS, SUCH AS THIS VETERINARY HOSPITAL IN TAJIKISTAN, WHICH BORROWED US\$ 1,000 TO BUY MEDICAL SUPPLIES.



Aga Khan Education Services (AKES) aims to diminish obstacles to educational access, quality and achievement. It operates more than 300 schools and advanced educational programmes at the pre-school, primary, secondary and higher secondary levels in Bangladesh, India, Kenya, Kyrgyz Republic, Pakistan, Tajikistan, Tanzania and Uganda. It emphasises student-centred teaching methods, field-based teacher training and school improvement.



Aga Khan Health Services (AKHS) provides primary and curative health care in Afghanistan, India, Kenya, Pakistan, Tajikistan and Tanzania through 237 health centres, dispensaries, hospitals, diagnostic centres and community health outlets. Annually, AKHS provides primary health care to one million beneficiaries and handles 1.2 million patient visits. AKHS also works with governments and other institutions to improve national health systems.



Aga Khan Planning and Building Services (AKPBS) assists communities with village planning, natural hazard mitigation, environmental sanitation, water supply systems and improved design and construction of both housing and public buildings. It provides material and technical expertise, training and construction management services to rural and urban areas.

The Aga Khan Fund for Economic Development (AKFED) is the only for-profit agency in the Network. Often acting in collaboration with local and international partners, AKFED takes bold but calculated steps to invest in fragile and complex environments. It mobilises investment for the construction, rehabilitation or expansion of infrastructure, sets up sustainable financial institutions, builds economically viable enterprises that provide essential goods and services and creates employment opportunities.

ABOVE: AKES OPERATES OVER 300 SCHOOLS, INCLUDING 82 IN INDIA.

MIDDLE: ALLTEX, AN AKFED PROJECT COMPANY, MANUFACTURES GARMENTS THAT ARE EXPORTED.

BELOW AKTC'S RESTORATION PROJECTS INCLUDE PARTS OF THE ANCIENT CITADEL OF ALEPPO IN SYRIA.

The Aga Khan Trust for Culture (AKTC) encompasses the triennial Aga Khan Award for Architecture; the Historic Cities Support Programme, which undertakes conservation and rehabilitation in ways that act as catalysts for development; the Humanities Project, which develops humanities curricula for use in universities in Central Asia; the Music Initiative, which preserves and

promotes the traditional music of Central Asia; ArchNet.org, an online archive of materials on architecture and related issues; the Aga Khan Program for Islamic Architecture, which is based at Harvard and MIT; and the Museums Project, which is creating museums in Toronto and Zanzibar.

The Aga Khan University (AKU) is a major centre for education, training and research. Chartered as Pakistan's first private international university in 1983, AKU has made significant contributions on a range of development challenges. It has teaching sites in Afghanistan, Kenya, Pakistan, Syria, Tanzania, Uganda and the United Kingdom. With the establishment of the Faculty of Health Sciences, the Institute for Educational Development, the Institute for the Study of Muslim Civilisations and the planned establishment of the Faculty of Arts and Sciences, AKU is rapidly becoming a comprehensive institution of higher education.

The University of Central Asia (UCA), chartered in 2000, is located on three campuses: in Khorog, Tajikistan; Tekeli, Kazakhstan; and Naryn, Kyrgyz Republic. UCA's mission is to foster economic and social development in the mountain regions of Central Asia. It will offer a Master of Arts degree in mountain development, a Bachelor of Arts programme based on the liberal arts and sciences and non-degree continuing education courses.

FOCUS Humanitarian Assistance, an AKDN affiliate, provides emergency relief supplies and services to victims of conflict and natural disasters. It also works within the AKDN to help people recover from these events and make the transition to long-term development and self-reliance.

These institutional connections have proven essential to creating the critical mass of development activity necessary to achieve lasting improvements in the quality of life.



ABOVE: AKHS OPERATES 325 HEALTH CENTRES AND HOSPITALS.

MIDDLE: WITH CAMPUSES IN TAJIKISTAN, KYRGYZSTAN AND KAZAKHSTAN, UCA IS DEDICATED TO FOSTERING DEVELOPMENT IN MOUNTAIN REGIONS.

BELOW: FOCUS HUMANITARIAN ASSISTANCE PROVIDED AID WITHIN HOURS OF THE PAKISTAN EARTHQUAKE OF 2005.



OBJECTIVES AND PRINCIPLES

The underlying objectives of AKAM are to alleviate poverty, diminish the vulnerability of poor populations and reduce economic and social exclusion. This endeavour is governed by the following principles, which apply universally to the Agency's programmes, institutions and banks:

A Broad Range of Services: To reduce vulnerability to financial risks, AKAM offers a range of microfinance services, including credit, microinsurance, savings, housing credits and education loans, among others.

Assessment of Impact: Through careful targeting, monitoring and evaluation, AKAM works to maximise the socio-economic benefits of its services on poor communities.

Sustainability: To ensure that financial services survive and grow over the long term, AKAM seeks to cover inflation-adjusted costs through revenues and contribute to expanding the range of services and geographical coverage.

Integrated Development: AKAM works in concert with other AKDN agencies and external organisations to integrate microfinance with complementary development activities.

Easy Access and Flexible Solutions: AKAM has devised a variety of institutional approaches and instruments that facilitate access and address different contexts, cultures and local requirements.

Efficiency and Transparency: A major focus of AKAM staff is to enhance the quality of credit through clear and detailed lending procedures, well-documented manuals, properly trained staff and the use of best practices ensuring financial discipline and cost control.

Evolution: As a microfinance programme grows, AKAM nurtures its evolution as required by the demands and circumstances of the local context, from small microfinance initiatives to full-fledged microfinance banks.

Business Development Services: Loans are accompanied by training in basic business concepts so borrowers can become financially disciplined, self-reliant entrepreneurs.

Partnerships: AKAM works closely with governments, international agencies and professional organisations to ensure that it contributes to and benefits from best practice and expertise within the industry.

LEFT: IN EGYPT, TRAINEE PLASTER-WORKERS HELP RESTORE THE WINDOWS OF MONUMENTS IN DARB AL-AHMAR, A POOR AREA OF CAIRO, AS PART OF A BROAD PROGRAMME THAT INCLUDES LOANS FOR HOUSING RESTORATION.

FINANCIAL SERVICES FOR THE POOR



ABOVE: IN PAKISTAN, SERVICES ARE AVAILABLE IN THE REMOTE TOWN OF SHIGAR.

BELOW: FOR HANY FATTOH IN CAIRO, LOANS HAVE HELPED HIM TO BUY NEEDED MATERIALS, EXPAND HIS BUSINESS AND RAISE HIS INCOME.



The array of services and products that AKAM's programmes, institutions and banks provide is continually expanding to meet needs. Research initiatives are geared toward developing new services that are sustainable, appropriate and high-quality. Emphasis is placed on vulnerable groups, focussing on women in particular. Currently, this range of services includes the following:

Income generation loans: Credit financing ranging from US\$ 10 to US\$ 5,000 is available for start-ups, re-starts and the expansion of current entrepreneurial and other income-generating activities. Projects financed include farming inputs and machinery, livestock rearing and breeding, shoemaking, furniture, handicraft, retail enterprises, cottage industries, tourism initiatives, small restaurants, mini-marts, hairdressers, internet cafes and many other forms of entrepreneurial activity.

Health, education, habitat and other loans: In addition to providing loans specifically directed towards income generation, AKAM provides loans to finance health care, education, habitat and housing improvements, land acquisition and construction, retirement of usurious multigenerational debt and, in Afghanistan, the financing of alternative livelihoods in place of the cultivation of poppy.

Savings: A variety of savings products including current accounts and savings accounts are offered by both banks and some microfinance institutions. These allow for multiple withdrawals and term deposits of various maturities. In most cases, deposit accounts can be opened and maintained with less than one dollar. Savings are mobilised from individuals, groups and institutions.

Microinsurance: Some of AKAM's banks are also providing microinsurance products to borrowers. In Pakistan, for example, two types of microinsurance policies are offered, often as a bundle, with small fees of less than US\$ 2 per annum: a policy in which the insurance company would pay the outstanding balance in case of death or permanent disability of a borrower and a policy which provides a cash pay-out to the family of a borrower for funeral-related costs in the event of his or her death. A new

initiative in microinsurance is seeking to develop products that specifically seek to safeguard the poor against loss of savings and income as a result of family catastrophes such as death, long-term hospitalisation and business or crop loss.

Microleasing: In some countries, AKAM is providing microleasing services, enabling clients to purchase fixed assets and business equipment for productive purposes. As they involve large capital expenditures, these loans can range from US\$ 500 to US\$ 10,000 and be repaid within six months to three years.

Money Transfer and Remittance Services: AKAM's banks also provide money transfer and remittance services to clients. This service allows clients to transfer money inexpensively from one city to another within a country or to remit funds internationally through the Swift payment system. These services are becoming channels for proposing microcredit products to overseas clients, helping them to invest productively at home from abroad.

Small Business Loans: The most successful businesses will eventually evolve into small enterprises, which are more sophisticated, employ people outside the proprietor's family and produce a broader range of quality products that are sold in larger geographic areas. Microfinance institutions are ideally placed to reduce the financing gap that these budding small and medium enterprises (SME) face before reaching a scale more attuned to the mainstream financial markets. In collaboration with Deutsche Entwicklung Gesellschaft (DEG), AKAM is therefore piloting an SME Programme in Afghanistan. Once tested, this is expected to become a mainstream activity for the First MicroFinanceBanks.



ABOVE: AKAM LOAN OFFICERS TRAVEL TO REMOTE MOUNTAINOUS VILLAGES, SUCH AS CHON ALAI, KYRGYZSTAN. AKAM'S PROGRAMME CONTINUES TO GROW RAPIDLY IN THE COUNTRY.



RIGHT: BY GRANTING CREDIT TO ENTREPRENEURS FOR THE EXPANSION OF PRODUCTIVE INFRASTRUCTURE, SUCH AS THIS CEMENT AND BRICK FACTORY, AKAM'S PROGRAMME IN SYRIA HELPS RAISE INCOMES AND REDUCE UNEMPLOYMENT.

THE MICROFINANCE “LADDER”



ABOVE: ENTRY-LEVEL PROGRAMMES SUPPORT AND HELP PEOPLE START OR EXPAND ECONOMIC ACTIVITIES.

MIDDLE: MICROFINANCE INSTITUTIONS ARE OFTEN ABLE TO PROVIDE BOTH CREDIT AND SAVINGS SERVICES.

BELOW: MICROFINANCE BANKS ARE REGULATED ENTITIES THAT OFFER AN ARRAY OF SERVICES COMPARABLE TO COMMERCIAL BANKS.

AKAM's philosophy in the delivery of microfinance is to deploy institutional vehicles that are appropriate to the local context and account for the size and scope of the intended beneficiary communities. As these beneficiaries advance in their development and begin to require a wider range of services, the institutions also advance in their development. This process involves an evolution, which can be divided into three categories:

1. **Entry-level microfinance programmes**, usually at the community level, which are designed to give people the means to start or expand economic activity and, over time, diversify beyond traditional microenterprises.
2. **Autonomous microfinance institutions** with a more formal structure and a network of sub-branches.
3. **Microfinance banks**, which are regulated entities that lend to micro and small enterprises and offer an array of services comparable to, and in some cases even broader than, those of local commercial banks.

While microfinance activities are typically delivered through small integrated programmes in the initial years, these integrated programmes evolve over time into self-standing, legally independent entities and eventually into regulated microfinance banks offering a range of services. Bank structures are generally preferred for long-term delivery of microfinance services because of their robust institutional arrangements and their capacity to mobilise a broader range of financial resources.

Institutional evolution is therefore accompanied by portfolio growth and the broadening of services. In the process, beneficiaries become aware that the institutional changes underway offer greater benefits to them in the form of a wide range of services and access to larger funding amounts, among others.

RIGHT: NUMEROUS WOMEN'S GROUPS IN THE KYRGYZ REPUBLIC HAVE RECEIVED HANDICRAFT TRAINING AND LOANS.



COUNTRY REVIEWS

AKAM's microfinance initiatives range from village lending cooperatives to self-standing microfinance institutions to full-fledged microfinance banks. These activities currently operate in Afghanistan, Burkina Faso, Egypt, India, Kazakhstan, Kenya, Kyrgyz Republic, Madagascar, Mali, Mozambique, Pakistan, Syria, Tajikistan, Tanzania and Zanzibar. Often they are part of a wider integrated development strategy being implemented by AKDN within each country. In addition to providing financial services to the poor, they may include business or technical advisory/training extension services and business development programmes that work directly with local entrepreneurs.

AKAM'S ACTIVITIES IN MALI WILL FOCUS, IN THE EARLY STAGES, ON THE MOPTI REGION, WHERE THERE IS SCOPE FOR ENTERPRISE, HOUSING REHABILITATION AND AGRICULTURAL LOANS.

Several of these programmes were initiated by the AKF's rural development programmes, including well developed savings and credit programmes in northern Pakistan (Aga Khan Rural Support Programme), Tajikistan (Mountain Societies Develop-



ment Support Programme) and India (Aga Khan Rural Support Programme (India)). The focus of these programmes has been to target areas and populations that are vulnerable and do not have access to formal credit.

In addition, AKAM oversees microfinance activities, including support for credit cooperatives in poorer rural and urban communities in India and Pakistan. It has taken over the Enterprise Support Facility, a microfinance and small business support programme that has been operational in Tajikistan since 1996. The Facility trains entrepreneurs and finances a wide range of micro and small-scale businesses ranging from farming, cottage industries and agroprocessing to services and commerce.

Microcredit, provided within the context of the AKTC's Historic Cities Support Programme, is supervised by AKAM. The Historic Cities Support Programme uses microfinance as a tool to aid in the revitalisation of poor neighbourhoods in conjunction with other projects for architectural restoration, conservation and urban development. These efforts consist of activities ranging from the provision of rehabilitation loans to help restore houses dilapidated by years of neglect, to business development programmes under which competitive credit is provided to small-scale entrepreneurs in the areas surrounding rehabilitated and redeveloped cultural sites.

AKAM currently operates the First MicroFinanceBanks (FMFB) in Afghanistan, Pakistan, Tajikistan and a steadily increasing number of countries. These banks are formally regulated by the Central Bank of the countries in which they operate and direct their services to the poor and their micro and small enterprises.

Reaching beneficiaries through geographically distributed branches and mobile banks, this bank network offers an array of services comparable to – and in some cases even broader than – those of commercial banks, including credit, savings, payment services, money transfers, microleasing and microinsurance, among others. The banks also support clients who have reached a higher level



LENDING TO WOMEN'S GROUPS IN EAST AFRICA HAS PROVEN TO BE AN EFFECTIVE TOOL IN POVERTY ALLEVIATION.



PRESENT IN ELEVEN PROVINCES IN AFGHANISTAN, AKAM'S PROGRAMMES SERVED 26,623 RURAL, PERI-URBAN AND URBAN BORROWERS WITH AN ARRAY OF LOAN PRODUCTS VALUED, IN 2005, AT OVER US\$ 25 MILLION. THIS FIGURE REPRESENTED OVER HALF OF THE TOTAL DOLLAR VALUE OF MICROFINANCE LOANS DISBURSED IN THE COUNTRY DURING THE YEAR.

of financial stability and have developed into small and medium enterprises. The aim of these banks is to operate at international standards, conserve the capital base and reach sustainability as rapidly as possible.

AFGHANISTAN

Following the collapse of the Taliban regime in Afghanistan, AKDN established the Emergency Microcredit Programme, which was aimed at improving the economic security of the population, particularly displaced persons, and offering credit for start-ups, re-starts and the expansion of income-generating activities.

AKAM's long-term plan in Afghanistan, launched in 2003-2004, was built around the establishment, in parallel, of the First Micro-FinanceBank in Afghanistan (FMFB-A) and the Afghanistan Rural Microcredit Programme (ARMP). FMFB-A was first deployed in Afghanistan's main urban centres, with a view that the urban branches would eventually serve as regional hubs for gradually extending FMFB-A's reach into peri-urban and rural areas. At the same time, ARMP would concentrate on building a viable micro-credit programme and human capacity in the rural areas. Over time, the two structures would be merged to form a national network of regional hubs, each overseeing a secondary network of peri-urban and rural branches.

ARMP's efforts in building appropriate and accessible financial services in rural areas complement AKDN's activities in rebuilding the asset base of rural households and revitalising markets and the rural economy. In particular, AKDN has closely linked its business development services and vocational training programmes with ARMP's credit options. ARMP provides a wide range of credit products to farmers and traders in rural provinces. It has also provided special credit for over-indebted farmers and financing for crop substitution in poppy-growing areas. Loans have allowed some farmers to repurchase land sold during civil strife to poppy-farming landlords and warlords. These farmers have replanted the fields with wheat and potatoes and acquired livestock.

With an initial capital of US\$ 5 million invested by the AKFED, the International Finance Corporation (IFC) and Kreditanstalt für Wiederaufbau (KfW), FMFB-A was the first of its kind under the country's new regulatory structure and was granted the first license under the new banking law in the autumn of 2003. In 2005, the remaining urban portions of the Emergency Microfinance Programme in Pul-i-Khumri and Mazar-e-Sharif were absorbed into FMFB-A.

The Bank provides credit and saving products as well as domestic and international payment services. It focuses on microenterprises, small businesses and the creation of productive sources of income and employment.

Beginning in Kabul and urban centres in the northeast of the country, the Bank is gradually expanding to urban and rural areas of

SPECIAL CREDIT FOR OVER-INDEBTED FARMERS COMBINED WITH CROP SUBSTITUTION HAS REDUCED POPPY GROWING IN PARTS OF AFGHANISTAN. AKAM'S GEOGRAPHIC COVERAGE IN THE REGION IS SET TO EXPAND AS ITS FIRST MICROFINANCE BANK LOOKS TO OPEN 14 NEW BRANCHES OVER THE NEXT THREE YEARS.





IN BURKINA FASO, AKFED'S SN-SOSUCO REFINERY HAS PROVIDED JOBS TO OVER 4,000 PEOPLE. AKAM IS NOW MAKING LOANS TO FARMERS OUTSIDE THE SUGAR CANE GROWING SEASON, HELPING THEM MANAGE SEASONAL FLUCTUATIONS IN THEIR INCOME.

Afghanistan, with a view to opening 14 branches in the next three years. Its main underpinnings are sustainability, broad geographical and service outreach, as well as maximising impact.

The establishment of the Bank is an integral part of the AKDN's long-term commitment to contribute to the reconstruction and rehabilitation of the economic infrastructure and civil society institutions in Afghanistan.

BURKINA FASO

A microfinance initiative in Burkina Faso began in 2005 in the Banfora area. The area is home to SN-SOSUCO, a sugar plantation and refinery acquired by AKFED under the Burkina Faso privatisation programme. The company, which farms its own

sugar cane plantations and operates the country's largest sugar refinery, employs nearly 4,000 permanent and seasonal workers. The Banfora area near the company is home to 70,000 people.

The microfinance programme is designed to complement and expand the input credit scheme currently managed by SN-SOSUCO. The programme caters to the population at large and particularly targets seasonal workers, who often must find other economic activity during the off-season. It will include credit for education, health, housing improvement, economic diversification, group credit, emergency loans, as well as others.

A second initiative in Burkina Faso concerns the vast cotton growing areas south of Ouagadougou, where over 15,000 farmers are cotton growers. The local ginneries are operated by FASO COTON, a subsidiary of AKFED. As in the case of SN-SOSUCO, the concept is to deliver microcredit first to cotton farmers, building on the infrastructure of the industrial venture, which will then serve as a cornerstone for the broader local population and provide them with an array of services extending far beyond cotton finance.

EGYPT

The microfinance programme in Egypt began in the district of Darb Al-Ahmar in Cairo's Historic City. It is managed centrally by the First MicroFinance Foundation, which was established in 2005 and since expanded beyond Cairo to the rural areas of the Aswan Governorate.

The programme in Cairo focuses on the revitalisation of an impoverished and dense district, called Darb al-Ahmar, which borders Al-Azhar Park, one of the AKTC's largest projects. Due mainly to the lack of infrastructure maintenance, low family incomes and the severe deterioration of monuments and private housing, development of the area has lagged behind other parts of Cairo. Living conditions have deteriorated over the past few decades. The institution supports local ownership, stimulates the

IN COLLABORATION WITH AKTC, AKAM PROVIDES LOANS TO RESIDENTS OF HISTORIC CAIRO TO ASSIST IN THE REHABILITATION OF HOUSES AND THE REVITALISATION OF THE DISTRICT'S CULTURAL HERITAGE.



development of enterprise, traditional workshops and tourism and ensures sustainability of the rehabilitation work. In addition to these income-oriented loans, the programme in Cairo is working with technical teams of AKTC to assist residents of the Darb al-Ahmar rehabilitate their homes. The aim is to preserve the area's historic character while simultaneously increasing the availability of suitable rental housing.

With the establishment of a microfinance programme in the Aswan Governorate in early 2006, the programme is now operating in two important regions in this country. It has adapted products and services to meet local needs, including agriculture, animal husbandry and rural enterprise loans.

IN INDIA, MICROFINANCE LOANS HAVE HELPED CREATE INCENTIVES THAT REWARD FAMILIES FOR SENDING THEIR CHILDREN TO SCHOOL.

INDIA

AKDN's microcredit operations in India are concentrated in rural and urban areas of Gujarat, Andra Pradesh and Maharashtra. Its largest programme is in Gujarat, where the Aga Khan Rural Support Programme (India) has run savings and credit programmes that operate as part of an overall rural development programme. These loans have ranged from financing of agricultural inputs to rainwater harvesting systems, livestock purchases and community water initiatives. Special instruments have been designed to assist indentured workers repay usurious multigenerational loans that were keeping them in perpetual servitude. Other instruments reward families for sending their children to school.

KENYA

Since March 2005, AKAM's activities have been centred in the Kwale/Kilifi districts in the Coast Province and in the Murang'a/Kirinyaga districts in the Central Province. The coastal programme operates in collaboration with AKF's rural support initiatives in the area. Since taking over AKF's microfinance activities, AKAM has used the group lending methodology and microloans in support of income-generating activities such as farming, animal husbandry and retail enterprises. This has benefited over 350 individuals, two-thirds of whom are women.





In an area that is particularly vulnerable to drought and famine, close to 80 percent of these individuals earned less than a dollar a day at the time of their loan application.

In the Central Province, Frigoken, an agro-industrial project company of AKFED, is the backdrop for AKAM's microcredit activities. Over 900 individuals, approximately 50 percent of whom are farmers, have gained access to credit under AKAM's programme. The loans assist farmers to enhance supplies of French beans for purchase, processing and export by Frigoken. In addition, loans are given to farmers to diversify their crop range for greater stability of incomes. The start-up of close to 250 retail enterprises has benefited from this programme.

The initial successes in both these provinces have given impetus to plans for a rapid expansion of activities as well as the introduction of loans for housing improvement, education and health.

CREDIT HAS HELPED WORKERS AT FRIGOKEN, AN AKFED PROJECT COMPANY IN KENYA, TO AUGMENT THEIR INCOMES THROUGH THE START UP OF INDEPENDENT ECONOMIC ACTIVITY.

KYRGYZ REPUBLIC

AKAM's microfinance activities in the Kyrgyz Republic have primarily been in the rural mountainous areas of the Osh and Naryn provinces. Beginning in the Alai and Chon Alai districts that border Tajikistan, the programme extended its operations to areas adjoining the mountainous districts of Karasu and Uzgen. To complement the provision of mountain studies and entrepreneurship at the University of Central Asia, microcredit activities have also been initiated in Naryn Province, which is at the heart of Tien-Shan mountain range.

THE PURCHASE AND REARING OF LIVE-STOCK, PARTICULARLY BY WOMEN, IS SUPPORTED THROUGH VARIOUS GROUP LOAN SCHEMES OFFERED BY AKAM IN RURAL PARTS OF THE KYRGYZ REPUBLIC.

In less than three years, the microfinance programme has disbursed over US\$ 4.6 million to 11,789 beneficiaries. Nearly half of them are women. These loans have financed agricultural inputs for



growing cotton, potatoes, vegetables and wheat, as well as animal husbandry, trading activities, housing repairs and education.

These microfinance activities are meant to provide clients with a bridge between microfinance and the services offered by the Kyrgyz Investment and Credit Bank (KICB), which was set up in 2001 by AKFED and other international agencies. KICB provides a wide range of products and services, including short-term working capital loans, medium- to long-term credit, trade finance products, corporate deposits, international money transfers, money market and foreign exchange operations as well as correspondent banking.

The legal transformation of the on-going programme into a full-fledged microfinance bank was initiated during 2005. In the first phase, the programme will evolve into a microcredit company. In line with microfinance regulations in the Kyrgyz Republic, it is intended that the institution will seek a full license after two years of operations, in order to offer deposit services.

MADAGASCAR

AKAM oversees Fanasoavana, a programme established in the 1950s to provide small- and medium-sized loans to the poor in many parts of the country. As significant changes in the economic and political environments have taken place, this direct-lending approach has been transformed into a credit guarantee scheme extended through commercial banks.

In addition to this loan guarantee programme, AKAM has established the Première Agence de MicroFinance in Madagascar (PAMF-Madagascar), a private limited company. This institution is operating in both the rural areas and the small cities of the Sofia region. As the programme scales up, it will extend credit in Antananarivo, where the poor population lacks adequate access to financial services. In the rural areas, PAMF-Madagascar works primarily in support of the activities of the Aga Khan Foundation's rural support programme.



IN MADAGASCAR, BUSINESS DEVELOPMENT SERVICES ASSIST CLIENTS, SUCH AS THIS GRAIN MERCHANT, WITH IMPROVED BOOKKEEPING, MARKETING AND CASH-FLOW PROJECTION.



WOMEN ARE A KEY FOCUS OF AKAM'S ACTIVITIES IN MALI. BUSINESS DEVELOPMENT SERVICES WILL PLAY AN IMPORTANT ROLE IN ASSISTING WOMEN INCREASE THEIR INCOMES.

MALI

In 2005, the Malian government launched an ambitious plan to develop the microfinance industry in the country. In this context, the government addressed a request to His Highness the Aga Khan and the AKDN to set up a microfinance institution in each of the regions where these services are not yet sufficiently available. In response to this request, AKAM established the Première Agence de MicroFinance in Mali (PAMF-Mali).

In collaboration with the Historic Cities Support Programme managed by AKTC, this programme is targeting both urban and rural populations in the Mopti region. An extended branch network in Timbuktu and Gao is also planned. Loans are being extended to both groups and individuals to address specific financial needs such as rural credit, financing of service activities, working capital for commercial activities, among others. In due course, PAMF-Mali will extend savings products as well as loans for housing improvement, education and health.

MOZAMBIQUE

As with all of AKAM's initiatives, the microfinance programme in Mozambique targets areas and populations that are vulnerable and do not have access to formal credit. The programme operates in the northern province of Cabo Delgado, one of the poorest areas in the region and one that has been devastated by years of civil strife. Most of the farmers, fishermen and women in the programme barely attain subsistence, and informal moneylenders can charge as much as 80 percent interest per month.

Through collaboration with the AKF's Coastal Rural Support Programme, AKAM's activities centre on helping borrowers raise incomes through the provision of credit. The programme's primary objective is to provide loans to microenterprises and small businesses for income-generating activities such as promoting small-scale agricultural, fishing, retail and industrial enterprises. Microloans in these parts of the country can reach as low as

US\$ 25, while still having a meaningful effect on the borrower. At the same time, some loans categorised as “small loans”, can be as much as US\$ 10,000, in cases where the credit enables a borrower to employ several others while increasing his or her productive capacity.

PAKISTAN

Operating across a range of entities from small savings and microcredit organisations to major commercial banks and insurance companies listed on national stock exchanges, AKDN institutions in Pakistan have provided financial services for more than 60 years.

The Aga Khan Rural Support Programme (AKRSP) laid the foundations of the microfinance sector in the country in 1982, beginning in the Northern Areas and Chitral provinces. By 2000,

WITH FINANCIAL AND TECHNICAL ASSISTANCE FROM THE AGA KHAN RURAL SUPPORT PROGRAMME, THE PRODUCTION OF APRICOT OIL HAS GREATLY IMPROVED IN THE NORTHERN AREAS OF PAKISTAN. IT IS NOW SOLD THROUGHOUT PAKISTAN AND IS BEING MARKETED ABROAD.



a total of over US\$10 million had been saved by members of more than 3,260 village organisations with more than US\$2 million disbursed in credit each year.

The First MicroFinanceBank Ltd. of Pakistan (FMFB-P) started operations in May 2002 as the first microfinance bank licensed under the regulatory framework of the Microfinance Institutions Ordinance 2001. It initially took over the rural credit and savings activity of AKRSP and began a programme of urban microcredit in Rawalpindi and Karachi in 2003. Since then, the Bank has expanded its reach to a network of over 30 branches or units in both rural and urban areas of the country.

LOANS FOR MULBERRY CULTIVATION IN
THE NORTHERN AREAS OF PAKISTAN
HELP CREATE INCOME-GENERATING OP-
PORTUNITIES FOR RURAL PEOPLE.

FMFB-P has successfully launched a domestic electronic funds transfer service that allows customers to remit funds across the country quickly and in a secure manner. The Bank also offers a



housing improvement loan product in its rural branches and plans to extend its core business to include microinsurance, health and education related products. Besides providing financial services, it plans to offer non-financial services to microentrepreneurs that focus on enterprise development, as well as client wellbeing including health, nutrition and education.

As part of AKAM's endeavour to provide broader services to the poor, the Bank is serving as the platform from which new and innovative microinsurance products, funded through a grant of the Bill & Melinda Gates Foundation to Aga Khan Foundation USA, will be developed and launched. FMFB-P is also working in partnership with Citigroup Foundation USA to improve health awareness through its microfinance activities, particularly to women in the urban areas.

The efforts of FMFB-P have gained international recognition. It was the youngest of the five winners of 2005 Consultative Group to Assist to the Poor Financial Transparency Award. In addition, two clients won the 2005 Global Microentrepreneurship Award.

SYRIA

AKDN launched its microfinance facilities in Syria in 2003 as the Syria Microcredit Programme (SMP). The programme, currently working in five provinces of the country, is aimed at stimulating income-generation in low-income areas and promoting small-scale agricultural and industrial enterprises. AKAM's activities encompass housing rehabilitation as well as seasonal and commercial loans associated with rural development, including guarantees for acquiring machinery, land and agricultural inputs. They include credits for creating or expanding small-scale businesses or industries and financing cottage industries, handicraft production and tourism initiatives. They also encompass technical assistance, training and other forms of support to encourage private enterprise.

With a view to enhancing the tourism and leisure industry in the Aleppo and Hama provinces, SMP is working in concert with



IN A SMALL WORKSHOP IN SALAMIEH, SYRIA, MAYSA QANNOU PROUDLY DISPLAYS DRESSES SHE HAS PRODUCED WITH THE ASSISTANCE OF AN ENTERPRISE LOAN FROM AKAM. THROUGH THE SALE OR RENTAL OF DRESSES, SHE HAS INCREASED HER INCOME AND GONE ON TO PRODUCE DRESSES OF EVEN GREATER VALUE.

A LOAN FOR MACHINERY HAS HELPED MAKE THIS KEY CUTTING BUSINESS IN KHOROG, TAJIKISTAN MORE PRODUCTIVE, THEREBY INCREASING THE OWNER'S OVER-ALL INCOME.



AKTC to help finance housing improvement in areas where the rehabilitation of historic spaces is underway. In Lattakia province, microfinance activities began with a focus on eight villages in Hafeh District which are part of the Syrian Government's Healthy Village Programme. Through this partnership, the institution is contributing to the development of civil society at the village level. Activities have begun in five districts of the Tartous province as well as in the Old City of Aleppo, where SMP has initiated a special credit service, extending loans to borrowers for the rehabilitation of homes.

Over the last twelve months, AKAM has been active in transforming the ongoing programme into a full-fledged microfinance bank. AKAM has been working closely with the Syrian authorities and with international experts towards the development of a specific framework that would foster the establishment of sound and efficient microfinance institutions.

TAJIKISTAN

Since 1993, two AKDN programmes have been lending to the region's budding entrepreneurs. The Mountain Societies Development Support Programme, which was serving over 20,000 small farmers, helped Tajikistan make the difficult transition from dependence on the Soviet centrally planned economy to independence and free markets. Three years later, the Enterprise Support Facility (ESF) was established. It has supported over 4,000 microenterprises with loans averaging US\$ 1,380, helping small businessmen and women launch various enterprises, including hardware stores, greenhouses, bakeries and pharmacies. When ESF became part of AKAM, it provided the FirstMicrofinanceBank of Tajikistan (FMFB-T) with core microfinance expertise and a solid client base.

Established in 2003, FMFB-T was the first bank of its kind in Tajikistan with a principal focus on the provision of microcredit lending. The Bank has a national mandate to provide a comprehensive range of financial services to the poor throughout the



country. In addition to its Head Office in Dushanbe, the Bank currently has branches in Khorog, Garm and Khojand and will open another branch in the Khatlon district in 2006. Branches will eventually be opened in all the main cities with district offices serving peri-urban and rural areas.

Services, which already include various forms of credit and deposit services, are being broadened to include fund transfers, payment services, microinsurance, low-income housing finance and microleasing.

The Bank is greatly strengthened by the ongoing commitment of its shareholders and partners. The Bank's equity is held by two AKDN agencies, as well as the International Finance Corporation (IFC) and Germany's KfW Banking Group. The international reputation and financial strength of these shareholders play an important role in building local confidence in the Bank's durability

AT THE END OF 2005, THE FIRST MICRO-FINANCEBANK IN TAJIKISTAN HAD MADE LOANS IN EXCESS OF US\$ 6.7 MILLION, BENEFITING 3,594 BORROWERS ACROSS THE COUNTRY. THE BANK HAS ALSO DIVERSIFIED ITS PRODUCT OFFERING TO INCLUDE MICROLEASING, FUNDS TRANSFERS AND COMMERCIAL SERVICES, AMONG OTHERS.



SMALL LOANS FOR FUEL AND TRANSPORTATION HAVE IMPROVED MARKET ACCESS FOR MANY FARMERS IN TAJIKISTAN.

and the security of customer deposits. The Bank receives vital technical support from KfW and the Canadian International Development Agency (CIDA).

Fully licensed by the National Bank of Tajikistan (NBT), FMFB-T is periodically inspected by the NBT and other statutory authorities. As a key investment of the AKDN in the long-term development of Tajikistan, the Bank regularly consults other agencies of the AKDN and various international agencies and NGOs working in Tajikistan to ensure that its operations are contributing to the overall development of the country.

The Micro Lending Fund (MLF) in Tajikistan carries out micro-finance activities in the country in areas where FMFB-T is not operational. Established by AKAM as a locally licensed fund, it is operating primarily in the southwest mountainous and rural regions of the country and has extended its activities from the

three districts of Shurabad, Mominabad and Khovaling to Jilikul, Kholkozabad and Qumsangir.

At December 2005, it had disbursed 550 loans to groups and individuals for agricultural inputs, animal husbandry and trading activities for total value of US\$ 220,000. As this portfolio matures, FMFB-T will absorb these activities, once it deploys in these areas.

TANZANIA AND ZANZIBAR

Microfinance activities in Zanzibar will be closely linked to AKTC's conservation programme in the historic Stone Town. The programme will include housing rehabilitation and business development services in and around the restoration of the Stone Town. These loans will work to reduce poverty by supporting local ownership, stimulating the development of tourism and ensuring sustainability of the rehabilitation programme. In addition, the microcredit activities will aim at supporting civil society institutions, help communities to expand agricultural and fishing activities, build schools and address other social challenges.

In 2005, AKAM commenced microcredit operations in mainland Tanzania in the Mtwara and Lindi regions, which are among the most marginalised areas of the country. Mtwara is one of the most poverty-stricken of the 20 regions on mainland Tanzania and borders the even poorer Mozambique province of Cabo Delgado, where AKAM also operates microcredit activities. This programme offers working capital loans for the establishment and expansion of micro and small retail and commercial enterprises in the urban centres and agriculture loans in the rural areas. Within two months of its operations, the programme had disbursed 16 group loans with 50 beneficiaries in Masasi District amounting to US\$ 15,223.

A significant scaling up of the programme activities is envisaged in 2006 with special emphasis placed on achieving management synergies and operational efficiencies through linkages with the other AKAM programmes in East Africa.

SMALL INPUTS OF CREDIT, SUCH AS A LOAN FOR THE CULTIVATION, PROCESSING AND SALE OF SEAWEED IN ZANZIBAR, MAKES POOR FAMILIES LESS DEPENDANT ON A SINGLE SOURCE OF INCOME.





THE MICROINSURANCE INITIATIVE

Microcredit is widely known for its power to assist people break out of poverty. However, it is not uncommon for families just beginning to work themselves out of poverty to remain highly vulnerable to catastrophic events such as the death of a family breadwinner or an emergency need for expensive major surgery and a long hospital stay. As a result of such a catastrophe, families that had just begun to see the prospect of a better life can often – for reasons beyond their control – be driven back into extreme, debilitating poverty, possibly for decades.

The Microinsurance Initiative, funded by a grant of \$5.5 million from the Bill & Melinda Gates Foundation to Aga Khan Foundation USA, is being implemented by AKAM with the hope of safeguarding the poor against loss of savings and income as a result of catastrophic events such as death of a household breadwinner, long-term hospitalisation and business or crop loss. Bringing together international expertise and modern technology, the five-year initiative will strive to develop a replicable model for microinsurance that will be viable and financially sustainable in multiple socio-economic and cultural contexts.

Beginning in Pakistan, where AKDN has a strong institutional presence and long history of innovation and success, FMFB-P will work as a platform for launching the insurance products. In ensuring success and innovation, AKAM will leverage the technical expertise of the New Jubilee Insurance Companies, also part of the AKDN, in developing the most appropriate, accessible and viable microinsurance products. In subsequent years, a similar exercise in Tanzania will adapt the model to the different socio-economic, political and cultural context.


LEFT: IN HALTHAGHARI VILLAGE, IN NORTHERN PAKISTAN, MICROFINANCE OFFICERS ARE HELPING WOMEN MANAGE AND INVEST EARNINGS FROM LAND DESIGNATED FOR THEIR USE.

FINANCIAL SUMMARY

Investments

2005

UNAUDITED CONSOLIDATION IN US\$ MILLION



<u>Equity participations</u>	
First MicroFinanceBank - Afghanistan	3.1
First MicroFinanceBank - Pakistan	3.3
First MicroFinanceBank - Tajikistan	2.0
Fanasoavana SA (Madagascar)	0.1
Sub-total	8.5
<u>Loans and advances to microcredit programmes</u>	
Afghanistan	5.8
Burkina Faso	0.2
Egypt	1.0
Kenya	0.4
Kyrgyz Republic	2.0
Madagascar	0.4
Mali	0.1
Mozambique	0.8
Syria	5.5
Tajikistan	0.2
Tanzania	0.4
Sub-total	16.8
Total	25.3

Balance Sheet

2005

UNAUDITED CONSOLIDATION IN US\$ MILLION



Assets

Cash and Short Term Securities	37.6
Gross Loans Outstanding	35.5
Loan Loss Reserve	(0.8)
Other Current Assets	2.6
Total Current Assets	74.9
Fixed Assets (Gross)	3.9
Accumulated Depreciation	(1.4)
Net Fixed Assets	2.5

Total Assets **77.4**

Liabilities

Customer Deposits	30.8
Other Current Liabilities	8.2
Deferred Liabilities	0.2
Total Liabilities	39.2
Capital	38.0
Accumulated Earnings	0.2
Total Equity	38.2

Total Liabilities and Equity **77.4**

FINANCIAL SUMMARY

Figures for the Year

2005



	Afghanistan	Afghanistan	Egypt	Kenya
	ARMP	FMFB-A	FMF	FMFA
Portfolio Quality				
Loan Loss Provision Ratio	2.0%	1.5%	2.0%	6.0%
Recovery as a Percent of Falling Due	99.0%	121.0%*	99.0%	86.0%
Outreach Indicators				
Number of Loans Disbursed	18,290	8,333	3,218	1,238
Total Value of Loans Disbursed US\$ '000	3,139	11,978	1,287	188
Number of Loans Disbursed Since Inception	26,474	10,413	3,643	1,238
Total Value of Loans Disbursed Since Inception US\$ '000	19,272	15,044	1,441	188
Number of Loans Outstanding	13,586	8,302	2,371	1,092
Number of Deposits Outstanding		423		
Average Loan Size in US\$	717	1,437	400	152
Average Deposit Size in US\$		38,266		
Number of Female Loans Disbursed	1,853	1,108	1,240	687
Percent of Female Borrowers	10%	13%	39%	55%
Number of Staff	193	113	32	17
Number of Branches	28	5	3	2
Number of Credit Officers	87	56	22	9
Credit Officers as a Percent of Staff	45%	50%	69%	53%
Productivity				
Number of Outstanding Loans per Credit Officer	156	148	108	121
Average Loan Portfolio per Credit Officer in US\$ '000	97	146	27	15

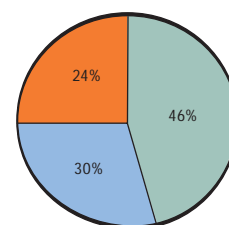
Kyrgyz Republic	Mozambique	Pakistan	Syria	Tajikistan	Tajikistan	Tanzania	TOTAL
MCP	MCP	FMFB-P	SMP	MLF	FMFB-T	MCP	
2.0%	13.3%	2.8%	2.3%	3.4%	2.0%	2.0%	2.2%
99.0%	65.0%	98.0%	99.0%	99.0%	99.0%	90.0%	103.6%
3,114	2,160	18,627	7,810	701	3,594	50	67,135
3,092	587	9,407	9,718	450	6,679	15	56,539
6,192	3,490	39,622	13,370	7,820	4,054	50	116,366
4,480	923	20,338	15,966	6,869	7,413	15	91,949
2,181	1,076	17,088	7,228	390	2,740	50	56,104
		27,937			2,791		31,151
993	272	505	1,244	641	1,858	304	842
		376			1,461		988
1,281	502	2,815	1,755	69	1,349	28	12,687
41%	23%	15%	22%	10%	38%	56%	19%
64	26	260	53	10	115	5	888
6	4	25	7	3	19	1	103
29	12	99	26	5	50	3	398
45%	46%	38%	49%	50%	43%	60%	45%
75	90	173	278	78	55	17	79
66	16	59	238	42	81	5	141

* Indicates early repayments and other adjustments

Ownership of the First MicroFinanceBanks

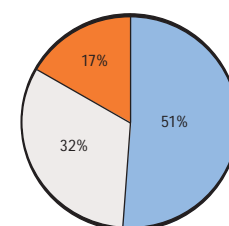
First MicrofinanceBank - Pakistan

- Aga Khan Agency for Microfinance
- Aga Khan Rural Support Programme
- International Finance Corporation



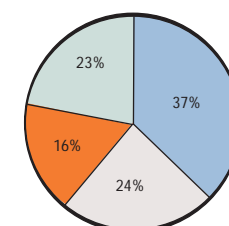
First MicrofinanceBank - Afghanistan

- Aga Khan Agency for Microfinance
- International Finance Corporation
- KfW Banking Group



First MicrofinanceBank - Tajikistan

- Aga Khan Agency for Microfinance
- Aga Khan Foundation
- International Finance Corporation
- KfW Banking Group



PROGRAMME PARTNERS

AKAM is supported by many institutional, government and local partners across the world.

Asian Development Bank

Banking With The Poor Network Asia

Canadian International Development Agency

Citigroup Foundation

Consultative Group to Assist the Poor

Department for International Development

Deutsche Entwicklung Gesellschaft (DEG)

Egyptian Social Development Fund

European Union

Gesellschaft für Technische Zusammenarbeit (GTZ)

International Finance Corporation

Japanese Social Development Fund

Kreditanstalt für Wiederaufbau (KfW)

Microfinance Investment Support Facility of Afghanistan

Norwegian Agency for Development Cooperation

Norwegian Fund

Pakistan MicroFinance Network

The MicroFinance Network

The World Bank

United Nations Development Programme

United States Agency for International Development

United States Department of Agriculture

Governments of:

Afghanistan

Burkina Faso

Egypt

Kazakhstan

Kenya

Kyrgyz Republic

Madagascar

Mali

Mozambique

Pakistan

Syria

Tajikistan

Tanzania

Zanzibar

FACTS AT A GLANCE

Founder and Chairman:

His Highness the Aga Khan, spiritual leader of the Shia Ismaili Muslims and Chairman of the Aga Khan Development Network

Board of Directors:

His Highness the Aga Khan, Prince Ameen Aga Khan, Prince Rahim Aga Khan, Princess Zahra Aga Khan, Iain Cheyne, Thomas Kessinger, Luis Monreal, Shafik Sachedina

Organisation: Established in November 2004 in Geneva, Switzerland. Under Swiss law, AKAM is a private, not-for-profit, non-denominational international development agency. It is part of the Aga Khan Development Network, a group of nine institutions working in health, education, culture, and rural and economic development, primarily in sub-Saharan Africa, South and Central Asia and the Middle East.

Staff: 888 worldwide. AKAM develops local human resources and capacity; the majority of employees are nationals of their countries.

Sources of funding:

His Highness the Aga Khan, grants, loans and contributions from development agencies, private foundations, corporations and individuals.

Mandate and goals:

AKAM's mandate is to alleviate poverty, diminish the vulnerability of poor populations and reduce economic and social exclusion. It aims to:

- Help people become self-reliant and eventually gain the skills needed to graduate into the main stream financial markets;
- Realize long-term sustainability that covers costs and contributes to expansion;
- Reach out as broadly as possible, in terms of both geographical coverage and range of services offered;
- Maximise impact on intended beneficiaries by ensuring that resources flow primarily to the poor and the excluded.

External Auditor:

KPMG Switzerland



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FIRST MICROFINANCE FOUNDATION
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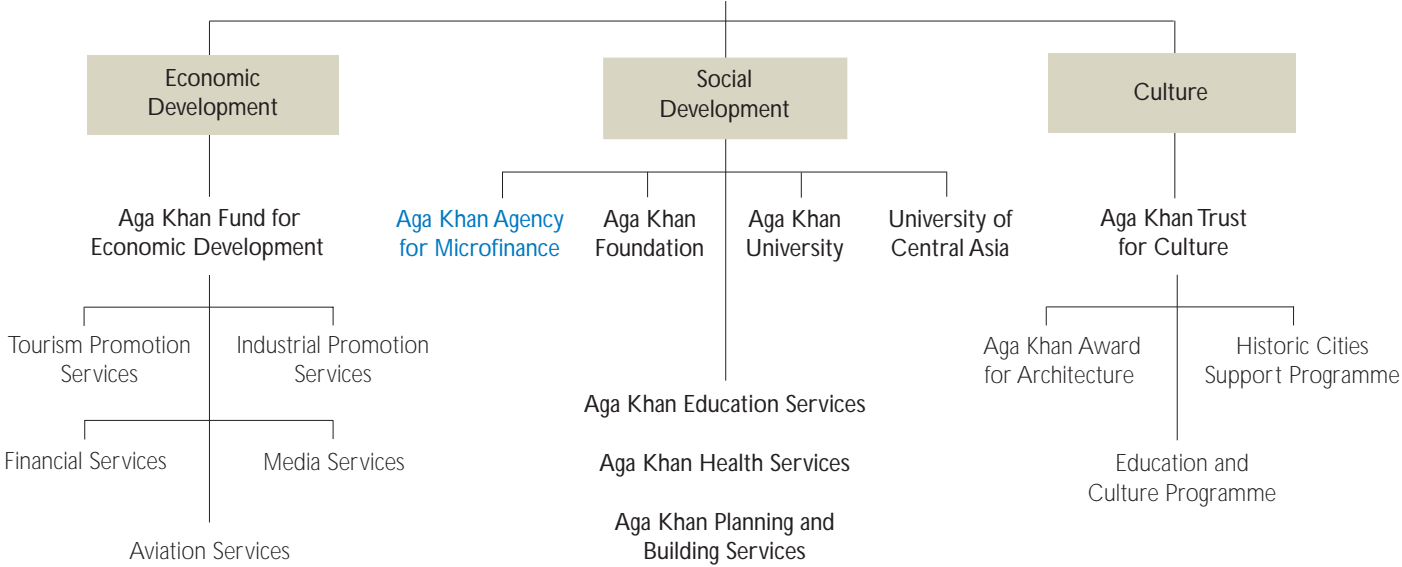
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**LEFT: WOMEN'S GROUPS IN TANZANIA
BENEFIT FROM BOTH MICROCREDIT AND
TECHNICAL ASSISTANCE THROUGH
AKDN'S MULTI-SECTOR APPROACH.**

THE IMAMAT

AGA KHAN DEVELOPMENT NETWORK





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