



## AGRICULTURAL CREDIT ENHANCEMENT (ACE) PROGRAM

QUARTERLY REPORT Q3 FY 2011

APRIL 1 – JUNE 30, 2011



Photo: H.E. Minister Mohammad Asif Rahimi of MAIL distributing fertilizers on credit to a commercial potato grower member of the Katway Bamyān Cooperative in Bamyān province. ACE/ADF is assisting seven potato cooperatives in Bamyān with a loan of \$927,749 which has benefitted 383 farmers to date in Bamyān.

# QUARTERLY REPORT

## QUARTER 3, FISCAL YEAR 2011

Program Title: Agricultural Credit Enhancement Program

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

Contractor: Development Alternatives, Inc.

Date of Submission: July 31, 2011

Contracts Officer Technical Representative: Ali Ahmad

Contracting Officer: Nataliya Holl

Chief of Party: Juan M. Estrada-Valle

# CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>4</b>
<b>Component 1: Delivery of Credit Services.....</b>	<b>6</b>
<b>Component 2: Agricultural Modernization and Value Chain Development .....</b>	<b>15</b>
<b>Gender Issues and Grants.....</b>	<b>16</b>
<b>Policy Framework .....</b>	<b>17</b>
<b>Component 3: Coordination and Knowledge Management .....</b>	<b>19</b>
<b>Performance Management .....</b>	<b>20</b>
<b>Administrative and Human Resources .....</b>	<b>29</b>
<b>Financial Reporting.....</b>	<b>30</b>
<b>IMPLEMENTATION CHALLENGES .....</b>	<b>31</b>
<b>ACTIVITIES FOR THE NEXT QUARTER .....</b>	<b>31</b>

## EXECUTIVE SUMMARY

By the end of the third quarter, the Agricultural Credit Enhancement (ACE) Program has directly benefitted 5,528 farmers in 17 different provinces of Afghanistan. To accomplish this, ACE has worked with, and through, fourteen different intermediaries to extend credit to farmers. \$16 million USD has been formally approved by MAIL and USAID, whereas approximately \$4 million USD is pending the final MAIL Minister approval. At the end of June, the project had a pipeline of \$18.4 million USD in prospective loans which will be reviewed in the next two months.

During the reporting quarter, ACE organized two public events for the distribution of agricultural inputs on credit to members of the Eastern Region Fruit Growers Association (EFGA) in Nangarhar Province and members of seven potato cooperatives in Bamyan. These activities were attended by H.E Deputy Minister Ghuriani of MAIL in Jalalabad; H.E. Ambassador Eikenberry, H.E. Minister Rahimi, and H.E. Sarabi Governor of Bamyan in Bamyan. Minister Rahimi expressed his appreciation for the ACE/ADF work on extending credit to commercial farmers, who according to MAIL, are discriminated against by the commercial banks.

ACE promoted the Murabahah markup sharing Islamic financial product for the loans approved for Eastern Region Fruit Growers Association, Season Honey Processing Company and Afghanistan. The project is designing another product, Murabahah –profit sharing, for new borrowers such as Sayed Jamal Flour Mill and Red Gold Saffron Company. These products will be launched in the next quarter when the loans are formally approved by MAIL and USAID.

The ADF Credit Committee approved the loan package for Afghan Dost Sharq, a poultry company, worth \$3,750,000 to finance the purchase of equipment. The loan is currently awaiting the MAIL Minister's approval. The loan package for Sayed Jamal Flour Mill was presented twice to the ADF Credit Committee in this past quarter as well. To address the concerns expressed by the ADF Credit Committee, specifically the risks associated to potential fluctuations of wheat prices due to conflicting factors such as an anticipated reduction of local supply and the uncertain nature of wheat imports; the ADF proposed to reduce the loan from \$3 million to \$2

## ACHIEVEMENTS

APRIL – JUNE 2011

- OBTAINED MAIL/USAID APPROVALS FOR US \$16 MILLION IN LOANS TO FINANCIAL AND NON-FINANCIAL INTERMEDIARIES
- BENEFITTED DIRECTLY 5,528 FARMERS THROUGH AGRICULTURAL INPUTS ON ADF CREDIT AND ADVANCE PAYMENTS
- A LOAN FOR US \$4.9 MILLION TO THE AFGHANISTAN NATIONAL SEED ORGANIZATION WILL DIRECTLY BENEFIT 93 SEED COMPANIES AND OVER 3,000 SEED PRODUCERS ACROSS AFGHANISTAN
- SEVEN LOANS FOR A TOTAL OF US \$926,000 TO POTATO PRODUCING COOPERATIVES IN BAMYAN ALLOWED 383 COMMERCIAL POTATO GROWERS TO PURCHASE HIGH-QUALITY SEED AND FERTILIZERS, THEREBY IMPROVING THE COMPETITIVENESS OF THEIR PRODUCE
- 1,852 COMMERCIAL FRUIT GROWERS FROM KUNAR, LAGHMAN AND NANGARHAR PROVINCES, MEMBERS OF THE EASTERN REGION FRUIT GROWERS ASSOCIATION RECEIVED A LOAN FOR US\$500,000 TO PURCHASE AGRICULTURAL INPUTS
- LAUNCHED A MODIFIED VERSION OF MURABAHA AS A FINANCIAL PRODUCT AIMED AT THE PROVISION OF CREDIT FOR THE PURCHASE OF AGRICULTURAL INPUTS
- SIGNED AN AGREEMENT WITH M-PAISA FOR THE USE OF MOBILE BANKING SERVICES FOR LOAN REPAYMENT
- DEVELOPED AND LAUNCHED THE CONCEPT OF CREDIT MANAGEMENT UNITS (CMUs) AS SUPPORT MECHANISMS FOR NON-FINANCIAL INTERMEDIARIES
- LAUNCHED THE AGRICULTURAL CREDIT SHURA TO CREATE AWARENESS FOR ADF LENDING OPPORTUNITIES AND ISLAMIC COMPLIANT PRODUCTS

million USD. The loan request submitted by Dr. Abdul Wakil Farmers Association of \$230,000 USD was approved by the ADF Credit Committee and will be formally endorsed by MAIL in the next week. These three loans, once approved by MAIL will bring the total ACE/ADF loans to \$22 million USD.

ACE signed a Memorandum of Understanding with Afghan Growth Finance (AGF) to bring in a consulting company and prepare a business plan for the establishment of a Subsidiary Leasing Company. Afghan Growth Finance is a financial institution located in Kabul, interested in a \$10 million USD loan for leasing to the agricultural sector. For this purpose, the ADF may assist the company with a challenge grant, should their loan be approved.

Through two separate ADF challenge grants, ACE financed and supported the establishment of the Credit Management Units in the Eastern Region Fruit Growers Association (EFGA) and the Afghanistan National Seed Organization (ANSOR). The purpose of these grants is to increase the capacity of non-financial intermediaries, through staffing and training, to establish and operate functional units responsible for disbursing loans to farmers and collecting repayments. During the last quarter, the ANSOR CMU hired three positions, whereas EFGA hired for seven positions. ACE also assisted in establishing the ANSOR Credit Committee, a body of representatives from ANSOR and ADF which review the loan applications of the individual seed enterprises. In June, the ACE lending and value chain advisors assisted the applications of 16 seed enterprises in the Eastern and Northern regions of Afghanistan. As of June 30, the ADF/ANSOR loan had enabled 16 seed enterprises to advance payments to 643 farmers.

Throughout the third quarter, the Value Chain Strengthening unit carried out a three folded mission: 1) assist the lending team to assess the technical feasibility of loan packages in the pipeline; 2) assist with the implementation of ADF lending activities through value chain information such as identifying high quality seeds and fertilizers to boost yields and agricultural production as a whole; and 3) assist ADF borrowers with sales and the penetration of new markets. The value chain team took a leading role with the implementation of ANSOR loan to seed enterprises by conducting field inspections and assisting in the preparation of the loan applications for individual seed enterprises based on the production data collected in the field.

The Market Information unit published the new market brief on melons/watermelons and prepared the 2010 (1389) Agricultural Trade Report for Afghanistan. The unit has shown exponential progress in the development of the Knowledge Management Facility (KMF) (in Dari: PAYWAND) which will host agricultural and meteorological data and specific agricultural studies carried out by several development programs. The KMF will be launched by mid September 2011.

The Monitoring and Evaluation Unit conducted due diligence through field monitoring and inspections for the distribution of the ADF loans to the end borrowers, particularly focusing on farmers. Distribution of agricultural inputs to members of AAIDO, EFGA and Bamyān potato cooperatives yielded positive results, showing that the program's non-financial intermediaries have operated effectively.

Finally, ACE launched the Agricultural Credit Shura as an instrument of enhancing awareness for ADF lending opportunities and Islamic compliant financial products. The first shura was held in Kabul with representatives of the dried fruit traders association followed by another shura in Logar in June. Additionally, three more are scheduled to take place in Mazar on 26 July, Paktia on 8 July and in Bamyān province within the next few months.

## 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.*

Less than a year after its inception, ACE has received final approval for \$16 million USD in ADF loans that, up to this point, have directly benefitted 5,528 farmers. \$5.96 million USD have been disbursed to financial, non-financial intermediaries and agribusinesses across Afghanistan covering 18 provinces. Provided the availability of funds, ACE will lend \$32 million USD, benefitting over 10,500 farmers by the end of the fiscal year. During the reporting period, the project actively engaged in the introduction of innovations in the area of Islamic finance and raised awareness about the ADF Sharia compliant lending opportunities through Agricultural Credit Shuras (in Dari: Council) while maintaining a 100 percent repayment rate, highly unusual in Afghanistan.

While the project is making inroads in the provision of credit to farmers, there are a series of reasons that prevented it from reaching the targets set by the Task Order for contract year 2010-11. These reasons are mainly associated to the assumptions on which the project was designed, they included:

- ***At the right price commercial banks and other financial institutions will engage in agricultural lending.*** While ACE did not disprove the economic theory, the risk faced by Afghan financial institutions transcends those of a weak institutional environment, high transaction costs and obstacles for contract enforcement. With a large proportion of banks on the verge of closure due to high portfolios at risk, risk averseness has made the “right price” in fact prohibitively high.
- ***ACE will provide large loans to financial and non-financial institutions, and a very small number of direct loans to agribusinesses.*** The lack of willingness of the financial sector made ACE rely heavily on non-financial institutions with no experience in credit management, hence giving rise to a series of innovations to build their capacity, have a grip on their credit management activities and ensure the repayment of loans.
- ***The government will register the Agricultural Development Fund in the months following the inception of the project.*** Ten months after the inception of ACE the ADF is not registered, despite the fact that ACE provided the government with the “registration package” in December of 2010. For this reason DAI has had to take risks beyond the usual as a way to perform and deliver results in an environment of ubiquitous adversity and uncertainty.
- ***Innovation grants will encourage financial institutions to design and launch Sharia-compliant financial products.*** In the absence of financial institutions interested in on-lending ADF funds, and in an environment in which non-financial intermediaries would not take conventional loans, ACE had to “teach itself” and create in house capacity for the development of Sharia financial products with outstanding results.
- ***MAIL will concur with the policies and procedures prepared by ACE and would adhere to them, allowing for a systematic loan approval process.*** Seven months following the submission of the policies and procedures MAIL has not approved them. The Ministry has also unilaterally rejected loans over \$7 million USD approved by ADF Credit Committee, thereby negatively affecting the ability of the project to meet its targets.

However, despite these limitations, the spring planting season coinciding with Quarter 3, and constituted an important revamp in ACE/ADF loan disbursements to end borrowers, particularly to commercial farmers. ACE organized two public events for the occasion of the distribution of agricultural inputs on credit to farmer members of the Eastern Region Fruit Growers Association (EFGA) in Jalalabad and the Bamyan potato Cooperatives in Bamyan Province. On April 23, ACE/ADF in collaboration with the Ministry of Agriculture, Irrigation and Livestock (MAIL) and the Provincial Government of Nangarhar, distributed high quality fertilizers to orchard farmers from Nangarhar, Kunar and Laghman provinces, all members of Eastern Region Fruit Growers Association (EFGA). The



**Photos: Deputy Minister Ghuriani of MAIL distributing fertilizer on credit to members of EFGA in Nangarhar Province. Deputy Minister Ghuriani during his speech at the public event organized in Jalalabad on the occasion of the distribution of fertilizers on credit to EFGA members through an ADF loan.**

Governor of Nangarhar, H.E. Gulaqa Sherzai, and H.E. Abdul Ghani Ghuriani, Deputy Minister of MAIL, attended the event and engaged in the distribution of fertilizers while farmers signed loan agreements with the EFGA. The ADF loan, worth \$500,000, is benefiting 1,852 fruit producers members of the EFGA. Every farmer received about \$270 worth of fertilizer on credit. This loan will allow the 1,852 fruit farmers to increase productivity; and thus increasing the total output by 10 percent. ACE/ADF, through its Value Chain Strengthening Unit, in collaboration with IDEA-NEW will also provide technical assistance in crop production, quality control and market development to the borrowers to ensure the success of their ventures and the repayment of the loans. After the conclusion of the event, the ACE/ADF team and Deputy Minister Ghuriani paid a visit to Javid Afghan Thresher Company in Jalalabad which, through an ADF loan of \$300,000, is manufacturing 400 threshers that will benefit a minimum of 8,000 farmers during the upcoming harvest season.

H.E. Karl Eikenberry, Ambassador of the United States of America to Afghanistan, H.E. Mohammad Asif Rahimi, Minister of Agriculture, Irrigation and Livestock, and H.E. Sarabi, Governor of Bamyan participated in the distribution of agricultural inputs on credit to commercial potato growers of seven cooperatives in Bamyan. The dignitaries symbolically handed over seeds and fertilizers to members of Bamyan Potato Cooperatives throughout the event. While the productive potential of the potato crop under the agro-ecological conditions of the region is around 5-7mt/Jerib, potato yields in Bamyan are currently only of 3-4mt per Jerib. The shortfall is partially due to the inability of farmers to procure quality seeds and apply the appropriate doses of fertilizer, which ADF is assisting to address. Thus the ACE/ADF loan assisted members of the seven cooperatives by granting them the opportunity to use high quality fertilizers and seeds to increase potato yields. Members of the seven agricultural cooperatives received an estimated US \$423 per Jerib in potato seeds and fertilizer on credit. In his speech, Minister Rahimi emphasized the progress made by ADF to extend credit to farmers who typically do not have opportunities for borrowing due to the high interest rates offered by the banks. The Minister highlighted that the ADF has been doing this in other locations such as in Nangarhar, in the South and North of the country as well, making available Sharia compliant financial services.

The Ambassador of the U.S., H.E. Karl Eikenberry, praised the program emphasizing the importance of extending credit to the Afghan farmers.



Similarly, the distribution of agricultural inputs to 212 members of Afghanistan Almond Industry Association (AAIDO) was completed in April. Almond growers in Balkh, Kunduz and Samangan received agricultural items such as urea, NPK fertilizers, pruning equipment, and backpack sprayers.

During the last quarter, the ADF Credit Committee approved three loans for the Afghanistan National Seed Organization (ANSOR); Season Honey Processing Factory and Afghan Dost Sharq Company. The ANSOR loan consists of a line of credit of \$4.95 million USD to purchase wheat on a cash basis. The loan contract between ANSOR and the ACE program was signed in May and to date it has benefitted 643 certified wheat seed producers from Kunduz Province. Through September, the ANSOR loan will benefit approximately 3,000 farmers across Afghanistan.

ACE signed the Heads of Terms with Season Honey; a medium-scale honey processing company located in Jalalabad, and also disbursed the funds. The total amount of the line of credit is \$100,000, it will be used for the purchase of an additional 33,300 Kilograms of raw honey from beekeepers in the provinces of Kunar, Laghman and Nangarhar. The ADF Credit Committee approved a new loan for Afghan Dost Sharq Company of \$3,730,992. The loan was requested to purchase working capital, for the construction of pullet house and breeder, broiler farms, hatchery and a feed mill. The loan is still awaiting the MAIL Minister's approval.

The loan package for Sayed Jamal Flour Mill has been reviewed twice by the ADF Credit Committee and will be submitted again at the next meeting. The MAIL representatives have requested the loan be modified and amount decreased. The company is a flour mill located in Mazar-e-Sharif that has requested a loan of \$3 million to buy wheat, benefiting about 1,700 farmers. To address the concerns raised by the ADF Credit Committee members at the meeting on July 5<sup>th</sup>, specifically the risks associated with price volatility and unreliable supply of wheat, the ADF proposed the loan be reduced to \$2 million USD. The new proposal is for the loan to be combined as \$1 million USD being on-lent to farmers to plant for the fall season and the other \$1 million USD as working capital for the company to buy wheat in the local market. The Sharia compliant 3-year term loan would enable the company to double the production capacity of the mill and provide full-time jobs for about 50 people.

*TABLE I. The Results of ADF Credit Committee Meetings Held During the Reporting Quarter*

<u>Meeting Number</u>	<u>Date of Meeting</u>	<u>Loan Application</u>	<u>Amount</u>	<u>Decision</u>	<u>Notes and Comments</u>
<b>Clients Sensitive Information</b>					

\*The 14<sup>th</sup> and 15<sup>th</sup> ADF Credit Committee meetings do not belong to Quarter 3 FY2011. They were held during the fourth quarter and are provided here for introduction purposes.

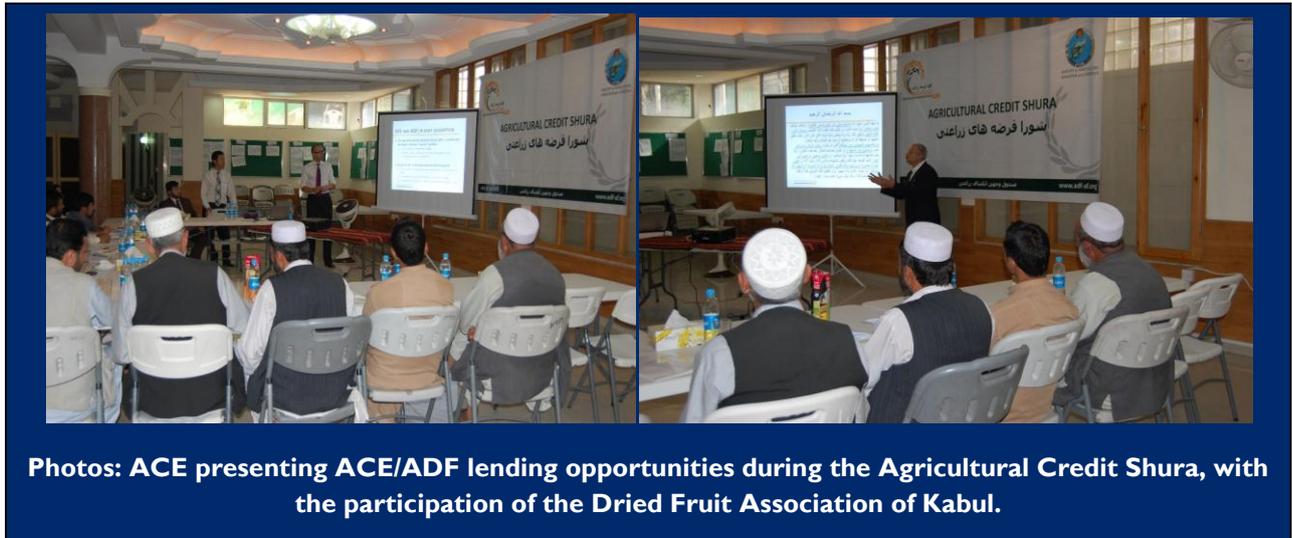
The loan package for Dr. Abdul Wakil Farmer Association was approved by the ADF Credit Committee and is expected to receive the formal MAIL Minister approval by mid-July 2011. The association is located in Wardak and requested a loan of \$230,000 with the purpose of buying apples from 60 commercial farmers.

ACE signed a Memorandum of Understanding with Afghan Growth Finance (AGF) to bring in a consulting company and prepare a business plan for the establishment of a Subsidiary Leasing Company. The program has signed a contract with Flag International to provide consulting services for AGF and doing a feasibility study for the establishment of a leasing unit. The company is interested in \$10 million USD loan for leasing to the agricultural sector. If approved by MAIL/USAID, this loan will provide a valuable experience for ACE working with a financial institution at this scale.

One of the main assumptions under which ACE was designed to operate was that the Innovation Grants would encourage financial institutions to design and launch Sharia-compliant financial products. In the absence of financial institutions interested in on-lending ADF funds, and in an environment in which non-financial intermediaries would not take conventional loans, ACE has “taught itself” and created in house capacity for the development of Sharia financial products with outstanding results. For this reason, by using internal capacities, ACE has taken the lead in designing Sharia compliant financial products for its borrowers. Until now, ACE has used: 1) Sharia Compliant Factoring for the Agriculture sector, a product used with Kunar and Helmand Farm Store Service centers; 2) Murabahah – Sharing Markup for agriculture, the product is used with Eastern Region Fruit Growers Association (EFGA), Season Honey, and Afghanistan Almond Industry Association (AAIDO); 3) Murabahah – Sharing Profit for agriculture. This product was designed for Sayed Jamal Flour Mill and Red Gold Saffron companies; however the loan packages are not formally approved yet. ACE is looking at the opportunities to involve an external consultant to work on Islamic compliant lending products for the agricultural sector in Afghanistan.

At the end of June 2011, ACE had disbursed \$5.97 million in loans to agribusinesses, financial and non-financial intermediaries. The disbursement for agribusinesses is complete, except for Hamid Flour Mill which will receive the last portion of the \$1.97 million in the next few months. Only in June, ACE disbursed \$1,440,620 to 16 seed enterprises in the Kunduz and Eastern Region. By mid-July ACE is planning to disburse an additional \$1,995,000 to seed enterprises in Balkh, Takhar and Baghlan province. This disbursement will take the overall ACE disbursements to \$7.9 million by mid-July 2011.

On June 26th, the project began using Agricultural Credit Shuras to create public awareness of the ADF opportunities to potential end borrowers. The first presentation was for 25 members of the Dried Fruit Traders Association of Kabul. The audience expressed interest in ADF’s lending products, especially those meeting Sharia principles. The association exports between 75 and 80 percent of their product to India and the rest to the E.U. and U.S., and are interested in expanding their business. The participants showed greater interest on direct loans to individual enterprises than to the association. In July, the Agricultural Credit Shura will travel to Paktya, Paktika, Bamyán, Laghman and Balkh provinces to introduce the ADF Islamic compliant lending opportunities.



**Photos: ACE presenting ACE/ADF lending opportunities during the Agricultural Credit Shura, with the participation of the Dried Fruit Association of Kabul.**

### Credit Management Units

As ACE penetrated the credit market associated with non-financial institutions, the project identified the need to build the capacity of those organizations to administer loans, including disbursement, credit administration and collections. In response to this need, ACE developed the concept of Credit Management Units, or CMUs, which constitute independent entities within these organizations that conduct due diligence and protect the integrity of the financial intermediary, while helping ACE to reduce the risk brought about by potential corruption or default.

The CMUs, which now constitute standard operating practice when lending to non-financial institutions, are generally funded through a combination of challenge grants and the interest markup of the financial intermediary.

### Internal Audit and Compliance

Throughout the past quarter, the Internal Audit Unit assisted the project through carrying out pre-audits, risk assessments and financial audits for loan packages in the pipeline. Pre-audit assessments were conducted for Samsoor Ban Agriculture Services Company, Dr. Abdul Wakil Farmers Association, operating in Wardak province; Mehman Packaging Company and Season Honey Processing Company. The pre-audit assessment of Sayed Jamal Flour Mill in Mazar concluded that the company can be a reliable business partner for ADF. The company is applying for a loan of \$3 million, \$1 million to directly support farmers and \$2 million to be used as working capital to purchase wheat during the



**Photo at the Left: ACE audit team meeting with the owner of Sayed Jamal Flour Mill in Mazar-e-Sharif. Photo at the Right: View of daily operations at Samsoor Ban Company, a Kabul-based agriculture input company which has requested an ADF loan to import agricultural inputs.**

current year. The company plans to disburse \$2 million to farmers in the second year. ACE designed a Murabahah profit sharing plan for the flour mill. ACE's Internal Audit unit completed a pre-audit report for Shir Poor Soltany Flour Mill, operating in Mazar-e-Sharif. The company was scored as 'Medium Risk'.

Also, the team developed the Finance Audit Tool (FAT) which will be used for the financial auditing of the Kunar and Helmand Farm Stores and designed the Finance Evaluation Tool (FET). The financial evaluation tool was developed to assist ACE clients in making proper financial statements and maintaining appropriate financial records. ACE signed the Murabahah Sharia product understanding for Season Honey and also undertook a financial audit for the Kunar and Helmand farms stores.

The team conducted the financial audit for Osiyo Hamkorlik Trading Co. in Mazar; and the Eastern Region Fruit Growers Association (EFGA) and Season Honey Processing Factory, both located in Jalalabad, Nangarhar province.

ACE conducted risk assessments for Shir Poor Soltani Flour Mill and Taizada Co. Ltd based in Mazar-e-Sharif. The monitoring and evaluation and audit teams made a joint inspection mission to Bamyān to verify the distribution of inputs as part of the loan to potato growing cooperatives and to conduct a financial audit of the organizations. The audit team participated in the fertilizer vendor selection process with the EFGA in Jalalabad aiming at ensuring compliance with procurement procedures and regulations. Internal audit advisor delivered a short training session on Islamic Finance to the IDEA-NEW business development staff in Mazar-e-Sharif and to ACE's national lending advisors.

# SUCCESS STORY

## Nurturing the Seed Industry



*“This loan will help us pay over 3,000 seed growers on time, bridging a seven-month gap...this is the first step towards making certified wheat seed production an attractive business”*

**Saidajan Abdiani, President of ANSOR**

**USAID’s credit program support is supporting the growth of Afghanistan’s seed industry**

This summer over 50 agribusinesses and 3,000 wheat seed producers will have access to credit through USAID’s agricultural credit program.

Agricultural Development Fund (ADF) provided a line of credit of \$4,950,000 for the Afghanistan National Seed Organization (ANSOR). This loan will enable most of the 93 seed companies, members of ANSOR, to pay their contract seed producers upon delivery, as opposed to 6-7 months later as this was the common practice previous. The primary beneficiaries of ANSOR will be over 50 seed enterprises and approximately 3,000 contract certified seed producers.

Traditionally seed producers would deliver the wheat seed to the seed companies in the period of May-July and would not receive their payments until February, which constitutes an economic disincentive and prevents seed producers from purchasing the appropriate quantities of inputs for the fall planting season. Thus, by bridging this gap, the ADF loan introduced an incentive for seed growers to participate in contract production with seed companies, while allowing them to procure the inputs required for the production process.

The loan will finance the purchase of around 10,000 MT of seed to plant some 430,000 jeribs of land (around 210,000 acres). This is expected to provide local markets with approximately 170,000 MT of grain that will feed over 1 million Afghans nationwide.

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

The ADF was established with a \$100 million USD grant to the Government of Afghanistan. During the first four years, the US government is also providing the Afghan government with technical assistance for the

management of the fund through the Agricultural Credit Enhancement (ACE) Program.

**ADF LOANS APPROVED AND DISBURSED TO END BENEFICIARIES**

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

<b>Loan Pipeline Tracker Report</b>										
<u>Borrower</u>	<u>Loan Type FI, Direct, NFI, NBFI</u>	<u>Region</u>	<u>Loan amount requested</u>	<u>1st Visit</u>	<u>Other Visits</u>	<u>Next Mtg</u>	<u>Regional Office</u>	<u>Probability</u>	<u>Loan Application Stage</u>	<u>Notes and Comments</u>
<b>Clients Sensitive Information</b>										

## 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 Value Chain Strengthening Unit achieved results along its three main areas of intervention. The component 1) assisted the lending team with agricultural-specific information and assistance assessing the technical feasibility of the loan packages in the pipeline; 2) assisted ADF borrowers during implementation of their activities with information on seed and fertilizers requirement for planted crops; and 3) initiated assisting ADF clients with sales and market information.

To accomplish this, the team contributed to the technical analysis of the loan packages for the Sayed Jamal and Shir Poor Flour Mills, Tajzada Licorice Processing Company and Masroor Food Processing Company. The ACE Value Chain unit is taking the lead on collecting information for the loan application of the Herat Livestock Development Union (HLDU). The team traveled to Herat to gather information on milk collection, milk processing capacities and cooperatives interested in an ADF loan. Currently 360 members of the Union are interested in an ADF loan totaling 7 Million AFN. Another potential borrower ACE is looking at is Herai Gardeners Association (HGA), which has 100 members. The Association, which through its members manages 2,000 Jeribs of orchards, is interested in an ADF loan to expand their activities. The value chain team collected information on fruit production and the financing needs of individual members. A total of 51 members have expressed their interest in an ADF loan to procure agricultural inputs for the tree crops. The estimated amount of the investment is 32,816,000 AFN, approximately \$691 thousand USD.



**Photos: ACE value chain team visiting the milk processing plant of the Herat Livestock Development Unit in Herat Province.**

ACE worked with Sanaizada Edible Oil Processing Company from Mazar-e-Sharif to carry out an estimation of the field production needed to supply the processing plant. A total of 2,800 farmers would be involved in contract production to supply the business with raw material. ACE shared with IDEA-

NEW Mazar the opportunity to collaborate in assisting the company establish an out grower scheme complemented with credit.

Similarly, a value chain study on saffron is underway to support the processing of the loan application of a Saffron Company from Herat. In addition to this, the value chain unit will organize a workshop in August focused on production and its policy obstacles for the development of a saffron value chain, in Herat province.

Apart from lending, the ACE value chain team is taking the lead assisting ADF clients through sales support. The team met with Javid Afghan Thresher Manufacturing Company to follow up on their thresher sales. Currently, out of a target of 400 threshers, the company has already sold 300 and is currently working on manufacturing another 100 threshers. By the end of the season, the company will have produced and sold 400 threshers with ADF/ACE assistance. Similarly, ACE met with Season Honey Processing Company to review the Company's honey procurement process and marketing approach. ACE's Value Chain team is assisting the client market the honey as well as helping it penetrate new markets.



Given its relevance and impact of the loan, the ACE lending and value chain teams worked together to assist seed enterprises with the documentation and loan applications to Afghanistan National Seed Organization (ANSOR). The value chain team conducted field inspections in the Eastern Region and provinces of Kunduz, Takhar, Baglan and Herat. The loan applications submitted by the seed enterprises were reviewed and approved by the ANSOR Credit Committee. During the last quarter, ACE supported the preparation of the loan applications of 16 seed enterprises in the Nangarhar, Laghman and Kunduz regions. This process concluded with the disbursement of \$1,440,620, which allowed the borrowers to procure 2,247 metric tons of wheat seed in Kunduz region. Ten more are under way in Takhar and Herat provinces.

The value chain unit provided assistance to consultants of the Afghanistan Support Project implemented by CHECCHI. ACE provided information regarding wheat production in Afghanistan and the impact of the distribution of input packages on the demand for certified seed; as well as information regarding the prospects for the development of the seed industry, led by ANSOR. Similarly, the team assisted the MAIL/FAO consultant with information on the developments of wheat production in Afghanistan, as well as extensive quantitative data on wheat seed production and information on the Credit Management Unit being established within ANSOR.

## Gender and Grants

---

ACE, in partnership with UNDP's Gender Program, finalized a concept note on MAIL's Home Economics /MAIL Gender and Cooperative Extension. The Ministry of Agriculture, Irrigation and Livestock supports over forty women cooperatives around the country, the majority of which are located in the Central, East and Northern areas, and their members vary from 20 to 11,000 in number. Over the years, women operated cooperatives have received sporadic, short-term technical training, grants, and micro-credits from various donors but have not been provided with systematic support network that would ensure their graduation to the next development level. Therefore, there is a high demand for a comprehensive program that is inclusive of technical as well as business and financial management topics to ensure the long-term sustainability of the cooperatives, while addressing the needs of women from different backgrounds. The ACE and UNDP/Gender program will work with MAIL to further design short and long-term programs to support women cooperatives throughout Afghanistan.

ACE also drafted an ADF Financial Product for Female Agribusiness Entrepreneurs which is in line with MAIL's gender strategy, as well as with the USG Afghan Women and Girls Strategy. The new financial product is Sharia compliant and specifically targets women entrepreneurs already operating medium-scale enterprises, individually or in groups. The main subsectors of focus would be annual and perennial horticulture, livestock husbandry, and agro-processing. The loans would be managed by a financial institution under a special set of incentives and under a risk-sharing agreement.

As part of this initiative, USAID and MAIL approved a grant for \$23,991 to Kaweyan Business Development Services. Kaweyan will conduct an assessment of over 40 women cooperatives in 17 provinces of Afghanistan. This assessment will constitute the basis for a long-term technical, business and financial management capacity building program for women cooperatives around the country. This intervention is expected to result in a larger number of women applying for ADF loans.

Similarly, USAID and MAIL also approved an ADF Challenge/Innovation grant for \$96,200 to set up the Credit Management Unit (CMU) for the management of the loan to members of Eastern Region Fruit Growers Association. Through this grant, seven EFGA/CMU employees have been already hired for the position of Accountant and Finance Officer, Agronomist, Lending Officer, CMU manager, etc. The staff is undergoing a 45-day training with Oriental Consultant including on-the-job accounting and QuickBooks (Computerized Accounting Software) training.

Another ADF grant was approved to set up the Credit Management Unit for the ANSOR loan. The CMU will screen the borrowers, assist in the loan application process, and work closely with the seed enterprises and the seed growers to provide financial management and technical guidance, disburse loans, monitor the utilization of the funds, and collect repayments. The total budget is estimated at \$519,000, of which, 27% of which will be the client's contribution (\$138,800), and the remaining \$380,200 (73%) is being covered by the project through an ADF challenge grant. ANSOR through the technical assistance of ACE, hired the CMU manager and accountant/inventory officers in June and launched the ANSOR Credit Committee. The Committee includes ANSOR management representatives, CMU staff and ACE/ADF lending and value chain advisors which review the loan requests and documentation presented by the seed enterprises.

The value chain and grants teams worked together throughout the quarter to enable the participation of a group of ADF clients to "Agro-Minitech EXPO 2011" 6th International Specialized Exhibition-Fair of mini-technologies and compact equipment for agriculture. The exhibition which supposed to take place in May 25-28 in Tashkent, Uzbekistan included many thematic divisions relevant to ACE/ADF clients such as: Fruit processing equipment, Labeling and packaging equipment, Freezing technologies, Chemicals for plant protection, Greenhouse equipment, and Beekeeping inputs, among others. Unfortunately the clients were not granted a visa from the Embassy of the Republic of Uzbekistan and therefore failed to participate in the event.

## Policy Framework

---

The policy unit organized the Onion Value Chain and Policy Workshop in Jalalabad on May 4th. The workshop aimed at identifying the main problems and policy constraints for onion production and export in Afghanistan. 43 different onion value chain actors such as producers, exporters, agricultural service providers, representatives of other development programs and MAIL attended the workshop. The participants discussed the actual constraints that limit the growth of the onion sector focusing on production, marketing and exports. ACE assisted the participants to prioritize their recommendations which will be further discussed with MAIL. The follow up workshop will take place in September. Apart from this, in July the project will conduct the Wheat Value Chain and Policy Workshop in Mazar-e-Sharif and the Saffron Value Chain and Policy Workshop in Herat.

## 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 by diverse audiences within the agriculture sector, while building the capacity of MAIL staff to manage the system.*

During the past quarter, the Knowledge Management unit made significant progress in three main areas: 1) signing agreements with other projects and companies for agricultural data sharing; 2) developing the KMF database and website; 3) producing market briefs; trade reports and supporting the lending team with market/trade data and analysis. To accomplish this, the team drafted the tripartite Memorandum of Understanding with Roshan and MAIL. Roshan is the administrator of the MALOMAT database which

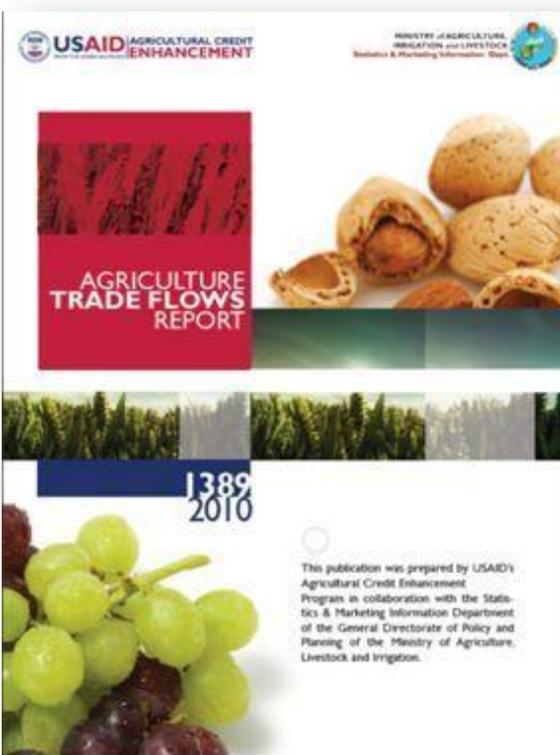
disseminates daily prices in real time and the ACE/KMF unit has shown interest in this data since the beginning of the program. The team met with Ms. Shainoor Khoja, the Managing Director of the Roshan Community Development Unit, to discuss the terms of the partnership.

The MIS advisor met with the Director of the National Data center of the Ministry of Communication, Mr. Wais Payab and the Chief Information Officer of MAIL, Mr. Rahim Stanikzai on the possibility of hosting the KMF website within the National Data Center website domain. The National Data Center hosts the websites of the ministries of the GiRoA. Both parties expect to reach an agreement in the next few weeks.

The MIS unit met with the Head of USGS Liaison in Afghanistan to discuss the retrieval of meteorological data from USGS work stations as this data is crucial for agricultural activities, and therefore will be incorporated into the KMF database. The KMF database will contain meteorological data and reports provided through this partnership. The project was able to get access to the World Food Program database,

containing wholesale and retail prices for agricultural commodities since 2000.

During this quarter ACE finalized the layout for the market briefs and trade reports developed and disseminated by ACE. In terms of MIS products, the achievements of this quarter include the Market Brief on Melons and Watermelons and the 2010 Agriculture Trade Report for Afghanistan. The brief contains information on the production of melons and watermelons by region, markets and trade flows. The brief will be translated and disseminated to partners and ADF clients. The 2010 Agriculture Trade Report focuses on the main agricultural export and import trade flows and covers a broad spectrum with respect to trade dynamics, trade flow directions, and agriculture trade geography. The report contains a detailed overview of trade flow characteristics by product and partner country levels. Trade flows are shown by volume, value in dollars, and regional markets by share.



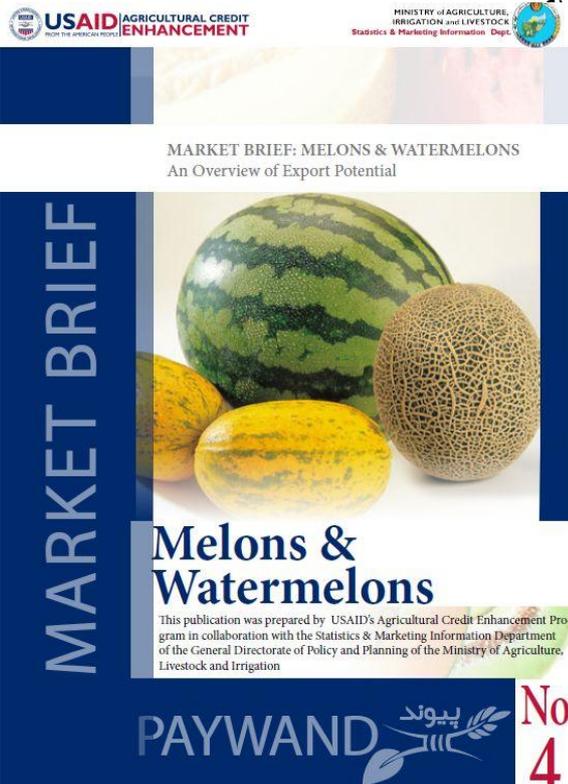
The Knowledge Management unit is working with a design company to develop the KMF (PAYWAND) website. The team finalized the GIS module for the database and the software specification requirements for the website design company. An addition of a Dari version of market prices and trade flows is now completed as well. The studies search with predefined criteria, which will help KMF users find agricultural studies prepared by ACE or other programs, is also now complete.

Extensive efforts have been spent on designing the 'trade flow' component of the KMF database where ACE will host information related to value, quantity, currency of trade, trade direction, commodities, exports, imports and trade balance by country. This re-packaging of agricultural market data abundantly available in Afghanistan will help to convert market information into market intelligence. The web-based KMF platform will be launched by the end of July. The unit is finalizing the PAYWAND brochure which will be printed prior to the launching of the Platform. The brochure indicates the type of agricultural data and products that can be found in the KMF Paywand database. Throughout the last months ACE/MIS contributed to the completion of loan packages for ADF clients through the provision of price analysis, and review of market trends for multiple commodities such as wheat, apples, saffron and dried fruits.

View of the Market Brief on Melon and Watermelon

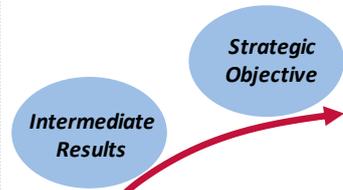
## Performance Management

ACE's Quarterly Performance Reporting structure is based on ADS 203.3.2.1.c which recognizes that "USAID Missions/Offices usually



I of Results  
 Results Level

Results level data may not be available for the performance management purposes early in life of SO



page 7

**Inputs**

**Output**

**Conclusions**

is not management purposes later in life of SO

(Early in life of SO) TIME (Later in life of SO)

The stimulation of export prices in various destinations that are among main importing countries for this commodity domestically, which have also been sporadically used for export destinations, showed that watermelons exports could have a much better outcome in terms of revenue in these markets. The export of watermelons in EU countries such as Poland can be concluded with a very competitive price, allowing very good profit margins. The same applies to export in the Russian market.

The exports of melon are directed in the regional market where the costs of exports and profit possibilities are low. The stimulation of exports in new markets that fulfill the above mentioned criteria showed that gains could be much higher in these markets. The exports of watermelon to the EU and Russia would allow better negotiations and profit possibility, for the exporter, from a price perspective. The exporter can decide whether to make the gains in profit margins per unit (in case he sells at the market price of the destination) or to make the gains in larger quantities (if he sells at a lower competitive price as compared to the destination market price).

Other factors than price competitiveness: Market and consumer behaviors as well as non tariff barriers are another component to be taken in consideration before market entry.

Entrepreneurs perspective: The domestic consumption is mainly being feed by domestic production so there is not much room for rapid business and revenue growth internally. Entrepreneurs' strategy should be growth externally by targeting mainly promising markets in terms of revenue and profit margin, shifting from traditional regional markets to other export opportunities. Important factors to be taken in consideration before deciding to enter new markets are non-tariff barriers, possible market requirement and other marketing issues in order to meet and succeed the end customer demand in the new markets.

have varying information needs for decision-making depending on the implementation stage of an

20

Assistance Objective (AO). The basis for decision-making by AO Teams will vary according to the implementation stage of the program. Early in the implementation of an AO, Teams are likely to base their decisions largely on input and output data. As implementation proceeds and outputs become more substantial, AO Teams will still need to consider the input and output data sources, but will also focus their program management decisions more on whether intended results are being achieved”.

ACE’s approach to performance management is expressed in the project’s PMP as approved in December of 2010. Measuring progress towards the provision of agricultural credit through the ADF and the strengthening of Afghan financial and private sector intermediaries to provide agricultural lending initiatives are at the heart of the ACE PMP. The program’s M&E unit carries out the monitoring system outline in the PMP through a two-pronged approach to tracking results.

First, output information and data on lending is primarily collected through the project’s technical staff. The M&E team backs up the new loans to financial and private intermediaries with developing documents and forms for the proof of loans to farmers. M&E staff also travels to provinces to conduct baseline and impact studies for the agribusinesses supported by the project as well as to verify performance data.

Second, M&E staff regularly conducts data quality assessments, review the data generated by the technical staff as well as the data collected from the clients. In case activities that further need attention are identified, special inspections and studies are conducted. The M&E team is responsible for analyzing aggregate data across the program reflecting results and identifying bottlenecks.

Retrospectively, ACE’s first quarterly report (Q4 FY2010) focused on the program’s start-up and development of leading documents such as the Annual Work Plan, Performance Management Plan and putting procedures in place for processing loan applications and the establishment of the ADF. In the second quarterly report (Q1 FY2011), since still being at an early stage of award implementation, the project reported the approval of the ACE PMP, Annual Work Plan and the first project outputs. In the third reporting quarter (Q2 FY2011) the ADF Credit Procedures document has been discussed and reviewed with both MAIL and USAID and agreed to by the Client. In the fourth quarter, the ADF Credit Procedures is still awaiting MAIL approval, therefore the conditions precedent upon which the ADF funds can be transferred through the Ministry of Finance, are not met yet.

As mentioned in Component 1, ACE is awaiting the MAIL minister’s approval for the loan application of Afghan Dost Sharq, a \$3.7 million USD loan, since May 26, 2011. The project originally approved a loan of \$926,750 USD for eight potato cooperatives in Bamyán Province. The Oqabe Mujadad Bamyán cooperative, which was granted a loan amount of \$120,047 for agricultural inputs on credit, withdrew from the program due their expressed inability to repay the loan. This amount accounts for the difference between in approved loans in Quarter 2 and this quarter. To date ADF has disbursed \$269,910 USD to the seven cooperatives is. Since the likelihood that the cooperatives will be able to use the remainder of the fund obligated under this loan, ACE will reallocate this commitment to support other loan requests.

The Afghanistan Almond Industry Development Organization (AAIDO) which benefitted from an ADF loan worth of \$800,000 initially signed up for 2,500 loans to farmer initially, then submitted only 1,997 loan applications from the farmers. During Quarter 2 FY2011, the AAIDO management team did not feel comfortable with extending credit to this large number of farmers stating their inability for credit administration with such large number of farmers and associated risk with farmers guarantee and collateral. In March, before the loan disbursement, the organization stated that they would extend agricultural inputs on credit to 500 almond growers, however the number was further reduced to 212 farmers who actually benefitted from the loan. The M&E unit monitored the disbursement and conducted a rapid inspection to the loan. All in all, AAIDO has been able to use only \$92,652 of the \$800,000 USD loan. Since the project expects no other disbursements, the difference will be reallocated to finance other loans.

Of the approved \$16 million USD in ADF loans, until now, \$5.97 million USD has been disbursed. With the ANSOR disbursements in the next quarter and the expected new loans such as Afghan Dost Sharq and Sayed Jamal Flour Mill ACE, will exceed \$10 million in disbursed loans.

The Performance Indicator Data Sheet in the following page shows the ACE quarterly accomplishments since inception and the current cumulative actual performance against Year One targets.

In Quarter 1 FY2011, the ACE program obtained ADF Credit Committee approval for loans worth \$18.1 million USD by the end of December 2010, but following the Minister's intervention this amount was unilaterally reduced to \$11.2 million USD. In Quarter 2, the program achieved \$16.1 million USD in approved loans, whereas during Quarter 3 none of the two loans approved by the ADF Credit Committee were signed by the MAIL Minister.

## ACE PERFORMANCE INDICATOR DATA SHEET - Q3 FY2011

ACE PERFORMANCE INDICATORS	ACTUAL Q1 FY2011	ACTUAL Q2 FY2011	ACTUAL Q3 FY2011	ACTUAL cumulative	TARGET FY2011
<b>1.1 Value of Finance Accessed</b>	\$11,150,000	\$16,041,750	\$15,922,702	\$15,922,702	\$32,000,000
<b>1.2 Number of individuals benefitting from ACE or ADF financial agreements</b>	(5,800) data revised	2,356*	3,178	5,534	12,000
<b>1.3 Percent Increase in income by assisted farms and agribusinesses</b>	-	-	-	-	10%
<b>1.4 Net total increase in Full-Time Equivalent (FTE) jobs created by USG sponsored agriculture activities*</b>	25.5	64.9	30.9	121.3	250
<b>2.1 Value of Challenge/Innovation and Agriculture modernization grants disbursed</b>	\$80,623	\$145,290	\$404,191	\$630,104	up to \$6 million
<b>2.2 Number of participating financial intermediaries and private intermediaries on-lending funds from ADF</b>	6	7	1	14	15
<b>2.3 Number of innovative lending products established by PIs and FIs</b>	1	1	0	2	2
<b>2.4 Percentage of loan losses resulting from ACE lending recommendations</b>	0.00%	0.00%	0.00%	0.00%	<5%
<b>3.1 Percentage change in domestic and export sales of Afghanistan agriculture products for firms supported by ACE</b>	-	-	-	-	10%
<b>3.2 Number of loans approved under USAID's Development Credit Authority (DCA) mechanism</b>	0	0	0	0	2
<b>3.3 Number of public private partnerships formed as a result of USG assistance (including GDAs)</b>	0	0	0	0	1
<b>4.1 Number of conferences, workshops and other initiatives designed to foster increased credit to the agricultural sector carried out through the Agricultural Credit Working Group</b>	2	0	1	3	5
<b>4.2 Number of market information and market intelligence products created and disseminated by the established knowledge management unit</b>	2	5	2	9	12

\*As presented in the former quarterly report, the Q2 FY2011 data for the indicator #1.2 include 2,350 loans to farmers and the 6 loans to agribusinesses. This is based on indicator definition by PMP.

In the previous quarter, ACE reached a total of 2,350 farmers and six agribusinesses as direct beneficiaries. In the reporting period ACE reached 3,178 new direct beneficiaries working through intermediaries such as EFGA, AAIDO, Bamyan Cooperatives, IIFCs, and Kunduz Seed Enterprises/ANSOR.

**TABLE 2: Farmers benefiting directly from the ADF loans in the Quarter 3 FY 2011**

<b>ACE Direct Beneficiaries - Q3 FY2011</b>		
<b>No</b>	<b>Intermediary</b>	<b>No of beneficiaries</b>
1	Afghanistan Almond Industry Organization	212
2	Eastern Region Fruit Growers Association	1,852
3	IIFC	88
4	Durukhshan Bamyan Co-op	15
5	Kawe Tajik Bamyan Co-op	47
6	Koh-e-Baba Bamyan Co-op	10
7	Shahemardan Bamyan Co-op	59
8	Katway Bamyan Co-op	156
9	Shanbul Bamyan Co-op	74
10	Khwaja Sabz Posh Bamyan Co-op	22
11	ANSOR / Kunduz Seed Enterprises	643
	<b>TOTAL/Quarter 3</b>	<b>3,178</b>

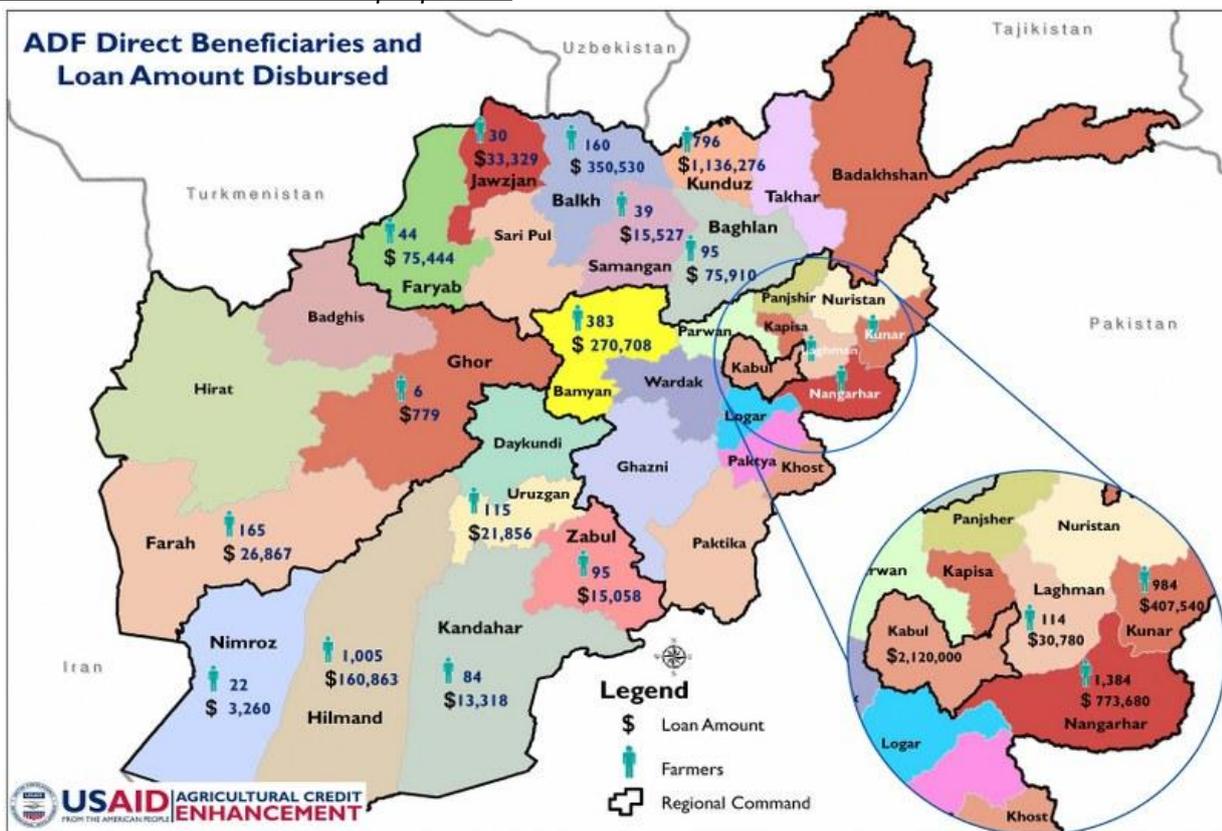
**TABLE 3: Number of ACE/ADF Beneficiaries and Dollar Amounts Disbursed per Province**

<b>No</b>	<b>Province</b>	<b>Number of Beneficiaries</b>	<b>Loan Disbursed \$</b>
1	Baghlan	95	\$ 75,910
2	Balkh	160	\$ 129,530
3	Bamyan	383	\$ 268,397
4	Farah	165	\$ 26,867
5	Faryab	44	\$ 75,444
6	Ghor	6	\$ 779
7	Hilmand	1,005	\$ 160,863
8	Jawzjan	30	\$ 33,329
9	Kandahar	84	\$ 13,318
10	Kunar	984	\$ 407,540
11	Kunduz	806	\$ 1,140,061
12	Laghman	114	\$ 30,780
13	Nangarhar	1,384	\$ 373,680
14	Nimroz	22	\$ 3,260
15	Samangan	39	\$ 15,527
16	Uruzgan	112	\$ 21,856
17	Zabul	95	\$ 15,058
	<b>TOTAL</b>	<b>5,528</b>	<b>\$ 2,792,199</b>

Table 4: No of ACE/ADF Beneficiaries and Dollar Amount Disbursed per Regional Command

Region	Number of Direct Beneficiaries	Loan Disbursed in (\$)
RC - East	2,865	\$ 1,080,397
RC - North	1,174	\$ 1,469,802
RC - South	1,318	\$ 214,355
RC - West	171	\$ 27,645
<b>TOTAL</b>	<b>5,528</b>	<b>\$ 2,792,199</b>

MAP 1: ACE Loan Disbursements per province



Indicator #1.3 Percentage increase in income by assisted farms and agribusinesses is an annual indicator and will be reported in the fourth quarter (Annual Report due on October 2011). During the last quarter, the number of new jobs created expressed in Full-Time Equivalent is 30.9. This increase counts for the new jobs created by the companies as shown in the table no x.

Table 5: New FTE Jobs Created in Q3 FY 2011

No	Province	Agribusiness Name	New FTE Jobs
1	Nangarhar	Javed Afghan Thresher Manufacturing Company	9
2	Balkh	Osiyo Hamkorlik Trading Ltd	1.2
3	Balkh	Sanaizada Edible Oil Production Company	12
4	Nangarhar	Season Honey	8.7
		<b>TOTAL</b>	<b>30.9</b>

The reason why ACE has achieved 121.3 of 250 FTEs planned is due to the relatively small number of agribusinesses. The project was designed to make loans through financial intermediaries which would target agribusinesses.

In the last quarter, ACE approved three new grants worth \$404,191 USD. The first one is a challenge grant with the purpose to assess the current capacity of registered women cooperatives associated with MAIL and design a long-term business, financial and technical program for cooperatives. This intervention anticipates ACE coordination with women groups. Based on this intervention, the ACE/Gender Unit will draft its activity plan for Year 2. The second grant is aimed at assisting the non-financial intermediary, ANSOR to establish its Credit Management Units for the loan administration and repayment process.

*Table 6: ACE/ADF Grants issued in Q3 FY2011*

No	Business_Name	Province	Grant Purpose	Type of Grant	Approved Amount \$	Disbursed Amount \$
<b>Clients Sensitive Information</b>						

ACE has one new participating non-financial intermediary for this quarter, which is ANSOR. The data of the previous quarter has been revised by replacing the Bamyan Cooperative Loan with the participating seven cooperatives which act as non-financial intermediaries. This factor brings to the total number of ACE/ADF intermediaries to 14.

Although the project has been working intensively to design Islamic compliant financial products according to the needs of its clients, there are no new innovative lending products approved for this quarter. ACE has developed a new product “Murabahah – sharing profit for agriculture” implemented with Sayed Jamal Flour Mill and Red Gold Saffron, however the loans have not been approved yet, thus the lending products will not be counted. To date, ACE has developed two new innovative lending products, which has resulted in meeting the overall year one targets.

In the third quarter, ACE has no loan losses from its loan recommendations. All the due payments have been repaid on time by the ADF borrowers, resulting at 0% loan losses.

Indicator #3.1 “Percentage change in export and domestic sales of Afghanistan agriculture products for firms assisted by ACE”, is another annual indicator. The project has submitted a revised PMP in early May where it suggests that during Year One it captures the baseline of agribusinesses in domestic and export sales, whereas the impact (percentage change) is reported in Year 2.

ACE clients have shown no interest in USAID’s Development Credit Authority, therefore the project has suggested eliminating this indicator.

In the last quarter, ACE carried out one policy and value chain workshop to identify the export obstacles for the onion sector. The workshop was carried out in Jalalabad and will be followed up in the next quarter.

The Market Information Unit developed and disseminated two products: 1) a market brief for melon and watermelon value chain; and 2) Afghanistan agricultural trade report for 2010. The component is

about to finalize and launch the KMF database as a reliable source for agricultural information and market intelligence.

## BASELINE ASSESSMENT FOR FARMER BENEFICIARIES

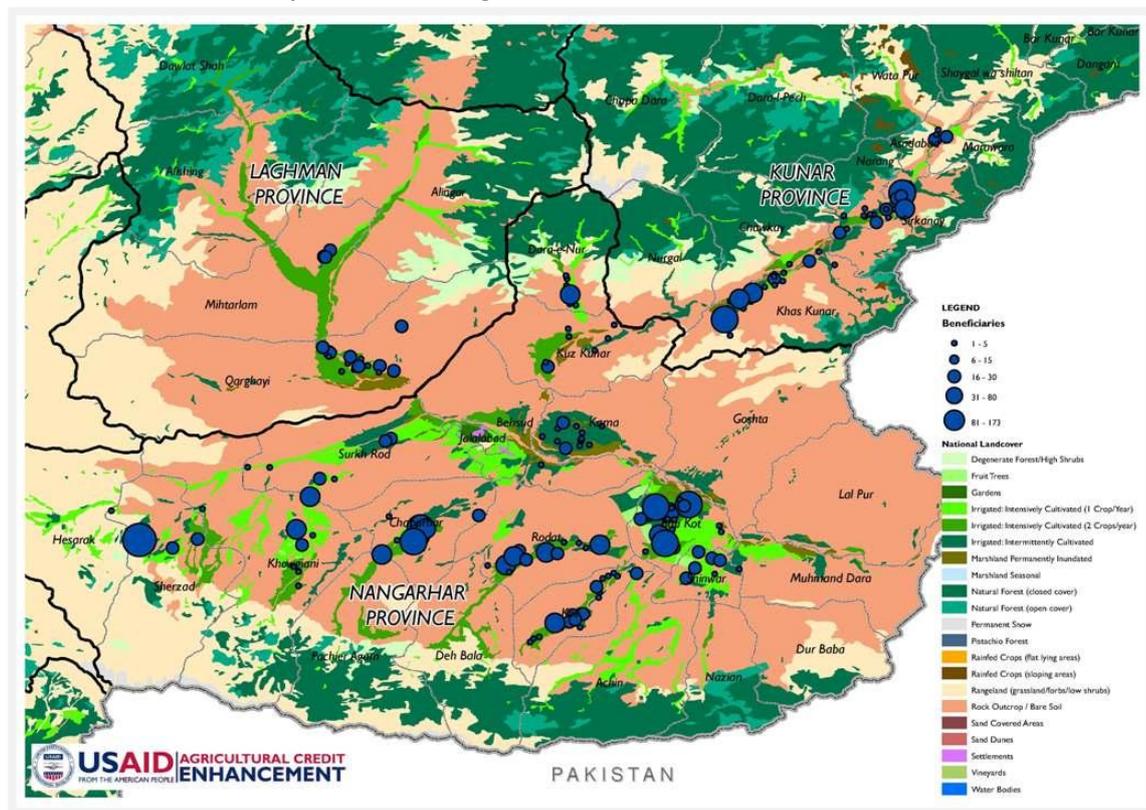
During late June and early July, the ACE Monitoring and Evaluation Unit conducted the baseline survey for commercial farmers, members of Eastern Region Fruit Growers Association in the provinces of Kunar, Laghman and Nangarhar. The ADF loan of \$500,000 USD directly benefitted 1,852 farmers through fertilizers on credit. ACE selected a stratified sample of 10% (slightly higher) maintaining the same ratio between the population and the sample at province and district level.

*Table 7: EFGA sample for the farmers' baseline survey*

Province	No. of farmers interviewed
Kunar	37
Laghman	12
Nangarhar	138
<b>TOTAL</b>	<b>187</b>

The same number of EFGA farmer representatives will be interviewed next year for the impact assessment of the ADF loan. The baseline and impact assessments aim at capturing the change in production of the assisted crop through the ADF loan, change in the level of household employment, sales and therefore the change in the overall household income. The baseline assessment data will be entered in the database and processed in July. The map below shows all the 1,852 farmers, recipients of ADF/EFGA loan at village level.

*MAP 2: EFGA farmers represented at village level.*



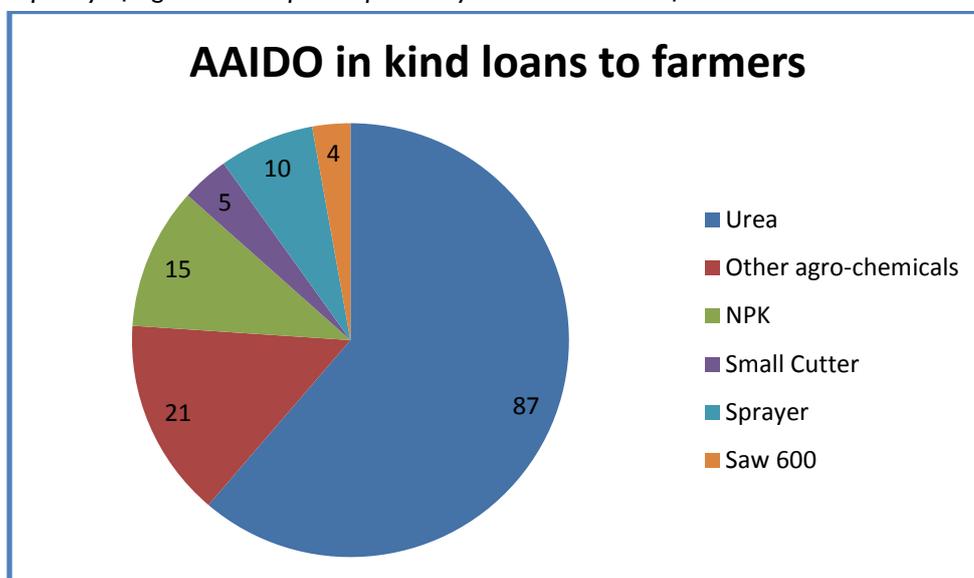
Concentration of farmers per villages is indicated through the diameter of the circle. The project used a land cover map to indicate the main land use in the villages where the ADF beneficiaries are located. The light green land use color indicates “irrigated and intensively cultivated land (1 crop/year); dark

green shows “irrigated and intensively cultivated land (2 crop/year); and the very dark green shows “irrigated and intermittently cultivated land). As shown in the map, ACE/ADF beneficiaries, mainly commercial tree crop growers are located along these three land types. ACE will conduct baseline assessments for the members of the seven potato cooperatives in Bamyán and almond growers, members of AAIDO, in the next quarter.

## MONITORING ACE/ADF FARMER BEENFICIARIES

April-June consisted with major ADF disbursements to the end borrowers through non-financial intermediaries such as EFGA, AAIDO and Bamyán cooperatives. To conduct due diligence, the Monitoring and Evaluation team organized field monitoring for loan verification and inspection purposes to assess whether the farmers claimed by the NFIs had actually received the ADF agricultural inputs on credit. For this purpose, the ACE team traveled to Mazar-e-Sharif on April 24-28 to validate the receipt of agricultural inputs on credit and interview 101 farmers (47% of the population). The interviewed farmers claimed to have received one or more of the following items: urea, NPK, small cutters, sprayers, other agro chemicals and saw 600s. The frequency of these agricultural inputs is displayed in the Graph below:

*Graph 1: Frequency of agricultural inputs reported by AAIDO/ADF beneficiaries.*



ACE conducted another field mission through June 4-8 to Nangarhar to carry out another loan verification rapid survey for the clients of Eastern Region Fruit Growers Association (EFGA). The survey was conducted immediately after the distribution of fertilizers on credit to farmers and was complete with a 5% sample of the ACE/ADF borrower population. The inspection was conducted in 11 districts of the three provinces. It was found that all the farmers received the same amount of fertilizers on ADF credit (\$270 or 660KG). While the EFGA members expressed their satisfaction about the ADF loan, they were fully aware that it was a loan which had to be repaid. While 90% of the interviewed farmers had provided guarantee, the rest provided collateral to EFGA.

The project conducted its third inspection in Bamyán with the farmer’s representatives of seven different cooperatives. A sample of 10% from three districts and seven villages was interviewed. The farmers interviewed have received a minimum of 4 bags of fertilizer and 40 kg of potato seed and a maximum of 100 bags of fertilizer and 400 kg of potato seed. 79% of those interviewed were informed

by their respective cooperative and the rest by DAIL representatives on the ADF loan. The farmers are aware and fully committed to repay the loan.

## Communication and Outreach

The ADF Customer Service Center started its operations at MAIL in May of 2011. The center is staffed with two customer service officers, which were trained for over two months by the ACE lending team. The role of the Customer Service Center is to facilitate the interaction with potential ADF clients and provide information in response to inquiries about ADF services and process their expressions of interest. Despite being in operation since May, MAIL has postponed the formal opening of the center to late July.

In last quarter, ACE prepared and distributed 4 ADF News briefs. The news briefs contain individual stories from the ADF clients, highlighting the borrowers' activities and how they were enabled through the ACE/ADF loans.

ACE launched the ADF website for Beta Testing at [www.adf-af.org](http://www.adf-af.org). The website will be formally launched by MAIL in late July. The section titled "A Word from our clients" contains video testimonies from six ADF borrowers explaining the impact of ADF loans on their enterprises (please visit <http://www.adf-af.org/English/eCard.html>). Copies of the videos were distributed to MAIL and other media members.

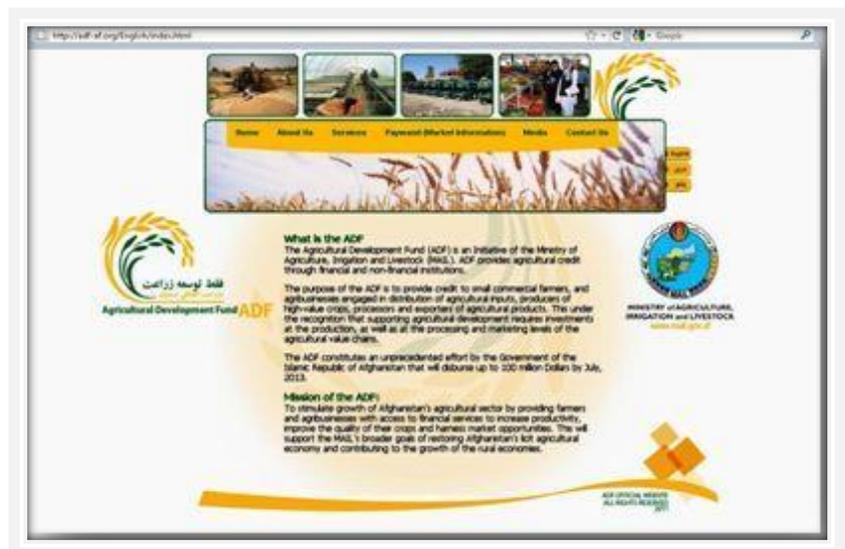
ACE is publishing bi-weekly tweets at the <http://twitter.com/daiglobal> twitter address; the project is also planning the launch of radio and TV commercials throughout local media outlets by next quarter.

The ACE/ADF Spring Newsletter copies (English, Dari and Pashto versions) were published and distributed to MAIL, partners and regional offices. Several ACE/ADF client posters were also printed and distributed among partners and regional offices. The project drafted two success stories for Eastern Region Fruit Growers Association and the Afghanistan National Seed Enterprises which are currently being reviewed by USAID.

The ACE team participated and displayed ADF newsletters, brochures and videos at the July 4th Celebration Festivities at the U.S. Embassy on July 2<sup>nd</sup>.

## Administrative and Human Resources

As the project ends its first year of implementation, it is undergoing structural adjustments, especially regarding staffing. Given the hesitation of financial institutions to partner in the provision of agricultural credit, the project will strengthen its in-house agricultural lending capability. This is being done by recruiting agricultural lending advisors, who will progressively replace the team of advisors with banking experience. Duke Burrus is expected to arrive in Kabul in early July for a short-term assignment to look at cold store operations in Afghanistan and advise the lending team on the financing of these operations.



Given the increase in the number of requests for Sharia compliant financial products, the project will engage an international consultant to develop the Islamic Finance Policies and Procedures, an internal document with guidelines for ADF operations in this area. ACE is also recruiting two short term technical advisors in environmental compliance, one to conduct an environmental impact assessment of the loan to Afghan Dost Sharq Company, and the other one to strengthen the capacity for the project to comply with USAID regulations. In the reporting period, ACE/DAI mobilized six expatriate personnel to the field, three of which were short-term consultants, and one new lending officer.

**TABLE 8: Expatriate personnel deployed during Quarter 3 FY2011**

	<b>Name</b>	<b>Position</b>	<b>Date</b>
<b>1</b>	Paul Heidloff	Commercial Poultry Production Advisor	12-Apr-11
<b>2</b>	Duke Burrus	Cold Chain Economics Advisor	4-Apr-11
<b>3</b>	Ahmad Jazayeri	Technical Advisor	1-Apr-11
<b>4</b>	Joel Carter	Lending Advisor	9-May-11
<b>5</b>	Stephanie Schwarzkopf	Acting Director of Operations	16-Jun-11
<b>6</b>	Jennifer Munoz	Credit Operation Advisor	5-May-11

**TABLE 9: National Staff hired during Quarter 3 FY2011**

	<b>Name</b>	<b>Position</b>	<b>Date</b>
<b>1</b>	Enjela Hashimi	Sr. Finance Officer	3-Apr-11
<b>2</b>	Nilab Akrami	MIS Officer	7-May-11
<b>3</b>	Ahmad Fawad Fatan	Customer Service Officer	16-Apr-11
<b>4</b>	Bezhan Muradi	Credit and Admin Assistant	20-Apr-11
<b>5</b>	Ghulam Farooq Ahmadi	Sr. Facility Officer	19-Apr-11
<b>6</b>	Meena Hotak	Translator / Receptionist	27-Apr-11
<b>7</b>	Zabiullah Sunny	MIS Manager	1-May-11
<b>8</b>	Khalid Sarwary	Lending Advisor	3-May-11
<b>9</b>	Ghulam Nabi Matani	Customer Service Officer	22-May-11
<b>10</b>	Mohammad Hemat	Finance and Accounting Manager	29-May-11
<b>11</b>	Mujahed Karimi	GIS Specialist	26-May-11
<b>12</b>	Alamgul Faizy	Procurement Specialist	1-Jun-11
<b>13</b>	Ahmad Fahim Safi	Sr. M & E Officer	1-Jun-11
<b>14</b>	Fazl Rabi Aryubi	GIS Specialist	12-Apr-11
<b>15</b>	Baryalai Haideri Radmanish	Procurement Consultant	22-Jun-11
<b>16</b>	Bashir Ahmad	Data Base Specialist	29-Mar-11
<b>17</b>	Hashmatullah Esmat	Consultant Data Base Design	10-Mar-11
<b>18</b>	Ahmad Fahim	Finance Consultant	30-Mar-11
<b>19</b>	Roheed Bayaz	Admin / Translator	27-Apr-11
<b>20</b>	Sayedabadullah Hashimi	Food procurement and Hygiene practice Improvement	12-Jun-11

## IMPLEMENTATION CHALLENGES

---

The initial \$15 million USD for lending channeled through the ACE contract has been committed. This will prevent the ACE/ADF from continuing to lend until the next allocation of funds is disbursed through the Ministry of Finance. This is likely to:

- Result in a time gap in lending. While ACE will continue processing loan applications, the program will be unable to sign loan agreements and commit funds.
- Compromise ACE's ability to meet the lending targets established for project year one.
- As per the agreement between USAID and GIRoA, MAIL is required to comply with a series of conditions before the funds can be transferred through the Ministry of Finance. The only condition precedent pending at the date of this report is MAIL's approval of ADF policies and procedures. Resolving this impasse will require USAID's intervention.
- The delay in the registration of the ADF by MAIL is still a major area of concern. The lack of a registered lending institution prevents ACE from having recourse on collateral, thereby significantly increasing the risk of default.
- Interaction with the Ministry of Agriculture, Irrigation and Livestock has proven to be challenging. Currently ACE has two loans awaiting MAIL Minister's approval and two more on-hold. While the ADF Credit Committee is an open and transparent process with documented results, the role of the Minister continues to be ambiguous. The Minister has delegated his Deputy to chair the ADF Credit Committee Meeting and insists on signing every loan. While ACE was designed to make larger loans through financial and non-financial intermediaries, MAIL is very reluctant to approve large loans.

## ACTIVITIES FOR THE NEXT QUARTER

---

- In the next quarter ACE aims at bringing loan packages and receiving approval for \$12-15 million USD and reaching \$32 million in approved loans and \$10-12 million USD of disbursed loans to borrowers, benefitting directly 10,500 farmers. This is contingent on the obligation of additional funds for lending by USAID.
- ACE will formally launch the Knowledge Management Facility in collaboration with MAIL. KMF will become the primary database for agricultural data and market intelligence in Afghanistan.
- The project will strengthen its stake on Islamic compliant financial lending through hiring one (or more) international consultant specialized in Sharia lending to work together with the ACE lending team.
- ACE will complete the disbursement of \$4.95 million USD to participating ANSOR seed enterprises across Afghanistan.
- The project will organize three Value Chain and Policy Workshops on wheat, saffron and onion in Mazar-e-Sharif, Herat and Jalalabad. Agricultural Credit Shura will be traveling to Bamyan, Paktika, Paktya and other regions.