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PROVIDING CREDIT...
DELIVERING OPPORTUNITIES



**AGRICULTURAL CREDIT
ENHANCEMENT (ACE) PROGRAM
2011 ANNUAL REPORT**

This publication was produced for review by the United States Agency for International Development. It was prepared by the Agricultural Credit Enhancement Program, implemented by Development Alternatives, Inc.





2011 ANNUAL REPORT

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Ahmad Jan is one of 8,700 farmers that have received agricultural credit in the last 12 months. By the end of 2012, 24,000 farm families will have benefited from access to finance, in an unprecedented effort to revolutionize Afghan agriculture.

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List of Acronyms

AAIDO	Afghanistan Almond Industry Development Organization
ADF	Agricultural Development Fund
ACE	Agricultural Credit Enhancement
ANSOR	Afghanistan National Seed Organization
ASAP	Accelerating Sustainable Agriculture Project
CMU	Credit Management Unit
DAB	Da Afghanistan Bank
FAIDA	Financial Access for Investing in the Development of Afghanistan
FTE	Full Term Employment Equivalent
FI	Financial Intermediary
IIFCG	Islamic Investment Finance and Cooperative Group
GDA	Global Development Alliances
GIRoA	Government of Islamic Republic of Afghanistan
GIS	Geographic Information System
IDEA-NEW	Incentives Driving Economic Alternatives – North, East and West
KMF	Knowledge Management Facility
MAIL	Ministry of Agriculture, Irrigation and Livestock
PMP	Performance Management Plan
TAFA	Trade and Accession Facilitation for Afghanistan
TO	Task Order



Executive Summary

In its first year of implementation, the Agricultural Credit Enhancement (ACE) Program has established the foundation for a robust agricultural credit system, an endeavor that had two fundamental prerequisites: a) the establishment of the Agricultural Development Fund, and b) the rapid roll out of lending activities, both in close collaboration with the Ministry of Agriculture, Irrigation and Livestock (MAIL).

A year after inception of the ACE program, the ADF is fully operational, with some 70 employees, a central office in Kabul, 3 regional offices in Jalalabad, Mazar-e-Sharif and Herat, as well as a provincial office in Bamyan. Through this infrastructure the ADF has lent some 790 Million Afghanis, directly benefiting 8,700 rural households in 24 provinces of Afghanistan.

ACE has become a center of innovation in the field of agricultural finance.

When faced with the unwillingness of the banking sector to engage in agricultural lending, ACE made a strategic shift and focused its efforts in the provision of credit through non-financial intermediaries. This strategic decision required the introduction of a series of innovations to manage risk and to develop culturally acceptable financial products. Thanks to these innovations approximately 40 percent of the ADF portfolio is in Islamic Financial products, while maintaining a zero default rate.

ADF loans are having an increasingly significant impact on the agriculture sector, enabling farmers to increase productivity and produce quality by being able to procure and apply agro

chemicals of the right quality, on the right doses and at the right time. Rural households, borrowers and non-borrowers, are increasingly having access to agricultural machinery, production inputs and new markets as a result of loans provided to agribusinesses, which at the same time are generating farm and non-farm employment.

Agricultural credit is also having a positive and significant impact on the efficiency of crop production, agro processing and marketing enterprises, thereby contributing to the competitiveness of the agricultural value chains.

ACE's Value Chain Strengthening Unit has played a crucial role in both the technical assessment of credit applications and in the provision of technical support to ADF borrowers. The latter derives from the business model adopted by the ADF, in which borrowers become partners of the institution and as such, the ADF seeks to strengthen their operations as a mechanism to help them succeed in their business endeavors. The latter recognizes that by doing so, the ADF is increasing the ability of the borrowers to repay their loans.

Within this context, the Value Chain Strengthening Unit contributed to the



Latif is one of the over 4,000 wheat seed providers that benefited from access to agricultural credit.

review of over 100 credit applications, participated in field verifications in 24 provinces and provided ADF clients with technical advice in crop production, agro processing and market development.

The ACE project was tasked with developing a Knowledge Management Facility, in collaboration with MAIL. The purpose of the facility is threefold: a) establish a repository for a variety of agriculture data collected by various agencies and organizations, b) produce periodic publications and ad-hoc reports, and c) to disseminate agricultural information in formats in which are useful to different audiences.

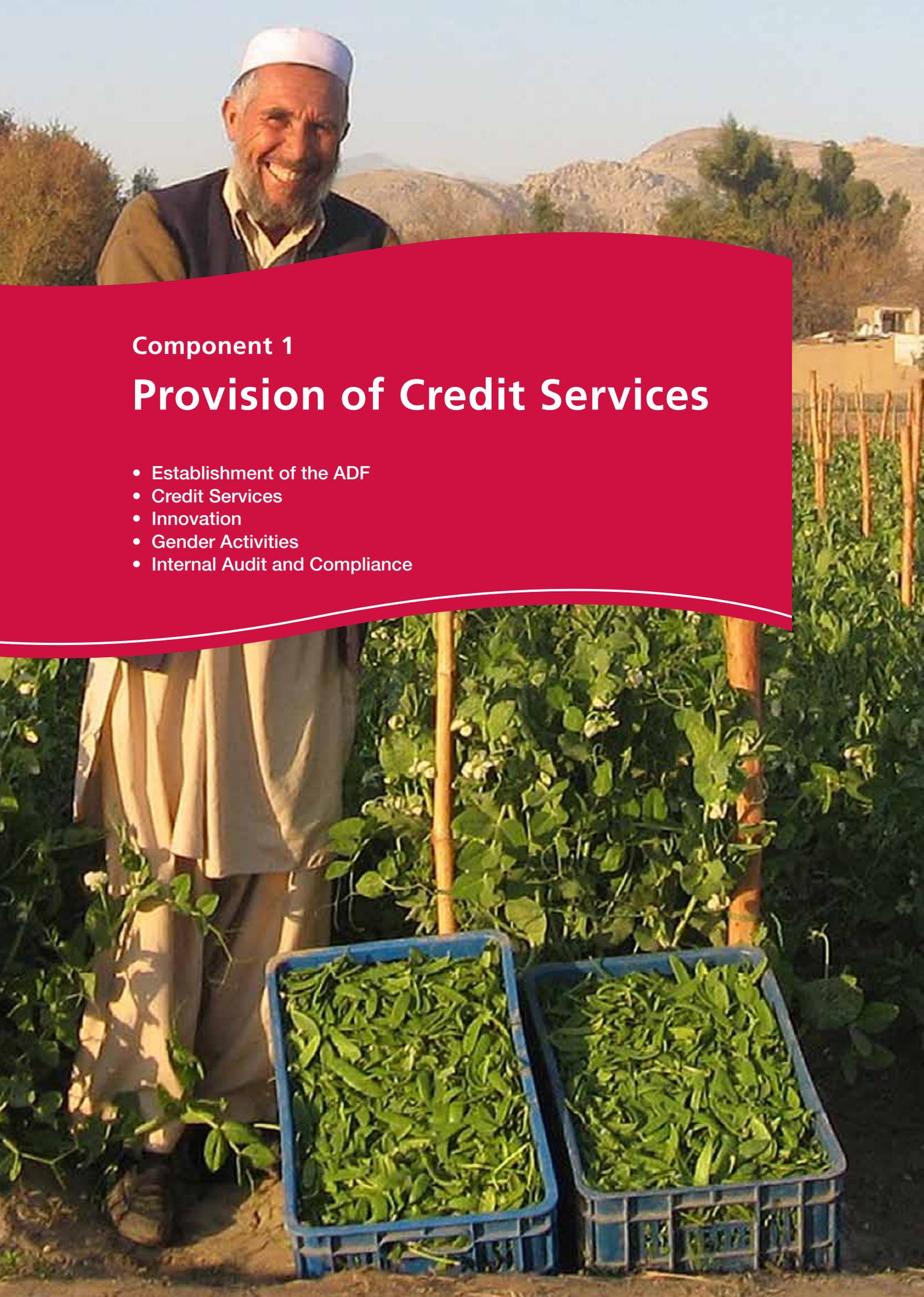
ACE established the facility, branded "Paywand", in record time. Paywand integrates several databases with production data, domestic and international commodity prices from a

variety of sources; agro meteorological data, detailed trade information, as well as studies about Afghan agriculture. Paywand produces periodic market briefs and trade reports, as well as analysis reports in response to special requests. Through these products and an interactive website (www.paywand.mail.gov.af) Paywand is informing the decisions of farmers, agribusinesses entrepreneurs and policy makers.

In summary, during its first year of implementation the ACE program succeeded at establishing a functioning lending institution in partnership with MAIL; rolling out a sizable credit program mainly through non-financial institutions and providing its clients with support services to ensure the success of their operations. ACE achieved this while making responsible use of US Government resources.



Agricultural credit leads to more than just economic growth; it supports equality by providing opportunities



Component 1

Provision of Credit Services

- Establishment of the ADF
- Credit Services
- Innovation
- Gender Activities
- Internal Audit and Compliance

Establishing the Agricultural Development Fund

ACE completed fiscal year 2011 with 2 major accomplishments: 1) Establishing the infrastructure for the operation of the ADF in record time; and 2) Building a healthy credit portfolio by providing credit to small commercial farmers, agribusinesses, financial and non-financial intermediaries.

The first milestone required the rapid recruitment of Afghan staff, the design and implementation of an aggressive training program and the deployment of local and expatriate staff to identify lending opportunities. The second milestone, building a healthy lending portfolio required the design of clear lending policies and procedures and an aggressive outreach campaign.

Until the ADF is transitioned to GIRoA, ACE is acting as the ADF Management Unit, managing the provision of agricultural credit throughout Afghanistan. Consistent with best practices in finance, the loan approval process has two phases; the first phase involves the Technical Review Committee composed by Afghan and expatriate

specialists in finance and several disciplines related to agriculture. The lending officers in charge present the loan packages to the Technical Review Committee, which recommends them from declination, approval or deferral. Those cases that receive Technical review Committee approval are presented to the ADF Credit Committee, composed by the Deputy Minister of Agriculture, Irrigation and Livestock for Technical Affairs, the ACE COTR and the ACECOP. According to the ADF Credit Policies and Procedures, the ADF Credit Committee has final approval authority.

ACE completed the Credit Administration Manual which provides a standardized set of policies and procedures to manage the loan portfolio. The credit administration unit implements appropriate credit control mechanisms, while also consolidating administrative tasks out of the lending operations to maximize the time spent on client acquisition and relationship management. Creating strong credit administration procedures is critical to building a balanced, effective credit portfolio in excess of \$100 million USD.

Regional Offices and Customer Service Center at MAIL

In addition to the establishment of the ACE Kabul office, by January 2011 the project had opened three offices in Herat, Mazar-e-Sharif and Jalalabad. Each regional office consists of a minimum of two lending advisors, two value-chain strengthening specialists and one monitoring and evaluation

officer. The regional staff has been the forefront of business generation for ADF. Additionally, to keep a presence within the MAIL, the project established a Customer Service Center on MAIL campus, staffed by two trained credit officers. Only in the last four months, the Customer Service Window at MAIL has received expressions of interest for ADF loans worth approximately \$12.1 million USD.



LOCATION OF ADF REGIONAL OFFICES

“I am impressed with the speed with which the ACE program deployed resources and began serving the needs of Afghan farmers. This model of development implementation, in partnership with our Ministry is an example to follow”

H.E. Mohammad Asif Rahimi
Minister of Agriculture, Irrigation and Livestock

Credit Services

During fiscal year 2011, ACE held 18 ADF Credit Committee meetings which resulted in 25 loan approvals and over \$24 million USD in approved loans by the Committee. Before the ADF Credit Policies and Procedures were endorsed by MAIL, the Office of the Minister vetoed loans worth U\$6 Million USD, thereby reducing the total of loans approved to \$18 Million USD; following agreement between USAID and MAIL, ADF Credit Committee constitutes the body making final credit decisions. Currently ACE has a pipeline of \$24 million USD worth of loan applications

which will be processed and decided upon in the next few months.

With \$10 million USD in ADF loans disbursed in the first year, ACE is assisting directly 8,708 farm families, and is indirectly benefitting 94,162 additional households across 24 provinces in Afghanistan.

By lending to agriculture, ACE strongly supported the growth of fruit, vegetables, cereals and oil crop value chains. Additionally, the project assisted agricultural inputs and machinery subsectors aiming at increasing the overall production and improving agricultural production practices.

Table 1: Results of the ADF Credit Committee for FY 2011

Meeting Number	Date of Meeting	Company Name	Loan Amount	Decision
1ST MEETING	10/18/2010	Client Sensitive Information	\$1,970,000	Approved
			\$300,000	Approved
			\$5,000,000	Deferred
2ND MEETING	11/1/2010		\$3,000,000	Deferred
			\$2,000,000	Declined
			\$1,970,000	NA
3RD MEETING	11/14/2010		\$3,000,000	Approved
			\$306,500	Declined
			\$800,000	Approved
			\$564,000	Declined
			\$375,360	Declined
4TH MEETING	11/22/2010		\$3,000,000	NA
			\$800,000	NA
5TH MEETING	11/29/2010		\$800,000	Approved
6TH MEETING	12/6/2010		\$15,000,000	Declined
			\$5,272,050	Approved
7TH MEETING	12/15/2010		\$312,000	Approved
			\$242,000	Approved
			\$1,600,000	Approved
			\$880,000	Approved
				Approved
8TH MEETING	2/9/2011		\$10,000,000	Declined
			\$200,000	Approved
9TH MEETING	3/7/2011		\$121,000	Approved
		\$100,000	Declined	

		Eastern Region Fruit Growers		
		Client sensitive information	\$500,000	Approved
10TH MEETING	3/17/2011		\$926,750	Approved
11TH MEETING	4/6/2011		\$100,000	Approved
			\$4,950,000	Approved
12TH MEETING	5/26/2011		\$3,730,992	Approved
13TH MEETING	6/26/2011		\$440,000	Declined
			\$3,000,000	Deferred
14TH MEETING	7/5/2011		\$3,000,000	Deferred
			\$230,000	Approved
			\$120,000	Declined
			\$150,000	Declined
15TH MEETING	7/19/2011		\$2,300,000	Deferred
			\$375,000	Deferred
			\$2,000,000	Deferred
16th MEETING	7/27/2011		\$2,300,000	Deferred
			\$375,000	Deferred
			\$2,000,000	Deferred
17th MEETING	9/28/2011		\$2,000,000	Approved
			\$224,000	Approved
			\$900,000	Approved
			\$700,000	Approved
			\$900,000	Deferred
			\$250,000	Deferred
			\$715,000	Approved
			\$500,000	Approved

ACE held two public events on the occasion of distribution of agricultural inputs on credit by non-financial intermediaries to farmers in Bamyan and Jalalabad provinces.

ACE, in collaboration with MAIL and the Provincial Government of Nangarhar, distributed fertilizers to fruit growers from Nangarhar, Kunar and Laghman provinces on April 23rd, 2011. The Governor of Nangarhar, H.E. Gulaqa Sherzai, and H.E. Abdul Ghani Ghuriani, Deputy Minister of MAIL, attended the event and witnessed the distribution of fertilizers and the execution of loan agreements with the Eastern Region Fruit Growers Association (EFGA). The ADF loan, worth \$500,000, is benefiting 1,852 fruit producers, all of whom are

members of the EFGA. This loan allowed the 1,852 fruit farmers to increase productivity; and thus increase total output by 10 percent.

H.E. Karl Eikenberry, Ambassador of the United States of America to Afghanistan, H.E. Mohammad Asif Rahimi, Minister of Agriculture, Irrigation and Livestock, and H.E. Sarabi, Governor of Bamyan participated in the distribution of agricultural inputs on credit from 7 cooperatives, ADF borrowers, to commercial potato growers in Bamyan. The dignitaries symbolically handed over seeds and fertilizers to members of the Bamyan Potato Cooperatives throughout the event. While the productive potential of the potato crop under the agro-ecological conditions of the region is around 5-7mt/Jerib, potato yields in

“ The ADF has been doing this in other locations such as in Nangarhar, in the South and North of the country as well, making available Sharia compliant financial services ”

*H.E Mohammad Asif Rahimi
Minister of Agriculture, Irrigation and Livestock*



Minister of Agriculture, Irrigation and Livestock, H.E. Mohammad Asif Rahimi and U.S. Ambassador, Karl Eikenberry during the disbursement of A Loan For Us\$926,000 to 8 Cooperatives located in Bamyan Province. The Cooperatives used the funds to purchase fertilizers for 438 Potato Growers.

Bamyan are currently only of 3–4mt per Jerib. The shortfall is partially due to the inability of farmers to procure quality seeds and apply the appropriate doses of fertilizer, which ADF is assisting to address. Thus the ACE/ADF loan assisted members of the seven cooperatives by granting them the opportunity to use high quality fertilizers and seeds to increase potato yields. Members of the seven agricultural cooperatives received an estimated US \$423 per Jerib in potato seeds and fertilizer on credit. In his speech, Minister Rahimi emphasized the progress made by ADF to extend credit to farmers who typically do not have opportunities for borrowing due to the high interest rates offered by the banks.

ACE signed a contract of \$4,950,000 as a line of credit loan to the Afghanistan National Seed Organization (ANSOR), the umbrella organization of the seed industry in Afghanistan. The funds enabled 48 seed companies, members of the organization, to pay their contract seed producers upon delivery, as opposed to the common practice of paying seven months later. During the summer of 2011 3,823 wheat seed producers in 16 provinces of Afghanistan had access to credit through USAID's ACE project.

Innovation

The ACE program is equipped with outstanding technical expertise, complemented by a grants fund to promote innovation in the delivery of financial services. The following are a few examples:

Credit Administration Units

As ACE penetrated the credit market associated with non-financial institutions, the project identified the need to build the capacity of those organizations to administer the loans, including disbursements, credit administration and repayments. In response to this need, ACE developed the concept of Credit Management Units, or CMUs which constitute independent entities within those organizations that conduct due diligence and protect the integrity of the financial intermediary.

The CMUs have three fundamental objectives: a) processing individual loan applications, b) disbursing loans, and c) ensuring timely collection. The typical CMU includes 3-4 employees from the same communities in which the intermediary institution operates, thereby banking on social capital and

local knowledge. During the first eight months since the concept was introduced, over 5,500 farmers have accessed credit through four CMUs operating within two farmer associations, a group of cooperatives and an agribusiness association. These organizations have been able to disburse, manage and collect loans, achieving and maintaining a “zero” percent default rate thus far. The CMUs, which now constitute standard operating practice when lending to non-financial institutions, are generally funded through a combination of challenge grants and a portion of the spread of the financial intermediary.

ACE/ADF established a Credit Management Unit for the Eastern Region Fruit Growers Association (EFGA) for the management of the ADF loan. For this purpose, a CMU manager, an accountant, three lending officers and an agronomist were recruited. Through a grant, ACE provided office equipment such as computers, office furniture and other facilities. The project trained the CMU staff on QuickBooks, credit collection practices and customer service principles. EFGA lent to 1,852 farmers, fruit growers in the Eastern Region using the \$ 500,000 ADF loan. The

first installment was being collected at the time of this report.

Similarly, the project established a CMU for ANSOR to administer an ADF loan of \$4.95 million USD. To achieve this, ACE hired a CMU manager and an accountant who were further equipped with working computers, officer furniture and other facilities. Up to this point, ANSOR has extended credit to 54 seed enterprises which have provided early payments to 3,823 farmers in 15 provinces of Afghanistan. While the repayment term approaches, CMU is coordinating with other donors and MAIL authorities to assist ANSOR members to increase sales, transitioning from donor-funded seed distribution programs to private retailing.

Through a Challenge grant, ACE established a CMU at AAIDO to assist them manage their current loan. Different from other cases, the financial intermediary covered a portion of the operating costs of the CMU. AAIDO applied for a second loan to finance export companies, if approved the CMU will need to be strengthened as a way to enable them to administer a larger portfolio.





*Wheat thresher
in Shewaki district
of kabul province.*

In the case of the 7 potato growing cooperatives in Bamyan, which obtained ADF loans, and in the absence of an administrative structure where to base the CMU, ACE established a Credit Management Unit in collaboration with the provincial DAIL. The office is staffed by 2 credit officers that work closely with the DAIL Director of Cooperatives and with the leadership cooperatives that are intermediating ADF finance. ACE/ADF lent 12,350,583.00 AFN to seven cooperatives which further lent it to 383 farmers. The repayment process is 75% complete.

Mobile Technologies

Another innovative practice involves the introduction of a loan repayment system using mobile technology, in collaboration with ROSHAN. Previous to rolling out a large scale program, ACE began with a pilot phase incorporating 500 farmers, all borrowers of EFGA in Kunar, Laghman and Nangarhar provinces. Through this initiative, farmers will be able to transfer their loan installments through their mobile phones directly to the financial intermediary, thereby reducing the need to travel to the provincial capitals.

“ We are pleased to partner with ADF to provide solutions to extend financial services to farmers in the EFGA. Through M-Paisa, members and farmers in the EFGA will be able to make their loan repayments easily, on-time and across distances, which in turn, will further help develop the agricultural sector, a key contributor to the Afghan economy. This is part of our commitment to extend financial inclusion to all Afghans. ”

Mr. Zahir Khoja, President of M-Paisa

Islamic Finance

The ACE program was conceived with the idea that the majority of its funding would be deployed through the Afghan financial system, specifically banks and non-bank financial institutions, which would develop Islamic financial products. In the absence of financial institutions interested in lending to agriculture and considering the specific requirement of farmers for Islamic financial products, ACE had to innovate adapting Sharia financial products, most of which have been applied to sectors other than agriculture, to make them acceptable to clients, especially in the rural areas. As a result of this, in 2011 ACE designed three new financial products: 1) Factoring with Sharia compliant provision; 2) a Murabahah Mark-up Sharing; and 3) Murabahah Profit-sharing.

These innovations have been crucial to expand the portfolio of the ADF, especially considering that the financial products developed by the program are culturally acceptable to the extent to which over 40 percent of the portfolio is composed by Islamic financial products.

Seeking to build on this experience, ACE drafted its Islamic Finance Policies

and Procedures, which are currently being reviewed by the Advisory Board. ACE is also building the capacity of lending officers in this important area, and it is expected that by the end of March 2012 ADF will have a Sharia Board that will certify the compliance of financial products and loan agreements with Islamic principles.

Agricultural Credit Shuras

After establishing the main pillars for a lending infrastructure, ACE identified the need to reach out to agribusinesses and farmer networks across the country interested in accessing agricultural finance. To achieve this, ACE developed the concept of Agricultural Credit Shuras as mechanisms to enhance



View from the agricultural credit shura organized in Bamyan .



View from the agricultural credit shura organized in Kunar province on september 18th in collaboration with DAIL and the PRT.

awareness about ADF financial services, eligibility criteria, and the availability of Islamic financial products.

An aspect of importance is that the Agricultural Credit Shuras follow a standard format designed to promote the services of the ADF, but at the same time manage expectations of prospective clients and donor organizations working in the rural areas. This is relevant considering that in a context dominated by grant support there is need to convey the notion that the finance provided by the ADF should be paid back.

During the reporting period ACE carried out 9 Agricultural Credit Shuras

in Kabul, Laghman, Bamyán, Paktia, Mazar-e-Sharif, Kunar and Herat provinces, with over 460 participants.

Gender Activities

The ACE program takes gender inclusion very seriously, rather than just as a token intervention, or a requirement by the client. It constitutes a commitment of the program to find ways to make agricultural credit accessible to women across Afghanistan. This is particularly challenging in that women generally do not have assets, or are unable to work outside the household and lack the necessary skills to manage businesses in an efficient manner. Despite these



challenges, and in consequence with this commitment, ACE has embarked on a mission to identify successful female agribusiness entrepreneurs and assist them with upgrading their enterprises through credit and technical assistance, while also demonstrating the various possibilities through which to do this. Within this context, ACE in partnership with United Nation Development Program's Gender program and MAIL's Home Economics Directorate, conducted an assessment of 44 Women Cooperatives in 15 provinces. The main objective of the assessment was to identify functional cooperatives run by women, as well as to assess their current needs in terms of capacity building as a way to upgrade them to a point in which they could become ADF borrowers. The study is being carried out by Kaweyan, a women-owned business development organization with

vast experience in rural development.

In preparation of the provision of credit to women, ACE designed a new financial product exclusive for women agribusiness entrepreneurs. This product, ZAHRA, is a Sharia compliant financial product which caters to the financial needs of rural women already operating agribusinesses. ZAHRA is specifically for female agribusiness entrepreneurs, already operating medium-scale enterprises, individually or in groups, targeting annual and perennial horticulture, livestock husbandry and agro-processing. The loan amounts under this product would range between \$10,000 and \$20,000 in an AFN equivalent.

To reach out to women agribusinesses and farmers, ACE organized the Agricultural Credit Shura with women entrepreneurs in Bamyan and Kabul provinces. The project, in collaboration with USAID's Afghanistan Clean Energy Program (ACEP), co-sponsored a Solar Food Dryer Enterprise Development Workshop in Kabul, with the participation of 20 representatives of women-owned agribusinesses, cooperatives and associations. From September 26 – 28, the participants from Kabul, Parwan, Herat and Nangarhar provinces attended a



Partial view of participants in an Agricultural Credit Shura for Female Entrepreneurs in Bamyan province.

training course on basic business management, followed by a presentation of various financial services provided by the ADF. This constituted a unique opportunity to capitalize on the synergy among USAID implementing partners and also provide the platform for the pre-launch of ADF's ZAHRA program. The first loan application under this program is currently being reviewed.

Audit and Compliance

The Audit and Compliance Unit fulfills a crucial role ensuring the transparency and the integrity of the lending process, specifically identifying and managing credit risk and reducing the probabilities of corruption.

As part of its role, the Audit and Compliance unit carries four fundamental activities: a) pre-audit of

prospective borrowers, b) risk assessment of loan applications, c) post disbursement financial audit of borrowers, and d) audit of credit files.

facilitate the collection of financial information, prepare financial statements and financial projections for the clients.

With this purpose in mind, the unit developed the following tools:

- Financial Risk Evaluation Tool: used to identify potential risks and recommend the approaches to manage them
- Pre-Audit: Formats developed to assess the financial position of loan applicants, their financial management systems, and the assumptions of their business plans. ACE utilized different pre-audit tools for individual companies, non financial institutions, and financial institutions.
- Financial Evaluation Tool: as most companies do not maintain proper financial records, the Financial Evaluation Tool is designed to
- Financial Audit Tool: is used to assess the utilization of ACE/ADF loans, the ability of client to repay the loan, the impact of the loan on the productivity of the firm, the financial position of company, to ensure that the ACE/ADF policies and procedures are followed, and that the system is operating effectively.
- Audit Trail Tool: is used to ensure that all required documents are available in the credit file.

Since inception the Internal Audit and Compliance Unit has carried out over 50 pre-audits and risk assessments and 16 financial audits, which have been instrumental in maintaining a transparent lending process and a zero default rate.



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SNAPSHOT

Nurturing the Seed Industry

USAID's credit project is supporting the growth of Afghanistan's seed industry



PHOTO: USAID/ACE Project

A farmer inspects the wheat seed after delivery from a member of the Afghanistan National Seed Organization.

More than 3,000 growers will now receive payments upon delivery as a result of a USAID agricultural credit project.

Traditionally, seed producers deliver wheat seed to seed companies from May to July. However, they do not receive payment until February, which constitutes an economic disincentive and prevents seed producers from purchasing the appropriate quantities of inputs for the fall planting season.

Addressing this concern, USAID provided a \$4.95 million line of credit to the Afghanistan National Seed Organization. The funds will enable most of the 93 seed companies--members of the organization--to pay their contract seed producers upon delivery, as opposed to the common practice of seven months later. This summer, more than 50 agribusinesses and 3,000 wheat seed producers will have access to credit through USAID's agricultural credit project.

By bridging this gap, the loan introduced an incentive for seed growers to participate in contract production with seed companies, while allowing them to procure the inputs required for the production process.

The loan will finance the purchase of approximately 10,000 metric tons of seed to plant 430,000 jeribs of land (around 210,000 acres). The planted seed will provide local markets with approximately 170,000 metric tons of grain that will feed more than one million Afghans nationwide.

"This loan will help us pay more than 3,000 seed growers on time, bridging a seven month gap. This is the first step toward making certified wheat seed production an attractive business," said Saidajan Abdiani, president of the Afghanistan National Seed Organization.

By providing financial services to strategic industries, USAID is supporting the growth of rural economies, while contributing to the country's self food reliance.

USAID established the Agricultural Development Fund with a \$100 million grant to the Government of Afghanistan. During the first four years of the project, USAID will also provide technical assistance to the Afghan government to manage the fund.



NEWS BRIEF

JUNE 2011

ISLAMIC FINANCING; A SWEET PROPOSITION



"I heard about loans to farmers in countries like Pakistan, India or America, here it was a dream until the ADF came...getting a loan for agriculture is no longer a dream!"

*Mansoor Ahmad
CEO, Season Honey*

In June ADF disbursed a loan for US\$100,000 to Season Honey, a company based in Nangarhar province. This Islamic financial product, which is a variant of *Murabaha*, will allow the borrower to procure an *additional* 33,000 kilograms of raw honey that will increase the company's production by 125% and benefiting approximately 300 beekeepers in eastern Afghanistan.

While still a modest operation, Season Honey now competes in quality and price with Indian, Iranian and Turkish companies, which also supply the Afghan market. Season Honey prides itself for producing high quality products, while providing opportunities to hundreds of rural households.

Recent changes in government policy have resulted in an increase of import tariff for honey, thereby supporting the competitiveness of local producers. Season Honey caters mainly for middle class consumers, who are generally price sensitive, hence by increasing the throughput and consequently the efficiency of the processing plant, the company will be better positioned to compete in the local market.

With ADF technical support, the company has developed a two pronged marketing strategy, based on: a) increased penetration of the regional markets, e.g. Balkh, Herat and Kabul provinces and b) targeting high-end markets in Kabul, while progressively explore the international specialty markets.

The company currently purchases raw honey from beekeepers in Nangarhar, Kunar, Laghman and Nuristan provinces. Season Honey then removes impurities, wax, pollen and water and packages the honey in jars of different volumes. The company also sells cream honey, liquid honey and honey comb. Season Honey was recently issued the Food Quality Control Certificate from the Ministry of Public Health

By providing Sharia financial services to strategic industries, the Agricultural Development Fund is supporting the growth of the rural economies, while respecting religious and cultural norms.

The image shows an exhibition booth for Afghanistan. The booth features a large, colorful banner with intricate patterns and the word "AFGHANISTAN" in a stylized font. In the foreground, there are several large, vibrant pink flowers. The booth is well-lit and has a professional appearance. The background shows other parts of the exhibition, including a sign for the Ministry of Agriculture, Irrigation and Livestock and a woman in a red headscarf.

Component 2

Value Chain Strengthening

- Value Chain Assessment Workshops
- Technical Assessment of Loan applications
- Trade Promotion



Value Chain Assessment Workshops

ACE facilitated three value chain workshops in Jalalabad, Mazar-e-Sharif and Herat to identify the issues limiting the growth of priority value chains in Afghanistan. The first value chain workshop organized in Jalalabad on May 4th targeted the onion value chain and brought together 43 participants, including producers, exporters, agricultural service providers, and representatives of DAIL, as well as representatives from development programs. The focus of the discussion was on the technical and policy issues affecting the growth of the subsector, among which export regulations, poor access to credit and absence of technical assistance ranked highest.

The Wheat Value Chain and Policy Workshop took place in Mazar-e-Sharif on July 27th, 2011. Wheat is one of MAIL's priority value chains, especially considering its importance from the food security perspective. The workshop was attended by input suppliers, producers, service providers, traders, and representatives of flour mills and financial institutions to discuss the bottlenecks affecting the growth of the wheat value chain. The participants underscored the need for trade policy interventions to introduce seasonal

tariff barriers that would allow Afghan producers time to become more competitive; the promotion and distribution, via commercial channels, of wheat seeds of improved varieties, and the provision of credit to flour mills to contract production.

Saffron constituted the theme of the third value chain workshop organized in Herat, which is the major saffron producing province in the country. The activity was attended by representatives from Herat's DAIL Office, NGOs supporting the saffron value chain, growers, processors, traders, exporters, and dealers of planting material and inputs. The outcome of the event was a list of priority issues affecting the growth of the chain, including limited supply of planting material, lack of operating capital that could otherwise enable export companies to increase throughput, and need for technical assistance to increase productivity.

Based on the input from the 3 value chain workshops, ACE identified the nodes of the value chains at which the provision of credit would provide greater returns in terms of growth and immediately addressed them. As a result, ADF provided a US\$4.9 Million loan to the Afghanistan National Seed Organization, which allowed 54 seed

ACE clients loading potatoes in bamyán province





companies to strengthen their wheat seed producer networks. ADF also provided loans for almost US\$4 Million to 2 flour mills to contract production and is currently reviewing credit applications of two saffron export companies. ACE is currently working with onion growers in Rodat District, in Nangarhar to help them structure a loan application that could benefit over 2,000 onion growers.

Technical Assessment of Loan Applications

The role of the Value Chain unit is crucial from two perspectives; on the one hand assists ACE to manage credit risk by assessing the technical feasibility of loan applications, while on the other hand the unit provides technical assistance to ADF borrowers in production, processing and market development, increasing their likelihood of success and thereby increasing the probability of repayment.

The Value Chain Unit reviewed 46 loan applications and provided technical input, especially regarding issues like production costs, production possibilities, efficiency of agro processing operations and market factors influencing profitability. Within this context ACE

collaborated with other USAID initiatives, such as IDEA-NEW, CHAMP, ASAP, FAIDA and TAFA.

Trade Fairs and Facilitation of Sales

Most Afghan agribusinesses lack the skills and the resources to explore new markets, adapt their processes to meet the expectations of international buyers and to finance market expansion. While ADF finance has the potential to allow traders to cater for larger and more sophisticated clients, and in most cases bypassing unnecessary intermediaries, there is need to complement financial services with technical assistance. In addition to collaborating with other USAID implementing partners, ACE also provide its clients with assistance in market development in two main ways: facilitating their participation in local and international trade events, and facilitating sales.

Beginning in November 2010, ACE supported the participation of 31 Afghan companies involved in the export of dried and fresh fruit, including the Afghanistan Almond Industry Development Organization (AAIDO), to attend the 30th Indian International Trade Fair 2010. Through a value chain grant, ACE

supported the design and the construction of the Afghan Pavilion, which was inaugurated by the Commercial Counselor of the Embassy of Afghanistan to India, Mr. Munir Khan Yousofzai. The Afghan pavilion was labeled as the “Must Visit” pavilion by the local media (NDTV channel), whereas other newspapers referred to the Afghan products with “One Pomegranate one Kg, one Almond one Inch.” The Afghanistan pavilion won the Gold Prize. In addition to the participation in the exhibition, ACE also facilitated meetings between Afghan traders and potential buyers, which resulted in sales contracts for 14,110



metric tons of fresh fruit and 2,592 metric tons of dried fruits, including pomegranate, melon, apple and apricots, as well as almonds, walnuts, figs, raisins, pistachios, mulberry and dried apricots.

ACE also assisted members of the Afghanistan Almond Industry Organization (AAIDO) to participate in the Gulf Food Exhibition in Dubai, which took place on February 26--March 1, 2011. The participation in this event allowed several export companies, members of AAIDO to exhibit their products, meet with potential buyers and become aware of new market trends.

Throughout the implementation of export promotion and trade facilitation activities and during the economic analysis of loan applications ACE became aware of the critical role that the cost of refrigerated transport play in the competitiveness of Afghan produce. While it is known to most people that the diversity and wholesomeness of Afghan produce has the potential to compete almost in any market, the availability and cost of refrigerated transport constitutes a significant issue that needs to be overcome if Afghan exports are to expand.

ACE's technical team arrived to the realization that under the current circumstances, both importers and exporters of food products are charged for 'round trips' at a cost that averages US\$7,000 per 40 foot reefer container between Dubai and Kabul. To illustrate the relevance of this factor price Chilean grape exporters shipping to Dubai are paying between US\$2,000 and US\$2,400 per 40 foot reefer container.

Seeking to address this issue, ACE organized the "Perishable Logistics Summit" at the Serena Hotel on September 25th with the participation of Afghan produce traders, local transporters, shipping agencies, freight forwarders, development agencies and MAIL representatives. The opening speech was delivered by H.E. Minister Rahimi of MAIL who welcomed the initiative and emphasized the importance of ensuring the competitiveness of Afghan produce in the international and regional markets.

On the of the shipping lines that demonstrated interest to provide shipping services to Afghan exporters was CGM CMA, the world's second largest shipping line, based in France. The company requested ACE



H.E. Minister Rahimi Delivering His Opening Speech At The “Perishable Logistics Summit” At The Serena Hotel

assistance in identifying a local partner that could establish a certified retrofitting center for reefer containers, which would allow taking advantage of backhauls, significantly reducing the cost of transport.

Similarly, representatives of export companies, providers of support services and shipping lines agreed on the need for complementary infrastructure, including:

1. Standard certification systems
2. Shipping point infrastructure

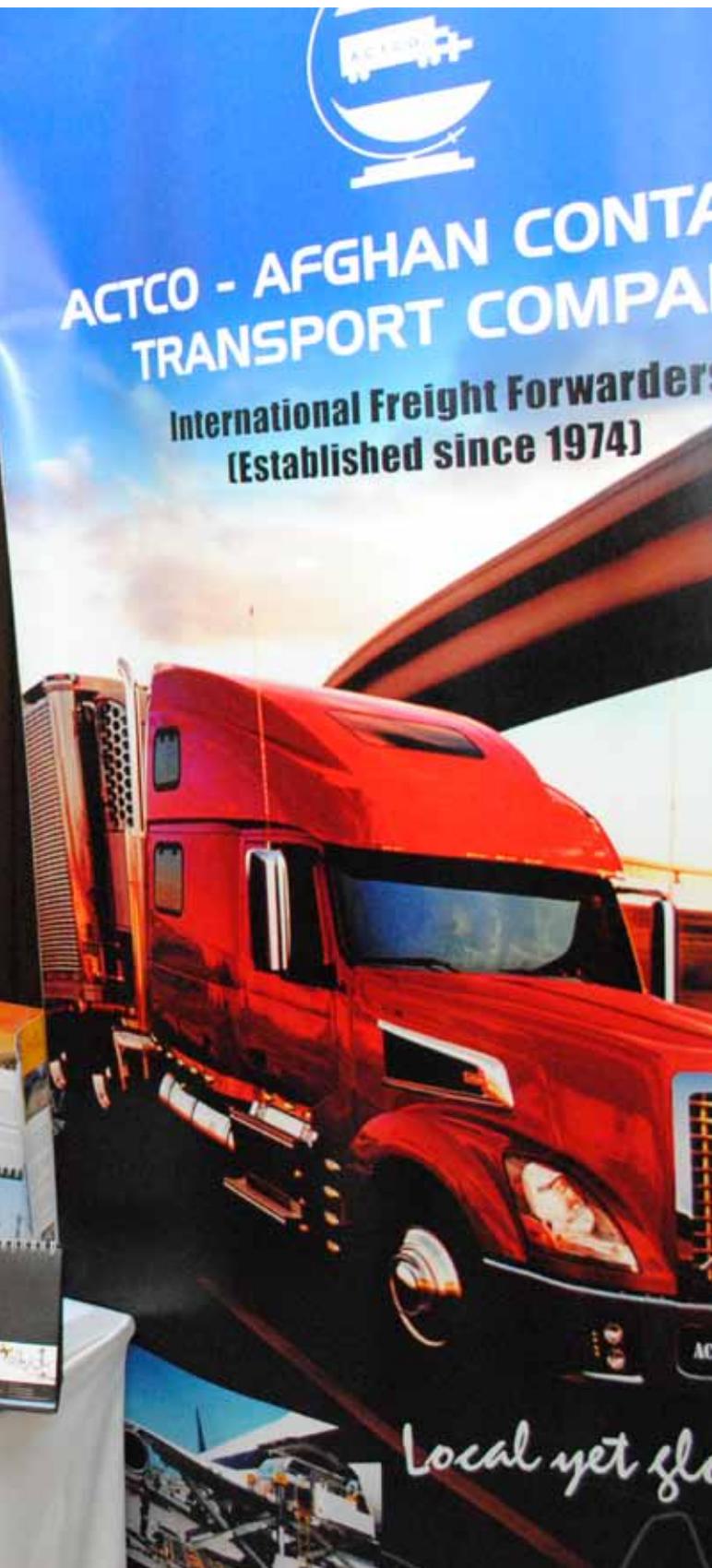
3. Trade/carrier requirements including risk mitigation strategies.

ACE, together with other USAID implementing partners is currently making arrangements to address these issues by capitalizing on already existing infrastructure. This effort will be complemented with a loan and technical assistance for the establishment of the reefer retrofitting center in preparation for the 2012 export season.

Throughout 2011, the Value Chain Unit assisted the members of Bamyan



H.E. Minister Rahimi of MAIL visiting the booth of ATCO - Afghan Transport Company, one of the few freight forwarders in Afghanistan



potato cooperatives, recipients of ADF credit, with tv on production and post-harvest practices. On September 11-16, ACE invited the heads 7 Bamyán cooperatives to Kabul for a Post-Harvest and Marketing workshop, organized specifically to address shortcomings identified during field visits.

During the 5-day workshop, the group was provided with hands on training on harvest and post-harvest practices and also met with various potato traders from the Kabul Wholesale Market with the purpose of assisting potato growers to find new buyers.

Tak Dana Company was one of the companies showing interest in purchasing potatoes from Bamyán. ACE facilitated a visit of company officials to Bamyán which resulted in a contract for 1,056 MT of potatoes at a price of 14.25 AFN per KG. This price negotiated by farmers and Tak Dana was at the time 42.5% higher than the going price in Bamyán.



NEWS BRIEF

NOVEMBER 2011

UNLEASHING THE TRUE POTENTIAL OF AFGHAN AGRICULTURE



“People talk about the silk route and the big business of the past, I guess this is what they meant ...now our produce is being sold in supermarkets abroad”

*Mr. Fasahi
Member,
Katway Potato Cooperative*

In the spring of 2011, 438 potato growers members of 7 cooperatives from Bamyan province received loans from the Agricultural Development Fund (ADF). Potato production is a mainstay in Bamyan, however productivity was low due to two fundamental factors: the high price and questionable quality of fertilizers available in the province, and the use of recycled and low quality seed.

The loans allowed commercial potato producers to purchase high quality seeds and fertilizers, taking advantage of collective action as a way to reduce the cost of inputs. In addition to the loans, the ADF provided the borrowers with market contacts as a way to ensure the success of their farming operations.

Preliminary data shows that ADF borrowers had yields between 17 and 37 percent higher as compared with non-borrowers, in addition to a 20 percent increase in price derived from quality improvements and access to high-value markets.

The new buyers introduced by the ADF supply food wholesalers in India and Dubai, which brings about the opportunity for the establishment of long-term business relationships.

Agricultural credit provided by the ADF and financial intermediaries is unleashing the potential of Afghan agriculture, enhancing the competitiveness of Afghan farmers and promoting economic growth.

Mr. Fasahi is a potato grower from Bamyan province and one of over 10,000 borrowers of the ADF in 24 provinces of Afghanistan. Agricultural credit is available to farmers for the very first time in 30 years.

The ADF provides farmers with access to capital, in addition to technical assistance in crop production and particularly facilitating sales to high value markets. This allows the ADF to reduce credit risk, while helping its clients succeed in their enterprises.



Component 3

Knowledge Management

- Market Information and Knowledge Management Facility
- Capacity building
- Communications and Outreach
- Monitoring and Evaluation



Market Information and Knowledge Management Facility

During 2011, ACE successfully developed a comprehensive database, which collects, analyzes and disseminates agriculture related data, produces commodity specific market briefs, agricultural trade reports and ad-hoc studies. This dynamic database, launched by the Afghanistan Ministry of Agriculture, Irrigation and Livestock (MAIL), will inform farmers and businesses of the latest prices, news, and trends in Afghan agriculture. The new Knowledge Management Facility will integrate and archive agricultural data in a single repository, consolidate existing data into more reliable, understandable and useful products, and disseminate agriculture-related information.

The facility—named “PAYWAND” after the Dari word for “connection” or “grafting” in agricultural jargon—will

be housed within MAIL. PAYWAND offers a wealth of data and processed information, including: historical price data from different commodities and markets within and outside Afghanistan, trade flows of agricultural products, and reports about agriculture markets generated by a variety of sources. PAYWAND can be accessed at <http://paywand.mail.gov.af>, as is available in Dari, Pashto, and English.



PAYWAND also capitalizes on data generated by several development projects, ensuring the sustainability of the database and, most importantly, transform the data into information products targeted to different audiences to help ensure sound agribusiness decisions. Users can customize data analysis; download



reports, studies and a variety of publications and data about Afghan agriculture.

The transition of PAYWAND to MAIL is being supported through a comprehensive and robust training program in research methods, data collection techniques, data analysis and report writing. The database is extensively used by ADF lending and value chain advisors to obtain information regarding prices, markets and trade flows as part of the technical assessment of loan applications.

Throughout the year, ACE has designed and published several market briefs

focused on specific commodities such as raisins, grapes, almonds, melons and watermelon, and pomegranates. The briefs have been published in three languages, English, Dari and Pashto and disseminated through MAIL's website. Additionally, ACE prepares and publishes Quarterly Trade Reports which focus on domestic production, exports and imports of the main agricultural commodities.

Capacity Building

Consistent with the overarching vision of the ACE program, which is fundamentally building the infrastructure and the human resources



ACE/ADF graduation from the dale carnegie human relations and public speaking course in new delhi, august 2011.



that will manage the ADF, the project has an ambitious high-level capacity building program.

As part of this program, on August 18th, ACE sent 12 members of its Afghan technical staff to a training

event provided by the Dale Carnegie Foundation on “Human Relations and Public Speaking” in New Delhi, India. The training took place from August 19-27, 2011. The participants found the training very useful and the trainers’ evaluations showed a high degree of performance as compared to traditional participants. This activity marks the first formal ACE capacity building intervention and will be followed by at least two more by the end of the year. Beginning in FY2012, ACE will launch a high-level Credit Analysis Training program for ACE/ADF personnel and MAIL officials providing input to the ADF Credit Committee. The first module of the program will include 6.5 days of intensive training in Dubai.

Communications and Outreach

ACE developed a comprehensive set of public awareness materials aimed at different audiences. They include brochures with general information in

three languages the include brochures, 'answers to frequently asked questions', standard power point presentations to be used by credit officers, quarterly newsletters and other promotional materials, all in 3 languages.

فقط توسعه زراعت
Agricultural Development Fund **ADF**

Your Strategic Partner for the Promotion of Commercial Agriculture

An Initiative of the Ministry of Agriculture, Irrigation and Livestock (MAIL)

www.adf-af.org

In addition to these materials, since January 2011, the project has developed and released monthly news briefs highlighting key success stories, especially underscoring the impact of ADF loans. The latest issues include: Islamic Financing, lending to Pioneer Entrepreneurs, Managing Risk in Agriculture, and Formalization of the ADF Advisory Board. All the briefs are posted on the ADF and MAIL websites; A Snap Shot titled "Nurturing Seed Industry" was published in the USAID-Afghanistan website:

http://afghanistan.usaid.gov/en/USAID/Article/2306/Nurturing_the_Seed_Industry

The story provides an overview on how ACE/ADF is supporting the growth of Afghanistan's Seed Industry through the provision of credit.

As part of its dissemination plan, ACE launched a 2 month radio campaign which incorporated 200 emissions aired on major regional radio stations. ADF brochures, posters and Farmer's Day greeting cards were also distributed at the Agricultural Fairs held in Jalalabad and Kabul.

The ADF Customer Service Center started its operations at MAIL in May of 2011. The center is staffed with two customer service officers, which were



ADF Website In Dari Language



EXSA
EXSA

Saffdy
Haraj

RABBITA
RABBITA

127

126

FRESH ORANGE
MORNING QUALITY

125



*Through PAYWAND,
ACE provides insight
that informs business
decisions, resulting
in tangible economic
outcomes*

trained for over two months by the ACE lending team. The role of the Customer Service Center is to facilitate the interaction with prospective ADF loan applicants, explain about eligibility requirements, and terms and conditions before they submit a expression of interest, which constitutes the first step toward applying for ADF loans.

ACE launched the ADF website for beta testing in May at www.adf-af.org. The website contains information about ADF financial and technical services, as well as a section titled "A Word from our clients" which contains video testimonies from select ADF borrowers describing the impact of ADF loans on their enterprises <http://www.adf-af.org/English/eCard.html>. Copies of the videos were distributed to MAIL and the media.

ACE is publishing bi-weekly tweets at the <http://twitter.com/daiglobal> twitter site; the project will also launch a radio campaign in March 2012, with the purpose of promoting ADF services and referring prospective clients to the ADF regional offices.

The project also wrote and obtained USAID approval for three success stories on the Eastern Region Fruit Growers Association, the Javed Afghan Wheat

Thresher Company, and the Afghanistan National Seed Enterprises, all ADF clients.

The Communications Unit also manages the Agricultural Credit Shuras, which constitute the primary mode of communication with potential clients in the rural areas. The participants typically include farmers associations, agribusinesses, cooperatives, processors, DAIL officials and community leaders. These events are carried out in close coordination with DAILs and US Government field personnel, especially USAID Field Program Officers and USDA and State Department Agricultural Advisors.

The participation in agricultural fairs and provincial trade events also constitute a key element in ACE's communications and outreach strategy. The project participated in the Farmers' Day celebrations, that were coordinated by MAIL, in Kabul (March 21-23) and Jalalabad (March 21). The ADF booth was established under an umbrella of the MAIL Private Sector unit. Hundreds of participants stopped by the ADF booth to obtain information about the ADF lending opportunities. ACE-Jalalabad supported the farmers' Day celebrations, organized by DAIL by providing prizes to progressive farmers

selected by a DAIL Committee. The project also supported the participation of the ADF clients at Agricultural Fairs, enabling them to exhibit their products.

Monitoring and Evaluation

The ACE program is seriously committed to deliver services of the highest standard that have a positive and measurable impact on the growth of the agricultural sector in Afghanistan. This requires a permanent program of field verifications, seeking to corroborate the quality of the data provided by ACE field personnel, implementing partners and financial intermediaries.

Within this context, ACE maintains a central Monitoring and Evaluation Unit, which is responsible for conducting progress assessments and reporting on the program's performance, activities and impact. This effort has given a significant value to the M&E Unit. During the reporting period, efforts were made to track the performance of project activities and progress on indicators stipulated in the Performance Management Plan (PMP).

In 2011, and at request of the COTR, ACE added two new indicators to its

PMP through modifications in the original PMP and Annual Work Plan for Option Year 1. These indicators, numbered respectively as #4.3 and #4.4 will capture ACE's results on Capacity building through tracking the number of individuals trained by ACE; and the total number of hours of training offered. Also, starting this quarter, ACE will report indicators #1.1 and #1.2 on two levels.

"Value of finance accessed" initially reported to USAID Afghanistan on the US Dollar value of approved ADF loans, now will contain "the value of disbursed loans" as a sub-indicators. Targets for this sub-indicator are included in the revised PMP and the Annual Workplan 2.

"Number of individuals benefitting from financial agreements" – this indicator was originally designed to capture the total number of loan agreements with agribusinesses and farmer beneficiaries. Starting in Q4 FY2011, ACE will report on the indirect beneficiaries, being farmers who benefit either through the output of the ADF loan, or through providing raw materials and jobs for the ADF primary borrowers.

Number of ACE/ADF Beneficiaries and Dollar amount disbursed per regional command

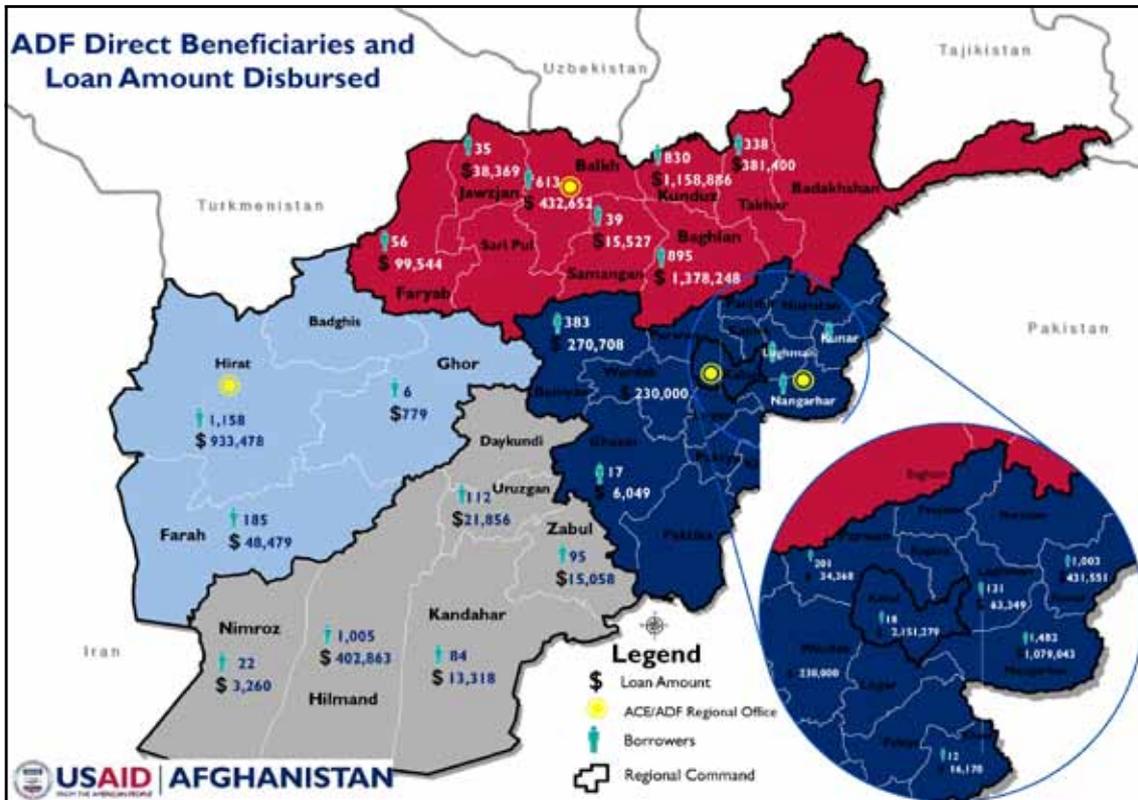
Region	Number of Direct Beneficiaries	Loan Disbursed in (\$)
RC - East	3,247.0	1,533,336
RC - North	2,805.0	3,504,627
RC - South	1,318.0	214,355
RC - West	1,338.0	982,735
TOTAL	8,708.0	6,235,054

Table 3: SUMMARY OF PROGRESS TOWARDS PMP INDICATOR TARGETS

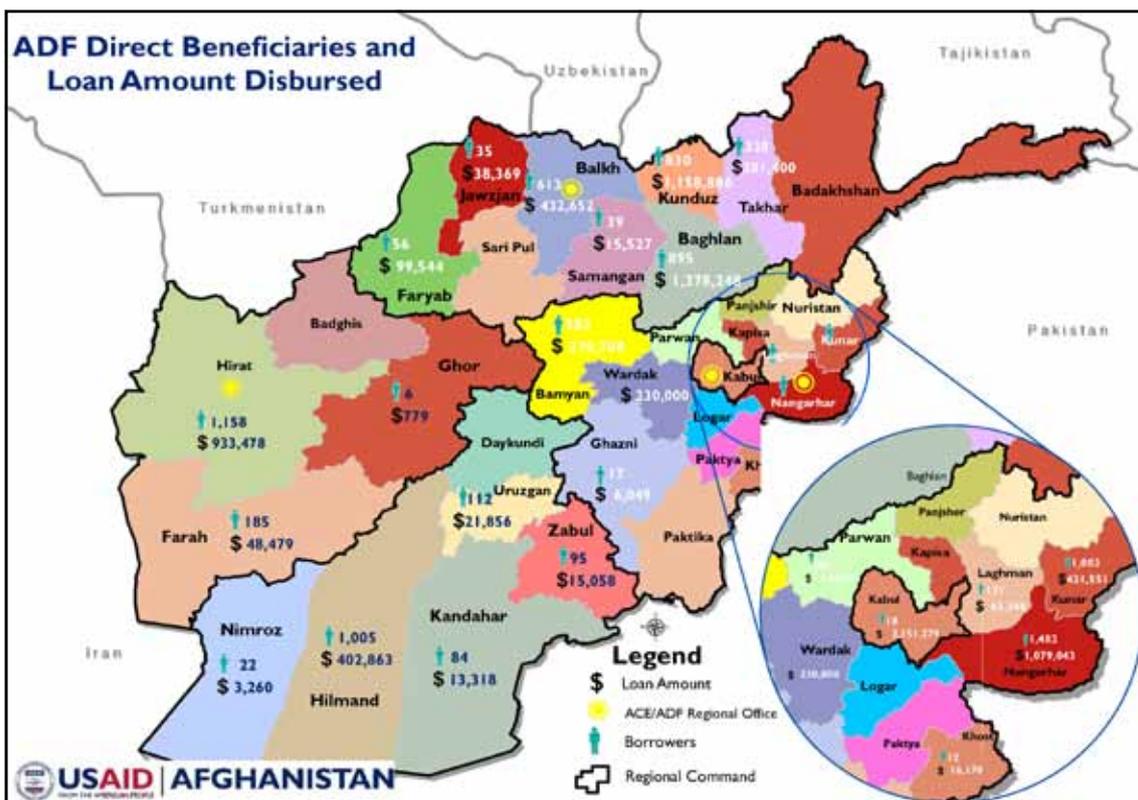
PMP INDICATOR	Q1 FY2011	Q2 FY2011	Q3 FY2011	Q4 FY2011	Actual FY2011	TARGET FY2011
1.1 Value of Finance Accessed (in US dollars)	11,150,000	16,041,750	15,922,702	18,446,562	18,446,562	31,200,000
Sub-indicator: Value of ADF loans disbursed (in US dollars)	-	-	-	9,515,771	9,515,771	10,000,00
1.2 Number of individuals benefitting from ACE or ADF financial agreements	0	2,356	3,318	3,046	8,720	10,500
Sub-indicator: Number of indirect beneficiaries achieved					8,075	10,000
1.3 Percent Increase in income by assisted farms and agribusinesses						-
1.4 Net total increase in Full-Time Equivalent (FTE) jobs created by USG sponsored agriculture activities	26	65	31	50	172	250
2.1 Value of Challenge/ Innovation and Agriculture modernization grants disbursed	80,623	145,290	404,191	107,579	737,683	\$800,000
2.2 Number of participating financial intermediaries and private intermediaries on-lending funds from ADF	6	7	1	0	14	15

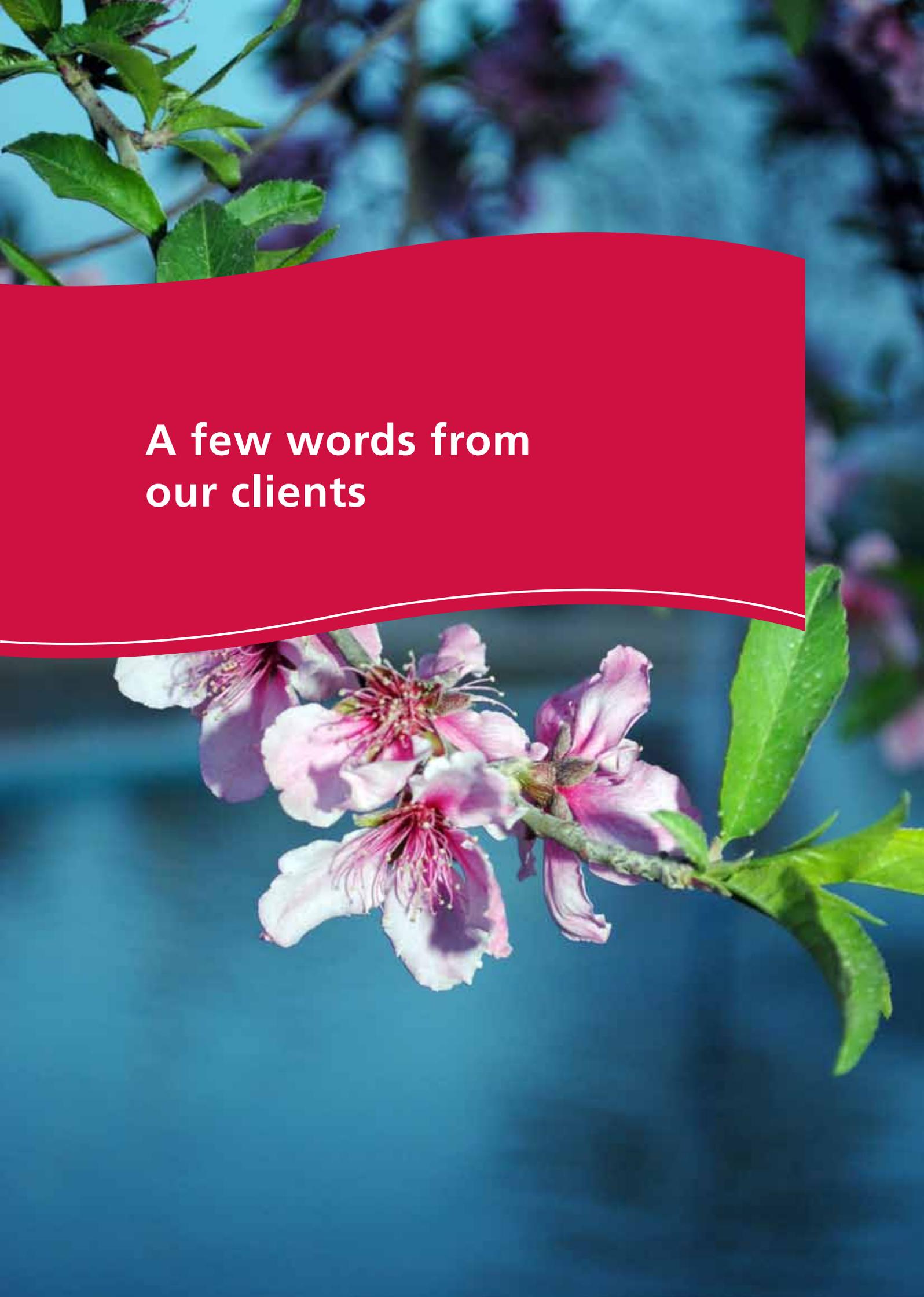
2.3 Number of innovative lending products established by Pls and Fis	1	1	0	1	3	2
2.4 Percentage of loan losses resulting from ACE lending recommendations	0	0	0	0	0	<5%
3.1 Total Value of domestic and export sales of Afghanistan agriculture products for firms supported by ACE						–
3.2 Number of loans approved under USAID's Development Credit Authority (DCA) mechanism	0	0	0	0	0	2
3.3 Number of public private partnerships formed as a result of USG assistance (including GDAs)	0	0	0	0	0	1
4.1 Number of conferences, workshops and other initiatives designed to foster increased credit to the agricultural sector carried by ACWG.	2	0	1	0	3	5
4.2 Number of market information and market intelligence products created and disseminated by the established knowledge management	2	5	2	4	13	12
4.3 Number of individuals trained by ACE in credit policy and operations, value chain strengthening, and market information systems	–	–	–	15	15	12
4.4 Number of person hours of training; including formal and practical training and technical visits	–	–	–	74	74	64

ACE direct beneficiaries and \$ loan amounts disbursed per regional command



Distribution of ACE beneficiaries and \$ loan amounts per province



A close-up photograph of a branch with several pink cherry blossoms in full bloom. The flowers have five petals and prominent stamens. The background is a clear, bright blue sky. A red, curved banner is overlaid on the image, containing the text.

**A few words from
our clients**

"I always dreamt that one day Afghanistan would manufacture its own agricultural machinery. Thanks to a loan from the ADF I am a part of my dream. I am providing jobs to more than 70 people and supplying agricultural machinery to farmers throughout the country"

Haji Malang, Owner of Javed Afghan Thresher Company

"I heard about loans to farmers in countries like Pakistan, India or America, here it was a dream until the ADF came...getting a loan for agriculture is no longer a dream!"

Mansoor Ahmad, Owner of Season Honey Processing Company

"Until recently we were borrowing money from local money lenders at very high rates. Now the ADF has given us the opportunity to borrow money for agricultural production through SHARIA system. Banks have been closing their doors to farmers, now I know the ADF is there to help me with loans especially designed for farmers."

Mohammad Safi, member of Eastern Region Fruit Growers Association

"Various development projects taught us what types of seeds and fertilizers to use and where to sell our crops, but without money it was impossible to apply that knowledge, now a loan from the ADF has helped put all that knowledge in practice!"

Haji Ahmad Gul, member of Eastern Region Fruit Growers Association





USAID | AFGHANISTAN

FROM THE AMERICAN PEOPLE

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