



USAID
FROM THE AMERICAN PEOPLE

AFGHANISTAN

AGRICULTURAL CREDIT ENHANCEMENT II (ACE-II) PROGRAM

MONTHLY REPORT NO.9

MARCH 2016



ACE-II INNOVATION GRANT FUND LAUNCH AT THE KABUL STAR HOTEL ON MARCH 07, 2016

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.

CONTENTS

EXECUTIVE SUMMARY	2
COMPONENT I.....	3
SUPPORT THE ADF TRANSITION	3
COMPONENT II.....	4
SUPPORT ENTRY OF OTHER FINANCIAL INSTITUTIONS INTO AGRICULTURAL FINANCING	4
COMPONENT III.....	9
MONITORING, EVALUATION AND ADVOCACY	9
CHALLENGES ENCOUNTERED	10
PLANS FOR THE FOLLOWING MONTH.....	10

EXECUTIVE SUMMARY

Throughout the reporting period of March 2016, the Agriculture Credit Enhancement II (ACE-II) program continued to make progress against its Annual Work Plan. Following completion of seven months since its start, 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.

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

ACE II officially launched Innovation Grant Fund during the month of March. The program included a brief presentation on the objectives of the Fund and the procedures for applying to it. Participants attending the launch represented Afghanistan's financial service sector, educational institutions, NGOs, donor projects and the technology and communications sectors.

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

ACE-II supported and sponsored the participation of 17 ADF clients in the Farmer's Festival, Nawrooz Celebration and Kabul Agriculture Exhibition 2016, March 20-23. In collaboration with the ADF, ACE II organized the clients' participation, booths and facilitated learning and information activities for fair participants, including an ADF Access to Ag Credit Meeting. ACE II also supported the Mazar DAIL's Farmer's Day celebration in Balkh province on March 20, 2016.

- **ACE II Study on ADF Portfolio at Risk:**

ACE II, in collaboration with the ADF, has conducted an in-depth research overdue / the portfolio at risk of the ADF, to identify on a case by case basis the reasons for delinquency and default. The research findings, to be published in April, will help to inform revisions to credit policies and procedures of the ADF.

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

Following selection for the best technical and financial proposal, a local vendor has begun on the design, set-up and launch of a new website for ACE II, to be ready by the end of April.

- **Second “Solution Committee” Meeting:**

The second “Solution Committee” meeting was held on March 27th, 2016 to clarify the purpose and the roles of the “Solution Committee” and review the feedback from the break out groups during the January meeting.

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 continued his review of the ADF, focusing on its sustainability vis a vis its strategy and the underlying assumptions of the proposed Business and Strategic Plan (2016-2020) of the ADF and on the Afghani devaluation against the US dollar and its impact on the ADF. His draft report was submitted following the end of the month.

Michele Breton STTA Report and Recommendations on Policies and Procedures

Courtney McNamara, ACE II Assistant Project Manager, developed a comprehensive “tracker” of recommendations contained in the Michele Breton STTA report. The tracker will serve as a management tool to identify and to manage the recommendations contained in the Michele Breton STTA Report. ACE II will collaborate with ADF CEO Joel Carter to assign responsibilities and due dates for the recommendations accepted by the ADF.

ADF High Council Meetings

ACE II is working with the ADF to prepare all follow up items and reports required from the previous January High Council Meeting and to prepare for the next meeting in May. Key items for the follow up include recommendation for changed legal status for the ADF; impact analysis of the Afghani devaluation impact on the ADF; proposed financial intermediation strategy; and presentation of various cases for the proposed revised Business and Strategic Plan (2016-2020), based on different values for key assumptions, among others.

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 March 2016 the following activities under Component-II were undertaken:

Innovation Grant Fund Launch:

ACE-II Innovation Grant Fund officially launched its Innovation Grant Fund at the Kabul Star Hotel on March 07, 2016. The event introduced the fund, explain its primary objectives and provide relevant information about the funds' Annual Program Statement. Ms. Greta Greathouse, ACE II Chief of Party welcomed all the participants, introduced ACE II Innovation Grant Fund to the participants and discussed the importance of using grant funds to address constraints to expanding Ag-Credit in Afghanistan. H.E Mir Amanuddin Haidary, Deputy Minister of Agriculture, Irrigation and Livestock (MAIL) delivered the message of H.E Assadullah Zamir, Minister of Agriculture, Irrigation and Livestock to the participants and presented the importance of Innovation Grant Fund in the agricultural sector of Afghanistan.

The 50 participants attending the conference included representatives from the Ministry of Agriculture, Irrigation and Livestock (MAIL), financial institutions, MFI's, NGOs, multinational and donor organizations, independent consultancies, local service and technology providers, training institutes and research organizations. A key element of the IGF launch was the focused discussions on the types of innovative solutions needed for supporting ag credit's expansion in Afghanistan, the IFG eligibility requirements and judging criteria, along with the application process. Immediately following the IGF launch, Press releases from MAIL and USAID about the event helped to publicize the IGF locally and internationally. Following the event, ACE II received the first concept note application for the IGF. ACE II will continue to promote the fund by speaking at financial service sector events and through other activities.

Innovation Grant Fund: TAMIS Customization

ACE II COP Greta Greathouse worked with DAI's TAMIS specialist Oana Tudor to customize the grants module in the TAMIS system. All stages of the grant application and approval process will be captured in the TAMIS system, including the voting sheets for concept notes and full proposals. Similarly, all documentation related to the grants will be contained within the TAMIS system.

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

The ACE-II program sponsored exhibition booths for 17 potential ADF agribusinesses to participate and exhibit their products at the Kabul Agricultural Exhibition (the Ag-Fair) held on March 20-23, 2016 in Badam Bagh Fairground, Kabul. (See Annex 1 for the list of the ADF clients that exhibited at the Fair.). The event was organized and led by MAIL's Private Sector Development Department with the support of USAID and EU

funded projects of MAIL. The President of Afghanistan, Ashraf Ghani, inaugurated the event, emphasizing the key role that the expansion of the agricultural sector must plan in economic growth of the country.



Figure 1. President Ashraf Ghani cuts the ribbon to officially open the Nawrooz Farmers Day Agriculture Fair to the public on March 20, 2016

The Ag-Fair celebrated Farmers Day, providing an opportunity for Afghan small, medium and large agribusinesses to promote their products, to find customers and to expand linkages with new potential clients. ADF actively participated in the Ag-Fair, using it as a platform to not only feature its clients but to introduce its loan products and services to a wider audience. ACE II/ADF participation in the event also included promotional activities for agricultural credit. ACE II activities at the Fair enabled ACE II and the ADF to have a very prominent role, gaining significant attention for the ADF and its clients. ACE II activities included:

- Sponsorship and design of the conference hall, the VIP room, and the stage in the Badam Bagh grounds.
- Sponsorship, design and decoration of 17 ADF clients' booths at the Fair
- Facilitation of a special meeting event featuring H. E. Minister Zamir of MAIL speaking to exhibitors, farmers and others on agricultural policy and ADF's work.
- Facilitation of an ADF meeting on agricultural credit for exhibitors and visitors,

The MAIL- sponsored Ag Fairs play an important role in recognizing the contribution of agriculture to the economy and to familiarizing visitors with the diversity of the ag sector in Afghanistan.

The Fair and its events contributed to a number of key objectives for MAIL:

- Promoted greater understanding and knowledge of the scope and role agriculture sector to the public;
- Familiarized visitors with domestic agricultural products;
- Familiarized farmers and other value chain actors with programs and projects operating and supporting the agricultural sector in Afghanistan;
- Familiarized farmers and value chain actors with modern technologies used in production and processing of agricultural products;
- Attracted and encouraged investors to discover the agricultural sector ;

- Fostered linkages among value chain actors which help to promote improved knowledge and ties among them;
- Enabled agricultural producers to generate income and to expand their markets



Figure 2. H.E. Minister Asadullah Zamir, Minister of Agriculture, Irrigation and Livestock, visited the ADF section of the Ag Fair, visiting with each of ADF's

To further enhance the visibility of the ADF and to promote its services, ACE II facilitated an ADF presentation during the Fair to value chain actors, including cooperatives, farmer's associations, agribusinesses and visitors. Attended by 80 companies, participants learned about the ADF and its loan products, and the borrowing opportunities that are now available to them. The event permitted the entrepreneurs with similar businesses from different provinces to exchange information and experiences, to discuss common challenges and opportunities, and it also provided an opportunity to network, permitting them to connect with service providers, suppliers, advisers and colleagues and to thus improve their businesses.



Figure 3. ADF presentation to the public, including cooperatives, farmer's associations and agribusinesses during the Agricultural Fair 2016

Mazar Farmer's Day Celebration 2016

In addition, ACE II and the ADF Mazar Office supported ADF's participation in the Mazar Farmer's Day Celebration held on March 20, 2016 in Balkh province. The event was sponsored by the Mazar DAIL office, to which ACE II and the ADF provided support in

the design and promotion of the event. The support provided by the ADF and ACE II to the Mazar Farmer's Day Celebration was recognized by the local government and DAIL

Figure 4. Deputy Governor of Balkh province is visiting ADF booth at the Mazar Farmers' Day Celebration event, March 20, 2016.



Design and launch of ACE – II Website:

ACE II's selected local vendor began the work for the design, set-up and launch of a new website for ACE II. 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 April 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.

Improve Collaboration Among OAG Projects and with ACE II:

ACE II met with both RADP North and CHAMPS to identify key needs and areas in which ACE II can support USAID projects in improving their client's access to credit. Those two projects will serve as a pilot from which a list of services that ACE II and ADF can offer to them was developed... Next steps will be a visit with RADP North personnel and with the CHAMP DCOP to make concrete plans for initial activities. RADP North will attend the next meeting of the ACTWG. (CHAMP is already a participant.)

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:

Second Solution Committee Meeting:

Following the second ACTWG meeting of January 11, 2016, the ACE-II technical team facilitated and hosted the “Solution Committee” meeting on March 27th, 2016 which was convened in ADF office in Kabul.

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

- To clarify the purpose and the roles of the “Solution Committee”
- To review the feedback from the break out groups during the January meeting

The members of committee reviewed the feedback from the breakout groups during the January meeting, groups which focused on the three constraints previously selected by the committee for further work and determined the next steps in preparing work plans for work on the three “constraints” chosen by the ACTWG and for their presentation to the government.

1. DAB regulation: Pro – agriculture credit policies in regulation would encourage expansion of agriculture credit. Existing policies and regulations serve as deterrents to financial institutions engaging in 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.

The Solutions Committee review and additions to the proposed work plans will be distributed with recommendations on next steps for the ACTWG.

Research Activities to Guide and to 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 others about the agricultural credit experience in Afghanistan. The development and distribution of such knowledge can play an important role in raising awareness about agricultural credit and in helping to identify and to address constraints to agricultural credit in Afghanistan.

ADF Portfolio at Risk Study: Causes of Default

ACE II project in coordination with ADF team conducted research on the ADF loan portfolio. The study undertaken evaluated all classified loans of the ADF since inception (54 overdue /classified loans) the purpose of identifying on a case by case basis the 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 findings of the research will be published during the month of April.

CHALLENGES ENCOUNTERED

No challenges were encountered.

ACTIVITIES FOR THE FOLLOWING MONTH

- ACE- II website will be officially launched during the month of April 2016. The website will provide a portal for accessing information on the ACE-II Innovation Growth Fund.
- M&E team will enter, analyze and consolidate data on ACE-II performance indicators and will report the result in the upcoming ACE –II quarterly report.

- 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.
- Finalize logistics arrangements (location, travel, and visas for participant) and work with ADF on agenda preparations for the High Council Meeting in May.
- Propose next ACTWG event and distribute recommendations for follow up on its three key recommendations.
- ACE II will finalize the scope of work and identify a provider/source for Agricultural Credit Training Review class for ADF personnel to be held in June 2016.
- IGF activities will include additional presentations by ACE II on the IGF for different organizations. ACE II will work on the evaluations of the IGF concept notes as received.
- Assist the ADF in the preparation of a Strategy Paper on ADF Financial Intermediation.
- Follow up with RADP North and CHAMP on collaboration areas for assisting the projects to improve access to finance for their beneficiaries.
- Finalize SOW and contract for the consultant providing Agricultural Credit Training Review for the ADF.
- Finalize SOW for the Management Training for ADF Directors.
- Develop SOW for Advanced Agricultural Training class to be provided to ADF
- Submit final STTA Report of Russell Diehl to USAID.

ANNEX 1: List of ADF Exhibitors at the Kabul Agricultural Exhibition (the Ag-Fair)

No	Exhibitors	Province	Activity
1	Fine Food Factory	Kandahar	Agri-Inputs Supplier
2	Herat Ice Cream Company	Herat	Spices (Masala) Production
3	Armin Food Production Company Package Factory	Kabul	Food Processing
4	Ariana Saffron Company	Herat	Saffron Producer
5	Sayel Chips Company	Nangarhar	Food Processing
6	Nangarhar Edible Oil Cooperative	Nangarhar	Dairy Processing
7	Saeed Ahmad Khushkyar and Brothers Co. LTD	Kandahar	Agri-Inputs Supplier
8	Uddin Wardak Wool Washing Company- Kabul	Kabul	Wool Processing and Supply Business
9	Javid Afghan Wheat Thresher Company	Nangarhar	Agri-Inputs Supplier
10	Ghulami Brothers Company	Herat	Dried Fruit Processing
11	Kabul Package Factory	Kabul	Agri-Inputs Supplier
12	Farah Guster LTD	Herat	Agri-Inputs Supplier
13	Brotherani Itfaq Agriculture and Livestock Cooperative	Kabul	Agri-Inputs Supplier
14	Khushbakht Brother's Co. Ltd	Kabul	Agri-Inputs Supplier
15	Salehi Daikundiwal Brothers Agriculture Service Company	Kabul	Vegetable Production and Supply Business
16	Raqib Plastic Packaging Complex Co. Ltd	Kabul	Agri-Inputs Supplier
17	Dehqan Roz Food Production and Dairy	Kabul	Dairy Processing