



SMALL ENTERPRISE ASSISTANCE FUNDS
Connecting Local Enterprises with the World

Expansion of SEAF-AGF in Afghanistan

Cooperative Agreement No. 306-A-00-10-00525-00

Final Performance Report

Submitted on November 14, 2015

Small Enterprise Assistance Funds

Non-profit organization incorporated under laws of New York.

1500 K Street NW, Suite 375
Washington DC 20005, USA
Tel: (202) 737 8463
Fax: (202) 737 5536

Contact: Don Lubreski
Chief Financial Officer
E-mail: Don@seafweb.org
Website: www.seaf.com

Afghan Growth Finance, LLC.

Limited liability Company organized & existing under laws of Delaware.

1500 K Street NW, Suite 375
Washington DC 20005, USA
Tel: (202) 737 8463
Fax: (202) 737 5536

Contact: Don Lubreski
E-mail: Don@seafweb.org

Afghan Growth Finance, LLC.

Wholly-owned subsidiary of AGF, LLC. Delaware formed & existing under laws of Afghanistan.

Khisrow Balkhi Building, Floor 5
Taimani, Kabul
Tel: +93 (0) 799 419 570

Contact: Mustafa Kazem
Managing Director
Email: mkazem@seaf-agf.com
Website: AfghanGrowthFinance.com

Mustafa Kazem, Managing Director

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I. Executive Summary

The Agreement

This final performance report is to be considered the close out report for Cooperative Agreement No. 306-A-00-10-00525-00 of SEAF. The effective date of the grant agreement is May 24, 2010. Through the cooperative agreement, USAID awarded a total estimated amount of USD 10 million to support the expansion of the Afghan Growth Finance LLC in Afghanistan (“SEAF-AGF” or the “Fund”), which would increase access to affordable capital and range of financing channels available to small and medium enterprises (SMEs). SEAF-AGF is a non-bank financial operating in Afghanistan that is indirectly wholly-owned by SEAF. Given that some of these channels will be new and not fully understood by local entrepreneurs, SEAF-AGF will also combine its loans with strong investment support services that further enhance the activities of Afghan SMEs.

On December 12, 2012, a modification to the Cooperative Agreement reduced the total estimated amount from USD 10 million to USD 8.5 million and increased the total obligated amount from USD 4 million to USD 6 million. In addition, performance benchmarks required for disbursement of grant funds were modified.

Finally, on February 9, 2015, a final modification revised the performance benchmarks for the disbursement of the third and final tranche of grant funds and provided incremental funding in the amount of USD 2.5 million increasing the total obligated amount from USD 6 million to USD 8.5 million.

The scale and capacity building enabled by the USAID resources would constitute a strong foundation for the planned expansion of AGF into a full-scale commercial finance company or bank which would provide a full range of financing and transactional services to a large number of SMEs in Afghanistan. SEAF-AGF’s objective is to build an institution that finances the growth and development of dynamic SMEs throughout Afghanistan on a permanent basis to catalyze growing average income, support improved stability and provide enduring tangible benefits from constructive linkage with the international community.

Accomplishments

Since its establishment in April 2008, SEAF-AGF has focused on addressing the market gap faced by SMEs in obtaining growth financing in Afghanistan. To date, SEAF-AGF has made 24 investments across all sectors with a strong focus on agribusiness and processed agribusiness industry, manufacturing, transport, storage, services and technology for a total of USD 45.98 million. SEAF-AGF also provides pre- and post-investment support to its portfolio companies as a means of overcoming challenges inherent in financing SMEs. Support includes completion of financial statements, strategic planning, corporate governance advisory services and development of operational and marketing strategies.

Lessons Learned

- SMEs are an important component of the Afghan economy and access to capital is vital for their development.

- Long term capital, deployed professionally, and structured appropriately can help early and growth stage companies expand into new markets.
- Successful lending to SMEs requires not only the provision for affordable and flexible capital but also significant pre and post investment support.
- Development of a working relationship between the lender and the borrower is critical in repayment performance and portfolio quality.
- Challenges with the Afghan economy and poor governance will foster uncertainty about the long term prospects of stability and investments.
- Given the expected decline in international assistance, Afghanistan will need to embrace new sources of funding for future economic growth and government revenue. Development of efficient mechanisms to deploy capital is critical. Capital markets need to be developed.
- The insecurity in the country limits the ability to deploy capital, monitor investments, and promote enterprise development.
- Government corruption, bureaucracy, and non-business friendly tax policies are substantial costs to local companies, limiting growth and profitability.

II. Afghan Growth Finance

Overview

Afghan Growth Finance LLC (“AGF” or “SEAF-AGF”) was incorporated in Delaware (USA) in May 2007 with a total an initial commitment of USD 25 million, which comprised of a loan from OPIC of USD 20 million and an equity contribution from SEAF of USD 5 million. In Year [], OPIC granted SEAF-AGF a second loan of USD 30 million, bringing the total of OPIC’s loan to USD 50 million. Through OPIC’s contribution, SEAF-AGF provides early stage and expansion capital for SMEs in Afghanistan. Strong emphasis placed on agribusiness and processed agro-industry, light manufacturing, transport and distribution, warehousing, services and technology.

In 2010, USAID/Afghanistan awarded a Cooperative Agreement to Small Enterprise Assistance Funds – Afghan Growth Finance (together “SEAF-AGF”) to support the expansion of SEAF-AGF’s operations and presence in Afghanistan, which will significantly enhance the access of Afghan SMEs to affordable capital and range of financing channels. SEAF-AGF opened satellite offices in Herat in 2011 and Mazar-e-Sharif in 2009.

Fund Operations

AGF provides long-term capital to SMEs in Afghanistan. AGF works closely with SMEs to structure financing options that enable them to grow and maximum profits. By working closely as a partner to the SMEs, AGF enables innovative and growth oriented companies to realize operational efficiency and increase value.

Investments are made in growth-oriented companies operating in key sectors with strong emphasis on change-driven companies that are utilizing inputs available in Afghanistan and adding value through innovation and use of new technologies.

AGF targets businesses that have been shut out of the commercial banking system and require a financial partner that can work with the company to improve operational efficiency. AGF is a full service financial partner helping SMEs realize their entrepreneurial potential by providing pre and post investment support.

The following section discusses the loans in SEAF-AGF’s portfolio as of June 30, 2015.

Financial Statements, including Active Loans

STATEMENT OF ASSETS, LIABILITIES, AND SHAREHOLDERS' CAPITAL - UNAUDITED				
Afghan Growth Finance LLC				
Reporting Currency: USD				
As of: 6/30/2015				
	AGF Delaware June 30, 2015	AGF Afghanistan June 30, 2015	Elimination and Consolidating Entries June 30, 2015	Consolidated Total June 30, 2015
Assets				
Cash and Cash Equivalents	9,725,326	783,318	-	10,508,644
Restricted Cash ¹	762,341	-	-	762,341
Accounts Receivable	-	93,718	-	93,718
Prepaid Expenses and Other Current Assets	175,190	19,416	-	194,605
Due from Fund Manager	87,389	14,913	-	102,302
Loan Receivable from Local	16,373,617	-	(16,373,617)	-
Loan Interest Receivable From Local	(167,372)	-	167,372	-
Receivable - AGF Local (For Advances)	1,818,305	-	(1,818,305)	-
Receivable - AGF Local (Service Fee)	4,428,588	-	(4,428,588)	-
Investments	-	-	-	-
Cost of Investments - Debt ²	-	19,884,006	-	19,884,006
Write-Up / (Provision) on Investments - Debt	-	(3,465,551)	-	(3,465,551)
Deposits	-	281,726	-	281,726
Property and Equipment, net	-	224,160	-	224,160
Total Assets	33,203,384	17,835,707	(22,453,138)	28,585,953
Liabilities and Shareholders' Capital				
Liabilities				
Accounts Payable and Accrued Expenses	-	63,488	-	63,488
Accrued Interest to OPIC	33,365	-	-	33,365
Long Term Loan Payable - OPIC	23,702,133	-	-	23,702,133
Interest Payable	-	(167,372)	167,372	-
Notes Payable	-	16,373,617	(16,373,617)	-
Technical Assistance Payable (to AGD)	-	4,428,588	(4,428,588)	-
Deferred Revenue	-	50,000	-	50,000
Other Liabilities	-	33,768	-	33,768
Total Liabilities	23,735,498	20,782,089	(20,634,833)	23,882,754
Shareholders' Capital				
Contributions ³	11,967,747	1,818,305	(1,818,305)	11,967,747
Retained Earnings / (Accumulated Loss)	(2,499,861)	(4,764,687)	-	(7,264,547)
Total Shareholders' Capital	9,467,886	(2,946,382)	(1,818,305)	4,703,199
Total Liabilities and Shareholders' Capital	33,203,384	17,835,707	(22,453,138)	28,585,953

Notes:

¹ Operating Reserve, as per the OPIC Loan Agreement.

² Portfolio Company Loan Investments due in the current year is \$4,977,885 as of 6/30/15.

³ Remaining balance in SEAF's USAID/equity account is \$1,588,492 as of 6/30/15.

STATEMENT OF OPERATIONS - UNAUDITED						
Afghan Growth Finance LLC						
Reporting Currency: USD						
For the Period: 1/1/2015 - 6/30/2015						
	Q1 Consolidated	AGF Delaware Quarter Ended: June 30, 2015	AGF Afghanistan Quarter Ended: June 30, 2015	Elimination and Consolidating Entries	Q2 Current Quarter Consolidated	YTD Consolidated Total
Revenues						
Interest Income from PC	543,945	-	563,700	-	563,700	1,107,645
Monitoring Fees from PC	21,522	-	19,772	-	19,772	41,294
Other Income from PC	15,364	-	48,117	-	48,117	63,481
Interest Revenue from AGF Local	-	179,727	-	(179,727)	-	-
Recovery of Reimbursable Expenses	-	296,970	-	(296,970)	-	-
Bank Interest	874	936	-	-	936	1,810
Miscellaneous Revenue	24,743	-	2,438	-	2,438	27,181
Total Revenues	606,447	477,633	634,027	(476,697)	634,963	1,241,410
Expenses						
Investment Management Fee	162,500	162,500	-	-	162,500	325,000
Interest Expense to OPIC	285,902	285,902	-	-	285,902	571,805
Bank Fees	2,043	-	1,235	-	1,235	3,277
Board Expenses	-	-	2,438	-	2,438	2,438
Consulting and Other Professional Fees	1,825	19,914	1,622	-	21,536	23,361
Interest Expense to Delaware ¹	-	-	179,727	(179,727)	-	-
Legal Fees	38,556	-	2,329	-	2,329	40,885
Occupancy Expense	50,027	-	51,218	-	51,218	101,245
Office Supplies and Expenses	13,567	3,776	14,196	-	17,972	31,539
Personnel Expense	221,408	99,522	108,437	-	207,959	429,367
Insurance (Directors and Officers)	10,093	10,093	-	-	10,093	20,186
Tax Expense	11,804	-	12,132	-	12,132	23,936
Technical Assistance Fees	-	-	296,970	(296,970)	-	-
Travel Expense	32,644	-	25,303	-	25,303	57,947
Depreciation and Amortization Expense	24,059	-	20,584	-	20,584	44,643
Software Expense	1,166	1,166	-	-	1,166	2,331
Miscellaneous Expenses	357	-	492	-	492	850
Total Expenses	855,951	582,873	716,684	(476,697)	822,860	1,678,811
Net Investment Income / (Loss)	(249,504)	(105,240)	(82,657)	-	(187,897)	(437,400)
Realized Gain / (Loss) on Investments	-	-	(4,989)	-	(4,989)	(4,989)
Unrealized Gain / (Loss) on Investments	(157,184)	-	18,579	-	18,579	(138,606)
Net Income / (Loss)	(406,688)	(105,240)	(69,067)	-	(174,307)	(580,995)

Notes:

¹ Effective as of the beginning of Q4 2011, AGF-Delaware is charging AGF-Afghanistan the same interest rate on its loans as it receives from OPIC.

STATEMENT OF CASH FLOWS - UNAUDITED						
Afghan Growth Finance LLC						
Reporting Currency: USD						
For the Period: 1/1/2015 - 6/30/2015						
	Q1 Consolidated	AGF Delaware Quarter Ended: June 30, 2015	AGF Afghanistan Quarter Ended: June 30, 2015	Elimination and Consolidating Entries	Q2 Current Quarter Consolidated	YTD Consolidated Total
Cash Flows from Operating Activities:						
Net Income / (Loss)	(406,688)	(105,240)	(69,067)	-	(174,307)	(580,995)
Purchase of Debt Investments	(500,000)	-	-	-	-	(500,000)
Capitalization of Interest Receivable on Debt Investment	32,317	-	301	-	301	32,618
Proceeds from Debt Investment Repayments	1,333,226	-	620,028	-	620,028	1,953,254
Realized (Gain) / Loss on Investments	-	-	4,989	-	4,989	4,989
Unrealized (Gain) / Loss on Investments	157,184	-	(18,579)	-	(18,579)	138,606
Depreciation and Amortization	24,059	-	20,384	-	20,384	44,643
(Increase) / Decrease in Assets:						
Accounts Receivables	(53,348)	23,303	(48,325)	(23,303)	(48,325)	(101,673)
Prepaid Expenses and Other Current Assets	(165,721)	10,093	(11,867)	-	(1,774)	(167,495)
Deposits	(28,642)	-	(29,998)	-	(29,998)	(58,640)
Increase / (Decrease) in Liabilities:						
Accounts Payable and Accrued Expenses	(102,464)	(19,800)	9,019	-	(10,781)	(113,245)
Due to Fund Manager	(9,751)	(69,537)	(2,438)	-	(71,975)	(81,726)
Accrued Interest to OPIC	285,902	(285,902)	-	-	(285,902)	-
Loan Interest Payable from Local	-	-	(23,303)	23,303	-	-
Deferred Revenue	3,028	-	(3,028)	-	(3,028)	-
Other Liabilities	-	-	-	-	-	-
Net Cash Provided by / (Used in) Operating Activities	569,102	(447,083)	448,316	-	1,233	570,336
Cash Flows from Investing Activities:						
Purchases of Property and Equipment	(577)	-	(3,011)	-	(3,011)	(3,588)
Net Cash Provided by / (Used in) Investing Activities	(577)	-	(3,011)	-	(3,011)	(3,588)
Cash Flows from Financing Activities:						
Capital Contributions by Members	1,800,000	300,000	-	-	300,000	2,100,000
Net Cash Provided by / (Used in) Financing Activities	1,800,000	300,000	-	-	300,000	2,100,000
Net Increase / (Decrease) in Cash and Cash Equivalents	2,368,525	(147,083)	445,305	-	298,222	2,666,748
Cash and Cash Equivalents at the Beginning of Period	7,854,237	9,884,750	338,013	-	10,222,763	7,854,237
Cash and Cash Equivalents at the End of Period	10,222,762	9,737,667	783,318	-	10,520,985	10,520,985

Active Loans

COMPANY NAME ¹	SECTOR	ACTIVE LOAN DETAILS					OUTSTANDING PAYMENTS				
		DATE OF INVESTMENT	LOAN AMOUNT	INTEREST RATE ²	TERM	DATE OF MATURITY	PRINCIPAL ³	INTEREST ⁴	FEES & Other	Total	
AEPC	Power Infrastructure	01-Oct-14	\$ 3,300,000	17.75%	24	01-Sep-16	\$ 3,245,084	\$ 412,931	\$ 32,250	\$ 3,690,265	
AKIT	Transportation	30-Jun-13	\$ 1,000,000	15.65%	6	30-Mar-14	\$ 420,826	\$ -	\$ -	\$ 420,826	
Angaza	Agribusiness	16-Jul-14	\$ 500,000	7.00%	72	15-Aug-20	\$ 500,000	\$ 150,918	\$ -	\$ 650,918	
Ehsan Osman	Agribusiness	31-Oct-13	\$ 676,397	0.00%	60	01-Oct-17	\$ 673,450	\$ -	\$ -	\$ 673,450	
Finest	Retail & Warehousing	10-Apr-14	\$ 3,842,834	9.25%	60	10-Apr-19	\$ 3,682,176	\$ 621,672	\$ 36,863	\$ 4,340,711	
Harrirad	Construction Material	27-Dec-10	\$ 4,000,000	13.75%	72	01-Jan-16	\$ 672,424	\$ 31,379	\$ 2,333	\$ 706,136	
Hirat Ice Cream	Food Industries	25-Aug-14	\$ 3,519,682	0.00%	60	25-Jun-18	\$ 3,890,583	\$ 1,167,454	\$ 38,412	\$ 5,096,449	
Itifaq Food	Food Industries	13-Sep-12	\$ 500,000	16.15%	36	13-Sep-15	\$ 195,181	\$ 11,090	\$ 3,520	\$ 209,791	
Khalid Haroon	Light Manufacturing	24-Aug-14	\$ 750,000	10.00%	60	25-Feb-18	\$ 739,150	\$ 221,250	\$ -	\$ 960,400	
Moby Group 1	Media	22-Jan-13	\$ 2,000,000	16.85%	24	01-Apr-15	\$ 375,000	\$ 25,275	\$ 3,750	\$ 404,025	
Moby Group 2	Media	08-Oct-14	\$ 1,800,000	9.50%	12	15-Oct-15	\$ 1,800,000	\$ 28,484	\$ -	\$ 1,828,484	
Pamir Blair Salt	Agribusiness	01-Apr-12	\$ 1,000,000	0.00%	36	01-Apr-15	\$ -	\$ -	\$ -	\$ -	
Rana	IT & Technology	10-Nov-10	\$ 1,500,000	12.50%	36	15-Dec-13	\$ 1,500,000	\$ 239,909	\$ 8,156	\$ 1,748,065	
Super Cola	Food Industries	02-Apr-13	\$ 906,334	15.65%	24	01-Apr-16	\$ 806,326	\$ 58,962	\$ 7,500	\$ 872,788	
Victor Pipe 2	Light Manufacturing	19-Jun-10	\$ 1,400,000	0.00%	60	20-Jun-15	\$ 116,213	\$ -	\$ -	\$ 116,213	
Victor Pipe 3	Light Manufacturing	25-Sep-11	\$ 2,500,000	0.00%	60	25-Sep-16	\$ 1,277,594	\$ 427,474	\$ 6,250	\$ 1,711,318	
Average			\$ 1,824,703	9.17%	44						
Total			\$ 29,195,247				\$ 19,894,006	\$ 3,396,798	\$ 139,034	\$ 23,429,839	

Note:

- ¹ Ehsan Osman and Khalid Haroon are inactive loans.
- ² Hirat Ice Cream, Victor Pipe, and Pamir Blair Salt are Murabaha loans, therefore, there is no stated interest rate.
- ³ Hirat Ice Cream, Victor Pipe 3, and Pamir Blair Salt outstanding principal represents effective interest calculation adjustments.
- ⁴ Moby Group and Finest interest is less withholding taxes due.

Loans in Arrears

No	COMPANY NAME	Aged 1-30 Days	Aged 31-60 Days	Aged 61-90 Days	Aged 90 + Days	Total
1	Khalid Haroon	\$ 16,250	\$ 16,250	\$ 16,250	\$ 97,500	\$ 146,250
2	Rana Technologies	\$ -	\$ -	\$ -	\$ 1,500,000	\$ 1,500,000
3	AKIT	\$ -	\$ -	\$ -	\$ 420,826	\$ 420,826
4	Ehsan Osman	\$ 4,000	\$ 4,000	\$ 4,000	\$ 88,000	\$ 100,000
5	Angaza	\$ 2,906	\$ 2,910	\$ 2,913	\$ 20,418	\$ 29,147
	Total	\$ 23,156	\$ 23,160	\$ 23,163	\$ 2,126,744	\$ 2,196,223

Khalid Haroon

In early 2014, AGF pursued the company through the commercial courts and was awarded a judgment in the amount of USD 750,000. The company made one installment payment under the judgement but failed to make any further payments. AGF has retained the services of a local attorney and started additional legal action in the Mazar commercial court. Decision is expected by October 2015.

Rana Technologies

In 2014, AGF issued a number of loan repayment options to Rana. However, Rana did not agree to the proposed terms as it does not want to pay interest on the outstanding liability. Additionally, Rana has not provided clarity regarding security collateral and ability to repay the liability over the proposed 5 years. In the absence of an agreement AGF will initiate legal action in Afghanistan in 3Q2015.

Ehsan Osman

Ehsan Osman has left the country with unpaid liabilities to AGF and other creditors. AGF has filed a claim with the Attorney General office of fraud and local authorities have been informed to detain the shareholders when and if they return to the country.

Angaza

After multiple notices, in mid-2014, Angaza agreed to repayment of the loan liability over 5 years. However, post agreement the company failed to make any payments. AGF has retained a local lawyer and filed a claim in Kabul commercial court. The trial began April 2015 with judgement expected in September.

III. USAID Performance Monitoring Plan Indicators

SEAF-AGF's investments provide commercial returns to investors while having a sustainable development impact on the local economy by increasing employment, improving availability of products and services, and increasing tax revenues for the government.

NO	INDICATORS	2013		Q1 2014		Q2 2014		Q3 2014		Q4 2014		Q1 2015		Q2 2015		Cumulative to Date	
		Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
1	(4.3.1.1) # of new businesses created with AGF lending																
2	(4.3.1.2) # of existing businesses expanded with AGF lending																25
3	(4.3.1.3) # of new jobs created by SMEs as a result of AGF lending																1036
4	Number of jobs supported by AGF loan	52												589	190		3596
5	(4.3.1.2.1) Number of total staff hired																28
6	(4.3.1.2.1.1) # AGF Staff trained	10	3	10	1	10	3	10	3	10	3	10	3	10	3		10
7	(4.3.1.3.1.1) Number of loans approved/disbursed									1							33
8	(4.3.1.3.1.2) Number of borrowers (EG 4.3.1a)																25
9	(4.3.1.3.2) Amount of loans disbursed	\$	8,522,932	\$	395,535	\$	1,053	\$	-	\$	1,800,000	\$	500,000	\$	-	\$	45,989,415
10	(4.3.1.1.1) Branches and/or financial points of service (EG 4.3.1b)																4
11	(4.3.1.1.2.1) # of regions served by AGF financial services																4
12	(4.3.1.1.1.1) # of Islamic financial products																2
13	(4.3.1.2.2) # of new technology systems adopted		1														7
14	(4.3.1.3.1) Amount of total loans outstanding	\$	25,007,156	\$	23,085,368	\$	21,627,022	\$	20,750,977	\$	21,432,157	\$	20,509,325	\$	19,884,006	\$	19,884,006
15	(4.3.1.3.3) Percentage of loan defaults (PAR) (EG 4.3.1d)		4.9%		5.4%		5.7%		5.8%		5.6%						6.00%