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Investing in rural people

## President's memorandum

### Proposal for additional financing to the Islamic Republic of Afghanistan for the Community Livestock and Agriculture Project

#### 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 proposal for additional financing in the form of a Debt Sustainability Framework grant to the Islamic Republic of Afghanistan for the Community Livestock and Agriculture Project, as contained in paragraph 27.

## Proposal for additional financing to the Islamic Republic of Afghanistan for the Community Livestock and Agriculture Project

### I. Background

1. Following some 40 years of conflict, Afghanistan is one of the poorest nations in the world. Its Human Development Index was 0.479 in 2016, ranking it 169<sup>th</sup> among 188 countries rated. Some 39 per cent of the population lives below the poverty line, with rural poverty estimated at 43.6 per cent. Economic growth contracted severely from 2012 to 2014, the so-called "transition period" leading to the 2014 elections and handover of security responsibility to Afghan forces.
2. The present memorandum seeks the approval of the Executive Board for additional financing in the form of a Debt Sustainability Framework (DSF) grant of SDR 17.7 million (equivalent to approximately US\$24.99 million) for the Community Livestock and Agriculture Project (CLAP). The project was approved by the Board in December 2012 with a DSF grant of SDR 37.65 million (equivalent to approximately US\$58 million). The project completion date was foreseen for 30 June 2019 and the grant closing date for 31 December 2019. With the provision of the additional financing, the completion and closing dates will be extended by three years to 30 June 2022 and 31 December 2022 respectively.
3. The CLAP additional financing request fully complies with the eligibility criteria for additional financing in accordance with President's Bulletin PB/2014/Rev.1, and a request for additional financing within the current performance-based allocation system cycle has been submitted by the Government of Afghanistan.
4. The proposal for additional financing is consistent with the existing development objective of CLAP. Moreover, the project area, components, field activities, lead agency, project management and implementation arrangements will be the same as those of the "mother" project. It will specifically target the three following groups: (a) small farmers and livestock-keepers, including the landless and those who lost their livestock and/or aspire to keep livestock or restock; (b) women and female-headed households; (c) resettled and nomadic Kuchis (pastoralists). It will benefit an additional 67,000 households representing 402,000 persons, bringing the potential number of beneficiaries of both financings to a total outreach of approximately 223,000 poor households or 1,338,000 individuals.

### II. Justification and rationale

5. Despite a very challenging environment, the Afghanistan country programme is surprisingly robust, with solid achievements on the ground. The first IFAD-financed operation ever implemented in Afghanistan, the Rural Microfinance and Livestock Support Programme, has recently completed, and is considered a good project with tangible results.
6. This proposed additional financing is highly strategic for both the Government and IFAD, as it will inject additional financial resources into a well-functioning project that is delivering sustained benefits and services to large numbers of poor and

vulnerable households in a complex environment. The additional financing will substantially scale up project activities and outreach at minimal incremental delivery cost.

7. CLAP currently supports community organizations in gradually assuming responsibility for local development and service provision, with positive results in terms of ownership, self-reliance and mitigation of security risks. The planning and implementation of community-level activities has provided clear and documented benefits in terms of relevance, efficiency and prospects for sustainability. CLAP also confirms the importance of small-scale productive investments, in particular in harnessing and channelling water resources. Rehabilitation of water-related infrastructure damaged by conflict is seen to quickly generate a significant impact on living standards, agricultural productivity and household incomes. It also generates positive environmental impact. Finally, CLAP demonstrates that agriculture and livestock activities can be directly targeted to small farmers, women and households headed by women within a traditional and conservative society. Support for such activities provides important economic benefits to rural women and vulnerable households.
8. In the past, development projects have relied heavily on external service providers (United Nations agencies, CGIAR centres, NGOs, the private sector) for implementation of activities. While perhaps necessary at the time, this has proved to be a suboptimal, high-cost and unsustainable methodology. The additional financing will continue to strengthen national institutions for improved outreach and service delivery, and gradually transfer implementation responsibilities to them as their capacities increase.

### III. Description of the proposal for additional financing

9. The proposed additional financing will focus on: the consolidation of existing activities to ensure impact and sustainability, the scaling up of successful activities through increased outreach, and the ongoing transition in the role of service providers from execution of activities to facilitating local institutions and community-based organizations to assume implementation responsibilities.
10. Building on the lessons learned, positive achievements and evidence of impact on the livelihoods of the target population, the additional financing will consolidate and scale up investments in irrigation infrastructure, poultry production by women, and livestock development among Kuchis, all of which have resulted in a positive impact on income for the poorest households.
11. The proposed additional financing will fund two technical components and a project management component. Interventions are in line with the lessons learned from implementation experience and will focus on activities that have yielded proven results.
12. Component 1: Community development and productive infrastructure. This component will: (i) finance approximately 56 small and medium-scale productive infrastructure schemes; (ii) strengthen the capacity of local institutions and community organizations, by supporting the construction of small-scale infrastructures aimed at enhancing agriculture productivity, and by supporting community and local government institutions to address issues of ownership and sustainability; (iii) enhance agriculture and livestock productivity; and (iv) consolidate ownership and sustainability. About 12,000 hectares of farm land will be brought under improved irrigation systems, including 20 per cent of additional land under permanent cultivation.
13. Component 2: Livestock and agricultural development. This component will finance: (i) dairy development through investment in dairy processing and strengthening of dairy cooperatives, in partnership with the Food and Agriculture Organization of the United Nations; (ii) improved food, fodder and vegetable

cropping that builds on village-based seed enterprises, operating in partnership with relevant national institutions and with a focus on upgrading of value chains; (iii) livestock development among Kuchis through women's self-help groups, improved animal health services, animal feed production and upgraded market linkages; and (iv) poultry development, with improved feeding, extension, health care and market linkages, for extremely poor and vulnerable women.

14. Gender mainstreaming will be embedded in all components. Women's specific training needs will be integrated when planning training activities in dairy, livestock, agriculture and infrastructure development. This will strengthen women's technical skills in processing and production. Each subcomponent will finance capacity-building activities aimed at increasing women's technical and managerial skills and capacities.
15. Component 3: Project management and policy support. The additional financing will build on existing institutional and implementation arrangements as confirmed by the midterm review of CLAP. Existing CLAP project management mechanisms will be used for the additional financing, as these have proved to be effective and efficient. A provision has been included in the allocation of this component for a special financing facility to meet any additional requirements identified during implementation, such as policy support and a young professionals programme.

#### IV. Project costs, financing and benefits

16. Project costs and financing. In terms of additional financing, total investment and recurrent costs for the extended three-year period, including physical and price contingencies, are estimated at US\$27.41 million. IFAD's contribution amounts to about US\$24.99 million (91.2 per cent of total costs) in the form of a grant. US\$0.19 million will be provided by the Government, mainly in kind, and US\$2.23 million by beneficiaries and service providers. Tables 1 and 2 summarize project costs by component and financier and by expenditure category and financier.

Table 1

**Project costs by component and financier**

(Thousands of United States dollars)

Component	IFAD grant		Government		Beneficiaries		Implementing partners		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Community development and productive infrastructure	10 666	92.1	-	-	910	7.9	-	-	11 576	42.2
2. Livestock and agricultural development	10 259	88.5	10	0.1	934	8.1	387	3.3	11 591	42.3
3. Project management and policy support	4 068	95.7	181	4.3	-	-	-	-	4 248	15.5
<b>Total</b>	<b>24 993</b>	<b>91.2</b>	<b>191</b>	<b>0.7</b>	<b>1 844</b>	<b>6.7</b>	<b>387</b>	<b>1.4</b>	<b>27 415</b>	<b>100.0</b>

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

Expenditure category	IFAD grant		Government		Beneficiaries		Implementing partners		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Civil works and community infrastructure	8 801	89.6	-	-	1 020	10.4	-	-	9 821	35.8
2. Vehicles, motorcycles, equipment and materials	540	100	-	-	-	-	-	-	540	2.0
3. Technical assistance, training and studies	5 910	87.6	10	0.1	824	12.2	-	-	6 744	24.6
4. Salaries and allowances	4 305	96.0	181	4.0	-	-	-	-	4 486	16.4
5. Incremental operating costs	2 201	85.0	-	-	-	-	387	15.0	2 588	9.4
6. Policy Support Fund	736	100	-	-	-	-	-	-	736	2.7
7. Unallocated	2 500	100	-	-	-	-	-	-	2 500	9.1
<b>Total</b>	<b>24 993</b>	<b>91.2</b>	<b>191</b>	<b>0.7</b>	<b>1 844</b>	<b>6.7</b>	<b>387</b>	<b>1.4</b>	<b>27 415</b>	<b>100</b>

Table 3  
**Overall IFAD project budget and execution**  
 (Thousands of special drawing rights [SDR])

Expenditure category	IFAD original grant		Disbursements original grant		IFAD original grant available balance		IFAD additional financing <sup>a</sup>		Total foreseen available resources	
	Amount	%	Amount	%	Amount (1)	%	Amount (2)	%	Amount (1+2)	%
1. Civil works and community infrastructure	12 750	33.9	7 372	36.2	5 378	31.2	6 300	35.6	11 678	33.4
2. Vehicles, motorcycles, equipment and materials	2 640	7.2	865	4.3	1 775	10.3	-	-	1 775	5.1
3. Technical assistance, training and studies	7 600	20.1	1 607	7.9	5 993	34.7	4 700	26.6	10 693	30.6
4. Salaries and allowances	6 620	17.5	3 734	18.3	2 886	16.7	2 800	15.8	5 686	16.3
5. Incremental operating costs	1 430	3.8	1 894	9.2	(464)	(2.7)	1 400 <sup>b</sup>	7.9	936	2.7
6. Policy Support Fund	320	0.8	261	1.3	59	0.3	400	2.3	459	1.3
7. Special financing facility	2 270	6.1	-	-	2 270	13.2	-	-	2 270	6.5
8. Unallocated	4 020	10.6	-	-	4 020	23.3	2 100	11.9	6 120	17.4
9. Advance	-	-	4 663	22.8	(4 663)	(27.0)	-	-	(4 663)	(13.3)
<b>Total</b>	<b>37 650</b>	<b>100</b>	<b>20 396</b>	<b>100</b>	<b>17 254</b>	<b>100</b>	<b>17 700</b>	<b>100</b>	<b>34 954</b>	<b>100</b>

<sup>a</sup> Actualized in SDR as at 30 September 2017.

<sup>b</sup> In the additional financing, "Incremental operating costs" includes vehicles, motorcycles, equipment and materials.

17. Summary of benefits. Under the first component, benefits are mainly anticipated as a result of improved irrigation, additional land under permanent irrigation and agricultural productivity. Under the second component, benefits accrue from: dairy development; poultry development; feed, fodder and vegetable development; and livestock development among Kutchis. Analysis of the additional financing shows the viability of the proposed project, as evident from its overall financial internal rate of return of 29 per cent. The net present value of the proposed project over a 20-year period is US\$17 million. The benefit-cost ratio is 1.42. The overall economic internal rate of return of the project is estimated at 25 per cent. The economic net present value of the project net benefit stream, discounted at 18.8 per cent, is calculated at US\$37 million, while this benefit-cost ratio is 1.51.

## V. Financial management

18. The CLAP project is implemented by the Ministry of Agriculture, Irrigation and Livestock (MAIL), which set up a project support team (PST) in charge of the administration of all IFAD-funded projects managed by MAIL. The PST provides human resource, procurement, administrative and financial management services to all projects, while each project has a dedicated, even if interchangeable, implementation team. Financial management of CLAP has been rated as moderately satisfactory. In general, it has recorded continuous, significant improvements since the beginning of the project – also considering the external environment and the complexity of the tasks to be performed, which include management and oversight of service providers. Annual budgets are prepared promptly, the internal control framework is sufficiently effective, and cash flow arrangements are reliable; the few shortfalls in the accounting and reporting function of the project are in the process of being addressed.<sup>1</sup> The external audit process is sufficiently solid, while an internal audit function is still to be established.
19. Currently, project fiduciary risk is assessed at medium. Most of the identified risks in accounting and reporting will be mitigated through procurement and implementation of a more sophisticated accounting software. Further capacity-building activities will enable better management of planning, budgeting and monitoring functions, and further improvement in cash management and cash flow forecasts.
20. A designated account in United States dollars will be opened at the Da Afghanistan Bank to manage the additional financing. The designated account will be used for receiving IFAD funding and disbursing for project expenditures, in conformity with the Afghan Public Financial Management System. The finance and accounts unit of the PST will administer additional financing proceeds.
21. Current CLAP administrative procedures will also be applied for the administration of the additional financing. Procedures are documented in the project implementation manual, which includes specific provisions on the internal controls framework, interim financial reports preparation procedure, financial reporting arrangements, contracts and asset management.
22. External audit will continue to be performed by private audit firms in accordance with International Standards on Auditing and IFAD procedures. Audit reports have always been submitted on time and with an unqualified opinion. In the medium term, establishment of an internal audit function is foreseen to introduce additional administrative efficiencies.
23. Procurement of goods, works and services to be funded from IFAD financing proceeds will be carried out in accordance with the Government's procurement rules to the extent that they are consistent with IFAD's Project Procurement Guidelines.

## VI. Legal instrument and authority

24. Upon approval by the Executive Board, the financing agreement will be amended to integrate the additional grant into existing expenditure categories. The amendment to the financing agreement will also include changes to implementation arrangements for productive infrastructure under additional financing (section C, paragraph 2) and the extension of the project completion date to 30 June 2022 and of the grant closing date to 31 December 2022. This additional financing will not involve any changes in the project objectives or target group. Other than support to scaling up, no new activities or expenditure categories will be created.

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<sup>1</sup> Project records are maintained in accordance with International Public Sector Accounting Standards (IPSAS) – cash basis.

25. The Islamic Republic of Afghanistan is empowered under its laws to receive financing from IFAD.
26. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

## VII. Recommendation

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

RESOLVED: that the Fund shall provide an additional Debt Sustainability Framework grant to the Islamic Republic of Afghanistan for the Community Livestock and Agriculture Project in the amount of SDR 17.7 million (equivalent to approximately US\$24.99 million), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo  
President

# Logical framework

Results Hierarchy	Indicators	Targets				Means of Verification			Assumptions
		Baseline (MTR)	Remaining CLAP	CLAP AF	TOTAL	Source	Frequency	Resp.	
Outreach	<ul style="list-style-type: none"> <li>Households</li> <li>individuals</li> </ul>	83,000	73,000	67,000	223,000 1,228,000				<ul style="list-style-type: none"> <li></li> </ul>
Goal: Contribute to the reduction of rural poverty in Afghanistan									<ul style="list-style-type: none"> <li>Inflation remains low</li> <li>No security challenges in project area</li> </ul>
Development Objective: To improve food security of rural households in selected districts of the provinces of Kabul, Parwan, Logar, Herat, Nangarhar, Balkh and Baghlan by increasing agriculture and livestock productivity	<ul style="list-style-type: none"> <li>No. of hh reporting increased food security</li> </ul>	73,300	52,800	45,700	171,800	Annual Outcome Surveys	annual	Service providers PMU	
	<ul style="list-style-type: none"> <li>no of hh reporting an increase in production 1.2.4</li> </ul>	23,800	78,500	12,000	113,500	Key informant interview, group records			
Outcome 1: Enhanced capacities of local communities and local institutions for the participatory planning and operation of small and medium scale irrigation infrastructure	<ul style="list-style-type: none"> <li>Number of HHs of expressing satisfaction with the quality of services provided by local government agencies staff</li> </ul>	65,309	59,491	53,600	178,400	Annual Outcome Surveys Key informant interview	annual	Service providers PMU	<ul style="list-style-type: none"> <li>No socio-cultural barriers for the participation of poorest and marginalised HHs</li> <li>No resistance regarding increased female participation</li> </ul>
Output 1.1: Creation and completion of small and medium-scale irrigation infrastructure	<ul style="list-style-type: none"> <li>No. of hectares of farmland under water-related infrastructure constructed 1.1.2</li> </ul>	1095	51,555	11,984	64,600	Annual Outcome Surveys	annual		<ul style="list-style-type: none"> <li>No potential security risks delaying progress</li> <li>Clear roles and responsibilities between MRRD and MAIL for irrigation development</li> </ul>
Output 1.2: Capacity of population strengthened and local institutions strengthened	<ul style="list-style-type: none"> <li>No. of CDC members trained in infrastructure operation and maintenance</li> </ul>	2,168 (of which 20% women)	8,130 (of which 30% Women)	10,000 (of which 30% Women)	20,298 (of which 30% women)	CDC/group records Annual Outcome surveys	annual	CLAP Service providers	
	<ul style="list-style-type: none"> <li>No. of individuals from landless vulnerable HHs and unemployed educated youth trained in on-farm/off-farm vocational</li> </ul>		1,530 (30% Women)	2,000 (30% Women)	3,530 (30% Women)				



Results Hierarchy	Indicators	Targets				Means of Verification			Assumptions
		Baseline (MTR)	Remaining CLAP	CLAP AF	TOTAL	Source	Frequency	Resp.	
Output 1.3: : Enhanced role and/or involvement of women in productive activities	<ul style="list-style-type: none"> <li>No. of persons trained in production practices and/or technologies 1.1.4</li> </ul>	13,934 (90% women)	26,834 (90% women)	30,000 (90% women)	55,000 (90% women)	Annual Outcome Surveys	annual	PMU	
Outcome 2: Increased agriculture and livestock productivity and incomes, in particular for women-headed households and vulnerable and marginalised rural communities	<ul style="list-style-type: none"> <li>Number of HHs reporting increase in incomes</li> </ul>	40,818	37,182	33,500	110,864	CDC records, training reports, SPC records	annual	Service providers, PMU	<ul style="list-style-type: none"> <li>No security challenges in project area</li> <li>No natural disasters</li> </ul>
Output 2.1: Establishing and strengthening dairy milk production and a centralised dairy Federation	<ul style="list-style-type: none"> <li>No. of new livestock production cooperatives established/strengthened</li> </ul>	33 2975 members	2 25 members	55 5000 members	90 8000 members	CDC records	annual	Service Providers, PMU	<ul style="list-style-type: none"> <li>No animal disease outbreak</li> </ul>
Output 2.2: Poultry development to improve food and nutritional security through enhanced poultry production and productivity	<ul style="list-style-type: none"> <li>No. of hh provided with targeted support to improve their nutrition 1.1.8</li> </ul>	40,818	37,182	33,500	110,864	Annual outcome survey	annual	Service Providers, PMU	<ul style="list-style-type: none"> <li>No major animal disease outbreak</li> </ul>
Outcome 3: Introducing, developing and promoting new drought-resistant and high yielding improved varieties of production	<ul style="list-style-type: none"> <li>No. of hh reporting adoption of new/improved inputs, technologies or practices 1.2.2</li> </ul>	10,000	70,000	40,000	120,000	AOS	annual	Service Providers, PMU	<ul style="list-style-type: none"> <li>Research activities and trials are successful</li> <li>Relevance of new varieties to farmers' needs</li> <li>Availability of necessary resources and equipment</li> </ul>
Output 3.1: Demonstration and dissemination of high yielding crop varieties organised through participatory approaches	<ul style="list-style-type: none"> <li>No. of persons trained in crop technology and production</li> </ul>	1437	2800	3000	7237	CDC records, training reports, SPC records	annual	Service Providers, PMU	
Output 3.2: Promoting livestock development among Kuchis to enhance livelihoods and resilience against predictable livestock emergencies	<ul style="list-style-type: none"> <li>No. of Kuchi hh using the Veterinary Field Units</li> </ul>	13,132	6968	30,000	50,000	AOS	annual	Service Providers, PMU	<ul style="list-style-type: none"> <li>Kuchi pastoralists agree to pay for veterinary services</li> </ul>