Quarterly IFC Advisory Services Newsletter featuring Business News, Trends and Results from Emerging Economies

Outcomes

Microfinancing Stimulates Growth and Development in Conflict-affected Afghanistan

Mustafa, a young Afghan man, owns and operates a pharmacy near the Maiwand hospital in Kabul. He has been in the pharmacy business for the past 6 years. Starting his business and keeping it going was no easy task — landlocked and mountainous, Afghanistan had suffered from such chronic instability and conflict during its modern history, that its economy and infrastructure were in ruins, and many of its people had been displaced from their homes.

"My primary concern when I started my business was how I would finance my operating costs, and, in particular, purchasing stock. At the time there was virtually no place that I could go for affordable loans to start my business. The few options available, namely, the moneylenders were expensive and risky and this was a big concern for me." explains Mustafa.

The ousting of the Taliban in 2001, which signaled the end of the war, exposed a huge unmet need for financial services, especially for poor people and microenterprises. To address this issue, IFC and the Aga Khan Fund for Economic Development (AKFED) created the First Microfinance Bank of Afghanistan (FMFBA) in 2004. IFC and AKFED were later joined by Kreditanstalt für Wiederaufbau (KfW).

"As in any developing economy, the poorer households and microenterprises need and use financial services all the time. They save and borrow to take advantage of business opportunities, invest in home repairs, and pay expenses such as school fees and so on. Coming out of war, Afghanistan did not have a financial system to cover them and that is why FMFBA was created." says Mr. Muslim ul Haq, the CEO of FMFBA.

FMFBA is Afghanistan's first licensed postwar bank of any kind. It now has a loan portfolio of more than US$ 17 million, serving more than 20,000 clients. IFC provided both equity capital and debt funding to the bank to expand its operations, as well as extensive Advisory Services to build capacity at the bank.

"Microfinance is one way we identified to support the return of Afghan refugees and the resumption of economic activities in urban and rural areas. We look forward to establishing a sustainable and high-impact institution that responds well to the needs of the Afghan people, creating employment opportunities and helping alleviate social inequities." notes Mr. Jacques Toureille, General Manager of the Aga Khan Agency for Microfinance.

Mustafa owns and operates a pharmacy in Kabul, Afghanistan.

In December 2006, Mustafa applied for his first loan of AFA 75,000 (US$ 1,500) from FMFBA. Before receiving the loan, his working capital was AFA 500,000 but within 6 months it had increased by 30 percent to AFA 650,000. His sales also increased by over 15 percent.

"My business is growing and I am at a point where I am thinking about applying for a second loan once my first is all paid up. My customer base is ever expanding and as such I am buying even more stock. I have even hired someone to help me and who knows, in a few years I may be giving even more of my people job opportunities." continues Mustafa.

IFC International Finance Corporation
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Mr. Muslim ul Haq,
CEO of First Microfinance Bank of Afghanistan (FMFBA)

5 Questions for Mr. Muslim ul Haq, CEO of First Microfinance Bank of Afghanistan (FMFBA)

1) Who are your typical clients?

Typically our clients are traders though we finance a wide range of businesses in agriculture, pharmaceuticals, manufacturing and handicrafts as well as women-owned businesses such as sewing and tailoring establishments.

2) What size loans do you give and is there a big demand for such financing?

Generally, we can lend up to US$ 1,000 to finance the working capital requirements of these growing businesses. In terms of demand — yes, there is a big need for our financing. We have disbursed over 50,000 loans since we began four years ago and we currently have more than 20,000 clients.

We have been working actively to support the Government's campaign to 'de-dollarize' the economy by supporting the use of the local currency, the Afghani. As a result, we are trying to lend in local currency where possible.

3) What other options for financing are available in the country?

The banking system collapsed during the war and we were also left without any functioning credit cooperatives and NGO microfinance institutions. With the ending of the war, however, options for financing have increased in particular micro-financing, though there are still a large number of Afghans who can not get the savings or credit services they need.

4) What was the value in working with IFC?

IFC helped establish FMFBA and continues to be our partner, providing both an equity investment and a standby credit line. It provided a US$ 4.5 million loan which helped us to become a full-service financial institution targeting micro and small businesses.

We also value the substantial Advisory Services IFC has provided over the years. With this advice we were able to develop a strategy and business plan, which included a 'gender lending' component, which focuses on helping to improve access to finance by Afghani Women. We also received assistance to train and build capacity of our staff as well as to hire expatriate consultants.

FMFBA focuses on providing Afghani women with access to finance.

5) What impact has microfinance had on the lives of people in Afghanistan?

Microfinancing is one of the main sources of livelihood in our country's post-conflict economy. At a sector level, last year the Afghan microfinance sector grew at more than 40 percent with more than 250,000 active clients, the majority of them women.

Through micro-financing we are able to reach and create opportunities for more than 15 percent of people classified as very poor. We are also seeing increased employment opportunities for the youth — the sector itself already employs more than 2,500 people and micro-enterprises create employment for thousands of others.

Developing the Private Sector in Conflict-affected Countries as a Way to Attain and Maintain Peace

By Nigel Twose and Mary Porter Peshka


Nigel Twose and **Mary Porter Peshka** are co-chairs of IFC's Working Group on Conflict-affected Countries.

Conflict — most often intrastate — has become a major impediment to development and it is likely to remain an issue over the medium term. After hostilities cease, a country typically has a 40 percent chance of relapsing into conflict within five years, but this risk is significantly lower if the economy is recovering. There is a unique role for IFC Advisory Services to contribute to the development of a sustainable private sector in countries that are affected by conflict. Our advisory work is carried out with an aim to increase the quantity and development impact of private financing, and at the same time, it has a direct and growing link to IFC's own investments, which in turn catalyze other private flows. No other international development agency provides this integrated service globally, and so IFC is positioning itself to take an even greater leadership role in conflict-affected countries.

IFC is active in 52 countries that have been classified by the World Bank Group as 'conflicted-affected.' We currently have over 200 staff stationed in 24 of these countries. We work together with the other agencies that comprise the World Bank Group, as well as various other partners including donors and investment clients. *(See page 7 for a SmartLesson note about how we work in conflict countries)*

Advisory Services

Although each conflict-affected country is unique in the causes and consequences of its conflict, most confront similar problems, including lack of government institutional capacity, weak and balkanized business association's, corruption and lack of basic infrastructure. The advice we provide covers a range of issues: ways to improve the business enabling environment, access to finance and working directly with firms to improve their corporate social responsibility programs for local communities, among others. The demand for this work is growing rapidly — from 2003 to 2006, the annual growth rate of Advisory Services (by value) was more than three times the overall annual growth rate for IFC Advisory Services.

Investments

Since 2000, IFC has made over US$ 5 billion in investment commitments to countries affected by conflict. At the start of FY08, IFC's total committed exposure in these countries stood at $3.3 billion, with an outstanding exposure of $2 billion. Our investment projects range from microfinance and small business, to commercial banking and international corporations. For example, in addition to microfinancing in Afghanistan, we also have investments in mobile phone services and banking. In other countries such as Iraq, we have invested in women's entrepreneurship, banking and the development of specific industries.

Our work in conflict-affected countries is a critical part of our strategic priority to strengthen our focus on frontier markets — markets which include many nations affected by war. In the long term, we see potential for large scale investments in certain countries, and in the more intermediate term, our Advisory Services work helps us add value that goes beyond just financing.

To help us meet our strategic goals, a working group has been formed to prepare a set of practical recommendations to further increase the quantity and improve the development impact of this work. The working group is expected to report back in April this year.

Measuring Results of Microfinance Projects in Conflict-affected Countries

Women entrepreneurs in Angola.

Advisory Services are a growing and dynamic business for IFC. Advice is offered to private sector and governments and the work is structured, within IFC, into 5 business lines that address:

- Business Enabling Environment
- Access to Finance
- Environmental and Social Sustainability
- Infrastructure
- Value Addition to Firms

The advice and training offered to banks which provide microfinancing such as the **First Microfinance Bank of Afghanistan** *(See pages 1 and 2)* falls under the Access *to Finance* business line. Work in this business line supports the expansion of financial services available to micro and small businesses and low-income households. Projects and programs also cover banking, credit bureaus, housing and property finance, insurance, municipal finance, securities markets, and trade finance.

Recently, IFC commissioned an independent evaluation of our microfinancing projects in conflict-affected countries. The evaluation was of the 16 projects we have in a selection of conflict-affected countries, namely Afghanistan, Angola, Cambodia, Chad, Congo DRC, Lebanon, Liberia, Pakistan, Papua New Guinea, Rwanda, Sierra Leone, Tajikistan, and West Bank and Gaza.

The evaluation covered the 4 year period between July 2003 and June 2007, during which time IFC spent US$ 12,184,574. on Advisory Services projects in the countries reviewed.

As a result of Advisory Services for microfinancing projects, the evaluations also showed that among results about **US$ 13 million in investment and financing** was enabled in Afghanistan, Cambodia and Congo DRC, and nearly **190,000** people were positively affected in Afghanistan, and Congo DRC.

Some key highlights of the findings

- 31 microfinance Institutions or departments were created and/or branch operations expanded in Afghanistan, Angola, Congo DRC, Sierra Leone, Tajikistan, West bBank and Gaza
- 54, 540 loans worth US$ 80,593,030 disbursed in Afghanistan, Congo DRC, Tajikistan, West Bank and Gaza
- 3,419 active women borrowers and 697 active women depositors in Afghanistan and West Bank and Gaza
- US$ 958, 885,600 worth of new deposit accounts opened in Afghanistan, Angola, Congo DRC, West Bank and Gaza; Savings portfolio of US$ 2,270,000 in West Bank and Gaza
- 14 training events delivered in Afghanistan, Cambodia, Tajikistan, West Bank and Gaza
- 141 people were trained in Angola, Cambodia, Chad, Congo DRC, Lebanon, Sierra Leone, West Bank and Gaza
- 23 reports produced in Afghanistan, Cambodia, Congo DRC, Lebanon, Liberia, Papua New Guinea, Rwanda, Sierra Leone, Tajikistan, West Bank and Gaza
- 4 laws/regulations adopted in Cambodia
- 2 recommendations implemented in Afghanistan and Tajikistan

Microfinance client in Cambodia.

For more on how IFC measures results of its programs write to **resultsmeasurement@ifc.org** or visit: **http://www.ifc.org/advisoryresults**

Tajikistan's Cotton Farmers Find Ways To Break Their Debt Cycle

Nasirullo Babagulov, the general manager of MMM Farm in southern Tajikistan, has to drive over an hour to reach the nearest bank in Kurgan-Tyube. Jointly owned by its 44 members, MMM Farm is unique among other farms in the region — not only does it count 34 women among its owners, but MMM is one of the few farms that has remained free from debt to private financiers — commonly referred to as "investors" — since its establishment in 2005.

"These investors are the main cause of cotton farmers getting into debts that they have a difficulty repaying," notes Babagulov.

Tajikistan's private financiers are often the sole source of financing available to cotton farmers. However, their loans (usually for inputs such as seeds and fertilizer) is expensive and at the same time, farmers do not always fetch high enough prices for their crop to offset these charges. In fact recent studies estimate that cotton debts in Tajikistan amount to nearly US$ 420 million as a result of this unsustainable system of financing. With roughly 75 percent of the rural population employed in the cotton sector, finding solutions to this problem has been a key concern in Tajikistan.

Women find many opportunities working on Tajikistan's cotton farms.

Fortunately for Babagulov, the closest bank to him is TojiksoderotBank (TSB), Tajikistan's third-largest bank. TSB has partnered with ***IFC's South Tajikistan Cotton Lending Project*** (which is funded by the Canadian International Development Agency) to develop a new loan product for cotton farmers like him.

MMM farm cotton field.

TSB worked closely with IFC to develop credit risk tools for the farms and also to institute thorough due diligence procedures. This advice and training enabled TSB's loan officers to assess MMM Farm's request for a loan and approve US$ 16,500 to finance inputs and harvesting costs.

As of December 2007, TSB's cotton loan portfolio in Kurgan Tyube region has grown to nearly US$ 300,000 with loans to 14 farms which employ over 500 workers, most of them women.

Supporting Sustainable Private Sector in Sierra Leone

Five years after the end of a drawn-out and shattering civil war, hope for sustained peace and prosperity prevails in Sierra Leone. Attention is now focused on reconstruction of infrastructure and rebuilding the country's economy. As a result, IFC is scaling up its activities in the country and implementing a strategy which involves working closely with the government to improve the country's investment climate, strengthen the domestic financial sector, finance select private sector companies, and support private participation in infrastructure. These activities are being carried out as part of a regional initiative — the conflict-affected countries initiative for Africa — which also covers the Democratic Republic of the Congo, Central African Republic and Liberia.

Some highlights of IFC's activities in the country include an investment, in June 2007, of US$ 25 million in Celtel Sierra Leone, a mobile phone company. In addition, IFC mobilized a further US$ 25 million from other investors to help the company expand and upgrade its fast-growing networks in the country. In March this year, IFC under its Global Trade Finance Program, signed agreements to issue guarantees against the underlying trade transactions of three of the country's leading banks, covering the banks' payment risks and helping increase Sierra Leone's share of global trade. As of June 2007 and since the country became a member in 1962, IFC has committed a total of US$ 54.2 million to projects in Sierra Leone from its own account. That figure is expected to rise as IFC puts in place an array of Advisory Services and investment approaches to assist the country's post-conflict recovery.

The country is also receiving advice and training from IFC. For instance, working with the United Kingdom's Department for International Development, the IFC - World Bank Investment Climate team for Africa is advising Sierra Leone's government on how to implement reforms to improve the country's investment environment and on how to remove obstacles to private sector development. The program will work with the government of Sierra Leone to simplify customs procedures and ease tax hurdles and other regulatory requirements that make it difficult or unappealing for smaller businesses to enter the formal sector of the economy.

An important part of the program is fostering dialogue between the government and the private sector. **The Sierra Leone Business Forum** was formed to address that need. The forum provides a platform for the private sector to promote investment-friendly policies and also creates awareness in government and the general public about key issues facing business. The IFC-World Bank Investment Climate team for Africa has also began a project to identify public policies and instruments that would attract responsible international private investment into sectors such as mining (in particular diamonds) and tourism. The goal is to improve and increase corporate social responsibility programs of companies and stimulate improved business standards.

Celetel phone shop, Sierra Leone.

Sierra Leone's economic viability depends heavily on the success of these reforms. The country ranked 160 out of 178 in the 2008 *Doing Business* report, an annual survey released in September by IFC and the World Bank that ranks countries on the ease of doing business.

Shade drying raisins in Afghanistan.

When a Frontier Market is on the Front Lines: Lessons from Project Design in Afghanistan

IFC SmartLessons
real experiences, real development

IFC's Private Enterprise Partnership for the Middle East and North Africa (PEP-MENA) is piloting interventions in the 'Value Addition to Firms' Advisory Services business line (which focuses on interventions at a company level) in several conflict-affected countries. **Mary Porter Peshka** and **Bas Auer** work for IFC's PEP-MENA and what follows is an excerpt from a note they submitted to the SmartLessons Program. The note considers the suitability of the application of this particular business line — and specifically firm-level assistance — to further IFC's mission in these countries by examining tentative lessons drawn from experience in designing the Afghanistan Horticulture Export Clusters Development project.

Afghanistan Horticulture Export Clusters Development Project (AHEC)

Given the importance of the recovery of the export base to reconstruction and the dominance of agriculture in the Afghan economy, PEP-MENA is concentrating its efforts on enhancing the competitiveness of local firms in agribusiness products where Afghanistan has a potential competitive advantage. *Shindokhani* raisins and Afghan pomegranates in Kandahar Province capture the highest value in export markets and have comparative advantages over Indian and other Asian markets, providing an attractive opportunity for growth. The project is:

1. Supporting farmers in improving the quality and quantity of the raisin drying process and pomegranate fruits management, through technology transfer of more efficient drying techniques from lead producer countries;
2. Working with traders to establish or strengthen direct links with farmers to improve quality control; and
3. Helping farmers to understand demand in key export markets, assess their competitive position, and identify potential clients.

APPROACH TAKEN AND LESSONS LEARNED

IFC "Value-Addition" Projects in Conflict-affected Countries

Recover export base: The crucial task of recovering the export base is twofold, and includes restoring existing export capacity while adapting to changes in the regional and world economy that have taken place during the years of conflict. Because of the importance of agriculture in Afghanistan, PEP-MENA sought, in dialogue with government, key private sector players, and the donor community to identify agricultural products for which the country could have a relatively strong competitive advantage. Raisins were singled out because of the scale and consistency of production, the relatively nonperishable nature of the product, world market trends, and existing export experience.

Through value chain analysis, the potential and bottlenecks for export of raisins were analyzed. Attention was turned to **shade-dried** raisins, particularly the *Shindokhani*, which are predominantly grown in the less stable south. *Shindokhani* capture a significantly high value, and have potentially attractive export markets in South Asia. The competitive advantage of Afghanistan in these varieties is higher, due to unique climatic conditions; and competition is lower, as production is limited to a few countries. PEP-MENA decided to focus on those products where it could have the strongest competitive advantage, and therefore have the best potential in recovering its export base.

About the Authors

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Mary Porter Peschka, Senior Operations Manager, PEP-MENA. Mary, prior to joining the IFC, held a variety of positions in both the public and private sectors, including USAID, the U.S. Department of Commerce, Market Access International Inc., Emerging Africa Gold Inc., and the Banco de Credito of Ecuador.

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The **SmartLessons** program is a first of its kind in the World Bank Group. It fosters peer-to-peer dialogue to share lessons learned in development-oriented Advisory Services and investment operations through the submission of easily accessible, four-page notes. Please contact the SmartLessons Program at smartlessons@ifc.org

From Healing Emotional Scars To Creating Economic Opportunities In Bosnia and Herzegovina

An MI-BOSPO client has opened a hairdressing salon.

In 1995, when Nejira Nalic was director of BOSPO, a humanitarian organization that helped women recover from the emotional wounds of the Bosnian war, she visited a female refugee in Zivinice, a town in northeastern Bosnia and Herzegovina. The woman, Tifa Patkovic, had been receiving therapy, but when asked what she would do if she had money, she revealed that her concerns were economic as well as emotional. "I would do what I do best," she said. "I would buy a goat."

The encounter made a lasting impression on Nalic and began a transformation in BOSPO that is still underway. Initially established by the Danish Refugee Council to provide psychological and social services in the war-torn nation, the organization has increasingly focused on meeting its clients' economic needs. In 1996, the organization — by then it was a Bosnian-chartered nongovernmental organization MI-BOSPO — received World Bank funding to explore opportunities for microcredit. By the year 2000, it was registered as a nonprofit microcredit institution. And now, with Advisory Services from IFC's corporate governance project based in Sarajevo, it is becoming a commercial microcredit company.

The changes at MI-BOSPO reflect broader shifts in Bosnian society. Ten years ago, Bosnia was still reeling from war. Places like Zivinice were overwhelmed with refugees, and many citizens were living at subsistence levels. Survival — both economic and emotional — was the top priority. Today, while scars remain, the desperate concerns of the initial postwar days have given way to a focus on economic advancement.

MI-BOSPO's own client base reflects the change. In 1997, 90 percent of its clients were people like Tifa Patkovic in Zivinice. They borrowed small sums to buy goats, cows, or chickens, typically using the animals' milk or eggs to feed their own families and selling the surplus to repay the loans. But today, that type of customer represents only 55 percent of the organization's client base; the remainder — now 45 percent and growing — want to start or expand businesses and intend to plow much of their profits back into their businesses once the loans are repaid.

Mirjana Pejic, who with her father, Rudolf, runs a family restaurant on a mostly wooded 7.5 acres near MI-BOSPO's headquarters in Tuzla, typifies the new breed. She raises fish for the restaurant in a man-made pond on the property. The family would like to borrow €50,000 to expand the business — among other things, by putting up bungalows for overnight guests. It's a successful business and hence an attractive investment opportunity for MI-BOSPO. But to serve such clients, MI-BOSPO needs to raise more capital and free itself of legal restrictions on how much nonprofit organizations can spend.Nalic is determined to do just that. But she insists that the organization will remain true to its original mission of helping women.

IFC's Advisory Services (AS) have expanded rapidly in scope, geographic coverage and staffing. Currently, nearly one third of the Corporation's staff is engaged in full-time delivery of Advisory Services, with the vast majority based in IFC's regional facilities. IFC Advisory Services and donor partners have provided more than US$ 1 billion in program support to build small enterprises, to accelerate private participation in infrastructure, to improve the business enabling environment, to increase access to finance, and to strengthen environmental and social sustainability.

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