

Islamic Republic of Afghanistan

Country strategy note

Main report and appendices

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Contents

Currency equivalents	ii
Weights and measures	ii
Abbreviations and acronyms	iii
Map of IFAD-funded operations in the country	iv
I. Country diagnosis	1
II. Rationale and time frame	3
III. Strategic objectives	3
IV. Planned IFAD engagement	4
V. Risk management framework	6

Appendices

Appendix 1: Reviewers' Comments and Recommendations	7
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Currency equivalents

Currency Unit	=	Afghani
US\$1.0	=	75.77 AFN

Weights and measures

1 kilogram	=	1000 g
1 000 kg	=	2.204 lb.
1 kilometre (km)	=	0.62 mile
1 metre	=	1.09 yards
1 square metre	=	10.76 square feet
1 acre	=	0.405 hectare
1 hectare	=	2.47 acres

Abbreviations and acronyms

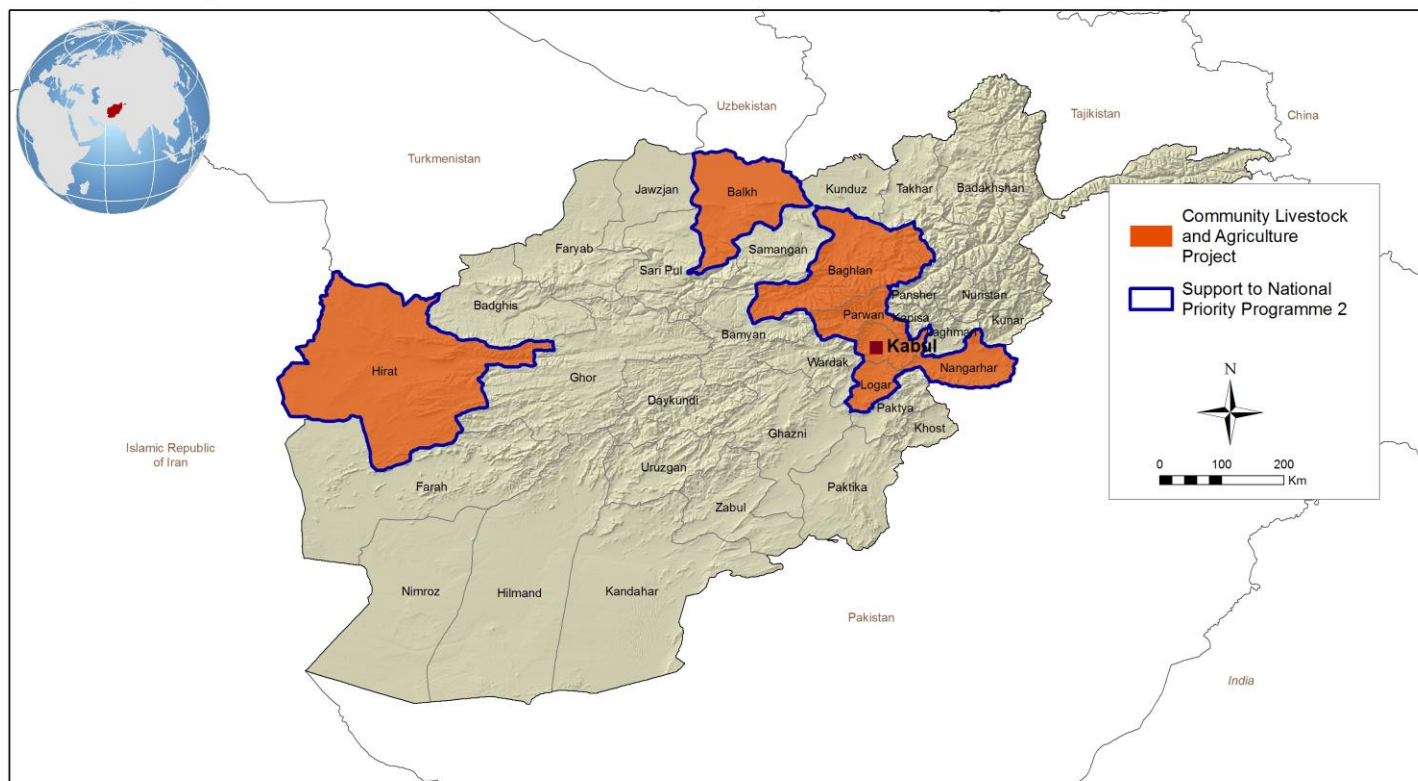
CDC	Community Development Council
CLAP	Community Livestock and Agriculture Project
DAB	Da Afghanistan Bank (Bank of Afghanistan)
FMFB	First Micro-Finance Bank
GDP	Gross Domestic Product
GNI	Gross National Income
GoIRA	Government of the Islamic Republic of Afghanistan
IGA	Income-Generating Activity
KM	Knowledge Management
MAIL	Ministry of Agriculture, Irrigation and Livestock
M&E	Monitoring and Evaluation
MFI	Micro-finance Institution
MoF	Ministry of Finance
MRRD	Ministry of Rural Rehabilitation and Development
NGO	Non-governmental organization
PFI	Participating Financial Institution
PST	Project Support Team
RBA	Rome-Based Agencies
RMLSP	Rural Microfinance and Livestock Support Programme
SNAPP2	Support to National Priority Programme 2
SO	Strategic Objective

Map of IFAD-funded operations in the country

Afghanistan

IFAD-funded ongoing operations

Country Strategy Note



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 06-12-2018

I. Country diagnosis

1. Afghanistan is a fragile state, struggling with the challenges of conflict that has lasted for almost 40 years today, with impact on the economy and a society that has suffered 2 million dead, with 700,000 widows and orphans, and approximately 1 million Afghan children who are being raised in refugee camps outside Afghanistan. Millions of Afghan refugees have since returned, although as many as 2.7 million remain outside Afghanistan (mostly in Pakistan and Iran). Afghanistan also suffers from recurrent natural calamities and the 2018 drought in Afghanistan alone, has left more than 3.6 million people “barely surviving” and displaced some 250,000 people from rural areas. According to the United Nations, 2019 could be “make or break” year for the country’s people.
2. **Economic Context.** Afghanistan is classified under low-income status, with a population size of 35.5 million people, a Gross Domestic Product (GDP) estimated at USD 20.8 billion in 2017 and a Gross National Income (GNI) per capita of USD 570 in current terms. The GDP in Afghanistan expanded by 2.59% in 2017¹. Inflation accelerated slightly from 4.4% in 2016 to 5% in 2017. The slight increase reflected higher food prices during the year. The fiscal deficit in 2018 is expected to be approximately 2% of GDP, to be financed from cash reserves and limited concessional borrowing. The government is instituting economic reforms to improve revenue collection and fight corruption. Until these reforms bear fruit, Afghanistan will remain dependent on international donor support.
3. **Financial landscape.** Today, the Afghanistan financial landscape consists of a limited range of service providers as follows: (i) formal financial institutions (commercial banks); (ii) semi-formal financial institutions (microfinance (MFI)/ NGO-MFI); and (iii) informal entities such as money lenders. The banking sector is comprised of fifteen fully licensed commercial banks and three branches of foreign banks with about 390 bank branches throughout the country, regulated by the Da Afghanistan Bank (DAB). The banking assets represent 21% of GDP. The MFIs which are mostly credit-only institutions are not licensed by the DAB, and are self-regulated, and only 10 credit-only MFIs are part of the Afghan Microfinance Association which has less than 394,747 active borrowers. The absence of regulations for the credit-only MFIs increases the cost of borrowing for the MFIs to reach out to more clients. Today, DAB has established the regulation that requires MFIs interested in deposit-taking, to have a minimum of one million US\$ in capital; however, none of the MFIs have to-date obtained a license for deposit-taking.
4. Financial inclusion in Afghanistan is also very low, as only 10% of the adult population have bank accounts and only 3.6% have borrowed from financial institutions (Global Findex Data). In terms of informal lending, the rates are high, up to 10% per month. The demand for credit is however very high for both conventional and sharia compliant-lending. Unfortunately, the business model of commercial banks does not target the lower-end clients, and similarly, MFIs are hindered or restricted to reach these same clients due to liquidity problems, regulations and lack of development of the appropriate products and services². Another challenge that remains is the regulatory framework for credit-only MFIs and governance.
5. **Poverty.** Afghanistan is one of the poorest countries in the world, ranked by the UN at 169th position out of 187 countries³. The country welfare trends reflect an emerging humanitarian crisis, aggravated by rising food insecurity and a stagnating labour market. More than four out of five Afghan adults (ages 25 and above) have not completed any level of education. A quarter of the labour force is unemployed, and 80 percent of employment is considered vulnerable or

¹ ADB 2017

² Note however that under the IFAD-financed RMSP and SNAPP2, the projects provided liquidity to MFIs, developed products and services such as sharia-compliant loan products and agricultural value chain financing; these developments have now been adopted and streamlined in the loan policies of MFIs and the FirstMicrofinance Bank.

³ Human Development Report 2017

- insecure. In 2013-14 figures, almost 2 million Afghans were unemployed, and 74 percent of the unemployed were in rural areas⁴.
6. **Food Security.** Mirroring the increase in poverty, food insecurity has climbed from 30 percent in 2011-2012 to 45 percent in 2016-2017. According to latest statistics⁵, around 9.3 million people (or 26% of the population) suffer from chronic or transitory food insecurity. Among them, some 3.4 million (around 10% of the population) suffer from severe food insecurity. Food and nutrition insecurity is strongly fluctuating by season and, among other factors, has consequently contributed to the high prevalence of stunting among children below the age of five (at 40.9% in 2013⁶).
 7. **Gender.** Gender inequality in Afghanistan is one of the highest in the world, with a gender inequality index of 0.705 and a rank of 169 out of 187 countries. The extent of gender discrimination is pervasive and gender gaps are widespread in health, education, access to and control over resources, economic opportunities, and power and political voice. While women and girls bear the direct cost of these inequalities, the adverse effects are felt throughout the society. Lack of schooling, coupled with cultural and institutional barriers, means that women are ill-equipped to participate in the labor market and have few economic opportunities. Labour force participation of women is only 20.2%, or almost one quarter that of men's (20.2% against 88.6% of men).
 8. **Youth.** About 63.7 percent of Afghans are under 25 years of age⁷. With education and jobs, good healthcare and empowerment, young people may contribute to a demographic dividend: a large working age population with few dependents, collectively bringing prosperity to their society. However, young people in Afghanistan face significant challenges related to health, education, employment and gender inequality. Youth literacy is low (62 percent for young men, 32 percent for young women) and ensuring that decent jobs are available remains one of Afghanistan's biggest challenges.
 9. Furthermore, a strong gender bias is prevalent, and girls and young women are systematically discriminated against and are more likely to be victims of violence and abuse than their male counterparts. Realizing Afghanistan's demographic dividend (i.e. the economic growth potential from the increasing working-age population) will depend on realizing the potential of these girls and women and, ultimately, overcoming structural gender inequality.
 10. **Climate and environmental vulnerability.** All but three of the past 11 years have seen floods or droughts, including the country's most severe drought ever, which lasted from 1998 to 2006. Over the next 45 years, scientists predict a decrease in rainfall and a rise in average temperatures of up to 4°C compared to 1999. Droughts are likely to be the norm by 2030, leading to land degradation and desertification.
 11. Some 80 percent of Afghans depend on rain-fed agriculture and cattle-grazing for their incomes, both of which are threatened by temperature increases and erratic rainfall. Afghanistan's 2012 Risk and Vulnerability Assessment estimates that 36 percent of people have been affected by natural disasters.
 12. Disputes over land and water are already a major cause of local insecurity, and the situation is set to deteriorate. Since 1978, the arable area has declined by about 60 percent, leaving only 12% of the land now suitable for farming. Unless further action is taken to strengthen the resilience of communities and reduce disaster risk, recent development gains will be made redundant and more people will be pushed into poverty.

⁴ World Bank Afghanistan Poverty Status Update Report

⁵ ALCS 2013-14

⁶ World Bank Data

⁷ UNFPA Afghanistan State of Youth Report 2014

13. **Agriculture sector.** Afghanistan is a rural economy with about 72 % of the population living in rural areas. Agricultural production is the primary source of rural livelihoods. Agriculture provides a source of income for 61% of households, and for 28% it is the most important income source. Afghanistan is the largest opium producer in the world. Agricultural production is highly constrained by climatic conditions and is mostly dependent on irrigation for crop production. Irrigation is dominated by small and medium-sized river valley schemes that are owned, operated and maintained by village communities. Horticultural production is estimated to cover about 16% of the irrigated land. Due to the conflict, much of the agricultural land has been deserted or mined; furthermore, the Ministry of Agriculture, Irrigation and Livestock (MAIL) estimates that 27,000-30,000 small irrigation schemes require rehabilitation. The production of fruits, vegetables, flowers, and livestock have great potential to create more, sustainable and inclusive jobs if farmers are provided with technical knowledge, irrigation facility, climate resilient farming practices, access to finance and greater access to market facilities.⁸
14. **Livestock** activities are an integral part of most farming systems in Afghanistan. Previously, the livestock subsector accounted for 40 per cent of total export earnings; nowadays it is estimated that livestock numbers have decreased to about half the level of a decade ago due to the prolonged drought, declining availability of feed, overgrazing of rangelands and poor animal health. Disease problems are being only partially contained. Rangeland is overgrazed, and nomadic and semi-sedentary shepherds are experiencing high livestock mortality rates. Improvements in the small ruminant sector, even in non-drought times, have been hampered by traditional user rights and grazing practices.

II. Rationale and time frame

15. **IFAD's country comparative advantages.** IFAD has shown its continued commitment to the Government of Afghanistan in financing RMLSP (completed), CLAP and SNAPP2 (both ongoing) under the last COSOP framework. These programmes have been effective and successful in supporting the most vulnerable target groups and communities in the most remote rural areas, with a focus on rural financial services, productive infrastructure, sustainable livestock development and the strengthening of socio-economic capacities of targeted beneficiaries. They have established IFAD's comparative advantage in targeting the poorest in the most remote areas through proven technologies and targeted support.
16. **Timeframe.** This Country Strategy Note (CSN) has been prepared in the context of the fragile security situation in Afghanistan, to provide an interim strategic framework for IFAD's continued engagement in the country. As per memo approved by Périn Saint Ange, AVP PMD, at the start of 2018, APR opted for a CSN rather than a COSOP, due to the fact that the situation in Afghanistan is becoming ever more uncertain with on-going conflict. Parliamentary elections, held in October 2018, and Presidential Elections, presumably to be held in April 2019, further contribute to increasing uncertainty in the country. This constitutes a scenario not conducive for a COSOP. It is proposed that this CSN cover a period of two years.

III. Strategic objectives⁹

17. On the basis of continued and recent consultations with the Government, the overall objective of the IFAD's country programme in Afghanistan under this CSN is to contribute to the country's poverty alleviation efforts, reduce gender gaps and improve food and nutrition security through

⁸ Unlocking the Potential of Agriculture for Afghanistan's Growth, World Bank Group, 6 May 2018

⁹ This Country Strategy Note (CSN) has been prepared on the basis of an extensive desk review of documents, off-field consultations, and in-country formulation mission from 17 – 21 August 2018. The in-country discussions were led by the CPM with support from Pakistan CPO and two international consultants. The team consultation with the Minister of the MAIL, the Minister of MRRD, the Ministry of Finance, senior managers of technical departments of the three ministries, PMU managers and professionals of CLAP and SNAPP2. Meetings were also held with representatives of ADB, and FAO. Outlines of the CSN mission findings were shared with the government during discussions

inclusive, climate-smart agricultural and rural development. Key intervention domains will include climate-smart smallholder production and value chain development, marketing support and the promotion of on-farm and off-farm economic opportunities for poor and vulnerable rural women and men, and the youth; measures to address gender inequality issues will also be specifically considered and promoted, cutting across all the three inter-connected Strategic Objectives (SOs), as follows:

18. **Strategic Objective 1: To enhance the resilience of poor people's livelihoods to climate change.** Related investments will emphasize: (i) sustainable surface water management, with focus on small-scale irrigation schemes; (ii) promotion of renewable energy for household and productive use; and (iii) promotion of pro-poor, action-oriented agricultural research.
19. **Strategic Objective 2: To improve small producers' capacities to practice climate-smart agriculture and benefit from profitable value chains.** Priority will be given to: (i) promotion of sustainable, and climate-smart natural resources management; (ii) promotion of diversified farming through market-sensitive livestock development, and promotion of high-value varieties/species and proven technologies; (iii) promotion of off-farm IGAs and access to pro-poor rural services (including financial services); and (iv) responsive agricultural extension and livestock husbandry services.
20. **Strategic Objective 3: To promote an enabling, pro-poor policy and regulatory environment.** IFAD will support: (i) policy dialogue and advocacy around pro-poor, climate-smart agriculture and rural development; (ii) capacity-building support to community-based and beneficiary-governed institutions; (iii) capacity building and technical assistance or support to public institutions and systems (e.g. extension and other institutional support systems) for enhanced effectiveness and efficiency of development programmes/ interventions; and (iv) South-South cooperation.
21. **Target population.** The IFAD target groups are the following: (i) small farmers and livestock keepers, including the landless and those who have lost their livestock; (ii) women and female-headed households; and (iii) resettled and nomadic Kuchis at national level.
22. **CSN management.** The IFAD Country Programme Manager will manage the effective implementation of the CSN, with in-country support by the Project Support Team (PST) located at the MAIL. An M&E and KM strategic plan will be prepared to assist in the implementation of the CSN, including ongoing and future projects and interventions within its timeframe.
23. **Partnerships.** IFAD will continue to consolidate its strategic alliances with MoF, MAIL and MRRD and FAO. IFAD will capitalize on: (i) its institutional partnerships and agreements with the World Bank, ADB and Rome-Based Agencies (RBAs) to review opportunities for co-financing and parallel financing collaboration arrangements, particularly in the areas of policy engagement, infrastructure projects, nutrition, sustainable agricultural techniques and good agricultural practices, and capacity development for climate-resilient practices. The Country Programme will work to establish strong working relations with NGOs and the private sector, building on prior successful experience with local and international NGOs as service providers.

IV. Planned IFAD engagement

24. **IFAD Financing Framework.** The PBAS allocation for Afghanistan for the 2019-2021 cycle amounts to a grant of USD 50 million under the Debt Sustainability Framework (as per EB 2018/125/R.4/Add.1). The allocation will finance the project(s) which build on successful lessons learned from IFAD financed-completed and on-going projects in the country, in line with the approved CSN framework and identified priorities of interventions. A Concept Note will be formulated for consultation by the end of 2018, and the detailed design will be presented for approval by IFAD Executive Board in December 2019. Co-financing is expected from the Government in the form of tax and salaries, along with matching financing from the private sector (e.g. agribusiness companies) and participating financial institutions (PFIs).

25. **Lessons learned.** The COSOP Results Review in October 2017 has drawn the following lessons learned, many of which are still very relevant:

- **Policy level engagement:** Two main characteristics of Afghanistan are weak Government institutions and a heavy reliance on development assistance funding to deliver services. IFAD has carved itself a niche based upon a series of successful projects to provide evidence-based advice that can influence policy and inform strategic decisions at the national level. RMLSP and CLAP's successful innovations have had some policy influence in the areas of animal health, with the promotion of a 4P approach to service delivery through para-vets and dairy cooperative development. Working at the policy level creates a sustainable impact on small and marginal farmers' livelihoods.
- **Rural Youth:** Almost 72% of the Afghan population resides in rural areas, with a predominantly large proportion of youth. This represents a challenge for the Government and aid agencies and highlights the need to create an enabling environment for the rural youth. Whilst no single donor is in a position to address this issue, IFAD has in the past, like many other donors, proactively designed elements of its projects to focus on employment creation and income generation activities. These include access to appropriate credit packages allowing individual entrepreneurs to invest in income-generating activities and access to adequate extension or livestock husbandry practices.
- **Access to market:** IFAD has collaborated with FAO as a service provider for dairy development with significant results, including the doubling of milk production at households' level. However, project experience has also highlighted the need for stronger linkages between producers and the market in order to ensure sustainability.
- **Factors affecting efficiency of selected value chains:** investing in integrated packages of activities is a key success factor. Such integrated packages should include the promotion of technologies and practices to improve on-farm productivity, investments in infrastructure to promote primary-level processing aiming at reducing post-harvest losses, and ensuring the steady supply of adequate inputs.
- **Unmet demand for rural finance:** Overwhelmingly, small producers continue to identify the lack of *affordable* short-term working capital to finance their regular agricultural seasonal needs as a key production constraint, given the weak outreach of MFIs in rural areas and the lack of regulation in the sector. IFAD's experience in the sector has demonstrated that there is still scope to promote appropriate agricultural loans and MFI sector-specific reforms to improve rural outreach and meet the needs of poor rural producers.
- **Provision of small-scale infrastructure:** Well-targeted investments in productive, small-scale infrastructure can have rapid and significant impact on living standards of poor rural communities, agriculture productivity, household incomes and the environment.
- **Institutional coordination:** Operational experience re-affirms the importance of fostering coordination between MAIL and MRRD at all levels, as both ministries are critical stakeholders in the rural development and poverty reduction efforts.

V. Risk management framework

- Below are summarized the risks which could potentially affect the achievements of the strategic objectives of the CSN and the suggested mitigation measures:

Risks	Rating	Mitigation measures
Tenuous and fluid security situation	High	The security situation in targeted provinces and districts shall be one of the criteria for selection of a geographic area of projects. As additional mitigation measures, continue to work closely with local partners and the active involvement of community networks and pursue participatory development approaches through the extensive existing network of CDCs and other community platforms.
Weak government capacity, especially in knowledge, and resource deficit	High	Apply international technical assistance with embedded know-how transfer agenda in project design, and recruit record-proven service providers to support project implementation. Enhance institutional capacities of government structures, especially at provincial and district levels. Critical functions of planning, coordination, monitoring and supervision of projects will be gradually transferred to the GoIRA staff and local communities.
Corruption	High	Continue to engage reputable national and international service providers for project implementation. Apply direct payments to service providers where possible. Promote a participatory community approach in planning and implementation. Project management and policy engagement to give special attention to anti-corruption and transparency.
Macroeconomic shocks such as food price inflation, economic uncertainty, and downturns	High to medium	This risk can be cushioned by diversifying agricultural production, reducing input costs and diversifying the households' income sources.
Increased exposure to more severe droughts	High	Increased awareness by small farmers of climate change, especially the effects of drought. Increased investments in climate-smart agriculture and small-scale irrigation schemes and in building the farmers' capacities in sustainable water management.
Delays in operational effectiveness, staffing, and timely project start-up and disbursement	High to medium	Project design to include capacity building measures and training of concerned actors at project start-up, as well as a budget for well-targeted technical assistance to facilitate effective start-up and implementation.

Appendix 1: Reviewers' Comments and Recommendations

Islamic Republic of Afghanistan – Country Strategy Note	
Peer Reviewers ¹⁰	<ol style="list-style-type: none"> 1. Fabrizio Bresciani, Lead Economist, APR 2. Maria Donnat, Consultant, APR 3. Jong Chul Kim, Special Programme Officer, APR 4. Omer Zafar, CPM, APR
PEER REVIEWERS' COMMENTS	RESPONSE AND COMPLIANCE NOTE
Country diagnosis <ul style="list-style-type: none"> • There is need for further elaboration on the country context - the conflict, current security situation and brief description of the political situation (including mention of the 'transition period') need to be referenced/ elaborated • Provide further detailed information on specific dimensions of rural poverty (e.g. unemployment in rural areas) • 	<p>The section on the country diagnosis has been revised to include a broad overview of Afghanistan's fragile state and situation. On the basis that reference to the transition period is now dated, this has also been removed. The section on poverty now includes reference to the unemployment in rural areas (comprising 74% of total unemployment in Afghanistan).</p>
Strategic objectives <ul style="list-style-type: none"> • Include a brief section on IFAD's target group • Consider reformulating the three SOs in an active way, rather than using passive tense (usually used to express desired outcomes) – e.g. rephrase SO1 as follows: "to enhance the resilience of poor people's livelihoods to climate change" • Under SO2, consider the specific inclusion of supporting/ promoting pro-poor rural services (including rural financial services) on the basis of lessons learned from past interventions • Under SO3, clarify the need for capacity building for enhanced programme management effectiveness and what this would comprise 	<p>IFAD's target group has been defined in the section related to the strategic objectives (SOs).</p> <p>The SOs have been reformulated as recommended in an active way, rather than the use of passive tense.</p> <p>With regards to the brief descriptions of the SOs, SO2 now includes reference to continued promotion of rural services, particularly rural financial services; the rationale for this inclusion is strengthened by the brief financial landscape context provided in the country diagnosis and the lesson learned from past interventions.</p> <p>In the specific context of Afghanistan, with its prolonged conflict situation and subsequent impact (and strain) on institutions and institutional capacities, SO3</p>

¹⁰ Where similar comments have been received from reviewers, these have been combined.

	specifies that there is provision for capacity building support to various 'institutional bodies/ entities'; this is required to ensure complementary efforts in making development interventions more effective and efficient.
Rural finance. Given the importance of past and future interventions in the area of rural finance, further reference or description of the banking, and rural credit or microfinance sectors is required in the context; as well, refine the section on rural finance under lessons learned	A section on the financial landscape has been included in the country diagnosis section; the section on rural finance under lessons learned have also been refined.
Gender. Considering that gender inequality is a severe problem in Afghanistan, consider highlighting the inclusion of measures to address gender equality issues under the SOs	The importance of promoting measures to address gender equalities is presented as a key intervention to cut across all the SOs.
Youth. Revise the brief section on youth - present UN data on youth population and its share of the overall population (35.5 million - to be quoted in the narrative) and the specific issues faced by the youth (such as discrimination in the work market, unemployment, low education, etc.)	The section on youth has been revised as recommended.
Climate change and environment. Further elaborate section on climate and environmental vulnerability; reflect on the specific environmental issues of the country; some reference to renewable energy would better tie in with proposed SO1	The section on climate change and environment has been further elaborated.
Pro-poor policies. How appropriate is it to include pursuit of an enabling pro-poor policy and regulatory environment as a SO; consider if this should remain as a SO or as an approach to attain SOs	Due to the particular fragile country context, and high past (and ongoing) dependency on external development assistance, there is need and an opportunity for IFAD to also focus specifically on supporting stronger (Government/ public sector <i>and</i> community) ownership and leadership for agricultural and rural development; this entails continued support to, and institutional strengthening and capacity building of institutions, etc. Given the importance of this agenda, pro-poor policies and regulatory environment will remain as a SO, and not merely as an approach.

Livestock. Strengthen the reference/ linkages between livestock context and expected IFAD interventions under the new CSN	The section on livestock has been revised to better showcase its historical importance as an key element of Afghanistan farming systems; this section also highlights the challenges faced in the sector, and gives the rationale for continued IFAD interventions in support of the sector (see SO2).
Programme management and CSN management. Under CSN management, make reference to unique set up and model of the project support team (PST)	The PST set-up in Afghanistan has been specifically included to reinforce better CSN management, as included in the text.
Risk management framework. Consider editorial improvements for improved clarity on the mitigation measures.	Editorial changes have been made to the risk management framework.