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AFGHANISTAN

AGRICULTURAL CREDIT ENHANCEMENT II (ACE-II) PROGRAM

MONTHLY REPORT NO.5

NOVEMBER, 2015



Introduction to agriculture loan products at the Kandahar Economic Conference and Exhibition by the ADF field staff

This publication was produced for review by the United States Agency for International Development. It was prepared by the Agricultural Credit Enhancement Program, implemented by Development Alternatives, Inc.

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EXECUTIVE SUMMARY

During November 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 November, 2015, the fifth month of ACE-II operation:

HIGHLIGHTS OF THE MONTH

Onboarding new Chief of Party: The new Chief of Party, Greta Greathouse mobilized and arrived in Afghanistan on November 8th, 2015. She immediately assumed her full responsibilities.

Supporting Economic Conference in Kandahar: The ACE-II program sponsored exhibition booths for three potential ADF agribusinesses to participate in the Kandahar Economic Conference and Exhibition, led by the Afghan People Union (APU) in coordination with the Afghanistan Investment Support Agency (AISA), held on November 17-19 in Kandahar province of Afghanistan. As part of its awareness campaign, ADF made a presentation of its loan products to more than 60 value chain actors during the event.

First “Solution Committee” Meeting: The first “Solution Committee” meeting was held on November 30th, 2015 to review the key agriculture credit constraints identified by the break-out groups during September Agriculture Technical Working Group meeting. The representatives from five financial institutions including Afghan Rural Finance Company (ARFC), Afghanistan Bank Association (ABA), First Micro Finance Bank (FMFB), Afghanistan Microfinance Association (AMA), Islamic Investment and Finance Cooperatives Group (IIFC) attended the meeting. The following issues were prioritized from the list of key agriculture credit constraints: 1) No distinction between Agriculture vs Commercial products, 2) Lack of coordination among financial institutions, 3) Lack of awareness on agriculture credit products during the meeting. These issues will be proposed to Agriculture Technical Working Group for tackling in the second ACTWG meeting which will take place at the end of December 2015.

Baseline survey: The M&E unit team completed the data collection and analysis of baseline data on ACE-II performance indicators. During the survey 351 male and 115 female farmers who received loans for agriculture purposes were targeted for interviews.

Updating PAYWAND: The ACE-II program completed updating the market and trade data of PAYWAND – an online knowledge management facility.

Approval of M&E Plan: Following USAID comments on the M&E plan, the final version was submitted and approved by the CO.

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.

During the reporting period two STTAs, Michel Breton and Robert Dressen arrived in Afghanistan. Ms. Breton's review will cover various ADF's operational areas including business development (lending), credit and risk management, finance, operations and administration, and internal auditing. Robert Dressen's part of his tasks includes reviewing the performance of the ADF staff. The STTAs have separate responsibilities but will collaborate on some parts of the ADF review to address activities 1.1, 1.2, and 1.3 of the Annual Work Plan outlined below:

1.1. Reviewing the structure and performance of ADF staff

The review of job descriptions of the ADF Directors and the direct reports undertaken in 1.3 below by Ms. Breton will provide the review of **staff structure** which will be provided and incorporated into the performance reviews being done by Mr. Dressen.

1.2. Building capacity of Afghan staff to assume full management of the ADF

The results of the ADF operations assessment undertaken in 1.3 below will identify missing skill sets or areas of operations which need improvement. This will help to direct resources to areas of greatest demand, and based on that assessment, ACE II will

develop a training plan for ADF staff. Similarly, the performance reviews undertaken by Mr. Dressen of the senior staff will pinpoint areas in which capacity building is needed.

1.3. Assessment of ADF operations

Based on the comprehensive review and assessment of the designated operational units being undertaken by Ms. Breton, specific recommendations will be provided for addressing any operational, administrative and structural gaps or weaknesses in the ADF departments.

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.

Following the comments received from USAID on the Grants Manual, the final version of the Manual was submitted to the Contracting Officer at USAID for final approval. The approval is still pending.

The DCOP/Grants Manager has been approved by USAID and will arrive in Afghanistan during the first week of December, 2015.

Kandahar Economic Conference and Exhibition:

During this reporting period the ACE-II program sponsored exhibition booths for three potential ADF agribusinesses to participate and exhibit their products at the Kandahar Economic Conference and Exhibition, convened on November 17-19, 2015 in Kandahar province of Afghanistan. The Kandahar Economic Conference and Exhibition was organized by the Afghan People Union (APU) in coordination with the Afghanistan Investment Support Agency (AISA).

The main purpose of this event was to provide an opportunity for Afghan micro, small, and medium agribusinesses to develop and consolidate cooperation and partnership as well as to generate income from the sale of agricultural products.

ACE-II in coordination with the ADF technical team selected the following successful ADF clients to attend the Kandahar Economic Conference and Exhibition to foster linkages with value chain actors and expand their market opportunities for their products.

No	Exhibitors	Province	Activity
1	Sayed Ahmad Khushakyar and Brothers Ltd	Kandahar	Agri-Inputs Supplier
2	Rahmat Nazar Ltd	Kandahar	Dried Fruits
3	Kamil Farid Group	Kandahar	Cotton Processing

The event was inaugurated by the Governor of Kandahar province, Dr. Homayoon Azizi, and the Deputy Governor of Kandahar province Mr. Shamsullah Shamsi, the consular of Pakistan, India and Iran.



Inauguration of the Kandahar Economic Conference and Exhibition by the Governor of Kandahar province and other officials

High-level delegations, members of farmer unions as well as the heads of national agricultural development organizations and other value chain actors took part in this significant gathering. About 150 booths were provided to various agriculture value chain actors to demonstrate and sell their products during the exhibition.

Capitalizing on the presence of the diverse organizations present, ADF organized a workshop during the Conference for 60 participants. ADF staff members introduced the ADF and its loan products during the workshop.



Presentation of ADF loan products by the ADF staff during the Kandahar Economic Conference and Exhibition

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. ACE-II has made the following progress against the planned activities during the month of November 2015.

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. During the survey 351 male and 115 female farmers who received loans for agriculture purposes were targeted for interviews. For the gender related indicator on the percentage of females who report increased self-efficacy in the conclusion of USG supported training/programming, the ACE-II M&E team will use a pre-post assessment method to determine the change in females self-efficacy as a result of loans. Accordingly, the ACE-II M&E team traveled to Bamyan and conducted interviews with 53 female beneficiaries of Gulghula Agriculture and Livestock Cooperative in October 2015. Given, the large number of female beneficiaries in Herat, the M&E team conducted interviews with 62 women from a Saffron Cooperative during November, 2015.

The data was collected for the following ACE-II performance indicators:

#	ACE-II PERFORMANCE INDICATORS	Baseline
3.2	Percentage change in sales of agribusinesses supported through ADF loans	29%
3.3	*Value of exports of targeted agriculture commodities as a result of USG assistance (F- 4.5.2-36)	US\$29,971,159
3.4	Percentage change in farm productivity of enterprises supported by the ADF*	18%
Cross Cutting	* Percentage of females who report increased self-efficacy at the conclusion of USG supported training/programming (F- GNDR 2)	TBD after the post – test is completed with same sample population

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

Following the first ACTWG meeting of September 18th, the ACE-II technical team facilitated the first “Solution Committee” meeting on November 30th, 2015 which was convened in ADF office in Kabul.

The purpose of the first “Solution Committee” meeting was:

- To clarify the purpose and the roles of the “ Solution Committee”
- To identify priority issues from the list of constraints determined during the September Agricultural Credit Technical Working Group (ACTWG)

The representatives from five financial institutions including Afghan Rural Finance Company (ARFC), Afghanistan Bank Association (ABA), First Micro Finance Bank (FMFB), Afghanistan Microfinance Association (AMA), Islamic Investment and Finance Cooperatives Group (IIFC) attended the meeting.

As a result of the discussions the members of the committee prioritized the following three key agriculture credit constraints from the list identified by the groups during September ACTWG meeting.

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

These constraints deemed to be feasible and will be proposed to Agriculture Credit Technical Working Group for further discussion and resolution during the second meeting which will be organized at the end of December 2015.



First “Solution Committee Meeting facilitated by ACE-II and ADF team

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. Therefore, in consultation with USAID, it was agreed to attempt involve other USAID funded projects embedded at MAIL to support and to ensure effective operation and usage of PAYWAND within MAIL. Accordingly, the ACE-II Chief of Party, Ms. Greta Greathouse will discuss the collaboration and joint opportunities with the USAID relevant partners during the following month.

CHALLENGES ENCOUNTERED

No major constraints were encountered during the reporting month.

PLANS FOR THE FOLLOWING MONTH

- Planning the second Agriculture Technical Working Group meeting (Dec 17)
- Completed assessment of ADF operations in the areas of business development, credit and risk management, operations and administration, internal audit.
- Completed review of ADF management performance
- Needs assessment to determine training plan for ADF completed
- Participation in ADF's Strategic Planning Session, Dec 12-13.
- Annual Program Statement for ACE-II Grant Fund Published
- Arrange and facilitate the High Council Meeting
- Prepare and deliver High Council Member orientation sessions
- Preparations for MOU signing ceremony USAID/MAIL (TBD)
- Participate in ADF meetings with new prospects (Azizi Bank); (Dec. 7)
- Meeting for DCA guarantee holding institutions to encourage use of guarantees to support agriculture credit (TBD).
- DQA Assessment (Dec. 7)

ANNEX I ACE-II MEETING NOTES: “SOLUTIONS COMMITTEE” OF THE AGRICULTURAL CREDIT WORKING GROUP

November 30, 2015

Members Attended:

ACE- II:

Greta K. Greathouse, COP

Najeeb Saddiqui, Grants Manager

Lutfiya Farhodova, M&E Specialist

ADF:

Khaled Sarwary, Director of Credit and Risk Unit

Salahuddin Matani, Director of BD Unit

Financial Institutions:

FMFB: Ramez Rozekh, Business and Marketing Officer

AMA: Najibullah Samim, Executive Director

ABA: Najibulla Amiri, Deputy Executive Director

ARFC: Dr. Hashmat Seyar Amarkhail, CEO

Meeting Notes:

Role of the “Solutions Committee” of the Agricultural Technical Working Group:

The Agricultural Credit Technical Working Group is a collaborative effort of the financial service sector to tackle the obstacles that exist to improving access to and the availability of agricultural credit. The “Solutions Committee”, comprised of volunteers from organizations that participated in the Agricultural Credit Technical Working Group (ACTWG) meeting on September 18, 2015, held its first meeting facilitated by ADF and ACE-II. The committee is tasked with filtering through the priority constraints identified during the ACTWG meeting by the three break out groups formed during that meeting. Each break out group was assigned one of the three general areas from which constraints agricultural credit come: institutional constraints, policy and regulatory constraints, and credit product and structure constraints.

The “Solutions Committee” will identify three constraints for recommendation to the ACTWG to be tackled by the ACTWG in a collaborative effort to eliminate or mitigate those constraints.

Discussion Summary:

Key discussion elements surrounding the selection criteria and processes included:

- The importance of finding a way to bridge the disparate interests of regulated and non-regulated members of the ACTWG to make the work relevant for both types of institutions;
- The necessity to bring the relevant government agencies/ministries into ACTWG activities – at the appropriate time. This will be most effective when the ACTWG has

determined its priorities for issues on which the group can collaborate, when the initial problems to be undertaken have been defined and accepted by the ACTWG;

- Inclusion of MISFA who can play a key role in facilitating government participation;
- Limiting membership in the AGTWG to financial institutions, key agriculture donor projects with a finance component, key sector players that bridge the gap to government such as MISFA, and other donor projects working on related regulatory issues (Herakat).
- Recognition that success will be achieved, in part, by beginning with less complex obstacles and constraints that are within the capacity of the group to address. Success in resolving some of the “low hanging fruit” will encourage additional collaboration on more complex issues.
- The need for there to be a clear definition of the problem and a vision of the solution articulated by the ACTWG as the first step to finding solutions;
- A process to be followed in solving each problem would be established. For policy and regulatory constraints, such a process could include:
 - Clear statement of problem, proposed solution, impact and benefits
 - Arrange education sessions on the issue for the financial sector, government and other interested parties
 - Provide briefing paper on “best practices” for the area; recommendations for best practice application in Afghanistan.
 - Government collaboration

Solutions Committee Recommendations:

The three constraints/obstacles that will be recommended by the Solutions Committee to the AGTWG for action are briefly described below:

- 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. Examples of the issues include:***
 - Application of classification standards to agricultural loans which do not fit the loan repayment/recovery cycle of agricultural credit;
 - Reserve requirements and provisioning are punitive for agriculture lending, especially given the inelastic demand issues related to agricultural lending rates;
 - Portfolio concentration limits need to be re-examined;
 - Minister of Finance treatment of loan write offs and provisioning as non-deductible is a disincentive for taking on riskier portfolios;

- 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. An awareness campaign would target key audiences, including:***
 - Local and national government entities and officials
 - Build awareness of positive impact of access to credit on production, prices and farmer and rural household incomes
 - Identify critical policy issues and promote change

- Identify ways local government entities can support access to agriculture credit
- Financial service sector
 - Raise awareness of availability of agricultural credit and sector developments;
 - Create awareness of market size and opportunities, resources available to support agriculture credit programs
- Farmers, agricultural MSMEs
 - Increase awareness of availability of agriculture credit and its positive impact;
 - Build awareness of Sharia compliant credit options and allay concerns by publicizing the Sharia Board reviews.

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.*

- Design ACTWG as an instrument of this coordination
- Develop channels for shared knowledge of what is happening in the ag credit space;
- Improve availability of technical information about the market, value chains etc;
- Develop shared technical resources (training, credit product development etc) to facilitate entry into the market by financial institutions.

Follow Up:

For each of the three problems to be addressed, we need a short (less than one page!) formal statement of the issue/problem and outcomes of our actions. Please contact us if you would like to volunteer to write up one of these issues.