Report Number: ICRR0022893

1. Project Data

Project ID	Project Name
P128048	Afghanistan Access to Finance
Country	**Practice Area(Lead)**
Afghanistan	Finance, Competitiveness and Innovation

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IDA-H8940	31-Dec-2018	42,441,287.82
Bank Approval Date	**Closing Date (Actual)**	
26-Nov-2013	30-Jun-2021	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	50,000,000.00	0.00
Revised Commitment	46,460,694.01	0.00
Actual	42,441,287.82	0.00

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2. Project Objectives and Components

a. Objectives

According to Financing Agreement (p.5) and the Project Appraisal Document (PAD, p.16) the project development objective (PDO) was “to build institutional capacity to improve access to credit of micro, small and medium enterprises.”

In November 2018, a restructuring revised the project objective as “to support access to finance for micro, small and medium enterprises, and ultra-poor households in selected communities” (Restructuring Paper, p. 5).

Although the project objective was revised, this review will not undertake a split assessment of the project outcome. The PDO was reformulated to better capture the project’s intervention. The original PDO emphasized institutional capacity building aspect of access to finance only. It did not capture the project’s activities and outcomes related to the provision of finance to the ultra-poor sections of the society that was already a part of the original project design. Inclusion of “support to access to finance for ultra-poor” in the PDO addressed this shortcoming in the PDO formulation while increasing the scope of the project beyond technical assistance.

This review will assess the project outcome based on the achievement of the revised PDO, which is parsed as follows:

Objective 1: To support access to finance for micro, small and medium enterprises.

Objective 2: To support access to finance for ultra-poor households in selected communities.

Note: The achievement of this project's development objective in Afghanistan is assessed following the agreed OPCS methodology that recognizes all outcomes as they were prior to August 15, 2021. This approach applies to all projects closed prior to that date.

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval

16-Nov-2018

c. Will a split evaluation be undertaken?

No

d. Components

The project was comprised of two components. First component was to be implemented by Microfinance Investment Support Facility of Afghanistan (MISFA). Second component was to be implemented by Ministry of Finance (MoF).

A. Improving access to financial services for micro and small enterprises (*US$32 million estimated at appraisal, US$41.9 estimated after restructuring, US$33.35 actual*)

This component was to address limited access of micro and small enterprises to financial services. This was planned through three group of activities. First group of activities **(Sub-component 1.1 Capacity Building Fund)** were to support innovative financial products and services that were to be introduced by

microfinance institutions (MFIs), Community-based Savings Promotion Institutes (CSPI) and other institutions in the market through MISFA. The fund also was to finance system improvements as well as human resources improvements of MFIs. Within the scope of this sub-component, assistance to relevant institutions for developing policy, regulation and advocacy for financial sector development was also included. The second subcomponent was to scale up the **Targeting Ultra Poor (TUP) Program (Sub-Component 1.2)** based on the piloting of the program in two provinces**.** The program's goal was to support participants move out of safety nets program (called "graduating") to income earning activities and consequently link them with microfinance programs**.** The program was planned to be replicated at five provinces. The last sub-component was to provide direct support to MISFA **(Sub-component 1.3)** in implementing its strategic plan, which involved capacity development and development of new financing programs to support underserved groups particularly women and youth.

B. Improving access to financial services for small and medium enterprises (US$18 million estimate at appraisal, US$8.1 estimate after restructuring, US$9.1 million actual)

This component was to support the expansion of existing Afghan Credit Guarantee Facility (ACGF - managed by DEG-KfW Group since 2006) by volume, geographical coverage, and new product development through the provision of capital funding **(sub-component 2.1).** The last sub-component was to provide technical assistance to ACGF in product development, management information system, human resources management and impact evaluation **(sub-component 2.2).**

Revised Components

As a result of findings at the mid-term review and in line with the Government of Afghanistan's request, an additional US$ 9.9 million was allocated from the second component to the first component to scale up the implementation of the TUP program. The geographic coverage of the program increased from five provinces to eight.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The project cost estimated at appraisal was US$50 million. The actual cost at closing was US$42.44 million.

Financing: At appraisal, the International Development Association (IDA) grant was estimated at US$50 million (equivalent of 32.6 million Special Drawing Rights-SDR). The project disbursed US$42.44 million. A total of US$3.54 was cancelled at project restructurings (see Restructurings below). The project team confirmed that the difference between the original commitment and the actual disbursed amounts, including loan cancellations, was due to the exchange rate fluctuations between the SDR and the US dollar.

Borrower's Contribution: At appraisal, no borrower's contribution was estimated, and none materialized at project closing.

Restructurings: There were three level 2 restructurings.

- **First Restructuring (November 19, 2018):** The PDO was revised (see section 2.a Objectives above). The project closing date was extended by 30 months from December 31, 2018, to June 30, 2021. The project had a slow initial progress because of the project implementation institutions'

insufficient capacity to conduct complex procurement processes, the procurement delays due to security concerns, and the delayed signing of the implementing partner agreement between the MoF and ACGF. Project funds of US$ 9.9 million were reallocated from Component 2 to Component 1 to scale up the TUP program. A new PDO indicator (Percentage of TUP households that are linked to MFIs and savings groups at graduation (average)) was added to the results framework to capture financial inclusion. Two new intermediate indicators were added to the results framework. The first one was introduced to capture technical assistance activities, and the second was to capture the gender dimension of the outstanding SME loans.

- **Second Restructuring (June 9, 2021):** US$1.3 million was cancelled under Component 1 to account for activities that would not be completed before the project closing date and US$1 million was reallocated from Component 1 to Component 2, reflecting COVID-19 response under the project.
- **Third Restructuring (June 30, 2021):** The undisbursed balance of US$2.24 million under Component 1 was cancelled.

Dates: The project was approved on December 26, 2013 and became effective on April 17, 2014. The closing date was extended by 30 months from December 31, 2018 to June 30, 2021 at the first restructuring.

3. Relevance of Objectives

Rationale

Country Context: At appraisal, the objective was aligned with the Government of Afghanistan's priorities. The Government's National Priority Programs (NPPs) identified private sector development as one main driver of a diversified growth strategy (PAD p.22). The government recognized that one of the main constraints that hampered the development of private sector—mostly micro, small and medium enterprises (MSMEs) both in urban and rural areas—was access to finance.

At closing, too, the project objectives remained relevant to the country context. The Afghanistan National Peace and Development Framework (ANDPF II), 2021-2025, and the Afghanistan Partnership Framework (APF), November 2020, prioritized private sector-driven growth and poverty reduction. Furthermore, the NPP at project closing indicated private sector development as one of the main priorities and emphasized the key role of micro finance sector. The project objectives also support the NPP and National Financing Inclusion Strategy that highlight the importance of women's financial inclusion.

Bank Strategy: At appraisal, the project objective was well aligned with the Bank's Interim Strategy Note (ISN) for the period FY12-FY14. The project supported the third pillar of the ISN on inclusive growth and jobs. The project objective remained relevant with the Afghanistan Country Partnership Framework (CPF) FY17-FY20 (extended to FY222) at the time of project closing. CPF's Objective 2.1 (Improved business regulatory environment and access to finance) supports enabling private sector-led growth through facilitating SME's and especially women's access to finance. The project's goal to support poor and vulnerable groups align with Objective 3.1 (Improved human development) and Objective 3.2 (Enhanced social protection for poor and vulnerable people) of the CPF.

Previous Experience: The project benefitted from the Bank's previous sector experience in the country. The World Bank has supported the development of the microfinance sector in Afghanistan since 2003 and contributed to the establishment of MISFA, which is one of the core institutions acting as market facilitator and the implementing agency of Component 1. The project also complemented other World Bank initiatives and other donor programs with similar focus such as Afghanistan Rural Enterprises Development Project, Afghanistan New Market Development Project, and International Finance Corporation (IFC) Business Edge Program. Given the World Bank's prior presence and experience in the country and the sector, the outcomes expected from the project were consistent with progress over time, and the project objective was adequately challenging.

Overall, the relevance of the project objectives is rated High.

Rating
High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1
Objective
To support access to finance for micro, small and medium enterprises.

Rationale
Theory of Change:

Access to finance is a significant barrier for the development of the private sector which is dominated by micro, small and medium enterprises (MSMEs). The theory of change states that if institutional capacity of financing institutions improved and microfinancing and commercial bank lending expanded, access of MSMEs to finance would be increased. In this regard, the project is designed to achieve this objective through a combination of direct funding to financial institutions and technical assistance. The project's inputs were to increase capitalization of the ACGF which would have been expected to result in increased number of active SME loans and number of PFIs working with ACGF indicating increased access to finance in the SME market. Technical assistance activities would have been expected to increase institutional capacity in ACGF, MISFA, related PFIs and CSOIs through digitalization of financial services, provision of technology for strengthening loan processes, product development, product policy review, and organization policy review. The expected intermediate outcomes would have been quality improvement in auditing, lending systems, facilitating the opening of new departments and branches, increased access to modern technologies as well as capacity to develop innovative programs. As a result, financing would have been more accessible to micro and SMEs. Overall, the causal pathways from financing and TA (inputs) to expected results (increased

capacities and increased loans to MSMEs) were valid and direct. The results achieved could be attributable to the project's intervention.

Outputs:

Number of financial institutions introduced new processes, policies, and/or products to improve financial services for households and MSMEs. At project closing, seven FIs introduced new processes, policies and products that resulted in improved financial services, and target was achieved, as planned.

While this intermediate indicator was added at the first restructuring to capture the impact of technical assistance support, it was insufficient to fully capture the overall impact of the technical assistance activities at the output level nor outcome level. The outputs achieved through TAs are summarized below.

- The project supported MISFA, Afghanistan Microfinance Association (AMA), and PFIs through technical assistance activities to build up their capacity in new product, policy development, digital financial services, enhancing financial inclusion. For MFIs, 16 projects under Innovation Window and 36 projects under System Strengthening Window were completed**.** Through these activities all MFIs were integrated with the Afghanistan Payment System (APS) while mainstreaming digital financial services in the micro finance sector and were able to benefit from interoperable payment system. As a result of the technical assistance activities, audit and lending systems were improved, modern technologies, such as biometric authentication were introduced, and the opening of new departments and branches was supported. These led to improved coordination and better reporting among agencies.
- The project supported ACGF and PFIs through technical assistance activities to build up their capacity in product development, policy, product improvements and through market studies. ACGF completed 33 technical assistance activities with the objective to strengthen the SME lending capacity of its PFIs, internal capacity of ACGF and SME Client Support Afghanistan LLC (SCSA) as well as the overall SME lending sector. The projects enhanced ACGF's guarantee operations, technical staffing, presence in Afghanistan, and ACGF's reporting functions and risk management. These resulted in increased number of AGCF guarantees; thus, facilitated mobilization of private sector.

Expansion of the Afghanistan Credit Guarantee Facility (ACGF): The project funded the ACGF by US$6.5 million to increase its issuance of credit guarantees to the MSME sector including women-owned enterprises. At appraisal, the project's funding was estimated at US$13 million, but because of the delay in signing the partnership agreement between the Ministry of Finance and ACGF, the amount was revised down to US$5.5 million at the first restructuring. Later, US$1 million was added to mitigate the impact of COVID-19.

Outcomes:

Outstanding SME portfolio-ACGF. AGCF guarantees facilitated the mobilization of US$26.6 million of SME lending by the end of 2018 (increasing from US$20 million at the end of 2016). The presidential election in 2018, political uncertainty in 2019 and the onset of the COVID-19 pandemic resulted in the portfolio amount to decrease to US$25.4 at project closing. Therefore, the target of US$30 million could not be achieved. The signing of the agreement that would fund the ACGF about three years after project effectiveness adversely affected the utilization of funds.

Outstanding Microfinance Loan Portfolio (USD) amounted to US$92.4 in 2014. The portfolio had increased continuously until 2018 but declined afterwards. The portfolio was US$109 million as of the end of

May 2021, below the revised target of US$132 million. The target could not be achieved mainly due to deteriorating security conditions and the impact of COVID-19.

Number of active loan accounts (SME-ACGF) increased from 407 in 2017 to 4,647 in the second quarter of 2021, more than the revised target of 709. This increase is attributable to three new PFIs onboarded by ACGF. With this increase, more institutions were able to access credit guarantees that facilitated more lending to SME sector.

Outstanding SME Loan portfolio - female (ACGF) reached at 1.48 million by the end of May 2021 against the target of 750,000. The percentage of female borrowers increased from 34.1 in 2013 to 37.9 in 2020. On the other hand, specific to ACGF's outstanding loan portfolio, share of female-owned enterprises has grown from none to 5.64 percent in Q2-2021.

Enhanced guarantee operations and increased quality of services resulted in (i) the diversification of guaranteed loan portfolios (shift from trade sector to more productive sectors; manufacturing increased from 6 percent in 2016 to 31 percent in 2021 while trade sector's share in outstanding guaranteed loans dropped from 72.5 percent in 2016 to 51 percent in the second quarter of 2021); (ii) average guaranteed loan size nearly doubled from inception to closing of the project; (İİİ) new product development (i.e., Solar Finance); (iv) improved lending conditions (tenure, interest policy); (v) wider regional diversification; and (vi) restructuring against conditions imposed by COVID-19.

Payout Rate of the Afghanistan Credit Guarantee Facility. At appraisal, the payout rate was 1.10percent. The actual rate at closing was 1.51 percent. The target of 3.5 percent could not be achieved.

Increased access to finance by the MSMEs contributed to job creation, too. The evaluation study conducted by ACGF in 2021 suggests that ACGF-guaranteed loans created 2,835 full-time jobs, out of which 808 are attributed entirely to the impact of guaranteed loans. ACGF also supported SMEs to retain 16,800 full-time employees. On average, businesses of repeat borrowers supported by ACGF grew by 13 percent in terms of assets and every US$1 in loan amount resulted in a US$10 business growth (ICR p.12).

Portfolio at Risk – SME (ACGF). At appraisal, portfolio at risk was 1.41 percent. The target was identified as 3.5 percent higher than appraisal level. Final ratio was 6.7 percent at closing due to inability of some SMEs to repay their loans. Target could not be achieved. When country's overall banking figures (PAR 9.3 percent in 2020) are considered (ICR P. 7) PAR target is assessed as overly ambitious.

Overall, the project's efficacy in achieving the first objective is rated Modest. Political and economic uncertainty, deteriorating security conditions, and restrictions imposed by COVID-19 adversely affected the achievement of the outcomes. Additionally, the delay in signing the AGCF funding agreement resulted in lower achievement of outcomes.

Rating
Modest

OBJECTIVE 2

Objective

To support access to finance for ultra-poor households in selected communities.

Rationale

Theory of Change

The TUP program's goal was "graduating" participants from safety net programs to income-earning activities and enhancing financial inclusion by linking them with local microfinance programs (ICR p.8). In order to achieve this goal, the program was to provide TUP beneficiaries with a two-year program, which included transfer of productive assets (i.e., livestock, sewing machines etc.) as well as training, a subsistence support, and basic healthcare. The theory of change for this objective suggests that as a result of this support, ultra-poor households would have been expected to engage in income-earning activities that would eventually make them eligible for local microfinance programs. The expected outcome would have been lower dependence of ultra-poor households on government-funded safety net programs. Overall, the causal chain from project's inputs and activities to expected outputs and outcomes was direct, and results achieved could be attributable to the project's intervention.

Outputs:

Direct project beneficiaries: In total, 12,698 households (88,886 individuals) benefited from the TUP program. The revised target was 73,500 beneficiaries. At the first restructuring, TUP program's geographical coverage was expanded to additional provinces and additional funding was secured through reallocation of funds from Component 2.

Percent of women (sub-indicator): As of June 2021, 91.4 percent of the TUP beneficiaries were women. The revised target for this output was 60 percent.

Outcomes:

Graduation rate of TUP beneficiaries (graduation criteria: stabilized and diversified income): The target was 50 percent of graduation rate (average for all participating provinces). According to the ICR, the program reached a graduation rate ranging between 85 to 90 percent with an average of 88 percent in eight provinces.

Percentage of TUP households that are linked to MFIs and savings: The revised PDO indicator for this outcome was 50 percent. At project closing, the achievement was 64 percent.

Project improved savings behaviors: Percentage of TUP beneficiaries in Balkh that saved in the past four weeks and/or took a loan for investment purpose increased. The target was 10 percent, and the achievement was 28 percent. According to impact evaluation study conducted by the Development Impact Evaluation Unit (DIME) in Balkh province beneficiaries had a lower dependence on loans for consumption and a higher proportion of loans for investment purposes. Evaluation of the TUP Program impact in urban setting in Nangarhar suggested similar effects, including an increase in beneficiaries' income and saving capacity, and improved overall satisfaction and well-being (ICR p.9).

Percentage of TUP beneficiaries in Balkh who own accounts at financial institutions: This target was revised at the first restructuring. It captures financial inclusion. The target was 10 percent and the project achieved 29 percent.

Project contributed to the reduction of poverty and increase in labor participation in the regions where TUP program was implemented. According to DIME study conducted in the Balkh region, per capita consumption increased by 30 percent and the share of households below the national poverty line decreased by 20 percent. Improvement was also reported in psychological well-being of recipient households and their members. Participation of females in productive activities increased by 55 percent.

Overall, the project's efficacy in achieving the second objective is rated High. The project's achievements were higher than the target values of the relevant indicators. Based on the findings of the impact evaluation study, the project contributed to poverty reduction, the increase in labor participation, and overall well-being of the project-affected population.

Rating
High

OVERALL EFFICACY
Rationale
The project's efficacy in increasing access for micro small, and medium enterprises was modest. It was adversely affected by deteriorating economic and security conditions in the country and the onset of COVID-19, resulting in lower SME loan portfolio (ACGF) than targeted. On the other hand, the project's efficacy in increasing access to finance for ultra-poor households was high. Overall efficacy is rated Substantial.

Overall Efficacy Rating

Substantial

5. Efficiency
Economic and Financial Efficiency

At appraisal, costs and benefits in relation to sub-components 1.2 (TUP Program) and 2.1 (Support to ACGF) were quantified and net present value (NPV) and economic rate of return (ERR) calculations were conducted through scenario-based analysis and sensitivity testing. The outcomes of technical assistance activities were not included in the economic analysis. The PAD highlighted the difficulty in assessing the economic benefits of technical assistance activities (such as support for capacity building, reports, and advisory work under Sub-

components 1.1, 1.3 and 2.2) because of the absence of commonly accepted assessment methodologies. The ICR followed the same approach introduced in the PAD in conducting an economic analysis.

Initially the Project planned to invest a total of US$15 million to manage implementation of TUP Program which would be disbursed over five years. Benefits were to be achieved through potential increases in income among beneficiaries, women empowerment, and saving behaviors as well as some overall improvements to wellbeing such as health. At appraisal, the ERR for TUP program was estimated at 15 percent, and the NPV US$2.7 million at a discount rate of 10 percent. Assumptions were that 7,500 households, 52,000 individuals would benefit from the program and 90 percent of households would have their income increased. It was also assumed that 50 percent of households would have increased access to finance. At the project restructuring, the total funding for this program increased to US$22 million. At project closing, the economic analysis conducted in accordance with the extended implementation period to seven years as well as increased project scope resulted in an NPV of US$2.8 million at a 10 percent discount rate and an ERR of 14.5 percent ERR. The program reached over 12,698 households and 88,886 individuals, with an average of 88 percent graduation rate. Linkage to a financing institution was 64 percent.

As for the ACGF component, estimated cost was US$ 13 million. Implementation delays and scaling-down of the program (to US$ 5.6 million) resulted in a higher ERR (19.3 percent at closing compared to 17 percent at appraisal) and a decreased NPV (US$ 2.1 million at closing, US$ 9.8 million at appraisal) with a discount rate of 10 percent. Increased revenues, and jobs and private sector mobilization were taken as the benefits of the expansion of ACGF business.

TA activities, reports and advisory work-related activities were completed within budget. Additional TA activities were conducted due to budget savings and therefore implementation of these types of activities was efficient in using the funds allocated.

Administrative and Operational Efficiency:

The major shortcoming related to the project's efficiency resulted from implementation delays because of the complexity of the procurement processes and limited capacity of some of the implementing authorities. This was an issue stemming mainly from project design, which overestimated the capacity of the project implementation institution for Component 2. Ministry of Finance's lack of understanding of credit guarantee facility functioning as well as high staff turnover in the ministry and difficult political environment led to the delayed signing of the Implementing Partner Agreement and thus postponing disbursements under Component 2 and resulting in delays in processing of ACGF TA reimbursements (ICR p.13). The agreement was signed only at the end of March 2017, causing an almost three-year delay in the implementation of the credit guarantee scheme for SMEs (ICR p.13). This delay potentially slowed down and/or limited the expansion of ACGF's funding in terms of volume and geographical area. Although the Bank took necessary steps for extending the implementation deadline and reallocating funds among components, the project could only be restructured four and a half years after the effectiveness of the project.

From the operational perspective, due to delayed start of Component 2 and longer implementation period, supervision costs increased significantly. Furthermore, delays due to complexity of procurement processes under Component 1 had a negative impact on the project's administrative and operational efficiency.

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal	✓	16.00	56.00 ☐ Not Applicable
ICR Estimate	✓	15.80	67.00 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The project objectives are highly relevant to the country context and the Bank strategy. The project's efficacy in achieving the first objective (to support access to finance micro, small, and medium enterprises) is rated Modest whereas the efficacy in achieving the second objective (to support access to finance for ultra-poor households in selected communities) is rated High. Overall efficacy rating is Substantial. Project's efficiency is rated Modest because of significant shortcomings in operational and administrative efficiency. Based on these sub-ratings, the outcome is rated Moderately Satisfactory.

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

Risk to development outcome achieved under the first objective is high because of the deteriorating political and economic environment and the security conditions in Afghanistan. There are major uncertainties about the future of banking sector, restructuring of financial sector, the development of private sector, and access to finance in the country. Displacement of significant amount of population is expected to result in disruption in banking and microfinance sectors and increase delinquencies of the outstanding loans. The increased capacities for modernized financial services and innovative financing programs are expected to be unutilized at least in the short-term.

Risk to development outcome achieved under the second objective is also high. The status of graduated TUP beneficiaries might not be maintained in relation to deteriorating security and economic conditions. Furthermore, another indicator for the achievement was linkage of the beneficiaries with the MFIs and saving groups. This linkage could be lost due to unclear prospects for the financial sector.

8. Assessment of Bank Performance

a. Quality-at-Entry

The project was well aligned with the World Bank and Government's development priorities. Project design benefitted from the Bank's previous work in the financial sector in Afghanistan as well as experience gained globally. A Microfinance Sector Scan was used to validate the World Bank and MISFA's assessment of the market conditions and potential of the microfinance sector. The Bank paid due attention to previous experiences and avoided possible mistakes that could have resulted in poor portfolio quality and difficulties in repayments in the sector. A detailed preparatory work was conducted for structuring of the TUP program and the credit guarantee facility. Support from the World Bank's DIME Unit was sought during project preparation to conduct a robust impact evaluation of this program with support from the CGAP—Consultative Group to Assist Poor (PAD, p.24). Since the Afghan Credit Guarantee Facility was already operational, the project was designed to support the ACGF within its current setting to expand its activities to the MSMEs. Fiduciary and environmental and social aspects of the project substantially benefited from the institutional capacity building from other operations by the World Bank and donors.

However, the PDO was not well formulated. The Bank developed a design matching country's need by combining capacity building and transfer of funds. This approach was not well reflected in the project's original development objective, which emphasized capacity building only. Support to ultra-poor program was not included in the PDO, although it was a part of the original project scope. The objective was revised four and a half years after the effectiveness of the project.

The institutional capacity of the MoF was not adequately assessed during project preparation. The MoF's lack of understanding of credit guarantee facility functioning resulted in significant project implementation delays. The agreement regarding the mode of capital contribution by MoF to ACGF could be signed three years after project effectiveness. The project closing date was extended to compensate for the time lost during this period.

Furthermore, procurement capacity of the relevant institutions was overestimated. Although a detailed procurement plan was prepared, the project implementation agencies had difficulty in managing complex and large procurement packages in accordance with the Bank's procurement rules which delayed start of activities under Component 1.

Lastly, the M&E design did not include any indicator to capture outputs and outcomes related to TA activities.

Overall, the quality-at-entry is rated Moderately Satisfactory.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

Nine official implementation support missions were conducted. The project team monitored progress and provided extensive support to the project implementation agencies. The progress and guidance were reflected in 14 Implementation Status Reports (ISRs) filed approximately every six months (ICR, p.15).

During project implementation, the project team addressed the issues caused by the shortcomings at the appraisal. The project team provided day-to-day support to MISFA and ACGF to address the issues related to the management of complex procurement packages. A procurement specialist was assigned, and the procedures were simplified in order to facilitate smooth and efficient procurement.

Due to the delays in the implementation of Component 2 and delays related to procurement procedures under Component 1, the project was restructured to reformulate the PDO, to extend the implementation period and reallocate funds between components. The project's development impact was stronger because of the increase in the scope of the TUP program. The Bank also improved the quality of M&E design by revising the PDO and the related indicators and adding new intermediate indicators. Although the restructuring resulted in positive outcomes and facilitated disbursements, and the realization of TA activities, the project could only be restructured four and a half years after project effectiveness.

Overall, the quality of supervision is rated Substantial.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The PDO formulation had shortcomings. It emphasized TA as the only intervention to increase access to finance. However, the project was designed to increase access to finance for both micro, small and medium enterprises and ultra-poor households. The original PDO did not capture the direct support to the ultra-poor households.

The indicators were specific, measurable, relevant, and time bound. However, the indicators did not fully encompass all project outcomes. For example, the results framework did not capture the outcomes expected from technical assistance on capacity building nor the project's achievement of financial inclusion. Some of the indicators in the result framework captured sector-wide outcomes that were not directly attributable to the project's intervention. On the other hand, the intermediate outcome indicators were sufficient to capture the contribution of the project activities and outputs towards achieving outcomes, except the TA activities.

The M&E design and arrangements were well-embedded institutionally Both MISFA and ACGF were responsible for M&E for their respective components and established their M&E systems. MISFA already produced a Monthly Performance Report for internal purposes, which gathered key financial information on MISFA partner institutions. It was expected at the project preparation stage that MISFA would strengthen its M&E mechanism further for TUP program. ACGF already monitored financial information for each financial institution including loan disbursement, guarantees issues, loans outstanding, guarantees outstanding, write-offs, claims disbursed, claims refunded.

b. M&E Implementation

The project objective was revised to include the project's impact on poor households. At the time of the first project restructuring, the project team addressed some of the shortcomings in the M&E design. A new PDO indicator, i.e., percentage of TUP households that are linked to MFIs and savings groups at graduation, was added to the results framework to capture the project's achievement in financial inclusion. A new intermediate indicator was added to the results framework to capture the outcome of technical assistance activities—number of financial institutions that introduced new processes, policies, or products to improve financial services for households and MSMEs. Some adjustments in the targets were made to match the remaining implementation period.

In addition to the measurement of the indicators in the result framework, studies and surveys were conducted to capture the project's outcomes. The Bank's DIME impact assessment study on TUP program, was conducted one year after the completion of the intervention in Balkh province. The findings of this survey contributed to the improvement of the indicators. In 2021, MISFA conducted a survey, i.e., Urban TUP Pilot Impact Evaluation, to evaluate the gains in income, saving capacity, improved overall satisfaction and well-being. In the same year, ACGF conducted a survey, too, to assess the impact of guaranteed loans on SMEs' businesses. These surveys provided additional data to assess the achievement of project outputs and outcomes.

Progress in project implementation was monitored regularly. Implementation support reports and aide-memoires provided regular and detailed updates on the progress. ACGF and MISFA submitted quarterly reports to the Bank regarding their operations. However, these reporting functions are unlikely to be sustained due to difficult political and economic environment and deteriorating security conditions. MFIs operating at the territories lost their branches and were not able to continue their operations. MISFA 'office was closed shortly after project closing.

c. M&E Utilization

The M&E findings resulted in the restructuring of the project in 2019. Results achieved under TUP program were disseminated; lessons learnt were shared through different means of communication. Data compiled through MISFA reports, which were prepared taking into account international good practices in microfinance, delivered information on the performance of MISFA's partner institutions and were published on relevant websites. The M&E data were sufficiently used to provide evidence of achievement of outcomes, as opposed to only providing evidence of application of inputs or achievement of outputs. Because of the recent political developments in Afghanistan, M&E findings could not inform subsequent interventions.

Overall, while the M&E design had some shortcomings at the start of project implementation, which were mostly addressed at the project restructuring, the M&E system as implemented and utilized and the findings of the surveys conducted by ACGF and MISFA were sufficient to assess the achievement of the objectives and test the links in the results chain.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

Environmental Safeguards: The project was classified as a Category Financial Intermediary project. The project triggered Environmental Assessment (OP/BP 4.01) at appraisal. According to the PAD (p.33), the Project was not expected to have any significant negative environmental impact. Environment and Social Management Framework (ESMF) developed by MISFA for a previous IDA project constituted the basis for this project. It was revised in a way to cover ACGF's activities as well. Accordingly, the MSMEs supported by both MISFA and the ACGF do not have significant harmful impacts on the environment. MISFA, ACGF and the partner institutions assumed overall responsibility for compliance with Afghan laws and regulations on environmental protection and with the requirements of the World Bank.

Social Safeguards: Throughout project implementation, the project has been working in accordance with the project ESMF, including the screening and mitigation measures set forth therein, with no breaches in compliance (ICR, p.16). The project was not expected to trigger any of the World Bank social safeguards policies appraisal but expected to have a positive impact. The project indeed delivered positive social impact by providing assistance to vulnerable ultra-poor households and women in Afghanistan's eight provinces. MISFA provided detailed information on the gender and social safeguards aspects on this. As a result, under TUP program, 89 percent of beneficiaries were women and, as suggested by impact evaluation studies by DIME, the project had a substantial impact on women empowerment. At the first restructuring funds were reallocated from Component 2 to Component 1 and accordingly expanded TUP program, thus helped increasing social positive impact out of the project.

According to ICR (p.16) MISFA provided several trainings and awareness raising events on social and environmental safeguards to partner MFIs. In 2014, ACGF prepared the E&S Policy and corresponding guidelines for the MFIs. The E&S Policy was improved and updated first in 2018 and again in 2020.

b. Fiduciary Compliance

Financial Management: According to PAD, ACGF's internal control and financial management framework was assessed during appraisal and considered to be adequate. The project team confirmed that two financial management manuals were prepared and implemented. According to ICR (p.15), the review on the aspects of budgeting, accounting, reporting, funds flow, and internal controls was conducted regularly

and did not reveal any major issues. The Project complied with the provision of financing agreement including timely rendition of quarterly Interim Unaudited Financial Reports (IUFRs) and the annual audited financial statements.

Procurement: The project experienced significant delays due to complex procurement processes. These delays had an adverse impact on the project implementation period and required project closing date extensions. According to PAD, the Bank conducted two assessment reports in 2005 and 2007 for procurement conditions in Afghanistan. It is also mentioned in the PAD that the Bank gained experience and understanding of the procurement environment from another Bank-financed project in 2002. Despite these background work, it was mentioned in the ICR that at appraisal one of the main implementing agencies (MISFA) did not have enough capacity and understanding of Bank's procurement processes. The Bank had to simplify complex procurement processes in order to facilitate disbursements under the project components. This resulted in delays in MISFA's completing procurement activities under Component 1 timely and accordingly resulted delays in MISFA's providing procurement guidance to MFIs. It was four and a half years after the start of the project MISFA was able to develop a comprehensive procurement guidance for the MFIs.

c. Unintended impacts (Positive or Negative)

None.

d. Other

None.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Satisfactory	Moderately Satisfactory	At project entry, there were moderate shortcomings in the formulation of the PDO and the M&E design, and the project implementation capacity of the counterparts was not adequately assessed.
Quality of M&E	Substantial	Substantial	
Quality of ICR	---	Substantial	

12. Lessons

The following two lessons are taken from the ICR with some adaptation of language:

Provision of productive assets, training, basic health can increase the development impact of financial aid to ultra-poor households in helping them engage in income generating activities and bringing them out of poverty. The evidence from the project confirms the global experience that for a significant development impact, programs, such as TUP, need to combine financial means with productive assets, training and basic health. The project provided in-kind and financial assistance together with training and basic health coverage to 12,698 households. Eighty eight percent of these households started generating sufficient income that they dropped out of the social safety nets. Additionally, 64 percent of them had interactions with microfinance institutions. According to the impact evaluation conducted at project closing, the share of households below the national poverty line decreased by 20 percent.

Lack of project implementation and institutional capacities of the counterparts can adversely impact project achievements. Although this is a generic lessons-learned, the experience gained in this project once again showed that project implementation capacities of the agencies are critical in achieving project outcomes; hence, project objectives. implementation by delaying completion of necessary processes and progress. At appraisal, the capacities of the project implementation agencies were not adequately assessed. While a detailed procurement plan was prepared at appraisal, the project implementation agencies had significant difficulties in managing complex and large procurement packages in accordance with the Bank's procurement rules. This led to a delayed start of project activities under Component 1 adversely affecting the project's efficacy and efficiency. Furthermore, the Ministry of Finance's lacked sufficient understanding of the credit guarantee facility's functioning. Coupled with high staff turnover and difficult political environment, this contributed to the delayed signing of the Implementing Partner Agreement and lower achievement of project outcomes related to the guarantee facility.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides a detailed overview of the project. It is candid in explaining the issues encountered at different phases of implementation. The report is concise and follows most of the guidelines. It is internally consistent. There is a logical linking of the various parts of the report. The ICR provides evidence based on the measurement of the indicators in the results framework and the impact evaluation study conducted at project closing. The ICR, including its annexes, presents a sufficiently complete and robust evidence base to support the achievements. The interrogation of evidence is sufficient, and the linking of evidence to findings is clear. The report adequately follows the Bank guidance with regards to most of the ratings, but the narrative does not take into consideration the shortcomings at entry when rating Bank performance. Annex 3 does not provide a project cost breakdown per component. The discussion in the Lessons and Recommendations section are

clear, useful, and mostly based on the evidence outlined in the ICR but they are more in the form of findings and recommendations rather than lessons.

Overall, the quality of the ICR is rated Substantial.

a. Quality of ICR Rating
Substantial