

# Strengthen sustainable economic growth in northern Afghanistan

In order to stimulate sustainable economic growth, increase Afghan farmers' yields and promote employment, the German Government is supporting economic programmes in Afghanistan's northern regions.



## Situation

The Afghan Government has paved the way in the last few years for the country's economic development. Nonetheless, there is a lack of expertise and structures in public and private institutions. Additionally, the investment climate is negatively affected by corruption, a lack of legal certainty and the fluctuating security situation.

Agriculture is key to economic development, with some 60% of households in Afghanistan depending on the sector for their incomes. Around two thirds of the Afghan people work in the agricultural sector. In order to better leverage its economic potential, there is a need for fundamental improvements in general conditions. Government schemes to promote agricultural enterprises (e.g. the provision of access to credit, the creation of irrigation and storage systems, agricultural extension services and) are very few in number or non-existent at present.

## Objective

The programmes in the area of sustainable economic development are

## AT A GLANCE



Activities in the provinces of Badakhshan, Baghlan, Balkh, Kabul, Kunduz, Takhar.

**Programme:** Sustainable Economic Development and Employment Promotion (SEDEP), First Micro Finance Bank Afghanistan (FMFB), Economic Infrastructure Development Afghanistan (EIDA, from 2017), Employment Promotion (J4P – Maintenance Cash Grants, from late 2016)

**Commissioned by:** German Federal Ministry for Economic Cooperation and Development (BMZ)

**Partner:** Afghan ministries: Ministry of Economy (MoE), Ministry of Commerce and Industry (MoCI), Ministry of Finance (MoF), Ministry of Agriculture, Irrigation and Livestock (MAIL), Ministry of Rural Rehabilitation and Development (MRRD)

**Partner:** Afghanistan Chamber of Commerce and Industries (ACCI), First MicroFinance Bank Afghanistan (FMFB), Afghanistan International Bank (AIB) and Ghazanfar Bank

**Implementing organisations:** KfW Development Bank, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

designed to make the Afghan economy more competitive and create new jobs and income opportunities for men and women from all population groups. In so doing, they improve general legal and institutional conditions and funding structures for the private sector.

## Measures & Results

The Afghan-German Cooperation's activities in the area of sustainable economic development are wide-ranging. KfW is supporting the expansion of the *First Micro Finance Bank Afghanistan (FMFB)*, the largest bank of its kind in Afghanistan, and is assisting it to issue loans to small and medium-sized enterprises (SMEs), especially in rural areas. In addition, GIZ advises a large number of key actors, sharing with them its technical expertise in order to stimulate economic growth – these stakeholders include policy-makers, interest groups, entrepreneurs and farmers. There are also various construction schemes to improve the economic infrastructure.

KfW is working with the FMFB to promote long-term refinancing which enables the bank to increase the number of loans it issues to SMEs. While this approach is riskier than microfinance, it helps to meet growing demand in rural areas of Northern Afghanistan as well, boosting the economic potential of the country as a whole. Issuing loans to producers and enterprises facilitates their overall access to financial services and improves the business and investment climate. The FMFB employs over 1,100 staff members in 14 Afghan provinces. More than 64,500 microloans, with an approximate average value of EUR 900, and over 600 loans to SMEs are outstanding as of 2018. 21% of borrowers are women.

The situation is similar with the loans issued by the *Afghan Credit Guarantee Foundation (ACGF)*, which has been founded by the German Federal Ministry for Economic Cooperation and Development (BMZ) and the *Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG)*. Some 4,800 individual loans to Afghan small and medium sized enterprises have been guaranteed to date, with a total volume of more than EUR 205 million. This has helped creating some 9,800 jobs and retaining more than 54,000 jobs. After receiving a EUR 540,000 loan, a motorcycle assembly firm in Herat increased the number of its staff from 12 to 43 and its capital from EUR 90,000 initially to EUR 3.6 million.

Advisory activities and technical training provided by the Afghan-German Cooperation's actors in the economic sector focus on five value chains: poultry, dairy products, selected vegetables, wheat and nuts. Measures at district, provincial and national level target all key stakeholders in the respective value chains: farmers, suppliers, buyers, entrepreneurs, cooperatives and policy-makers. This is designed to ensure results-oriented coverage of a complete cycle which takes account of all interests. The

**Provinces:** Badakhshan

**Provinces:** Baghlan

**Provinces:** Balkh

**Provinces:** Kabul

**Provinces:** Kunduz

**Provinces:** Samangan

**Provinces:** Takhar

**Programme objective:** Increase employment and incomes in the funded economic sectors in Northern Afghanistan.

**Overall term:** Since January 2014

## READ MORE

- Fact sheet: Strengthen sustainable economic growth in northern Afghanistan (<https://www.ez-afghanistan.de/sites/default/files/2017-Nawi-EN.pdf>)
- Women Bazaar Kabul - Success Portrait -Poster (<https://www.ez-afghanistan.de/sites/default/files/Women%20Bazaar%20Kabul%20-%20Success%20Portrait%20-%20English%202.pdf>)
- Ponds for irrigation - Success Portrait -Poster

individual activities cover the following task areas:

- Dialogue between the private and public sectors at district, provincial and national level: this ensures that reports on barriers to the manufacture and sale of the aforementioned products are given a hearing and that these barriers can be dismantled;
- Stakeholders in the five value chains receive technical, organisational and business training. Events such as trade fairs on the different product ranges encourage dialogue among all stakeholders;
- The rural infrastructure is improved by measures such as the repair and development of irrigation systems and warehouses.

Some 12,800 new jobs have been created in the agricultural sector as a result of these measures during the period 2015 to 2016. The various activities have also served to provide inspiration for new processes and innovations which have contributed to increasing the income of agricultural stakeholders.

Additionally, individual construction initiatives are helping to improve the economic infrastructure. The measures currently being planned will have a particularly positive impact on wheat cultivation in Afghanistan. These include the rehabilitation of smaller irrigation systems in the northern provinces and individual roads, bridges and storage facilities. In the long term, intensification of wheat cultivation and yield increases will create seasonal employment opportunities and increase the incomes of farming families.

(<https://www.ez-afghanistan.de/sites/default/files/Ponds%20for%20Irrigation%20-%20Portrait%20-%20English.pdf>)

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