

**FINAL DRAFT**

**Rural Finance Assessment – Part I:  
Agriculture Processors and Cooperatives**

December 2003



**Cooperative Leaders in Mazar-e-Sharif**



**Dried Nut Processing in Kabul**

**RAMP**

**Rebuilding Agricultural  
Markets Program**

**Expanding Rural Finance  
Component**

## **Executive Summary**

Agriculture is the key sector of the Afghan economy and it is therefore critical to re-establish and develop the rural agriculture infrastructure to maximize food production, increase production of acceptable cash crops, and to maximize the efficiency of production with the available labor force. To accomplish these outputs, access to credit is important for all levels of the agriculture sector -- from the farmer to the processor to the exporter.

This report is the result of a cursory assessment of the agricultural sector conducted in order to identify potential financial intermediaries and mechanisms that could be used to put capital in the hands of those best suited to provide small and medium enterprises (SME) with permanent, on-going sources of credit and other financial services.

The following are general observations based on the results of the assessment. These interpretations are at the macro-level and provide the context in which the menu of alternatives should be viewed.

1. In all countries, relief work undermines sustainable development because it creates an environment where the risk of beneficiary dependency is substantially heightened by donations and various free distribution efforts. This is also the case for Afghanistan.
2. Farming in Afghanistan is dominated by subsistence level production. This translates into a high demand for micro size loans at the farmer/production level. The exception to the need for micro-size loans for farmers is the high demand for tractors which fall in the range of a SME-size loan.
3. There is very little small scale agro-processing, except in the dried fruit and nut sector. Most processing in other sectors is for local consumption. The two most prominent examples are tomato paste and bread flour. A third example is simplified edible oil processing, which is a cottage industry.
4. Supply chain management from the agro-processor through to the farm gate ensures quality products delivered for processing; this is non-existent in Afghanistan.
5. A wide gap exists between the large farm input traders and the local traders who deal with farmers. The exception to this phenomenon is the tractor dealers.
6. Cooperatives and other forms of producer organizations could be potential clients for SME-size loans.
7. Overall there is a market for small loans (\$1000 – \$15,000) but there appears to be limited demand for medium size loans (\$16,000 - \$200,000) in the current economic environment.
8. Local banks are currently incapable of producing results that meet the needs of the RAMP Rural Finance component. Financial intermediaries selected by RAMP to develop an agricultural loan portfolio could recruit the best and brightest field inspectors from dissolved local banks based on their skills in client analysis.
9. There is a large deficit of highly skilled SME lenders in the country.

The menu of alternatives presented in this report should not be viewed with the idea that any one alternative is the entire solution for increasing agricultural SME lending. The alternatives also can not be viewed as appropriate to fit the needs of all the priority provinces. Rather the various alternatives should be viewed as a selection list of options. The best solution for each priority province, target group, and environment may be a combination of alternatives. Some alternatives may be more appropriate to address agricultural SME credit needs in the short term, while others may be useful as longer term solutions.

Regarding lending mechanisms, one of the major issues that RAMP needs to address is whether it should be prescriptive in the design of the loan products, or if this role should be

assigned to the designated financial intermediary. Cultural factors must be considered when developing agricultural loan products; therefore, **it is more appropriate for RAMP to think in terms of the mechanism that it will use to provide loan capital to the financial intermediaries selected, while the financial intermediary determines an appropriate loan methodology.**

The table below describes possible linkages between the Loan Delivery Agent and various lending mechanisms. It is worth noting that the Contracted Loan Management Group and the Non-Bank Financial Institutions (NBFIs) offer the widest range of choice with regard to the lending mechanism. The assessment team promotes utilizing a variety of loan delivery agents attuned to the agricultural sector's needs.

Loan Delivery Agent	Lending Mechanism Linkage
Local Banks	Line of Credit Guarantee Fund
International Banks	Line of Credit Guarantee Fund
Contracted Loan Management Group	Line of Credit Guarantee Fund Cooperatives Equipment Leasing/Rental
NBFIs	Line of Credit Guarantee Fund Warehouse Receipts

The Afghan banking sector has not provided agricultural loan products for many years. As a result, there is not a ready cadre of loan officers in the country. Based on this limitation of skilled staff, a considerable portion of funds should be allocated for specific technical assistance to build the capacity of a Credit Department within the selected financial institution(s). Well-trained, professional, local management should be developed from the outset of this program to ensure that permanent, on-going financial services are available to the agricultural sector after RAMP's completion. Based on information gathered in the first part of the assessment, the amount of technical assistance budgeted could be as high as 1:1 of allocated loan capital.

Once the RAMP team and USAID concur on the short list of alternatives, the next steps will be to:

1. Visit the other RAMP priority areas that were inaccessible during the current mission.
2. Discuss in further detail the operational strategy of the program with the potential delivery agents.
3. Discuss possible synergy and cooperation with other appropriate partners such as the Bearing Point project, the Agricultural Technology and Market Development unit of RAMP, possibly the French if they indeed plan to reconstruct the Agricultural Development Bank.
4. Develop the details of the delivery agent arrangements and lending mechanism.
5. Present the proposed mechanisms for feedback to change agents (such as agro-traders, cooperative members, etc.) met in the field during this mission.
6. Complete a management/operation plan which will describe the implementation of an SME rural finance program.

## **ACKNOWLEDGEMENTS**

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## 1. Introduction

Agriculture is the key sector of the Afghan economy and it is therefore critical to re-establish and develop the rural agriculture infrastructure to maximize food production, increase production of acceptable cash crops, and to maximize the efficiency of production with the available labor force. To accomplish these outputs, access to credit is important for all levels of the agriculture sector -- from the farmer to the processor to the exporter.

The draft “Strategic Policy Framework for the Agriculture Sector of Afghanistan”, dated November 9, 2003 makes several specific references to rural finance. The issues addressed in the document are consistent with the approach of the Rural Finance Component of RAMP and hence this partial assessment of agricultural processors and cooperatives. Section 6.5, Support Services to Farmers, Rural Finance and Micro Credit, page 19 states in part:

“Rural finance is urgently needed to **facilitate expanded use** of chemical fertilizers, quality improved seeds, farm machinery for mechanization, and the improvement of irrigation systems. Likewise, credit is required for **Afghan traders** currently engaged in the import of farm inputs and to enable them to expand the scope of their involvement in the sector. Availability of farm credit would also **reduce farmer’s dependence** on government funding for their development activities and their dependence on local money lenders that are currently exploiting the rural communities.

An **assessment** of different **institutional and financing arrangements** will be necessary to determine the best path forward. This could include piloting and testing of models of Islamic micro finance for agriculture and rural development. In line with government policy, the implementation of any such intervention should be in the hands of the private sector.

Critical to the longer-term success for both the institutions and the farmers that depend on them would be the **economic orientation** of any assistance. Initial development through **community based** approach, utilizing farmer organizations and cooperatives would ensure distribution of funds and minimize recovery losses.”

This report is the result of a cursory assessment of possible institutional and financial arrangements conducted in order to identify potential financial intermediaries and mechanisms that could be used to put capital in the hands of those best suited to provide SME loans to the agricultural sector.

Based on the findings of the assessment, a menu of potential loan delivery agents and lending mechanisms has been identified. This menu needs to be short-listed by the appropriate organizations (the RAMP team, USAID, and the delivery agents) prior to the detailed development of a specific implementation process for the RAMP Rural Finance component.

## 2. Assessment

This assessment was designed to be a partial assessment of potential SME lending agents, cooperatives, and agricultural processors. Briefings were conducted with USAID staff about their views on rural SME finance, cooperatives, and agricultural processors. For security reasons the team met with agencies only in the RAMP priority regions of Kabul, Herat, Mazar-e-Sharif, and Kunduz.

In Kabul meetings were held with the Minister of Agriculture and Animal Husbandry, the Department of Cooperatives, the RAMP agriculture team, the Da Afghanistan Bank, and Ministry of Commerce consultants – Bearing Point. Representatives of the World Bank, Asian Development Bank, World Council of Credit Unions (WOCCU), Central Asia Development Group, two Kabul based agro-processors and two farm equipment representatives were interviewed.

The bank branches of Banke Millie, Pashtany Tejaraty Bank, Agricultural Development Bank, and Da Afghanistan Bank were visited during the trips to the three distant provinces. With the assistance of the Afghan Chamber of Commerce in Kabul, meetings were held with the Chamber of Commerce and businessmen in the three provinces – Herat (6 businessmen), Mazar-e-Sharif (11 businessmen), and Kunduz (6 businessmen). Meetings with cooperatives were organized by the Department of Cooperatives – 16 cooperatives were represented in Herat, 11 cooperatives were represented in Mazar-e-Sharif, and 6 cooperatives and one producer group were represented in Kunduz. NGOs working with agricultural projects were also contacted in the three provinces – 3 NGOs were visited in Herat, 4 NGOs were visited in Mazar-e-Sharif, and 3 NGOs were visited in Kunduz.

The following assessment encapsulates information received during these interviews. The assessment team wishes to thank these individuals and organizations for their input.

## **2.1 Financial Institutions**

The selection of financial institutions and relationship building with chosen institutions is vital for ensuring a successful agricultural credit program. Proper due diligence of partners and unrestricted access to internal information is crucial for the selection of partners, as well as a similar organizational and management culture. The partnership between RAMP and the financial institutions should be built on openness and flexibility. If the appropriate partner institution or bank does not exist, it may be necessary to create a stand-alone institution to test the credit and lending culture. The assessment team promotes utilizing a diverse array of financing vehicles attuned to the agricultural sector's needs.

The following information was gathered through meetings with the financial institutions.

### **2.1.1 Banks**

#### **2.1.1.1 Agricultural Development Bank (AgBank)**

The AgBank had branches in 28 regions prior to the Taliban era and was primarily engaged in lending to agricultural enterprises. It is estimated that the last loan AgBank issued was roughly five years ago. The exception is the Herat AgBank branch which received approximately \$1.8 million in loan capital from the provincial Governor, Ismail Khan, several months ago. The AgBank branch visited in Herat has 15 employees and has offered a range of credit products which have varied in terms of maturities and repayment schedules according to the purpose of the loan. The bank has also offered other banking products such as letters of credit and international money transfer services.

It is reported that the AgBank will be liquidated and that a new private sector financial intermediary is expected to take an interest in agriculture lending. For the purposes of RAMP there are some important things to be learned from the AgBank with regard to lending to farmers:

- The lending process; and
- The appropriate loan size for various farmer requirements.

See Annex 3 for further details of AgBank's lending methodology.

### **2.1.1.2 Pashtany Tejaraty Bank (PTB)**

The PTB branch in Mazar-e-Sharif was visited. In 2003 it disbursed loans valued at \$2 million. Recently it was told not to accept any more loan applications until further notice through a cease and desist order given by the Central Bank to PTB.

The primary business of this branch has been import/export financing. Products financed for export included raisins, seed, almonds, flax, karacole skin, hides and rugs. Export financing involved having the product placed in an independent warehouse, valued by a group of credit officers from Banke Millie and others. The products were released when an authorized letter of credit was received.

Import financing involved underwriting a loan based on the collateral of the importer. For a first time borrower, the PTB would finance 25% of the commodity. For the second and any additional loans, the PTB would finance up to 50% of the commodity based on the repayment performance of the previous loans. The collateral taken was generally property but there was still a risk of non-payment due to political insecurity.

Terms offered for these loan products were 1 month, 6 months and 1 year. They could be extended based on the activity and repayment performance of the importer. Annual interest rates ranged from 13 – 20% depending on the loan usage. PTB's headquarters office in Kabul predominately controlled the loan portfolios of the branches.

The fate of the bank is dependent upon the new banking regulations. Currently, the bank is staying afloat with the payroll through the fee income from licensing traders. Due to the limited activities of the bank, the employees keep very short working hours.

### **2.1.1.3 Banke Millie Afghan (BMA)**

The branch of BMA in Kunduz is housed in very simple, rented office space, no sign of security measures were obvious (guards, teller facilities, security bars, etc.). Bank funds are reportedly kept off-site at a guarded facility. The branch has a staff of eight, who are considered government employees.

Before the war the bank's clientele consisted of retail traders and included lending (this ceased during the Taliban regime). Presently, the bank has contact with businessmen (primarily traders), especially for dealers of urea originated from Turkey and Tajikistan, and for construction firms. The dealers use the bank to exchange cash for checks to send to the Kabul-based importer or for the transfer of funds to Kabul or another branch. The bank can accept savings, which yield a 13 percent annual 'benefit', but no one is depositing savings at this time. The bank handles about 15 percent of the government's local payments and is trying to develop the fund transfer service with members of the local Chamber of Commerce and with Ariana Airlines.

### **2.1.1.4 Da Afghanistan Bank (DAB)**

The DAB is one of four banking institutions which have operated in the province of Kunduz and currently is the bank with the largest presence. (The AgBank and the PTB reportedly do not function, and the Mille Bank has minimal activity.) The DAB has its own building and a staff of 19 and carries out the function of the government's treasury.

Besides serving the government, the DAB is used by traders and foreign organizations and as the payment window for the national fertilizer company. It does not have a loan portfolio and is not planning to start lending in the near future. It also does not service the agricultural sector. The bank is authorized to accept deposits but to date has not implemented the service. The Director indicated that the lack of a full service bank with depository and loan facilities in Kunduz is definitely a problem for businesses. In lieu of a formal banking

institution, the businessmen use money changers and the hawala system for liquidity and transfer needs.

### **2.1.2 Non Bank Financial Institutions (NBFIs)**

There are two NBFIs operating in Afghanistan that have experience in SME lending, BRAC and FINCA. BRAC is a Bangladeshi NGO specializing in a range of development services and FINCA is an American private voluntary organization specializing in micro and small lending.

The assessment team did not meet with BRAC representatives, but it was reported that BRAC has applied for a bank license. BRAC is operating in several locations throughout the rural areas of the country however, their main loan product is to lend primarily to groups of women. Although women require credit, the nature of this lending in the Afghan context does not put BRAC in the markets where the potential SMEs operate. BRAC's individual loan product could be more appropriate to adapt to SME lending at this time.

FINCA is beginning operations in Herat for microfinance lending. They are planning to offer two loan products – group and individual loans. The individual loans that they will be making will be up to \$5000. They are interested in participating in the Rural Finance component lending to SMEs under certain conditions. It was indicated as an opening statement of their requirements that they would want RAMP to pay for all their overheads, training and technical assistance from their counterparts in the FINCA network to incorporate SME lending into their operations. They also indicated that they think their methods, documents and procedures are proprietary and therefore are not prepared to enter into any joint training with others. If these conditions are maintained it may not be possible to work with them unless a management consulting group is hired to offer technical assistance to them along with other financial intermediaries.

## **2.2 Potential Borrowers**

When designing a SME loan program, the primary focus of the program should be to create and promote financial products that meet the needs of agro-businesses and entrepreneurs. Programs that have worked in other countries may need to be re-designed to adapt to the local Afghan environment and culture. Equally important is instilling a credit culture with the ultimate borrowers. Establishing a credit culture and tight monitoring practices from the initiation of the program are particularly important in an environment where agricultural loans products have not been available for many years.

The following are observations of entrepreneurs and associations who may be potential borrowers of the previously described financial institutions i.e. Loan Delivery Agents.

### **2.2.1 Cooperatives/Associations**

The agricultural cooperative movement in Afghanistan first started in 1955 and was given added impetus in 1963. With program support from the United Nations, the Food and Agriculture Organization (FAO) and the International Labor Office (ILO) the total number of cooperatives surpassed 2,500 by 1980, when the newly installed government refocused the cooperatives to resemble the Soviet model of collective agriculture. The subsequent change to a Taliban government virtually eliminated the cooperative structure until the current government came to power. The Ministry of Agriculture and Animal Husbandry (MAAH) estimates that today there are 170 newly re-established, registered cooperatives and many more are in the process of organization. The general strategy of the central government is to reactivate cooperatives, form new ones and develop their capacity to receive credit and marketing services. The orientation for cooperative development now begins with the local

level instead of the top-down focus from the Soviet era. A new law for cooperative enterprises has been drafted and is being reviewed by the Ministry of Justice.



**Herat Cooperatives Leaders**

The Department of Cooperatives of the MAAH stressed that the provincial level staff has the responsibility to provide technical assistance, guidelines and training to the groups, but not actual management. It was also indicated that during the last two years each cooperative submits their books every six months using international accounting standards and that each cooperative is audited annually. The Department of Cooperatives has received funding from Japan and Iran for cooperative training and a grant from Iran for farm mechanization. The Department consists of divisions for training, registration, accounting, administration, marketing and credit, however their authority and effectiveness is limited — the list of functional or active cooperatives for the three provinces visited was incomplete even though the official registry is kept in the Department. Based on meetings in the provinces, the lists have been updated representing the active cooperatives (not necessarily registered) – see Annex 7.

The assessment team visited the provincial Department offices during brief field trips to Herat, Mazar-e-Sharif and Kunduz, met with presidents of 33 cooperatives and made a site visit to a cooperative in two provinces (actually a producers' group in Kunduz). Based on these interviews the team formed general impressions and drew some initial conclusions related to the role of cooperatives in facilitating farmers' access to credit.

There are four types of agricultural/livestock producer groups encountered or referred to during these trips:

- cooperatives,
- associations,
- specialized producer groups, and
- group borrowers ('solidarity lending').

Both the cooperatives and the associations have a legal framework established by laws; the specialized groups may be registered by the Ministries of Agriculture and Animal Husbandry and Commerce (for custom duty preference); and the group borrowers are non-formal and organized by the lending institution. The first two types are institutional and 'permanent' in nature, whereas the last two are personality-based and transitory. If the sole reason for the group is obtaining loans, the group borrower structure is the easiest and fastest to use. The specialized group centers on a particular product or service (such as improved seed multiplication or irrigation water-users). An association typically has a core activity which is representational for a specific sub-sector, or for purposes of promotion or information, whereas the cooperative should be for business activities in support of its members. Therefore, the cooperative usually has a more complex structure and should have professional management.

Any of these organizations can become the vehicle for accessing credit by farmers, and ideally the simplest form which serves the needs should be used — a cooperative is not necessarily the preferred organization. The benefit of cooperatives is the guarantee provided in their bylaws. The extent of this guarantee provided by other forms of organization is unknown at this time.

### Herat Cooperative

The administrative structure of the cooperative visited in Herat follows the standard formula prescribed by the bylaws of a general assembly of all members in good standing (a minimum of 11), a management council with at least five members, and a supervisory council of at least three members. The management council has a minimum of four officers: director, assistant director, 'writer' (secretary), and 'cashier' (treasurer). This particular cooperative has the substantial advantage of a full-time administrator provided by the NGO AREA since 2000 to train the management council. The office and consumer store are very well organized, and membership orientation materials are posted on the walls. This group is obviously a showcase for the provincial Department of Cooperatives and for AREA.

Membership of the cooperative comes from four surrounding villages with approximately 800 families engaged in agriculture and livestock raising. In 2000, 14 members organized the cooperative and since then this number has grown to 226. The group obtained an Iranian tractor as a grant from AREA, and a family in the UK provided the funds to construct the cooperative building and install a large generator to service about 500 households. Currently the services offered are a consumer store (foodstuffs), tractor with implements and thresher rental, electricity service, four deep wells for irrigating 300 jeribs (60 hectares), and a nursery for fruit and nut trees on 7 jeribs (1.4 hectares) of rented irrigated land. Several months ago the cooperative sponsored training for women in various trades and in academic skills such as mathematics. The major new activities planned are to establish a fuel depot by the highway (permission has already been requested of the local government) and construct a training center in the largest village.

### Kunduz Producer Group

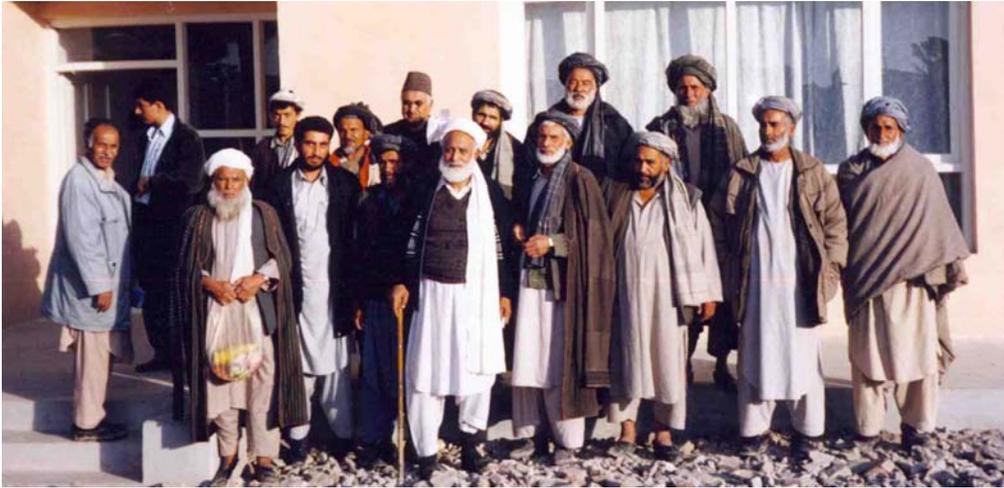
The second type of producers group visited was a seed unit near Kunduz, which has a simpler form with only 10 members total and a management board of three: manager, assistant director and cashier.

The activities of this recently formed group focus on growing improved seed grain (rice and wheat) under the supervision of the ICARDA project for seed multiplication. This agency provided a \$40,000 loan supplemented by another \$10,000 from the participants. These funds provided for the purchase of a tractor with implements, a seed cleaning unit and production inputs. This loan supposedly should be repaid in four years, although there seems to be ample flexibility in scheduling repayments (the question of how they plan to repay \$10,000/year from seed sales was answered by 'they will find the sources', and they indicated that maybe they would begin repayments next year). The ICARDA project provides the basic record-keeping needed by the group to track expenditures, as well as production-related technical assistance. This project is planning to replicate this effort in several other provinces in northern Afghanistan.

### General impressions about Cooperatives

- The possible liquidation of the AgBank will necessitate another financial institution to receive the deposits of cooperative shares.
- The level of capacity among the cooperatives varied between provinces.

- Herat cooperatives have received credit from input traders and are highly indebted as a result. It was often reported that their entire crop goes to either repay loans or to the landowner, for whom they sharecrop.
- Mazar cooperatives appear very entrepreneurial. They have several ideas about how to improve their livelihoods. These ideas included a market center, cold storage, exporting directly instead of working through traders or the Department of Cooperatives.
- Associations are similar to cooperatives in that they have bylaws and are registered in compliance with the legislation. A chicken producer association called Ariana Association of 64 members was encountered in Mazar.



**Mazar-e-Sharif Cooperative Leaders**

## **2.2.2 Traders**

The large traders, members of the Afghan Chamber of Commerce, who were interviewed by the assessment team indicated that they did not have a need for loan amounts up to \$200,000. They preferred to have access to credit in amounts of millions of dollars.

The traders expressed a reluctance to delve into any type of agro-processing due to the necessity for capital investments. Their primary concerns for capital investment are:

- Political security,
- Functional banking system, and
- Communications – including the internet.

Lack of the latter two often requires the traders to operate a second office in the region such as Dubai or Tashkent.

The large traders would prefer to partner with large multinational companies and to see the inoperable state owned factories rehabilitated to enhance the economy. It was not stated whether the nationalized companies should be privatized or continue to be state owned.

Herat agricultural traders lend to their clients, while Mazar traders did not show an interest in lending to farmers. The Mazar traders explained that this type of lending was too problematic. Mazar traders believe a separate agency is required for this purpose.

Generally, traders do not have a concept of supply chain management from their operations to the farm gate.

### **2.2.3 Agro-Processors**

In the Afghan context, agro-processors are a subgroup within the traders. There are two categories of large agro-processors in Afghanistan. The first category is the state owned enterprises that may be privatized in the future. These include fertilizer production, cotton ginning and some wheat milling.

The second category of large agro-processors is the private operators and involves flour production and dried fruit and nut processing.

There are many small agro-processors but as a general rule in Afghanistan agro-processors, are limited to small cottage industries that process for local consumption. These small cottage industries include tomato paste, flax, sesame and cotton oil production, some soap production, small cotton gins and small water driven flour mills, bakeries, honey and jam making and silk making – including some weaving. Any export of these and other crops may involve some basic local cleaning, done by hand, before they are sold to exporters who take them to India or Pakistan and reprocess the product for sale in their local market or the international market.

The willingness of foreign buyers to take the product 'as is', seems to have created a culture of poor farming practices. A dried fruit and nut processor indicated that he had tried to instill some supply chain management practices in his suppliers but was unsuccessful.

There are few cold storage facilities in the country because most farmers, sometimes



due to debt incurred for inputs, sell their entire yield at harvest time. There is little awareness of the benefits of cold storage -- or for that matter, storage generally -- in order to keep a crop until after the harvest time when prices decrease due to the increased supply.

There were few instances of contract farming reported. Sharecropping for this assessment is not considered contract farming. The primary crop that is contracted is flax for oil production.

### **2.2.4 Equipment Dealers**

#### **2.2.4.1 Massey Ferguson (MF)**

MF does not give tractor dealers merchandise on credit. MF primarily sells tractors but does have an implement package that includes a plow, cultivator and trailer. The standard tractor size is 47 to 50 horsepower, although they are trying to interest farmers in larger sizes which are more efficient for land preparation. There is a large need for combines or threshers, as well as tractors. They estimate that there are about 25,000 tractors in country, and perhaps 20 percent are in need of repair. The peak demand for tractors may have reached

6,000/year in the 1970s, and is currently estimated at 3,000. MF feels that there is a definite interest by farmers to rent tractors, with the tractor dealer providing the driver and maintenance. It was indicated that farmers in the north have a clearer understanding of mechanization than do those in the south.

The standard package for a tractor includes a plow, a tiller, and a trailer and would cost approximately \$15,000. The tractor dealer would need to allocate an additional \$4,000 for specialized tools and spare parts, and would be required to attend a workshop to be able to provide the routine maintenance and repair service to clients. The tractor dealers also would be trained in sales and rental activities and the importance of providing a 12 month manufacturer warranty (which traditionally has not been offered by other manufacturers).

As agents they feel that the current banking system is not capable of providing credit for mechanization, and it would be very risky to have tractor dealers manage a line of credit. The lending institution would need to have commercial experience, such as that of a trader. However, if the credit program is properly structured and uses the traditional methods for guaranteeing lending (having knowledge of the client and using family members as guarantors), there would be nearly complete loan repayment because of the prominent importance of personal and family honor.

#### **2.2.4.2 CASE New Holland**

CASE started in Afghanistan last year and now is looking for distributors. A major difficulty has been finding potential entrepreneurs that have a customer service mentality, including the provision of maintenance and warranty capabilities. CASE would have two product lines of small tractors, CASE from India and Fiat from Pakistan. In the future they foresee selling wheat combines and larger tractors. CASE does not plan to offer credit facilities and feels that the implements available are adequate and relatively inexpensive. They estimate the existing tractor market is between 15,000 and 20,000 nationwide, and the immediate demand could be 2,000 in 2004. (This is similar to the Massey Ferguson estimate).

CASE indicated that having a line of credit could help to establish dealerships and to allow mechanization through rental centers. A modest size center could have 6 each of tractors, trailers and cultivators, costing from \$80 to \$100,000, and the coverage theoretically would be about 1,000 small farmers per tractor rental package. A proposal is being prepared for potential distributors which would be based on a three-year loan, 15 percent down payment, and quarterly payments.

### **2.3 Conclusions**

The following are general observations based on the results of the assessment. These interpretations are generally based on a macro-level and provide the context in which the menu of alternatives should be viewed.

1. In all countries, relief work undermines sustainable development because it creates an environment where the risk of beneficiary dependency is substantially heightened by donations and various free distribution efforts. This is also the case for Afghanistan.
2. Farming in Afghanistan is dominated by subsistence level production. This translates into a high demand for micro size loans at the farmer/production level. The exception to the need for micro-size loans for farmers is the high demand for tractors which fall in the range of a SME-size loan.
3. There is very little small scale agro-processing, except in the dried fruit and nut sector. Most processing in other sectors is for local consumption. The two most prominent examples are tomato paste and bread flour. A third example is simplified edible oil processing, which is a cottage industry.

4. Supply chain management from the agro-processor through to the farm gate ensures quality products delivered for processing; this is non-existent in Afghanistan.
5. A wide gap exists between the large farm input traders and the local traders who deal with farmers. The exception to this phenomenon is the tractor dealers.
6. Cooperatives and other forms of producer organizations could be potential clients for SME-size loans.
7. Overall there is a market for small loans (\$1000 – \$15,000) but there appears to be limited demand for medium size loans (\$16,000 - \$200,000) in the current economic environment.
8. Local banks are currently incapable of producing results that meet the needs of the RAMP Rural Finance component. Financial intermediaries selected by RAMP to develop an agricultural loan portfolio could recruit the best and brightest field inspectors from dissolved local banks based on their skills in client analysis.
9. There is a large deficit of highly skilled SME lenders in the country.

### **3. Menu of Alternatives**

#### **3.1 Loan Delivery Agents**

The following menu of alternatives presented should not be viewed with the idea that any one option is the complete solution for RAMP and used exclusively in all the priority provinces. Instead the various alternatives below should be viewed as a list of options from which solutions can be selected. The best short-term and long-term solution for each priority province, target group, and environment may be a combination of alternatives.

##### **3.1.1 Banks**

It is reported that the AgBank will be liquidated; although there are conflicting reports that the French may be looking at revitalizing it. The lending methodology and possible constraints to agricultural lending by the AgBank are outlined in Annexes 3 and 4. The prevailing view within the international community is that the French are welcome to follow through on their expressed interest in reconstructing the AgBank.

Any indigenous banks which are approved for re-licensing, including the AgBank, could be chosen as a loan delivery agent for the managing of an agricultural SME portfolio, assuming they can meet the needs of rural borrowers. If a local bank is selected as a service provider, the following is the proposed approach.

The management in the banks is generally weak, as they have been an arm of the government, not necessarily functioning as a commercial bank with an appropriate service culture. It is therefore suggested that in the branch(es) used to deliver rural credit an expatriate coach/mentor be put in the branch to improve the skills and capacity of the entire operation. The mentor should have a veto power over the Credit Department's policies, procedures, and loan committee.

This approach is a modified model of the International Finance Corporation (IFC) program where an experienced expatriate banker is brought in at the expense of the bank to act as Chief Executive Officer (CEO) to rehabilitate the bank. This method would not only provide supervision of loans to clients, but also strengthen the capacity of the bank as a whole. Depending on an assessment of the capacity of the human resource at the bank, RAMP may want to finance all, part, or none of the costs of the expatriate coach/mentor.

Also, there may be synergies that could be leveraged with other organizations interested in or currently working with the banks. With AgBank, this approach would have to be agreed to

by the French if they decide to undertake the reconstruction of the AgBank. For the other banks, for example, an agreement with Bearing Point may be required. At the present time other local banks do not have the capacity to make agriculture loans.

### **3.1.2 International Banks**

There are a number of international banks establishing operations in Afghanistan. RAMP could establish an agreement with one of these international banks which may have a plan to establish branches outside of Kabul in the priority RAMP provinces. The agreement would be to operate an agriculture SME window within the branch. The SME window would consist of a loan officer dedicated to agriculture lending. The bank would receive a provision of a line of credit to develop an agriculture-based SME portfolio.

This alternative could serve as a form of contract management.

### **3.1.3 Contracted Loan Management Group**

There are two alternatives within this category. The first would be to contract a Loan Management Group to deliver lending in the priority provinces. The second would be to contract a Loan Management Group to either separately, or in addition to the first alternative, provide credit to agricultural projects RAMP has subcontracted for delivery.

#### **3.1.3.1 Provincial Loan Delivery**

The first alternative is based on lending to existing SMEs. The plan would be for a management group to manage a loan portfolio and sell the portfolio at the end of the project term to a licensed financial institution. It should be noted that this alternative would be costly in terms of overheads because a loan officer would need to be hired or placed in each of the target provinces and regularly supervised. One of the options could be to engage a local entrepreneur as the manager of the operation and assist him in hiring the best and brightest of the AgBank field inspectors to act as loan officers. Agriculture lending skills gained over time would take a long time to replace. This method would require training and at least monthly supervisory visits. As previously stated, there are a limited number of existing SMEs in Afghanistan at this time.

#### **3.1.3.2 Loans to RAMP Subcontracts**

The second Contracted Loan Management Group alternative is applicable for use in meeting the needs of projects RAMP has subcontracted for delivery that will require credit in years two and three of their project to privatize and bring sustainability to the operations. In the presentations from the RAMP agricultural markets team about these projects, it has been clear that such requests can be anticipated.

To operate this alternative RAMP and the Loan Management Group would be required to evaluate the additional loan capital needed by the job order projects; RAMP from the perspective that it is consistent with its objectives and the Loan Management Group from the perspective of being a good loan – feasibility, business plan, capacity to implement and repay. Some lending may be conditional upon continued technical assistance. This is the reason this alternative is presented separately; as relatively new organizations they are higher risk and these loans may be problematic in selling the loan portfolio to a bank.

In both cases the location of the funds would probably have to be in an existing bank and require signatures of both RAMP and the Loan Management Group to disburse the loan funds. Monitoring will require at least quarterly travel to monitor the business operation that received the loan. The benefit of this mechanism is that their sole focus would be on building a quality loan portfolio.

### **3.1.4 Non Bank Financial Institutions (NBFIs)**

Although this alternative includes MISFA partners, the NBFIs considered should not be limited to MISFA microfinance institutions (MFIs). This alternative would be to use a management contract with an NBF working in a given area to deliver the agriculture SME credit product to borrowers in their area whom they have identified as qualified.

Some NBFIs such as FINCA and BRAC have experience in other countries delivering SME credit already and these skills can, and possibly should be, transferable to Afghanistan. In spite of BRAC's experience it may not be the best alternative because it is currently lending in locations where SME lending is limited.

The Management Contract should involve the retention of any interest income to cover their operating costs. Other operating funds will be required under the Management Contract, to transfer the SME lending capacity to Afghanistan from other countries of operation. This alternative is beneficial to the NBFIs because their range of scope will be broader from the beginning instead of expanding when their loan size becomes too small for their successful clients. Also, larger size loans will allow the NBFIs to reach sustainability more rapidly.

### **3.1.5 Department of Cooperatives**

In the past the Department of Cooperatives would receive a tranche of money from the AgBank to on-lend to cooperatives. Repayment was guaranteed by the Department of Cooperatives. The Department would then accept applications from cooperatives and lend to farmers on a 14:1 ratio of loan to their paid in share capital. This worked up until the 70's when the communist government took over. After that time the farmers did not repay their loans and the government was forced to allow the AgBank to suffer the losses since it was unable to fulfill the guarantee.

Since the AgBank does not have adequate capital, the MAAH is unable to restart this program. **The Department of Cooperatives should not be considered as part of the delivery chain of credit to the farmers.** It would be unwise to lend money directly to the Department of Cooperatives. It is not because of any fault in the Department of Cooperatives, but because of the nature of government everywhere. If the Department of Cooperatives was used, it is very possible that the funds might be diverted to other departmental requirements and the farmers would not receive any loans. In addition, there could be potential conflicts of interest if the same agency is used for lending and providing technical assistance. It would be wiser to encourage donors to work with the Department of Cooperatives and newly registered cooperatives to strengthen their capacity.

## **3.2 Lending Mechanisms<sup>1</sup>**

One of the major questions that RAMP needs to address is whether it should be prescriptive in the design of the loan product or if that decision process should be left to the financial intermediary, whoever that may be, based on the choices made with regard to delivery. **It would be better for RAMP to think in terms of the mechanism that it will use to provide the loan capital to the financial intermediaries selected and leave the financial intermediary use its own loan products.** One of the reasons is that agricultural lending must take into account many cultural factors, see Annex 5 for some details obtained from anthropological studies. The following section reflects this approach and does not try to

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<sup>1</sup> The final design of the chosen alternatives outlined below must be done in such a way as to be compliant with the Development Credit Authority (DCA) requirements. In other words, the loan mechanism should be compliant with DCA requirements. This does not mean that the delivery agent must be a financial institution but that the loan product must be of the type that a DCA program, should it be developed in Afghanistan, could accommodate.

determine the type of loan that will be given to agriculture cooperatives or agro-processors but instead addresses the mechanisms that can be used to transfer money to the Loan Deliver Agents.

### **3.2.1 Line of Credit (LOC)**

A financial institution could be given a Line of Credit (LOC) that it could use to give loans to the agricultural sector. The Contracted Loan Management Group would hold the funds and allow the bank to draw down the funds based on SME loans the bank had approved. It would earn the interest, and if at the end of the project USAID is satisfied with the performance, the amount of the LOC would be granted to the institution -- on the understanding that they must continue to lend to the sector and that USAID will continue to monitor their performance. This is the most time sensitive and easily implemented lending mechanism.

The purpose of the LOC is to provide the financial institution with a credit line to be used to finance eligible agricultural enterprises. RAMP would collaborate with a financial institution in order to increase the volume of loan funds and technical assistance available to the Afghan financial system and agricultural SME sector beyond what would be the case absent the collaboration. The use of the proceeds of the LOC would be governed by the terms and conditions of the Credit Line Agreement.

### **3.2.2 Guarantee Fund**

Although it approaches the problem from a different direction, the following mechanism may to some degree meet the Minister of Finance's desire for a venture capital fund. Overall, the returnees from the US and Europe have had reasonable access to market trends and will probably undertake larger scale businesses with possibly both foreign collateral and capital. As such, this mechanism should not be considered for use by those businessmen as potential recipients of loan guarantees from this fund.

It is more appropriate for this Guarantee Fund to focus primarily on permanent residents of Afghanistan and secondarily on returnees from the neighboring countries, primarily Pakistan and Iran. An initial suggestion is that a ratio of two permanent residents to one returnee should be eligible to receive a loan guarantee under this program. It is not envisaged at this time that this facility would be available to agriculture cooperatives but this condition may need to be reconsidered at a later date.

The Fund would be used to guarantee marginal loans (those with limited collateral, a business plan or cash flow that does not meet the financial intermediaries' standards).

The funds could be held in a local bank and be managed by either the Contracted Loan Management Group described above if that loan delivery alternative is used or a separate Request for Proposal (RFP) could be used to identify a Management Group to oversee the Guarantee Fund. It is also recommended that the Guarantee Fund have an advisory group consisting of senior staff from both the Ministries of Commerce and Agriculture. The role of the advisory group would not include the approval of guarantee applications, but would focus on issues related to the target group of entrepreneurs and receive reports on the status of the guarantee fund regarding financial intermediary and use of the fund. It could also discuss changes in the 2:1 ratio of permanent residents to neighboring country returnees.

The Guarantee Fund Manager would be notifying the Loan Delivery Agents about the fund, its purpose and procedures. They could receive and review all applications for a guarantee and recommend those that met the terms and conditions to the Guarantee Fund to ensure that the ratio of beneficiaries is maintained.

### **3.2.3 Equipment Leasing/Rental**

The demand for equipment is considered high. Not all farmers or cooperatives will be able to afford to buy equipment. A reasonable alternative to, or competition for, the current owners of tractors who rent them out to do farm work, particularly plowing, is to establish through loans Equipment Leasing/Rental agencies. These agencies could be independent of current dealerships. An additional opportunity for these agencies would be to make available new implements and larger machinery than is currently standard for farmers. Although this is more of a lending opportunity, it is worthwhile considering as a mechanism by which much needed equipment can be placed in the hands of the farmers.

### **3.2.4 Warehouse Receipts**

Although this is also a lending opportunity, it too is worthwhile considering as a mechanism by which much needed service can be provided to farmers. The system allows farmers to earn more for their crops than they can during the harvest. It also allows farmers to accumulate sufficient volume of the given crop so that they can export in quantities that are acceptable in that market. It was learned during the assessment that this lending mechanism cannot be applied to wheat or barley because of restrictions based in Sharia Law.

### **3.2.5 Cooperatives**

Although this is a lending opportunity, and cooperatives are not well suited to being a lending mechanism, they could be a potential SME borrower. Cooperatives are a ready and identified market for loans; however they are more appropriate as a loan client than a lending mechanism, and focus primarily on producer rather than processing activities. Many of the cooperatives that are forming and/or being reactivated are demonstrating that they have the capacity and potential to obtain loans as an organization that they can then either, use as an organization or to share among the members.

One of the other attractive features of cooperatives is the guarantee stated in their bylaws that members agree to guarantee a multiple of his share capital determined by the membership should there be a default.

## **4. Technical Assistance**

Depending on the loan delivery options chosen, the ratio of technical assistance to loan capital will vary.

The Afghan banking sector has not been providing agricultural lending for many years. As a result, there is not a ready cadre of loan officers in the country. Based on this limitation of skilled staff, a considerable portion of funds should be allocated for specific technical assistance to build the capacity of a Credit Department within the selected financial institution. Well-trained, professional local management should be conceived from the outset of this program to ensure that permanent, on-going financial services are available to the agricultural sector after RAMP's departure. An approximate estimate of the amount of technical assistance to be budgeted could be as much as 1:1 of allocated loan capital.

Cooperatives do not need this level of technical assistance since they are able to utilize the training and guidance of the MAAH's Department of Cooperatives, particularly if some donor decides to do capacity building with both the Department of Cooperatives and cooperatives. Loans to organizations other than cooperatives should generally have a technical assistance component that is equal to the loan. Technical assistance will probably be needed for about three years. This technical assistance would include any technical assistance provided to banks or other financial intermediaries who would act as loan delivery agents.

A business readiness mechanism is also required for SME level lending in Afghanistan. Many Afghans who stayed in Afghanistan or went to Iran or Pakistan have not developed the skills to understand how to deal in the current world market environment in terms of up and down stream processing and marketing. This can partially be addressed through training, in country and possibly study tours but it can probably more appropriately be dealt with through technical assistance. The training requirements might best be dealt with through a training institution that can assist businesses develop reasonable feasibility studies, business plans and loan applications; i.e. not excessive and academic but practical. If done in this way business men may consider paying for the service and the Business Development Services (BDS) program should be able to generate some income to cover its operating cost although experience has indicated that it is difficult to get these services to be fully sustainable.

In conjunction with the BDS program, a business incubator based on the Australian model of sustainable business incubators could be considered as a means of delivering BDS in Afghanistan.

#### **4.1 Equipment Dealers**

These organizations have their own finance companies in North America and Europe, although in Afghanistan they are currently not available. The mechanism that might be considered here is to work through equipment dealers to deliver locally appropriate farm implements that are not part of their brand and for them to deliver extension services. These extension services might be financed as a RAMP job order but could essentially be an agriculture BDS program. It would serve as a means of leveraging and they may even be willing to cost share some of the BDS work. In return for this assistance RAMP may want to consider guaranteeing some of their lending activities.

### **5. Analysis and Next Steps**

As indicated above the Menu of Alternatives needs to be prioritized and receive the approval of USAID. To facilitate the prioritization, the following is the team’s analysis of the Loan Delivery Agents, the Lending Mechanism and the linkage between the two.

#### **5.1 Loan Delivery Agent Analysis**

<b>Loan Delivery Agent</b>	<b>Implementation</b>	<b>Benefits</b>
Local Banks	Short Term	If they have branches in the priority provinces, an agricultural loan officer and a line of credit could be placed in the bank and could start quickly.
International Banks	Short Term	Although located in Kabul, an agricultural loan officer and a line of credit could be placed in the bank and could start quickly.
Contracted Loan Management Group	Short Term	Their sole purpose would be to build a quality loan portfolio.
NBFIs	Short Term	NBFIs with experience in SME lending in other countries will have a short term start up and can tie SME lending in with the development of their whole program in Afghanistan. The NBFIs will probably focus on small loans which is where the highest demand appears to be within the limited SME market.
Cooperative Department	N/A	As a government department, it is not appropriate to consider the Department of Cooperatives as a possible loan

		delivery agent, especially since a Government guarantee is not foreseeable.
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Of the short term solutions, the Contracted Loan Management Group and the NBFIs are probably the ones that can be implemented relatively swiftly. When the Contracted Management Group is in place it could then work with the local and international banks to implement the various mechanisms. NBFIs can be involved quickly; however, they will be limited in coverage of the RAMP target provinces by the nature of their operations. They are also ideally suited for small SME lending.

It is the consultants' opinion that by staffing up the Rural Finance component of RAMP this could be done by that unit as well – it has someone on the ground and more local knowledge than a yet to be recruited Loan Management Group. If time is of the essence this should be considered.

Micro Loans could be used in the long term to absorb any unused SME capital and can be justified by the high demand for credit by individual farmers.

### **5.2 Lending Mechanism Analysis**

<b>Lending Mechanisms</b>	<b>Implementation</b>	<b>Benefits</b>
Line of Credit	Short Term	This mechanism can be used with a variety of Loan Delivery Agents.
Guarantee Fund	Medium - Long Term	This mechanism will be attractive to Loan Delivery Agents such as banks but may take some time to structure properly and negotiate.
Equipment Leasing/Rental	Long Term	This mechanism will provide farmers access to equipment but could take time to negotiate.
Warehouse Receipts	Long Term	Although a proven mechanism, the awareness of the benefits of cold and other longer term storage will need to be further developed.

The Line of Credit is a short term delivery mechanism that can be quickly implemented. With the line of credit there will be a need to identify the organization, assess its human resource capacity, deal with any shortfall in capacity, mobilize the people in the field and negotiate the terms with the institution.

Guarantee Funds, in order to be successful, need to be structured properly. Structuring guarantee funds requires time and a good knowledge of local banking practices so that the risk of default is shared with the financial institution that makes the loan.

Equipment leasing/rental will depend on cooperation from the head offices and the local dealers. Although farmers are demanding tractors, this mechanism should be implemented after the line of credit and the guarantee fund.

Warehouse Receipts can be an effective mechanism but as the assessment found the awareness and therefore the demand for storage, cold or other, is not significant since there is a subsistence mentality and a practice of selling ones harvest immediately.

### **5.3 Agent and Mechanism Linkage**

<b>Loan Delivery Agents</b>	<b>Lending Mechanism Linkage</b>
Local Banks	Line of Credit

	Guarantee Fund
International Banks	Line of Credit Guarantee Fund
Contracted Loan Management Group	Line of Credit Guarantee Fund Cooperative Equipment Leasing/Rental
NBFIs	Line of Credit Guarantee Fund Warehouse Receipts

This table demonstrates the linkage between the Loan Delivery Agent and the various lending mechanism. As can be seen the Contracted Loan Delivery Management Group and the NBFIs offer the widest range of choice with regard to the lending mechanism. The use of NBFIs is considered a given as a lending mechanism but not an exclusive solution. The decision point with regard to Banks versus the Contracted Loan Management Group should center around two factors:

1. How quickly can banks be engaged compared to contracting a loan management group; and
2. If a loan management group is contracted, is there a buyer for the portfolio and if so, under what conditions and will the capital be used to continue lending to the agriculture sector after the end of the project.

#### **5.4 Next Steps**

Once the RAMP team and USAID concur on the short list of alternatives, the next steps will be to:

1. Visit the other RAMP priority areas that were inaccessible during the current mission.
2. Discuss in further detail the operational strategy of the program with the potential delivery agents.
3. Discuss possible synergy and cooperation with other appropriate partners such as the Bearing Point project, the Agricultural Technology and Market Development unit of RAMP, possibly the French if they indeed plan to reconstruct the Agricultural Development Bank.
4. Develop the details of the delivery agent arrangements and lending mechanism.
5. Present the proposed mechanisms for feedback to change agents (such as agro-traders, cooperative members, etc.) met in the field during this mission.
6. Complete a management/operation plan which will describe the implementation of an SME rural finance program.

**DRAFT 24 NOVEMBER 2003****SCOPE OF WORK – RAMP Mini-Assessment of Agro-Processors and Agro-Cooperatives****I. Background and Program Summary****A. Background**

Chemonics International is implementing the Rebuilding Agricultural Markets in Afghanistan Program (RAMP) contract during 2003-2006. One of the components of the program is designed to strengthen agricultural markets by making financial services available to all levels of agri-businesses. RAMP wants to review the rural finance sector generally, and explore the type of institutions that could provide financial services to small and medium agro-enterprises as well as exploring the options for larger investment projects. The assessment is to begin a partial review of the potential agro-processors and the active agricultural cooperatives and their needs for access to credit facilities. This assessment will comprise a portion of the more comprehensive rural finance assessment to be conducted between mid-January and mid-February.

As part of the RAMP strategy, the main objective is to increase incomes through effective linkages among producers, processors, and markets. The assessment will provide the RAMP team with a better understanding of the credit constraints faced by agro-processors. The assessment will take a regional perspective and will identify constraints and opportunities for rural finance interventions for agro-processors. The profile of the agro-processor sub sector is of the utmost importance to the RAMP project as it seeks to dramatically enhance the sub sector.

In close coordination with the MAAH, the Department of Cooperatives has expressed a need for a functioning credit system for their active cooperatives. Previously, agricultural cooperatives were able to receive short, medium and long-term loans equal to 14 times their capital from the Agricultural Development Bank (AgBank). There has been no replacement for credit facilities to agricultural cooperatives for several years since the AgBank last issued credits to the cooperatives. Additionally, the agricultural cooperatives utilized the AgBank as a depository for their savings.

Assessing the condition of agricultural cooperatives will be challenging as according to meetings with the Department of Cooperatives, they do not have any pertinent reports on the activities of agricultural cooperatives. For agricultural cooperatives to have a positive impact on the agricultural sector in their communities through increased yields and incomes, they need access to credit for working capital needs and farm equipment. Generally, cooperatives can have a comparative advantage through marketing economies of scale.

According to the NCFC (National Council of Farmers Cooperatives), "Access to capital, however, is only one of many issues challenging the cooperative community. In the United States, agricultural cooperatives date to the turn of the 20th century. Today, farmer and rancher cooperative businesses are as important as ever. Producers large and small benefit from the ability to join together in cooperative self-help efforts to enhance marketing, purchasing and bargaining power. But cooperatives must be able to adapt to a fast-changing era of globalization, consolidation and technological advancement, as well as new processing techniques and consumer preferences."

## B. Current Banking Infrastructure

There is considerable uncertainty about the continuation of the Agricultural Development Bank. According to a September 2003 IMF report<sup>2</sup>, the AgBank has not been operating fully since 1989 after the Soviets withdrew. The last audited financial statements from the bank are dated from 1994. The report also points out that interference by the government in commercial decisions weakened the banking sector as a whole.

The IMF report goes on to state that “foreign banks will most likely limit their operations both to the larger cities, starting with Kabul, and to certain type of customers, namely international organizations, NGOs, the diplomatic corps, and the largest corporations, leaving small and medium-size enterprises and rural areas unbanked. Most banks will likely also focus their operations initially on facilitating payments and few can be expected to engage in significant domestic-lending at the outset. This indicates that there remains an important role for DAB, microfinance institutions, and a rehabilitated domestic banking sector to deliver financial services outside of Kabul and to a client basis not served by the international banks.” This again points to the need for further financial intermediation beyond the traditional commercial banks.

Based on interviews with the AgBank, they do not have a clear plan to meet the new Central Bank commercial bank requirements. It appears the AgBank is awaiting the Afghan government to provide them with direction as to their future. As a mainstay credit facility for the agricultural sector, it is necessary to find other linkages between agro-processors, agricultural cooperatives and the financial sector in the event that the AgBank does not continue. This assessment will provide alternative recommendations for providing necessary financial services to the agricultural sector which has been dependent on the AgBank for their credit needs.

A healthy financial sector has interventions at several levels. This assessment will identify how those interventions can benefit agro-processors and farmers cooperatives.

## C. Evaluation of the Future Role for Cooperatives

Given the importance of cooperatives to the MAAH, this assessment will define the role the cooperatives have in facilitating the provision of credit to farmers. The assessment will study the following types of issues.

- How can cooperatives participate in a lender-borrower relationship that carries incentives for the protection of the relationship?
- What was the previous mechanism for cooperatives and the agricultural sector to receive loans and preferences for the future?
- Can cooperatives be an effective mechanism for pooling of products for marketing and financial service needs?
- What are the obstacles/risks/opportunities for utilizing agricultural cooperatives to open the access for finance to rural producers and processors?
- What are the transaction costs for financing agricultural cooperatives?

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<sup>2</sup> IMF Country Report No. 03/299 Islamic State of Afghanistan: Rebuilding a Macroeconomic Framework for Reconstruction and Growth, September 2003

The general view is that cooperatives can improve their market position through improvements in scale and quality of their production. As an association they may be able to present a more attractive credit risk to financial intermediaries. Working with an association could lower the transaction costs for lenders by working with a group rather than individual farmers. This assessment will test this view and determine the validity of it in an Afghan setting.

#### **D. Linkages between Agro-Processors and Financial Service Providers**

The assessment will determine what type of partnership would be appropriate between Afghan agro-processors and financial intermediaries. Agro-processors would most likely be contracting farmers for their required inputs. The agro-processors could work with the financial intermediaries to develop financial products to meet both their credit needs and those of their input farmers. This assessment should identify constraints and opportunities for lending to agro-processors. The greatest comprehensiveness possible is of high relevance and importance to the RAMP project.

This assessment should lead the consultants to recommend the means to provide agro-processors with working capital and capital investment, including their on-lending to their suppliers. The assessment can build upon information already developed by RAMP agriculture and agricultural marketing specialists.

## **II. Work Requirements**

### **A. Assessment Team**

The assessment team should consist of a 2 person team, with support from the USAID and RAMP staff in Kabul. The team will be comprised of specialists in the fields of agricultural credit, credit unions, commercial banking with experience in transitional and developing economies, and agricultural cooperatives. The assessment team should provide an overall assessment of the credit needs of agro-processors and agri-cooperatives and recommendations for the financial operations methodology which would be most appropriate for these agricultural enterprises.

The USAID/Kabul Market Development Advisor, Karri Goeldner, and RAMP's Rural Financial Advisor, Fran Toomey, will provide the leadership, and coordinate logistical and administrative support for the assessment team.

### **B. Duration**

This short-term assignment will be for two-weeks commencing in early December.

### **C. Scope of Tasks**

1. Review all available material from bi-lateral institutions, consultants and financial institutions regarding agro-processors and agricultural cooperatives.
2. Visit the proposed provinces<sup>3</sup> to evaluate the opportunities for agro-processors and their needs for access to credit. Also, visit the active agricultural cooperatives according to the Department of Cooperatives under the MAAH.
3. The consultant(s) should visit as broad a selection as possible of existing Afghan agro-processors to:

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<sup>3</sup> The provinces to be visited include Herat, Mazar-e-Sharif and Kunduz.

- √ Determine the approximate number of different kinds of agro-processors by product and estimate levels of output;
  - √ Determine the level of technology employed, the quality of output and possible applications of new technology to raise both efficiency and quality;
  - √ Determine actual and prospective markets and value chains for processed products, and determine level of sophistication of grading, selection, packaging and marketing;
  - √ Determine how these processors are financing their operations, both in terms of working and investment capital, and particularly how they are financing their purchases from farmers.
4. Determine the possible collateral which could be used as security for loans.
  5. Assess the soundness and sustainability of the active agricultural cooperatives.
  6. Determine if the agricultural cooperatives are in need of credit or leasing alternatives for accessing mechanization to be more efficient in their agricultural outputs.
  7. Based on the sustainability and prevalence of agro-processors and active agricultural cooperatives, determine the types of financial services products needed for these enterprises. Estimate the possible loan usages, the sources of income, the potential average loan size and loan term for loan products to these enterprises.
  8. Review the possibility of utilizing existing or nascent institutions and their branch networks for collaboration to meet the financial requirements for these enterprises.
  9. Assess the security situation for operating a financial institution in the proposed provinces.

#### **D. Deliverables**

At the completion of the mission, the following deliverables will be due:

1. A recommendation on how agro-cooperatives can play a role in facilitating the provision of credit to farmers.
2. Explain the activities that would fulfill those activities which can be identified more fully in the Scope of Work for the full rural financial assessment.
3. A recommendation for the financial products [loan sizes, terms, collateral to be pledged] needed by agro-processors.

An assessment report on the findings of the team will be incorporated into the overall rural finance assessment to be initiated in mid-January 2004.

## **Conclusions Regarding the Role of Cooperatives**

The Scope of Work has specific questions concerning the role of agricultural cooperatives, as well as items under Section C: Scope of Tasks. This annex reports the conclusions reached for the topics mentioned in these two sections.

### **Evaluation of Cooperatives**

#### ***General***

The Afghan society has a special characteristic which is of critical importance for a credit program: the significant value placed on a person's honor in keeping his/her word and respecting commitments. This is the keystone of group or solidarity lending, such that the rest of a group will make up the shortfall if one person does not make the required payment. For this element of peer pressure to work, the group must be self-selected and not appointed. This sentiment was echoed in the majority of interviews that touched on the subject of creditworthiness, and not once was it dismissed as illusory. The team was informed about a number of groups that are successful in having this lending mechanism (the seed multiplication unit, CFA micro-lending in Kunduz, AgBank in Herat). Given the almost total lack of credit operations in the past decades, this level of personal commitment must be reinforced continually with zero tolerance of delinquency.

#### ***Incentives***

The cooperative/producer group will have a powerful incentive to maintain a positive relationship with the lender, which is the access to credit in a timely fashion. Few farmers have ever had formal credit but recognize that improved seed, ample fertilizer of reputable quality, and access to farm machinery (for land preparation, irrigation or transport) are key elements to having good yields. The threat of being excluded from future credit use (plus the loss of credibility or face by defaulting unless completely unavoidable) should be adequate to ensure repayment without delinquency unless the loan is seen as a government subsidy or the group is not chosen with care and full beneficiary participation. The usual observation concerning coops in developing economies is that they are very poor credit risks with rampant disregard for commitments made to outside organizations (banks, contract farming and marketing agents, etc.) but this seems not to be the case in the areas visited.

#### ***Previous Mechanisms***

For years the coops did their financial transactions with the Agricultural Development Bank, basically disbursing and repaying production and investment loans and as a repository of coop funds. The bank would complete the loan documentation along with the provincial Department of Cooperatives of the Ministry and forward these items to the head office in Kabul for approval. In the last few years the bank would also verify the guarantee used or collateral offered, which previously was not required. The Herat branch did report some delinquencies (approximately 5 to 7 percent of the number of loans for this season) but said that any outstanding balances would be deducted from any new loans made if the group repayment mechanism did not cover the difference. This fallback option should be discontinued unless absolutely necessary, since it will weaken the commitment for repayment and could jeopardized the financial institution's cash flow.

#### ***Pooling***

Both coop development officials and producer group members listed consolidation of input supply and marketing of produce as one of the primary reasons for joining. The Herat coop visited also mentioned banking transactions as an activity that its

representatives could do on behalf of the members. Storage and processing (or adding value) was not mentioned as activities that would benefit from pooling, except by the seed grain growers, who turn over the seed to the Ministry to store and disburse/sell. While interviewing, much care is needed to differentiate between something that used to be done (usually decades ago), that which is actually or recently being done, and that which could be done. The tendency was for members and officials alike to mix these together when describing activities.

### **Obstacles**

A major obstacle for producer group activities is the lack of formal business skills coupled with pervasive illiteracy. (However, the Afghan generally is noted for his innate business acumen.) This deficiency makes especially medium- and long-term business activities much more difficult and subject to ad hoc decision-making and dependence on the few leaders that are literate. The Department of Cooperatives training unit is providing training to overcome this problem

A second obstacle relates to the decision-making process, which very often is based on full consensus among members. This management style is unwieldy for business operations, especially when decisions are needed without delay. This situation becomes an even greater constraint if the business activity concerns processing because of its complex nature. An example would be the group bakery in Herat, which wants to expand its product lines but seems to lack a clear idea of which ones to introduce, what might be the probable demand, whether trials should be made and if more sales outlets should be started. The responsibility for exploring these aspects seems to have been left to the NGO which donated the equipment and provides supervision to the non-formal group.

### **Risks**

Any group organization runs the risk of becoming 'personality-driven' in the sense that one or a few leaders become so closely identified with the management that the group's success is dependent on those individuals. If these leaders leave the group, have internal disputes or are not re-elected, the operations can become paralyzed. Also, the needed checks and balances are unobserved, and corruption is made easier. Continual membership orientation is necessary to imbue them with shared responsibility, as well as basic organizational skills training to raise the level of capability within the group (such as functions of the different officer positions and of committees, use of record-keeping, monitoring of joint activities).

Another risk factor is the issue of member exclusivity, especially if the group is perceived as successful. Long-time members may feel they have financial and even 'sweat equity' in a business operation, which they are reluctant to share with newcomers. This situation will result in limiting the impact and coverage that otherwise would be possible. Since usually all members have the same amount of share capital, the concept of profit-sharing or dividends would be inappropriate. Membership orientation is one of the few ways to counteract possible exclusivity.

### **Opportunities**

Perhaps the most striking element of opportunity is to be able to build on the reportedly pervasive sense of personal honor in keeping commitments. This characteristic should be able to compensate for the lack of a credit culture, as long as the activity is perceived to be of/by/and for the group and not something expected from the government.

The use of groups permits a more rapid transfer of technology and wider adoption than if the focus were on individuals. Many of the groups interviewed claimed 200 or

more members who voluntarily joined. In a few cases membership jumped when palpable services were being provided (such as the Herat coop, which went from 14 in 2000 to 220 today). Furthermore, it is obvious to everyone that a group provides the mechanism to benefit from economies of scale in access to credit, input supply, mechanization, marketing production, and in general having a greater profile to represent interests and obtain preferential treatment. (The Herat coop has just requested authorization of the local government to set up a highway fuel depot and purchase the fuel directly at a lower cost.)

### ***Transaction Costs***

The use of a group structure for producers does have a cost associated with it. A primary cost element is having a professional management capacity, probably from outside the local area. The coop visited in Herat (undoubtedly a showcase group) has a full-time manager provided by an international NGO - books are kept up-to-date and in the office, member orientation materials were prominently displayed, prices and markups of consumer items were posted in the store, members participated in monthly inventory check, etc. The variety of business activities requires formal management, but it was unclear how this would be paid for when the NGO ends its financial support. (Probably the planned fuel depot would provide enough cash flow to fund the group's administration.)

Another cost element is the continual membership orientation and skills training mentioned previously. This activity traditionally has been covered by the Department of Cooperatives and NGOs or donor projects. As the group grows in business volume and complexity, additional training will be needed to ensure its sustainability.

Finally, there are costs related to trials of activities by larger groups, which might result in failure as well as success. Some business ventures usually done by individuals are not well suited to groups because the dedication and efficiency of the individual is not easily matched by groups. A clear example is the Herat coop's attempt to market their produce at the bazaar: after six months of losses this effort ceased. Decision-making at the margin (purchase and sales prices, compensation for losses from damage and spoilage, etc.) is much more difficult for a group unless the commodity is fairly standard and non-perishable.

## **Scope of Tasks for Cooperatives**

### ***Soundness and Sustainability***

These two aspects of groups are necessary issues to consider for an agricultural development program. One definition of soundness would be if the activities are relevant to a majority of the members rather than tailored to a small number in the sense of assisting them to be more productive or efficient or have access to more stable and profitable markets. The team had direct contact with only a few producer groups, and they definitely seemed to have sound plans to develop. (The examples that come to mind are the Herat multi-purpose coop and the seed producers unit in Kunduz.) In talking with representatives of other coops, less clarity was evident: the list of activities was long, without obvious priorities, and they showed confusion in explaining what they did or wanted to do; these may not be active groups, but more field time is needed to determine their status and relevance.

Sustainability can mean a variety of things. At the most basic level there is 'short-term' or 'cash flow' sustainability, meaning that the immediate bills will be covered but non-cash expenses are not (such as depreciation, devaluation, capital reserves). The next level could be termed 'financial' and covers all expenses necessary to

maintain the enterprise at its current operational level. If the business has an explicit growth target, in number of members, geographic coverage or number of product lines/services, then the goal for sustainability has a built-in growth factor. A completely different type of sustainability relates to the institution itself and its capacity to develop the organizational, business and technical skills among its members and employees to provide the stability needed to continue the expected service level and adapt to personnel changes in elected and hired positions. This is the most demanding type of sustainability considered here (and even among enterprises in developed economies). A development project should focus on reaching the financial level and be carrying out institutional development aspects during the project's time frame.

### ***Mechanization***

Mechanization was one of the most frequently mentioned needs for services to producer groups, after improved seeds, available fertilizer, and maybe sufficient irrigation resources. The Herat coop has one tractor with implements and definitely needs more. Also the seed unit in Kunduz was formed around the use of a tractor with implements and a seed cleaner, provided under a loan from ICARDA. These two examples demonstrate that different organizational structures can have similar applications, and neither is inherently superior. The two farm machinery distributorships interviewed had concrete proposals for farm equipment rental centers and financing for purchase. Since the usual size of a farm is less than two hectares, any mechanization would need to incorporate its use by groups rather than just individuals.

## **Tentative Recommendations**

Given the widespread incidence of group borrowing (solidarity lending as individuals, associations or cooperatives) by Afghan small farmers, this mechanism can be very useful for reaching a large number of producers, as long as the traditional responsibility for honoring commitments is maintained. This is of paramount importance, but should not exclude lending to individuals as well. The type of group structure should be as simple as possible, instead to automatically opting for the multi-purpose coop organization which probably is only infrequently implemented.

Some form of outside professional business management is needed, unless the group has adequate resources to provide its own. As more variants of group organizations are seen, several options may emerge for providing this for a period of at least several years (e.g., part-time, pooled bookkeepers and business managers, full-time, mentoring with university-level students).

Training of business managers and bookkeepers will be required to ensure a certain level of support services and information on activities and impact. Membership orientation and skills transfer should become part of the groups' activities, to be provided by an organization separate from the lending agency.

Project-wide technical assistance will be required to support the training on group lending practices and procedures to lending agencies. Another type of technical assistance would be advisable to strengthen the capacity of the MAAH's Department of Cooperatives and other organizations such as NGOs related to the functioning of farmer associations and cooperatives.

## **Collateral and Loan Types**

The following information on the loan portfolio of the AgBank, Herat Branch was gathered from a meeting with the General Director, Mohammad Mullah.

### **Collateral**

There are several types of collateral. There are three types of land ownership. The first two categories could act as collateral although it should be noted that some urban land and buildings that were abandoned by people leaving Afghanistan have had forged papers prepared and registered. This land can only be reclaimed by the original owner by taking the person that forged the papers to court. This makes only family owned land verifiable collateral at the present time. It should also be understood that land ownership largely falls under Sharia Law.

1. Family owned land inherited from parents,
2. Personal land purchased by an individual,
3. Granted land distributed by the Communist Party.

These three types of land ownership are valued differently based on soil quality (Group A in North and Group B in South and West) and whether it is irrigated or rain fed.

Other collateral could be gold and equipment. In the past typically equipment, for collateral purposes was valued at less than 75% of its market value and often as low as 50% of its market value. In other words, lenders require collateral valued at 150-180% of the loan amount.

The cooperative bylaws indicate that members agree, at a general meeting, to guarantee a multiple of their share capital if there is a default.

### **Loan Types**

The lending process as described by the AgBank in Herat partially reflects the shortage of capital available for lending. Due to this shortage the process described below has several opportunities for rent seeking. It was also reported that when capital was available facilitators would, for a fee, assist in getting a loan application approved. The process described is as follows.

- A request to make an application for a loan was made.
- A form was provided to the farmer on which the details of the request including pictures of the client, and the specifications of the land owned by the borrower.
- Two field inspectors
  - Checked the loan form
  - Checked the reputation of the farmer
  - Checked the quality of the land and whether it was rain fed or irrigated
  - Checked the cash flow/ability of the farmer to repay
- Two guarantors were required to sign the loan application
- The loan and the land guarantee/collateral were then registered in various courts from the village/district levels up
- The documentation was then sent to Kabul for Credit Committee approval
- 15% interest was charged.

Fertilizer loans are approved by the AgBank, the MAAH and the fertilizer company. Loans are made in both fall and spring to individuals. Each individual has a group guarantee (probably 2-3 others) on the loan. When the loans are due they are repaid to the AgBank who then pays the fertilizer company. It would appear that the role of the MAAH is to act as a secondary guarantor of the loan.

Three types of loans were granted by the AgBank, short, medium, and long term loans. The following example is from the 90 million Afghanis provided by the Governor of Herat to the AgBank for distribution to farms.

<b>Loan Characteristics</b>	<b># of People</b>	<b>Amount (Afs)</b>
Short Term – 1 year Fertilizer Wheat	N/A	N/A
Medium Term – approximately 5 years Wells 3-5 hp Pumps Plow cows Dairy cows Sheep – milk and meat Tractor	100 100 150 150 2-300 10	50-60,000 20-70,000 48,000 48,000 100-300,000 635,000
Long Term – approximately 7 years Fruit and wood trees	30	100,000

Repayment of medium term loans is done through annual payments in December. Payments of long term loans are interest only for the first three years and then an annual payment of principal and interest for the remaining years.

## Context of Constraints

### Legal Framework

#### *Central Bank*

In the past the central bank was not independent of government influence. In addition it operated as a regular commercial bank. The commercial operations are in the process of being spun-off/closed. The independence of the central bank is being worked on and only time will tell of the success or shortfalls.

#### *Banks*

The new bank law has been proclaimed in English. The Dari version is still being finalized. This law permits interest for commercial operations. At the same time it is still uncertain as to how the Islamic fundamentalists will respond to the law.

Under the new law existing banks are required to re apply for a license. Based on the current analysis by Bearing Point of the six existing banks the Millie and PTB are the two strongest existing banks. The AgBank is ranked fourth out of the six. It is likely that the last two will not meet relicensing requirements (Export Promotion Bank and Industrial Development Bank. All of these banks are very small by international standards -- the largest would be about the same size as a community bank in the US.

#### *AgBank*

Bearing Point expressed concern that specialized banks like the AgBank have an inherent risk due to their specialization, thus requiring both greater capital adequacy and higher risk provisions for bad loans. This position is supported by the Ministry of Finance and it is expected that the AgBank will be liquidated. No replacement is expected to be established. Instead this is being left to the market to supply the credit for the agriculture sector.

In the past the AgBank was used as both an agricultural bank and as a vehicle for the government to distribute subsidies.

#### *Branch Network*

There are bank branches in all the major centers where RAMP will operate. With the re-licensing of the banks it is unclear if this branch network will remain. New banks that become licensed under the new Bank Act are not likely to lend during the initial two years while they assess the country risk. Based on observations in other countries, it is likely that they will initially make commercial loans in the urban areas and that it will be some time, possibly several years before they establish branches in the provincial centers. It will also likely be many more years before agriculture lending is undertaken.

#### *Credit Unions*

Credit Unions will be considered as a non-bank deposit taking institution under the new law.

#### *Collateral Law*

It was reported that there is no law regarding collateral and its registry. Land as collateral is a particularly important issue because the land title and registry system is in disarray. This is made even more difficult because land reform falls under Islamic law.

### *Cooperative Law*

A new Cooperative Law and model bylaws have been drafted. The model bylaws are being used in the establishment and/or reactivation of cooperatives. The Cooperative Law is at the Ministry of Justice to be checked for consistency with the new constitution but will not be enacted until after the constitution is accepted by the Loya Jirga.

### **Infrastructure**

Infrastructure is important for the monitoring and reporting on the Rural Finance lending. Electricity is of major concern.

Without electricity it will be impossible for bank branches to report on lending and other bank activities. The current situation regarding the stability of electrical power is not encouraging, even in Kabul.

There are currently two telecommunications systems in Afghanistan but neither presently have national coverage. With reconstruction this will likely change rapidly, however, the instability of electrical power will have a negative impact on the expansion and effectiveness of these two systems in the immediate future.

### **Labor Market Survey**

A labor market survey was undertaken by the International Rescue Committee in September 2003. This survey indicated that at the household level the general literacy rate is 21%. In rural areas this average is 11% while in urban areas it is 34%. This has a significant impact on rural lending. If it is expected that the business being lent to by the rural finance component of RAMP is to have business plans and understand financial management of businesses, it will only be able to be done through extensive TA focusing on Business Development Services (BDS) training.

With the record of bank performance and the literacy issue it will be difficult to find people that are even qualified to be trained as loan officers and/or loan administrators and monitors.

These issues raise concerns about training the loan officers in Business Development Services and lending, client assessment and monitoring the loan after it has been granted.

### **Cultural Concerns**

The Afghan culture is one in which the family is paramount and each family was traditionally fiercely independent. In addition, over the years this feudal system has transformed somewhat so that there are large landowners on which families share-crop. These large landowners generally do little for the families that work on their land in terms of providing community services, etc.

In addition to these factors the war years saw the emergence of warlords and drug lords.

Both of these have established an informal governmental role. In the case of warlords, they need to tax the local residents in order to maintain their standing armies. In the case of the drug lords, they have provided a source of cash income for farmers in spite of the fact that raising poppies is highly labor intensive. According to available reports, opium is by far the most labor-intensive cash crop in Afghanistan. To cultivate one hectare of poppy requires, on average, about 350 person-days. This compares to 41 person-days for wheat and 135 person-days for black cumin, the

second most labor intensive crop in the country. Even more significant is that most of this labor is needed at harvest, which requires about 250 person-days per hectare. The majority of growers therefore have to rely on hired help, usually six to seven itinerant harvesters per hectare. The UNODC estimates that about one million persons are involved in the harvest each year. It is reported, however, that because of the high wages paid to harvest poppies in 2003, the wheat harvest required the importation of cheap labor from Pakistan to harvest the wheat crop, while Afghans worked on the better paying opium harvest.

### Rural Finance Cultural Checklist

✓	Cultural Factors
	<b>Islamic Banking</b>
	Emphasizes sharing risk
	Musharaka – equity participation. All partners have a financial stake and the right o a pre-determined % of profits. No predetermined date for repayment and bank remains partner in operation.
	Mudharaba – Bank owner of capital and determines a % of profit. Return depends on final profit. Entrepreneur not required to invest own capital and loan is paid back at a predetermined date along with profit. Closed partnership
	Murabaha – Bank buys goods and resells them to entrepreneurs for the cost plus a fixed mark-up for administration. The bank owns the goods until the last installment is paid
	<b>Environment</b>
	Farmers are indebted
	Lack of capital
	Drought
	Drugs
	Opium production increase x3 79-89 and x4 89-96
	Cannabis
	History of usury
	Lack of literacy – almost 2 generations chose war over education
	Warlords - new since end of war with Soviets
	7 informal regions (old provinces) run by warlords
	Khan's role
	Government Representative
	<b>Family and Social Structure</b>
	Taliban broke down community trust
	Local Community tensions
	Non-kin cannot be trusted
	Tribes have traditional enemies
	Public promises and threats create obligations
	High value of dependence on family
	High value of autonomy from other families
	Family guarantees obligations – family solidarity
	Property and children are important
	Inheritance goes to brothers of deceased
	Inheritance rules makes land poor collateral
	Share-cropping common among extended family
	Off-farm income
	Urban dweller maintain close links with rural kin (except Kabul)
	Patriarchal – male authority is prominent
	Pashtun – decision making through councils
	Strong extended family connections
	Women manage the food supply
	Women do little agriculture work except mild and some light work during harvest but no among nomads
	Women have leverage through ability to damage family prestige
	Family social position depends on public behavior of female members.
	Sunni is primary sect with greatest access to economic system
	Imami is secondary sect with next greatest access to economic system
	Ismaili sect is third with least access to economic system
	Sunni vs Imami
	Ismaili vs both
	<b>Off Balance Sheet Family Expenses</b>
	High dowry and bride price
	Shelter for relatives – including food
	Care for less affluent family members
	Employment of relatives

**People and Organizations Met  
(Other than Immediate USAID and Chemonics Personnel)**

<b>NAME</b>	<b>ORGANIZATION</b>
Steve Shaulis and Jeff Paine	Central Asia Development Group - Kandahar
Paul Hicks	Program Manager, Catholic Relief Services
Juan Estrada	Senior Scientist Trade Economics, Catholic Relief Services
Alex Lyon	Country Representative, Case New Holland - Kabul
Lois Kitsch	Regional Manager, World Council of Credit Unions (WOCCU)
Kevin Vines	Business Operations Manager, AGCO/Massey Ferguson - Kabul
Alex Mason	Businessman, Massey Ferguson - Kabul
Don Jacobson	Trade Policy Advisor, Bearing Point - Kabul
Gul Ahmad Hoshmand	President, Afghan Chamber of Commerce - Kabul
Glenn Tasky	Manager, Bearing Point - Kabul
Robert Hager	Commercial Law, IRIS - Kabul
Reed Aeschliman	USAID Program Economics Officer - Kabul
Debra Boyer	Facility Manager, MISFA - Kabul
Mr. Anwari	Minister of Agriculture, - Kabul
Robert Wilson	USAID Deputy Director – Kabul
Ursila Jung	World Bank - Kabul
Enoyat Mohammed Weiss	previous manager of raisin export/textile/detergent firms with family - Kabul
Habibullah	President, Department of Cooperatives
Allan Kelly	Natural Resources Officer, Asian Development Bank – Kabul
Waleed Khalid Mahdi	Senior Technical Advisor/Irrigation, Food and Agriculture Organization – Herat
Mohammed Nasser Seyawashani	General Director, Arya Co. Ltd. – Herat
Rajendra Aryal	Area Manager, Food and Agriculture Organization c Herat
Ziauddin Paiman	Seed Technician, Food and Agriculture Organization c Herat
Heather Kerr	Manager, War Child Afghanistan - Herat

	General Manager, GOA silo bakery - Herat
Mohamed Mollah	General Director, Agricultural Development Bank – Herat
	Presidents of 16 agricultural cooperatives - Herat
Cooperative officers	Agricultural Cooperative near Herat
Jonathan Griswold	FINCA - Herat
	Director and Deputy, Chamber of Commerce - Kunduz
	Director, Da Afghanistan Bank - Kunduz
Ghulam Aqtash	Executive Director, Kunduz Rehabilitation Agency - Kunduz
Abdul Hameed	Liaison Officer, Kunduz Rehabilitation Agency - Kunduz
Mohamed Islam	Provincial Director, Ministry of Agriculture - Kunduz
Mohamed Ashan	Manager, Mille Bank - Kunduz
	Kunduz Central Cooperative Representatives - Kunduz
Haji Lal Jan	Head of Chardara Seed Unit - Kunduz
Muhammed Sadiq	Head of ICARDA seed multiplication program - Kunduz
Lloyd McCormick	Manager, Children's Fund of Afghanistan - Kunduz
	Director and Assistant, Chamber of Commerce - Kunduz
	Provincial Director and Administrator, Ministry of Agriculture - Kunduz
	ACTED, Mazar
Sadiqi	CoAR – Mazar
Tim Stewart	GOAL - Mazar
11 businessmen	Chamber of Commerce - Mazar
Director	Pashtany Tejaraty Bank - Mazar
Bir Chandra Mandal	FAO - Mazar
11 chairman and 3 members of an association	Cooperatives - Mazar
Thi Hanh Houmard Cao	ILO
Meagan Andrews	Mennonite Economic Development Agency

## Mazar-e-Sharif Cooperatives, Balkh

NAME OF COOPERATIVE اسم کوبراتف	Number of Members
BANO ووناب	31
AQTIPA هپیتقا	43
SALAR TAPA هپت رالاس	172
AYARAN نیدا	26
UFA MALIK کلیم ففوا	49
SHERABAD داباریش	50
NAWABAD KHULAM داباون ملخ	70
	441

## Herat Cooperatives

NAME OF COOPERATIVE اسم کوبراتف	Number of Members
NOBADAM مادابون	177
HAMBASTAGI یگتسبمه	115
SADAQAT تقاتص	131
SADAT تاداس	51
MUFAQ قفوم	95
KIRAMAT تمارک	74
TAWHEED دیحوت	130
ABDUL RAHMAN JAMI یماج نمرل ادبغ	-
وحدت کورت ها	160
متحد گلبا فا	63
اتحاد خواجه ملال	132
خواجه محمد کنجافی	214
نشین	110
کشکک	76
14	+1528

## Kunduz Cooperatives

NAME OF COOPERATIVE اسم کوبراتف	Number of Members
ZAL PALAWAN ناولمپ لاذ	
SAYED RAMZAN ناضمر دیس	
WARTA BLAQI یقالب هترو	
ASFALAN نالفسا	
SEDARAK	150
SIDAHMAD	50
CZUL TAPA	200
BAGH MIRI	475
IBRIHIM KHIL	250
ASGALAN KHORSHID	210
	+1135