



AGRICULTURAL CREDIT ENHANCEMENT (ACE) PROGRAM

QUARTERLY REPORT Q3 FY 2012

APRIL 1 – JUNE 30, 2012



One of 4,270 wheat seed producers that received ADF loans through the Afghanistan National Seed Organization (ANSOR).

QUARTERLY REPORT

QUARTER 3, FISCAL YEAR 2012

Program Title: Agricultural Credit Enhancement Program

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

Contractor: Development Alternatives, Inc.

Date of Submission: July 31, 2012

Contracts Officer Technical Representative: Ali Ahmad

Contracting Officer: Bruce McFarland

Chief of Party: Juan M. Estrada-Valle

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.



**AGRICULTURAL CREDIT
ENHANCEMENT**

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LIST OF ACRONYMS

AAIDO	Afghanistan Almond Industry Development Organization
ADF	Agricultural Development Fund
ACE	Agricultural Credit Enhancement
AISA	Afghanistan Investment Support Agency
ANSOR	Afghanistan National Seed Organization
ASAP	Accelerating Sustainable Agriculture Project
CMU	Credit Management Unit
DAB	Da Afghanistan Bank
FAIDA	Financial Access for Investing in the Development of Afghanistan
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
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

Providing financial access for the agricultural sector in Afghanistan is proving to be an effective process. Through the last quarter, the ACE Program continued to manage the \$100 Million Agricultural Development Fund (ADF) and ensure rapid disbursements of agricultural credit through participating intermediaries. The project is also creating a new agricultural finance market in Afghanistan, whose success will serve as a promising business model for other financial institutions and development funds. As of June 30th, 2012, the ADF has approved 77 loans worth 1.82 Billion Afghanis (or \$37.2 million USD) and has disbursed over 1 Billion Afghanis (\$21.5 million USD), directly benefitting 14,514 farm households in 27 provinces of Afghanistan. Inability of GIRA to disburse funds provided through on-budget support hindered ADF's ability to grow lending significantly during the quarter. Extensive efforts to address the challenges of ADF registration have continued and are expected to result in registration during the next quarter.

ACE has succeeded in consolidating the ADF institutionally, organizationally and operationally, transforming the institution into a highly visible, effective and dynamic entity. The project facilitated the establishment of the ADF Advisory Board, which approved the credit policies and procedures, allowing the ADF to operate under the management of the ACE program. During the reporting quarter, aligned with the ACE task order, ACE is in final discussions with USAID and MAIL regarding the ADF transition plan, which encompasses the governance structure, roles and responsibilities of ADF executives and the timing of the transition. In addition, to build the capacities of ADF personnel, ACE is actively engaged in a comprehensive training program to ensure that the Afghan national team acquires the skills needed to manage the institution following the transition from ACE. As of the last quarter, the local staff is progressively at the forefront of daily operations, assuming increasing responsibilities from expatriate advisors.

Enabled by the design of specialized and customized loan management financial software, trained personnel, and robust credit and operational policies and procedures for agricultural and Islamic finance, ACE has managed to establish a comprehensive credit management system for the ADF. The system allows managing the complexities of a financial institution, the risks of agricultural lending, and particularly the segregation of capital required by Islamic financial principles. With the installation of the FAO-GTZ Micro

ACHIEVEMENTS

APRIL – JUNE 2012

- EXPANDED THE ACE/ADF LOAN PORTFOLIO TO 1.82 BILLION AFGHANIS; BENEFITTING 14,514 FARMERS ACROSS 27 OUT OF 34 PROVINCES OF AFGHANISTAN.
- DISBURSED 1.05 BILLION AFGHANIS IN ADF LOANS AND GRANTS.
- BUILT A HIGH-QUALITY CREDIT PORTFOLIO OF \$37M AT 0.03% DEFAULT RATE, WELL BELOW THE 5% BENCHMARK
- SUPPORTED THE PARTICIPATION OF TEN ADF CLIENTS IN THE 18TH ANNUAL AZERBAIJAN INTERNATIONAL FOOD EXHIBITION HELD IN BAKU, ON MAY 13-18, 2012.
- TRAINED 14 DAIL VALUE CHAIN ADVISORS ON VALUE CHAIN ANALYSIS WHICH RESULTED IN 14 CROP-SPECIFIC STUDIES COMPLETED.
- ADAPTED 4 ISLAMIC LENDING PRODUCTS FOR USE IN AGRICULTURE: WAKALA, ARBUN, IJARA AND MURABAHAH.
- ESTABLISHED CREDIT MANAGEMENT SYSTEM CUSTOMIZED FOR CONVENTIONAL AND ISLAMIC LENDING.
- APPROVED THE SECOND LOAN TARGETING A WOMEN'S ORGANIZATION, RABIA MARIAM HANDICRAFT COMPANY IN MAZAR-E-SHARIF, WHICH INDIRECTLY BENEFITTED 2,000 WOMEN IN NORTHERN AFGHANISTAN.
- ORGANIZED FIVE AGRICULTURAL CREDIT SHURAS TO GENERATE AWARENESS FOR ADF LENDING OPPORTUNITIES IN THE PROVINCES OF FARYAB, PAKTIKA, KUNDUZ, FARAH AND PANJSHER.
- SIGNED THE MEMORANDUM OF UNDERSTANDING WITH MAIL ON THE TRANSITION OF THE KMF-PAYWAND FACILITY TO MAIL.
- DELIVERED OVER 173 HOURS OF TRAINING IN 6 DIFFERENT SUBJECTS, TRAINING 70 PEOPLE OF WHICH 59 ARE FIRST-TIME PARTICIPANTS.
- CREATED 122 NEW JOBS DURING THE REPORTING QUARTER THROUGH AGRIBUSINESSES AND NON-FINANCIAL INSTITUTIONS.

Banking System and adequate training of the key personnel, ACE now has a consolidated ADF credit operating system which helps maintain a standardized accounting system and tight control over disbursements and repayments.

ADF lending was significantly less than its target and potential due to funding limitations. These limitations were due to the fact that all funds obligated through the ACE contract have been committed for approved loans and ongoing obstacles for GIRoA to disburse funds provided through on-budget support, during the quarter, the ADF held only one Credit Committee meeting, which only approved five new loans. The loans for GhulamDastagir Food Production, Sayel Food Processing Company, TajeTelayee Development Poultry Farm, the Nangarhar Nursery Growers' Association and Rabia Mariam Handicraft Company were approved for a total of \$887,000. The actual loan disbursements for the period April-June was \$2.9 million USD. The ACE Technical Review Committee has approved another 12 loan applications totaling \$14.1 Million USD which are pending ADF Credit Committee decision and disbursement. ACE has suspended credit committee meetings and loan approvals on hold until the funding issue is resolved in order to prevent reputational risk of approving loans that cannot be disbursed in a timely manner.

To respond to the clients' needs for Sharia compliant financial products, ACE designed four new Islamic financial products: Wakala, Ijara, Salam and Murabaha. The team is working on the establishment of a Sharia Advisory Board, an independent body endorsing the Sharia compliant products offered by the project.

ACE organized six training courses over the reporting quarter including the Value Chain Analysis training for DAIL staff; the Islamic Lending training for the ADF staff; the MicroBanker Training on the ADF loan management system; database training for MAIL/MIS staff and training on data collection for the Agromet project, a partner of ACE-PAYWAND and MAIL. The project offered 173 hours of capacity building for ADF and MAIL staff, training a total of 70 participants.

The project achieved its second loan to women with a loan to the Rabia Mariam Handicraft Company, a woman-owned business in Mazar-e-Sharif involved in producing handicraft garments such as head scarves and traditional Afghan dresses made from silk and other material. The company will use its loan of \$230,000 to buy cocoons from about 2,000 farmers and employ more women. Currently, the project is looking into five additional loans to women which will be processed in the coming months.

In order to build the capacities of MAIL, over a period of three months, ACE trained and mentored 14 value chain specialists (DAIL agricultural extension officers), who conducted and completed 14 crop-specific value chain analysis in the North, West, East and Central Afghanistan during the past quarter. The participants benefitted from the methodology, the analytical framework of how to conduct value chain analysis, and report writing. To review the analysis in the local language and establish Afghan ownership over the products, ACE established a Value Chain Review Advisory Committee comprised of agricultural economics and marketing stakeholders in the regions.

In May, ACE facilitated the participation of ten ADF clients engaged in the export business in the Annual Azerbaijan International Food Exhibition held in Baku, on May 13-18, 2012. This event is an 18-year-old tradition which brings together business representatives from emerging markets of Central Asian countries and the Middle East, ideal markets for Afghan agricultural produce. During the event, ACE assisted its clients with the establishment of booths to exhibit their products and with the facilitation of trade meetings with foreign companies.

In terms of market information systems, the project achieved another milestone with respect to the Knowledge Management Facility (PAYWAND) and its integration within MAIL structures with the signing of the Memorandum of Understanding for the transition of the knowledge management facility to MAIL. To prepare for the transition, ACE trained MAIL/MIS staff on database management and maintenance as well as successfully organized a field visit to Ghana where MAIL key personnel had the opportunity to see other successful and advanced market information systems in Africa and meet with their representatives.

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.

As per the agreement between USAID and GIRoA, at least 75 percent of the ADF funds for lending should be channeled through the national budget. While USAID made the first on budget transfer during February 2012, the GIRoA has not yet been able to establish the mechanisms to make the funds available to ADF borrowers. This political challenge, which lies outside the control of ACE, has impacted the ability of the project to approve and disburse new loans at the desired rate in the reporting quarter.

ACE made significant attempts to organize and expedite the ADF legalization process to facilitate disbursement of the funds provided on-budget to the GIRoA. In collaboration with USAID, ACE has been fully involved in discussing a transition plan for the ADF and the governance structure with MAIL. To facilitate the disbursement process, the project organized the Inter-Ministerial Committee at the Serena Hotel on June 17th, which included the participation of the MAIL Minister, the Minister of Justice and other political figures of GIRoA. Unfortunately, the meeting did not yield any concrete positive results. ACE is working with MAIL to seek possible routes to register the ADF as a legal entity, which could allow for the flow of funds on budget. While no official time estimate has been provided, the ADF registration is expected to be completed during the next reporting Quarter.

Due to these impasses created with the registration process as a legal entity, ADF currently has no funds available to continue loan disbursements. In order to manage client expectations, only one ADF Credit Committee meeting was organized during the reporting quarter. The ADF Credit Committee approved five loans totaling \$887,000 USD for companies and associations in the provinces of Balkh and Nangarhar. As of the end of June, loan approvals have reached \$37.2 million USD, with some \$30 million USD currently in the loan pipeline. Considering that many agriculture loans are time-sensitive, the pipeline is continuously updated.

Table 1: ADF Credit Committee meetings' results

ADF Credit Committee Meetings – Quarter 3 FY 2012				
No. of meeting	Date	Borrower	Amount Requested	Decision
Clients Sensitive Information				

ADF is currently present in 28 of the 34 provinces in Afghanistan, either through direct loans to agribusinesses or through farmers (direct beneficiaries). To use the available funds for lending efficiently, ACE de-obligated an amount of \$822,655 during the third quarter. \$192,655 was reduced from the first ANSOR loan, \$200,000 from the exporter's loan through AAIDO, \$180,000 from the Rana Seeds Company and \$250,000 from the original loan for Qarizadah Tomato Paste. In addition, initially approved in AFN, the loan amounts in U.S. Dollar for IIFC and Sayed Jamal Flour Mill have been adjusted according to the current exchange rate. Therefore, a reduction of \$ 238,376 in the total ADF loans approved derives from the currency exchange fluctuation.

In the last quarter, ACE disbursed \$2.9 million USD of which, \$1,307,607 went to the Bamyan potato Cooperatives, \$435,297 to the Helmand FSC, \$300,000 to Qarizadah Tomato Paste Company, \$195,018 to the Saib Group (Apple Association), \$200,000 to Afghan Rice Mill and \$150,004 to Laghman FSC. A combined effort from the lending and value chain strengthening officers enabled the Bamyan Cooperatives to distribute the DAP fertilizer on-credit to 725 farmers thus far. At this point, 99 percent of the original loan has been disbursed to 27 cooperatives. The first few disbursements were made to both the fertilizer and transportation companies to ensure that the cooperatives received their agricultural inputs on time. The seeds and fertilizer were delivered to the farmers on



Left: Bamyan potato cooperatives working with the ACE team on a distribution plan for the fertilizer on credit. Until now, 725 farmers have benefitted from a loan of \$1.32 Million USD to support the potato producers with high quality fertilizers and seeds on credit. Right: Potato farmers in Bamyan receiving DAP fertilizers on ADF credit.

time and in an organized manner. Later in June, a team of USAID officials and ACE staff visited Bamyan to meet with representatives of two potato cooperatives, Shahi Mardan and Kawe Tajik. Representatives and a combined group of about thirty-five farmers from both cooperatives expressed their satisfaction with loans and opportunities that ADF financing had opened in the area. The farmers also asked for ACE's assistance with their marketing programs and sales contracts.

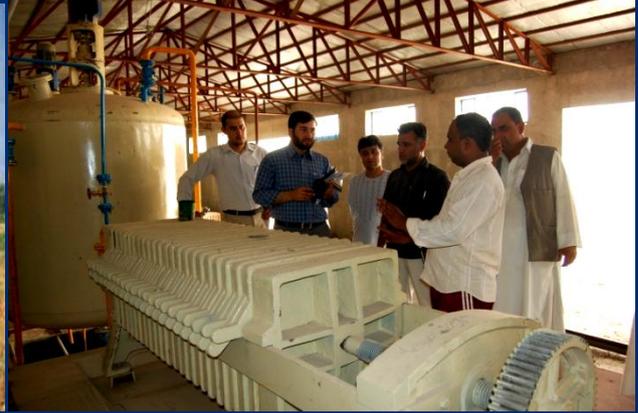
In the last quarter, the ACE Technical Review Committee approved 12 other loan cases which are pending review and a final decision once the ADF Credit Committee meetings are resumed. Thus, the following loans are pending ADF Credit Committee approval for disbursement:

- The Ghulghula Agricultural and Livestock Cooperative, involved in carpet production in Bamyan, with a loan of \$200,000 to purchase wool and carpet yarn for its members.
- A loan of \$150,000 to Kapisa Farm Service Center requested to procure fertilizers and pesticides for on-lending to farmers and implementing a soybean project for Nutrition and Education International.
- A loan of \$150,000 to Dehqan Roz Food Production and Dairy Company to increase their production capacity from 1,200 Kg to a maximum of 3,000 Kg per day by purchasing modern and more efficient equipment.
- A loan of \$100,000 to Takhar Trader Women Social Organization to purchase raw materials from farmers. The organization will use the loan to hire 240 women on daily wages to weave the carpets.
- A second loan of \$6,715,000 to ANSOR to finance 67 member seed enterprises benefiting over 4,350 famers.

- A loan of \$1 million to Hussain Zada Ltd. to import about 1,600 MT of high quality DAP fertilizer from China. The company would then on-lend the fertilizer to 3,100 farmers directly or through wholesalers, retailers or suppliers in the various provinces across Afghanistan.
- A second loan of \$3,630,000 to IIFC to on-lend to 15 IIFCs in the South, East and Central regions of the country. The individual IIFCs will in turn provide working capital loans to their member farmers to buy agricultural inputs.
- A loan of \$1,000,000 to Heri Biscuit to add a new production line to its biscuit business. This new line of production will enable the company to produce new types of creamy and non-creamy biscuits which are new product varieties for the Heri Biscuit Company and currently have a good market demand.



- A loan of \$470,000 to Tanin Heart Industrial Food Co. to pay its main distributors, to build a hanger to be used as storage for finished goods and to pay in advance for farmers to cultivate cucumber and onions for the company.
- A loan of \$500,000 to Sayed Ahmad Khurshukyar to import good quality and genuine pesticides, veterinary products, sprayers and other agricultural inputs. The company will on-lend the products to approximately 300 farmers in various districts of Kandahar province.
- A loan of \$100,000 to Laghman Honey Beekeepers association to enable 30 members to purchase the inputs required for beekeeping such as bees, packaging materials, tents, and to also help the association to buy honey from its members.
- A loan of \$470,000 to BrotheranTakana Ltd to purchase 600 MT of apples from farmers in Jalrez, Sayed Abad and Chak districts of Wardak province. The Company will also purchase wooden boxes used for storing the apples in the cold storage with the help of an ADF loan.



Photos: Farmers in Jalalabad, suppliers of certified wheat seed to Pul-e-Behsoud Seed Company, a member of ANSOR. ANSOR is requesting a second loan of \$6.7 million USD to enable 67 seed enterprises to purchase wheat seed from farmers. Right: The ACE team visiting the new processing facility of Sanaizada Edible Oil in Mazar-e-Sharif, supported by an ADF loan

NEW Business

ACE currently has a pipeline of over \$30 million USD worth of loan applications. A selection of loans with strong applications by region is described below as follows:

East

- Firdous Baren Food Production Company, located in the Sorkhrod district of Nangarhar province is requesting a loan of \$100,000 to buy raw materials from local producers. The business is registered with AISA and makes porridge from wheat. The company is run by a group of women and sells its products in the local market of Jalalabad.
- Gift Food Processing Company is requesting \$100,000 to purchase raw material and machinery to expand its operations. The company which produces pickles, jams, sauce, tomato paste and juices has been active for the last four years and is registered with AISA.
- StanaGul Poultry Farm is interested in an ADF loan of \$150,000. The farm supplies chicks and broilers to different markets in the provinces of Nangarhar, Kabul, Baghlan, Kunar and Laghman. The loan purpose is to purchase hatchery machinery, feed, and other inputs.

Central

- The Afghanistan Social Poultry and Animal Farmer Association, is requesting \$250,000 to purchase a new mill machine and build a pullet house. The loan will enable the association to increase the capacity of the feed mill by 100 percent and will allow the association to provide animal feed and chickens to its members on credit.

North:

- Motmaeen Samangan Agriculture and Livestock Association consists of 15 agricultural depots in all the districts of Samangan and provides agricultural input and veterinary services to farmers. The association has applied for a \$300,000 loan to on-lend to farmers for inputs. The funds will also be used to purchase four tractors that will be leased by farmers and will benefit about 2,000 farmers.

- Afghan Organization for Horticulture and Livestock Development Service has 1,000 farmer members and is interested in a loan of \$1 million USD to purchase fertilizers for the next almond and pomegranate season.



Photos: View of the facilities of the Afghanistan Confectionery Bakery located in Jalalabad city, interested in an ADF loan of \$130,000. Right: The ACE team discussing the application of Khulm-e-Bastan Nursery Growers Association in Mazar-e-Sharif.

- Khulm-e-Bastan Nursery Growers Association has applied for a loan of \$250,000 to purchase dry fruits (pomegranates and almonds) from farmers, process them and then sell to exporters. 200 farmers are expected to benefit from this loan.
- Brotherani Tawfiq Kabul Edible Oil, involved in the processing of edible oil from seeds, is applying for \$200,000 to purchase raw materials for its operation. The business has linkages with 500 farmers in the Sholgara, Charkent and Aqcha districts. The company already has a contract to supply edible oil in Tajikistan.



Left: Afghan Organization for Horticulture and Livestock Development Service discussing their loan proposal with the ACE team. Right: View from almond plantation of Khulm-e-Bastan Nursery Growers Association in Mazar.

WEST:

- The Hariwa Habibzadah Company applied for a second ADF loan of \$700,000 to purchase dried fruit from growers. The company is an existing ADF client involved in the dry fruit business in Herat province. Hariwa Habibzadah has already repaid its first loan and is requesting a new loan to purchase dry fruits from farmers and small traders in Herat. The value chain strengthening advisors identified the need for an Agricultural Modernization Grant to improve

their sorting and packaging processes and the company's hygienic conditions.

- The Khaja Shahab Cooperative is requesting a loan of \$110,000 to purchase agricultural inputs and finance the labor costs. The team completed the Sharia agreement with the client.
- The Herat Capable Women Association has applied for an ADF loan of \$187,000 to purchase raw vegetables, fruits and food processing equipment. The team completed the Sharia agreement with the client.
- The Herat Ice Cream Company is in the process of preparing their business plan and other documentation required by the ACE team. The company is interested in an ADF loan to finance working capital and purchase milk from farmers. Additionally, the company is looking into purchasing compressors for cooling tanks in the milk collection centers. The total estimated amount of the loan is \$1 Million USD.

South:

- Tokhe Co. Ltd is involved in in-put supply for local farmers. Currently they have 11 stores in Kandahar and are looking for \$300,000 to import high quality inputs from Germany and supply it to wholesalers and retailers.
- Kandahar FSC, a member of the Farm Service Center Association of Afghanistan (FSCAA) is requesting a loan of \$200,000 to on-lend to farmers. CNFA has been assisting the Farm Service Centre with training.



- Khushakyar Ltd - The Company is involved in the business of importing agricultural inputs like pesticides, veterinary medicines, tools, seeds and sprayers mainly from France, Korea, China and India. It supplies the products to wholesalers and retail shops in almost all parts of the country (28 provinces). The main office of the company is located in Kandahar. The company is looking for \$500,000 to import pesticides, animal medicines, sprayers and tools.
- Khushdawam Ltd is involved in the production of potato chips, snakes and PVC pipes. They are supplying their products to the southern provinces as well as Kabul. The company is looking for \$300,000 for their working capital to increase the production and increase the supply chain. The business is located in Shorandam Industrial Park Kandahar.

Consolidation of Credit Administration

In terms of credit administration and operational consolidation, during the past quarter ACE achieved the establishment of a comprehensive credit management system which includes but is not limited to, regular audits of lending processes and credit files. With the assistance of two short term consultants from MicroBanker/Nepal the ADF portfolio management system (MBWin) is now customized for ADF conventional and Sharia lending, installed and operating. MBWin is an integrated banking system with full functionality for loans, as well as deposits and shares.

The new system is designed to enhance both efficiency and safety. The consultants provided extensive training to the credit administration team and two lending officers focusing on accounting practices with real transactions, debit and credit adjustments for loans, changing interest rate options, and modifying account information for loan rescheduling. The team also trained the IT specialist on how to set up user accounts and upload and download applications.

A short-term Finance and Risk Assessment Expert joined the team in early April to install appropriate risk assessment tools to inform loan decisions and improve overall portfolio management. The following tools are now complete and in place for all loan packages.

- a) Risk Assessment Tools: Three customized risk assessment tools for agribusinesses, financial institutions, and non-financial intermediaries, including identification of relevant factors, assignment of appropriate weightings, and the definition of scoring parameters for each factor are completed.
- b) Risk Assessment Guidelines: Detailed guidelines outlining the objectives and use of the risk assessment tools, including instructions and descriptions to guide the scoring of each factor.
- c) Risk Assessment Reporting Templates: Customized reporting formats to maintain risk assessments for all ACE/ADF loans, track ongoing quality of portfolio, and facilitate analysis of performance of sub-groups, sectors, geographies and loan officers.

This integrated financial system together with best practices of risk assessment and mitigation will move the ADF toward superior operational capacity. The system will support the long-term sustainability of the ADF once transitioned to MAIL.

Credit Management Unit -Update

In March, ACE set up another CMU for the Afghanistan Almond Industry Development Organization (AAIDO) to manage two separate loans for a total of \$1.3 Million USD. The CMU became operational on April 2nd supported by the Farm Financial Support Program (FFSP) to distribute fertilizers and agricultural tools on credit to farmers in Kunduz, Balkh and Samangan provinces. The AAIDO CMU has so far distributed 11,283 Bags of urea fertilizer, 1,904 bags of DAP and 192 agricultural tools to 929 farmers in Kunduz, Takhar, Balkh and Samangan provinces.

The ANSOR CMU successfully collected \$3,230,947 USD (70 percent) of the entire loan in early repayments. The CMU team is working diligently with ANSOR management to accurately track the payments from the NGOs and other donor organizations to seed enterprises. In addition, the ANSOR CMU staff worked closely with the ANSOR management team on the new loan application for the 2012 harvest season of certified wheat seed. Approximately 67 seed enterprises applied for credit from ANSOR to purchase the certified wheat seed produced by their member farmers. The team worked on harvest estimations and is supporting the loan applications of the enterprises in order to finalize ANSOR's new loan application. The ACE Technical Review Committee approved internally the second loan to ANSOR of \$ 6.715 million USD. A final decision will be taken by the ADF Credit Committee.

Islamic Finance

During the past three months, ADF has seen an increased demand from its clients for Islamic financial solutions to the extent that currently 50 percent of all new financial transactions are Sharia compliant. To cater to this demand, ADF has introduced a range of Islamic financial products. Only in the last quarter, the project introduced the Ijara, Wakala, Murabaha and Arbun products, achieving a total of nine innovative lending products established since the beginning of the project. For each of the transaction types that will be offered by ADF, the team prepared a three-to-four page document that provides an overview of the structure, proof of permissibility and the contract elements. The purpose of these documents is to provide the lending officers with all the high level information required to discuss the possibilities with the client and answer any particular questions. Client documentation serves as the basis of all other transaction documentation. For each of the transaction types that will be offered by the ADF, a standard form has been produced and implemented.

The ADF is in process of establishing a Sharia Advisory Board (SAB); a body of qualified Sharia Scholars responsible for ensuring that the products and contracts of an Islamic financial institution comply with Sharia principles. The project has already hired three members of the SAB and the inauguration meeting will take place in July 2012.

The in-house Islamic Finance consultant provided 27 hours of training to nine lending advisors, and has designed a specific policies and procedures document for Sharia compliant lending which is translated into Dari. The Sharia Advisory Board will endorse the document, or suggest revisions and changes to be incorporated.

The team worked on the Credit Line Structure using Islamic Financial products. The credit lines can be structured using products that are currently available with the ADF. This can either be structured as Wakala (agency) or sequential Murabaha (trade) transactions. The project prepared a concept note on how the credit lines structures are now finalized.



Left: View of the Islamic Finance Event organized on May 22, 2012 to present the Sharia compliant financial products offered by ACE/ADF and the corresponding policies and procedures.

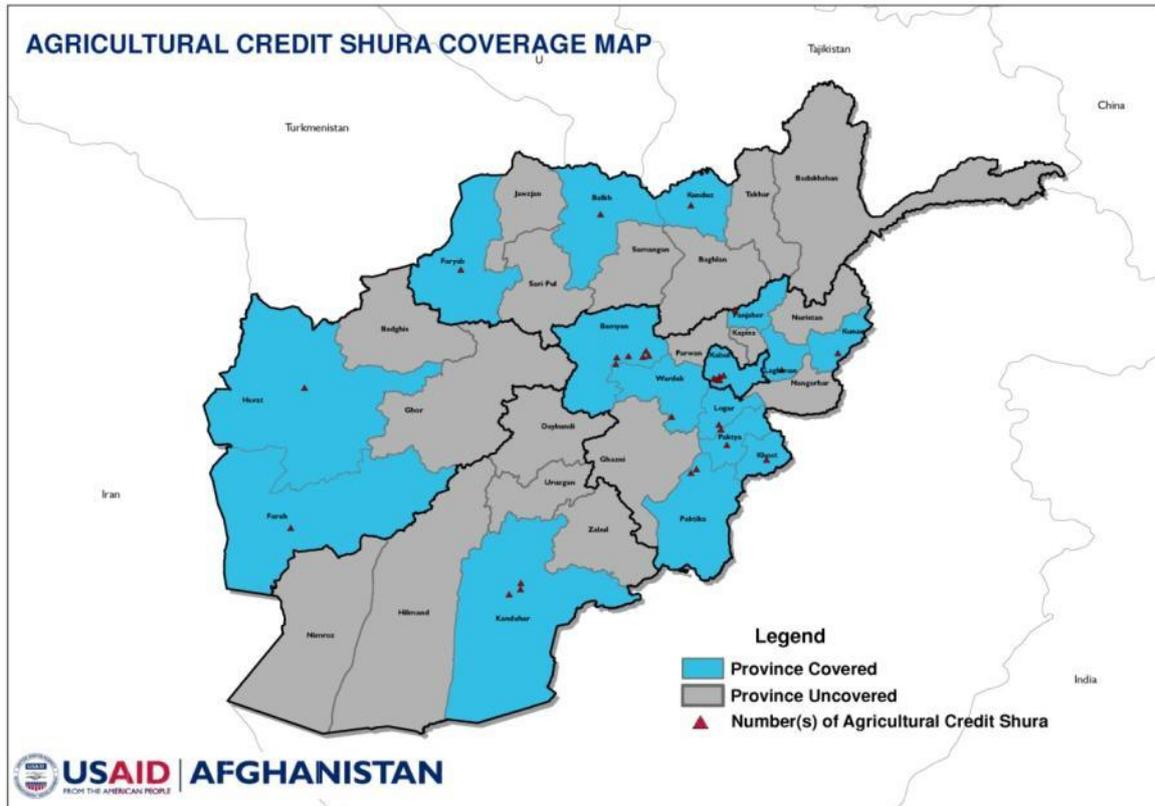
Agricultural Credit Shuras

During the reporting period, ACE conducted five Agricultural Credit Shuras in the provinces of Panjsher, Kunduz, Farah, Faryab and Paktika aimed at reaching out to larger numbers of potential clients and raising awareness on ADF lending opportunities across Afghanistan. The map below shows the provinces in which the Agricultural Shura has been organized thus far.

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 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. By doing so, the project increases the ability of their borrowers to succeed.

Map No 1. Provinces covered by the Agricultural Credit Shura



In addition, the project attended other meetings that served as platforms to promote the ADF and its lending opportunities. The team used the “Business to Bank” conference chaired by FAIDA on June 17th as an opportunity to introduce ADF lending opportunities and the eligibility criteria to over 100 participants and businesses. ACE presented some of the loans types the ADF has been providing in the region and answered questions regarding the loan process. On May 15th, ACE participated in the CNFA Business Networking Session, among 100 participants, where lending officers had the opportunity to disseminate information on ADF lending and eligibility criteria. Finally, on June 27th the



Left: View of the Agricultural Credit Shura organized in Farah Province. Right: View of the Agricultural Credit Shura organized in Faryab Province

team participated in a capacity building training for women personnel organized by MAIL/Home Economics Department, where they introduced the ADF and the lending opportunities for women.

ACE and ADF Grants

In the last quarter, ACE approved an Agricultural Modernization Grant of \$120,100 for the Javed Afghan Thresher Company, the purpose of which is to expand their market and to reach potential buyers in other provinces. The grant will enable the Javed Afghan Thresher Company and its dealers to increase their market share and price competitiveness by investing in promotions and live demonstration to potential farmers in key regions.

In the same way, the project signed an Agricultural Modernization grant agreement with Ghoryan Women's Saffron Association (GWSA). GWSA has received a loan for \$155,000 from the ADF to pay for the pre-harvest, post-harvest, fertilizer, water and labor costs for its Saffron growers. The association will purchase the saffron from its members during the post-harvest at market rate. GWSA will be able to add more value and earn more for its members if the product can meet the packaging demands of the international market. The grant is helping the association to get operational support to manage the ADF loan and to meet the market demands of its international buyers by procuring packing machine and developing a marketing strategy. The total value of the grant is \$45,800.

During the reporting period, ACE approved an ADF Challenge grant of \$99,800 for the Afghan Credit Support Program (ACSP). The purpose of the grant is to engage Mennonite Economic Development Associates to assist the Afghan Credit Support Program with the establishment of a comprehensive medium-term action plan focused on the technical support and capacity building for ACSP's roll-out into rural SME operations; supporting First Microfinance Bank in planning its roll-out into rural SME operations in a pilot province (Balkh); carrying out respective market research in the pilot province; developing a SME rural credit product for FMFB for Balkh; developing the SME rural lending business strategy for FMFB; and developing of a proposal to facilitate ADF Lending to FMFB linked with the ACSP guarantee program.

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

- The project disbursed \$39,650 to the Eastern Region Fruit Growers Association (EFGA) Credit Management Unit (CMU) under an ADF Challenge Grant of \$127,497 for staff salaries and operational expenses. In addition to this, ACE disbursed \$3,175 for the ADF innovation grant of \$35,126 for M-PAISA mobile money to the EFGA.
- ACE disbursed \$24,700 to Afghanistan National Seeds Organization (ANSOR) under the existing ADF Challenge Grant to be utilized for CMU staffs salaries and operating expenses. The ANSOR CMU staff received training and instructions on how to prepare financial reports and documents that comply with grant requirements.
- The Pace Group received \$32,338 under their ACE Agricultural Modernization Grant to support the participation of ten Afghan businesses in the 6th Annual Azerbaijan International Exhibition. The ten ACE/ADF clients explored potential market channels for their products, while also learning about equipment and machinery available in the market.
- The Afghanistan Almond Industry Development Organization (AAIDO) received \$17,107 as the first installment under the challenge grant of \$72,000, to establish a Credit Management to manage the second loan. The organization will hire three regional loans officers for the Kunduz, Balkh and Samangan provinces to properly manage the ADF loans.

The team is working on several new grant proposal and concept notes, some of which include:

- An agricultural modernization grant of \$94,030 to support the field visit of seven Afghan women, who are members of women cooperatives in Bamyan, Nangarhar, Herat, Takhar,



Left: View of the marketing event organized for the Javed Afghan Thresher Company in Jalalabad, enabled by an ACE grant. Right: Members of Ghoryan Women Saffron Association in Herat province collecting saffron flowers.

Kunduz, Badakshan and Balkh provinces, to Tamil Nadu, India to gain experience on how women cooperatives work. ACE and MAIL, in partnership with Hand in Hand Afghanistan, will coordinate the field visit.

- An agricultural modernization grant of \$43,650 to support the Sayel Potato Chips Production Company in provision of processing equipment, training, and operational support is underway. The grant will enable the company to improve its current process flow through access to the new machinery, and to build the capacity of the technical staff via improved hygiene and training on alternate methods of processing.
- An agricultural modernization grant of \$27,440 to support the Ghulam Dastagir Food Production Company to improve the quality of the noodles and vermicelli and increase import substitution. The company will contribute with \$10,000 to establish a plastic house to increase the overall hygiene and safety conditions.
- An agricultural modernization grant of \$22,470 to support the Dekundiwal Salahe Brothers Agricultural Services Company to establish two cucumber greenhouses in Kabul.
- Another agricultural modernization grant of \$4,330 to support the participation of Habib Omid Co.Ltd. in the Cashmere World Exhibition which will be held in Hong Kong from September 27 - 29, 2012. The grant will be used to cover travel and exhibition booth costs.
- An agricultural modernization grant of \$92,540 to support Pace Events Management & Marketing Services with participation of Afghan businesses at the Ingredients Turkey International Exhibition. Ingredients Turkey is a specialized event for ingredients suppliers and consumers from around the world.

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

Gender Activities

During the past quarter, ACE undertook several initiatives with respect to addressing gender issues and providing ADF financial opportunities to women. These activities are threefold:

- 1) To provide access to finance for women entrepreneurs, agribusinesses and farmers across the country, therefore generating new business for women;
- 2) To provide training and capacity building opportunities for women organizations, as well as assistance for the women ADF clients;
- 3) To improve women's role within the ACE project through capacity building, training and promotion while hiring more women for ADF technical positions.

First, ACE has several loans to women agribusinesses and associations interested in the ADF lending opportunities in the pipeline.

- The Takhar Women Trader Social Organization and Ghulghula Agriculture and Carpet Production Cooperative's ADF applications were presented at the ACE Technical Review Committee meeting during the reporting period. These associations work with thousands of carpet weavers in Takhar and Bamyan provinces. Hand-woven carpets have become a cottage industry and many of those involved in weaving are women. Due to financial resource and cultural constraints, the weavers have little source of income. Also, the workstations are set up in their homes; therefore they are exposed to a lot of health risks. To mitigate the occupational health hazards, ACE is looking into working with the Good Weave NGO to provide social services to carpet weavers.
- The Herat Capable Women Association is another prospective client interested in \$187,000 USD to expand their food processing business. The loan will be reviewed at the ACE Technical Review Committee meeting in the next quarter.
- Fine Food Factory is owned by two women Afghan entrepreneurs and is located in Dashte Barchi of Kabul province and produces varieties of bread, pastries and other baked goods for local grocery stores and restaurants. The company is requesting \$120,000 to purchase modern equipment necessary for expansion of the business.
- The Azadah Saffron Association requested an ADF loan for \$166,000; Afghan Women Saffron Association - \$198,000; Ghowhar Shad - \$253,000. The three associations are members of the larger Bastan Saffron Shura, and are interested in expanding their businesses.



- Firdous Bareen Food Production Company in Jalalabad is requesting a loan of \$100,000 to purchase raw materials from local producers. The company produces porridge from wheat and is run by a group of women.

Second, ACE submitted a Request for Application (RFA) to conduct a series of gender trainings for its partners, clients and staff in Kabul and the regions. This training includes three phases: training, monthly on-line discussions, and on-the job support for the participants. A specific tailored curriculum will be developed based on the needs of ADF and participants.

ACE/ADF conducted a gender audit of its intermediaries in order to ensure that Afghan women have equitable opportunities to participate in, contribute to and benefit from the program. The participatory gender audit promotes learning and ownership of the process and outcome. The audit employed a multi-prong process involving a desk study of ADF clients' loan applications, use of checklists, field visits, and structured interviews with ADF intermediaries. The project suggested improving the working environment of female employees of Heri Biscuit Company; Sayed Jamal Flour Mill, and Sanaizada Edible oil as well as hiring more female staff.

The Hand in Hand Afghanistan Organization has requested an ACE Value Chain Grant of \$89,094 to facilitate a study tour and training Cooperatives in India (Tamil Nadu) for 11 ADF women members and ADF partner organizations. The study tour and training will introduce the participants to basic and socio-economic advantages of cooperatives. The capacity building program for Women Cooperatives is consistent with USAID's policies regarding the engagement of women in economic development activities. The program will build the capacity of women organizations to use and administer credit, and constitutes the first step towards becoming ADF clients. The participants would be exposed to the concept, structure, dynamics, management and sustainability of Cooperatives; (1) Linkages with various stakeholders; (2) Empowerment through entrepreneurship and (3) Livelihood creation. This initiative is part of an on-going partnership with the United Nations Development Program's (UNDP) Gender program and MAIL's Home Economics Directorate.

Third, in terms of women empowerment within the ACE team, the project has introduced a Female Staff Luncheon Networking Session which takes place every Thursday. The female staff discusses



Left: View of the ACE female staff luncheon and team building exercise at Babur Garden in Kabul. Right: View from the sales shop of Rabia Mariam Handicraft Company in Balkh, displaying their handicraft.

different topics related to their professional development. To date, this activity resulted in a visit to the American University, an offer to waive the entry examination fees for ACE female employees and a member of the ACE staff passing the second screening for a Fulbright scholarship. During the reporting period, female expatriates and local staff shared lunch at Babur gardens, as part of the team building exercise. As part of the efforts to develop capacity of female staff, ACE provides twice a week English classes for five support staff (women). The ACE Human Resources Department hired two female

technical staff; one female lending officer and one female customer service officer during the reporting period.

Internal Audit and Compliance

In the last quarter, the internal audit and compliance unit prepared two-prequalification reports, a tool introduced in the previous quarter, for two potential clients. Table No.4 shows the list of audit reports conducted for ADF existing clients.

Table 3: Pre-qualification reports

Pre-Qualification Reports		
No	Client	Status of the Loan
1	Ali Sahil Wool Processing and Carpet Weaving Co	Application withdrawn by the client
2	Hussain Zada Ltd	Forwarded to ADF Credit Committee

Table 4: Audit reports

Audit Reports		
No	Client	Status of the Loan
1	Rana Seed and Agri Business Company	Disbursed
2	Shir Ali Yaqoobzada Trading Company	Disbursed
3	Tyoran Ayubi Slaughterhouse	Disbursed
4	Habib Omid Ltd	Disbursed
5	Said Jamal Flour Mill	Disbursed
6	Javed Afghan Thresher Company	Disbursed
7	ACE/ADF Loan Repayments (repayment status of 12 ACE/ADF borrowers)	Finalized

ACE completed the loan utilization audit for several ADF clients such as: the Javed Afghan Thresher Manufacturing Company, Tyoran Ayobi Slaughterhouse Company and Habib Omid Trading Company. The team 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 month the project also finalized the compliance sample report for the Javed Afghan Threshers Manufacturing Company to test the ACE/ADF compliance tool. The team also prepared the Internal Audit Plan for 2012-2013 and also finalized the ADF Policies and Procedures General Compliance Tools.

Table 5: 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
13	Ghoryan Women's Saffron Association	ACE Agricultural Modernization			\$ 45,800	\$ 2,800		Active	
14	AAIDO	ADF Challenge			\$ 72,000	\$ 17,107		Active	
SUB-TOTAL GRANTS					\$ 1,398,916	\$ 680,375			
GRAND TOTAL					\$ 38,611,886	\$ 22,186,101			

Note: The loans for AAIDO, 7 Bamyan Cooperatives, WOCCU/IIFC, BRAC Bank, Rana Seed, Exporters Loan (AAIDO), ANSOR, Qarizada Tomato Paste have been de-obligated from the original amounts

¹ 27 loans to Cooperatives in Bamyan province.

TABLE 6: ADF LOAN PIPELINE

Loan Pipeline Tracker Report									
<u>Borrower</u>	<u>Loan Type</u> FI, Direct, NFI	<u>Region</u>	<u>Loan amount requested</u>	<u>Ist Visit</u>	<u>Other Visits</u>	<u>Next Mtg</u>	<u>Regiona l Office</u>	<u>Loan Applicatio n Stage</u>	<u>Notes and Comments</u>
Clients Sensitive Information									

A photograph showing two women in a field of saffron flowers. One woman in the foreground is wearing a beige headscarf and a dark red long-sleeved shirt, kneeling and picking a purple saffron flower. Another woman in the background is wearing a black and red striped shirt and a patterned headscarf, also working in the field. Several yellow plastic tubs filled with harvested saffron flowers are scattered around them. The ground is dry and brown, typical of an arid region.

**We give credit to women
entrepreneurs** because it is fair,
because it is ethically right, but most importantly
**because it makes
economic sense.**



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**AGRICULTURAL CREDIT
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Component 2: Agricultural Modernization and Value Chain Development

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.

The program supported agricultural value chain strengthening through four complementary activities:

- 1) Increase the capacities of MAIL personnel to conduct value chain analysis;
- 2) Promote increased market opportunities for Afghan agricultural products;
- 3) Recognize and promote innovation in the agricultural sector;
- 4) Provide technical reviews and assistance for the ADF loans.

First, throughout the reporting quarter, ACE mobilized a team of one value chain strengthening consultant and one Afghan value chain strengthening specialist to conduct the Agricultural Value Chain Training for 14 MAIL/DAIL staff. The first part of the training program consisted of a classroom training which took place from April 8-12, 2012 in Kabul. The training course was officially opened by Mr. Waziri, MAIL Director of Cereals Section, and Juan M. Estrada, Chief of Party for ACE. The course curriculum covered value chain selection, value chain analysis, and strategic and programmatic recommendations. Upon the selection of specific agricultural value chains, the participants would carry out value chain analysis for specific crops and submit final reports.

Based on USAID's Value Chain selection criteria, the participants selected the following value chains for analysis:

West: Saffron, Raisins, and Pistachio

North: Yellow Melons, Cotton, Wheat, and Almonds;

East: Onions, Rice, Citrus Fruits, and Honey;

Central: Fresh Grapes, Potatoes, Apples, and Pomegranates



Left: View of the formal Value Chain Analysis training for DAIL staff, organized by ACE on April 8-12, 2012. Right: Balkh DAIL Extension Manager Mohammad Yusuf and Research Manager Parwiz interviewing cotton traders.

Basic knowledge on value chain analysis throughout a three months program. At the end of the training, participants received a Certificate of Completion, and a customized Value Chain Analysis and Development Toolkit, in Dari. The toolkit contained an analytical framework and checklists to assist the MAIL Advisors in conducting their respective value chain analysis in the region and also a proposed outline of the value chain reports to ensure standardization and comparability.

After the training in Kabul ended, the DAIL value chain specialists went back to conduct field research on individual value chains. The DAIL trainees traveled to various districts and conducted hundreds of interviews with input providers, producers, traders, processors, wholesalers, retailers and providers of supporting products and services. To assist with reviewing and providing feedback on the first draft of the value chain studies in the national language, ACE established a Value Chain Review Advisory Group comprised of agricultural economics and marketing stakeholders from Afghan universities, the private sector and civil society. In order to ensure a consistent review methodology, a one-day Value Chain Review Workshop for the committee was held at the ACE Office in Kabul to review the objectives of the study, the Value Chain Methodology, and to provide technical and operational requirements for the review of the value chain studies.

During the last half of May, ACE began the second round of regional group meetings to review the feedback provided by the Advisory Committee. The ACE team met with the Mazar-e Sharif Advisory Committee professors and the DAIL trainees from Balkh and Kunduz, as well as the DAIL trainees from Kabul and the Central region. During these meetings, ACE provided advice and guidance to the DAIL trainees on how best to revise their reports to reflect feedback provided by the Advisory Committee. By the time of this report, the 14 value chain analysis reports are complete and will be presented during the graduation ceremony and workshop in early July. The activity will be coordinated with MAIL.

Second, to promote increased market opportunities for the ADF clients, the project assisted the Javed Wheat Thresher Company in Jalalabad with the organization of a “Thresher Marketing Workshop” in Jalalabad on May 16-17, 2012. The activity was enabled by an agricultural modernization grant. The company invited 39 agricultural machinery dealers from 11 provinces of Afghanistan such as Kunduz, Baghlan, Faryab, Kabul, Kandahar, Helmand, Logar, Nangarhar, Ghazni, Balkh and Kunar to discuss the sales strategy for the new harvest season. Between the time of the workshop and this report, the company sold 60 threshers in several provinces, whereas in the months of April, May and June Javed Afghan Wheat Thresher sold a total of 117 threshers.



Left and Right: View of the Thresher Marketing Workshop organized in Jalalabad in collaboration with the Javed Afghan Wheat Thresher Company and 39 agricultural machinery dealers.

In terms of international trade facilitation events, during the month of May, ACE facilitated the participation of ten ADF clients engaged in the export business in the 18th Annual Azerbaijan International Food Exhibition held in Baku, on May 13-18, 2012. The Azerbaijan International Food Industry Exhibition is an international event held each year in Azerbaijan since 1995. During the event,

ACE assisted its clients with the establishment of booths to exhibit their products and with the facilitation of trade meetings with business representatives from Azerbaijan, Russia and other European countries including Germany, Turkey and Poland. Through this event, the Afghan businesses established business relationships and long-term linkages with the continuously emerging markets of central Asian countries and the Middle East. Exhibiting their products at the show enabled the participating Afghan businesses, primarily involved in agricultural production and processing, to promote foreign investments in Afghanistan and identify new markets to export Afghan agricultural products. In addition, the participants had an opportunity to see how other international companies do business, how they exhibit and promote their products and understand the international standards and procedures for export-import operations. This exhibition constituted a unique platform for the participants to introduce the best of Afghanistan's agricultural products, specifically to the Caspian market where there is significant demand for them. The Afghan companies will follow up with the business contacts established during the event. This is expected to boost their sales and enable them to negotiate contracts with companies across the globe on equal terms.



The ACE team supported the organization of the Mazar-e-Sharif Business Fair on April 15-18, 2012, through Golden Sponsorship. The sponsorship for the event allowed the project to reserve several additional booths for ADF clients. A total of nine ADF clients participated in the event from various regions of the country to exhibit and promote their products. The event constituted a good opportunity for the clients to reach out to buyers and input suppliers. Some of the results achieved during the fair include: the Javid Afghan Thresher Company sold one wheat thresher and signed a contract for 20 more threshers; Sayed Jamal Flour Mill signed a contract with Ghulam Dastagir Food Production to provide the company with 100MT of flour; and the Rabia Mariam Handicraft Company signed two contracts for handicrafts and carpets.

Third, during the reporting quarter the project conducted several value chain technical reviews for the loan packages reviewed by the ACE Technical Review Committee and the ADF Credit Committee. Some of the loan packages reviewed by the team include:

- The Saeed Ahmad Khushkyar & Brothers Company imports agrichemicals, including pesticides, veterinary medicines, and different agricultural tools into Afghanistan. The team conducted the technical review to determine if the business proposal is feasible.
- The Laghman Beekeepers Association in Laghman province is involved in raw honey production. The loan will assist the client not only to increase honey production but also to add value through processing and packaging. The value chain team is assisting the company with technical expertise.



Left: Eng. Shir Ahmad Sepahizada Deputy Director of ACCI in Balkh province handing over the Golden Sponsorship to the ACE staff at the Mazar-e-Sharif Business Fair. Right: Governor of Balkh province, Mr. Ustad Atta Muhammad Nur, visiting the ADF booth at the Business Fair in Mazar-e-Sharif.

- The Ali Sahil Wool & Carpet Company is involved in wool spinning and weaving of carpets and handicrafts. The team visited the company facility to collect information and completed the technical review.
- The Herat Capable Women Association operates 28 small fruits and vegetable processing centers and works under this association in Herat province. The team met with Mrs. Maryam Jamehul ahmadi, the head of the association, to collect information on the current business and expansion needs in order to complete the value chain technical review.
- The Khaja Shahab Agricultural Cooperative produces different types of fruits and non-fruit saplings. The cooperative applied for an ADF loan of \$150,000 to invest in the purchase of inputs for the development of their business in Herat province. During a meeting with Mr. Aminullah, the head of the cooperative, the team collected information on the structure of the cooperative and visited member nurseries. The technical review for the loan application is ongoing.
- Omar Farooq Biscuits Business is involved in bakery production and is interested in investing in their biscuit production business. The loan from the ADF is requested by the company to finance the purchase of raw materials such as wheat, sugar and ghee. A quick review including information on the purchase of wheat from farmers, equipment purchase and installation of the machines and availability of city power for reduction of the cost of production and competition in the market has been observed and reviewed.
- The team visited the Kabul Poultry Association to physically inspect the facilities and collect information. The Kabul Poultry Association is requesting an ADF loan to finance the purchase of feed mill equipment and pullets to be raised by the association. The breeders will be sold to the members of the Association. The project requested for the association to provide further information on feed mill equipment and pullets that would be financed by the ADF.
- The project supported the Sayed Abad Cold Storage (Brotheran Takana Sofla Ltd.) with a technical feasibility study for the project. Information on advances to the farmers and purchase of apples are further needed to be collected for this case before presenting to the committee. A calendar that illustrates different activities for this case from the loan disbursement till marketing and repayment of the loan has been drafted to make sure that the loan is disbursed on time and all the activities are pre-planned to make the business successful. The final technical report will be submitted to the technical review committee.

- ACE is working with the Dehqan-e-Roz Dairy Company, which collects milk from farmers in the central region and processes it into yoghurt, to develop an improved process flow. The company is interested in an ADF loan of \$150,000 to modernize their production line through the procurement of new equipment. A portion of the loan will be utilized by the company to build a reliable network of suppliers and through distributing 200 aluminum drums for milk collection to the farmers on credit. The team supported the client in identifying proper equipment necessary for milk processing and collection.

Fourth, the ACE team worked intensively in completing the documentation for several Agricultural Modernization Grants for ADF clients among which: 1) Rana Seeds Company is requesting an ACE agricultural modernization grant equivalent to \$92,100 to support soybean-value chain activities; 2) Sanaizada Edible Oil Production Co. is interested in a grant to cover the expenses of hiring a team of technicians from India for the installation of the processing equipment at the new plant; 3) Habib Omid Company, a recipient of an ADF loan of \$700,000, is interested in attending the Cashmere Work Exhibition in Hong Kong on September 27-29, 2012; 4) the Sayel Food Processing Company is interested in a grant to purchase packing machinery, a blancher, and a conveyor, and to also provide technical training to their staff to improve their potato chip processing; and 5) Rabia Maryam Handicraft Company which is interested in a grant to purchase silk spinning and weaving machines. The project foresees approving six to eight new ACE agricultural modernization grants in the next quarter.



**AGRICULTURAL CREDIT
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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.

In terms of market information systems and knowledge management, the ACE project completed several tasks and products, achieving a number of successes during the reporting quarter.

- 1) On April 8th, ACE and MAIL/MIS representatives signed a Memorandum of Understanding (MOU) on the PAYWAND transition to MAIL, a milestone in the history of the project. Since the launch of the Knowledge Management Facility-PAYWAND in autumn of 2011, ACE has been working closely with the Department of Market Information Systems at MAIL on drafting a transition plan for PAYWAND. After many discussions and iterations, in April, ACE and MAIL signed a MoU which underlines the structure of collaboration between MAIL and ACE for the enhancement of the market information systems for agriculture in Afghanistan. The MOU envisions the details of transitions of PAYWAND from ACE to MAIL as well as the roles and responsibilities of both partners for the sustainability and successful operations of the Knowledge Management Facility. The document was signed by the General Director of the Directorate of Planning and Policy Mr. Farid Mateen on behalf of MAIL and the COP Mr. Juan Estrada-Valle on behalf of ACE.
- 2) Study tour to Ghana – a team of three MAIL/MIS key personnel and two ACE MIS staff traveled to Ghana on a market information study tour on May 12-19, 2012. The purpose of the tour was to expose the representatives from MAIL, Management Information Systems Department, who will take over the PAYWAND operation, to two successful market information systems in a country with similar challenges and development stage. The team visited two market information platforms, Mfarms and ESOKO. ESOKO is a similar initiative to PAYWAND, established in 2005 as a donor and private sector initiative to provide information on markets, trade and export

mFarms
Agribusiness Solutions

Home Products Vendors Buyers

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LOGIN SIGN UP
[Forgot your password?](#)

PARTNERS
USAID FROM THE AMERICAN PEOPLE
IITA Research to nourish Africa
UPOCA Working for general income in Africa

USERS ONLINE
Buyers 1

02 Healthy cassava farm

The mFarms Platform: A Business Solution for Agriculture

The International Institute of Tropical Agriculture (IITA) has partnered with Image-AD (Ghana) to customize "mFarms" into an agribusiness solution in response to smallholders' need to commercialize cassava. Cassava is a root crop that grows well in various tropical soil types and ecologies. It is a key food security and poverty reduction crop in sub-Saharan Africa. Cassava has advantages as raw material for use in food, feed and industrial products. Processing cassava into quality products therefore opens market opportunities for small- to large-holder enterprises.

PRODUCTS FOR SALE

- Gari**
Creamy-white crispy granules, slightly sour
- Cassava fufu flour**
Odourless fermented white powder used to prepare instant food
- Cassava flour**
Odourless unfermented fine white powder for bakery/pastry products
- Attieke**
Cassava couscous
- Starch**
White gelatinous extract from cassava roots used in industries
- Tapioca**

procedures. It provides regular price information on agriculture commodities and trade flows on both web-based and mobile platforms.

The ESOKO team provided information on data collection systems and data uploads through mobile technology applications to the participants, which can be replicated and used by MAIL for several purposes while collecting data in the field. The monitoring and data validation procedures as integral parts of data collection were discussed in detail by both teams. The web platform design with several levels of customization within a multitasking and multi-sharing platform was beneficial and interesting to the Afghan participants. This model could be adopted by MAIL in the future as a means of sharing information between networks and interest groups.

Mfarms is a complementary service for the agricultural value chain and its actors. The project started as a donor based initiative in 2009 with the purpose of linking farmers to markets with AGRA (Alliance for a Green Revolution in Africa) funding and IFDC (International Fertilizer Development Center) technical implementation. The starting platform gathered information on 3,000 agri-input dealers or 90 percent of input dealers of the country, and collected and provided market information to the public. The primary concept was reinvented into a more complex platform that integrates information from all value chain actors in a geo-referenced database offering several services for its members. The module is designed to create operational efficiencies by allowing organizations, associations and identifiable groups to serve a large number of their members or affiliates dispersed over space using mobile phones and the web. The primary aim of this module is to link smallholder farmers to market through larger intermediaries of the value chain able to register in the platform such as: market produce aggregators, agro-input dealers, transport companies and warehouses. The Afghan participants benefitted significantly from the experience in several ways, such as 1) it provided an opportunity to network with other Market information System providers in the region; 2) to get information on other innovative solutions; 3) to discuss implementation challenges with other professionals; and 4) to discuss potential future information channels and the content of agricultural information systems of the future.



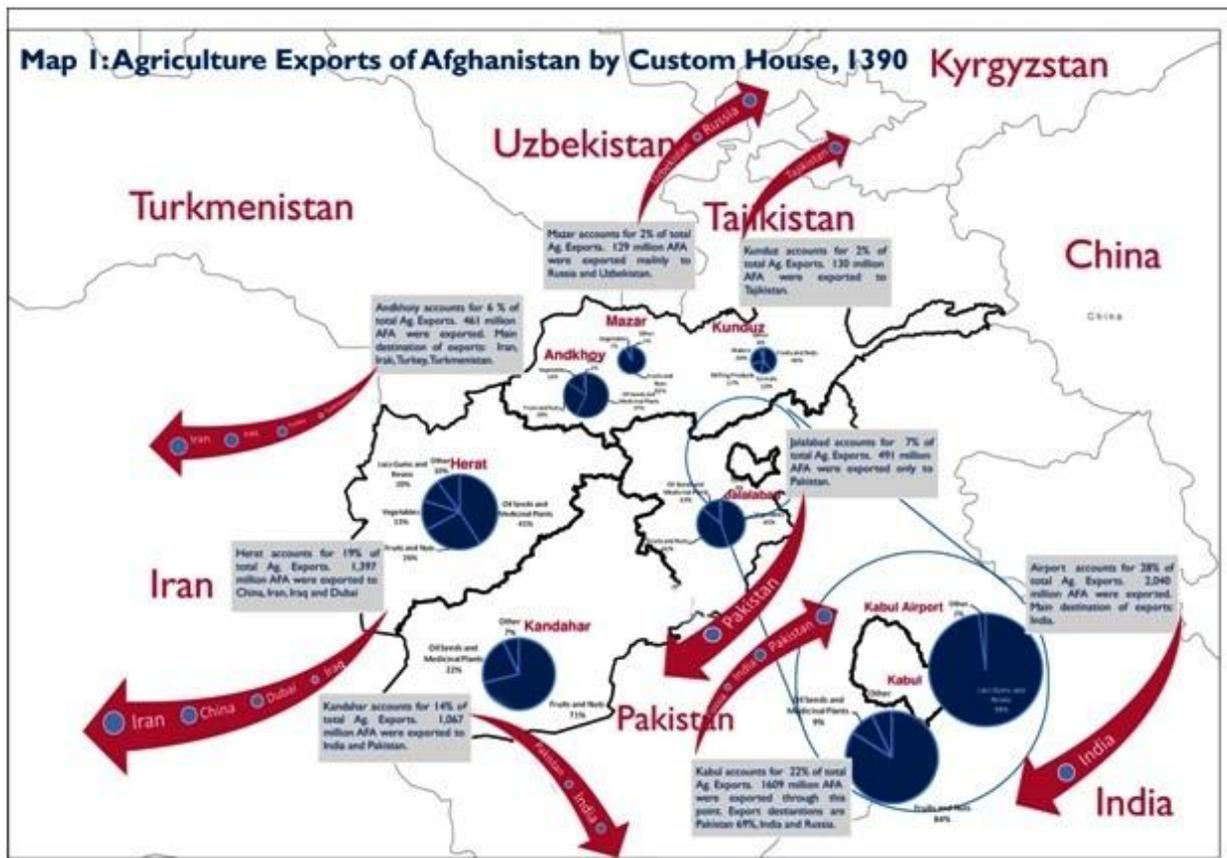
Left and Right: View of the meeting between the Afghan participants and the ESOKO team in Accra, Ghana.

- 3) The team completed the first draft of the Agricultural Trade Report for the year 1390, according to which the “agricultural trade flows of Afghanistan reached 83.743 Billion AFN (\$1.7Billion USD) in 1390.” The trade flows increased by 11.2 percent compared to the year 1389. The import trade flows account for the largest share of the agricultural trade flows with a constant increase during the last few years. The increase in share from 89 percent in 1389 to 93 percent in 1390 is related to the increase of imports as well as the decrease of the value of agriculture exports. These developments have resulted in an increased trade deficit, valued at 72.120 Billion AFN (\$1.5 Billion USD). The agricultural exports were valued at 5.811 Billion AFN (\$120.8 million USD) having decreased by 23.1 percent in 1390. The agricultural exports still account for the major share of the total exports of Afghanistan but their share decreased by 7 percent. They

have vigorously grown since 1385 (2006-2007), reaching a peak in 1388 and then decreasing consequently in 1389-90 to the same level as in 1385.”

- 4) ACE is organizing a 36 hour training course on MS Access database development for MAIL/MIS and Agromet project staff. The purpose of this activity is to train MAIL staff on how to design, develop and maintain Relational Database Management Systems (RDBMS) using MS Access 2007, how to implement RDBMS in their daily activities and most importantly how to run and maintain the KMF Access Database. Six representatives from MAIL and Agromet project started the course on June 7th, and it will continue until July 12th.
- 5) ACE organized a two-day training for 28 MAIL representatives working for the extension services as data collectors, from northern region provinces such as Balkh, Kunduz, Baghlan, Jawzjan, Samangan, Saripul, Faryab and Uruzgan and Agromet project staff. The event took place in Mazar-e-Sharif to present the Knowledge Management Facility – Paywand to data collectors in the field and focused on improving the data collection processes. ACE undertook this activity in the framework of designing production calendars for wheat, rice and corn for most of the provinces in Afghanistan. As part of the collaboration with Agromet, KMF-Paywand analyzes the raw data collected by Agromet, and transforms the information into market intelligence for several agricultural actors. Agromet project assists the GIRoA in collecting and analyzing agricultural and meteorological data related to crop production, irrigation, water supply, energy, and aviation. This activity will take place in several other regions of the country and will enable the MIS department to design a new publication series that will focus on crop specific production calendars. To achieve this, ACE needs high quality data from the field.

MAP No 2: Agriculture exports by custom house



- 6) ACE is coordinating the training for the Data Analysis and Economic Writing Training. 12 participants from MAIL, Agromet and ACE are already registered in the first group which will take place from June 30th till July 25th. The purpose of the training is to enhance the skills of the participants with respect to data analysis and interpretation through the use of computer and statistical software and help them incorporate the findings into well-structured economic reports.

Performance Management - ACE Progress against Targets

The third quarter of 2012 showed continued success of the project as ACE moved towards the third calendar year. The M&E team continues to revamp monitoring activities by constantly improving the reported indicators and their verification, which has created a stronger, more rigorous set of impact data. Systematic data collection and analysis according to a pre-determined timeline is implemented rigorously.

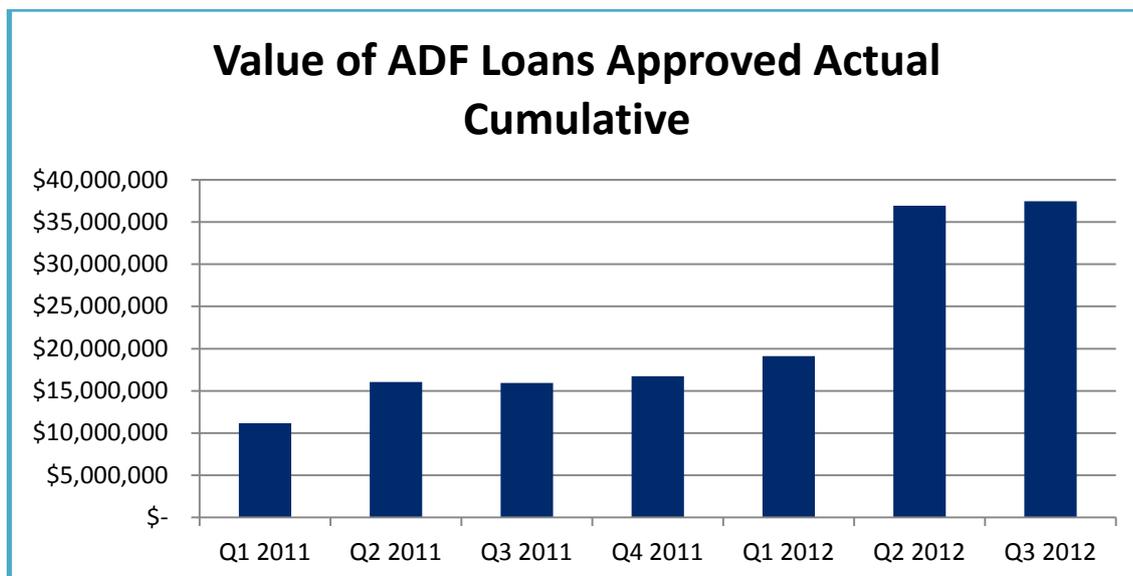
Quarterly Results

This section presents the progress of ACE from April 1st to June 30th, 2012. A description of the main accomplishments for each indicator is followed by a summary of quarterly result against planned targets.

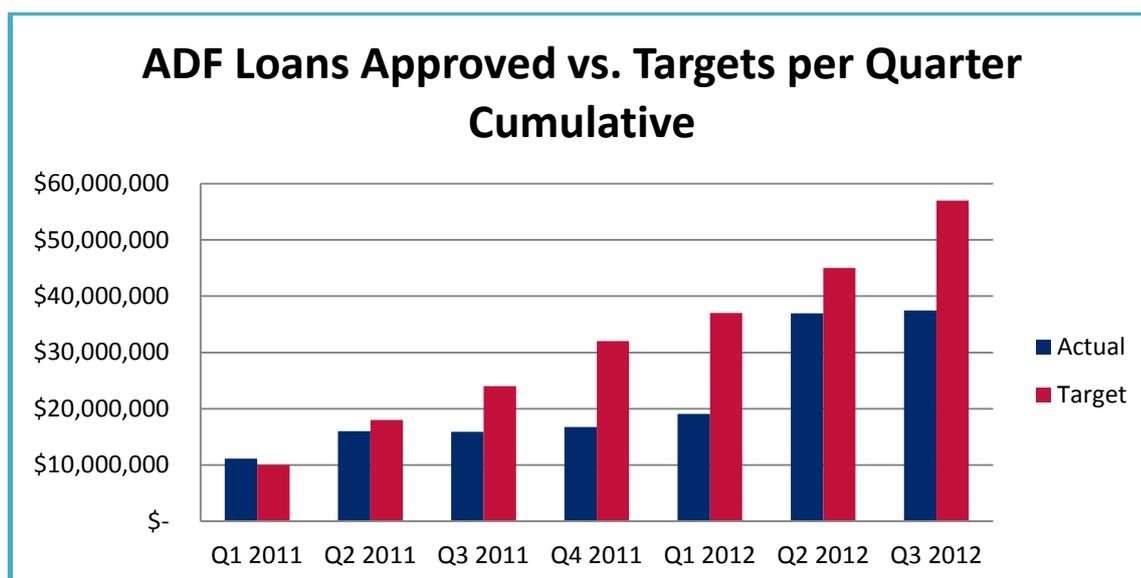
Indicator #1.1- During the last quarter, ACE achieved a total net growth of \$507,784 USD in approved ADF loans. This is due to a total of \$887,000 USD in approved loans by the ADF Credit Committee meeting and the quarterly de-obligations from the original loan agreements. The unavailability of ADF funds for lending, caused by the delay in the registration of the ADF and the unsolved political challenges with MAIL, resulted in a suspension of ADF Credit Committee meetings.

Nonetheless, the project aimed to close the gap between the loans approved versus the quarterly targets: At the end of this quarter, ADF stands at a total of \$37.2 million USD loans approved. The two graphs below show the ADF loans approved for each quarter; and the actual performance versus targets.

Graph No 1: ADF Loans Approved per Quarter



Graph No 2: ADF Loans Approved per Quarter



Indicator #1.2 – In the last quarter, ACE achieved 3,617 new direct farmer beneficiaries through nine intermediaries as shown in the Table No 6 below. 13 farmer beneficiaries were women.

As per PMP indicator definition, this indicator tracks “the number of individuals benefitting from ACE/ADF loan agreements,” therefore as stipulated in the previous quarterly reports, the number of loan agreements signed with agribusinesses and farmer beneficiaries will be counted against this indicator. Three agreements with agribusinesses were signed during the reporting quarter; Ghulam Dastagir Food Production Company, Rabia Mariam Handicraft Company and Sayel Food Processing Company. This brings the total number of individual loan agreements for the quarter to 3,620.

Table 7: Q3 FY2012- Net Direct beneficiaries (farmers)

No.	Company	Direct beneficiaries	Male	Female
1	Bamyar Cooperatives	725	725	0
2	IIFS (new only)	819	813	6
3	AAIDO 2 nd Loan	883	883	0
4	Habib Omid	600	600	0
5	Laghman FSC	78	67	11
6	Kunar FSC	232	232	0
7	Logar FSC	196	195	1
8	Apple Association	38	37	1
9	Afghan Rice Mill	46	46	0
	Total	3,617	3,598	19

Up to this point, the project directly benefitted a total 14,514 farmers whereas 17 additional agribusinesses have benefitted from ADF loan agreements. The table below shows ACE farmer direct beneficiaries disaggregated by Regional Command and Gender.

Table 8: Actual Direct Beneficiaries per Regional Command

Region	Total Direct Beneficiaries	Male	Female	Loan Disbursed in (\$)
RC - East	4,764	4,748	16	1,600,963.75
RC - North	6,357	6,349	8	4,563,763.03
RC - South	1,463	1,463	0	231,635.00
RC - West	1,930	1,813	117	1,110,633.07
Total	14,514	14,373	141	7,506,995

Table 9: ACE/ADF approved and disbursed loans per Regional Command

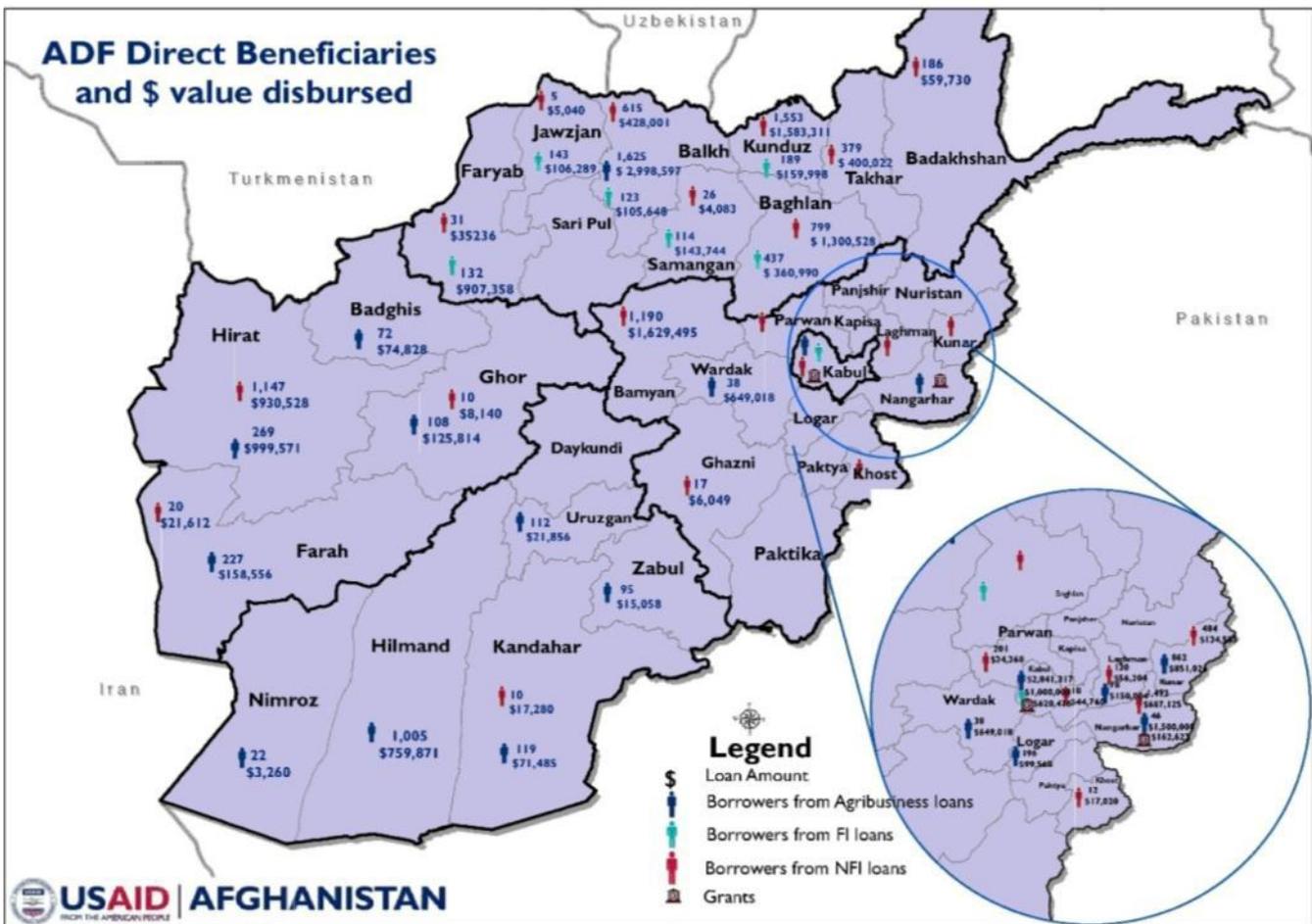
Region	Loan Approved (\$)	Loan Disbursed in (\$)	Beneficiaries
RC Central	\$ 14,876,079	\$ 3,885,630	18
RC East	\$ 6,180,610	\$ 5,813,217	4,746
RC North	\$ 10,005,769	\$ 8,598,574	6,357
RC South	\$ 888,810	\$ 888,810	1,463
RC West	\$ 4,819,048	\$ 2,319,048	1,930
Total	\$ 37,212,970	\$ 21,505,279	14,514

The Performance Indicator Data Sheet (Table No.9) on page 43 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 unresolved issues with MAIL, such as delays in agreeing with the ADF governance structure and the legal structure to register the ADF, as well as the GiRoA's inability to disburse lending funds on-the budget through the Ministry of Finance, have been obstacles. Lack of familiarity with the management of a financial institution on the part of MAIL, the lack of leadership at lower levels of the Ministry and unwillingness to make decisions without the concurrence of the highest level authorities has delayed the process of registering the ADF. After the first trials in February-March, it became evident that GiRoA is not equipped to disburse loans as assumed in the project design, and will require registration of the ADF to proceed, thereby causing an unforeseen delay that resulted in a significant backlog.
- Until the ADF legal registration is successfully achieved, ACE/ADF has no funds for lending. To manage client expectations during the reporting quarter only one ADF Credit Committee meeting was organized, as opposed to five-six meetings organized generally in any previous quarter. ACE currently has 12 loans approved by the ACE Technical Review Committee which are waiting ADF Credit Committee decision and another \$30 million USD worth of loan cases in the pipeline. In addition, ACE de-obligated \$800,000 in the reporting quarter, and a total cumulative of \$4.5Million USD since the start of the project.

- The lack of funds for lending affected not only the loan approval and disbursements, but also the number of direct beneficiaries. Due to the delays in disbursements, such as for Helmand FSC and Qarizadah Tomato Paste Company, and the inability to disburse the loans approved by the ADF Credit Committee, ACE has only disbursed to a total of 14, 514 farmers as of June 30th 2012. ACE is currently working with its lending partners to collect, verify and register loan agreements between intermediaries and farmers. Should funds for lending be available in the next month, the project will reach the target of 24,000 farmers before the end of September.
- Due to the lack of ADF funds for lending, during the reporting quarter, ACE adopted a very conservative approach with signing new grants agreement, aiming to allocate the remaining ADF funds for lending purposes only. However, the project approved two new Agricultural Modernization grants and is currently finalizing approximately ten new grants proposals.

Map 3: ADF Disbursement and Beneficiaries per Province



Map 4: ADF Borrowers according to Intermediaries

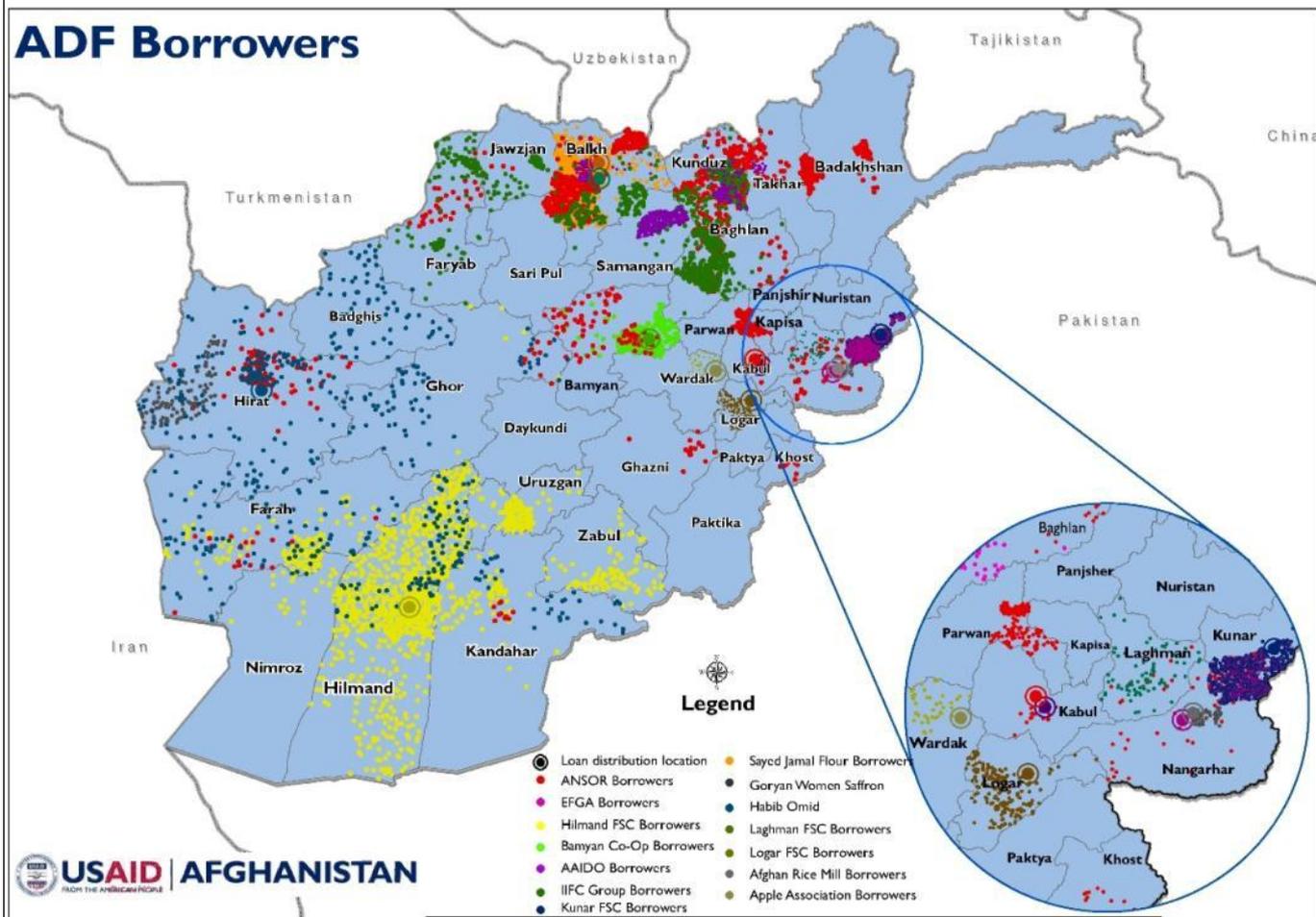


Table 10: PERFORMANCE DATA QUARTER 3 FY2012

PMP INDICATOR	FY2011	Q1 FY2012	Q2 FY2012	Q3 FY2012	ACTUAL Q3 FY 2012	TARGET Q3 FY2012	%	Male	Female	TARGET FY2012
1.1 Value of Finance Accessed in US dollars. (cumulative)	16,746,562	19,104,562	36,943,562	37,212,970	37,212,970	57,000,000	65%	37,066,346	385,000	\$65,000,000
Sub-indicator: Value of ADF loans disbursed in US dollars (cum)	9,515,771	15,530,721	18,917,799	21,505,726	21,505,726	23,000,000	94%	21,350,726	155,000	\$25,000,000
1.2 Number of individuals benefitting from ACE or ADF financial agreements	8,720	447	1,744	3,620	14,531	20,000	73%	14,390	138	24,000
Sub-indicator: Number of indirect beneficiaries achieved	94,162	3,362	277	3,410	101,211	40,000	253%			48,000
1.3 Percent Increase in income by assisted farms and agribusinesses	-	-	-	-	-	-	-			10%
1.4 Net total increase in FTE jobs created by USG sponsored agriculture activities	171	242	180	122	715	450	161%	628	67	500
2.1 Value of Challenge/Innovation and Agriculture modernization grants disbursed	737,683	136,457	259,076	265,700	1,398,916	6,000,000	23%	1,370,345	28,571	\$9,500,000
2.2 Number of participating financial intermediaries and private intermediaries on-lending funds from ADF	14	2	27	2	45	18	250%	44	1	19
2.3 Number of innovative lending products established by PIs and FIs	3	1	1	4	9	4	225%			4
2.4 Percentage of loan losses resulting from ACE lending recommendations	0	0	0	0.039%	0.039%	<5%	100%			<5%
3.1 Percentage change in value of export of Afghanistan agriculture products for firms supported by ACE	N/A	-	-	-	-	-	-			10%
3.2 Number of loans approved under USAID's DCA mechanism	-	-	-	-	-	1	0%			1
3.3 Number of public private partnerships formed as a result of USG assistance (including GDAs)	-	-	-	-	-	0	-			0
4.1 Number of conferences, workshops and other initiatives designed to foster increased credit to the agricultural sector	5	1	1	1	8	9	89%			10
4.2 Number of market information and market intelligence products created and disseminated by the established knowledge management	13	3	3	1	20	22	91%			25
4.3 Number of individuals trained by ACE in credit policy and operations, value chain strengthening, and market information syst.	15	19	1	55	90	47	191%	90	-	60
4.4 Number of person hours of training; including formal and practical training and technical visits	74	127	20	173	394	264	149%			320

Table 11: 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.)	630	630	630	-	-	-
6	Helmand Farm Service Store	1,489	1,489	1,489	-	-	-
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	-	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 nd loan)	718	718	232	-	-	-
21	Logar Farm Service Store	300	300	196	-	-	-
22	Qarizada Tomato Paste	800	800	-	1,000	1,000	1,000
23	Salahe Dekundiwal Brothers Agro Productions and Services Company	-	-	-	10	10	10

24	Helmand FSC (2nd Loan)	2,980	2980	-	-	-	-
25	Laghman FSC	645	645	78	-	-	-
26	Herati Cashmere	-	-	-	1,000	-	-
27	Afghan Rice Mill	100	100	46	500	-	-
28	Apple Association	400	400	38	-	-	-
29	Ghulam Dastagir Food Production Company	-	-	-	-	-	-
30	Sayel Food Processing Company	-	-	-	50	-	-
31	Taje Telayee Development Poultry Farm Cooperative	8	-	-	-	-	-
32	Nangarhar Nursery Growers' Association (NNGA)	20	-	-	40	-	-
33	Rabia Mariam Handicraft Company (RMHC)	-	-	-	2,000	-	-
SUB-TOTAL Agribusinesses		11,377	11,349	5,051	30,164	26,574	15,124
34	Afghanistan Almond Industry Development Organization	212	212	212	-	-	-
35	Eastern Region Fruit Growers Association	1,852	1,852	1,852	-	-	-
36	Durukhshan Bamyán Co-op	15	15	15	-	-	-
37	Kawe Tajik Bamyán Co-op	47	47	47	-	-	-
38	Koh-e-Baba Bamyán Co-op	10	10	10	-	-	-
39	Shahemardan Bamyán Co-op	59	59	59	-	-	-
40	Katway Bamyán Co-op	156	156	156	-	-	-
41	Shanbul Bamyán Co-op	74	74	74	-	-	-
42	Khwaja Sabz Posh Bamyán Co-op	22	22	22	-	-	-
43	Afghanistan National Seed Organization	4,270	4,270	4,270	86,087	86,087	86,087
44	Exporters' Loan (AAIDO)	-	-	-	400	-	-
45	Afghanistan Almond Industry Development Organization	1,149	1,149	883	-	-	-
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

46	Bamyan cooperatives	725	725	725	-	-	-
SUB-TOTAL NFI		8,591	8,591	8,325	86,487	86,087	86,087
47	Islamic Investment and Finance Cooperative Group	1,139	1,139	1,138	-	-	-
48	BRAC Bank	25	25	-	-	-	-
49	Afghan Growth Finance (AGF)/SEAF	181	-	-	34,200	-	-
SUB-TOTAL FI		1,345	1,164	1,138	34,200	-	-
GRAND TOTAL		21,313	21,104	14,514	150,851	112,661	101,211

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 reported in FY 2012.

Indicator #1.4 - During this quarter, the number of new jobs created expressed in Full-Time Equivalent is 122. This increase counts for the new jobs created by agribusiness comprising full time, part time and seasonal jobs. Unfortunately due to delayed disbursement, businesses such as Rabia Mariam Handicraft Company in Mazar-e-Sharif could not employ more women.

Table 12: New FTE Jobs Created in Q3 FY 2012

No	Type of FTE	Male	Female	Total
1	Full Time Jobs	58.65	0	58.65
2	Part Time Jobs	0	0	0
3	Seasonal Jobs	63.5	0	63.5
Total Q3 FY2012		122.14	0	122.14

Indicator #2.1– In quarter 3 ACE approved three new grants, one ADF Challenge Grant and two ACE Agricultural Modernization Grants for a total of \$385,800.

Table 13: New Grants Q3 FY 2012

No	Company	Purpose	ADF Challenge	ACE AG. Modern.	Start Date	End Date	Grant Amount
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Clients Sensitive Information

The ADF Challenge/Innovation Grants are being temporarily suspended due to the unavailability of ADF funds for lending. However the project is working to finalize another 10 ACE Agricultural Modernization grants for the next quarter.

Indicator # 2.2 – The new quarterly loan approvals resulted in new intermediaries for the ACE Program. Both the Nangarhar Nursery Growers' Association (NNGA) in Jalalabad and Taje Telayee Development Poultry Farm will make loans to farmers and members. With these two new borrowers, ACE stands at a total of 45 intermediaries.

Table 14: New participating intermediaries

No	Name	Intermediary Type	Province	District	Loan Amount
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Clients Sensitive Information

Indicator #2.3 – ACE launched four new innovative lending products during the reporting quarter. Wakala is a product that has been implemented with Ghulam Dastagir Food Production, Sayel Food Processing Company, Taje Telayee Development Poultry Farm Cooperative, and Rabia Mariam Handicrafts. Salam is being used with Sayel Food Processing Company for the construction of a warehouse; Murabaha is being used with NNGA and Rabia Mariam Handicrafts for business premises,

whereas Ijara is being used with Taje Telayee Development Poultry Farm Cooperative for breeder farms. In an Ijara transaction, ADF appoints the client to undertake the lease and own the asset. The ownership of the asset will be transferred to the ultimate beneficiary at the end of the lease.

Indicator # 2.4 – All the ADF loans approved and signed to date have been repaid on time, except for a portion of the loan to the Katway Bamyan Cooperative. Therefore, as of the time of this report, the % of ADF loan losses stand at .039%. (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 in FY2012. These results will be reported in the next annual report, due on October 31st, 2012.

Indicator # 3.2 - During this quarter there were no loans approved under USAID's DCA mechanism.

Indicator #3.3 – Even though ACE has already developed several proposals, there were no formal Public-Private Partnerships formed during this period. As per Modification No.9 of the Task Order, the project is not obliged to approve any new GDAs in the option year 2.

Indicator #4.1 –In the fourth quarter, ACE, in collaboration with Javed Afghan Wheat Thresher Company, an ADF client, organized a workshop on agricultural machinery with the participation of over 30 agricultural input dealers from several provinces. Descriptive information is provided in the Value Chain Strengthening section.

Up to this point, ACE has organized two agricultural credit working groups, four value chain specific workshops on onion, wheat, saffron and edible oil, one national summit on perishable logistics, and a workshop on agricultural machinery.

Indicator # 4.2 – The ACE MIS unit launched one product in the last quarter; the Agricultural Trade Reports for 1390. The product is disseminated through www.paywand.mail.gov.af and www.mail.gov.af. With these products, ACE stands at 20 market information and market intelligence products designed thus far. In the next quarter, ACE is aiming at launching five additional market information products including production calendars for specific crops.

Indicator #4.3 – In the last quarter ACE trained a total of 70 people from ACE/ADF, MAIL and the Agromet project, of which, 55 are first time participants in the capacity building opportunities offered by the project. As of now, ACE has exceeded the target by 91 percent.

Indicator # 4.4 –ACE provided 173.25 hours of training in six different topics including: agricultural value chain analysis, Islamic finance, database management for MAIL/MIS staff, and financial software by MicroBanker Nepal.

Table No 15: Training provided by ACE in Quarter 3 FY12

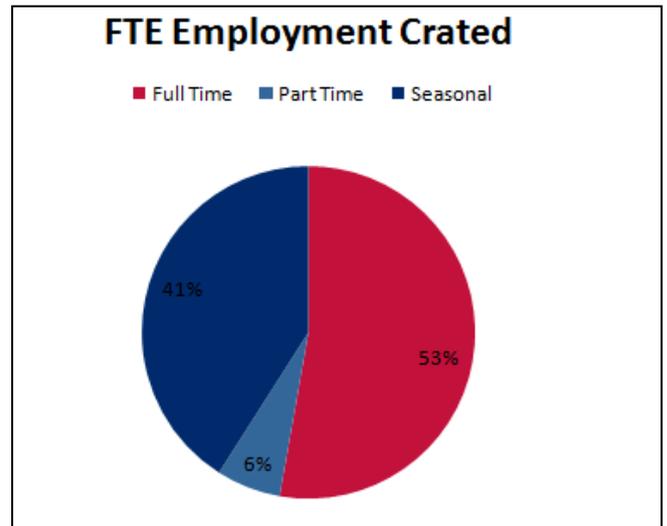
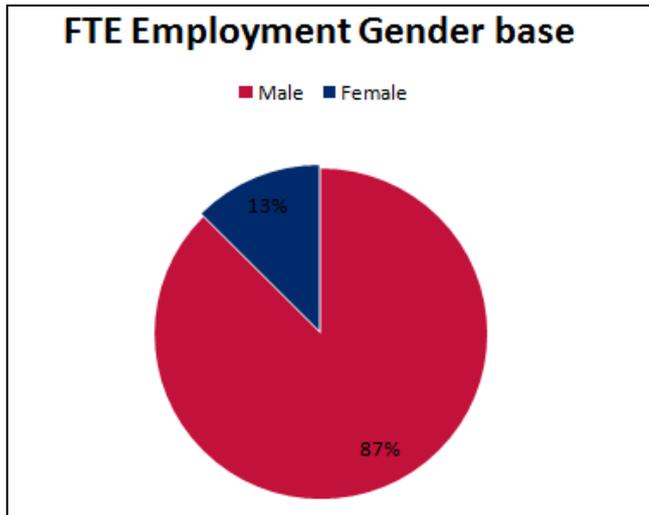
NO	TOPIC	Number of first time participants	Total Number of Participants	Location	Start	End Date	Hours
1	ACE Value Chain Training Workshop	14	14	ACE Office Kabul	08-Apr-12	30 -June 12	20.5
2	Islamic Finance Training for Lending Team	1	9	ACE Office Kabul	27-Apr-12	10-May-12	27.25
3	Paywand-Agromet training	28	28	Mazar	27-Jun-12	28-Jun-12	10.5
4	Micro Banker training	2	7	ACE Office Kabul	02-Apr-12	10-May-12	31
5	MS Access Database Development Training for MAIL/MIS Kabul	7	7	ACE Office Kabul	07-Jun-12	12-Jul-12	36
6	MIS Study Tour to Ghana	3	5	Ghana	12-May-12	19-May-12	48
Total		55	70				173.25

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 two indicators.

Table No 16: Sex-segregated Indicators with self-imposed targets

ACE Performance Indicators	Actual Q3 FY2012 (Cum.)	Target Q3 FY2012 (Cum.)
I.2 Number of individuals benefitting from ACE or ADF financial agreements/ Direct	14,531	20,000
Male	14,390	19,000
Female	141	1,000
I.4 Net total increase in Full-Time Equivalent (FTE) jobs created by USG sponsored agriculture activities	715	450
Male	648	405
Female	67	45



While ACE met and exceeded the sex-based targets on the number of jobs created, 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 17: Sex-segregated Indicators without targets.

ACE Performance Indicators	Q3 FY2012	FY 2012
1.1 Value of Finance Accessed	\$37,212,970	\$46,010,957
Male	\$36,827,970	\$45,325,957
Female	\$385,000	\$685,000
2.1 Value of Challenge/Innovation and Agriculture modernization grants approved.	\$1,398,916	\$1,756,296
Male	\$1,370,345	\$1,592,475
Female	\$28,571	\$163,821
2.2 Number of participating financial intermediaries and private intermediaries on lending funds from ADF	45	50
Male	44	47
Female	1	3
4.3 Number of individuals trained by ACE in credit policy and operations, value chain strengthening, and market information system.	90	189
Male	90	175

ACE Performance Indicators	Q3 FY2012	FY 2012
Female	0	14

Impact Level Figures

Impact figures on the percentage change in income for the farmers benefiting from the ADF lending activities will be presented by the end of the fiscal year (2012). Below are some impact figures focusing on several specific loan programs. ACE will undertake specific impact evaluation activities starting in September, 2012.

Javed Afghan Thresher Company

Javed Afghan Thresher Company is one of the first large-scale manufacturers of wheat and rice threshers and farm trailers. The company received an ADF loan of \$300,000 in October of 2011 which enabled it to increase the wheat and rice thresher production from 310 in the previous year, to 400 threshers. The company created 67.5 new jobs (in FTEs), increased production by 41 percent, and total annual sales by 64 percent.

After successfully repaying the first loan, Javed Afghan Thresher Company received a second ADF loan of \$900,000 to expand its market to other provinces of Afghanistan. After the initial six months of the loan implementation, the company created 36 new jobs and increased its production by 58 percent in comparison with the previous year. The company has produced 360 wheat threshers and 105 trolleys until now and has sold them all over Afghanistan. Javed Afghan Thresher Company is expanding its market by investing in promotion and live demonstrations to farmers and potential buyers in key regions. Reaching more provinces will enable the company to increase its market share and compete with imported threshers and agricultural machineries.

Hamid Flour Mill

The ADF loan of \$1.97 Million USD enabled the company to repay a commercial loan and to expand their business overall. 15 months after the disbursement of the loan, the company has created 15.6 new jobs (in FTEs), increased the total production of flour by 74 percent and increased total sales by 68 percent. The company has purchased wheat from about 125 farmers from the northern region.

Season Honey

Season Honey Processing and Packaging Company received an ADF loan of \$100,000 USD to purchase 33,000KG of raw honey from 300 beekeeping farmers in the Nangarhar region. After the completion of the loan, the company created 22 new jobs (in FTEs) and increased total production by 34 percent. The loan helped the company by increasing the total sales by 31 percent. The company has indirectly supported over 150 beekeepers to date and has expanded its markets to new provinces such as Balkh, Kunduz, Takhar, Baghlan, and Kandahar.

Sanaizada Edible Oil Company

The Sanaizada Edible Oil Company received a \$200,000 ADF loan for working capital and to purchase new technology to improve edible oil production. Almost one year after the disbursement of the loan, the company created 44 new jobs (in FTEs) and increased total production by 28 percent. The loan resulted in a 49 percent increase in total sales for the company.

Samsoor Ban Company

Samsoor Ban Company received a \$244,000 ADF loan to import agricultural inputs, fruit saplings, sprayers and tools, and then sell these items to farmers. Six months after the loan disbursement, the company created 62.40 new jobs (in FTEs) and increased total sales by 42.66 percent compared to the previous year.

Ghoryan Women Saffron Association

The Ghoryan Women Saffron Association is a women-led organization based in Ghoryan district of Herat province. The association has a total of 485 women members, of whom 178 are involved in saffron production. The Ghoryan Women Saffron Association purchases saffron flower from its women saffron grower members, then processes, packages and sells it in domestic and international markets. After the first six months of the loan disbursement, the association increased its total sales by 48 percent and created 6.60 new jobs (in FTEs). The loan resulted in a 65 percent increase in the total amount of saffron purchased from its members. The loan helped the association to increase its sales price by 38.8 percent compared to the previous year when its members were not able to sell the saffron in the Kabul markets.

The ADF loan of \$155,000 provided opportunity for 117 women members of the association to sell their saffron for a higher price as they have stronger negotiating power having capital to pay growers for the harvest without having to not sell in advance at a lower price.

Shir Ali Yaqoobzada Company

Shir Ali Yaqoobzada Company is one of the largest exporters of fresh and dry fruits in Afghanistan. The company exports red raisin, dry figs, pistachios, walnuts, almonds and fresh fruits to wholesale markets in Dubai, Turkey, Pakistan and India. The company exported 258 Mt of fresh fruits last year. Six months after the disbursement of the loan, the company created 20.25 new jobs (in FTEs) and increased fruit exports by 16.8 percent to Dubai and Indian markets. The company increased its total sales by 35 percent compared to last year.

Communication and Outreach

In the past quarter, ACE contributed to the organization of the Mazar Business Fair with a Golden Sponsorship for the event. The business fair, which took place on April 15, provided an opportunity for the ADF and its clients to promote their business, as well as for the ADF to launch its lending opportunities and products for the agricultural sector. The team worked with the media and prepared the talking points for the opening ceremony.

In April, the team designed a news brief that focused on Sharia Compliant Services and published a brochure on Sharia compliant lending including a framework, the prohibitions, the products, and Sharia principles implemented by ACE/ADF. The brochure is printed in three languages, Dari, Pashto and English. In May, the project published the monthly news brief entitled "Counting the next Billion." The brief focuses on the ADF disbursement of 1 Billion Afghanis benefiting approximately 13,000 farmers and provides testimonies from clients on the impact of the ADF loans on their business.

The news brief of June entitled "Islamic Finance: a Fair Deal" aimed at increasing clients' awareness of the ADF's ability to provide Sharia compliant loans. During the past six months, the ADF has seen an increased demand from its clients for Islamic financial solutions to the extent that currently, 50% of all new financial transactions are Sharia compliant. To cater to this demand, ADF has introduced a range of new Islamic financial products such as Murabaha and Wakala. While Islam encourages the generation

of wealth via trade and investments, all dealings must be honest, fair, and transparent. Goods need to be sold in the open market and parties should not take advantage of each other's helplessness.

In addition, during the reporting period, ACE prepared two client video and photo sessions with Season Honey Processing Company and Javed Afghan Wheat Thresher in Jalalabad. This constitutes a client testimony under the initiative "A Word from our client," that ACE has been developing in the last year. The project launched two ADF radio public announcements (PSAs) to encourage the EFGA farmers to repay their first loan.

The Agricultural Credit Shuras, which were organized in Panjsher, Kunduz, Farah, Faryab, Paktika, provinces, constitute one of the most effective ways of increasing general awareness on ADF financing opportunities and identify new clients.

In partnership with MAIL/Public Relations and Media Department, ACE submitted a media advisory for the Graduation Ceremony of MAIL's first Value Chain Analysis specialists, trained by ACE. The event will take place in early July in collaboration with MAIL.

Administrative and Human Resources

In the reporting quarter, ACE not only put a great deal of efforts in building the capacities of the existing technical staff but also hired 11 local staff members to fill positions on the project. The team hired, two lending officers, two internal auditors and two customer service officers, of which one is a woman. In addition, one grants coordinator, one Islamic finance manager, one procurement specialist and a monitoring and evaluation officer joined the ACE team.

During the past month, the project promoted two female personnel, Nilab Akrami and Khatija Safi to the positions of IT Specialist and Value Chain Strengthening Advisor, respectively.

David Fischer arrived in the country in the previous quarter to assist ACE on value chain analysis and conduct capacity building activities for ACE/ADF and MAIL staff. His STTA assignment was completed in early July after the graduation ceremony of 14 DAIL value chain strengthening staff. Michael Alcorn, Finance and Risk Assessment Expert joined the team to develop structured credit assessment tools, design guidelines and reporting templates. Rob Dressen, DAI Vice President and Senior Banking Advisor joined ACE with the fundamental objective of leading the discussion on the ADF transition and governance structure with MAIL and USAID. Mr. Dressen also provided training and coaching to the lending staff. Doe Adovor, Senior Economist was deployed to Kabul on June 19th to conduct the Data Analysis and Economic Report Writing for ACE and MAIL staff throughout July to August.

TABLE 18: Afghan National personnel deployed during Quarter 1 FY2012

No.	Name	Position	Start Date
1	Saifullah Esmatullah	Internal Auditor	3-Jun-12
2	Mohammad Taib	Islamic Finance Manager	3-Jun-12
3	Ataullah Mohmand	Sr. M&E Specialist	3-Jun-12
4	Abdul Wahid	Sr. Lending Officer	3-Jun-12
5	Samiullah Ehsas	Customer Service Officer	20-Jun-12
6	Tahmina Hassil	Customer Service Officer	24-Jun-12
7	Obaid Rahman	Internal Auditor	08-May-12
8	Haseebullah Jabarkhail	Grants Coordinator	08-May-12
9	Mohammad Mansoor	MIS Officer	21-May-12
10	Jamshid Karimi	Junior Lending Officer	23-May-12
11	Mohammad Munir	Procurement Specialist	24-May-12

TABLE 19: Expatriate personnel deployed during Quarter 3 FY2012

No	Name	Position	Date
1	Michael Alcorn	Credit Risk Assessment Advisor	12- April -12
2	Robert Dressen	Senior Banking Advisor	28-April-12
3	Doe Adovor	Senior Economist	19-June-12
4	David Fischer	Value Chain Strengthening Advisor	March – July 12

ACTIVITIES FOR THE NEXT QUARTER

- In the next quarter, ACE aims to resolve the issue of the ADF legal license and expedite the process of on-the-budget disbursement.
- ACE will present loan packages worth over \$30 million USD to the ADF Credit Committee meeting.
- The Sharia Advisory Board of highly educated scholars and practitioners will be inaugurated in early July.
- The project will undertake several training courses in credit, data analysis and economic report writing, Dale Carnegie training courses on “Communication skills for managers”, “Creating a Professional Demeanor: How to look, Act, and Sound like a professional” and “Building a Great Team”. These activities aim at building the capacity of the executive team that will manage the ADF.

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

Name of Business	Province	District	Amount (\$)	Type of business	Start Date	End Date	Actual Amount Disbursed	Repayment amount expected to date (\$)	Actual repaid to date (\$)	% repaid	\$ Value late by 180 days or more
Clients Sensitive Information											
Total Loan Approved							37,212,969.68				
Total Loan Disbursed							21,505,726.20				
Total Loan Repaid							7,417,394.39				
Total Value of Loans late by 180 days or more							\$5,430.11				

$$\text{Portfolio loan losses} = \frac{\text{Total Value of loans late by 180 days or more}}{\text{Outstanding}^*} \% = \frac{5,430.11}{14,088,331.81} \% = 0.039\%$$

*Outstanding = Disbursed amount – Repaid amount