

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC32431

Project Name	AF: AREDP Additional Financing
Region	SOUTH ASIA
Country	Afghanistan
Sector(s)	Animal production (10%), General agriculture, fishing and forestry sector (10%), Microfinance (40%), Other non-bank financial intermediaries (20%), Agro-industry, marketing, and trade (20%)
Theme(s)	Micro, Small and Medium Enterprise support (40%), Gender (20%), Rural markets (15%), Rural non-farm income generation (20%), Other rural development (5%)
Lending Instrument	Lending Instrument
Project ID	P157104
Borrower Name	Ministry of Finance for Government of Afghanistan
Implementing Agency	Ministry of Rural Rehabilitation and Development
Environment Category	C - Not Required
Date PID Prepared	26-Jan-2016
Estimated Date of Approval	31-May-2016
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Over 75% of the people of Afghanistan live in rural areas where agriculture is the primary activity and contributes about one third of the GDP (excluding the opium economy). However, poor governance, weak factor markets, inadequate marketing infrastructure and business development services, and poor post-harvest practices are limiting the economic development potential of this sector and constraining on-farm and non-farm employment opportunities, thus perpetuating poverty in the rural areas.

Sectoral and Institutional Context

Poverty and Vulnerability remains widespread. Key findings of the Government's SY 1386 (2007) National Risk and Vulnerability Assessment (NRVA) indicate that the poverty rate is 42 % (app. 12 million people), with per capita incomes of app. US\$ 14 per month. Furthermore, the NRVA estimates that food poverty affects 45 % of the total population and well over half of the rural population. These vulnerable people had food expenditures less than that required purchasing adequate calories (2 100 calories/person/day).

(b) Economic Slowdown and Increasing Insecurity: Afghanistan's economy as a whole has registered robust growth rates in recent years. These figures, however, largely reflect the booming

construction and trade related activities in urban areas and the steep rise in the products of narcotics. There has been little growth of enterprise related activities in rural areas, and most people still live on subsistence farming. Even where the country could be self-sufficient in agriculture products, vast quantities of food and other easily manufactured daily use items are imported, while the export sector remains small and un-diversified. Furthermore, the economic and security situation has been particularly challenging since 2008, due to rapid increase in food and fuel prices and sharply increased violence in some provinces. In this difficult economic and security environment, real GDP growth has dropped significantly from 11.5% in SY 1386 (2007) to an estimated 3.4%.

Fragmented and Uncoordinated Development: Large amounts of aid assistance continue to flow outside Government's budget. The review of aid under the First Annual Report of the ANDs indicates that donor funding is not adequately aligned to government priorities.

Spread of Opium Poppy: In conditions of lawlessness and impoverishment, the cultivation of opium poppy has become Afghanistan's leading economic activity, with the opium economy accounting for more than one-third of estimated total (drug inclusive) GDP.

Weak Institutions: Unlike many other countries, the incentive structure for agriculture in Afghanistan is largely market driven and there are no major distortions arising from input subsidies, price support policies, or trade restrictions. The main challenge is weak institutional capacity. Both public and private sector institutions lack the physical infrastructure, necessary regulatory framework, and the skilled staff to build a modern and competitive agricultural sector.

(f) **Lack of Access to Finance & Poorly Functioning Factor Markets:** There is no formal financial intermediation in rural Afghanistan. Traditional sources (such as moneylenders, family, and friends) and NGO-led micro-finance initiatives under the Micro-Finance Support Facility of Afghanistan (MISFA) is currently the main sources of credit. Years of conflict have also disturbed tenure security, including farm and pasture rights, and weakened the ability of administrators or courts to uphold rights fairly. Furthermore, outreach of formal finance and lending in the SME sector (particularly those focused on manufacturing and value-adding activities with backward rural and agricultural linkages) has been inadequate. Commercial banks have begun operations in the major cities of the country and mobile telephone-based financial services, which could extend services to smaller towns, have recently begun. However, it will likely be many years before they reach rural Afghanistan.

(g) **Inadequate Marketing Infrastructure:** Constraints include poorly maintained road network, fears about security, inadequate market facilities (even lacking basic water, electricity, and sewage in many cases), telecommunications and support services like market information systems, food safety regulations, grades and standards, and quality control.

(h) **Shortage of Business Expertise:** A key obstacle to private sector growth is a shortage of business expertise and knowledge-based business training support, in particular, technical, business management and financial management.

Relationship to CAS/CPS/CPF

It is an Additional Financing request for an existing project

Equitable Service Delivery: The key to sustained stability is the Government's effort to develop legitimate national institutions and programs which are nationally focused, particularly those that target injustice and concerns likely to provoke violence. Within Afghanistan, an enduring driver of conflict is a sense of inequity between and amongst regions, ethnic groups, cities and towns, and villages. The Bank's work on poverty across Afghanistan shows that over the past 10 years, aid flows have often predominated in the south and east, areas which have relatively less poverty than other parts of Afghanistan but which have borne the brunt of the violence. This suggests that a continuation and strengthening of the Bank's focus on institutions and national programs that can sustainably ensure equitable access to basic services across the country will be necessary. These efforts should be structured to help minimize corruption and exploitation and be as broad-based as possible. Sustaining and expanding as possible developed national programs supported by IDA and ARTF are the key to the Bank's engagement under this theme and include amongst them healthcare, education, rural connectivity, irrigation, micro and SME finance.

- **Inclusive Growth and Jobs:** Building domestic sources of growth and jobs to replace donor/military assistance is one of GoA's greatest priorities and it is expected that GoA's sequencing of NPPs will concentrate on foundational investments for growth. To help Afghanistan, the Bank will continue to support irrigation and agriculture, which provides a living to the majority of rural Afghans, rural infrastructure, and private sector development. However this will not be enough to sustain long term growth. Afghanistan's huge natural resources provide hope, but require development in a way that is transparent, inclusive and supports other sectors that will create jobs and help lift the nearly 50 percent of the population that is below or near the poverty line. This argues for focusing the Bank's engagement around the concept of "Resource Corridors" which link up mineral resources, infrastructure, communities and employment-creating sectors (agriculture, construction, enterprise development) in a way that provides growth and jobs beyond the borders of the mines, and potentially paves the way in the longer term for Afghanistan to become an important land bridge between international markets. It will also be important to give local communities a stake in natural resource development which, in turn, promotes equity and security in an environmentally sustainable manner. It speaks to addressing the constraints to enterprise development including a weak financial sector, insufficient energy, and a regulatory environment that is uncertain and often corrupt. And the Bank will support promising areas for regional cooperation, building on Afghanistan's traditional connection to its neighbors in trade and transit, energy, and water management.

II. Project Development Objective(s)

Proposed Development Objective(s)

A. Original Project Development Objective (Parent Project)

To improve employment opportunities and income of rural men and women, and sustainability of targeted local enterprises

B. Proposed Project Development Objective - Additional Financing "Not changed sameas parent project".

To improve employment opportunities and income of rural men and women, and sustainability of targeted local enterprises

Key Results

70% of the Enterprise Groups (EGs) will have increased their net revenues by over 50%. At least 35% of these will be female EGs;

At least 30% of participating SMEs, EGs, SGs or their members will have increased direct and/or indirect employment by at least 30%. Of these at least 35% will be women;

At least 75% of the businesses established with the support of the project continue after 2nd year of their establishment

50% of EGs supported by the Project will still be operating 2 years after start-up. At least 35% of these will be female EGs.

III. Preliminary Description**Concept Description**

The Afghanistan Rural Enterprise development Program (AREDP) is a six years program which started with an initial phase in five provinces in June 2010, under the financing agreement between Government of Islamic Republic of Afghanistan (GoIRA) and International Development Association (IDA), (Grant No. H531-AF) which was approved in January 2010.

The overarching objective of the program is to increase employment and income in rural Afghanistan through the support to rural economy by strengthening potential value chains and key agro and non-agro sectors. Based on experiential learning in the unique Afghanistan context, over the last two years the program has evolved into a unique indigenous model of economic development and employment generation. The turn around was brought in by restructuring the project in December 2013 to change the delivery model to private sector oriented. The restructuring also led to cancellation of US \$ 9.772 million of the ARTF Grant 98045. The model developed and facilitates local resource mobilization, for instance the rural poor communities in the project villages saved more than USD 3.5 million and redeployed the same for productive purposes such as business enhancement and establishing new enterprises. The program design has led the rural economies just in five provinces created more than 30,000 direct jobs and over 20,000 indirect and seasonal jobs. Further, the program has created linkages between rural and urban economy with over 320 transactional relationships recorded in two year. The program has also provided rural entrepreneurs and SMEs the access to urban, national and international market.

The program is continuously delivering these phenomenal results in line with the economic development vision of the government. The program is well synchronized with the political and economic transitions that the country is going through for creating sustainable jobs at the rural level of Afghanistan.

The new Afghan government places greater emphasis on the rural economic development as the key driver for national economy and, therefore, the President has desired MRRD programs to transform into one flagship program with key strategic focus on rural economic, social and governance development. This transformation being 'work in progress' will see all the MRRD programs becoming one large national level program. This being work in progress needs substantial home work so that gains made in AREDP for rural job creation and economic development are not lost. Hence, based on recommendations of the MoF, AREDP has already been extended up to December 29, 2016.; it is expected that by that time way forward for MRRD joint program would have been clarified. Additional financing of USD 4.7 million to cover the period and further strengthen the

milestones achieved by this program is proposed. The AREDP-AF similar to parent project, consist of the following components:

Component A: Community-based Enterprise Development

Sub-component A1: Community Facilitation

Sub-component A2: Support to Enterprise Group

Sub-component A3: Access to Finance

Component B: Small and Medium Enterprise (SME) Development

Sub-component B1: SME Facilitation

Sub-component B2: Business Development Support for SMEs

Sub-component B3: Access to Finance for SMEs

Component C: Program Implementation

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	4.7	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Afghanistan Reconstruction Trust Fund			4.7

VI. Contact point

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