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**AFGHANISTAN**

# RURAL FINANCE COOPERATIVE DEVELOPMENT (RUF COD):

## ANNUAL PERFORMANCE MONITORING REPORT

YEAR: DECEMBER 1, 2010 – NOVEMBER 30, 2011

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Fruit sellers in Spin Boldak city reading the promotional leaflets on the *Sharia*-compliant financial products and services of Spin Boldak IIFC—Kandahar province

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**ANNEX II: Table of IIFCs and Points of Service**

## Abbreviations and Acronyms

|             |  |
|-------------|--|
| AoO         | Area of Operation  |
| AREDP       | Afghanistan Rural Enterprise Development                                     |
| ARIES       | Agriculture, Rural Investment & Enterprise Strengthening                     |
| BOD         | Board of Directors   |
| IIFC        | Islamic Investment and Finance Cooperative                                   |
| IIFC Group  | Afghanistan Islamic Investment and Finance Cooperative Group                 |
| COP         | Chief of Party   |
| DAB         | Da Afghanistan Bank  |
| DQA         | Data Quality Analysis  |
| FAF         | Foreign Assistance Framework   |
| F Indicator | Foreign Assistance Indicator (defined by Washington for worldwide reporting) |
| FY          | Fiscal Year  |
| GIRoA       | Government of Islamic Republic of Afghanistan                                |
| GDP         | Gross Domestic Product   |
| HLP         | Horticulture and Livestock Project   |
| ICT         | Information and Communication Technology                                     |
| IIFC        | Islamic Investment and Finance Cooperative                                   |
| IPTT        | Indicator Performance Tracking Table   |
| KBSS        | Kabul Balkh Safety and Security (Company)                                    |
| MAIL        | Ministry of Agriculture, Irrigation and Livestock                            |
| M&E         | Monitoring and Evaluation  |
| MFI         | Microfinance institution   |
| MOU         | Memorandum of Understanding  |
| MISFA       | Microfinance Investment Support Facility for Afghanistan                     |
| MRR         | Microenterprise Results Reporting  |
| MRRD        | Ministry of Rural Rehabilitation and Development                             |
| PAR         | Portfolio at Risk  |
| PI          | Performance Indicator  |
| PEARLS      | WOCCU's Financial Performance Monitoring system                              |
| PIRS        | Performance Indicator Reference Sheet  |
| POS         | Point of Service   |
| RCE         | Regional Command East  |
| RCS         | Regional Command South   |
| RUFCD       | Rural Finance Cooperative Development  |
| SCF         | Sharia-Compliant Financing   |
| SME         | Small Medium Enterprise  |
| TA          | Technical Assistance   |
| USAID       | United States Agency for International Development                           |
| USG         | United States Government   |
| WOCCU       | World Council of Credit Unions   |

## I. INTRODUCTION

### A. Overview of RUF COD

With a total value of \$60.5 million over a period of approximately three years (2009–2013), the Rural Finance and Cooperative Development (RUF COD) program is one of USAID’s largest rural financial service projects in Afghanistan. RUF COD aims to increase access to financial services primarily in southern and eastern Afghanistan with an emphasis on providing *Sharia*-compliant financial services to small and medium-scale business owners, farmers, low and medium-income households and women. World Council of Credit Unions (WOCCU) is the implementing partner of USAID for RUF COD. WOCCU manages the program and provides for project reporting (programmatic and financial), communications, coordination and the overall leadership of the project operations.

A key goal of RUF COD is to complete the establishment of and provide the necessary technical assistance to a national apex entity – the IIFC Group – to permit it to expand the outreach of the community-level Islamic Investment and Finance Cooperatives (IIFCs), and to monitor, regulate, supervise and deliver technical assistance to the IIFCs to help them become vibrant, profitable and fully sustainable financial institutions.

The RUF COD Technical Approach is built around two key results:

#### 1. **Enhanced outreach of retail rural finance cooperative institutions**

Working with existing and new IIFCs to expand the delivery of financial services to priority geographic areas and increase the disbursement of loans to underserved small businesses, farmers, low and middle income households, and women. It will also include mobilizing increased savings and share investments from the same client group; as well as developing new and more appropriate financial products and services, and using new delivery mechanisms and approaches.

#### 2. **Enhanced capacity of rural finance and cooperative support and infrastructure**

Establishing a fully sustainable cooperative apex institution, the IIFC Group that will:

- a. Provide external oversight and supervision of the individual IIFCs;
- b. Provide them with training and technical support to enhance staff and leadership skills and improve the operating performance of the cooperatives, and
- c. Provide the IIFCs with access to external capital and increase the volume of lending for agriculture and small businesses in rural communities.

To address Afghanistan’s economic growth challenges, the USG will target key sectors and implementing activities to support:

Assistance Objective 4: A developed business climate that enables private investment, job creation, and financial independence. Four Intermediate Results have been identified to be achieved during 2011 - 2015:

IR 4.1: Effective fiscal and monetary policy implemented;

IR 4.2: Policy, legal and regulatory framework for key economic sectors strengthened;

IR 4.3: Competitiveness of private sector enhanced;

IR 4.4: Workforce meets private and public-sector demands;

RUF COD supports USAID/Afghanistan's activity objective through contributing towards the attainment of intermediate result 4.3: competitiveness of private sector enhanced. Please see RUF COD results framework in Annex I attached to this document.

## **B. Background – IIFC Industry in Afghanistan**

Before RUF COD was awarded in December 2009, WOCCU had established an extensive network of financial cooperatives with financing from USAID's ARIES program (2006-2009) and MISFA (2004 – 2009). The 27 IIFCs and points of service or branches had disbursed more than \$22.9 million in loans and created 53,718 jobs for Afghanistan's population in rural and urban communities in the North, South and Eastern provinces.

The Islamic cooperative model being used in Afghanistan was developed and modified over a period of years and was designed to make the Islamic Investment and Finance Cooperative's (IIFCs) more acceptable to the local populace, and particularly to the more conservative rural communities in the East and South. WOCCU consulted with Islamic scholars (*muftis*) and local mullahs in modifying its traditional credit union development methodology for application in Afghanistan. WOCCU obtained *Fatwas* (decrees by local *muftis*, or religious leaders) approving the credit products of the IIFCs, and these religious endorsements helped attract members to the cooperatives. The IIFCs are the first fully *Sharia*-compliant financial institutions in rural Afghanistan. The mutual ownership and shared risk of cooperative members is in line with Islamic values, and that aspect has enabled the IIFCs to attract new members who were unwilling to work with more traditional commercial financial institutions.

WOCCU has also tested and proven the effectiveness of a new leadership model that involves the participation of local tribal leaders or village elders on the IIFC boards of directors. Their participation on IIFC Boards and in loan approvals taps traditional social networks where social pressure compels the repayment of obligations.

## **II. RUF COD ACCOMPLISHMENTS AND IMPACT**

RUF COD has had considerable achievements in the second year of its operations or option year one. This year, key indicators such as membership, value of assets, membership share investments, amount of net loans outstanding of the entire IIFC network and jobs creation have had significant growth. For instance, when compared to November 2010, the network membership grew by 24% and its value of total assets increased by 29%. In addition, the membership share investment and amount of net loans outstanding grew by 42% and 40% respectively. As a result of the IIFCs' loan disbursements, it is estimated that near 2,971 new jobs have been created in the 17 provinces where IIFCs operate. More than \$7 million has been invested in the entire network as subordinated debt to support and enhance the network's lending

capacity. These achievements have been coupled with a number of challenges, particularly the day-to-day security risks that the employees of the IIFCs and IIFC Group encountered in the areas of operation of the program especially in the southern and eastern provinces. The program's progress towards the attainment of its objectives as specified in RUF COD contract is briefly described hereunder.

## **A. RUF COD progress towards its objectives**

In option year one building on the progress achieved in the base year, RUF COD continued its successful operations and made significant strides towards reaching its objectives.

### 1. Expand access to finance (credit) for primary inputs and equipment for farmers.

The 34 IIFCs disbursed 13,138 agricultural SCF loans (worth \$11.8 million) to their members across the IIFC network, increasing total agricultural loan disbursements to 36,501 SFC loans totaling \$27.3 million in the option year one. The cumulative agricultural SCF loan disbursements represented 40% of total SCF loan disbursements at the end of November 2011. This demonstrates nearly 2% increase in the agricultural lending of the IIFC network in the year.

### 2. Wherever feasible, increase the use of modern technology combined with traditional systems to give rural areas broader access to basic financial services.

This year, RUF COD entered into negotiations with USAID's FAIDA project to pilot mobile banking services in three IIFCs as a preliminary step. It is expected that money transfers and loan payments using cellular technologies will be initially piloted in Kabul, Balkh, Nangarhar and Kandahar provinces. Upon successful testing of the services in the selected provinces, mobile money services may be extended to all other IIFCs operating in the country. In this connection, a fruitful meeting between IIFC Group and the respective representatives of FAIDA and MTN was held at the IIFC Group headquarters in Kabul province in November 2011. The IIFC Group and the representatives of FAIDA and MTN agreed on an action plan based on which pilot mobile banking phase is expected to be launched in Kabul province through Kabul IIFC by the end of December 2011. The pilot phase for Kabul IIFC will be reviewed and finalized in mid-January 2012. Following the successful implementation of the pilot mobile-banking services in Kabul province, it is expected that a similar pilot phase of the mobile banking will be launched in Kandahar, Nangarhar and Balkh provinces through the respective IIFCs namely Kandahar, Nangarhar and Balkh at the end of January 2012. MTN is an international telecommunication company operating in Afghanistan. Through its legal entity Areeba, the company obtained the GSM license and started operations in July 2006 and was later reb-branded to MTN in 2008.

At the end of option year one, 30 of the 34 existing IIFCs were using the computerized system to record day-to-day transactions and generate the financial and programmatic reports. Training of the IIFCs' technical employees responsible for using the system by the IIFC Group and WOCCU continued in the option year one.

3. Increase membership and promote new IIFCs in RUF COD project's AoO

The 19,729 new members including 1,995 female members joined the IIFC network in option year one increasing the total membership to 81,930 at the end of November 2011. The membership growth among the IIFCs has averaged nearly 1,500 new members each month. Four new IIFCs were established in the four different provinces of Helmand, Bamyān, Parwan and Khost in the same year.

4. Bring all IIFCs under a national organization – the IIFC Group – that will provide supervision, technical assistance and loan capital to the IIFCs.

Headquartered in Kabul and with its provincial offices in Mazar, Jalalabad, Kandahar, Lashkargah and Tīrin Kot, the IIFC Group continued its successful operations in the option year one. The supervision and examination staff of the IIFC Group from its headquarters in Kabul as well as its provincial offices carried out approximately 130 field visits to different IIFCs throughout Afghanistan including the IIFCs operating in some of the high risk security areas such as Nawa, Nadali and Marjah in Helmand province. During these visits the supervision and examination staff conducted onsite monitoring of the operations of the IIFCs to ensure that they comply with the applicable policies and procedures. Specifically, the staff conducted surprise cash counts, reviewed loan documents and the approval done by credit committee members and verified the businesses for which the borrowers receive financing from their relevant IIFCs.

Similarly, several rounds of trainings on different subjects related to the operations of the IIFCs were provided to the employees and managers of the IIFCs both at central and provincial levels to upgrade their skills and technical knowledge to carry out their job responsibilities effectively and efficiently. For example, in November 2011 two separate training events on large loans and supervision and examination were held for the managers and supervision and examination staff of the IIFCs from across the country in Kabul.

In the option year one, the responsibility for management of subordinated investments in the IIFCs was transferred from WOCCU to IIFC Group. Investment agreements have also been signed with a number of IIFCs.

During the Base Year, it was decided that IIFC Group would not seek a DMFI license from Da Afghanistan Bank because draft legislation for deposit taking microfinance institutions restricts the maximum loan amount that can be provided to US\$50,000. RUF COD already has more subordinated debt invested in the primary IIFCs than is permitted by DMFI legislation and in case of transfer of ownership of funds to the Group it will be in non-compliance with the DAB regulations. Instead, RUF COD will seek opportunities to work with other USAID funded programs and Da Afghanistan Bank to improve existing legislation and/or develop IIFC specific laws and/or regulations that are conducive to credit union operations and support prudence in operations. However, if a satisfactory legislative solution is unlikely before the end of RUF COD, WOCCU may request DAB to license the

IIFC Group and all IIFCs as one DMFI rather than continue operating as a network of independent IIFCs.

5. Cooperate with other USAID projects, coalition development platforms and GIROA programs to create unity and coherence of effort, maximize the leveraging of resources and minimize duplication and waste of effort.

In May 2011, WOCCU signed a grant agreement with DFID (the Department for International Development of UK) for a program called Helmand Improved Livelihoods and Economic Opportunity (HILEO) worth a total of US\$1,625,278 for a period of one year (May 15, 2011 through April 30, 2012). The purpose of this program is to broaden access to financial services by farmers, micro and small entrepreneurs and rural and urban households in Helmand province. WOCCU will use this fund to allow the five IIFCs- Helmand, Greshk, Garamser, Nawa and Nadali - in Helmand province, to test a hybrid loan product that combines financing for equipment leases (*ijara*) with working capital lines of credit (*murabeha*). The new product will target entrepreneurs and farmers who have the potential for expansion but lack reliable financial records or collateral to guarantee a loan. Members will be able to access larger and longer-term loans to invest in their businesses; while the IIFCs' ability to recover and resell leased assets will reduce the institutional risk in lending. WOCCU expects the new product will increase loan demand and ultimately accelerate IIFC sustainability in Helmand province.

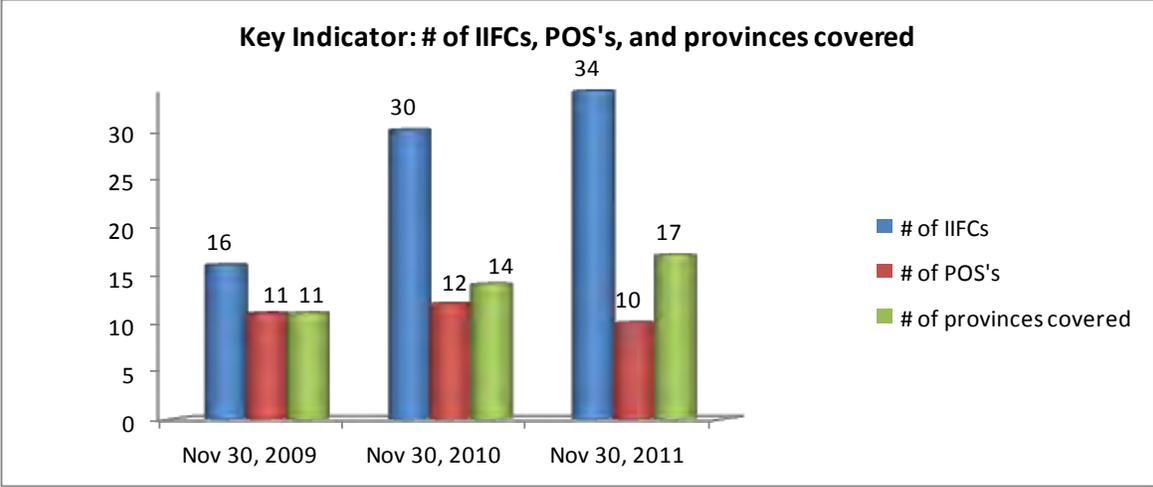
*HLP or Horticulture and Livestock Project* is a development project operating in the north of Afghanistan, helping farmers primarily in the areas of animal husbandry and horticulture. This project wants its farmer groups totaling nearly 400 farmers in the provinces of Balkh, Jawzjan and Samangan to become members of the IIFCs in those provinces in order to receive the much needed financial services to support their operations. To this end, Samangan IIFC forged a key partnership with Hand-in-Hand, an organization implementing the Horticulture Livelihood Project (HLP). This project works with small horticulture and livestock producer groups to enhance horticultural production and increase gardens. As an initial step, twenty five members of the producer-groups related to HLP joined the IIFC, fifteen of whom received loans from the IIFC to support their businesses. To further strengthen the partnership, HLP invited a representative of the Samangan IIFC to participate in its monthly meetings to conduct a membership promotion orientation to other groups served by the HLP.

In March 2011, the project provincial staff in Kandahar met with USAID, Canadian International Development Agency (CIDA) and Kandahar Provincial Reconstruction Team (K-PRT) and the representatives of some of the NGOs in the province. The purpose of this meeting was to introduce RUFOD to them and explore various ways to create possible coordination in order to serve the members of the IIFCs in a better way. The USAID Senior Economic Growth Advisor Mr. Edgar Thornton and the representative of Kandahar PRT committed to helping the project in its operations. For instance, the PRT representative agreed to provide security updates on the situation in the

province to the project staff. He also said he would encourage people to join the IIFCs in areas where they operate.

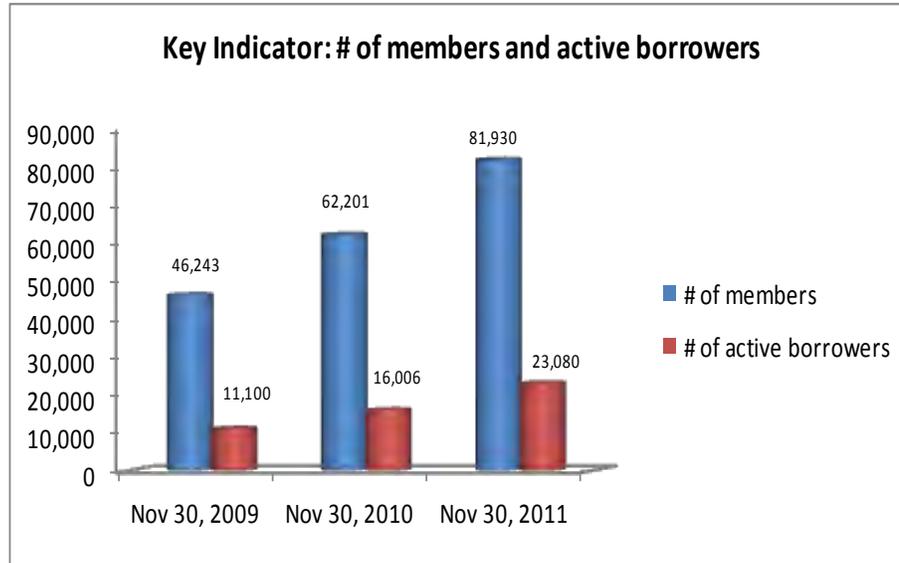
In an effort to expand the IIFCs services and products to SMEs and factory owners, RUF COD technical advisor and IIFC Groups regional staff attended a special meeting of Kandahar Economic Council that was held at the Kandahar Maduguk palace with the other USAID partners and Kandahar Economic Council members. The main agenda of the meeting was the ongoing electrification project for the phase 2 of the Shurandam business park and financing needs of the businessmen, who are the owners of factories at the Shurandam industrial park. RUF COD representatives delivered a presentation on the IIFC services and products that could be provided to the factory owners at Shurandam industrial park to meet their financial needs. The participants were briefed on the expansion of IIFC products to SMEs. The council was happy to know about the IIFCs' products and the president of the industrial park advised the factory owners to arrange a meeting with the IIFC staff to further discuss the mechanism and the procedures of the financing and how the IIFC may provide these services to them. RUF COD Chief of Party and IIFC Group Chief Executive Officer made a field visit to Uruzgan province to address issues facing the IIFCs there. During this two-day visit, separate meetings were held with the Governor of Uruzgan province, Mr. Mohammad Omar Sherzad, Uruzgan Chief of Police, General Fazil Ahmad Sherzad and the board members of the Uruzgan, Dehrawood and Chora IIFCs. Different issues, particularly the higher delinquency plaguing the IIFCs in that province were discussed in these meetings. As a result, the Governor, Police Chief and *Shura* members promised that they will extend their full support to the IIFCs in collecting loans from the borrowers to lower their delinquency rates. The three IIFCs have had difficulty collecting loans from their borrowers and this has caused a spike in their delinquency.

## B. RUFOD COUNTRY WIDE INDICATORS

| RUFOD Indicator   | Status  |            |                        |            |                        |              |    |    |    |              |    |    |    |              |    |    |    |
|---|---|------------|------------------------|------------|------------------------|--------------|----|----|----|--------------|----|----|----|--------------|----|----|----|
| Indicator 1 - Number of IIFCs   | There were 34 IIFCs operating throughout Afghanistan. 4 of the total 34 IIFCs were established in the option year one.  |            |                        |            |                        |              |    |    |    |              |    |    |    |              |    |    |    |
| Indicator 2 - Number of Points of Service   | 10 points of service were operating in the different provinces of Afghanistan in the option year one. No new points of service were established in the stated year.   |            |                        |            |                        |              |    |    |    |              |    |    |    |              |    |    |    |
| Indicator 3 – Number of province covered.   | The 34 IIFCs and their respective branches or points of service covered 17 of the total 34 Afghan provinces. These provinces include: Kandahar and Uruzgan (RC-South), Helmand (RC-Southwest), Nangarhar, Laghman, Kunar, Logar, Parwan, Khost, Bamyan (RC-East), Jawzjan, Balkh, Faryab, Samangan, Baghlan and Kunduz (RC-North) and Kabul (National). |            |                        |            |                        |              |    |    |    |              |    |    |    |              |    |    |    |
| <p><b>Key Indicator: # of IIFCs, POS's, and provinces covered</b></p>  <table border="1" data-bbox="224 999 1377 1486"> <caption>Data for Key Indicator: # of IIFCs, POS's, and provinces covered</caption> <thead> <tr> <th>Date</th> <th># of IIFCs</th> <th># of POS's</th> <th># of provinces covered</th> </tr> </thead> <tbody> <tr> <td>Nov 30, 2009</td> <td>16</td> <td>11</td> <td>11</td> </tr> <tr> <td>Nov 30, 2010</td> <td>30</td> <td>12</td> <td>14</td> </tr> <tr> <td>Nov 30, 2011</td> <td>34</td> <td>10</td> <td>17</td> </tr> </tbody> </table> |   | Date       | # of IIFCs             | # of POS's | # of provinces covered | Nov 30, 2009 | 16 | 11 | 11 | Nov 30, 2010 | 30 | 12 | 14 | Nov 30, 2011 | 34 | 10 | 17 |
| Date  | # of IIFCs  | # of POS's | # of provinces covered |            |                        |              |    |    |    |              |    |    |    |              |    |    |    |
| Nov 30, 2009  | 16  | 11         | 11                     |            |                        |              |    |    |    |              |    |    |    |              |    |    |    |
| Nov 30, 2010  | 30  | 12         | 14                     |            |                        |              |    |    |    |              |    |    |    |              |    |    |    |
| Nov 30, 2011  | 34  | 10         | 17                     |            |                        |              |    |    |    |              |    |    |    |              |    |    |    |
| Indicator 4 - Number of members   | <p>In option year one, 19,729 new members joined the 34 IIFCs operating nationwide. This represents an increase of 9,515 in the RC north, 2871 in the RC east, 6922 in the RC south and 421 in the central region in the same year.</p> <p>Total membership was increased to 81,930 at the end of November 2011.</p>                                    |            |                        |            |                        |              |    |    |    |              |    |    |    |              |    |    |    |

Indicator 5- Number of active borrowers

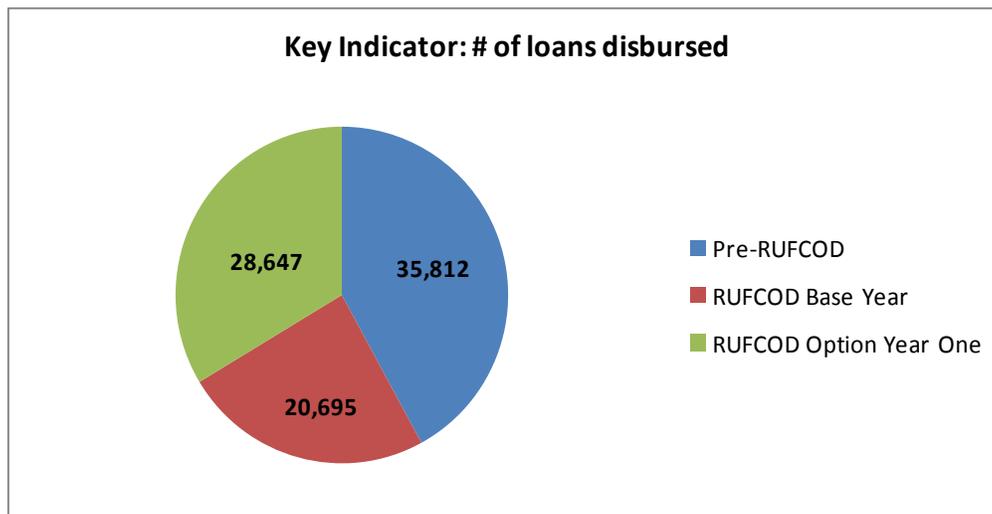
7,074 new active borrowers received financial services from the IIFCs in option year one increasing the total number of active borrowers to 23,080 at the end of November 2011.



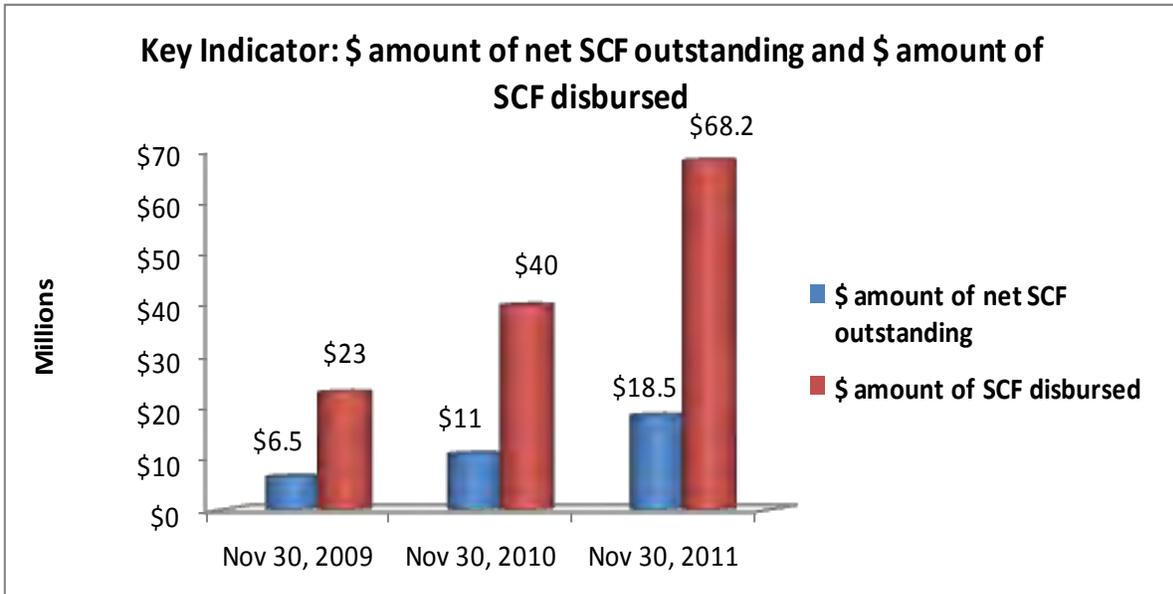
Indicator 6 - Number of SCF disbursed

28,647 new SCF loans were disbursed to the IIFC members in the option year one including 17,096 SCF loans in RC-North, 3,299 loans in RC-East, 7,921 in RC-South and 331 loans in the central region.

The total number of SCF loans disbursed throughout the IIFC network was 85,154 as of the end of November 2011.



|                                      |   |
|--------------------------------------|---|
| Indicator 7 - Net SCF Outstanding    | A total amount of \$18,489,956 was outstanding with the active borrowers of the entire IIFC network as of this reporting period representing an increase of \$7,429,610 added in the option year one alone. |
| Indicator 8 - Value of SCF disbursed | The total amount of SCF loans disbursed throughout the IIFC network was \$68,179,855 as of the end of November 2011. \$28,178,422 was added in the option year one.   |



|                                 |   |
|---------------------------------|---|
| Indicator 9 - Portfolio at Risk | The aggregate PAR of the whole IIFC network was 14% as of the end of November 2011. |
|---------------------------------|---|

Indicator 10 - IIFC Operational self sufficiency

IIFC > 3 years = 75%  
 IIFC > 2 years = 40-50%  
 IIFC > 1 year = 30-40%

The following list provides the OSS rates for the IIFCs having reached third year of their operations as of the end of November 2011:

|                     |      |
|---------------------|------|
| 1. Helmand IIFC     | 50%  |
| 2. Greshk IIFC      | 82%  |
| 3. Garamser IIFC    | 53%  |
| 4. Kandahar IIFC    | 22%  |
| 5. Uruzgan IIFC     | 9%   |
| 6. Dehrawood IIFC   | 24%  |
| 7. Nangarhar IIFC - | 80%  |
| 8. Laghman IIFC     | 63%  |
| 9. Aqcha IIFC       | 115% |
| 10. Balkh IIFC      | 130% |
| 11. Sholgara IIFC   | 87%  |
| 12. Kholm IIFC      | 48%  |
| 13. Kunar IIFC      | 51%  |
| 14. Balkh Employees | 110% |
| 15. Jawzjan IIFC    | 85%  |
| 16. Samangan IIFC   | 90%  |
| 17. Baghlan IIFC    | 118% |

The following is the only IIFC that has been operating for less than three years and more than two years as of the end of November 2011:

|                 |      |
|-----------------|------|
| 1. Andkhoi IIFC | 100% |
|-----------------|------|

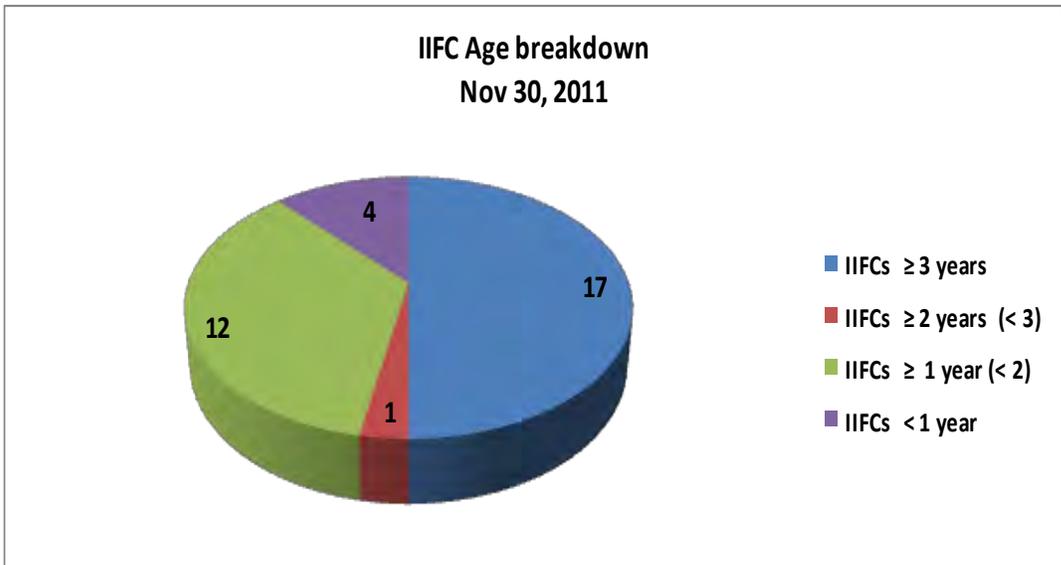
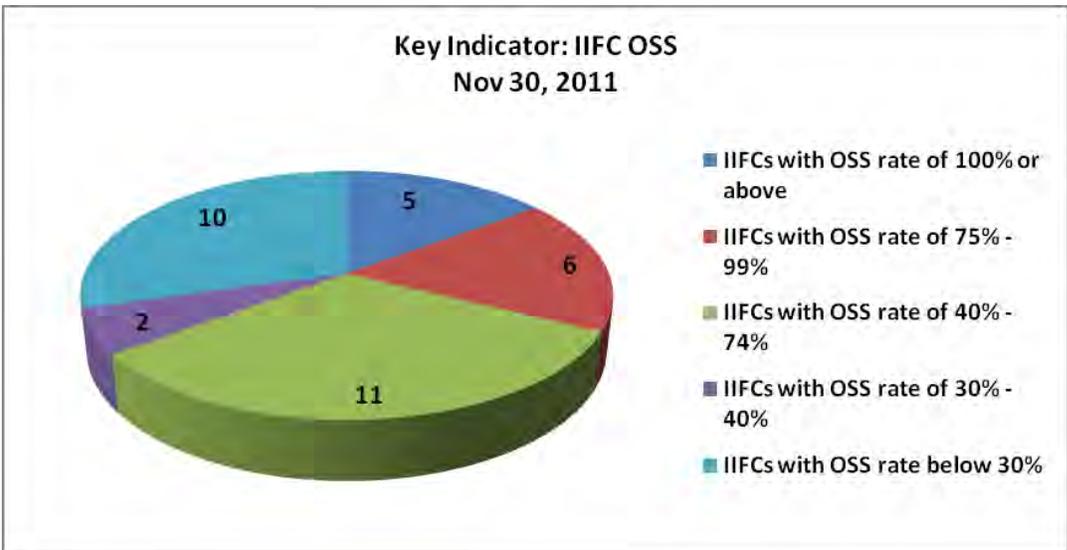
Below is the list of OSS rates of the IIFCs having reached the first year of their operations as of the end of November, 2011:

|                      |     |
|----------------------|-----|
| 1. Nadali IIFC       | 85% |
| 2. Nawa IIFC         | 49% |
| 3. Shawali Kot IIFC  | 26% |
| 4. Dand IIFC         | 17% |
| 5. Spin Boldak IIFC  | 37% |
| 6. Chora IIFC        | 0%  |
| 7. Shinwari IIFC     | 26% |
| 8. Sarkani IIFC      | 46% |
| 9. Baraki Barak IIFC | 44% |
| 10. Kabul IIFC       | 65% |
| 11. Maimana          | 72% |
| 12. Kunduz IIFC      | 74% |

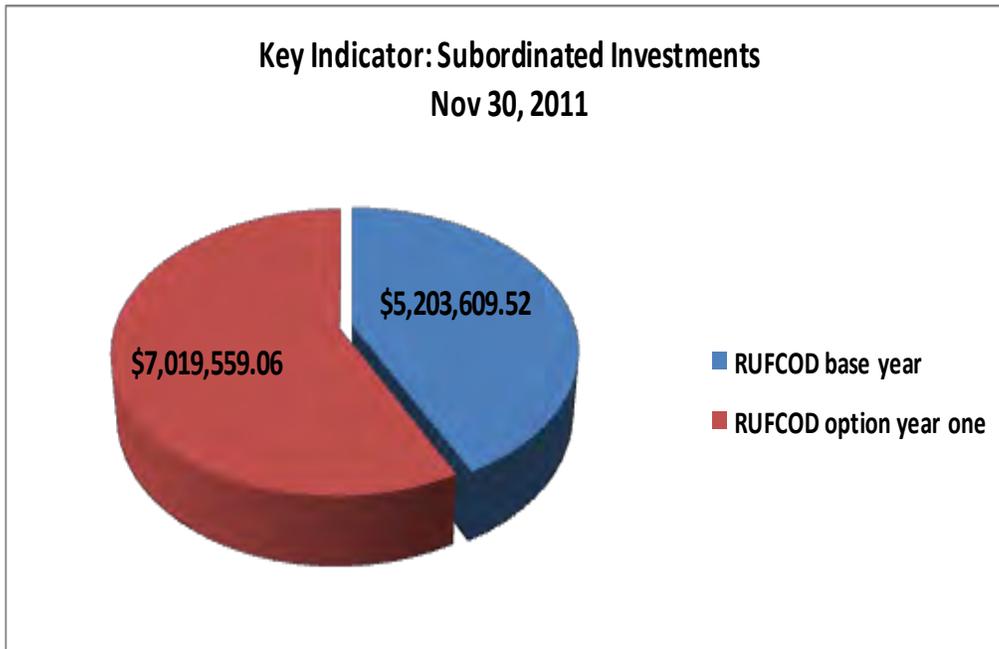
The following IIFCs have been opened in the option year one and operating for less than one year:

- |                  |     |
|------------------|-----|
| 1. Marjah IIFC   | 0%  |
| 2. Charikar IIFC | 5%  |
| 3. Bamyan IIFC   | 0%  |
| 4. Khost IIFC    | 31% |

To sum up, 5 IIFCs achieved full OSS and 6 others IIFCs have achieved between 80% and 90% OSS and are expected to become fully sustainable at the end of option year two.



|   |  |
|---|--|
| Indicator 11 – IIFC Group OSS   | Operational self sufficiency of the IIFC Group was 54% as of the end of November 2011. This was calculated based on the accrued income of the IIFC Group earned in interest from the IIFC network. Once the ownership of the mentioned income is transferred to the Group, it will be recorded as actual income. |
| Indicator 12 – Total subordinated investments in the IIFCs through the IIFC Group | A total amount of \$12,223,169 was invested in the IIFC network of which \$7,019,559 was invested in the option year one alone.  |



|  |  |
|--|--|
| Indicator 13 - Total IIFC Assets                   | Total value of the assets of the entire IIFC network was \$22,538,014 as of the end of November 2012. This demonstrates an increase of \$6,636,821 in the option year one. |
| Indicator 14 - Total IIFC member share investments | A total amount of \$5,079,116 was mobilized as share savings representing an increase of \$2,122,646 during the option year one.   |

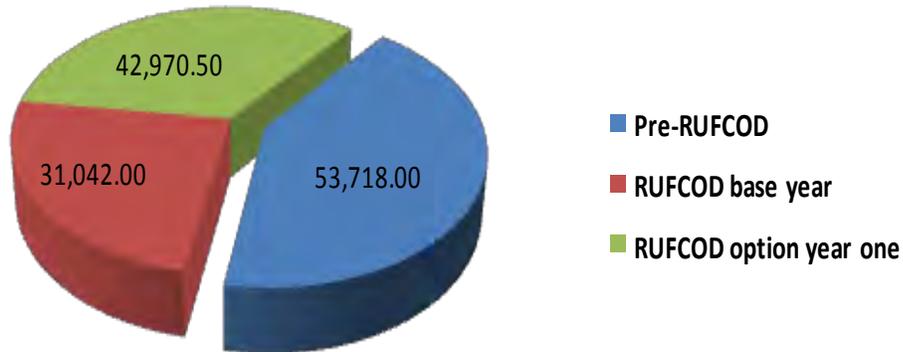
**Key Indicator: Total IIFC assets and IIFC member share investments - Nov 30, 2010**



Indicator 15 - Number of jobs created by SCF

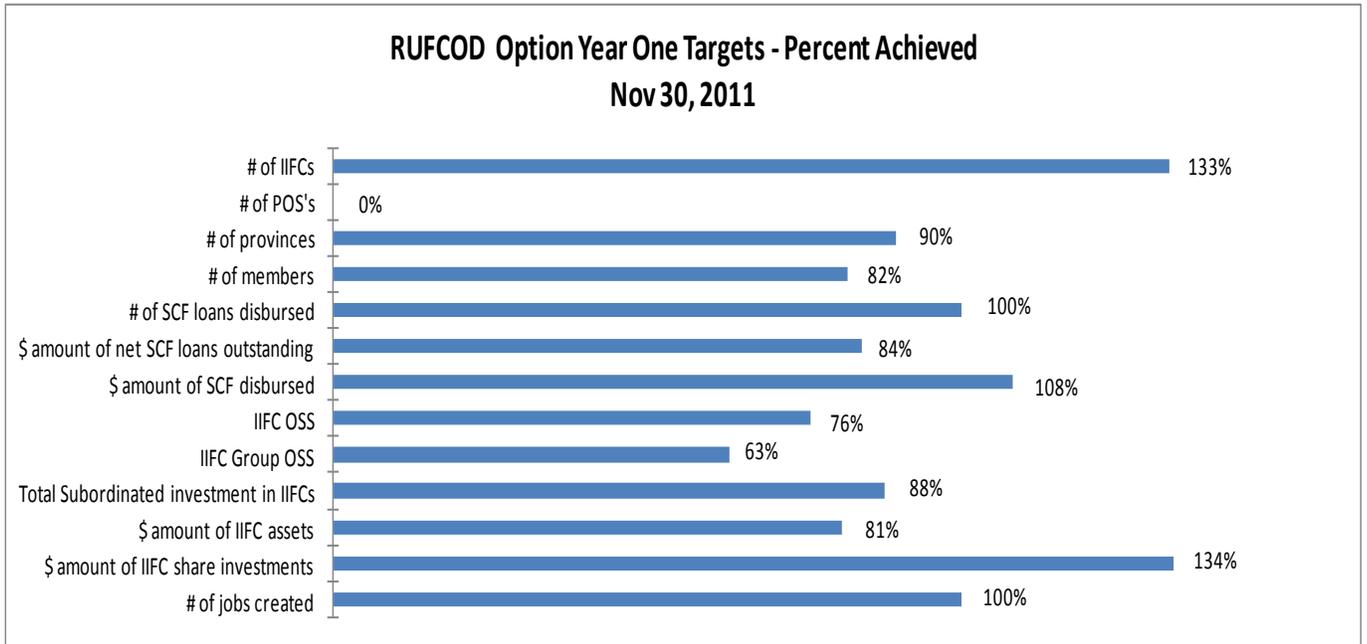
As a result of SCF loan disbursement, 42,971 new jobs are estimated to have been created or maintained in the option year one. Total number of jobs estimated to have been created or maintained since network inception are 127,731.

**Key Indicator: Number of Jobs Created**



### C. PMP Tracker Summary on RUF COD Contract Indicators

| Indicator   | Baseline<br>Nov 2009 | RUF COD<br>Base Year<br>Actual (Nov<br>2010) | RUF COD<br>Option Year 1<br>Targets | RUF COD<br>Achievements<br>Option Year 1<br>(Nov 2011) | IIFC Network<br>Cumulative<br>Achievement<br>(Nov 2011) | % of<br>Option<br>Year 1<br>Targets |
|---|----------------------|--|-------------------------------------|--|---|-------------------------------------|
| Indicator 1 - Number of IIFCs (non-cumulative)  | 16                   | 14   | 3                                   | 4  | 34  | 133%                                |
| Indicator 2 - Number of points of service (non-cumulative)                                      | 11                   | 0  | 0                                   | -1   | -1  | 0%                                  |
| Indicator 3 - Number of provinces covered (cumulative)  | 11                   | 3  | 19                                  | 3  | 17  | 90%                                 |
| Indicator 4 - Number of members (cumulative)  | 46,243               | 15,958                                       | 100,000                             | 19,729   | 81,930  | 82%                                 |
| Indicator 5 - Number of active borrowers (cumulative)   | 0                    | 16,006                                       | n/a                                 | 7,074  | 23,080  | n/a                                 |
| Indicator 6 - Number of SCF disbursed (Cumulative)  | 35,812               | 20,695                                       | 85,257                              | 28,647   | 85,154  | 100%                                |
| Indicator 7 - Net SCF Outstanding (cumulative)  | \$6,546,155          | \$4,514,191                                  | \$22,000,000                        | \$7,429,610  | \$18,489,956  | 84%                                 |
| Indicator 8 - Value of SCF disbursed (Cumulative)   | \$22,919,888         | \$17,081,545                                 | \$63,000,000                        | \$28,178,422   | \$68,179,855  | 108%                                |
| Indicator 9 - Portfolio at Risk   | 3.6%                 | 5.6%   | 8%                                  | 14%  | 14%   | n/a                                 |
| Indicator 10 - IIFC Operational self sufficiency  | 59.3%                | 72.2%  | 85%                                 | 65%  | 65%   | 76%                                 |
| Indicator 11 - IIFC Group Operational self sufficiency (Based on accrued income from the IIFCs) | 0.0%                 | 0.0%   | 85%                                 | 54%  | 54%   | 63%                                 |
| Indicator 12 - Total Subordinated Investment in IIFCs through the IIFC Group (non-cumulative)   | \$0                  | \$5,203,610                                  | \$8,000,000                         | \$7,019,559  | \$12,223,169  | 88%                                 |
| Indicator 13 - Total IIFC Assets (cumulative)   | \$10,571,477         | \$5,329,716                                  | \$28,000,000                        | \$6,636,821  | \$22,538,014  | 81%                                 |
| Indicator 14 - Total IIFC member share investments (cumulative)                                 | \$2,078,720          | \$877,750                                    | \$3,800,000                         | \$2,122,646  | \$5,079,116   | 134%                                |
| Indicator 15 - Number of jobs created as a result of SCF (Cumulative)                           | 53,718               | 31,042                                       | 127,885                             | 42,971   | 127,731   | 100%                                |



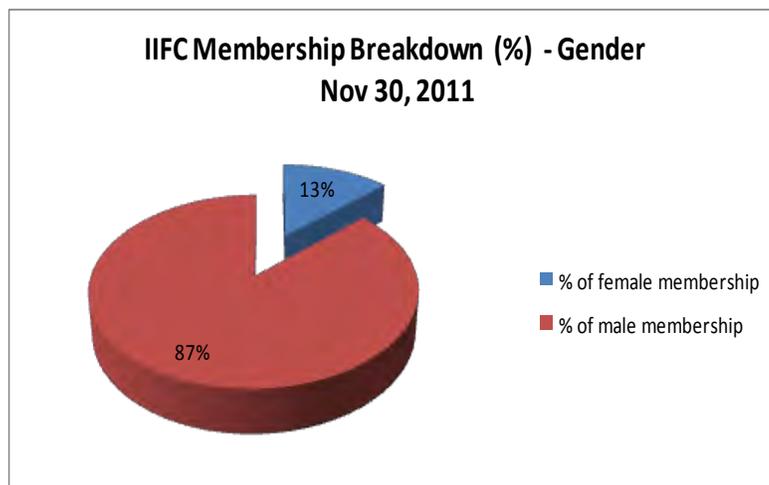
## D. Key Achievements

RUF COD key achievements in option year one are briefly described below.

- Four new IIFCs were opened in four different provinces of Afghanistan. Charikar, Khost and Bamyan IIFCs were established in Parwan, Khost and Bamyan provinces that had not been covered previously by the program. A new IIFC, Marjah, was established in Marjah district itself to offer financial services for the inhabitants of Marjah district. It is significant to note that a point of service has been operating in Lashkargah to serve the displaced people from Marjah district residing in Lashkargah city.
- As part of the efforts to further ‘Afghanize’ the IIFC network, responsibility for the management of subordinated investments in the IIFC was transferred from WOCCU to the IIFC Group. Investment agreements have been signed with a number of IIFCs in option year one and it is anticipated that in option year two such agreements will be signed by all the IIFCs.
- \$7 million was invested in subordinated debt in the IIFCs in option year one alone. The income earned from this investment is expected to substantially boost the IIFC Group sustainability.
- *HLP or Horticulture and Livestock Project* is a development project operating in the north of Afghanistan, helping farmers primarily in the areas of animal husbandry and horticulture. This project wants its farmer groups totaling nearly 400 farmers in the provinces of Balkh, Jawzjan and Samangan to become members of the IIFCs in those provinces in order to

receive the much needed financial services to support their operations. To this end, Samangan IIFC forged a key partnership with Hand-in-Hand, an organization implementing the Horticulture Livelihood Project (HLP). This project works with small horticulture and livestock producer groups to enhance horticultural production and increase gardens. As an initial step, twenty five members of the producer-groups related to HLP joined the IIFC, fifteen of whom received loans from the IIFC to support their businesses. To further strengthen the partnership, the HLP invited a representative of the Samangan IIFC to participate in its monthly meetings to conduct membership promotion orientation to other groups served by the HLP.

- 28,647 new loans worth \$17 million were disbursed to the borrowers throughout the IIFC network in Afghanistan in option year one. With this addition, total number of loans disbursed since the inception of network reached 85,154 worth \$68.2 million at the end of November 2011.
- Thirty four IIFCs and ten points of service served 81,930 members this year of which 19,729 members joined the network in the option year one. Female membership represented 13% of the total membership.



- As a result of SCF loan disbursements, 42,971 new jobs are estimated to have been created or maintained in the seventeen provinces where IIFCs operate;
- \$6,636,821 were added to the IIFCs' assets in the option year one alone, increasing the total value of the IIFC network's assets to \$22,538,014 by the end of November 2011;
- \$2,122,646 in share savings was mobilized during the option year one increasing the total volume of member share investments to \$5 million at the end of November 2011.

### III. KEY ACTIVITIES PLANNED FOR 2011

- It is expected that money transfers and loan payments using cellular technologies will be initially piloted in Kabul, Balkh, Nangarhar and Kandahar provinces. In addition, the remaining investment agreements will be signed by the IIFC Group with the IIFCs that have not yet signed these agreements.
- Membership promotion and marketing activities will continue to be implemented by all IIFCs throughout Afghanistan in the option year two. These activities will include face-to-face orientation sessions to be conducted in villages and business centers to attract farmers, entrepreneurs and small businesses in several provinces where IIFCs operate. In addition, particular attention will be paid towards increasing female membership in the IIFCs. Possible ways for increasing female membership is working together with directorates of women affairs, universities, schools and women's associations in different provinces to raise awareness of the services that IIFCs provide.
- Business planning sessions will take place with the participation of WOCCU and the IIFC Group's leadership, provincial office staff and WOCCU technical advisors in Kabul. The main objective of this session will be to a) define priority tasks for the IIFC Group and WOCCU Technical Assistance for 2012 or option year two, b) develop annual plans for the IIFC Group sub-offices based on the defined priorities, c) define principles and priorities for interacting with the IIFCs and d) produce preliminary activity plans for all IIFC Group sub-offices for option year two.
- In the option year one, WOCCU and the IIFC Group will greatly focus their efforts on enhancing the technical capacity of the IIFCs and the IIFC Group. In this connection, the IIFC Group has developed a comprehensive plan which will include capacity building programs intended to build the IIFCs' capacity to be able to operate more effectively and independently in the future.
- Emphasis will be placed on loan collection across the IIFC network and lowering the portfolio at risk. In this regard, the IIFC Group provincial staff will further strengthen their coordination and working relationship with *Shura* members as well as local government authorities in collecting loans in several areas where they cannot access.
- Loan disbursements will continue in option year two. More jobs are expected to be created or maintained as new loans will be offered to current and new borrowers.

#### IV. CRITICAL ASSUMPTIONS

| Critical Assumptions Table  |  |   |
|---|--|---|
| Critical Performance Challenge  | Challenges   | Assumptions   |
| 1. Security   | RCE and RCS continue to be areas where Taliban are very active. Enhanced security is required to operate effectively in these AoOs. This tight security may have an impact on staff's/members' ability to access IIFCs which would have an impact on overall project targets. Security problems will also impact the ability of small businesses to operate freely in some regions of the country. | <ol style="list-style-type: none"> <li>1. The RUF COD AoO will receive security assistance from the ANA and international military forces in the more insecure communities and provinces so the project can operate as designed in RCE and RCS.</li> <li>2. The Shura Board members will represent and defend the IIFCs as belonging to their communities. If the IIFCs are seen as linked to the government or the international community, they are at greater risks. Board members will make the community aware that IIFCs are community owned and compliant with <i>Sharia</i> law.</li> <li>3. Project security systems are fully operational.</li> <li>4. The use of a virtual IIFC point of service "model" will permit financial services to be delivered in highly kinetic environments.</li> </ol> |
| 2. Acceptance of the IIFCs as legitimate, <i>Sharia</i> -compliant financial institutions | Many rural Afghan households are religiously conservative and unfamiliar with formal financial institutions. They do not want to associate with any institutions that are not in line with Islamic law. Alleviating this concern requires that all IIFC financial products be <i>Sharia</i> -compliant.  | <ol style="list-style-type: none"> <li>1. The IIFCs will continue to obtain and publish <i>fatwas</i> from local religious leaders and those <i>fatwas</i> will be respected.</li> <li>2. Local mullahs and Maliks will speak out about the Islamic compliance of the financial products being offered by their IIFCs.</li> </ol>   |
| 3. Creating a network of financially sustainable rural financial cooperatives             | The IIFCs and the national apex (i.e., the Group) have been established using a European cooperative banking model   | <ol style="list-style-type: none"> <li>1. The national IIFC association (i.e., the Group) "owns" a piece of every IIFC through the investment of subordinated debt. It is</li> </ol>  |

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| <p>and an effective and sustainable national association in the current environment is complicated and difficult.</p>            | <p>where the primary IIFCs operate independently, but use policies and procedures introduced and maintained by their national association. These entities require well trained, capable staff and leaders; access to external resources to supplement local deposits and finance increased lending; good control over operating expenses; and low rates of loan delinquency if they are to become operationally and financially sustainable over the next 3 years.</p> | <p>expected that Group ownership will enable it to regulate and intervene in the operations of individual IIFCs that do not comply with the Group's minimum operating standards.</p> <ol style="list-style-type: none"> <li>2. Training of Board members and IIFC staff is continual; higher level regulatory training is being provided to the staff of the Group to permit it to closely monitor and regulate IIFC financial operations; and the MicroBanker software permits off-site monitoring on a monthly basis.</li> <li>3. Local deposit mobilization will be continued while recognizing that few rural households have excess cash that can be saved; market rate pricing of all IIFCs products and services will be maintained; salaries will remain competitive to keep staff from moving elsewhere; and capital reserves are being created.</li> </ol> |
| <p>4. The Central Bank of Afghanistan will register the Group and issue a license as a deposit-taking financial institution.</p> | <p>The Central Bank supports the broad financial cooperative approach of the IIFC network but it has expressed specific interest in: 1) WOCCU's participation on the board of the IIFC Group and 2) the ownership structure wherein the Group owns a portion of each individual IIFC.</p>  | <ol style="list-style-type: none"> <li>1. WOCCU's participation on the board is being explained as necessary to protect the investments made by the Government and donor community. We expect the Central Bank to agree such participation is necessary.</li> <li>2. The Group's ownership structure and relationship with the IIFC's is unfamiliar to the DaB because it is familiar with the structure of commercial financial institutions that often have individual owners. The cooperative ownership structure is relatively new.</li> <li>3. We expect the performance of IIFC's and their continued compliance with minimum</li> </ol>   |

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|---|---|---|
|   |   | <p>standards as included in supervisory reports will convince the DaB to actively support the ownership structure of the IIFC Group.</p> <p>4. The DaB has expressed support for the intended regulatory role of the IIFC Group and will support the ownership structure once the regulatory capabilities have been effectively demonstrated.</p>   |
| 5. Farming in drought conditions  | <p>One of the key objectives of RUF COD is to expand credit access to farmers. Due to record low rainfall and lower mountain snow cap levels it is anticipated that drought will have an impact on future farming activities and impact the demand for credit as well as repayment rates.</p> | <p>1. Through IIFC supported <i>Zakat</i> activities in drought impacted areas the IIFCs will play a role in alleviating some of the adverse impact of drought on the community where the IIFC is based.</p> <p>2. RUCOD's ability to mitigate the impact of drought conditions will be enhanced by partnering with other rural focused project and partners (Min of Ag) to address water access constraints and more effective use of available water supplies.</p> <p>3. RUF COD will be able to develop new financial products and outreach methodologies that will increase number of agricultural loans in spite of marginal conditions in some provinces.</p> |
| 6. IIFC financing for agriculture and MSME's will generate new employment opportunities | <p>All IIFCs have continued to diversify lending for productive activities, as well as for consumption and household needs in rural areas. Diversification is a risk mitigation technique, but it also creates new employment opportunities and stimulates job creation.</p>                  | <p>1. According to MISFA studies, each loan disbursed for micro and small enterprise creates 1.5 new jobs. RUF COD will apply that principle to measure jobs created each SCF loan disbursed but will also try to identify those that are purely consumptive such as medical treatment, weddings, etc.</p>  |

|  |   |   |
|--|---|---|
| 7. Establishment of Afghan National Army (ANA) Points of Service in areas where ANA operates                                     | How to provide access to financial services to ANA personnel while providing financial services to the general population/ membership.  | 1. Point-of-sale devices and other technology solutions will be used to ensure the IIFC points of service are open to all community members while they also offer financial services to ANA personnel.  |
| 8. All IIFCs one year or older will be operationally self-sufficient and the Group will be 40% sustainable at the end of Year 3. | Low human resource capacity in the financial sector means that a priority needs to be given to training on enforcement of financial disciplines that lead towards operational self sufficiency. | 1. All project development activities remain on schedule as detailed in the Workplan; security remains under control; project remains fully staffed, and IIFCs are able to control their operations and remain eligible and capable of using the loan funds from the Group. |

## V. CONCLUSION

The overall security environment in the areas of operations of RUF COD, particularly in the southern and eastern provinces, has been the most difficult challenge facing the implementation of the program in those areas. In the option year one, there were several cases of threats by insurgent elements given to the program employees in Helmand, Kandahar and other provinces, demanding that the staff quit working for the program. In addition, a number of *Shura* board members of the IIFCs were gunned down in different areas of operations, specifically in Helmand provinces. Such incidents, without a doubt, have had a negative impact on the ability of the IIFCs to increase membership and effectively offer the financial services needed in some of the communities they operate in. Portfolio at risk of the IIFCs increased and some of the IIFCs expected to become completely self sufficient were not able to make the anticipated progress, as a result. Nevertheless, the IIFC Group staff in the field continued their closer coordination and working relationship with local government authorities to mitigate the negative impact of the security situation to a tolerable level so that IIFCs could continue their normal operations. A number of positive lessons were also learned that would improve the performance of the IIFCs in the future. Some of the challenges that program operations had encountered and the correction actions taken to address them over the course of the option year one are briefly described below.

### A. Challenges and Constraints

Kandahar, Shawali Kot and Dand IIFCs were closed for three consecutive days (April 2<sup>nd</sup> – 4<sup>th</sup>) due to continued violent protests in Kandahar City. As a result of these protests, some of the business markets were burned down and seven members of the Kandahar IIFC lost their

merchandise worth nearly Afghani 417,000 (US\$ 8,340). Additionally, the three-day closure of the above IIFCs brought about a serious setback in their operations particularly negatively impacting loan collection and membership expansion efforts.

Corrective action taken: Kandahar IIFC provided new *Sharia*-compliant loans to the three borrowers, who had suffered financial losses during the protests of April 2<sup>nd</sup> – 4<sup>th</sup> in Kandahar city. These members obtained loans worth twice the value of their previous loans after each member had paid off their previous loans in full. Members who had received AFS 100,000 (US\$2,000), AFS 50,000 (US\$1,000) and AFS 25,000 (US\$500) previously were disbursed AFS 200,000 (US\$4,000), 100,000 (US\$2,000) and AFS 50,000 (US\$1,000) respectively. The disbursement of these loans was aimed at assisting the members to compensate for their lost merchandise and repair their shops to resume their business operations. In addition, the staff members of these IIFCs sped up their efforts to increase membership and disburse additional loans in order to compensate for the closure of these IIFCs had suffered.

The suicide attack that took place in the vicinity of Spin Boldak IIFC in Kandahar city in early January shattered the IIFC's windows and broke the main gate. As a consequence, the IIFC was closed for two business days.

Corrective actions taken: After the IIFC reopened, its staff stepped up their efforts in order to accelerate operations to compensate for the loss of business in the two days during which it was closed.

Some of development programs in Kandahar such as the FAO and AVIPA are distributing agricultural kits to residents of Dand and Panjavee districts in Kandahar province at subsidized rates much lower than the market prices. This has a measurably negative impact on the agricultural products being offered by the Kandahar IIFC as their prices are mostly based on the market.

Corrective actions taken: The IIFC Group will look at possible ways to come up with more competitive and innovative agricultural products that are economically viable and appealing to the IIFC members.

RUF COD was not able to move two of its technical advisors in Uruzgan province either to Kabul or other provinces for various work related purposes for more than two months in early 2011 because of the apparent problems the PRT flights were having in the province. This has had a direct negative impact on the operations of the project.

Corrective actions taken: The program looked at other options including the commercial airlines having flights to and from Uruzgan province. However, because of safety concerns, the staff member could not take commercial flights.

In option year one, the IIFC network dealt with the registration issue posed by the Cooperatives Law of MAIL enacted in 2009. According to the new law as interpreted by the ministry officials, all IIFCs have to re-register as Agricultural and Livestock Cooperatives in which case each IIFC would only serve one village and cease providing non-agricultural loans.

The implications of this scenario was highly crippling for the growth and viability of an IIFC. This would have greatly restricted the pool of an IIFC membership and would not have been able to have sufficient volume of transactions to cover their operating costs.

Corrective action: After several months of continued work with Afghanistan Chamber of Commerce and Industries (ACCI), the IIFC Group was able to switch the registration of IIFCs from the MAIL to ACCI. Currently, twenty seven of the thirty four IIFCs have been registered with ACCI.

A suspicious suicide bomber disguised as a woman in *Burqa* was reported to have been watching the Helmand IIFC building in Lashkargah city in an effort to carry out a potential attack on the IIFC.

Corrective action taken: To preempt the potential attack on the Helmand IIFC, the security manager of KBSS (Kabul Balkh Safety and Security Company) which is an Afghan security company providing security services to support the operations of RUF COD advised the IIFC to close down its operations for two consecutive days and thus for two days the IIFC remained closed to business.

Because of the demonstrations following two suicide attacks that took place near the Helmand IIFC in Lashkargah City, the Helmand IIFC remained closed for two consecutive days (April 4<sup>th</sup> – 5<sup>th</sup>). In addition, for a number of days, all the communication facilities in Helmand were not operational and as a result the IIFC staff could not communicate with its members on issues related to business. This situation had an adverse impact on the operations of Helmand IIFC, specifically augmenting the IIFC's delinquency rate.

Corrective action taken: The IIFC Group staff accelerated its activities to make sure the operations of the Helmand IIFC were back to normal after it was re-opened.

Four *Shura* board members or members of the IIFCs in Helmand province were killed by insurgent elements. On August 21<sup>st</sup>, two *Shura* members of Greshk IIFC - Haji Jan Muhammad and Moalem Sher Agha - from Day Adam Khan village, and a member of the same IIFC - Mamor Azim - were killed by insurgents in Greshk district. In a separate incident, a *Shura* member of Nawa IIFC - Shereen Agha - was also gunned down by the insurgents on August 23<sup>rd</sup>. It is not clear yet whether these individuals were killed because of their affiliation with the IIFCs. Escalating violence in many parts of Helmand is impacting the viability of the IIFCs in the province.

Corrective Action Taken: Although control over the security situation is beyond the ability of RUF COD, the IIFC Group staffs in Helmand are working closely with Afghan security to mitigate the negative impact of such incidents on the success of the IIFCs.

On September the 11<sup>th</sup> 2011, a roadside bomb blast, which took place roughly 500 meters away from Nawa IIFC office, killed three personnel from Afghanistan National Department of

Security and injured 6 more. The explosion was so loud that it shattered the IIFC office's windows and doors and the IIFC's office generator was damaged.

Corrective Action Taken: The IIFC was closed down for one day. The tense security situation in the area was monitored closely and the IIFC staff was told to take precautionary measures by avoiding unnecessary movements in the area.

On September 14<sup>th</sup>, Maulavi Mohammad Qurban, Head of Andkhoi cleric's council and member Board of Directors of Andkhoi IIFC, was killed by unknown gunmen at his residence.

Corrective Action Taken: An amount of AFS 10,000 (approximately equivalent of US\$200) was paid to the family of the deceased, and the IIFC staff was told to be vigilant and alert while moving back and forth to the IIFC office.