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# AGRICULTURAL CREDIT ENHANCEMENT II (ACE-II) PROGRAM

## MONTHLY REPORT NO.7

### JANUARY, 2016



ADF High Council Meeting held in Istanbul on January 18th, 2016

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# EXECUTIVE SUMMARY

Throughout the reporting period of January 2016, the Agriculture Credit Enhancement II (ACE-II) program continued to make progress against its Annual Work Plan. Highlights for the period, the Project's seventh month since commencing operations, were as follows:

## HIGHLIGHTS OF THE MONTH

- **Agricultural Credit Technical Working Group Workshop.**

On January 11, 2016 the Agricultural Credit Technical Working Group organized a workshop at the Kabul Star hotel with the participation of about 40 officials and representatives from Afghan Microfinance Institutions, private banks, and associations. The main agenda item for the workshop was a group-focused session to discuss three key agriculture credit constraints prioritized by the Agricultural Credit Technical Working Group (ACTWG) Solutions Committee. Three break-out groups were assigned to discuss each of the constraint topics. Each group developed a list of next steps for tackling the obstacles and presented their plans back to the plenary session.

- **ADF High Council Meeting.**

On January 18<sup>th</sup> 2016, ADF/ACE-II held the 11<sup>th</sup> ADF High Council meeting in Istanbul, Turkey chaired by His Excellency Asadullah Zamir, Minister of Agriculture, Irrigation and Livestock (MAIL) with the participation of the board members. The meeting was called to discuss the long-term strategy of ADF, specifically the legal status of ADF, its strategic business plan, capital campaign and executive succession plan. The High Council approved in-principle the ADF's 2016 Annual Budget, with the condition that a reduced amount is projected for loan loss provision; approved its loan write-offs for 2015; and appointed the representative of the Afghanistan Chamber of Commerce and Industry (ACCI) as a member of the Governance and Compensation committee.

- **High Council Committees Meetings.**

The ADF High Council comprises three sub-committees: the Credit, Audit, and Governance and Compensation Committees. On January 17<sup>th</sup>, 2016 separate meetings for each of the High Council sub-committees were convened in Istanbul, Turkey to discuss specific issues under each sub-committee's domain. Recommendations were submitted by each of the sub-committees and are to be followed up by ADF with the support of ACE- II.

- **Revised the Annual Program Statement (APS).**

Following comments received from DAI Home Office, a draft Annual Program Statement (APS) for ACE-II's Innovation Grant Fund was finalized and will be submitted to USAID.

- **Participation in USAID Office of Agriculture (OAG) meeting with implementing partners on Gender monitoring and evaluation.**

The ACE-II M&E specialist participated in a one-day workshop organized by the USAID Gender team with the participation of all USAID implementing partners operating in Afghanistan. The meeting enabled the USAID partners to discuss gender related activities and plans for 2016, USAID reporting requirements and the ways of tracking the required gender related indicators.

# 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.

Activities under Component-I are focused on achieving these three objectives and ultimately will lead to underpinning the independence and sustainability of the ADF.

### ADF High Council Meeting

On January 18<sup>th</sup> 2016, ADF/ACE-II held its 11<sup>th</sup> High Council meeting in Istanbul, Turkey chaired by His Excellency Asadullah Zamir, Minister of Agriculture, Irrigation and Livestock (MAIL) with the participation of the board members. The meeting was called to discuss the long-term strategy of ADF, specifically the legal status of ADF, its strategic business plan, capital campaign and executive succession plan.

Mr. Joel Carter, the ADF CEO updated the High Council on ADF challenges, critical issues and key risks encountered by ADF. The CEO presented an update of 2015 financials and the budget for 2016 to the High Council. Following the discussion of the credit portfolio, it was agreed that an analysis of the impact of ADF loans should be undertaken and the results of the study be shared with the High Council members.

The ACE-II COP presentation focused on the project's goals and objectives, its role in transition of ADF to become an independent sustainable institution. The board members were updated on the outcomes of pre-High Council meetings held by the Credit, Audit & Governance, and Compensation sub-committees on January 17th, 2016. Key recommendations made by these committees include:

- The ADF Credit and Risk team should present reports and information on portfolio performance, write-off loans, loan collections and major risks faced by ADF to Credit Committee members at meetings on a quarterly basis.
- A summary of ADF portfolio and major achievements should be provided to Credit Committee members for review on a monthly basis.
- Loans declined and / or rejected at any stage in the origination process should be recorded and presented to the Credit Committee members upon request.
- A Director of Internal Audit should be recruited by the Audit & Governance Committee at the earliest.
- Audit reports should be submitted to the Audit & Governance Committee on a quarterly basis.
- To support ADF's strategy of expanding credit through financial intermediaries, a study should be conducted to:
  - 1) Assess the strength and credibility of local financial institutions;
  - 2) Extensively evaluate the major challenges facing agricultural finance in Afghanistan; and
  - 3) Provide evidence on global best practices to effectively intermediate as a wholesale funder targeting the agricultural sector in development markets.
- ADF management is to review assumptions made in the Business Plan and present again to the High Council.
- ADF management should conduct an analysis on how to reduce loan losses; and how to identify and work with financial (for example, banks and MFIs) and non-financial intermediaries (such as agribusinesses, cooperatives and associations).
- ADF management should update its market analysis with specific focus on loan sizes and ways of developing new products to serve a broader base for clients.

The recommendations of the committees were documented and are to be followed up by ADF.

The High Council reviewed and discussed the ADF's five year Business Plan. The Council requested revised projections be drawn up that reflect different (higher) interest rate scenarios and lower loan provisions, and the impact thereof on the ADF's income and profitability. The strategy of providing loans to MFIs as means of assisting small holder farmers was discussed at length by the members. It was agreed that an in-depth analysis should be conducted to identify the role of MISFA in agricultural lending. Members debated whether the ADF should rather concentrate more on lending to medium and large agribusinesses in order to achieve financial sustainability. ADF/ACE-II will undertake an extensive analysis and provide further information on the viability of target market strategy at the next High Council meeting.

At the conclusion of the High Council meeting, the members approved ADF's Annual Budget for 2016 with the condition of lower projected loan loss provisions; approved the loan write-offs for 2015; and appointed the representative of ACCI as a member of the Governance and Compensation committee.



**Figure 1.** H.E. Asadullah Zamir, Minister of MAIL, emphasized the need to support farmers through ag.credit and the importance of ADF's long-term strategy in High Council meeting held on January 18, 2016.

*Photo Credits: ADF*



**Figure 2.** Credit Committee Meeting discussion held January 17, 2016

*Photo Credits: ADF*

### **ACE-II assistance with preparations for the ADF High Council meeting**

- In the lead up to the ADF High Council meeting on January 18, 2016 ACE-II under the direction of its Senior Banking & Financial Services Advisor, Mr. Robert Dressen, supported the ADF with the preparation of its five year financial projections, which formed part of the ADF's Business Plan presented at the ADF High Council meeting in Istanbul.
- ACE-II assisted with providing support and guidance on the ADF's Business Plan and helped to prepare discussion papers on critical issues facing the ADF, namely:
  - i. Key risks facing the ADF
  - ii. The current legal status of the ADF and issues related to it
  - iii. How to plan for the eventual succession of the CEO and other executives
- At the invitation of ACE-II, two renowned agricultural economists attended a plenary session at the High Council gathering in Istanbul, Turkey to provide input on the merits of re-establishing an Agricultural Development Bank in Afghanistan and to suggest alternatives that would rapidly expand credit to small agricultural producers. Their expert opinion and knowledge contributed to meaningful discussions on institutional approaches and challenges associated with agricultural finance.

# COMPONENT II

## SUPPORT THE 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 – Supporting the entry of other Financial Intermediaries into Agriculture Finance - requires the establishment of incentive-based grants programs intended to have positive and concomitant impact on the provision of financial services to the agriculture sector. 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 a 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.

During January 2016, the following activities under Component-II were undertaken:

### **Submission of the Annual Program Statement (APS) and Request for Application (RFA) for ACE-II's innovation Grants Fund**

The Annual Program Statement (APS) for ACE-II's Innovation Grants Fund (IGF) will be submitted to USAID after vetting by DAI Home Office. The purpose of the APS is to solicit applications for funding available under the IGF and includes clear evaluation criteria and the methodology to be followed for awarding grants. Approval by USAID is expected in the first half of February, 2016.

A Pre-Concept Paper Conference is tentatively planned for February 29, 2016 to provide guidance to potential applicants on the APS, ACE-II project objectives and on preparing and submitting grant concept papers. Invitees will include banks, microfinance institutions and other financial intermediaries; service providers / consultants offering for example, legal & collection services, training and / or technology solutions; as well as relevant Ministries, donor organizations and NGO's with an interest in agricultural finance.

## Design and launch of ACE – II Website

A Request for Quotation (RFQ) was distributed inviting suitably qualified local vendors to submit best-offer quotations for the design, set-up and launch of a new website for ACE II. The purpose of the website will be to promote awareness about the Project - its objectives, activities and achievements – and to publish relevant information and publications of interest to ACE-II stakeholders and the broader development finance community. The website is anticipated to be activated by late February to publicize the launch of ACE-II's Innovation Grants Fund (IGF) and post the relevant grant documents.

# 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 are to 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 remains committed to further develop and maintain its monitoring system while ensuring compliance with the ACE-II contract and USAID requirements. During the past month the unit implemented the following activities:

### **The Agriculture Credit Technical Working Group (ACTWG)**

On January 11, 2016 the ACTWG organized a workshop at the Kabul Star hotel with the participation of about 40 officials and representatives from Afghan Microfinance Institutions, private banks, and associations.

After a welcome introduction by the ACE-II Chief of Party Greta K. Greathouse, the ADF Director of Credit and Risk, Mr. Khalid Sarwary, presented a summary of results from the first ACTWG meeting in September 2015. Thereafter, Mr. Eamal Arman, the ADF Director of Technical Services, gave a presentation on the poultry industry; its relevance in the value chain, insight into benefits and risks associated with poultry production, and identifying potential opportunities for the financial institutions.

Prior to the workshop, the ACWTG Solutions Committee had prioritized three key agriculture credit constraints from a list identified by the ACTWG during its September 2015 meeting. The AMA Director, Mr. Najib Samim introduced the Solution Committee’s work and proposal to focus on the following three key agriculture credit constraints:

- 1) **Regulation and policies:** The lack of distinction between commercial and agricultural lending has resulted 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.

Three break-out groups were formed, with one of the constraints assigned to each for discussion. Each group was tasked with developing a list of next steps and recommended actions for tackling the obstacle and was required to present the plan back to the plenary session.

To move forward, three persons were nominated to lead the three task forces on taking next steps on recommendations, to develop work plans and coordinate group activity. Notes on the meeting were compiled by the ACE-II technical team and will be circulated to participants.



**Figure 3. ACE- II COP, Greta Greathouse discussed formation of 3 task forces for each recommendation to develop work plan**

*Photo Credits: ADF*



**Figure 4. Group discussion on “Encourage DAB and GIROA to differentiate policies between agricultural and commercial agricultural lending.**

*Photo Credits: ADF*

## **Research Activities to Guide and Document Impact**

The ACE-II technical team in conjunction with the ADF team commenced planning on two key research topics:

1. ACE-II will commission research to measure and document the impact of agriculture credit at household and community levels. A Scope of Work has been drafted and is expected to be released in the following month for the purpose of engaging an expert consultant. Research will mainly target ADF direct beneficiaries but will also endeavor to measure and assess the impact on borrowers of financial intermediaries who are funded by ADF wholesale credit facilities. The analysis of data collected will provide insight into the ADF's role as a development finance organization and support its capital raising efforts. It will also raise awareness about positive impacts of access to credit, and encourage an active government role working to reduce barriers to credit.
2. The second research activity will center on the ADF loan portfolio. A study will be undertaken to evaluate all overdue / classified loans in the loan book with the purpose of identifying on a case by case basis causes for delinquency. The analysis is expected to provide the ADF with empirical information to adjust its business and risk strategies, and review its lending methodology, credit policies and collection processes. ACE-II has developed a preliminary research framework for the research which will be agreed and finalized in the following month. The M&E team will design its research methodology including questionnaires and start its field work in the coming month.

Both research topics are expected to provide insightful information for knowledge sharing with the financial service sector, based on data derived from ADF's experiences.

## **USAID Office of Agriculture (OAG) meeting with implementing partners on Gender monitoring and evaluation**

The ACE-II M&E specialist participated in a one-day workshop organized by the USAID Gender Unit with the participation of all USAID implementing partners operating in Afghanistan. The objective of the meeting was threefold: 1) to define the status of Gender Reporting in FY 2015 – gender-related information about indicators, results (outputs, outcomes), expenditures, and success stories; 2) how to present Gender in FY 2016 work plans covering gender indicator targets, planned expenditure in the FY 2016 budget for the main activities envisaged for gender related projects; 3) to train implementing partners on how to target and track GNDR-3 Indicator (self-efficacy) so that it is uniformly understood and applied in FY 2016 and onwards.

Prior to attending the workshop, the USAID funded projects team were required to provide Two–Pager Gender narrative description of FY 2016 work plan indicating gender related activities, budgets and indicators tracked. The USAID Gender Unit reviewed 2015 annual reports of the RADPs, CBCMP II, AAEP II, Digital Green, and KFZ to determine the extent of compliance with gender reporting requirements found in award documents. (CHAMP and ACE-II were not included because of the different schedules/due dates of their annual reports).

# CHALLENGES ENCOUNTERED

No major challenges were encountered during the reporting period.

# PLANS FOR THE FOLLOWING MONTH

- The Project will prepare for a Pre-Concept Paper Conference tentatively scheduled for February 29, 2016 when the ACE-II Innovation Grant Fund will be presented to potential applicants and other interested parties.
- The Annual Program Statement (APS) for ACE-II's Innovation Grant Fund is to be published as soon as approval is obtained from USAID. The project will post the APS on the web and publish a summary version in the print media.
- A suitable vendor is to be selected for developing an ACE- II website that will initially provide a portal for accessing information on the ACE-II Innovation Growth Fund. The new website is expected to be launched by the end of February 2016.
- Collect, analyze and consolidate data on ACE-II performance indicators
- Finalize the Scope of Work for the research on impact of agriculture credit on farm productivity and income
- Develop study methodology including questionnaires for the study on major causes of loans default in ADF
- Define ways of making PAYWAND functional and useful
- ACE-II in collaboration with the leadership of the ADF will identify and prioritize those policies and procedures that require revision to strengthen the institutional framework of the ADF