



CREDIT GUARANTEE FUND AFGHANISTAN

## **ACGF – Afghan Credit Guarantee Foundation**

### **Institutional Profile**

#### **Background**

In September 2014, ACGF was registered as charitable foundation under German law in Cologne, Germany. Its founders are the German Federal Ministry for Economic Cooperation and Development (BMZ) and DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (a member of the KfW Group). ACGF's mandate is to contribute to the development of the private sector by improving access to finance for Afghan small- and medium-sized enterprises (SMEs). ACGF implements its mandate by providing partial credit guarantees with a maximum coverage of 72% to Afghan financial institutions for the loans they extend to Afghan SME. Likewise, ACGF provides comprehensive technical assistance (TA) to its partner financial institutions (PFIs) in order to establish and develop best practice SME lending capacity.

ACGF is the institutional successor of the CGF-A – Credit Guarantee Facility for Afghanistan, which had been implemented until 2014 by DEG with trust funds from BMZ and from USAID.

#### **Governance and Management**

The Board of Trustees comprises of three members: Mr. Bernt Hagenlocher (Chairman, Senior Investment Manager, DEG), Mrs. Katharina Weber (Deputy Chairman, Head of Division Afghanistan-Pakistan, BMZ), Mr. Mustafa Aria, Aid Management Director, Government of Afghanistan, Ministry of Finance).

The Management Board comprises of Mr. Bernd Leidner (CEO) and Mr. Dirk Josef Thiesen (CFO). Mr. Leidner had been involved in the CGF-A from the start and had designed the facility together with DEG; he has since then been managing the guarantee and TA operations. Mr. Thiesen is a proven finance expert and specialized in management of foundations and has been strongly involved in the institutional set-up of ACGF from 2011. ACGF's further staff in the Head Office comprises of two business analysts, a finance officer and two executive assistants.

Mr. Leidner and Mr. Thiesen are also Managing Directors of the CGFT – Credit Guarantee Fund Tajikistan GmbH, a sister company financed with EUR 12.5 million by DEG, Oesterreichische Entwicklungsbank (OeEB) and by FMO – Netherlands Development Finance Company.

SME Client Support Afghanistan LLC (SCSA), a subsidiary with offices in Kabul and Mazar-i-Sharif, provides consulting services to ACGF. SCSA has been registered in March 2015 and has 30 employees, all Afghan nationals. SCSA is headed by Mr. Ahmad Jawad Ghafari, an experienced SME banker and credit guarantee expert.

SCSA provides consultations to ACGF's on guarantee operations and TA activities for the Afghan PFIs. The professional team of SCSA enjoys very good reputation in the financial sector of

Afghanistan and has even been assigned to additional consulting assignments within and outside of Afghanistan.

### **Business Model**

The innovative approach of ACGF is characterized by its full integration of partial credit guarantees and comprehensive and hands-on TA. This combination allows Afghan financial institutions to establishing and/or improving their SME lending capacity, partly even from scratch, while maintaining very solid portfolio quality.

ACGF issues individual letters of guarantee for loans ranging between USD 10k and USD 1 million which the PFIs extend to Afghan SMEs; eligible loan purposes are fixed assets and working capital; all sectors can be served. In case of default of the borrowers on the guaranteed loans and after having carried out the contractually agreed delinquency management procedures without success, the PFIs can claim the guarantee after 180 days past due. ACGF then appraises the guarantee claim and pays out its share in the lost principal and the accrued interest, up to 72% can be covered. Recoveries collected by the PFIs after the claim pay-out are shared with ACGF with the same ratio.

Depending on the TA needs of the PFIs, the TA starts with establishing SME credit departments, introducing the respective policies and procedures and training the operational staff in best practice credit appraisal and loan portfolio management. Furthermore, the PFIs can be supported with the development of specific products to expand their SME credit operations and with other activities like risk management improvements, support in delinquency management, fraud prevention etc.

The Afghan PFIs pay up-front fees and guarantee fees for the risk coverage provided by ACGF; the guarantee fees are risk-adjusted, encouraging good performance of the PFI and reflecting higher risk in the pricing. Furthermore, as a funded guarantee facility, ACGF earns interest on its capital. ACGF is on its way to achieve financial sustainability for the guarantee operations. The implementation of the TA requires subsidies with soft funding.

### **Achievements**

ACGF (and its predecessor, the CGF-A) have achieved remarkable results in a very challenging environment and with relatively limited funding (approx. EUR 7 million from BMZ and USD 5 million from USAID):

- Business volume (since inception until the end of February 2018): in total more than 4,760 SME loans with a value of approximately USD 195 million have been guaranteed.
- Employment effects (since inception until the end of February 2018): more than 50,000 jobs were retained and more than 9,100 jobs have been created by the supported businesses
- Portfolio quality: average historic net loss rate 1.2% p.a., a very good result in light of the challenging business environment

- TA activities: introduction and further development of best practice SME credit technology, introduction and improvement of environmental and social risk management standards, improvement of counter-terror-financing and anti-money laundering procedures etc.
- SME departments: ACGF provided up-scaling and down-scaling support for three banks and three micro-finance institutions, establishing and/or developing their SME credit departments with all related policies and procedures.
- Local know-how: ACGF (and its predecessor CGF-A) have focused on establishing the consulting know-how in its local subsidiary, SCSA.
- Reputation: ACGF enjoys a very good reputation in view of the PFIs and the donor community of ACGF due to the successful and sustainable work and the very strong track record in the financial sector of Afghanistan.

### **Expansion and Funding**

ACGF has identified various options for expansion of its operations and has been requested by its existing and by potential new PFIs to increase or start cooperation. The specific know-how and the competencies acquired by ACGF and its subsidiary SCSA, the market knowledge and the proven structures can all be instrumental in additional activities related to the financial and private sectors.

In March 2017, following the approval by the Ministry of Finance of Afghanistan, ACGF can receive additional funding of up to USD 8.1 million in the context of the Access to Finance Project for Afghanistan initiated by the World Bank. The funding is being used towards expansion of the credit guarantee portfolio of ACGF and carrying more than 35 Technical Assistance projects for the ACGF Partner Financial Institutions.