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**AFGHANISTAN**

# AGRICULTURAL CREDIT ENHANCEMENT II (ACE-II) PROGRAM

MONTHLY REPORT NO.8

FEBRUARY, 2016



HERAT ICE CREAM COMPANY PRODUCES SEVERAL TYPES OF ICE CREAM AND DAIRY PRODUCTS. IT RECEIVED TWO LOANS FROM ADF; THE SECOND LOAN WAS AFN 11.5 MILLION AIMED AT PURCHASING OF FRESH MILK AND RAW MATERIAL. THE CLIENT IS SEEKING A THIRD LOAN FOR AFN 32 MILLION TO BE USED FOR THE SAME PURPOSE.

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# EXECUTIVE SUMMARY

Throughout the reporting period of February 2016, the Agriculture Credit Enhancement II (ACE-II) program continued to make progress against its Annual Work Plan. In its seventh month since commencing operations the Project is able to report on the following highlights:

## HIGHLIGHTS OF THE MONTH

- **ADF Sustainability Study**

The ADF sustainability study was begun, following completion of the SOW and onboarding of the STTA consultant, Russell Diehl, by ACE II.

- **Coordination with Other Agricultural Projects:**

ACE II has initiated a program to improve coordination with other USAID and donor agricultural projects to maximize access to credit for their beneficiaries. As an initial step, ACE II is seeking to identify the best channels of communication and the types of information and activities that will be most helpful to the projects.

- **Posting of Annual Program Statement (APS):**

Following approval by USAID, ACE-II posted the first Annual Program Statement (APS) through official website of Afghanistan Microfinance Association (AMA) and a condensed version of APS was posted through [www.acbar.org](http://www.acbar.org) and [www.jobs.af](http://www.jobs.af) websites in order to reach to the potential and interested applicants.

- **Innovation Grant Fund (IGF) Launch Preparations:**

With the APS approved and posted, the next step to developing a grant pipeline for the IGF will be an informational event planned for March 7. The event will target a cross section of Afghanistan's financial service sector, educational institutions, NGOs, donor projects and others who might use the IGF.

- **Farmer's Festival, Nawrooz Celebration and Ag-Fair 2016:**

The ACE-II Program will support approximately 20 ADF's clients to participate in the Farmer's Festival, Nawrooz Celebration and Kabul Agriculture Exhibition 2016, March 20-23. In collaboration with the ADF, ACE II is organizing the clients' participation, booths and associated activities.

- **ACE II Research Topics Identified:**

ACE II's Component 3 team has identified two key research themes and begun work to design the activities to support the research:

- In collaboration with the ADF, ACE II will conduct a detailed research into the portfolio at risk of the ADF to identify causes of the delinquencies.
- ACE II is designing research on the impact of access to credit to both direct ADF client and the indirect beneficiaries, i.e. clients of ADF intermediary institutions.

Both research activities will begin next month.

### **Design and launch of ACE – II Website:**

Following the launch for an RFP for STTA, ACE II project selected and interviewed three qualified local vendors who have submitted best-offer quotations for the design, set-up and launch of a new website for ACE II.

# **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 Sustainability Study**

ACE II STTA Russell Diehl began his review of ADF to analyze its sustainability assumptions, based on the existing and proposed ADF Business and Strategic Plans and including a review of the foreign exchange currency translation losses experienced by the ADF in translating its financial statements (in Afghani, the functional currency of

the ADF) to US dollars. The draft of the report is expected to be completed in the next month.



**Figure 1.** Sultan Dawood Production Company, produces certified wheat seed, is a potential ADF client in Baghlan province.

*Photo Credits: ADF*



**Figure 2.** View of the dried fruit processing facility of Caspian Production Company in Herat province.

*Photo Credits: ADF*

## 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 February 2016 the following activities under Component-II were undertaken:

#### **Coordination with other Agricultural projects:**

ACE II initiated communication to facilitate more meaningful dialogues and coordination with other agriculture projects in the USAID and other donor portfolios in order to maximize access to credit for beneficiaries of those projects. Key issues that can be addressed by such collaboration include:

- Providing and sharing information for the benefit of other projects and their beneficiaries
- Building awareness of constraints to agriculture lending which can help projects to have more realistic and targeted goals for obtaining credit for their beneficiaries.
- Working with the projects to introduce individual clients or beneficiary groups to the ADF and other financial institutions, especially those receiving funds from the ADF to enter into agricultural credit lending.
- Improving clients/beneficiaries ability to qualify for credit.

The project will schedule meetings with RADP North and Champ following their positive responses during the month of March. Additional projects will be contacted in March.

#### **Posting of Annual Program Statement (APS) for the Innovation Grant Fund:**

Following approval by USAID, ACE-II posted the first Annual Program Statement (APS) through official website of Afghanistan Microfinance Association (AMA) and a condensed version of APS was posted through [www.acbar.org](http://www.acbar.org) and [www.jobs.af](http://www.jobs.af) websites in order to reach to the potential and interested applicants. 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.

#### **Innovation Grant Fund Launch Preparations:**

The ACE-II Innovation Grant Fund will be officially launched at the Kabul Star Hotel on March 07, 2016. The purpose of the event is to officially introduce the fund, explain its primary objectives and provide relevant information about the funds' Annual Program Statement. A preliminary list of approximately 70 invitees has been drawn up which includes the Ministry of Agriculture Livestock and Irrigation, financial institutions, MFI's, NGOs, multinational and donor organizations, independent consultancies, local service and technology providers, training institutes and research organizations. The agenda for the event will introduce the fund and its alignment with ACE-II objectives; explain award eligibility and the application process; as well as highlight targeted areas where grant awards can meaningfully impact on expanding agricultural credit in Afghanistan or addressing constraints that impede access to agricultural credit.

## **Farmer's Festival, Nawrooz Celebration and Ag-Fair 2016:**

The organization of the Farmer's Festival, Nawrooz Celebration and Kabul Agricultural Exhibition (the Ag-Fair) is led by MAIL's Private Sector Development Department with ACE II collaboration; the event will be held March 20-23, 2016 in Badam Bagh, Kabul.

ACE-II Program will support 18 of ADF's clients to participate during the Farmer's Festival, Nawrooz Celebration and Kabul Agriculture Exhibition 2016. ACE-II Program in coordination with ADF reserved around 18 booths in the Badam Bagh grounds. The concept note and budget for the mentioned to the ACE-II senior management has been approved. ACE II/ADF participation in the event will also include various promotional activities for agricultural credit. At the same time, ADF and ACE will be supporting the local Farmers' Festival and Ag Fair in Mazar on the same dates.

## **Design and launch of ACE – II Website:**

ACE II project selected and interviewed three qualified local vendors who have submitted best-offer quotations for the design, set-up and launch of a new website for ACE II. Three local vendors were shortlisted and requested to provide samples of previous website development and design, time to implement, references, and best-price quotations. Final selection and start of the assignment is scheduled in the first week of March 2016.

The website will 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 March to publicize the launch of ACE II's Innovation Grants Fund (IGF), to post the relevant grant documents and provide information about grantees and their activities.

# **COMPONENT III**

## **MONITORING, EVALUTION 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:

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

ACE II and the ADF are in a unique position, possessing the only existing data on agricultural credit performance and impact in Afghanistan. ACE II intends to mine that data to shape future ADF policies and processes, as well as to provide insight to the financial service sector, donors, and other about the agricultural credit experience in Afghanistan. The ACE-II technical team in conjunction with the ADF team commenced planning on two initial key research topics:

1. ACE II project in coordination with ADF team developed questionnaires for the research that will be centered 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. The M&E team collaborated with ADF to develop questionnaires which will be used with the clients, with the loan officer, and with the credit department as part of the research methodology. The questionnaires and other activities will begin in March.
2. ACE-II will also conduct 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.

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.

## **CHALLENGES ENCOUNTERED**

- The resignation of Lutfiya Farhodova, Leader of Component III, necessitates seeking a replacement for this key personnel post. Senior management is reviewing resumes for potential candidates developed by DAI's recruitment team.

# PLANS FOR THE FOLLOWING MONTH

- The Innovation Grant Fund Launch, scheduled for March 07, 2016, will publicize the availability of the grant funds and provide key information to attendees to facilitate their understanding of the objectives, application processes and judging criteria for applicants.
- Additional marketing activities for the Innovation Grant Fund to be undertaken
- 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 March 2016.
- The project M&E team will collect, analyze and consolidate data on ACE-II performance indicators and will report the result in the upcoming ACE –II quarterly report.
- ACE II will support ADF participation in the Agricultural Fairs in Kabul and Mazar celebrating Nawrooz.
- The project M&E team in coordination with ADF Business Development and Credit and Risk teams will conduct the research on major causes of loans default in ADF.
- The project M&E team will complete the design of the client impact research and post an RFP for the consultant services required.
- A follow-up meeting for the Agricultural Credit Technical Working Group (ACTWG) Solutions Committee, comprised of volunteers from participants in its previous meetings, will meet to determine the next steps in preparing work plans and defining “next steps” for work on the three “constraints” chosen by the ACTWG and for their presentation to the government.
- ACE II will assist the ADF in organizing responses to the Michele Breton STTA report on ADF policies and procedures.
- ACE II will provide assistance to the ADF on issues requiring follow up from the most recent ADF High Council Meeting and in planning the next High Council Meeting.
- ACE II will identify a provider/source for Agricultural Credit Training for ADF and complete the specification for the training.
- Modifications to the ADF credit analysis format and loan application form to be tested and finalized.