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AGRICULTURAL CREDIT ENHANCEMENT PROGRAM PHASE II (ACE-II)

MONTHLY REPORT NO. 2

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Mr. Tarek Almenayes, Senior Economic Advisor, and Mr. Nawafa Almahamel, Legal Advisor of The Kuwait Fund for Arab Development, with Mr. Joel Carter, CEO of the Agricultural Development Fund (center).

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EXECUTIVE SUMMARY

The highlight of the second month of implementation was the formalization of a US\$7 million contribution from the Kuwait Fund for Arab Development (<https://www.kuwait-fund.org/en/web/kfund>) to the ADF. This is the result of the initial groundwork conducted under ACE-I. This contribution is the second one from non-US sources, as in 2014 the Government of the Kingdom of Denmark made a contribution of US\$3.5 million.

At the request of H.E. Asadullah Zamir, Minister of Agriculture, Irrigation and Livestock, Mr. Robert Dressen, Senior Advisor of ACE-II delivered a presentation to Minister Zamir, Deputy Minister Abdul Qadeer Jawad and his senior advisors on the feasibility study for the Agricultural Development Bank. The study was conducted in 2013 at USAID's request and looks in detail to the costs, benefits and risks of reviving the Agricultural Development Bank and also proposes alternative options to expand credit delivery to the agriculture sector.

In preparation to the launch of the requests for applications for Innovation Grants, ACE-II submitted the Grants Manual for USAID clearance.. The first call for applications will be advertised in late November.

During the reporting period, ACE-II also assisted the ADF in the analysis of the loan proposals for the First Micro-Finance Bank (FMFB) and the Afghanistan Rural Finance Company (ARFC). The loans are for US\$10m and US\$5m respectively. The technical analysis is still ongoing and if deemed feasible, the loans could be submitted to the High Council for approval in mid-October. These would constitute the first 2 loans to financial intermediaries since the launch of ACE-II.

The final version of the monitoring Plan was submitted to USAID for clearance, meanwhile project is completing the staffing of the M&E team and preparing for the baseline surveys to be completed in October. As part of its work in knowledge management and policy, the project held several meetings with MAIL officials in order to agree on the way to revamp PAYWAND (www.paywand.mail.gov.af) established under ACE-I. The meetings were fruitful and ACE-II preparing to formalize the memorandum of understanding.

In the Gender crosscutting theme, the Gender Assessment was submitted to USAID and is currently undergoing minor revisions following the feedback provided by the project's COR. Meanwhile the project managed to remain a relevant force behind the Women in Agriculture Technical Working Group and contributed to the organization of an upcoming event with the Afghanistan's First Lady, with the objective of harnessing her support for agricultural programs aimed at the promotion of women.

COMPONENT 1

SUPPORT THE ADF TRANSITION

The underlying objective of Component 1 is to provide technical assistance and advisory support to ADF management and operating units, with particular focus on corporate governance and internal operations.

The transition of the ADF to an independent financial institution integrates several dimensions of independence, including:

FINANCIAL: ensuring that by the end of the ACE II project, the ADF is sufficiently capitalized and is able to generate enough income to cover operating costs, thereby becoming financially sustainable.

INSTITUTIONAL: Strengthening policies, procedures and safeguards with purpose of streamlining day to day operations, while reducing the risk of political influence.

OPERATIONAL: enabling the ADF to reach a high level of efficiency in its operations by employing highly qualified personnel and ensuring that they perform to a high standard.

Therefore, all project activities part of Component 1 will focus on the achievement of these 3 dimensions of independence and sustainability.

Within this context, ACE-II facilitated the first contribution for the Kuwait Fund for Arab Development (<https://www.kuwait-fund.org/en/web/kfund>) for US\$7 million, this is the second contribution coming from non-US

organizations; since in 2014 the Government of the Kingdom of Denmark made a contribution of US\$3.5 million.

Following preliminary contact made under ACE-I in 2014 and following a series of communications held with the Kuwait Fund for Arab Development in the second half of August, Mr. Tarek Almenayes, Senior Economic Advisor, and Mr. Nawafa Almahamel, Legal Advisor arrived in Kabul on August 27.

The representatives of the Fund conducted an appraisal of the ADF, based on interviews with the Executive Team, review of financial and governance documents, and visits to ADF clients. The representatives of the Kuwait Fund also met with USAID to learn about USAID's experience funding the ADF.

At the end of their mission the tripartite agreement between the Kuwait Fund, the ADF and the Ministry of Finance was finalized and initialed. This agreement and the contribution derived thereof constitute the recognition of the Kuwait Fund for USAID's work establishing and supporting the management of the Agricultural Development Fund.



Mr. Salahuddin Matani, ADF’s Director of Business Development delivering a presentation to the representatives of the Kuwait Fund for Arab Development. Present are the Executive Team of the ADF, including the CEO and ACE-II’s COP and Senior Banking Advisor.

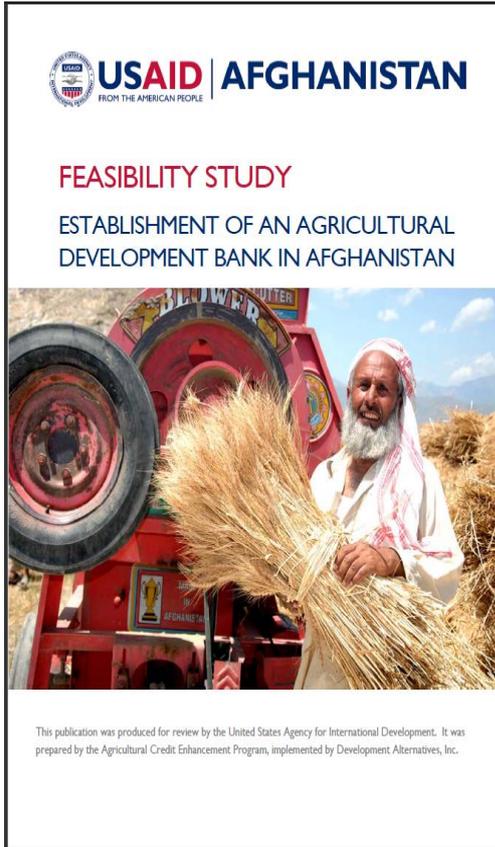
During the meeting with USAID , the mission from the Kuwait Fund expressed:

“We are favorably impressed with the work of the ADF, especially with the low default rate and their ability to serve the agriculture sector, while generating profits...something that called our attention is the pricing of Islamic financial products, which in the ADF is comparable to the pricing of conventional loans. This is something we have never seen before”

Mr. Tarek Almenayes
Senior Economic Advisor
The Kuwait Fund for Arab Development

Since prior to the launch of the ACE program in 2010, there has been an ongoing debate within political spheres of Afghanistan, and in the US, about the prospects for the revival of the Agricultural Development Bank, which closed its doors in the mid-1970s. In 2013 USAID commissioned the ACE program to conduct a feasibility study for the establishment/revival of the Agricultural Bank. The study led by Mr. Robert Dressen, DAI’s Senior Banking Advisor provided clear guidance on the technical feasibility, the costs involved and the expected outcome of reviving the bank.

As the debate about the Agricultural Bank has recently reemerged, at the request of H.E. Asadullah Zamir, Minister of Agriculture, Irrigation and Livestock, Mr. Robert Dressen, Deputy Minister Abdul Qadeer Jawad and his senior



advisors on the feasibility study for the Agricultural Development Bank.

On a separate topic, in preparation to the launch of the requests for applications for Innovation Grants, ACE-II submitted the Grants Manual for USAID clearance. The first call for applications will be advertised in late November. Similarly, the final versions of the Annual Work Plan and the Gender Assessment will be submitted in the first week of September, following the incorporation of comments provided by USAID.

As part of the activities to strengthen the operations of the ADF, ACE-II finalized the scope of work and identified a consultant to review the Fund's HR policy, and the design of the performance-based compensation plan.

COMPONENT 2

SUPPORT ENTRY OF OTHER FINANCIAL INSTITUTIONS INTO AGRICULTURAL FINANCING

Activities under Component 2 focus on facilitating the engagement of financial institutions in the provision of credit to the agriculture sector, through the intermediation of ADF funds.

DAI's ACE-II contract Component 2 – Support Entry of Other Financial Intermediaries into Agriculture Finance requires the establishment of an incentive-based grants program through the Agriculture Development Fund (ADF). Grants will be awarded on the basis of open solicitations to be issued periodically (e.g. every six months). It is envisioned that two types of grants will be provided:

- **Challenge Grants** – (estimated at around \$10 million). While the funds for the challenge grants will not be part of the ACE-II awards budget, the project is expected to provide needed technical and administrative support to ADF in preparing guidelines to compete Challenge Grants periodically (e.g. every six months).
- **Innovation Grants** – (estimated at no more than \$2.5 million) are to be awarded on competitive basis to develop and test new and innovative ways to facilitate financial services to target groups and/or provide and finance equipment or services that support agricultural finance.

Following the comments received from USAID on the Grants Manual, the project expects submitting the final version in the first week of September.

Regarding the support to the incorporation of financial institutions as intermediaries of ADF funds, the project team has been reviewing the loan proposals for the First Micro Finance Bank for US\$10 million and the one for Afghanistan Rural Finance Company (ARFC) for US\$5 million. The review has focused on the pricing of loans to end borrowers, especially considering the relative rate of returns of food crops. ADF Management expects to submit these loans for High Council review and approval in October. If approved, these loans would have already resulted in 2 new financial institutions and US\$15 million in loans; progress of relevance in just the second month of project implementation.

As recommended in the Gender Assessment conducted in July and August, ACE-II Management is preparing a proposal to open a window for SME loans for women (e-Zarah). This would require support from ACE-II in the selection and training of female lending officers, as well as in the development of an app to conduct the initial creditworthiness analysis with the use of

tablets. This would allow the ADF to leapfrog and apply 21st century technology to address development issues in one of the world's most

complex environments. Once completed, the concept note will be presented to the CEO and to the High Council.

COMPONENT 3

MONITORING, EVALUATION AND ADVOCACY

Component Three responds to the need to develop and maintain a robust monitoring and evaluation capability, coupled with a learning agenda and knowledge management platform in order to capture results and disseminate promising solutions which can be replicated and scaled.

Different from traditional project M&E activities, Component 3 will integrate a thorough and reliable system to monitor the performance of the project vis-à-vis performance indicators, and assess the impact of project activities at the micro, meso and macro levels, while integrating learning and advocacy activities. ACE-II has made progress against the Year 1 plan activities during the month of August 2015. Details about each activity are indicated in the sections below:

3.1 Defining the baseline and performance benchmarks.

One of the contractual obligations is developing M&E plan which is a critical tool for planning, managing and documenting progress towards ACE-II program's objectives. Prior to submission of the M&E Plan, a meeting was held with the Contracting Officer's Representative to discuss the ACE-II

Activity M&E Plan and USAID requirements and expectations regarding the Component 3. As a result of the meeting, the list of proposed program indicators was modified in an effort to better measure the progress towards the program results and objectives and overall to meet the USAID requirements.

Accordingly, the M&E plan was finalized and submitted to USAID during the reporting period. Upon USAID's feedback on M&E plan the M&E team will develop/fine-tune data collection protocol and tools for data collection of program performance indicators.

Also, with an aim to set benchmarks for some program performance indicators that enable measuring the impact/change over time, the M&E Specialist designed the baseline survey tool. The baseline survey will be

administered during the following month.

3.2 Establish and lead the Agricultural Credit Technical Working group.

The group will have two main purposes; a) seeking to enlist financial institutions to intermediate ADF funds, and b) identify, prioritize and address policy issues constraining the expansion of agriculture finance services.

During the reporting period, ACE-II contracted the services of a consultant Ms. Greta Greathouse, an accomplished expert in the financial sector to launch the Agricultural Credit Technical Working Group (AC-TWG). The consultant reviewed the documents of the meetings facilitated by the ACE program with the financial institutions and intermediaries in the past with an aim to build on the issues that have already been identified. As a result, she developed an agenda for the Agriculture Credit Technical Working Group meeting. The initial plan for organizing the AC –TWG meeting was on September 8th, however the meeting was postponed to the third week of September. The reason was because Afghanistan Banks Association, with support from USAID's Financial Access for Investing in the Development of Afghanistan (FAIDA) project with the collaboration of Ministry of Agriculture, Irrigation and Livestock (MAIL) of Afghanistan is also organizing a one-day Business to Bank Roundtable – Financing the Agriculture Sector event

for the Agriculture sector key players (the same group) on the same date at the MAIL.

3.3 Developing and strengthening decision making tools.

During the reporting period, ACE-II M&E Specialist/Component 3 Lead jointly with one of the ADF staff who was previously managing and maintaining PAYWAND, an online market and trade database, had meetings with Mr. Rabani Haqiqatpal, the head of Statistics Department and Mr. Abdul Munir, the head of Management Information System (MIS) Unit at MAIL. The purpose of the meetings was to determine the current status of PAYWAND. It was defined that the system which was handed over to Policy and Planning Directorate at MAIL has not updated since February 2014 and is currently not functional. The reason was because the dedicated and trained civil servants are no longer working at MAIL. MAIL had to terminate their contracts due to financial constraints. The ACE-II will continue collaboration with MAIL, particularly Statistics Department which is currently collecting market and trade information through the Market Information Unit. During the following month ACE-II will make a presentation on the system to Market Information team and other relevant staff at MAIL. The MOU between the DAI and MAIL will be amended to continue the joint working and partnership on PAYWANT with MAIL over the following month.



Mr. Rabani Haqiqatpal, Head of Statistics Department and Market Information Unit team during the meeting with Lutfiya Farhodova, M&E Specialist/ Component 3 Lead and Zabiullah Sunny, ADF/ MIS Manager during the meeting of August 28, 2015.



CHALLENGES ENCOUNTERED

No major challenges were encountered during the reporting period.

PLANS FOR THE FOLLOWING MONTH

- Conduct Organizational Assessment of ADF
- Conduct the assessment of the structure and performance of the ADF
- Review of loans to be disbursed to financial institutions
- Submission of final versions of AWP1, Gender Assessment and Grants Manual
- Conduct first Agricultural Credit Technical Working Group Meeting
- Administer baseline survey to collect baseline data on program performance indicators
- Develop data collection protocol and instruments for program indicators
- Make presentation on PAYWAND at MAIL