



Report Number: ICRR0021565

1. Project Data

Project ID
P110407

Project Name
AF: Rural Enterprise Devt Program

Country
Afghanistan

Practice Area(Lead)
Agriculture

L/C/TF Number(s)
IDA-H5310,TF-98045,TF-A3502

Closing Date (Original)
01-Jan-2015

Total Project Cost (USD)
44,067,897.40

Bank Approval Date
09-Mar-2010

Closing Date (Actual)
30-Jun-2018

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	30,000,000.00	25,700,000.00
Revised Commitment	45,662,802.19	15,687,099.02
Actual	44,067,897.40	15,687,099.02

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Project ID
P163525

Project Name
Second AREDP AF (P163525)

L/C/TF Number(s)

Closing Date (Original)

Total Project Cost (USD)
0

Bank Approval Date
21-Nov-2017

Closing Date (Actual)



	IBRD/IDA (USD)	Grants (USD)
Original Commitment	0.00	0.00
Revised Commitment	0.00	0.00
Actual	0.00	0.00

2. Project Objectives and Components

a. Objectives

The Project Development Objective (PDO) stated in the Project Paper (p. 31, para 6) and the PDO in the Afghanistan Reconstruction Trust Fund Grant Agreement (p. 5) were identical and aimed to:

"improve employment opportunities and income of rural men and women; and sustainability of targeted local enterprises."

This was to be achieved by enhancing participation of the rural poor in economic activities, supporting them through business development services and access to finance, and improving market linkages and value chains.

While the PDO was not changed, the project's targets were all significantly reduced as part of the 2013 restructuring.

Therefore, this Review will assess outcomes based on a split rating.

To accommodate the significant reduction in financing (a large partial cancellation of US\$52 million of the project funds due to a reallocation within the Trust Fund portfolio), outreach targets for the project-supported institutions including: Savings Group (SGs), Village Savings and Loan Association (VSLAs), Enterprise Group (EGs), and Small and Medium Enterprise (SMEs) as well as beneficiary targets were all significantly reduced. Also, four out of the five outcome targets were reduced in 2013 and later revised upward in 2016. The PDO remained the same with no changes.



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

Yes

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

No

c. Will a split evaluation be undertaken?

Yes

d. Components

The PDO was supported by three components.

1. Community-based Enterprise Development (appraisal cost: US\$37.35 million, revised amount: US\$11.4 million, actual cost: US\$17.76 million). This component aimed to create Savings Groups (SGs), Enterprise Groups (EGs) and Village Savings and Loans Associations (VSLAs). These institutions would be assisted by the project to build their capacities, increase the value of their trading, produce according to identified market opportunities, and effectively access credit. It included into three sub-components as follows:

1.1. Community Facilitation. This sub-component aimed to facilitate the formation and functioning of Savings Groups (SGs) and Enterprise Groups (EGs) within each community, so that men and women who engage in income generating activities could collectively access technical expertise, markets and eventually finance.

1.2. Support to Enterprise Groups. This sub-component aimed to maximize the economic potential of rural entrepreneurs through improving their market access, providing them with relevant technical knowledge, raising their basic business skills, and leveraging economies of scale so that they may increase the value of their sales. The Project would facilitate a sequenced process to build Enterprise Groups' commercial knowledge and enable them to effectively articulate their needs and identify opportunities.

1.3. Access to Finance. This sub-component aimed to create Village Savings and Loan Associations, formed from federated Savings Groups (SGs), to address the business investment needs of Enterprise Group members.

2. SME Development (appraisal cost: US\$23.3 million, revised amount: US\$6.00 million, actual cost: US\$8.73 million). This component aimed to support the emergence of a stronger SME sector, with improved trading linkages with the rural economy and adequate access to financial services. It included the following three sub-components:

2.1. SME Facilitation. The Project would finance a sequenced approach for SME support, i.e. identifying key value chains in each province, working with the stakeholders to identify choke points constricting growth, identifying opportunities for forward-backward linkages and defining skill gaps.

2.2. Business Development Support for SMEs. The Project would work with sectors, and approximately 750 SMEs, which would likely be key drivers of rural income. It would support the SMEs in building necessary skills, promoting market development and particularly encouraging business linkages with the



rural economy. Action plans would be developed to enable the SMEs to access the services they need for market development and for generic and specific training and technical support.

2.3. Access to Finance for SMEs. The Project would facilitate improved access to finance by SMEs through a three-pronged strategy, namely: (i) the risks related to the provision of credit for rural SMEs would be addressed by setting up a risk-sharing mechanism in the form of a partial guarantee; (ii) the lack of institutional capacity and appropriate products and services would be addressed through the provision of support for capacity building and new product development for partner banks; and (iii) the Project would assist supported SMEs to identify and present their financing requirements in line with the needs of partner banks.

3. Project Implementation Support (appraisal cost: US\$27.59 million, actual cost: US\$18.74 million). The project would receive support through three sub-components as follows:

3.1. Project Management. This would include the establishment and implementation of an effective Project Management System through the provision of training and technical assistance, equipment, operating costs, to strengthen the Project Management Office's capacity in financial management, procurement and technical skills.

3.2. Monitoring and Evaluation. This would focus on designing and implementing an effective and efficient monitoring and evaluation system.

3.3. Governance and Accountability. Gender and Third-Party Audits would design and implement the Governance, Accountability and Gender Action Plans and carry out external and internal audits. The Project would finance the establishment and staffing of six offices, one at Headquarters level and five Provincial Offices. These offices would oversee Project implementation, provide co-ordination and leadership for the development of the rural economy, carry out Project monitoring and evaluation; facilitate governance, and ensure knowledge management that would facilitate participatory action learning, introspection and constant Project improvement.

Revised Components. The 2013 restructuring saw the revision of some activities as stated below.

Component 1. EGs would be able to access both SGs and VSLAs for loans (instead of only VSLAs), seed capitals were channeled to both SGs and VSLAs, entrepreneurship support was piloted for vulnerable groups, such as Kuchis (nomads) and people with disabilities, and an EG graduation model was developed to graduate EG into SMEs. Additionally, the outreach targets were reduced for three village-level institutions (see Table 2 above).

Component 2. the financial support for SMEs, including the Partial Risk Guarantee Facility (PRGF) and innovation funds, was cancelled, but an SME sustainability model was developed to hire them as business development service providers (BDSPs) to support EG and supply chain development/sustainability.

Additionally, there was also a reallocation among components, due to the large partial cancellation of funds. The final expenditure under the Component 1 was 48% of the original costs, that under the Component 2 was about 40%, and that under the Component 3 was about 70%.



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

Project Cost. The total cost of the project was estimated at appraisal to be US\$87.24 million. The actual cost reported by the ICR Annex 3 was US\$45.23 million which is about 52% of the appraisal estimate. The difference was mainly due to a large partial cancellation of US\$52 million of the project funds in 2013.

Financing. The project was financed through an IDA Grant worth US\$30.00 million, and two Afghanistan Reconstruction Trust Fund Grants (ARTF) worth US\$16.00 million and US\$9.70 million. Total pledged financing at appraisal was US\$87.24 million. Actual disbursement amounts reported by the ICR (p. 2) were US\$28.30 million, US\$6.23 million, and US\$9.46 million for the IDA Grant and the two Trust Fund Grants, respectively. The total disbursed amount was US\$44.07 million. The PAD (p. 24, para 68) stated that "DFID has indicated its support of US\$23 million through the Afghanistan Reconstruction Fund and the Danish Government would provide US\$2 million under a bilateral agreement." However, the ICR did not report on what happened with the DFID or the Danish Government sources of funding. In a further communication, the project team explained that DFID and the Danish Government were both "contributors to the ARTF from which AREDP was funded but the exact contribution was not known. The portal does not provide if the \$16 million tranche or the \$9.7 million AF from ARTF includes DFID funds. However, there was no bilateral agreement with Danish Government specifically for the project."

Borrower Contribution. This was a Grant funded project and no contribution was expected from the borrower.

Dates. The project was approved on March 9, 2010 and became effective three months later on June 14, 2010. The Mid -Term Review was carried out on October 1, 2012, slightly later than the date set at appraisal (second year after effectiveness). The project closed on June 30, 2018, which was 3.5 years later than the expected closing date on January 1, 2015. In a further communication on May 22, 2019, the project team explained that "the extensions in 2014 and 2015 were for the project to complete outstanding activities, due to initial slow implementation. During the implementation in 2015, there also were delays due to the presidential election and security concerns. The extension in 2016 was, therefore, to complete, consolidate, and align the project activities, as the new government was to transform the on-going projects under the Ministry of Rural Rehabilitation and Development (MRRD) into one flagship program. The extension in 2017 was to support the preparation of the WEE-RDP, which is under the MRRD flagship program, while maintaining the AREDP staffing and offices in transition."

The project was restructured three times, all Level 2 restructurings. The first was on October 26, 2013, when the amount disbursed was US\$15.74 million, (US\$11.64 million from IDA and US\$ 4.1 from ARTF), in order to formally cancel US\$9.8 million from the original ARTF commitment of US\$16.00 million (Restructuring Paper p. 7, para 15), and to reduce the targets of the PDO indicators. According to the ICR (p. 8, para 6) the cancellation was due to "the extremely slow implementation progress, weak field implementation capacity, fragility constraints, delay in PRGF establishment, VSLA aggregation, EG formation, and difficulty in rural access." The second restructuring was on December 6, 2015, when the amount disbursed was US\$33.91 million, in order to introduce changes to: components and cost, the



Results Framework, financing plan, legal covenants, procurement, and to extend the loan closing date to December 29, 2016. The third restructuring was on June 20 2017, when the amount disbursed was US\$39.31 million, in order to extend the loan closing date to March 31, 2018. In addition, the project received two additional financings-both were Grants from ARTF, the first was in 2016 worth US\$4.70 million, and the second was in 2017 worth US\$5.00 million.

3. Relevance of Objectives

Rationale

Over 75% of the people of Afghanistan live in rural areas where agriculture continues to be the primary activity. Lack of access to finance and business know-how, poor infrastructure, inadequate marketing, and poor post-harvest practices are limiting economic development and constraining on-farm and non-farm employment opportunities, thus perpetuating poverty in rural areas. The project was expected to tackle these problems through enhancing participation of the rural poor in economic activities, supporting them through business development services and access to finance, and improving market linkages and value chains.

At project appraisal, objectives were in line with Afghanistan National Development Strategy (ANDS) which envisioned “a society of hope and prosperity based on a strong, private-sector led market economy, social equity and environmental sustainability.” Social and Economic Development was one of three pillars of the strategy where Agriculture and Rural Development sector was expected to ensure the social, economic and political well-being of rural communities, while stimulating the integration of rural communities within the economy. The strategy also emphasized attracting private sector investment to transform agriculture to a high value commercial sector as a source of growth and expansive means of livelihood. Objectives were also in line with pillars II (promoting growth of the rural economy and improving rural livelihoods) and III (supporting growth of the formal private sector) of the Bank’s Interim Strategy Note for Afghanistan (ISN, FY2009-11). The project would contribute to these pillars through developing village-level micro enterprises, increasing their access to finance and markets, and supporting SMEs.

At project completion, objectives were in line with Afghanistan National Peace and Development Framework (ANPDF) 2017-2021, in its fifth and sixth Development Strategy, which were economic growth, job creation, poverty reduction and social inclusion. Objectives were also in line with the Bank’s Country Partnership Framework (CPF, FY2017-20) for Afghanistan. The CPF’s Pillar 2, called for supporting inclusive growth, improving business regulatory environment and access to finance (CPF, p. 21, Objective 2.1) and increased agricultural productivity (CPF, p. 24, Objective 2.4).



The statement of objectives was clear, and designed to address development problems such as poverty (increased income and employment opportunities and sustainable businesses).

Based on the information above Relevance of Objectives is rated High.

Rating

High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

PDO: to improve employment opportunities and income of rural men and women; and sustainability of targeted local enterprises.

As stated this PDO includes two objectives:

PDO1: to improve employment opportunities and income of rural men and women;

PDO2: to improve sustainability of targeted local enterprises.

Rationale

Theory of Change. Activities in targeted villages included: Savings Groups (SG) development through savings and credit, aggregation of SGs into Village Savings and Loans Associations (VSLA) at village level, provision of seed capital grants to matured VSLAs, and formation and development of Enterprise Groups (EG). The key assumption was for EGs to access VSLAs, where grants were channeled, and more funds were available than within the Savings Groups, for loans to start micro-businesses. Key outputs included: EGs to access and repay loans, VSLAs to maintain high loan repayment rates, VSLAs with loanable capital, and EGs to improve products and diversify market strategy. These outputs were expected to lead to increasing EGs net revenue, and to improve sustainability of the EGs. This was again expected to increase rural incomes. It is plausible to assume that the stated activities would contribute to increasing rural incomes. However, one key assumption (EGs to access VSLAs) proved to be problematic and was modified at restructuring.

Outputs



All targets are the originally stated targets for what was expected at project closure:

Mobilization in 377 villages of 20 districts in five project provinces as envisioned at appraisal;

- 7,239 Savings Groups (SGs) were formed (Original target: 13,000, not achieved). Of a total number of 33,390 SG members, 16,846
- 1,768 Enterprise Group (EGs) were formed (Original target 6,500, not achieved).
- SG members saved AFN 50.44 million, out of which AFN 24 million (47%) were saved by women; and of the total AFN 32 million inter-loaned, AFN 13.4 million (42%) was disbursed by SGs, no clear targets were given in ICR or the PAD.
- 536 Village Savings and Loan Associations (VSLAs) were formed by federation of SGs (Original target: 1,300, not achieved).
- The project mobilized 81,880 rural men and women (Original target: 90,000, target almost achieved) into 7,239 SGs where 5,450 were active at completion (Original target; 13,000, target not achieved), 52% of the savings group members were women who saved a total of US\$5.2 million.
- 4,868 SGs (70% of all SGs) were aggregated into 536 Village Savings and Loan Associations (Original target 1,300, target not achieved).
- 84% of VSLAs received seed capital (Original target: 80%, target not revised; target exceeded)
- 2% of SGs received seed capital, not achieving the original target of 60% (target not revised). The SGs performed poorly when it came to receiving seed capital because most of them could not open a bank account.
- 80% of credit funds was in circulation at any given time (Original target: 60%, target exceeded).
- 1,436 EGs (81%) out of the originally formed 1,768 EGs were active as of June 2018 (Original target: 6500, target not achieved). 928 active EGs were women-owned.
- 593 SMEs were supported by the Project (Original target: 750, target not achieved). 121 SMEs were women owned.
- 71% of Small and Medium Enterprises reported increase in income, (Original target: 50%, target exceeded, target not revised), 20% of which were women owned, exceeding the original target of 15%, target not revised.

Outcomes

The improvement in employment and income had three elements: (i) access to finance in targeted villages, (ii) increase in Enterprise Groups' (EGs) net revenues, and (iii) increase in employment opportunities created by EGs and SMEs.

(i) Access to finance in targeted villages. As shown in the list of outputs above, access to finance in targeted village was improved. The Savings Groups saved a total of US\$5.2 million that had never been available in these villages as credit. 38% of SG members (Original target: 25%, target not revised) took loans to set up Enterprise Groups or individual micro enterprises and repaid those loans. The SG outreach accounted for about 40% of the eligible populations in targeted villages, and 52% of the SG members were women (Original target: 35%, target exceeded).

100% of the SG members had access to financial services including village-level savings and credit (Original target: 60%, target exceeded). The average loan size of SGs was around US\$200, and around US\$500 for VSLAs. The repayment rate was as high as 95% at both levels (Original target: 95%, target not revised). The



total seed capital disbursed to VSLAs and SGs amounted to US\$3.3 million. As of June 2018, the gross loan portfolio amounted to US\$14 million.

According to the ICR (p. 11, para 13) a final impact assessment study by an independent firm reported that 98% of the SG members confirmed that the improvement in their access to financial services was a result of the project. The Status of Community-based Savings Promotion Institutions (CSPIs) in Afghanistan Report (2016) found that the project had the largest outreach in terms of the number of beneficiaries and savings and loan amounts among 12 CSPI projects/providers studied. In 2016, the project provided financial and non-financial services to 18% of the country's active microfinance borrowers and had 6% of the sector's gross loan portfolio.

(ii) Increase in Enterprise Groups' (EGs) net revenues. Either 86% (Table Annex 1) or 71% (ICR para 19) of the Enterprise Groups (EGs) increased their net revenues by over 20% (Original target: 70%, target exceeded), 65% of which were women owned. On average, EGs increased their net revenue by 47%. Agriculture EGs were the most profitable increasing net revenue by 55%, followed by dairy/livestock and apiculture (40% respectively), and handicrafts and poultry (35% respectively). The project aggregated 349 matured EGs (22% of all EGs) in 60 producer associations (PAs) at cluster or district level to facilitate linkages with the project-supported SMEs. 42% of PAs were in livestock (including poultry and dairy), while 37% were in handicrafts and 10% were in agriculture. Under the project's business development support SMEs increased their annual sales by about 20% from 12.6 million in 2015 to US\$15 million in 2017 (ICR, p. 13, para 18). An SME Assessment Report in 2016 that surveyed 173 SMEs showed that the project established market linkages for almost 30% of surveyed SMEs, and 71% of the surveyed SMEs reported significant increase in overall production with project support. The same report showed that 71% of surveyed SMEs (revised target: 50%) increased their net revenues after receiving project support, and 28% of those SMEs were women owned.

(iii) Increase in employment opportunities. As a result of project support, 37% of EGs and SMEs increased direct and/or indirect employment (Original target: 30%, target exceeded). Annual employment data showed that from 2013 to 2017, there was an increase by 45% in direct employment (target: 30%). Also, a gender analysis by the Agricultural Research and Extension Development Project (USAID -funded) showed that 38% of economically active women in the project-targeted villages were employed by microenterprises set up with loans through SGs (ICR, p. 14, para 21). The project provided business development support including soft skills and technical training, technology transfers, participations in national and international exhibitions, and exposure visits, to 592 SMEs or 75% of a total of 800 SMEs registered with the project. 30% of the project-supported SMEs were in agriculture, followed by dairy/livestock (23%) and handicrafts (22%). 20% of the project-supported SMEs were women owned (Original target: 15%), and 60% of the women's SMEs were in handicrafts.

Despite reaching or achieving many of the outcome targets as expressed in percentages, the original objective 1 was modestly achieved as none of the targets expressed in nominal figures (number of beneficiaries, number of groups) were reached.

Rating
Modest



OBJECTIVE 1 REVISION 1

Revised Objective

PDO 1: to improve employment opportunities and income of rural men and women

Revised Rationale

Theory of Change. Same as above.

Outputs

The achieved outputs are assessed against the revised targets:

- The project mobilized 81,880 rural men and women (revised target: 47,000, second revised target 68,500, Revised targets exceeded).
- 7,239 Savings Groups (SGs) were formed, of which 5450 were still active at completion (Revised target: 6500, target almost achieved).
- 1,768 Enterprise Group (EGs) were formed (Revised target 1,400, target exceeded),
- 4,868 SGs (70% of all savings groups) were aggregated into 536 Village Savings and Loan Association (VSLAs) were formed by federation of SGs (Revised target: 390, target exceeded).
- 80% of credit funds was in circulation at any given time (Revised target: 40%, target exceeded).
- 1,436 EGs (81%) out of the originally formed 1,768 EGs were active as of June 2018 (Revised target: 1400, target achieved). 928 active EGs were women-owned.
- 593 SMEs were supported by the Project (Revised target: 750, target not achieved). 121 SMEs were women owned.
- 86% of Enterprise Groups (EGs) increased their net revenues by over 20% (revised target: 60%, target exceeded).
- 593 SMEs were supported by the Project (revised target: 544, target exceeded) and 121 SMEs were women owned.
- 71% of Small and Medium Enterprises (SMEs, target: 50%, target exceeded) reported increase in income, 28% of which were women owned, exceeding the target of 15%.
- 65% of EGs and SMEs (revised target: 50%, target exceeded) increased direct and indirect employment by at least 30%, 44% of which were women owned. In three to five years, the direct employment by EGs and SMEs increased by 45% (revised target: 30%, target exceeded).

Outcomes

The improvement in employment and income had three elements: (i) access to finance in targeted villages, (ii) increase in Enterprise Groups' (EGs) net revenues, and (iii) increase in employment opportunities created by EGs and SMEs. The information is the same as above, and only indicators with revised targets will be outlined here.

(i) Access to finance in targeted villages. As shown in the list of outputs above, access to finance in targeted village was improved. The Project gave 100% (revised target: 90%, target exceeded) of the SG members access to financial services including village-level savings and credit. The Project also aggregated 70% (revised target: 70%, target achieved) of SGs into 536 VSLAs (revised target: 390, target exceeded).



The average loan size of SGs was around US\$200, and around US\$500 for VSLAs. The repayment rate was as high as 95% at both levels (revised target: 95%, target achieved).

According to the ICR (p. 11, para 13) a final impact assessment study by an independent firm reported that 98% of the SG members confirmed that the improvement in their access to financial services was a result of the project. The Status of Community-based Savings Promotion Institutions (CSPIs) in Afghanistan Report (2016) found that the project had the largest outreach in terms of the number of beneficiaries and savings and loan amounts among 12 CSPI projects/providers studied. In 2016, the project provided financial and non-financial services to 18% of the country's active microfinance borrowers and had 6% of the sector's gross loan portfolio.

(ii) Increase in Enterprise Groups' (EGs) net revenues. The net revenues of 86% EGs increased by 20% between 2013 and 2017 (revised target: 60%, target exceeded), and 65% of these EGs were women owned (revised target: 50%, target exceeded). Under the project's business development support SMEs increased their annual sales by about 20% from 12.6 million in 2015 to US\$15 million in 2017 (ICR, p. 13, para 18).

(iii) Increase in employment opportunities. As a result of project support, 37% of EGs and SMEs (revised target: 35%, target achieved) increased direct and/or indirect employment by at least 30%. Annual employment data showed that from 2013 to 2017, there was an increase by 45% in direct employment (target: 30%). Also, a gender analysis by the Agricultural Research and Extension Development Project (USAID -funded) showed that 38% of economically active women in the project-targeted villages were employed by microenterprises set up with loans through SGs (ICR, p. 14, para 21).

The achievement of the revised objective 1 is rated substantial.

Revised Rating

Substantial

OBJECTIVE 2

Objective

PDO2: to improve sustainability of targeted local enterprises.

Rationale

Theory of Change. Under the SME development component, the activities for targeted SMEs at district or provincial centers included: business development support, such as financial management and some technical training, development of backward linkages with EG farm and non-farm producers and forward linkages with national and international market, and financial services, including setting up of an innovation fund and a partial risk guarantee facility (PRGF) to foster commercial bank lending to SMEs. The key assumption was that SMEs would be able to access loans from banks and grow, to develop supply chain linkages with EGs and create employment. These outputs were expected to lead to outcomes, which were to increase net revenues and create sustainable micro-enterprises, SMEs and new employment opportunities. However, many Savings Groups were unable to access seed capital because they could not open bank accounts.



Outputs

- 81% of EGs supported by the project were still operating 2 years after start-up; (original target: 50%, target exceeded), 65% of which were women owned (original target: 35%, target not revised).
- 80 SMEs were hired as Business Development Service Providers (BDSPs) (original target: 20, target exceeded, target not revised).

Outcome

By project completion, 81% of the EGs (original target: 50%, target exceeded) were still operational two years after start-up, 65% of which were owned by women (original target: 35%, target exceeded, target not revised), and 75% of SGs and 98% of VSLAs were also active. A final independent impact assessment found that 92% of surveyed EGs that were set up between 2012 and 2015 were still operational.

Based on the above-mentioned information, achievement of the original objective 2 is rated substantial.

Rating

Substantial

OBJECTIVE 2 REVISION 1

Revised Objective

PDO2: to improve sustainability of targeted local enterprises.

Revised Rationale

Theory of Change. Same as above.

Outputs

- 81% of EGs were active at the end of the project (revised target: 80%, target achieved).
- 80 SMEs were hired as Business Development Service Providers (BDSPs) (original and revised target 20 (i.e. target not revised), target exceeded).

Outcome

By project completion, 81% of the EGs (revised target: 80%, target achieved) were still operational two years after start-up). A final independent impact assessment found that 92% of surveyed EGs that were set up between 2012 and 2015 were still operational.

Based on the above-mentioned information, achievement of the revised objective 2 is rated substantial.

Revised Rating



Substantial

Rationale

Original objective (with original targets)

PDO 1: Improving employment opportunities and income of rural men and women is rated Modest as the original targets were not met.

PDO 2: Improving sustainability of targeted local enterprises is rated Substantial as the original targets were met.

Based on the above-mentioned information, the overall efficacy pre-restructuring is rated Modest.

Revised objective (with revised targets)

PDO 1: Improving employment opportunities and income of rural men and women is rated Substantial as most of the revised targets were substantially achieved or surpassed.

PDO 2: Improving sustainability of targeted local enterprises is rated Substantial as the revised targets were achieved or exceeded.

Based on the above-mentioned information, the overall efficacy post restructuring is rated Substantial. There is sufficient evidence for the substantial efficacy rating due to the additional studies that were undertaken.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic and Financial Efficiency

ex ante

- The ex ante analysis did not provide an overall Economic or Financial Rate of Return. The PAD (Annex 7, p. 106) explained that private investments in rural enterprise and SMEs would be demand driven and rely on market led investment strategies. Therefore, it was difficult to make ex-ante assessment in terms of quantifiable economic and financial returns in the context of Afghanistan.



- Cost-benefit estimates of some potential enterprises were obtained during field visits in preparation missions, and analysis of financial rates of return was undertaken to determine net benefits of select investments, namely bee-keeping, honey processing, poultry hatchery and carpet making.
- The Internal Rate of Return (IRR) for an investment in bee keeping was 46%, 40% for honey processing, 35% for poultry hatchery and 47% for a carpet weaving unit.
- The sensitivity analysis showed that both beekeeping and carpet weaving activities provided returns of 14% and above, when costs were increased by 10% or when revenues were decreased by 10%. The fall in rates of return was far greater for a dip in revenues than from cost escalations.

ex post

- The ex post analysis showed that the overall value of the Economic Internal Rate of Return (EIRR) was estimated at 33%, and that of the Financial Internal Rate of Return (FIRR) was at 32%. Return on Equity ROE was estimated at 37%. The agriculture EGs had the highest EIRR (46%), followed by handicrafts (41%), poultry (36%), and livestock and dairy (33%), while the apiculture EGs had the lowest EIRR (22%).
- Methodology. The EFA was performed for individual sectors by defining and categorizing productive activities by sector. A cost benefit model was used to assess the efficiency of the project investment. Annual cash flows were appraised using the data on average expenses and sales of the EGs by category of business. Average value of the EIRRs and NPVs was considered as representative at project level. Project economic costs were derived from the financial costs by excluding taxes, duties, and subsidies and expressed in 2018 constant prices, for the analysis.
- Assumptions. All monetary values were expressed in Afs. The exchange rate was assumed to be Afs67 per US\$. Both costs and benefits were valued at average of values actually incurred and brought to June 2018 price level and kept constant afterwards for the analysis. A 10% discount rate was used for representing the opportunity cost of capital.
- Component 3 received US\$18.74 million or 41% of the project's actual total expenditures, but operational costs and project management were only 17.5%. The extra cost funded community mobilization and institution building, such as hiring of Village Facilitators (VFs) and BDSPs (which should have been costed under the component 1). Meanwhile components (1) and (2) spent 39% and 19% of the project's actual total expenditures, respectively. The significantly higher costs under project management stemmed from Afghanistan's fragility, and its extremely difficult environment that required addressing challenges, such as insecurity, rural access, and weak field capacity (ICR. p. 15, para 26).
- The ICR (p. 16, para 26) noted that the cost of component 3 (including the institutional building/operational costs) was comparable to other projects in the country, for example, institution building/operational costs for the National Horticulture and Livestock Project (NHLP) in the agriculture sector was about 44% while similar cost for the Citizen's Charter Afghanistan Project (CCAP) was 33%. Also, the overall cost per beneficiary in implementing the GoA's Supporting Women's Economic Empowerment Plan (SWEEP), was US\$574, while that of the project was US\$397 over the time of the project duration.
- The ex post EFA could have benefitted from a sensitivity analysis to show the impact of different scenarios on the rates of return of various project investments.
- There are concerns about the data used for the EFA particularly that information on costs of equipment or operations for producing/preparing the goods for sales by the EGs or SMEs, such as labor and management costs were not captured through the MIS system. According to the ICR (p. 44, para 12) the



"necessary data were collected from the EGs during the annual festival (year 2018) arranged at Kabul" by the project.

Administrative and Institutional Efficiency

The project closed on June 30, 2018, which was 3.5 years later than the expected closing date on January 1, 2015. The ICR did not provide the reason(s) behind this delay. It only reported that the closing date was extended four times. The establishment of the Partial Risk Guarantee Facility experienced delays and was eventually cancelled. Also, M&E implementation suffered from initial delays. In the early phase of the project, there were also complaints related to delays in seed capital disbursement and provision of innovation awards to SMEs. Procurement experienced frequent delays, including the procurement of a consulting firm of final impact evaluation (ICR, p. 21, para 46).

Overall, efficiency is rated Substantial despite administrative and institutional weaknesses.

Efficiency Rating

Substantial

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		0	0 <input type="checkbox"/> Not Applicable
ICR Estimate	✓	33.00	0 <input type="checkbox"/> Not Applicable

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

6. Outcome

Pre-restructuring

Relevance of objectives is rated High. Overall efficacy is rated Modest as the majority of the nominal targets were not achieved. Efficiency is rated Substantial.

Based on high relevance, modest rating for efficacy and substantial rating for efficiency, the pre-restructuring outcome is rated Moderately Unsatisfactory.



Post restructuring

Relevance of objectives is rated High. Overall efficacy is rated Substantial as most targets, both the nominal and the percentage-based targets, were met or exceeded. Efficiency is rated Substantial despite some administrative and institutional weaknesses.

Based on high rating for relevance and substantial rating for efficacy and efficiency, the post-restructuring outcome is rated Satisfactory.

Split rating:

The amount disbursed at Restructuring was US\$11.64 million out of a total IDA disbursement of US\$28.30 million, i. e. 41%.

Weighted outcome:

$$(3 \times 0.41) + (5 \times 0.59) = 4.18 \text{ rounding to a rating of } 4$$

4 corresponds to a Moderately Satisfactory rating on the 1 to 6 scale. Therefore, the overall outcome rating is Moderately Satisfactory.

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

The ICR (p. 23, para 51) rated the Risk to Development Outcome as substantial based on the following factors:

- By project completion, 81% of Enterprise Groups and 75% of Savings Groups were operational after 2 years of startup. The high level of sustainability indicates continued benefits for members of the Savings Groups, including access to finance, increased rural incomes and employment.
- Support from the Government to rural enterprise development was expected to continue as a part of the Ministry of Rural Rehabilitation and Development's national flagship program under the sixth Development Strategy of the Afghanistan National Peace and Development Framework 2017-2021.
- The Women's Economic Empowerment National Priority Program, a follow-on Bank project, was approved by the Board in September 2018, at a total cost of US\$100 million. It would focus on women's access to finance and enterprise development at village level and was expected to scale up Savings Group and Enterprise Group development as a national program with a saturation approach in targeted villages.
- Based on the above-mentioned factors, sustainability of project's gains seems highly likely. However, the sustainability of the development outcomes could be negatively impacted or even



undermined given Afghanistan's worsening security situation and the absence of a permanent political solution for the armed conflict.

8. Assessment of Bank Performance

a. Quality-at-Entry

The project was one of the instruments that IDA was using to implement the Interim Strategy Note for Afghanistan, discussed by Executive Directors on June 4, 2009 (Project paper, p. 10, para 14). The project was also listed among other projects in the Government's National Development Strategy (ANDS).

Project preparation took 18 months from concept review to the Board approval. The project was designed to support self-help among rural men and women by mobilizing savings to facilitate village-level access to credit and micro-enterprise development.

Project design benefitted from the Bank's experiences and lessons learned from rural livelihood development projects in South Asia and Sub-Saharan Africa. Notable lessons reflected in the design included: adopting both a demand driven approach and market led approach for linking rural enterprises and SMEs, extending technical assistance, institutional strengthening and product/service development for rural enterprise support to both banks/MFIs and SMEs, and the project would use information and communication technologies (ICT) to support and enable various components.

The design was too ambitious to implement in rural areas in a fragile country like Afghanistan. The design featured a linear institutional development chain of SG -> VSLA -> EG. However, this proved to be problematic and slowed implementation significantly due to remoteness and weak implementation capacity. Design also featured the creation of the Partial Risk Guarantee Facility (PRGF) to foster commercial bank lending to SMEs. However, commercial banks were required to disburse US\$40 million before accessing PRGF funds. This arrangement proved to be unrealistic and the Partial Risk Guarantee Facility was later cancelled in 2013.

Four key areas were identified with high/substantial risk at the appraisal stage: security conditions, governance, implementation capacity and fiduciary management. That Project Paper (p. 29, para 92) stated that the main risk mitigation measures would be through creating and maintaining community awareness and participation; vigorously pursuing implementation of the governance and accountability action plan; and proactive supervision by the Bank task team. The ICR provided no explicit discussion on the risks and whether mitigation measures were effective. That said, the mitigation measures as stated in the project paper were brief and lacked details.

M&E design had ambitious targets for a number of indicators, and implementation suffered from initial delays (more details in section 9).

Overall, Quality at Entry suffered minor shortcomings including an overly ambitious design that underestimated the challenging implementation environment and the weak implementation capacity.



Quality-at-Entry Rating
Moderately Satisfactory

b. Quality of supervision

The project was implemented under a challenging implementation environment amid a deteriorating security situation. The Bank carried out 13 implementation support missions over about eight years of project implementation. In both 2014 and 2015, only one supervision mission was conducted, and no field visits were carried out from 2014 till the end of the project in 2018 due to the deteriorating security situation. The TTL as well as most of the team members were Kabul-based until 2016. The project benefited from close support provided by the project team. Three years into implementation, it became evident that the project design was too ambitious, considering Afghanistan's fragility and weak implementation capacity. The project was restructured after the cancellation of US\$52 million in 2013, and the team scaled back the ambitious project design and targets. Implementation improved after the restructuring included streamlining the administrative procedures as well as changing the intra-organization dynamics of the project. Enterprise Group development was accelerated by providing access to loans from Savings Groups and introducing deliverable based payment (ICR, p. 22, para 49). However, many Savings Groups were unable to access seed capital because they could not open bank accounts. The project also benefitted from the Bank's team support to sustain supply chains and village-level service delivery by developing a graduation model from Enterprise Groups to Small and Medium Enterprises, Small and Medium Enterprises to Business Development Service Providers. The ICR (p. 22, para 49) noted that the project won the Vice President's Award in 2012 and the Agriculture Global Practice Award in 2018.

Based on the above mentioned information Quality of Supervision is rated Satisfactory.

Overall, Bank Performance is rated Moderately Satisfactory due to minor shortcomings related to Quality at Entry.

Quality of Supervision Rating
Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design



The Project Paper did not include a Theory of Change. Nonetheless, the ICR (p. 7, figure 1) included one that detailed the relation between the activities, key assumptions, key outputs, outcomes and long-term outcomes.

M&E activities would be managed under a dedicated M&E unit within the Project Management and Coordination Office. The M&E unit would be responsible for monitoring the progress of the Project and evaluating the outcomes and impacts of the Project.

M&E design envisioned a three-layer monitoring protocol involving community imbedded tracking system, community managed MIS and a rating and audit system. This was expected to ensure proper monitoring of individual savings groups and Village Savings and Loan Associations as the project extended geographically.

The Results Framework (RF) included four project outcome indicators that would be used to assess the achievement of the PDO. The indicators were well aligned with the PDO, and also captured gender dimension and sustainability of the Enterprise Groups. However, the RF did not include baselines which were necessary to assess increments in net revenues and increments in purchases of local inputs.

The RF included 16 intermediate outcome indicators in total. Ten of these were geared to capture achievements under the two project components, while the other six tracked management progress. These indicators were measurable and linked to the activities supported by the project.

In conclusion, the M&E framework was well designed and included measurable indicators. However, baselines were absent. The ICR (p.20, para 41) noted that the majority of Enterprise Groups were formed in 2013 which allowed enough time to capture adequate sales and employment baseline data, and SME baseline was collected in 2015 when substantial number of firms were supporting the project.

b. M&E Implementation

M&E implementation experienced delays until 2012 when the MIS system was set up and systematic collection of data started. M&E capacity improved as implementation progressed. According to the ICR (p. 20, para 41), the project's M&E system prepared comprehensive gender segregated monthly updates "on SG, EG, VSLA, and SME status, including membership, loans (amount and number of borrowers), sales, and employment." M&E officers were encouraged to carry out thorough and regular data collection in their areas because they were under a deliverable based payment arrangement. However, "data collection remained inadequate during the implementation period of the project, due to lack of initial review and guidance at the stage of developing MIS (ICR, Annex 4, para 32)."

In a further communication, the project team acknowledged that while the project had a weakness in analyzing some data, such as revenues and expenditure, "the overall data collection and MIS/M&E implementation was appropriate." The team also explained that "Afghanistan's fragility context" needed to be taken into consideration, and despite "security and difficulty in rural access, the M&E team, through the innovative delivery-based payment arrangement, regularly collected village-level data, including SG/VSLA savings and loans, EG sales, etc. The project, therefore, developed an MIS that could regularly feed village-level data and produce reports for the management and the Bank."



c. M&E Utilization

The project's M&E data was complemented by a number of independent studies including: mid-term and final impact assessments, initial assessment of MIS by the Bank FCI team in 2018, a report on mapping and lessons learned of women's economic empowerment in Afghanistan, lessons learnt report on women and the economy based on operational approaches to women's economic empowerment in Afghanistan, and another lessons learned report from a policy paper on economic development in fragility.

The RF, quarterly and annual reports relied on the data generated by the project's M&E system (ICR, p. 20, para 42). According to the ICR (p. 22, para 41) the data generated by the M&E system was used "for decision making, such as planning and management, the follow-on project development, and preparation for the MRRD's umbrella national rural development program" as well as for "mission aide memoires, Advisory Services and Analytics (ASA), blogs, learning notes, and ICR." Finally, the gender disaggregated data generated by the project M&E system provided the basis for a women-focused national program.

Overall, M&E Quality is rated Substantial. While the RF was well designed, implementation suffered from weak analysis of the revenues and expenditure data. M&E data was strengthened by external studies and information from both sources seem to have been adequately utilized to inform the ICR, among other things as mentioned above.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

The project was a Category B and triggered only OP/BP 4.01 Environment Assessment. An Environmental and Social Management Framework (ESMF) was prepared by the project and cleared by the Bank. The ESMF included a negative list of enterprise activities to ensure that activities supported by the project had neutral or positive environmental and social impacts. Preparation of a negative list was necessary due to the demand-driven nature of village-level micro enterprise development and supply chain development with SMEs.

Environment and social safeguards. The project provided 640 ESMF trainings to a total of 9,600 beneficiaries. Also, 35 youth were trained as environment and social safeguards specialists and were hired by the project through a deliverable based payment arrangement. The ICR did not elaborate on the performance of the 35 trained youths or whether the training they received was extensive enough to qualify them as environment and social safeguards "specialists". The project also developed a child labor strategy during the project implementation because child labor was prevalent in the carpet weaving business. It was not clear in the ICR what the impacts of the child labor strategy developed under the project were. Under



the project's grievance redress mechanism (GRM) 631 complaints were filed, and according to the ICR (p. 21, para 45) 98% of these were resolved.

The ICR stated that "the safeguards compliance was satisfactory" (p. 21 para 44).

b. Fiduciary Compliance

Financial Management (FM). FM was challenging given the widespread project implementation at village level over five provinces. In the early stages of implementation FM was weak. FM capacity was enhanced through hiring international advisors to ensure compliance with the Bank's guidelines. FM also benefitted from the support provided by the Bank's staff as well as trainings and capacity building activities. According to the ICR (p. 22, para 47) "there was no ineligible expenditure at project closing" and "audit reports were clean." The Project developed a community grant MIS to ensure transfer of funds from the designated account (DA) to Village Savings and Loan Association accounts. The grant MIS was cross-referenced to the Project's financial management database. Despite these measures, some references were missing.

Procurement. Procurement was weak during the early stages of implementation. Procurement benefitted from hiring international advisors to ensure compliance with the Bank's guidelines. Also, the support provided by the Bank's staff as well as trainings and capacity building activities enhanced procurement performance. However, there were frequent delays in procurement, including the procurement of a consulting firm to carry out the project's final impact evaluation. According to the ICR (p. 21 para 46) "there was no report of mis-procurement."

c. Unintended impacts (Positive or Negative)

d. Other

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Moderately Satisfactory	Outcome was based on a split rating. Pre-restructuring outcome was rated Moderately Unsatisfactory, while post restructuring outcome was rated Satisfactory. The overall weighted outcome was Moderately Satisfactory.



Bank Performance	Satisfactory	Moderately Satisfactory	Quality at Entry had moderate shortcomings.
Quality of M&E	Substantial	Substantial	
Quality of ICR	---	Substantial	

12. Lessons

The ICR included eight Lessons. The following three are emphasized with some adaptation of language:

- **Advocating women’s participation to strengthen the family unit, ensuring women to women service delivery, facilitating partnership among women, and developing village-level role model are all critical elements to ensure women participation in culturally conservative environments.** Despite the social and cultural context of Afghanistan, the project successfully mobilized women and promoted their entrepreneurship. The project’s rural enterprise development model suited women’s mobility, as Enterprise Groups (EGs) tapped into village or district market. The design change to enable EGs to take loans from SGs was also to women’s advantage, as they took smaller loans than men. The lower profitability among women-owned EGs would have to be addressed in the follow-on project, potentially by supporting women EGs to select profitable sectors, such as dairy/livestock, which would facilitate PA aggregation and supply chain development, and to develop linkages with district or provincial market by hiring a few men.
- **Bolstering the inclusion of marginalized groups requires innovative approaches such as roaming enterprise facilitators.** The project’s experience demonstrated that innovation for inclusion is possible in the most fragile of environments. The project piloted innovative support for people with disabilities and Kuchies (nomadic tribe) and the use of roaming enterprise facilitators to bolster inclusion. These innovations were very successful and contributed to the achievement of some of the outcomes concerning women and people with disabilities. These approaches provide effective cost saving strategies for similar rural livelihood projects.
- **Replicating a rural enterprise development model in fragile countries requires establishing five key elements: group savings and credit, economic mobilization, aggregation of micro enterprises, Small and Medium Enterprise (SME) development, and supply chain development.** With few private sector actors and limited national or provincial supply chains in Afghanistan, the SME support was necessary to help village-level micro enterprises tap into the district or provincial market. The project focused on Savings Groups (SGs) mobilization and savings to make credit available for village-level enterprise development. These small savings by rural men and women improved incomes and employment opportunities for EG members in targeted villages. The Project aggregated EGs into Producer Associations to facilitate linkages with the project-supported SMEs. While there were fluctuations in employment, both EGs and SMEs had an overall increase in non-EG member (on payroll) and seasonal employment in about five years.



13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provided good coverage of the implementation experience. Discussion of outcomes was logical and relied on the project's achievements. The ICR correctly carried out a split rating to assess the outcome of the project. However, it would have been useful for the assessment if the ICR had provided sufficient information on the achievements prior to restructuring compared to post restructuring. There was discrepancy between the narrative and the rating for M&E quality as it was rated substantial despite the statement that "data collection remained inadequate during the implementation period of the project, due to lack of initial review and guidance at the stage of developing MIS (ICR, Annex 4, para 32)." The discussion of safeguards was adequate. The ICR included a detailed EFA that covered various activities financed by the project. Finally, the ICR did not provide an explicit reason for the delayed closing date nor did it report on the DFID and Danish Government sources of funding that were mentioned in the Project Paper.

Overall, the ICR Quality is rated Substantial despite some minor shortcomings.

a. Quality of ICR Rating Substantial