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# AGRICULTURAL CREDIT ENHANCEMENT (ACE) PROGRAM ANNUAL WORKPLAN No. 2

**JULY 16, 2011 – JULY 15, 2012**

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<b>Program title:</b>	<b>Agriculture Credit Enhancement Program</b>
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## LIST OF ACRONYMS

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ADF	Agricultural Development Fund
ACE	Agricultural Credit Enhancement
ASAP	Accelerating Sustainable Agriculture Project
COP	Chief of Party
COTR	Contracting Officer's Technical Representative
DAB	Da Afghanistan Bank
DCA	Development Credit Authority
FAIDA	Financial Access for Investing in the Development of Afghanistan
FI	Financial Intermediary
GDA	Global Development Alliances
GIRoA	Government of Islamic Republic of Afghanistan
GIS	Geographic Information System
Idea-NEW	Incentives Driving Economic Alternatives Project
MAIL	Ministry of Agriculture, Irrigation and Livestock
OAG	USAID's Office of Agriculture
OP	USAID Mission's Operational Plan
PMP	Performance Management Plan
PI	Private Intermediary
PIRS	Performance Indicator Reference Sheet
PPR	USAID Mission's Performance Plan and Report
TAFA	Trade and Accession Facilitation for Afghanistan
TO	Task Order

## SUMMARY

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During the first year, ACE made substantial improvements in the provision of credit to Afghan farmers, agribusinesses and intermediaries. Total loans approved by June 2011 amount to over US\$16 million and are expected to benefit over 10,000 small commercial farmers. The projections of the project estimated reaching US\$31 million in loan approvals benefiting 12,000 farmers by the end of the fiscal year, however MAIL's lack of compliance with the terms of the Implementation Letter 16 prevented the program from reaching these targets. Despite these challenges, the program has established the basis for the operation of the Agricultural Development Fund (ADF) and has increased awareness among interested parties regarding agricultural lending opportunities. ACE's approach addressing value chain constraints through financial services combined with technical assistance in production, marketing and trade has produced encouraging results and new opportunities for commercial farmers with limited, or no access to financial services.

The project has launched two innovative lending products to extend credit in a culturally sensitive manner to Afghan commercial farmers. These are Factoring and a variant of Murabahah, which have been tested with five different companies and farmer associations by providing lending opportunities which had not been available through financial institutions in Afghanistan. ACE has been assisting financial intermediaries through a combined package of loans and grants to improve the efficiency and reduce the risk in the management of ADF funds.

Despite the original focus on building the capacity of financial intermediaries to deliver agricultural credit to farmers, the collaboration with non-financial intermediaries proved more reliable and successful during the first year of the program. ACE will continue to provide interested financial institutions with technical assistance to build their capacity to serve the needs of agricultural enterprises. In the second year of project implementation, ACE will build upon the experience and lessons learned from Year 1, with the ultimate focus on making credit available to agriculture.

Capacity building constitutes an integral part of the work plan for year 2; this derives from the recognition of three fundamental factors: a) in order to be successful and sustainable, the ADF must be managed by a cadre of highly qualified professionals, b) in order to provide strategic direction to the ADF, the members of the ADF Advisory Board and Credit Committee also need a particular set of skills that integrate economic development theory, agricultural credit operations and strategic planning, and c) the personnel of the Knowledge Management Facility established by the ACE program need the skills to analyze agricultural production and market data, interpret the results and provide sound policy advice to government officials, while also informing business decisions of private sector actors.

To systematically capture the progress on its efforts to build Afghan capacity to manage the ADF, the Agricultural Credit Enhancement program will add two new performance indicators in the project's Performance Monitoring Plan. The indicators # 4.3 and #4.4 are described in component 1 in this document. Their performance management plan is outlined in Component 3 together with annual and quarterly targets. Two Performance Indicator Reference Sheets (PIRS) attached to the revised PMP, describe their plan for data acquisition and data quality management.

## BACKGROUND

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The Agricultural Credit Enhancement Program (ACE) is the result of the collaboration between Afghanistan's Ministry of Agriculture, Irrigation and Livestock (MAIL) and the United States Agency for International Development (USAID). The program aims at increasing the availability of credit to small-scale commercial farmers and to businesses that participate in the agricultural economy of Afghanistan. The program is implemented by Development Alternatives, Inc. (DAI) in close cooperation with the MAIL's General Directorate of Program Implementation and Coordination.

By design, the ACE program focuses on enabling small-scale commercial farmers (1-30 hectares) to access financial services, with concomitant and positive effects in terms of technology adoption, and increases in

productivity and profitability. Thus, maximizing the economic impact of agricultural credit requires a special focus on high-value agriculture, agro-processing and market development.

The program is supporting access to finance for these small commercial farmers in Afghanistan through two complementary activities:

1. Management of a grant to the Government of Islamic Republic of Afghanistan (GIROA) in the amount of US\$100 million to establish the Agricultural Development Fund (ADF), which will provide necessary loan capital for lending to financial and non-financial intermediaries, who will on-lend these funds to farmers.
2. The Agricultural Credit Enhancement (ACE) activity with an approximate budget of \$50 million over a four and a half year period beginning in July 2010 and ending in December 2014. ACE will manage the ADF and provide technical support to the agricultural value chains, while also supporting the MAIL in the establishment of a Knowledge Management Facility as a repository of agricultural information and a source of market intelligence.

The objective of the ADF and ACE is to facilitate the rapid disbursement of loans along the agricultural value chains, build the capacity of financial intermediaries to deliver agricultural credit to farmers, contribute to developing a high-value agricultural sector, and build confidence in the government, thereby enhancing overall stability in Afghan society.

Farms and agricultural enterprises across the entire country are eligible for funding through the ADF and its US\$100 million account that USAID and the MAIL have established in the Da Afghanistan Bank (DAB). The fund is jointly managed to ensure that credit is extended quickly and equitably to qualified borrowers. MAIL and ACE are responsible for identifying financial intermediaries—banks and other institutions—to handle the actual lending to borrowers. Thus, each loan will be subject to control and approval by ACE and MAIL.

**TABLE 1. SNAPSHOT OF ACE BASE YEAR TARGETS AND ACCOMPLISHMENTS**

**ACE PERFORMANCE INDICATOR DATA SHEET - JULY FY2011**

ACE Performance Indicators	Actual Accomplishments	Target fy2011
1.1 Value of Finance Accessed	15,922,702	32,000,000
1.2 Number of individuals benefitting from ACE or ADF financial agreements	5,534	12,000
1.3 Percent Increase in income by assisted farms and agribusinesses	* <sup>1</sup>	10%
1.4 Net total increase in Full-Time Equivalent (FTE) jobs created by USG sponsored agriculture activities*	121.3	250
2.1 Value of Challenge/Innovation and Agriculture modernization grants disbursed	\$630,104	up to \$6million
2.2 Number of participating financial intermediaries and private intermediaries on-lending funds from ADF	14	15
2.3 Number of innovative lending products established by PIs and FIs	2	2
2.4 Percentage of loan losses resulting from ACE lending recommendations	0%	<5%

<sup>1</sup> Not yet measured due to the specific nature of the production cycles

3.1 Percentage change of domestic and export sales of Afghanistan agriculture products for firms supported by ACE	*	10%
3.2 Number of loans approved under USAID's Development Credit Authority (DCA) mechanism	0	2
3.3 Number of public private partnerships formed as a result of USG assistance (including GDAs)	0	1
4.1 Number of conferences, workshops and other initiatives designed to foster increased credit to the agricultural sector carried out through the Agricultural Credit Working Group	3	5
4.2 Number of market information and market intelligence products created and disseminated by the established knowledge management unit	9	12

**TABLE 2. ACE ACCOMPLISHMENTS BY QUARTER**

ACE PERFORMANCE INDICATORS	ACTUAL Q1 FY2011	ACTUAL Q2 FY2011	ACTUAL Q3 FY2011	ACTUAL ACCOMP	TARGET FY2011
1.1 Value of Finance Accessed	11,150,000	16,041,750	15,922,702	15,922,702	32,000,000
1.2 Number of individuals benefitting from ACE or ADF financial agreements	(5,800) (revised)	2,356	3,178	5,534	12,000
1.3 Percent Increase in income by assisted farms and agribusinesses	-	-	-	-	10%
1.4 Net total increase in Full-Time Equivalent (FTE) jobs created by USG sponsored agriculture activities*	25.5	64.9	30.9	121.3	250
2.1 Value of Challenge/Innovation and Agriculture modernization grants disbursed	\$80,623	\$ 145,290	\$ 404,191	\$630,104	up to \$6million
2.2 Number of participating financial intermediaries and private intermediaries on-lending funds from ADF	6	7	1	14	15
2.3 Number of innovative lending products established by PIs and FIs	1	1	0	2	2
2.4 Percentage of loan losses resulting from ACE lending recommendations	0%	0%	0%	0%	<5%
3.1 Percentage change of domestic and export sales of Afghanistan agriculture products for firms supported by ACE	-	-	-	-	10%
3.2 Number of loans approved under USAID's Development Credit Authority (DCA) mechanism	0	0	0	0	2
3.3 Number of public private partnerships formed as a result of USG assistance (including GDAs)	0	0	0	0	1

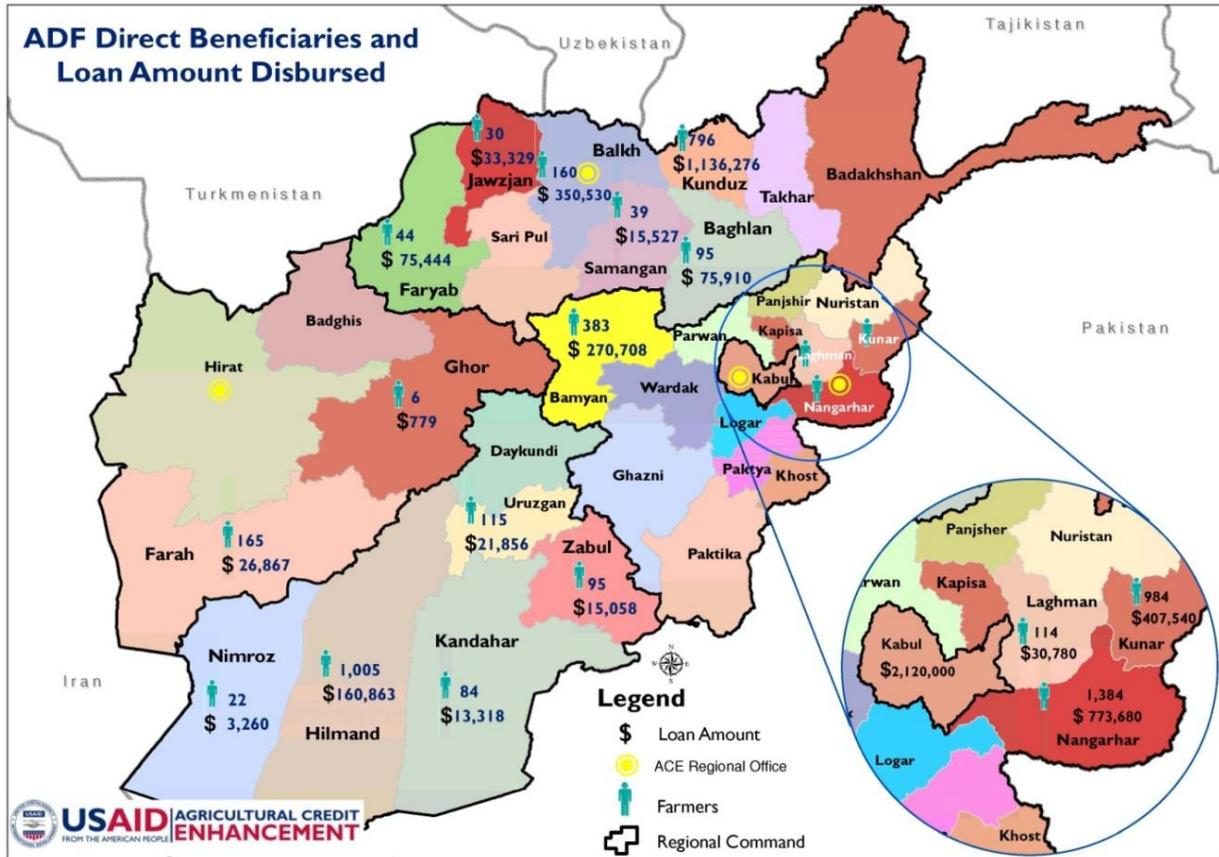
4.1 Number of conferences, workshops and other initiatives designed to foster increased credit to the agricultural sector carried out through the Agricultural Credit Working Group	2	0	1	3	5
4.2 Number of market information and market intelligence products created and disseminated by the established knowledge management unit	2	5	2	9	12

In Quarter 1 FY2011, the ACE program obtained Credit Committee approval for loans worth \$18.1 million USD by the end of December 2010, but following the Minister's intervention this amount was unilaterally reduced to \$11.2 million USD. In Quarter 2, the program achieved \$16.1 million USD in approved loans, whereas during Quarter 3 none of the two loans approved by the Credit Committee were signed by the MAIL Minister.

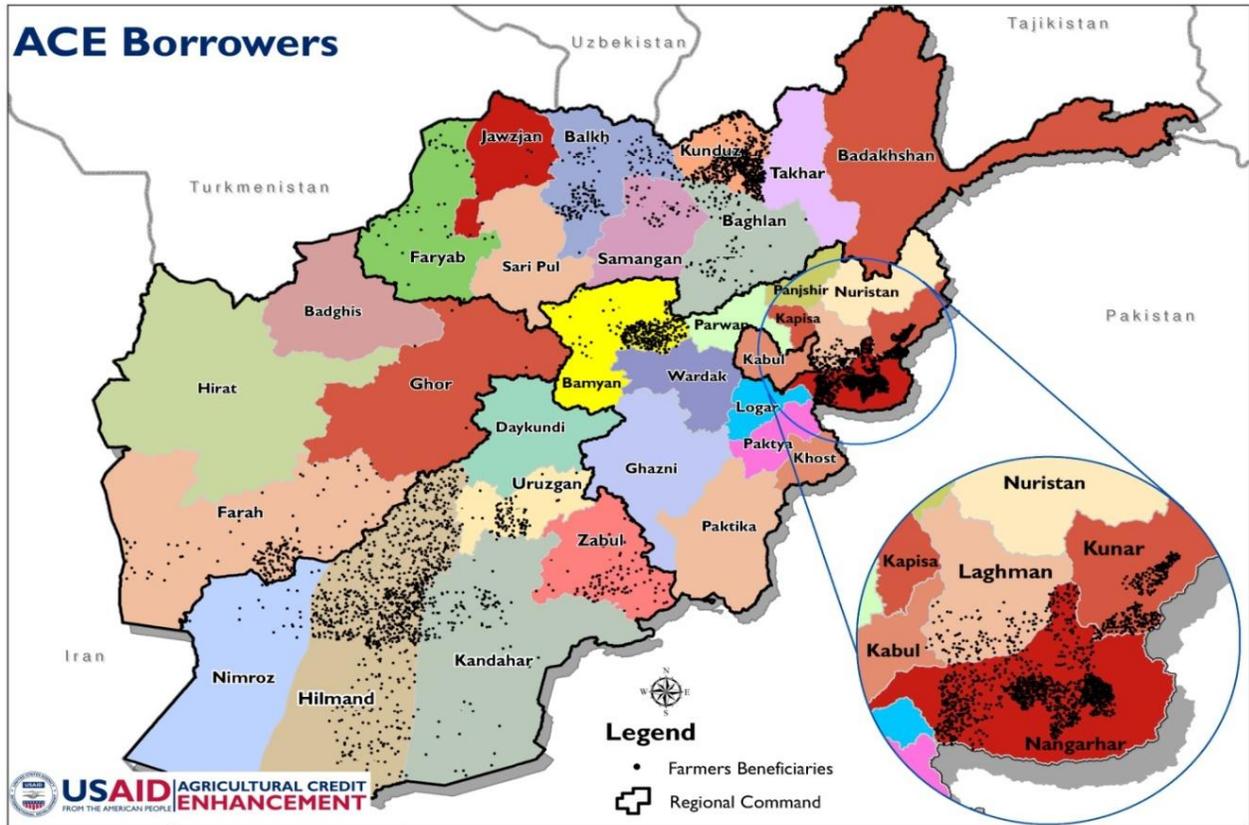
Similarly, during quarter 3 FY2011 the ADF/MAIL/USAID Credit Committee approved the loan for Afghan Dost Shaq Company for \$3,730,992 which is still pending the MAIL Minister's approval. These factors have indeed affected ACE's ability to have a greater impact in the rural economies, to respond to the expectations of Afghan farmers and to meet its contractual targets. Furthermore, this underscores the relevance of arbitrariness in loan approvals by MAIL, which *de facto* overrules Credit Committee decisions and opens the door to political exposure.

Additionally, one of the eight [REDACTED], a loan formally approved in March, withdrew from the program based on their inability to formalize the provision of collateral. This development reduced the overall approved loans by \$119,048.

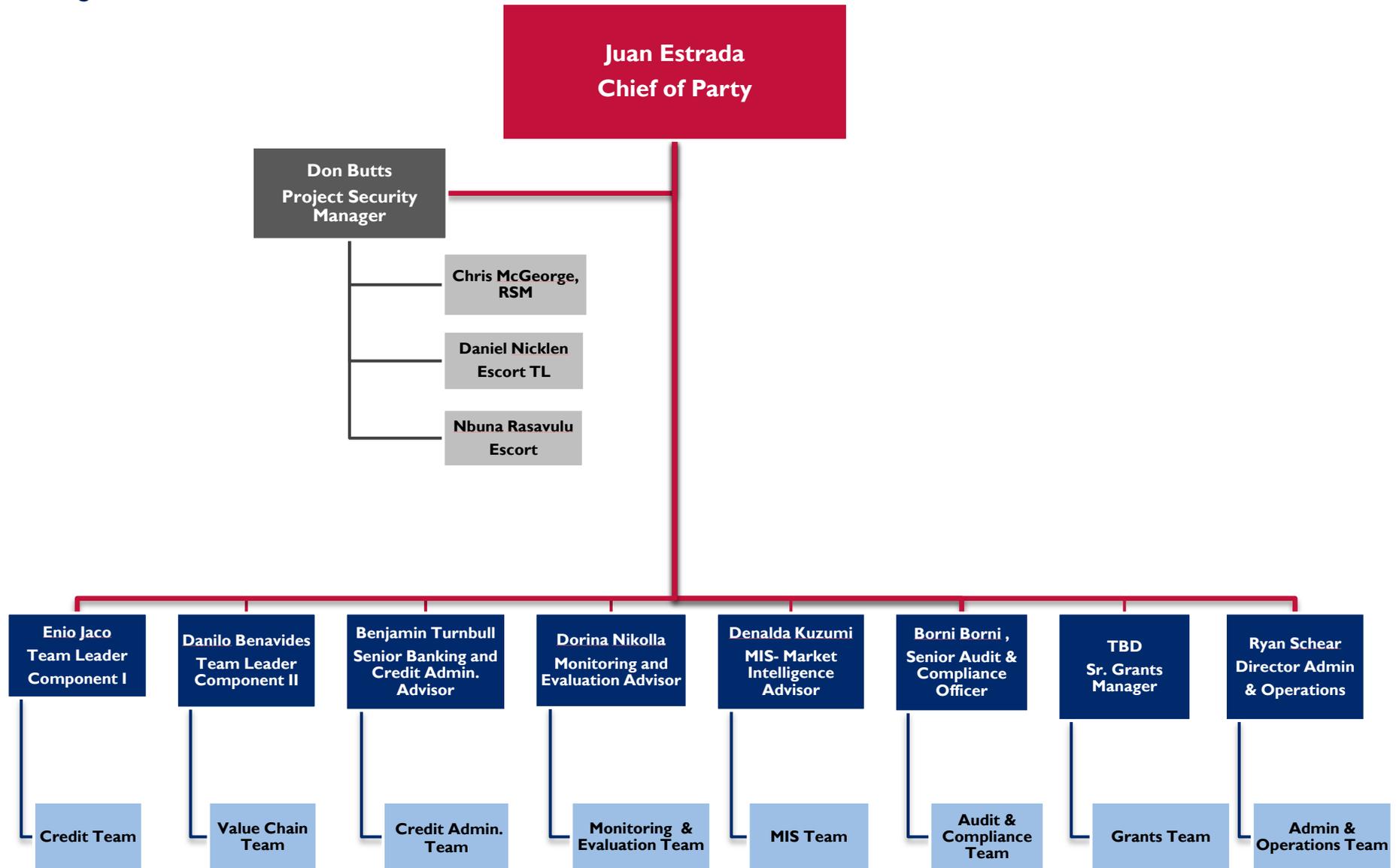
**MAP 1: ACE LOAN DISBURSEMENTS PER PROVINCE**



**MAP 2: ACE GEOGRAPHIC DISTRIBUTION OF ACE CLIENTS**



# ACE Organizational Structure



# PMP INDICATOR REVIEW

## Progress and Key Accomplishments

In order to measure and document its progress towards target achievements and program objectives, ACE developed a Performance Management Plan (PMP) approved by USAID in December of 2010. On May 9<sup>th</sup>, 2011 the project officially submitted a request for the revision of the PMP in the light of challenges identified during the first months of implementation, which required a slight shift of priorities. As of the day of submission of this annual work plan, the project had not yet received a response to this request.

Indicators proposed in the revised Performance Management Plan cover the main intermediary results as defined in ACE's Task Order. Based on whether the indicators reflect outputs or outcomes, data acquisition and reporting will be available and delivered to USAID on a monthly, quarterly and annual basis. The indicators cover Task Order deliverables, and feed directly to USAID/Afghanistan's Strategic Objectives and USAID indicators. Periodical monthly and quarterly reports will provide regular updates along relevant indicators for the reporting period, as structured in the PMP and approved by the USAID COTR. The annual report will comprehensively capture all results against project indicators and will offer a clear update of achievements towards annual targets.

Besides standard reporting (against PMP indicators) ACE, in compliance with USAID regulations, will provide timely inputs to:

- *Mission's annual Operational Plan (OP);*
- *Mission's Performance Plan and Report (PPR);*
- *USAID Afghanistan's Afghan Info Database.*

Data and information are collected and analyzed quarterly under ACE Monitoring and Evaluation and Knowledge Management components. This data will be disaggregated according to region, province, districts, number of activities per location and number of beneficiaries, to contribute to the Afghan Info Database. ACE's Monitoring and Evaluation Unit will coordinate with the Afghan Info Unit on the level of data analysis and disaggregation.

## COMPONENT I: MANAGEMENT OF ADF

### 1. BACKGROUND

The focus of Component I is on ACE's technical assistance for the facilitation of lending to the agricultural sector through ADF and on assisting agricultural borrowers in their efforts to secure financing. The establishment and the aggressive launch of the ADF is at the core of this component together with the setting up of a functional credit operation based on the ADF policies and procedure. ACE is responsible for building the capacities of the ADF staff in generating, processing and disbursing ADF loans and enhancing ADF business.

### 2. BASE YEAR RESULTS

Base Year was full of challenges, mainly of the type brought about by uncertainty. ACE constituted the first attempt of USAID to work with and within the MAIL as there was a strong need to build a relationship based on trust and from there establish a system within an unstructured environment.

Thirty days after inception, ACE and MAIL had agreed on a set of basic fast track procedures. 45 days after the inception, there was a functional Credit Committee which produced the first loan approvals. On December 23, 2010 ACE had secured ADF Credit Committee approval for loans worth \$18.1 million, having met the target of \$18 million set by USAID for December 31, 2010. Unfortunately a misinterpretation of the bilateral agreement gave the Minister's Office the authority to overrule the (MAIL/USAID/ACE) Credit

Committee decisions, which resulted in the declination of two major loans by the Minister's Office, reducing the value of loans approved to a little over \$11 million.

At the time of writing the Annual Work Plan 2, USAID and ACE were seeking to secure MAIL's concurrence on the ADF Policies and Procedures, which also include a section on governance that would give the ADF Credit Committee final approval authority. MAIL's concurrence on the Policies and Procedures also constitutes the last of eight conditions precedent required by USAID to channel funds through the Ministry of Finance. This is particularly important considering that ACE has already exhausted the funds for lending channeled through the technical assistance contract.

Similarly, not having ADF as a registered entity limits the ability of DAI, the implementer of the ACE Task Order, to exercise recourse on collateral, this brings about substantial risks for both ADF and DAI. Based on conversations with the MAIL, it is likely that the Ministry will present a motion to Cabinet to register the ADF in November 2011

During the first year, ACE has been proactively seeking to engage banks and non-bank financial institutions in agricultural lending. However, the project has faced three fundamental categories of challenges:

- Risks associated to: a) weak institutions, which make it costly to enforce contracts, b) real, or perceived, insecurity which is highly likely to constrain loan collections, c) absence of a reliable land titling system, which has the potential to compromise the recourse on collateral, and d) high correlation between climatic phenomena and the performance of agricultural enterprises, which adds a random variable into the risk equation.
- High transaction costs resulting from processing and servicing a large number of relatively small loans. Even in the presence of a functional system, this would undoubtedly have a direct effect on the cost of capital.
- Bank's lack of capacity to assess the technical and economic feasibility of agricultural enterprises.

ACE will continue addressing these challenges through a comprehensive strategy aimed at managing risks, reducing transaction costs and building the capacity of financial institutions to engage in the provision of financial services to the agriculture sector. The pillars of this strategy are:

- Encouraging financial institutions to use medium and large-scale agribusinesses as conduits to channel credit to farmers. Examples of this are dried fruit and nut export companies which have the ability to guarantee their loans, while providing cash advances and input loans to their suppliers, thus, building on an already existing system.
- Engaging financial institutions in leasing services, this includes large-scale processing machinery, but also farm machinery in the range of US\$20,000-US\$40,000, a growing market segment that has been neglected.
- Building the capacity of financial institutions to establish and operate functional units solely devoted to work in agricultural lending. ACE is currently in negotiations with two financial institutions to pursue this approach, which will in fact constitute the basis to build a sustainable agricultural lending system.

The table below shows achievements along the Component 1 indicators during the base year.

**TABLE 3: COMPONENT 1 PERFORMANCE RESULTS ACHIEVED IN BASE YEAR**

ACE PERFORMANCE INDICATORS	ACTUAL Q1 FY2011	ACTUAL Q2 FY2011	ACTUAL Q3 FY2011	ACTUAL ACCOMP	TARGET FY2011
1.1 Value of Finance Accessed	11,150,000	16,041,750	15,922,702	15,922,702	32,000,000
1.2 Number of individuals benefitting from ACE or ADF financial agreements	(5,800) (revised)	2,356	3,178	5,534	12,000
1.3 Percent Increase in income by assisted farms and agribusinesses	-	-	-	-	10%
1.4 Net total increase in Full-Time Equivalent (FTE) jobs created by USG sponsored agriculture activities*	25.5	64.9	30.9	121.3	250
2.1 Value of Challenge/Innovation and Agriculture modernization grants disbursed	\$80,623	\$ 145,290	\$ 404,191	\$630,104	up to \$6million
2.2 Number of participating financial intermediaries and private intermediaries on-lending funds from ADF	6	7	1	14	15
2.3 Number of innovative lending products established by PIs and FIs	1	1	0	2	2
2.4 Percentage of loan losses resulting from ACE lending recommendations	0%	0%	0%	0%	<5%

### 3. YEAR-1 GOAL

Based on the current institutional context, considering the steep lending targets for the Fiscal Year 2012, and on the assumption that the challenges discussed above will be overcome, ACE will focus its Component I implementation strategy on:

- Establishing a functional credit operation based on the ADF policies and procedures
- Building the capacity of ADF staff, especially in the regional offices in Kabul, Mazar-e-Sharif, Herat and Jalalabad, to enhance their ability to generate business for the ADF
- Invest more resources in the generation, processing and disbursement of loans, thereby increasing its impact in the rural areas.

#### Task One: Establishment of ADF Operations

During Year 1, ACE established the operational framework for the ADF first through 'fast track' lending and then through the ADF Manual of Policies and Procedures. The ADF Policies and Procedures Manual is a result of several iterations between the project, MAIL and USAID. The document has been approved by USAID and is pending MAIL final approval. The ultimate milestone of task one is MAIL's concurrence with the requirements deriving from the Implementation Letter No.16 and endorsement of ADF policies and procedures.

During Year 2, ACE will continue conducting public awareness activities to promote ADF services through mass media and public events promoting the different lending mechanisms available and referring potential

clients to participating institutions. The media campaign will underscore the fact that the funding will be provided via commercial channels and that repayment will be enforced according to existing legislation.

### Task Two: Management of ADF

Following the establishment of the lending infrastructure achieved in Year 1, ACE will carry on verifying the eligibility and creditworthiness of the loan applications submitted by financial and non-financial intermediaries. Beginning in September 2011 and every six months thereafter, ACE will review the policies and procedures in collaboration with MAIL representatives. Following each review, ACE will make the changes and adjustments deemed appropriate to enhance the coverage and effectiveness of the program, improve due diligence procedures, and expedite loan disbursements.

As ACE penetrated the credit market associated with non-financial institutions, the project identified the need to build the capacity of those organizations to administer loans, including disbursement, credit administration and collections. In response to this need, ACE developed the concept of Credit Management Units, or CMUs, which constitute independent entities within these organizations which conduct due diligence and protect the integrity of the financial intermediary, while also helping ACE reduce the risk brought about by potential corruption or default.

The introduction of CMUs, which now constitute a standard operating practice when lending to non-financial institutions, is generally funded through a combination of challenge grants and the interest markup of the financial intermediary. Upon the establishment of CMUs for the administration of ADF loans, ACE will systematically monitor their performance and will align their reporting requirement with those of the ACE PMP.

ACE is already working in an existing strategy that integrates the creation of technical capacity of Afghan staff as the sine qua non condition for the strengthening of the ADF. This will be achieved through an in-service training program led by the expatriate team, in addition to specialized training courses within and outside Afghanistan. This is what in essence will allow ACE to build the capacity of the staff to manage the ADF following the end of the project.

### Task Three: Transition the Fund and the ADF Management Unit to a Local Organization

By the end of the second quarter of 2012, ACE will conduct the first of a series of workshops aimed at stimulating the dialogue with MAIL regarding the mechanism for the transition of the fund.

By the end of Year 2, ACE will have developed a detailed transition plan and timetable in consultation with MAIL and USAID. Final hand over will take place at the end of calendar year 2014.

The expected results for program Year 2 under this component are ambitious and aim at providing farmers and other actors participating in strategic value chains with access to finance to bolster the scale of their operations, with concomitant effects for the growth of the agricultural sector, they include:

#### **By July 15, 2012**

- \$65 million (cumulative) in ADF funds approved
- Household income for ADF on-lending beneficiaries increased by 10% per year.

These expected results are achievable following the three pillar strategy as elaborated on page 11.

**TABLE 4: COMPONENT 1 RESULTS TO BE ACHIEVED IN FY 2012<sup>2</sup>**

<b>ACE PERFORMANCE INDICATORS</b>	<b>Q4 FY2011</b>	<b>Q1 FY2012</b>	<b>Q2 FY2012</b>	<b>Q3 FY2012</b>	<b>Q4 FY 2012</b>
1.1 Value of Finance Accessed	\$31,200,000	\$37,000,000	\$45,000,000	\$57,000,000	\$65,000,000
(Sub-Indicator) Value of Loans Disbursed	\$10,000,000	\$15,000,000	\$18,000,000	\$23,000,000	\$25,000,000
1.2 Number of individuals benefitting from ACE or ADF financial agreements/ Direct	10,500	13,000	17,000	20,000	24,000
1.2 Number of individuals benefitting from ACE or ADF financial agreements/ Indirect	21,000	26,000	34,000	40,000	48,000
1.3 Percent increase in income by assisted farms and agribusinesses	-	Annual Indicator	Annual Indicator	Annual Indicator	10%
1.4 Net total increase in Full-Time Equivalent (FTE) jobs created by USG sponsored agriculture activities*	250	300	340	450	500
2.1 Value of Challenge/Innovation Grants approved	\$ 500,000	\$ 1,000,000	\$ 2,500,000	\$ 4,000,000	\$ 7,000,000
2.2 Number of participating financial intermediaries and private intermediaries on-lending funds from ADF	15	16	17	18	19
2.3 Number of innovative lending products established by Pls and Fls	2	3	3	4	4
2.4 Percentage of loan losses resulting from ACE lending recommendations	<5%	<5%	<5%	<5%	<5%

#### 4. MONITORING AND EVALUATION

In the second year of project implementation, ACE Monitoring and Evaluation Unit will focus its efforts on tracking the indicators related to Component one. Indicator #1.1 will be tracked through the ADF Credit Committee Approval Sheets and loan contracts. The evidence for the loan disbursements is provided by the ADF Credit Administration Unit therefore the project will not incur in additional costs. The M&E Unit plans and supervises the actual disbursements to the end-borrowers (indicator #1.2) through the following mechanisms:

- 1) Designing the loan agreements, and/or certification sheets which are filled and signed by the financial intermediary and the end-borrower (farmer);
- 2) Monitoring loan distribution to farmers by spot checks directly in the rural communities;
- 3) Collecting, entering and analyzing the certifications of disbursements to farmers (loan slips);
- 4) Conducting data quality checks (ADS 203 Data Quality Assessment Tool); spot checks and data cleaning
- 5) Inspections and field monitoring with farmer samples. (5-20% samples based on the size of the population).

<sup>2</sup> Year 2 Results depend on the proposed changes made to Task Order which is attached to this document.

The monitoring of loans to farmers incurs higher costs. Based on the amount of work involved, number of villages, districts and provinces and the security situation in the area the cost of a three-day inspection may vary between \$1,000 – \$5,000 USD. ACE hires and trains field enumerators to conduct monitoring missions and inspections especially in the high threat areas.

Indicator #1.3 and #1.4 are tracked through baseline and impact assessments. ACE conducts impact assessments for agribusiness clients on a quarterly basis to measure sales and employment; whereas impact at the farm level are assessed on an annual basis. Farmer assessments costs about \$40-50 thousand a year, based on the number of intermediaries and beneficiaries involved.

The information on Indicator # 2.1 is provided by ACE Grants Unit and checked with Grants Contract and TAMIS (DAI/ACE's internal information system). Information on # 2.1 is provided by Component 1 and verified through Credit Committee approval records and loan contracts. The number of innovative lending products and the description for the type of product is provided jointly by the Component 1 and Sharia compliant specialist (until now the Audit and Compliance Advisor) however ACE is making arrangements to hire a Short-Term Islamic Finance Advisor. Finally, the information on the percentage of loan losses is tracked by the Credit Administration Unit. The M&E Unit checks and verifies the results through tracking loan disbursements and repayment in the M&E database, comparing the percentage of loan losses' results with the Credit Administration Unit. None of these activities incur additional costs.

## 5. CAPACITY BUILDING

The ACE program has the mandate to work with and within the Ministry of Agriculture, Irrigation and Livestock (MAIL). This derives from the need to build the capacity of MAIL to manage the ADF once it is transitioned to GIRoA in 2014. Thus, in terms of Component 1 the capacity building activities are geared towards four categories of individuals:

- 40 employees of the ACE program, who will in the future become employees of the Agricultural Development Fund;
- 12 current Lending Officers who will lead the ADF's lending activities;
- 5 MAIL officials who will continue to serve in the ADF Board of Directors and the Credit Committee;
- Up to 75 members of Credit Management Units located within ADF client organizations;

The skills listed above are new to MAIL officials, as most of their activities had focused until recently on the provision of policy direction, coordination with donor funded projects and the provision of extension services. Therefore, the program's activities in the area of capacity building did not require an assessment and in practice assumed a very low starting point.

Regarding management systems, the program is in the process of introducing a credit management system that will in fact constitute the backbone of the ADF. The system, which will be operated and managed by Afghan staff, will be deployed by the beginning of 2012.

Investments in capacity development will range from formal training to on-the-job training and mentorship. Formal training will consist of a required 'Agricultural Lending Officer Certificate', participation in training events abroad, with the possibility of 2-3 Masters' degrees, and in-country training, particularly in the areas of agricultural lending, Islamic Finance and Credit Administration. ACE will invest an estimated \$1 million in capacity building activities throughout the life of the project.

### **Indicative Training Activities for Component 1:**

#### *Background and Objectives of the Activity*

During the first year, ACE focused on building the branch regional infrastructure and hiring selected qualified individuals to perform Lending activities in Kabul and regions. The Lending officers worked under the direction of senior Expat Lending Advisors. The Lending team as a whole successfully generated a total of \$16 Million in loans. However, most of the loan portfolio was processed by Expatriate Lending Advisors. A

key goal on Capacity Building efforts of Component 1 during year 2 will be to transfer more responsibility to local Lending staff. To achieve this goal, the credit skills of lending officers must significantly increase. Local lending officers will be the future Lending Advisors of ADF representing all front-office loan generating business operations. The goal of increasing the quality of Lending applications is not only a natural progression ensuring ADF's sustainability but also a critical objective for both USAID and MAIL officials involved in the Credit Committee decisions.

#### *Lessons learned from previous Training*

One of the challenges with previous trainings has been the learning effectiveness. Although most training have been effective at conveying the overall subject in general, the trainees have had challenges putting the concepts in practice. To address this issue, ACE is designing a training certificate program that will be known as 'Agricultural Lending Officer Certificate'. The program will be mandatory for all local Lending officers and their satisfactory performance in the program will be a requirement for the renewal of their contracts. Trainees will be receiving the Certificate only after they passing a comprehensive examination. Officers who are not able to pass the test will be given two more opportunities to participate in the training program. The certificate will give the lending officers an opportunity to significantly increase the Credit quality skills. The Agriculture Lending Officer Certificate program will be composed of the following components:

- Credit Analysis (credit worthiness of the borrower)
- Financial Analysis (balance sheet, income statements, cash flows, key financial ratios)
- Agriculture Training (overall knowledge of Agriculture sector and Value chain)
- Technical Writing and Presentation skills

The Certificate program will be measured by the following indicators:

1. Number of Lending Officers trained
2. Number of Individuals satisfactory graduating as Agriculture Lending Officers by receiving the certificate at least 75 percent
3. Lending Officer's loan application productivity to be increased by at least 50 percent compared to the same quarter of the previous year (e.g. Q4 2012 vs. Q4 2011)

The certificate program will be offered by January 2012 and certification process will be completed by April 2012.

In addition, employees related to Component I activities will be participating in the following training programs:

- Human relations, public speaking and technical writing for ACE/ADF technical staff. New Delhi, August 2011;
- Islamic Finance for ACE/ADF, FI and MAIL staff. Kabul, September 2011;
- Credit policy to members of Credit Committee. Dubai December 2012;
- Value Chain Financing for members of Credit Committee and lending advisors. Kabul, March 2012;

The project explored the Economic Growth and Afghanistan Mission indicators to identify and select any; suitable high-level indicator to report its performance. In the absence of this, to measure ACE's performance in capacity building, the project proposes 2 project-level indicators as below. If approved by the USAID, the indicators will be detailed further.

- a. Number of individuals trained by ACE in credit policy and operations, value chain strengthening and market information systems;
- b. Person/hours of training; including formal and practical training and technical visits.

Reporting frequency: quarterly and annual

The indicators measuring the capacity building activities will capture formal and practical training and technical visits along the three components. For this purpose, the new indicators will be added under program objective (iv): "To build Afghan capacity to provide the services targeted under this task order" and

will stand for indicator #4.3 and #4.4 respectively. Annual and quarterly targets are described under the Knowledge Management component.

## 6. COMMUNICATIONS AND OUTREACH

The outreach and communications activities for this component are designed to create awareness for Agricultural Development Fund lending opportunities and to support the project's overall mission—to provide holistic support to advance agricultural modernization through financing, technical assistance and policy reform, contributing to increased agricultural jobs, income and Afghans' confidence in their government. All communications activities will be done in concert with the approved branding and marketing plan.

ACE set the foundations for the program's communication strategy in Year 1 with a specific focus on branding awareness with the Agricultural Development Fund (ADF). The team developed multimedia tools and templates for use over the life of the program including branding, website and promotional materials such as braded posters, clocks, pens, folders, and other communication tools. Other activities include weekly, monthly and quarterly reporting to USAID, news briefs, newsletters and success stories. Annual communications plans will also be developed, though the general strategic communications objectives, messages, branding and marking will remain consistent over the life of the project.

### **Strategic Communications' Objectives**

The communication team's objectives are to:

- Continue creating awareness of the MAIL's Agricultural Development Fund and its contributions to agricultural sector development.
- Create positive attitudes about the ACE program and the ADF among regional/provincial/local opinion leaders, program participants and the public.
- Communicate ACE activities to USG and Afghan stakeholders in a way that contextualizes the program's contributions in support of strengthening the MAIL and its responsiveness to Afghanistan's agricultural sector.
- Provide technical information to farmers (e.g. market price information, technical agriculture information).
- Support ACE program departments in terms of branding & marking, reporting, communications materials, marketing assistance (e.g. logo development) and events management.
- Respond to GIRoA and USAID requests for information and publicity.

### **ACE Stakeholders**

In order to cultivate mutually beneficial relationships with stakeholders across implementation areas, the project will develop and implement strategies and tactics that reach out to, educate and persuade the following target groups:

Primary Audiences:

- Financial intermediaries.
- Farmers associations and networks; agricultural input dealers and agribusinesses.
- Formal local stakeholders including village shuras, Community Development Committees, District Development Committees, and Provincial Development Councils.
- Commercial farmers and rural entrepreneurs.
- Buyers and investors relevant to value chains (local, regional and export markets).

- Ministry personnel at National, Provincial and District Levels.
- Regional and National media.
- USAID.

Secondary Audiences:

- Rural and urban populations in targeted provinces and districts.
- Other U.S. Government agencies (USG).
- Peer programs, other development programs and organizations.
- Local and International media.

### Project Branding

ACE has two distinct audiences. One is the Afghan public, and branding for all public materials should be done through the MAIL/ADF brand. ACE's other audience is USAID and other USG stakeholders; for these audiences, all branding should be done through a USAID Afghanistan/ACE sub-brand.

Through meetings with MAIL, the following emblem has been developed and will be used for all communications materials that require MAIL/ADF branding. There is a Dari version as well as an English version. While the Dari version will primarily be used, the English version may also be used on English-only communiqués, at the discretion of MAIL/ADF and ACE staff. These may be further modified or changed as the project conducts focus groups and elicits more feedback from MAIL staff, financial intermediaries and other stakeholders.



In 2011, ACE was granted a partial branding waiver with USAID which allows the project to use the ADF branding for lending activities (Component 1).

## **Program Materials**

Print materials have been developed by the project for dissemination to target groups at meetings, agricultural fairs, through email, online and for other ad-hoc requests and events. Basic materials developed in English, Dari and Pashto includes:

- Backgrounder on the project.
- Frequently Asked Questions.
- Success Stories.
- Monthly News Briefs.
- Newsletter with key achievements.
- Press releases.
- ADF Information packages
- Posters.
- Promotional materials such as ADF clocks, pens, postcards and paper folders.

Despite the fact that the ADF Customer Service Center has been operating since June 2011, ACE and MAIL will have a formal opening in September 2011. The Customer Service Center provides information on ADF lending opportunities to all interested agribusinesses and parties. ACE will build upon the experience of radio broadcasting and will develop addition video and audio materials. The ADF website launched in July 2011 will be continuously updated and used as means to disseminate achievements and lending opportunities.

Success stories, press releases, news briefs and newsletters will be developed on a regular basis by project staff throughout the provinces. Approval channels will be the Communications Officer, Chief of Party, USAID COTR and/or USAID Public Affairs Office.

## **Other Communication Activities**

Activities include project branding, materials development, website development, media relations, market information provision through radio and web, public messaging campaigns (radio), video products, events management and other person-to-person communications, product marketing and support to private sector development team, reporting and USAID brand management.

In Year Two of the project, the following deliverables will be achieved:

- ADF visibility through supporting (co-funding) local and national agricultural events.
- Ongoing media relations with a minimum of 10 press releases issued through ADF.
- Consistent ADF branding, as well as a public information campaign for ADF.
- At least ten market information products.
- At least one video product.
- Weekly, monthly, quarterly and annual reports.

## **7. SUSTAINABILITY PLANS**

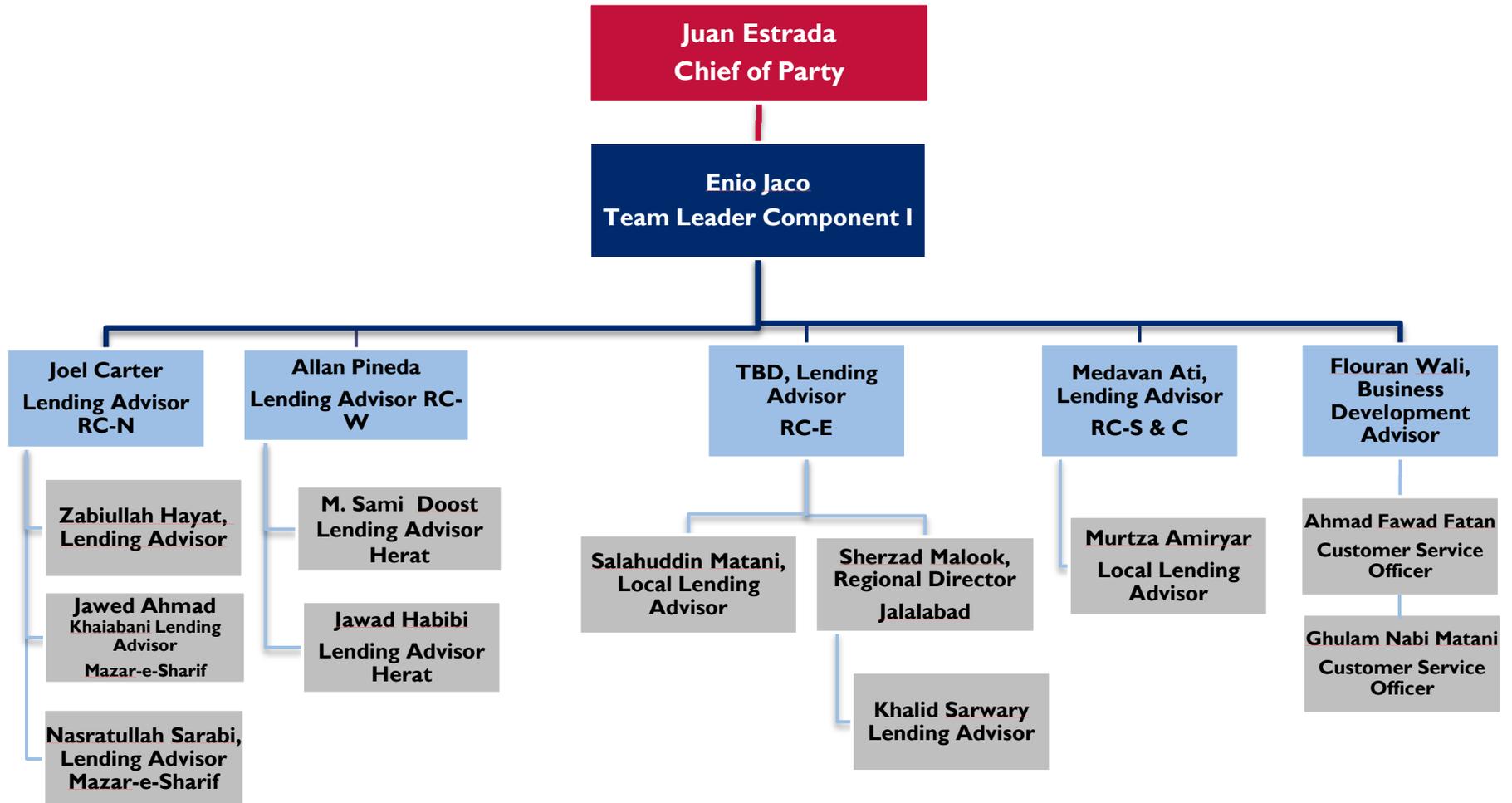
The structure of the project as a body that provides expertise to the MAIL and the ADF, and its collaboration with the MAIL from project inception is by its collaborative nature a sustainable model for agricultural lending.

The ADF is envisioned as an ongoing fund, administered by the MAIL. ACE is only providing technical and financial oversight support for the short and medium-term.

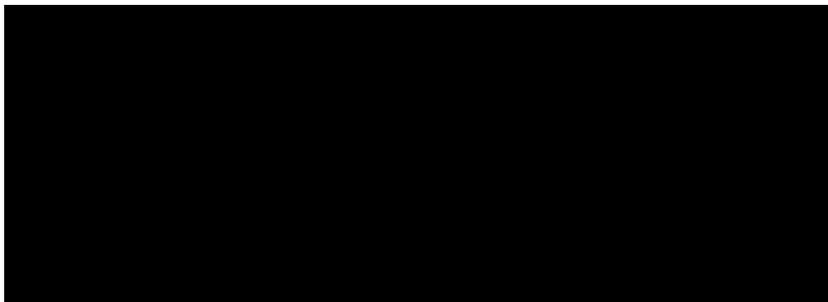
In Year 2, ACE is ensuring sustainability through the following:

- All technical staff hired in conjunction with ADF and MAIL.
- Establishment of a true partnership with the Ministry of Agriculture, Irrigation and Livestock.
- Establishment of the ADF and ADF board, semi-independent from MAIL, as a way to ensure autonomy and transparency.
- Endorsement of ADF Policy and Procedures by MAIL and recognition of final approval authority to MAIL/USAID/ACE Credit Committee.

## 8. PERSONNEL STRUCTURE



## 9. COMPONENT BUDGET\*



\*These component budgets are for salary, allowances and travel related to the component staff and specific ODC costs for CCN staff. Other shared costs such as office space, guest house and security are not included in the following components budgets as they would be allocated across all departmental budgets.

## COMPONENT II: AGRICULTURAL MODERNIZATION AND VALUE CHAIN DEVELOPMENT

### 1. BACKGROUND

The Agricultural Modernization and Value Chain Development component has the fundamental objective of contributing to the assessment of the technical feasibility of ADF loan applications and providing technical assistance to ADF clients. The project will continue assisting the ADF clients with technical assistance in crop production, post-harvest handling, processing and marketing technologies and practices.

While other USAID-funded projects have been collecting and disseminating market information—mainly commodity prices—it is necessary at this point to make the transition from the mere provision of price data to the dissemination of market intelligence. ACE will actively promote the dissemination of market information and market intelligence products established in the first year, such as the web-based market price platforms and market briefs through radio and where possible television broadcasts. The ACE market briefs, launched in 2011, provide market intelligence for priority the crops selected during Year 1.

### 2. BASE YEAR RESULTS

During the base year the value chain component focused at the provision of agricultural technical assistance and feasibility studies for prospective ADF borrowers for the lending component. Due to the limited number of ACE borrowers in the base year, the number of agricultural modernization grants has been relatively low. This will change in the Year-1 as explained in the tasks five, six and seven. The percentage change in domestic and export sales are not yet measured due to the fact that in the base year the project focused at measuring the baseline in sales. The results will be captured in the Year 1.

**TABLE 5. ACE COMPONENT 2 ACCOMPLISHMENTS BY QUARTER**

ACE PERFORMANCE INDICATORS	ACTUAL Q1 FY2011	ACTUAL Q2 FY2011	ACTUAL Q3 FY2011	ACTUAL ACCOMP	TARGET FY2011
2.1 Value of Agriculture modernization grants disbursed	\$ 80,623	\$ 49,090	0	\$ 129,713	up to \$ 1million
3.1 Percentage change of domestic and export sales of Afghanistan agriculture products for firms supported by ACE	-	-	-	-	10%
3.3 Number of public private partnerships formed as a result of USG assistance (including GDAs)	0	0	0	0	1

### 3. YEAR-1 GOAL

Throughout the second year of project implementation, ACE will continue carrying out value chain-specific workshops in Herat, Mazar-e-Sharif and Jalalabad seeking to engage agribusiness entrepreneurs working at different levels of the value chain, as well as government and non-governmental organizations. The purpose of these workshops is to identify key technological, financial, policy and market-related interventions to address strategic constraints, while harnessing the gains derived from inter-agency collaboration. ACE will continue to collaborate with other development programs such as TAFE, ASAP and IDEA-NEW and MAIL to address these constraints.

To support agribusinesses, traders and processors assisted through ADF lending, ACE will set five market trials to test end product packaging, grading and marketing techniques. These trials will enable ADF clients to identify the types of investments required to revamp their sales and succeed in their business ventures.

#### The targets of this component include:

- Two loans approved under the DCA mechanism<sup>3</sup>.
- Two new Global Development Alliances established.
- A minimum of US\$1 million in ACE grants provided.
- Annual sales growth of agribusinesses assisted by ACE increased by 10 percent per year .
- Exports of Afghanistan agriculture products, for agribusinesses supported by ACE, increase by 10 percent by the end of Year 2.

**TABLE 6. ACE COMPONENT 2 YEAR 1 TARGETS BY QUARTER**

ACE PERFORMANCE INDICATORS	Q4 FY2011	Q1 FY2012	Q2 FY2012	Q3 FY2012	Q4 FY 2012
2.1 Value of Agricultural Modernization (ACE) grants approved	\$ 300,000	\$ 800,000	\$ 1,500,000	\$ 2,000,000	\$ 2,500,000
3.1 Percentage change in domestic and export sales of Afghanistan agriculture products for firms supported by ACE <sup>4</sup>	-	-	-	-	10%
3.3 Number of public private partnerships formed as a result of USG assistance (including GDAs)	1	1	2	2	3

#### Task Four: Market Intelligence and Market Opportunities

During Year 1, ACE carried out an initial assessment of agricultural market data available to create market intelligence capability for high-value agriculture. It required great efforts to bring together partners such as MALOMAT, Roshan Mobile company; development projects such as ASAP, Horticulture and Livestock

<sup>3</sup> Contingent on the responsiveness of banks with DCAs in place

<sup>4</sup> Due to the seasonal nature of agriculture and the diversity of crops supported by the ACE program, the impact surveys will be conducted at different intervals, hence the difficulty of setting quarterly targets.

Program (HLP), Roots of Peace and IDEA-NEW; as well as MAIL's departments of Market Information and Statistics. By early October, the project expects to fully institutionalize the data-sharing relationship between all parties. Following this, the web-based market information platform with market intelligence products and practical applications will be launched in September of 2011. The project will also organize a comprehensive training program for MAIL staff on how to maximize the use of the web-based market data platform.

The web-based platform will contain data such as daily/weekly wholesale prices for main agricultural commodities and livestock in Afghanistan. The platform will also integrate market data from neighboring countries to assist agribusiness entrepreneurs to identify market opportunities, target market windows and develop production and distribution systems.

Market intelligence will be disseminated through the use of three media: 1) web application; 2) market briefs; and 3) radio broadcasts. Market briefs focus on priority high value agricultural crops and contain practical information such as domestic production by province, domestic consumption, export potential and a list of potential importers. The ACE briefs serve as market guides for Afghan exporters and are available in three languages: Dari, Pashto and English.

#### **Task Five: Technical Support for Development of the Value Chain**

ACE will continue using the approach of the Year 1, providing technical assistance to ADF borrowers in crop production, post-harvest handling, processing and marketing technologies and practices. Therefore, technical support will be mainly provided to ADF borrowers and will address the needs of agribusinesses, farmers associations and financial intermediaries. The project will support five agribusinesses, packing houses and processors with setting up market trials to explore the benefits of improved marketing techniques, packaging and branding, as well as the exploration of new markets.

Following the regional value chain workshops, ACE will establish a support network for value chain development, capitalizing on the resources available to the project, as well as to other development initiatives active in ACE's target areas. The support network for value chain development will be further strengthened through the provision of funding and technical assistance for market trials.

As part of the market development activities, ACE will facilitate the participation of progressive and forward looking agribusiness entrepreneurs in five different local, regional and international agricultural trade events, seeking to assist them to explore new markets, which is expected to have a positive impact on the growth of their businesses.

As a way to promote the adoption of best-practices by progressive farmers, on Farmers Day (March 21<sup>st</sup> 2012) ACE, in collaboration with MAIL, will launch a national contest on agriculture consisting of three prizes: 1) the best value adding company; 2) the best exporter; 3) the best commercial farmer. This activity will be primarily targeted to reward innovation in agriculture at different levels, capitalizing on the power of public recognition. The prizes will be awarded by the Minister of Agriculture, Irrigation and Livestock at the agricultural fair that will be organized on Farmer's Day.

To encourage the development of the value chain, in Year 2, ACE will provide a minimum of US\$1 million in selective cost sharing grants to agribusinesses and/or local organizations that will result in increased efficiency, adoption of advanced production technologies, improved marketing practices, and market exploration. When appropriate, ACE grants will be used to support the participation of ADF clients and potential clients in regional and international trade fairs.

#### **Task Six: Access to Finance for Agricultural Modernization and Value Chain Investment**

In Year 2, ACE will provide business development services to agribusiness firms, ADF clients and potential clients interested in expanding their operations, accessing new markets, or modernizing their production systems. These services will include training and technical assistance on financial management, preparation of business plans and facilitation of contacts with financial institutions. For this purpose, ACE has already contracted a local business development company provider which started offering the training in financial

management in May 2011. This assistance will help current and prospective agricultural borrowers to make more effective use of financial resources and support loan requests with solid financial data.

The project will support financial institutions interested in promoting agricultural lending. Based on demand, ACE will assist financial intermediaries to set up their agricultural credit departments, train their staff and make already developed lending products with them. ACE has already established collaborative activities with the recently launched FAIDA project. Using these resources, the project will facilitate the development of financial products for agriculture and encourage and stimulate the expansion of financial networks. Farm stores and other agricultural input dealer networks constitute a group with which ACE will continue to collaborate, capitalizing on their existing clientele, strategic position cutting across agricultural value chains and their unique ability to engage in value chain financing. During Year 1, ACE worked closely with ASAP, IDEA NEW, CHAMP and other development programs to reach out to potential borrowers, address their needs and strengthen the financing request. In year 2 ACE will strengthen these relationships to develop a truly synergistic partnerships.

Recognizing the economic and social importance of providing Afghan women with access to financial services, ACE will work on developing a financial product for female agribusiness entrepreneurs. Lending to women in Afghanistan poses fundamental challenges, among them: a) generally women do not have assets that could be pledged as collateral, b) cultural norms typically prevent women from working outside the household, and c) the majority of women, especially in the rural areas, are illiterate and lack the skills to keep basic accounting records.

Considering the constitutional right of Afghan women to have access to the means to participate in, and benefit, from economic development, and in the light of the inclusive nature of the ADF and particularly considering the unique opportunity that the ADF provides for the Government of Afghanistan to support women entrepreneurs, ACE/ADF will launch a Sharia compliant financial product specifically for female agribusiness entrepreneurs, already operating medium-scale enterprises, individually or in groups. The main subsectors of focus would be annual and perennial horticulture, livestock husbandry and agro-processing. The loans would be managed by a financial institution under a special set of incentives and under a risk-sharing agreement.

Additionally, in the second year of project implementation, ACE in collaboration with UNDP will assist MAIL designing a comprehensive agricultural program to strengthen women agricultural Cooperatives. This program would entail short and long term interventions that will cover technical training and business and financial management programs. It is expected that as a result of these interventions, women cooperatives will be in a position to strengthen their businesses and produce bankable business propositions that could be funded by ADF.

#### Task Seven: Support to Producers

ACE will continue to collaborate with other agricultural development programs such as IDEA-NEW, ASAP and CHAMP to provide support to producers through technical assistance for crop production, packaging and marketing and trade opportunities. Collaboration with partner organizations to facilitate the participation of Afghan agribusinesses to regional and international trade fairs has proven to be very effective during the first year.

This activity will be complemented with technical assistance to apply for commercial loans through financial institutions and the facilitation of market arrangements. As a way to assist agribusinesses and manage the risks inherent to the adoption of advanced technologies and the penetration of new markets, ACE will provide 10 grants to traders and processors interested in exploring the regional and international markets.

#### Task Eight: Policy and Enabling Environment

Policies and regulations that discourage investments in agriculture are ubiquitous throughout Afghanistan. Similarly trade policies are not conducive for the exploration and penetration of export markets, preventing entrepreneurs from harnessing the benefits of market expansion. In the second year, recognizing the role of

TAFAs and FAIDAs, the role of ACE in the policy sector will be reduced to coordination with other agricultural development programs. Additionally, ACE will deploy STTA consultants to address specific policy issues based on demand.

#### 4. MONITORING AND EVALUATION

Information on Indicator # 2.1 is provided by the Grants Unit and cross-checked with Grants Contract and TAMIS (DAI/ACE's internal information system). ACE will develop specific tools on tracking the grants performance in Year 1. Field visits accompanied by field monitoring reports will be conducted to ensure that the grant activities are implemented in accordance with the original purpose.

Indicator # 3.1 is tracked by the M&E Unit through baseline and impact assessments carried out with agribusinesses receiving ADF funds. The performance of ACE farmer clients based on sales to domestic and, if applicable, export markets will be captured by conducting baseline and impact assessments with a sample of the population. The size of the sample depends on the size of the population and may vary between 5-20 percent of the population. The M&E Unit mobilizes and trains field enumerators to conduct the impact assessment for direct beneficiaries. All the data gathered undergoes quality assessments and is entered in the database.

The value chain team will work together with the lending component to establish public-private partnerships which will be tracked through Memoranda of Understanding, contracts and will be followed up with interviews and monitoring missions to the entities involved.

#### 5. CAPACITY BUILDING

In terms of agricultural modernization and value chain development, ACE MAIL staff working in the Private Sector Development and Agricultural Extension Units constitutes another target group for capacity building interventions. Providing them with the tools to conduct value chain assessments and use the findings to guide the introduction of technological, institutional and/or organizational interventions to promote growth is the purpose of these interventions.

In the second year of project implementation, ACE will carry out the following activities:

- Training in Value Chain Assessment for 15 technical staff from MAIL. Kabul December, 2011
- Transforming Value Chain findings into policy interventions for MAIL staff. April 2012
- Long-term Business development and financial management training for 5 regional women cooperatives. Specific topics to be determined based on the findings of the ongoing assessment contracted by ACE
- Technical visit for selected women cooperatives to India to learn about loan management within the context of cooperatives and producer associations

The first two activities will consist of a combination of 1 week of formal training, field work and independent research writing, followed by training sessions in areas specific to value chain interventions.

The project will make use of the same indicators to capture performance along capacity building.

4.3 Number of individuals trained by ACE in credit policy and operations, value chain strengthening and market information systems

4.4 Person/hours of training; including formal and practical training and technical visits.

Reporting frequency on this indicator will be quarterly and annual.

## 6. COMMUNICATIONS AND OUTREACH

The communication strategy for Component 2 is highly linked with the activities of Component 1. Value Chain - specific communication activities include:

- ADF visibility through Value Chain Workshops in the regions focusing at the identification of obstacles for value chain growth;
- Media relations and TV/Radio coverage of the workshops;
- ADF visibility through supporting and co-funding local, regional and national agricultural trade fairs.

## 7. SUSTAINABILITY PLAN

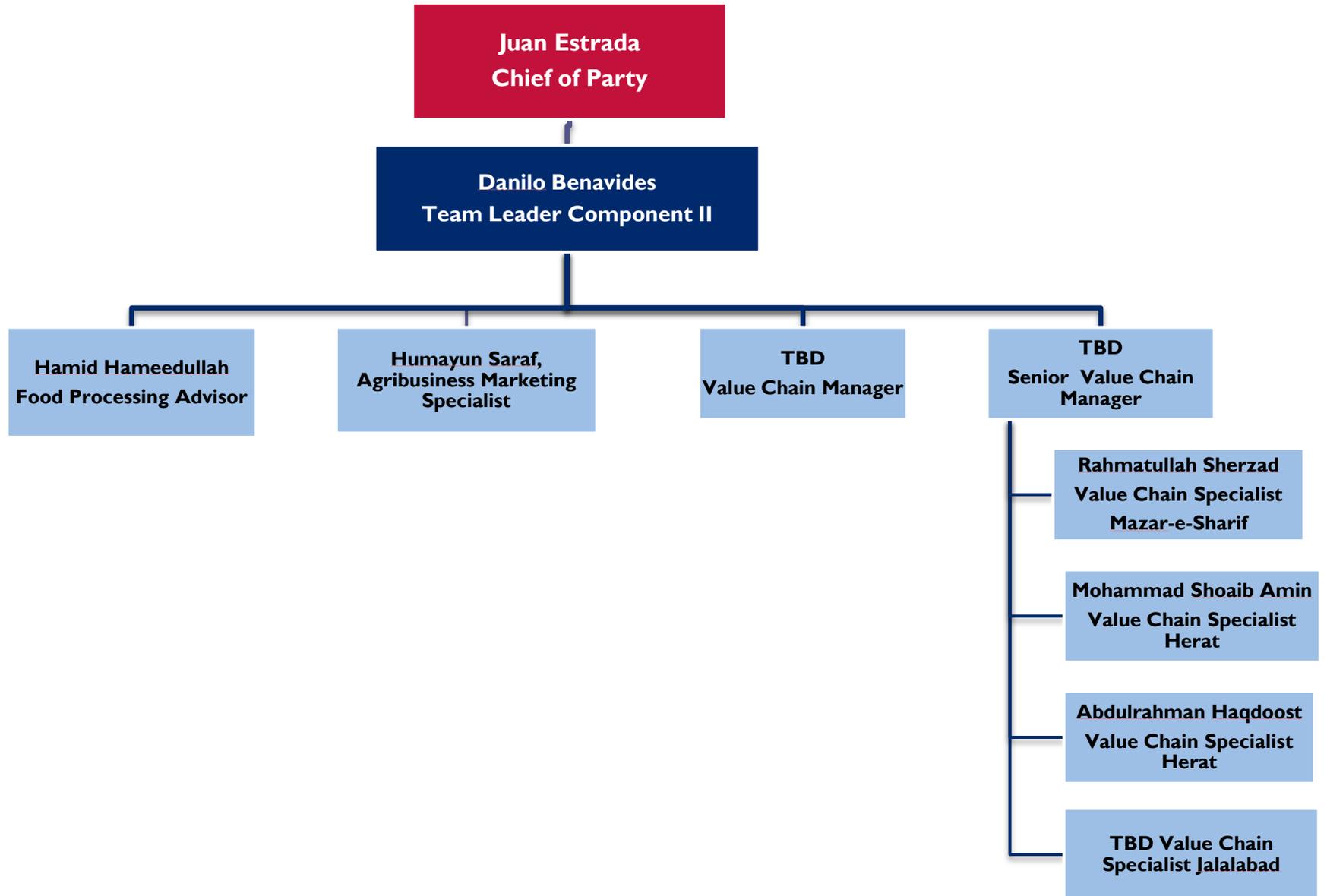
The structure of the project as a body that provides expertise to the MAIL and the ADF, and its collaboration with the MAIL from project inception is by its collaborative nature a sustainable model for agricultural lending.

The ADF is envisioned as an ongoing fund, administered by the MAIL and the value chain component is the unit that provides agricultural technical assistance to enable ADF lending.

In Year 2, ACE is ensuring sustainability through the following:

- All technical staff hired in conjunction with ADF and MAIL.
- Establishment of a true partnership with the Ministry of Agriculture, Irrigation and Livestock.
- Technical training of national value chain advisors as a way to enhance ADF internal capacities and expertise in agricultural value chains.

## 8. PERSONNEL STRUCTURE



## 9. COMPONENT BUDGET\*



\*These component budgets are for salary, allowances and travel related to the component staff and specific ODC costs for CCN staff. Other shared costs such as office space, guest house and security are not included in the following components budgets as they would be allocated across all departmental budgets.

## COMPONENT III: COORDINATION AND KNOWLEDGE MANAGEMENT

### 1. BACKGROUND

ACE will support MAIL in coordinating agriculture related initiatives, particularly focusing on activities related to agriculture finance. The project will design and implement a knowledge management facility that gathers and builds a credible repository of information about Afghanistan's agricultural sector. This knowledge management facility should have the capacity to address ad-hoc analysis as requested by USAID and MAIL.

### 2. BASE YEAR RESULTS

ACE Performance Indicators	Actual Accomplishments	Target fy2011
4.1 Number of conferences, workshops and other initiatives designed to foster increased credit to the agricultural sector carried out through the Agricultural Credit Working Group	3	5
4.2 Number of market information and market intelligence products created and disseminated by the established knowledge management unit	9	12
4.3 Number of individuals trained by ACE in credit policy and operations, value chain strengthening and market information systems.	New	
4.4 Person/hours of training, including formal and practical training and technical visits	New	

### 3. YEAR ONE GOAL

#### Task Nine: Coordination

During Year 1, ACE established a tradition of coordinating with MAIL and other development programs under the Agricultural and Rural Development Cluster. The quarterly meetings aim at sharing 100-day implementation plans with MAIL and other programs, reporting achievements and progress and discussing challenges. MAIL/ARD Cluster coordination meetings have proven to be an important instrument at understanding the activities of other project as well as meeting with partners.

ACE will continue with quarterly meetings of the agricultural credit technical working group, incorporating financial and non-financial institutions aimed at discussing ongoing credit programs, capitalize on synergies emerging from complementary activities and leverage resources to increase the efficiency of foreign aid. ACE will share the innovative lending products developed by the project with other actors and will encourage their use by financial and non-financial intermediaries. This will be carried out in collaboration with the FAIDA project.

#### Task Ten: Knowledge Management

To better manage the substantial amount of data related to agriculture generated by several line ministries and international organizations, ACE, in collaboration with MAIL, will launch the Knowledge Management Facility in September of 2011. Besides market prices and market intelligence (described under Task 4) the web-based KMF platform will contain agricultural research studies and reports developed by other agencies. In Year 2, ACE will work at developing awareness for the maximal use of the KMF platform by farmers, agribusiness and other agricultural programs. To achieve this, ACE will make use of: 1) radio and whenever possible television broadcast; 2) posters and billboard announcements; 3) the ADF and MAIL websites.

ACE will provide intensive training and mentorship to MAIL staff beginning in November 2011, building their capacity to manage the KMF by the end of year 2.

ACE and the MAIL will achieve this by signing MOUs with development programs working in agriculture, and to the extent possible, harmonize data collection processes. The formalization of data sharing is expected to be finalized in June 2011. By the end of Year 2, ACE expects that the KMF platform will become the primary source of reliable agricultural data in Afghanistan. The project, in partnership with MAIL will continue developing market briefs for priority crops and disseminating them through MAIL channels and ADF and KMF websites as well as distributing printed copies in Dari and Pashto.

<b>ACE PERFORMANCE INDICATORS</b>	<b>Q4 FY2011</b>	<b>Q1 FY2012</b>	<b>Q2 FY2012</b>	<b>Q3 FY2012</b>	<b>Q4 FY 2012</b>
4.1 Number of conferences, workshops and other initiatives designed to foster increased credit to the agricultural sector carried out through the Agricultural Credit Working Group	5	6	8	9	10
4.2 Number of market information and market intelligence products created and disseminated by the established knowledge management unit	12	15	18	22	25
4.3 Number of individuals trained by ACE in credit policy and operations, value chain strengthening and market information systems.	12	12	8	15	13
4.4 Person/hours of training, including formal and practical training and technical visits	64	56	80	64	56

## 4. MONITORING AND EVALUATION

The joint policy and value chain team conduct workshops and conferences which aim to identify the obstacles for the agricultural credit, addressing specific value chains or sectors. ACE M&E team monitors these activities through direct participation in the event and collection of 'proof of event' such as participation lists and minutes of the meeting. Indicator #4.2 will be tracked through copies of market intelligence products and proof of dissemination. When ACE will launch the KMF platform the M&E department will keep track of the trend change (increase) in the number of users visiting the website platform. Also the number of copies

of printed market briefs or other market information products will be tracked. M&E will have interviews with potential end users to receive feedback on the KMF products and their use.

M&E will capture the progress along the new indicators on capacity building. The quarter targets for indicator #4.3 and #4.4 are given above.

## 5. CAPACITY BUILDING

ACE will continue developing the capacities of ACE MIS staff and MAIL. The targeted group at MAIL is the personnel working in the Statistics and Management Information Systems Units (15), as well as the Directorate General of Policy and Planning. ACE has been tasked with enabling MAIL to consolidate and analyze agricultural and market information to produce market intelligence products, while advising policy decisions. Achieving this task has required the close involvement of the project with MAIL, establishing partnerships with key counterparts, as well as identifying technical areas that should be strengthened. ACE's AWP2 includes a series of capacity building activities, seeking to ensure that MAIL counterparts will be—by the end of FY2012—be able to use available data to produce sound policy advice, while providing private sector actors with market intelligence.

Indicative activities for the last quarter of FY 2011 include a technical visit for 3 ACE staff and 5 MAIL officials to Kenya and Mozambique to look at market information systems operating from both the private and public sectors, as well as introducing them to Early Warning Systems (September, 2011).

Specific capacity building activities that will take place in the second year of the project implementation include:

- Technical Training on Systems and Database Operations and Management for ACE/MAIL staff. Kabul, October 2012
- 12 MAIL officials currently working in the Statistics and MIS departments, who will host the Knowledge Management Facility once transitioned from ACE, and
- Technical Visit of ACE/MAIL staff to Kenya and Mozambique for MIS and Early Warning Systems. September 2011
- "Data collection techniques" practical training for MAIL Statistics staff. October-November 2011
- "Analysis of production and trade data" for MAIL's MIS and Statistics Departments. March-May 2012
- "Technical writing" for MAIL's MIS and Statistics Departments. June 2012

The project will make use of the same indicators to capture performance along capacity building.

4.3 Number of individuals trained by ACE in credit policy and operations, value chain strengthening and market information systems

4.4 Person/hours of training; including formal and practical training and technical visits.

Reporting frequency on this indicator will be quarterly and annual.

## 6. COMMUNICATIONS AND OUTREACH

The Communications Strategy for Knowledge Management component focuses on joint outreach collaborations between ACE/ADF and MAIL. In Year 1 ADF and MAIL will launch together the PAYWAND (KMF) web-based market information database which will constitute one of the most important media activities for FY2012. Market briefs, trade reports and other market information products designed by the project and disseminated in collaboration with MAIL will raise awareness on ACE/ADF activities. Being

Knowledge management specific communication activities include:

- ADF visibility through regional meetings aiming at introducing KMF/PAYWAND platform to farmers associations, agribusinesses, DAIL officers and other agricultural development programs;
- ADF visibility through dissemination of Market Briefs through MAIL website and hardcopies distributed to DAIL regional offices.
- ADF visibility through dissemination of Trade Reports and other market information products through MAIL website and hardcopies distributed to DAIL regional offices.

## 7. SUSTAINABILITY PLANS

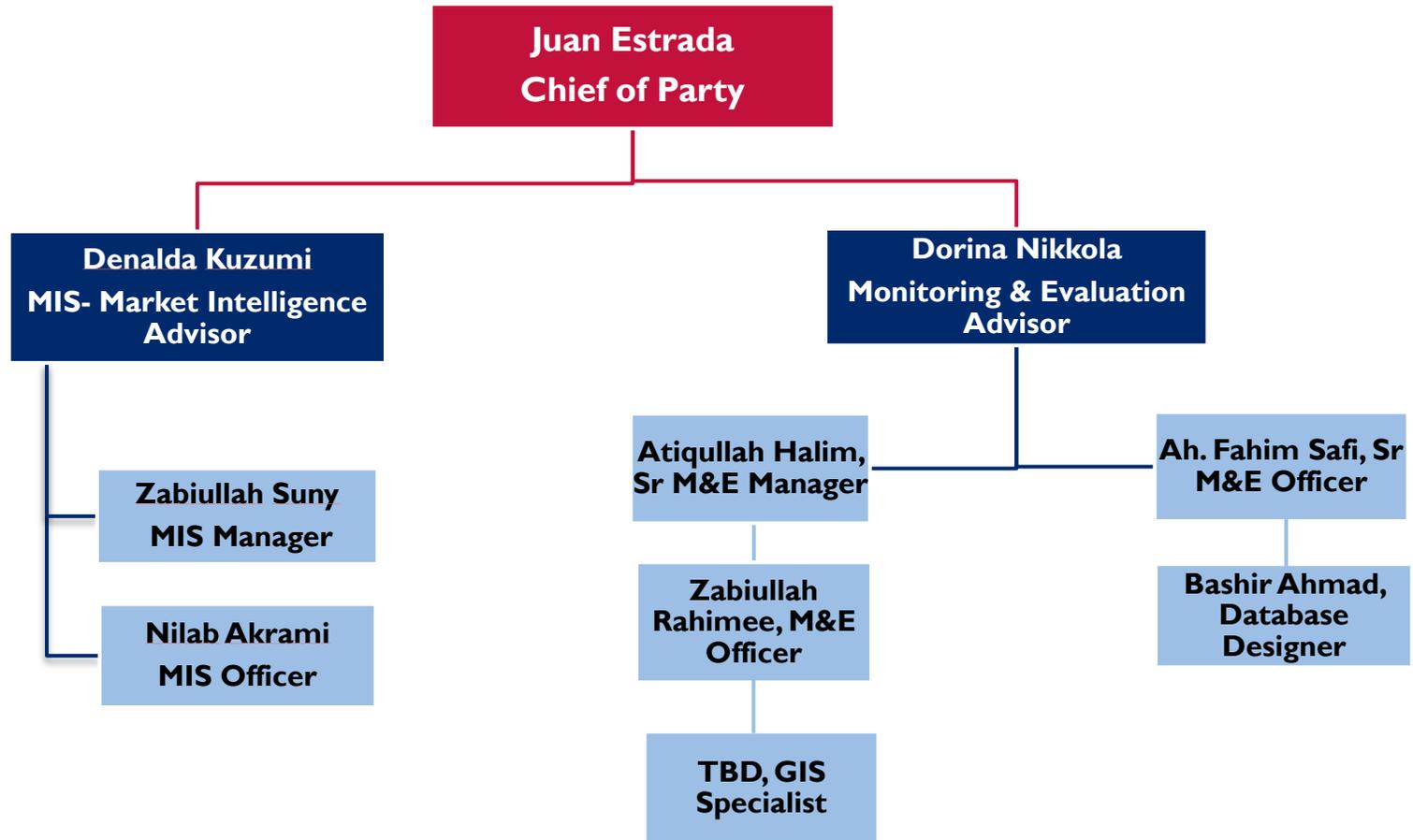
The structure of the project as a body that provides expertise to the MAIL and the ADF, and its collaboration with the MAIL from project inception is by its collaborative nature a sustainable model for agricultural lending.

The ADF is envisioned as an ongoing fund, administered by the MAIL and the Knowledge Management platform once designed and consolidated will be transferred to MAIL. The KMF/PAYWAND database will enable ADF lending and value chain advisors find market information data and transform them to market intelligence through the many options and query systems offered by KMF.

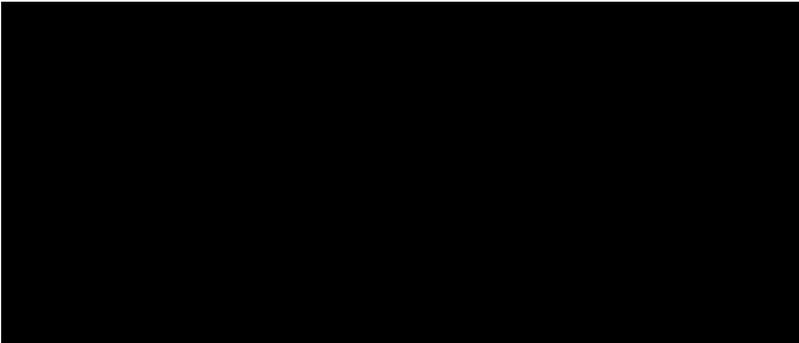
In Year 2, ACE KMF s ensuring sustainability through the following:

- Launch ACE/ADF Market Information Platform (also referred to KMF) in collaboration with MAIL.
- Training of ACE/Market Information and MAIL/Statistics Department staff on maintaining and enriching the database;
- Training the ADF technical staff on making use of the market information database for ADF lending purposes.

## 8. PERSONNEL STRUCTURE



## 9. COMPONENT BUDGET\*



\* These component budgets are for salary, allowances and travel related to the component staff and specific ODC costs for CCN staff. Other shared costs such as office space, guest house and security are not included in the following components budgets as they would be allocated across all departmental budgets.

## GRANTS AND CONTRACTS OVERVIEW

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The project has two grants components:

- ADF Grants for a maximum of US\$15 million included in the US\$100 million grant to the GIROA. These funds are to be used in two ways:
  - Innovation grants to assist financial intermediaries to develop new financial products
  - Challenge grants to assist financial intermediaries to mitigate the risks associated to agricultural lending

Considering the challenges identified in Year 1 to engage financial institutions in agricultural lending, despite the possibility of providing grants, In Year 2, ACE will use challenge and innovation grants for 2 fundamental purposes:

- Building the capacity of non-financial intermediaries to manage on-lending operations through the establishment of Credit Management Units (CMUs) and similar mechanisms
  - Supporting those financial institutional legitimately interested in building their competence in agricultural lending, through a stepwise approach described at the beginning of this document
- ACE grants for a maximum of US\$1 million to be used to introduce technological and (market) institutional innovations in strategic value chains. ACE will use these grants, to support the adoption of production and post-harvest practices and market promotion, including participation in trade events.

During the second year of implementation, the ACE program aims at using US\$4 million of ADF grants, provided the concurrence of MAIL, and US\$1 million of ACE value chain strengthening grants.

## PERSONNEL BREAKDOWN

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Following the assessment of both project needs and human resources, ACE will have a core expatriate field team, supported by short-term consultants.

## CORE FIELD TEAM

NAME	CAPACITY
Juan Estrada-Valle	Chief of Party
Ryan Schear	Director of Operations
Enio Jaco	Team Leader Component 1
Danilo Benavides	Team Leader Component 2
Dorina Nikolla	Monitoring and Evaluation Advisor
Flouran Wali	Business Development and Gender Advisor
Denalda Kuzumi	Market Information Systems Advisor
Allan Pineda	Lending Advisor- RC-W Coordinator
Joel Carter	Lending Advisor – RC-N Coordinator
TBD	Lending Advisor- RC-E Coordinator
TBD	Lending Advisor RC-S and Central Region Coordinator
Benjamin Turnbull	Senior Banking and Credit Administration Advisor
Lawrence Chris Blatnik	Credit Administration Officer
Borni Borni	Senior Audit and Compliance Officer

## ILLUSTRATIVE LIST OF SHORT-TERM CONSULTANTS

NAME	CAPACITY
Duke Burrus	Cold Storage and Market Development
Pedro Arlindo	Market Information Systems Consultant
Lilian Rodas	Grants Management Consultant
TBD	Horticulture Consultant
TBD	Agricultural Credit Consultant
TBD	Credit Policy Consultant
TBD	Credit Administration Systems consultant
TBD	IT/Credit Systems Consultant
TBD	Value Chain Consultant
TBD	Islamic Finance Consultant
TBD	Value Chain Finance Consultant
TBD	Monitoring and Evaluation Consultant
TBD	Environmental Management Consultant

The field team will be supported by the same Home Office based personnel as in Year 1.

## CHALLENGES/ASSUMPTIONS

The main assumptions for the achievement of the planned results are:

**1) MAIL complies with the conditions precedent of the Implementation Letter 16 in a timely manner, which will enable ACE to implement lending activities in a timely manner and therefore meet contractual targets.**

**Action to address:** Throughout Year 1 and especially at the time of preparing the Annual Work Plan 2, USAID and ACE are seeking to secure MAIL's endorsement of the ADF Policies and Procedures as the only condition precedent pending from Implementation Letter No. 16. Based on discussions with MAIL, ACE expects the Ministry to present a motion to Cabinet and register the ADF in mid-June. Throughout Year 1, the project has generated a critical awareness among MAIL authorities on the necessity of MAIL compliance with requirements of Implementation Letter No.16 for the continuation of ADF activities.

**2) The ADF is registered by the end of June 2011, which will enable the new organization, under ACE management, to exercise recourse on collateral, should it be necessary. This constitutes a**

***fundamental requirement for ACE to operate below the maximum loan default rate set in the Task Order.***

**Action to address:** ACE has informed USAID ahead of time on the necessity of formally registering the ADF and has generated critical awareness at MAIL on the increased risk of the default imposed by this delay. USAID and ACE have actively engaged in discussions with MAIL to resolve this bottleneck which is likely to be finalized by the end of June 2011.

## ACTIVITY PLAN – YEAR 2

		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	MAZ	JAL	HER
<b>Component I Management of ADF</b>																	
<b>Task 1.</b>	<b>Establishment of ADF Operations</b>																
<i>Task No.</i>	<i>Description of activities</i>																
<b>1.1</b>	<b>Conduct Public Awareness of the ADF</b>																
	Radio campaign in partnership with MAIL covering 9 provinces	■		■		■		■		■		■		■	■	■	■
	TV commercial aired in 6 regional (provincial) television stations 3 times/day			■	■			■	■			■	■		■	■	■
	6 Ag Credit Shuras in the 3 target areas								■	■	■				■	■	■
<b>1.2</b>	<b>Support PIs in Preparing for ADF Participation</b>																
	Identification of training needs																
	Production of AG Lending Training modules				■	■											
	Delivery of training sessions for interested financial intermediaries				■		■		■		■				■	■	■
<b>Task 2</b>	<b>Management of ADF Operations</b>																
<i>Task No</i>	<i>Description of activities</i>																
<b>2.1</b>	<b>Verify Eligibility and Creditworthiness of PI loan requests</b>																
	Screening of ADF loan applications	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Approval by MAIL/USAID/ACE Credit Committee		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Disbursement of ADF loans		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
<b>2.2</b>	<b>Monitor the Pis and End-Borrowers</b>																
	Selection of Ips for ADF lending	■	■	■	■	■	■	■	■	■	■	■	■	■			
	Determination of lending arrangements with IP		■	■	■	■	■	■	■	■	■	■	■	■			
	Loan applications processed by implementing partners		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Approval of loans		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Disbursement		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
<b>2.3</b>	<b>Establishment of Credit Management Units for PI</b>																
	Establishment of Credit Management Units for PI	■	■	■	■	■	■	■	■	■	■	■	■	■			
	Training of CMU Staff	■	■	■	■	■	■	■	■	■	■	■	■	■			
	Monitoring of CMUs	■	■	■	■	■	■	■	■	■	■	■	■	■			
<b>2.4</b>	<b>Support Advisory Board in Reviewing and Modifying ADF Policies and Procedures</b>																

	Review of ADF Policies and Procedures							■						■				
<b>2.5</b>	<b>Administer Challenge Grants</b>																	
	Challenge Grants	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	MAZ	JAL	HER	
	2 Financial institutions and other value chain actors supported through challenge grants to encourage their involvement in agriculture credit			■					■									
<b>2.6</b>	<b>Administer Innovation Grants</b>																	
	Innovation Grants	■	■	■	■	■	■	■	■	■	■	■	■	■				
	Continue the expansion of credit program using mobile money (M-paisa / mobile finance/debit cards)	■	■	■	■	■	■	■	■	■	■	■	■	■			■	
<b>2.7</b>	<b>Develop Innovative Credit/Financial Mechanisms</b>																	
	Consultations with implementing partners and other development organization to design 2-3 new financial products to address strategic needs			■		■		■							■	■	■	
	Workshop with implementing partners to introduce, and receive feedback on financial products								■						■	■	■	
<b>2.8</b>	<b>Build capacity of ADF Management Unit to Independently Manage ADF following Project Close</b>																	
	Training of Advisory Board on ADF operations			■	■	■												
<b>Task 3</b>	<b>Transition the Fund and the ADF Management Unit to a Local Organization</b>																	
<b>Task No</b>	<b>Description of activities</b>																	
<b>3.1</b>	<b>Develop ADF and ADF Management Unit's Transition Plan</b>																	
	Workshops with MAIL and IPs to design the transition model for the ADF									■		■						
	Presentation to senior MAIL and USAID officials											■						
<b>Component II Agriculture Modernization and Value Chain Development</b>																		
<b>Task 4.</b>	<b>Market Intelligence and Market Opportunities</b>																	
<b>Task No</b>	<b>Description of activities</b>																	
<b>4.1</b>	<b>Develop of a Market Intelligence Capability for High-Value Agriculture</b>																	
	Promotion of new tools and products for market intelligence	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Web applications						■								■	■	■	
	Market briefs						■								■	■	■	
	Radio and television broadcasting						■								■	■	■	
	Publication of "Market Opportunities Briefs" for HV crops																	

<b>4.2</b>	<b>Packaging of Market Information and Dissemination</b>																	
	Public awareness campaign			■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Publication of Market Forecasts for priority crops	■			■				■			■			■	■	■	
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	MAZ	JAL	HER	
<b>Task 5.</b>	<b>Technical Support for Development of the Value Chain</b>																	
<b>Task No</b>	<b>Description of activities</b>																	
<b>5.1</b>	<b>Develop a Support Network for Value Chain Development</b>																	
	Value chain-specific strengthening workshops			■		■		■		■		■		■	■	■	■	
<b>5.2</b>	<b>Demonstration Projects</b>																	
	Establishment of 5 market trials for ADF clients			■		■		■		■		■			■	■	■	
<b>5.3</b>	<b>ACE Grants Mechanism</b>																	
	Afghan agribusinesses participate in 5 national, regional and international trade fairs, with grant support				■		■		■		■		■		■	■	■	
	Support agricultural competition through Farmers's Day									■					■	■	■	
	Best Commercial Farmer Award									■								
	Best Exporter Award									■								
	Best Trader Award									■								
	Support 3 Agricultural Fair through co-organizing and co-funding			■		■				■					■	■	■	
<b>Task 6.</b>	<b>Access to Finance for Agricultural Modernization and VC Investment</b>																	
<b>Task No</b>	<b>Description of activities</b>																	
<b>6.1</b>	<b>Expand Supplier and Dealer Finance Networks</b>																	
	6 business plans/ feasibility studies/ marketing plans for local companies applying for loans		■		■		■		■		■		■		■	■	■	
	Roundtables with companies interested in applying to GDAs							■	■	■	■	■			■	■	■	
<b>6.2</b>	<b>Collaboration with USAID-FAIDA Project</b>																	
	Coordination with USAID-FAIDA		■	■	■	■	■	■	■	■	■	■	■	■				
<b>6.4</b>	<b>Lending to Women</b>																	
	Launching of a new lending product for women			■			■								■	■	■	
	Training PI partners on the implementation of the new lending product for women				■	■	■	■	■	■	■	■			■	■	■	
	Cooperating with UNDP and MAIL to launch a program to strengthen women cooperatives in Afghanistan			■	■	■									■	■	■	
<b>6.5</b>	<b>Global Development Alliances and DCA</b>																	
	2 Roundtables with companies interested in applying to GDAs				■				■						■	■	■	

		Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	MAZ	JAL	HER
<b>Task 7.</b>	<b>Support to Producers</b>															
<b>Task No</b>	<b>Description of activities</b>															
<b>7.1</b>	<b>Provide Support to Producers to Upgrade Production to Meet Domestic and Export Market Requirements</b>															
	Provision of technical assistance for the production of business plans and BDS enabling agribusinesses to apply for ADF loans		■	■	■	■	■	■						■	■	■
	Provision of technical and financial (grant) support to 5 agribusinesses introducing technological or market innovations							■	■	■	■			■	■	■
	Provision of technical and financial assistance to 10 agribusinesses interested, and capable of exploring regional and/or international markets		■	■	■	■	■	■	■	■	■	■		■	■	■
<b>Task 8.</b>	<b>Improvement of Policy Enabling Environment</b>															
<b>Task No</b>	<b>Description of activities</b>															
<b>8.1</b>	<b>Technical Policy Advice to Create Conditions Conducive to Competitive Export of HVA Products</b>															
	Identification of policy issues constraining the growth of strategic value chains	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Three regional workshops to engage the MAIL/DAILs in the identification and promotion of policy solutions.		■				■				■			■	■	■
	Provision of technical assistance to MAIL in the policy advocacy process as requested											■	■			
<b>8.2</b>	<b>Establish Trade Certification System and Procedures to Support Exports</b>															
	Coordinate with other development programs operating in trade certification area and offering support for exports	■	■	■	■	■	■	■	■	■	■	■		■	■	■
	Support training workshops on agricultural grading and standards implemented by other development organizations and partners		■		■		■		■		■			■	■	■

<b>Component III Coordination and Knowledge Management</b>		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	MAZ	JAL	HER
<b>Task 9.</b>	<b>Coordination</b>																
<i>Task No.</i>	<i>Description of activities</i>																
9.1	Organizing quarterly meeting of Ag Credit Technical Working Group		■			■			■			■					
9.2	Coordination meeting with MAIL			■			■		■		■		■				
<b>Task 10</b>	<b>Knowledge Management</b>																
<i>Task No</i>	<i>Description of activities</i>																
<b>10.1</b>	<b>Knowledge Management Facility</b>																
	Launching of Ag Knowledge Management Facility			■			■										
	MOUs with agencies working in Agriculture to share information		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	New ag information products designed and disseminated								■		■		■		■	■	■
	Training to MAIL staff for the analysis of statistical data and the production of periodic and ad-hoc reports									■	■						
	Establishment of an interactive web application for access to Ag data											■					
	Promotion of KMF platform and awareness raising				■	■	■	■	■	■	■	■	■	■	■	■	■
<b>10.2</b>	<b>Ad-Hoc Reports</b>																
	Analysis reports on agriculture sector (upon request)																

## ANNEX 1 – BUDGET and Sub-Contracts

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Attached