

Afghanistan

Afghanistan is a landlocked country with poor economic, educational and transportation infrastructures. It has the highest mortality rate in the world. Corruption, ethnic tension and high rate of illiteracy are among major challenges. Some of these endemic problems have resulted from nearly 30 years of conflict, both domestic and international: from 1979-1985 Afghanistan struggled under Soviet rule, and later underwent civil war. More recently, rising insurgency and terrorist attacks have negatively impacted economic growth and development. However, there has been slow progress after the collapse of the Taliban regime and the establishment of a democratic government under Hamid Karzai in 2001. Since then, major infusions of international economic assistance has supported the country's agriculture, economic, educational and health sectors.

Agricultural and Community Development

ACDI/VOCA has been involved in community development and agriculture in Afghanistan since 2002. In 2005 we began implementing the four-year **Alternative Livelihoods Program**. This activity accelerated sustainable regional economic development in poppy-growing areas, which in turn led to an expansion of opportunities for licit livelihoods. Our activities also facilitated a business



environment that was critical for the long-term growth of entrepreneurship and commerce.

In a related activity, in 2007 ACDI/VOCA assisted a major vegetable seed and fertilizer distribution project, under which we trained 11 agricultural cooperatives on distribution, monetization of inputs and sustainable income generation.

From 2007 to 2009, as part of a VEGA consortium, ACDI/VOCA implemented the **Community Development Agriculture Program (CDA)**, which sought to strengthen agricultural development in southern Afghanistan. This region has historically suffered from limited funding and support. Under CDA, rural communities experienced increased competitiveness in key subsectors.

The program also helped communities create higher-value products and access improved technologies that enabled commodity production at a lower cost per unit.

Creating Accessible Financial Services and Lending Practices

In addition to focusing on agricultural development, we have also targeted financial services to make them more accessible to microenterprises and smallholder farmers. In 2006 ACDI/VOCA implemented the USAID-funded **Agricultural, Rural Investment and Enterprise Strengthening Program (ARIES)**. The project expanded access to rural financial services and created a strong private sector foundation for a rural finance system. ARIES addressed the lack of access to financial services at the micro level (households, microenterprises and smallholder farmers) as well as the growing demand for finance from agriculture-based small- and medium-scale enterprises (SMEs) and larger businesses. Throughout the program, ACDI/VOCA drew upon its experience in creating and managing financial institutions to establish the most appropriate system for the Afghan context.

Under ARIES, ACDI/VOCA founded the **Afghanistan Rural Finance Company (ARFC)** in 2007 as a nonbank financial institution that provides loans to SMEs. ACDI/VOCA prepared the bylaws, trained staff and appointed the board of directors, which is comprised of Afghan and U.S. nationals. We also developed internal policies and procedures to ensure sound and efficient lending operations. ARFC aimed to encourage

investment in the rural economy of Afghanistan and support economic and social development by serving the credit needs of small, medium and large enterprises in rural communities.

When ARIES ended in December 2009, ARFC became a standalone company with over \$17 million in capital owned and managed by ACDI/VOCA. ARFC is one of the few Afghan-led financial institutions that conducts business with Afghan-owned and -operated SMEs. ARFC provides loans that range from \$20,000 to \$200,000 or more for up to 36 months. Although ARFC is currently managed and run by a local Afghan team, ACDI/VOCA still provides supervision and control at the board of directors level and technical assistance at the operational level.

Current Activities Strengthen Economic Incentives and Bridge Gaps

Currently, ACDI/VOCA is implementing two programs in Afghanistan that target economic incentives and help to bridge gaps in access to credit. The USAID-funded **Agricultural Credit Enhancement (ACE)** program brings ACDI/VOCA together with Development Alternatives, Inc. (DAI). Started in 2010, this four-year program works with and through the Afghanistan Ministry of Agriculture, Irrigation and Livestock (MAIL) to increase the provision of credit to small commercial agricultural producers. ACDI/VOCA specifically supports the project's lending to financial institutions tied to agriculture.

One of ACE's biggest accomplishments was the establishment of the Afghanistan

Development Fund, an agricultural lending entity under MAIL. To overcome the reluctance of commercial banks, which have displayed little interest in engaging the agricultural sector, ACE/ADF developed innovative approaches to lend to value chain intermediaries in the agricultural sector. Those recipients included financial institutions and nonfinancial organizations like associations, farm stores, agricultural depots and food processors. They in turn use their grants to lend to small commercial farmers and agribusinesses.

Starting in 2009 ACDI/VOCA has worked on the USAID-funded **Incentives Driving Economic Alternatives for the North, East and West (IDEA-NEW)** program with partner DAI. The four-year program, which despite its name is based in the north and central regions of the country, provides agricultural incentives and economic alternatives in poppy-prone areas. The project aims to continue USAID's efforts to promote legal, productive agriculture in rural areas and to curb narco-trafficking. IDEA-NEW targets all agricultural framework components including agricultural production, rural enterprise and infrastructure development, financial service access and value chain development for key regional industries and trade corridors.

A recent USAID visit to an Afghan-owned and -run dairy operations revealed the impact of IDEA-NEW, which has provided equipment and technical assistance to a dairy union and its network of village-based milk-collection centers. With this support the dairy has

established a trade in higher value dairy products such as cheese and yogurt. Since women are the primary livestock caretakers, the success has significant gender benefits. On the day of the USAID visit, union members expressed gratitude for the support and excitement about the new ice cream-making equipment. Ice cream promises higher profits than any of the existing offerings.

There are still many difficult infrastructural and social problems to overcome in Afghanistan. However, when comparing Afghanistan today with the one before 2001, we see tremendous progress. Buoyed by this optimism, ACDI/VOCA's continued work in the country will strengthen rural communities and the ways in which they access and benefit from financial and agricultural resources.

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