

## *German Investment and Development Company (DEG) – SME Credit Guarantee Facility for Afghanistan*

### **Program Background**

- Established March 2005
- Current Fund capital of USD 10.2 million
- Implementing Agency: German Investment and Development Company (DEG)
- Co-funded by:
  - German BMZ (Federal Ministry for Economic Cooperation and Development): Approximately USD 7 million until December 2010
  - USAID: USD 5 million until December 2009

### **Objective**

The overall objective of the program is to facilitate sustainable access for SME to finance provided by private financial institutions on market-related conditions and to support the creation of jobs and income. The desired outcome of the program is sustainable and efficient use of the guarantee scheme by partner banks.

### **Program Mechanisms**

- DEG/ACSP makes formal agreements with selected partner banks; partner banks generate loans
- DEG supports partner banks in establishing SME lending operations according to best practices
- ACSP provides hands-on support and coaching in loan appraisal and portfolio management and, as a member of various credit committees, recommends loans to DEG for guaranteeing
- DEG issues (individual) letters of guarantee, which are backed up by cash in guarantee funds; future portfolio guarantees are then planned
- Guarantee coverage of 72% of lost principal against guarantee fees is paid by partner banks; guarantees are issued in favor of partner banks
- Loan portfolios are refinanced by partner banks
- Guarantees unknown to borrowers and market

### **Achievements**

- Establishment of SME departments from scratch in both banks, creating pioneers in SME lending in Afghanistan
- FMFB (up-scaling): active since January 2006, current professional SME staff of 30
- AIB (down-scaling): SME active since June 2007, current professional SME staff of 16
- USD 27.1m cumulative loan volume (represents 943 loans dispersed)
- USD 10.5m outstanding portfolio
- Portfolio at risk (> 30 days): 1.5%
- 15 loans rescheduled (cumulative)
- USD 150,000 disbursed guarantees (2 loans)
- Regional outreach: Kabul, Mazar-e-Sharif, Jalalabad, Herat, Kunduz, Kandahar, Heiratan, Sheberghan, (additional regions to be covered soon)