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# AGRICULTURAL CREDIT ENHANCEMENT PROGRAM PHASE II (ACE-II)

MONTHLY REPORT NO. 3

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*Agriculture Credit Technical Working Group Workshop. Group discussion session*

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# EXECUTIVE SUMMARY

During the reporting period, the USAID-funded Agriculture Credit Enhancement program (ACE-II) continued its efforts to effectively implement activities against the Annual Work Plan. One of the major highlights of the third month of ACE-II implementation was the Agriculture Credit Technical Working Group meeting held on September 17th, 2015 with the participation of officials and representatives from Afghan Microfinance Institutions, private Banks, and Associations. The meeting enabled the financial institutions to identify, and then prioritize the major constraints and opportunities for the expansion of finance services for the full range of value chain enterprises in Afghan agriculture.

The workshop was a significant success for ACE-II, both in terms of the number and level of participants but also in terms of the engagement shown by the agricultural credit community in a collaborative effort to identify and eliminate constraints to agricultural credit. The technical working group meeting represents a continuation of a process initiated by ACE in 2010.

In addition, during the month, the final version of the project Annual Work Plan, Monitoring and Evaluation Plan and Gender Assessment report were submitted and approved by USAID.

Following USAID approval of recruitment of the final Afghan staff members for ACE-II, including Ahmad Fahim Safi as Knowledge Management and Communication Advisor and Najeebullah Siddique as Grants Manager, ACE-II completed all hiring processes and brought both of these key technical additions onto the team.

The leadership of ACE-II is currently in transition. ACE-II Chief of Party (COP), Juan Estrada-Valle left the program and Dr. Max Goldensohn is acting as COP for ACE -II at present. The new Chief of Party was identified and proposed to USAID for approval.

# 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.

Due to ACE-II leadership transition, little progress was made under Component I during the reporting period. ACE-II Chief of Party (COP), Juan Estrada-Valle left and Max Goldensohn is currently acting Chief of Party for ACE –II. Greta Greathouse was identified as a potential candidate for the new COP position for ACE –II and proposed to USAID.

ACE-II will be facilitating the process of ADFs' strategic plan and business plan review as per the approved Work Plan. The Scope of Work was developed and a consultant was identified. The proposed plan will be discussed and agreed in a High Council meeting to be held in November 2015.

Dr. Goldensohn reviewed with ADF CEO Joel Carter the approved processes and procedures for the ADF as well as the plans to finalize these for Human Resource Management, Procurement, and General Administration. A consultant has been identified and approved and has begun work remotely on this undertaking. The comprehensive training and capacity development plan for ADF staff and members of the High Council will be completed before the meeting of the High Council in November.

# 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.

DAI identified a candidate for the DCOP/Grants Manager position. The proposal was sent to USAID for approval during the reporting period and we hope for approval and mobilization during the month of October.

Following the comments received from USAID on the Grants Manual, the review of the manual is in the process. The major comment on the Grants Manual was to modify the Fixed Obligation Grants into Fixed Amount Awards. The final version of the grant manual will be submitted to USAID for approval during the first week of October.

# 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 initiate and 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.

### **3.1 Defining the baseline and performance benchmarks.**

Following USAID comment on the M&E plan, the final version was submitted and approved by USAID during the reporting period. Immediately, after the approval of the M&E plan, ACE-II M&E team designed the baseline survey methodology including field data collection plan, survey instrument, and sample size. The baseline survey will target intermediaries as well as the beneficiary farmers who received agriculture loans through the ADF. The field data collection will be carried out by enumerators who will be hired and trained during the first weeks of October. The baseline survey will be administered in early October, 2015.

### **3.2 Establish and lead the Agricultural Credit Technical Working group.**

On September 17<sup>th</sup>, 2015, USAID's Agricultural Credit Enhancement Program - Phase II co-chaired with Agriculture Development Fund (ADF) the first meeting of the Agriculture Credit Technical Working Group (ACTWG) in Kabul, Afghanistan. Officials and representatives from Afghan Microfinance Institutions, private Banks and Associations attended the workshop, which was judged a success by all in attendance.

Workshop objectives were to:

- Provide an update to participants on the achievements of the Agriculture Development Fund (ADF) and the evolving objectives of ADF and the role of ACE-II;
- Enable financial institution to identify, and then prioritize the major constraints and opportunities for the expansion of agricultural finance services in Afghanistan.

In the workshop, the ADF provided an overview of their evolving strategy and key metrics, with special attention given to several of their successful innovative activities including:

- The use of non-financial intermediaries (NFIs) to disburse loans to farmers with the support of Credit Management Units (CMUs) trained and equipped by ADF but employed by and located inside the NFIs;
- The development of a broad array of sharia compliant credit products that can be applied to agriculture credit and an accompanying Sharia Advisory Board to reinforce consumer trust in and understanding of sharia compliant financial services;
- Collaboration with MAIL to develop PAYWAND, an online knowledge management facility to provide agriculture market and technical information in Afghanistan;
- Integration of agriculture technical expertise into credit analysis via ADF's Technical Services Unit.

Khalid Sarwary, Credit and Risk Director of ADF moderated a panel on *Agricultural Credit: An Opportunity for Financial Institutions and Afghanistan*. Participants in the panel representing the ADF and three of its partners, IIFCG, ARFC and OXUS discussed their experience and results, as well as lessons learned and key challenges.

Continuing the theme of progress and innovation, Greta Greathouse, Advisor to ACE-II, discussed the constraints to access to agriculture credit as an introduction to break out groups that followed. Participants reviewed a "Matrix of Constraints," drawn from meeting notes of the Technical Working Group of ACE in 2010 and a "status update" on the constraints, which illustrated that at the same time that agricultural credit in Afghanistan has been moving forward, there has been progress on reducing /mitigating some of the constraints.



*Greta Greathouse discussed constraints to agriculture credit*

Break out groups then tackled the three main area of constraints identified in that Matrix:

- Collateral Issues
- Financial Institution Constraints
- Credit Products and Structure

Each break out group reported back to the plenary session with their solutions, suggestions, and priorities for tackling the policy, operational and risk management issues attached to each topic.

All agreed that an assessment committee formed of volunteers from the participants will be facilitated by ACE-II to develop a list of recommendations for areas of work that will be submitted before the end of the year to the Agricultural Credit Technical Working Group, which will be formed in the following meeting.



*The group presentation on financial institutions constraint*

The workshop was a significant success for ACE-II, both in terms of number, level of participants but also in terms of the engagement shown by the agricultural credit community in a collaborative effort to eliminate constraints to agricultural credit. The technical working group meeting represents a continuation of the process initiated by ACE in 2010. This meeting gave participating stakeholders the opportunity to express their ideas on how to develop the process further for the expansion of agricultural finance services in Afghanistan.

### **3.3 Developing and strengthening decision making tools.**

Following the meetings with the heads of Statistics Department and Management Information System (MIS) Unit at MAIL, the ACE-II Component III Lead had a meeting with Mr. Shakir Majeedi, Strategic Planning Advisor of MAIL's Policy and Planning Directorate, to discuss the importance of PAYWAND and ways of accelerating the process of collaboration between ACE-II and MAIL. It was agreed that Mr. Shakir Majeedi will assist ACE-II team to organize a presentation on PAWYAND to the Minister and heads of Directorates at MAIL during the first weeks of October.

The MOU between the DAI and MAIL was amended to continue the partnership to update, improve and disseminate knowledge of PAYWAND with MAIL. Discussions will continue and be finalized after the presentation to the Minister.

# 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 Grants Manual
- 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