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AFGHANISTAN

AGRICULTURAL CREDIT ENHANCEMENT (ACE) PROGRAM

ANNUAL WORKPLAN NO. 1

OCTOBER 1, 2010 – SEPTEMBER 30, 2011

Agricultural Credit Enhancement (ACE)

Annual Work Plan October 1, 2010 – September 30, 2011

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TECHNICAL REPRESENTATIVE: BRIAN FAHEY

CHIEF OF PARTY: JUAN M. ESTRADA

PROGRAM TECHNICAL LEAD: ROBIN YOUNG

Summary

Background

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

The ACE program by design focuses on enabling small-scale commercial farmers (1-30 hectares) to access financial services, with concomitant and positive effects in terms of technology adoption, 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. Grant to the Government of Islamic Republic of Afghanistan (GIROA) in the amount of \$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 August 2010 and ending in December 2014. ACE will manage the ADF and provide technical support to agricultural value chains.

The objective of the ADF and ACE is to facilitate rapid disbursement of loans along the agricultural value chain, 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's legitimacy, thereby enhancing overall stability in Afghan society.

Farms and agricultural enterprises across the entire country are eligible for funding through the Agricultural Development Fund, a \$100 million account that USAID and the MAIL will establish 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 to identify financial intermediaries—banks and other institutions—to handle the actual lending to borrowers. Each loan will be subject to control and approval by ACE and MAIL.

PMP Indicator Review

Progress and Key Accomplishments

In order to measure and document its progress towards target achievements and program objectives ACE has proposed 18 indicators as outlined in the draft Performance Management Plan (PMP) attached to this document. Based on whether the captured indicators reflect an output or an outcome, 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/or feed directly to USAID/Afghanistan's Strategic Objectives and USAID indicators. Periodical monthly and quarterly reports will provide regular update

along relevant indicators for the reporting period, as structured in the PMP and approved by COTR. The annual report will comprehensively capture all results against project indicators and will offer a clear up to date achievement 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 collected and analyzed quarterly under ACE Monitoring and Evaluation and Knowledge Management component will be disaggregated according to region, province, districts, number of activities per location and number of beneficiaries, to contribute to Afghan Info Database. ACE's Knowledge management component will coordinate with Afghan Info Unit on the level of data analysis and disaggregation.

Activity breakdown

Given the proximity of the fall planting season and the urgent need to provide farmers and agribusinesses with financial solutions and achieve immediate impact, while building the stage for a successful long-term intervention, ACE will follow a two pronged strategy: a) Fast track lending during the fall of 2010, and b) Provision of a comprehensive portfolio of technical and financial services to address the needs of different economic agents across strategic value chains beginning in the spring of 2011.

- a) **Fast track lending.** During the period August-December 2010 the ACE program will focus its efforts in addressing the financial needs of large agribusinesses, farmer organizations and input supply networks. This will allow ACE to service the needs of a large number of clients within the existing time constraints. The focus in high-value agriculture will also maximize the outcome of this intervention.
- b) **Comprehensive portfolio of technical and financial services.** This constitutes a complete package of assistance to agribusinesses, including technical assistance to address specific issues constraining the growth of strategic value chains (i.e. at the production, post-harvest handling, processing and marketing stages). This package will also include a strong capacity building program for MAIL personnel, as a way to maximize the impact and ensure the sustainability of the ADF.

During both phases, ACE will work closely with the MAIL to ensure that the agricultural credit program is presented as a MAIL activity, seeking to progressively reduce foreign assistance, consistent with the Afghan First concept.

Component one: Management of ADF

The expected results for year 1 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 agriculture sector, they include:

By December 31, 2010

- \$18 million – 24 million in ADF funds disbursed.

By July 15, 2011

- Establishment of the Advisory Board and enactment of appropriate governance processes
- A minimum of 15 participating intermediaries on-lending funds from ADF
- Two new, innovative lending products introduced by participating intermediaries, resulting in significant increases in lending to the agricultural sector
- Disbursement of up to US\$5 million in challenge and innovation grants

These expected results are achievable following the two-pronged approach detailed above, which initially focuses the efforts and resources of the program towards a fast-track lending model detailed below.

Task One: Establishment of ADF Operations

Given the fact that the ADF must be born from an Act of Parliament, USAID will increase the contract obligation by US\$15 million to allow for immediate lending through financial institutions, trade associations, farmer associations and input supply networks. During this first phase, ACE will, in close collaboration with the MAIL assess and approve those loan applications that meet the standards set in the policies and procedures designed for this effect. The policies and procedures will determine the eligibility criteria, disbursement mechanisms, interest rates and repayment methods.

Concurrently, ACE and the MAIL will launch a public awareness campaign through mass media promoting the lending mechanisms 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.

The selection of participating institutions will follow an initial assessment conducted by Checci Consulting under a separate USAID contract and surveys carried out by ACE's lending team. In the initial phase ACE will focus its efforts on a maximum of 4 partner organizations, seeking to harness the benefits of economies of scale, while targeting value chains with the highest likelihood of success. Selected partner organizations will be vetted by both MAIL and ACE as per the eligibility criteria established in the policies and procedures designed and agreed upon by ACE, USAID and MAIL. Once identified and screened, ACE's lending team will hold an informational session in each organization, seeking to ensure that the personnel involved are clear about the nature of the credit program, the expectations of MAIL regarding repayment and procedures for the selection of loan applications.

Engaging partner organizations in agricultural lending will undoubtedly require the introduction of incentives in the form of training programs for IP staff, awareness campaigns and risk management mechanisms using ACE's challenge grants fund. For this purpose, ACE will submit its grants manual for USAID approval in November 2010.

Task Two: Management of ADF

Following the establishment of the basic lending infrastructure, ACE will verify the eligibility and creditworthiness of the loan applications submitted by IPs. Contingent on the obligation of funds, ACE plans to grant the first loan on the first week of September 2010, aiming at meeting the US\$18 million target by the end of the calendar year. Concurrently to the disbursement of the first loans, ACE will embed a monitoring officer in each of the on-lending institutions to monitor performance and collect data relevant to ACE's M&E system and Afghan Info.

Beginning in January 2011 and every quarter 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.

The use of challenge and innovations grants will begin in the December. ACE will use challenge grants to assist financial intermediaries in the management of risks inherent to agricultural loans, while also introducing innovation grants to ensure the effectiveness and maximize the outcome of the loans program.

Beginning in November 2010, ACE will conduct a comprehensive analysis of training needs and will produce training modules for an in-service training program for the ADF Unit. This 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

At the end of the first year of implementation, ACE will conduct the first of a series of workshops aimed at stimulating the dialogue among MAIL regarding the transition of the fund. This task will be formally implemented in year 2.

Component II: Agricultural Modernization and Value Chain Development

The Agricultural Modernization and Value Chain Development component has the fundamental objective of contributing to the rapid growth of strategic value chains through the introduction of advanced production, post-harvest handling, processing and marketing technologies and practices. This will be achieved through a comprehensive value chain development program that will include the provision of technical assistance to address specific constraints, promotion of technology innovations and facilitation of market arrangements. The latter aimed at generating effective demand for higher quality produce and thereby give rise to derived demand for more sophisticated production models. **The technology and market interventions will be intrinsically linked to the provision of access to financial services, without which the adoption of advanced technologies would not be feasible.**

Within this context, ACE will identify strategic value chains, based on three fundamental criteria: a) economic relevance, b) competitiveness, and c) potential to generate aggregate economic growth in target areas. The selection process will require carrying out 15 value chains studies, using secondary data, which for the most value chains is abundant in Afghanistan, as well as rapid field surveys and key informant interviews. Based on an analysis, ACE will select 9 value chains, in the ideal case, 3 for each of the target regions.

ACE's value chain experts will structure and deliver a training program in value chain analysis for MAIL staff, who as part of their training will participate in the production of the 15 value chain assessments.

Following the selection, ACE will carry out value chain-specific workshops in Herat, Mazar –i-Sherif and Jalalabad seeking to engage agribusiness entrepreneurs working at different levels of each value chain, as well as government and non-governmental organizations. The purpose of these workshops will be to identify key technological, financial, policy and market-related interventions to address strategic constraints, while harnessing the gains derived from inter-agency collaboration. These activities and their conclusions will inform ACE interventions in the areas of agricultural technologies, agricultural and trade policy, market development and facilitation of access to finance. As part of the latter, ACE will introduce financial instruments available through the Development Credit Authority (DCA) and Global Development Alliances (GDA). Similarly, ACE will promote the adoption of technology, institutional and organizational innovations at all levels of the value chains by providing strategic grants for a total of up to US\$1 million.

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 do this by using data collected from MALOMAT and produce a series of products targeting different audiences. Similarly, ACE will integrate data on regional markets and production and market forecasts.

The targets of this component include:

- Two new loans approved under the DCA mechanism
- One new Global Development Alliance established
- US\$1 million in ACE grants provided
- Annual sales growth of 10% per year in value chains assisted by ACE.

Task Four: Market Intelligence and Market Opportunities

ACE will create market intelligence capability for high-value agriculture within the MAIL. This will be achieved through an initial assessment of available data, the development of market information and market intelligence products with practical applications, and a comprehensive training program for MAIL staff.

ACE will also pursue the integration of market data from neighboring countries to assist agribusiness entrepreneurs to identify market opportunities, target market windows and develop production and distribution systems.

The project, in partnership with MAIL will identify cost-effective media for the dissemination of market intelligence, included but not limited to web, mobile applications and radio broadcasts.

Task Five: Technical Support for Development of the Value Chain

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 demonstration projects and the provision of innovation grants.

During the first year of implementation the project will identify 5 technologies to demonstrate, setting up several replications around Jalalabad, Herat and Mazar-i-sharif. ACE will engage the MAIL extension network in the technology dissemination efforts by encouraging and facilitating field days and other promotional activities.

As a way to promote innovation in agriculture, in the period January-June ACE will carry out the Agriculture Innovation Competition. This activity will be primarily targeted to input suppliers, farmers, processors and agriculture students and will reward the most creative and effective technological and market-related innovations that address constraints of relevance for target value chains.

As part of the market development activities, ACE will facilitate the participation of progressive and forward looking agribusiness entrepreneurs in 10 local, regional and international agricultural trade events.

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

ACE will provide business development services to agribusiness firms interested in expanding their operations, accessing new markets, or modernizing their production systems. These services will include financial mentorship, technical assistance for the preparation of business plans and facilitation of contacts with financial institutions. For this purpose, ACE will contract the services of local business development service providers.

Seeking to leverage resources the project will facilitate access to GDAs as well as to the DCA currently available at Alfalah Bank. Once the FAIDA project is operational, ACE will take advantage of this resource to work closely with private banks facilitating the development of financial products for agriculture and encouraging and stimulating the expansion of financial networks. Farm stores and other agri-input dealer networks constitute a group with which ACE will collaborate, capitalizing on their existing clientele, their strategic position cutting across agricultural value chains and their unique ability to engage in value chain financing.

Recognizing the economic and social importance of providing Afghan women with access to financial services ACE will commission a study to identify lending opportunities for women. Based on the findings of the study, ACE will design and launch financial products specifically targeted towards this important and underserved segment of the population.

Task Seven: Support to Producers

On the recognition that building the capacity of farmers to upgrade their production systems requires a strong extension system, ACE will, in collaboration with IDEA-NEW, ASAP and other donor-funded initiatives train MAIL extension agents and commercial farmers in aspects related to high-value agriculture. This will be achieved through a cycle of training sessions in Jalalabad, Herat and Mazar-i-Sherif. The integration of produce buyers and representatives of financial institutions is expected to introduce the much needed incentives for this upgrade to take place.

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 commercial farmers manage the risks inherent to the adoption of advanced technologies and the penetration of new markets, ACE will provide 10 grants to commercial farmers and 2 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 key 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. Based on this recognition, ACE will conduct two policy studies, seeking to produce policy prescriptions to overcome existing constraints identified during the regional value chain workshop. During this process, ACE will integrate MAIL, DAILs and representatives of other ministries relevant to each case in the identification of policy solutions.

Following this process, ACE will provide trade associations and MAIL with technical advice in the policy advocacy process. These activities are expected to result in two policy innovations with relevant impact for agriculture modernization.

Considering the ever-increasing importance of grades and standards for regional and international trade, ACE will design and deliver a training program on agriculture grades and standards—with emphasis on food safety—for MAIL staff. Similarly, the project will deliver 3 training workshops, one in each region, on grades and standards applicable to high-value agriculture. These activities will be complemented by the provision of technical advice to MAIL for the establishment of a public or private certifying body for high-value agriculture in year 2.

Component III: Coordination and Knowledge Management

Task Nine: Coordination

Recognizing that poor coordination among international development agencies often results in the inefficient use of resources, the duplication of efforts and generally inefficient processes, in March 2011 ACE will establish the Agriculture Credit Technical Working Group. This entity will meet on a bimonthly basis to discuss ongoing credit programs, capitalize on synergies emerging from complementary activities and leverage resources to increase the efficiency of foreign aid.

Within this context, by the end of year 1 ACE will:

- Establish the agricultural credit technical working group,
 - Encouraging the development of innovative lending products to the agricultural sector and initiatives to remove constraints to agricultural lending.

MAIL will be at the forefront of this activity, with the technical support of ACE, seeking to empower MAIL to exert leadership in this process.

Task Ten: Knowledge Management

Similarly, several line ministries and international organizations generate a substantial amount of data related to agriculture. Due to lack of coordination most of these datasets are underutilized. Based on this notion ACE will assist the MAIL in the establishment of a Knowledge Management Facility. This facility will collect, analyze and disseminate agricultural data through several media, while providing sound analysis pieces in response to ad-hoc requests.

ACE and the MAIL will achieve this by signing MOUs with international agencies working in Agriculture and to the extent possible harmonize data collection processes. By the end of year 1, the facility will have produced a minimum of 3 agriculture information products and will have launched a web application with reliable data regarding Afghan agriculture.

Achieving this will require the provision of basic equipment and software, as well as intensive training and mentorship to MAIL staff, provided by ACE beginning in March 2011.

Grants and Contracts Overview

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

ACE will use these grants to introduce incentives to engage financial intermediaries in agricultural lending activities. However, this will require MAIL concurrence, which brings about challenges related to MAIL's political priorities.

- ACE grants for a maximum of US\$5 million to be used to introduce technological and (market) institutional innovations in strategic value chains. ACE will use these grants, to support the introduction of advanced crop production technologies, post harvest practices, introduce systems of standards and market promotion, including participation in trade events.

During the first year of implementation, the ACE program aims at using US\$4 million of ADF grants, provided the concurrence of MAIL, and US\$2.5 million of ACE value chain strengthening grants.

In addition to the grants funds Contract Modification 2 provides for a US\$15 addition to the implementation funds for year 1, which were deducted from the US\$100 million granted to GIROA. The purpose of this addition to the contract is to facilitate fast-track lending before the registration of the ADF. ACE anticipates committing 100 percent of this fund by December 2010, while the disbursement is expected to take place between November 2010 and April 2011.

Personnel Breakdown

Derived from the rapid deployment of the project and the initial emphasis on lending, the project has 2 vacant positions in the Agricultural Modernization and Value Chain Development component. These positions will be filled in January 2011.

Savings in the labor line item provided for the addition of 2 positions; Market Information and Market Intelligence Advisor, and a Senior Banking Advisor, who have made substantial contributions to the achievement of the project's objectives.

At the time of the submission of the final draft (i.e. November 16, 2010) the project is in the process of replacing the Director of Operations, until a suitable candidate is proposed to USAID, the project will rely on short-term technical advisors from DAI Washington. Below is the list of staff currently in the project.

Name	Position/ Job Title
Juan Estrada-Valle	Chief of Party
Quinton Collier	Senior Rural Finance Advisor / C 1 TL
TBD (covered with STTA)	Director of Operations and Administration
TBD	Ag Modernization and VC Strengthening C 2 TL
TBD	Senior Value Chain Analyst
Mary Beth Theisen	Senior Lending Advisor
Borni Borni	Audit and Compliance Officer
Dorina Nikolla	Monitoring and Evaluation Manager
Ben Turnbull	Senior Banking Advisor
Bea Celler	Senior Policy Analyst
Larry Hendricks	Senior Rural Finance Specialist
Timur Nuratdinov	Lending Advisor
Denalda Kuzumi	Market Information System Advisor
Bill Riley	Agricultural Lending Specialist (STTA)
Flouran Wali	Gender and Value Chain Advisor (STTA)
Gathoni Mungai	Senior Grants Start-up Specialist (STTA)

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 one, ACE is ensuring sustainability through the following:

- All technical staff hired in conjunction with ADF and MAIL
- Establishment of Agricultural Credit Working Group
- Establishment of ADF and ADF board, separate from MAIL, that will have ongoing autonomy and transparency

Communications and Outreach

Overview

The outreach and communications activities for ACE are designed to support its 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 marking plan.

In the first year, the communications team will set the foundation for the program, with a specific focus on branding awareness of the Agricultural Development Fund (ADF). The team will develop multimedia tools and templates for use over the life of the program including branding, website, key documents and other communication tools. Other activities will include weekly, monthly and quarterly reporting to USAID, regular media relations in close conjunction with the Ministry of Agriculture, Irrigation and Livestock (MAIL) media office and spokesperson. Annual communications plans will 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:

- Create awareness of the MAIL's Agricultural Development Fund and its contributions to agricultural sector development
- To 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 that supports their agricultural development (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 IRoA 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
- Formal local stakeholders including village shuras, Community Development Committees, District Development Committees, Provincial Development Councils
- 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
- 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 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.



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Program Materials Development

Print and video materials will be developed by the project for dissemination to target groups at meetings, by email, online and for other ad-hoc requests and events. Basic materials to be developed in English, Dari and Pashto include:

- Backgrounder on the project
- Frequently Asked Questions
- Key program successes
- Information for credit seekers

In addition to these basic materials, success stories, press releases and other materials will be developed on a regular basis by project staff throughout the provinces. Approval channel will be Communications Manager, Chief of Party, USAID COTAR and/or USAID Public Affairs Office.

Other Communications 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 One of the project, the following deliverables will be achieved:

- Website developed
- Ongoing media relations with a minimum of 10 press releases issued through ADF
- Cohesive 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

Special Themes

Capacity building

Building the technical capacities of Afghan government and enabling them to invest in high-value agriculture, agro-processing industry and enhance market development, through strengthening agricultural lending, is a cross-cutting theme of all ACE activities. In addition to improving MAIL's capacities towards managing the ADF, ACE will contribute to the development of the technical capacities of financial intermediaries, therefore empowering the overall agricultural lending system in the country. Through ACE interventions, by the end of first year MAIL and FI staff will have better understanding and applied knowledge in procedures for assessing the eligibility, creditworthiness and financial risk for the loan application and better capacities in repayment collection.

The project will provide technical support to agricultural value chains by assisting and training not only extension service providers attached to MAIL, but also agricultural input suppliers, processors, medium size farms and other farm related actors in the value chain. ACE will facilitate policy discussions on

agricultural lending through establishing Agricultural Sector working group, which will serve as a tool to identify the needs of agricultural sector and provide the means to support removing of the constrains. Through challenge and innovation grants, ACE will enable creating incentives for the adoption of new production technologies and advanced processing facilities. Intensive efforts on market development will provide opportunities for Afghan agricultural products to reach new regional market compete in the global food industry and increase their business linkages.

Knowledge Management

Knowledge management is a component of the project. Activities and deliverables are noted above, under Component 3: Coordination and Knowledge Management.

Challenges/Assumptions

The main anticipated challenge to the achievement of the planned results, consist of:

1) Establishing ADF through the formal approval of the Cabinet of Ministers and including ADF budget in the national Budget within December 2010.

Action to address: MAIL will present the draft proposal to Cabinet in the following weeks and will achieve formal approval. Meanwhile USAID has added US\$15 million to the ACE task order as a way to expedite lending activities.

2) Award of the FAIDA project. As per the ACE RFTOP, the success of ACE in engaging commercial banks in agricultural lending was contingent of the support provided from within financial institutions by the FAIDA project.

Action to address: On the recognition that influencing the prompt award of the FAIDA project is beyond the area of influence of ACE, the project leadership is making extra efforts to engage financial institutions in agricultural lending. However it is realistic to assume less participation than expected on the part of the banking sector.

There are no other challenges foreseen for the first year of project implementation. Detailed risk assessment and mitigation measures are outline in the draft PMP. The project is fully committed to delivering the planned results are stated in the Task Order under the following assumptions:

- 1- MAIL fulfills its commitments on time and meets project deliverables;
- 2- Methods and project approaches are approved through appropriate GIRoA;
- 3- The Afghan banking system remains solvent and stable;
- 4- An increase in sales is an adequate proxy measure for increased income.

In case any of these issues arises, ACE will present alternative solutions to USAID Afghanistan and will take measures accordingly.