



AGRICULTURAL CREDIT ENHANCEMENT (ACE) PROGRAM

QUARTERLY REPORT Q2 FY 2014

JANUARY I – MARCH 31, 2014



Suppliers of wheat to Sayed Jamal Flour Mill in Mazar-e-Sharif received cash advances prior to the planting season. Sayed Jamal Flour Mill is a large agribusiness benefiting from a second ADF loan of over US\$2.5 million to purchase wheat.

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QUARTERLY REPORT

QUARTER 2, FISCAL YEAR 2014

PROGRAM TITLE: AGRICULTURAL CREDIT ENHANCEMENT
PROGRAM

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Children at one of the 4 daycare centers established by Ghulgula Carpet Weavers Cooperative, as part of its socially responsible marketing strategy.

Carpet weaving is often perceived as a cruel industry where women work long hours in places with insufficient lighting, and the use of opium concoctions to stand long shifts and keep children asleep is pervasive. Traders typically provide the women with raw materials, collect the carpets much later and pay meager wages to the weavers. Agricultural credit is progressively transforming the carpet industry, by introducing socially responsible practices, which at the same time allow carpet weavers to take advantage of a market niche for socially responsible products.

An example is Ghulgula Carpet Weavers Cooperative, located in the Bamyan province of Afghanistan. The ADF provided them with a loan to enable female weavers to purchase raw materials, including looms, thereby giving women economic freedom, as they are now able to sell their carpets to the highest bidder. A small grant from the ADF partially covers the cost of operation of 4 daycare centers, where their children receive preschool education. Through the same program, weavers also have access to basic medical and ophthalmology services.

Through innovations like this the ADF is demonstrating the game changing power of credit.

<http://www.bamyancarpets.com/en/>



ACE MISSION STATEMENT

ACE will establish and manage the Agricultural Development Fund; a wholesale lending institution under the Ministry of Agriculture, Irrigation and Livestock, making credit available to farmers and agribusiness entrepreneurs through a variety of intermediaries, in an unprecedented effort to revolutionize Afghan agriculture.

CONTENTS

- LIST OF ACRONYMS.....6
- EXECUTIVE SUMMARY.....7
- Component 1: Delivery of Credit Services9
- Component 2: Agricultural Modernization and Value Chain Development 24
- Component 3: Coordination and Knowledge Management 31
- Performance Management - ACE Progress against Targets 32
- Communication and Outreach 55
- Administrative and Human Resources..... 56
- Implementation Challenges 57
- ACTIVITIES FOR THE NEXT QUARTER 57
- ANNEX I – Percentage of Loan Losses Resulting from ACE Lending Recommendations 58

LIST OF ACRONYMS

AAIDO	Afghanistan Almond Industry Development Organization
ACCI	Afghanistan Chamber of Commerce and Industry
ACE	Agricultural Credit Enhancement
ADF	Agricultural Development Fund
AISA	Afghanistan Investment Support Agency
ANSOR	Afghanistan National Seed Organization
AWSA	Afghan Women Saffron Association
BALSC	Bakhtar Agricultural and Livestock Secondary Cooperative
CC	Credit Committee (for the ADF)
CSR	Corporate Social Responsibility
DAB	Da Afghanistan Bank
DAWO	Development of Afghan Women Organization
EPPA	Export Promotion Agency of Afghanistan
FAIDA	Financial Access for Investing in the Development of Afghanistan
FSCAA	Farm Service Center Association of Afghanistan
FTE	Full Term Employment Equivalent
FI	Financial Intermediary
IIFCG	Islamic Investment Finance and Cooperative Group
GDA	Global Development Alliances
GIRoA	Government of the Islamic Republic of Afghanistan
GIS	Geographic Information System
IDEA-NEW	Incentives Driving Economic Alternatives Project
HEWSA	Herat Empowered Women Social Association
HiH	Hand in Hand Afghanistan
HLP	Horticulture and Livestock Project
LPF	Loan Performer
KMF	Knowledge Management Facility
MAIL	Ministry of Agriculture, Irrigation and Livestock
MoU	Memorandum of Understanding
NFI	Non-financial Intermediary
NSDP	National Skill Development Program
PMP	Performance Monitoring Plan
SAB	Sharia Advisory Board
TO	Task Order
TRC	Technical Review Committee
TTWSO	Takhar Trader Women Social Organization

EXECUTIVE SUMMARY

The ADF continues to consolidate its position in the Afghanistan credit market and plays a major role in supporting large agribusiness investments along the main agricultural value chains, while expanding production capacity, improving market efficiency and processing size, contributing to import substitution of inputs and raw materials and strengthening market links with local producers. This is particularly important in a context where most of the financial institutions available either provide microcredit services or commercial loans at very high interest rates, none catered specifically to the agricultural sector.

In the fourth year of the program implementation, thanks to the expertise and talent of the ACE team and DAI as the implementing partner, the ADF is well on its way to become a financially independent credit institution. In the past quarter, after several months of interviewing, the ADF High Council appointed Joel Carter as the CEO of the ADF. The Council approved the ADF business plan for the next five years (2015-2019), through a comprehensive process taking into account several factors such as the target group of the ADF beneficiaries, funds capitalized by USAID and leverage by other donors.

Currently the ADF stands at US\$ 85.7 million in approved loans, US\$43.7 million in disbursements and US\$23.8 million in repayments. Intermediaries and agribusinesses engaged in on-lending have reached out to 23,068 farmers who have directly benefited from agricultural credit. Due to prudent credit lending practices, agricultural technical reviews of loan applications, credit administration procedures in place and the talented Afghan staff the ADF portfolio at risk is at 4.62 percent, a desirable rate for the financial sector in the West.

With an initial contribution of US\$3.5 million expected to reach the ADF account in mid-April from the Danish Ministry of Foreign Affairs through their Embassy in Kabul, the ADF is successfully capitalizing on the fund. The Danish Embassy is committed to provide another US\$28.5 million in the next three years to contribute to agricultural lending and economic growth in Afghanistan. MAIL and USAID view this development as a clear expression of trust on the integrity and professionalism demonstrated by the ADF management and the ACE team. Capitalization of the fund to a minimum of US\$160 million will ensure the sustainability of the ADF and ensure that the Fund is here to stay.

ACHIEVEMENTS

JANUARY – MARCH 2014, Q2 FY 2014

- THE ADF HIGH COUNCIL APPROVED THE NOMINATION OF THE NEW CEO, ENDORSED THE BUSINESS PLAN FOR THE NEXT 5 YEARS AND APPROVED THE NEW GOVERNANCE STRUCTURE.
- CURRENTLY THE ADF STANDS AT US\$ 85.7 MILLION IN APPROVED LOANS, US\$43.7 MILLION IN DISBURSEMENTS AND US\$23.8 MILLION IN REPAYMENTS. THE ADF HAS A DEFAULT RATE AT 4.62 PERCENT.
- THE CLIENT RETENTION RATE INCREASED FROM 67 PERCENT TO 75 PERCENT IN THE LAST QUARTER, AFFECTING THE OVERALL FUND PROFITABILITY.
- 57 PERCENT OF THE DISBURSED LOANS NOW CONSISTS OF SHARIA PRODUCTS AS OPPOSED TO 43 PERCENT IN CONVENTIONAL LOANS.
- IN THE LAST QUARTER ACE ORGANIZED THREE WORKSHOPS ON AGRICULTURAL EXPORT PROCEDURES AND POLICY IN BALKH, HERAT AND KABUL TO IDENTIFY THE CONSTRAINTS FOR GROWTH.
- ADF CLIENTS CREATED 235 JOBS IN FTE DURING THE REPORTING QUARTER ONLY AND A TOTAL OF 2,734 JOBS FROM THE START OF THE PROJECT.
- THE PROGRAM PREPARED AND PUBLISHED FOUR AGRICULTURAL TRADE REPORTS IN THE JANUARY-MARCH PERIOD WHICH WERE LAUNCHED AT PAYWAND.
- THE PROGRAM ESTABLISHED FOUR DAY CARE CENTERS IN BAMYAN FOR THE CHILDREN OF CARPET WEAVERS.

The ADF specializes in the provision of tailor made financial solutions which include loans that follow the production calendars of a large selection of crops, Islamic financial products endorsed by a Sharia Advisory board, and loans to female agribusiness entrepreneurs. To capitalize on the existing performing clients and enable them to consolidate their position as commercial growers, ACE is supporting Bamyan potato cooperatives with improved agricultural techniques. The initiative consists of planting potato in a 12 Jerib land plot with adequate production techniques and transferring this knowledge to the potato growers through field days which will take place during planting and harvesting period. At the end of this activity, the team will recommend the most appropriate potato varieties that can address some of the productivity and quality challenges encountered in Bamyan. In addition, the program will provide support on practical training on potato cultivation and post-harvesting, market analysis supporting taking into account the varieties demanded by processors and traders and facilitation with market links.

In the month of March the ACE program conducted three regional Ag-Export value chain workshops in Mazar-e-Sharif, Herat and Kabul with the participation of 126 players from in the agricultural sector and representatives of related governmental offices. The main purpose consisted of identifying the current constraints to the growth of the export of agricultural goods and developing recommendations for change. The findings will be shared with MAIL and other public institutions. In addition, the team prepared and launched four Agricultural Trade Reports which were published on the PAYWAND and MAIL website.

The Herat Empowered Women Association (HEWSA), one of the prominent ADF female clients, benefited in the past quarter from comprehensive technical support which consisted of preparation of a business plan, improvement of their processing line and its efficiency, as well as a 9 day on-the-job training to improve their food processing practices and enhance their jam and pickle making formulas. The member processing centers in Herat received an additional hands-on hygiene and sanitation training.

To provide health and safety for the carpet weavers of Ghulghula Agricultural and Livestock Cooperative and their children, ACE engaged Development of Afghan Women Organization (DOWA) to conduct health workshops for 250 carpet weavers in four villages of Bamyan. In addition, DOWA established four children educational centers and identified a local health clinic to organize regular visits and eye examinations for the carpet weavers. The four day care centers service 250 children to keep them away from the potential health hazards of carpet weaving such as dust and chemical inhalation, prevent them from child labor and provide them with significant educational and child development opportunities. This initiative is supported through an ACE Agricultural Modernization grant.

ACE is currently implementing 13 ACE Agricultural Modernization grants for the ADF clients with focus on provision of technical assistance and improvement of processing lines, assisting processors with sorting, grading and labeling as well as provision of general marketing support. In addition, there are 14 clients and vendors awaiting vetting which is hindering the grant approval process and further implementation of the grants. The team has another 13 Agricultural Modernization grants in the pipeline which will be processed in the next quarter.

Component I: Delivery of Credit Services

The delivery of credit services constitutes the core activity of the ACE project. For this purpose, and in the absence of financial institutions interested to engage in agricultural lending, the project primarily partners with non-financial institutions and agribusinesses that on-lend to farmers.

ACTIVITIES UNDER THIS COMPONENT INCLUDE:

- Transition to the ADF
- Credit Operations and Services
- ADF Lending
- Islamic Finance
- Gender Activities
- ACE and ADF Grants
- Internal Audit and Compliance

TRANSITION TO THE ADF

The ADF High Council met on March 19th to make three important decisions:

- to approve the strategic business focus of the ADF, which will constitute the essence of the Business Plan;
- to approve the proposal for the strengthening of the governance structure of the ADF with few modifications;
- to ratify the nomination of the candidate for the position of Executive Director of the ADF, as a fundamental step towards the transition of the Fund.

The High Council resolved to finalize the Business Plan of the ADF for the period of 2015-2019, ensuring that the institution continues to fulfill its fundamental purpose of providing credit to the agricultural sector and to farmers in particular. The sustainability plan of the ADF will therefore be based on the average nominal interest of 8 percent. The CEO is charged with proceeding with all the requisite formalities and circulating the Business Plan within a two week period. The ADF Business Plan contains a base case financial scenario which was prepared to reflect business volumes, interest rates and fees focused at achieving commercial viability. The average interest rate and mark-up are assumed at 8 percent whereas the fees per loan are at about 1.5 percent. The ADF loan portfolio is projected to grow at a rate of 20 percent. The purpose is for the ADF to become a financially independent credit institution, a goal that will be achieved in the next two years.

The High Council agreed to request the concurrence of the Cabinet of Ministers to modify Article 13 of the ADF Bylaws to adopt the following structure:

- Minister of MAIL – Chairman
- Deputy Minister of Finance – Deputy Chairman
- Deputy Minister of MAIL for Technical Affairs – Member
- CEO of the Afghanistan Chamber of Commerce and Industries – Member
- Non-governmental technical specialist in Banking and Finance – Member
- Non-governmental technical specialist in Commercial Law – Member
- Non-governmental technical specialist in Agriculture – Member
- Representative of USAID as a Founding Donor – Member (to be replaced by the largest donor at the end of December 2019)

Regarding the nomination of the ADF Directors, the High Council decided to meet with the nominees prior to their appointments. The special meeting was organized on March 25th where four senior Afghan staff made a short presentation to the ADF High Council.

Regarding the capitalization of the ADF, after several meetings and iterations with the representatives of the Danish Embassy and USAID, the ADF was informed of the Danish Embassy's decision to contribute US\$26 million, with a possibility of the amount increasing to US\$28.5 million. This is in addition to the first installment of over US\$3.5 million that is being transferred to the ADF. Thus the total contribution will range between US\$29.5 and US\$32 million. The Deputy Director of USAID's Ag Office and the COR participated in the meeting which took place on January 15th. The entire team is very pleased about the outcome of this negotiation.

CREDIT OPERATIONS AND SERVICES

Segregation of functions is a crucial element in banking which has been implemented at the ADF for over a year. The ADF Credit Administration Unit, the ADF Finance and the Loan Operations operate according to well defined job responsibilities while coordinating and facilitating the work of the lending unit. During the last quarter the Credit Administration and Loan Operations units performed the following:

- 15 loans totaling US\$2,394,807 were disbursed
- 103 loan repayments totaling AFN 153 million were booked

The Loan Operations department carries out reconciliation of ADF bank balances on a daily basis with the respective trial balance sheet items before instructing the system administrator to update the MicroBanker system. Internal audit not only is responsible for conducting audit assessments for the existing ADF clients, but is also in charge of auditing the performance of the Credit Operations, ADF Finance and Loan Operations departments.

ADF LENDING

During the last quarter only, ACE achieved ADF Credit Committee approvals for four new loans worth US\$1,387,091 and disbursed US\$2.4 million. Currently ACE/ADF stands at US\$ 85.7 million in approved loans, US\$43.7 million in disbursements and US\$23.8 million in repayments. The ADF has a default rate at 4.62 percent, which is within the accepted international banking standards. The following graph shows the trend in ADF approvals and disbursement for the past quarters.



Photos of the ADF High Council meeting, which took place in Kabul on March 19th, 2014.

THE ADF IN FIGURES

CLIENT SEGMENTS AND CREDIT CONDUITS

Verified Number of Borrowers

NON FINANCIAL INTERMEDIARIES			
INT. RATE	MIN	MAX	AVG
	6%	7%	6.1%
LOAN AMT	MIN	MAX	AVG
	\$ 14,479.00	\$ 6,715,105.00	\$ 1,075,611.11
APPROVED:	\$20,436,611	DISBURSED:	\$10,490,735
DIRECT BENEFICIARIES:		10,071	

AGRIBUSINESSES - ON-LENDING COMPONENT			
INT. RATE	MIN	MAX	AVG
	6%	10%	7.4%
LOAN AMT	MIN	MAX	AVG
	\$ 96,797.00	\$ 2,000,000.00	\$ 503,700.00
APPROVED:	16,117,871.00	DISBURSED:	15,263,957.00
DIRECT BENEFICIARIES:		10,599	

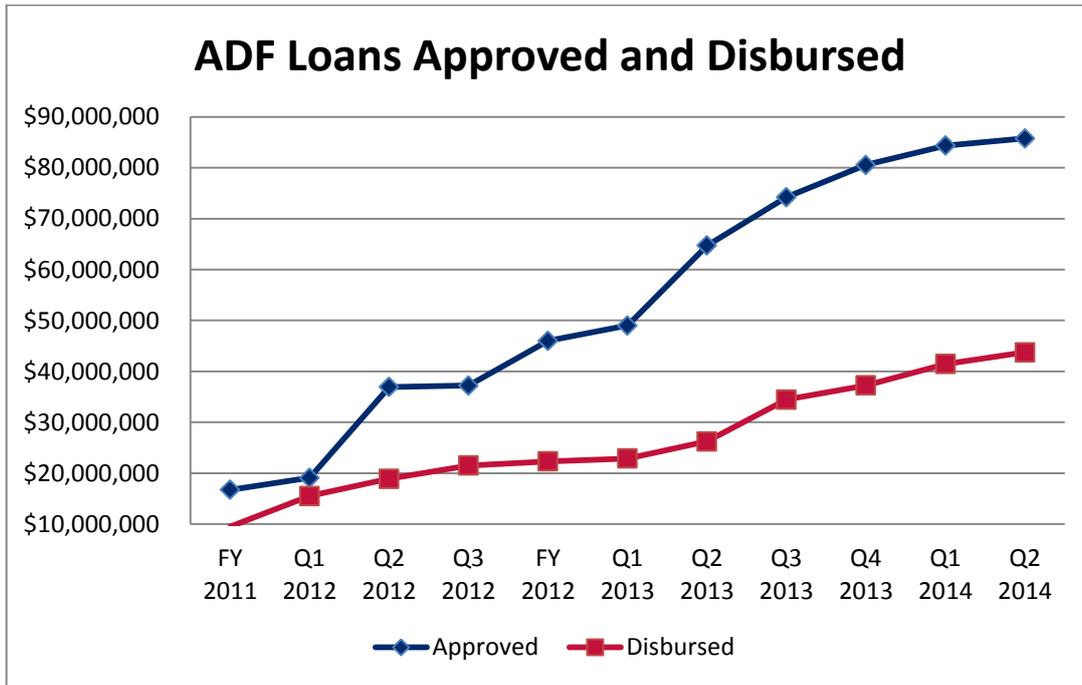
FINANCIAL INTERMEDIARIES			
INT. RATE	MIN	MAX	AVG
	5%	5%	5.0%
LOAN AMT	MIN	MAX	AVG
	\$463,392.00	\$10,000,000.00	\$3,062,903.17
APPROVED:	\$18,377,419	DISBURSED:	\$4,144,007
DIRECT BENEFICIARIES:		1,902	

AGRIBUSINESSES - NO ON-LENDING			
INT. RATE	MIN	MAX	AVG
	6%	17%	9.2%
LOAN AMT	MIN	MAX	AVG
	\$ 96,797.00	\$ 2,553,000.00	\$ 422,100.00
APPROVED:	\$30,814,252.00	DISBURSED:	\$13,843,389.00

The big picture about impact and sustainability

Average Interest Rate

Graph 1: ADF Loans Approved and Disbursed by Quarter



Below is a list with the loans approved in the last quarter:

Table 1: ADF loans approved during the reporting quarter

No	Company/Entity	US\$ Loan Amount
Clients Sensitive Information		

Table 2: ADF Loans Disbursed During the Reporting Quarter

No	Company/Entity	US\$ disbursed
Clients Sensitive Information		

ADF BUSINESS VOLUME:

1) Loans Approved by ADF CC: The ADF Credit Committee approved four loans in the last quarter worth US\$1,387,091. This has increased the total number of loans approved by the ADF Credit Committee to 202; worth total US\$88,918,686 (this number includes ADF grant approvals as well).

2) Loans Presented to Technical Review Committee (TRC): Five loan cases were presented to the TRC meeting during the quarter and five (5) additional cases are scheduled to be presented to TRC by April 2014.

3) Loan Disbursements and Repayments: There were 10 loans disbursed to ADF clients worth US\$2,394,807 in the last quarter which brought the total number of loans disbursed to US\$43,742,085. The project has collected US\$2,758,634 in repayments. The total loan repayments stand at US\$23,774,613.

4) Loans in Pipeline: An additional 28 new loan cases are currently under review by the Lending Department, worth a total of around US\$13.1 million.

In the past quarter the team achieved the ADF Credit Committee approval for four new loans:

- The Sayed Ahmad Khushkyar Company will receive a second ADF loan of US\$1 million to import high quality and pesticides, veterinary products, sprayers and seeds to on-lend to 750 farmers in the Southern region;
- The Salehi Daikundiwal Brothers Agriculture Service Company will receive a second ADF loan of US\$139,934 to purchase agricultural inputs such as fertilizers and hybrid cucumber seed and expand their production and business;
- The Haji Baba Agricultural and Livestock Cooperative in Balkh province will receive an ADF loan of US\$97,953 to purchase 125 Metric Tons of raw cotton from their members to process and sell in the local market;
- The Natural Cooking Spices Company in Kandahar will receive an ADF loan of US\$99,703 to purchase 17.6 MT of green cumin, 5 MT of coriander seed and 3.33 MT of red chilies from the local farmers to produce spices and expand their business to other provinces of Afghanistan.

CLIENT RETENTION

In the last quarter, the loan retention rate increased from 67 percent to 75 percent. This is a function of clients receiving a second loan following the repayment of their initial loan. This indicator is crucial in the light of measuring the profitability, efficiency and portfolio growth. Economic research shows that client retention has a positive effect on institutional cost which decreases due the reduced need to engage in marketing activities and less need for client orientation. It also increases staff productivity because they work with established clients; while it generally decreases loan risk as clients with established credit history tend to have a good repayment record.

NEW BUSINESS

In the last quarter the ACE project focused on looking for new lending opportunities to the agribusinesses and farmer organizations in poultry, livestock, dairy, food processing, textile/handicrafts, agricultural inputs import, fresh and dried fruits exporters.

CENTRAL

- The Haji Said Karim and Brothers Company in Kabul was established in 2008. The company processes and exports dried fruit such as pistachios, almonds and walnuts to India, Dubai and other countries. The client applied for an ADF loan of US\$100,000 to purchase a packaging machine and dried fruit directly from farmers for export.
- The Orient Fruit Company has been processing and exporting raisins to Russia and Belarus since 1994. The company is also established and very successful in Russia. The company is interested in an ADF loan of US\$1,000,000 to purchase modern machinery to process raisins locally and export them.

- The Milaad Kabir Company produces mango juice to supply to the local market. The client purchased new machinery from China to begin apple juice production. The company is interested in an ADF loan of US\$300,000 to purchase apples from the local farmers for juice production.
- The Maiden Wardak Agriculture Company purchases apples from local farmers, packages them and supplies them to local markets in Afghanistan. The company also has a dairy farm that supplies milk, yogurt and butter to local markets. The client is interested in an ADF loan of US\$150,000 to purchase apples from the local farmers of Wardak province.

NORTH

- The Kishm Beekeeping Association located in the Kishm district of Badakhshan province has 60 active members and is registered with Federation of Afghanistan National Traders. The association provides free short term bee keeping training courses, bee keeping subsidiary equipment and tools for each individual member. Currently 1,200 bee keeping boxes have been distributed to farmers. The association sells their products to the local market and would like to expand their domestic exports. The team is currently working on their loan application for the ADF loan.
- The Amir Hamza Agricultural and Livestock Secondary Cooperative consists of seven primary cooperatives with 2,106 members. The members of the cooperative receive fertilizer from the cooperative on credit to produce wheat, potato, onion and vegetables and pay back their loans after the harvest season. The client is interested in an ADF loan of US\$100,000 to on-lend to the member farmers.
- The Insaf Flour Mill is located in Sari Pul province and purchases wheat from the local farmers and processes it into flour through modern flour machinery. The client is interested in an ADF loan of US\$100,000 to purchase wheat from additional farmers in Sari Pul province.



WEST

- The Sodais Saud Company in Herat province exports dried fruit to India, Dubai and Pakistan. The client is an existing ADF client and has received an ADF loan of US\$800,000. The company requested a second loan of US\$1.5 million to purchase dried fruit and increase their exports.
- The Alokozay Agricultural and Gardening Company located in Guzara district of Herat province is involved in orchard growing and crop production. The company requested an ADF loan of US\$100,000 to purchase fertilizers and agricultural machinery such as tractors.
- The Afghan Kashmira Wa Pashm Ltd., located in Herat is involved in the cashmere and wool

business. The client is interested in an ADF loan of US\$1 million to purchase cashmere locally and export it to China.

- The Haqdoost Company purchases grapes from farmers in Guzara district to later dry them and sell the raisins in the local market. The company is interested in an ADF loan of US\$650,000 to purchase grapes from the local farmers and procure processing and packaging equipment.
- The Khodadad Siddqyar Fresh Fruit and Vegetable Store purchases fresh fruits and vegetables directly from farmers and sells the produce to wholesalers. The client also has 12 greenhouses where it grows cucumbers and sells them to wholesalers, restaurants and shopkeepers in Herat province. The client is interested in an ADF loan of US\$100,000 to expand their business.

EAST

- The Silab Sohail Technical and Production Company produces agricultural equipment such as wheat, corn and rice threshers and trolleys. The company applied for an ADF loan of US\$300,000 to purchase raw materials used in the production of threshers and trolleys.
- The Mohammad Usman Wardak Poultry Farm has two poultry sheds which have the capacity of 10,000 chicks. The client is interested in an ADF loan of US\$100,000 to purchase a hatchery machine and construct new poultry sheds.

SOUTH

- The Ghafar Azizi Cotton Processing Company in Helmand province processes, packages and distributes cotton, seed oil and seed cake for animals. The client purchases cotton seed from local farmers, processes the seeds and sells their products in the local and Pakistani markets. The company is interested in an ADF loan of US\$1 million for the purchase and processing of raw cotton from the local farmers.
- The Haji Abdul Moien Nursery Ltd, in Kandahar produces several types of products such as fruit nurseries and ornamental nurseries. The current capacity of the company is 100,000 saplings annually of which the company sells approximately 80,000 saplings. The company requested an ADF loan of \$150,000 to cultivate nursery on 10 Jeribs of land in Kandahar province.
- The Abdul Manan Shirzad Company in Kandahar purchases fresh fruit from the local farmers and exports the fruit to Pakistan. The company requested an ADF loan of US\$100,000 to purchase fresh fruit from local farmers to expand their business.
- The Noor Islam Fresh Fruit Company in Kandahar province has been involved in the export of fresh fruit such as apricots, pomegranates, grapes and plums to Pakistan, India and Dubai for the last 19 years. The client is interested in an ADF loan of US\$200,000 to purchase fresh fruit from the local farmers to increase their exports.

ISLAMIC FINANCE

Three and a half years into the project implementation, 57 percent of the approved ADF loans consist of Islamic financial products. The ratio between Sharia and Conventional loans is 52 percent to 48 percent. These figures indicate the successful achievement of the ACE program to provide access to finance in a culturally acceptable fashion, therefore using Islamic financial products.

Graphs 2 and 3. Approved Loans by Loan Type (Sharia and Conventional)

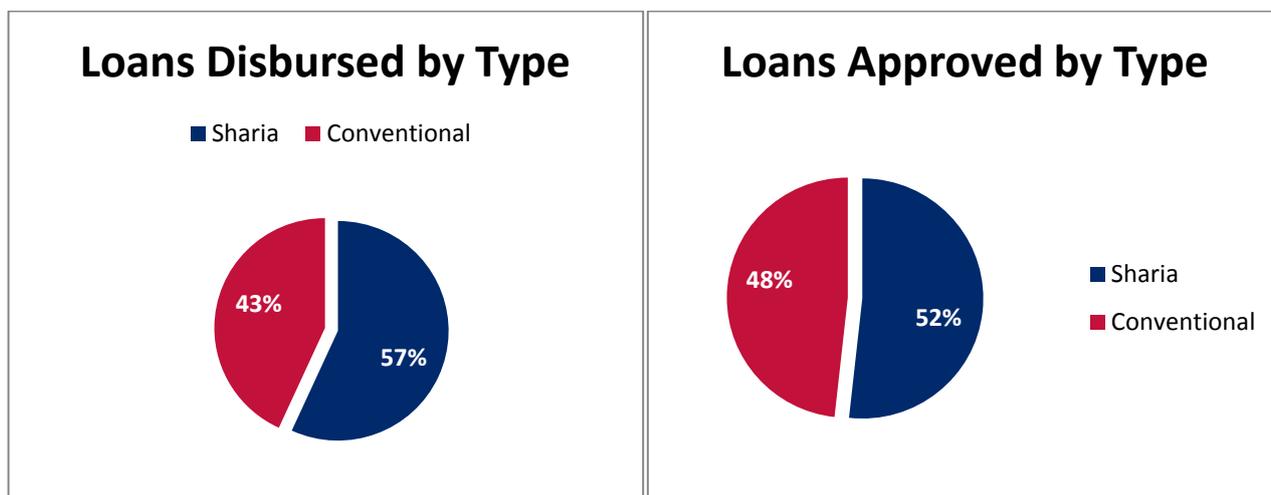


Table 3: ADF Portfolio by Type of Product

Type of Loan	Loans Approved	Loans Disbursed
Conventional	\$ 41,367,424	\$ 18,919,057
Sharia	\$ 44,378,727	\$ 24,923,028
TOTAL	\$ 85,746,151	\$ 43,842,085

CREDIT MANAGEMENT UNITS

ACE has established six CMUs within the ADF non-financial intermediaries which have enabled the disbursement of US\$10.8 million directly to 9,900 farmer borrowers.

- The AAIDO Credit Management Unit has been working on loan collection. Low productivity and yields due to cold weather this year has affected timely repayments. So far the CMU has collected AFN 35,236,110. The staff in Kunduz, Samangan and Balkh provinces started the collection of loan applications for the new loan for the current year.
- ANSOR CMU – the Loan Agreement between ANSOR and ADF has been signed, and due to the late process of contract payments from MAIL to the seed companies, the structure of the loan to ANSOR has been modified. This year any seed enterprise can apply for a loan from ANSOR with the same criteria as the ADF requirements. The CMU has started the assessment of the seed companies in the eastern provinces of Jalalabad, Kunar and Laghman and the team will visit the Northern provinces of Baghlan, Kunduz, Takhar and Mazar in the next quarter.
- The Herat Empowered Women Social Association (HEWSA) CMU is currently working on the loan collection and standardization of their accounting system and procedures. The CMU accountant is working closely with processing centers to provide support with their record keeping and daily business.
- The ADF Credit management unit team is working on the establishment of the CMU units for the Bakhtar Agriculture & Livestock secondary cooperative (BALSC) and Takhar Dry Fruit Processing Association (TDFPSA). The vetting and the budgeting process for these CMUs are under process.

Gender Activities

Throughout the past year, ACE has been taking a comprehensive approach in including gender into its lending activities and capitalizing on the existing foundations. To assist women who have been highly underserved by credit, the team followed up with over 30 female customers in the ZAHRA program pipeline and referred them to the nearest OXUS office. OXUS Afghanistan, an ADF client, will provide microfinance loans to agricultural entrepreneurs with a special earmarked fund for women to expand their

businesses.

The team elaborated on the institutional interest in educating and training its clients in Corporate Social Responsibility (CSR) to integrate economic, social and environmental imperatives into their businesses with a major emphasis on job creation for women. In this context, ACE released a grant proposal addressing these needs and concerns. In March, the project received a draft proposal from the International Center for Afghan Women Economic Development established by the American University of Afghanistan as a sole source. The center works in partnership with the university, and they will be able to draft ADF's CSR curriculum and train a local trainer. The proposal is currently being reviewed.

In January ACE visited the Herat Empowered Women Social Association to discuss their action plan for 2014. Members of the constituent processing centers discussed strategies to decrease the cost of production, reaching economies of scale by increasing production volume, modification of recipes as well as improvements in hygiene and sanitation practices and re-arrangement of the processing space. In addition, the team conducted a comprehensive practical training with 24 workers and headworkers of Herat Empowered Women Social Association. The training took place from January 7-16, 2014. The food processing expert, explained the requirement for HACCP System (Hazard Analysis and Critical Control Points), general principals of food hygiene, raw materials handling, sorting and grading, glut management, product design and production, research and development of products, pickle and jam process, product making and storing practices, packing, storing, labeling and branding. The member clients learned new processing skills as per CODEX 1 and the 3 alternative formulas and will be putting their skills into use for a new batch of jams. This production will be followed by a trial marketing event scheduled to be launched in mid-February with the following objectives:

- To launch the new jam formula in the market for testing and gather data on consumer preferences and prices. The data will be used to develop a marketing strategy which includes cost estimation for the products of HEWSA.
- To test the recall system for HEWSA products. This trial event will provide an opportunity to monitor the uniformity or homogeneity of the products across different processing centers. The main purpose is to strive for the standardization of the products, taste, appearance and other characteristics. If successful, the recall system will be used across the processing centers to maintain a standardized product.



View from one of the four daycare centers established for the children of the carpet weavers and managed by Development of Afghan Women Organization through an ACE grant.

ACE visited the Development of Afghan Women Organization's Educational Centers in Bamyan province, where the company has been conducting health, hygiene and early childhood development trainings for members of Ghulghula Carpet Production Cooperative, an ADF existing client. Development of Afghan Women Organization (DAWO) is an ACE grant recipient benefiting from an Agricultural Modernization grant to address health and social issues associated to carpet weaving in Bamyan province. Typically Afghanistan lacks adequate day care centers for children. Carpet weavers and their children especially

suffer from this social and institutional failure. The presence of children in a carpet weaving environment presents serious health hazards and to mitigate this DAWO will conduct a series of awareness raising workshops for members of Ghulghula Carpet Production Cooperative about the dangers of both child labor and children's presence near carpet weaving. The DAWO has already established four daycare centers to provide a learning environment suitable to child development and provides opportunities for learning, recreational activities and improving social interactions, which prepares them adequately for school. Currently there are 250 children in Bamyan benefiting from this initiative.



The project coordinated the first Ministry of Agricultural, Irrigation and Livestock Gender Working Group meeting conducted on March 17, 2014 in partnership with MAIL Home Economics and the USAID Office of Agriculture. This is the first gender working group that included all MAIL implementing partners. His Excellency Saleem Khan Kunduzi Deputy Minister of MAIL welcomed all the participants and gave an overview of MAIL's women in agriculture initiatives. The working group is a platform for all MAIL implementing partners to share resources to empower women in the rural areas.

ACE and ADF Grants

In the last quarter, ACE received USAID approval of five new ACE Agricultural Modernization grant application packages including Nawi Henna Production and Packaging Company, Morvarid Food Industries, Nangarhar Nursery Growers Association, Bedak Sharif Brothers Carpet Yarn Production Company and Stana Gul Poultry Farm Company.

- The Bedak Sharif Carpet Yarn Production Company will receive an ACE Agricultural Modernization grant of US\$16,200 to purchase six containers to store raw materials and final products. Currently the company stores its finished product in a rental warehouse which is far from the factory. The grant will also help the client to design and print packaging materials including standard bags for the carpet yarn and draft a marketing strategy including promotional materials for the company (banners, brochures, posters and TV announcements).
- The Nangarhar Nursery Grower Association will receive an ACE grant of US\$13,500 to install a standard greenhouse in a key targeted area of Nangarhar province to help the association increase the production of citrus and certified high quality rootstocks and saplings inside a controlled environment. The grant will allow the client to hire a marketing specialist who will support the association to expand their customer base and increase sales.
- The Stana Gul Poultry Farm Services will receive a grant of US\$15,600 to increase their production capacity by installing a hatchery machine and supply chicks to their farmer members. The

application has been completed and submitted to USAID for approval.

- The Morvarid Food Industries will receive an ACE Agricultural Modernization grant of US\$85,000 to purchase an automatic dried fruit and nuts packing machine including spare parts and accessories with installation, airfare ticket for an installation technician and accommodation costs.
- The Nawi Henna Production and Packaging Company will receive an ACE Agricultural Modernization grant of US\$30,800 to purchase an automatic packaging machine for henna production and develop a marketing strategy including designing and printing brochures, billboards, TV and radio advertisement. The grant will enable the client to hire an accountant and purchase protective clothes for 10 employees.

Table 4: ADF/ACE Grants Approved in Q2FY14

NO.	Business Name	Grant Purpose	Grant Type	\$Total Approved
Clients Sensitive Information				

Table 5: ADF/ACE Grants Disbursed in Q2FY14

NO.	Business Name	Grant Type	\$Total Approved	Quarterly \$Disbursed	\$Disbursed
Clients Sensitive Information					

In terms of disbursements for the existing grants, during the reporting quarter the project achieved the following:

- Under an ADF challenge grant to AAIDO/CMU, ACE processed and disbursed US\$16,226 to the client. The ADF challenge grant is provided to further support the Credit Management Unit (CMU) within the AAIDO operations. The Credit Management Unit works within AADIO to disburse loans to the eligible members and complete timely loan collection.
- The project processed and disbursed US\$49,329 to Oxus Afghanistan, an ADF client and grant recipient, which is providing financial training for the targeted clients in Afghanistan and opened a branch office in Bamyan earlier last year. Through the grant, the client is building the capacity of its credit staff and developing agricultural lending products.
- Under an ACE grant, ACE processed and disbursed US\$1,000 to Sayel Chips Food Processing Company. The grant was used to improve the company's current process flow, gain access to new

machinery and build the capacity of their technical staff through improved hygiene and sanitation measures.

- Under an ACE in-kind grant to Rabia Maryam Handicraft Company, ACE processed and disbursed US\$6,649 to AGS Group of Companies for transportation of Silk Processing Machineries from Ahmad Abad of India to Mazar-e-Sharif. ACE awarded a grant to Rabia Maryam Company to purchase and install high tech silk processing machines and support marketing efforts of the company to address the demand of local and international buyers.

ACE successfully completed the grant of Salahi Daikundiwal Brothers Agricultural Services Company and received the final report from the client. The ACE grant assisted the client in improving their production by establishing two modern greenhouses, piloting cucumber growing in winter for out-of-the season production, purchasing containers for the company to be used as grading and packing houses and providing hygiene and sanitation practices training. The client was advised to plant cucumber and other vegetables such as tomato and peppers. Also, as per the advice of the ADF technical team, the client planted seedlings for the spring-summer planting season earlier than usual. Out-of-the-season vegetables typically command significantly high prices, depending on the market.

Similarly, the project received the final grant implementation reports from Sayel Food Processing Company and Afghan Rice Mill after the successful completion of the grants' activities. ACE supported Sayel Food Processing Company and Afghan Rice Mill Company through Agricultural Modernization grants to improve their technical process flow by providing them with technical assistance and marketing support that includes purchasing modern machineries, building the capacity of their technical staff and improving their marketing strategy.

The project provided Grant Financial Management Training and technical assistance to Stana Gul Poultry Farm and Services Association, Nangarhar Nursery Growers Association and Nawi Henna Production and Packaging Company in Nangarhar province. The newly approved ACE Value Chain Agricultural Modernization Grants will provide technical assistance and marketing support to the ADF clients to increase their business profit which will help in the repayment of the ADF loans.

Internal Audit and Compliance

In the last quarter ACE conducted an internal audit for the sharia compliant loans approved and disbursed between January–December 2013 to assess their compliance with the ADF policies. The audit is performed in accordance with ADF policies and procedures for Islamic Finance, Annual Sharia Review document and ADF Sharia Compliance Audit Manual. The main objectives of the audit were to ensure that the transactions are free from interest bearing, to assess the accuracy and completeness of records, loan and collateral documents and that the Sharia compliant loans are designed and utilized based on ADF policies and procedures for Islamic Finance. In addition, the audit was conducted to ensure that disbursements and repayments are implemented based on the ADF policies and procedures for Islamic Finance through a separate bank account.

The team conducted an internal audit assessment for the ADF loan operation, credit administration and finance departments for the period September 2013 to February 2014. The team evaluated the internal control systems to ensure adequate internal control is in place to minimize the possibility of errors and discourage fraud, examined the financial and loan operation information to ensure appropriateness of transaction flows and completeness of supporting documents and determined that ADF is operating in compliance with internal policies and regulations.

Similarly, the project audited the Nawi Henna Production and Packaging Company and the Stana Gul Poultry Farm collected the required information and documents for the audit assignment while physically verifying the operation and stock of these clients. The purpose of the audit was to ensure compliance and proper loan utilization of each loan vis-à-vis the loan agreements.

Table 6: Audit Reports Undertaken During Quarter 2 FY'14

Audit Assessments conducted in Q2 FY'14		
No	Client	Status of the Loan
1	Audit of ADF Credit Administration, Loan Operation and Finance Departments	NA
2	ADF Sharia Loans – Annual Review	NA
3	Nawi Henna Production and Packaging Company	Disbursed
4	Stana Gul Poultry Farm Services Company	Disbursed
5	BAMYAN Potato Cooperatives 2013 Loan	Disbursed

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Table 7: ACE/ADF Grants

No	Business Name	Province	Grant Purpose	Grant Type	Start Date	End Date	US\$ Approved	US\$ Disbursed
Clients Sensitive Information								

TABLE 8: ADF Loans Approved and Disbursed to End Beneficiaries

SN	Borrower	Loan Type - NFI, FI, or Agribusiness	Approved	Province	\$ Loans Approved by MAIL & USAID*	Disbursed Loan Amount	Repaid Loan Amount (with interest)	Direct Beneficiaries	Status
Clients Sensitive Information									

TABLE 9: ADF Pipeline

Loan Pipeline Tracker Report						
<u>Borrower</u>	<u>Loan Type FI, Direct, NFI</u>	<u>Loan amount requested</u>	<u>Province</u>	<u>Category</u>	<u>Loan Application Stage</u>	<u>Notes and Comments</u>
Clients Sensitive Information						



Component 2: Agricultural Modernization and Value Chain Development

The purpose of ACE's Value-Chain strengthening unit is to provide technical support to the lending operations as well as to ADF clients. The unit leads the technical assessment of production; processing and marketing activities proposed by loan applicants and also provides technical assistance to ADF borrowers.

In the fourth year of the project implementation ADF credit services strongly focus on supporting commercial agricultural and agro-processing operations and input supply networks along with other major actors across the main agricultural value chains. In the past quarter ACE's Value Chain Strengthening Unit continued to play an important role in providing 1) technical reviews of loan applications; 2) technical assistance to the new and existing clients through Agricultural Modernization Grants; 3) organizing meetings and workshops that bring the members of the value chain together to promote increased market opportunities and removal of value chain constraints; 4) conducting environmental compliance reviews for the ADF loans; and 5) playing a major role in coordinating with other stakeholders and actors in the agricultural sector.

In March the team organized three agricultural value chain and policy workshops on agricultural exports in Mazar-e-Sharif, Herat and Kabul with the participation of 40, 40 and 46 actors, respectively. The value

chain discussion workshops intend to bring together the main players involved in the export of agricultural products to discuss and propose ways to improve the process and increase the export of agricultural commodities. Participants included progressive farmers, brokers, wholesalers, traders, processors, retailers, custom commission Agents' Association, custom's export/import commission agents, certificating companies, exporters, government authorities i-e: MAIL, ACCI, customs and other related departments as well as other partner organizations from the entire region.

The participants listed the current challenges and obstacles to the exports of the agricultural goods in the system such as the low quality of agricultural inputs, improper taxes and fees, delays in the border, weak traditional irrigation systems, lengthy documentation processes at customs domestically and internationally, lack of adequate packing materials and inadequate harvest and post-harvest practices.

The Herat Ice Cream Company received an ADF loan of US\$1.3 million to purchase modern machinery and extend advance payments to their milk suppliers. The company has a production capacity of 35 MT of ice cream daily with its existing machinery, significantly above any other ice cream producer in Afghanistan.

Due to the ADF loan the company increased their annual production by **25 percent**. Currently the company provides **5,500** ice cream carts to interested individuals in 22 provinces of Afghanistan, with an increase of 150 carts following the receipt of the ADF loan. These street vendors generate income through selling Herat ice cream. The cart sales are in addition to their distribution network to the supermarket chains and stores across the country.

The ADF loan enabled the company to increase the number of milk suppliers who are now confident that there is a market to sell their product. One and half years after the loan disbursement, the company shows a **29 percent increase in their annual sales**, a **27 percent increase** in net income, created **48 full time jobs** and expanded the markets of the company to 6 new provinces such as Samangan, Jawzjan, Ghor,

Some of the recommendations for

improvement consisted of the following:

- Control imported and domestic agricultural inputs;
- Support farmers and cooperatives moving towards mechanization in crop cultivation;
- Ensure the availability of adequate irrigation for every region;
- Launch a one-stop-shop for all taxes and subsidies from the government to support the exporter;
- Establish well-organized packing centers ;
- Take steps to introduce some high value crops such as flax, sesame, sunflower and etc.; and
- Enable regular access to credit to farmers and exporters.

Technical Assistance to the ADF clients

ACE is supporting the potato growers in Bamyan with a 12-Jeribs demonstration field which will be planted with several potato seed varieties. The team is engaging an international consultant who will assist the farmers to address two constraints related to productivity and quality of the produce. While the former was partially addressed through the provision of credit, which enabled farmers to procure fertilizers and better seed quality, ACE is taking initiative to capitalizing on the existing partnership to increase farm efficiency and enhance the quality of Bamyan potatoes. ACE will provide improved agricultural techniques to the farmers which will be assisted through field days throughout the planting and harvesting period. At the end of this initiative, after testing several potato seeds, and will recommend the best varieties which can address some of the issues with productivity and quality of the produce.

In addition, through ACE Agricultural Modernization grants, the program is assisting its clients to address challenges with the efficiency of their processing lines, lack of marketing plans and constraints with market competitiveness. Below is a comprehensive description of some of the main ACE grants processed and implemented in the reporting quarter.

The Herat Empowered Women Social Association (HEWSA) – An ACE grant was designed to provide technical assistance and marketing support to the client to assist them increase their production, hire one food processing specialist, one accountant specialist and purchase fruit and vegetable packing machine and conduct promotional marketing activities. The total amount of the grant is \$112,200.00 of which ACE is covering 80.21 percent whereas the client contributes 19.79 percent.

The team hired a technical expert for the duration of two weeks to work closely with the association to improve the production line of the processing center and to develop a business plan. The technical expert developed the business plan based on the requirements of the association, and improved the production line of the processing center through tackling the following:

- Installing new shelves for finished products
- Using wooden pallets to protect raw materials against humidity
- Renovating the processing centers by changes in infrastructure of the processing center
- Installing the hand washing sinks

The team also conducted food safety and personal hygiene training to the members of the association and hired a Food Processing Specialist to work with HEWSA on the food processing procedures. The consultant conducted a comprehensive practical training for 24 workers and headworkers of HEWSA. The training took place from January 7-16, 2014. The food processing expert, explained the requirement for HACCP System (Hazard Analysis and Critical Control Points), general principals of food hygiene, raw materials handling, sorting and grading, glut management, product design and production, research and development of products, pickle and jam process, product making and storing practices, packing, storing, labeling and branding.

On the administrative side, ACE hired an accountant to manage and control the financial documentation of the ACE grant and ADF loan for the client; and purchased protective clothes for the members of the association. This constitutes one of the most comprehensive technical supports offered by ACE to an ADF loan recipient.

The Sodais Saud Ltd. is a dried fruit exporter currently involved in purchasing, cleaning and packaging fruits and exporting the final products to India and UAE. An ACE Agricultural Modernization grant was designed to improve the processing facilities of the company and their production processes and efficiency. The total cost of the project is \$83,580 and ACE is covering 79.5 percent of the costs.

Earlier last year ACE provided a Hygiene and Sanitation training to the 20 members of the company. Currently ACE has selected a vendor of a pistachio machine from China which is now being vetted. The new processing center for pistachio requires several improvements to meet the conditions for a modern processing center, for which a construction company has been hired to make physical adjustments.

The Qarizada Tomato Paste Company was established in 2007 and is a pioneer tomato paste production company in the Northern region. Through an ACE Agricultural Modernization grant, ACE is supporting the client to purchase an automatic can labeling machine, hire a professional agronomist to work with the client's farmer network on production, harvest and post-harvest practices, as well as improve their branding and labeling. The total amount of the project is \$40,380 of which ACE is covering 80 percent of the cost. The grantee will contribute the transportation of the automatic tin can labeling machine from Shanghai, China to Mazar-e-Sharif and purchase an air compressor to connect with the labeling machine.

In the past quarter the labeling machine was purchased and was shipped from China to Mazar-e-Sharif. Due to the security conditions in Afghanistan, the vendor has been unable to mobilize a technician to assemble the machinery for the Qarizada Tomato Paste in Balkh. ACE, the client and the vendor discussed alternative solutions and likely the vendor will send a video manual on how to assemble and synchronize the machinery. In addition, in the past quarter through the grant, the client designed and printed 50,000 plastic labels through the same Chinese vendor.



View from the noodle drying house and the processing center of Ghulam Dastagir Food Production Company. ACE supported the improvements through an Agricultural Modernization grant.

The Ghulam Dastagir Food Production Company was established in 2010 as the only noodles and vermicelli producing factory in Afghanistan, operating out of Jalalabad. The company benefited from a grant of US\$37,440 which was used to establish two dry houses for noodles and vermicelli, purchase two flour mixing machines with capacity of 50kg batches and provide training support to their employees on food safety, hygiene and sanitation. The client is covering 27 percent of the project cost of US\$10,040 and ACE is financing the rest for \$27,400.

Sky Blue, an Afghan company, was contracted to establish two plastic houses which are now fully established. The Eastern team visited Ghulam Dastagir Company and recommended modifying the grant for the company to improve the processing center of noodles by providing the following support:

- Making 100 metal containers for the baking of noodles
- Installation of hand washing sink
- Plastic shovels
- Stainless steel containers for flour mixing and filtering, each dimensioned
- Stainless steel containers

Within the same period, the team also finalized and submitted the grant applications of two other ACE Agricultural Modernization grants for ADF clients to USAID to obtain their approvals. Bakhtar Flour Mill, a very successful ADF client, is requesting a grant of US\$150,000 to design and install a standard silo storage which has the capacity for 5,000 Metric Tons of wheat. The Taje Telayee Poultry Farm Cooperative has also applied for a grant to receive technical assistance and marketing support to the client. ACE is waiting for vetting of another 14 client's and vendors which will benefit from new and existing ACE Agricultural Modernization grants.

Below is an overview of the loan packages to be completed in the next quarter.

Table 10: Grants Packages to be Processed in the Next Quarter

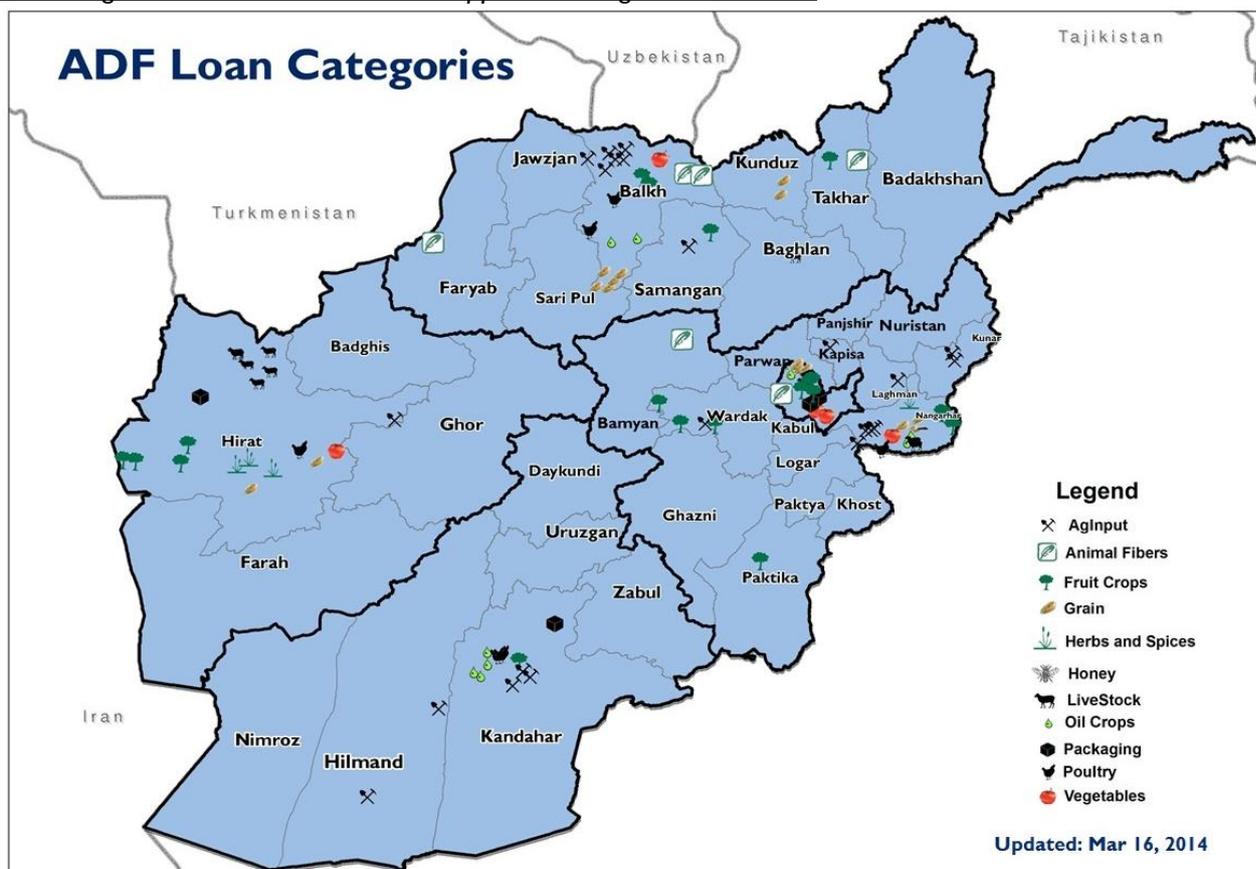
No	Grantee Name	Proposed grant activity description	Province
1	Sama Poultry Farm	Technical assistance	Balkh
2	Aziz Farid Cotton Gin and Press and Edible Oil Production Company	Establishment of cotton seed demonstration plots, hiring agronomists, establishment of cotton testing laboratory, hygiene training	Balkh
3	Javid Khuhnawardan Co, Ltd	Establishment of the bag house dust collecting system, food safety training, workers uniform	Balkh
4	Momin Khan Agri Input Supply Store	Establishment of local points with (5 metallic containers)	Balkh
5	Mustafa Jamal Flour Mill	Testing laboratory, hiring a permanent technician	Balkh
6	Central Aybak Dry Fruit Association	Cleaning and sorting machine, establishment of CMU unit, food safety training, marketing strategy	Balkh
7	Mehran Gozaragah Cold Storage Services	Cold storage technician, packaging machine	Balkh
8	Shirpur Sultani Flour Mill	Personal hygiene training, flour analyzing lab, establishment of a liquid and solid waste management system	Balkh
9	Sayed Jamal Flour Mill	Wheat testing and analyzing lab, permanent technician, technical training	Balkh
10	Takhar Trader Women Social Organization	Laborers salaries, transportation cost of laborers, financing the kindergartens' expenses, capacity building workshops	Takhar
11	Takhar Dry Fruit Processors' Social Association	Packaging materials, plastic tables, CMU Unit, workers uniform	Takhar
12	Motmaeen Samangan Agricultural and Livestock Retailer Association	21 refrigerators/freezers for the member Ag-depots to keep the medicines	Samangan
13	Baghlan Dairy Union	Technical training, food safety and personal hygiene training	Baghlan

2. Technical reviews for the ADF borrowers

Over the reporting quarter, ACE completed technical reviews for ten new loan applications which were approved in February and April. The team provided technical recommendations to several clients to assist them with their business growth and adequacy of their processing flows.

- The Uddin Wardak Wool Washing and Carpet Co. was advised to purchase a centrifugal machine with waste water filtration and fat removal. This machine would mitigate the environmental threat and the company can re-use the filtered water for other wool washing.
- The Salehi Daikundiwal and Brothers Agriculture service company was advised to follow a crop rotation in their plantation to reduce the risk of pests and diseases targeting one crop family.
- The Sayed Ahmad Khoshkyar Ltd. was advised to verify the list of approved pesticides (according USAID PERSUAP) with MAIL's plant protection department which will enable the company to import the certain types of the pesticides from abroad (China).
- The Momen Khan Ag-Input supply company is utilizing the ADF loan for the purchase of two types of fertilizer (Urea and DAP) to meet the standard technical specification that MAIL has approved and provided to the client.
- The Natural Cooking Spices Production Company purchases dried fruit, dried vegetable and packaging materials from local farmers. The ACE team provided a technical recommendation to the client to remove dust, hang electric fly killers to avoid contamination of the product and build a separate warehouse to store raw materials and the finished products.

Map No 1 : Agricultural Value Chain Nodes Supported through the ADF Loans



3. Environmental Compliance

During the last quarter, ACE conducted environmental reviews and screening for three ADF clients: the Salehi Daikundiwal Brothers Agriculture Service Company, the Stana Gul Poultry Farm Services, the Nawi Henna Production and Packaging Company and the Sadaqat Agricultural Cooperative. These initiatives present moderate environmental risks from loan funded operations and grants and they will implement the mitigation measures described herein and report deficiencies, problems or significant changes in their business operations, or mitigation measures to the ACE team. The objective is to minimize and eliminate the potential environmental risks from U.S. government activities in foreign countries through a two-phase process of risk characterization followed by identifying appropriate mitigation measures or conditions if needed. The project submitted the documents of the clients to USAID Mission Environmental Officer for approval.

Table No 11: List of ADF Loans Screened for Environmental Compliance

Loan/ Grant Case Approved	Screening Result	Mitigations	Status
Salehi Daikundiwal Brothers Agriculture Service Company (2 nd Loan)	Activities represent a Moderate or Unknown Risk	a) Purchase top quality and disease-free seeds not older than 3 years. To provide the seeds with cool, dry, dark and pest and moisture free storage, b) Purchase first hand and good quality packaging cartons and also provide safe disposal for generated paper and cardboard waste from the packaging activity. If feasible train the workers on waste separation on the source, c) Cover the manure with soil until complete compost takes place; provide the workers with all necessary PPEs (gloves, face masks, boots, etc.) d) Provide proper storage area for the DAP, NPK fertilizer also provide training on appropriate usage of DAP and NPK.	Submitted for approval
Stana Gul Poultry Farm Services (Grant)	Activities represent a Moderate or Unknown Risk	a) Procure high-quality, safe solar panel and provide guidance on how to operate safely. b) Provide guidance of proper usage of PPEs (Personal Protective Equipment such as: boots, face masks, hair nets and gloves) and its safe disposal after the usage. c) Plan for safe renovation activities by taking into account all precautionary measures for occupational health and safety (OHS). Provide proper guidance on all processes of the poultry farm to the employees and use all PPEs within the farm to reduce risks associated with the activities. d) The wastewater generated at site which is solids-free water can either be sprayed onto an actively growing vegetated field or added to the compost pile. e) Provide environmentally sound waste management as the only on-farm disposal option for solid poultry waste is to compost it on the farm. There are many different composting methods.	Submitted for approval
Nawi Henna Production and Packaging Company (Grant)	Activities represent a Moderate or Unknown Risk	Procure a high-quality, safe machine and also provide guidance on how to operate safely; provide guidance of proper usage of PPEs (hair nets, face masks, boots, gloves) and its safe disposal after the usage; plan to provide enclosed, controlled, pest- and moisture- free, cool, dry and clean storage; provide environmentally sound Solid Waste Management plan with formulation	Submitted for approval

		of 3R (Reduction, Reuse, Recycling) program	
Sadaqat Agricultural Cooperative (Grant)	Activities represent a Moderate or Unknown Risk	<p>a) Purchase high quality and virus free potatoes which come from tissue culture techniques. Brush the seeds to remove the mud or any longer clumps of dirt and then provide the seed potatoes with appropriate temperature (35-40 Degrees Fahrenheit), dry, dark and pest and moisture free storage.</p> <p>b) Provide employees with appropriate Personnel protective equipment (PPEs) and if feasible provide them with semi mechanical tools for land preparation to avoid any injury during the land preparation.</p> <p>c) Provide proper PPEs to the laborers/workers while performing the pre-harvest activities and dealing with fertilizer, d) Plan for safe transportation of seed potatoes by taking all necessary measures for the safe transportation or shipping, e) Provide proper storage area for the DAP, Urea fertilizer also provide appropriate usage of DAP/Urea by introducing it to the soil during a tillage operation, and also during irrigation or a rain of as 0.25 inches to blend urea into the soil, g) Purchase good quality, well packed, with least environmental risk also the allowable fungicide and pesticide of which use is permitted in the PERSUAP should be used only. During the use of pesticide/fungicide in the field the proper PPEs (masks, gloves, boots, safety goggles, hair nets) should be used, h) Provide environmentally sound solid-waste management as to apply source separation in waste management.</p>	Completed

Coordination

ACE continued to support the Farmers' Day celebrations as they do every year. In Herat the event took place on March 22, 2014 with the participation of the provincial Governor, representatives of DAIL offices, local and international NGOs and farmers from several districts. The project awarded several prizes to some of the most active farmers in the Western region. The DAIL Director expressed his appreciation of ADF support with farmers and agribusinesses in the Western region by presenting the ACE project an appreciation certificate.

In the same fashion, the project team in Mazar-e-Sharif attended and celebrated Farmers' Day in the Balkh province. The team provided information on the ADF lending opportunities and criteria to the participants. Balkh DAIL director appreciated ADF's support in promoting the agricultural sector in Balkh province.

The team participated in the Value Chain Market Facilitation training provided by ACDI-VOCA in coordination with RADP-South.



Left and Right: View from Farmers' Day Celebration and ADF gift distribution to the best and active farmers and agribusinesses in Herat province.

Component 3: Coordination and Knowledge Management

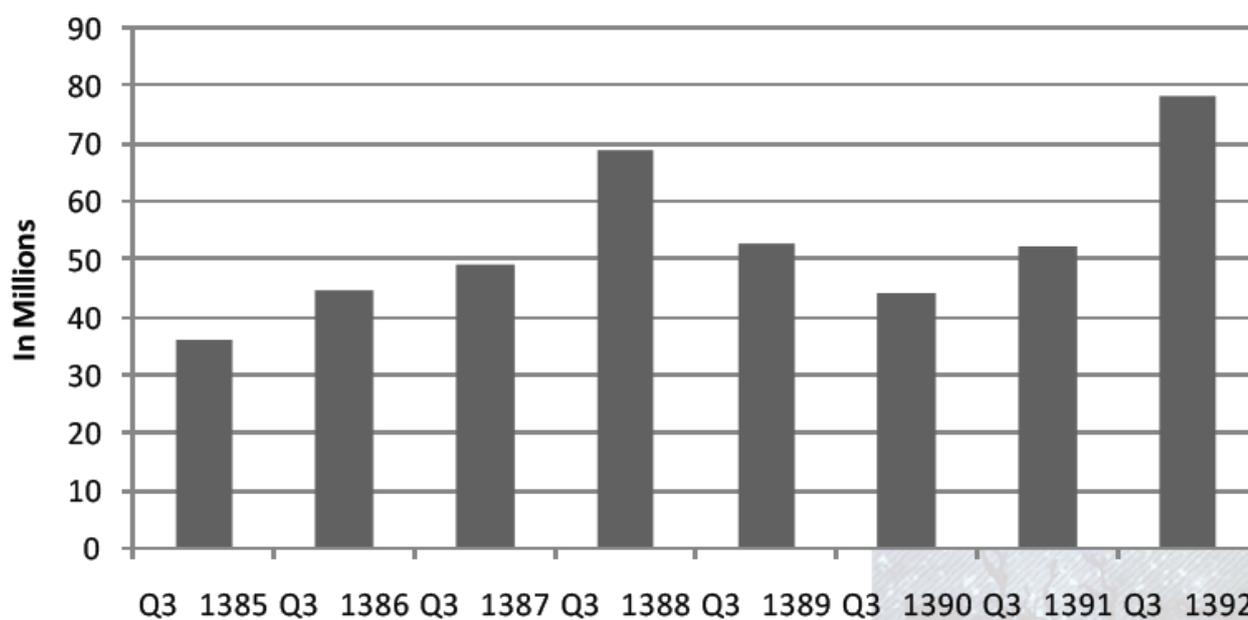
The Knowledge Management Component aims at integrating production and market information currently being generated by an array of organizations, and transforming it into market intelligence applicable to diverse audiences within the agriculture sector, while building the capacity of MAIL staff to manage the system.

During the reporting quarter, ACE finalized and published four agricultural trade reports that included the Annual Agricultural Trade for 1391 and Agricultural Trade reports for quarters 1, 2 and 3 of 1392 which cover the period from March 2012 to March 2013. The agriculture trade reports attempt to bridge the trade information gap faced by agricultural actors. The reports include information on agriculture trade flows by commodity, customs house and partner countries. It also provides insight into: 1) major agriculture commodities exported as well as export destinations, 2) major agriculture commodities imported and countries of origin, and 3) characteristics of agricultural trade. The report includes information on trends and distribution of agriculture trade flows by commodity, the customs house and partner countries. In Afghanistan the lack of trade information is a major contributing factor of market information gaps with respect to trade facilitation and trade development.

Agricultural trade flows of Afghanistan reached 31.6 billion AFA (548.8 million USD) during the third quarter of 1392 having increased by 24.3 percent (6.2 billion AFA) from that of the same quarter in the previous year. Imports represent 83 percent of agricultural trade while exports represent 17 percent. The trade deficit valued at 22.6 billion AFA increased by 13.5 percent (2.6 billion AFA) compared to the same period in year 1391, as a result of the increase in exports. The report also shows that the agricultural exports increased by 63.7 percent in its AFA value during the third quarter in 1392 comparing to the same quarter in 1391, as shown in figure 1. Agricultural exports valued at 4.5 billion AFA (78.1 million USD), represent a smaller share compared to the imports, and their share has increased from 4 percentage points to 17 percent compared to the same period in 1391. Table 1 and figure 3 show the relative composition of agricultural exports by category.

Graph 4: Afghanistan Agriculture Exports by Year

Figure 1: Agriculture Exports for Q3 - 1385 - 1392 in USD



Performance Management - ACE Progress against Targets

ACE's approach to performance management is stipulated in project's PMP, which is periodically revisited and updated. Measuring progress towards the provision of agricultural credit through the ADF and strengthening of Afghan financial and private sector intermediaries to provide sustainable agricultural lending initiatives are at the heart of the ACE PMP. The program's M&E unit carries out the monitoring system outlined in the PMP through a two-pronged approach to tracking results. First, output information and data on lending is primarily collected through project technical staff. The M&E team backs up the new loans to financial and private intermediaries with developing documents and forms for the proof of loans to farmers. The staff travels to provinces to conduct baseline and impact studies for the agribusinesses supported by the project as well as to verify performance data. Second, M&E staff members regularly review the data generated by the technical staff as well as the data collected from the clients. In case activities that further need attention are identified, special inspections and studies are conducted. The M&E Managers are responsible for analyzing aggregate data across the program reflecting results and identifying bottlenecks.

During the past quarter ACE has achieved or exceeded nine of its 15 PMP indicators while meeting the objectives laid out in the Annual Workplan 4. The team has successfully managed to establish a highly effective Agricultural Development Fund which has already lent over US\$41 million, maintaining a default rate of 4.62 percent.

During the past quarter, the M&E team conducted farmers' baseline surveys for 106 beneficiaries of Aziz Farid Cotton Manufacturing Company in Balkh and for 80 beneficiaries of Motmaheen Agricultural and Livestock Association in Samangan province. The purpose of this exercise was to capture information on sales and income of the farmers before benefiting from ADF loans. In August –September the project will conduct farmer impact surveys with the same farmers to measure how and to what extent the ADF loans would have helped the farmers to increase their income and improve their livelihood.

The team continued to engage actively in monitoring the disbursement to end borrowers for the farmers of Sayed Jamal Flour Mill (2nd loan), Bakhtar Agricultural and Livestock Secondary Cooperative, Farah Gostar Company, Afghan Women Saffron Association and OXUS Afghanistan. The clients disbursed raw materials, agricultural inputs and/or cash advances to their member farmers. The team is following up on the loan agreements (slips) designed by the project, completed by the ADF clients as a form of evidence of the transaction between the ADF clients and their farmers. ACE is making efforts to verify the disbursement in the field and ensure that the distribution of the loan is compliant with the ADF loan agreement. The table below shows the disbursements to end-borrowers carried out in the last quarter.

Table 12: ADF Loans to Farmers Achieved in Quarter 2 FY'14

No	Client	Direct Beneficiaries
1	Afghan Women Saffron Growers Association	71
2	Azimyan Macaroni, Biscuit and Salty Snack Production Company	14
3	Bakhtar Agricultural and Livestock Secondary Cooperative	171
4	Farah Gostar Ltd	15
5	Momen Khan Agricultural Input Company	114
6	OXUS Afghanistan	46
7	Sayed Jamal Flour Mill (2nd loan)	265
Total		696



Left: Farmer beneficiaries of the Sayed Jamal Flour Mill receiving cash advances in Balk province. Right: View during the disbursement of Shir Poor Sultani Flour Mill in Mazar-e-Sharif to their farmer beneficiaries.

Quarterly Results for Q2 FY 2014

This section presents ACE's achievements against targets from January 1st to March 31st 2014

Indicator #1.1 - As of March 31st, ACE achieved a net total of US\$85,746,151 in approved loans, achieving the quarterly target by 101 percent and continuing to close the gap between actual and target loans of the past quarter. During the last quarter only, ACE approved an additional \$1.4million USD in loans.

Table 13: Net Amount of ADF Loans Approved and Disbursed per Quarter

Quarter	Approved (Cum)	Disbursed (Cum)
FY 2011	\$16,746,562	\$9,515,771
Q1 2012	\$19,104,562	\$15,530,721
Q2 2012	\$36,943,562	\$18,917,799
Q3 2012	\$37,212,970	\$21,505,726
FY 2012	\$46,010,957	\$22,319,454
Q1 2013	\$49,010,957	\$22,878,054
Q2 2013	\$64,723,195	\$26,234,451
Q3 2013	\$74,214,455	\$34,464,253
FY 2013	\$80,542,655	\$37,256,268
Q1 2014	\$84,359,060	\$41,447,278
Q2 2014	\$85,746,151	43,842,085

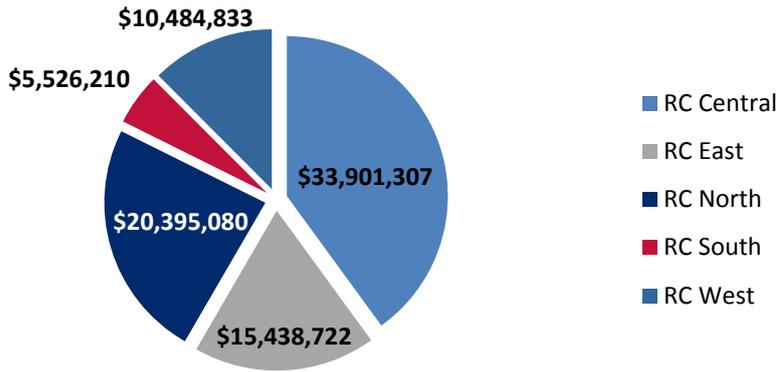
During the same time period, ACE successfully disbursed a net total of US\$2.4 million to the ADF clients. As of the end of the quarter, ACE has managed to disburse a total of US\$43.8 million, reaching 67 percent of the disbursement target. This results from three main factors; 1) the majority of the clients do not require the ADF loans in one single tranche but rather in multiple disbursements in alignment with their loan purpose; 2) during the past year the team has faced issues regarding clients' collaterals which cause delays with the disbursement. The team is working towards expediting the process in close consultations with the clients. 3) In the cases when ACE/ADF pays a supplier directly as part of loan agreements, there have been issues validating the invoices. In several cases the suppliers have increased their prices from the time of the initial agreement and the team is working to identify new suppliers and expedite the process. Graph 5 below shows the distribution of ADF loans approved by regional command, whereas Graph 6 indicates the loans disbursed according to the regional command.

Table No 14: ADF RC-level Loan Approval and Disbursement

Region	Loan Approved (\$)	Loan Disbursed (\$)	Beneficiaries
RC Central	\$33,901,307	\$7,984,448	434
RC East	\$15,438,722	\$11,191,642	7,529
RC North	\$20,395,080	\$15,401,982	10,220
RC South	\$5,526,210	\$1,997,984	2,029
RC West	\$10,484,833	\$7,266,032	2,856
Total	\$85,746,152	\$43,842,085	23,068

Graph No 5: ADF Loans Approved per Regional Command

Value of Loans Approved US\$



Graph No 6: ADF Loans Disbursed per Regional Command

Value of Loans Disbursed US\$

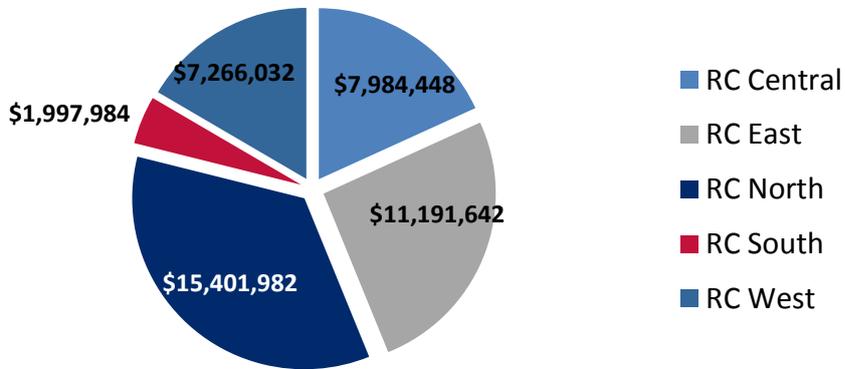


Table 15: Performance Data Q2 FY 2014

Indicator Name and Number	Baseline (date collected)	FY 2011	FY 2012	FY 2013	Q1 FY 2014 (total for this quarter only)*	Q2 FY 2014 (total for this quarter only)*	TOTAL Cumulative Q2 FY2014	Target for Q2FY2014	%	Target for FY 2014
		Actual	Actual	Actual	Actual		Actual	Target		
1.1 Value of finance accessed through lending	0	\$16,746,562	\$46,010,957	\$80,542,655	\$84,359,060	\$85,746,151	\$85,746,151	\$85,000,000	101%	\$85,000,000
Male	0	-	\$45,325,957	\$78,731,638	\$82,548,043	\$83,935,134	\$83,935,134			
Female	0	-	\$685,000	\$1,811,017	\$1,811,017	\$1,811,017	\$1,811,017			
1.1 - a Values of Loans Disbursed	0	\$9,515,771	\$22,319,454	\$37,256,268	\$41,447,278	\$43,842,085	\$43,842,085	\$65,000,000	67%	85,000,000
Male	0	-	\$22,021,458	\$35,976,515	\$40,167,525	\$42,562,332	\$42,562,332			
Female	0	-	\$297,996	\$1,279,753	\$1,279,753	\$1,279,753	\$1,279,753			
1.2 Number of individuals benefiting from financial agreement	0	8,720	15,233	21,574	843	696	23,113	50,000	46%	60,000
Male	0	8,717	15,089	21,080	843	571	22,494	48,750	46%	
Female	0	3	144	494	0	125	619	1,250	50%	
1.2 -a Number of individuals benefitting from ACE or ADF financial agreements/ Indirect	0	94,162	101,711	124,231	8,870	3,316	136,417	100,000	136%	120,000
1.3 Percent annual increase in household income by assisted direct beneficiaries	Oct, 11, Avg \$580 per Household	-	56%	32%	N/A	N/A	-	-	-	10%
1.4 Net total increase in Full-Time Equivalent (FTE) jobs created by USG sponsored agriculture activities	0	171	856	1,987	512	235	2,734	1,500	182%	2,000
Male	0	171	749	1,667	271	224	2,162	1,200	180%	
Female	0	0	107	320	241	11	572	300	191%	
2.1 Value of challenge/ innovation and agriculture modernization grants app	0	\$737,683	\$1,756,296	\$2,707,854	\$303,580	161,100	\$3,172,534	\$14,500,000	22%	\$20,000,000
Male	0		\$1,592,475	\$2,259,014	\$236,480	161,100	\$2,656,594			
Female	0		\$163,821	\$448,840	\$67,100	\$0	\$515,940			
2.1 - a Value of Challenge/Innovation (ADF) Grants	0	\$607,970	\$783,099	\$1,186,780	\$0	\$0	\$1,186,780	\$10,000,000	12%	15000000
Male	0	\$0	\$759,108	\$1,162,789	\$0	\$0	\$1,162,789			
Female	0	\$0	\$23,991	\$23,991	\$0	\$0	\$23,991			
2.1 -b Value of Agricultural Modernization (ACE) grants approved	0	\$129,713	\$973,197	\$1,521,074	\$303,580	\$161,100	\$1,985,754	\$4,500,000	44%	\$5,000,000
Male	0	-	\$833,367	\$1,096,225	\$236,480	\$161,100	\$1,493,805			

Female	0	-	\$139,830	\$424,849	\$67,100	\$0	\$491,949				
2.2 Number of participating Financial Intermediaries and Private Intermediaries on-lending funds	0	14	50	85	5	2	92	24	383%	25	
Male	0	-	47	80	5	3	87				
Female	0	-	03	5	0	0	5				
2.3 Number of innovative lending products established by Private Intermediaries (IRs) and Financial Intermediaries (IRs)	0	3	9	9	0	0	9	6	150%	6	
2.4 Percentage of loan losses resulting from ACE lending recommendations	0	-	1.32%	3.86%	4.84%	4.62	4.62%	<5%	100%	<5%	
3.1 Percentage change in value of exports of Afghanistan agricultural products for firms supported by ACE	\$3,048,355 (Oct,2011)	-	61%	18%	-	-	-	-	-	10%	
3.2 : Number of loans approved under USAID's Development Credit Authority (DCA) mechanism	0	0	0	0	0	0	0	4	N/A	4	
3.3 Number of public-private partnerships formed as a result of USG assistance (including GDAs)	0	0	0	0	0	0	0	3	N/A	4	
4.1 Number of individuals trained by ACE in credit policy and operations, value chain strengthening, and market information sys	0	15	189	450	144	21	615	105	586%	120	
Male	0	15	175	339	115	2	456	74	616%		
Female	0	0	14	111	29	19	159	31	513%		
4.2 Number of person hours of training; including formal and practical training and technical visits	0	74	525	843	90	67	1,000	620	151%	700	
5.1 Number of conferences, workshops and other initiatives designed to foster increased credit to the agricultural sector while addressing the value chain constraints	0	5	9	11	-	3	14	18	78%	20	
5.2 Number of market information and market intelligence products created and disseminated by the established Knowledge Management	0	13	25	33	-	4	37	44	84%	50	

* All indicators are expressed quarterly net, except for indicators I.1 and I.1(a) which are always expressed in cumulative figures.

Table 16: ADF Direct and Indirect Beneficiaries

ADF LOANS		Direct Beneficiaries			Indirect Beneficiaries		
No	BORROWER	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers
1	Advance Building System	-	-	-	300	300	300
2	Javed Afghan Wheat Thresher Company	-	-	-	8,000	8,000	8,000
3	Sanaizada Edible Oil Extraction	-	-	-	600	600	500
4	Hamid Flour Mill	-	-	-	125	125	125
5	Kunar Farm Service Store	625	625	625	-	-	-
6	Helmand Farm Service Store	1,364	1,364	1,364	-	-	-
7	Osiyo Hamkorlik	-	-	-	250	250	250
8	Season Honey	-	-	-	300	300	300
9	Dr. Abdul Wakil Farmers Association	-	-	-	52	52	52
10	Sayed Jamal Flour Mill	2,000	2,000	1,625	-	-	-
11	Samsoor Ban	-	-	-	4,500	4500	-
12	Javed Afghan Wheat Thresher (2nd)	570	570	109	8,170	8,170	1,800
13	Yaqoobzada	-	-	-	250	250	-
14	Advance Building System (2nd)	-	-	-	230	230	-
15	RANA Seeds Company	-	-	-	177	177	177
16	Hariwa Habibzadah Company	-	-	-	110	110	110
17	Habib Omid	600	600	600	-	-	-
18	Tyoran Ayobi	-	-	-	2,500	2,500	2,500
19	Ghoryan Women Saffron Association	117	117	117	-	-	-
20	Kunar Farm Service Store (2nd loan)	688	688	688	-	-	-
21	Logar Farm Service Store	-	-	-	-	-	-
22	Qarizadah Tomato Paste	800	800	780	1,000	1,000	1,000
23	Salahe Dekundiwal Brothers Agro Productions and Services Company	-	-	-	10	10	10
24	Helmand FSC (2nd Loan)	-	-	-	-	-	-
25	Laghman FSC	645	645	438	-	-	-
26	Afghan Rice Mill	219	219	219	500	500	500

ADF LOANS		Direct Beneficiaries			Indirect Beneficiaries		
No	BORROWER	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers
27	Apple Association	-	-	-	-	-	-
28	Ghulam Dastagir Food Production Company	-	-	-	-	-	-
29	Sayel Food Processing Company	-	-	-	50	50	50
30	Taje Telayee Development Poultry Farm Cooperative	8	8	2	-	-	-
31	Nangarhar Nursery Growers' Association (NNGA)	20	20	18	40	40	40
32	Rabia Mariam Handicraft Company	-	-	-	2,000	2,000	2,000
33	Dr. Abdul Wakil Farmers Association (2nd	-	-	-	-	-	-
34	Kapisa Farm Service Center	200	200	160	-	-	-
35	Tanin Herat Industrial Food Company	70	70	53	-	-	-
36	Takhar Trader Women Social Organization	150	150	145	100	100	100
37	Ghulghula Ag. and Livestock Co-op	1,500	1,500	150	-	-	-
38	Sayed Ahmad Khushakyar	600	600	569	-	-	-
39	Dehqan Roz	200	200	-	-	-	-
40	Herat Ice Cream	800	800	761	1,200	1,200	1200
41	Heri Biscuit	200	-	-	-	-	-
42	Sodais Saud Trading Co	400	59	59	500	500	500
43	Tokhe Oil Producing Co.	-	-	-	100	-	-
44	Hafiz Ebad Wool Mill and Carpet Production Company	-	-	-	1,050	1,050	1,050
45	Fine Food Factory	-	-	-	30	-	-
46	Momen Khan Ag Input Company	250	245	359	1,500	1,500	1,500
47	Afghanistan Social Poultry and Animal Farmer Association	20	18	18	45	45	45
48	Shoib Faisal Rice Processing Company	600	-	-	1,500	-	-
49	Nangarhar Edible Oil Processing	1,100	657	657	-	-	-
50	Hussianzada Ltd	3,100	-	-	-	-	-
51	Jawid Kohnawardan Company Limited	-	-	-	80	80	80
52	Sadiq Mateen Afghan Company Ltd	-	-	-	-	-	-

ADF LOANS		Direct Beneficiaries			Indirect Beneficiaries		
No	BORROWER	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers
53	Jawid Afghan Wheat Threshers Manufacturing Company	-	-	-	12,000	12,000	12,000
54	Motmaheen Agricultural and Livestock Retailing Association	837	837	225	4,400	2,000	2,000
55	Herat Capable Women Association	20	14	14	1,255	1,255	1,255
56	Rawnaq Agricultural and Livestock Cooperative	-	-	-	25	25	25
57	Uddin Wardak Wool Washing and Carpet Company	10	10	-	2,000	2,000	2,000
58	Mustafa Jamal Flour Mill	-	-	-	-	-	-
59	Farah Gostar Ltd	200	200	15	-	-	-
60	HameshaBahar Company	30	-	-	100	-	-
61	Amin Karim Carton Manufacturing Factory	-	-	-	-	-	-
62	Stana Gul Poultry Farm	15	15	-	-	-	-
63	Raqib Plastic Packaging Complex	-	-	-	6	6	6
64	Herat Delta Industrial Packaging Company	20	-	-	-	-	-
65	Aziz Farid Cotton Processing Company	900	531	531	5,000	5,000	5,000
66	Attae Export and Import Ltd	105	105	105	70	70	70
67	Hikmat Feed Factory	-	-	-	70	-	-
68	Paktika Urgon Pine Nuts Association	161	161	161	850	850	850
69	KoshkakTalokan Cooperative	58	-	-	60	-	-
70	Takhar Province Dry Fruit Processing and Social Association	-	-	-	1,952	-	-
71	Azmiyan Macroni, Biscut and Salty Snack Production Company	220	220	39	-	-	-
72	Baghlan Dairy Company	-	-	-	-	-	-
73	Al Faqeer Cotton Oil company	-	-	-	70	-	-
74	Frangis Food and Beverages Company	-	-	-	40	-	-
75	NawiHena Production Company	26	26	26	300	300	300
76	Sama Poultry Farm	-	-	-	50	50	50
77	Morwarid Food Industry	-	-	-	500	500	500

ADF LOANS		Direct Beneficiaries			Indirect Beneficiaries		
No	BORROWER	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers
78	Nangarhar Afghan Training Center	-	-	-	-	-	-
79	Takana Sefla Brothers Co. Ltd	46	46	46	-	-	-
80	Khushbakht Brothers Co. Ltd	100	100	-	1,200	1,200	-
81	Bedak Sharif Brothers Carpet Yarn	-	-	-	-	-	-
82	Omar Farooq Food Products Limited	-	-	-	80,000	-	-
83	Kabul Packages Company	-	-	-	-	-	-
84	Hamid Flour Mill Pvt Ltd. (2nd loan)	-	-	-	-	-	-
85	Mehran Guzargah Cold Storage Service	-	-	-	400	400	400
86	Sadeq Hamid Badghisi Ltd	150	150	-	-	-	-
87	Central Aibak Dry Fruit Seller Association	-	-	-	2,000	-	-
88	Kamel Dairy Production Company	-	-	-	135	135	135
89	Hope Agriculture and Livestock Company	-	-	-	-	-	-
90	Khulm Bastan Nursery Grower Association	-	-	-	-	-	-
91	Shir Poor Sultani Flour Mill	35	35	35	120	120	120
92	Gholami Brothers Ltd	-	-	-	-	-	-
93	Omid Khurshid Noor Ltd	-	-	-	-	-	-
94	Qurbankhail Mawlana Yaqoob Charkhi Brothers Company Ltd	-	-	-	-	-	-
95	Mia Sahib Farm	-	-	-	-	-	-
96	Masroor Food Processing Company	-	-	-	-	-	-
97	Sahil Aminzada Cattle and Agricultural Company Ltd	29	29	-	-	-	-
98	Sayed Jamal Flour Mill(2 nd loan)	350	350	265	1000	-	-
99	Nangarhar Edible Oil Company (2 nd loan)	13	13	-	646	646	-
100	Ariana Saffron Cultivation, Processing, and Packaging Company	-	-	-	200	200	200
101	Brotherani Samadi Gen and Press and Edible Oil Production Company	-	-	-	-	-	-
102	Natural Cooking Spices Company	100	-	-	-	-	-
103	Sayed Ahmad Khushkyar Company (2 nd loan)	750	-	-	-	-	-

ADF LOANS		Direct Beneficiaries			Indirect Beneficiaries		
No	BORROWER	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers
104	Salahe Dekundiwal Brothers Agro Productions and Services Company(2nd loan)	-	-	-	-	-	-
105	Haji Baba Agricultural Cooperative	60	-	-	140	-	-
SUB-TOTAL Agribusinesses		21,081	14,997	10,978	149,858	61,396	48,100
106	Afghanistan Almond Industry Development Organization	212	212	212	-	-	-
107	Eastern Region Fruit Growers Association	1,845	1,845	1,845	-	-	-
108	Durukhshan Bamyān Co-op	15	15	15	-	-	-
109	Kawe Tajik Bamyān Co-op	47	47	47	-	-	-
110	Koh-e-Baba Bamyān Co-op	10	10	10	-	-	-
111	Shahemardan Bamyān Co-op	59	59	59	-	-	-
112	Katway Bamyān Co-op	155	155	155	-	-	-
113	Shanbul Bamyān Co-op	74	74	74	-	-	-
114	Khwaja Sabz Posh Bamyān Co-op	22	22	22	-	-	-
115	Afghanistan National Seed Organization	4,140	4,140	4,140	86,087	86,087	86,087
116	Exporters' Loan (AAIDO)	5	5	-	400	280	280
117	Afghanistan Almond Industry Development Organization	1,852	1,852	1,852	-	-	-
118	Bamyān cooperatives	700	525	525	-	-	-
119	ANSOR, Afghanistan National Seed Organization – 2012	4,351	-	-	-	-	-
120	Farm Service Center Association of Afghanistan (FSCAA)	1,400	-	-	-	-	-
121	Khalifa Sahib Agricultural and Livestock Cooperative	137	-	-	-	-	-
122	Afghan Women Saffron Growers' Association	70	70	71	950	950	950
123	Bamyān Cooperatives 2013 (Third loan)	1,236	944	944	-	-	-
124	Bakhtar Agricultural and Livestock Secondary Cooperative	350	350	171	1,000	1000	1000

ADF LOANS		Direct Beneficiaries			Indirect Beneficiaries		
No	BORROWER	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers
SUB-TOTAL NFI		16,680	10,325	10,142	88,437	88,317	88,317
125	Islamic Investment and Finance Cooperative Group	1,137	1,137	1,137	-	-	-
126	BRAC Bank	-	-	-	-	-	-
127	Afghan Growth Finance (AGF)/SEAF	181	-	-	34,200	-	-
128	Islamic Investment and Finance Cooperative Group	3000	414	414	-	-	-
129	Oxus Afghanistan	500	351	351	-	-	-
130	Oxus Afghanistan(2 nd loan)	750	750	46	-	-	-
SUB-TOTAL FI		5,568	2,652	1,948	34,200	-	-
GRAND TOTAL		43,329	27,974	23,068	272,495	149,713	136,417

Indicator #1.2 – In the last quarter, ACE monitored disbursement of seven non-financial intermediaries to 696 farmers (see Table no. 15 below). The disbursements were handled correctly by the ADF clients. As per indicator definition stipulated in the ACE PMP, ‘one farmer borrower can be counted only once’ therefore only the new farmers are counted towards the data for this quarter.

Table 17: New Direct Beneficiaries Achieved in Q2 FY'14

No	Company	Direct beneficiaries	Male	Female
1	Afghan Women Saffron Growers' Association	71	0	71
2	Azimyan Macaroni, Biscuit, and Salty Snack Producing Company	14	14	0
3	Bakhtar Agriculture and Livestock Secondary Cooperative	171	163	8
4	Farah Gostar Ltd.,	15	15	0
5	Momen Khan Ag Input	114	114	0
6	OXUS Afghanistan	46	0	46
7	Sayed Jamal Flour Mill 2nd Loan	265	265	0
TOTAL		696	571	125

The total number of beneficiaries (cumulative) consists of 23,068 unique farmers and 45 agribusinesses, which are not involved in on-lending activities. This brings the total number of individuals benefiting from ACE financial agreements to 23,113 direct beneficiaries. While six of the intermediaries and agribusinesses provided cash advances to their members, Farah Gostar Ltd., provided solar water pumps and irrigation systems on credit.

Table 18: List of Agribusiness Counted as Farmers.

No	Agribusiness Name
1	Advance Building Systems
2	Al Faqeer Cotton Oil company
3	Amin Karim Carton Manufacturing Factory
4	Apple Association
5	Ariana Saffron Cultivation, Processing, and Packaging Company
6	Baghlan Dairy Company
7	Brotherani Samadi Gen and Press and Edible Oil Production Co
8	Central Aibak Dry Fruit Seller Association
9	Dr. Abdul Wakil Farmers Association
10	Fine Food Factory
11	Frangis Food and Beverages Company
12	Gholami Brothers Ltd
13	Ghulam Dastagir Food Production Company
14	Hafiz Ebad Wool Mill and Carpet Production Company
15	Hamid Flour Mill
16	Hariwa Habibzadah Company
17	Hikmat Feed Factory
18	Hope Agriculture and Livestock Company
19	Javid Afghan Wheat Thresher Company
20	Jawid Kohnawardan Company Limited
21	Kamel Dairy Production Company
22	Khulm Bastan Nursery Grower Association

23	Logar FSC
24	Masroor Food Processing Company
25	Mehran Guzargah Cold Storage Service Company
26	Mia Sahib Farm
27	Morwarid Food Industry
28	Omid Khurshid Noor Ltd
29	Osiyo Hamkorlik
30	Qurbankhail Mawlana Yaqoob Charkhi Brothers Company Ltd
31	Rabia Mariam Handicraft Company (RMHC)
32	RANA Seed Company
33	Raqib Plastic Packaging Complex
34	Rawnaq Agricultural and Livestock Cooperative
35	Sadiq Mateen Afghan Company Ltd
36	Salahe Dekundiwal Brothers Agro Productions and Services Company
37	Sama Poultry Farm
38	Samsoor Ban Company
39	Sanaizada Edible Oil
40	Sayel Food Processing Company
41	Season Honey
42	Takhar Province Dry Fruit Processing and Social Association
43	Tokhe Oil Producing Co.
44	Tyoran Ayobi
45	Yaqoobzada

Table 19: Direct Beneficiaries per Regional Command (cumulative from the beginning of the project)

Region	Direct Beneficiaries	Male	Female
RC - Central	434	417	17
RC - East	7,529	7461	68
RC - North	10,220	9914	306
RC - South	2,029	2029	0
RC - West	2,856	2630	226
TOTAL	23,068	22,451	617

Table 20: ACE Direct Beneficiaries Including Farmers and Agribusinesses

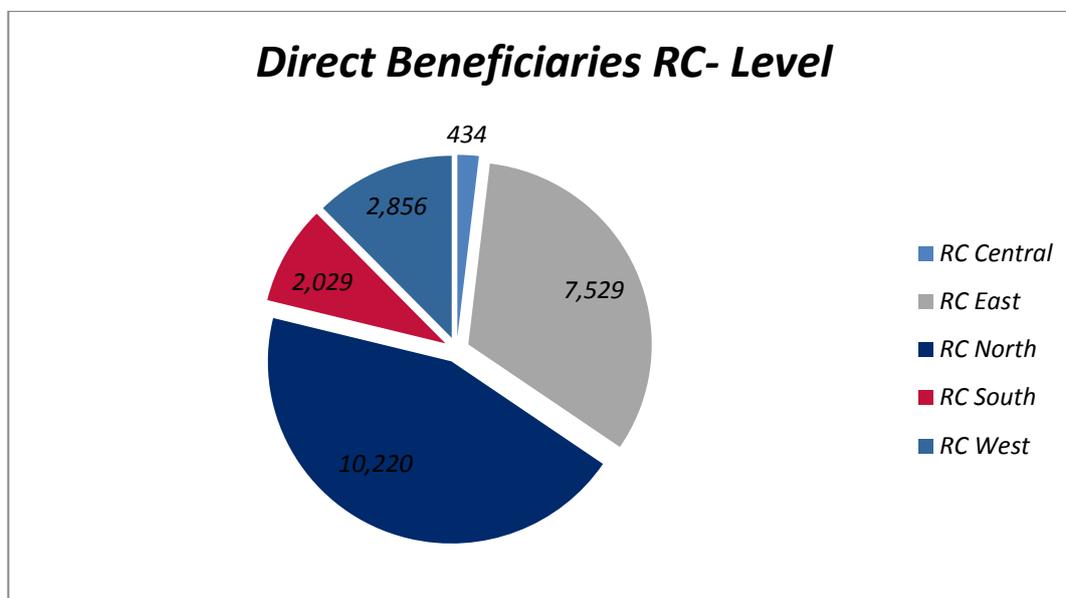
Type of beneficiary	Farmer/Agribusiness	Male	Female
Farmers	23,068	22,451	617
Agribusinesses	45	43	2
TOTAL	23,113	22,494	619

Table 21: ACE/ADF Approved and Disbursed Loans per Regional Command

Region	Loan Approved (\$)	Loan Disbursed (\$)	Beneficiaries
RC Central	\$33,901,307	\$7,984,448	434

RC East	\$15,438,722	\$11,191,642	7,529
RC North	\$20,395,080	\$15,401,982	10,220
RC South	\$5,526,210	\$1,997,984	2,029
RC West	\$10,484,833	\$7,266,032	2,856
Total	\$85,746,152	\$43,842,085	23,068

Graph No 7: ACE Direct Beneficiaries by Regional Command



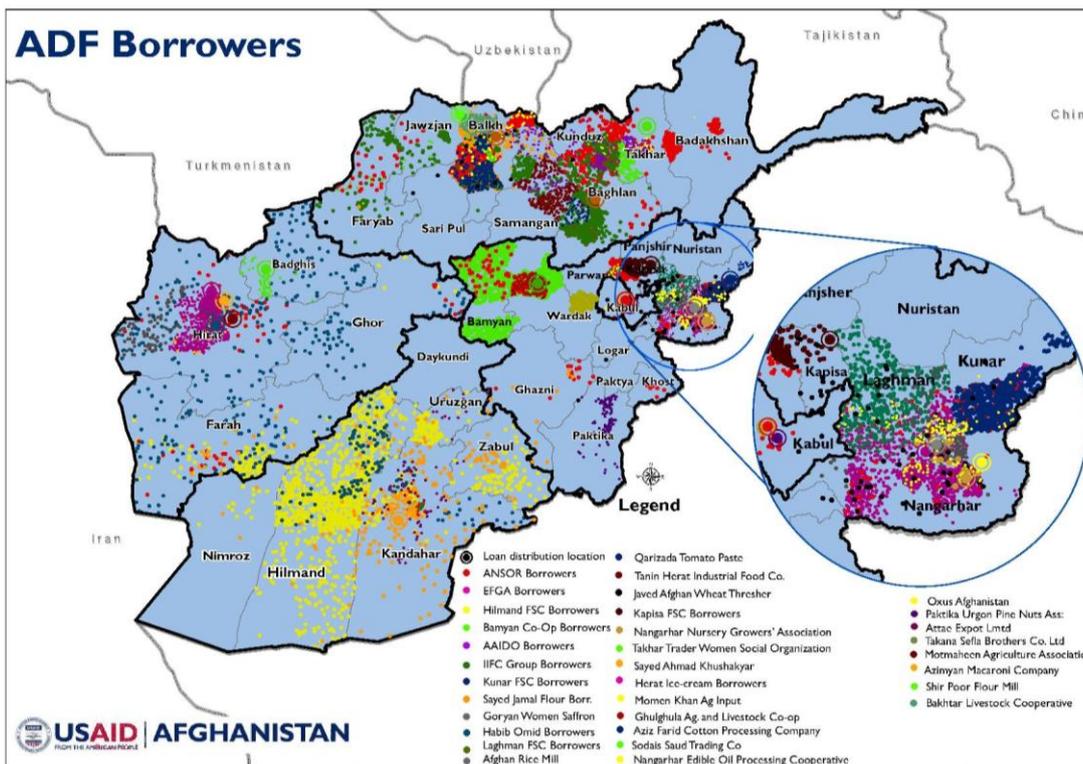
The Performance Indicator Data Sheet (Table No.13) shows the ACE quarterly accomplishments and the current cumulative actual performance against quarterly and annual targets. Below are some of the reasons ACE could not fully achieve the quarterly targets for indicators #1.1 a) (Value of loans disbursed) #1.2, #2.1, #3.2 and #3.3.

- During the past quarter the ADF managed to disburse US\$2.4 million to agribusiness and farmers associations, significantly lower than the quarterly target for several reasons: 1) the clients do not require all the funds in one disbursement; 2) 35 loans have been approved and not disbursed yet due to collateral registration and legal documentation; and 3) In the cases when ACE/ADF pays a supplier directly as part of loan agreements, there have been issues validating the invoices. In several cases the suppliers have increased their prices from the time of the initial agreement and the team is working to identify new suppliers and expedite the process. ACE is taking measures to disburse an amount of US\$20 million in the next quarter.
- The delays with achieving the targets on direct beneficiaries depend on multiple factors, old and new – delays with disbursements constitute a major factor, as the fact that ACE only counts one farmer once regardless of how many times a farmer receives an ADF loan. Looking at the retention rate, the ADF is providing several loans to repeating clients who typically work with their own network of farmers, which beneficiaries cannot be counted twice, per ACE PMP definition. Also, there have been disparities between clients' estimated figures on direct beneficiaries and their actual beneficiaries. This stems from a variety of reasons, for example farmers' unwillingness to receive the loan due to changes in market prices for agricultural commodities.
- The main current constraints with the grant approval and implementation consist of lending vetting procedures ACE grantees and vendors. At the time of this report ACE is waiting for

vetting approvals for 17 clients and vendors and some of these requests have been submitted as early as January 2014. This process is negatively impacting ACE's ability to process, approve and disburse grants which is affecting project's compliance with contractual targets. In addition, the slow pace of the process is harming the program's reputation and credibility with the clients. Once the vetting process is expedited, the team has a pipeline of 26 Agricultural Modernization grants to be processed in the next quarter of which 13 currently pending vetting.

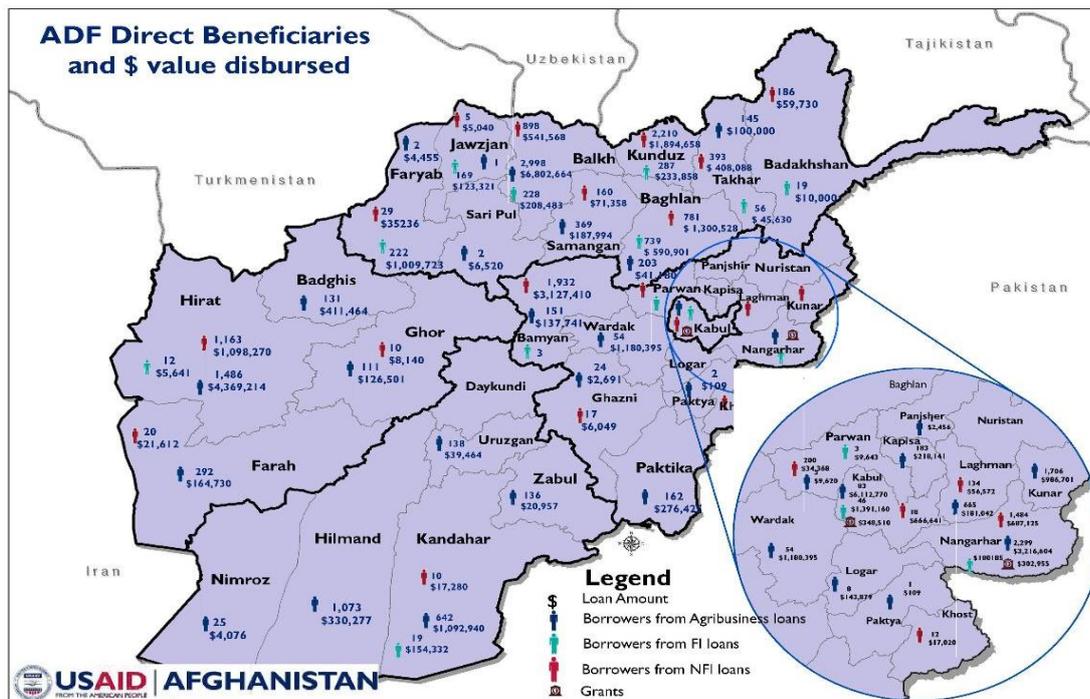
- Regarding the ADF grants, ACE will propose to use the remaining amount for lending during the option year 3. The ADF grants have been used rationally to mainly support the establishment of the Credit Management Units and other innovative mechanisms.
- Currently there are no loans approved under USAID's Development Credit Authority (DCA) which is a result of the lack of willingness of the banks operating in Afghanistan to lend to the agricultural sector and therefore to enhance USAID's Mission in Afghanistan development objectives. Since the beginning of the project ACE has engaged in several discussions with Afghan Banks but the outcome has been negative.
- The project has not been able to finalize Global Development Alliances yet due to the lengthy vetting process for the three farmers associations. A MoU between the associations, selecting Karokhi Brother Livestock Association, has been signed. In addition a general MOU between Herat Ice Cream, ACE and Associations has been prepared and signed in both languages. ACE has also selecting the vendor of dairy equipment which is also being vetted and once the process is finalized, the team will submit the grant for approval and start the implementation of the milk collection centers.

Map 2: ADF Direct Beneficiaries per Province



Indicator #1.3 - Percentage increase in income by assisted farms and agribusinesses is an annual indicator which, as per PMP and the Annual Work Plan 2, will be next reported in FY 2014.

Map 3: ADF Direct Beneficiaries and Loan Amount per RC



Indicat
or #1.4
-
During
this
quarter,

the number of new jobs created expressed in Full-Time Equivalent is 235. This increase counts for the new jobs created comprising full time, part time and seasonal jobs, of which 5 percent targeted women. However, of the jobs created from the beginning of the project, 21 percent belong to women.

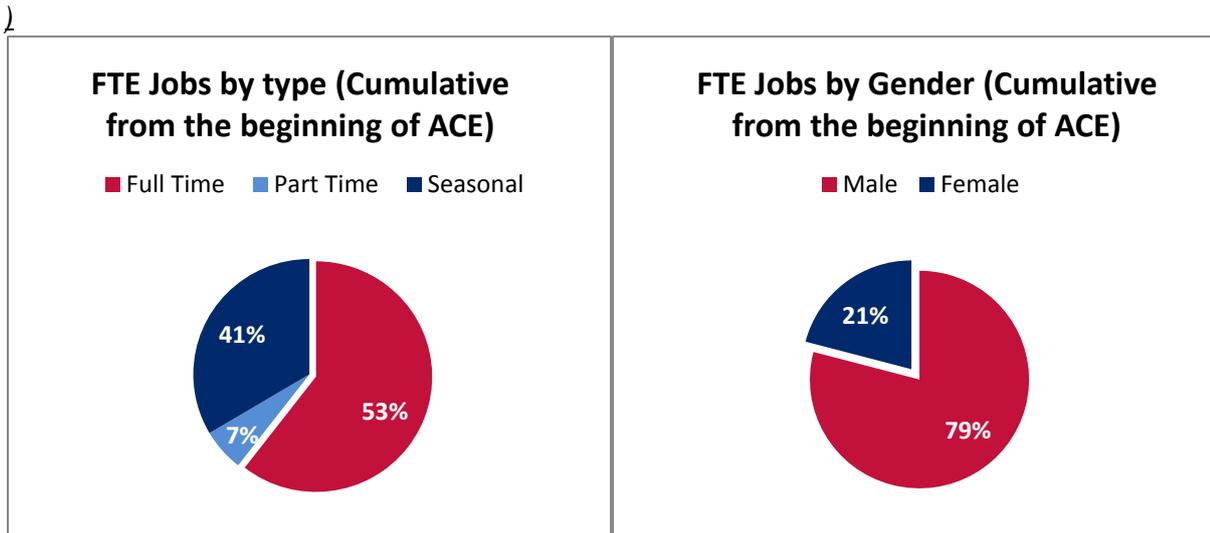
Table 22: New FTE Jobs Created in Q3 FY 2013

No	Type of FTE Jobs	Male	Female	TOTAL
1	Full Time Jobs	71	11	82
2	Part Time Jobs	13	0	13
3	Seasonal Jobs	140	0	140
TOTAL		224	11	235

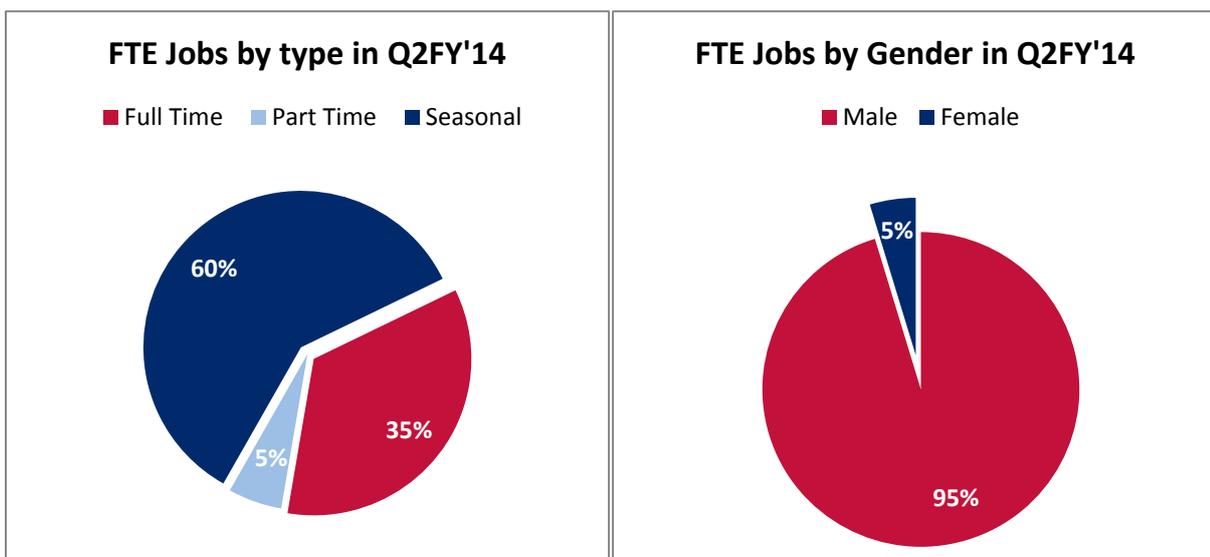
Table 23: FTE Jobs Created by ACE (cumulative)

No	Type of FTE Jobs	Male	Female	TOTAL
1	Full Time Jobs	1,176	266	1442
2	Part Time Jobs	177	7	184
3	Seasonal Jobs	809	299	1108
TOTAL		2,162	572	2,734

Graph No 8 and 9: FTE Jobs by Type and Gender (cumulative)



Graph No 10 and 11: FTE Jobs by Type and Gender for Q2 FY'14 Only



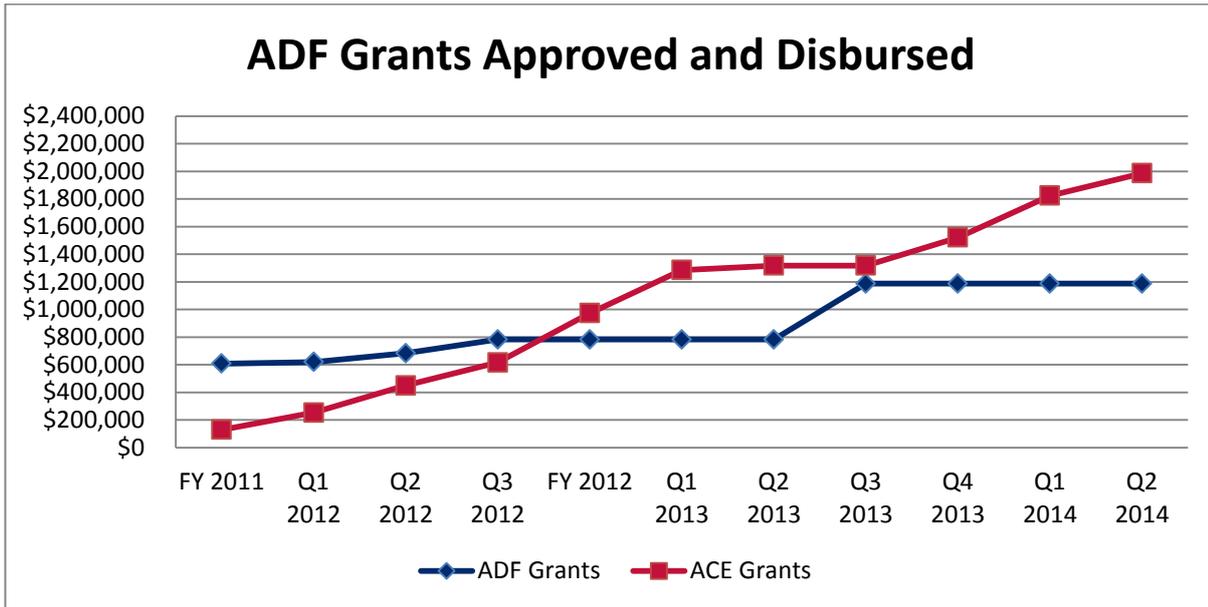
Indicator #2.1– In quarter 2 FY'14 ACE approved five new ACE Grants worth of US\$161,100. See Table No. 5 on Page 22 and the Graph no 13.

Indicator #2.2 – Number of participating FIs and PIs on-lending funds: For this quarter, ACE has two new participating intermediaries as shown below. As of March 31st, ACE has been on-lending through 92 financial and non-financial intermediaries.

Table 24: New Participating Intermediaries (Q2 FY'14)

No.	Intermediary	Beneficiaries
1	Bakhtar Agriculture and Livestock Secondary Cooperative	171
2	Farah Gostar Ltd	15

Graph No 12: The Trend of the ACE/ADF Grants Approved and Disbursed by Quarter



Indicator #2.3 – There are no new innovating lending products established in the last quarter.

Indicator #2.4 – Currently the ADF default rate is at 4.62 percent, with all the loans being repaid on schedule except for few of them. (See Annex I for detailed information).

Indicator #3.1 – As per the approved PMP and Annual Work Plan 4, the percentage change in export sales for firms supported by ACE will be reported next in FY2014.

Indicator #3.2 – Number of loans approved under USAID’s DCA mechanism – despite the efforts of the ACE teams, none of the banks operating in Afghanistan have shown interest in the DCA mechanism thus far.

Indicator #3.3 – Number of public-private partnerships formed as a result of USG assistance, including GDAs. The team has been working since September in establishing three milk collection centers in Herat under a GDA mechanism where farmers, Herat Ice Cream (an ADF client) and the ACE program would all contribute to the project. While the planning is finalized and the respective MoUs have been signed, ACE has sent four vetting applications to USAID for clearance, for the three associations and one vendor of the dairy equipment.

For the time being, the ACE and the client are assisting with the establishment of three dairy farm associations which will act as the primary beneficiary of this project. In addition, the technical team is working on identifying similar projects that can be accomplished under the framework of Global Development Alliance.

Indicator #4.1 – In the last quarter, ACE trained a total of 21 participants from ADF borrowers and ACE staff.

Table No 25: Training Provided by ACE in Quarter 2 FY'14

No.	TOPIC	# of Participants	Location	Start	End	#Hours
1	Grants Financial Management Training	2	Jalalabad	3/18/2013	3/18/2013	3
2	General Principles of Food Processing Training	19	Herat	1/7/2014	1/14/2014	64

TOTAL**21****67**

Indicator #4.2 – ACE provided two training course with a total of 67 hours of training on grants financial management and general food processing for Nawi Henna Production, Nangarhar Nursery Growers Associations and HEWSA in Herat.

Indicator #5.1 – During the past quarter, there were three workshops aimed at removing the value chain growth constraints for agricultural exports.

Table 26: List of the Conferences, Workshops and Other Initiatives Carried Out During Reporting Quarter

No	Name of Conference, Workshop	Type (Conference, Workshop, roundtable)	Province	No. of participants	Participating Entities	Date
1	Ag-Export Value chain workshop (Export Procedures and their effect on the expansion of export oriented Agriculture)	Workshop	Balkh	40	Producers (lead Farmers), Commission Agents, Potential Exporter, Gov related organizations (MAIL, DAIL, ACCI, EPA, NEPA, Custom Staff, AISA)	Mar 10, 2014
2	Ag-Export Value chain workshop (Export Procedures and their effect on the expansion of export oriented Agriculture)	Workshop	Herat	40	Producers (lead Farmers), Commission Agents, Potential Exporter, Gov related organizations (MAIL, DAIL, ACCI, EPA, NEPA, Custom Staff, AISA)	Mar 17, 2014
3	Ag-Export Value chain workshop (Export Procedures and their effect on the expansion of export oriented Agriculture)	Workshop	Kabul	46	Producers (lead Farmers), Commission Agents, Potential Exporter, Gov related organizations (MAIL, DAIL, ACCI, EPA, NEPA, Custom Staff, AISA)	Mar 31, 2014

Indicator # 5.2 – In the past quarter, ACE prepared four agricultural trade reports for the past year which were made available on the PAYWAND website.

Table 27: List of the Marketing Information Products Launched in the Reporting Quarter

No.	Product	Type of Market Information Product	Type of Dissemination	Date of launching
1	Agricultural trade report Q1, 1392-English	Agriculture Trade Brief	ACE/MAIL	Jan 15, 2014
2	Agricultural trade report Q2, 1392-English	Agriculture Trade Brief	ACE/MAIL	Feb 11, 2014
3	Agricultural trade report Q3, 1392-English	Agriculture Trade Brief	ACE/MAIL	Mar 16, 2014

4	Agricultural trade report Annual, 1392-English	Agriculture Trade Brief	ACE/MAIL	Mar 25, 2014
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Sex-disaggregated Data: Actual versus Targets

ACE has set self-imposed targets for male and female beneficiaries moving forward for three indicators. Below are the indicators on direct beneficiaries, job creation (in FTEs) and number of people trained disaggregated by sex. These targets are presented in the Annual Work Plan for option year 3.

Table No 28: Sex-segregated Indicators with Self-imposed Targets

ACE Performance Indicators	Actual Q2 FY2014 (Cum.)	Target Q2 FY2014 (Cum.)	Percentage % Achieved
1.2 Number of individuals benefitting from ACE or ADF financial agreements	23,113	50,000	46%
Male	22,494	48,750	46%
Female	619	1,250	50%
1.4 Net total increase in Full-Time Equivalent (FTE) jobs created by USG sponsored agriculture activities	2,734	1,500	182%
Male	2,162	1,200	180%
Female	572	300	191%
4.1 Number of individuals trained by ACE in credit policy and operations, value chain strengthening, and market information system.	615	105	586%
Male	456	74	616%
Female	159	31	513%

ACE met and exceeded the gender-based targets on the number of jobs created, and # of individuals trained, delivering excellent results in creating new jobs for women through the ADF lending opportunities and providing training opportunities for its female staff. However, ACE did not meet the target set for female direct beneficiaries for the same reason we are lagging behind on the number of direct beneficiaries in general. The project also reports gender-disaggregated data on three additional indicators, starting in Quarter 3, FY2012. The table below shows the gender-segregated data of the three additional indicators.

Table No 29: Sex-disaggregated Indicators without Targets Q2 FY 2014

ACE Performance Indicators	FY 2013	Q1 FY 2014	Q2 FY 2014
1.1 Value of Finance Accessed	\$80,542,655	\$84,359,060	\$85,746,151
Male	\$78,731,638	\$82,548,043	\$83,935,134
Female	\$1,811,017	\$1,811,017	\$1,811,017
2.1 Value of Challenge/Innovation and Agriculture modernization grants approved.	\$2,707,854	\$3,011,434	\$3,172,534
Male	\$2,259,014	\$2,495,494	\$2,656,594
Female	\$448,840	\$515,940	\$515,940
2.2 Number of participating financial intermediaries and private intermediaries on lending funds from ADF	85	90	92
Male	80	85	87
Female	5	5	5

Table 30: List of Grants to Women

No	Business Name	Province	Grant Purpose	Grant Type	Start Date	End Date	US\$ Approved
Clients Sensitive Information							

Impact Results on several ADF loans:

The Salahi Daikundiwal Agricultural Production Company received an ADF loan of US\$100,000 to purchase plastic sheeting, drip irrigation pipes and other equipment to build 34 new well equipped and modern greenhouses. ACE also built seven standard packaging houses and footbaths for all client greenhouses through an ACE Agricultural Modernization grant. The ACE grant supported the client by providing technical trainings in applying fertilizer, planting seeds, post harvesting and hygiene and sanitation. These trainings have helped the company increase their production while decreasing their production cost.



View from one of the 56 greenhouses of Salahi Daikundiwal Brothers Agricultural Production Company, an ADF client, during the new planting season.

The client built 34 new well equipped and modern greenhouses which have increased the total number of greenhouses from 22 to 56 where they cultivate cucumbers and supply them to wholesale dealers in Kabul, who in turn supply to retail stores. With the help of ADF loan, Salahi Daikundiwal Agricultural Production Company has increased their annual production by 168 percent, annual sales by 191 percent and net income by 282 percent. The company could create 72 full time jobs and expanded their markets to Ghazni and Paktia provinces. The ADF loan enabled the client to add value to their product through grading and

packaging. This is a clear example of how access to finance can modernize agriculture, increase productivity and contribute to the expansion of high technology operations, while creating job opportunities. All these benefits contribute to economic growth and social stability.

Sayed Jamal Flour Mill received an ADF loan of US\$1.9 million to purchase additional wheat from local farmers and increase their production. The company used to process imported wheat into flour using local wheat only at a rate of 30 percent. Upon access to ADF loan, the company changed the way it operated and started to establish a close network of farmers in the Northern provinces assuring them that the company was ready to purchase all their products. In 2011 the client was importing 22,660 MT from Kazakhstan and Uzbekistan; in 2013 they imported 6,300 MT from the same countries, decreasing their dependence on imports by 72 percent.

The ADF loan enabled the company to strengthen their market linkages with local producers and re-activated one of their flour mill processing lines which remained unused for several years. After the completion of the loan, the client has increased their production by 118 percent, increased sales by 121 percent and net income by 163 percent. The client created 199 new jobs (FTEs) which shows an 86 percent increase in the employment. The company expanded their markets to Kunduz, Baghlan and Sari Pul provinces. The ADF approved a second loan for Sayed Jamal Flour Mill in the past.

Tanin Herat Industrial Food Company received an ADF loan of US\$400,000 to purchase fresh cucumbers from farmers and build a hanger to be used as storage for finished products. Before the ADF loan, the company operated in a small rental place located in a residential area. The company is now operating in its own business facility in Herat Industrial Park. One and half years after receiving the

loan, the client shows a 35 percent increase in production, 38 percent increase in sales and 21 percent increase in net income. The company created 17 new jobs resulting in an 89 percent increase in the employment of the client comparing to the last year.

Morvarid Food Industries received a line of credit for US\$987,078 for 2 years to purchase dried fruit directly from 60 farmers and traders to export them internationally. The client offers a large range of Afghan dried fruits, nuts and saffron in the country. The products are processed, roasted and packaged at international standards for distribution to Europe, the UAE and Afghanistan. The company is equipped with modern processing and packaging machinery, has a cadre of experienced employees, and is internationally certified in food safety, including ISO. One year into the loan implementation the client increased their exports by 30 percent and their annual income by 27 percent.

Sodais Saud Trading Company received an ADF loan of US\$800,000 to purchase pistachio and kernel from farmers on credit in Herat province and export them to India, Turkey and UAE. Through the ADF loan the client improved packaging of the products which resulted in an increase in sales. After the completion of the ADF loan, the client shows a 21 percent increase in the production, 26 percent increase in the exports and a net income increase by 28 percent. The client has created 65 new full time jobs so far.

Afghan Rice Mill Company located in Nangarhar province processes rice paddy which they buy from farmers in Nangarhar, Laghman and Kunar provinces. The company received an ADF loan of US\$200,000 to purchase 800 Metric Tons of paddy from 219 farmers and increase their production. One and half years after the ADF loan disbursement, the loan has benefited 219 farmers in the Eastern region, increased the total annual production of the client by 78 percent, annual sales by 81 percent and net income by 58 percent. The company created 48 new jobs. This is a good example of ADF loan aimed at increasing import substitution and strengthening the local rice value chain.




NEWS BRIEF
FEBRUARY 2014

BRINGING THE BUSINESS BACK HOME






Morvarid Food Industries, an Afghan owned enterprise, was initially established in Tajikistan. In 2012, Mr. Atef, CEO of the company decided to move the processing plant to the Industrial Park in Herat City.

In the fall of 2013, ADF provided **Morvarid Food Industries** with a line of credit for 2 years in order to enable the company the purchase produce directly from farmers and traders.

Morvarid offers one of the largest ranges of Afghan dried fruits, nuts, pulses and saffron in the country. The products are processed, roasted and packaged at international standards for distribution to Europe, the UAE and Afghanistan.

The company is equipped with modern processing and packaging machinery, has a cadre of experienced employees, and has international food safety certifications, including ISO.

The loan to Morvarid is another example of how agricultural credit, when applied at the right nodes of the value chains can have transformational effect on the agriculture sector, and on the lives of farmers.

To date ADF has approved loans for over US\$ 85 million. These loans are directly benefiting over 22,000 farmers in 32 provinces.

www.morvaridfood.com

Communication and Outreach

During the last quarter, ACE published two News Briefs on “We have go the scope” and “Bringing the Business back Home” for the months of January and February 2014. The News Brief of January describes the impact of ADF loan in agricultural sector. The project provided Herat Ice Cream Company with a loan to acquire a state of the art ice cream production line, and to provide advance payments to dairy producers. A year after the disbursement of the

loan, Herat Ice Cream Company has directly benefited 800 dairy producers, who are investing the cash advances in the expansion of their herds, feed and veterinary services, confident that they have an assured market for their product, thereby, reducing the reliance of the company on imported milk from the Netherlands by 30 percent.

The second news brief published in the month of February 2014 shows the impact of ADF loan in the food industry. Morvarid Food Industries, an Afghan owned enterprise, was initially established in Tajikistan. In 2012, Mr. Atef, CEO of the company decided to move the processing plant to the Industrial Park in Herat City. In the fall of 2013, ADF provided Morvarid Food Industries with a line of credit for 2 years in order to enable the company the purchase produce directly from farmers and traders. The client offers one of the largest ranges of Afghan dried fruits, nuts, pulses and saffron in the country. The products are processed, roasted and packaged at international standards for distribution to Europe, the UAE and Afghanistan.

In the next quarter, ACE in collaboration with MAIL, USAID and the Danish Embassy will organize several events to raise awareness on the ADF lending opportunities and to celebrate the rapid growth of the Fund.

Administrative and Human Resources

In the last quarter, ACE hired several staff members for technical and administrative positions. The project hired eight full time Afghan national staff and four short term technical assistance staff that include some senior and crucial positions such as an Environmental Compliance Specialist, Senior IT Manager, Sharia Advisory Board Member and Gender Coordinator. Currently, ACE is in the process of hiring a full time Monitoring and Evaluation Officer for Herat province, a customer service manager, a credit administration officer, and a lending officer for the Southern region. In terms of expatriate staff, Matt Buzby and Mike Walsh joined the project to provide Ethics and Compliance training to ACE employees and Keith Hourihan worked with the project as Internal Audit Manager. Robert Dressen provided support as a Senior Banking and Finance Service Advisor on short assignments.

Table 31: Afghan National Staff deployed During Quarter 2 FY 2014

No	Name	Position	Start date
1	[REDACTED]	Inventory Specialist	2-Jan-14
2	[REDACTED]	Data Base Consultant	26-Jan-14
3	[REDACTED]	Inventory Consultant	7-Jan-14
4	[REDACTED]	Grants Concept Note Writer	26-Jan-14
5	[REDACTED]	Facilities Supervisor	23-Feb-14
6	[REDACTED]	Audit Consultant	24-Feb-14
7	[REDACTED]	Inventory Consultant	25-Feb-14
8	[REDACTED]	Field Data Analyst	26-Feb-14
9	[REDACTED]	Sharia Advisory Board Member	27-Feb-14
10	[REDACTED]	Gender Coordinator	01-March-14
11	[REDACTED]	Environmental Compliance Specialist	04-March-14
12	[REDACTED]	Senior IT Manager	30-March-14

Table 32: Expatriate Staff Deployed During Quarter 2 FY 2014

No	Name	Position	Start date
1	Matt Buzby	DAI Office Trainer	11-Jan-14
2	Mike Walsh	Chief Ethics and Compliance Officer	12-Jan-14

3	Keith Hourihan	Internal Audit Manager	12-Jan-14
4	Robert Dressen	Sr. Banking and Finance Service Advisor	22-Jan-14

Implementation Challenges

During the past quarter the delays with vetting process have negatively affected the implementation of the project in two ways:

- Slow disbursement of grants
- Deteriorating credibility with the client which might negatively affect loan repayments.

This is limiting project's ability to process and disburse grants, with a detrimental effect in complying with contractual targets.

ACTIVITIES FOR THE NEXT QUARTER

In the next quarter, ACE aims to focus on several areas:

- 1) Continuation of the ADF transition with the nomination of the Afghan ADF Directors.
- 2) Organize the Value Chain finance training for the ADF lending advisors.
- 3) Conduct four ADF Credit Committee meetings a month to decide on several loans under process.
- 4) Plan and organize several awareness raising events for the ADF in collaboration with MAIL, USAID and the Danish Embassy.

ANNEX I – Percentage of Loan Losses Resulting from ACE Lending Recommendations

SN	Name of Business	Province	District	Amount (\$)	Type of Business	Start Date	End Date	Actual Amount Disbursed	Expected Value (\$) to date	Actual Value (\$) to date	% repaid for individual loan	\$ Value late by 180 days or more
Clients Sensitive Information												
TOTAL Loan Approved								\$85,746,151				
TOTAL Loan Disbursed								\$43,842,085				
TOTAL Loan Repaid								\$23,853,404				
Total Right off								\$833,198				
TOTAL Value of Loans late by 180 days or more								\$908,239				

$$\text{Portfolio At Risk (PAR)} = \frac{\text{Total Value of loans late by 180 days or more}}{\text{Outstanding*}} \% = \frac{908,239}{43,842,085 - 23,853,404 - 833,198} \% = \frac{908,239}{19,155,483} \% = 4.62\%$$

This is the adjusted PAR. Outstanding = Disbursed amount – Repaid amount – Right off amount

ACE has in place a problem loan committee whose sole purpose is to implement activities to minimize loan defaults. The latter complements ACE's prudent lending practices.