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AGRICULTURAL CREDIT ENHANCEMENT II (ACE-II) PROGRAM

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Agriculture Development Fund's Strategic Planning Session, December 12-13, 2015

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EXECUTIVE SUMMARY

During December 2015, the Agriculture Credit Enhancement II (ACE-II) program continued its efforts to implement activities in line with the Annual Work Plan. The following progress has been made during December, 2015, the sixth month of ACE-II operation:

HIGHLIGHTS OF THE MONTH

- **Completed review of Agriculture Development Fund (ADF) management performance.** Mr. Robert Dressen, Senior Financial Advisor/DAI completed an STTA assignment for ACE-II in which he conducted a capacity assessment of ADF executive team to measure their performance and to define the areas of needing improvement and made specific recommendations on the areas to be strengthened and improved.
- **Completed the assessment of ADF operations.** Ms. Michele Breton, completed her STTA assignment for the review of various ADF's operational areas including business development (lending), credit and risk management, finance, operations and administration as well as internal auditing. Specifically, the consultant looked at the organizational structure, staffing, management, operational performance, policies and procedures, systems and MIS of ADF. The findings and recommendations on the review will be documented in a report to be submitted in January, 2016.
- **Participation in ADF's Strategic Planning Session.** ACE-II technical team participated in the ADF strategic planning session, December 12-13, 2015, with the participation of both national and provincial ADF staff. The ACE-II technical team presentations raised awareness of ACE-II objectives and support to ADF and contributed in the discussions on ADF strategic planning.
- **Drafted Annual Program Statement (APS) and Request for Applications (RFA).** Following approval of the Innovation Grant Fund (IGF) Manual, the Annual Program Statement and Request for Applications were prepared and submitted to the USAID for further review and approval.
- **Data Quality Assessment (DQA).** Per USAID/Afghanistan's request, USAID Contractor/SUPPORT-II project conducted DQA on selected ACE-II performance indicators on December 7th, 2015 to identify the strength and weaknesses of the data that is reported to USAID on the program success. The assessment results determine validity, reliability, timeliness, precision and integrity of ACE-II data. The assessment confirmed the quality of the ACE II reported results.

- **ACTWG Solution Committee Meeting.** A meeting of the Solutions Committee of the Agricultural Credit Technical Working Group (ACTWG) was held December 22 to finalize the agenda for the ACTWG's January meeting.
- **Onboarding the new DCOP.** The DCOP recommended by DAI was approved by USAID and arrived in Afghanistan on December 10th, 2015 to commence duties.

COMPONENT I

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 has sufficient capital and is capable of generating enough income to cover operating costs, and be financially sustainable.

INSTITUTIONAL: strengthening policies, procedures, and safeguards with the purpose of streamlining day to day operations and thus 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.

All activities under Component I will aim to achieve these three objectives and ultimately will lead to underpinning the independence and sustainability of the ADF.

Participation in ADF's Strategic Planning Session

The ACE-II technical team participated in the ADF Strategic Planning Session held on December 12-13, 2015 with the participation of both national and provincial ADF staff.



Figure 1. ACE II COP, Greta addresses the ADF Strategic Planning session on ACE II's collaborative role in supporting the ADF.



Figure 2. DAI Senior Financial Advisor Robert Dressen highlight the political, economic and other changes that influence ADF's Strategic and Business Plan.

The 2 day session was designed to develop team-wide ownership of the strategy, objectives, priorities and targets by facilitating discussion of issues and challenges facing

ADF. Priorities and targets for the next five years of ADF's operation will, of necessity, be influenced by the evolving environment in which it works. Given significant changes in that environment during recent years, the strategic review provided an opportunity for the entire team to discuss and to evaluate how the institution adapts to its changed environment.

ACE-II COP, Greta Greathouse, presented ACE-II goals and objectives. To encourage continuing collaboration between ACE-II and ADF, she facilitated a break out group session with the entire ADF staff to review the list of constraints to ag credit from the September Agriculture Technical Working Group (AGTWG) workshop led by ACE-II and the ADF. The three ADF break out groups added and prioritized the existing lists, with the results to be included in the presentations at the January meeting of the ACTWG.

As an exercise to build a shared "vision of success" for ADF, she led a session to help identify their unique qualities and achievements of that could create a "vision" that will not only continue to inspire them, but can help to guide management choices. The results from the interactive session will be presented to the ADF team in early January, 2016.



Figure 3. (Left) Agricultural Constraints

Figure 4. (Right) Vision of Success

Interactive participation characterized the "Agricultural Constraints" break-out groups and "Vision of Success" exercises at the ADF Strategic Planning Session 2016.

Photo Credit: ACE II

STTA Support to ADF Performance Review and Operational Assessment

Two STTAs, Michelle Breton and Robert Dressen arrived in Afghanistan to conduct the review of performance of ADF executive team and the assessment of ADF operations. Ms. Breton's review covers various ADF's operational areas including business development (lending), credit and risk management, finance, operations and administration, and internal auditing. A part of Robert Dressen's tasks included reviewing the performance of the ADF staff, particularly the executive team and the heads of departments. The STTAs have separate responsibilities but will collaborate on some parts of the ADF review to address activities 1.1, 1.2, 1.3, 1.4, 1.5, 1.6, and 1.7 of the Annual Work Plan outlined below:

1.1. Reviewing the Structure and Performance of ADF Staff

The process of review was focused on four areas including the assessment of the ADF executive management capacity, revision of the Five Year Strategic Plan, ADF governance and the institutional capacity building. During the comprehensive review a

self-assessment approach, individual meetings, coaching, documents review and observations were applied by the STTA.

Assessment of ADF management capacity: The ADF executive directors prepared self-assessment of their capacity areas to identify areas that need improvement. The assessment revealed that Directors need to think more like executives and leaders; they need to better understand the ADF Five Year Strategy and to participate in developing the new Five Year Plan of ADF.

ADF Governance: It is important that ADF and ACE-II continue building and strengthening collaboration and partnership with MAIL's new leadership. Given the change in MAIL leadership personnel, new efforts to strengthen this key relationship are needed. Additionally, the governance structure of the High Council and its Committees needs to be reinforced.

ACE-II has been attempting to organize the High Council meeting since September 2015. However, due to unavailability of the Minister of MAIL, the meeting was postponed to January 2016. The new date for the High Council meeting has been confirmed for January 17-18, 2016. Both the technical and operational teams of ACE-II have started preparation for the High Council meeting. Mr. Robert Dressen, supported by the COP and DCOP of ACE-II, drafted discussion notes, presentations and revised the Five Year Strategic and Business Plan to be presented and discussed during the next High Council meeting.

ADF Institutional Capacity Building: As the ADF is now an independent development finance institution, it is of critical importance that its operations support the sustainability of the organization. Although the institution has transitioned from being a project activity to being independent, its structure and the capacity of its staff also need to evolve from its project origins, both on the management and technical aspects of the organization's work. The executive team must be able to manage and to direct aspects of its operations, with appropriate communications, decision making, planning and leadership. On the technical side, they must have the capacity to build a new client base of financial institutions, to improve portfolio management and to develop new products, all while maintaining the "development" aspect of being a development finance institution. Such a transition is challenging but essential to the institution's ability to thrive.

Mr. Dressen reviewed ADF's monthly and quarterly reporting packages for the ADF management and the High Council and provided recommendations for improvements on both the reporting packages and loan quality, collection, classification/provisioning processes. The recommendations were discussed with the ACE-II/ADF management to consider further actions and activities for strengthening ADF as a standalone financial institution.

1.2. Building Capacity of Afghan Staff to Assume Full Management of the ADF

Following the review of ADF performance, Mr. Robert Dressen conducted initial coaching session with each ADF department Director on strategic vision and ADF Five

Year Strategy. In addition, he facilitated the team building exercises with the executive team to bind the team, so that they begin having a sense of team, to align them to their shared purpose, goals and targets and to establish the role of the leader team.

1.3. Assessment of ADF Operations.

Ms. Michele Breton completed the review of various ADF's operational areas including business development (lending), credit and risk management, finance, operations and administration, and internal auditing. The consultant looked at the organizational structure, staffing, management, operational performance, policies and procedures, systems and MIS of ADF. In this process, she focused on management structure and processes, job descriptions, and policies and procedures to identify areas for attention. Her final report, including clear recommendations, will be submitted in January.

1.4 Review of ADF Policies and Procedures

The operations assessment of Ms. Breton included a review of existing policies and procedures, a review for adequacy as well as for assessing the conformity of operations to those policies and procedures. A mapping exercise is being undertaken by ADF to identify the source of existing policies and procedures in each department, as well as the approval status of those policies and procedures. Where needed, existing policies and procedures will be augmented and/or formalized, and approved by the relevant authority. The preparation of any new policies and procedures and manuals needed will be undertaken internally to reinforce the capacity of the ADF team and to assure that the procedures are adapted to the operational necessities of the ADF.

1.5 New Member Orientation for Members of the ADF High Council

Orientation presentations have been developed and will be provided to High Council members during the Dubai meeting in January 2016.

1.6 Review of Strategic and Business Plan

The current Five Year Strategic Plan is outdated due to deterioration in the economy and the security situation in Afghanistan, following the reduction in force of NATO and the USA forces in Afghanistan. Both of these issues have directly impacted the demand for agricultural credit and the reimbursement of those credits.

For the revision, Mr. Robert Dressen gathered information through discussions with the relevant ADF staff, statistical review, and financial analysis. Supported by the ACE-II DCOP, he prepared financial projections and supported the ADF's Director of Finance with the preparation of the five year financial projections. The first draft of the updated plan has been completed. It will be discussed, agreed and finalized with the ADF management prior to presentation to the ADF High Council.

Some key recommendations made in the ADF Strategic and Business Plan include:

- Updated assumptions to reflect current economic and security conditions;

- Adjustment of targets for loan volumes and number of borrowers to be made based on those revised assumptions;
- Revised estimates of funding needs based on adjusted assumptions and revised targets;
- Capital plan to be developed based on revised funding needs estimate.
- Products offered, credit analytics and collections approaches to be modified based on lessons learned and current conditions.

1.7 Capital Campaign

An initial presentation of a Discussion Note on the Capital Campaign will be presented at ADF High Council Meeting to be held in January 2016. The Discussion Note will reflect the latest estimates of funding requirements contained in the revised Five Year Strategic and Business Plan of ADF. It will also briefly outline a long- term campaign to begin to familiarize potential donors with the ADF and its needs. ACE-II will be collaborating with the DAI Senior Financial Advisor, Robert Dressen in the preparation of this and other Discussion notes for that meeting.

COMPONENT II

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.

Component II – Support Entry of other Financial Intermediaries into Agriculture Finance - requires the establishment of an incentive-based grants program through the ADF. The 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 US\$10 million). While the funds for the challenge grants will not be part of the ACE-II award 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 US\$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.

2.1. Assist the ADF to recruit financial institutions

As part of its efforts to recruit financial institutions, ACE-II works with the ADF to arrange individual and group meetings with a variety of financial institutions.

- On December 14, ACE-II and ADF hosted a meeting with several executives from the Operations, Treasury, Finance and Delivery Channel departments of AZIZI Bank to explore their interest in developing business in the agricultural sector. Azizi's potential is of interest to ACE- II and ADF because of the size of their branch network, which is now the largest in Afghanistan. Although the focus of the Azizi executives visiting was not on credit, some areas of mutual interest were identified for a follow up meeting that will include the senior executives responsible for credit and lending. The bank's experience in India with the use of debit cards for loan disbursements, subsequent purchases for inputs, and repayments is of interest, although the disparity in connectivity, financial literacy and availability of points of service between Afghanistan and India limit its applicability right now for much of Afghanistan.
- A follow-up meeting was held between ACE-II and MISFA on December 30 to discuss ways in which the two institutions can collaborate. Since MISFA itself is

often the sole lender to MFIs in Afghanistan, it will benefit from ADF's role as an intermediary in providing loan capital for use for agriculture credit to some of MISFA's clients. Research on impact of access to credit is also another area of collaboration.

2.2 Finalize the ACE-II innovation Grant Fund (IGF) Manual, Annual Program Statement (APS) and Request for Applications (RFA)

The ACE-II Innovation Grant Fund (IFG) Manual, providing specific implementation guidance for the \$2.5mm of IGF awards designed to encourage new and innovative ways to expand the outreach of agricultural credit, was approved. Following approval of its approval, ACE-II prepared its APS (Annual Program Statement) and the Request for Applications (RFA) which will be published to launch the IGF. An ACE-II website will be developed for a variety of project uses, including posting this and other subsequent information about the IGF..

2.3 Revise the ADF Challenge Grants Manual

On December 21, 2015 the COP and DCOP held an informal meeting with ADF's Technical Services Director to discuss various uses of ADF grant funds and the role of the Technical Services Unit in supporting ADF lending activities. Although the respective roles of the two funds are distinct, close collaboration between the funds will be essential to realize their full potential to support the extension of agricultural credit. Revisions to the ADF Challenge Grants Manual will depend upon the funds allocated to Grants and on the revised ADF Strategic and Business plan.

2.5 Design and Launch Innovative Financial Products

ACE-II is beginning to explore the application of digital financial services and technology to tackle the problems that increase the operating costs of agricultural credit in Afghanistan. Technology has clearly shown that it can reduce the costs and improve the productivity of ag credit processes in a number of emerging markets. Although Afghanistan's connectivity, financial literacy rates, and availability of points of service are insufficiently developed, an initial exploration is underway to see how technology could reshape the use of non-financial intermediaries to make, disburse and collect loans. The goal would be to improve the scalability of such solutions by improving the results of using such intermediaries, while reducing their costs of operation.

2.6 Establish and Maintain Relationships with Bank and Non-Bank Financial Institutions

Through its ongoing work to develop the Agricultural Credit Technical Working Group (ACTWG) and other initiatives that are planned, ACE-II continues to establish and to maintain relationships with a variety of financial institutions. Through judicious use of project resources to support research that will feed knowledge sharing activities and other initiatives, ACE-II will develop relationships that will nurture the growing interest in agriculture credit and develop collaborative approaches to solving the constraints to

agriculture credit. Encouraging financial institution participation in the Solutions Committee of the ACTWG will help to develop the collaborative approach of the ACTWG.

COMPONENT III

MONITORING, EVALUATION AND ADVOCACY

Component III 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.

The activities under Component III 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.

The M&E unit has continuously served in its role developing a monitoring system and maintaining compliance with the ACE-II contract and USAID requirements. As a result, a number of activities were implemented during this reporting period.

Data Quality Assessment (DQA)

A DQA is required at least once every three years for any indicators reported externally (i.e., those data reported to an external stakeholder) indicators included in the Mission's annual Performance Plan and Report (PPR) per ADS 203. Per USAID/Afghanistan's request, USAID Contractor/SUPPORT-II project conducted DQA on ACE-II performance indicators listed below (see Table 1) on December 7th, 2015.

The ACE-II COP and M&E team were interviewed by John D. O'Connell, DQA Specialist during the assessment. The DQA was conducted based on the following five key data quality standards validity, reliability, precision, integrity and timeliness. The data quality assessment revealed that the indicators track the results they are intended to measure. The data is being collected and reported on time. The data collection methods, analysis, storing, reporting and responsibilities are clearly defined and documented in the Performance Indicator Reference Sheets (PIRS) as well as Data Collection Protocol and Guideline. The M&E staff verifies data for accuracy and stores the hard and soft copies in the folders and M&E Database which is password protected.

TABLE 1: RECENT DATA QUALITY ASSESSMENT INDICATOR LIST

#	Indicator	Status
1.1.	Value of Agriculture and Rural Loans	Completed , December 7th, 2015
2.1.	Number of MSMEs, including farmers, receiving	Completed , December 7th,

	USG assistance to access bank loans	2015
2.4.	Number of innovative lending products and approaches established by the ADF and financial intermediaries	Completed , December 7th, 2015

The results of the DQA were documented by the consultant and will be provided to USAID along with recommendations.

3.1 Defining the Baseline and Performance Benchmarks

The M&E unit team completed the data collection and analysis of baseline data on ACE-II performance indicators in November 2015.

The M&E team continues collecting the data on ADF clients for the ACE-II performance indicators as well as documents the significant successes as a result of ADF loans which will be reported through the upcoming ACE-II quarterly report.

Given the heavy workload in the field and limited M&E human resources at ACE-II, a short –term data field data collector was hired to assist the ACE-II team with the survey of ADF supported agribusinesses in Balkh province.

ACE-II will be hiring field collectors for a durational temporary assignment to ensure most time- and cost-effective way to collect data from the field as needed.

3.2 Establish and Lead the Agricultural Credit Technical Working Group (ACTWG)

In preparation for the next ACTWG meeting, January 10, 2016, ACE-II hosted a meeting of the Solution Committee of that group on December 22 to finalize the agenda and other details of the meeting.

- A regular feature of the meetings will be a brief presentation from ADF on “Business Opportunities in Afghanistan Agriculture”, which will provide useful information about promising value chains and their participants for the financial institutions.
- The AMA Director, Mr. Najib Samim will introduce the Solution Committee’s work and recommendations and someone from ADF with a banking background will present #1. Three break-out groups will then be formed, with one of the recommendations assigned to each for discussion. Each group will be tasked with developing a list of next steps for tackling the obstacle and will present the plan back to the plenary session.

Recommendations/Constraints to be addressed:

1. DAB regulation: Lack of distinction between commercial and agricultural lending result in several problems that limit access to agricultural credit and

restrict bank's willingness to provide it. Pro –agriculture credit policies in regulation would encourage expansion of agriculture credit.

2. Improved public awareness of the need for and benefits of expanded access to agricultural credit could build public support for the needed changes and serve to build interest among possible agriculture credit providers.
3. Improved coordination among financial institutions on agricultural credit would increase interest in agricultural lending, support collaborative efforts to improve access and reduce barriers to entry.



Figure 5.

Solutions Committee members developing the agenda for the January meeting of the Agricultural Credit Technical Working Group, December 22, 2015

3.2. Developing and Strengthening Decision Making Tools.

The task of updating the market and trade data of PAYWAND-an online knowledge management facility of MAIL had been completed. Using various online information sources, the STTA downloaded the data from four international websites (Ag Mark Net, AMIS, Fruit-Inform, and USDA), consolidated, sorted and uploaded the trade and market data on several countries including Afghanistan, Pakistan, India, and Holland for about 120 commodities into the system. With the data base updated, the remaining challenge for PAYWAND is to identify an effective way to assure that it is maintained in a sustainable way within MAIL. In consultation with USAID, it was agreed to attempt involve other USAID funded projects focused on government and communications to support effective operation and usage of PAYWAND within MAIL. ACE II will discuss the collaboration and joint opportunities with relevant USAID partners in the USAID AG implementing partners meeting to be held in January 2016.

3.4. Research Activities to Guide and Document Impact

Key research topics that have been identified for immediate attention include:

1. ACE-II will commission research studies to measure and document the impact of agriculture credit at the households and community levels. This will include its own research on ADF direct beneficiaries and will expand to incorporate impacts on the clients of ADF's financial intermediaries. The development of this data will serve to support ADF's role as a development finance organization and provide data to support capital raising efforts with other donors. It will also

support efforts to raise awareness about the positive impact of access to credit, which can help to encourage an active government role working to reduce barriers to credit.

2. ACE- II will work with ADF to study its portfolio results to date, identifying on a case by case basis the causes of delinquent/classified loans. Such analysis will help the ADF to adjust its business strategy, credit policies, credit analytics and collection processes based on the lessons learned from it.

Both of these research topics will provide useful information for knowledge sharing with the financial service sector, based on data derived from ADF's experiences. As part of this initiative ACE-II hired a female intern to support the ACE II's research which will also feed the ACTWG Agriculture Credit Awareness Campaign and to provide data to support ADF's business planning.

CHALLENGES ENCOUNTERED

- Arrangement of the high Council meeting. The High Council meeting had been postponed due to the MAIL leadership being out of the country on international visits.
- The security concerns during this reporting period resulted in delay of several meetings with the USAID partners, including the meeting on M&E of OAG Gender projects.

ACTIVITIES FOR THE FOLLOWING MONTH

- Second meeting of Agriculture Technical Working Group meeting (Jan 10)
- Completed assessment of ADF operations; M. Breton, STTA Report Submission
- Arrange and facilitate the High Council Meeting (Jan 17-18)
- Finalize Five Year Strategic and Business Plan for the High Council meeting
- Finalize Discussion Notes for the High Council
- Deliver High Council Member orientation sessions (Jan 17-18)
- Preparations for MOU signing ceremony USAID/MAIL (TBD)
- Meeting for Development Credit Authority (DCA) guarantee holding institutions to encourage use of guarantees to support agriculture credit (TBD).
- Collect, analyze and consolidate data on ACE-II performance indicators
- Develop work plan for two identified research priorities
- Define ways of making PAYWAND sustainable
- Publish Request for Applications for the ACE -II Innovation Growth Fund
- Develop and launch an ACE II website
- Discuss intern program with USAID