Document of
The World Bank

Report No: ICR1756

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(TF-52081 TF-52452)

ON A

MULTI-DONOR TRUST FUND GRANT

IN THE AMOUNT N US$ 183.9 MILLION

TO THE

ISLAMIC REPUBLIC OF AFGHANISTAN

FOR A

MICROFINANCE FOR POVERTY REDUCTION PROJECT

December 26, 2012

Financial and Private Sector Development
Afghanistan Country Management Unit
South Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective December 26, 2012)

Currency Unit = Afghani (AFN)
USD 1.00 = AFN 51.21

FISCAL YEAR
March 21-March 20

ABBREVIATIONS AND ACRONYMS

AFN	Afghanis
AFMIS	Afghanistan Financial Management Information System
ANDS	Afghanistan National Development Strategy
ARTF	Afghanistan Reconstruction Trust Fund
CAR	Capital adequacy ratio
CGAP	Consultative Group to Assist the Poor
DFID	Department for International Development
GoA	Government of Afghanistan
IDA	International Development Association
ICR	Implementation Completion and Results Report
ISR	Implementation Status and Results Report
MRRD	Ministry of Rural Rehabilitation and Development
MIS	Management Information System
MISFA	Microfinance Investment Support Facility Afghanistan
MoF	Ministry of Finance
NSP	National Solidarity Program
PAR	Portfolio at risk
PDO	Project Development Objective
ROA	Return on assets
TTL	Task team leader

Vice President: Isabel Guerrero
Country Director: Robert J. Saum
Sector Manager: Ivan Rossignol
Project Team Leader: Henry Bagazonzya
ICR Team Leader: Leyla Castillo

ISLAMIC REPUBLIC OF AFGHANISTAN
Microfinance for Poverty Reduction Project

CONTENTS

A. Basic Information *(some fields are pre-populated by the system)*

Country: Afghanistan	*Project name: ARTF-Microfinance*
Project ID: P091264	*L/C/TF Number(s): TF-52081, TF-52452*
ICR Date: Dec 26, 2012	*ICR Type: Core ICR*
Lending Instrument: SIL	*Borrower: Islamic Republic of Afghanistan*
Original total commitment: USD 120.30 M	*Disbursed amount: USD 168.94 M*
Environmental category: B-Partial Assessment	
Implementing Agencies: Ministry of Finance/MISFA	
Cofinanciers and Other External Partners:	

B. Key Dates *(all fields are pre-populated by the system)*

Process	Date	Process	Original Date	Revised/Actual Date(s)
Concept review:	03/31/2005	*Effectiveness:*	06/04/2003	
Appraisal:		*Restructuring(s):*	n/a	
Approval:	07/10/2003	*Mid-term Review:*		05/15/2009
		Closing:	09/30/2005	06/30/2010

C. Ratings Summary *(the system automatically displays entries in other relevant sections)*

C.1 Performance Rating by ICR	
Outcome:	Moderately satisfactory
Risk to Development Outcome:	Significant
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Moderately Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	Ratings	Borrower	Ratings
Quality at Entry:	Satisfactory	*Government:*	Satisfactory
Quality of Supervision:	Moderately Satisfactory	*Implementing Agency/Agencies:*	Moderately Satisfactory
Overall Bank Performance:	Moderately Satisfactory	*Overall Borrower Performance:*	Moderately Satisfactory

C.2 Quality at Entry and Implementation Performance Indicators *(all fields are pre-populated by the system)*			
Implementation Ratings	**Rating**	**QAG Assessments (if any)**	**Rating**
Potential Prob. Project at any time(Yes/No):	No	*Quality at Entry (QEA):*	None
Problem Project at any time(Yes/No):	No	*Quality of Supervision (QSA):*	None
DO rating before Closing/Inactive status:	Moderately Satisfactory		

D. Sector and Theme Codes There can be a maximum of five Sector Codes (that has more than zero percent) and five Theme Codes (of which up to two are "Primary").
(the original column is pre-populated by the system—the same as in SAP/AUS)

	Original	**Actual**
Sector Code (as % of total Bank financing)		
1. Micro- and SME finance	100	
	Original Priority	**Actual Priority**
Theme Code (Primary/Secondary)		
1. Other financial and private sector development	100	

E. Bank Staff *(some fields are pre-populated by the system)*

Positions	**At ICR**	**At Approval**
Vice President:	Isabel Guerrero	Praful Patel
Country Director:	Robert J. Saum	Alastair McKechnie
Sector Manager:	Ivan Rossignol	Simon C. Bell
Project Team Leader:	Henry K Bagazonzya	Mudassir Khan
ICR Team Leader:	Leyla Castillo	
ICR Primary Author:	Leyla Castillo	

F. Results Framework Analysis

Project Development Objectives *(from Project Appraisal Document)*
The objective of the project is to (i) provide poor and low income people, particularly women, with access to credit and financial services; and thereby (ii) enable them to: (A) take advantage of business and other income generating opportunities, (B) raise their income levels and develop skills, and (C) meet emergency needs and reduce their vulnerability and build assets.

Revised Project Development Objectives *(as approved by original approving authority)*
The objective of the project is to (i) help the population of the Recipient's territory to (A) improve their livelihoods, (B) make the transition from dependence on humanitarian assistance to economic independence, and (C) empower them to build on their entrepreneurial spirit and skills; (ii) provide to low-income people, through existing

microfinance facilities, a range of financial services such as (A) income-generating and enterprise loans, (B) saving services, and (C) consumer loans; and (iii) establish the foundations of a strong and sustainable microfinance sector.

(a) PDO Indicator(s)

Intermediate Outcome Indicator	**Baseline Value**	**Original Target Values (from approval documents)**	**Revised Target Values (as approved by original approving authority)**	**Actual Values Achieved at Completion or Target Years**
PDO Indicator 1:	Number of active clients of MFIs			
Value (quantitative or Qualitative)	No baseline at project design (YR 2003) Baseline established in 2006: 300,000	1,000,000	680,000	435,442
Date achieved	12/31/2006	06/30/2010	06/30/2010	05/26/2010
Comments (incl. % achievement)	The target was not achieved due to the consolidation and divestiture process in the MFI sector, which led to the shortfall as of 26-May-2010.			
PDO Indicator 2:	Number/% of Microfinance service providers registered as Afghan companies and operating under relevant Afghan laws and supervision			
Value (quantitative or Qualitative)	0/0%	15/100%		16/100%
Date achieved	12/31/2006	12/31/ 2009		12/31/2008
Comments (incl. % achievement)	Target was achieved successfully. In 2008, the sector had already 15 MFIs registered as local limited liability companies, and one additional was in registration process.			
PDO Indicator 3:	Percent of loan portfolio outstanding that is accounted for by MFPs with OSS>100%.			
Value (quantitative or Qualitative)	0%	87%		None
Date achieved	12/31/2006	06/30/2010		05/26/2010
Comments (incl. % achievement)	The target was not achieved by project closing date due to consolidation and the divestiture process in the sector.			
PDO Indicator 4:	Percentage of active clients who are women: 60% (target was 65% for June 2010)			
Value (quantitative or Qualitative)	70%	65%		60%
Date achieved	12/31/2006	06/30/2010		05/26/2010
Comments (incl. % achievement)	Consolidation and focus on individual lending meant a slight decline in the indicator as of 26-May-2010.			
PDO Indicator 5:	Increase in amount and percentage of loan portfolio outstanding relative to base year			
Value (quantitative or Qualitative)	65 mn	182 mn		168 mn/157% of base
Date achieved	12/31/2006	06/30/2010		05/26/2010
Comments (incl. % achievement)	Target was not achieved due to the consolidation process in the sector. By project closing date, the portfolio outstanding had increased 157% compared to its value of 2006.			

(b) Intermediate Outcome Indicator(s)

Intermediate Outcome Indicator	Baseline Value	Original Target Values (from approval documents)	Revised Target Values (as approved by original approving authority)	Actual Values Achieved at Completion or Target Years
Indicator 1:	Number / %of MFIs with an OSS (operational self-sufficiency ratio) of more than 100%			
Value (quantitative or Qualitative)	3 MFIs or 20% of MFIs	87%		None
Date achieved	12/31/2006	06/30/2010		05/26/2010
Comments (incl. % achievement)	Due to the ongoing consolidation process in the sector, by project closing date none of the MFIs had achieved OSS.			
Indicator 2:	Number/% of MFPs with PAR 30 less than 5%.			
Value (quantitative or Qualitative)	85%	85%		27%
Date achieved	12/31/2006	12/31/ 2010		05/26/2010
Comments (incl. % achievement)	The target was not achieved as a result of the crisis that affected the sector in 2008. Nonetheless, by project closing date, MISFA had started a cleanup process in the portfolio of most MFIs which was showing positive results.			
Indicator 3:	Number of provinces in which MFPs are providing services			
Value (quantitative or Qualitative)	21	32		26
Date achieved	12/31/2006	06/30/2010		05/26/2012
Comments (incl. % achievement)	Due to security problems, MFIs had to close branches and stop operating in locations that were considered unsafe.			

G. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	06/13/2008	Satisfactory	Satisfactory	124.75
2	12/22/2008	Satisfactory	Satisfactory	135.14
3	06/19/2009	Satisfactory	Satisfactory	164.86
4	01/20/2010	Moderately Satisfactory	Satisfactory	164.86
5	06/25/2010	Moderately Satisfactory	Moderately Satisfactory	168.94

1. Project Context, Development Objectives and Design

(this section is descriptive, taken from other documents, e.g., PAD/ISR, not evaluative)

1.1 Context at Appraisal

(brief summary of country and sector background, rationale for Bank assistance)

1. **Country and Sector Background**: The design of the project and its first phase of implementation were carried out in an environment of great hope and expectations by donors and international development agencies about the reconstruction of conflict-affected Afghanistan. The project was part of an integrated approach to the reconstruction efforts, with the Bank investing in other areas including education, community development, public works, infrastructure, and reconstruction. All of these investments aimed at supporting the uplifting of the Afghan population.

2. In 2003 there was a dire need to deal with urban and rural poverty in Afghanistan. War had devastated the country—people had been displaced, trade and commerce had been severely damaged and intermittent clampdowns on opium production and drought conditions had resulted in substantial decline in agricultural production. Conditions were not conducive for investment: infrastructure facilities were poor; social capital was scarce; politically, the situation was still fragile, with continued outbreaks of fighting between rival factions in some parts of the country; the monetary system was unstable and the banking system virtually non-existent.

3. There was a large unmet demand for formal financial services, especially for poor people and microenterprises. The informal sector was the main source of livelihoods for the majority of people. There were two main constraints. First, lack of capital was a key constraint to the growth of micro and small businesses. Second, since the banking system had collapsed during the war, and there were no large scale NGOs or credit cooperatives providing credit, the majority of the people had to rely on a widespread informal financial system—rural indebtedness was a particularly serious problem in poppy growing areas. There were no commercial banks in operation and it was clear that it would take some time before they could be established and in a position to serve the vast majority of the population. Formal, microfinance services were, therefore, considered necessary. With a total population of 26 million, the potential market was estimated to be at least one million households.

The development of a strong microfinance sector was thought to play a key role in the strategy to improve the livelihoods of poor and low income households in the country, as it would provide financial services that they could use to invest in enterprise activities, meet emergency needs, reduce vulnerability, and build assets. Among the poor and low income households, there were three groups in the income spectrum with different characteristics, for which it was considered necessary to tailor a microfinance program: (i) the chronically poor—people with very low asset levels, few income earning opportunities, and suffering from food shortages and indebtedness (particularly in the rural areas), (ii) the large number of people who relied on informal sector activities to

earn a living—the economically active poor, including vulnerable groups, such as low-income women and demobilized soldiers who needed to find employment to reintegrate into regular life, (iii) and micro and small enterprises, which required capital to develop and grow their businesses.

4. The supply of microfinance services was limited. An identification mission visited Afghanistan in May 2002 to review the scope and possible options for Bank assistance. At the same time, the Consultative Group to Assist the Group –CGAP– carried out a detailed assessment of the microfinance sector. Findings of both missions highlighted that while there was great demand for microfinance, existing providers did not have the capacity to meet this demand effectively. In October 2002, the Bank carried out a preparation/appraisal mission and identified approximately 20 local and foreign NGOs that had or were planning microfinance activities in Afghanistan.

5. Microfinance programs were largely unsustainable due to lack of sufficient funding for on-lending purposes, and limited existing capacity to conduct a sustainable microfinance business. These programs were generally a component of broader humanitarian efforts and not run on principles of self-sufficiency or envisioned as part of the creation of permanent and sustainable financial institutions. Most NGOs had little knowledge of global best practice; and only a few programs were found to be of reasonable quality. The NGOs' total outstanding loan portfolio was of US$1 million and served 12,000 clients, a tiny percentage of the estimated potential demand. Over half of the existing microfinance outreach was rural.

6. All organizations providing microfinance services were invited to submit proposals for financing. An in-depth assessment was carried out to evaluate their business plans as well as to determine their capacity for delivering financial and technical services to the poor.

7. **Rationale for Bank assistance:** The Bank had extensive global experience in microfinance and had developed 'best practice' guidelines. It had been instrumental in establishing apex institutions that played a key role in scaling-up microfinance in Bangladesh, Pakistan and Bosnia. The primary function of these institutions was to channel (or 'wholesale') funds to retail MFIs, and in some cases was combined with other functions, such as providing technical assistance and training to build the capacity of partner MFIs, and helping develop an appropriate regulatory framework.

8. Given the Bank's global experience and expertise, particularly in conflict affected areas, the Afghan Government and international donors supported its involvement and participation in leading the efforts for developing the microfinance sector in Afghanistan.

9. **Relevant Context for Project Execution:** The project was executed through two recipient-executed trust funds financed by the Afghanistan Reconstruction Trust Fund (ARTF). The initial project was established through two initial grant agreements: the 'Microfinance Fund Project' (TF052481 of June 4, 2003 for US$1,000,000) and the

'Microfinance Support for poverty Reduction Project' (TF052452, July 10, 2003 for US$ 4,000,000).[1]

10. The second grant agreement[2] of July 10, 2003 was amended ten times during project implementation. Most of the amendments were introduced to increase the total grant funding for the project (it reached $183.3 million by project closing), while a few were done to update key aspects of the project.

11. At the time of project preparation and during the first part of project implementation (2003-2007) some of the procedures involving project preparation, monitoring and supervision of projects financed by trust funds differed from the guidelines applicable today. However, IDA procedures for disbursement and procurement were applied to trust fund projects. At project design –and until 2007– there were no Bank requirements to file Implementation Status and Results Reports (ISRs) for this project[3].

1.2 Original Project Development Objectives (PDO) and Key Indicators (*as approved*)

12. The project development objectives (PDOs) established in the grant agreement 'Microfinance Fund Project' (TF052081 - June 4, 2003) were to:

(i) Provide poor and low income people, particularly women, with access to credit and financial services; and thereby

(ii) Enable them to:
   a. Take advantage of business and other income generating opportunities
   b. Raise their income levels and develop skills, and
   c. Meet emergency needs and reduce their vulnerability and build assets.

Performance indicators to measure PDOs were established in the first grant agreement and remained unmodified for the second agreement, as follows:

1. Increase in outreach with appropriate geographical coverage and particular emphasis on poverty stricken areas and women.
2. Qualitative impact on the more intangible aspects of helping clients rebuild their lives after twenty years of war.
3. Improvements in the types and quality of financial products and services offered

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[1] Two different trust funds were initially setup to manage the funding from different donors. Later in project implementation, the project managed all funds through a single multidonor trust fund (TF052452).
[2] See Table 5 in section 1.7 for a summary of the grants with the respective amendments introduced throughout the life of the project.
[3] Key project information on design, implementation and supervision can be found in the original grant agreements, the corresponding amendment letters, and multiple trust fund grant requests for the ARTF

to low-income clients.

4. Established systems for microfinance delivery by the microfinance institutions and NGOs (best practices, trained staff, improved services delivery, etc.).
5. Appointment of a Board of Directors and management of Microfinance Investment Support Facility Afghanistan (MISFA).

The following match between objectives and indicators was prepared by the Implementation Completion and Results Report (ICR) team to better explain the initially defined performance indicators:

Table 1. Performance Indicators

Objective	Definition	Values in 2003
Outreach	Increase in outreach with appropriate geographical coverage and particular emphasis on poverty stricken areas and women.	12,000 MFI clients
Livelihood	Qualitative impact on the more intangible aspects of helping clients rebuild their lives after twenty years of war.	Not available
Supply of financial services	Improvements in the types and quality of financial products and services offered to low-income clients.	Not available
Sector Development	Established systems for microfinance delivery by the microfinance institutions and NGOs (best practices, trained staff, improved services delivery, etc.).	Not available
	Appointment of a Board of Directors and management of MISFA.	MISFA did not exist

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification

13. Revised objectives of the project were approved under the Grant Agreement 'Microfinance Support for Poverty Reduction Project'(TF052452, July 10, 2003), which continued the program of reconstruction activities set forth in the Microfinance Fund Project. PDOs were to:

(i) help the population of the Recipient's territory to
   a. improve their livelihoods,
   b. make the transition from dependence on humanitarian assistance to economic independence, and
   c. empower them to build on their entrepreneurial spirit and skills;

(ii) provide to low-income people, through existing microfinance facilities, a range of financial services such as:
   a. income generating and enterprise loans,
   b. saving services, and
   c. consumer loans; and

(iii) establish the foundations of a strong and sustainable microfinance sector.

Although the PDOs specified in both trust fund grant agreements are similar or interrelated, it is important to note that only the first agreement (TF052081) established women outreach as a key project development objective. Women outreach was one of the key indicators monitored throughout the 7.2 years of project implementation.

14. As total funding for the project increased throughout project implementation, new targets were reestablished accordingly (i.e. number or microfinance clients, amount of loans disbursed, etc.). Trust fund grant proposals were submitted to the ARTF management committee, including the updated targets to continue to scale up the project. Changes to the indicators and targets were reflected in the grant funding requests and approved by the ARTF Management Committee.

15. In addition to the performance indicators established in both grant agreements (Table 1), a set of more specific and measurable indicators was monitored during project implementation. These indicators had been identified in early stages of project preparation, and were gradually introduced as the project evolved (See Table 2 and 3). During 2004-2006, the indicators presented in the grant proposals included specific targets in terms of client outreach, and performance indicators for the participating MFIs in terms of portfolio quality and operational efficiency. Although these indicators were monitored regularly, no formal amendment was introduced to the legal grant agreement to change the original indicators.

Table 2. New Indicators introduced during Project Implementation

Objective/Type of Indicator	Original (TF52081/TF52452)	Revised - March 2004 Grant Proposal for First Amendment	Revised – Feb. 2006 Grant Proposal for Fifth Amendment
Outreach	Increase in outreach with appropriate geographical coverage and particular emphasis on poverty stricken areas and women.	Increasing number of clients over time (originally 40,000 to 50,000 clients by Project end, March 2005; new target 75,000) with movement towards significant scale.	5-year goal of reaching 1 million households
Livelihood	Qualitative impact on the more intangible aspects of helping clients rebuild their lives after 20 years of war.	Not included or mentioned.	
Supply of Financial Services	Improvements in the types and quality of financial products and services offered to low-income clients.	Well-conceived products and lending methodology that take into account lessons learned from best practice and effectively meet the needs of target market.	
Sector Development	Established systems for microfinance delivery by the microfinance institutions and NGOs (best practices, trained	MFIs develop systems to assess impact and get regular feedback on client satisfaction for improving product design and delivery of services.	

	staff, improved services delivery, etc.).	
	Appointment of a Board of Directors and management of MISFA.	Not included or mentioned
Portfolio quality/Intermediate Outcome Indicator	Not defined	Portfolio at risk (PAR) over 30 days < 5%
		Write-offs (average annual portfolio outstanding) < 3%
		Rescheduled loans within active portfolio < 5%
Operational Efficiency/ Intermediate Outcome Indicator	Not defined	Operating expenses are a reasonable percentage of loan portfolio, in line with age, portfolio size and target client group.

16. A new results framework was formally introduced in July 2008 with the tenth and last amendment to the grant. As per project documents, this was done to align the project with the new IDA–financed 'Expanding Microfinance Outreach and Improving Sustainability Project' (Grant number H348-AF dated March 10, 2008). Baseline values for the project were established for the first time starting in year 2006. Annual targets were defined for the period 2007-2010 (Table 3). The new results framework introduced indicators to measure progress towards operational self-sufficiency achieved by MFIs, registration of MFIs under Afghan laws, women outreach, and increase in total outstanding portfolio. In addition, intermediate indicators were defined to monitor, profitability (return on assets –ROA), capital adequacy (CAR), and MFI sources of funding different from MISFA, 'afghanization'[4] of MFIs, and geographical outreach[5].

Table 3. Revised Performance Indicators introduced to Grant Agreement July 2008 (Tenth Amendment)

Objective/Type of Indicator	Baseline Dec 2006	Actual Dec 2007	Actual March 2008	Target Dec 2008	Target Dec 2009	Target June 2010
1. Percent of loan portfolio outstanding that is accounted for by MFIs with OSS>100%	51%	50%	52%	70%	85%	87%
2. Number/% of MFIs registered as separate legal entities (microfinance only) under Afghan law -as corporations, companies, banks, or any other recognized legal form for financial service providers	0/0%	10/67%	14/93%	14/93%	15/100%	15/100%
3. Number of active clients of MFIs	300,000	424,000	436,777	500,000	625,000	680,000

[4] Defined as the number of MFIs with Afghan board members/directors; top management positions held by Afghans.
[5] Measured by the number of provinces in which MFIs were providing services.

4. % of active clients who are women	70%	68%	65%	65%	65%	65%
5. Amount of outstanding loan portfolio and percentage increase over December 2006 amount	$65 million	$103 million (158%)	$108 million (165%)	$130 million (200%)	$175 million (270%)	$182 million (280%)
6. Number of provinces with active MFIs	21	23	23	28	30	32

Revised Intermediate Outcome Indicators	
Intermediate Outcomes	**Indicators**
7. Operationally sustainable MFIs increasingly capable of sourcing funds (commercial debt, international funds, savings) from the market	Number /% of MFIs with an adjusted ROA> 3%
	Number/%of MFIs with PAR 30 < 5%
	Amount of funds on the balance sheets of MFIs from sources other than MISFA and their own equity.
	Number/% of MFIs with a CAR > 12%
8. Microfinance service providers are Afghan corporations/organizations with Afghans on their boards and in top management positions	Number/% of MFIs with Afghan board members/directors in addition to international experts and owner representatives.
	% of top management positions held by Afghans
9. Outreach of financial service provision to poor people by microfinance service providers has doubled and reached most provinces.	Number of active clients doubled within three years
	Number of provinces in which MFIs are providing services

1.4 Main Beneficiaries,

(original and revised, briefly describe the "primary target group" identified in the PAD and as captured in the PDO, as well as any other individuals and organizations expected to benefit from the project)

17. The beneficiaries were defined in the grant agreements as (i) the final recipients of the microcredit, and (ii) microfinance institutions intermediating the funds. More specifically, “beneficiary" was defined as a village or neighborhood community or group (including poor and low income people, particularly women) which meets the eligibility criteria for the Project including:

(i) people with very low asset levels and few income earning opportunities;
(ii) economically active persons relying on informal sector activities for a living;
(iii) micro and small enterprises; and
(iv) MFIs

1.5 Original Components (*as approved*)

Project Components as approved in Grant Agreements

A. Microfinance Fund

Establishment and operation of a microfinance fund to provide Sub-Loans and Sub-Grants:

(i) to MFIs for the funding of Sub-Projects to be carried out by eligible Beneficiaries; and
(ii) for capital support and capacity building.

B. Capacity Building of Microfinance Fund Providers[6]

Capacity building of microfinance fund providers (MFIs), including:

(i) the strengthening of their governance structure;
(ii) the development of their management information and accounting systems;
(iii) the standardization of their monitoring and/or reporting requirements;
(iv) strengthening portfolio management; and
(v) training of staff of the MFIs in the execution of poverty reduction programs.

C. Implementation Support

Provision of implementation support to MRRD through a twining arrangement with a firm to build local capacity and strengthen MISFA as an independent and autonomous institution.

D. Strengthening Microfinance Institutions

1. Development of a sustainable microfinance sector, including:

   (i) the strengthening of the capacity of selected MFIs to deliver credit and other financial services;
   (ii) assisting such MFIs to move towards operational and financial self-sufficiency;
   (iii) supporting such MFIs in the planning and carrying out of microfinance programs; and
   (iv) improving the effectiveness of MFIs to carry out poverty reduction programs, including the making of Grants to Beneficiaries for the carrying out of business and other income-generating projects or activities.

2. Strengthening the capacity of the Ministry of Rural and Rehabilitation Development (MRRD) to manage and monitor grant funds.

3. The conduct of study tours and training of staff of MRRD, MISFA and MFIs.

E. Microfinance Investment and Support Facility for MISFA

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[6] The term microfinance fund provider was used in a broad sense to include: NGO MFIs (including savings and credit groups, and individual lending), community based savings and credit associations or cooperatives, a microfinance bank or other specialized institution.

The establishment of MISFA as an independent and autonomous apex microfinance institution to provide continuity of support to MFIs and ensure long term development and sustainability of the microfinance sector.

1.6 Revised Components

No revision to original components was introduced.

1.7 Other significant changes

(in design, scope and scale, implementation arrangements and schedule, and funding allocations)

18. The project was originally designed for a two year implementation period from March 2003 through March 2005. Ultimately, the original closing date was extended by five years, and the project lasted 7.2 years, ending in June 2010.

19. The original funding allocation was US$1 million as per grant agreement dated June 4, 2003, and additional US$4 million was provided through Grant Agreement dated July 10, 2003. Subsequently, additional donor funding was raised by US$179 million through a total of ten amendments to the second grant agreement of July 10, 2003.

20. Amendments to the aggregate value of grant funds and closing dates of the project are provided in Table 4.

Table 4. Grant Funding Received for Project Implementation

Date	Agreement/ Amendment	Additional	Total Funding	Changes in project closing date	Comments
June 4, 2003	TF-52081	$ 1,000,000		June 30, 2005	Two different TFs were setup initially. Later on, the project continued implementation under TF-52452
July 10, 2003	TF- 52452	$ 4,000,000		September 30, 2005	
March 9, 2004	Amendment 1	$ 4,700,000	$ 8,700,000	June 30, 2006	Amendments 1-10 were introduced to the TF-52452
July 27, 2004	Amendment 2	$ 8,000,000	$16,000,000		
February 23, 2005	Amendment 3	$ 4,100,000	$ 20,100,000		
July 18, 2005	Amendment 4	$ 20,300,000	$ 40,400,000		
February 28, 2006	Amendment 5	$ 13,900,000	$ 54,300,000	June 30, 2007	
July 7, 2006	Amendment 6	$ 20,000,000	$ 74,300,000		A Project Agreement was signed between the Bank (administrator) and Recipient to establish MISFA as the project implementing agency.
February 13, 2007	Amendment 7	$ 12,000,000	$86,300,000		

July 27, 2007	Amendment 8	$33,000,000	$ 119,300,000		
February 5, 2008	Amendment 9	$ 14,000,000	$ 133,300,000		
July 15, 2008	Amendment 10	$ 50,000,000	$ 183,300,000	June 30, 2010	
October 31, 2010	Cancellation	$ -15, 360741	$ 168,939,258		By the end of grace period in October 2010, the undisbursed balance in the ARTF was cancelled.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

(including whether lessons of earlier operations were taken into account, risks and their mitigations identified, and adequacy of participatory processes, as applicable)

2.1.1 Soundness of the Background Analysis

21. **Incorporation of lessons learned:** Lessons learned from the development of microfinance in other countries incorporated in the design of this project included:

- The poor and low income segments of the population are willing to borrow for income generation, and to pay financial charges.
- Institutional development is a prerequisite to sustainable delivery of financial services.
- An apex microfinance support facility improves sustainability of the sector by providing continued support to MFIs.
- The governance structure of the apex must be independent and autonomous, including representation of the microfinance sector.
- Additional best practice guidelines for the development of apex institutions[7] included:

  - Apex must have a clear goal of nurturing the development of sustainable MFIs that achieve good financial and social performance and be accountable for achieving this goal.
  - Funding must be based on a realistic assessment of the number of qualified MFIs that can borrow funds. Provision of technical services is a separate business activity; MFI capacity building needs must be assessed and funded accordingly.
  - Funding must be based on precisely defined selection criteria. The apex should have the authority and capacity to monitor closely MFIs and discontinue funding to those that do not meet performance targets.
  - Apex loans and other products must be tailored to the cash-flow patterns and planning needs of MFIs, not pre-set disbursement plans.

[7] Lessons learned and best practices for developing microfinance at the time can be found in CGAP Occasional Paper "Apex Institutions in Microfinance", January 2002.

- Management must be of very high quality and possess a blend of microfinance expertise, managerial and financial skills, and integrity.

In addition, the project design had to take into account a number of limitations and challenges:

22. **Developing microfinance in a conflict affected environment.** There were not many examples worldwide on how to jump start a microfinance sector in a conflict affected country. The case of Bosnia appeared to be the closest to Afghanistan. Starting the project with a pilot provided an opportunity to test out different models of microfinance. Once finished, the second phase aimed at scaling up operations.

23. **Assessing market potential and project targets with limited available data**. The project started preparation in mid-2002, soon after a new Government of Afghanistan was established, following the toppling of the Taliban Government. In 2002/2003 there was very little reliable information on demographics, levels and incidence of poverty, including geographical distribution and composition of target markets. Total population at the time was estimated around 26 million people, and the potential of the microfinance market was estimated at around 1 million households. There were only 12,000 microfinance clients in the country at project start. Later during implementation, the National Risk and Vulnerability Assessment 2007/2008 determined that from a total population or around 30 million, there were a total of 3.4 million households in all of Afghanistan.

24. Given the long term objective of the project to develop the microfinance sector and due to the ongoing process of fund raising to support project implementation, initial targets for project outreach were determined based on fund availability. For instance, during the early stages of the project in 2004, the objective was to reach 75,000 microfinance clients by project closing date in March 2005. Total available funding at the time was US$ 8.7 million. It was estimated that in five years, the expansion of the project could reach 300,000-500,000 microfinance clients as additional funding became available. The estimated growth was rapid, but considered feasible at the time based on international experience. The sector was growing at rates between 127% and 200% during the first three years.

25. By early 2006, total available funding had increased to US$ 54.3 million. Consequently, the outreach target was further increased to reach 1 million households in a five year period. Given the little background and lack of similar experiences worldwide, the feasibility and pace to achieve initial targets were difficult to assess at the time. Main constraints for the project to grow were attributed to the limited funding available. Strong emphasis was placed on disbursements and outreach by donors and stakeholders, and MFIs were incentivized to expand rapidly in order to serve as a vehicle for funds placement.[8]

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[8] See "One Step Back from the brink: Donors, Disbursement and Default", by Dale Lampe, in Microbanking Bulletin. July 2011.

26. **Challenging Security Environment:** The project started preparation in a period of increased hope and expectations for reconstruction and future of Afghanistan. Security risks were recognized and accounted for during preparation, but at the same time great efforts were being made to stabilize conditions in the country. Two distinct periods in terms of security environment can be identified. As recorded throughout project documents, and confirmed through field interviews during the ICR mission, security was not an issue or obstacle for project development during its initial phase. Security started to increasingly worsen since 2007.

2.1.2 *Assessment of the Project Design*

27. A two-phase approach was designed, including a transitory, pilot phase expected to last one year, and a second phase that would last four years. The pilot phase was meant to provide an opportunity to test out different models of microfinance[9], and funded an estimated $5 million to provide financial and technical assistance to qualified MFIs for on-lending activities, and to build capacity for the effective delivery of financial services. The second phase would scale up operations through an independent and autonomous apex. This phased approach was given preference over setting up a full-fledged facility as it allowed for better addressing the urgent need of providing the poor and low income population with access to financial services. This will help them carry out their businesses and income generating activities, while allowing time to build local capacity to carry out the scale up phase. In addition, it was expected that this approach would help the team circumvent the many risks that could delay effective implementation of the project.

28. The project started with the pilot phase supporting 5 MFIs (BRAC, Mercy Corps, FINCA, CARE, and CHF) each of which received performance based grants for capital support and capacity building, as well as loans for on-lending. MISFA was expected to provide continuity of support to MFIs and ensure long term development and sustainability of the microfinance sector. In setting up MISFA, the project supported and strongly encouraged the application of international best practices. This was one of the key lessons learned from the development of microfinance in conflict affected areas. MISFA was envisioned as the funding vehicle (wholesaler) to help channel all donor support through a competent technical agency, rather than disbursing separately to individual MFIs. It was also expected that MISFA would contribute to streamlining reporting and fundraising procedures for MFIs, allowing them to concentrate on quickly building up retail capacity.

Project Development Objectives

29. The overarching objective of the project can be summarized in two key objectives: (i) supporting income generating activities of low income population through

[9] These included NGO MFIs –both savings and credit groups and individual lending–, community-based savings, credit associations or cooperatives, and micro-finance commercial banks.

the provision of financial services; and (ii) establishing the foundations of a strong and sustainable microfinance sector. In hindsight, project development objectives and components were complex and overly ambitious when compared with the initial funding and implementation period established in the original agreement.[10]Although the project was designed to be implemented in two phases, it was difficult to assess the time required to effectively implement the pilot phase, build capacity, extract initial lessons, and launch the scale-up phase. Nonetheless, the project's PDOs, components, and activities, adequately supported the project's rationale of building up a microfinance sector that could support income generating activities for low income households.

Project Components

30. The project adequately incorporated lessons learned for institutional capacity building and included specific lines within project components for training and capacity building needs of participating MFIs, government institutions involved in project implementation (MRRD), and MISFA.

31. The scope of activities and the targets for each phase were thoroughly developed and documented in the project implementation plan prepared in 2002-2003. However, in hindsight, the time (2 years) required to effectively establishing MISFA with the support of a qualified international entity (including training of local staff, establishment of accounting and management systems, as well as monitoring and supervisory capacity of MFIs) and the hand-over to local management was initially underestimated.

32. Some of the activities envisaged within the different components were interrelated. For instance, successful completion of the activities geared toward the creation of MISFA under the different components was a pre-requisite for the success of other components of the project.

- **Component A** provided for the establishment of the microfinance fund that would provide the resources to help develop a strong capital base for MFIs, while expanding outreach, as well as the necessary resources for onlending to final beneficiaries. This fund was designed to be managed by MISFA.

- **Components C** and **E** aimed at addressing the creation and capacity building of MISFA to be able to support the development of the microfinance sector in Afghanistan. The main activity sponsored under Component C was the provision of technical assistance to MRRD by a qualified entity to establish and manage MISFA. After the initial setup envisaged under Component C, activities under Component E would support the buildup of MISFA as an independent and autonomous entity, responsible for long term support to the microfinance sector.

[10] The project started with US$ 5 million and the initial closing date was March 2005.

- **Components B** and **D** responded to the two-stage approach (pilot phase and scale-up) envisaged for project implementation. Component B focused on developing initial institutional capacity of MFIs for future scaling up of their business, including their governance structure, management information (MIS) and accounting systems, risk management and other relevant operational requirements. Component D included the majority of grant funding given to MFIs which covered training and capacity building, aimed at further strengthening capacity of MFIs to ensure their long-term sustainability[11].

33. With the strong need in the early days to show ability to disburse and implement, good planning and ability to mobilize resources was important. Therefore, careful attention was given at design stage to the quality of and control over the MFIs:

a. MFIs as retailers were initially to be selected from a pool of institutions providing microfinance services at the local/international level.

b. Qualifying MFIs would receive performance-based grants for capital support and capacity building as well as loans for on-lending

c. To launch the program, a field appraisal was carried out to assess compliance of MFIs with eligibility criteria:

   - ***Microfinance experience***: (i) at least six months existing experience of microcredit or microfinance provision in Afghanistan, or (ii) at least 5 years of experience internationally[12].

   - ***Commitment to sustainability:*** Experience or well documented business plans to develop a sustainable microfinance service provision over the long-term.

   - ***Geographic coverage:*** A mix of organizations that provide good national geographic coverage.

   - ***Diversity of approaches:*** A mix of organizations that target a range of client groups and represent different organizational models or delivery mechanisms.

d. MFIs were required to maintain performance standards to remain eligible for ongoing and future financing. In the case of non-performance, funds could be recalled and reallocated to better performing institutions.

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[11] Activities to be sponsored under this component included (i) contracting technical services out to qualified providers for intensive capacity-building support provided to all participating MFIs; (ii) technical assistance and training in core business areas (i.e. lending methodologies, accounting and control systems, design and implementation of MIS; and (iii) technical assistance for institutional strengthening of MISFA to build staff, monitoring mechanisms, and funding instruments.

[12] The applicant had to have a proven track record in building financially sustainable microfinance institutions and a methodology that was adaptable to the Afghan context.

2.1.3 *Adequacy of government's commitment*

34. The government was actively involved and committed during the design and preparation of the project. MISFA began in 2003 as one of the project's components and was housed under the MRRD. During the pilot phase, as an interim transition arrangement, MISFA was governed by a steering committee comprised of MRRD and the principal funders and sponsors. The MRRD was also charged with providing logistical support to MISFA.

35. One of the objectives to be accomplished during the pilot phase was "the establishment of MISFA as an independent and autonomous apex microfinance institution to provide continuity of support to MFIs and ensure long term development and sustainability of the sector." MISFA was finally set up as a private non shareholding company in March 2006 with the Ministry of Finance (MoF) as the sole sponsor.

2.1.4 Assessment of risks

36. Rapid growth of the sector was envisaged in the original project design and consistent with the experience and lessons learned in other countries. Nonetheless, as the experience of other countries would also later confirm, a very rapid growth with insufficiently robust systems (notably internal controls) led to a repayment crisis, which in turn affected the viability of several institutions. This was not unique to Afghanistan, and countries like Pakistan, Bangladesh, India, and Bosnia, among several others, started to experience microfinance crises in 2008.[13] In the case of Afghanistan, this situation was compounded by a worsening security situation.

37. General risks related to the weak capacity to implement the project both at MISFA level and MFIs were identified at project design. Project components adequately reflected these risks, placing significant emphasis on capacity building and institutional development. The time to build such capacity and complete the transfer of management and operation of these institutions to Afghan nationals in the sector may have been underestimated.

38. The lack of skilled Afghan staff, as well as additional challenges posed by staff turnover in MISFA and MFIs was a major constraint during the implementation phase. These constraints may have been underestimated at project design.

39. Notably, in the case of MISFA the situation improved considerably after 2008, with the incorporation of lessons learned from the microfinance crisis into their operation. A new management team came into MISFA in 2008 and shifted the focus of its operation, strengthening MISFA's monitoring and supervisory capacity of MFIs, and playing a more active role in the consolidation of the sector as a result of the crisis.

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[13] CGAP, 2010. "Growth and Vulnerabilities in Microfinance".

2.2 Implementation

(including any project changes/restructuring, mid-term review, Project at Risk status, and actions taken, as applicable)

40. For the implementation period of 2003-2008, based on the impressive growth of MFIs' outreach, the ARTF project had been rated as Satisfactory. The case of MISFA was showcased by the Bank and donors as a success story on how to jumpstart a microfinance sector in a conflict affected environment. In spite of ongoing insurgent activity and insecurity, microfinance was one of the success stories coming out of Afghanistan.

41. As a consequence of the remarkable growth experienced in the sector, the good performance in key indicators such as client outreach, percentage of women benefitting from the newly established microfinance services, and expansion of geographical coverage of MFIs, the project managed to raise several rounds of donor funding to scale up operations. A shortcoming of the unique design of the project was the constant update in main outcome and intermediate indicators, which makes it difficult to evaluate the achievement of project's outcomes in a consistent manner. As explained earlier in section 1.1 (p.10) this was a trust fund executed project and although IDA procedures applied for procurement and related fiduciary standards, in some instances IDA conditions were relaxed[14]. Some key bank procedures were updated during the implementation of the project. For instance, amendments to the grant agreement were introduced to reflect the new policies in terms of procurement rules. In addition, ISRs were introduced to supervise and monitor project results since 2007

Initial Delays in Project Implementation

42. Due to initial delays for MFIs to receive grant funding and credit line support –in some cases of more than a year–, the overall project schedule was shifted, causing the scale up period to start later than initially planned. Following IDA rules for procurement and disbursement caused some problems at the project outset as MISFA and MFIs familiarized themselves with the procedures. In addition, being part of the ARTF meant that expenditures were going through the budget, which in turn meant that the process to authorize and effect disbursement took longer than expected. In the initial stage, funding proposals needed to have government approval, and all proposals beyond US$ 200,000 required Presidential approval. These issues were resolved as implementation progressed.

Mid-Term Review[15]

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[14] One example of this was the relaxation of the condition of no objection certificates for expenditure below certain thresholds, and the rules regarding the statement of expenditures prior to release of second and subsequent tranches were also relaxed. For more information on this, see "Aid Effectiveness and Microfinance: Lessons from Afghanistan "by Martin Greeley, March 2005.

[15] A mid-term review to assess the status of the microfinance sector and the role of MISFA in its development was commissioned by the MRRD, MoF, and MISFA donors.

43. The mid-term review found that with 'continued support and an enabling environment, there was potential for many MFIs to become financially sustainable' in the three years following the review. The role of MISFA to support the sector was considered as highly satisfactory, and justified a clear need for its continuation to channel funds to the MFIs to improve their capacity, outreach and sustainability. It was also recognized that for MISFA to optimally serve the sector in the future, improved security conditions leading to stability were necessary. In addition, the review advocated for a clear support through uninterrupted and timely funding from donors and the Government, continued independence to operate following microfinance best practices. In terms of the development of the microfinance sector, the review found that 'the deliberate approach to encourage rapid scaling in client outreach' had been successful in building a microfinance sector in a short period of time. MISFA's efforts to move towards commercialization were an example in the South Asia region.

Relevance of Project Components

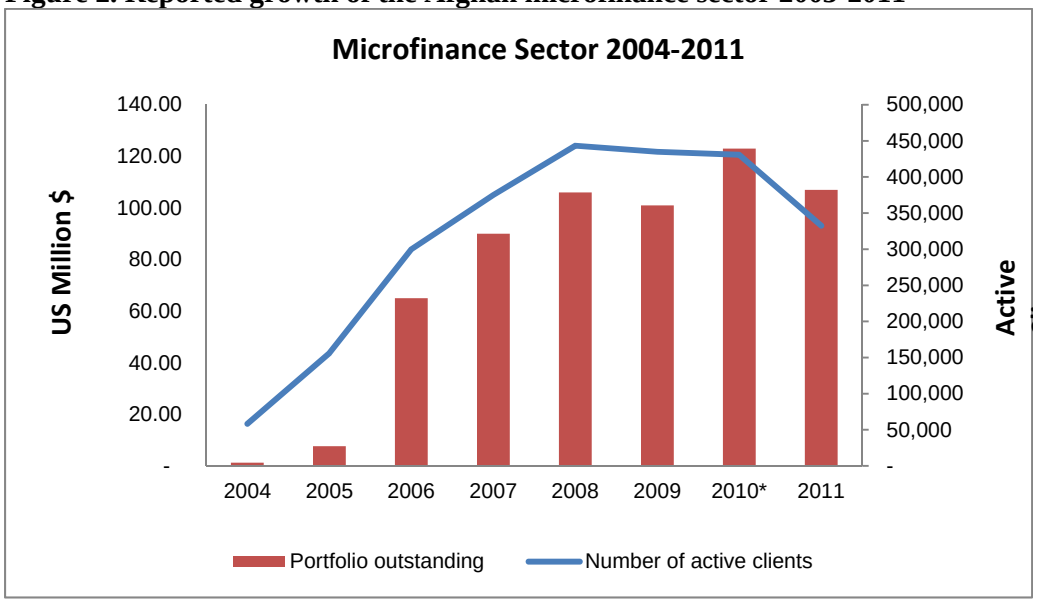
44. Indicative of the two-phase approach was the rapid growth experienced in the first three years of the project during the pilot phase. Most efforts were placed on increasing disbursement levels, mobilizing resources to reach out to most vulnerable segments of the population and heavily affected conflict areas. This strategy was aligned with project PDOs of supporting income generating activities in Afghanistan, and establishing the foundations of a strong and sustainable microfinance sector.

45. Due to the extension of project closing dates, from March 2005 originally to June 2010, some project components and sub-components lost relevance over time. This was the case of components E and C, which focused on establishing MISFA. Similarly, the provision of grants for capital support and capacity building of MFIs was designed to fade out as the project transitioned to the scale up phase.

Boom-bust period in the development of the microfinance sector

46. In describing and understanding the development of the microfinance sector in Afghanistan two periods can be identified: (1) start-up and growth, and (2) consolidation process. The early years of microfinance in Afghanistan covered the period 2003-2008. By March of 2008, MFIs had collectively served 450,000 clients in 23 of Afghanistan's 34 provinces with loans outstanding of more than US$ 106 million. 70% of the clients were women and 40% of loans were taken in rural areas. The rate of loan repayments was reported to be 98%. There was a rapid increase in outreach; the reports from the MFIs indicated progress toward operational self-sustainability and the organizations were replacing international managers with Afghan staff.

Figure 2. Reported growth of the Afghan microfinance sector 2003-2011



Source: MISFA and Project documents

47. A second period in the development of the sector, the consolidation period, can be said to have started in 2008 and continued beyond 2010, after the project closed. By 2008, the MFIs revealed serious weaknesses in many of the internal reporting systems and the future viability of a number of the institutions came into question. Due to the deterioration of the conditions in the sector, which were reflected on MFIs client growth, portfolio quality and operating costs, MISFA started a consolidation process of its MFI partners in 2008. The rapid client outreach had come at the expense of proper due diligence in lending, compliance with internal control processes and internal monitoring of performance, all of which would have required much more time and attention. These factors, combined with cost inflation and a deteriorating security environment, contributed to a marked slowing of growth and a decline in the portfolio quality of most of the MFIs.

48. Revised outcome indicators which were originally on track started to deteriorate and remained below target by project closing date. Consequently, rating of the ARTF project was downgraded to moderately satisfactory when it closed on June 30, 2010. It should be noted that a potential consolidation process was accounted for in the project's initial design. The project intended to test different microfinance models, which would later lead to unsuccessful models leaving the business, and stronger MFIs taking the lead in the development of the sector.

49. The worsening situation in the microfinance sector after the rapid growth of 2003-2008 was not unique to Afghanistan. A systemic crisis affected the microfinance sector in a number of countries during the same period. Similar to Afghanistan, microfinance experienced an unprecedented growth and rapid expansion in several countries during 2004-2008. At the same time, donors and social investors began to channel larger

amounts of funds to MFIs worldwide, generating a significant supply pressure behind the rapid growth.[16] While financial performance remained solid during the early years, problems with credit repayments started to emerge in 2008. Insufficiently robust monitoring systems in the MFIs contributed to the crisis, leading to a consolidation process in the sector in different countries.

Development of Institutional Capacity

50. As project implementation progressed, MISFA's limited capacity became a constraint to ensure adequate monitoring and supervision of MFI's activities and their performance towards the agreed business plan. During the period in which MISFA was being setup and in-house capacity was built, monitoring and evaluation of MFIs was conducted through the hiring of external experts and rating agencies. These evaluations provided key inputs on the performance of MFIs and monitored the implementation of their business plan, including progress of capacity building activities. By the end of the initial implementation phase, MISFA was expected to become an autonomous entity in charge of wholesaling funds and providing capacity building support to retail MFIs. While each individual NGO/MFI would implement its own program (including onlending and capacity building programs), MISFA would take the lead in ensuring overall compliance with the project, including achievement of MFIs[17] business development plans and performance targets.

51. However, there was a dire shortage of skilled Afghans that significantly affected project implementation. This was further aggravated by a high turnover of the staff, which was linked to (i) competing job offers as trained Afghan staff were scarce and in strong demand, and (ii) the security situation. The high staff turnover both in MISFA and the different MFIs is said to have negatively affected project implementation in a number of ways: (i) lack of knowledge –and implementation– of operational manuals that were developed using international best-practice in microfinance, (ii) lack of knowledge–and implementation– of Bank guidelines and procedures on financial management, procurement and general project implementation which affected compliance or delayed implementation in a number of cases (See section 2.4), and (iii) delays in process of institutional capacity building by limiting the transfer of know-how to local institutions and Afghan staff.

52. Monitoring and supervision shortcomings were addressed by MISFA management later in project implementation. For instance, MISFA shifted its focus in 2008, identifying three goals to strengthen its role and that of its partner institutions: (a) accountability, (b) transparency, and (d) portfolio quality[18]. For the first time since project start, MISFA began engaging more directly with the MFI shareholders and holding them accountable for the operations of their MFIs by requiring shareholder equity injections as a pre-condition for further MISFA financial support. In addition, in

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[16] CGAP, 2010. "Growth and Vulnerabilities in Microfinance".
[17] By December 2007, MISFA had 16 MFI partners under contract.
[18] MISFA, Draft Strategic Plan, 2010-2015.

2009, MISFA began to focus more attention on direct monitoring and supervision of the MFIs to verify the transparency and accountability of the reporting. To do so, MISFA had first strengthened its own core functions of finance, monitoring, risk management, and governance to set a clear standard for MFI operations.

Security Issues

53. Starting 2007, security conditions started to deteriorate and the situation worsened progressively thereafter. The deteriorating security environment led to previously robust areas of operation either to shrink or to the exit of MFIs from those regions. This led to a slowdown in overall growth in the sector; branches were closed in a number of regions, preventing onsite visits of MFI staff, and affecting loan collection, and subsequently negatively affecting portfolio quality. Project outcomes were severely affected in the specific regions.

Cancellation of undisbursed balance

54. By the end of project implementation, an undisbursed balance of US$15.360.741 was cancelled. This is explained by the consolidation process that started in 2008, which led to a slowdown in the sector's growth.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

Design

55. Although a set of project performance indicators was established with the initial grant agreement, these indicators were vague and did not allow for adequately measuring progress towards achievement of PDOs. This, however, could be explained by the fact that the project started with relatively little funding (US$5 million), but with the expectation to continue to raise donor funding to scale up the project. In particular, indicators such as (i) qualitative impact on the more intangible aspects of helping clients rebuild their lives, and (ii) improvements in the type and quality of financial products and services provided, were broadly defined, thus making it difficult to measure.

56. As the project evolved, additional indicators were subsequently incorporated and monitored to better define original performance indicators and achievement of PDOs. A shortcoming is that these indicators were modified several times during project implementation to accommodate scale up of the project, as well as changing conditions in the overall microfinance environment.

57. Intermediate outcome indicators were well defined, measurable and attributable to the project. Intermediate outcome indicators were monitored and reported in terms of number of active clients and women clients; number of loans disbursed; cumulative amount of loans disbursed; the amount of outstanding loans; and the microfinance share of the total sector loan portfolio, and operational sustainability of MFIs.

Implementation

58. Results and intermediate indicators developed and monitored throughout project implementation were appropriate. The results framework of the project was refined and improved as the project scaled up.

59. The project's objectives also included (i) providing a range of financial services such as income generating loans, saving services, and consumer loans; and (ii) help the people to improve their livelihoods, raise their income and develop skills, build assets and reduce vulnerability, etc. Although no indicators were specified to monitor these outcomes during project implementation, an impact assessment conducted in 2009[19] indicated that microfinance activities sponsored under the project had a positive impact on the lives of borrowers and their families, improving their livelihoods.

Utilization

60. The project started to address the need for impact measurement at the household level later during implementation. Case studies were carried out to monitor progress and to identify project constraints and shortcomings to be able to adjust interventions in the project. A baseline survey[20] was conducted in the first quarter of 2007 to document outcomes of the project. It included a sample of 1015 households and was representative at the national level. Key findings of the study were the following:

- Before the microfinance sector started functioning in Afghanistan in 2003, 65% of the households did not take any loans.
- The remaining 35% borrowed from friends, relatives and moneylenders. Households burdened under consumptive debt would find their asset base eroded to furnish the debt.
- 23% of the sample reported that their credit needs went unmet before the advent of MFIs
- Loans were taken to finance livestock, small business, self-employment and housing.
- 81% of loans had been used to either start a new business or expand an existing business.

2.4 Safeguard and Fiduciary Compliance

(focusing on issues and their resolution, as applicable)

Financial Management

61. The project operated under the steadily improving Project Financial Management reforms under implementation by the Government of Afghanistan with the World Bank assistance. Under these reforms, proper records of grants received and disbursements

[19] Source: ARTF Report

[20] A summary of the baseline study can be found in the attachment of the ninth amendment to the grant agreement done in April 5, 2008.

through the designated accounts were maintained by the MoF Special Disbursement Unit. This was initially manual and later migrated to the Afghanistan Financial Management Information System (AFMIS). The funds flow to the project was timely.

62. Proper records of eligible expenditures for various components and activities were maintained by MISFA. Internal controls were adequate. There were periodic internal audits done by MISFA, except for fiscal year 2011, where a single internal audit covering the whole year was planned. This internal audit report was not available for review at the time the last supervision was done for the project in November 2010 after the project closing. Regular IUFRs in the agreed format were submitted during the life of the project.

63. Annual audited financial statements were submitted regularly though there were delays in the initial four years. The audit opinion of the Control and Audit Office of Afghanistan was qualified (unclean) for solar years 1383, 1384, and 1387; for all other years up to SY1389 the audit opinion was unqualified (clean). All audit observations up to SY1389 were promptly resolved. The last audit for the project was for SY1389.

64. The financial management capacity strengthened during the course of the implementation of the project. The Bank's FM unit participated in all supervision missions and provided guidance and support to strengthen the FM arrangements. The project closed with a '***Moderately Satisfactory***' FM supervision rating.

Procurement

65. MISFA –as well as the MFIs – had to follow World Bank procurement guidelines. Expenditures covered by the project included five different categories: (i) goods, (ii) consultants' services and audits, (iii) training, (iv) incremental operating costs, and (v) sub-grants and sub-loans. Procurement of goods and consultants' services for MISFA and MFIs had to adhere to World Bank guidelines.

66. The post procurement review found important deviations during the procurement process:

- There was neither a focal point/procurement expert within MISFA to provide guidance to the MFIs, nor there were procurement experts hired under the MFIs to look after the procurement of goods and hiring consultants.

- Despite the guidance provided to the MFIs and MISFA they were not able to prepare a proper procurement plan for their goods and consultants to be hired.

- The Bank provided training to enhance the capacity of the staff assigned for procurement under the MFIs and informed them of the bank guidelines. However, due to frequent turnover of MISFA and MFIs staff, the training was of little help to the implementing agencies.

67. The project had to refund $291,125 to the Bank at the end of the project as one MFI failed to comply with Bank procurement guidelines. The procurement performance under the project was rated as ***Unsatisfactory***.

2.5 Post-completion Operation/Next Phase

(including transition arrangement to post-completion operation of investments financed by present operation, Operation & Maintenance arrangements, sustaining reforms and institutional capacity, and next phase/follow-up operation, if applicable)

68. Project's achievements in the expansion and development of the microfinance sector in Afghanistan created a strong momentum for continued support to growing MFIs. A follow-up project 'Expanding Microfinance Outreach and Improving Sustainability' financed by IDA was prepared in 2007. The objective of the project was to continue to support MISFA by focusing on achieving sustainability of MFIs and helping them achieve operating self-sufficiency. The project closing date was June 2012.

69. Despite the success of the ARTF funded project in setting up the microfinance sector, government authorities, donors, MISFA and MFIs recognize that further development of the sector faces significant challenges to achieve sustainability and increase, or even maintain, current outreach levels. While the microfinance sector in Afghanistan grew steadily until 2008, the number of borrowers has been decreasing since then, and the speed of loan growth has slowed down. As noted earlier, this was influenced by the general crisis that affected the microfinance sector worldwide and is not unique to Afghanistan

70. MISFA, nonetheless has managed to weather the crisis by carrying out difficult reforms in the sector. In 2012, after a long and arduous exit and consolidation process closely overseen by MISFA, the number of microfinance partners had decreased from 16 separate MFIs to seven. Two main institutions continued to provide microfinance services outside MISFA: FINCA and IIFC. Two MFIs are about to exit the sector (BRAC and ASA). MISFA's new strategic priorities, established in the draft business plan for 2013- 2015, focus on three primary areas (i) continuing growth of MISFA as a strong institution; (ii) deepening MISFA's core business of access to finance; and (iii) expanding development activities that will complement and expand the market for the core work.

71. The World Bank intends to continue supporting efforts to increase access to finance in Afghanistan which has one of the lowest access rates in the world. To do so, the World Bank is considering further support to MISFA –learning from the lessons of close to 10 years of collaboration. In line with MISFA draft strategic plan, the focus would be on supporting the development of appropriate financial products to the Afghan context. Despite the microfinance crisis, the achievements in the microfinance sector should not be under-estimated considering the huge challenges faced by Afghanistan.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation
(to current country and global priorities, and Bank assistance strategy)

72. The project—its objectives, design, and results—remain highly relevant for Afghanistan's economic development. The World Bank continues to play an important role in the country with assistance in this area. Through this project, it supported an innovative approach that scaled-up an initial pilot and provided benefits beyond what was expected when the project started in 2003. In addition, microfinance continues to play a key role in the developmental strategy for Afghanistan. The Bank Interim Strategy Note[21] (ISN) for Afghanistan for the period 2012-2014 includes the support to 'access to financial services' under the pillar for 'Strengthening the Business Environment'. The support will build on the lessons learned from the implementation of the 'ARTF – Microfinance Support for Poverty Reduction Project' and the 'IDA –Expanding Microfinance Outreach' projects.

3.2 Achievement of Project Development Objectives
(including brief discussion of causal linkages between outputs and outcomes, with details on outputs in Annex 2)

73. At the design stage, significant benefits were expected from the project: (i) facilitation of credit expansion to support income generating activities and available financial products for low income segments; (iii) improvement in institutional and technical capacity of MFIs (iv) building a strong apex institution to channel funding and contribute to sustainability of the microfinance sector. Although the project achieved part of the initial objectives, there were some shortcomings derived from a longer than expected process to effectively build institutional capacity. These shortcomings significantly constrained further development of the sector, and contributed to the deterioration of financial soundness indicators of MFIs.

74. By project closing date in June 2010, the project had partially achieved its main development objectives of providing support to income generating activities for low income households through the provision of microfinance services, and establishing the foundations of a strong and sustainable microfinance sector. The project was successful in providing support to low income households through microcredits and in establishing the foundations of a microfinance sector in Afghanistan. In terms of ensuring sustainability of that sector, the project was affected by the consolidation process that started in 2008, which slowed down the scale up and strengthening process of the microfinance sector as a whole.

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[21] IDA and IFC, Interim Strategy Note for Islamic Republic of Afghanistan for the period FY12-FY14. http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/04/02/000386194_20120402013035/Rendered/PDF/668620ISN0P1250Official0Use0Only090.pdf

75. As explained in section 2.2 (p. 46), the microfinance sector has gone through two different cycles so far. Starting 2008, the number of borrowers started to decrease, loan growth slowed down rapidly, arrears and default were rising, and the operations of a number of MFIs began to deteriorate. By 2008, the sector had already 15 locally registered limited liability companies providing microcredit, one company in registration process, 428,000 clients, 373,000 borrowers and an outstanding loan portfolio of around US$107 million.

76. At project closing, the sector had been experiencing a consolidation process initiated by MISFA. The outstanding loan portfolio in November 2010 was US$123 million, and total outreach was 431,000 microfinance clients, 60% of which were women. From a total of 16 MFI partners at the project's peak, 9 MFIs remained in business. The reduction in the number of MFI cannot be considered as an indicator of the project's failure or success, as outcomes were measured by client outreach and progress towards sustainability. Although sustainability of the remaining MFIs in the sector had not yet been ensured, efforts were focused on achieving operational self-sufficiency. The results of MISFA's active engagement in merging the operation of 5 failing MFIs to transform them in a sustainable institution (MUTAHID) are yet to be seen.

77. In summary, total outreach achieved at project-end was 431,000 clients, compared to the project target of 680,000. Considering that the project started with only 12,000 microfinance clients, achieving more than 400,000 clients in seven years and in spite of the challenging conditions, can be considered a project success. In other aspects, however, the project did not manage to achieve key intermediate results indicators. Overall quality of portfolio (PAR30) was 27% compared to the project target of 5%; number of provinces with MFIs was 26 compared to the project target of 32; and none of the MFIs had achieved operational self-sufficiency.

78. Nonetheless, the significant impact that the project had on jumpstarting the microfinance industry in Afghanistan needs to be recognized. By closing date, the project had already established the foundations of a microfinance sector in the country. Despite the multiple challenges faced during implementation (See section 2.2), and the failure of some MFIs, the project showed that microfinance could be developed in a difficult environment such as Afghanistan.

79. Evidence of progress towards the project PDO of supporting income generating activities was presented through two studies, which estimated that more than 80% of loans were used to start or expand businesses, and that each borrower generated 1.5 jobs. A 2009 impact assessment indicates that microfinance activities have had a positive impact on the lives of female borrowers and their families. While 70% of microfinance clients are women, the survey also found that 80% of loans were used by men. Nonetheless, female clients reported to have improved their contribution to business decisions and there was a positive impact on women clients' participation in the household economic-decision making on food, utilities, health, education, and clothing. Improvement was also seen in client savings, with 69% of clients saving money, compared to only 34% before taking the loan.

80. The achievement of PDO is considered as ***Moderately Satisfactory.***

The achievements of the components are discussed below.

81. **Component A. Microfinance Fund (US$ 120.9 million):** The project successfully established a microfinance fund to provide loans to MFIs to carry out their operation and to support development in the sector. As envisaged by the project, MISFA uses the fund for onlending to MFIs.

82. **Component B. Capacity Building of Microfinance Fund Providers (US$ 1.2 million):** This component is interrelated with D and had limited success in most of the participating MFIs. Final performance of this component is difficult to rate, as there were no specific indicators to measure progress of the component. As mentioned throughout the ICR, the project did account for the implementation (and potential failure) of a variety of approaches and business models in microfinance during the pilot phase of the project. In other words, the initial funding was intended to test out viable approaches, and then to consolidate funding and support –through mergers and takeovers– to fewer stronger microfinance providers.

83. **Component C. Implementation Support (US$ 2.4 million):** This component is interrelated with E and was successfully accomplished early in project implementation with the transformation of MISFA from being a program within the MRRD jurisdiction into an independent institution. The main achievement of this component and of the project in general, was the creation of a competent and independent apex institution, which is currently fully operational under Afghan laws and with strong local capacity. The project envisaged from the beginning an independent institution with a strong governance structure, a goal achieved during implementation with the appointment of a strong and independent board of directors. This has allowed MISFA to implement difficult reforms, such as the consolidation of the sector, which are notably positive given the lack of similar examples of reforms in Afghanistan.

84. **Component D. Strengthening Microfinance Institutions (US$ 41.9 million):** This component is closely connected to B, and included most part of the grant funding provided to MFIs to start their business and scale up. Successful implementation of this component entailed as prerequisite the successful achievement of capacity building of MFIs, including adapting their business models to the Afghan context. Nonetheless, and apart from some external issues that affected project implementation in general, several MFIs did not manage to develop strong management and monitoring systems to support their operations, which subsequently undermined their financial sustainability. As mentioned earlier, this was part of a sector-level crisis that also occurred in India, Morocco, and other countries, and not unique to Afghanistan.

85. In addition, MFIs suffered from high turnover of staff which affected the impact and continuity of training and capacity building efforts in these institutions –as is common in Afghanistan and other conflict-affected environments with poor security and

scarce human resources (in terms of trained and experienced staff, who can be in high demand from other employers). Further to this, increasing security issues added to the problem, contributing to high staff turnover in security affected areas. Due to the shortcomings in building up strong MFIs, this component was only partially successful.

86. By project closing date, the number of MFIs supported by MISFA had shrunk from 16 to 9, with the ongoing exit or consolidation of MFIs that were underperforming. As the consolidation process was accounted for as a potential consequence of the two phase approach, it should not be considered as a failure of the project. Actual problems should be assessed in terms of the decrease in total number of active clients (project outreach) and on the overall outstanding portfolio. Furthermore, MISFA's active role in carrying out reforms to consolidate the sector, implementing lessons learned, should be highlighted as one key achievement in strengthening the microfinance sector in Afghanistan while recovering from the crisis.

87. Project intermediate indicators confirmed that all participating MFIs were operating as Afghan companies by project closing date. However, apart from the First Microfinance Bank (FMFB), none of the MFIs had achieved operational self-sufficiency. As of July 2012, operational self-sufficiency indicators for MISFA partners were as follows: FMFB (128.1%); Hope for Life –HFL (73.3%); Oxus (80.8%); ASA (27%); and MUTAHID (29.6%).

88. **Component E. Microfinance Investment and Support Facility for MISFA:** This component is closely related to C and was successfully achieved during the implementation of the project. MISFA has been working successfully on strengthening its capacity and building up new systems to continue to monitor and support the development of the MFI sector in Afghanistan.

89. MISFA has played a key and active role in the restructuring of the sector since 2008. By the end of 2010, MISFA had a net portfolio outstanding of US$ 58.7 million, and total assets in the amount of US$ 136.5 million. MISFA has reported positive financial results since 2007 onwards, and has achieved financial sustainability, being able to sustain its lending activity with the proceeds received from loans repayments. MISFA's net operating profit has been increasing consistently from US$ 500,000 in 2007 to US$ 3.1 million in 2010.

3.3 Efficiency

(Net Present Value/Economic Rate of Return, cost effectiveness, e.g., unit rate norms, least cost, and comparisons; and Financial Rate of Return)

90. There were no estimates of economic rate of return, cost effectiveness or net present value at project start. The unique challenging conditions experienced during project implementation make it difficult to compare this project with alternative scenarios or to establish an economic rate of return. Further to this, and given that there was no microfinance sector in Afghanistan before project start, it would be arbitrary to establish efficiency estimates for the period 2003-2010. This cannot be done without considering

the long term nature of the process, the challenges of developing a sector from scratch, and the two cycles and systemic issues that impacted the development of the sector in several countries worldwide.

91. The question to be asked is whether the Bank, given the benefit of hindsight, would have proceeded with the Microfinance for Poverty Reduction project. The project supported the emergence of a microfinance sector in Afghanistan that is now –despite the contraction experienced in recent years– in place and on its way to consolidation; catalyzing the expansion of microfinance lending to low income segments in need of funds for consumption and income generating activities.

92. The existence of a microfinance sector in Afghanistan, and of an independent and strong apex facility like MISFA, both supported under the project, will continue to generate benefits in the future. It should be noted that MISFA has been able to fully cover its operating costs from operating revenue from year 2006/2007 onwards. The project benefits could also be measured through the continued access to finance provided by the existing MFIs to low income segments. At the time of project closing, there were 9 active MFIs in Afghanistan, serving 431,000 clients, 60% of which were women, and with a total portfolio outstanding of US$123 million. Lessons learned from the project are expected to help the design and implementation of similar projects in the future.

3.4 Justification of Overall Outcome Rating

(combining relevance, achievement of PDOs, and efficiency)

Rating: ***Moderately Satisfactory***

93. The project development objectives were partially achieved. The relevance of the PDOs was confirmed with the continued participation in the project of 6 MFIs and a microfinance bank beyond project closing date in 2010. These institutions continued to provide microcredit to low income segments on a mass-market and a commercially-sustainable basis.

94. The project merits the "***moderately satisfactory***" rating by fulfilling the key objective of kick starting the microfinance sector in Afghanistan. At the project peak in 2008, there were a total of 443,295 active microfinance clients, 63% of which were women. The target of the percentage of the loan portfolio outstanding of MFIs with operational self-sufficiency was not met, and stood at 45% by project closing date. The target was 87%. Table 5 presents Outcome Indicators as modified in the tenth amendment to the grant agreement carried out in 2008.

Table 5. Outcome Indicators

Project Outcome Indicators	Baseline Dec 2006	Actual Values				Final Target
		YR1 Dec 2007	YR2 Dec 2008	YR3 Dec 2009	YR4 Nov 2010	Jun 2010
1. Percent of loan portfolio	51%	60%	36%	0%	43%	87%

outstanding that is accounted for by MFIs with OSS>100%.						
2. Number / %of MFIs registered as separate legal entities under Afghan law – as corporations, companies, banks, or any other recognized legal form for financial service providers.	0 / 0%	10 / 67%	14 of 15	14 / 100%	13/100%	15/100%
3. Number of active clients of MFIs.	300,000	375,000	443,295	434,839	430,650	680,000
4. % of active clients who are women.	70%	68%	63%	60%	60% of clients 68% of borrowers	65% of clients
5. Increase in amount and percentage of loan portfolio outstanding relative to base year	$65 M	$90 M /138%	$106 M / 163%	$101 M / 155%	$123M/ 190%	$182 M /280%

Source: MISFA and project documents

3.5 Overarching Themes, Other Outcomes and Impacts

(if any, where not previously covered or to amplify discussion above)

(a) Poverty Impacts, Gender Aspects, and Social Development

95. The project's impact on poverty was positive as it helped final beneficiaries of microfinance loans gain access to alternative and formal sources of finance. Beneficiaries with access to micro-loans were able to borrow, increase their livelihoods and generate employment (mostly self-employment) by expanding their production or services. The inclusion of women as one of key target groups in the project was pointed out by some of the interviewed MFIs to be overly ambitious, given the cultural background and the role of women in Afghanistan. In spite of these caveats, the latest data collected by independent studies contracted by MISFA showed that an important share of beneficiaries had women as the final recipients of the funds, and their role was more than an intermediary for the household to obtain financing.

(b) Institutional Change/Strengthening

(particularly with reference to impacts on longer-term capacity and institutional development)

96. The project resulted in the creation of a competent and autonomous apex institution, MISFA, which is the lead development institution supporting the development of the microfinance sector in Afghanistan. Most MFIs interviewed recognized MISFA's leading role and look for further support from MISFA in the form of access to lines of credit, training and capacity building, as well as more information sharing on the development of the sector in the country.

(c) Other Unintended Outcomes and Impacts (positive or negative)

97. The project's impact went beyond the original project objective as it catalyzed a revolution in thinking and practice in microfinance operations in Afghanistan to the point that microfinance is now a key element of the national development strategy.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops
(optional for Core ICR, required for ILI, details in annexes)

98. The MFI clients interviewed have been supportive of overall project achievements. They highlighted (i) the access to micro-loans enabled by the project, and (ii) the importance of the initial grant funding made available to support their operation. Some of the constraints faced during project implementation referred to (i) difficulties in availability of skilled local staff, (ii) slow training and capacity building process, due among others to high staff turnover, and (iii) an unforeseen escalation of security threats that negatively affected operation of some MFIs and caused their exit in several geographical areas.

4. Assessment of Risk to Development Outcome
Rating: ***Significant***

99. The risk for development outcome is considered ***significant***. Risks that achievements could not be maintained are significant mainly due to worsening of the security situation. Other risks are manageable. MISFA is currently carrying out a consolidation process of nonperforming MFIs and challenges for these MFIs to achieve operational sustainability are substantial. Nonetheless, there are a few MFIs (i.e. FINCA[22], OXUS) on track for sustainability as self-reported during ICR mission interviews. In addition, FMFB, which started to receive funding from MISFA in 2008 for onlending purposes, operates in a commercial and sustainable manner.

5. Assessment of Bank and Borrower Performance
(relating to design, implementation and outcome issues)

5.1 Bank Performance
(a) Bank Performance in Ensuring Quality at Entry
(i.e., performance through lending phase)

Rating: ***Satisfactory***

100. The bank's performance in ensuring quality at entry is rated as ***satisfactory*** based on a cumulative analysis of the Bank's performance against key selected relevant criteria to the developmental and country context. The Bank responded in a timely manner to the needs of the country, in particular to address the needs of low income households to have

[22] Although FINCA received grant funding in the initial stage of the project, it is no longer a MISFA partner.

access to basic microfinance services, and helping them to improve their livelihoods. The Bank incorporated lessons learned in implementing lines of credit operations in other countries and took an innovative approach to kick start a microfinance sector from scratch.

Table 6. Evaluation of Bank's Quality at Entry

Criteria	Rating	Justification
Strategic Relevance and Approach	Satisfactory	Project objectives and components were closely aligned with country priorities and Bank's development strategy.
Technical Aspects	Moderately Satisfactory	Project scope was ambitious, particularly considering initial grant funding and the envisaged timeframe for implementation (2 years). This constraint was later circumvented by extending the life of the project for additional five years. There was careful planning at design stage to incorporate lessons learned from previous experiences, and a pilot phase was introduced to test the different business models. Components were adequately designed to address main challenges and gaps for development of the sector. Incentives between project objectives and MFIs could have been better aligned to ensure growth and adequate risk management in the sector. Some examples include: i) access to MISFA funding being more effectively linked to institutional capacity and performance, ii) more cautious growth in lending, and iii) stronger inputs from MFI international partners (this was a reason that FMFB performed relatively well, given the sustained Aga Khan network support and engagement).
Poverty, Gender and Social Development Aspects	Satisfactory	Project focused on poverty and gender impact by adequately targeting low income segments and women.
Fiduciary Aspects	Satisfactory	Compliance with Bank rules and procedures for procurement, and disbursement of funds was ensured through proper provisions in the project grant agreements. In addition, training and capacity building for MISFA and MFIs on these issues was incorporated in project design.
Policy and Institutional Aspects	Satisfactory	Institutional coordination, roles and responsibilities within government stakeholders and implementing agents were well established.
Implementation Arrangements	Satisfactory	Implementation arrangements were clearly defined and aligned with project objectives through the different components. Although the process did take longer than initially expected, institutional capacity building of MISFA is considered successful.
Monitoring and Evaluation Arrangements	Moderately Unsatisfactory	Initial monitoring indicators identified were broadly defined and difficult to measure. Over time and with the multiple amendments introduced to the project, indicators were refined and updated to better reflect the reality of the project.

		However, multiple changes introduced to the project monitoring framework made it difficult to assess progress towards the initial objectives. A baseline was defined in 2006 which significantly improved the results framework for the project. One shortcoming in terms of the results framework was the lack of indicators to measure progress towards effective capacity building and institutional development both in MISFA and MFIs.
Risk Assessment	Moderately Satisfactory	Risks were identified, and mitigation measures were adopted. Nonetheless, the lack of proper monitoring and evaluation arrangements -with shortcomings identified during implementation- may also suggest that a more stringent risk assessment should have been conducted.

(b) Quality of Supervision
(including of fiduciary and safeguards policies)
Rating: ***Moderately satisfactory***

101. The project supervision was ***moderately satisfactory.*** The Bank team had a good record of continuity from project design until project closing.

Table 7. Evaluation of Bank's Quality of Supervision

Criteria	Rating	Justification
Focus on Development Impact	Satisfactory	The Bank team focused on monitoring and supervising project outreach in terms of number of final beneficiaries of microloans, including the percentage of women with access. In addition, the scale up of the original project was the result of significant growth in client outreach. Outreach to excluded regions and towns was prioritized to ensure poverty/development impact beyond relatively better served areas.
Supervision of Fiduciary Aspects	Moderately Satisfactory	Support from financial management and procurement was continuous. However the lack of capacity encountered in the project implementing agency (MISFA) evidenced gaps that could have been mitigated in a timely manner during implementation. By project end, findings of misprocurement in statement of expenditures (corresponding to one contract) of one MFI submitted to the Bank resulted in the return of the amount disbursed (US$291,000)[23].

[23] Source: Aide-Memoire (December, 2010). The FM review during the mission found that procurement of a consultancy contract under the ARTF did not follow the project procurement procedures for single source selection of consultants; as a result, the contract was deemed as misprocurement and the expenditures of US$ 291,125 incurred under the contract was considered ineligible for financing under the project

Adequacy of Supervision Inputs	Satisfactory	The Bank team included an adequate mix of experience and skilled staff. Project was monitored through regular supervision missions and progress was recorded in back to office reports and aide-memoires.
Candor and Quality of Performance Reporting	Moderately Satisfactory	The first phase of project implementation did not prepare ISRs as this was not required for the project at the time. However, regular aide memoires and back to office reports from supervision missions provided key inputs and monitoring of project indicators. During the first phase of growth, project progress was considered adequate and in line with international experiences at the time. The lack of baseline combined with multiple changes in results indicators and project's total funding increased the complexity of supervision.
Risk Mitigation	Moderately Unsatisfactory	Key implementation problems resulted from information management systems in MFIs and MISFA not developing in line with the rapid growth supported by MISFA in the sector. An ambitious geographical scope added to this problem. There was a high pressure from donors and the international community to expand the geographical coverage, even in high risk areas. As the security risk worsened, the project should have reconsidered some of the activities such as working in high risks areas.

(c) Justification of Rating for Overall Bank Performance
*Rating: **Moderately Satisfactory***

102. The overall Bank performance is rated as ***moderately satisfactory*** with a well-designed project to meet the needs of the Recipient's population, accompanied by regular monitoring and supervision involving the Bank's management team. Although measures to address some of the risks and shortcomings that appeared during the supervision period could have strengthened overall project performance, it is important to note that the Bank's actions at the time in terms of design and implementation were in line with international practice in the development of microfinance, and lessons learned from experience with previous post-conflict microfinance support models. It was not until 2008 –when the microfinance crises started to appear in a number of countries– that some of the flaws associated with the rapid growth and weak monitoring systems in the sector became evident.

103. One of the issues that constrained project development towards the end was the lack of sufficient in-house capacity in MISFA to effectively monitor performance of MFIs given their rapid growth in outreach. The lack of adequate information and management systems at the MFI level exacerbated the situation, and contributed to the late identification and recognition of the major deterioration of portfolio quality in a number of MFIs.

5.2 Borrower Performance
(a) Government Performance

Rating: ***Satisfactory***

104. The Recipient worked closely with the Bank throughout project preparation and implementation and its performance was rated ***Satisfactory***. The close collaboration with the Bank demonstrated by the Recipient during implementation was a primary factor in the rapid growth of the project, including raising donor funding. Another important factor was the commitment and willingness of the government to establish MISFA as an independent institution to strengthen the project's continuity and sustainability over time.

(b) Implementing Agency or Agencies Performance

Rating: ***Moderately Satisfactory***

MISFA

105. MISFA provided monitoring and reporting throughout project implementation. Since project start, and with the involvement of international consultants working on building MISFA's institutional capacity, MISFA carried out basic monitoring and reporting activities. As the project matured, MISFA took a more active role to strengthen project monitoring and supervision of MFIs towards project outcomes. However, due to high turnover of staff and limited capacity, both at MISFA and MFI level, there was a misprocurement finding (related to one consulting contract) which led to returning US$291,125 after the closing date of the project (which

106. The creation and further strengthening of MISFA as an apex institution was one of the project's development objectives. Shortcomings in terms of MISFA's lack of capacity were accounted for during the design stage. Therefore, a program of capacity building for MISFA was introduced as well as bringing in strong international partners for local MFIs (i.e. BRAC, ASA, Aga Khan).

(c) Justification of Rating for Overall Borrower Performance

Rating: ***Moderately Satisfactory***

107. Recipient's overall performance is rated as moderately satisfactory, based on a combined reading of the ratings received, the demonstrated commitment to achieve project outcomes, and the shortcomings evidenced in some of the procurement and audits findings. The recipient implemented the project in a challenging environment, especially with little to no institutional and technical capacity at project start, significant challenges in attracting and retaining skills staff and experts, and a progressive deterioration in the implementing environment conditions.

6. Lessons Learned
(both project-specific and of wide general application)

108. ***Jump starting a microfinance sector in a conflict affected country requires allowing sufficient time to understand the market and to adjust previously used models to the particular country context.*** At project start, it was hoped that that it would be possible to transfer models that had worked in other countries (notably Bangladesh). Although that approach worked initially, the experience with the microfinance crises in several countries (e.g. Afghanistan, India) have shown the limits of this approach. Feedback received during the ICR mission suggested that lack of adaptation of external microfinance models and methodologies to the Afghan context, negatively impacted project outcomes. It is now accepted that the Bangladesh solidarity group model may not be well suited for the Afghan context. In contrast, the Aga Khan international network did successfully support a microfinance bank, which is currently self-sustainable.

109. ***Building a strong apex institution requires building strong institutional capacity before expanding its portfolio and menu of services.*** MISFA's setup as an independent and autonomous institution was one of the key objectives of the project and the pillar for the further development and strengthening of the microfinance industry in Afghanistan. In the first phase of the project, and possibly until 2008, MISFA was in the process of building up its own capacity and lacked the infrastructure and human resources to effectively supervise MFIs activities and project performance. Building on lessons learned from the microfinance crisis, MISFA strengthened its efforts to enhance its institutional capacity and transformed into a competent, sustainable and independent apex institution, which is currently fully operational under Afghan laws. This allowed MISFA to implement difficult reforms, such as the consolidation of the sector, which are rare for the Afghan context.

110. ***Effective capacity building requires careful monitoring and design, including tailoring the activities to the specific needs of the institutions.*** According to MISFA's own assessment of the project, the design of the capacity building programs proved to be insufficiently effective. Capacity building consisted largely of study tours, short-term classroom training for MFI staff and the engagement of third party advisors who did not provide customized guidance and mentoring, but focused primarily on creating manuals and procedures which were then not implemented. Hands-on mentoring and a 'learning by doing' approach may have been more effective, although more difficult to measure. Indicators to monitor progress of capacity building and institutional development should be included in the results framework.

111. ***Effective development of a microfinance sector requires aligning incentives toward responsible risk management.*** One important element to start the development of the microfinance sector in Afghanistan was the grant funding made available to eligible MFIs. Grants were designed to help them build capacity and capital to support their activities. In addition, loans were given to MFIs to onlend to final beneficiaries. No requirement was made in terms of the MFIs' own capital or risks to be shared among project stakeholders in order to access grant funding. Instead, the grant was allocated based on the MFI's business plan and the planned outreach. Meanwhile, very strong disbursement pressure was applied by international donors to expand outreach and

mobilize resources to conflict affected areas. This over-stretched risk management practices which were intended to support a more organic and prudent approach to growth.

112. ***In working with fragile country states, teams need to acknowledge the limits of microcredit compared to alternative interventions.*** The project and its funders should have taken into account that microcredit in conflict-affected situations has its limits as an intervention, notwithstanding the significant potential positive impacts. Grants (i.e. matching grants, conditional cash transfers) could have been considered in those regions where there was insufficient institutional capacity or security risks were too high to ensure sustainable lending operations with close monitoring.

113. ***It is critical for the project's success to ensure the existence of proper information/reporting systems and risk management, as well as monitoring and supervision systems.*** The project incorporated significant technical assistance support throughout the different components to build MFI capacity. From the start, the project provided support to MFIs in implementing such systems with MISFA regularly monitoring the progress of pre-approved business plans. However, many MFIs did not invest in strengthening their systems, and technical assistance in this area was not sufficiently effective, which led to weak monitoring of their portfolio and financial soundness indicators. In the case of MISFA's own monitoring and supervision systems, lack of capacity throughout the early phase of the project was compensated by relying on MFI international partners, rating agencies and auditors to monitor progress in the project.

114. ***Successful project implementation requires a solid governance structure with clearly defined roles and responsibilities.*** In MISFA's evaluation of the project, governance was highlighted as one of the main obstacles faced during project implementation. Governance in the project suffered at a number of levels with MISFA relying mainly on recognized 'best practice' MFIs international partners to provide oversight and good governance. At the same time, many of the international partners, lacking capacity to oversee their programs in Afghanistan, assumed that MISFA as the apex funding organization was fulfilling this role. As the roles were not clearly defined, neither party effectively fulfilled the obligation (with the notable exception of FMFB). The result was that good governance was not adequately addressed.

7. Comments on Issues Raised by Grantee/Implementing Agencies/Donors

(a) Grantee/Implementing agencies

None

(b) Cofinanciers/Donors

None

(c) Other partners and stakeholders

(e.g. NGOs/private sector/civil society)

Annex 1. Project Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
A. Microfinance Fund	NA	120.90	0.00
B. Capacity Building of Microfinance Fund Providers	NA	1.19	0.00
C. Implementation Support	NA	2.39	
D. Strengthening Microfinance Institutions	NA	41.93	
F. Microfinance Investment and Support Facility for MISFA	NA	1.52	
Total Project Costs		168.94	
Total Financing Required		168.94	

(b) Financing

Source of Funds	Type of Cofinancing	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Afghanistan Reconstruction Trust Fund		120.30	167.94	140%

Annex 2. Outputs by Component

Table 1. Key Indicators by Project Closing Date

	June 2010
MFIs supported by the project	14
Provinces	26
Districts	110
Active Clients	436,109
Active Borrowers	293,405
No. loans disbursed (cumulative)	1,515,848
Amount of loans disbursed (USD cumulative)	777.71 million
No. of loans outstanding	293,405
Gross loans outstanding (USD)	118,23 million
Women Clients	260,369
Women as % of total clients	60%
Women Borrowers	192,663
Women as % of total borrowers	66%
Total Staff (incl. loan officers)	4,047

Source: MISFA Monthly Report

Table 2. Project Cost by Components (US $ Million)

	June 2007	Dec. 2007	Dec.-2008	Dec. 2009	June 2010	Dec 2010
Component A - Loan Fund	55.98	66.39	91.72	118.97	120,54	120.90
Component B - Capacity Building of MF Providers	0.60	0.69	1.15	1.18	1.19	1.19
Component C - Implementation Support (Managing MISFA through Oversight Consultants)	2.39	2.39	2.39	2.39	2.39	2.39
Component D - Strengthening MFIs	24.00	30.56	36.97	39.44	41.93	41.93
Component E - MISFA's Costs	1.52	1.52	1.52	1,52	1.52	1,52
Total Project Costs*	**84.48**	**101.56**	**133.74**	**163.49**	**167.57**	**167.94**

Source: MISFA */The table does not include the initial US$ 1 million disbursed under TF52081.

Table 3. Number of MFIs supported by MISFA by year

	Jun-04	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11
No. MFIs	4	8	15	15	15	16	14	13

Source: MISFA

Table 4. Number of Active Borrowers[1] by partner MFI (June 2004 - March 2011)

MFI	Jun-04	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11
AFS	3,076	1,907	4,328	6,217	10,312	10,664	7,741	6,003
AMFI	318	293	2,467	3,362	4,811	3,809	2,058	
ARMP		4,906	16,594	30,346	28,200	20,033		
ASA						53	5,557	11,756

BRAC	28,958	70,016	93,776	138,625	140,032	140,180	150,638	154,742
CFA			7,100	10,430	20,380	18,587	11,662	10,264
FINCA	1,632	4,336	12,763	37,973	58,101	33,289	10,697	7,575
FMFB			16,955	18,094	27,906	33,675	42,168	43,439
HFL			1,349	1,569	2,212	3,593	1,927	2,370
MADRAC			886	8,249	15,358	15,452	13,853	780
MOFAD		710	2,501	4,499	9,069	10,722	7,536	963
OXUS			616	5,621	13,406	13,169	8,594	4,922
PARWAZ			3,317	7,138	14,708	7,403	4,995	2,887
SUNDUQ			3,061	3,660	11,025	9,185		
WOCCU		84	1,261	1,869	3,009	9,145	12,428	16,432
WWI		1,414	3,442	10,773	14,551	10,319	11,855	7,244
TOTAL	**33,984**	**83,666**	**170,416**	**288,425**	**373,080**	**339,278**	**291,709**	**269,377**

Source: MISFA. 1/ The number of active borrowers is lower than the number of active clients reported by the project, because active clients included clients with savings in addition to the number of clients with active loans.

Table 5. Portfolio Outstanding by partner MFI -USD Million (June 2004 - March 2011)

MFI	Jun-04	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11
AFS	0.2	0.2	0.5	0.9	2.5	3.2	2.8	2.8
AMFI	0.1	0.1	0.7	1.2	1.1	0.8	0.3	-
ARMP	-	2.6	10.2	19.0	18.8	13.9	-	-
ASA	-	-	-	-	-	0.0	0.7	1.8
BRAC	1.5	4.6	9.5	20.8	26.3	24.8	31.9	36.0
CFA	-	-	0.9	1.7	3.5	3.2	2.0	1.8
FINCA	0.1	0.5	1.6	7.6	9.4	4.4	1.6	1.5
FMFB	-	-	17.3	17.8	31.7	33.4	42.7	47.5
HFL	-	-	0.2	0.2	0.4	0.5	0.4	0.7
MADRAC	-	-	0.1	1.2	2.7	2.4	2.5	0.2
MOFAD	-	0.1	0.2	1.0	1.9	1.9	1.7	0.2
OXUS	-	-	0.1	0.8	2.6	3.6	2.5	2.8
PARWAZ	-	-	0.2	0.7	1.6	1.2	0.7	0.4
SUNDUQ	-	-	0.3	0.7	1.7	1.3	-	-
WOCCU	-	0.0	0.5	0.8	1.5	4.6	7.3	11.4
WWI	-	0.1	0.4	1.3	1.7	1.6	2.1	2.2
TOTAL	**2.0**	**8.3**	**42.6**	**75.8**	**107.3**	**100.8**	**99.4**	**109.3**

Source: MISFA

Annex 3. Economic and Financial Analysis

N/A

Annex 4. Grant Preparation and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending/Grant Preparation			
Supervision/ICR			
Nazir Ahmad	Research Analyst	SASFP	
Muhammad Wali Ahmadzai	Financial Management Analyst	SARFM	
Deepal Fernando	Senior Procurement Specialist	SARPS	
David C. Freese	Senior Finance Officer	CTRFC	
Asila Wardak Jamal	Consultant	SASDI	
Suhail Kassim	Private Sector Development Spe	SASFP	
Parwana Wawreena Nasiri	Team Assistant	SASFP	
Kenneth O. Okpara	Sr Financial Management Specia	SARFM	
Asta Olesen	Senior Social Development Spec	SASDS	
Rubina Geizla Quamber	Program Assistant	SASHD	
Stephen F. Rasmussen	Lead Specialist	CGP	
Mohammad Arif Rasuli	Sr Environmental Spec.	SASDI	
Sumriti Singh	Team Assistant	SASFP	
Rahimullah Wardak	Procurement Specialist	SARPS	

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY05	33	133.91
FY06	15	83.94
FY07	7	43.69
FY08		0.00
Total:	55	261.54
Supervision/ICR		
FY05		0.00
FY06		0.00
FY07		0.00
FY08		16.30
Total:		16.30

Annex 5. Beneficiary Survey Results

N/A

Annex 6. Stakeholder Workshop Report and Results

N/A

Annex 7. Summary of Grantee's ICR and/or Comments on Draft ICR

Below is a summary of the ICR prepared by MISFA.

Assessment of Outcomes

The original project design envisioned five distinct, yet interrelated outcomes four of which remain relevant today. These outcomes are detailed in the five components of the original project design and remain of high relevance. These components remain relevant and form the foundation for the establishment of a permanent apex supporting strong and independent developmental financial institutions – mainly MFIs. Microfinance continues to play a key role in the developmental strategy for Afghanistan and is specifically highlighted as a developmental priority in the Afghanistan National Development Strategy (ANDS).

Certain elements are however no longer relevant given the evolution of MISFA and may have been envisioned as temporary and time-bound at inception. Part C for instance is no longer relevant as MISFA is an independent and autonomous institution and no longer a project under the Ministry of Rural Rehabilitation and Development as of March, 2006. Part D, components 2 and 3 are also no longer relevant due to MRRD no longer managing the facility and part 3 may have suffered from relevance of design in that study tours and one off trainings did not have sufficient or enduring impact and did not provide a value added proposition. Hands on mentoring and a "learning by doing" approach would have been more effective, although more difficult to measure.

Parts A, C (no longer of relevance) and E of the original plan have largely been successfully accomplished, although further development of capacity and institutional strengthening continues. Parts B and D were and remain highly relevant (except for the afore-mentioned components 2 and 3 of Part D) although implementation has been flawed in both approach and execution. Part B was for the vast majority of MFIs unsuccessful in its implementation. This reflects poor relevance of design, rather than the relevance of the objective. Governance suffered at a number of levels with MISFA relying mainly on the recognized "better practice" international NGO sponsors to provide oversight and good governance. At the same time, many of the international NGO sponsors, lacking capacity to oversee their programs, assumed that MISFA as the apex funding organization was fulfilling this role. As the roles were not clearly defined, neither party fulfilled the obligation and the result was that good governance fell into a crack and was not adequately addressed.

This lack of clarity in responsibility was further undermined when MISFA insisted that MFIs "spin off" as independent entities from the parent NGO. Given that the newly independent MFIs had few or no resources of their own and limited capacity, this approach only exacerbated the governance vacuum. Poor governance was a primary driver in the demise of most of the MFIs which have been sunset or consolidated into another entity.

The design of the capacity building programs proved to be ineffective as well. Capacity building consisted largely of study tours, short-term classroom training for MFI staff and the engagement of third party advisors who did not provide customized guidance and mentoring, but focused primarily on creating manuals and procedures which were then not implemented.

The primary weakness was that little to no focus was placed on training and development for line staff or the building of training capacity at the MFIs themselves. Programs for loan officer and branch manager training were lacking and these staff forms the lynchpin of any successful MFI operation. Success was largely based on the number of trainings held and not whether they had any impact.

Focus has since changed beginning in 2009/2010 with emphasis on line staff training and the building of training capacity by the remaining MFIs. Proper accounting, reporting and training methodologies are key components of the 22 performance standards and where MISFA's Monitoring and Supervision Department finds gaps, concrete capacity building plans are put into place and made a requirement for further funding.

In addition, the core objectives were never prioritized or weighted so that proper emphasis was placed on each of the results framework deliverables. While sustainability was a focus, the primary emphasis during the period 2003 to 2008 was on outreach and scale. Proper weighting and emphasis may have improved outcomes. In addition, the restructuring of MFIs as independent entities (outcome 2 directly undermined this objective) without any investment or "skin in the game" by shareholders also created a grant dependency mentality rather than any impetus towards sustainability. In late 2008, when new MISFA management discussed business plans with the MFIs, it was told that "MISFA covers the operating costs" and that revenues were for the MFI and "saved for a rainy day".

As stated previously, item (i) was flawed as it was based on short-term classroom instruction and primarily focused at the most senior levels of management. Item (ii) suffered from a lack of emphasis and (iii) while important also suffered from poor design features. MISFA relied mainly on outsourcing the business planning and design process, by procuring the services of international firms to create business plans for the MFIs, rather than building their capacity to design and implement them. MFI leadership and staff often had little understanding of the plans themselves and little buy-in to the process or accountability for the results. In addition, MISFA only used business plans for funding decisions and did not require annual updates or effectively monitoring results against plan. Item (iv) suffered from the fact that little emphasis appears to have been placed on the developmental nature or poverty reduction aspects of the MFI activities. Even today, few staff have a proper understanding of the difference between the social goals of a developmental MFI and those of a for profit money lender. This was the result of an emphasis of fast and expansive outreach allowing for little capacity building prior to staff being placed in the field and no emphasis in inculcating a proper developmental approach during staff induction. Overall the objects were and remain relevant, but a number of flaws in the project design and implementation resulted in less than optimal results. These

issues are currently being addressed and significant progress has been made by emphasizing proper plan development at the MFIs, no outsourcing of key functions, staff and community outreach programs as to the developmental nature of microfinance and realistic plans designed to achieve sustainability and requiring investments from the shareholders as well as MISFA to insure accountability.

MISFA monitoring of MFIs

From 2003 until early 2006 data collected was primarily in relation to outreach and types of clients, types of loans and geographic coverage. Very few of the indicators or items that would allow for the assessment of progress towards sustainability were collected or are available in the MISFA archives. This would have made difficult an accurate assessment as to progress in regard to certain components of B and made assessment in regard to Component D almost impossible.

In 2006, MISFA created a core set of performance indicators and quantitative and qualitative ratios, etc. These generally followed the indicators recommended by SEEP/CGAP and included a portfolio summary, income statement and balance sheet (now referred to as a statement of financial position per IFRS rules) as well as provincial outreach numbers by district. This reporting was standardized across all partners and marked a significant improvement in the type of information being collected and the breadth of information gathered.

However, it was also at this time that MISFA decided to minimize on site review and verification. The justification was that the existing department was ineffective and it was eliminated. From 2006 to 2008 monitoring and evaluation primarily consisted of passive review of self-reported numbers from the MFIs, meetings with MFI senior management to discuss performance and any anomalies in the reports and external reviews of ratings and capacity assessments conducted by MCRIL, ACCESS, Planet Rate and others. These external reviews often served as the basis for future funding decisions.

By mid-2008 it was apparent that significant issues were beginning to emerge in regard to MFI performance, delinquency, growth and thereby sustainability. In late 2008 MISFA reinstated a more robust review and oversight process initially conducting a comprehensive portfolio audit of the vast majority of its partners. This review found that in a number of cases PAR>30 was grossly understated and in one instance an MFI reporting PAR>30 of 37% actually had a PAR>30 of 87% MISFA then embarked on a process of significant review and verification of all MFI operations and reporting and this led in turn to the creation of a dedicated Monitoring and Supervision team in 2010. MISFA with the assistance of MEDA and using better practice from SEEP, CGAP and ACCION developed a set of 22 Performance Standards. MFIs are assessed and graded against these standards, where gaps are identified a plan is developed in conjunction with the MFI and there is a timely follow-up and review to insure that agreed upon actions have been undertaken.

Utilization

While sustainability and outreach were considered core pillars of the successful development of microfinance institutions, the primary focus was on outreach during the first five years (2003-2008). This was based on two factors. The first was the "political" need at stakeholder levels to demonstrate quick results and impact in order to build and maintain support for microfinance as part of Afghanistan's development strategy. The second factor was the thought that the advantages of economies of scale would more than compensate for some of the other factors impacting sustainability and once institutions had reached a certain scale, they could then "go back" and address certain gaps in internal controls and costs.

Funding decisions were made and approved based on the ability of the MFI to disburse funds and attract clients with less focus on whether these funds were at risk at these institutions or whether they would be able to maintain their client bases and portfolios in the long run. Decisions were driven by annual allocations of funds from the ARTF and the primary motivation was to disburse these funds in order to meet donor and government goals that were based on disbursement amounts rather than developmental impact.

Towards the end of this period, as the five year time-frame for MFIs to reach sustainability was nearing a target that was highly optimistic given the nascent nature of the sector, weak local capacity and insufficient availability of target market data MFIs were encouraged to reach sustainability via growth thereby achieving both desired ends. Plans and funding proposals were generally developed by external advisors and approved based on other external advisor recommendations. While the models indicated that sustainability could be reached, generally these models were predicated on extremely high levels of growth, large disbursement to fund the portfolios and increased outreach. The plans met MISFA, donor and government desires, but given the poor quality of data and lack of independent review by MISFA bore no meaningful connection to the reality on the ground.

In early 2010 MISFA further boosted its capacity to use and analyze available data by creating a monitoring and supervision department which assesses and rates the MISFA MFI partners based on 22 performance standards. MISFA has dedicated significant funding and effort to building capacity in this department via its own resources and assistance provided from certain donor programs. This capacity building will insure that MISFA maintains a credible and effective monitoring and evaluation system both now and in the future.

Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders

None

Annex 9. List of Supporting Documents

(In the Portal, each document can be linked to a file in IRIS or attach a new document)

1. Project Concept Note, [month year]
2. Project Appraisal Document, [month year]

1. ARTF Grant Agreement [June 4, 2003]
2. ARTF Grant Agreement [July 10, 2003]
3. ARTF amendments to the legal grant agreement [amendments 1-10, dated March 2004-July 2008]
4. ARTF Project Application documents - Project: 'Microfinance Support for Poverty Reduction' [dated 2003, 2005, May 2007, Jan. 2008, Jul. 2008].
5. "ARTF at Cross-Roads: History and the Future". Final Report. [September 2012].
6. CGAP, 2002. "Apex Institutions in Microfinance". Occasional Paper No. 6, January 2002. Available at http://www.cgap.org/publications/apex-institutions-microfinance
7. CGAP, 2010. "Growth and Vulnerabilities in Microfinance" in Focus Note No.61.
8. Greely, M., 2005. "Aid Effectiveness and Microfinance; Lessons from Afghanistan. March 2005.
9. Greely, M.; Chatuverdi, M.; 2007. "Microfinance in Afghanistan: A Baseline and Initial Impact Study for MISFA". Institute for Development Studies, university of Sussex.
10. CGAP, 2012. "A New Look at Microfinance in Apexes" in Focus Note No. 80.
11. Lampe, D.; 2011. "One Step Back from the brink: Donors, Disbursement and Default" in Microbanking Bulletin, July 2011. http://www.themix.org/publications/microbanking-bulletin/2011/07/MISFA-disbursement-effect-on-Afghanistan-microfinance
12. MISFA, 2012. "Microfinance Support for Poverty Reduction Project –MSRP". Implementation Completion and Results Report.
13. MISFA, 2012. "Strategic Plan 2013-2015", developed with support from USAID through Financial Access for Investing in the Development of Afghanistan (FAIDA) Project.
14. MISFA, 2009. "Assessing the Demand for Savings Services Among Microfinance Clients in Afghanistan" by Ximena Arteaga.
15. MRRD et al, 2006. "Mid-term Review of the Microfinance Sector and MISFA in Afghanistan". October 18, 2006. Commissioned by MRRD, MoF, and MISFA donors.
16. World Bank, 2012. Interim Strategy Note for Islamic Republic of Afghanistan for the period FY12-FY14". International Development Association and International Finance Corporation. March 9, 2012.

OCTOBER 2011

IBRD 33358R1