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IFAD

Enabling poor rural people to overcome poverty

President's memorandum

Proposed supplementary financing to the Islamic Republic of Afghanistan for the

Rural Microfinance and Livestock Support Programme

Note to Executive Board representatives

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For: **Approval**

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary financing to the Islamic Republic of Afghanistan for the Rural Microfinance and Livestock Support Programme, as contained in paragraph 17.

President's memorandum

Proposed supplementary financing to the Islamic Republic of Afghanistan for the Rural Microfinance and Livestock Support Programme

I. Background

1. The Rural Microfinance and Livestock Support Programme (RMLSP) was approved by the IFAD Executive Board on 30 April 2009. The total programme cost is US$26.12 million. The IFAD contribution is SDR 16 million (US$23.62 million at the time of grant approval) in the form of a grant. The programme grant agreement became effective on 24 August 2009. The current programme completion date is 30 September 2014 and the grant closing date is 31 March 2015. A midterm review was conducted from 16 to 30 April 2012. The RMLSP is the first IFAD-funded programme in Afghanistan.

2. The main objective of the programme is to provide smallholders, livestock owners and those who aspire to own livestock – particulary women, woman-headed households, the uncreditworthy and the Kuchis (nomadic livestock holders) – with sustainable access to appropriate microfinance services and technical livestock packages and the skills required to engage in new, more productive or more profitable economic, livestock-based enterprises. The programme is organized along three components: rural microfinance; support to the livestock sector; and programme management and coordination.

II. Implementation progress

3. According to the most recent supervision mission (3-16 May 2013), the overall assessment of the programme is satisfactory. Physical progress is satisfactory: most of the targets are on track and likely to be achieved by the end of the programme (and in some cases exceeded). Impact on the ground is visible. Feedback from the beneficiaries is positive and there is demand to continue and expand the programme activities. The programme generated a number of innovations/best practices, and there is scope for scaling-up. The overall disbursement rate as of 30 September 2013 is 73 per cent.

III. Rationale and justification for supplementary financing

4. The main justification for supplementary financing stems from the fact that the programme, which is performing satisfactorily, provides a well-established platform to increase the outreach and expand the results, innovations and best practices of the programme in a cost-effective manner. According to the findings of the most recent supervision missions, there is demand to continue and expand the programme activities, and scope for scaling-up.

5. The provision of supplementary financing will be combined with a two-year extension of the programme completion and grant closing dates. The main

justification for an extension of these dates is that, according to the assessments of the last supervision mission, post-project sustainability of the activities and the beneficiary institutions is considered at risk. It was therefore recommended that the programme focus on consolidating its achievements to date, building capacity and transferring responsibility for implementation to the government agencies and beneficiary organizations. However, consolidation of programme achievements and transfer of implementation responsibilities to government agencies and beneficiary organizations will require more time than forecasted in the programme design. Because of the uncertain security situation in the country at the time of design (2008), and the fact that IFAD had no prior experience in the country, it was originally decided to opt for a shorter than usual implementation time frame for the programme, i.e. just three years, which the midterm review subsequently recommended be extended to four years. Therefore, the proposal to extend the completion date to ensure sufficient time for consolidation of institutions and investments and gradual handover of responsibilities to the government and beneficiary organizations, and to provide supplementary resources is justifiable.

IV. Proposed supplementary grant financing

6. The supplementary financing for this programme will be used to pursue two objectives: (i) consolidation of existing activities to ensure sustainability; and (ii) scaling-up of successful activities through increased outreach and geographical expansion. More specifically, the supplementary financing will be utilized to scale up the agricultural lending products, the targeting of the ultra-poor and – provided certain targets are met – the Sharia lease financing under the rural microfinance component. It will also finance the consolidation of the activities under the integrated dairy scheme, veterinary services, backyard poultry, and dairy goat raising subcomponents. Promising approaches developed under the veterinary services and backyard poultry subcomponents (under the livestock support component) will also be scaled up. In addition, the supplementary financing will support the functioning of the project coordination unit (PCU) during the two-year extension period (i.e. salaries, travel and operating costs; training of government and PCU staff, and the purchase of a few limited items), and continued capacity-building of the Ministry of Agriculture, Irrigation and Livestock (MAIL) at the central and provincial level.

7. Programme activities will not be implemented in new provinces, but expanded to new villages/communities in the same target districts. It is estimated that about 15,178 additional households (equivalent to some 91,068 individuals) will benefit from the activities supported by the supplementary financing. Overall, the cost/beneficiary ratio for the supplementary financing will be about US$395 per household.

8. The current implementation arrangements will remain in place during the extension period. Accordingly, the programme will be managed by a PCU hosted within MAIL; and international service providers will carry out component activities as follows: the rural microfinance component will be implemented by the Microfinance Investment Support Facility for Afghanistan (MISFA), and the integrated dairy scheme, veterinary services, and dairy goat raising subcomponents will be implemented by the Food and Agriculture Organization of the United Nations (FAO), the Dutch Committee for Afghanistan and the International Center for Agricultural Research for the Dry Areas, respectively. However, during the extension period the service providers will incrementally reduce their role, and progressively handover the implementation and management responsibilities to the beneficiary organizations and government institutions at the central, provincial and district level. Consistent with the strategy of gradual hand-over to the beneficiary organizations, the implementation and management responsibility for the backyard poultry raising subcomponent will be transferred from FAO to the Balkh Livestock Development Union. This union was already contracted by FAO as a local

implementing partner for the implementation of this subcomponent and has demonstrated sufficient capacity to directly implement the subcomponent activities.

V. Financial management and procurement

9. The quality of financial management of the ongoing project has been rated 3 during the last supervision mission. While the budgeting and flow of funds did not present problems, some weaknesses in financial accounting and reporting were identified. In response, mitigation measures were identified and are being implemented. The MAIL/PCU set-up is currently rated as medium risk, and a number of recommendations emerging from the last supervision mission in May 2013 are currently under implementation. The structure is being reinforced with the introduction of proper accounting software at programme level and the hiring of a financial management specialist to scale up overall office administration/organization and staff skills. The procurement unit is sufficiently staffed, Afghan procurement law (as developed with the assistance of the World Bank) is being applied, and in the event of any inconsistencies with IFAD's project procurement guidelines, the latter will prevail.

10. **Flow of funds.** The IFAD supplementary financing will be channelled through the existing arrangements, to the special account managed by the Ministry of Finance.

11. **Audits.** The annual programme financial statements will be audited by private audit firms accredited in the country. The audits undertaken of recent years were assessed as moderately satisfactory. The Supreme Audit Office has been assessed as being independent, but the current staffing level and workload do not allow for its use for the benefit of IFAD-financed projects.

VI. Programme costs, financing and cofinancing

12. With the supplementary financing, the IFAD contribution to the programme will increase from SDR 16,000,000 to SDR 19,910,000 (equivalent to approximately US$30.50 milion in total as at 30 September 2013). The proposed financing falls within the total 2013-2015 country allocation for Afghanistan.

13. Taking into consideration MISFA's decision to contribute to the implementation of the rural microfinance component in the amount of US$1.1 million by matching IFAD's financial contribution to the agricultural lending products and providing the required resources to scale up Sharia lease financing products, the total programme cost will increase from US$26.1 million to US$33.1 million.

14. Changes in the amounts allocated to the original expenditure categories of the financing agreement are summarized in the two tables below, and will be reflected in schedule 2 of the amended financing agreement.

Table 1
Additional financing expressed in accordance with the existing cost categories

Category	*Original allocation (SDR)*	*MTR reallocation (SDR)*	*Additional financing (SDR)*	*New allocation (SDR)*
1. Rural microfinance (component 1)	6 000 000	5 330 000	1 130 000	6 460 000
2. Livestock support (component 2)				
2.1 Integrated dairy scheme	2 385 000	2 865 000	460 000	3 325 000
2.2 Veterinary services	1 800 000	2 410 000	990 000	3 400 000
2.3 Backyard poultry raising	685 000	685 000	590 000	1 275 000
2.4 Dairy goat raising	835 000	1 375 000	390 000	1 765 000
3. Programme coordination (component 3)				
Goods and equipment	150 000	150 000	—	150 000
Technical assistance, consultancies and studies	560 000	585 000	—	585 000
Training and workshops	435 000	435 000	—	435 000
Salaries, travel and operating costs	340 000	650 000	350 000	1 000 000
4. Special financing facility	1 355 000	575 000	—	—
5. Unallocated for component 2 and component 3	1 455 000	940 000	—	940 000
Total	**16 000 000**	**16 000 000**	**3 910 000**	**19 910 000**

Table 2
Additional financing expressed in accordance with the new cost categories as per Flexcube

Category	*Additional financing (United States dollars)*	*Additional financing (SDR)*
Grants and subsidies	1 738 556	1 130 000
Consultancies 1 - Technical assistance (2.1)	700 000	450 000
Consultancies 2 - Technical assistance (2.2)	1 517 777	990 000
Consultancies 3 - Technical assistance (2.3)	900 001	590 000
Consultancies 4 - Technical assistance (2.4)	600 000	390 000
Salaries and allowances	543 159	360 000
Total	**5 999 493**	**3 910 000**

VII. Proposed modifications to the financing agreement

15. Upon approval of the Executive Board, the existing financing agreement will be amended to reflect the supplementary financing. The proposed modifications to the programme grant agreement will imply a revision of the allocation of the IFAD financing to include the supplementary grant financing. The supplementary financing does not imply any modification to the programme objectives, target area, strategy, approach or target groups, which will remain as described in the design completion report and in the programme grant agreement. The fiduciary arrangements defined in the design completion report, programme grant agreement and programme implementation manual (i.e. flow of funds, procurement and contracting modalities, audit and reporting requirements) will remain valid and applicable for the supplementary financing.

16. The main amendments to the programme grant agreement will cover: (i) the provision of supplementary financing; (ii) the reallocation of grant resources across expenditure categories; (iii) the implementation arrangements, in particular with respect to contractual arrangements with the service provider responsible for the implementation of the backyard poultry raising subcomponent; and (iv) the

extension of the programme completion and grant closing dates by two years to 30 September 2016 and 31 March 2017, respectively.

VIII. Recommendation

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

    RESOLVED: that the Fund shall provide a supplementary grant to the Islamic Republic of Afghanistan in various currencies in an amount equivalent to three million nine hundred and ten thousand special drawing rights (SDR 3,910,000), upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President