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# AGRICULTURAL CREDIT ENHANCEMENT (ACE) PROGRAM

QUARTERLY REPORT Q4 FY 2010

JULY 20 - SEPTEMBER 2010



**Photos:** Processing plant at [REDACTED] a large-scale agribusiness that submitted a loan application to expand their operations and purchase raw materials.

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# QUARTERLY REPORT

## QUARTER 4 FISCAL YEAR 2010

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Program Title: Agricultural Credit Enhancement Program

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

Contractor: Development Alternatives, Inc.

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Contracts Officer Technical Representative: Brian Fahey

Contracting Officer: Camille Garcia

Chief of Party: Juan M. Estrada-Valle

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## EXECUTIVE SUMMARY

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Despite a rushed start-up process, the first quarter of the Agricultural Credit Enhancement (ACE) project ended with all activities on, or ahead of schedule. The project established a true partnership with the Ministry of Agriculture, Irrigation and Livestock and achieved the basis for the registration of the Agricultural Development Fund as an executive agency. Loan approvals reached US\$5,090,000, with a pipeline of over US\$20 million for the remainder of the year. ACE deployed its lending team to the western, northern and eastern regions of the country to continue with the identification of potential clients.

The project paid special attention to drafting and completing a number of ADF-related documents such as Fast Track lending policies, credit committee structure policies and USAID conditions precedent for the disbursement of funds directly to MAIL. During the start-up phase, ACE focused on using agribusinesses linked through producer networks as entry points into the value chains. Agribusinesses engaged in agri-input supply, agro-processing and produce exports are allowing the ACE program to respond to the credit needs of thousands of farmers through a small number of transactions. In tandem with these activities ACE intensified its efforts on establishing the infrastructure to exercise its role as the management unit for the ADF.

The ACE team continued to narrow down the number of value chains with the greatest potential to promote economic growth through, as well as identifying specific needs of credit to bolster their prospects for success. The project adopted a dual approach integrating the lending and value chain teams to identify lending opportunities and value chain interventions. The project held several meetings with donors and implementing parties engaged in agriculture value chain development throughout Afghanistan to review gap analysis studies. Collaboration with programs such as ASAP, IDEA-NEW and CHAMP have brought about numerous opportunities on which ACE is capitalizing to not only identify new clients, but support the efforts of other organizations implementing economic development programs in rural Afghanistan.

In the area of Knowledge Management, and following the deployment of the Market Information Systems Advisor, ACE held preliminary meetings with organizations working in the field of market information, including Malomat (a collaborative initiative of USAID's IDEA-NEW), Roshan, AGNET, and the MAIL Department of Statistics and Livestock Market Information System (LMIS), a project originally implemented by the Peace Project. As a result of these meetings and in connection with the deliverables of the task order, ACE will focus on analyzing the time series data from Malomat, LMIS and its other programs to transform price data into market intelligence which will be packaged in a series of products targeted to different audiences.

The project drafted and submitted its Performance Monitoring Plan (PMP) for USAID approval on September 15, 2010. A detailed Annual Work Plan including project activities aligned with Task Order requirements and a specific timeline was sent for USAID approval as well. The ACE management team prepared an operational plan for the opening of regional offices in Herat, Jalalabad and Mazar-e-Sharif which will take place between December 2010 and March 2011.

## Component 1: Delivery of Credit Services

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*The delivery of credit services constitutes the core activity of the ACE project. For this purpose, the project team partners with financial and non-financial institutions that seek to make efficient use of ADF resources, while encouraging private partners to engage in agricultural lending.*

During the first quarter of project implementation (Q4 FY2010), component one focused on two strategic paths: i) Establishment of ADF operations and procedures; ii) Identification, prioritization and processing loan applications.

The ACE team held numerous meetings with Ministry of Agriculture, Irrigation, and Livestock (MAIL) regarding the establishment of ADF policies and procedures. On the first week of September following the consensus on the legal personhood of the ADF, ACE submitted the first draft of the ADF Policies and Procedures to MAIL for approval.

Project staff raised awareness of the opportunities inherent to ADF services, among financial and non-financial intermediaries and agribusinesses. This included meetings with 14 potential implementing partners and a large number of entrepreneurs. ACE facilitated an informational meeting at MAIL Campus in Kabul where the team introduced the ADF purpose and its products to a variety of participants, including agribusiness stakeholders.

Establishing the ADF procedures and policies as well as registering the ADF as an executive agency remains one of the priority objectives of the project. The registration of the Fund, initially scheduled for early 2012 is now expected to occur before the end of December 2010. The milestones achieved in this direction include:

- The Policy and Procedures and Credit Manual drafted and sent to MAIL and USAID for further approval
- Design and validation of loan application forms
- Development of pre-audit questionnaires and risk scales for loan recommendations
- Drafted the ADF articles of association, and prepared a presentation for the Minister and the proposal to Counsel of Ministers
- Developed the specifications for ADF funds flow from Special Account in DAB to borrowers
- Structured first three loans – “fast track” worth \$2.8 million
- Screened loan applications worth over \$25 million in potential funding that involved visits to three regions and approximately 50 potential borrowers
- Continued biweekly coordination and meetings with the MAIL
- Set up the bank account for receiving and disbursing obligated ADF funds from USAID.

Potential end-borrowers were identified through the assistance of other USAID projects, MAIL referrals and lending advisors’ deployment in the three main regions targeted in the first phase. ACE staff met with area agribusinesses in Mazar-e-Sharif city of Balkh Province in mid-September to discuss barriers to development, agricultural lending and the introduction of ADF lending opportunities.

In the reporting period, the ACE lending team met and discussed with about 42 potential customers for ADF borrowing. The technical kick off was initiated with a rapid assessment of business opportunities focused in agricultural lending and their interest with the financial intermediaries such as banks, microfinance units and other financial institutions. At the end of September, the project's „fast track“ loan pipeline contained 29 potential borrowers and 13 assessed and rejected loans.

As of September 30th, ACE had three “fast track” loans approved by its lending team which have also been approved by the MAIL. These include [REDACTED], [REDACTED] and [REDACTED]. These loans have the potential to support the growth of strategic value chains linked to oil seed production, edible oil and animal feed; exports of dried fruits and nuts and an array of agribusiness activities, consistent with the mandate of the ACE project and the Agricultural Development Fund.

ACE being able to establish good partnerships and close collaboration with organizations supporting agricultural development in Afghanistan resulted in a pipeline of over \$20 million in the first quarter of project implementation. Some of the companies with potential prospects for ADF loans over the next quarter are:

- [REDACTED] located in [REDACTED] province. The company requested \$300,000 with which they aim at procuring raw materials to manufacture wheat threshers which will benefit about 1,500 farmers.
- [REDACTED] located in [REDACTED] which requested a loan of \$1.5 million for working capital and \$470,000 to take out their overdraft loan. The loan will enable the company to reach at 100% of its processing capacity, will reduce its dependence on imported wheat and will directly benefit 125 farmers.
- [REDACTED] located in [REDACTED]. The company operates all over Afghanistan and has over 20,000 members. The ultimate end-borrowers of the association loan will be exporters and processors. The ACE lending team will assist the association in establishing a credit management unit which will collect loan applications, review the collateral, award and collect the credit.



Photo left: Visit at [REDACTED] in [REDACTED]. A prospect loan of \$300,000 will help the company expand the operations and increase employment. Photos center and right: View of work at [REDACTED] which will be upgraded with an ADF loan.

- [REDACTED] is an association of 32 seed wholesalers who work closely with the MAIL on providing and certifying high-quality agriculture seeds in Afghanistan. [REDACTED] is interested in borrowing approximately \$5 million from the ADF fund. ACE lending advisors are reviewing the lending mechanism, as in this case it needs to be Sharia compliant. By encouraging its members to establish bank relationships, [REDACTED] will also provide the basic foundation on which their members can grow their businesses when their borrowing needs are different from this particular transaction.

## Component 2: Agricultural Modernization and Value Chain Development

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### Value Chain Strengthening

*The purposes of ACE's Value-Chain strengthening component are to identify viable value chains that can be upgraded through the provision of financial services, while providing technical assistance to ACE/ADF beneficiaries as a way to increase their prospects for success.*

### Value Chain Development

Twenty-four agricultural value chains have been identified for consideration to potentially be supported by resources identified within the Task Order for ACE. Meetings are underway with all donors and implementers engaged in agriculture value chain development throughout Afghanistan to review gap analysis studies, and previous and ongoing programs related to value chain development with the objective of determining which value chains under consideration should be the final targets of ACE. In addition, ACE intends to work toward cooperation and collaboration with donors and implementers to enhance the success of value chains selected after consultation with key stakeholders and final approval by MAIL.

In the reporting period, ACE also held sessions with key MAIL staff to develop a comprehensive perspective and understanding of MAIL goals and objectives as related to the ADF initiative being managed by ACE. In addition, Component 2 staff have been conferring with MAIL staff relative to critical issues which are or potentially may be impediments to the success of value chains and in particular HVA Value Chains with export potential. Particular topics of discussion have been issues related to water resources and management, transportation options and availability, land ownership and possession rights; along with policy issues related to impediments to exports.

During the reporting period, the Value Chain team also met with USAID's ASAP project and reviewed their Global Gap Training Program, looking at ways to integrate market development, compliance with food safety standards and credit provision. Other synergy sessions with donors and implementing partners related to value chains occurred with companies such as: Export Promotion Agency of Afghanistan (EPAA), GTZ, Accelerating Sustainable Agricultural Production project, Roots of Peace, Trade and Accession Facilitation for Afghanistan project (TAFa).

The ACE team held a workshop in Kabul with 18 major agribusiness owners to discuss impediments to value chain development and what they needed to expand their businesses or to further expand regional and national value chains.

### Policy Framework

In the reporting period, a draft matrix was prepared on Major Policy Constraints and Policy Reform initiatives that are under consideration. The Policy Advisor met with 15 stakeholders in the reporting period, garnering advice and recommendations related to governmental treaties, laws and regulations

affecting trade and exports to provide the latest information in this subject area. As there are certain obvious constraints to exports identified which have no apparent value or validity and could potentially be eliminated, implementers involved in this area of assistance are discussing the formation of a working group with the objective of utilizing collective resources to fast track improvements. ACE has offered to provide all assistance and resources available to facilitate this initiative.

During the reporting period, the Value Chain team organized a seminar for agribusinesses interested in accessing credit from the ADF, which was attended by 18 companies, all recommended by USAID's ASAP project. As a result of the seminar, several companies are applying for ADF loans. Below are photos from the seminar.



**Photos at left and center: Participants at an ACE-facilitated informational seminar at the MAIL Campus in Kabul listen to a presentation about the ADF's purpose and how it helps strengthen agribusiness. Photo at right: An agribusiness owner discusses barriers to accessing credit and how the ADF can address those barriers.**

## Component 3: Coordination and Knowledge Management

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*The Knowledge Management Component aims to integrate 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.*

During Quarter 4, ACE's knowledge management team held preliminary meetings with organizations currently working on market information systems and explored possible areas of collaboration. For example, the team met with ASAP's Cashmere price project, which is interested in providing cashmere prices for markets beyond the ones for which Malomat is currently collecting prices. This unit plans to work closely with the MAIL department of statistics to lend support to their goals, which include a more robust analyst team.

Throughout September, the Policy team worked with the MAIL to finalize a date and plan the agenda for the Agriculture Credit Working Group's first session. The members were identified, and contacted in conjunction with MAIL (who helped to chair the working group), and the specific focus group was selected as internal constraints to the lending sector. Because this session focused on the internal constraints, it was decided that the later meetings would focus on external constraints. A total of more than 30 stakeholders attended the first working group session when it was eventually held on October 5th, the week following the MAIL's International Agricultural Fair.

Speaking of which, the program participated at the Kabul International AgFair held at Badam Bagh Fairgrounds in the first week of October. The knowledge management team spent the last few weeks of the quarter preparing promotional materials for the fair which included calendars and "Frequently Asked Question" pamphlets, printed both in English and Dari to hand out to the various participants. These materials focused specifically on the objective of the ADF and were used to introduce the lending mechanism to potentially interested agribusinesses. Also during the fair, lending advisors established new contacts with the women organizations, processing industries and agribusiness associations in attendance. Overall, the AgFair provided a unique opportunity to introduce ADF to hundreds of potential clients.

The team also met with the Livestock Market Information System (LMIS) project, originally implemented by the Peace Project and now handed over to MAIL, as well as various other projects and organizations. Over the course of this quarter, the knowledge management team made sure to coordinate with other project to avoid overlapping as well.

### Key Start-Up Activities:

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- The Year 1 Annual Work Plan draft was submitted on September 30, 2010. The document portrays the specific activities that will be carried out by the ACE team along the three components and operations-wise.
- During this reporting period, the project's M&E team drafted the Performance Management/Monitoring Plan proposing the project's performance indicators, data collection

tools, specific data collection and analysis frequency and performance achievement targets. The project's PMP will be reviewed in the light of USAID Mission's PMP and will be sent for USAID approval.

- The project hired a Grants Start-Up Advisor who initiated the work on designing the Grants Manual, setting policies and procedures for Challenge/Innovation and Agriculture Modernization grant administration during the reporting period.

## Administrative and Human Resources

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Many ACE key personnel were deployed by August 5 and started working immediately on program implementation, and establishing the project infrastructure to facilitate reaching the ambitious targets for calendar year 2010. By the end of reporting period, all the expatriate lending advisors were hired and had joined the team in the field (see Annex A). Five professional local personnel were already working for ACE by September as well. In the next quarter, the project will identify a senior expatriate value chain advisor who will take the lead of Component II.

## Key Constraints/Challenges to Implementation:

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- Lending activities started 2 weeks late due to delays in the contract modification that enabled ACE to disburse funds until the ADF is established.
- Hiring moved slowly during the reporting period due to all key positions contingent on MAIL review and approval

## ANNEX A

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### ACE Project Staff

ACE Project Long-Term Staff	
Name	Position
Juan Estrada-Valle	Chief Party
Quinton Collier	Senior Rural Finance Advisor / Component 1 Team Leader
Ronda Sandvik	Director of Operation and Administration
Mary Beth Theisen	Senior Lending Advisor
Borni Borni	Audit and Compliance Officer
Dorina Nikolla	Monitoring and Evaluation Manager
Ben Turnbull	Senior Banking Advisor
Bea Celler	Senior Policy Analyst
Larry Hendricks	Senior Rural Finance Specialist
Timur Nuratdinov	Lending Advisor
Denalda Kuzumi	Market Information System Advisor
ACE Project Short-Term Staff	
Bill Riley	Agriculture Lending Specialist
Flouran Wali	Gender and Value Chain Advisor
Gathoni Mungai	Senior Grants Start-up Specialist
Lawrence Christopher Blatnik	Project Coordinator