

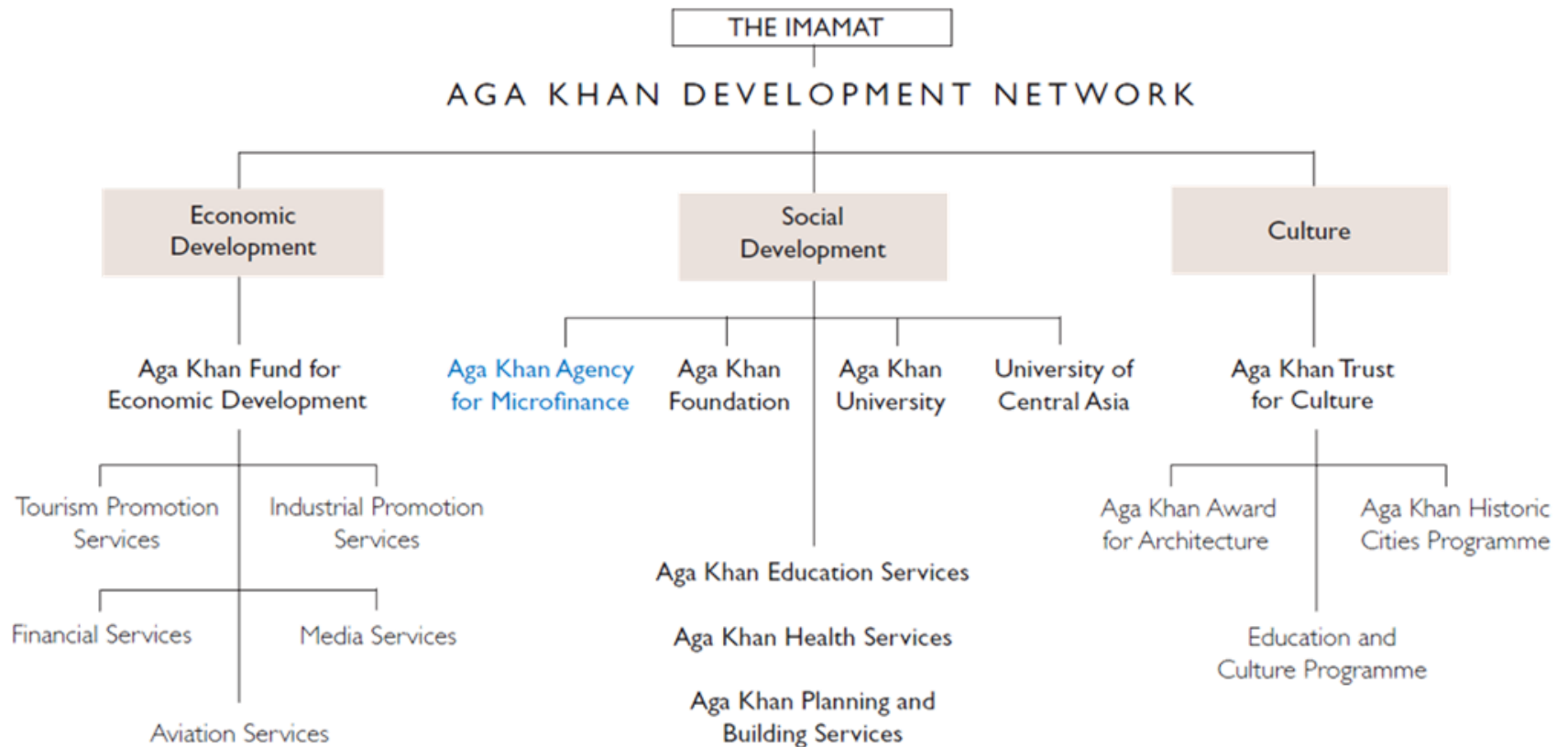
EUROPEAN MICROFINANCE PLATFORM

AGA KHAN AGENCY FOR MICROFINANCE

Introduction to AKAM



Aga Khan Agency for Microfinance



AKAM Background

- AKAM was established in 2004
- Creates financial institutions to address global poverty through sustainable economic development
- Undertakes a double bottom line approach
- Coordinates with sister agencies of AKDN
- Placed within social development bordering on economic development



AKAM Overview

- Afghanistan
- Kyrgyz Republic
- Pakistan
- Tajikistan

- Egypt
- Syria

- Burkina Faso
- Côte d'Ivoire
- Mali

- Kenya
- Madagascar
- Mozambique
- Tanzania



Financial Crisis and the Poor



Not Just Financial Crisis

- Food and oil inflation
- Politically volatile countries
 - Afghanistan
 - Madagascar
 - Pakistan
 - Kenya
- Fragile States and Post-Conflict Countries
(World Bank: Harmonized list of fragile situations FY 10)
 - Afghanistan
 - Côte d'Ivoire
 - Tajikistan

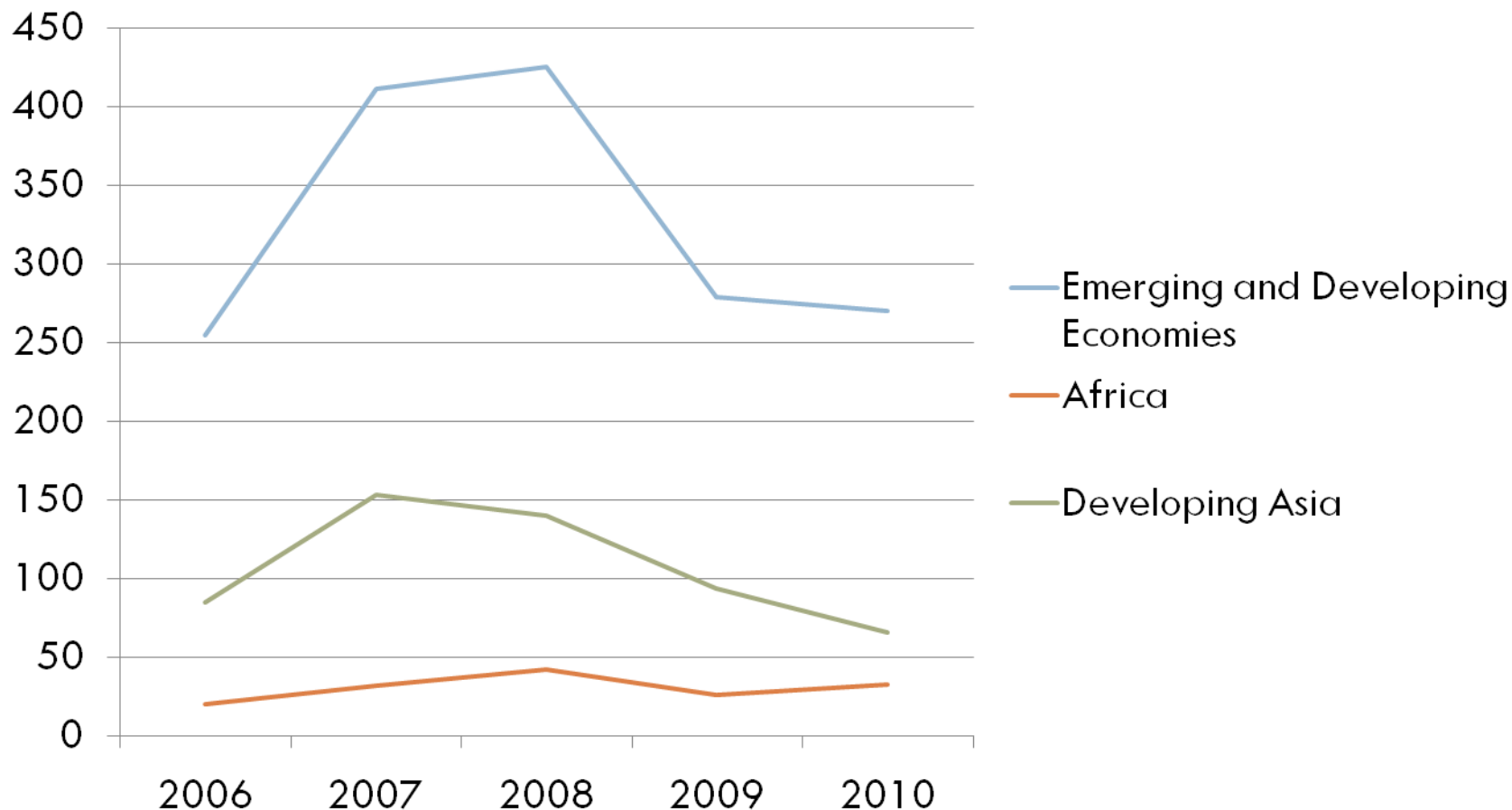


Impact on the Economic Drivers



Private Direct Investment

Billions of USD

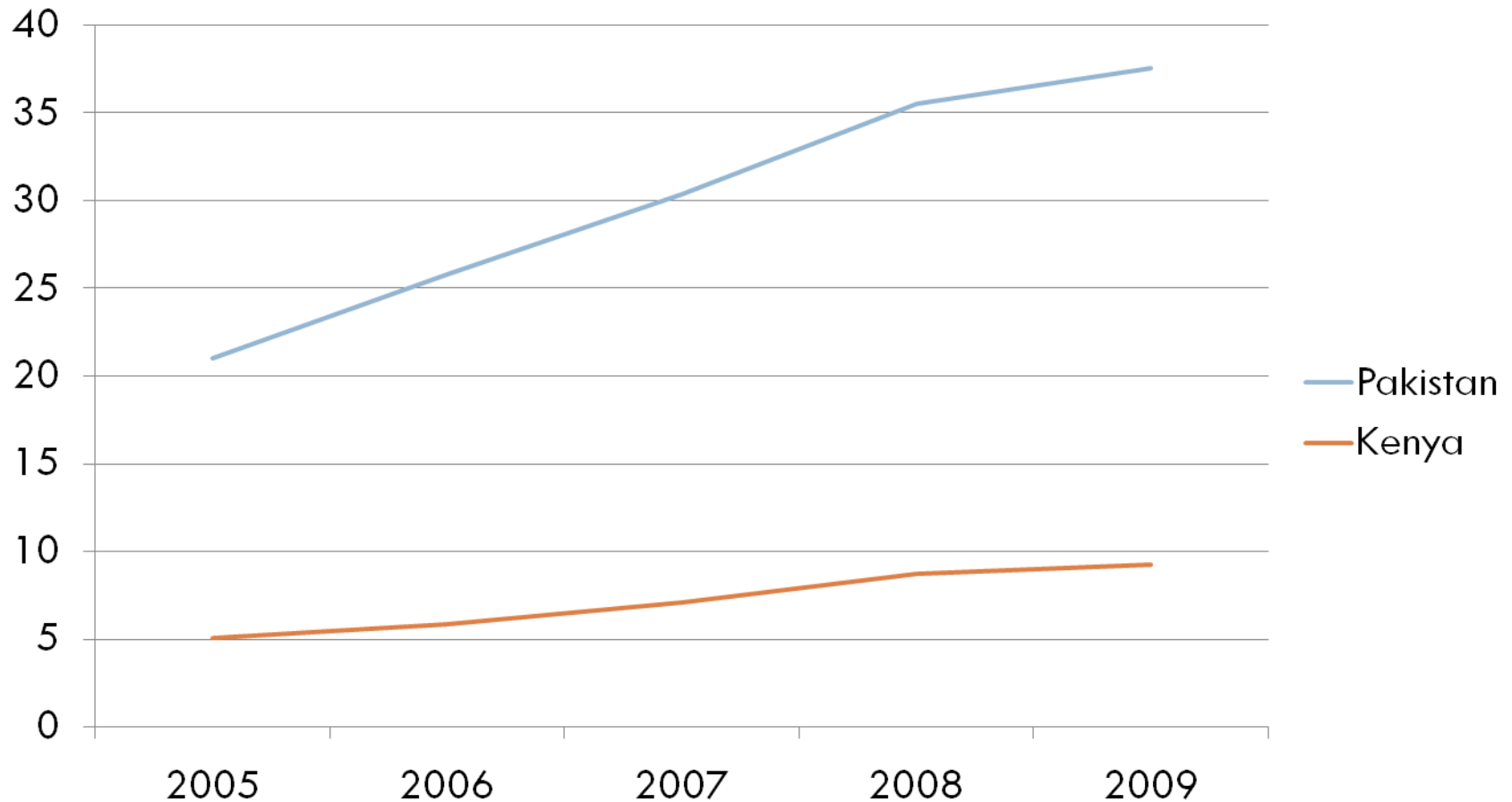


Source: IMF World Economic Output Report



Private Sector Credit Growth *Slowing*

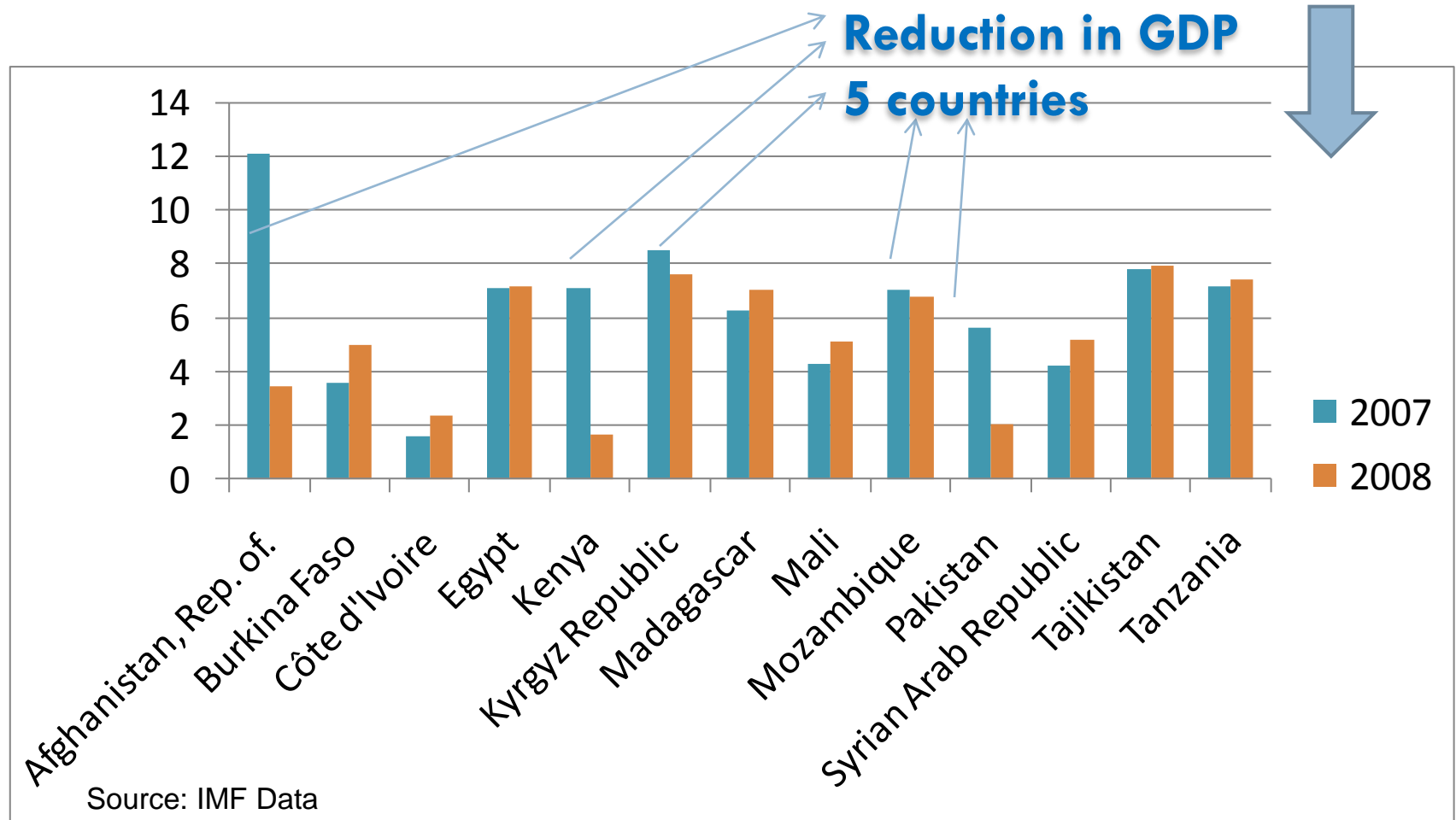
(Billions of USD)



Source: Central Bank of Kenya and State Bank of Pakistan



GDP Growth of Portfolio Countries



Public Finances

- Lower Development Spending
 - ▣ Impact of food and fuel inflation
 - ▣ Lower ODA, Home Remittances and Capital flows
 - ▣ Revenue adversely impacted by slower economy
- Lower exports
- Reduced capacity for countercyclical fiscal stimulus



Impact on Financial Services to Low Income Households

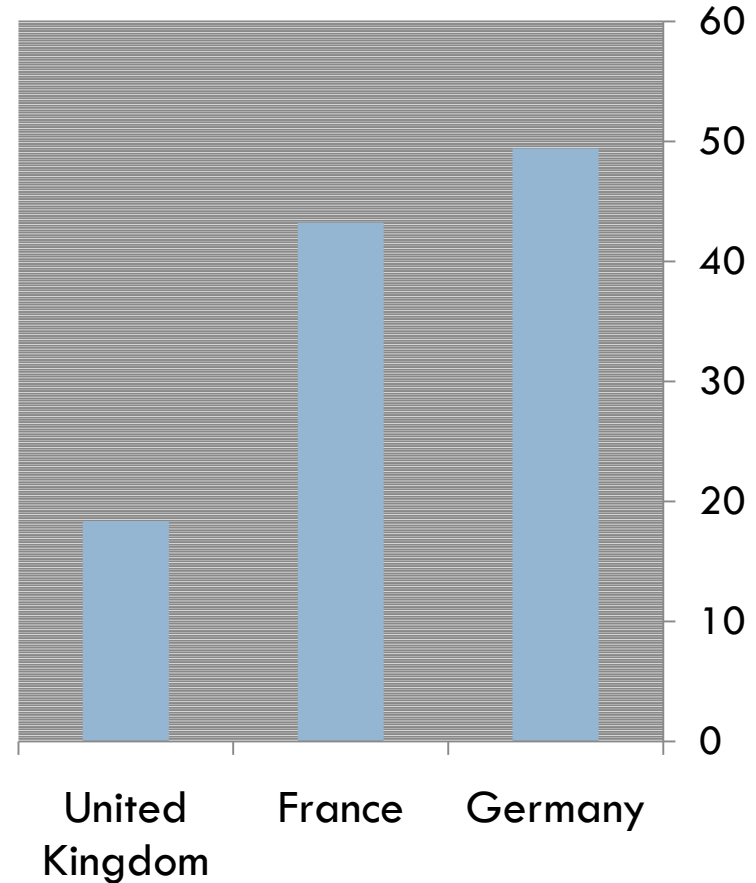
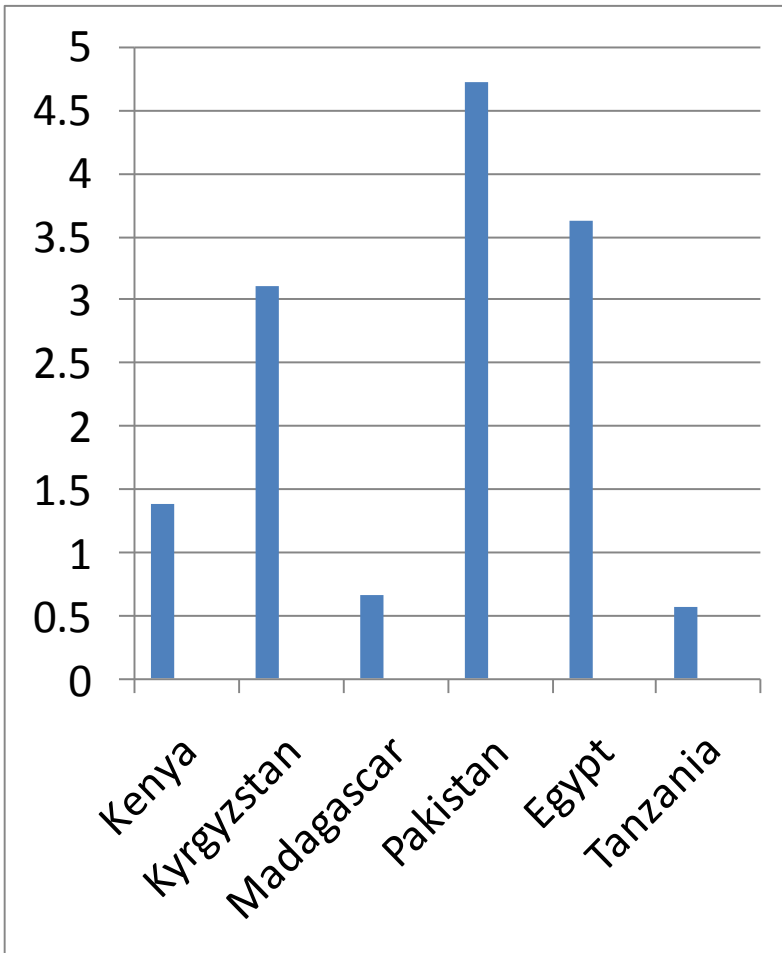


Limited Impact

- Low financial sector penetration
 - ▣ Low levels of consumer leverage
 - ▣ Low access to formal financial services
- Poor located mostly in rural areas and are mainly engaged in agriculture

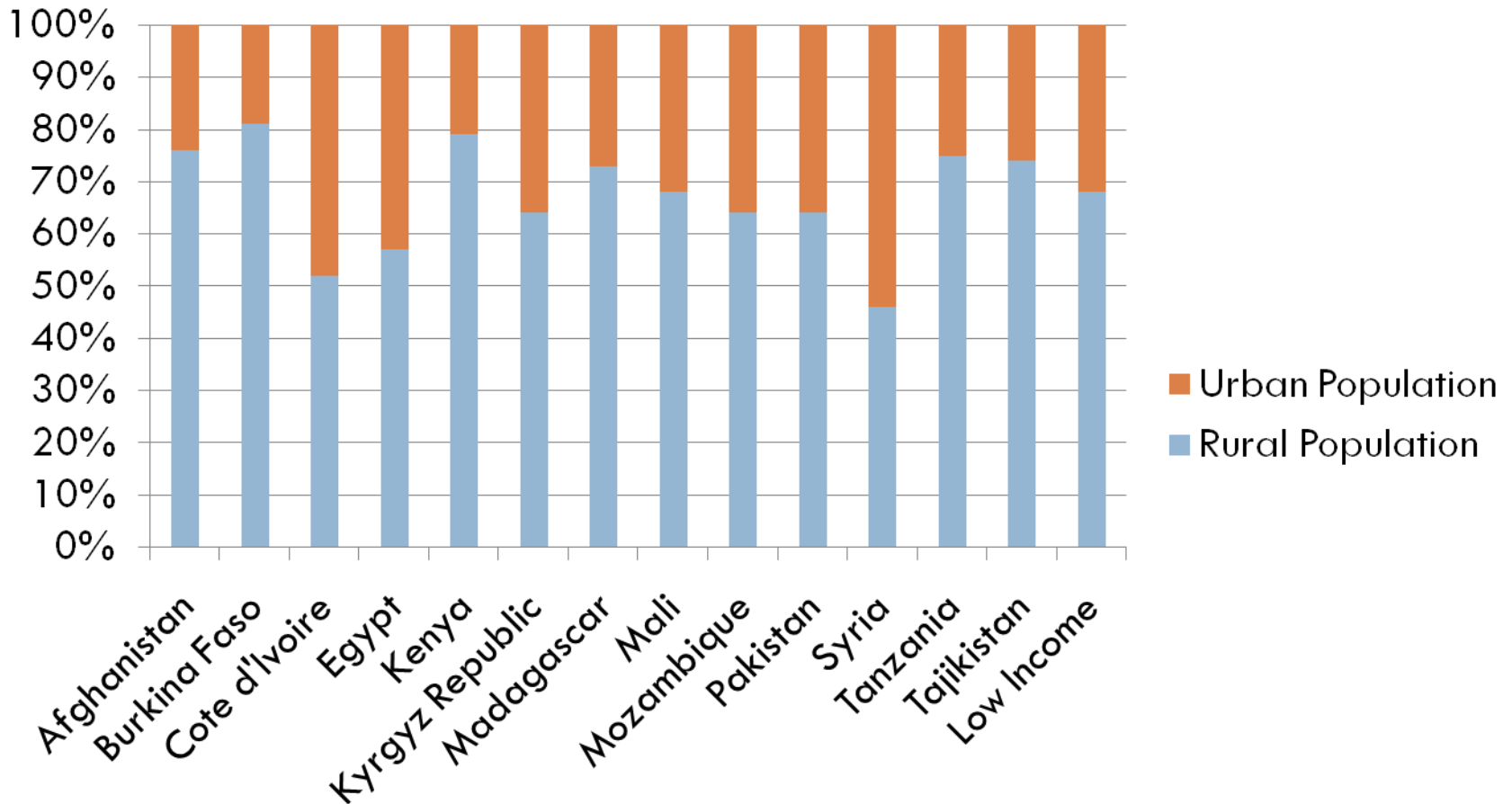


Financial Sector Penetration



Rural Concentration of the Poor

Population Distribution



World Bank: *Country at a glance* documents for each country



Channels of Impact

Financial Crisis

Impact on
Real Sector

Public
Finances

Financial
Services to
Low
Income
Households

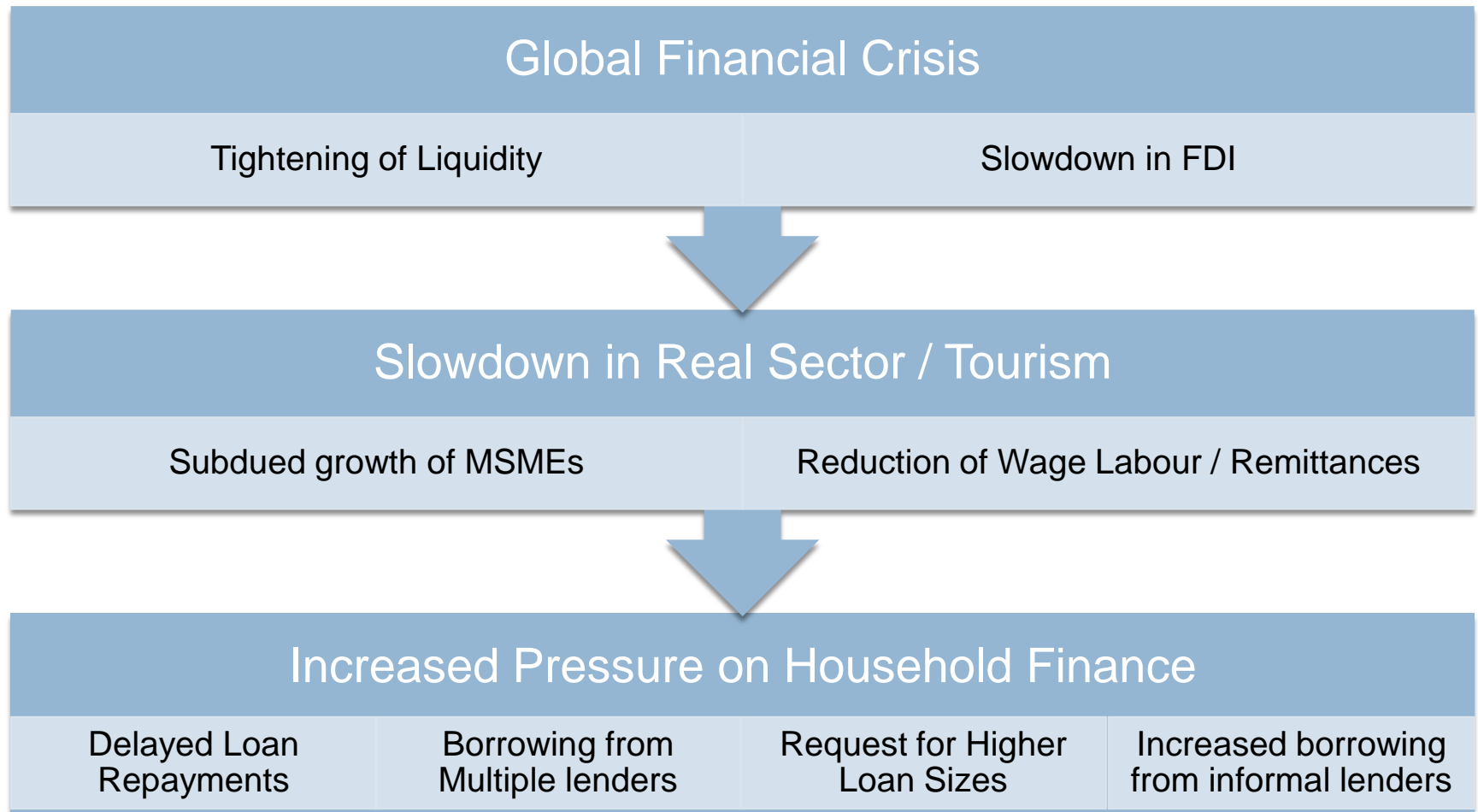


Impact on Poverty

- More people will move from transient to chronic poor segments
- Estimated 89 M more people will be in extreme poverty (below USD 1.25/day)
- Increased unemployment of un-skilled workers
- Reduction in poverty achieved in the last decade will be adversely impacted
- Significant cut back on education and health investments



Impact on the Poor



Client Response

- Request higher loan size
- Request loans for consumption purposes
- Delay loan payments
- Accessing loans from multiple MFIs
- Some not borrowing due to fear of inability to repay
- Lower loan repayment capacity of borrowers



The First MicroFinanceBank Tajikistan

A case study on the impact on remittances



TAJIKISTAN

Tashkent

0 100 km
0 60 miles



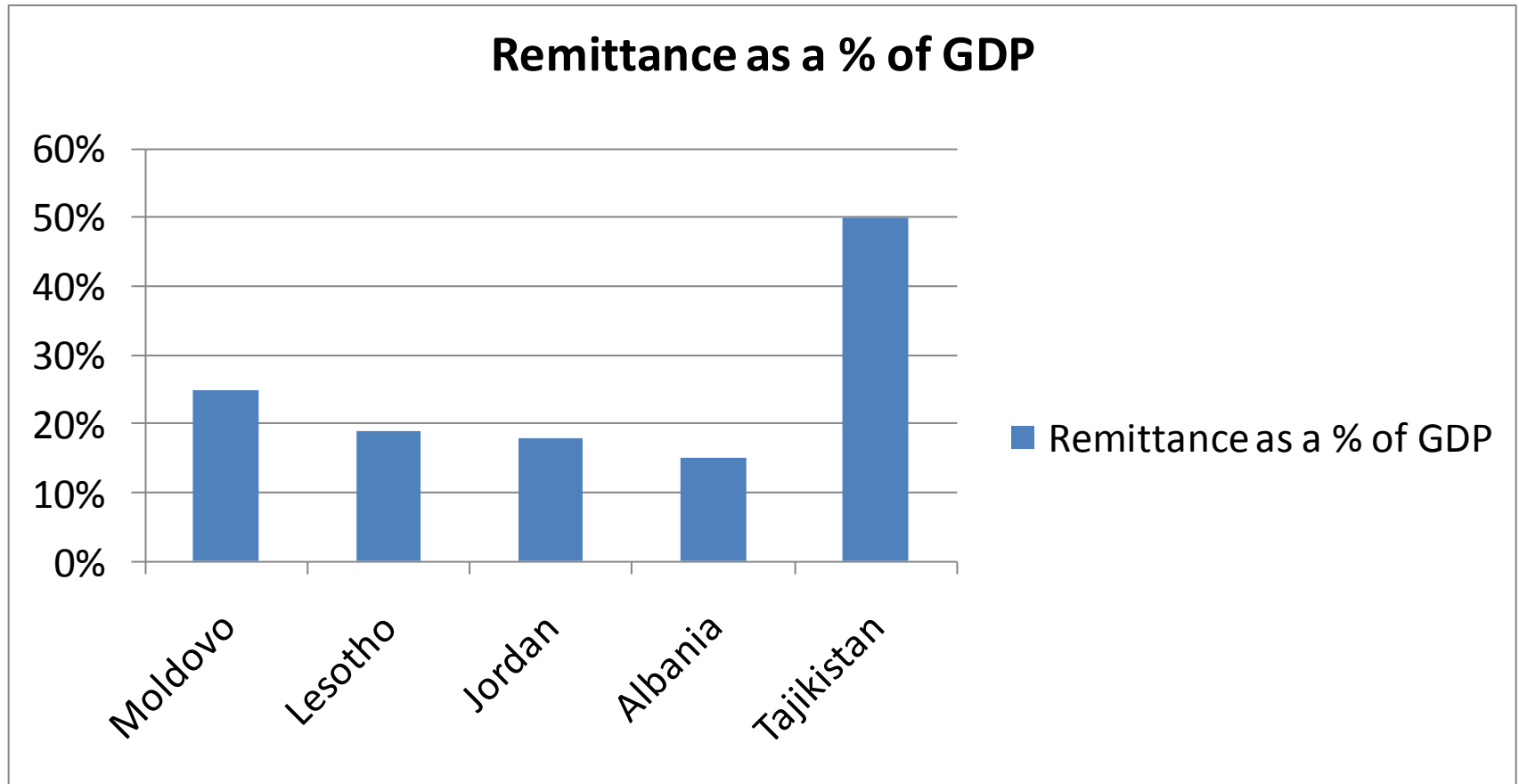
Tajikistan

- Population: 7 MM
- Poverty
 - 53% live below the poverty line of USD 41/month
 - 17% live below extreme poverty of USD 26/month
- Economic Performance
 - GDP growth of 8% in 2008 driven by demand due to remittances
 - Workers' remittances accounted for 47% of GDP in 2008

Source: IMF Review of Tajikistan



Comparison of Remittances as % of GDP



Source: IMF Working Paper: The Macroeconomics of Remittances
A case of Tajikistan, Alexei Kireyev, January 2006



Migrant Dynamics

- 1 M Tajiks work abroad (IMF)
- Three types of migrants (IMF):
 - ▣ Seasonal workers (Mar-Nov) – 50%
 - ▣ Official contracts with enterprises – 30%
 - ▣ Shuttle traders – 20%
- 60% are unskilled
- Remittance income is used for the following:
Health, small business investment, education,
consumption

Downturn of Russian Economy

- Russia's economy is expected to contract by 6.5% in 2009
 - ▣ Sharp drop in international oil prices
 - ▣ Reduction in capital inflows / reversal of capital flows due to deleveraging by international financial institutions

- Remittances are expected to decline by 35% in 2009 from USD 2.4 Bln



FMFB Tajikistan

- Performance as of Sept 2009
 - ▣ Total Active Borrowers: 14,677
 - ▣ Loan Portfolio: USD 21.7 MM
- Operates 38 branches all over the country and serves both rural and urban clients
- Most affected by drop in remittance were rural, poor located in southern Tajikistan



Lessons Learnt

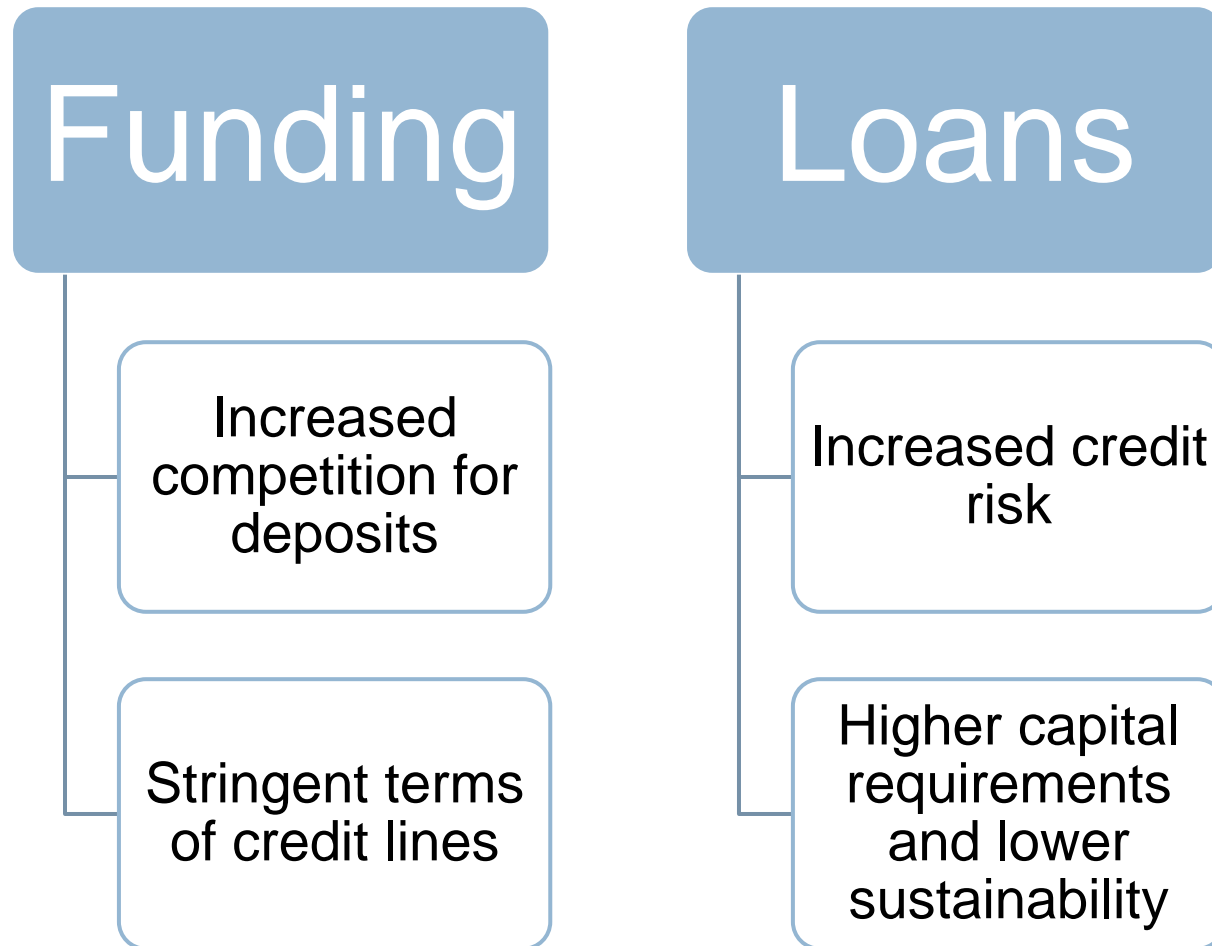
- FMFB Tajikistan, like others in the banking and microfinance sectors faced repayment challenges
- Reduced remittances coupled with devaluation of the Somoni
- Possible Solutions
 - ▣ Mobilize local currency to fund loan book
 - Deposits
 - Debt
 - ▣ Currency hedging mechanism



Financial Crisis and the Institution



Institutional Impact



Funding Source Comparison

Deposits

- Stable source for MFI
- Low cost

Credit Lines

- High credit and country risk margin
- Stringent covenants



Lessons to be learnt



Institution Building

- Enabling regulatory framework
 - ▣ Increased deposit funding
 - ▣ Effective supervision
- Key Performance Indicator – institutional strength
- Targeted products and services
- Improved lending methodology



Targeted Service Menu

- Enabling people to capitalise on opportunities
 - ▣ Start-up capital and BDS to enable
 - The unemployed to start enterprises
 - Rural poor to diversify from upstream agricultural activities into moving further up on the value system
 - Existing entrepreneurs to diversify into non-traditional economic activities
- Reduce risk
 - ▣ Microinsurance
 - Reduce vulnerability
 - AKAM's microinsurance project with the Bill and Melinda Gates Foundation has covered 386,000 lives in Pakistan
 - Starting in Tanzania in 2009

