



د کليو د بيارغونځي او پراختيا وزارت
وزارت احيا و انکشاف د بات

د افغانستان اسلامي جمهوريت
جمهوری اسلامی افغانستان



Islamic Republic of Afghanistan
Ministry of Rural Rehabilitation & Development

AFGHANISTAN RURAL ENTERPRISE DEVELOPMENT PROGRAM

CONTEXT AND RATIONALE

The Afghan economy as a whole has shown considerable gains over the past seven years ⁽¹⁾ but the benefits have not been felt by rural populations where most people still live by subsistence farming. Even where Afghanistan could be self-sufficient in agriculture-related products, the country imports vast quantities of food and other easily-manufactured daily-use items, while the exports sector remains small and undiversified. Hopes of rebuilding some measure of economic wellbeing following the departure of the Taleban government are still unfulfilled. Despite the delivery of more than \$500million of block grants and MRRD programs ⁽²⁾ to some 26,000 communities (an average of \$20,000 per community) the rural economy remains stagnant and the population, poor.

Afghan unemployment has been chronic (forty years of war, deconstruction and stifled development efforts) and is today, acute (reported rate of 40% unemployed – higher for women and rural populations). Unemployment is crippling development progress in Afghanistan, just as it undermines societies throughout the world.

In the West, unemployed young men go back to school, join the army, turn to drugs and crime, emigrate or languish in depression. The first option is available to very few Afghan youth. Joining the army may translate into joining a local militia or the Taleban, with obvious consequences. Meanwhile the opium trade is as difficult to eradicate in the poppy areas as it is in the West. Migration takes the best talents abroad and creates dependency on remittances while crime - informal, organized or institutional - afflicts all members of the Afghan population who **are** working, making depression and frustration a general malaise.

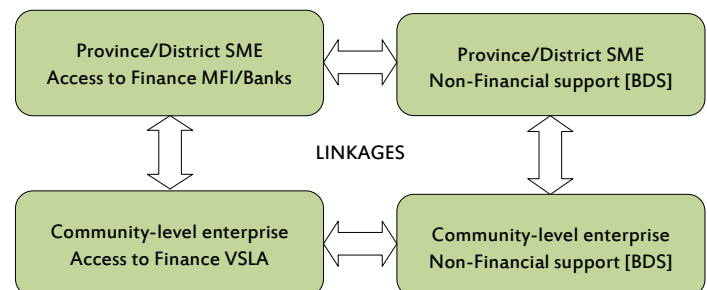
Unemployed young rural women have even fewer options than their brothers: unable to access the market or work place, more often than not they must rely on a judicious marriage and benevolent spouse.

While Cash-for-Work projects may provide temporary jobs ⁽³⁾, sustainable employment can only arise from the development of legal private enterprise; however the necessary environment to enable business emergence is weak to non-existent.

A comprehensive national survey of SMEs ⁽⁴⁾ identifies two major obstacles to private sector enterprise growth in rural Afghanistan: a shortage of business planning, management, and marketing know-how on one hand and shortage of access to formal credit on the other hand. More than 60% of surveyed SMEs indicate a need for knowledge-based business development services (BDS) and 96% of enterprises have reported an interest in accessing financial services while a mere 7% have ever received a loan.

Community-level micro enterprises and individual producers identify similar market failures with respect to their enabling environment (BDS) and access to productive credit. Micro-finance institutions have difficulty reaching out to clients in rural communities: community members lack either collateral or a credit record.

AREDP – OVERVIEW



AREDP is designed to address issues of enterprise **access to financial and non-financial services** so that enterprises can form, grow and employ rural men and

¹ Economic growth as measured by the increase in GDP is estimated at around 7% in 2008. CIA The World Factbook - Afghanistan. Economy <https://www.cia.gov/library/publications/the-world-factbook/geos/af.html> accessed 2009-08-22

² MRRD Principle National Programmes <http://www.mrrd.gov.af/english/Programmes.htm> accessed 2009-08-22

³ Final Report Local Governance and Community Development Program (LGCD) Evaluation page 41 January 2009

⁴ AREDP – National SME Survey 2009, MRRD

women. This is done at the community level by encouraging savings and by promoting loans to groups of micro-enterprises receiving technical and business development services.

At a higher, district or provincial level SMEs are supported in accessing credit packages from commercial banks or Micro-Finance Institutions and in obtaining business development services as identified by the Program and the SMEs.

PROGRAM OBJECTIVES

The ANDS proposes a strategy ⁽⁵⁾ designed to achieve improved quality of life for rural citizens – one in which food security is assured, basic services are provided, **incomes increase** with households actively engaged in legal activities, **employment opportunities expand** and where people live in a safe and secured environment.

The over-arching developmental goal of AREDP is **increased income and sustainable employment opportunities for men and women through supported rural enterprises.**

A Results & Monitoring Framework was jointly developed by AREDP and the World Bank identifying the following Outcomes:

Component #A:
Improved access and linkages to financial resources, and relevant business knowledge delivered to targeted community enterprises to enhance sustainable livelihoods activities.

Component #B:
Targeted Small & Medium Enterprises have increased access to credit and technical knowledge to improve their sales and productivity

Component #C:
An effective project management system is established, and coordination, learning, and quality enhancement is achieved

Project outcome indicators for five years include

- 70% of supported Enterprise Groups (EGs) will have increased their net revenues by over 50% in five years;
- At least 30% increase in direct and/or indirect employment by SMEs and EGs;
- On average SMEs report at least a 50% increase in purchase of rurally produced inputs;
- 50% of supported EGs are still operating 2 years after start-up.

GEOGRAPHIC FOCUS

While AREDP intends to be national in scope and to eventually cover all 34 provinces, the IDA/DfID program will first roll out in 5 provinces that have been selected on criteria of potential for enterprise development and good NSP track records. The provinces of the first roll-out are (in order of priority for roll-out):

Parwan: Ningrahar Bamyan Balkh Hirat

When rolling out in these provinces, AREDP will first target more promising districts until further funding and capacity is developed within the program to scale up further.

In addition, AREDP will begin work in specific provinces under separate bilateral agreements (Helmand; Kandahar; Uruzgan; Daikundi). Under the bilateral agreements, AREDP activities in the provinces will follow the general AREDP approach and key principles, but may be adapted to account for special regional conditions.

PROGRAM COMPONENTS

AREDP is divided into two program components and one functional and support component.

Component A: Community-based Enterprise Development

- A1. Community Facilitation
- A2. Support to Enterprise Groups
- A3. Access to Finance for Community Groups

Component B: SME Development

- B1. SME Facilitation
- B2. Business Development Support for SMEs
- B2. Access to Finance for SMEs

Component C: Program Management Support

- C1. Program Management
- C2. Monitoring & Evaluation
- C3. Governance/Accountability, Gender and Third Party Audits

TARGETS OVER FIVE YEARS

Outcome Indicators

	YR1	YR2	YR3	YR4	YR5
O 1	15/5*	25/10	40/15	55/25	70/50
O 2	5% SEs	10% SEs	15% SEs	25% SEs	35% SEs
O 3		20%	30%	40%	50%
O 4	90% YR1	80/90 YR1 & 2	70/80 YR1 & 2	60/70 YR1 & 2	50/70 YR1 & 2

* 15/5= 15% of targeted Enterprise Groups increase their income by 5%; SE= Supported Enterprises (both Community and SME)

⁵ Afghanistan National Development Strategy: Executive Summary 1387-1391 (2008-2013) Agriculture and Rural Development page 11

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VSLAs, Enterprise Groups and SMEs

	YR1	YR2	YR3	YR4	YR5
VSLAs	65	261	523	719	916*
EGs	654	1,308	2,616	3,597	4,578*
SMEs		25	38	50	63**

* At least 70% EGs and VSLAs maintain **accurate and up-to-date records** of accounts; and have a good governance structure;

** At least 50% of SMEs that meet the partial guarantee scheme criteria and apply for a loan and **receive it**;

Employment (New Jobs)

	YR1	YR2	YR3	YR4	YR5
B2 ⁽⁶⁾	806	1,613	2,688	4,031	5,644

At least 30% increase in **direct and/or indirect employment**

IMPLEMENTATION PRINCIPLES

Market orientation

All program interventions will be directed by local and international customers' needs. Community enterprises and SMEs will be empowered to engage directly with the market to make their own decisions.

Sustainable Businesses

All program activities are aimed at developing long-term economic potential and creating sustainable businesses that will persist long after the duration of the program.

Clients decide

AREDP will follow a non-prescriptive approach in all program interventions and will empower clients to make their own informed decisions.

Improving coordination

AREDP aims to integrate the disparate activities of other projects, agencies and institutions into an effective national enterprise development program. The program will assume a coordinating function and act as a source of knowledge for other organizations.

Building partnerships

AREDP will not duplicate existing programs, but will rather partner with the private sector, other donor-funded initiatives, government programs and particularly the burgeoning financial sector wherever possible.

Simple design

AREDP will set up minimal structures in a few suitable provinces and gradually scale up as learning effects are continuously incorporated into the program.

Sharing best practices

AREDP will leverage opportunities for identifying and disseminating emerging successful business models among community enterprises and SMEs in Afghanistan.

Vertical integration

Working with a wide range of enterprises, AREDP aims to improve backward and forward linkages between community-based Enterprise Groups and SMEs.

INSTITUTIONAL ARRANGEMENTS

In the first instance, the program will be set up and managed by the Government of Afghanistan through the Afghanistan Rural Enterprise Development Program (AREDP) Management Office within MRRD. Upon meeting certain benchmarks, AREDP will later be spun off into an independent agency at arm's length from the government. The agency will be governed by a board comprising of members from the public and private sectors.⁷

FINANCIAL MANAGEMENT

For an overview of AREDP financial management arrangements, flow of funds, and expenditures as well as detailed Financial Management procedures, including chapters on Budgeting, Accounting System, Expenditure, Financial Reporting and Auditing please refer to the AREDP Financial Management Manual

PROCUREMENT

Detailed procurement policies and procedures, including chapters on Definitions, Authorities and Responsibilities, Organization of Procurement Unit, Procurement Planning and Procurement Methods for Goods and Works as well as Procurement Methods for Services, are laid out in the AREDP Procurement Manual. A copy of the Procurement Manual can be provided on request.

ENVIRONMENT AND SOCIAL SAFEGUARDS

"Environment and Social safeguards are not only required ... to protect the environmental and social fabric of Afghanistan, but also are legislated in the nation's constitution, Environment Law and other related laws and regulations. As with many regulations, the challenge is to apply them, monitor their use and ensure that they are mainstreamed in the program's operations in such a way that they become not only the responsibility of the safeguards unit, but rather everyone's business."

The Environmental and Social Safeguards Management Framework consists of a brief description of the Program and ESMF strategies in the World Bank; relevant Afghan laws and regulations are discussed and a management strategy and plan

⁶ See Components Results Indicators – Operation Manual Annex A.

⁷ A detailed Institutional Development strategy for AREDP and institutional options and modalities for institutional autonomy will be developed, including a timeline for spin off, ToRs of Steering Board etc.

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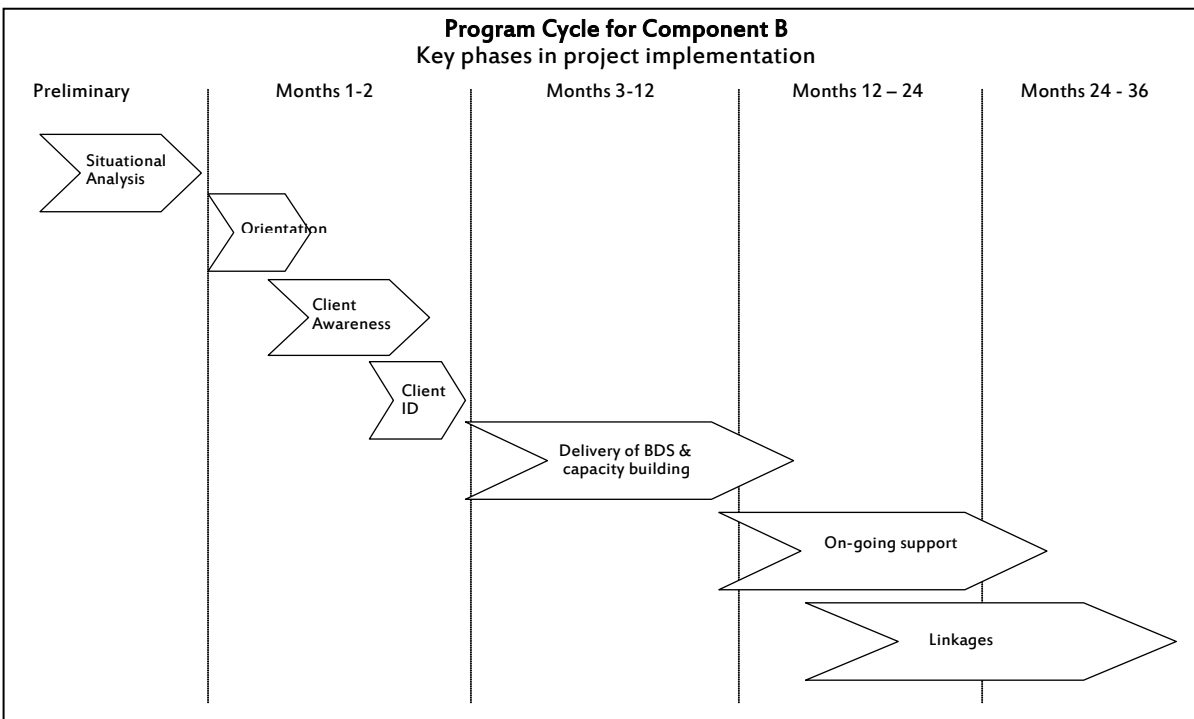
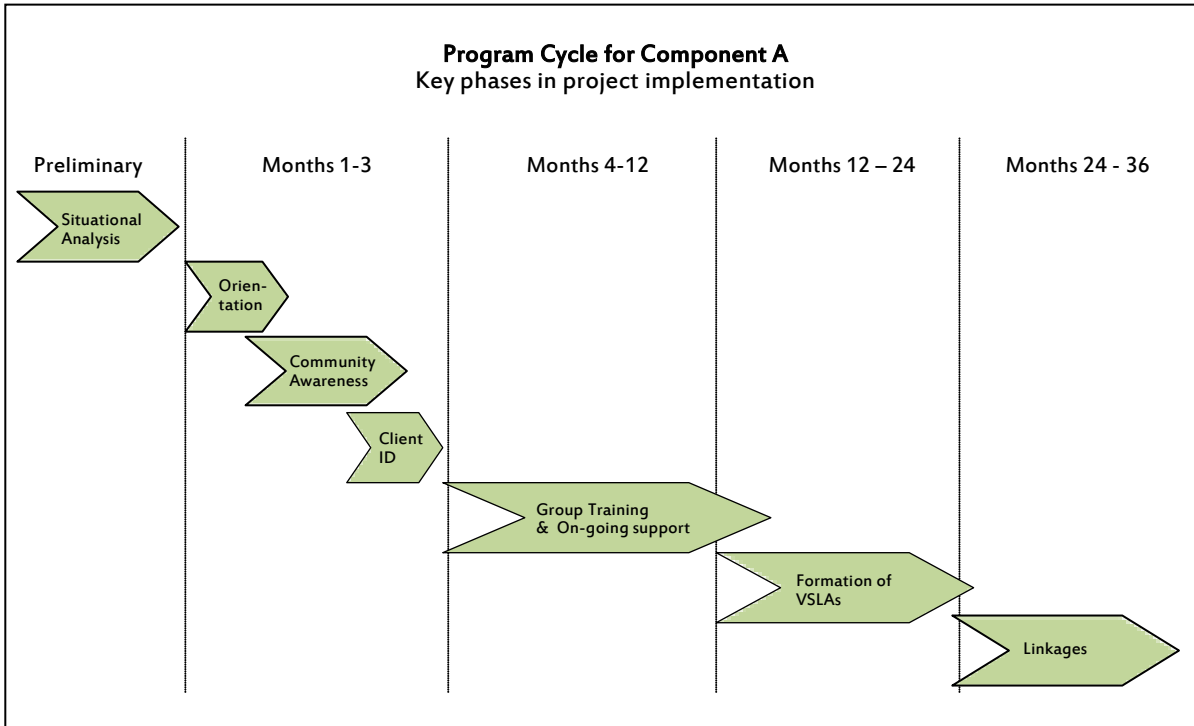
proposed. A copy of the ESMF can be provided on request.

GENDER MAINSTREAMING

“Support men at all levels – community, district, province and HQs – to advocate for women’s equal participation in economic development, so that they play an active role in adjusting the social norms and challenging existing gender roles and relations”

AREDP has a Gender Equality Strategy providing Key Principles and Gender Specific actions to be included in the implementation of components A, B and C. For a copy of the GES apply to the address at the foot of the page.

ROLL OUT AND IMPLEMENTATION



MONITORING AND EVALUATION

Monitoring process

The monitoring process will be based on milestones: the data on the milestones will be cumulated, analyzed and reported through graphs and texts on a monthly basis to allow close supervision of the program progress. The data will be analyzed and presented to show the evolution of milestone achievement over time.

These reports will be available to World Bank and donor supervision missions and will be consolidated into the program quarterly progress reports along with narrative reports from program unit heads.

Evaluation process

Different elements of the program must be evaluated: program management; contracted service agencies; SME/employment growth (with-program compared to without-program); and impact studies on topics such as employment, income generation, gender

equity in the program outreach; linkages between SMEs and commercial lending institutions; quality and appreciation of BDS advisory services provided.

The management evaluation studies will be contracted out to third party companies. The growth and impact studies can be completed by the program Research Unit or can be contracted out to consulting companies or NGOs.

Mid-term Review

In the third year of execution, the World Bank and donors will be invited to carry out a mid-term review that will assess program progress to that date, the successes and problems issuing from the program and whether the program requires modification to the program logic and methods.

Governance/ Accountability, and Audits

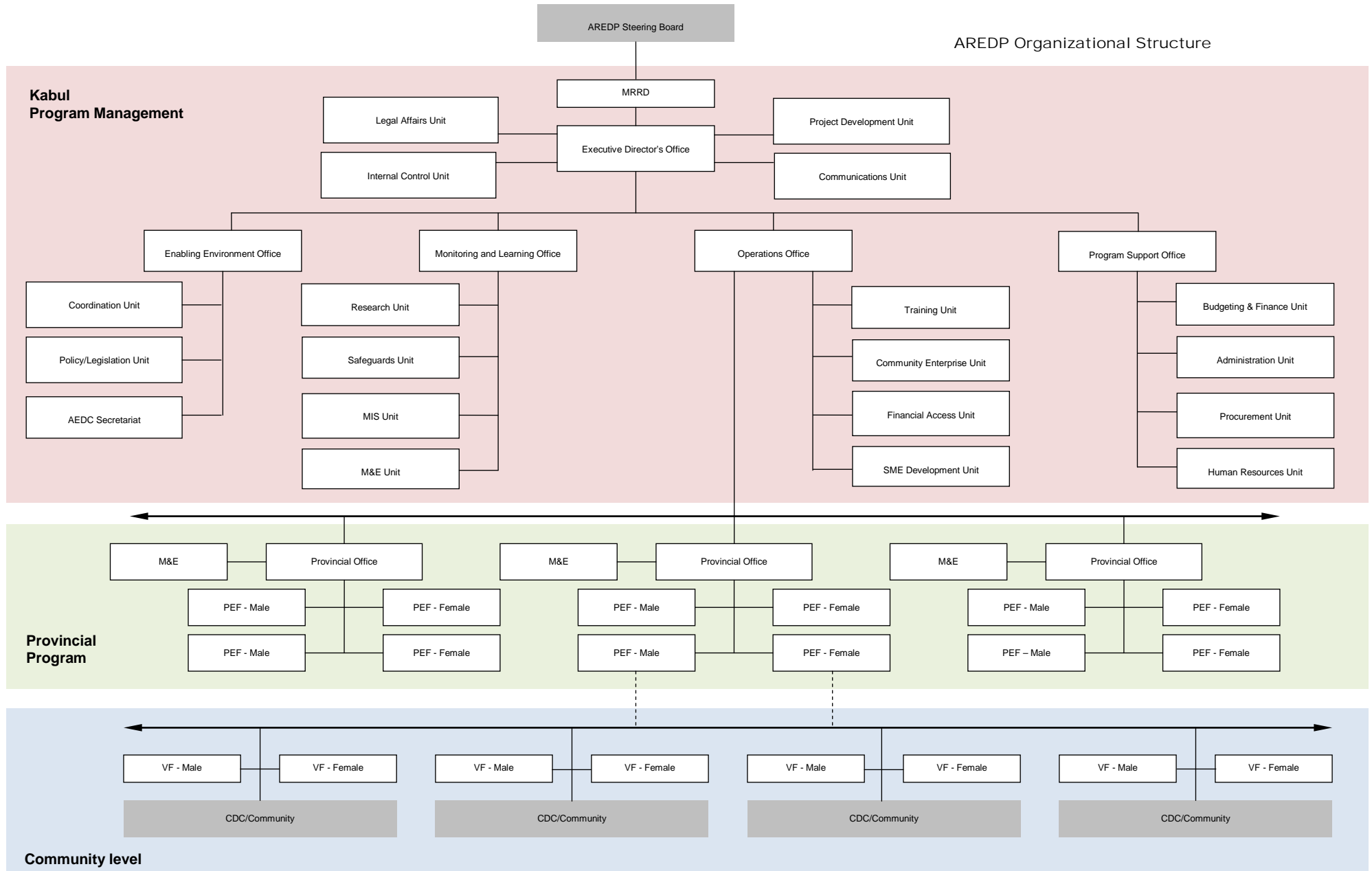
The program will provide resources to ensure implementation of (i) Governance and Accountability Action Plan (GAAP); and (ii) Audits

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Outcomes	Outcome Results Indicators
<p>Component A</p> <p>Improved access and linkages to financial resources, and relevant business knowledge delivered to targeted community enterprises to enhance sustainable livelihoods activities</p>	<p>A.1) At least 70% EGs and VSLAs maintain accurate and up-to-date records of accounts; and have a good governance structure [⁸] is in place; and at least 80% VSLAs receive seed capital</p> <p>A.2) 50% of EGs have accessed and repaid loans;</p> <p>A.3) 50% of EGs have improved products and diversified marketing strategies;</p> <p>A.4) At least 70% of viable Savings Groups (SGs) federate into VSLAs;</p> <p>A.5) VSLAs maintain at least 95% repayment rate on loans and at any given time have at least 60% of loan-able funds are in circulation;</p> <p>A.6) At least 60% of VLSAs have an accumulated loan-able capital of at least \$15,000;</p>
<p>Component B</p> <p>Targeted Small & Medium Enterprises have increased access to credit and technical knowledge to improve their sales and productivity</p>	<p>B.1) At least 50% increase in purchases from rural areas by supported SMEs;</p> <p>B.2) At least 30% increase in direct and/or indirect employment;</p> <p>B.3) At least 50% of SMEs that meet the partial guarantee scheme criteria and apply for a loan, receive it;</p> <p>B.4) At least 5 SME's per province per year apply for the innovation grant and 1 SME per province per year introduces a business innovation</p>
<p>Component C</p> <p>An effective project management system is established, and coordination, learning, and quality enhancement is achieved</p>	<p>C.1) Dissemination of improved database of local businesses by project management leads to progressive increase in trading transactions reported by provincial office;</p> <p>C.2) Project management's analysis and promotion of viable business models leads to at least 2 business models taken up as investments per year;</p> <p>C.3) Project management's development and accreditation of technical and professional service providers results in at least 20 project supported BDS service providers providing paid-for services in each province.</p> <p>C.4) Project management takes and records all necessary actions related to findings of regular Monitoring, Evaluation and Learning reports;</p> <p>C.5) All complaints received by Project and field staff are addressed within an established timeframe and according to agreed standards</p> <p>C.6) Project management has satisfactorily addressed the findings of the statutory audit conducted by the Auditor General for all IDA-financed/managed projects; and findings from an additional commercial audit to be undertaken on a yearly basis.</p>

⁸ Good governance structure: includes a Savings Group that has an elected governing body in place; holds regular meetings, maintains transparent accounts, minutes, and information is available to all members; and men and women are equally represented; and the SG is represented in the VSLA.

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MRRD, Darul Aman Road, Niala Bagh Road, Kabul, Afghanistan

Javaid.zeerak@mrrd.gov.af +93 [0] 77 362 4214 <http://www.mrrd.gov.af/AREDP/>