



CASE STUDY IN DISASTER RISK REDUCTION

THE FIRST MICROFINANCE BANK – AFGHANISTAN (FMFB-A)



Citi Foundation



Aga Khan Agency for Microfinance

Organizational Information

First MicroFinance Bank – Afghanistan’s (FMBA-A)’s majority shareholders are advocates for the financial inclusion agenda across emerging markets and the institution continues to attract renowned global investors with a shared vision for poverty alleviation. The commitment and long-term investment horizon exhibited by the bank’s core group of investors is an important pillar of strength driving the pledge to stick by clients through turbulent times.

The Aga Khan Development Network (AKDN) is a group of development agencies that cover a wide array of disciplines including the environment, health, education, architecture, culture, microfinance, rural development, disaster reduction, the promotion of private-sector enterprise, and the revitalization of historic cities. **The Aga Khan Agency for Microfinance (AKAM)** is a social development agency of the Aga Khan Development Network that works closely with the other AKDN agencies as part of a coordinated approach that brings together many inputs and disciplines. AKAM’s mission is to affect demonstrable, measurable, and lasting improvement in the quality of life of its clients by delivering appropriate financial services to diminish the vulnerability of the disadvantaged and enable economic and social inclusion. AKAM is a registered Swiss nonprofit organization with microfinance institutions in 10 countries offering a wide range of credit and deposit services. AKAM’s financial service providers are present in Syria, Tajikistan, Kyrgyzstan, Pakistan, Afghanistan, Egypt, Madagascar, Mali, Burkina Faso, and Cote d’Ivoire.

AKAM works with its sister AKDN agencies, such as Focus Humanitarian, Aga Khan Rural Support Program, Aga Khan Planning and Building Services, and Mountain Societies Development Support Program, to offer precrisis mitigation and crisis response programs. In line with AKDN’s long-term commitment to the countries it operates in, AKAM seeks ways to serve and support communities during times of crisis to help communities recover and rebuild.

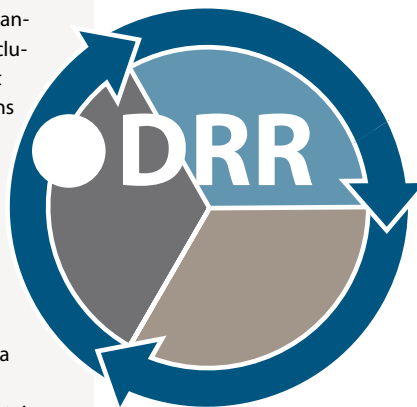
Building Resilience through A Client-Centric Model

The Aga Khan Agency for Microfinance’s (AKAM) mission is centered around creating lasting improvement in the quality of life of its clients by delivering client-centric financial products and services. While microfinance institutions cannot prevent crises from occurring, they can work effectively with communities to help them prepare for, mitigate, recover from, and adapt to crises. As such, crisis management initiatives aimed at increasing client resiliency are an integral part of AKAM’s goal to ensure that services go beyond meeting the immediate economic needs of clients to contribute to overall improvement of quality of life.

Afghanistan is home to over 30 million people, approximately 75 percent of whom live in rural areas and 36 percent below the national poverty line.¹ It is a landlocked country of rugged mountains and vast desert plains, with towns and cities recovering from decades of crisis, both natural and man-made. Afghanistan

is struggling to address high levels of poverty and ongoing insecurity stemming from interethnic, sectarian, and geopolitical factors. As of 2014, only 10 percent of the population had an account at a financial institution and 3.2 percent were borrowers from commercial banks.²

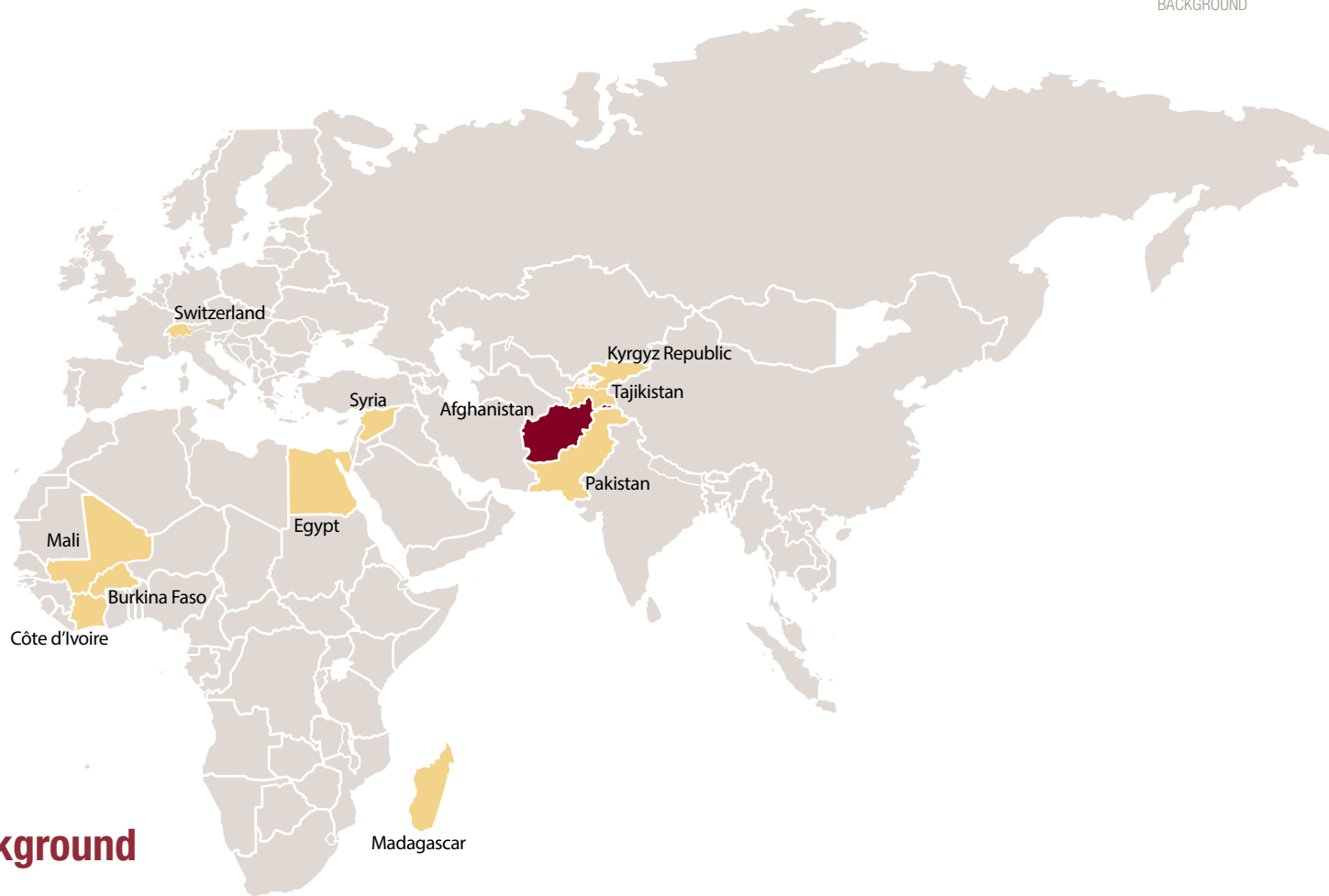
First MicroFinance Bank – Afghanistan’s (FMFB-A) achievements in country can be attributed to a client-centric model and preexisting policies and procedures that were adapted for the local context and have been continuously updated to reflect the realities of the situation on the ground. In particular, FMFB-A recognized their clients’ need for a housing-specific product and fulfilled it while improving client quality of life and resiliency to shocks in a region highly vulnerable to natural hazards and extreme weather events such as earthquakes, flash floods, and landslides.



In a country where many banks have ceased operations, a client centric model that takes into consideration the ground realities, leverages partnerships, puts in place business continuity plans and which are all supported by management/governance structure are critical to operations.

¹ <http://data.worldbank.org/country/afghanistan>

² World Development Indicators



Background

AKAM emphasizes disaster preparedness in its programming as it operates in geographic areas that are either facing or have faced a variety of crises. Natural disasters, such as earthquakes and floods, have affected AKAM's financial service providers (FSPs) and clients in Tajikistan, Pakistan, and Afghanistan. Concurrently, civil unrest and political instability have affected operations in Egypt, Burkina Faso, Cote d'Ivoire, Mali, Afghanistan, and Pakistan; and First MicroFinance Institution – Syria (FMFI-S) continues to operate in the midst of a civil war that has devastated the country. Furthermore, all the FSPs are operating in regions where clients are struggling with substantial economic issues.

AKAM's mandate is to alleviate poverty and improve the quality of life of its clients. Achieving resiliency for these clients, whose social and economic profile makes them particularly vulnerable to the detrimental impacts of disaster, is of crucial importance.

The Aga Khan Development Network's (AKDN) presence in Afghanistan dates back to 2002, before the bank was established, and has evolved over time out of its deep roots firmly grounded in early principles of community engagement. After the fall of the Taliban regime in 2001, AKDN established the Emergency Microcredit Programme and the Rural Microcredit Programme, each of which was aimed at improving the economic security of the population.

With a strong community focus, these programs developed a deep relationship with clients by understanding their needs and offering credit for start-ups, restarts, and the expansion of income-generating activities. Starting from late 2003, the urban microcredit activities of the programmes were institutionalized into the FMFB-A. FMFB-A was the first private commercial bank to be licensed and incorporated in Afghanistan in 2003. FMFB-A was established with financial support from the Aga Khan Fund for Economic Development (AKFED), the International Finance Corporation (IFC),

and Kreditanstalt für Wiederaufbau (KfW). In 2006, the Bank had US\$6 million of capital, and investors injected in 2012 an additional US\$7 million for a total of US\$13 million since inception, from AKAM, AKF USA, KfW and IFC. In 2009, the bank also took over the Rural Microcredit Programme portfolio. With a footprint covering 14 provinces, the institution currently provides a range of credit and savings products with the mission to reduce poverty and promote financial inclusion through its network of 38 branches and 9 loan processing units.

FMFB-A delivers financial services to the unbanked while contributing to the development and institutionalization of microfinance in a country affected by ongoing crisis. The ongoing conflict in the country creates a challenge for the daily management of the institution's operations and its branch network. In spite of this, FMFB-A has been able to offer a range of products and services that promote client resiliency, while maintaining operational sustainability.

AKAM Client-Centric Model

In times of crisis, it is crucial that an institution's strategy, policies, and procedures are adapted to reflect the evolving reality on the ground and allow the institution to react effectively and efficiently to rapidly changing situations. All AKAM FSPs have policies and procedures that are developed, tested, and implemented with the local context in mind and emphasize both client and institutional resilience. Additionally, these policies are periodically reviewed and good practices shared across AKAM FSPs so that

institutions can benefit from the experience of others. FMFB-A, like all AKAM entities, emphasizes both **client** and **institutional** resilience. This dual focus allows the organization to effectively and efficiently respond to crises as they evolve. A combination of a client-centric approach and preexisting policies and practices during the crisis has enabled FMFB-A to achieve resilience during challenging periods in Afghanistan's history.

FMB-A's approach to resiliency involves placing clients at the center of operations by:

NEEDS BASED RESPONSE:

Understanding on-the-ground realities and needs of clients and responding accordingly;

BUSINESS CONTINUITY PLAN:

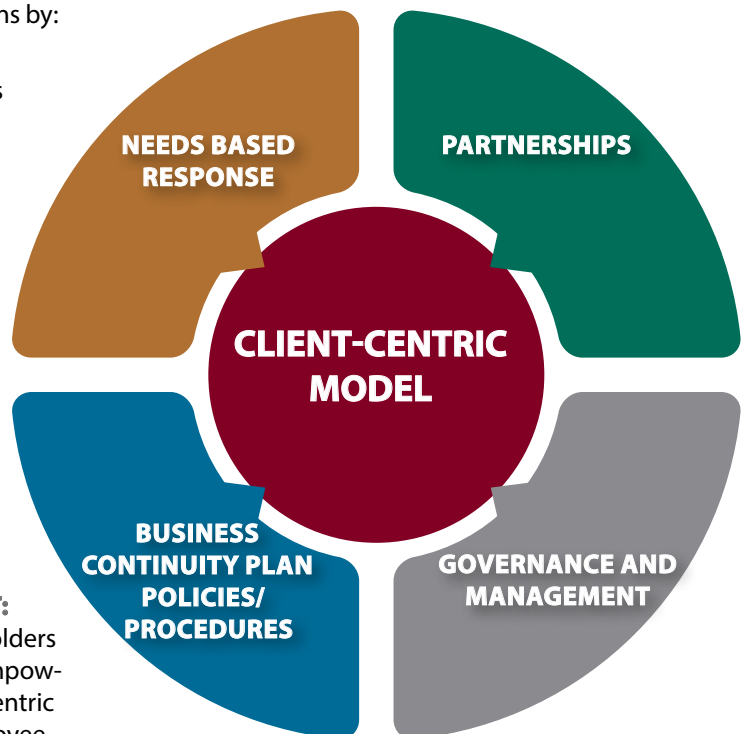
Establishing and operationalizing a robust business continuity plan (BCP) that positions FMFB-A to respond and recover quickly from risks and crises;

PARTNERSHIPS:

Building and maintaining partnerships with specialized agencies that provide humanitarian and social support that complement FMB-A's financial services;

GOVERNANCE AND MANAGEMENT:

The long term commitment of shareholders to work in Afghanistan during crisis empowered management to develop client-centric approaches that reinforce client, employee, and institutional resilience.



Needs Based Response

AKAM FSPs abide by a client-centric model in designing and delivering demand-driven products and services. Each organization has a Business Strategy and Marketing department which strives to understand client needs, preferences, behaviors, and aspirations. The department also gathers feedback on client experiences and tracks changes in client poverty levels and quality of life. All of the data is used to inform development of client-centric products, services, and delivery channels. This strategy is especially important in times of crisis, as client needs change to reflect the reality of the situation on the ground.

FMFB-A has been operating for the last decade in a crisis situation and the organization's key focus has been to improve livelihoods by providing access to finance and helping clients increase revenue from their income-generating activities. An increase in revenue offers clients the chance to invest in savings, insurance, and other schemes, which in turn increases resiliency. Agriculture is the largest sector of employment in Afghanistan and the institution's second-largest portfolio. In order to ensure continuous and quality advisory support to its agriculture borrowers, FMFB-A added 16 agronomists to its staff. In addition, FMFB-A has, on several occasions, provided relief to its borrowers in areas affected by natural calamities. Rapid and well-targeted loan restructuring has helped loan clients recover from and adjust to income shocks quickly and avoid disaster-induced defaults.

The decade of conflict in Afghanistan has had a devastating impact on infrastructure in the country, notably through the destruction or damage to countless homes. The lack of proper building codes and local construction materials has further resulted in many expensive and poorly

built homes, compounding the housing shortage and forcing many Afghans to build their own informal dwellings. In Kabul alone, these informal settlements house approximately 80 percent of the population, with between 75 and 80 percent of the homes having no access to potable water.³

Responding to client needs following extensive market research, FMFB-A developed a housing improvement product in 2007 with technical assistance from the IFC. The bank hired civil engineers and developed pamphlets and guides to provide technical assistance to clients related to building disaster-resilient structures. During the rollout of the product, over 30 masons and artisans were trained on safe building practices. In 2009, FMFB-A significantly expanded its housing microfinance program in partnership with the Aga Khan Foundation USA. With US\$2.2 million in technical assistance funding from USAID and AKDN, the Khana Loan Initiative aimed to significantly improve the quality of housing by providing clients with advice on the selection of building materials, construction techniques, and innovative approaches to improving the safety and quality of their living environments. A demonstration house was built to allow clients and builders to experience and see the building practice. FMFB-A also allowed clients to select their repayment schedule for the loan product, taking into consideration the cyclical nature of the underlying agriculture cash flows. This flexible repayment schedule improved accessibility and resulted in high repayment rates. With a cumulative disbursement of over US\$54 million since launch, the Khana Loan has made it possible for nearly 40,000 Afghans in 56 districts to undertake 'incremental' construction of their homes.

Business Continuity Policies and Procedures

FMFB-A has learned it is essential that an organization's business continuity plan be designed for the local context, taking into account the specifics of any developing crisis. Several microfinance institutions in Afghanistan either suffered or failed as their business continuity plans were generic or copied from institutions in other countries. FMFB-A had a context-specific BCP in place that covered natural disasters and infrastructure, but realized as the crisis evolved that their plan was not suitable for the increasingly hostile environment. The team then developed an additional BCP and security policy, which specifically considered the realities of the conflict in the country. The plans were drawn up through consultations with FMFB-A's internal staff, drawing from the experience and learnings from each department including the security team and was augmented with input from local stakeholders. These discussions revealed vital details about the local context, which significantly impacted the institution's policies. For example, FMFB-A discovered that its cash-in-transit policy needed to be region-specific. In Kabul, where armored vehicles are the norm, the entity transfers cash in armored vehicles. However, in the northern areas where armored vehicles bring attention, FMFB-A transfers cash using discreet methods. Locally grounded policies like these have allowed FMFB-A to continue to operate in Afghanistan and contribute to the resiliency of its vulnerable clientele.

³ Roy, Friedemann. "Developing a Housing Microfinance Product: The First MicroFinance Bank's Experience in Afghanistan." *International Finance Corporation*. World Bank Group, n.d. Web. 13 June 2016.



Partnerships

In crisis situations, clients often need assistance beyond what a microfinance institution can provide. While AKAM FSPs do not directly provide humanitarian aid to clients, they do partner with other AKDN and specialized agencies that have expertise in these areas.

FMFB-A has collaborated with a number of agencies over the last decade to provide services aimed at increasing client resiliency and supporting post-conflict recovery. Firstly, FMFB-A has partnered with AKF Afghanistan, Mercy Corps, and ACTED on a program to improve alternative livelihoods for vulnerable populations in Afghanistan. The partner NGOs train cooperative and other agriculture value chain actors and refer their clients to FMFB-A for their financing needs. Secondly, as part of the Khana Loan Initiative, FMFB-A has also worked with Aga Khan Planning and Building Services to offer expert construction advisory services to clients. Thirdly, the institution has partnered with AKF Afghanistan to disburse relief funds to drought-affected communities in Badakhshan.

Moreover, FMFB-A has collaborated with other AKDN agencies in Afghanistan that face similar security issues, such as theft, terrorism, insurgency, and business espionage. As is common practice in Afghani-

stan, the organizations share information and security resources to present a united front against possible threats. This group effort has improved the security and safety of FMFB-A's operations, allowing the institution to better serve the Afghan population.

Governance and Management

A central feature of the AKDN's approach to development is long term commitment to the countries in which it works. AKAM and FMFB-A shareholders remained committed to continuing operation in Afghanistan during difficult times by encouraging management to ensure business practices promote client, employee, and institutional resilience. As a result, FMFB-A invests in the development of local staff. It has development and succession plans that seek to promote staff based on merit and competence. FMFB-A believes that communities are best served by their own members, as their familiarity with the culture and sensitivities to the local environment cannot be matched. It is for this reason that AKAM strives to staff its entities with local personnel, balanced with a strong culture of risk management. The true strength of FMFB-A lies in the community and stakeholder support, which includes and extends beyond the staffing cadre. All of this is enabled by community acceptance, which is also reflected in a high degree of staff loyalty. AKAM recognizes that capable local individuals are indispensable in the successful management of disaster risks and improved preparedness for adverse events. FMFB-A's business plan includes a detailed five-year strategy to integrate risk reduction with middle-management skill development as an essential component of its policies and procedures.

Results to date

The Khana Loan Initiative has helped FMFB-A expand its housing offering while also maintaining portfolio quality. With USAID's support, FMFB-A was able to develop a replicable, scalable housing microfinance model and is committed to maintaining its housing product to serve the needs of the people of Afghanistan.

An evaluation of the Khana Loan Initiative conducted by Mennonite Economic Development Associates (MEDA) from 2013 to 2015 has shown that the initiative improved clients' housing conditions and quality of life, notably for marginalized groups. MEDA used a stratified random sampling methodology to reach a total of 618 active and non-active clients over a two-month period between December 2013 and January 2014. Moreover, both quantitative and qualitative research methods were used to triangulate the findings. According to the results of the study, 84 percent of Khana Loan clients were classified under FMFB-A's "likely" or "most likely to be poor" segments, 18 percent of the loans were disbursed to female-headed households, and FMFB-A was the only source of financing for 89 percent of the customers. All of the customers in the poorest segment said they had an improvement in their quality of life. For this product, clients associated increased privacy, safety, and warmth with enhanced quality of life.

The technical assistance aspect of the Initiative supported the effective use of the loan. All of the clients who received the advice indicated that it was useful and of high quality. Combining the loan offering with construction technical assistance has helped raise awareness about safe construction, reduced future repair costs, and improved the quality of clients' lives.

Almost all of the same clients indicated that they received the type of technical assistance that was tailored to their housing project needs. Ninety-three percent of clients who received technical assistance used the information in their construction or renovation project. This verifies that technical advice can be practically implemented by clients in a manner which furthers the use of an FMFB-A product.

As of early 2016, FMFB-A is the largest provider of financial services for micro and small businesses and households, with over 54,000 borrowers in 14 provinces and a portfolio exceeding US\$59 million, including around US\$12 million for small and medium enterprises. Since inception, FMFB-A has disbursed more than 700,000 loans, with a total value exceeding US\$400 million. It also provides financial services to more than 137,000 individual depositors.

FMFB-A contributes to increasing financial inclusion in Afghanistan not only by providing access to financial products and services but also by offering a broad range of services that is informed by client and market research. Afghanistan was the first country in the region in which AKAM developed SME and housing finance products, supported by a grant from USAID to introduce construction advisory services, and this experience is part of a toolkit that has been developed by IFC to help other MFIs across the region. The SME product helped clients restart their businesses after a market was burned in Kabul and allowed for rescheduling of the loan or grace periods for clients whose businesses stopped operating for few months when the Taliban first captured Kunduz city.

Lessons Learned

➤ **FMFB-A's experiences over the last decade have emphasized the importance of a client-centric approach. The institution has learned that crisis response strategies need to be tailored to the nature of the crisis and local culture and context. In order to best serve their clients in a crisis environment, an organization must have strategies, policies, and procedures in place that are context-specific and adapted to the evolving situation on the ground. Such an institution must also ensure that they continuously review their products, services, and delivery channels to ensure that they are meeting client needs, which will change throughout the crisis.**

The challenges in Afghanistan's housing and housing finance sectors continue to plague FMFB-A's clients. FMFB-A has focused on meeting clients' needs through its housing finance product. The success of the Khana loan product was aided by additional technical support and has shown that clients are able to borrow greater amounts than was previously assumed.

In order to continue to address the security risks in the country and expand reach to clients in remote areas, FMFB-A must keep evolving. AKAM is pursuing a lean distribution strategy relying on digital financial services (DFS), the introduction of ATMs and SMS banking, as well as opening new branches in commercial areas. Moving forward, FMFB-A is strongly committed to using digital technologies to automate processes, overcome connectivity and service issues, improve regulatory compliance, transform the experiences of its customers to be more accessible and low-cost, and disrupt key components of different value chains.



About SEEP

SEEP is a global learning network. We support strategies that create new and better opportunities for vulnerable populations, especially women and the rural poor, to participate in markets and improve the quality of their life.

Founded in 1985, SEEP was a pioneer in the microcredit movement and helped build the foundation of the financial inclusion efforts of today. In the last three decades our members have continued to serve as a testing ground for innovative strategies that promote inclusion, develop competitive markets, and enhance the livelihood potential of the worlds' poor.

SEEP members are active in more than 170 countries worldwide. They work together and with other stakeholders to mobilize knowledge and foster innovation, creating opportunities for meaningful collaboration and, above all, for scaling impact.

About Citi Foundation

The Citi Foundation works to promote economic progress and improve the lives of people in low-income communities around the world. They invest in efforts that increase financial inclusion, catalyze job opportunities for youth, and reimagine approaches to building economically vibrant cities. The Citi Foundation's "More than Philanthropy" approach leverages the enormous expertise of Citi and its people to fulfill its mission and drive thought leadership and innovation. For more information, visit www.citifoundation.com.

About the Disaster Risk Reduction (DRR) Program

The goal of the Disaster Risk Reduction (DRR) Program is to improve the resiliency of financial service providers serving vulnerable populations, as well as that of the communities they serve. The program aims to create awareness of the need for disaster preparedness in financial services markets and to build a general consensus among key stakeholders around effective disaster risk reduction practices. As a result, the program will strengthen the capacities of financial service providers and their clients to anticipate, cope with, and recover from the negative impacts of disasters. The DRR Program has been co-designed and funded by the Citi Foundation. For more information, visit seepnetwork.org/DRR.



About the Author

Sitara Merchant, Director of Market Insights and Solutions, Aga Khan Agency for Microfinance (AKAM), Geneva

Sitara has over 25 years of global experience in both the private and social development sector; she founded her own private sector consulting company in Canada that worked with clients to develop their strategy and link it to their day to day performance to have a bottom line impact. She joined the Aga Khan Development Network twelve years ago to follow her desire to make a difference in developing economies. During the last seven years she has been developing financial products/solutions for the poor, small and medium enterprises. At AKAM she provides technical assistance 10 microfinance institutions on market insights and solutions with a view to transition these entities digital financial services that are client centric as well as implement a performance management (social and financial) to monitor and maximize the positive impact on the quality of life for the poor.

Bethanie Pascutto, Market Insights and Solutions Consultant, Aga Khan Agency for Microfinance (AKAM)

Bethanie joined AKAM in early 2015 as the Research and Product Development Manager for AKAM's West African entities, where she was responsible for developing quantitative and qualitative research and data analysis tools to aid in the design and delivery of microfinance products and services. She currently provides consultancy services for the organization. She has a Master's in International Development from NPSIA, Carleton University and a B.Comm in Finance from Queen's University. Prior to making a significant career change she worked in various positions at TD Wealth for over five years.

Contributing authors include: **Deena Burjorjee, Jenny Morgan and Sonya Salanti.**

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