



## AGRICULTURAL CREDIT ENHANCEMENT (ACE) PROGRAM

QUARTERLY REPORT Q1 FY 2012

OCTOBER 1 – DECEMBER 31, 2011



Photo: Potato growers, members of [REDACTED] sorting and grading their produce after harvest. 383 Bamyán potato farmers experienced a 22% increase in yields due to the high quality fertilizers and seeds on ADF credit.

# QUARTERLY REPORT

## QUARTER I, FISCAL YEAR 2012

Program Title: Agricultural Credit Enhancement Program

Contract Number: EDH-I-00-05-00004

Contractor: Development Alternatives, Inc.

Date of Submission: January 31, 2012

Contracts Officer Technical Representative: Ali Ahmad

Contracting Officer: Nataliya Holl

Chief of Party: Juan M. Estrada-Valle

## **ACE MISSION STATEMENT**

ACE's main objective is to manage the \$100 million Agricultural Development Fund (ADF) which will be established by a USAID grant to GIRoA separately from the ACE activity. The program aims at increasing the availability of credit to small-scale commercial farmers and businesses that participate in the agricultural economy in Afghanistan. To achieve rapid disbursement of agricultural credit, ACE works with agribusinesses, farmers and participating intermediaries while using innovative lending products to overcome challenges and obstacles.

# CONTENTS

LIST OF ACRONYMS.....	5
EXECUTIVE SUMMARY.....	6
Component 1: Delivery of Credit Services.....	8
Component 2: Agricultural Modernization and Value Chain Development.....	29
Component 3: Coordination and Knowledge Management.....	32
Performance Management - ACE Progress against Targets.....	33
Administrative and Human Resources.....	44
ACTIVITIES FOR THE NEXT QUARTER.....	45
ANNEX I – Percentage of Loan Losses Resulting from ACE Lending Recommendations.....	46

## LIST OF ACRONYMS

---

ADF	Agricultural Development Fund
ACE	Agricultural Credit Enhancement
ASAP	Accelerating Sustainable Agriculture Project
CMU	Credit Management Unit
DAB	Da Afghanistan Bank
FAIDA	Financial Access for Investing in the Development of Afghanistan
FTE	Full Term Employment Equivalent
FI	Financial Intermediary
GDA	Global Development Alliances
GIRoA	Government of Islamic Republic of Afghanistan
GIS	Geographic Information System
Idea-NEW	Incentives Driving Economic Alternatives Project
KMF	Knowledge Management Facility
MAIL	Ministry of Agriculture, Irrigation and Livestock
NFI	Non-financial Intermediary
PMP	Performance Management Plan
TAFA	Trade and Accession Facilitation for Afghanistan
TO	Task Order

## EXECUTIVE SUMMARY

In the first quarter of fiscal year 2012, the ACE Program disbursed \$6 million USD for new loans to agribusinesses, farmers associations and non-financial intermediaries such as credit unions to spur commercial agricultural growth. The project has already provided agricultural financial access in 25 provinces of the country maintaining a zero rate default. At this point, ACE has a portfolio of \$19.1 million USD in approved loans and a loan pipeline of \$23 million USD.

In collaboration with MAIL, ACE made significant inroads in the establishment of the ADF and installing governance processes. The Advisory Board is established, the Credit Policies are complete and H.E. Hamid Karzai, the President of the Islamic Republic of Afghanistan, has approved the legal establishment of the Agriculture Development Fund (ADF) as a non-bank executive agency within MAIL. This decree envisages the formation of an advisory board for the ADF under the leadership of an inter-ministerial board. The achievement of the legal establishment of the ADF is the most significant milestone in the project history.

As of this quarter, the ADF has in place credit policies and procedures, a comprehensive credit analysis process, risk assessment and finance audit tools, and a manual for credit administration, which constitute the basis for the operation of the fund. By the end of 2012, the ACE program will have complemented the existing structure with an automated credit administration system and specific operation manuals for each of the technical and operations units of the Fund.

ACE achieved the approval of the first loan to women borrowers as [REDACTED], a Herat based women organization, received a loan of \$155,000 to purchase saffron flowers from women saffron growers, process, package and sell the product in the domestic market. This loan will directly benefit 95 women in the region.

In the framework of building human capacities for the management of the ADF, ACE organized a total of five capacity building training activities. The lending component convened a two-day training on Sharia Lending in Kabul, along with a 6.5 day Credit Program and a two day Credit Committee Executive Seminar for members of the ADF Credit Committee in Dubai. Also, the project offered a 22-hour training on Basic

## ACHIEVEMENTS

### OCTOBER – DECEMBER 2011

- APPROVED EIGHT NEW LOANS TOTALING \$3.57 MILLION USD TO AGRIBUSINESSES IN KABUL AND HERAT, TO REACH A TOTAL OF \$19.1 MILLION USD IN ADF APPROVED LOANS.
- DISBURSED \$15.4 MILLION TO AGRIBUSINESS, FI AND NFI THROUGH LOANS ACROSS TEN PROVINCES, MAINTAINING A 0% DEFAULT RATE.
- ACHIEVED THE FORMAL ESTABLISHMENT AND THE LEGAL LICENSE FOR THE ADF AS A NON-BANK EXECUTIVE AGENCY WITHIN MAIL.
- SUCCESSFULLY ESTABLISHED ADF CREDIT POLICIES AND PROCEDURES, CREDIT ANALYSIS PROCESS, RISK ASSESSMENT AND FINANCIAL AUDIT TOOLS, AND A MANUAL FOR CREDIT ADMINISTRATION.
- PROVIDED CREDIT TO 9,155 FARMERS IN 24 PROVINCES THROUGH FINANCIAL AND NON-FINANCIAL INTERMEDIARIES AND INDIRECTLY BENEFITTED 97,524 FARMERS.
- APPROVED THE FIRST LOAN OF \$155,000 USD TARGETING ENTIRELY WOMEN SAFFRON GROWERS IN HERAT PROVINCE.
- ORGANIZED FIVE CAPACITY BUILDING ACTIVITIES AND TRAINED 34 ADF CREDIT OFFICERS, ADF CREDIT COMMITTEE MEMBERS AND CMU STAFF.
- ORGANIZED NINE AGRICULTURAL CREDIT SHURAS TO GENERATE AWARENESS FOR ADF LENDING OPPORTUNITIES AND ISLAMIC COMPLIANT PRODUCTS IN THE PROVINCES OF HERAT, PAKTIKA, KHOST, KABUL AND BAMYAN.
- LAUNCHED THE AGRICULTURAL KNOWLEDGE MANAGEMENT PLATFORM, PAYWAND, THROUGH THE MAIL WEBSITE.
- ACE SUPPORTED THE PARTICIPATION OF 28 AFGHAN EXPORTERS IN THE 31<sup>ST</sup> INTERNATIONAL INDIAN TRADER FAIR, WHICH LED TO NEW DEALS AND CONTRACTS FOR AFGHAN PRODUCE.

Accounting and QuickBooks to ██████████ in Kabul and a training on Grants Management and Reporting to ██████ CMU staff in Jalalabad.

The Agricultural Credit Shura, an instrument of awareness on ADF lending, continued to make inroads and travel to remote provinces across the country. ACE organized nine Shuras, one in Herat, Khost and Paktika respectively, two in Kabul and four in Bamyan. The project designed a new Sharia compliant, Murabahah, Return-on- Investment-Sharing product, which will be used to estimate the rate of return on investments and share it with the client. This product is mainly used for investment activities such as construction, the purchase of machinery, etc.

ACE continued with the regional value chain and policy activities with a saffron-specific workshop in the city of Herat. Representatives from Herat's DAIL Office, NGOs working along the saffron value chain, growers, processors, traders, exporters, dealers of planting material and inputs attended the activity. The event was designed to reiterate the importance of saffron as a commercial agricultural crop, the importance of the crop for the economic growth of the region and identifying possibilities of collaboration between different actors in the region, and the constraints on value chain growth. The value chain team supported the participation of 28 exporters to the 31<sup>st</sup> Indian International Trade Fair which resulted in new deals and contracts between Afghan agribusinesses and traders and Indian counterparts. ██████████ an exporter of dried fruits and nuts from Kabul, an ADF client, signed a contract for over \$7.7 million USD with Raj International Export and Import Co., a large Indian company that sells Afghan agricultural products and dried fruits, as a result of the participation in the trade fair.

The Market Information Unit in collaboration with MAIL, launched the Knowledge Management Platform (in Dari: PAYWAND) through MAIL's website at <http://paywand.mail.gov.af/en>. The Knowledge Management Facility (KMF) is the result of the collaboration between MAIL and USAID's ACE Program. The Knowledge Management facility will be responsible for: a) the integration and archiving of agricultural data in a single repository; b) the consolidation of existing data into more reliable, understandable and useful products; and c) the dissemination of agriculture related information, making it accessible to a wide range of actors involved in the agriculture sector. The KMF will be based within the MAIL and will capitalize on data generated by several development projects, ensuring the sustainability of the databases and, most importantly, transforming data into products targeted to different audiences, ensuring the soundness of agribusiness decisions.

## Component I: Delivery of Credit Services

*The delivery of credit services constitutes the core activity of the ACE project. For this purpose and in the absence of financial institutions interested to engage in agricultural lending, the project primarily partners with non-financial institutions and agribusinesses that on-lend to farmers.*

During the last quarter (October-December 2011) ACE achieved substantial successes with the establishment of the ADF and providing viable financial access for the agricultural sector.

Table 1: ADF Establishment Milestones

Milestones for the Establishment of the ADF		
1	Prepare and Finalize ADF Policies and Procedures	After many iterations between ACE and MAIL, the ADF Policies and Procedures were endorsed by MAIL in August 2011
2	Establish the ADF Advisory Board and inter-governance for ADF	The ADF Advisory Board was formally launched on September 29, 2011
3	Register the ADF as a legal non-bank executive agency within MAIL	The document was signed by H.E. President Hamid Karzai on January 3, 2012

The Agricultural Development Fund achieved its legal license in the reporting quarter. The President of the Islamic Republic of Afghanistan H.E. Hamid Karzai approved the legal establishment of the Agriculture Development Fund (ADF) as a non-bank executive agency within MAIL. This decree envisages the formation of an advisory board for the ADF under the leadership of an inter-ministerial board.

ACE presented a total of 11 loan packages to the three ADF Credit Committee meetings held during the reporting quarter of which eight applications were approved, totaling \$3,573,000 USD. Both the [REDACTED] loan of \$700,000 USD and Exporter's loan (through [REDACTED] of \$500,000 USD addressed investments for the export of dried fruit and nuts. [REDACTED] an existing client which had already repaid their initial loan, received a second loan for \$230,000 to finance the supply of 30,250 grape trellising posts for MAIL's Horticulture and Livestock Project (HLP). [REDACTED], a new borrower based in Kabul, received \$555,000 to purchase soybeans at harvest from farmers who have already been provided seeds and agricultural inputs for planting by the company. [REDACTED] a Herat-based company involved in the purchase and trade of dried fruits, received a loan of \$273,000 to finance the purchase of 40MT of raisins and 30MT of dry figs for export to India. The ADF Credit Committee approved a loan of \$700,000 for [REDACTED] for purchasing 23.2 MT of greasy cashmere from goat raisers and middlemen in Herat, to then clean and package and ultimately export to China. [REDACTED] received a loan of \$425,000 to build three (100M2) raising halls to raise 12,500 broilers in each per cycle and to purchase equipment, and concentrate feed for 100,000 broilers for two cycles. The [REDACTED] in Herat received a loan of \$155,000 to purchase saffron flowers from women saffron growers and then process, package and sell the product in the domestic market. This is the first ADF loan that targets women in the agricultural business in Afghanistan.

Table 2: ADF Credit Committee meetings' results

No. of meeting	Date	Borrower	Amount Requested	Decision	Notes
18th MEETING	10/5/2011	[REDACTED]	\$715,000	Approved	Approved with condition that risk dealing with borders of Pakistan and India are taken into account.
		[REDACTED]	\$500,000	Approved	Approved with condition that companies are well established and that a 20% contribution is given from each exporter to reduce risk. This may reduce the overall loan amount.
		[REDACTED]	\$250,000	Delayed	The Deputy Minister wants to see more details of the environmental contingency plan on how degradation of the land can be minimized before making a decision. This loan will be review again at the next CC.
19th MEETING	11/15/2011	[REDACTED]	\$250,000	Approved	Approved with the condition that to ADF check with the HLP/MAIL to make sure they are able to pay directly to ADF/ACE.
		[REDACTED]	\$555,000	Approved	The loan was approved, subject to looking at their marketing strategy, collateral and getting cross guarantee from the parent company.
		[REDACTED]	\$273,000	Approved	The loan was approved subject to how the company will mitigate their risk, the collateral and the understanding of their target markets and alternative markets in case of any problems in shipping their products to India.
20th MEETING	12/17/2011 and 12/18/2011	[REDACTED] (Final Decision Only)	\$250,000	Delayed	Environmental Study must be approved by the NEPA of the Afghan Government.
		[REDACTED]	\$520,000	Deferred	Deferred until further discussion can occur with MAIL agricultural experts.
		[REDACTED]	\$2,000,000	Deferred	Deferred until the next Pomegranate season.
		[REDACTED]	\$700,000	Approved	Approved subject to borrower putting in place protective measures for workers.
		[REDACTED]	\$425,000	Approved	
		[REDACTED]	\$155,000	Approved	Approved subject to verifying the ownership of the collateral.

The loan of \$250,000 USD to [REDACTED] has been approved in principle and its final approval is contingent upon the environmental study being approved by the NEPA of GIRoA.

ACE disbursed a net value of \$6 million USD in ADF loans in the last quarter. The project disbursed \$1,977,597 to [REDACTED] a total of \$900,000 to [REDACTED] \$715,000 to [REDACTED], \$375,000 to [REDACTED], \$273,000 USD to [REDACTED], \$700,000 USD to [REDACTED] \$280,000 to [REDACTED] \$100,000 to [REDACTED] and \$362,887 to the [REDACTED]. By the end of 2011, the total loans approved constituted \$19.1 million USD while the disbursements stood at \$15.4 million USD.

Due to unavailability of funding till mid-December 2011, and the urgency in the disbursement of the loan to [REDACTED] the project modified the Heads of Terms to [REDACTED] and de-obligated \$1 million USD from the loan as the only feasible solution to disburse the needed funds to the [REDACTED]. By accelerating the disbursement process and de-obligating funding from some previously approved loans such as [REDACTED], [REDACTED] and [REDACTED] the project continued to close the gap between approvals and disbursements throughout the final month of 2011.

The Credit Administration unit processed the latest repayments for all seven [REDACTED] for an approximate total value of \$223,872 USD. Up until now, 83% of the original total loan has been successfully repaid. The Credit Administration unit also processed repayments from [REDACTED] the [REDACTED] [REDACTED] and [REDACTED] which has begun to repay earlier than expected. With these new repayments, the overall ADF loan repayment total is now at approximately \$3.3 million USD.



Photos: ACE signing the Heads of Terms with the representatives of [REDACTED] [REDACTED] and [REDACTED] in November 2011.

As of January 2012, the ADF has in place credit policies and procedures, a comprehensive credit analysis process, risk assessment and finance audit tools, and a manual for credit administration, which constitute the basis for the operation of the fund. By the end of 2012, the ACE program will have complemented the existing structure with an automated credit administration system and specific operation manuals for each of the technical and operations units of the Fund. This, together with the Credit Policies and Procedures and the Credit Process Manual, ensure the transparency and consistency of the Fund.

A robust Credit Administration Unit is the backbone of any financial institution. For this reason, ACE has put in place a robust Credit Administration system which includes periodic audits of lending processes and credit files. At the same time, ACE is focusing on building capacity to support the long-term sustainability of the ADF once transitioned to MAIL. In the last quarter the project substantially achieved three critical elements:

1. The team completed the Credit Administration Manual which is now ready for final approval. The Credit Administration Manual is intended to provide a standardized set of policies and procedures to support the management of ACE/ADF lending activities specifically in regard to the credit administration function. The manual is also designed to act as a process guide for the ACE/ADF Credit Administration Department. The objective of the credit administration manual is to install appropriate credit control mechanisms, while also consolidating administrative tasks out of lending operations to maximize the time loan officers spend on client acquisitions and relationship management. Creating this manual and using it as a critical organizational tool is central to building a balanced, effective credit portfolio in excess of \$100 million USD.
2. With the assistance of the Credit Administration Expert, the project constructed the Credit Management Units (CMU) Concept Note. This concept note presents a framework upon which the ACE/ADF program will facilitate cooperation with agricultural sector intermediaries to deliver financing to member borrowers via the establishment and operation of CMUs. The concept note details how CMUs, which are a key element of ACE/ADF development and sustainability, operate. This concept note envisions the creation of ten to fifteen CMU's over the coming year, and details the principles of how they will be structured and managed.
3. ACE already has selected a winning bidder for the ADF portfolio management system. The project reached an agreement to acquire and install The FAO-GTZ Micro Banking System (MBWin) with MicroBanker Nepal Pvt. Ltd. MBWin is an integrated banking system with full functionality for loans, savings and current accounts, time deposits and shares. The system is widely used by both microfinance institutions and banks. It has an integrated general ledger and customer information and report modules. ACE will customize the system to accommodate Sharia compliant lending. While the initial installation will be centralized in Kabul and limited to managing our loans, the system is highly scalable and able to meet the future needs of a growing ADF on a nation-wide basis. Installation should begin during in February and be completed by late-March. Intensive training will be delivered to the users during that period. Our Information and Communication Technology (ICT) Specialist, Steven Campbell, will oversee the installation and training process. Both efficiency and safety will be greatly enhanced by our new system. MicroBanker will move ACE/ADF toward operational capacity that reflects overall "best practices."



**Photo at left: ACE signing the Heads of Terms with [REDACTED] the owner of [REDACTED] a recipient of a loan worth \$715,000 USD. Photo at right: Bamyán potato farmer, recipient of high quality seeds and fertilizers on ADF credit harvesting its produce.**

## **ADF Capacity Building**

Within the context of the ADF, the project looks at the capacity building needs from two perspectives: a) ADF staff and, b) MAIL counterparts. The latter is particularly crucial as having competent MAIL counterparts is an imperative for the proper management of the Fund. ACE has a well structured capacity building program for its staff; they are being trained in credit analysis, human relations, Islamic Finance, credit processes, auditing and compliance and credit administration, among other areas. Rather than having ACE employees attend traditional training workshops, they take part in carefully designed training modules with practical components and strict evaluations.

On November 1<sup>st</sup> and 2<sup>nd</sup>, 2011, ACE organized the first formal capacity building training for lending advisors on “Sharia Lending”. The training focused on topics such as: purpose of Islamic Finance Policies and Procedures, the Role of ADF Board of Directors, Sharia Advisory Board, Structures of the Islamic Financial Products, Transaction Documents, loan application processing, analysis and loan agreement.

In December, ACE organized two trainings, a 6.5-day Credit Program held in Dubai and a two-day ADF Credit Committee Executive Program. The former was attended by eleven ADF lending officers and two MAIL officials and covered topics such Financial Credit Analysis, cash flow analysis and projections, negotiations and loan work out strategies. The purpose of the training was to enhance the skills of the ADF lending advisors to analyze the financial standing and business eligibility of the potential borrowers. The participants engaged in hands-on exercises and case studies tailored to their work domain in addition to learning generally accepted rules of lending and finance. The two-day executive training was attended by two MAIL officials, members of the ADF Credit Committee



## **Agricultural Credit Shuras**

During the reporting period ACE conducted nine Agricultural Credit Shuras in West, Central and Eastern Afghanistan. The first meeting was organized in Herat district with representatives from the DAIL and ACCI offices, and the Herat Exporters Development office, agricultural processing companies, saffron companies and associations, members of cooperatives, representatives of the media, and NGOs all attended the event. The Agricultural Credit Shura initiative was focused on introducing the ADF as a financing source for agricultural activities, explaining ADF lending opportunities, introducing the Sharia financial lending product and describing the value chain support.

ACE conducted the second and the third Agricultural Credit Shura in Paktika and Khost provinces in November to introduce and promote ADF lending opportunities. The meetings organized in collaboration with the PRTs and DAIL offices were attended by over 80 representatives of local and regional agribusinesses, farmers associations, media and agricultural development projects. The ACE team introduced the ADF lending possibilities, the Sharia compliant Islamic lending products and the value chain assistance packages.

In December, the Agricultural Credit Shura travelled to Yakawlang, Shonbul, Foladi and Sadaat Valleys in Bamyan province. The project invited all the members of the 104 existing [REDACTED]s to attend the meetings. The ACE lending and value chain team introduced the ADF lending program, the value chain activities, and discussed financial opportunities to support the next cropping season. [REDACTED]s in Yakawlang, Shonbul, Foladi, Sadaat Valleys, Waraz and Bamyan Center participated in the Shuras. The [REDACTED] received loan applications to fill out if interested to borrow for the next season's crop.

Additionally, on December 5th and 15th, ACE organized two Credit Shuras in Kabul; the first one targeted the MAIL Cooperative Department's main office employees; whereas the latter targeted women-owned [REDACTED] from Bamyan, Laghman, Nangarhar, Kapisa, Parwan and Kabul provinces. ACE presented an overview of the ADF to 20 participants of a 6 day business training that was coordinated by UNDP and the MAIL Home Economics Department.

In October the project established a regional office in Bamyan province. Two lending officers were hired and trained by the Lending Unit and deployed to Bamyan. By early next year, the regional office will transition into a Credit Management Unit structure to assist the [REDACTED]



Photo at left: View from the Agricultural Credit Shura organized in Paktika Province on November 27, 2011. Photo at right: View from the Agricultural Credit Shura organized in Bamyan Province, in collaboration with the PRT.

### Sharia-Compliant Financial Products

Committed to identifying viable ways to lend to Afghan farmers and agribusinesses, in the last quarter ACE designed another Sharia compliant financial product. Murabahah, Return-on-Investment-Sharing product is used to estimate the rate of return on investment and share it with the client. This product is mainly used for investment activities, such as, construction, purchase of machinery, etc. This product was used for the loan of \$425,000 to the [REDACTED] [REDACTED] in Herat province.

### Possible new ADF loans:

- [REDACTED] which has requested a loan of \$10 million USD will be presented to the ADF Credit Committee meeting in early 2012. Flag International has completed its consulting services and has submitted a complete business plan to [REDACTED] and ACE. [REDACTED] and ACE/ADF signed the MOU regarding the terms and condition of the loan and the client has

also submitted audited financials of the company. The loan will be accompanied by an ADF grant.

- [REDACTED] based in Mazar-e-Sharif has requested a loan of \$1.5 million USD to finance new technology, such as steam machinery, and to purchase raw materials from farmers. The lending and value chain advisors will travel to Mazar in mid-January to finish the details.
- The [REDACTED] in Wardak is a new potential ADF borrower. Through working with the USAID Agricultural team based in Maidan-Shar, in Wardak province, ACE is looking at the possibility to finance the farmer members. The loan amount will be decided once the lending team assesses the creditworthiness and financial needs of the association's constituent farmers.
- The [REDACTED] supported by FAO, is interested in providing 150 cows as an in-kind loan to members who deliver their milk to the dairy plant. Financial analysis has been conducted and the loan application is completed. The Audit team is preparing to meet the client in order to prepare the negotiation memorandum, after which the package will be presented at the ACE Technical Review Committee.
- The [REDACTED] in Herat is requesting a loan of \$2 million USD to finance their member traders to purchase wool and produce carpets for the international markets. The financial information has been received from the 19 traders who are members of the association. Income statements have been received and the Sharia negotiation is ready to be signed by the client. The case will be presented at the next Technical Review Committee Meeting.
- The [REDACTED] is requesting a \$2 million USD loan to purchase cashmere. Financial Information has been received from the client and the lending team has received the loan application, contracts, and other materials. The audit team will conduct a pre-audit assessment shortly.
- The [REDACTED] is requesting an Islamic loan of \$539,183 to provide agricultural inputs, seeds and crop protection products to on-lend to over 700 farmers in Kunar province.
- The [REDACTED] is applying for an ADF loan of \$100,000 to purchase working capital such as agricultural and veterinary inputs for about 300 farmers.
- The [REDACTED] is applying for another loan of \$3.06 million USD for agricultural inputs for their members. This loan would benefit all regions but the North, which has been supported by the former loan. The loan application has been prepared and will be presented at the next ADF Credit Committee.

## ACE and ADF Grants

In the last quarter, the ACE Grants Unit provided an on-the-job training session on 'Grants Management and Report Writing Training' for the members of [REDACTED] CMU. The two-day training was especially effective as it resulted in accurate financial and program documents prepared by the [REDACTED] CMU staff. Technical assistance was also provided for members of [REDACTED] CMU and [REDACTED]. The team designed standard procurement and financial templates and provided them to the CMUs to ensure the use of the proper documentation in compliance with USAID's Grants Financial and Procurement Rules and Regulations.

The project signed an agreement with Ernst & Young to provide Basic Accounting and QuickBooks training for the training of trainers for [REDACTED] and its [REDACTED]. The first phase of the “Basic Accounting and QuickBooks” for the [REDACTED] a recipient of an ADF challenge grant, took place in December 19-29, 2011. The training was enabled through an in-kind grant procurement request for goods and services under the Challenge Grants component for the [REDACTED] of Afghanistan [REDACTED] to support training activities in basic accounting principles and in the use of accounting software to help the farm stores maintain suitable accounting systems and to improve the skills to prepare appropriate financial statements and reports to ADF and other potential lenders. Four employees of [REDACTED] were trained to conduct training along with Ernst & Young trainers for the [REDACTED] Helmand, Kunar, Wardak and [REDACTED] will all receive training, and licensed QuickBooks software to update their accounting system. Ernst & Young will follow up with the [REDACTED] throughout the year to make sure their accounting system is modernized, ensure daily usage of QuickBooks and assist them with any issues.

The Grants unit disbursed \$16,702 for final payments to [REDACTED] under the ADF Challenge Grant for the Women Cooperatives Assessment. [REDACTED] Company was contracted by ACE/ADF to assess the current capacity of registered women cooperatives with MAIL, design long term business, financial and technical programs and conduct an assessment of 39 women cooperatives in 15 provinces of Afghanistan.

ACE approved a Fixed Obligation Grant (FOG) of \$124,160 under the ACE Agricultural Modernization Grants component for the [REDACTED] for the organization and promotion of the participation of Afghan Agribusiness to the India International Trade Fair (IITF) 2011. This activity, which was coordinated with MAIL, allowed 52 business people representing 28 exporter companies to attend the event. Until now, ACE has disbursed \$93,120 for the completion of the Trade Fair and the activities under the grant agreements, whereas the final installment will be disbursed upon the acceptance of the final report.

The ACE Grants Unit disbursed \$10,000 as second advance payment to [REDACTED] under the ADF’s Challenge Grants to be utilized for CMU staffs salaries and operating expenses. The [REDACTED] CMU was provided training and instructions on how to prepare financial reports and documents that comply with grant requirements.



Photo at left: View from the Afghan booth at the IITF pavilion in New Delhi. Photo at right: The Ambassador of the Islamic Republic of Afghanistan to India visiting the Afghan Pavilion at the IITF in New Delhi.

Table 3: ACE/ADF Grants

S/N	Business Name	Province	Grant Purpose	Grant Type			Grant Period		Total \$Approved	Disbursed \$ value	% Paid	Remaining \$ Amount
				ADF		ACE	Start Date	End Date				
				Challenge	Innovation	Ag Modernization						
1	[REDACTED]	Kabul	30th India International Trade Fair participation			✓	27-Oct-10	1-Dec-10	80,623.00	79,122.10	98.14	1,500.90
2	[REDACTED]	Kabul	To set up a credit Management Unit for managing the loan			✓	1-Dec-10	30-Nov-11	49,090.00	19,290.00	39.30	29,800.00
3	[REDACTED]	Nangarhar	To set up a credit Management Unit for managing the loan	✓			23-Apr-11	31-Mar-12	127,497.00	66,891.00	52.46	60,606.00
4	[REDACTED]	Afghanistan	To set up a credit Management Unit for managing the loan	✓			1-May-11	30-Apr-13	361,200.00	37,451.00	10.37	323,749.00
5	[REDACTED]	Kabul	Assessment of women cooperatives in 17 provinces of Afghanistan	✓			25-Jun-11	31-Dec-11	23,991.00	23,991.00	100.00	0.00
6	[REDACTED]	Nangarhar	To exclusively engage M-paisa to facilitate the repayment of agricultural loans from members of [REDACTED]		✓		20-Sep-11	30-Apr-12	35,126.00	23,060.80	65.65	12,065.20
7	[REDACTED] of [REDACTED]	Kabul	To develop capacity to provide training in basic accounting principles and in use of accounting software that would then enable them train farm store owners	✓			29-Sep-11	28-Feb-13	72,453.00	0.00	0.00	72,453.00
8	[REDACTED]	Kabul	31st India International Trade Fair			✓	10-Oct-11	15-Dec-11	124,160.00	93,120.00	75.00	31,040.00
<b>Sub Total ACE Grants (Ag Modernization)</b>									253,873.00	191,532.10		62,340.90
<b>Sub Total ADF Grants (Challenge)</b>									585,141.00	128,333.00		456,808.00
<b>Sub Total ADF Grants (Innovation)</b>									35,126.00	23,060.80		12,065.20
<b>Grant Total</b>									<b>874,140</b>	<b>342,925.9</b>		<b>531,214.1</b>

## Gender Issues

As a result of the efforts of ACE's gender and lending advisors, during the last quarter, ACE achieved the approval of the first loan to only women. The [REDACTED] a Herat based women organization, was granted a loan of \$155,000 USD, which the association will use to purchase saffron flowers from women saffron growers and then process, package and sell the product in the domestic market. This loan will directly benefit 95 women in the region.



Photo at left: View of the dried fruit cleaning and sorting process handled by women at the [REDACTED] Company in Herat province. Photo at right: Women members of [REDACTED] weaving carpets in Bamyan province.

ACE in partnership with the United Nations Development Program's (UNDP) Gender program and MAIL's Home Economics Directorate conducted an assessment of 44 Women Cooperatives in 15 provinces. The main objective of the assessment was to identify functional cooperatives run by women, as well as to assess their current needs in terms of capacity building as a way to upgrade them to a point in which they could become ADF borrowers. The study was carried out by [REDACTED] a women-owned business development organization with vast experience in rural development.

Based on the major findings of the needs assessment survey, these cooperatives were established with support from local leaders and donor organizations and members do not understand the socio-economic impact of the cooperatives, nor do they realize the opportunities available through these organizations. This along with the wide ranging constraints that women-owned co-operatives face – such as lack of skills, organization and information, inadequate access to market among others which were identified by the survey teams – make it imperative to undertake an intensive capacity development program for the members of the cooperatives which were assessed. This serves a twofold purpose: in the first place, it will empower the women of the cooperatives through appropriate skills acquisition which would then enable them to incorporate other value chain components into their products resulting in increased productivity and income, and secondly this would facilitate their equal participation in the marketplace with their male counterparts that would extend their base of operations.

Against this background, ACE finds it necessary to continue with the momentum of the initial needs assessment survey and support the capacity of the women-owned cooperatives by adopting the following strategy:

1. Increase the competitiveness of the cooperatives through achieving economies of scale and value addition by collective action; and
2. Diversify their production base and improve their professional skills in managing the cooperative as a channel for economic empowerment.

To achieve these key goals, a schedule of capacity development programs needs to be developed by the Home Economic Department at MAIL, so that the necessary skill development inputs can be provided to the target groups in a timely manner. The specific topics of the programs can be finalized in discussion with the stakeholders involved in the needs assessment survey.



Photos at left: ACE gender advisor meeting with the [redacted] leader Mr. Abdul Wahab in Bamyan Province to discuss the possibility of the loan to purchase wool and supplies for carpet weaving. Photo at right: ACE meeting with [redacted] in Bamyan province

In the last quarter, the ACE team also held several meetings with women in agricultural businesses to identify opportunities for lending to women. The gender advisor met with [redacted] to discuss their newly inaugurated Afghan Women Business Center at Women's Park constructed by the PRT. The board of the association is managed by women entrepreneurs from Nangarhar province. The [redacted] is planning to develop business training courses, finance/accounting courses, and build an internet facility and showroom at the center. ACE is exploring further possibilities to collaborate with the association [redacted] Agricultural Credit Shura for women at the center later this year.

ACE visited one of IDEA/NEW's business mentorship programs, the [redacted]. The company, which is basically a family business where women are involved in processing and men complete the packaging and marketing, is looking for potential lenders to expand their business beyond Nangarhar.

The program met with the representatives of [redacted] a women-owned cheese processing microenterprise in Jalalabad, who are interested in a loan of approximately \$400,000 to purchase 200 dairy cows for their women members. If successfully completed, this investment will help to expand the cheese production of the group. The centers are operated by women groups in Shagee, Pachayee Qala, Battikot, Kama and Surkhrod districts of Nangarhar, in Hosainabad and Daralam villages of Laghman, and Nurgal district of Kunar province. The women are trained to process high quality cheese observing a hygienic appropriate process and using integrated production technology. Relief International (RI) submitted a concept to act as a financial intermediary to serve ADF's clients. The project staff will meet with RI representatives to discuss the options and to make a final decision.

In order to find prospective partners for the ZAHRA program, ACE had several meetings during the past month:

- Met with the [redacted] representative, [redacted] regarding their interest in partnering with the ADF. The Federation was established in 2004 in partnership with the Ministry of Commerce to support women in business and as a result the Center for International Private Enterprise (CIPE) and was funded for 3 years. Currently the federation is

supported through German Cooperation (GiZ). The project will explore the possibility of working with the Federation on ADF lending to women.

- Met with the CED of [REDACTED] in Kabul, [REDACTED]. This center was established 6 months ago in partnership with Economic Faculty of Kabul University and some other women entrepreneurs with extensive experience in business development and agriculture.
- Met with [REDACTED], Country Representative for [REDACTED] was established in Afghanistan in 2002 and today covers all the 34 provinces while disbursing more than \$178 million USD in microcredit to nearly 200,000 women clients and further \$75 million USD in small enterprise loans.

## Internal Audit and Compliance

ACE/ADF Internal Audit Unit conducts pre-audits before the approval of the loan and periodic financial audits following the disbursement, which ensures that the funds are being used for the purpose for which they were originally intended.

Throughout the past quarter, the Internal Audit Unit assisted the project by carrying out pre-audits, risk assessments and financial audits for loan packages in the pipeline. The tables below indicate the type of report provided for approved and potential ADF loans.

*Table 4: Pre-audit reports*

Pre-Audit Reports		
No	Client	Status of the Loan
1	[REDACTED]	Approved
2	[REDACTED]	Approved
3	[REDACTED]	Deferred
4	[REDACTED]	Deferred
5	[REDACTED]	Approved
6	[REDACTED]	Approved
7	[REDACTED]	In the pipeline
8	[REDACTED]	In the pipeline
9	[REDACTED]	Approved
10	[REDACTED]	In the pipeline
11	[REDACTED]	In the pipeline
12	[REDACTED]	In the pipeline
13	[REDACTED]	In the pipeline

*Table 5: Financial Audit reports*

Financial Audit Reports		
No	Client	Status of the report
1	[REDACTED]	Approved
2	[REDACTED]	Approved



Photos: ACE team signing the Sharia memorandum with the owner of [REDACTED] Company. ACE team with the owner of [REDACTED] a Mazar-e-Sharif based Company which received a \$2 million USD ADF loan.

*Table 6: Risk Management report*

Risk Evaluation Reports		
No	Client	Status of the loan
1	[REDACTED]	Approved
2	[REDACTED]	Approved
3	[REDACTED] Company	Approved
4	[REDACTED] Company	Approved
5	[REDACTED]	Deferred
6	[REDACTED]	Deferred
7	[REDACTED]	Approved
8	[REDACTED]	In the pipeline
9	[REDACTED]	In the pipeline
10	[REDACTED]	In the pipeline
11	[REDACTED]	In the pipeline
12	[REDACTED]	In the pipeline
13	[REDACTED]	In the pipeline
14	[REDACTED]	In the pipeline

*Table 7: Sharia negotiation memorandums*

Sharia Negotiation Memorandums		
No	Client	Status of the loan
1	[REDACTED]	Approved
2	[REDACTED]	Approved
3	[REDACTED]	Approved
4	[REDACTED]	Approved
5	[REDACTED]	Approved
6	[REDACTED]	Approved
7	[REDACTED]	In the pipeline



**USAID**  
FROM THE AMERICAN PEOPLE

**AFGHANISTAN**

USAID 50 ANNIVERSARY

# CASE STUDY

## Managing Risk Through Innovation

**Credit management units allow thousands of farmers to access credit**



Photo: USAID/ACE

*Credit advisors discuss the concept of the credit management units to members of the [redacted] in Nangarhar Province.*

**CHALLENGE** USAID designed the Agricultural Development Fund to work through commercial banks and other financial institutions, providing them with lending capital and compensating them for the risks inherent to agricultural lending. Nonetheless, banks were in general unwilling to provide financial services to the agriculture sector. This issue had the potential to render a USAID project unable to reach the farming community and promote the growth of Afghan agriculture.

**INITIATIVE** To smooth the progress of lending to the agriculture sector, USAID developed and introduced the concept of credit management units, which are small functional groups operating within non-financial intermediaries, including farmer associations, cooperatives, and agribusinesses. Funded in part by USAID, the credit management units process individual loan applications, disburse loans, and ensure timely collection. The typical credit management unit includes three to four employees from the same communities in which the intermediary institution operates, thereby banking on social capital and local knowledge. This concept has been made possible through a focused strategic approach based on responsible credit decisions, close collaboration with the Afghan government, and a commitment to innovation.

**RESULTS** In the first eight months after the concept was introduced, more than 4,000 farmers have accessed credit through a group of cooperatives, an agribusiness association, and credit management units operating within two farmer associations. These organizations have disbursed, managed, and collected loans achieving and maintaining a "zero" default rate.

## ADF LOANS APPROVED AND DISBURSED TO END BENEFICIARIES

SN	Borrower	Loan Type - NFI, FI, or Agribusiness	Approved	Province	\$ Loans Approved by MAIL & USAID*	Disbursed Loan Amount	Repaid Loan Amount (with interest)	Direct Beneficiaries	Status
1	[REDACTED]	Agribusiness	Yes	Kabul	\$ 120,000	\$ 120,000	\$ 122,484	-	Complete
2	[REDACTED]	Agribusiness	Yes	Nangarhar	\$ 300,000	\$ 300,000	\$ 315,000	-	Complete
3	[REDACTED]	Agribusiness	Yes	Balk	\$ 200,000	\$ 200,000	\$ 24,472	-	Active
4	[REDACTED]	Agribusiness	Yes	Kabul	\$ 1,970,000	\$ 1,280,000	\$ 345,395	-	Active
5	[REDACTED]	Agribusiness	Yes	Kunar	\$ 312,000	\$ 312,000	\$ 335,337	630	Complete
6	[REDACTED]	Agribusiness	Yes	Helmand	\$ 242,000	\$ 242,000	\$ 195,072	1,489	Active
7	[REDACTED]	Agribusiness	Yes	Balkh	\$ 121,000	\$ 121,000	\$ 125,137	-	Complete
8	[REDACTED]	Agribusiness	Yes	Nangarhar	\$ 100,000	\$ 100,000	\$ -	-	Active
9	[REDACTED]	Agribusiness	Yes	Wardak	\$ 230,000	\$ 230,000	\$ -	-	Active
10	[REDACTED]	Agribusiness	Yes	Mazar	\$ 2,000,000	\$ 1,977,597	\$ -	-	Active
11	[REDACTED]	Agribusiness	Yes	Wardak	\$ 224,000	\$ -	\$ -	-	Active
12	[REDACTED]	Agribusiness	Yes	Nangarhar	\$ 900,000	\$ 900,000	\$ -	-	Active
13	[REDACTED]	Agribusiness	Yes	Kabul	\$ 715,000	\$ 715,000	\$ -	-	Active
14	[REDACTED]	Agribusiness	Yes	Kabul	\$ 250,000	\$ 250,000	\$ -	-	Active
15	[REDACTED]	Agribusiness	Yes	Kabul	\$ 555,000	\$ 375,000	\$ -	-	Active

SN	Borrower	Loan Type - NFI, FI, or Agribusiness	Approved	Province	\$ Loans Approved by MAIL & USAID*	Disbursed Loan Amount	Repaid Loan Amount (with interest)	Direct Beneficiaries	Status
16	[REDACTED]	Agribusiness	Yes	Hirat	\$ 273,000	\$ 273,000	\$ -	-	Active
17	[REDACTED]	Agribusiness	Yes	Hirat	\$ 700,000	\$ 700,000	\$ -	-	Active
18	[REDACTED]	Agribusiness	Yes	Hirat	\$ 425,000	\$ -	\$ -	-	Active
19	[REDACTED]	Agribusiness	Yes	Hirat	\$ 155,000	\$ -	\$ -	-	Active
<b>SUB-TOTAL Agribusinesses</b>					<b>\$ 9,792,000</b>	<b>\$ 8,095,597</b>	<b>\$ 1,462,897</b>	<b>2,119</b>	
20	[REDACTED]	NFI	Yes	Balk, Kunduz, Samangan	\$ 92,652	\$ 92,652	\$ -	212	Active
21	[REDACTED]	NFI	Yes	Nangarhar, Lagman, Kunar	\$ 500,000	\$ 500,000	\$ 87,593	1,852	Active
22	[REDACTED]	NFI	Yes	Bamyan	\$ 46,600	\$ 46,600	\$ 33,429	15	Active
23	[REDACTED]	NFI	Yes	Bamyan	\$ 53,543	\$ 53,543	\$ 39,548	47	Active
24	[REDACTED]	NFI	Yes	Bamyan	\$ 25,469	\$ 25,469	\$ 22,061	10	Active
25	[REDACTED]	NFI	Yes	Bamyan	\$ 31,265	\$ 31,265	\$ 35,221	59	Complete
26	[REDACTED]	NFI	Yes	Bamyan	\$ 76,993	\$ 76,993	\$ 56,125	156	Active
27	[REDACTED]	NFI	Yes	Bamyan	\$ 21,561	\$ 21,561	\$ 22,337	74	Complete
28	[REDACTED]	NFI	Yes	Bamyan	\$ 14,479	\$ 14,479	\$ 15,150	22	Complete
29	[REDACTED]	NFI	Yes	ALL	\$ 4,950,000	\$ 4,757,345	\$ 467,866	4,270	Active
30	[REDACTED]	NFI	Yes	Kabul	\$ 500,000	\$ -	\$ -		Active

SN	Borrower	Loan Type - NFI, FI, or Agribusiness	Approved	Province	\$ Loans Approved by MAIL & USAID*	Disbursed Loan Amount	Repaid Loan Amount (with interest)	Direct Beneficiaries	Status
<b>SUB-TOTAL NFI</b>					<b>\$ 6,312,562</b>	<b>\$ 5,619,907</b>	<b>\$ 779,330</b>	<b>6,500</b>	
31	██████	FI	Yes	Kabul Province	\$ 1,000,000	\$ 1,000,000	\$ 1,018,521	-	Complete
32	████████████████████ ████████████████████ ████████████████████ ████████████████████	FI	Yes	Balk, Jawzjan, Faryab, Samangan, Baghlan	\$ 2,000,000	\$ 733,750	\$ 18,543	319	Active
<b>SUB-TOTAL FI</b>					<b>\$ 3,000,000</b>	<b>\$ 1,733,750</b>	<b>\$ 1,037,064</b>	<b>319</b>	
<b>TOTAL ADF LOANS</b>					<b>\$ 19,104,562</b>	<b>\$ 15,449,253</b>	<b>\$ 3,279,290</b>	<b>319</b>	
<b>ACE AG MODERNIZATION GRANTS</b>					<b>\$ 253,873</b>	<b>\$ 191,532.10</b>			
<b>ADF CHALLENGE GRANTS</b>					<b>\$ 605,181</b>	<b>\$ 116,543.00</b>			
<b>ADF INNOVATION GRANTS</b>					<b>\$ 35,126</b>	<b>\$ 23,060.80</b>			
<b>SUB-TOTAL GRANTS</b>					<b>\$ 894,180</b>	<b>\$ 331,136</b>			
<b>GRAND TOTAL</b>					<b>\$ 19,998,742</b>	<b>\$ 15,780,389</b>	<b>\$ 3,279,290</b>	<b>9,155</b>	

Note: The loans for ████████ 7 ██████████ ██████ Bank and ████████ have been de-obligated from the original amounts.

TABLE 8: ADF LOAN PIPELINE

ADF Loan Pipeline								
Borrower	Loan Type	Region	Loan amount requested	1st Visit	Other Visits	Regional Office	Loan Application Stage	Notes and Comments
██████████ ██████████	FI	Various	\$ 10,000,000	12/15/10	06/28/11	Kabul	MEDIUM	Loan and Grant. Flag International has completed its consulting services and has submitted a complete business plan to ██████ and ACE/ADF. ██████ and ACE/ADF signed the MOU regarding the terms and conditions of the loan. ██████ has also submitted audited financials of the company. <u>Next step</u> : Lending advisors are making the final preparations for the loan package to be submitted at the next Technical CC, and then to the MAIL CC.
██████████	Direct	Mazar	\$ 250,000	04/08/11	06/08/11	Mazar	FINAL	Potential borrowers need loan funding to finance a raw materials purchase for an upcoming contract with a Korean company. The application is complete and the package was presented at the Technical CC and then to the MAIL CC on Sept 28th and Oct. 5th. The CC members wanted to see a feasibility study and environmental impact study with more details, which has been delivered. The final step is to get the NEPA to sign off on the impact study and approve it.
██████████ ██████████ ██████████ ██████████	Direct	Mazar	\$ 350,000	11/17/11		Mazar	PRELIM	Application received and being reviewed by the lending advisors.
██████████ ██████████	Direct	Herat	\$ 2,000,000	12/07/11	12/12/11		PRELIM	Financial Information has been received from the client; the lending team is waiting for the loan application to proceed with analysis.
██████████ ██████████	Direct	Mazar	\$ 1,500,000	11/17/11		Mazar	PRELIM	Application received and being reviewed by the lending advisors.

<u>Borrower</u>	<u>Loan Type</u>	<u>Region</u>	<u>Loan amount requested</u>	<u>Ist Visit</u>	<u>Other Visits</u>	<u>Regional Office</u>	<u>Loan Application Stage</u>	<u>Notes and Comments</u>
██████████ ██████████	Direct	Mazar	\$ 500,000	05/22/11	06/09/11	Mazar	PRELIM	The loan application was completed and the package was submitted to the lending officer for review. It has been reviewed and additional information was received from the client. The Senior lending officer visited the client to review of the case. Next step: waiting for the risk management and pre-audit report in order to present the case at the next Technical CC.
██████████	Direct	Herat	\$ 480,000	09/15/11	09/20/11		PRELIM	The ██████████ supported by FAO, wants to provide 150 cows as an in kind loan to members who deliver their milk to the dairy plant. Financial analysis in under process, but so far, the financials don't look to be in good shape and there is concern about the capacity to pay back an ADF loan.
██████████ ██████████	Direct	Herat	\$ 2,000,000	09/15/11	09/20/11		PRELIM	The initial strategy has been designed with the President. Ten traders will be given credit to finance their associated weavers. Loan application completed. The client met with the audit team to learn about the Islamic lending ADF provides in the Credit Shura. The financial information has been received from 19 traders, who are members of the association. Also, income statements have been received. The Sharia negotiation has already been started and risk management has been done for the case. Next step: The case is under process and review by the lending advisor.
██████████ ██████████	Direct	Herat	\$ 800,000	11/20/11	11/30/11		PRELIM	The application has been received by the lending officers and initial visits have been made. Next step: The lending officer in the region will be working with the client to develop financial statements for the company.

<u>Borrower</u>	<u>Loan Type</u>	<u>Region</u>	<u>Loan amount requested</u>	<u>1st Visit</u>	<u>Other Visits</u>	<u>Regional Office</u>	<u>Loan Application Stage</u>	<u>Notes and Comments</u>
██████████ ██████████	Direct	Jalalabad	\$ 200,000	05/17/11	05/27/11		MEDIUM	The lending team visited the client on 18th November and completed the loan application. The case was presented at the ACE Technical Review Committee meeting on 12.3.11 where it was recommended that the case be delayed for now until more work can be completed on it, specifically the beneficiaries, Sharia product, business plan, and the possibility for a grant for market development. Also, an investigation into the production cycle of the company needs to be done as some concerns were brought up that the company has stopped production and had leftover product from the Ramadan season. Next step: The risk management unit and sharia team will visit the client in the first week of January 2012.
██████████	Direct	Jalalabad	\$ 100,000	11/17/11			PRELIM	The company was established in 2010 in the Jalalabad Region. The company process potatoes, packs them and delivers them to the market. The company will purchase raw materials with the \$100,000 ADF loan. The application was completed and the case was presented at the ACE Technical Review Committee meeting on 12.3.11 where it was recommended that the case be delayed for now until more work can be completed on it, specifically exploring hygiene issues, doing a full Value Chain analysis, and developing the Sharia agreement. Next step: The risk management unit and sharia team will visit the client in the first week of January 2012
██████████	Direct	Jalalabad	\$ 150,000				PRELIM	The company processes potatoes, packs them and delivers them to the market. The company was involved in this business in Peshawar in 2010 and then shifted the company in Jalalabad. The company will purchase raw materials with the \$150,000 ADF loan. The lending team attempted to visit the company but could not because of security reasons. Next step: The lending team will try to visit the company provided the security improves. This loan has been put on hold for now due to security concerns.

<u>Borrower</u>	<u>Loan Type</u>	<u>Region</u>	<u>Loan amount requested</u>	<u>1st Visit</u>	<u>Other Visits</u>	<u>Regional Office</u>	<u>Loan Application Stage</u>	<u>Notes and Comments</u>
██████████	Direct	Logar	\$ 100,000	11/02/11			PRELIM	The lending advisor had a meeting with the owner of the ██████████ along with other officials of ██████████ and ██████████. The company will use the ADF fund for on-lending (trade finance) to farmers. The lending team is still working with the company to get data and finalize the proposal. Next step: The lending team is waiting for the value chain report and risk management report in order to move forward with the case.
██████████ ██████████	Direct	Wardak	TBD	11/30/11			PRELIM	The lending team has been in touch with the USAID ag-team based in Maidan Shar of Wardak. The USAID ag-team is working with the ██████████ to gather more information and complete the ADF application. The lending team and the client had a meeting on the 27th of December, 2011. Next step: The case is being analyzed by the lending team.
██████████ ██████████	Direct	All (except North)	\$ 3,060,000	11/28/11		Kabul	MEDIUM	The loan application has been prepared, but it's currently being decided if another Risk Assessment is necessary for the loan package. ACE team had a meeting with USAID regarding the future support to IIFCG. It will be presented at the next ADF Credit Committee.
<b>Total:</b>			<b>\$21,490,000</b>					

## Component 2: Agricultural Modernization and Value Chain Development

### Value Chain Strengthening

*The purpose of ACE's Value-Chain strengthening unit is to provide technical support to the lending operations, as well as to ADF clients. The unit leads the technical assessment of production; processing and marketing activities proposed by loan applicants and also provides technical assistance to ADF borrowers.*

On October 16<sup>th</sup>, 2011, ACE conducted the Saffron Value Chain and Policy Workshop in Herat city. Representatives from Herat's DAIL Office, NGOs working along the saffron value chain, growers, processors, traders, exporters, dealers of planting material and inputs all attended the activity. The Herat DAIL director introduced the ADF program and highlighted that DAIL will closely cooperate and introduce clients to the ADF. The event was designed to reiterate the importance of saffron as a commercial agricultural crop, the importance of the crop for the economic growth of the region, and identify possibilities of collaboration between different actors in the region.



**Photos: View during the working groups at the Saffron Value Chain and Policy workshop organized on October 16<sup>th</sup> in Herat province.**

ACE's Value Chain team continued supporting the business agreement between [REDACTED] and the seven [REDACTED]. To achieve the finalization of the agreement, ACE facilitated a visit of a specialist from [REDACTED] to Bamyan. The specialist visited several potato fields during harvest time and trained the farmers, members of the cooperatives, on grading, sorting and packing the potato. This helped the farmers not only with supplying the correct quality of potato under the agreement with [REDACTED] but also to improve their post-harvest handling skills for future business. The specialist visited existing improved potato stores to inspect the storage conditions. After this, the [REDACTED] and [REDACTED] signed a contract in Bamyan province for the purchase of 1,056 MT of first quality potatoes to be packed in jute bags and supplied to [REDACTED]'s pack house in Charikar at price of 14.25 AFN per KG for the duration of six months. The cooperatives will receive bank checks for payment immediately after delivery of the potatoes. The first shipment of potatoes from the [REDACTED] to [REDACTED] was completed on October 15<sup>th</sup>, 2011. ACE supported this deal by providing 2,000 jute bags free of cost to the cooperatives and [REDACTED] for the packing of the potatoes and to protect their quality during transport. It is crucial to highlight that the average price Bamyan potato growers, clients of ADF, sold last year is about 10AFN/kg. Due to ACE's guidance and assistance

Bamyan farmers achieved a 42.5% increase in the price of potato per kilogram. This is not only a result of better marketing, sorting and grading practices, but also of improved potato quality due to better seeds and fertilizers provided on credit by the ADF.



Photo at left: Bamyan potato farmer harvesting their produce. Photo at right: View from the visit of the potato expert from [REDACTED] to Bamyan to train the farmers in potato sorting and grading.

In collaboration with MAIL, ACE facilitated the participation of 28 exporters in the 31st annual Indian International Trade Fair (IITF) organized in New Delhi on November 14th to 27th. The Afghanistan Pavilion was inaugurated H.E. Dr. Nangyalai Tarz, Ambassador of the Islamic Republic of Afghanistan to India, MAIL representatives, Afghan traders and Indian government officials. Afghanistan has been participating in the IITF since 2006, initially represented by a few small scale businesses and more recently with large contingents of agribusinesses. Only in the last year, due to the excellent support from the ACE and ASAP projects, Afghanistan won the Gold Medal for the most visited pavilion. Considering the growing trend of trade between Afghanistan and India, Afghan fresh and dried fruit and nuts exporters established [REDACTED] ([REDACTED]) as a private entity which will facilitate trade of Afghan products to India. The participating companies exhibited fresh and dried fruit, nuts and carpets from different regions of Afghanistan. ACE and MAIL are following up with the agribusinesses to measure the outcome of their participation in the trade fair in terms of contracts and deals.

According to the Indian media, Afghan Business attracted a large number of visitors who purchased a variety of fascinating items displayed by the Afghan businesses. Afghan businesses exhibiting at the fair were very satisfied with the outcomes of the opportunity provided to them by ADF and considered their achievements beyond expectations. Based on an assessment conducted by the IITF authorities, the Afghanistan pavilion was reported the most visited pavilion in the international hall. For the AT IITF 2011, about 6,500 companies from all over the world participated and the Afghan pavilion received approximately 0.95 million visitor over the two weeks. Therefore, the Afghan pavilion was entitled as the most popular and crowded pavilion of IITF 2011.

Mr. [REDACTED] [REDACTED] an ADF client who participated in this year's Indian International Trade Fair sent a thank you letter to the project expressing his appreciation of ACE's support which enabled his firm's participation in the trade fair. The client stated:

*"Fortunately, we signed a contract of **\$7.7 million USD** for a one year period with [REDACTED] and [REDACTED] a large Indian company that sells Afghan agricultural products and dried fruits. We will sign a second contract with another company from Delhi for a value of \$383,740 USD. With the ADF loan, we hope to meet our contract goals while penetrating foreign markets with Afghan produce and serving our homeland through sales".*

The Value Chain team engaged in several market assessments of New Delhi wholesale markets to identify the trade patterns and requirements which will help support the Afghan businesses interested in exports

to India. The Indian press recognized the successful representation of the Afghan businesses at the IITF. 'India Today' published an article entitled "Trade fair 2011: Vibrant Afghanistan pavilion steals the show".

The ACE Value Chain team, contacted six traders from Jalalabad interested in buying Bamyán potatoes to be distributed in the markets for consumption inside the country. On December 18th, the value chain team facilitated the visit of wholesale traders from Jalalabad to Bamyán and arranged meetings between the parties to discuss a potential deal for the supply of potatoes. The traders visited several potato stores in the field and checked the quality and quantity of stored potato as well. Both parties discussed their needs, offers, terms and conditions for an agreement. Unfortunately, until now, no deal has been reached.

Value Chain's other activities:

- Supported the [REDACTED] with the procedures of procurement of inputs and their distribution to farmers. The flour mill will use the loan for procurement of fertilizers for wheat production. Another portion of the loan will be paid to the farmers in cash to cover the operational costs such as plowing, labor, harvest and threshing of the wheat.
- The team met with head of the [REDACTED] Company based in Herat. The company slaughters 180,000 chickens on a monthly basis under contracts with different farms. [REDACTED] Company applied for a \$1 million USD loan to extend their business and is planning to cover 30% of the investment if the loan is approved.
- The team had several meetings with the [REDACTED] Shura, an umbrella organization containing six saffron processing companies and over ten saffron associations in Herat. Both parties discussed the possibility of an ADF loan which would benefit the saffron companies and associations. The Shura identified and prepared a list of interested companies and associations and will draft a loan proposal.



Photos: Bamyán potato farmers loading the shipment for the [REDACTED] deal. Value chain team at the Indian agricultural market in New Delhi conducting market research.

## Component 3: Coordination and Knowledge Management

*The Knowledge Management Component aims at integrating production and market information currently being generated by an array of organizations, and transforming it into market intelligence applicable by diverse audiences within the agriculture sector, while building the capacity of MAIL staff to manage the system.*

In late November ACE, in collaboration with the MAIL, launched PAYWAND, the Agricultural Knowledge Management Facility. PAYWAND is an extremely comprehensive database, which collects, analyzes and disseminates agricultural related data, produces commodity specific market briefs, agricultural trade reports and various types of studies. PAYWAND is present on the Internet, where users can customize data analysis, download reports, studies and a variety of publications and data about Afghan agriculture. The website structure was transferred to the Afghanistan National Data Center and is broadcasted through the webpage of MAIL at [www.paywand.mail.gov.af](http://www.paywand.mail.gov.af).

The Knowledge Management facility will be responsible for a) the integration and archiving of agricultural data in a single repository, b) the consolidation of existing data into more reliable, understandable and useful products c) the dissemination of agriculture related information, making it accessible to a wide range of actors involved in the agriculture sector. The KMF will be based within MAIL and will capitalize on data generated by several development projects, ensuring the sustainability of the databases and most importantly, transforming data into products targeted to different audiences, ensuring the soundness of agribusiness decisions.

*Photo: Snapshot of PAYWAND, launched at MAIL website.*



The MIS team finalized and published the Agricultural Trade Report for the second quarter (June 21 – September 20th). These reports aim at bridging the existing gap of information for several agriculture actors who lack access to agricultural market research resources. These reports integrate basic analysis of export and import statistics, providing agribusiness entrepreneurs, policy makers and development practitioners with a broad view of Afghan imports and exports. During the second quarter, agriculture imports and exports reached 16,710 million AFN, approximately \$351.9 million USD. Trade of agricultural commodities registered a reduction of 5% compared to the previous quarter, in which it reached 15,225.9 million AFN (\$320.7 million USD). Agriculture imports reached 15,967 million AFN (\$336.6 million USD) during the second quarter of 1390. They account for 18% of total imports to Afghanistan. Agricultural exports were valued at 742 million AFN (\$15.6 million USD). Their share of total exports of the country has dropped severely to 24% from 48% in the previous quarter.



## Performance Management - ACE Progress against Targets

The ACE program remains committed to deliver services of the highest standard that have a positive and measurable impact on growth of the agricultural sector. This requires a permanent program of field verifications, seeking to verify the quality of the data provided by ACE field personnel, implementing partners and financial intermediaries. Within this context, ACE maintains a central Monitoring and Evaluation Unit, which is responsible for conducting progress assessments and reporting on the program's performance, activities and impact. This effort has given a significant value to the M&E Unit. During the reporting period, efforts were made to track the performance of project activities and progress on indicators stipulated in the Performance Management Plan (PMP).

### Project Monitoring

**Indicator #1.1-** During the last quarter, ACE achieved additional ADF Credit Committee approval for eight loans worth of over \$3.5 million USD for agribusinesses in Kabul and Herat provinces. The

previously approved loan to [REDACTED] for \$700,000 USD was canceled as the clients and the ADF team did not reach a final agreement regarding the Sharia memorandum negotiation. Also, due to the lack of funds for other ADF disbursements from USAID, the project was forced to de-obligate \$1 million USD from [REDACTED]'s contract and reduce the loan to \$2 million USD. At the end of the first quarter FY2012, ACE has \$19.1 million in approved loans and \$15.4 million in ADF loan disbursements (sub-indicator # 1.1).

**Indicator #1.2** – In the last quarter, ACE has 447 new direct beneficiaries from the [REDACTED] loan, managed through disbursements to individual seed enterprises. Until now, the total number of beneficiaries is 9,167, out of which 9,155 are farmers whereas 12 are agribusinesses. As per PMP indicator definition, this indicator tracks “the number of individuals benefitting from ACE/ADF loan agreements, therefore as stipulated in the previous quarterly reports the number of loan agreements signed with agribusinesses and farmer beneficiaries will be counted against this indicator.

The delay in the transfer of ADF funds for lending from USAID to the project encountered in October and November caused delays in the disbursements to farmers. An example of this is the loan for [REDACTED] which was initially planned for disbursement in August, but was delayed due to three deferrals in the ADF Credit Committee meetings. Once approved, the unavailability of funds, delayed the disbursement to the client to December. The [REDACTED] was expected to on-lend \$1 million USD to 2,000 farmers which could not be accomplished in the reporting quarter and will be achieved in the next quarter. The same occurred with the [REDACTED] which due to the lack of funds for lending could not disburse their loan to 95 women direct beneficiaries. The table below shows the distribution of loans to farmers and direct beneficiaries per Regional Command.

The Performance Indicator Data Sheet (Table 11) on the next page shows the ACE quarterly accomplishments and the current cumulative actual performance against quarterly and annual targets. Below are some of the reasons ACE could achieve to meet the quarterly targets along indicators #1.1; #1.2 and #2.1.

- Despite the quarterly achievements, ACE ended the quarter with almost \$18million USD less than the target. This gap is explained by three factors: 1) the unavailability of ADF funds for disbursements impacted ACE's lending targets. Most of the agricultural loans are highly time-sensitive and the lack of funding forced the customer to withdraw the request for loans; 2) ACE has de-obligated a cumulative total of \$3,207,348 since the start of the project (including [REDACTED], [REDACTED], [REDACTED] and the [REDACTED]) 3) Lack of full cooperation from MAIL and the lack of official agreement on Policies and Procedures and infrequent or postponed Credit Committee meetings from MAIL officials negatively impacted the loan approvals and disbursements. In the next quarter, a newly established and functional ADF Advisory Board and a new on-budget process of disbursement through the Ministry of Finance is expected to accelerate the lending performance of the program.
- The lack of ADF funds for lending negatively affected the achieved number of direct beneficiaries. Disbursements to end beneficiaries have been delayed due to delays of funds from USAID.
- The lack of funding and a slow rate of ADF loans approved and disbursed affected the approval of the ADF Challenge/Innovation Grants. The pace of approvals on ACE Agricultural Modernization Grants has been slow due to its direct correlation with the agricultural cycles, marketing and sales of agricultural products. In the next six months, ACE will work intensively with establishing Credit Management Units where needed, through ADF Challenge Grants, and will support the marketing, packaging and sales of its clients through ACE Agricultural Modernization Grants. Also, the participation of several ADF clients to international trade fairs such as in Russia, Turkey, Uzbekistan and Tajikistan will be supported through ACE Grants.

*Table 9: No of ACE/ADF Beneficiaries and Dollar Amount Disbursed per Regional Command*

Region	Number of Direct Beneficiaries	Loan Disbursed in (\$)
RC - East	3,449	1,600,963.75
RC - North	3,030	3,644,605.46
RC - South	1,328	231,635.00
RC - West	1,348	987,924.74
<b>Total</b>	<b>9,155</b>	<b>6,465,128.95</b>

*Table 10: ACE/ADF Direct beneficiaries per Province*

No.	Province	Number of Beneficiaries	Loan Disbursed in US \$
1	Badakhshan	186	59,730
2	Baghlan	894	1,376,438
3	Balkh	633	501,765
4	Bamyan	465	321,887
5	Farah	185	48,479
6	Faryab	75	110,680
7	Ghazni	17	6,049
8	Ghor	16	8,918
9	Herat	1,147	930,528
10	Hilmand	1,005	160,863
11	Jawzjan	35	38,369
12	Kabul	18	31,279
13	Kandahar	94	30,598
14	Khost	12	17,020
15	Kunar	1,114	447,032
16	Kunduz	830	1,160,696
17	Laghman	130	56,204
18	Nangarhar	1,492	687,125
19	Nimroz	22	3,260
20	Parwan	201	34,368
21	Samangan	39	15,527
22	Takhar	338	381,400
23	Uruzgan	112	21,856
24	Zabul	95	15,058
<b>Total</b>		<b>9,155</b>	<b>6,465,129</b>

In terms of indirect beneficiaries from ACE/ADF lending activities, until now, the project has achieved 97,525. Table No.11 on the next page provides a detailed breakdown of beneficiaries through financial and non-financial intermediaries, with ██████ predominating.



**Table 11: ADF Direct and Indirect Beneficiaries**

ADF LOANS		Direct Beneficiaries			Indirect Beneficiaries		
SN	Borrower	Beneficiaries Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers	Beneficiaries Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers
1	[REDACTED]	0	0	0	300	300	300
2	[REDACTED]	0	0	0	8,000	8,000	8,000
3	[REDACTED]	200	200	0	600	600	500
4	[REDACTED]	275	275	0	125	125	125
5	[REDACTED]	630	630	630	0	0	0
6	[REDACTED]	1,489	1,489	1,489	0	0	0
7	[REDACTED]	0	0	0	250	250	250
8	[REDACTED]	0	0	0	300	300	300
9	[REDACTED]	0	0	0	52	52	52
10	[REDACTED]	2,000	2,000	0	0	0	0
11	[REDACTED]		0	0	4,500	0	0
12	[REDACTED] 2nd	570	570	0	8,170	8,170	1,800
13	[REDACTED]	0	0	0	250	250	0
14	[REDACTED] (2nd)	0	0	0	230	230	0
15	[REDACTED]	0	0	0	177	177	0
16	[REDACTED]	0	0	0	110	110	110
17	[REDACTED]	400	400	0	0	0	0
18	[REDACTED]	0	0	0	2,500	0	0
19	[REDACTED]	95	0	0	0	0	0
	<b>Sub Total Agribusiness</b>	<b>5,659</b>	<b>5,564</b>	<b>2,119</b>	<b>25,564</b>	<b>18,564</b>	<b>11,437</b>
20	[REDACTED]	212	212	212	0	0	0
21	[REDACTED]	1,852	1,852	1,852	0	0	0

ADF LOANS		Direct Beneficiaries			Indirect Beneficiaries		
SN	Borrower	Beneficiaries Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers	Beneficiaries Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers
22	[REDACTED]	15	15	15	0	0	0
23	[REDACTED]	47	47	47	0	0	0
24	[REDACTED]	10	10	10	0	0	0
25	[REDACTED]	59	59	59	0	0	0
26	[REDACTED]	156	156	156	0	0	0
27	[REDACTED]	74	74	74	0	0	0
28	[REDACTED]	22	22	22	0	0	0
29	[REDACTED]	4,270	4,270	4,270	86,087	86,087	86,087
30	[REDACTED]	0	0	0	400	0	0
	<b>Sub Total NFI</b>	<b>6,717</b>	<b>6,717</b>	<b>6,717</b>	<b>86,487</b>	<b>86,087</b>	<b>86,087</b>
31	[REDACTED]	800	319	319	0	0	0
32	[REDACTED]	25	25	0	0	0	0
	<b>Sub Total FI</b>	<b>825</b>	<b>344</b>	<b>319</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Grand TOTAL</b>	<b>13,201</b>	<b>12,625</b>	<b>9,155</b>	<b>112,051</b>	<b>104,651</b>	<b>97,524</b>

**Table 12: PERFORMANCE DATA QUARTER I FY2012**

<b>PMP INDICATOR</b>	<b>FY2011</b>	<b>QI FY2012</b>	<b>Actual QI FY 2012</b>	<b>TARGET QI FY2012</b>	<b>TARGET FY2012</b>
<b>1.1 Value of Finance Accessed in US dollars. (this indicator is expressed in cum)</b>	18,446,562	19,104,562	19,104,562	37,000,000	65,000,000
<b>Sub-indicator: Value of ADF loans disbursed in US dollars (cumulative)</b>	9,515,771	15,449,253	15,449,253	15,000,000	25,000,000
<b>1.2 Number of individuals benefitting from ACE or ADF financial agreements</b>	8,720	447	9,167	13,000	24,000
<b>Sub-indicator: Number of indirect beneficiaries achieved</b>	8,075	89,449	97,524	26,000	48,000
<b>1.3 Percent Increase in income by assisted farms and agribusinesses</b>			-	-	10%
<b>1.4 Net total increase in Full-Time Equivalent (FTE) jobs created by USG sponsored agriculture activities</b>	171	242	413	300	500
<b>2.1 Value of Challenge/Innovation and Agriculture modernization grants disbursed</b>	737,683	136,457	874,140	1,800,000	9,500,000
<b>2.2 Number of participating financial intermediaries and private intermediaries on-lending funds from ADF</b>	14	2	16	16	19
<b>2.3 Number of innovative lending products established by PIs and Fis</b>	3	1	4	3	4
<b>2.4 Percentage of loan losses resulting from ACE lending recommendations</b>	0	0	0	<5%	<5%
<b>3.1 Percentage change in value of export of Afghanistan agriculture products for firms supported by ACE</b>				-	10%
<b>3.2 Number of loans approved under USAID's Development Credit Authority (DCA) mechanism</b>	0	0	0	0	1
<b>3.3 Number of public private partnerships formed as a result of USG assistance (including GDAs)</b>	0	0	0	0	2
<b>4.1 Number of conferences, workshops and other initiatives designed to foster increased credit to the agricultural sector carried by ACWG.</b>	3	1	4	6	10
<b>4.2 Number of market information and market intelligence products created and disseminated by the established knowledge management</b>	13	3	16	15	25
<b>4.3 Number of individuals trained by ACE in credit policy and operations, value chain strengthening, and market information systems</b>	15	19	34	24	60
<b>4.4 Number of person hours of training; including formal and practical training and technical visits</b>	74	127	201	120	320

**Indicator #1.3** - Percentage increase in income by assisted farms and agribusinesses is an annual indicator which, as per PMP and the Annual Workplan 2, will be reported in FY 2012. During option year one, ACE will determine the baseline.

**Indicator #1.4** - During this quarter, the number of new jobs created expressed in Full-Time Equivalent is 242. This increase counts for the new jobs created by the companies as shown in table no 11.

*Table 13: New FTE Jobs Created in Q4 FY 2011*

No	Province	Agribusiness Name	New FTE Jobs
1	All	████████████████████	194
2	Nangarhar	████████████████████	24
3	Balkh	████████████████████	24
		<b>Total</b>	<b>242</b>

The agribusiness companies not shown in the table did not create new jobs during the last quarter.

**Indicator #2.1** – In quarter 4, ACE approved one new grant for the ██████████ to manage the participation of Afghan agribusinesses in the 31<sup>st</sup> International Indian Trade Fair and prepare the Afghanistan pavilion. The ACE Value Chain team is drafting new concept papers for some new ACE grants which will assist the existing ADF clients. The total amount of approved grants, both ADF challenge-innovation and ACE agricultural modernization, is expected to increase drastically by July 2012.

**Indicator # 2.2** – The loans to ██████████ and ██████████ will be on-lent to farmers. For this purpose, ACE recognizes as non-financial intermediaries all the agribusinesses involved in on-lending to farmers. With these two new borrowers, ACE stands at 16 intermediaries.

**Indicator #2.3** – ACE launched another innovative lending product during the reporting quarter. Murabahah, Return-on-Investment-Sharing product is used to estimate the rate of return on investment and share it with the client. This product is mainly used for investment activities, such as construction, the purchase of machinery, etc. This product was used for the loan of \$425,000 for ██████████ in Herat province.

**Indicator # 2.4** – All the ADF loans approved and signed to date have been repaid on time. (See Annex I for detailed information).

**Indicator # 3.1** – As per the newly approved PMP and Annual Work Plan 2, the percentage change in export sales for firms supported by ACE will be reported in FY2012. During Option Year I, ACE will determine the baseline.

**Indicator # 3.2** - During this quarter there were no loans approved under USAID’s DCA mechanism.

**Indicator #3.3** – Even though ACE has already developed several proposals, there were no formal public-private partnerships formed during this period.

**Indicator #4.1** – In the fourth quarter, ACE organized one policy workshop to discuss the policy obstacles to the saffron value chain growth. The team is planning a value chain and policy workshop tackling the growth constraints of edible oil in the province of Balkh.

**Indicator # 4.2** – The ACE MIS unit launched the Agricultural Trade Brief reports for Quarter one and two 1390. Most importantly, the project launched through the website of MAIL, the PAYWAND – Agricultural Knowledge Management Platform.

**Indicator #4.3** – ACE trained 19 new ACE/MAIL and CMU staff during the reporting period. Ten ACE staff were trained on Credit and Sharia Lending; and four MAIL senior staff received tailor made training on ADF Credit and Credit Committee Executive program. Five staff of the Farm Service Center received training on ‘Basic Accounting and QuickBooks’ and two members of ██████████ CMU were trained on “Grants Management and Reporting”, however they were not first-time trainees therefore were not reported.

**Indicator # 4.4** – The project provided 127 hours of personal training, of which, 68 hours consisted on Credit training and Sharia lending. 16 hours of training were tailored for MAIL members of the ADF Credit Committee.

## Research Studies

In mid-October, the ACE M&E team, in collaboration with the value chain advisors, designed a research study to assess the impact of the seeds and fertilizers distributed on credit to members of the seven ██████████ that received ADF funding. The hypothesis of the study was that the ADF borrowers have higher potato yields and consequently lower cost of production than the non-borrowers due to appropriate use and access to better quality of seeds and fertilizers. While the study was presented in detail in the ACE Monthly report of November 2011, a short summary of key finding is presented here.

The project selected a random sample of 32 borrowers who received and used potato fertilizers on ADF credit for the new planting season, and a group of 32 non-borrower potato growers was selected as a control group. The farmers of the control group were designed to share the same characteristics as the borrower group, such as: the same location/village, the same irrigation pattern, and similar farm size. It is important to highlight that the ADF borrowers were all members of the ██████████ ██████████ whereas the non-borrowers were not associated with any of the cooperatives. A structured questionnaire was designed and administered to both groups.

*Table 14: Group Statistics – borrowers and non borrowers*

	Borrower /NB	N	Mean	Std. Deviation	Std. Error Mean
<b>Farm size</b>	1	32	4.2500	1.54502	0.27312
	2	32	3.6563	1.53685	0.27168
<b>Yield MT/Jb</b>	1	32	4.1100	0.68359	0.12084
	2	32	3.3582	0.82531	0.1459
<b>Production cost (AFN/Kg)</b>	1	32	3.3616	1.17925	0.20846
	2	32	5.5038	3.19716	0.56518
<b>Irrigation times</b>	1	32	15.0625	4.0476	0.71552
	2	32	14.2188	3.68724	0.65182
<b>DAP (Kg/Jb)</b>	1	32	50.4369	21.48722	3.79844
	2	32	69.5794	26.41886	4.67024

<b>Urea (Kg/Jb)</b>	1	32	108.4894	47.99759	8.48486
	2	32	128.1288	79.81034	14.10861

After the statistical analysis in SPSS (Statistical Program for Social Sciences) borrowers in comparison to non borrowers showed:

- 22.3% higher yield;
- 39% reduction in the production cost,
- 6% increase in frequency of irrigation;
- a reduction of 27.5% in the application of DAP (Kg/Jerib);
- A reduction of 15% in the application of Urea in (Kg/Jeribs).

Observing the large difference in production cost between the two groups, the team focused on the cost of production items to identify variables to which this difference could be attributed. For this reason, DAP and Urea application on both groups was closely investigated. Not only had the non-borrowers used 27.5% more DAP per Jerib and 15% more Urea, but the DAP and Urea received on ADF credit was 1.5% and 2.9% less per kilogram than the one used by the non-borrowers.

*Table 15: Price of fertilizer (DAP and UREA) per unit*

	<b>DAP AFN/kg</b>	<b>Urea AFN/KG</b>
<b>Borrower</b>	53.2	22.8
<b>Non-borrower</b>	54	23.5

*Table 16: Comparison between averages of key variables*

	<b>Total production</b>	<b>Yield (Mt/Jerib)</b>	<b>Production Cost (AFN/Kg)</b>	<b>Irrigation (no of times)</b>	<b>DAP (Kg.Jerib)</b>	<b>Urea (Kg/Jerib)</b>	<b>Pric</b>	<b>Profit AFN</b>	<b>Profit US\$</b>
<b>Non borrower</b>	1737.72	3.36	5.50	14.22	69.58	128.13	8.39	5013.507	104.4481
<b>Borrower</b>	2528.06	4.11	3.36	15.06	50.44	108.49	9.06	14400	300.0125

This table shows that borrowers are selling their produce at a higher price by 8%. This does not include the borrowers selling at a special price, due to ACE's facilitation of a contract with ██████████. The borrowers in the agreement with ██████████ sold their produce at a price of 14.25 AFN/Kg. Also, the table shows that borrowers are making 187% more profit than the non-borrowers.

A 2-tailed Pearson Correlation was computed to investigate whether any significant correlation between variables exist at a confidence level of 0.01. The following was found:

- A significant correlation between being a borrower/non borrower and Yield (-.450). Since borrowers were coded with 1 and non-borrowers with 2, the negative correlation shows that borrowers have significantly a higher yield than non-borrowers.
- A significant correlation between being a borrower/non borrower and Production Cost (.412). Since borrowers were coded with 1 and non-borrowers with 2, the positive correlation shows that non-borrowers had a significantly higher cost of production.
- A significant correlation between being a borrower/non borrower and DAP application in Kg/Jeribs (.374). Since borrowers were coded with 1 and non-borrowers with 2, the positive correlation shows that non-borrowers used significantly more DAP per Jerib than borrowers.

- No significant correlation between being a borrower or not, was found with Urea application per Jerib.

The project also investigated whether there was any significant difference in yields with borrowers who used seeds purchased with ADF financing and the ones who did purchased seed at the local market. No significant correlation was found between the two (Pearson correlation .019). This might have been also due to relatively small samples (borrowers using ADF seeds = 14; borrowers non ADF seeds = 18). Besides this, both borrowers and non borrowers often used more than one variety of potato seeds, adding many sublevels to the seed variable (four different potato varieties were planted by the participants). Therefore, other in-depth studies would have been required to investigate any significant impact of seeds supplied to borrowers on ADF credit and the ones purchased in the local market in Bamyān.

## Discussion

The significant correlation at confidence level 0.01 indicates a strong correlation between yields and borrower/non borrower category, pointing to a significantly higher yield for borrowers than the non borrowers across the groups. As the table in Annex I indicates, this change cannot be attributed to location of the farm, seeds used or irrigation pattern therefore. Time of fertilizer application could be a determining factor and quality of the fertilizer could be another.

If the cost of production is a function of total cost divided by total production, we can say that access to finance has affected the total cost by decreasing the cost of production for the borrowers and increasing yield.

$$\text{Prod cost} = f \frac{\text{total cost}}{\text{farm size (Jerib)} \times \text{Yield}}$$

The cost of production is significantly lower for borrowers than for non borrowers because borrowers have large farms; they spend less (even though not significantly less) on the price of fertilizers such as DAP and Urea; and much less in DAP and Urea application in Kg/Jerib. As stated in the introduction, borrowers tend to be more commercially oriented and that is one of the reason they were selected for the ACE/ADF financing program as they are members of [REDACTED]

Borrowers make a more efficient use of inputs, they use significantly less amount of DAP and Urea and still have a 22.3% higher yields. Commercial growers are generally better equipped and have a better technological level of agricultural production which might have affected both the yields and the cost of production for borrowers.

Another factor related to this is farm size as the economies of scale allow for a reduction in the cost of production (See correlation between farm size and cost of production in Annex I); and borrowers have 16.6% larger farms. All in all, the study shows the ADF fertilizers have positively impacted the potato production of ADF borrowers in Bamyān by increasing the potato yields and decreasing the cost of production. Borrowers produced 22.3% more potato at a 39% less production cost while selling at an 8% higher price.

## Communication and Outreach

---

In the last quarter ACE submitted two stories to USAID. The first one is a snapshot on “Credit Revamps Afghan Agro-Industry” and the second is a case study on “Managing Risk through Innovation”. Both stories were published in the USAID-Afghanistan website:

[http://afghanistan.usaid.gov/en/USAID/Article/2502/Credit\\_Revamps\\_Afghan\\_AgroIndustry](http://afghanistan.usaid.gov/en/USAID/Article/2502/Credit_Revamps_Afghan_AgroIndustry)

[http://afghanistan.usaid.gov/en/USAID/Article/2482/Managing\\_Risk\\_Through\\_Innovation](http://afghanistan.usaid.gov/en/USAID/Article/2482/Managing_Risk_Through_Innovation)

In terms of reaching the potential clients of ADF, Agricultural Credit Shuras continue to be the most effective instrument. In the last quarter, the Shura travelled to Herat, Khost, Paktika , Kabul and Bamyan provinces to present the ADF lending opportunities to over 250 local farmers and agribusinesses.

In November, ACE reached an agreement with Safi Airline to publish a two-page advertisement on ADF lending opportunities in Safi Airline In-flight Magazine. The magazine issue was provided to passengers throughout the months of November and December.

The DAI Portal and MAIL website broadcasted ACE's achievement on launching the PAYWAND website through MAIL.

*“The Afghanistan Ministry of Agriculture, Irrigation and Livestock this week launched a dynamic database that will inform farmers and businesses of the latest prices, news, and trends in Afghan agriculture.*

*The new Knowledge Management Facility will integrate and archive agricultural data in a single repository, consolidate existing data into more reliable, understandable, and useful products, and disseminate agriculture-related information”*

DAI NEWSROOM

## Administrative and Human Resources

---

In the last quarter, ACE continued its recruiting efforts focusing specifically on the technical staff such as the hiring of the Afghan national lending and value chain advisors for the regional offices. ACE hired one expatriate lending advisor who will supervise the lending activities and will generate business in Eastern Afghanistan. Two Short term advisors, Michael Alcorn and Steven Campbell, joined the project in the capacity of Credit Administration Consultant and Information/Communication Technology specialist, respectively, to provide technical support with the establishment of the ADF Credit Management System. Stephanie Schwarzkopf was deployed in the field to assist with grant's management and contracts. Natalie Schoon, a Sharia lending expert, joined the project on a short-term on October 20th to support the Lending Component with expertise on designing Sharia lending products. Mary Miller, a Senior Banking Advisor joined the project on a short-term to train the ACE lending advisors and members of ADF Credit Committee on credit processes in Dubai.

In the next quarter, ACE is planning to hire a company for the installation of the ADF Credit Management System and staff training. An expatriate short-term position on Agricultural Value Chain Studies Development and another on Data Analysis and Interpretation have been announced.

*TABLE 12: Afghan National personnel deployed during Quarter I FY2012*

No.	Name	Position	Start Date
1	Bashir Ahmad	Sr. GIS and Database Manager	12-Dec-11
2	Ilhumaddin Foolad	Sr. Manager Value Chain Support	30-Nov-11
3	Mohammad Arif Marif	Grants Coordinator	04-Dec-11
4	Najeebullah Sidique	Sr. Manager Value Chain Strengthening	30-Nov-11
5	Rahmat Shah	Sr.Lending Advisor	28-Nov-11
6	Safiullah Asifi	Sr. Lending Advisor	28-Nov-11
7	Barialai Haidari	Procurement Assistant	04-Dec-11
8	Abdul Qasim Danishwar	Procurement Assistant	01-Dec-11
9	Baz Mohammad Aryubwal	Pashto Translator	18-Oct-11

*TABLE 13: Expatriate personnel deployed during Quarter I FY2012*

No	Name	Position	Date
1	Michael Alcorn	Credit Admin Consultant	03-Dec-11
2	Stephanie Schwartzkopf	Contracts and Grants Manager	15-Oct-11
3	Steve Campbell	ICT Specialist	11-Oct-11
4	Madhaven Ati	Lending Advisor	22-Oct-11
5	Natalie Schoon	Sharia Lending Advisor	20-Oct-11
6	Marry Miller	Senior Banking Advisor	25 –Nov-2011

## ACTIVITIES FOR THE NEXT QUARTER

- In the next quarter ACE aims to present loan packages worth over \$25 million USD to the ADF Credit Committee meeting and to obtain approval for a minimum of \$20 million USD in ADF loans.
- The project will improve Credit Administration processes through approving the Credit Manual and a final Credit Checklist. ACE will select a credit management system and start system installations together with capacity building activities by early February.
- ACE will continue strengthening the CMUs established to administer the ADF loans through non-financial intermediaries with financial management training and technical assistance for the collection of repayments.
- The Value Chain Strengthening team in coordination with MAIL will support the organization of three agricultural fairs on Farmers' Day (March 21<sup>st</sup>). The project will also design a competition and award prizes for these events.
- The Value Chain team also will work on supporting the participation of Afghan agribusinesses to international trade fairs in Turkey, Russia, Uzbekistan and Tajikistan in the next two quarters.
- The project will organize the Agricultural Credit Shuras in Kandahar, Kunduz and Ghazni province, in the efforts of increasing its geographical outreach.

## ANNEX I – Percentage of Loan Losses Resulting from ACE Lending Recommendations

SN	Name of Business	Province	District	Amount (\$)	Type of Business	Start Date	End Date	Actual Amount Disbursed	Repayments due (m/d/y)	Expected Value (\$) to date	Actual Value (\$) to date	Percentage Loss
1	[REDACTED]	Kabul	Kabul	120,000	Agribusiness	05-Oct-10	07-Dec-10	120,000	Fully repaid	122,484	122,484	0%
2	[REDACTED]	Nangarhar	Jalalabad	300,000	Agribusiness	31-Oct-10	31-Oct-11	300,000	August 31, 2011 (\$200K) - October 31, 2011 (\$115K)	315,000	315,000	0%
3	[REDACTED]	Balkh	Mazari Sharif	200,000	Agribusiness	24-May-11	24-Apr-14	200,000	On the 24th of every month starting 5/24/2011 and ending 4/24/2011.	24,472	24,472	0%
4	[REDACTED]	Kabul	Kabul	1,000,000	FI'	30-Nov-10	21-May-11	1,000,000	Fully repaid	1,018,521	1,018,521	0%
5	[REDACTED]	Balk, Kunduz, Samangan	Balk, Kunduz, Samangan	92,652	NFI	09-Mar-11	31-Dec-11	92,652	12/31/11	92,652	0	0%
6	[REDACTED]	Kabul	Kabul	1,970,000	Agribusiness	20-Dec-10	05-Apr-14	1,280,000	May 1, 2011 for term loan and Dec. 31, 2011 for line of credit.	345,395	345,395	0%
7	[REDACTED]	Balk, Jawzjan, Faryab, Samangan, Baghlan	Balk, Jawzjan, Faryab, Samangan, Baghlan	2,000,000	FI	19-Dec-10	05-Dec-12	815,217	April 25, 2011 - July 25, 2011 - Oct. 25, 2011 -Dec 5, 2011	18,543	18,543	0%

SN	Name of Business	Province	District	Amount (\$)	Type of Business	Start Date	End Date	Actual Amount Disbursed	Repayments due (m/d/y)	Expected Value (\$) to date	Actual Value (\$) to date	Percentage Loss
8	[REDACTED]	Hilmand, Kandahar, Farah, Zabul, Ghor, Miroz, Uruzgan	Helmand	242,000	NFI	19-Dec-10	01-Jan-12	242,000	Aug. 1, 2011 - Sept. 1, 2011 - Oct. 1, 2011 - Nov. 1, 2011 - Dec. 1, 2011 - Jan. 1, 2012	195,072	195,072	0%
9	[REDACTED]	Kunar	Kunar	312,000	NFI	20-Dec-10	15-Dec-11	312,000	June 1, 2011 - Sept. 1, 2011 - Dec. 15, 2011	335,337	335,337	0%
10	[REDACTED]	Nangarhar, Laghman, Kunar	Nangahar	500,000	NFI	31-Mar-11	31-Mar-12	500,000	3/31/2012	249,750	87,593	0%
11	[REDACTED]	Balkh	Balkh	121,000	Agribusiness	28-Mar-11	28-Oct-11	121,000	Fully repaid	125,137	125,137	0%
12	[REDACTED]	Bamyan	Bamyan	46,600	NFI	11-Apr-11	11-Nov-11	46,600	10/16/2011, seven months after signature of HoTs, except for K. Sabz Posh due 11.11.11, and Kaway, due 11.18.11	46,600	33,429	0%
13	[REDACTED]	Bamyan	Bamyan	53,543	NFI	11-Apr-11	11-Nov-11	53,543	10/16/2011, seven months after signature of HoTs, except for K. Sabz Posh due 11.11.11, and Kaway, due 11.18.11	53,543	39,548	0%
14	[REDACTED]	Bamyan	Bamyan	25,469	NFI	11-Apr-11	11-Nov-11	25,469	10/16/2011, seven months after signature of HoTs, except for K. Sabz Posh due 11.11.11, and Kaway, due 11.18.11	25,469	22,061	0%

SN	Name of Business	Province	District	Amount (\$)	Type of Business	Start Date	End Date	Actual Amount Disbursed	Repayments due (m/d/y)	Expected Value (\$) to date	Actual Value (\$) to date	Percentage Loss
15	██████████ ██████████	Bamyan	Bamyan	31,265	NFI	11-Apr-11	11-Nov-11	31,265	10/16/2011 , seven months after signature of HoTs, except for K. Sabz Posh due 11.11.11, and Kaway, due 11.18.11	31,265	35,221	0%
16	██████████ ██████████	Bamyan	Bamyan	76,993	NFI	11-Apr-11	11-Nov-11	76,993	10/16/2011 , seven months after signature of HoTs, except for K. Sabz Posh due 11.11.11, and Kaway, due 11.18.11	76,993	56,279	0%
17	██████████ ██████████	Bamyan	Bamyan	21,561	NFI	11-Apr-11	11-Nov-11	21,561	10/16/2011 , seven months after signature of HoTs, except for K. Sabz Posh due 11.11.11, and Kaway, due 11.18.11	21,560	22,337	0%
18	██████████ ██████████ ██████████	Bamyan	Bamyan	14,479	NFI	11-Apr-11	11-Nov-11	14,479	10/16/2011 , seven months after signature of HoTs, except for K. Sabz Posh due 11.11.11, and Kaway, due 11.18.11	14,479	15,150	0%
19	██████████ ██████████ ██████████ ██████████	National		4,950,000	NFI	23-Jun-11	23-Jul-11	4,757,345	7/23/2011	0	481,912	0%
20	██████████ ██████████ ██████████	Nangarhar	Nangarhar	100,000	Agribusiness	11-May-11	11-May-12	100,000	5/11/12	0	0	0%
21	██████████ ██████████ ██████████	Wardak	Maydan Shahr	230,000	Agribusiness	19-Sep-11	19-Jun-12	230,000	5/1/2012	0	0	0%

SN	Name of Business	Province	District	Amount (\$)	Type of Business	Start Date	End Date	Actual Amount Disbursed	Repayments due (m/d/y)	Expected Value (\$) to date	Actual Value (\$) to date	Percentage Loss
22	██████████	Balkh	Mazari Sharif	2,000,000	Agribusiness	29-Sep-11	29-Sep-14	1,977,597	9/29/2011	0	0	0%
23	██████████	Wardak	Maydan Shahr	224,000	Agribusiness	28-Sep-11	28-Mar-13		9/28/2011	0	0	0%
24	██████████ (2nd loan)	Nangarhar	Jalalabad	900,000	Agribusiness	22-Oct-11	30-Apr-13	900,000	10/22/2011	0	0	0%
25	██████████	Kabul	Kabul	715,000	Agribusiness	27-Dec-11	27-Sep-11	715,000	12/27/2011	0	0	0%
26	██████████	Kabul	Kabul	500,000	NFI			0		0	0	0%
27	██████████	Kabul	Kabul	250,000	Agribusiness	30-Nov-11	15-Apr-12	250,000	11/30/2011	0	0	0%
28	██████████	Kabul	Kabul	555,000	Agribusiness			375,000		0	0	0%
29	██████████	Herat	Herat	273,000	Agribusiness	27-Dec-11	05-May-12	273,000	12/27/2011	0	0	0%
30	██████████	Herat	Herat	700,000	Agribusiness	02-Jan-12	09-Jan-14	700,000	1/2/2012	0	0	0%
31	██████████	Herat	Herat	425,000	Agribusiness					0	0	0%
32	██████████	Herat	Herat	155,000						0	0	0%
<b>TOTAL</b>				<b>19,104,562</b>				<b>15,530,721</b>				