

AKAM's collaboration with other AKDN agencies allows the creation of innovative services. In Mopti, Mali, these services stimulate economic activity and combat poverty while simultaneously preserving culture.



List of Partners

Asian Development Bank
 Canadian International Development Agency
 Citigroup Foundation
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procedures, as well as the use of best practices that ensure financial discipline and efficiency.

To maximize the impact on intended 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 primarily to the poor and excluded.

The impact of AKAM's services is greatly strengthened by working in concert with other agencies of the AKDN. These collaborations allow AKAM to not only reach greater numbers of vulnerable populations, but also to develop new and appropriate services and products.

AKAM's close working relationships with various governments, international agencies and professional organisations is another advantage that assists in the development and delivery of microfinance services.

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The Aga Khan Development Network (AKDN) is a group of private development agencies working to empower communities and individuals, often in disadvantaged circumstances, to improve living conditions and opportunities, especially in Africa and Asia. Its agencies work in over 30 countries for the common good of all citizens, regardless of their gender, origin or religion. Its underlying impulse is the ethic of compassion for the vulnerable in society.

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MICROFINANCE



Aga Khan Agency for Microfinance: a Comprehensive Approach to Financial Services for the Poor

The Aga Khan Development Network (AKDN) delivers a wide variety of financial services to the poor, ranging from microcredit to microinsurance. These services advance poverty alleviation, economic growth and social development in over 15 countries in the developing world. Overseen by the Aga Khan Agency for Microfinance (AKAM), these microfinance programmes, microfinance institutions (MFIs) and regulated microfinance banks have delivered over US\$ 92 million in loans since their inception.

For more than 25 years, various agencies of the AKDN have offered microfinance products and services through integrated development programmes and as self-standing microfinance institutions. These programmes are now overseen by AKAM, an international development agency established in Switzerland.

The underlying objectives of the Agency are to reduce poverty, diminish the vulnerability of poor populations and alleviate economic and social exclusion. It aims to help people become self-reliant and eventually gain the skills needed to graduate into the mainstream financial markets. This endeavour is governed by principles of long-term sustainability, efficiency and financial discipline.

Operating in both rural and urban settings, AKAM's programmes have helped poor people from a variety of cultures and backgrounds expand their incomes, improve their quality of life and become self-reliant. In Afghanistan, they have supported returning refugees to start and expand businesses. In one of the poorest districts of Cairo, they have helped residents improve and rehabilitate their homes. In Syria, they are contributing to the development

of civil society through a unique partnership between the Ministry of Health, the WHO, and various village health organisations. In Kenya, they are assisting farmers in both buying agricultural inputs and mitigating the effects of seasonal agricultural cycles.

Working from over 100 branches and loan offices at the end of 2005, AKAM's 1,000-strong work force had collectively distributed over 115,000 loans to beneficiaries in South and Central Asia, the Middle East and Africa.

The Microfinance Ladder

To help poor people "graduate" from poverty to the mainstream financial markets, AKAM takes a tiered approach that can be adapted to the needs and circumstances of the poor in both urban and rural environments, as well as in different socio-economic and political



The microfinance programme in Mozambique has assisted fishermen avoid usurious “rental” fees and keep more of their catch.



In countries such as Tajikistan, villagers in remote areas must travel long distances at great expense to access financial services. In addition, commercial banks often do not find it profitable to offer services to the urban poor or to populations living in remote locations. Through its network of regional branches and district offices, the First MicroFinanceBank in Tajikistan provides access and a wide range of financial services to these remote populations.

contexts. The three rungs of this “ladder” include:

- **Microfinance programmes**
Usually at the community level, these programmes are designed to give people the means to start or expand economic activity and, over time, diversify beyond traditional microenterprises. A good example of these programmes is in the Kyrgyz Republic, where lending is extended directly to clients or through community organisations which husband the loans. Concepts such as basic business practices and the preparation of business proposals are taught as part of a package of microfinance services that aim to help borrowers become disciplined, self-reliant entrepreneurs.
- **Microfinance institutions**
With a more formal structure and a network of sub-branches, AKAM's microfinance institutions provide clients with a wider range of products and services. In some cases, as in Mali and Burkina Faso, the institution is both a lender and a repository for savings. As with microfinance programmes, AKAM's institutions work with clients to introduce good practices, ethical precepts and the highest business standards.
- **Microfinance banks**
AKAM currently operates the First MicroFinanceBank (FMFB) in Afghanistan, Pakistan, Tajikistan and a gradually increasing number of countries. These banks are formally regulated by the Central Bank of

the countries in which they operate. Services are directed to the poor and to the promotion of micro and small enterprises.

Through the careful geographic distribution of branches and mobile banks, AKAM is able to offer 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 small and medium enterprises (SMEs), particularly those that develop as clients reach a higher level of financial stability. The aim at these banks is to operate at international standards, conserve the capital base and reach sustainability as rapidly as possible.

Microfinance Services

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. Currently, this range of services includes the following:

- **Income generation loans:** Credit financing ranging from US\$ 10 to US\$ 3,000 is made available for start-ups, re-starts and expansion of current entrepreneurial and other income-generating activities. Projects financed include farming inputs and machinery, livestock rearing and breeding, shoe making, furniture, handicraft, services

and 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 are offered by AKAM's banks and some of its microfinance institutions, including current and savings accounts that allow multiple withdrawals as well as 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 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 of a loan in case of death or permanent disability of the borrower; and a policy which provides a cash payout to the family

of the borrower for funeral-related costs in the event of his/her death. A new initiative in microinsurance is also developing 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 that enable 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 Services:** AKAM's banks also provide money transfer 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 remittances are often linked with local services that contribute to social and economic development at home.

Principles and Partnerships

In addition to its tiered approach and broad range of services, AKAM's 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, a major focus of AKAM staff is to enhance the quality of financial services through transparent and detailed lending

“It is my hope that through our microfinance programmes we will eventually create a virtuous circle of income generation in which the poor – half of the world's population – will break out of their economic and social exclusion and achieve a level of self-reliance that allows them, in turn, to help those less fortunate.”

– His Highness the Aga Khan, speaking at the inauguration ceremony of The Aga Khan Agency for Microfinance, February 2005



A loan of US\$ 500 in 2002, followed by successively larger loans over the last 4 years, permitted a tile maker in Kabul to expand his business, buy machinery and provide employment to six others.

Cover Photo:
Women in the Northern Areas of Pakistan conduct routine monthly transactions with the First MicroFinanceBank in Pakistan.