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Investing in rural people

## **Islamic Republic of Afghanistan Progress report on the country strategic opportunities programme**

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**For: Information**

# Islamic Republic of Afghanistan

## Progress report on the country strategic opportunities programme

### I. Introduction

#### A. Summary of the COSOP

1. The current IFAD country strategic opportunities programme (COSOP) for Afghanistan was submitted to the IFAD Executive Board for review in April 2008. The COSOP initially covered a four-year period, from 2008 to 2012, and was the first that IFAD had developed for Afghanistan. Because the portfolio contained only two, relatively “young” operations whose initial lessons were just coming in, and also in view of the transition from international to national security forces due to be completed in 2014, the COSOP period was extended to 2014.
2. The mid-term review of the COSOP was undertaken in March 2011 and annual progress reviews were carried out in 2012 and 2013. The present progress report takes into account the recommendations made and progress reported in those reviews as well as the evolving political and security environment in view of the planned drawdown of international security forces and the upcoming general elections – both due in 2014.
3. The COSOP was formulated against a backdrop of a very fluid security and law and order situation in the country and pronounced capacity and access constraints. The COSOP therefore adopted a deliberate flexible approach for the attainment of identified goals and objectives, underpinned by a process of continuing review and dialogue through annual reviews and an ongoing consultative process involving government and other key national and international stakeholders.
4. The COSOP’s overarching objective is to reduce gender disparities and increase the social and economic status of vulnerable and marginalized communities. Its specific objectives are to (i) strengthen capacity for local-level planning, enterprise development and economic growth (with a focus on local development institutions, private entrepreneurs and local government agencies); (ii) increase access to rural-focused financial services; and (iii) enhance the assets, skills and productivity of rural households.
5. The current IFAD portfolio consists of two operations financed through grants under the Debt Sustainability Framework: the Rural Microfinance and Livestock Support Programme (RLMSP) and the Community Livestock and Agriculture Project (CLAP). Some important lessons learned in the course of RMLSP implementation have been duly incorporated into the design of CLAP.

#### B. Current political context

6. Afghanistan has been plagued by war and instability for more than three decades. For the past ten years, international forces and the Afghan Government have been at war with the Taliban. Despite significant international support and the presence of the International Security Assistance Force, the control of the Government is tenuous. Informal power networks, such as ethnic or tribal structures and former mujahideen commanders, are as significant, if not more so, in shaping Afghan political, social and economic dynamics.

#### C. Security

7. The process of transferring responsibility for security from international troops to the Afghan National Army and the Afghan National Police will be completed by end-2014. Concerns remain about the sustainability of the Afghan National Security Forces when donor funds are eventually withdrawn.

## D. Post-2014 outlook

8. Though significant economic and social progress was achieved over the last decade particularly in governance and institution-building, the country has fared less well, and many indicators have worsened in recent years. Afghanistan remains one of the world's least developed countries, with a per capita GDP of only US\$528 in 2010/2011. More than a third of the population live below the poverty line, more than half are vulnerable and at serious risk of falling into poverty, and three quarters are illiterate.

## E. Changes since COSOP appraisal

9. Since the initial COSOP appraisal, significant progress has been made in national-level policy in development and governance. The finalization and approval of the interim Afghanistan National Development Strategy (ANDS) to a fully fledged comprehensive development framework led to the subsequent articulation of sector-based strategies as a subset to the ANDS in 2009. This was then followed by the "Kabul Process" which led to the Kabul Conference (July 2010), resulting in a sectoral clustering of Afghan ministries in order to finalize a list of national priority programmes.

## F. COSOP alignment with ANDS

10. The COSOP's overarching objective of reducing gender disparities and increasing the social and economic status of vulnerable and marginalized communities is aligned with the following ANDS pillars:
- **Economic and social development pillar – Agriculture and rural development section (sector 6) of ANDS:** The Government's goal is to achieve pro-poor growth in the rural areas by enhancing licit agriculture productivity, creating incentives for non-farm investment, developing rural infrastructure, and supporting access to skills development and financial services that will allow individuals, households and communities to participate licitly and productively in the economy.
  - **Economic and social development pillar – Social protection (sector 7) of ANDS:** The Government's goal is to increase the capacities, opportunities and security of extremely poor vulnerable Afghans through a process of economic empowerment in order to reduce poverty and increase self-reliance.

## G. National agriculture development framework

11. In October 2008, a review of the structure and programmes of the Ministry of Agriculture, Irrigation and Livestock (MAIL) resulted in the development of four key elements: (i) natural resource management to ensure that Afghanistan's natural resource base is rehabilitated and used in a productive and sustainable way by Afghanistan's rural population; (ii) agriculture production and productivity to sustainably increase the production and productivity of Afghanistan's farmers and herders through the provision of enhanced inputs, services and research; (iii) economic regeneration to foster sustainable and inclusive economic growth in the licit agricultural sector, resulting in increased and diversified incomes and employment opportunities for the Afghan population and increased revenue for the Afghan State; and (iv) a dynamic, well-functioning, competent and effective institution (MAIL and its subnational departments) through a process of reform and structural adjustment.

## H. Subnational governance

12. There have been discernible improvements in government capacities in political and administrative fields. These capacity improvements are, however, more Kabul-centred and there are major capacity challenges lower down the ladder at provincial, district and grass-roots levels. Most donor-funded projects continue to

be primarily implemented through private-sector implementation partners and United Nations agencies.

## II. Progress with implementation

### A. Strategic objectives

13. **Overarching objective: Reduce gender disparities and increase the social and economic status of vulnerable and marginalized communities.** This overall goal remains in line with the Government's national, sectoral and ministerial priorities, all of which have highlighted a clear need to reduce gender and ethnic disparities. Women have remained the main focus of interventions in both RMLSP and the more recently designed CLAP. One area that needs more attention in ongoing and future projects is youth in terms of their skills and mainstreaming into gainful employment opportunities.
14. **Strategic objective 1: Strengthen capacity for local-level planning, enterprise development and economic growth.** There have recently been a number of constitutional changes in subnational governance calling for the formation of village and district councils, and some national programmes have been initiated for institution-building and support to local-level planning.
15. **Strategic objective 2: Increase access to rural-focused financial services.** In recent years, the microfinance sector has made important progress in Afghanistan, but most poor rural people lack access to much-needed financial products. Through RMLSP, and in partnership with the Microfinance Investment Support Facility for Afghanistan, the Aga Khan Foundation and BRAC, IFAD is assisting in developing a diversified range of financial products and approaches that are tailored to rural-sector needs, gender-sensitive and in line with Islamic modes of finance, and that will help expand the outreach of financial services to rural communities through linkages with the commercial sector.
16. **Strategic objective 3: Enhance the assets, skills and productivity of rural households.** The original objective was deliberately kept broad so as to accommodate a range of emerging needs and priorities due to rapid changes in the institutional and governmental development thinking and framework. Experience during RMLSP, and consultations with a broad spectrum of stakeholders in the course of mid-term review and design of CLAP, has suggested continuing a strong focus on livestock activities targeting the most vulnerable, while also supporting initiatives to start rural enterprises by capitalizing on existing initiatives. In addition, a focus on value chains and productive agricultural infrastructure – with a specific emphasis on women, wherever possible – was made the mainstay of this objective.

### B. Outputs

17. **RMLSP.** The programme was approved by IFAD's Executive Board on 30 April 2009 at a total cost of US\$26.01 million. IFAD's contribution is 16 million special drawing rights (US\$23.62 million at the time of grant approval). The grant agreement became effective on 24 August 2009.
18. At the request of the Government and in view of the satisfactory performance of the programme, additional financing of US\$6 million, combined with a two-year extension, was approved by the Executive Board in December 2013 to increase the outreach and expand the results, innovations and best practices of the programme in a cost-effective manner. Therefore, the current programme completion date is 30 September 2016 and the grant closing date is 31 March 2017.
19. **CLAP.** The second operation under the current COSOP, the project builds on the experience learned in RMLSP. It was approved by the Executive Board in December 2012, and the first withdrawal application was processed and implementation of the project commenced in June 2013.

### **III. Programme performance**

#### **A. Overall performance**

20. Despite a very challenging operating environment, the IFAD country programme under the current COSOP has done reasonably well in terms of attainment of its outputs and outcomes. This has been largely possible through engagement of international NGOs as implementing partners, a necessity due to the severe capacity constraints at the operational level, i.e. provinces and districts.

#### **B. Priorities for IFAD during the remaining COSOP period**

21. An additional indicative funding of US\$50 million will be available for the performance-based allocation system (PBAS) cycle 2013-2015 for Afghanistan, allowing for the design of another project in early 2014.
22. The following will be the development priorities on the basis of current experience, the Government's development priorities and framework, existing capacities, IFAD target group needs and investment priorities of other development finance institutions:
- Maintenance of the regional focus on security/access and poverty but with a more concentrated geographic focus and menu of interventions;
  - Further strengthening of microfinance institutions and the Microfinance Investment Support Facility for Afghanistan, and continued support for development of locally relevant innovative microfinance products;
  - Greater focus on rural unemployed youth in skills development and enterprise development activities;
  - Exploitation of cofinancing opportunities with the Asian Development Bank and the World Bank, in particular looking into the possibility of linking IFAD-financed community-centred projects with larger infrastructure investment projects, especially in the water/irrigation sector for stronger impacts;
  - Enhanced investments in capacity-building of government agencies, particularly at provincial and district level; engagement of private implementing partners, to be linked to concurrent capacity development of government staff and incremental handing over of implementation responsibility; and
  - Promotion of a joint donor coordination forum within MAIL for better synergies among donor-funded projects and coordinated effort to assist the Ministry in a comprehensive restructuring along with capacity development.

### **IV. Conclusion**

23. A number of important developments are around the corner, e.g. the transition from international to national security forces and national general elections, both due in 2014. In addition, the national priority programmes are in their first cycle of implementation and review, and will generate many relevant lessons over the next couple of years and help shape the direction of the new COSOP and IFAD portfolio.
24. Security and access will continue to dictate the geographical targeting of the future portfolio.
25. More focus needs to be placed on capacity-building at provincial and district levels. The engagement of private-sector and NGO service providers should be treated as an interim delivery mechanism and should be directly linked to capacity development of related agencies and a mechanism for incremental transfer of responsibility for implementation and operation to government agencies.
26. MAIL currently has over 80 donor-funded projects with individual project implementation units and implementation approaches. Apart from stretching MAIL

capacities to their limits, this is also not conducive to local ownership. There is an urgent need for assisting MAIL in internal restructuring to manage external assistance in a more integrated manner.

27. With availability of additional financing in the 2013-2015 PBAS cycle, and with major development finance institutions in the process of articulating their interim investment strategies, the cofinancing option should be pursued more vigorously. Ideally, the next IFAD-funded project should link up with a project financing medium and large productive rural infrastructure for maximization of impact.
28. With the opening of an IFAD country office in Afghanistan, as recently approved by the Executive Board, IFAD will be in a better position to follow closely the challenges the country is facing and increase contact with both government and the donor community. This is likely to result in increased effectiveness, including in policy dialogue, and stronger support to the implementing partners.