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Investing in rural people

# President's report

# Proposed grant to the Islamic Republic of Afghanistan for the Support to National Priority Programme 2

Note to Executive Board representatives

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Executive Board — 115th Session
Rome, 15-16 September 2015

For: Approval

# Contents



Appendices

## Abbreviations and acronyms

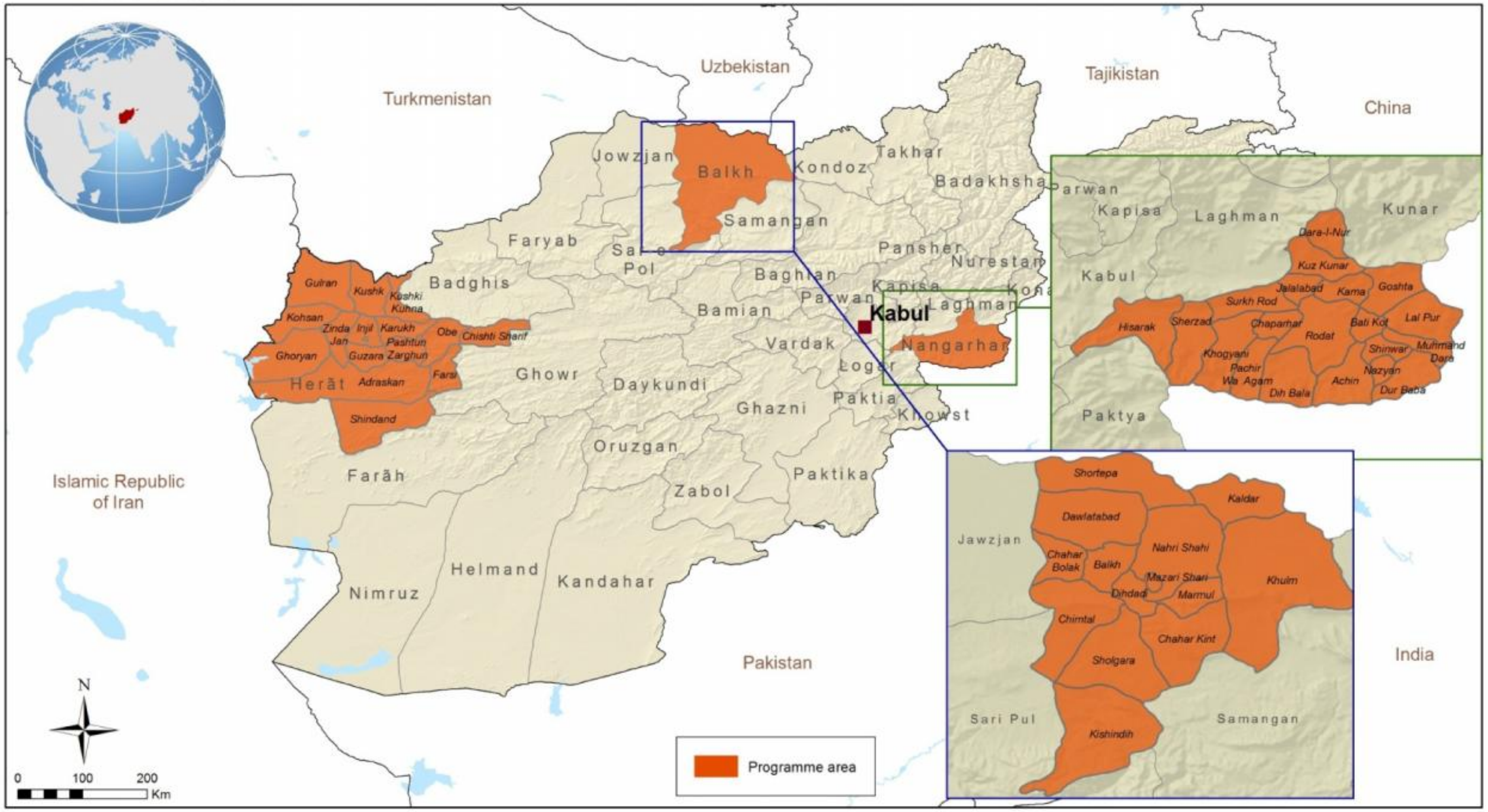
| | |
|---|---|
| AWPB | annual workplan and budget |
| CDC | community development council |
| FRC | farmers' resource centre |
| M&E | monitoring and evaluation |
| MAIL | Ministry of Agriculture, Irrigation and Livestock |
| MISFA | Microfinance Investment Support Facility for Afghanistan |
| MOF | Ministry of Finance |
| MRRD | Ministry of Rural Rehabilitation and Development |
| NPP2 | National Priority Programme 2 |
| NSP | National Solidarity Programme |
| PCC | provincial coordination committee |
| PSC | programme steering committee |
| PST | programme support team |
| SNaPP2 | Support to National Priority Programme 2 |
| TA | technical assistance |

# Map of the programme area

**Afghanistan**

Support to National Priority Programme 2 (SNaPP2)

*President's report*




The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

IFAD *Map compiled by IFAD* | 08-07-2015

# Islamic Republic of Afghanistan

# Support to National Priority Programme 2

# Financing summary

| | |
|---|---|
| **Initiating institution:** | IFAD |
| **Recipient:** | Ministry of Finance |
| **Executing agency:** | Ministry of Agriculture, Irrigation and Livestock |
| **Total programme cost:** | US$54.8 million |
| **Amount of IFAD grant:** | SDR 34.5 million (equivalent to approximately US$48.5 million) |
| **Cofinancier(s):**[1] | Microfinance Investment Support Facility for Afghanistan (MISFA) |
| **Amount of cofinancing:** | US$2.5 million |
| **Terms of cofinancing:** | To be confirmed |
| **Contribution of recipient:** | US$1.7 million |
| **Contribution of beneficiaries:** | US$2.1 million |
| **Appraising institution:** | IFAD |
| **Cooperating institution:** | Directly supervised by IFAD |

[1] The National Priority Programme 2 is tentatively being financed by the Government of the Islamic Republic of Afghanistan and a group of financiers including the European Union, the World Bank and the Department for International Development of the United Kingdom.

## Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed grant to the Islamic Republic of Afghanistan for the Support to National Priority Programme 2, as contained in paragraph 52.

# Proposed grant to the Islamic Republic of Afghanistan for the Support to National Priority Programme 2

## I. Strategic context and rationale

### A. Country and rural development and poverty context

1. Afghanistan is currently undergoing a major security, political and economic transition that will fundamentally shape its future. In late 2014 and early 2015, Afghanistan assumed responsibility for its own security and a new Government was established. With the transition, development assistance is being transformed from off-budget operations executed by external service providers to on-budget operations managed and implemented by national institutions, with capacity-building support as required. The present programme is fully aligned with these changes.

2. Afghanistan's population was estimated at 30.6 million in 2013, with an annual growth rate of 2.4 per cent. The population is relatively young, with 64 per cent under 25 years of age, and a median age of 17. Approximately 76 per cent of the population lives in rural areas. Afghanistan is ethnically diverse, with some 25 distinct ethnic groups.

3. Following almost four decades of conflict, Afghanistan remains one of the poorest nations in the world. An estimated 36 per cent of the population lives below the poverty line. The Human Development Report ranked the country 169$^{th}$ out of 187 countries in 2013, with a human development index of 0.468. Its gender inequality index was 0.712 in 2012, ranking it 147$^{th}$ out of 148 countries.

4. Afghanistan has received a substantial level of development aid since 2003. Public institutions have been strengthened, health care and education significantly improved, and road infrastructure constructed. There are indications that these activities have generated positive development outcomes in terms of life expectancy, health status, education levels and living conditions. In recent years, external assistance has fuelled high economic growth, with the annual GDP growth rate (constant prices) averaging 10.4 per cent for the 2009-2013 period.

5. Despite these improvements, most Afghans continue to endure conditions of hardship and insecurity. Infrastructure has been ravaged by conflicts and internal markets remain largely disrupted. Limited arable land per capita, low precipitation and harsh climate conditions in many areas contribute to the hardship and resource poverty endured by farmers. Poverty is multidimensional, involving a complex interplay among a lack of assets, years of conflict and insecurity, disasters, inadequate infrastructure, weak public services and traditional roles.

6. The agriculture sector contributes 24 per cent of GDP and employs approximately 70 per cent of the rural labour force. Afghanistan produces food and cash crops, some export and industrial crops, and livestock products. At present, there is increasing potential to overcome the devastation wrought by years of conflict and develop the crop and livestock subsectors to increase output, food security and rural incomes.

### B. Rationale and alignment with government priorities and RB-COSOP

7. IFAD has historically been responsive to the specific needs of fragile states in terms of policies, strategies and investments. Indeed, a substantial portion of the 2013-2015 resource allocation cycle has been allocated to fragile states. This focus is becoming increasingly structured and articulated, as requested by IFAD's governing bodies. Two recent documents addressed the scaling up of engagement in fragile States: A Strategic Vision for IFAD 2016-2025 (IFAD10/2/R.2), which prescribed increased attention to the specific context and needs of fragile states, with emphasis on building national capacities; and Enhancing IFAD's business model for inclusive and sustainable rural transformation (IFAD10/2/R.3), which outlined ways to better engage in fragile situations and promoted the capacity-building of community organizations and public institutions.

8. The present programme builds on this emerging strategic vision and adapts relevant elements of the business model to the Afghan context. It focuses on building national capacities and linkages across the agriculture sector – working with community organizations, public agriculture services and the private sector – to enhance community resilience and improve food security. It supports national programmes, in complementarity and synergy with partners, in particular the European Union. Consistent with the IFAD Guidelines for Disaster Early Recovery of May 2011, it invests in high-impact crop and livestock activities with comparative advantages, market demand and growth potential. Consistent with the Afghanistan country strategic opportunities programme, it provides strategic and programmatic support to the Government in agricultural sector transformation, rural economic growth and poverty reduction.

9. The programme is fully aligned with the Government's request to partners to progressively align with the newly prepared national priority programmes, moving from fragmented, project-based support to a sector-wide, programmatic approach in support of coordinated development. It will enable IFAD to contribute to sustainable, nationally driven development; to build the capacities of public and private institutions and community organizations; to modernize the agricultural sector; and to support the transition of smallholders from subsistence to commercialized farming. It will also position IFAD to help the Government tackle systemic sector challenges, particularly policymaking and public investment programming.

## II. Programme description

### A. Programme area and target group

10. IFAD's support for National Priority Programme 2 (NPP2) aims to achieve national coverage over a three-phase implementation period of 15 years. The Support to National Priority Programme 2 (SNaPP2) constitutes the first phase of IFAD support. It will be implemented in three selected pilot provinces, namely Balkh, Herat and Nangarhar, with planned geographical expansion to additional provinces over the second and third phases. In the three pilot provinces, the programme will primarily focus on six districts: Nahri Shahi and Dih Dadai in Balkh; Karukh and Zendhajan in Herat; Darah e Noor and Khewa/Kuzkunar in Nangarhar. However, it will also invest in other districts to the extent required by relevant agricultural backward and forward linkages, value chain linkages, relevance of activities, synergy with other development operations, and security considerations. Within the six identified districts, the programme will cover about 589 community development councils (CDCs) consisting of 57,000 households (427,500 people); it will also cover additional CDCs and households in the other districts as required. Should security deteriorate substantially in any selected district or province, the programme will formally shift to another district or another province subject to consultations between the Government and IFAD.

11. The programme has a three-tier target group: (i) at the subnational institutional level, it will target provincial and district extension staff of the Ministry of Agriculture, Irrigation and Livestock (MAIL), community mobilizers of the Ministry of Rural Rehabilitation and Development (MRRD), and farmers' resource centres (FRCs); (ii) at the local institutional level, CDCs, NGOs and relevant private sector entities will be strengthened and serve as interlocutors; and (iii) at the grass-roots level, target groups will include poor rural women and men, kuchis (nomadic herders), small farmers and herders, producers' groups and women's groups. Woman-headed households and rural youth will be the object of specific programme targeting.

## B. Programme development objective

12. The goal of IFAD financing will be to contribute to improving the food security and economic status of poor rural households in the three selected provinces. The programme has two objectives: (i) institutional development and capacity-building of community organizations, public extension services and relevant private sector entities; and (ii) sustained increased incomes for small farmers and herders fostered by improvements in productivity and output, infrastructure and market linkages.

## C. Components/outcomes

13. The programme has two components. Component 1: Institutional development – approximately US$14.0 million, 26 per cent of total programme cost.

14. Subcomponent 1.1: Extension services. The programme will strengthen the extension directorate's structures by: (i) establishing a women's extension department in MAIL to coordinate a cadre of female extension workers across the target areas; (ii) strengthening the male extension worker cadre at the district level; (iii) targeting young graduates from local agricultural faculties for recruitment as extension assistants; and (iv) incorporating updated techniques and approaches into the agricultural curricula.

15. Subcomponent 1.2: Farmers' organizations. MAIL and development partners are establishing a national network of FRCs across Afghanistan. The capacities of FRCs and other relevant community organizations will be upgraded to enable them to broker business relationships among stakeholders, bringing together decentralized MAIL and MRRD services, input suppliers, market integrators and small farmers.

16. Subcomponent 1.3: Private sector. Private sector linkages, contract farming and value chain upgrading will be integrated with district extension services and community groups. Market linkages among producers and private companies will be promoted, as a range of agricultural products can be processed to increase shelf life, year-round availability and output price. Business service packages will be developed to address the needs of typical enterprises. The capacities of entrepreneurs will be upgraded and their links with producers' groups enhanced.

17. Subcomponent 1.4: Policy and implementation support facility. This facility will provide technical assistance (TA) to MAIL for agricultural development programmes; provide TA and capacity-building to other relevant ministries; and strengthen MAIL and MRRD knowledge management and communication products.

18. Component 2: Strategic investments – approximately US$35.8 million, 65 per cent of total programme cost.

19. Subcomponent 2.1: Infrastructure. The programme will invest in irrigation infrastructure and other community productive infrastructure, in line with government policy and priorities.

20. Subcomponent 2.2: Productive investments. The programme will help to improve the productivity of rainfed wheat, horticulture and livestock production to improve

food security and increase household incomes in the target communities. Farmers and herders will be trained in improved technologies, post-harvest activities and information sharing.

21. Subcomponent 2.3: Rural financial services. The programme will invest in a range of financial products and delivery mechanisms to improve target group access to financial services. These will include: (i) targeting the ultra-poor; (ii) developing value chain financing products; (iii) promoting sharia-compliant financial products; (iv) offering TA and incentives to participating financial institutions; and (v) possibly competitive grant schemes for agribusinesses in due course.

# III. Programme implementation

## A. Approach

22. The MAIL will be the lead implementing agency and the MRRD an additional implementing agency. Relevant programme approaches and activities will be mainstreamed into their operations. However, in the light of MAIL's current capacity gaps at decentralized levels, specific activities will initially be implemented by other contracted ministries, projects and service providers (national entities, as far as possible). The capacity-building of relevant national public and private organizations will be a key responsibility of all contracted service providers, and the programme will seek full implementation by reputable national institutions as soon as possible.

## B. Organizational framework

23. The programme's governance framework consists of the programme steering committee (PSC), a provincial coordination committee (PCC) in each province, and the existing MAIL programme support team (PST).

24. At the national level, the PSC will be responsible for policy and strategic guidance, overseeing management and implementation, approving annual workplans and budgets (AWPBs) and reviewing progress. It will consist of senior representatives of MAIL, the Ministry of Finance (MOF) and MRRD.

25. Each PCC will be convened by MRRD's National Solidarity Programme (NSP) management and chaired by a MAIL district representative. Their membership will consist of representatives of provincial entities, contracted service providers and PST personnel. PCCs will be responsible for coordinating the implementation of activities and sharing information and knowledge.

26. The PST will be responsible for managing and coordinating the programme. It will be expanded with the addition of a programme manager and technical specialists to carry out relevant activities. Programme staff will be recruited on a competitive basis in line with IFAD guidelines and subject to IFAD prior review.

## C. Planning, monitoring and evaluation, and learning and knowledge management

27. AWPBs and activity calendars, based on the design report and informed by operational experiences and supervision missions, will constitute the programme planning framework. The PST will prepare AWPBs through a consultative approach involving community organizations, FRCs, MAIL, MRRD and other stakeholders. Following PCC approval, provincial-level plans and budgets will be consolidated by the PST into a programme AWPB and submitted to the PSC for approval and to IFAD for concurrence at least two months prior to the start of each fiscal year. The consolidated programme AWPB will contain a procurement plan, in compliance with IFAD requirements. All plans will be disaggregated by gender.

28. The programme's monitoring and evaluation (M&E) system will collect data and information to measure performance and progress towards objectives, and serve as a learning tool by providing information for reflection on programme strategy and operations. It will support decision-making at various levels and facilitate results-

based management. Where feasible, the programme will help to strengthen MAIL M&E capacity.

29. Learning and knowledge management. The programme will formulate a knowledge management strategy, in line with IFAD policy. Its website will be completed within the first year of implementation and used as a knowledge-sharing tool, hosted on IFADAsia. Information from M&E studies, reviews and study tours, lessons and best practices will be shared through knowledge products such as newsletters, publications, case studies and audio-visual reports. Knowledge-sharing events will be organized at the community level and visits carried out to exchange knowledge and learning by observing.

## D. Financial management, procurement and governance

30. Financial management. MAIL has extensive experience in managing IFAD-financed projects. Current arrangements are efficient. Procedures are based on a solid programme implementation manual (PIM) approved by IFAD in early 2014. The PST finance unit has qualified and experienced staff confident in applying IFAD procedures. For SNaPP2, the current PST staffing will be strengthened to enable it to manage an additional programme. The IFAD contribution to SNaPP2 will be on-budget and will rely on government systems. The PST will use, in addition to the MOF public financial management system, its own accounting system to monitor budget execution, control financial transactions, produce financial reports and increase staff accountability. To ensure effective financial control, internal control procedures applied under ongoing IFAD-financed operations, included in the PIM, will be updated and applied to SNaPP2. An auditor will be contracted to undertake internal audit activities in support of PST efficiencies.

31. Flow of funds. The flow of funds will be based on standard arrangements applicable to on-budget externally financed projects. Funds from the Debt Sustainability Framework (DSF) grant account will be transferred to a designated account in United States dollars opened for this purpose in Da Afghanistan Bank or another bank acceptable to IFAD. The designated account will be maintained and operated by the MOF. IFAD will advance funds to the designated account, in accordance with imprest account modalities.

32. Procurement. Programme works, goods and services will be procured by the PST in compliance with IFAD Procurement Guidelines and the IFAD Procurement Handbook.

33. Audit. Annual external audit of project accounts will be carried out by a competitively selected, reputable auditor. The audit terms of reference will include visits to contracted implementing partners and service providers, as well as field visits, where appropriate. MRRD and all contracted service providers will submit audited financial statements covering SNaPP2 activities to the PST within four months following the end of each fiscal year. Where United Nations agencies are exempt from such a requirement, they will submit unaudited annual financial statements of expenditures to the PST.

## E. Supervision

34. The programme will be directly supervised by IFAD. The supervision process will guide the programme towards the achievement of its strategic objectives and broad poverty reduction outcomes, while ensuring fiduciary compliance. A midterm review and a programme completion mission will be undertaken, in programme year three and at closure, respectively.

35. In the light of the prevailing security situation, the country team will assess alternative methods to complement IFAD supervision and implementation support processes, such as contracting and/or otherwise involving local organizations.

# IV. Programme costs, financing and benefits

## A. Programme costs

36. The total programme cost is estimated at US$54.8 million over a six-year implementation period. This is inclusive of contingencies, cofinancing, beneficiary contributions and counterpart funding. Programme costs are organized in three components: (i) institutional development (26 per cent); (ii) strategic investments (65 per cent); and (iii) programme management (9 per cent).

Table 1
**Programme costs by component and financier**
(Thousands of United States dollars)

| | *IFAD amount* | *%* | *MISFA amount* | *%* | *Beneficiaries amount* | *%* | *Government amount* | *%* | *Total amount* | *%* |
|---|---|---|---|---|---|---|---|---|---|---|
| A. Institutional development | 12 862 | 92 | - | 0 | - | 0 | 1 134 | 8 | 13 996 | 26 |
| B. Strategic and productive investments | 30 838 | 86 | 2 500 | 7 | 2 123 | 6 | 289 | 1 | 35 750 | 65 |
| C. Programme management | 4 762 | 94 | - | 0 | - | 0 | 279 | 6 | 5 041 | 9 |
| **Total programme costs** | **48 462** | **88** | **2 500** | **5** | **2 123** | **4** | **1 702** | **3** | **54 787** | **100** |

## B. Programme financing

37. The programme is expected to be financed by: (i) an IFAD DSF grant in the amount of US$48.5 million; (ii) Microfinance Investment Support Facility for Afghanistan (MISFA) cofinancing in the amount of US$2.5 million; (iii) a Government contribution equivalent to US$1.7 million; and (iv) a beneficiary contribution equivalent to US$2.1 million.

Table 2
**Programme costs by expenditure category and financier**
(Thousands of United States dollars)

| *Expenditure category* | *IFAD amount* | *%* | *MISFA amount* | *%* | *Beneficiaries amount* | *%* | *Government amount* | *%* | *Total amount* |
|---|---|---|---|---|---|---|---|---|---|
| 1. Civil works | 12 752 | 88 | - | - | 1 417 | 10 | 289 | 2 | 14 458 |
| 2. Vehicles | 132 | 41 | - | - | - | - | 189 | 59 | 321 |
| 3. Equipment and materials | 181 | 100 | - | - | - | - | - | - | 181 |
| 4. Consultancies | 538 | 100 | - | - | - | - | - | - | 538 |
| 5. Goods, services and inputs | 4 934 | 95 | - | - | 241 | 5 | - | - | 5 175 |
| 6. Grants | 2 376 | 100 | - | - | - | - | - | - | 2 376 |
| 7. Credit | 9 000 | 78 | 2 500 | 22 | - | - | - | - | 11 500 |
| 8. Capacity-building/training | 11 872 | 100 | - | - | - | - | - | - | 11 872 |
| 9. Salaries and allowances | 4 956 | 94 | - | - | - | - | 302 | 6 | 5 258 |
| 10. Operating costs | 1 721 | 55 | - | - | 465 | 15 | 922 | 30 | 3 108 |
| **Total Programme Costs** | **48 462** | **88** | **2 500** | **5** | **2 123** | **4** | **1 702** | **3** | **54 787** |

## C. Summary benefit and economic analysis

38. The programme will provide benefits to approximately 57,000 poor rural households (427,500 women and men) represented by 589 CDCs. The immediate expected benefits are increased productivity resulting from improved extension services, farming and management practices, and access to markets and financial services. These benefits will be expressed in terms of improved food security and increased household incomes. In addition, participating households will have access to training and capacity-building benefits. A number of other beneficiaries, such as producers accessing rural financial services, woman-headed households adding value to production, and youth receiving vocational training, have not been quantified.

39. Additional benefits will accrue from capacity-building interventions. Participating farmers will be able to access improved services from their CDCs, which will be strengthened and supported. Women from the poor and very poor groups will be empowered to manage their own social and economic development, with better access to markets and inputs. The improvement of rural markets, rural access roads and extension services will lead to higher output prices for farmers.

40. The programme's economic internal rate of return is estimated at 24 per cent. Sensitivity analysis shows the programme would be robust in the event of increases in costs, decreases in benefits and delays.

### D. Sustainability

41. The programme concept itself – support to a national priority programme rather than a stand-alone project – directly addresses sustainability. Programme management will be mainstreamed within existing ministerial structures and financing will be on-budget rather than off-budget. Programme implementation will utilize existing structures and arrangements to the maximum extent possible, without creating new ones. The existing CDCs nurtured by the MRRD/NSP will serve as the instrument for community engagement at all stages. Existing producers' groups, such as farmers' cooperatives and dairy unions, will be supported. District-level capacities of extension services will be strengthened, with clear benefits for sustainability. Similarly, FRCs will broker linkages between producers and the private sector, which may be sustained, depending on the strength of the relevant business relationships.

42. The programme exit strategy is to: strengthen public institutions at provincial and district levels; gradually transfer full implementation responsibilities to ministries and CDCs; foster profitable business relations between producers and markets; and improve the capacities of poor rural women and men.

### E. Risk identification and mitigation

43. The overarching risk relates to the recent political and security transition in Afghanistan. Three post-transition scenarios, and the implications for the programme, have been projected: (i) a best-case scenario, with a smooth political transition, relative security, empowered institutions and economic growth; (ii) an intermediate scenario, with a fragile political context, conflict confined to remote areas and moderate economic growth; and (iii) a worst-case scenario, with political instability, factionalism and continued conflict, and economic stagnation.

44. Many key elements related to the risk scenarios, such as a conflict-sensitive approach to site selection, are already embedded in programme design. Other elements, such as the configuration of TA, will be fine-tuned depending on the prevailing scenario. During the initial stage of implementation, IFAD and the Government will jointly reassess post-transition developments, update the opportunities and risks under each scenario, and fine-tune the mitigation measures and trigger points.

## V. Corporate considerations

### A. Compliance with IFAD policies

45. As indicated earlier, the programme is consistent with policies, strategies and investments relevant to fragile states, in particular A Strategic Vision for IFAD 2016-2025 and Enhancing IFAD's business model for inclusive and sustainable rural transformation. It is fully aligned with corporate policies on private sector engagement, environmental impact and climate change mitigation and adaptation, and gender mainstreaming. The programme's environmental impact assessment places it in category "B".

### B. Alignment and harmonization

46. The programme's rationale is anchored in IFAD's mandate of poverty reduction and the Government's priority to increase agricultural productivity. It is consistent with national efforts to enhance development impact, reduce the duplication of aid programmes and introduce programmatic approaches. It is aligned with the multi-donor framework for agriculture production and market development, and in particular with the assistance provided by partners such as the European Union, World Bank, Food and Agriculture Organization of the United Nations, Department for International Development of the United Kingdom, German Agency for International Cooperation and United States Agency for International Development.

### C. Innovations and scaling up

47. The Government considers the programme a model for partner participation in the NPP approach, which will be scaled up by MAIL when other partners provide funding for NPP2. The programme is designed to expand, replicate, adapt and sustain successful investments. Through its investment tools and forward-looking policy support, the programme will create the pathways, drivers and spaces for scaling up. Investments will be unbundled to facilitate operation of the core activities at scale.

### D. Policy engagement

48. The programme will inform agricultural sector policy through its implementation of key NPP2 components and its structuring of the NPP2 governance and management framework. The programme design process has already influenced overall government policy as represented by NPP2. The programme's policy and implementation support facility will offer TA to all national institutions involved in NPP2, in particular MAIL and MRRD.

## VI. Legal instruments and authority

49. A programme financing agreement between the Islamic Republic of Afghanistan and IFAD will constitute the legal instrument for extending the proposed financing to the recipient. A copy of the negotiated financing agreement is attached as an appendix.

50. The Islamic Republic of Afghanistan is empowered under its laws to receive financing from IFAD.

51. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

## VII. Recommendation

52. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

> RESOLVED: that the Fund shall provide a grant to the Islamic Republic of Afghanistan in an amount equivalent to thirty-four million four hundred fifty thousand special drawing rights (SDR 34,450,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

# Negotiated financing agreement

GRANT NO.DSF [number]

## FINANCING AGREEMENT

Support to National Priority Programme 2 (SNaPP2)

between the

ISLAMIC REPUBLIC OF AFGHANISTAN

and the

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Signed in

on [insert date]

# FINANCING AGREEMENT

Grant Number: [click and insert number]

Project Title: Support to National Priority Programme 2 (SNaPP2)(“the Programme”)

The Islamic Republic of Afghanistan (the “Recipient”)

and

The International Fund for Agricultural Development (the “Fund” or “IFAD”)

(each a “Party” and both of them collectively the “Parties”)

WHEREAS

The recipient has requested a grant from the Fund for the purpose of financing the Project described in Schedule 1 to this Agreement,

NOW THEREFORE, the Parties hereby agree as follows:

## Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1) the Allocation Table (Schedule 2) and the Special Covenants (Schedule 3).

2. The Fund’s General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of April 2014, and as may be amended hereafter from time to time (the “General Conditions”) are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a grant to the Recipient (the “Grant”), which the Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

## Section B

1. The amount of the Grant is thirty four million and four hundred fifty thousand Special Drawing Rights (SDR 34 450 000).

2. The first day of the applicable Fiscal Year shall be 21 December.

3. There shall be a Designated Account in USD for the purpose of financing the Programme. The Designated Account shall be opened and maintained in the Da Afghanistan Bank (DAB) or another bank acceptable to IFAD. This Designated Account will be maintained and operated by the Ministry of Finance (MoF).

4. The Recipient shall provide counterpart financing for the Programme in an amount equivalent to one million seven hundred thousand United States Dollar (USD 1 700 000) including allowances for project staff and taxes and duties, in cash or in kind. The Beneficiaries shall provide an in-kind contribution of two million one hundred and twenty thousand United States Dollar (USD 2 120 000) equivalent, mainly in the form of labour and materials.

5. In accordance with the Article 11.01 of the General Conditions, the financing shall be exempt from all taxes and duties.

Section C

1. The Lead Programme Agency shall be the Ministry of Agriculture, Irrigation and Livestock (MAIL).

2. Considering the multi-ministerial approach of the Programme, the Ministry of Rural Rehabilitation and Development (MRRD) is designated as additional Programme Party.

3. The Programme Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

The Financing shall be administered and the Programme supervised by the Fund. In addition to supervision missions which shall normally be carried out annually, the Fund shall conduct a mid-term review to be carried out during the third year of the Programme.

Section E

1. The following is designated as additional ground for suspension of this Agreement: the Project Implementation Manual (PIM) or any provision thereof has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund, and the Fund, has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.

2. The following is designated as an additional condition precedent to withdrawal:

   (a) The programme manager and the financial manager, both acceptable to the Fund, shall have been selected.

3. The following is designated as an additional specific condition precedent to disbursement to MRRD and selected Service Providers (SPs): The MOU with MRRD and the contracts with selected Service Providers respectively have been cleared by IFAD prior to signature.

4. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Recipient:

Minister for Finance of the
Islamic Republic of Afghanistan
Ministry of Finance
Kabul, Afghanistan

For the Fund:

President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

This Agreement, dated [click and type], has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Recipient.

ISLAMIC REPUBLIC OF AFGHANISTAN

_____________________________________
[insert NAME of the Authorised Representative]
[insert his or her title]

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

_____________________________________
Kanayo F. Nwanze
President

## Schedule 1

### Programme Description and Implementation Arrangements

### I. Programme Description

1. Goal. The goal of the Programme is to contribute to improving the food security and economic status of poor rural households in the Programme Area.

2. Objectives. The Programme has two objectives: (i) institutional development and capacity building of community organisations, public extension services and relevant private sector entities in the pilot provinces; and (ii) sustained increased incomes of small farmers and herders fostered by improvements in productivity and output, productive infrastructure and market linkages. These objectives will be addressed by supporting institutions and services, fostering increased productivity and production, and upgrading profitable agriculture and livestock value chains. IFAD financing will create a model to be scaled up across rural areas in subsequent phases.

3. Programme area. The Programme will be implemented in Balkh, Herat and Nangarhar provinces (the "Programme Area").The Programme may expand to additional province(s) if required by its evolving scope or by security considerations, subject to consultations between the Government and IFAD.

4. Target population. The Programme has a three-tier target group: (i) at sub-national level, it will target provincial and district extension staff of MAIL, community social mobilisers of MRRD, and farmer resource centres; (ii) at local level, community development councils, community organisations, cooperatives and associations, interest groups, NGOs and relevant private sector entities will be strengthened and serve as interlocutors; and (iii) at grass-roots level, target groups will include poor rural women and men, kuchis, small farmers and herders, producers' groups and women's groups.

5. Components. The Programme shall consist of the following two Components:

5.1. Component 1: Institutional Development

Sub-component 1.1: Extension Services

The Programme will strengthen the extension directorate's structures, in line with the Tashkeel, by: (i) strengthening the women's extension unit in MAIL to coordinate a cadre of female extension workers across the Programme Area; (ii) strengthening the male extension worker cadre at district level; (iii) targeting young graduates from local agricultural faculties to be recruited as extension assistants; and, (iv) adapting the curriculum, in collaboration with MAIL, using updated techniques and approaches.

Sub-component 1.2: Farmers' Organisations

The capacities of community organisations, cooperatives and associations, interest groups and Farmers' Resource Centres (FRCs) will be upgraded to enable them to broker business relationships among stakeholders, bringing together decentralised MAIL and MRRD services, input suppliers and market integrators, and small farmers.

Sub-component 1.3: Private Sector

Private sector linkages, contract farming and value chain upgrading will be integrated with DAIL extension services and Community Development Councils (CDCs) or other groups. Market linkages among groups processing vegetables and private companies will be promoted, as a wide range of agricultural products can be processed to increase shelf life, year-round availability and output price.

Sub-component 1.4: Policy and implementation support facility

This facility will (i) provide Technical Assistance (TA) to MAIL for agricultural development programmes; (ii) provide TA and capacity building for other relevant Ministries; (iii) strengthen knowledge management and communication products for MAIL and MRRD.

5.2. Component 2: Strategic Investments

Sub-component 2.1: Infrastructure

The Programme will invest in irrigation infrastructure and other community productive infrastructure.

Sub-Component 2.2: Productive Investments

The Programme will help to improve the productivity of rain-fed wheat, horticulture and livestock production to improve food security and increase household incomes in targeted communities. Farmers and herders will be trained in improved technologies, post-harvest activities, good practices and information sharing.

Sub-component 2.3: Rural Financial Services

The Programme will invest in a range of financial products and delivery mechanisms to improve target group access to financial services. This will include: (i) targeting the ultra-poor; (ii) developing value chain financing products; (iii) promoting shari'a compliant financial products; (iv) offering TA and incentives to participating financial institutions; (v) possibly competitive grant schemes for agribusinesses.

## II. Implementation Arrangements

### A. Organization and management

6. MAIL will be the lead implementing agency.

7. Governance. The Programme's governance framework shall consist of the Programme Steering Committee (PSC), the Provincial Coordination Committee (PCC) in each province, and the Programme Management Unit (PMU) and Programme Support Team (PST) of MAIL.

(a) PSC: The PSC at national level will be responsible for policy and strategic guidance, oversight of management and implementation, approval of work plans and budgets, and review of progress. It will consist of senior representatives of MAIL, MOF and MRRD and any other institution(s) proposed by the Government.

(b) PCC: Each provincial PCC will be chaired by DAIL and consist of representatives of provincial entities, contracted service providers, and PST personnel. It will be responsible for coordinated implementation of Programme activities and sharing of information and knowledge.

(c) PMU/PST: The PMU/PST will be responsible for managing and coordinating the Programme. The PST will be expanded with a project manager and technical specialists to carry out relevant activities. Programme staff shall be recruited on competitive basis in line with IFAD guidelines, and will be subject to IFAD prior review.

8. MRRD: This additional Programme party will use its ongoing Programme NSP for the implementation of SNaPP2 activities.

B. Implementation of Components

9. Service Providers (SPs): Several service providers have initially been pre-selected in consultation with Government, while others will be selected on competitive basis, as outlined below.

(a) under the institutional development component, MAIL will implement sub-component 1.1 (extension services) through its extension directorate and sub-component 1.2 (farmers' organisations) through FRCs;

(b) under the policy and implementation support facility, FAO will administer a TA instrument in support of MAIL; MAIL will administer further TA support for the agriculture sector; MRRD will administer TA support for itself and other relevant Ministries; and both MAIL and MRRD will administer knowledge management and communications support as appropriate.

(c) under the infrastructure sub-component, MAIL's Irrigation Department (ID) and MRRD/NSP will administer the productive infrastructure investments in line with their emerging division of responsibilities and the Water Law; engineering design works will be undertaken by the ID and MRRD/NSP respectively, with strong TA support, while civil works will be executed by competitively procured private sector contractors.

(d) under the rural financial services sub-component, participating financial institutions will be selected on the basis of a competitive process in line with IFAD's and national requirements, and subsequent due diligence. The following institutions will be considered, along with others, during implementation: (i) MISFA for value chain financing; (ii) FMFB for administering an agricultural credit line; (iii) ARFC for administering shari'a compliant value chain financing for mid-level actors; and, (iv) IIFC for administering shari'a compliant value chain financing for small farmers. Any selected financial institution will be subject to due diligence and negotiation with Government prior to contracting. The PMU/PST will administer the Targeting Ultra Poor programme. The Programme will also consider modalities to collaborate with the Agriculture Development Fund.

(e) A range of local organisations, such as CDCs, cooperatives, associations and interest groups will play a central role in needs identification, implementation, monitoring and Operation & Maintenance. They will serve as the channels for interaction with communities.

(f) service providers for the implementation of other Programme activities will be selected on the basis of IFAD's Procurement Guidelines.

## C. Project Implementation Manual (PIM)

10. 10. The RMLSP and Community Livestock and Agriculture Project (CLAP) operate based on an approved PIM covering project management, financial management, procurement and contracting, annual work planning and budgeting, monitoring and evaluation, knowledge management, and investment operations. This PIM will be updated by the PMU/PST for Programme purposes, and will be submitted to IFAD for prior review before finalisation.

## Schedule 2

## Allocation Table

1. Allocation of Grant Proceeds. (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Grant; the allocation of the amounts of the Grant to each Category; and the percentages of expenditures for items to be financed in each Category:

| Category | Grant Amount Allocated (expressed in SDR) | Percentage |
|---|---|---|
| 1. Works | 8 160 000 | 100% net of taxes, Government and beneficiary contribution |
| 2. Goods, Services and Input | 3 360 000 | 100% net of taxes, Government and beneficiary contribution |
| 3. Grants and Subsidies | 1 520 000 | 100% net of taxes |
| 4. Credit, Guarantee Funds | 5 760 000 | 100% net of taxes and service provider contribution |
| 5. Consultancies | 7 940 000 | 100% net of taxes |
| 6. Salaries and Allowances | 4 270 000 | 100% net of taxes, Government and beneficiary contribution |
| Unallocated | 3 440 000 | |
| Total | 34 450 000 | |

(b) The terms used in the Table above include Eligible Expenditures for the following:

- The category “Goods, Services and Input” includes eligible expenditures for vehicles, equipment and materials.
- The category “Grants and Subsidies” includes eligible expenditures for financial assistance to the ultra-poor as well as any competitive grant schemes.
- The category “Credit, Guarantee Funds” includes eligible expenditures for financial services.
- The category “Consultancies” includes eligible expenditures for capacity building and training, workshops, studies, technical assistance, policy and implementation support.

- The category “Salaries and allowances” includes eligible expenditures for operating costs.

2. Retroactive financing. As an exception to Section 4.08 (a) (ii) of the General Conditions, specific eligible expenditures up to the equivalent of two hundred and fifty thousand United States Dollar (USD 250 000) incurred after 14 July 2015 but before the entry into force of this agreement may be pre-financed by the Government and reimbursed from the Grant after the Financing Agreement has entered into force and the conditions precedent to withdrawal have been met. These specific eligible expenditures consist of: (i) the preparation of draft tender documents and draft contracts with service providers; (ii) consulting services for studies and field surveys; (iii) other relevant consultancy services.

## Schedule 3

## Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Recipient to request withdrawals from the Grant Account if the Recipient has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Programme.

1. Gender. The recipient shall ensure that gender concerns shall be mainstreamed in all Programme activities throughout the implementation period. The Recipient shall ensure that the Programme activities specifically designed to benefit women headed households and the youth will be duly and diligently implemented.

2. Accounting systems and financial reporting. The Recipient shall ensure that the Programme financial accounting will be undertaken utilising the computerised accounting software in place for RMLSP and CLAP, with the set-up of a dedicated SNaPP2 business unit. The PST will submit regular consolidated financial reports and annual consolidated financial statements to IFAD.

3. Subsidiary agreements. The Lead Project Agency shall enter into an agreement with the additional Programme Party (MRRD) and into contracts with the selected SPs as appropriate. Draft agreements and contracts will be submitted to IFAD for prior review and clearance.

# Logical framework

| Narrative Summary | Key Performance Indicators | Means of Verification | Assumptions (A) / Risks (R) |
|---|---|---|---|
| Goal: | | | |
| To contribute to improving the food security and economic status of poor rural households in Afghanistan | ▪ 10% decrease in child malnutrition (under 5 years old, chronic, acute-underweight)<br>▪ 60% households reporting improvement in household asset ownership index | ▪ PST/MAIL impact surveys (including RIMS anchor indicators) at baseline (PY1) and completion (PY6).<br>▪ MRRD Qualitative (PRA) assessment of target HHs and quantitative assessment (profitability analysis) of micro/small enterprises<br>▪ Third party verification of the above, to the extent feasible | ▪ (A) Inflation for staple foods remains below 10%.<br>▪ (R) Political unrest and conflict does not hinder socio- economic activities.<br>▪ (A) Consistent commitment of Government and partners for socio-economic improvement |
| Programme Development Objective: | | | |
| To strengthen outreach and link key stakeholders to improve food security of 57,000 HHs (427,500 people) across six districts of three provinces (Balkh, Herat and Nangarhar) | ▪ 40% increase in crop productivity leading to higher incomes<br>▪ 40% increase in incomes of herders due to improvements in productivity and output, infrastructure and market links<br>▪ 75% community organisations will have strengthened linkages with public and private extension services | ▪ PST/MAIL RIMS plus survey and rolling baseline(annual)<br>▪ PST/MAIL annual outcome survey.<br>▪ Third party impact evaluation report(at completion)<br>▪ MAIL/MRRD knowledge products (periodical)<br>▪ | ▪ (A) No security problems in programme areas for surveys and studies.<br>▪ (A) Female extension workers are available and have mobility.<br>▪ (A) Mature CDCs demonstrate effective implementation with support from Facilitating Partners. |
| Outcome 1:<br>Institution Building<br>Extension services linked to Farmers' Resource Centres (FRCs), and private sector linkages with communities | ▪ 50% of farmers reporting sustained linkages through FRCs by PY6<br>▪ 25% of farmers kinked with private sector through FRCs by PY6 | ▪ PST/MAIL annual outcome survey.<br>▪ Third party impact evaluation report(at completion)<br>▪ MAIL/MRRD knowledge products (periodical)<br>▪ | ▪ (A) Farmers find the services provided by the FRC valuable and of high quality.<br>▪ (A) Private sector demonstrates adequate interest to partner with small farmer groups. |
| Outputs:<br>1.1 Strengthened extension services<br>1.2 Developed smallholder institutions<br>1.3 Developed private sector | ▪ 95% retention of FFS at the community level in PY 5<br>▪ 75% of incremental extension staff included in Taksheel across operational areas<br>▪ 25% of extension staff successful in sharing technical packages with farmers<br>▪ 25% of businesses reporting 30% increase in sales post capacity building<br>▪ | ▪ PST/MAIL annual outcome survey.<br>▪ Third party impact evaluation report(at completion)<br>▪ PST annual progress reports and MIS<br>▪ Out-sourced case studies (periodical)<br>▪ PST/MAIL RIMS I and II data(annual)<br>▪ Progress reports of service providers(annual)<br>▪ CDC statistics (annual)<br>▪ Reports of participating businesses (annual) | ▪ (A) Private companies are interested in sourcing products from microenterprises and willing to engage in PPPs in the selected value chains.<br>▪ (A) MAIL is able to fulfil its obligations for the new Taksheel and women staff are recruited and retained at provincial level.<br>▪ |

| Narrative Summary | Key Performance Indicators | Means of Verification | Assumptions (A) / Risks (R) |
|---|---|---|---|
| Outcome 2:<br><u>Strategic Investments</u><br>Appropriate agriculture and livestock technology aimed at income generation to move up value chains with comparative advantage, market demand and growth potential. | ▪ 20% Increase in annual income of target HHs<br>▪ 30% increase in access to technology of farmers.<br>▪ 15% of women have increased access to and control of productive assets and services.<br>▪ 25% of vulnerable households reporting time saving as a result of community infrastructure | ▪ PST/MAIL annual outcome survey.<br>▪ Third party impact evaluation report(at completion)<br>▪ PST annual progress reports and MIS<br>▪ Out-sourced case studies (periodical)<br>▪ CDC statistics (annual)<br>▪ | ▪ (R) Water supply consistent<br>▪ (A) Optimal coordination with relevant stakeholders |
| Outputs:<br>2.1 Community Infrastructure<br>2.2 Productive Investments<br>2.3 Rural Financial Services | ▪ 10,875 ha irrigated with improved infrastructure<br>▪ 15% of HHs have improved market access through rural roads<br>▪ 40 % reduced post-harvest loss reported by farmers<br>▪ 6 women producer groups reporting 30% increase in incomes from horticulture value addition and post-harvest technology<br>▪ 30% of livestock keepers reporting access to improved veterinary services<br>▪ 60 private and public veterinary workers capacity strengthened<br>▪ 75% of TUP beneficiaries reporting increased incomes<br>▪ | ▪ PST/MAIL annual outcome survey.<br>▪ Third party impact evaluation report(at completion)<br>▪ MAIL/MRRD knowledge products (periodical)<br>▪ IFAD Supervision mission reports (annual)<br>▪ Outsourced case studies (annual)<br>▪ PST/MAIL RIMS I and II data(annual)<br>▪ Progress reports of service providers(annual)<br>▪ CDC statistics (annual)<br>▪ Reports from MISFA and PFIs (annual)<br>▪ Programme MIS<br>▪ Outsourced independent assessment of lending operations and performance of pilot products (at mid-term)<br>▪ | ▪ (A) Farmers are interested and willing to use the new technology<br>▪ (A)<br>▪ (A) Financial institutions are interested to participate<br>▪ (A) Implementing partners are able to successfully establish collaborative business arrangements between microenterprises and businesses |