



# AGRICULTURAL CREDIT ENHANCEMENT (ACE) PROGRAM

## QUARTERLY REPORT Q1 FY 2013

OCTOBER 1 – DECEMBER 31, 2012



POTATO FARMERS IN BAMYAN HARVESTING THEIR PRODUCTS AS 27 BAMYAN POTATO COOPERATIVES BENEFITTED FROM A LOAN OF \$269,910 IN 2011 AND 1.32 MILLION USD IN 2012 WHICH BENEFITTED OVER 907 FARMERS WITH HIGH QUALITY POTATO SEEDS AND FERTILIZERS ON CREDIT.

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

# QUARTERLY REPORT

## QUARTER I, FISCAL YEAR 2013

Program Title: Agricultural Credit Enhancement Program

Contract Number: EDH-I-00-05-00004

Contractor: Development Alternatives, Inc.

Date of Submission: January 31, 2013

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## **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.*

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# LIST OF ACRONYMS

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AAIDO	Afghanistan Almond Industry Development Organization
ADF	Agricultural Development Fund
ACE	Agricultural Credit Enhancement
AISA	Afghanistan Investment Support Agency
ANSOR	Afghanistan National Seed Organization
CC	Credit Committee (for the ADF)
CMU	Credit Management Unit
DAB	Da Afghanistan Bank
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
LPF	Loan Performer
KMF	Knowledge Management Facility
MAIL	Ministry of Agriculture, Irrigation and Livestock
MoU	Memorandum of Understanding
NFI	Non-financial Intermediary
PMP	Performance Management Plan
SAB	Sharia Advisory Board
TAFA	Trade and Accession Facilitation for Afghanistan
TO	Task Order
TRC	Technical Review Committee

## EXECUTIVE SUMMARY

Agricultural finance fundamentally complements the knowledge in agricultural production and markets while contributing to business and market expansion, achieving economies of scale and increasing efficiency in both input and output. While development projects over the past 10-12 years have assisted the agricultural sector in Afghanistan with 'know how,' financial means to boost production and sales and unleash the real potential of the Afghan agriculture sector were lagging behind. The Agricultural Development Fund emerged as the first modern agricultural financial institution with a variety of Islamic and conventional financial products that are filling this gap, and its achievements cannot be overestimated.

ACE began in July 2010 as a four and half year technical assistance program to manage the \$100 million Agricultural Development Fund, which would be established by a USAID grant to the GIRoA. Almost two and a half into project implementation, on November 12, 2012 the Council of Ministers of GIRoA approved the legal establishment of the ADF as a standalone financial institution which marks the most significant accomplishment in the history of ACE and the ADF.

This development allowed the program to resume its lending activities, access the on-the-budget funds from the Ministry of Finance and continue to provide agricultural credit as a vital medium for economic growth.

Following the impact of agricultural credit on the Afghan economy highlighted in the Annual Report 2012, the legally established Agricultural Developed Fund is now moving towards its consolidation as a reputable financial institution and 'game changer' for the agricultural sector in Afghanistan. Establishing a sound governance structure, consolidating strong credit policies and procedures based on international best practices as well as investing in people who will eventually manage the Fund, comprises the fundamental pillars for the sustainability of the ADF.

The ADF held its inaugural session of the High Council, chaired by H.E. Mohammad Asif Rahimi, Minister of Agriculture, Irrigation and Livestock, and approved all the ADF resolutions that will

## ACHIEVEMENTS

### OCTOBER – DECEMBER 2012

- ACHIEVED THE REGISTRATION OF THE ADF AS AN INDEPENDENT LEGAL ENTITY ON NOVEMBER 12, 2012. THIS ENABLED ACE/ADF TO ACHIEVE THE ON-THE-BUDGET SUPPORT PROVIDED BY USAID.
- HELD THE INAUGURAL MEETING OF THE ADF HIGH COUNCIL CHAIRED BY THE MINISTER OF MAIL ON NOVEMBER 28, 2012
- PASSED A RESOLUTION DURING THE ADF HIGH COUNCIL MEETING OF DECEMBER 15 TO HIRE TWO EXPERTS ON AGRICULTURE AND BANKING AND FINANCE AS MEMBERS OF ADF HIGH COUNCIL
- PROCESSED LOAN APPROVALS WORTH OF 2.55 BILLION AFGHANIS (\$49 MILLION USD) AND DISBURSED 1.21 BILLION AFGHANIS (\$23.3 MILLION USD) TO 15,855 RURAL HOUSEHOLDS IN 30 PROVINCES OF AFGHANISTAN
- RECEIVED LOAN REPAYMENTS OF 598 MILLION AFGHANIS (\$11.5 MILLION USD) MAINTAINING A DEFAULT RATE OF 3.09 PERCENT, WELL BELOW THE 5% BENCHMARK
- OPENED BANK ACCOUNTS FOR THE ADF AND TRANSFERRED AN AMOUNT OF \$10.3 FROM LOAN REPAYMENTS TO THESE NEW ACCOUNTS
- PARTNERED WITH MAIL TO ORGANIZE THE ANNUAL AGRICULTURAL FAIR ON NOVEMBER 7, 2012
- SUPPORTED THE PARTICIPATION OF SEVEN REPRESENTATIVES OF WOMEN COOPERATIVES TO TRAVEL TO INDIA ON A TRAINING PROGRAM
- BUILT THE CAPACITY OF 30 ADF AND PARTNER STAFF ON SEVERAL TECHNICAL SUBJECTS INCLUDING LOAN PERFORMER.

enable the ADF to operate as an independent financial institution serving the agriculture sector by accessing the on-budget support provided by USAID. Consequently, ACE opened ADF bank accounts with Afghanistan International Bank (AIB) and the funds from the ACE 'repayment account', approximately \$10.3 million USD, were transferred. In addition, the Ministry of Finance, along with MAIL processed the transfer of \$8.6 million USD from the MoF to the new ADF account with AIB, the origin of which is a grant from USAID to GIRoA.

In addition to this, ACE achieved a number of successes during the quarter with the approval of a \$3 million USD loan to FSCAA; the approval of seven new Agricultural Modernization grants of \$312,251; the training of 30 Afghan staff in four different subjects such as Islamic Finance, Loan Performer grants and business management; as well as organizing ten additional Agricultural Credit Shuras which to date cover 30 out of 34 provinces of Afghanistan.

As of December 31st, ACE processed loan approvals worth 2.55 Billion Afghanis (\$49 million USD) and disbursed 1.21 Billion Afghanis (\$23.3 million USD) to 15,855 rural households in 30 provinces of Afghanistan. The ADF clients have already repaid 598 million Afghanis (\$11.5 million USD) maintaining a default rate of 3.09 percent, well below the norm.

ACE's innovation in Islamic finance is resulting in an increasing demand for ADF credit throughout the country, while the ADF is highly regarded for doing business in a culturally acceptable way. The project organized the second Sharia Advisory Board (SAB) to review and sign the Sharia Annual Review Framework in the beginning of October. The team developed and published a technical note on "Islamic Finance at the ADF" describing the variety of products developed by the project to cater local needs for agricultural credit.

In November, ACE launched a new initiative of a smart card system which will make on-lending to farmers easier and accessible and the loan management more effective. Three Farm Service Centers: Laghman, Kapisa and Logar, along with the Samsoor Ban Company in Wardak were selected to pilot the smart card system designed by ACE with their borrowers.

ACE, in partnership with MAIL, organized the annual Kabul Agricultural Fair which took place on November 7-9 in Badam Bagh. The program supported 22 ADF clients to set up their booths at the fair to exhibit their products, make new business deals and attend some business activities. ACE also reserved two booths, for the ADF and PAYWAND – the agricultural knowledge management facility. On November 7, the ADF booth was visited by the Vice President of Afghanistan, Mr. Karim Khalily; the Minister of MAIL, Mohammad Asif Rahimi; the Minister of Finance, Mr. Hazrat Omer Zakhilwal; the head of AISA and other Afghan Parliament members.

To carry on building the capacities of not only ADF staff but also of the partner organizations, ACE engaged a lending operation advisor to train the Credit Management Unit staff and ADF lending advisors on Loan Performer. Loan Performer (LPF) is Management Information System software which integrates a Loan Management and Accounting System and will assist the CMU staff to entirely manage their loan portfolio. Another training course covered the topic of Islamic Finance, focusing on benefiting the newly hired lending advisors. The course covered the Sharia principles and products in general while working out through a number of case studies.

To generate public awareness for the ADF to potential end-borrowers, ACE conducted ten Agricultural Credit Shura events in the Northern, Western and Eastern provinces including Ghor, Kunduz, Baghlan, Jawzjan, Sar-e-Pul, Badghis, Kapisa, Parwan and Nangarhar. The team introduced the ADF financing opportunities available, as well as the ADF terms and conditions and participation procedures. The agricultural credit Shuras, which were coordinated in partnership with DAIL regional offices and FPOs, were attended by over 400 participants including farmers, agribusinesses, NGOs and financial intermediaries.

The ACE project signed seven new Agricultural Modernization grant agreements with ADF clients, of which, two were targeted at women. Hand In Hand Afghanistan will provide a group of representatives

of women cooperatives with an opportunity to be exposed to the self help group model in India and to benefit from technical assistance upon their return to Afghanistan. The Rabia Mariam Handicraft Company, another women-led business in Balkh province is benefiting through the purchase of a new silk processing machine from the Laxmi Textile Company in India, a company with over 60 years of experience in manufacturing. ACE is also getting ready to launch the ZAHRA program, a Sharia compliant financial product designed for women borrowers.

## 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.*

### ESTABLISHMENT AND MANAGEMENT OF THE ADF

Two and a half years after the award of the project, the ADF has now entered into the final phase where the focus is mainly on institutional consolidation, business expansion and to maintain integrity of the fund. ACE has successfully completed the first two phases of this process which focused specifically on a) aggressively identifying ADF clients and setting up fast track lending; and b) establishing credit processes and procedures. With the legal establishment of the ADF and the institutionalization of the ADF High Council as a decision making body, the ADF will start using the on-the-budget funds provided by USAID to GIRoA. This marks one of most important achievements for ACE, being the first project to explore and succeed in accessing on-the-budget support. The ADF will continue focusing on prudent lending practices, establishment of robust financial operations to support the growth of Afghan agriculture, building an effective collection system and the transition from expat to local management.

On November 12<sup>th</sup>, 2012, the Council of Ministers of the Islamic Republic of Afghanistan approved the ADF Bylaws and its registration as a standalone legal entity. Despite the long delays and challenges encountered throughout the process, this development marks one of the most significant achievements for the GIRoA and the ACE program. Until then, the ADF operated as an extension of ACE, which managed to establish a healthy ever-growing loan portfolio, along with an ADF credit management system based on international best practices and a very qualified and competent cadre of Afghan professionals.

Upon the registration of ADF as an independent legal entity, the ADF High Council held its first inaugural meeting on November 28, 2012 chaired by H.E. Mohammad Asif Rahimi, Minister of Agriculture, Irrigation and Livestock. During the meeting, the High Council approved all the resolutions that will enable the ADF to operate as a standalone independent financial institution serving the



**Left to Right:** Members of ADF High Council: Mr. Atiqullah Nusrat, proxy of Mr. Mohammad Qurban Haqjo, Chief Executive Officer of the Afghanistan Chamber of Commerce and Industries, Member; H.E Mohammad Asif Rahimi, Minister of MAIL, Chairman; Ms. Dawn Thomas, Director of the Office of Agriculture, USAID-Afghanistan, Member; H.E. Mohammad Mustafa Mastoor Mastoor, Deputy Minister of Finance, Deputy Chairman; Mr. M.A. Haidari, proxy to H.E. Abdul Ghani Ghuriani, MAIL's Deputy Minister for Technical Affairs, Member

agriculture sector by accessing the on-budget support provided by USAID.

On December 15, 2012, the ADF High Council held its second meeting to follow up on several issues discussed during the inaugural session. The first resolution passed during the inaugural meeting

consisted of recruitment of two additional members of the ADF High Council. In this meeting, ACE presented the terms of reference for an agricultural expert and also a banking and finance expert, which were both circulated to the members for review. The terms of reference were agreed with few modifications.



**View from the Second Session of the ADF High Council**

The second resolution involved the establishment of three separate committees: an Audit Committee, a Credit Committee, and a Governance & Compensation Committee; and the High Council delegated the powers and authority to each committee. The chairman of each committee is as follows:

- Audit Committee, Deputy Minister of Finance
- Credit Committee, Deputy Minister of MAIL
- Governance & Compensation Committee, Deputy Minister of MAIL

Notwithstanding the delay in GIRoA's registering the ADF following the launch of ACE program in 2010, and the subsequent risk assumed by DAI in lending is a project to meet USAID's challenging targets, ACE is successfully achieving its mission in establishing and managing the ADF. In December, ACE opened five bank accounts with the Afghanistan International Bank (AIB); one master account; two accounts for Sharia lending (in USD and AFN currency) and two for conventional lending (in USD and AFN currency).

### **Credit Operations and Services**

In the last quarter ACE undertook a number of measures to strengthen the ADF credit administration policies and review the current structure of the fund. The project engaged an international consultant on a short-term contract to examine the front and back office operations of the ADF and assess the current ADF credit functions and structure vis-à-vis international best practices. The consultant reviewed the organizational structure, business development, credit and risk management processes and presented specific recommendations to assist with the transition of the ADF to an independent financial institution.

To effectively manage the ADF loan portfolio, the team developed four Credit Administration Circulars on the following topics:

- 1) Loan Classifications
- 2) Loan Loss Provisions and Reserves
- 3) Client Annual Reviews
- 4) Problem Loans Management

These circulars are considered additions to the Credit Administration manual and will help shape the department, along with the lending department during the transition to the ADF over the next few years. The documents and procedures are crucial to Credit Administration, and the department will ensure they are all completed in a timely manner. The team also completed preliminary loan classifications and provisions for the ADF loan portfolio based on these new circulars. An expense account for the ADF loan portfolio for provisions (based on the classifications) will be fully set up in the next few months as the ADF has now been legally established.

The Credit Administration Department has also begun to prepare and distribute (internally) monthly reports based on data provided from the MicroBanker software system which helps the project see the

current standing of the ADF loan portfolio. In addition to the actual monthly report, the following documents are included in the reporting package distributed by Credit Administration, for each month:

- a) Outstanding Loans by Product Type
- b) Outstanding Loans by Loan Officer
- c) Outstanding Loans by Loan Classification
- d) Outstanding Loans by Value Chain
- e) Loan Disbursement Report for the previous month
- f) Loan Due Report for the previous month
- g) Loan Paid Report for the previous month
- h) Consolidated Regional Outstanding report for the previous month

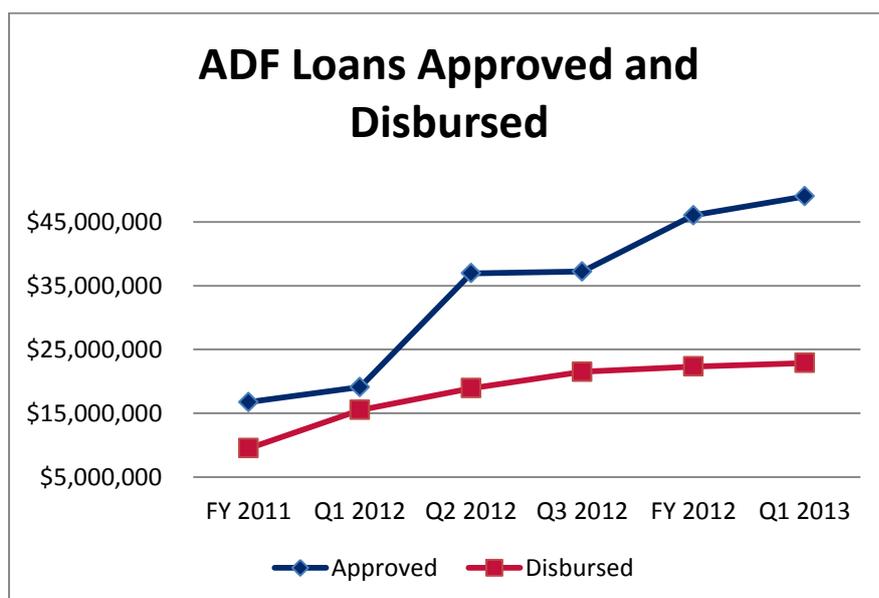
This monthly reporting packet, consisting of all above document as well as the monthly report, is circulated to management, the lending team and the heads of other departments by the end of the first week of the month for the month prior. For example, the monthly reporting package for January 2013 will be completed and distributed by the end of the first week of February, 2013.

In addition, the team is working in three new aspects: 1) to involve an Afghan legal consultant to review loan contracts and collateral issues; 2) to engage or establish a collection agency that would assist with ADF loan collection; and 3) to engage an international expert to establish the ADF finance department, separate from the ACE operations and finance.

### ADF Lending

In the past quarter the ADF Credit Committee approved the loan application for Farm Service Center Association of Afghanistan (FSCAA) for \$3,000,000. The project executed five disbursements during the period of October – December 2012: disbursed \$200,000 to AAIDO for their Exporters’ loan; a total of \$278,600 in two separate disbursements to Qarizada Tomato Paste Company, 4,000,000 AFN (\$80,000) to the Rabia Mariam Handicraft Company, and 4,800,000 AFN (\$100,000) to Takhar Trader Women Social Organization. This brings the total approved loans to over \$49 million USD, disbursements to \$23.3 million USD and repayments consisting of \$11.5 million USD.

*Graph No 1: ADF loans approved and disbursed by Quarter*



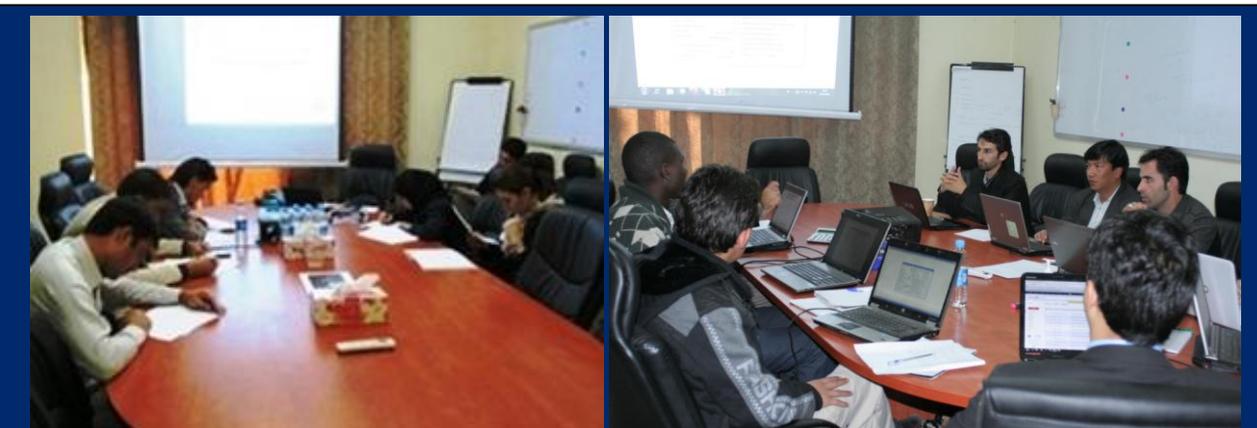
As of December 31st, ACE processed loan approvals worth of 2.55 Billion Afghanis (\$49 million USD) and disbursed 1.21 Billion Afghanis (\$23.3 million USD) to 15,624 rural households in 30 provinces of Afghanistan. The ADF clients have already repaid 598 million Afghanis (\$11.5 million USD) maintaining a default rate of 2.08 percent, well below the norm. In terms of business volume:

- **Loans Approved by ADF Credit Committee:** Of the 12 approved loans pending disbursements, ACE disbursed two and the project expect to disburse another two in the first week of January, 2013. The remaining eight loans will be disbursed as soon as possible.
- **Loans Approved by TRC, Pending ADF CC Approval:** 6 loans worth a total of \$3,430,000. ADF CC meetings will resume in mid-January.
- **Loans to be reviewed by TRC:** 18 loans which are ready to be presented to TRC, worth a total of \$6,721,000.
- **Loans in Pipeline:** A total of 46 loans in the loan pipeline are currently waiting for review by the TRC or ADF CC, worth a total of \$24.26 million USD.

## Islamic Finance and Innovation

During the past year, the ADF experienced an increased demand from its clients for Islamic financial products. In order to achieve Sharia compliance, the ADF has adopted a number of measures to ensure operational readiness. First, a number of easy to understand, transparent product structures have been defined and implemented including highly standardized client documentation. All key lending staff received different degrees of training which enabled them to confidently discuss the most appropriate solutions for their clients. Finally, a brochure and a technical report on Islamic lending have been designed and published. The technical report focuses on underlying principles of Sharia lending such as ethical principles and major prohibitions, restrictions on the asset and the impact on financial transactions; loan approval process, policies and procedures.

Early in this quarter, the Sharia Advisory Board (SAB) held their second meeting to sign the Sharia Annual Review Framework, as the core documents on which ADF Islamic financial products are based upon. The team reviewed the AAIDO and IIFCG loan cases and finalized a technical report on Islamic financial services within the ADF.



**Left: View of the Islamic Finance Training to present the Sharia compliant financial products offered by ACE/ADF and the corresponding policies and procedures. Right: Participants of the “Loan Performer” Training, an Integrated Loan Management and Accounting System Software**

In November 2012, ACE also launched the newest initiative designed to make on-lending to farmers easier and the loan management more effective. Three Farm Service Centers, Laghman, Kapisa and Logar, along with the Samsoor Ban Company in Wardak, partnered with the ADF to pilot a smart card system for their borrowers. The smart card system will allow an initial 400 farmers from 4 provinces to

access ADF credit using farm service centers as intermediaries. The system will be duplicated at other provinces around the country after the pilot phase.

The smart card system uses low cost software and hardware at the points of sale, and smart cards, which by having an embedded chip do not require internet connectivity. The cards can only be used to purchase agricultural inputs from a predetermined store. As an example, the ADF will provide a loan for the equivalent of \$200,000 to a farm store, which will use the funds to stock seeds, fertilizers and agro chemicals for the season. The store will issue 400 cards charged with the equivalent of \$500 based on their own selection criteria. Farmers will then purchase the inputs whenever needed and according to the card agreement they will pay at the end of the harvest by recharging the cards.

To develop the capacities of the ADF staff as well as partner organization, in the last quarter ACE mobilized an international lending operation advisor to train the Credit Management Unit staff and ADF lending advisors on Loan Performer. Loan Performer (LPF) is Management Information System software which integrates a Loan Management and Accounting System to entirely manage the business of FIs, NFIs, Non Financial Intermediaries and even small business who may give credit to their suppliers. At the end of a 12-day training and mentoring program, the participants were able to master the software application, which the CMUs will use to manage loan disbursements and repayments from their subsequent farmers. The CMU staff of AAIDO, ANSOR and Bamyán Cooperatives attended this capacity building exercise.

## **NEW BUSINESS**

ACE currently has a pipeline of \$24.26 million USD worth of loan applications, a selection of which is described below by region:

### **EAST:**

- The Nangarhar Agriculture Training Company located in the Behsood district of Nangarhar province has implemented several agricultural projects with various international agricultural programs working in the Eastern Region. It has also published agricultural technical books for local farmers and is currently running a livestock business as well. The potential borrower is interested in an ADF loan of \$170,000 to expand its current business.
- The Hamesha Bahar Agriculture Company is a member of NNGA and is registered with AISA, engaged in the service of nurseries, production of ornamental trees, buds and saplings, drip irrigation, landscaping, greenhouses, seeds, vegetables & ornamental, pesticides, shade nets, and agricultural related equipment. The company has four nurseries in the Nahea and Surkhrood districts, and also Jalalabad City of Nangarhar Province. The company has applied for a loan of \$100,000 for two years to expand their business.
- The Nangarhar Edible Oil Cooperative is mainly processing and producing refined oil, animal cake, cotton and soap. The cooperative plans to separate cotton fiber from the seed, and export the cotton fiber to Pakistan. The cooperative will brand all its products under its name such as - Nangarhar Cooking Oil, Nangarhar Soap, etc. The company's main office is in Sheikh Mesri Industrial Parks, Jalalabad. The company has applied for a loan of \$600,000 for one year.
- The Sardar Sadaat Agriculture and Livestock Company is located in Jalalabad and has been registered with AISA since 2009. The company is a member of the Farm Services Center of Afghanistan (FSCA), which imports fertilizers (Urea and DAP) from Pakistan and sells it to approximately 500 farmers on a cash and credit basis. The client has requested an ADF loan of \$450,000 to expand its business.

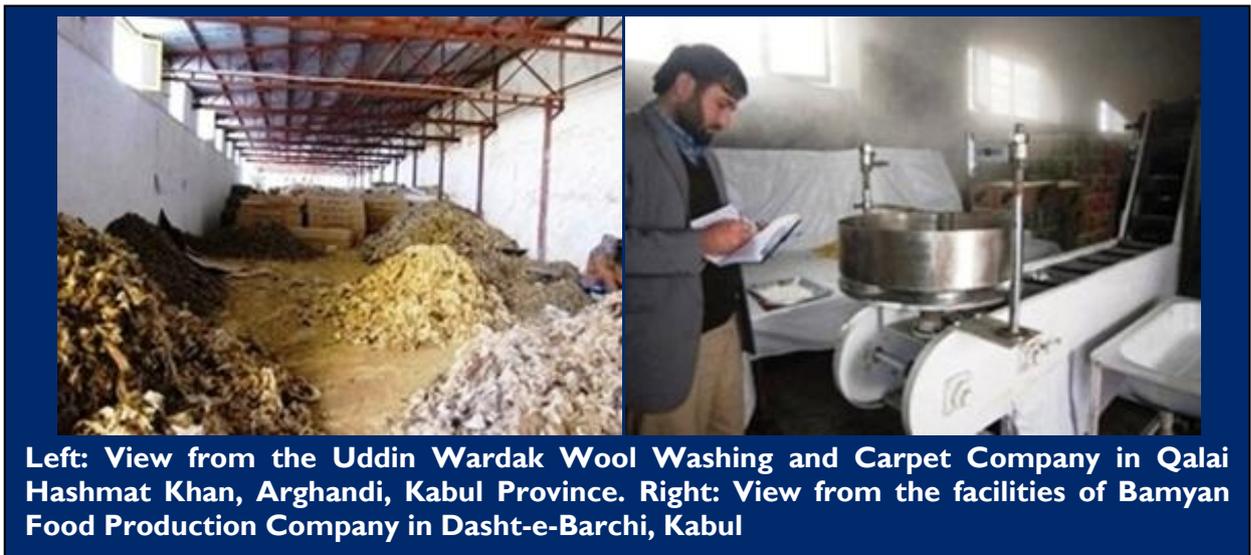
## **CENTRAL:**

- Sadat Ghafari Co. Ltd, located in Kabul has been operating for the last seven years, importing agricultural inputs into Afghanistan. The team met with Mr. Haji Muhammad Hanif, the president of the company, to discuss the financials of the potential client. Sadat Ghafari Co. Ltd. has applied for a loan of \$200,000 to import certified fruit and vegetables seeds from the U.S.
- Mowlana Yaqoob Charkhi Qurbankhail Brothers Co. Ltd. is interested in a line of credit for \$300,000 to \$400,000 to implement different contracts and to purchase different types of agricultural inputs. The company is located in Kabul and has been operating since 1997 while being one of the main contractors of MAIL. It imports pesticides, veterinary medicines, animal surgical equipment, vaccines, and produces sprayer pumps as well.



**View from the store of Mowlana Yaqoob Charkhi Qurbankhail in Kabul province. The client imports agricultural inputs and veterinary products.**

- The Uddin Wardak Wool Washing and Carpet Co. purchases organic wool from southern provinces to be processed in their factory located in Qalai Hashmat Khan, close to Arghandi, Kabul Province. The company is requesting a \$200,000 loan from ADF to purchase raw materials.



**Left: View from the Uddin Wardak Wool Washing and Carpet Company in Qalai Hashmat Khan, Arghandi, Kabul Province. Right: View from the facilities of Bamyan Food Production Company in Dasht-e-Barchi, Kabul**

- The Gulshan Shadab Soap Manufacturing Industry was established in 2010 with an initial capital of \$40,000. The raw materials required to produce laundry soap are fats, sodium silicate, caustic soda, lint and suffocate which the client purchases from butchers in Kabul. Only sodium silicate and caustic soda are imported from Pakistan, the rest is available locally. The client is

interested in a line of credit for \$100,000 to establish a new production line and purchase raw materials to increase its production.

#### **NORTH:**

- The Brotheran Etifaq Cooperative manages an edible oil processing plant located in Mazar-e-Sharif that was established in 2010 with support from the Rural Business Support Project which provided a grant of \$1 million USD to construct a factory building and purchase equipment. The client is requesting an ADF loan of \$1 million USD to purchase raw materials from



**Left: View from the facilities of Jawid Cohnawardan Company Ltd., a dry fruit exporter in Balkh province. Right: The flour mill factory owned by North West Flour Mill located in industrial parks of Mazar-e-Sharif, Balkh.**

farmers.

- The Hafiz Ebad Wool and Carpet Production Company is located in the Andkhoyee district of Faryab Province. The owner, who has eight years of experience in this field, has established a new factory to process local wool into yarn. The client is seeking ADF financing up to \$350,000 to purchase local wool from various provinces and after processing, convert it into high standard quality carpet yarn.
- The Shaib Faisal Rice Processing Company, established in 2010 and located in Kunduz, is processing paddy into rice. The owner of the company is requesting ADF financing for \$1,000,000 to distribute loans in-kind to approximately 1,000 paddy farmers at planting time, and then to purchase paddy from the farmers at harvest time.
- Jawid Cohnawardan Co. LTD is a dry fruit exporter company operating since 2002. The company plans to expand its business by purchasing a large quantity of dry fruits from commercial and individual farmers. The client has requested a loan of \$500,000.
- Motmain Samangan Agriculture and Retailer association has been operating in Samangan province since 2008. The association has requested \$300,000 to enlarge its existing agriculture depot.



**View from Herat Farm Company in Ghoryan District of Herat City**

## WEST:

- The Herat Razi Agriculture and Livestock Company started its operations last year and received a license from AISA a few months ago. The company has a cattle farm located in the Enjil district of Herat, and the owners have 8 years of experience in this business from previously having a cattle farm in Iran. The company is interested in an ADF loan of \$300,000 to invest in the purchase of dairy cows, constructing a building for the farm, and equipment.
- The Rawnaq cooperative is a new prospect which was established in 2008 located in the Injil district of Herat. The cooperative has 109 members currently working in the poultry sector. The members purchase one day old chicks, raise them for two months, and then sell the broilers to slaughterhouses. The cooperative has recently sold over 60,000 broilers with a value of \$275,000 generating a profit of \$31,000. The cooperative has expressed interest in a loan of \$100,000 for the establishment of two identical farms to raise poultry.

## SOUTH:

- The Sadeeq Mateen Afghan Company is engaged in poultry, fish farming and ice processing in the Zhari district of Kandahar province. The company purchased 2,000 hens and 200 cocks from Pakistan, which produce 1,000 eggs daily. The client owns hatchery equipment with a capacity of 12,000 eggs per batch and has a fish farm with 20 pools with a total capacity of 40,000 fish. The company also produces 6,000 kg of ice daily and is interested in an ADF loan \$300,000 to expand their business.
- The Khoshkak Talokan Agricultural Cooperative located in the Panjwai district of Kandahar has requested a loan of \$205,000 to purchase inputs for their farm related operation such as tractors, the construction of a raisin processing room, the purchase of threshers, water pumps & water reservoirs, fertilizer (UREA & DAP), and equipment for tractors.
- The Kandahar/Dand Farm Services Center located in the Dand district of Kandahar province is one of the main suppliers of agricultural inputs in the area, and has applied for a loan of 10,000,000 AFN for 18 months to expand on-lending to farmers in Dand and nearby districts.



- The Lava Chips and Food Production Company is registered with AISA and located in the

industrial park of Kandahar province with branches in Kabul, Ghazni, Helmand, and Nimroz provinces. Each month, the company produces 100 MT of potato chips in a variety of flavors. The company has applied for a loan of \$150,000 to expand its current business.

- The Tokhe Oil Producing Company is located in the Khushandam Industrial park of Kandahar. The company plans to invest its capital in the latest machinery from Pakistan to improve processing capacity. The company has requested an ADF loan of AFN 5,000,000 to purchase raw cotton from Helmand province.

## **AGRICULTURAL CREDIT SHURAS**

During the past quarter, ACE continued with the nation-wide campaign launched earlier in 2012 to take the Agricultural Credit Shura on the road and raise public awareness about the ADF financial opportunities available. These events generally consist of a two to three hour meeting with farmer representatives and male or female agribusiness entrepreneurs. During the meetings, the ACE staff provides an overview of the financial services available from the ADF, as well as the eligibility criteria.

Over the reporting period, ACE conducted ten Agricultural Credit Shuras in the provinces of Ghor, Kunduz, Baghlan, Jawzjan, Sar-e-Pul, Badghis Parwan, Kapisa, and Nangarhar. Farmers, members of cooperatives, agribusinesses and agro processors, representatives of NGOs and the media attended the events. To achieve these events, the project collaborated with the DAIL offices and the PRT while agribusinesses, farmers, farmers' associations and NGOs operating in the region were invited to participate. The ACE team introduced the ADF lending possibilities, the Sharia compliant Islamic lending products, and the value chain assistance through which ACE/ADF seeks to strengthen their clients' operations as a mechanism to succeed.

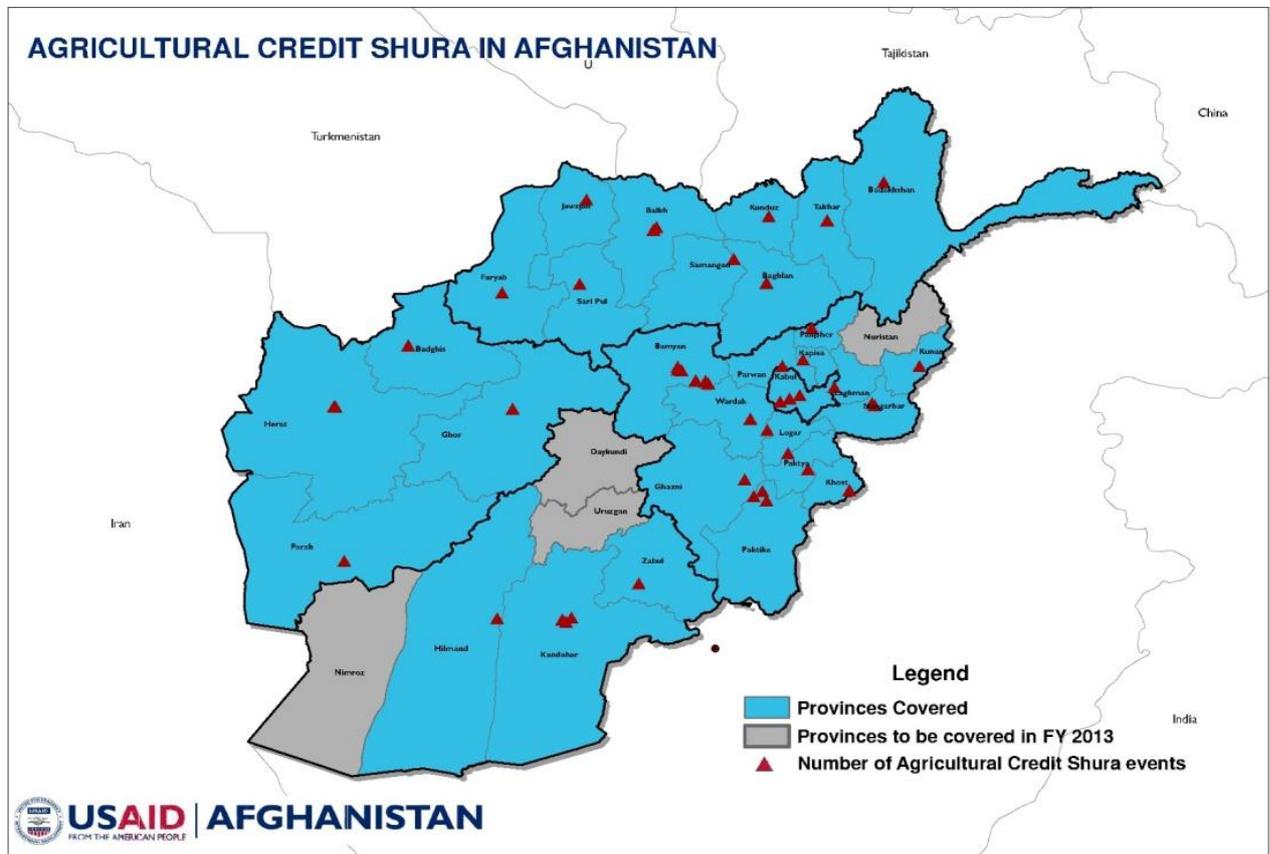
Prior to the Agricultural Credit Shura organized in Badghis province in November, the team met with the Provincial Governor to introduce the ADF lending opportunities and ensure provincial support. On November 10th, over 50 farmers, representatives of local farmers associations, cooperatives and NGOs, all participated in the event.

In December, ACE organized two Agricultural Credit Shura events in the provinces of Kapisa and Parwan. In Parwan province, over 120 commercial farmers, local agribusinesses, representatives of farmers' associations and cooperatives participated in the event. The Governor of Parwan province and the Director of DAIL inaugurated the Shura and gave their opening remarks emphasizing the importance of embracing this financial opportunity while



repaying on time. Subsequently, the ACE team introduced the ADF available financing opportunities, the lending criteria and selection procedures for loans as well. The team illustrated the Islamic financial products, the Zahra product designed for women and the complementary value chain technical assistance services to the agriculture sector.

*Map No 1. Provinces covered by the Agricultural Credit Shura*



In Kapisa, the ACE team collaborated with the local agribusinesses and farmer associations, as well as the Deputy Governor of the province to introduce ADF financial opportunities and also to ensure the support of the provincial government. On December 19, over 65 farmers, representative of local farmers associations, cooperative and agribusinesses participated in the event.



The last Agricultural Credit Shura event took place in Nangarhar with the participation of 50 women, representatives of local and regional cooperatives, the IDEA-NEW project and UNDP. The ACE team highlighted the upcoming Zahra financial product for women and participating terms and conditions.

As of December 2012, ACE has conducted over 50 agricultural credit Shuras in 30 provinces of Afghanistan, which were attended by over 2,065 representatives of farmer organizations and agribusiness entrepreneurs. The map below shows the provinces in which the Agricultural Shuras have been organized thus far.

## ACE and ADF GRANTS:

To assist the ADF clients succeed in their agricultural business enterprises, during the last quarter, ACE signed seven new Agricultural Modernization grant agreements for a total value of \$312,251 USD.

These grants include:

- A grant of \$41,500 to the Sanaizada Edible Oil Company in Balkh province to install the new oil extraction machinery, undertake measures to improve the overall hygiene conditions, hire a marketing specialist and a finance manager as well as providing salary for ten women employees.
- A grant of \$93,030 to Hand In Hand Afghanistan to provide selected representatives of women cooperatives with an opportunity to be exposed to the self help group model in India and to also offer them technical assistance upon their return to Afghanistan.
- A grant of \$39,289 to Laghman, Kapisa, and Logar Farm Service Centers (FSCs), as well as Samsoor Ban to launch smart card systems in collaboration with the ADF. The smart card system will enable the ADF clients to purchase agricultural inputs on credit. The system uses low cost software and hardware at the points of sale, and smart cards, which by having an embedded chip does not require internet connectivity. The cards can only be used to purchase agricultural inputs from a predetermined store.
- A grant of \$76,219 to Inteqal LLC to deliver the gender training to ACE clients and partners in Herat, Bamyán, Balkh, Kabul and Nangarhar provinces.
- A grant of \$14,250 to Quality Management Construction to set up solar water pump irrigation



**Hand In Hand Afghanistan signing an Agricultural Modernization Grant agreement of \$93,030 with ACE**



**View from the launching ceremony of Smart Card System, a pilot project that will be implemented by ADF in collaboration with four clients.**

system demonstrations for ADF clients in Samangan, Kunduz, Balkh and Ghazni.

- A grant of \$70,500 to the Rabia Mariam Handicraft Company to purchase a silk processing machine and develop their marketing strategy.
- A grant of \$32,325 to the Tanin Herat Industrial Company to invest in the improvement of their overall hygiene conditions and provide technical assistance on marketing and food safety. The company will conduct a food safety and hygiene training for its staff, purchase protective clothes for workers, design and print standard labels for packing, and develop the company's marketing strategy.
- A grant of \$38,168 to the Dehqan-Roz Dairy Production Company in Kabul to equip the dairy plant with quality control laboratory equipment for performing basic tests on milk and yoghurt, along with technical assistance.



**View from Gender Training Grant Signing Event with Inteqal LLC**

The team is working on developing another seven grants proposal which will be sent for approval in the next quarter.

Table 2: ACE/ADF Grants

No	Business Name	Province	Grant Purpose	Grant Type			Grant Period		Total \$Approved	Disbursed \$ value	% Paid
				ADF		ACE	Start Date	End Date			
				Challenge	Innovation	Ag Modernization					

**Clients Sensitive Information**

## ACE GENDER PROGRAM

The ACE program continues to aggressively look for new business opportunities for women as well as to support the existing women-owned businesses. To date, four women led business and associations have benefitted from ADF financial opportunities for a total of \$685,000 which has benefited already 117 women and will benefit an additional 1,500 in 2013.

First, ACE in partnership with United Nations Development Program's (UNDP) Gender Program and MAIL's Home Economic Directorate through an ACE grant with Hand in Hand, Afghanistan (HiH-AF) and a sister organization in India supported seven pre-selected representatives of women cooperatives from rural Afghanistan with an opportunity of a training program and an exposure visit to India. Before the training in India, the HiH team completed all the pre-exposure visits to Badakhshan, Kunduz, Takhar, and Balkh, Nangarhar, Bamyán and Herat provinces. On December 28, the seven participants left for a 10 day study tour visit and training to Chennai, India which has achieved significant progress in the sphere of mobilizing women through joint initiatives in the agricultural sector.



**December 30, 2012: The field visit to a Co-op Board Meeting at Kanchipuram, Morgan colony, the board meeting consisted of the twelve members looking at the following five records: cashbook, savings book, meeting minutes, expenses book, and a general book.**

Second, ACE competitively selected Inteqal LLC, an Afghan-owned, Kabul-based consulting firm as the company to organize and deliver the Gender Training Program for the ADF targeted clients and partners in Hirat, Bamyán, Balkh, Kabul and Nangarhar Provinces. The total cost of the activity is estimated at \$94,919, with ACE covering expenses up to \$76,219, and a grantee contributing \$18,700. The company will train about 100 ADF clients with the purpose of increasing gender awareness and encouraging women's access to finance. ACE held a focus group meeting to help in the design of the curriculum for the gender training on December 24, 2012. The event was attended by ACE staff, a sample of ADF clients and representatives from the Inteqal Company. The participants expressed their opinions on what to include in the training curriculum based on the requirements of gender training and Afghan culture. The Inteqal Company will share the training materials with the participants of the event once they develop them to get their feedback. The Gender Training Program will not be a one-time event, but will be developed in two phases, monthly on-line discussions and on-the job support.

Third, the team achieved approval for the Agricultural Modernization Grant Application for the Rabia Mariam Handicraft Company (RMHC), a women-owned business in Mazar-e-Sharif, a borrower of an ADF loan of \$230,000. Through the grant, ACE will assist the company to purchase silk processing machinery from the Laxmi Textile Company in India. The Company has over 60 years of experience in manufacturing weaving machines in India and is recognized by Industry Associations, The Ministry of Textiles, the Office of the Textile Commissioner, The Central Silk Board, The Ministry of Heavy

Industries and also various state government departments for improving the weaving machinery standards in various segments of the Indian Textile Industry.

The total estimated cost of the activity is \$162,500, with ACE covering expenses up to \$70,500, and the grantee contributing \$92,000. With the installation of these silk processing machines, RMHC will be able to support more than 2,000 women involved in the sericulture (rearing of silk worms) in the northern region and even expand to other provinces.

Fourth, ACE met with OXUS financial institution to discuss the possibility of an ADF loan for small and medium enterprises, which if approved will include the ZAHRA program for women and a grant. Once the ZAHRA program is fully operational, the ADF will be able to cater to the demands of the women farmers and agribusinesses across the country which request smaller loans than the ADF threshold of \$100,000 USD. The program will support women small- or medium-sized enterprise (SME) by providing loans from \$5,000-\$50,000.

Firoza is one of 117 members of the Ghoryan Women Saffron Association in Herat province. The association received a loan from the Agricultural Development Fund, which gave Firoza and her fellow member's access to production inputs without having to commit to sell their produce at low prices. By having timely access to inputs, female saffron growers will be able to increase productivity and produce quality. This loan was the first under ADF's ZAHRA Sharia compliant financial product, which caters to the financial needs of rural women already



In terms of new business for women clients, ACE met with several potential clients:

- Mrs. Kamila Sidiqi is Director of Nawyan Naveed Co. Ltd, a women-run business interested in an ADF line of credit of \$200,000 to purchase raisins from farmers. The company has already received a purchase order for raisins from Russia with a value of \$2 million USD, and is therefore looking for partial financing. The team explained the ADF lending policies and procedures and will assist the company during the application phase.
- Women Entrepreneur Association was established in 2007 in Kunduz, and comprises 980 women members working in handicrafts, carpet production, and in the horticultural sector growing a variety of fruits such as apple, pea, apricot, peach, pomegranate, and black cheery. The client is looking for a \$100,000 loan in Islamic finance to expand their business.
- Ms. Zainul Arab is the president of the Women Beekeeping Association of Ghazni Province, which has been operating since 1995. The association is interested in a loan of \$30,000 for the purchase of packaging and processing machinery. Since this amount is lower than the ADF's loan threshold, the project will explore the possibility of lending through the ZAHRA program.

The ACE gender team is in the process of supporting Sanaizada Edible Oil through hiring ten women as employees. These selected women have extensive experience in food processing, food safety and they were highly recommended by DAIL, DoWA, and UNDP-Gender Equality Project of Balkh province.

On November 27, the project had to cancel the Agricultural Credit Shura in Kandahar city due to security constrains. However, this did not prevent the team from meeting with the 12 local business women, members of the Afghan Women Council, and Director of Department of Women Affairs in Kandahar province participated in the meeting. The team introduced the ADF financial products, loan application process and selection criteria as well as the upcoming ZAHRA women program.

## Internal Audit and Compliance

In the last quarter the internal audit and compliance unit audited the credit administration activities such as verifying the ADF cash movements, reviewing accounting records related to the ADF loan disbursement, and analyzing the documents related to ARFC services and the final settlement with ARFC. In this context, the team prepared a report underlining the findings which were shared with other departments.

The team completed the loan utilization audit for several ADF clients such as: Kapisa Farm Services Center, Dr. Abdul Wakil Farmers association, Rabia Mariam Handicraft Company, Logar Farm Service Center, and Bamyan Cooperatives. ACE visited the clients in the field, assessed the impact of the loans, evaluated the repayment process, reviewed the credit files and discussed all these matters with the clients. The purpose of these reports was to provide the ADF management with independent and objective opinions on the loan utilization by the borrowers, to check their compliance with the policies and head of terms signed between the parties; and assess borrowers' willingness and ability to repay the loan.

In addition, during the reporting quarter the project also finalized the compliance report for the Tanin Herat Industrial Food Company, Logar Farm Service Center, Dr. Abdul Wakil Farmers Association, Ghoryan Women Saffron Association (GWSA), Kapisa Farm Service Center, Rabia Mariam Handicraft Company, and Bamyan Cooperatives.

*Table 3: Audit reports*

Audit Assessments conducted in Q1 FY'13		
No	Client	Status of the Loan
1	Ghoryan Saffron Company	Disbursed
2	Logar Farm Service Center	Disbursed
3	Tanin Industrial Company	Disbursed
4	Dr. Abdul Wakil Farmers Association (2nd Loan)	Disbursed
5	Kapisa Farm Service Center	Disbursed
6	Rabia Mariam Handicraft Company	Disbursed
7	Bamyan Cooperatives	Disbursed
8	Credit Administration Activities	NA

In addition, the team developed a Sharia Audit Manual intended to provide members of the audit team with practical guidance, tools and information to effectively undertake the internal audit activities for the Sharia compliant loans. This manual focuses on the major subjects that need to be considered when conducting a loan utilization assessment for Islamic lending.



## SNAPSHOT

# Betting on Competitive Industries

**USAID funded credit program is supporting the growth of Afghan agriculture**



*Consumer-ready packages of dried fruit from Afghanistan*

**USAID provided Hariwa Habibzadeh with a loan for US\$273,000. This year, the company will export 130 metric tons of dry raisins and figs - a hundred metric tons more than last year - with a market value of around \$800,000.**

U.S. Agency for International Development  
[www.usaid.gov](http://www.usaid.gov)

Mr. Ghulam Sarwar is a member of a business family from Herat City in Afghanistan who grew up learning the family trade of buying, drying, packing and exporting dried fruits and nuts. In 2010 he decided to establish Hariwa Habibzadeh, his own company. Two years later he reached record sales of 40 metric tons of dried fruits and managed to introduce his brand into the Indian market with consumer-ready packages that comply with India's grades and standards.

The company's business model was based on cash purchases of fresh fruit in Herat which they processed and sold to buyers in India with credit periods ranging from one week to one month.

"Agricultural credit changed my life and those of 200 families that depend on my company," – said Ghulam Sarwar, the company owner.

While demand for their products was growing, the company lacked the financial capacity to meet the payment requirements of local suppliers and sell on credit to Indian wholesalers. The Agricultural Development Fund (ADF), a USAID funded activity, provided the company with a loan for US\$273,000. This year the company will export 130 metric tons of dry raisins and figs - a hundred metric tons more than last year - with a market value of around \$800,000.

This year is looking promising for Hariwa Habibzadeh as they have tripled the size of their business.

The ADF is a wholesale lending institution established through a grant to the Government Islamic Republic of Afghanistan. USAID's Agricultural Credit Enhancement Project manages all ADF lending activities in close collaboration with the Ministry of Agriculture, Irrigation and Livestock. By providing financial services to competitive agro-industries, USAID is supporting the growth of Afghan agriculture and contributing to a more stable and prosper society.

**Table 4: 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
	<b><i>SUB-TOTAL NFI</i></b>				<b>\$ 17,429,817</b>	<b>\$ 7,602,319</b>	<b>\$ 6,265,787</b>	<b>8,066</b>	
<b>Clients Sensitive Information</b>									

**Clients Sensitive Information**

**Updated on: 1/28/13**

## Component 2: Agricultural Modernization and Value Chain Development

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### Value Chain Strengthening

***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 reporting quarter the agricultural value chain strengthening supported the overall objectives of the program through five complementary activities:

- 1) Promote increased market opportunities for Afghan agricultural products;
- 2) Strengthen the technical capacities of the ADF and MAIL staff to conduct value chain analysis;
- 3) Conduct value chain specific workshops to promote the removal of value chain constraints;
- 4) Provide technical reviews for the ADF loans and offer value chain technical assistance to ADF clients;
- 5) Coordinate with other IPs and actors.

#### **I. Promote Increased Market Opportunities**

First, throughout the reporting quarter, the team visited various Bamyan Cooperatives in several districts of Bamyan province to collect information on the status of potato sales and to discuss alternatives to improve their potato sales performance. The potato production of 22 of the 27 ADF's client cooperatives is estimated to be around 9,881 Mt. Some cooperatives by October had already established contacts with traders from Mazar-e-Sharif and Kabul markets and shipped products based on the daily market bidding price. The team facilitated meetings between producers and potato traders from Herat, Mazar, Baghlan and Kabul to assist the farmers with regional markets.



**Left and Right: The ACE Value Chain Strengthening team visiting Bamyan potato farmers and inspect harvesting and sales performance.**

In a similar fashion, ACE informed several wholesalers from the Jalalabad wholesale market on the availability of high quality potatoes from Bamyan Potato Cooperatives. The Jalalabad wholesalers expressed their interest to contact the cooperatives and the team facilitated the contact information in

Bamyan. In addition, the team followed up the negotiation of an agreement between with Bamyan Potato Cooperatives and a trader from Mazar-e-Sharif. The negotiation is ongoing and the team is assisting both parties in a deal for the supply of 1,000 MT potatoes between the Bamyan Cooperatives and Tajzada Co. Ltd.

In addition, the ACE team worked closely with MAIL's Private Sector Directorate on Kabul Ag-Fair 2012, which was held from November 7-9, 2012. MAIL requested ACE to facilitate a presentation on "Value Chain Concepts & ACE's Approach," which was presented during the second day of the Kabul Ag-Fair to Afghan agribusinesses. ACE assisted MAIL to generate a list of international business contacts from Turkey, Russia and Azerbaijan which were subsequently invited to attend the Kabul Ag-Fair. In addition to this, the project facilitated ADF clients with 22 booths at the event to showcase their products and meet with new buyers. ACE participated in the fair with two booths, one on the ADF financial opportunities and the second on PAYWAND services. Three representatives of the 27 cooperatives attended the Ag-Fair to seek market opportunities and promote their products.

A day prior to the event, the ACE team welcomed a delegation from USAID visiting the booths of ADF clients such as the Nangarhar Edible Oil Cooperative, Salahe Daikundiwal Agricultural Company, Season Honey and Samsoor Ban businesses. The clients introduced their businesses, spoke on current production and sales, and also shared their future plans.

On November 7, 2012, the Vice President of Afghanistan, Mr. Karim Khalily, MAIL's Minister, Mohammad Asif Rahimi, Finance Minister, Mr. Hazrat Omer Zakhilwal, the head of AISA and Afghan Parliament



Vice President of GIROA Mr. Karim Khalili and MAIL Minister at VIP opening ceremony at the Kabul Ag-Fair which took place on November 7-9, 2012.

members visited the ADF clients' booths at the fair. The exhibitors explained how the ADF loans have enabled them to increase their production, expand their businesses and increase their sales.

ADF clients had several opportunities to find potential clients for the products. Some of the business achievements reached at the Ag Fair include:

- **ANSOR (with member Seed Enterprises from 24 Provinces)**

ANSOR exhibited their certified wheat seed in two separate booths. ANSOR Board Members reported that the event presented a golden opportunity for them to show their products (different varieties of certified seeds) not only to buyers but also to government representatives such as the Minister of MAIL, Members of Parliament and AISA representatives. ANSOR representatives shared the challenges faced by the Seed Enterprises and requested government support. ANSOR Board Members met with dealers and traders interested to purchase certified wheat seed. During the Ag-Fair, ANSOR signed contracts for 200 MT of certified wheat seed, 1.2 Mt Soybean seed, 1 Mt Clover seed and 300 Kg of onion seed.



Vice President of GIROA Mr. Karim Khalili and the Minister of Finance visiting the ADF and PAYWAND booth at the AG Fair.

- **Ghoryan Women Saffron Association, Herat**

The head of association met with the Tak Dana Company, interested in purchasing 300-400 Kg of Saffron from the Association, for an estimated value of \$180,000 – \$240,000. The Tak Dana Company will export the saffron to their existing customers. The Sales and Marketing Ltd. discussed the possibility of opening and managing a branch for Ghoryan Women Saffron Association in the Central Region to market and promote the products from the Association.

- **Salahe Dekundiwal Brothers Agriculture Production and Services Co., Kabul**

The Salahe Dekundiwal Company attended the Kabul Ag-Fair for the first time. The company benefited from the opportunity of meeting with new buyers and making new business deals. The Bostan-e-Sabz Company contracted the purchase of 700 Kg of Cucumber and 400 Kg of Chili for every week. The Tak Dana Company expressed interest to purchase the cucumber, chili and tomato



Left and Right: View from the booths of the Farm Service Center Association of Afghanistan (FSCCA) and Shir Ali Yaqoobzada at the Kabul Ag Fair 2012.

from Dekundiwal, however no agreement was reached as of yet. The Qarizada Tomato Paste processing Company is also interested in purchasing the fresh tomatoes from Dekundiwal and the negotiation is currently in progress. The Salahe Dekundiwal Company met with the FAIDA team to discuss financial opportunities with the packaging materials.

Other clients such as Shir Ali Yaqoobzada co. ltd, from Kabul, the Sayed Jamal Flour Mill, From Balkh, Qarizada Tomato Paste Company, from Balkh, and the Farm Service Association and Helmand Farm Service Center attended the Ag-Fair.

## 2. Strengthen technical capacities of MAIL in value chain analysis

During the past quarter the team continued to assist MAIL with capacity building through supporting two DAIL staff members in Mazar-e-Sharif with value chain assessment methodology. The two participants participated in the training course and mentorship offered by ACE in April-June 2012, and in October 3, 2012 they presented the findings of the value chain assessment for cotton and almond commodities and their final reports to Mazar-e-Sharif DAIL. Twenty one DAIL staff members from different departments including Extension, Research, Quality control, Agriculture Cooperatives and Forestry attended the presentation. During the session, the ADF value chain specialist gave explanations on ADF/ACE programs as well as on the role of two value chain advisors trained by ACE/ADF. At the end, the deputy director of DAIL- Mazar and Head of Extension Department extended his appreciation for this training opportunities and the results obtained by the Mazar-e-Sharif DAIL staff.



Left : View from the presentation of the final value chain analysis reports to DAIL in Mazar-e-Sharif. Right: View from the Soybean Value Chain Workshop organized in Kabul in December 2012.

## 3. Value Chain Workshops

Through an ADF modernization grant, ACE supported the Rana Seeds and Agribusiness Company to conduct a Soybean Value Chain workshop on December 26, 2012. The team also provided technical support to the Rana Seeds and Agribusiness Company on how to provide the agenda and to define the categories of those involved in the soybean value chain. The workshop was attended by over 50 participants who were owners of the factories that produce edible oil, farmers who plant soybean, and farmers who are interested to see and compare their current products with soybean, officials from MAIL, and a few students from Kabul University, Faculty of Agriculture. The client was also advised to share and coordinate all activities with ACE's value chain team in advance for their technical review and agreement.

## 4. Technical Assistance for the ADF Loan Applications

Forth, in terms of value chain technical reviews of loan applications, ACE reviewed several cases for ACE's Technical Review Committee. These cases include:

- Koshkak Tolokan Agriculture Cooperative has requested a loan of approximately \$205,000 to purchase some inputs for their farm related operation.
- The Abdul Moheen Sapling Company is interested in an ADF loan of \$200,000 to finance an increase in sapling production through the establishment of new nursery and pomegranate orchards in Arghasan District; and new grape wine yards in the Maroof District of Kandahar.

- The Farm Service Center Association of Afghanistan has applied for a loan of \$3,000,000 for the establishment of a credit program that will on-lend to member Farm Service Center (FSC) around the Country.
- Taraqi Agricultural Cooperative applied for an ADF loan of \$100,000. The Cooperative intends to invest the funds in the construction of a new poultry farm with a capacity of 30,000 chickens.
- Saadat Ghafor Brothers Company requested an ADF loan \$120,000 to finance the import of vegetable seeds (4,528 kg) to be distributed among their clientele.
- The Uddin Wardak Wool Washing & Carpet Weaving Company applied for a loan of \$200,000 from the ADF for the purchase of 200 MT of raw wool from farmers in Afghanistan. The company has sorting, washing and drying facility for wool.
- The Sahadat Agricultural cooperative has 50 members from which they selected 26 members for receiving an ADF loan. Currently the cooperative produces barley, wheat, vegetables and saffron. The cooperative has requested an ADF loan of \$100,000 for purchasing of agricultural machinery and inputs.
- The Sakhi Jan Cooperative, located in Sha Walikot district of Kandahar, produces wheat, corn, green pea, onions, pomegranate, and fig. The cooperative requested an ADF loan of \$100,000 to increase the production capacity and have access to qualified seeds and enough fertilizer.

In addition, ACE drafted the concept notes for the Agricultural Modernization grants approved in the last quarter for 1) Quality Management Construction Solar Company; 2) Sanaizada Edible Oil Company; 3) Rabia Mariam Handicraft Company; 4) Tanin Herat Industrial Company; and 5) Dehqan-e-Roz Dairy Production Company, which were explained in details in the grants section. The team is currently working on two grants to support Qarizada Tomato Paste Company and Afghan Rice Mill and planning five other grant proposals for the next quarter.

## 5. Coordination

The ACE team participated in the first coordination meeting “Access to the International Markets” organized by the Export Promotion Agency of Afghanistan (EPAA) in Kabul. The purpose of the meeting was to establish a working group among organizations and private agribusinesses involved in the export of Afghan products. Several projects presented materials on export standards, sorting and packaging according to the target international market; and the importance of the ISO standards is the export business. The ACE team introduced the ADF lending opportunities and financial mechanisms available to assist export growth for Afghan agricultural products. ACE will introduce and refer any of its existing clients that need help concerning the export procedures, documentation, and any subsequent technical support with the subject matter.

MAIL requested ACE to assist the Helmand PRT and Helmand Farm Service Centre in designing a pilot program that provides an ADF loan for Helmand FSC with the purpose to provide winter feed to Kuchis (nomads) in Helmand province on a credit basis. The team in collaboration with the Helmand FSC collected data of the scale of beneficiaries, livestock type managed by Kuchis and credit criteria. The team submitted the concept note in the last week.

Herat DAIL invited representatives from agricultural projects implemented in the province including ADF. The purpose was to hold the monthly coordination meeting. ACE staff explained the lending activities implemented in the Province. DAIL’s Director requested all the stakeholders to share their monthly reports and monthly activity plans.

ACE collaborated with the Herat Export Promotion Agency to organize a business meeting with importing and exporting companies to introduce the ADF financial opportunities. The Agency is compiling a list of active companies in Herat potentially interested in ADF financial products. The meeting with exporters will be scheduled in early 2013.



A rice growing farmer in Nangarhar province, a member of the Afghan Rice Mill Company.

## 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.*

Task ten from the Task Order on establishing a knowledge management facility that builds an accessible repository of information regarding Afghanistan's agricultural sector was successfully completed and delivered in the previous quarter.

In the past three months, the team completed several tasks and products, achieving a number of successes. In October, ACE discussed the opportunity of receiving trade data on the custom house level from the Customs House Directorate. The partner agreed to provide custom data down to an 8 digit code of the Harmonized System, by country of origin and indicating the customs house through which the goods entered or left Afghanistan. The PAYWAND database interface was revised in order to accommodate this detail. The team refreshed not only the new data according to this detail, but the previously entered data was refreshed in the new order as well.

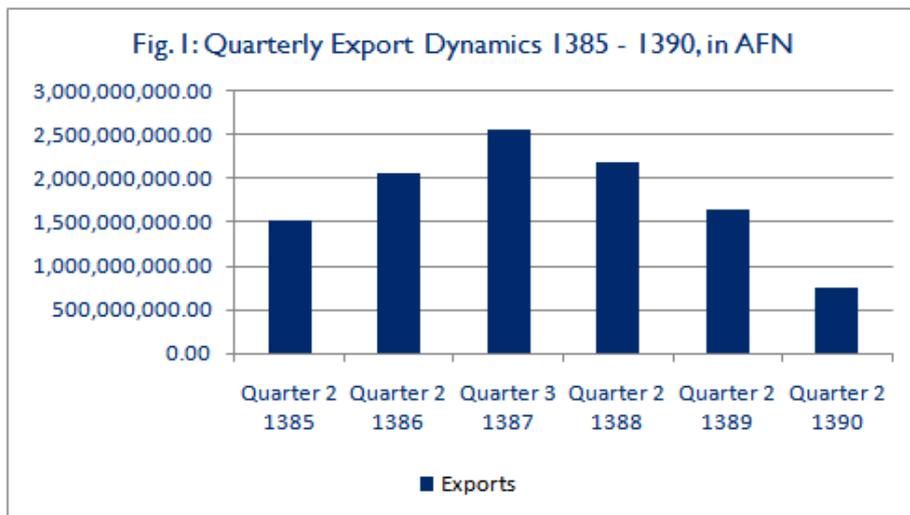
The screenshot displays a software interface for generating trade flow reports. The main window is titled "Export Form" and "Trade Flow". It features several sections for configuring the report:

- Report Type:** Radio buttons for "Detailed Report" (selected) and "Summary Report".
- Custom Office:** Radio buttons for "Custom Office" (selected) and "With Custom Office".
- Frequency:** Radio buttons for "Monthly" (selected), "Yearly", "Solar Year", and "Georgian Year".
- Start Date and End Date:** Two dropdown menus for selecting the time period.
- Custom Office:** A dropdown menu with a "Select All" option, circled in red.
- Origin Country:** A dropdown menu with a "Select All" option.
- Destination Country:** A dropdown menu with a "Select All" option.

The background shows a navigation pane with options like "Menu Main", "Prices", "Trade Flow", "Agriculture Stud", "Other Statistics", "GIS", and "Meteorological Re".

The team worked on the Agriculture Trade Report for Quarter One 1391 which covers the period from March 2012 through June 2012. The report, the 6th in a series, attempts to bridge the trade information gap that agriculture actors might face. Basic analytical tools were used to generate the Annual Agriculture Trade Report of Afghanistan for the first quarter of 1391. The report includes 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 approach to the task is slightly different this time as the data was analyzed and checked from MIS at MAIL as part of their new responsibilities following the transition of PAYWAND to MAIL. ACE is planning to assist MAIL come up with a new design for the agricultural trade reports, to increase their ownership over the product.

In addition, later in December, the team also completed the Agricultural Trade Report for Quarter 2, 1391, which covers the period from June 2012 through September 2012. Based on the report the Agriculture trade flows reached 351.9 million USD during the second quarter of 1391. They have slightly decreased as compared to the previous quarter, mainly as a result on the decrease of exports. Imports account for 95.5% of the trade flows during this period. The trade deficit has increased by 5 percent, compared to the first quarter, to 320.7 million USD.



Agriculture exports were valued at 15.6 million USD. They have experienced a decrease as compared to the previous quarter and the same quarter in 1389. The second quarter export values have constantly been decreasing since the high peak on 1387. Agricultural exports have reached a level that is lower than 5 years ago, as observable in the graph.

Their share to total exports of the country has dropped severely to 24% from 48% in the previous quarter, due to the decrease in absolute value of agriculture exports and the overall increase of exports from Afghanistan during this quarter. Agriculture imports reached 336.3 million USD during the second quarter of 1390. They account for 18% of total imports to Afghanistan. They have experienced slight downturns during this period but with an upwards tendency. Import values during second quarter 1390 are the highest of the years taken in observation.



The trade balance continues to be positive with some countries. The highest trade surplus, around 1.3 million USD, is with Iraq while trade balance with India has shifted into a negative value during this quarter accounting for a negative balance of -8.4 million USD. The highest trade deficit for the quarter, of the value 95.7 million USD, is registered with Pakistan, even though this deficit is much lower than first quarter 1390. Malaysia and Kazakhstan are ranked 2nd and 3rd.

Trade flows with Pakistan reached 104.3 million USD during this quarter. The trade deficit was valued at -95.7 million USD. The export/import coverage measured as a percentage of exports over imports is 4.2%, which has increased by 2 percentage points due to the increase of exports and decrease of imports, compared to Q1 1390. Agricultural trade flows with India reached 19.8 million USD while the trade balance has shifted into a negative balance -8.4 million USD from the surplus of last quarter. The export/import ratio has changed to 30% from 110% during last quarter.

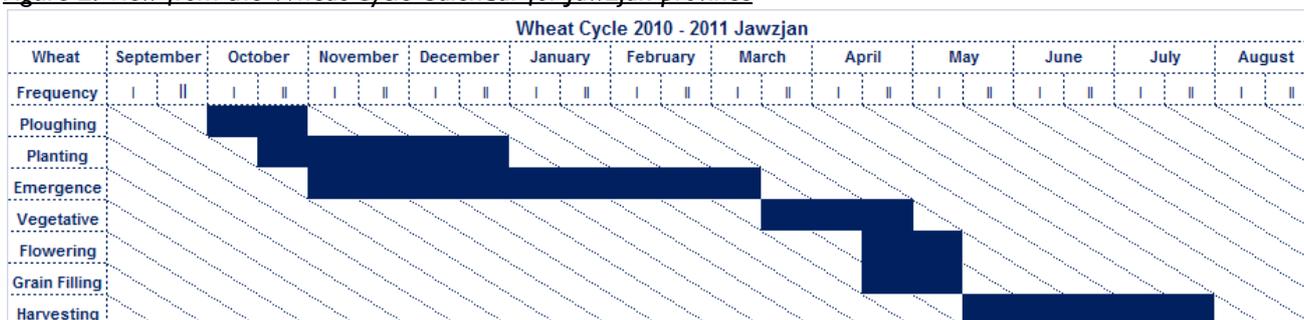
Trade flows with Kazakhstan reached 26.3 million USD while the trade deficit was valued at 26 Million USD. Both

exports and imports have decreased as compared to the same quarter in 1389. The export/import ratio remains very low, 0.5%, which is even lower than Q2 1389 and Q1 1390. Exports were valued at 0.126 million USD. Imports from Kazakhstan were valued at 26.1 million USD, accounting for 7.8% of total agriculture imports.

During the past quarter, ACE completed several crop calendars, as a tool that provides timely information on crop production based on local climate. The crop production contains information on land preparation, planting, sowing and harvesting periods of locally adapted crops in specific provinces. This tool supports farmers and agriculture extensionists across the country in taking informed decisions on crops and their sowing period, respecting the climate conditions. The Crop Calendar provides information on three major crops (Wheat, Rice and Maize), from 26 provinces of the country.

The raw data for these calendars was provided by Agromet project of USGS/MAIL. After processing the data and drafting the initial version, the calendar was shared with ANSOR representatives, one of the largest wheat seed providers in Afghanistan to cross check the information.

Figure 2: View from the Wheat Cycle Calendar for Jawzjan province



The Agromet project covers all the provinces of Afghanistan with meteorological stations which capture daily rainfalls and the crop stages. In addition, Agromet has 11 automatic stations in 9 provinces which report temperature, evaporation, precipitation, relative humidity, wind, cloud cover, and sun duration. The Agromet staff report on rainfall, crop and weather data on bio-monthly basis to the central office in Kabul. The main crop stages are identified as following:

1. Planning: in this stage the farmers are planning to prepare land for plowing, finding suitable seeds, fertilizers and all other necessities.
2. Plowing: in this stage the land is prepared and is plowed
3. Planting: refers to the placement of the seeds or the vegetative materials which are placed in the soil previously prepared and then covered.
4. Emergence: In this stage the new plant emerges from the soil; this stage extends to the point when the plant is up to 5 cm high.
5. Vegetative: the vegetative stage of the plant is considered from the time the new plant is 5 cm high until it reaches its final height
6. Flowering: in this stage the crop starts blossoming
7. Grain filling: after the plant completes the flowering stage it develops the grain and starts filling it to form the adult grain, at the end the plant starts ripening or (in most cases) yellowing
8. Harvesting: Refers to the collection of grain once the plant has completed its physiological growth.

## Performance Management - ACE Progress against Targets

During the first quarter of 2013, the ACE M&E team showed increased efforts at reviewing and verifying the evidence for farmer direct beneficiaries. ADF clients such as Apple Association, Logar Farm Service Centre, Laghman FSC and Kapisa FSC, have reported to have on-lent to 176, 295, 438 and 160 farmers respectively. The M&E team has been able to verify (through field verification surveys) 598 direct beneficiaries, as the field verification in Wardak and Logar demonstrated that farmers did not benefit directly from the ADF loans. In response to this finding, the M&E team eliminated the direct beneficiaries of these two clients from the beneficiaries' list and introduced strict procedures to prevent this from happening in the future. The new ADF clients, regardless of the security situation in the region where they operate, will be informed on field verifications on actual disbursement to farmers, upon the submission of farmers' lists.

Second, as the number of the ACE agricultural modernization grants increases, the M&E team developed two grant monitoring surveys from the grantees. The first consists of a regular grant monitoring questionnaire and is administered every quarter during the grant implementation; its purpose is to monitor the progress of the grant with respect to grants purpose and activities. The second survey introduced incorporates a spot check and field visit checklist designed to monitor specific grant activities such as field demonstrations, workshops, agricultural training etc. The ongoing ACE grants will be monitored rigorously.



The M&E database that houses ACE's performance data on 15 indicators is maintained daily. While direct beneficiary data is reviewed and updated on a weekly and monthly basis, the rest of the indicators are updated and reviewed quarterly.

### Quarterly Results

This section presents ACE's achievements against targets from October 1<sup>st</sup> to December 31<sup>st</sup> 2012. In the next page, the performance data sheet for Q1 FY'13 is presented together with quarterly and annual targets. Gender-based achievements for applicable indicators are given in the same table. A description of the main accomplishments for each indicator is followed in page 48.

**Table 6 : Performance Data Q1 FY 2013**

Indicator Name and Number (gender disaggregation)	Baseline (date collected)	FY 2011	FY 20112	Q1 FY 2013 (total for this quarter only)*	TOTAL Cumulative figures Q1 2013	Targets for Q1 FY 2013	%	Target for FY 2013	Target for FY 2014
		Actual	Actual	Actual	Actual	Target		Target	Target
1.1 Value of finance accessed through lending	0	\$16,746,562	\$46,010,957	\$49,010,957	\$49,010,957	\$60,000,000	82%	\$85,000,000	\$85,000,000
Male	0	-	\$45,325,957	\$48,325,957	\$48,325,957	-	-	-	-
Female	0	-	\$685,000	\$685,000	\$685,000	-	-	-	-
1.1- a Values of Loans Disbursed	0	\$9,515,771	\$22,319,454	\$22,978,054	\$22,978,054	\$28,000,000	82%	\$50,000,000	85,000,000
Male	0	-	\$22,164,454	\$22,500,058	\$22,500,058	-	-	-	-
Female	0	-	\$297,996	\$477,996	\$477,996	-	-	-	-
1.2 Number of individuals benefiting from financial agreement	0	8,720	15,233	641	15,872	20,000	80%	40,000	60,000
Male	0	8,717	15,733	641	15,724	19,833	79%	39,000	-
Female	0	3	148	0	148	167	87%	1,000	-
1.2 –a Number of individuals benefitting from ACE or ADF financial agreements/ Indirect	0	94,162	101,711	1,280	102,991	54,000	191%	80,000	120,000
1.3 Percent annual increase in household income by assisted direct beneficiaries	Average \$580 per Household. (Oct,2011)	-	56%	-	-	-	-	10%	10%
1.4 Net total increase in Full-Time Equivalent (FTE) jobs created by USG sponsored agriculture activities	0	171	856	89	945	600	157%	1,000	2,000
Male	0	171	749	54	803	480	167%	800	-
Female	0	0	107	35	142	120	118%	200	-
2.1 Value of challenge/ innovation and agriculture modernization grants app	0	\$737,683	\$1,756,296	\$312,251	2,068,547	\$3,000,000	69%	\$10,000,000	\$20,000,000
Male	0	-	\$1,592,475	\$165,532	\$1,758,008	-	-	-	-
Female	0	-	\$163,821	\$146,719	\$310,540	-	-	-	-
2.1- a Value of Challenge/Innovation (ADF) Grants	0	\$607,970	\$783,099	-	783,099	\$1,500,000	52%	\$6,000,000	15000000
Male	0	-	\$759,108	-	\$759,108	-	-	-	-
Female	0	-	\$23,991	-	\$23,991	-	-	-	-
2.1 -b Value of Agricultural Modernization (ACE) grants approved	0	\$129,713	\$973,197	\$312,251	1,285,448	\$1,500,000	86%	\$4,000,000	\$5,000,000
Male	0	-	\$833,367	\$165,532	\$998,899	-	-	-	-
Female	0	-	\$139,830	\$146,719	\$286,549	-	-	-	-

Indicator Name and Number (gender disaggregation)	Baseline (date collected)	FY 2011	FY 20112	Q1 FY 2013 (total for this quarter only)*	TOTAL Cumulative figures Q1 2013	Targets for Q1 FY 2013	%	Target for FY 2013	Target for FY 2014
2.2 Number of participating Financial Intermediaries and Private Intermediaries on-lending funds	0	14	50	0	50	19	263%	22	25
Male	0	-	47	-	47	-	-	-	-
Female	0	-	03	-	3	-	-	-	-
2.3 Number of innovative lending products established by Private Intermediaries (IRs) and Financial Intermediaries (IRs)	0	3	9	0	9	4	225%	5	6
2.4 Percentage of loan losses resulting from ACE lending recommendations	0	-	1.32%	3.09%	3.094%	<5%	100%	<5%	<5%
3.1 Percentage change in value of exports of Afghanistan agricultural products for firms supported by ACE	\$3,048,355 (Oct,2011)	-	61%	-	-	-	-	10%	10%
3.2 : Number of loans approved under USAID's Development Credit Authority (DCA) mechanism	0	-	-	-	-	1	-	3	4
3.3 Number of public-private partnerships formed as a result of USG assistance (including GDAs)	0	-	-	-	-	0	-	2	4
4.1 Number of individuals trained by ACE in credit policy and operations, value chain strengthening, and market information sys	0	15	189	30	219	65	337%	90	120
Male	0	15	175	21	196	55	356%	63	
Female	0	0	14	9	23	10	230%	27	
4.2 Number of person hours of training; including formal and practical training and technical visits	0	74	525	196	721	350	206%	520	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	1	10	11	91%	15	20
5.2 Number of market information and market intelligence products created and disseminated by the established Knowledge Management	0	13	25	5	30	29	103%	38	50

\* All indicators are expressed quarterly net, except for indicators 1.1 and 1.1(a) which are always expressed in cumulative figures.

**Table 7: ADF Direct and Indirect Beneficiaries**

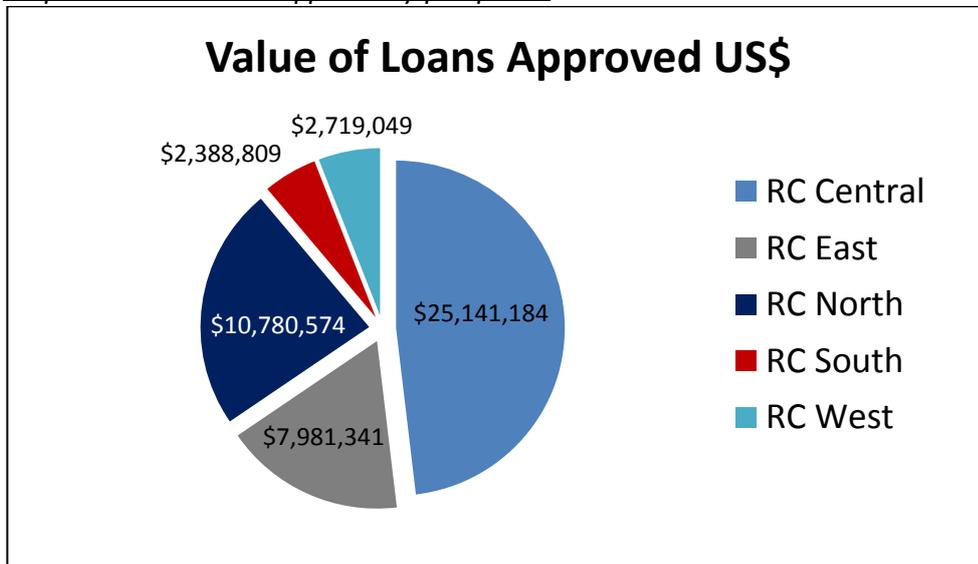
ADF LOANS		Direct Beneficiaries			Indirect Beneficiaries		
No	BORROWER	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers
1	Advance Building System	-	-	-	300	300	300
2	Javed Afghan Wheat Thresher Company	-	-	-	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 (Muhamand Arab Ltd.)	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 (2 <sup>nd</sup> loan)	688	688	688	-	-	-
21	Logar Farm Service Store	300	300	-	-	-	-
22	Qarizada 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
27	Apple Association	400	400	-	-	-	-
28	Ghulam Dastagir Food Production Company	-	-	-	-	-	-
29	Sayel Food Processing Company	-	-	-	50	-	-
30	Taje Telayee Development Poultry Farm Cooperative	8	-	-	-	-	-
31	Nangarhar Nursery Growers' Association (NNGA)	20	-	-	40	-	-
32	Rabia Mariam Handicraft Company (RMHC)	-	-	-	2,000	2,000	1,000
33	Dr. Abdul Wakil Farmers Association (2 <sup>nd</sup> )	60	60	49	-	-	-
34	Kapisa Farm Service Center	200	200	160	-	-	-
35	Tanin Herat Industrial Food Company	70	70	53	-	-	-
36	Takhar Trader Women Social Organization	150	-	-	-	-	-
37	Ghulghula Ag. and Livestock Co-op	1,500	-	-	-	-	-
38	Sayed Ahmad Khushakyar	600	-	-	-	-	-
39	Dehqan Roz	200	-	-	-	-	-
<b>SUB-TOTAL Agribusinesses</b>		<b>10,436</b>	<b>7,958</b>	<b>6,827</b>	<b>29,164</b>	<b>29,074</b>	<b>16,624</b>
40	Afghanistan Almond Industry Development Organization	212	212	212	-	-	-
41	Eastern Region Fruit Growers Association	1,845	1,845	1,845	-	-	-
42	Durukhshan Bamyān Co-op	15	15	15	-	-	-
43	Kawe Tajik Bamyān Co-op	47	47	47	-	-	-
44	Koh-e-Baba Bamyān Co-op	10	10	10	-	-	-
45	Shahemardan Bamyān Co-op	59	59	59	-	-	-
46	Katway Bamyān Co-op	155	155	155	-	-	-
47	Shanbul Bamyān Co-op	74	74	74	-	-	-
48	Khwaja Sabz Posh Bamyān Co-op	22	22	22	-	-	-

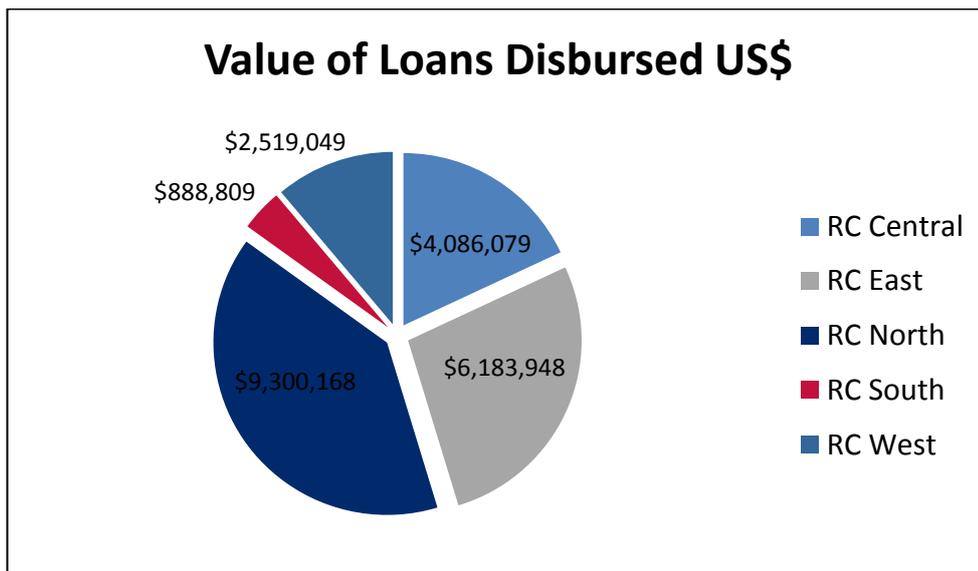
49	Afghanistan National Seed Organization	4,140	4,140	4,140	86,087	86,087	86,087
50	Exporters' Loan (AAIDO)	-	-	-	400	280	280
51	Afghanistan Almond Industry Development Organization	787	787	787	-	-	-
52	Bamyan cooperatives	700	525	525	-	-	-
53	ANSOR, Afghanistan National Seed Organization – 2012	4,351	-	-	-	-	-
<b>SUB-TOTAL NFI</b>		<b>12,417</b>	<b>7,891</b>	<b>7,891</b>	<b>86,487</b>	<b>86,367</b>	<b>86,367</b>
54	Islamic Investment and Finance Cooperative Group	1,137	1,137	1,137	-	-	-
55	BRAC Bank	0	0	-	-	-	-
56	Afghan Growth Finance (AGF)/SEAF	181	-	-	34,200	-	-
<b>SUB-TOTAL FI</b>		<b>1,318</b>	<b>1,137</b>	<b>1,137</b>	<b>34,200</b>	<b>-</b>	<b>-</b>
<b>GRAND TOTAL</b>		<b>24,171</b>	<b>16,986</b>	<b>15,855</b>	<b>149,851</b>	<b>115,441</b>	<b>102,991</b>

**Indicator #1.1-** ACE achieved a total net growth of \$49,010,957 USD in approved ADF loans. The ADF Credit Committee opted in favor of the approval of a loan of \$3 million USD to Farm Service Center Association of Afghanistan (FSCAA). Nonetheless, the project aimed to close the gap between the loans approved versus the quarterly targets, using the very limited funds available for lending. At the end of this quarter, ADF stands at a total of \$ 22,978,054. The two graphs below show the ADF loans approved for each quarter; and the actual performance versus targets.

*Graph No 2: ADF Loans Approved by per quarter*



*Graph No 3: ADF Loans Disbursed by per quarter*



**Indicator #1.2** – Despite the obstacles with delays in the registration of the ADF and the lack of funds for lending, in the last quarter, ACE achieved 641 new direct farmer beneficiaries through four intermediaries as shown in Table No. 8 below. In addition, due to the inability to verify the direct beneficiaries in the field of the Apple Association and Logar Farm Service Center, 471 records were eliminated from the M&E farmers’ database. Besides, through an internal verification of the data to increase the accuracy of the data reported to USAID, the M&E team found out that 175 beneficiaries of Bamyan Cooperative second loan also benefited from the first loan program in 2011, which contradicts with the definition of indicator #1.2 according to which “one farmer beneficiary can be counted only once.” These numbers will be revised in the previous quarters when the data was introduced.

*Table 8: Q1 FY2013- Net Direct beneficiaries achieved in Q1 FY13*

No.	Company	Direct beneficiaries	Male	Female
1	Dr. Abdul Wakil Farmers Association	49	49	0
2	Tanin Herat Industrial Food Company	42	42	0
3	Kapisa Farm Service Center	160	160	0
4	Qarizada Tomato Paste Company (new only)	388	388	0
<b>TOTAL</b>		<b>641</b>	<b>641</b>	<b>0</b>

Up to this point, the project directly benefitted a total 15,855 farmers by lending through intermediaries and 17 additional agribusinesses have benefitted from ADF loan agreements. The table below shows ACE farmer direct beneficiaries disaggregated by regional command and sex.

*Table 9: Direct Beneficiaries per Regional Command (cumulative from the beginning of the project)*

Region	Direct Beneficiaries	Male	Female	Loan Disbursed in (\$)
RC -Central	18	18	0	\$ 4,086,079
RC - East	5,603	5,585	18	\$ 6,183,948
RC - North	6,967	6,959	8	\$ 9,300,168
RC - South	1,355	1,355	0	\$ 888,809
RC - West	1,912	1,795	117	\$ 2,519,049
<b>TOTAL</b>	<b>15,855</b>	<b>15,712</b>	<b>143</b>	<b>\$ 22,978,053</b>

*Table 10: ACE/ADF approved and disbursed loans per Regional Command*

Region	Loan Approved (\$)	Loan Disbursed (\$)	Beneficiaries
RC Central	\$ 25,141,184	\$ 4,086,079	18
RC East	\$ 7,981,341	\$ 6,183,948	5,603
RC North	\$ 10,780,574	\$ 9,300,168	6,967
RC South	\$ 2,388,809	\$ 888,809	1,355
RC West	\$ 2,719,049	\$ 2,519,049	1,912
<b>TOTAL</b>	<b>\$ 49,010,956</b>	<b>\$ 22,978,053</b>	<b>15,855</b>

The Performance Indicator Data Sheet (Table No.6) on page 42 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; #1.2 and #2.1.

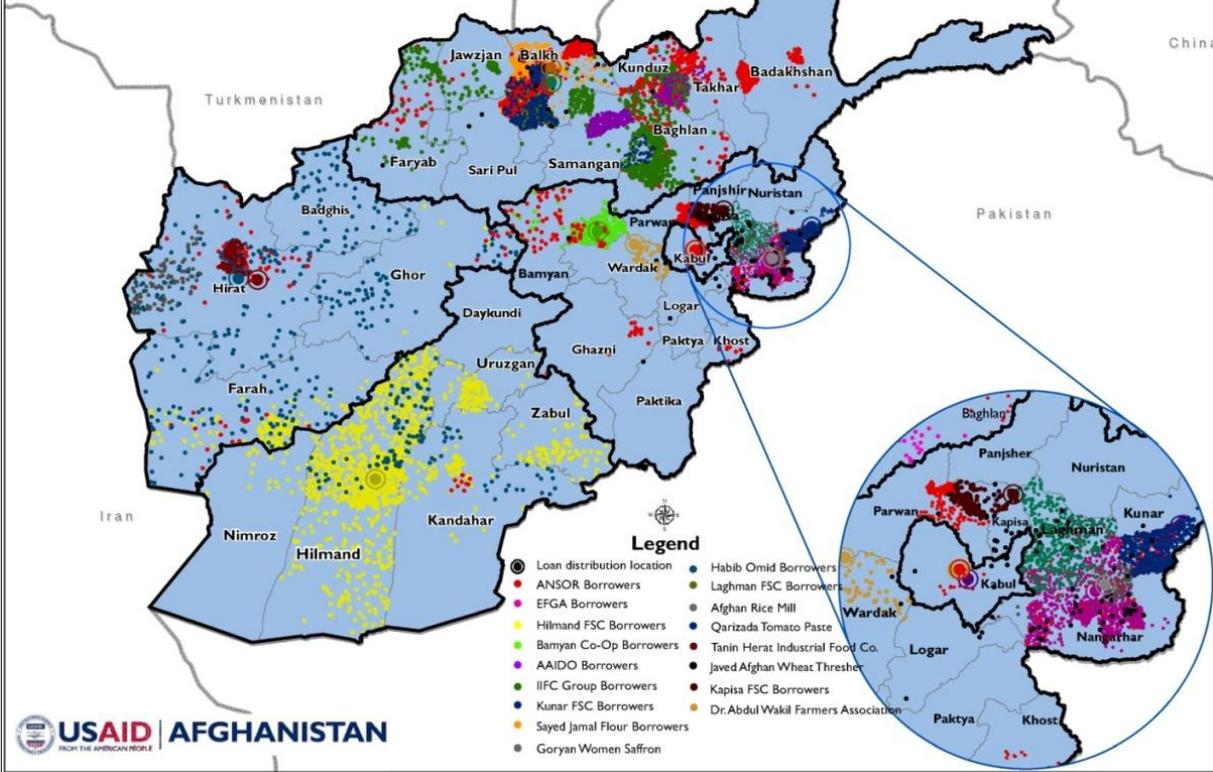
- The political issues with MAIL on matters such the ADF governance structure and the legal structure to register the ADF were finally resolved in November 2012 with the legal registration of the ADF. The ADF funds became available only by the end of December which had a direct impact on the project's ability to disburse loans. The ADF Credit Committee meetings were temporarily suspended during the past quarter from the USAID until the

registration of the ADF was finally completed. These two factors had an impact on project's ability to deliver and meet the contractual targets for indicator #1.1.

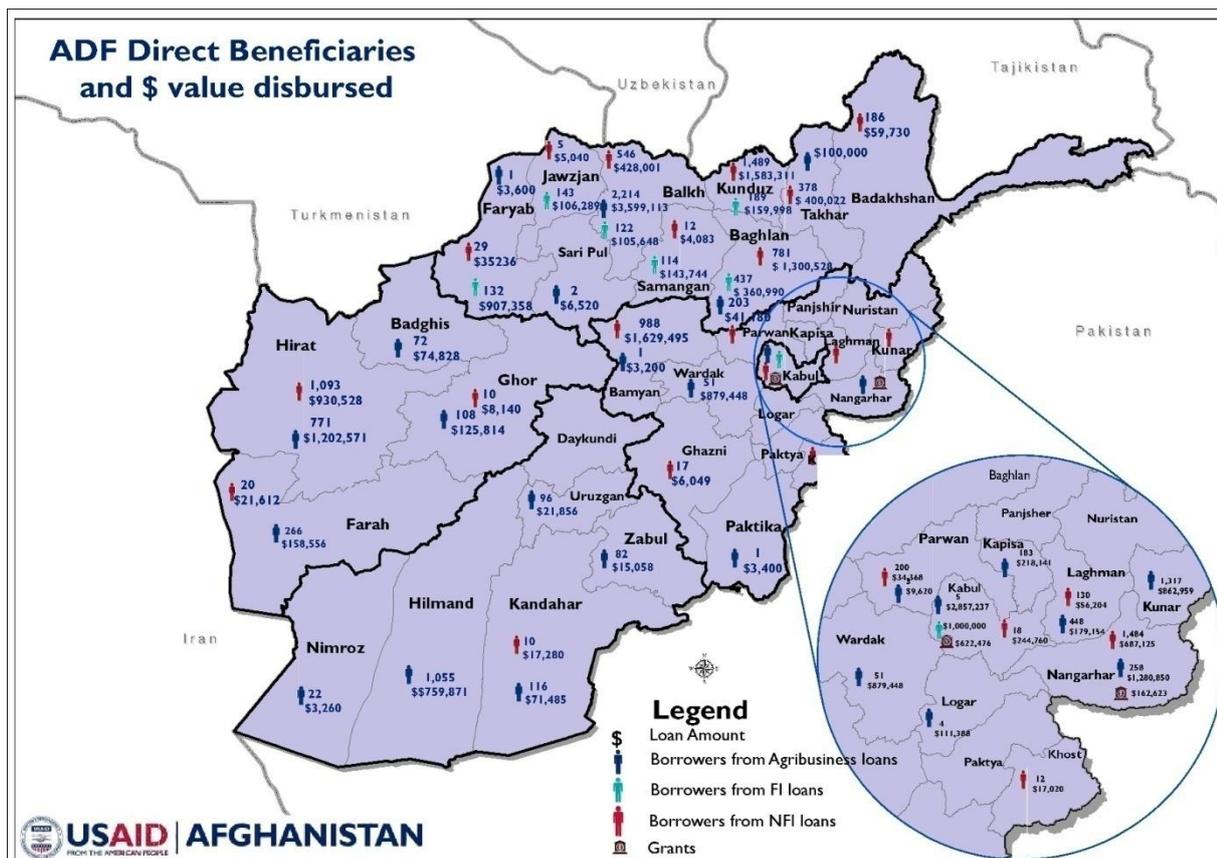
- ACE disbursed two loans in December and has another ten disbursements for approved loans pending. These disbursements which will take place in January-February, provided that there are no pending collateral issues. Six loans have already been approved by the TRC and are pending final approval by the ADF Credit Committee. Over 18 loans are ready to be presented to the TRC worth a total of \$6,721,000. Therefore, in the next quarter, ACE is fully equipped to approve a total of \$20 million USD in new loans and meet the quarterly targets. In addition, with the funds being transferred from the Ministry of Finance to the ADF accounts, ACE will have sufficient means to disburse to the new clients.
- The lack of funds for lending affected not only the loan approvals and disbursements, but also the number of direct beneficiaries. In the past quarter, 12 approved loans lacked disbursement. Should the funds have been available; ACE would have benefited over 4,500 new farmers.
- Due to the lack of ADF funds for lending, in the last year, ACE adopted a very conservative approach with signing new ADF grants agreement, aiming to allocate the remaining ADF funds for lending purposes only. However, the project approved seven new Agricultural Modernization grants and is currently finalizing approximately 6-7 new grants proposals.

**Map 3: ADF Direct Beneficiaries per Province**

# ADF Borrowers



**Map 4: ADF Disbursement and Beneficiaries per Province**



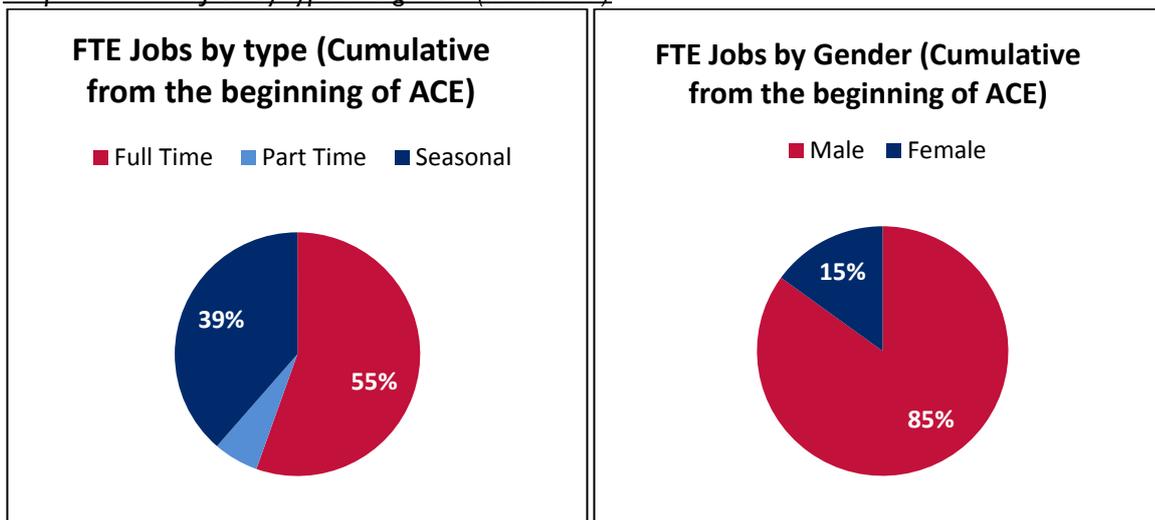
**Indicator #1.3** - Percentage increase in income by assisted farms and agribusinesses is an annual indicator which, as per PMP and the Annual Work Plan 2, will be next reported in FY 2013.

**Indicator #1.4** - During this quarter, the number of new jobs created expressed in Full-Time Equivalent is 89. This increase counts for the new jobs created by agribusiness comprising full time, part time and seasonal jobs, of which 39 percent target women.

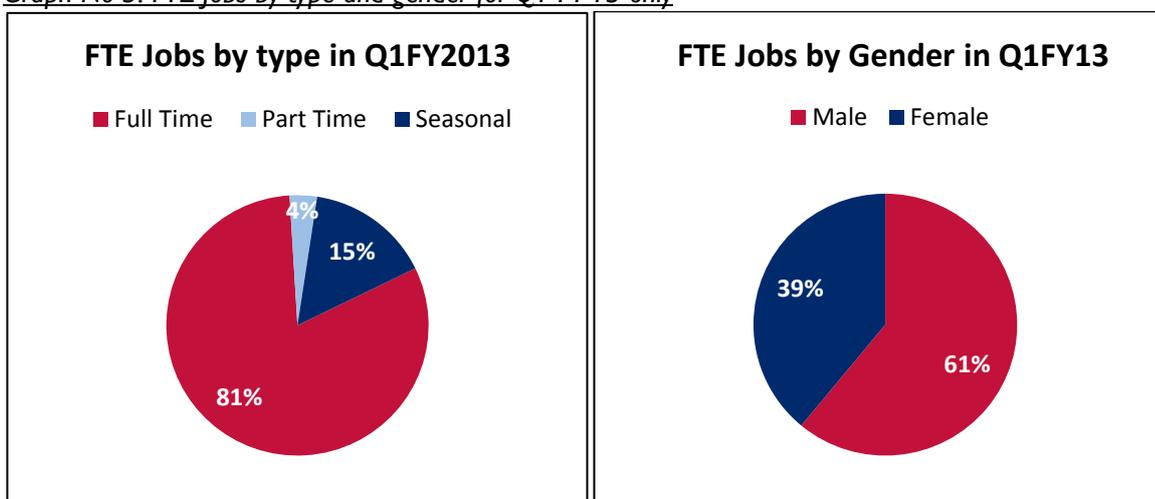
**Table 11: New FTE Jobs Created in Q2 FY 2013**

No	Type of FTE Jobs	Male	Female	Total
1	Full Time Jobs	45.90	26.40	72.29
2	Part Time Jobs	3.00	0	3.00
3	Seasonal Jobs	5.37	8.30	13.67
<b>TOTAL</b>		<b>54.26</b>	<b>34.70</b>	<b>88.96</b>

Graph No 4: FTE Jobs by type and gender (cumulative)



Graph No 5: FTE Jobs by type and gender for Q1 FY'13 only



**Indicator #2.1** – In quarter 2 FY'13 ACE approved seven new ACE Agricultural Modernization Grants for a total of \$312,251. Please see Table I in Grants Section.

**Indicator # 2.4** – Currently the ADF default rate is at 3.09 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 newly approved PMP and Annual Work Plan 2, the percentage change in export sales for firms supported by ACE will be reported next in FY2013.

**Indicator #4.1** - In the past quarter ACE, in collaboration with the Rana Seeds Company, an ADF client, organized a workshop on soybean value chain in Kabul province. Descriptive information is provided in the Value Chain Strengthening section.

**Indicator # 4.2** – The ACE MIS unit launched five products in the last quarter; three market briefs (crop calendars) on wheat corn and rice as well as two Agricultural Trade Reports for 1391. The product have been disseminated through [www.paywand.mail.gov.af](http://www.paywand.mail.gov.af) and [www.mail.gov.af](http://www.mail.gov.af). With these products, ACE stands at 30 market information and market intelligence products designed thus far.

Table 12: List of the marketing information products launched in the reporting quarter

No.	Product	Type of Market Information and Market Intelligence Product	Type of Dissemination	Date of launching
1	Market brief (Wheat)	Agriculture Crop calendar	Internet, Agricultural exhibitions, and meetings with stakeholders	Oct 21, 2012
2	Market brief (Corn)	Agriculture Crop calendar	Internet, Agricultural exhibitions, and meetings with stakeholders	Oct 21, 2012
3	Market brief (Rice)	Agriculture Crop calendar	Internet, Agricultural exhibitions, and meetings with stakeholders	Oct 21, 2012
4	Agricultural trade report Q2, 1391-English	Agriculture Trade Brief	Internet, Agricultural exhibitions, and meetings with stakeholders	Oct 25, 2012
5	Agricultural trade report Q2, 1391-Dari, Pashto	Agriculture Trade Brief	Internet, Agricultural exhibitions, and meetings with stakeholders	Dec 10, 2012

**Indicator #4.3** – In the last quarter ACE trained a total of 42 participants from ACE/ADF, CMU staff and selected women cooperatives, of which only 30 participants successfully passed the test and can be counted towards indicator #4.3.

Table No 12: Training provided by ACE in Quarter 3 FY12

No	TOPIC	# of Participants	Location	Start	End Date	Hours
1	Loan Performer Training	10	ACE Kabul	13-Nov-12	01-Dec-12	96
2	Islamic Finance Training	5	ACE Kabul	23-Sep-12	24-Sep-12	19.45
3	Exposure Training for The members of Women Cooperatives of Afghanistan	13	Kanchipuram India	29-Dec-12	06-Jan-13	72
4	Grants Management Training	14	ACE Kabul	08-Nov-12	17-Dec-12	8.34
<b>TOTAL</b>		<b>42</b>				<b>196</b>

**Indicator # 4.4** –ACE provided 196 hours of training in four different topics during the past quarter.

#### Sex-disaggregated Data: Actual versus Targets

ACE is determined to reflect gender issues in project activities and more specifically in performance indicators. This is expressed in the last revisions to the Annual Work Plan 2. As of Quarter 3 FY12, ACE set self-imposed targets for male and female beneficiaries moving forward for three indicators.

*Table No 13: Sex-segregated Indicators with self-imposed targets*

<b>ACE Performance Indicators</b>	<b>Actual Q1 FY2013 (Cum.)</b>	<b>Target Q1 FY2013 (Cum.)</b>	<b>Target as in the Annual WorkPlan 3</b>
<b>1.2 Number of individuals benefitting from ACE or ADF financial agreements</b>	15,855	<b>20,000</b>	27,000
<b>Male</b>	14,390	<b>19,833*</b>	26,500
<b>Female</b>	141	<b>167*</b>	500
<b>1.4 Net total increase in Full-Time Equivalent (FTE) jobs created by USG sponsored agriculture activities</b>	945	<b>600</b>	600
<b>Male</b>	803	<b>480</b>	480
<b>Female</b>	142	<b>120</b>	120
<b>4.1 Number of individuals trained by ACE in credit policy and operations, value chain strengthening, and market information system.</b>	229	<b>65</b>	65
<b>Male</b>	202	<b>55</b>	55
<b>Female</b>	27	<b>10</b>	10

The quarterly targets for indicator #1.2 were changed through Modification No. 12 issued by USAID on November 18, 2012. However the gender targets were not changed. To solve this, ACE is proposing to use new sex-segregated targets for indicator #1.2 maintaining the same ration of male/female as proposed in Annul WorkPlan 3.

While ACE met and exceeded the sex-based targets on the number of jobs created, and # of individuals trained, the reason behind not meeting the target set for the male/female number of beneficiaries is the unavailability of funds to lend and the delays with disbursements. Overall, the delays in the disbursements and final loan approvals by the ADF Credit Committee meeting impeded ACE from meeting the target of 20,000 direct beneficiaries. This impacted the ratio between male/female beneficiaries. In accordance with the request of the COR, ACE will report sex-disaggregated data on four additional indicators, starting in Quarter 3, FY2012. The table below shows the sex-segregated data the four additional indicators.

*Table No 14: Sex-segregated Indicators without targets.*

<b>ACE Performance Indicators</b>	<b>FY 2012</b>	<b>Q1 FY 2013</b>
<b>1.1 Value of Finance Accessed</b>	<b>\$46,010,957</b>	<b>\$49,010,957</b>
<b>Male</b>	<b>\$45,325,957</b>	<b>\$48,325,957</b>
<b>Female</b>	<b>\$685,000</b>	<b>\$685,000</b>
<b>2.1 Value of Challenge/Innovation and Agriculture modernization grants approved.</b>	<b>\$1,756,296</b>	<b>\$2,068,547</b>
<b>Male</b>	<b>\$1,592,475</b>	<b>\$1,592,475</b>
<b>Female</b>	<b>\$163,821</b>	<b>\$163,821</b>
<b>2.2 Number of participating financial intermediaries and private intermediaries on lending funds from ADF</b>	<b>50</b>	<b>50</b>
<b>Male</b>	<b>47</b>	<b>47</b>
<b>Female</b>	<b>3</b>	<b>3</b>

## Communication and Outreach

In the past quarter, ACE developed and circulated the news brief for the month of October, November and December. The news brief for October, entitled “First Value Chain Reports by Ministry Staff.” For the first time, fourteen value chain reports were produced by Afghan specialists of the Ministry of Agriculture, Irrigation and Livestock as part of a three-month training program launched by ACE. The main objective of the training was to provide MAIL staff with the tools to conduct market-focused value chain assessments and use the findings to guide the introduction of technological, institutional and/or organizational interventions to promote the growth of the agriculture sector.

The news brief for November was entitled “Credit Cards for Afghan Farmers.” ADF, in collaboration with four farm service centers in Kabul, Logar, Kapisa and Laghman provinces, launched a credit card system that will enable farmers to purchase agricultural inputs on credit. This pilot initiative will allow an initial 400 farmers from 4 provinces to access ADF credit using farm service centers as intermediaries. The system will be duplicated at other provinces around the country after the pilot phase. The credit card system uses low cost software and hardware at the points of sale, and smart cards, which by having an embedded chip do not require internet connectivity. The cards can only be used to purchase agricultural inputs from a predetermined store.

The news brief for December was entitled “Inaugural Session of the High Council of the ADF.” The news brief emphasized the importance of the ADF High Council which legitimizes the ADF as a standalone institution and will open the doors for access to new funding to provide financial services to the agricultural sector.



The project prepared a media advisory on the Smart Cards for farmers and a press release on the Inaugural Meeting of the ADF High Council. The team is planning to organize several Agricultural Credit Shuras in the next month such as in the provinces of Parwan, Kapisa and Nangarhar. In addition, the ADF website has been updated containing all the recent news on ADF registration. A live chat platform will also be added to the website.

The team organized ten Agricultural Credit Shuras in the provinces of Ghor, Kunduz, Baghlan, Jawzjan and Sar-e-Pul, Badghis Parwan, Kapisa, and Nangarhar and several more will take place in January 2013. The purpose of these events is to take the ADF on the road and introduce the financial opportunities

in every province. The team worked on drafting several photo and success stories of ACE/ADF clients for USAID's 10-day social media campaign regarding the World Food Day started from October 7 - 19, 2012.

Additionally, the program developed several technical notes for dissemination with USAID and international development partners on Islamic Finance, Credit Management Unit as well as the midterm evaluation of ACE.

## Administrative and Human Resources

In the reporting quarter in terms of Afghan technical human resources, ACE hired two value chain specialists (for Kandahar and Mazar-e-Sharif Offices), one female customer service officers, one procurement specialist, one grant coordinator, and one lending officer

Throughout the reporting quarter, ACE engaged four lending and banking advisors to assist ACE with lending, train the CMU staff on loan performer, develop roles and responsibilities for ADF High Council members and committees, review ADF policies and procedures in place and provide feedback based on international best practices.

*TABLE 15: Afghan National personnel deployed during Quarter 1 FY2013*

No.	Name	Position	Start Date
1	Gul Rahman Karimzoy	Value Chain Specialist Kandahar	1-Oct-12
2	Naqib Ahmad	Value Chain Specialist Mazar	1-Oct-12
3	Firoz Jan	Lending Officer	1-Nov-12
4	Hakima	Customer Service Officer	21-Nov-12
5	Abdul Qayum	Logistic, Travel, Inventory Specialist	11-Dec-12
6	Abdul Basit	Procurement Specialist	11-Dec-12
7	Arzoo	Grants Coordinator	16-Dec-12

*TABLE 16: Expatriate personnel deployed during Quarter 1 FY2013*

No	Name	Position	Date
1	Jill Sacket	Supporting Operation director	11-Oct-12
2	Robert Dressen	Senior Banking Advisor	1-Dec-12
3	Guillermo Bosse	Lending and Banking Operation Advisor	18-Oct-12
4	Daniel Gumisirizia	Lending and Banking Operation Advisor	9-Nov-12
5	Grant Norris	Lending and Banking Advisor	10-Dec-12

## ACTIVITIES FOR THE NEXT QUARTER

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

- 1) Institutional consolidation of the ADF – To achieve this, the team will support the strengthening the roles and responsibilities of the ADF High Council, initiating the

transition between ACE and ADF, avoiding political influence over ADF decision making; and attracting new capital.

- 2) **Business Expansion** – This includes speeding up the loan application and processing and capitalizing on other development projects and IP's work.
- 3) **Integrity of the Fund** –The focus will be on 'the character' of the fund and a-priori thorough analysis of each application before approval; tight control over the default rate, relationship management with the ADF clients and looking into the possibility of engaging or establishing 'collection agencies' to assist with loan repayment and collections.

## 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	Percentage Loss
<b>Clients Sensitive Information</b>												
<b>TOTAL Loan Approved</b>								<b>49,010,956.00</b>				
<b>TOTAL Loan Disbursed</b>								<b>22,978,053.20</b>				
<b>TOTAL Loan Repaid</b>								<b>11,559,939.78</b>				
<b>TOTAL Value of Loans late by 180 days or more</b>								<b>\$353,303.00</b>				

$$\text{Portfolio loan losses} = \frac{\text{Total Value of loans late by 180 days or more}}{\text{Outstanding}^*} \% = \frac{353,303}{22,978,053.20 - 11,559,939.78} \% = \frac{353,303.00}{11,418,113.42} \% = 3.09\%$$

\*Outstanding = Disbursed amount – Repaid amount