UNDP Afghanistan

2024 ANNUAL PROGRESS REPORT

Afghanistan Access to Finance

01002477

UNDP Afghanistan DRR Programme during the Afghanistan Islamic Finance Week in Kabul, July 25, 2024

PROJECT INFORMATION

Full Project Title	Afghanistan Access to Finance
Quantum Project ID and related project/output IDs	01002477
Project Duration:	*April 2024 – March 2027*
Total Project Budget:	*6,000,000 USD*
Annual Budget:	***1,781,949.45** USD*
Annual Expenditure	***1,781,949.45** USD*
Cumulative Expenditure	***1,781,949.45** USD*
Donors:	*UNDP*
Project Locations:	*Nationwide*
Implementing Partner:	**UNDP**
Responsible Parties:	*UNDP ICPSD, UNCDF*
Project Manager a.i:	*Mohammadullah Rahmdil, Mohammadullah.rahmdil@undp.org*

DONOR LOGOS

ACRONYMS

AAOIFI The Accounting and Auditing Organization for Islamic Financial Institutions

ABADEI Area-Based Approach for Development Emergency Initiatives

AMA Afghanistan Microfinance Association

APS Afghan Payment System

ACGF Afghanistan Credit Guarantee Foundation

A2A Access to Finance

CGF Credit Guarantee Fund

CIPA Certified Islamic Professional Accountant

CSAA Certified Shari'ah Advisor and Auditor

DAB Da Afghanistan Bank (Afghanistan Central Bank)

FMFB-A First Microfinance Bank of Afghanistan

ICPSD Istanbul International Center for Private Sector in Development

KYC/CDD Know your customer, customer due diligence

M&E Monitoring and Evaluation

MFI Microfinance Institutions

MISFA Microfinance Investment Support Facility for Afghanistan

MMOs Mobile Money Operators

MSME Micro Small and Medium Enterprise

LDCIP Least Developed Countries Investment Platform

PI Payment Institutions

PIP Project Initiation Plan

RCIBCI Research Center for Islamic Banking and Contemporary Issues

RFP Request for Proposal

SFH Sustainable Finance Hub, UNDP

SME Small and Medium Enterprise

TKBB Participation Banks Association of Türkiye

UNCDF United Nations Capital Development Fund

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EXECUTIVE SUMMARY

Afghanistan continues to face significant challenges in providing reliable, transparent, and affordable financial services. Only about 10 percent of the population (5 percent of adult women and 15 percent of adult men) have a banking account with a financial institution or through a mobile money operator. In contrast, the average access rate in South Asia, excluding high-income countries like South Korea, Japan, and Singapore, is 68 percent—nearly seven times higher than in Afghanistan. Lending in Afghanistan has averaged just 3.4 percent of GDP in recent years, and only two-thirds of formal businesses have a banking account. Additionally, bank lending is primarily focused on short-term credit, limiting investment in productive sectors that typically require repayment periods of two to five years.

The overall project strategy is to provide technical assistance to the Afghanistan's financial sector to increase its transparency and resilience, as well as eliminate constraints for MSMEs in accessing financial services and digital payment solutions. With the key objective of achieving well-functioning and fair lending sector to boost private sector growth, the Project will stay focused on women's economic empowerment. The goal of the project is to contribute to the reform of the lending sector and its successful transition to Islamic Finance while ensuring the rights of women and underserved groups.

In line with UNDP TCPS 2024-2025, the Access to Finance (A2F) Project aims to revitalize Afghanistan's financial sector (i.e., commercial banking and microfinance), support their conversion to Islamic banking, and facilitate private sector access, particularly women entrepreneurs, to Islamic finance products. In this regard, UNDP focused on the following interventions:

1. Policy dialogue and technical support for the capacity building at DAB in terms of Islamic banking and Microfinance/non-banking regulations through TKBB and AAOIFI

2. Promoting Shariah-compliant Value Chain Financing through Financial Institutions

3. Institutionalizing Islamic Finance capability for the Financial Sector

4. Value Chain and Trade Ecosystem Building

5. Integrating Islamic and Sharia components into digital payment solutions.

6. Private Sector Landscape Mapping

UNDP has worked with experts and stakeholders in developing contextualized financial products for Islamic financial institutions to diversify the product offerings and meet the demand of beneficiaries withing different sectors. This accompanied with- establishing partnerships with international standard setting bodies and expert institutions including the AAOIFI and TKBB, to conduct several capacity development activities, and certification programs aligned with project objectives.

As part of the Project's efforts to develop value chains and strengthen the trade ecosystem, studies have been conducted to expand market access for Afghan businesses, optimize supply chains and improve trade financing with support from Harakat. Research on key value chains including cashmere, grapes, almonds, edible oils, cotton and dairy, has evaluated market potential and challenges. To further facilitate trade; surveys were carried out across five regional hubs, complemented by qualitative interviews with business groups and trade institutions.

As part of the value chain strengthening activity, the Project, in cooperation with ILO, selected 30 small businesses in the northern regions to bolster the producers in the following industries: (i) carpet making, including supplying raw wool, wool washing, wool spinning and wool dyeing; (ii) sesame oil processing including good agriculture practices and post-harvest handling and storage of sesame; (iii) grapes and raisin processing and export market.

The project supported 12 women business delegates who participated in Afghanistan-Kazakhstan Business Forum in Almaty. The agreement has been reached between Afghanistan WCCI and Kazakhstan business associations to establish formal relationship and to deepening the cooperation to ensure the access of Afghan products produced by the WCCI members at Kazakhstan market.

The project in partnership with UNCDF, has finalized the negotiations with ACGF on credit guarantee fund. It is expected that the agreement between UNCDF and ACGF will be singed to bring additional USD 1.25 mln into the guarantee capital to support the participating banks.

The project reached an understanding with the Ministry of Commerce and Industry on conducting private sector mapping, the exercise has started in November 2024 with a mission from ICPSD to Kabul to meet with relevant stakeholders including private sector representatives, DFA and international partners.

The project has a total expenditure of USD 1,781,949.45 in 2024.

I. SITUATIONAL BACKGROUND

Following the regime change in 2021, Afghanistan embarked on a significant shift toward Islamic finance and banking. However, the sector lacks comprehensive regulations, policy frameworks, and internationally endorsed guidelines to support this transition. Afghan banks and microfinance institutions (MFIs) now face multiple challenges due to the absence of a robust regulatory framework. Additionally, the industry encounters unique risks stemming from its early-stage development in Afghanistan and the specificities of the Islamic finance model. For example, Afghan banks and MFIs struggle to manage liquidity risk effectively due to limited availability of Sharia-compliant financial markets, products, and regulations. The shift to Islamic finance and banking raises important policy issues related to regulation, supervision, consumer protection, monetary policy, and liquidity management.

Project Overview

The overall project strategy is to provide technical assistance to revamp Afghanistan's financial sector to increase its transparency and resilience, as well as eliminate constraints for MSMEs in accessing financial services and digital payment solutions. With the key objective of achieving a well-functioning and fair lending sector safeguarding livelihoods and income-generating opportunities to boost private sector growth, the Project will focus on women's economic empowerment. It will create an enabling environment for the private sector by contributing to the restoration of liquidity in the banking and microfinance sectors and strengthening the digital payment ecosystem.

The project will have three key components which are mutually reinforcing. Providing support to the banking system is at the center of the project:

Output 1: Afghanistan's banking and microfinance sectors are strengthened through the support of conversion to Islamic banking and the development of innovative financial services (including digital services and modern Islamic finance products) tailored to the needs of those most in need.

Output 2: A Credit Guarantee Fund (CGF) in line with Islamic Finance is set in motion, eliminating bottlenecks and enabling the mobilization of Afghanistan's domestic resources to reach the most vulnerable and essential sectors of the economy.

Output 3: The Afghan digital payments ecosystem is strengthened, increasing the supply and demand of digital payment solutions across the country in particularly the last mile beneficiaries and customers.

Beneficiaries

To support financial inclusion efforts in Afghanistan, and as per the new regulations, alternative finance/microfinance mechanisms and products should be further developed to address a wider population, especially women-led enterprises. The key beneficiaries of the project are: Financial Institutions (ie. Banks and MFIs), Regulatory and Supervisory bodies, customers, women-led businesses, SMEs/MSMEs.

The ultimate goal of the project is to empower vulnerable economic groups in the country by creating sustainable jobs, creating new income sources, increasing the number of women-led MSMEs, and narrowing the poverty gap. To achieve this goal, the project aims to support the financial sector to develop Islamic finance products, value chains and mechanisms to reach a wider population.

The project's extended outcomes will encompass the promotion and creation of community-owned businesses, women entrepreneurs, as well as existing businesses by developing markets. A major future impact of the project is expected to be seen in easier access to finance for different sectors contributing to the economy of the country, most importantly the agriculture sector.

Changes in Context

Ground assessments indicate that Afghanistan's financial services sector requires immediate interventions at the policy, community, and consumer levels, along with technical assistance and support from financial institutions. The regime changed in 2021 triggered a significant shift in the banking industry. Banks not only experienced losses in total assets, but the cessation of foreign aid and donor-funded development projects has created uncertainty regarding the sector's growth, compounded by the recent return of Afghan migrants and the earthquake in Herat, which have exacerbated these challenges.

The current regime has mandated a complete transition of all financial institutions, including banks and MFIs, to Islamic financial services, despite the fact that the necessary capacity and infrastructure for this transformation are still underdeveloped. Guidance and support are essential to navigate this transition and meet the demands of the changing landscape.

The project's results framework is designed to reflect the challenges and to be flexible and adaptable to changing circumstances.

II. PROGRESS TOWARDS RESULTS

2.1 Contribution to UNDP Transitional Country Programme Strategy 2024-2025

TCPS Monitoring and Reporting Framework 2024-2025 (including BTM)- Final 14 Feb 2024.xlsx

UNDP TCPRF Outcome:	Outcome Indicators	Annual Targets (2024) as per AWP	Annual Achieved Value (2024)	Status *[Delayed, Ongoing, Completed]* Include reason for delay
Outcome 1: [TCPS outcome statement]				

Outcome 2: [TCPS outcome statement]				

Insert more rows for additional TCPRF Outcomes and indicators

UNDP TCPS Output	**UNDP TCPS Output Indicators**	**Annual Targets (2024) as per AWP**	**Annual Achieved Value (2024)**	**Status** *[Delayed, Ongoing Completed]* **Include reason for delay**
Output 2.1 Private sector and MSMEs have better access to (i) finance, digital, innovation and green solutions, (ii) business development services, (iii) energy and infrastructure that stimulates growth and decent job creation.	Output Indicator 2.1.1 Number of newly developed Islamic financing products, including blended finance, available to MSMEs, big businesses and traders, with particular focus on women led MSMEs, with UN support. [UNSFA Indicator 2.1.2.]	2	3	Completed
	Output Indicator 2.1.2 Number of UNDP- supported enterprises which reported a 20% increase in profits	N/A		

Significant progress has been made in strengthening Afghanistan's banking and microfinance sectors through the development and implementation of innovative Islamic financial services. To enhance access to finance, particularly for women, three new Islamic microfinance products—Istisna, Salam, and Qard al-Hasan—have been developed. To ensure their effective rollout, training sessions for partner banks are scheduled for the first quarter of 2025. Additionally, private sector support has been reinforced through value chain strengthening, export facilitation services, and the expansion of Islamic financial solutions tailored to market needs.

Capacity building in Islamic finance has also been a key focus, with substantial efforts made to train financial sector personnel. Currently, 80 professionals are engaged in the AAOIFI certification program, while 150 financial sector staff have already received training on various contemporary Islamic finance and banking topics. These initiatives are critical for fostering a more inclusive and sustainable financial sector, equipping industry professionals with the necessary skills to implement and expand Islamic financial services effectively.

2.2Progress towards Project Results Targets

Project Outputs	Output Indicator	Annual Target (2024) as per AWP	Annual Value Achieved (2024)	**Status:** *[Completed, Ongoing, Delayed, To be initiated, Not implemented]* ***Include reason for delay/non-implementation***
Output 1: *Afghanistan's banking and microfinance sectors are strengthened through conversion to Islamic finance and the development of innovative financial services (including modern Islamic finance products) tailored to the needs of the market. Private sectors are supported through value chain strengthening, export facilitation services and Islamic financial services.*	1.1. At least two regulations or policies are approved by DAB and/or other authorities with regard to Islamic Finance	*1*	*0*	Delayed planned for 2025 after the comprehensive dialogue with the DAB.
	***1.2** Number of new Islamic banking products and services developed and implemented, which ensures access to finance for women*	*2*	*3*	Completed Istisna, Salam, and Qard al-Hasan products are developed.

	1.3. number financial sector personnel capacitated on Islamic finance.	*100*	*230*	Completed 80 people are engaged in AAIOFI certification program; 150 staff from financial sector were capacitated in various topics of contemporary Islamic Finance and Banking.
	1.4a. Market Connectivity Assessment through research on global demand for Afghan products and infrastructure satellite imagery,	1	0	Delayed • *The outlines of the documents were prepared, and field research started.* • *The draft outline of the market connectivity assessment is finalized*
	1.4b. Number of export oriented SMEs (> 30% women owned) are supported thru trade finance, export documentation and business guidance.	20	*12*	Completed *The project supported 12 women business delegates who participated in Afghanistan-Kazakhstan Business Forum in Almaty*.
	1.5. number of people (IDPs and women) supported in improving the value chain of production of raisins, dry fruits, carpets etc through micro and community-based enterprises	1,000 (at lease 700 women)	*100*	Delayed Will be implemented in 2025 Status: *100 micro enterprises and community cooperatives expressed the interest in getting technical and financial assistance; 30 cooperatives and MSME have been selected in the areas of carpet weaving, sesame oil producing, etc.*
Output 2: CGF in line with Islamic Finance is established and operational eliminating	*2.1 Guarantee Structure established [A portfolio guarantee*	*1*	*0*	Negotiation with ACGF completed and agreement achieved, the re-guarantee mechanism is established

bottlenecks and enabling the mobilization of Afghanistan's domestic resources to reach the most vulnerable and essential sectors of the economy.	*structure including funding need, duration, and coverage in regard to the guarantee beneficiaries, fee structure, and underwriting, etc]*			
The Afghan digital payments ecosystem is strengthened, increasing supply and demand of digital payment solutions across the country but in particular in the last mile.	***3.1*** *Number of digital payment solutions deployed*	*0*		
	3.2. *# of clients (sex, age disaggregated) registered to the digital solutions with partnering PIs supported by the project*	*0*		
	3.3. *Number of clients (sex, age disaggregated) actively using the digital solutions supported by the project*	*0*		
	3.4 Number of digital payment providers receiving TA	*5*		

The Project conducted series workshops called Islamic Finance Week. As part the this event a policy dialogue titled "How Can Economic Recovery and Development in Afghanistan be Catalyzed through Islamic Finance?" was organized in collaboration with DAB and other stakeholders. This event aimed to foster in-depth discussions within the Islamic finance sector by bringing together key counterparts, industry experts, and practitioners. The dialogue sought to provide comprehensive insights into the current landscape, introduce innovative financial products and solutions, and discuss the latest regulatory frameworks to enhance the growth and sustainability of microfinance markets, particularly in less developed countries.

The project launched the AAOIFI certification program. By end of the year, 40 people, including 30 DAB employees and 10 financial industry and private sector employees including 5 women are enrolled in CIPA and CSAA certification programs. This makes the number of total enrollments to these certifications supported by UNDP in 2024 reaching 80 people.

In agreement with TKBB a two days capacity development/training activities was delivered for DAB in December 2024 to facilitate transition their on-lending and deposit base on Islamic financing principles while adhering to women’s access to finance. 39 senior staff of DAB participated in this capacity building initiative and received the completion/participation certification. The training program was highly welcomed by DAB’s official and their feedbacks are reflected in training reported for future planning.

UNDP also conducted a comprehensive study of the practice of liquidity management in central banking, which is expected to be finalized by February 2025 after reflecting the stakeholders’ comments and feedback. An operation toolkit that provides guides and strategic path on liquidity management is supplementing the study.

As part of the Afghanistan Islamic Finance Week (AIFW), held from July 22-25, 2024, in Kabul, the team validated existing reports, including “Islamic Finance Products: Istisna, Salam, and Qard al-Hasan,” with representatives from relevant institutions. During B2B meetings with stakeholders, the team also assessed the need for additional products. It was determined that Wakala as both micro-saving and microcredit, and Ijarah products would be developed for the sector and implemented during the project timeline for interested institutions. Islamic finance team and experts started to develop relevant products. Accordingly, the preparation of Concept Notes (CNs) and Terms of Reference (TORs) was finalized for the relevant project to guide experts and several steps. The first draft of the products are submitted, and going through the review and feedback process. The final study will products will be validated in stakeholders workshop by Feb-Mar 2025.The timeline and details for the "Access to Finance Matchmaking for Value Chain Actors in Select Value Chains" event determined with the Country Office (CO). Relevant logistical arrangements were started, CN was submitted to CO and mission plan prepared. However, due to end of the year and country’s condition it was postponed to 2025.

Currently, the Project is discussing with MFIs to schedule the trainings on new financial products and their implementation- Istisna, Salam, and Qard al-Hasan – to be launched in February, 2025.

The Project team has prepared a draft of the Concept Note (CN) for the Diagnostic Study of the Conversion Process of the Banking Sector from Conventional to Islamic. As part of the project, an assessment study on the conversion process among stakeholders is prepared. The final draft of the study will be prepared by end of February. Additionally, a toolkit and guideline for relevant financial institutions will supplement the study to guide financial institutions on their smooth transition. After finalizing the report, a hybrid workshop to validate key findings and gather feedback and comments from the sector is planned by Feb-Mar 2025. Ultimately the final version of the study will be published by early March 2025.

The team also prepared a CN for an assessment study and stakeholder engagement aimed at establishing the "Center of Excellence for Islamic Finance." Accordingly, UNDP has engaged in a partnership with the Participation Banks Association of Turkey (TKBB) to conduct the study. The draft of the study was submited by end of December 2024. The draft study was comprehensively reviewed by UNDP’s expert team and revisions and development was requested in early Jan 2025. The final draft study is planned to be validated with stakeholders by end of February 2025.

In the **Value Chain Strengthening** component, there are three sub-components: Value Addition Roadmap, Edible Oil Value Chain Analysis and Dairy Value Chains Analysis.

- In scope of **Value Addition Roadmap** study, the data-gathering process included surveying value chain actors, such as processors, growers, importers, and traders/exporters. For the cashmere value chain in Herat, Badghis, Nimroz, Balkh, and Faryab, 14 Focus Group Discussions (FGDs) were conducted, engaging 5 processors and 128 participants. The grape value chain assessment, covering Parwan, Herat, Kabul, Balkh, and Kandahar, involved 20 FGDs with 5 processors and 204 participants. Similarly, the almond value chain, analyzed in Samangan, Balkh, Daikundi, Urozgan, and Zabul, included 20 FGDs, engaging 5 processors and 194 participants. Further analysis has been conducted, and training manuals for 1,200 value chain actors are currently being devised to support product upgrading and quality improvement.

- For the **Edible Oil Value Chain Analysis** study, a mission was conducted. As part of the data collection process, visits were made to artisan, small, and medium enterprises in Mazar-e-Sharif and Kunduz city, in collaboration with representatives from UNDP area offices in the north. Deep-dive consultations were held with groups of producers, and four FGDs were conducted to gain insights into the value chain. One FGD in Mazar-e-Sharif included 16 farmers, while another in Kunduz included 9 farmers. Additionally, in Kunduz, one FGD was conducted with 5 processors and another with 5 seed multipliers. Since these enterprises are closely linked with both backward crop seed suppliers and forward distribution channels, the deep dives included primary value chain actors and support services, with a particular focus on access to finance and other key influencers. The ***"Value Addition Edible Oil and Access to Finance"*** report based on this study provides a comprehensive analysis of the edible oil value chain for sesame, flaxseed and cottonseed oils in Afghanistan's North and Northeast provinces, shedding light on both major challenges and potential opportunities. Limited financial access, high operational costs and weak market connections prevent MSMEs and farmers from fully enhancing the value of their products. Post-harvest losses, outdated processing techniques, and poor working conditions further reduce productivity and quality. According to the report, closing these gaps through financial support, technical training, and the adoption of standardized quality measures can improve efficiency, strengthen market potential and create a more inclusive environment, particularly for women-led businesses.

- In scope of the **Dairy Value Chains Analysis**, secondary data review has been completed, and 19 interviews have been conducted in Balkh and Faryab provinces. An interim report consolidating these initial findings has been developed, providing a foundation for further in-depth analysis and value chain interventions.

In the **Trade Ecosystem Building** component, there are also three sub-components: Market Connectivity and Trade Report, Business Group International Linkages and Capacity Building, and MSME Export Training Guideline.

- Within the scope of **Market Connectivity and Trade Report**, a survey was conducted with 500 MSMEs across five major regional trade hubs: Kabul, Balkh, Kandahar, Herat, and Nangarhar. Among the respondents, 25% were women-led enterprises. The surveyed businesses operate in key sectors such as fresh fruits and vegetables, dry fruits and nuts, saffron, medicinal plants, handicrafts, carpets, gemstones and dimension stones, marble and granite, transportation and logistics. A secondary data analysis of trade flows between Afghanistan and its regional trade partners was also completed.

- As part of the **Business Group International Linkages and Capacity Building** efforts, 40 qualitative interviews were conducted with national trade institutions, business groups, and traders; and a training program outline was developed.

- In scope of **MSME Export Training Guideline** study, a comprehensive framework has been developed through in-depth discussions with national trade institutions, business associations, and exporters. This framework has been further refined by incorporating insights from a survey of 500 MSMEs.

In addition, the project supported 12 women business delegates who participated in Afghanistan-Kazakhstan Business Forum in Almaty. The agreement has been reached between Afghanistan WCCI and Kazakhstan business associations to establish formal relationship and to deepening the cooperation to ensure the access of Afghan products produced by the WCCI members at Kazakhstan market.

To this end the project received 97 proposals including from two cooperatives and shortlisted 30 for review and finalization. Qualifying MSMEs will be provided with financial support as an incentive to work with target group while the rest will be referred to the UNDP-MFI loan scheme. The project has concluded the procurement of a Business Coaching firm to develop beneficiaries in business coaching skills. The following areas are selected as the most impactful to work with communities and are currently being supported:

Carpet weaver and producers- who wish to diversify their products so that they can compete with cheaper carpet imports.

Village based input suppliers- the project wishes to support village-based input suppliers in the carpet sector including those involved in supplying raw wool, wool washing, wool spinning and wool dyeing and supply of dyes.

Carpet producer cooperatives- support producers in existing cooperatives or those that wish to start and manage cooperatives.

Sesame oil processor cooperatives- support producers in existing cooperatives or those that wish to start and manage cooperatives.

Sesame oil processors and input suppliers for sesame farmers – the project would support processors and input suppliers who wish to work with sesame farmers to improve yield and quality of the produce to fulfil the requirements of the market. These market actors should demonstrate how they will train the farmers in good agriculture practices and post-harvest handling and storage of sesame to reduce post-harvest losses.

Grapes and Raisin processing and export market: The project is willing to invest and partner with potential partner companies in grapes and raisin sector in production and processing and for access to new markets and create a sustainable livelihood for women households.

The Private Sector Landscape Mapping exercise has been initiated in Q4 2024 with the objective of improving the market intelligence around key sectors and investment opportunity areas in Afghanistan, including the market size information for these prioritized areas, pinpointing critical intervention areas for the private sector for a just transition from aid dependency to sustainable development agenda. The methodology deployed for the study combines consultation exercises with key stakeholders, conducted through site visits, online and face-to-face interviews, with desk-research and thorough analysis of private-sector data such as sectoral trade, investment, and employment patterns. The consultative process began with the meetings with the International Community, de facto authorities, and the financial institutions (including the Central Bank, commercial banks and microfinance institutions) to inform and brief the key counterparts and to improve knowledge about the business ecosystem and the private sector architecture. A total of 27 stakeholder consultations for the PS Landscape Mapping Project were conducted by the end of the field mission which took place between 12 November and 10 December in Kabul and Herat. The mission findings not only validated the relevance of the priority sector selection, which includes (i) agriculture, (ii) manufacturing, (iii) extractive industries, (iv) construction, (v) energy, (vi) finance, (vii) healthcare but also laid the basis for the identification of (viii)other prospective sectors including ICT and tourism. Before the termination of the field mission heads of UN agencies had been briefed at the UNCT Meeting, on the 9th of December 2024.

In 2025, the draft mapping exercise will be finalized with a final multi-stakeholder evaluation and quality assurance process, strategically led by UNAMA and UNDP Afghanistan. As a knowledge product the completed map aims to be utilized by a target audience which notably includes the international community, donors, and the Doha ambassadors who are involved in the private sector working group (PSWG) following the Doha III meeting. Hence, the mapping exercise conclusions will be structured around five overarching issues pertaining to private sector development in Afghanistan: (1) sectoral opportunities, (2) job creation and entrepreneurship, (3) access to finance, (4) market integration, and (5) private banking and financial infrastructure.

Output 2:

The re-guarantee mechanism has been developed throughout negotiation between UNCDF and ACGF. The financial structure entails a revolving portfolio guarantee of USD 1,000,000 from UNCDF and USD 250,000 from the ACGF side with a duration of 3.5 years where eligible loans can be placed under the guarantee for the first 3 years. The expected credit loss and administrative cost for UNCDF, net of expected fees, amounts to USD [350,626]. UNCDF coverage ratio to ACGF is up to 80%. ACGF further risk sharing with the underlying banks is up to 80%. The two layers of risk sharing results in UNCDF's exposure being equal to approximately 64% of the underlying eligible loans.

Output 3:

The project is conducting desk reviews and assessment of the different participants in the formal and informal financial ecosystem to better understand the digital product needs and challenges facing the development of a sustainable agent network.

Relevant modules and solutions were developed to align with Afghanistan's specific requirements. During the Islamic Week event the report Islamic Fintech Solutions for Financial Solutions was validated and afterwards, the team has planned the B2B meetings with fintech companies and representatives from MFIs and banks to implement these solutions across the sector.

2.3 Project Expenditures

In 2024, a total of USD **1,781,949.45** was utilized by the project. Please refer to Annexes 1 to 3 for more details.

2.4 Results Stories

The fourth day of the Afghanistan Islamic Finance Week (AIFW) took place on Thursday, July 25, 2024, under the theme "EmpowerHer: Financial and Digital Literacy Day for Women: Knowledge and Up-Skilling Forum." This day was dedicated to implementing comprehensive financial literacy initiatives aimed at alleviating the negative impacts of economic downturns and discriminatory policies on women entrepreneurs. The event sought to enhance women's access to finance by providing them with the tools and knowledge needed to navigate formal financial systems effectively. By promoting financial literacy, the event encouraged greater participation of women in the economy, fostering new opportunities for economic growth and poverty alleviation. Participants received vital resources and guidance to support their paths toward financial empowerment and entrepreneurial success, along with insights into Islamic banking and Islamic microfinance products. Through interactive sessions, women entrepreneurs engaged with representatives from FMFB-A, Ghazanfar Bank, ADF, Oxus-A, the Aga Khan Foundation, and the Aga Khan Development Network (AKDN), where they expressed concerns regarding access to finance.

Looking ahead, these women entrepreneurs and MSMEs, empowered by increased product quality and expanded trade opportunities, are poised to not only expand their businesses and raise household incomes, but also to drive sustainable economic growth within their communities. Access to improved financial tools and market channels will enable them to tap into new domestic and international markets, further enhancing their competitive edge and long-term stability. This transformative empowerment fosters broader community resilience by creating jobs, stimulating local economies and inspiring future generations of women entrepreneurs.

III. CROSS CUTTING ISSUES

3.1 Gender equality

The project is committed to a principled approach and gender-specific outcomes to address the challenges faced by Microfinance Institutions (MFIs) and banks in Afghanistan. It provides both technical and financial support to help these institutions transition to Islamic finance, promote economic recovery, and support women's empowerment. A key emphasis of the project is on preventing and eliminating all forms of discrimination during its implementation.

Additionally, the project aims to empower regulatory bodies, MFIs, and banks with the knowledge to prioritize the most marginalized and vulnerable groups—especially women, who face significant barriers in realizing their fundamental human rights. Specifically, the project will help ensure that marginalized and vulnerable groups have access to an adequate standard of living by improving the availability, accessibility, and quality of financial services for these individuals.

The insights and findings from the sector are crucial in tailoring our capacity-building initiatives and developing innovative solutions. This customization is essential to equip MFIs and banks with the tools and knowledge necessary to effectively address the specific challenges they face. For example during the fourth day of AIFW;

- Out of the total 80 participants, 55 were women, and 25 were men.
- Women entrepreneurs acquired information regarding loan facilities, thereby increasing their understanding of financial services specifically designed to meet their requirements.
- Participation incentivizes women to engage in entrepreneurial endeavors by providing them with easily obtainable finance, thus amplifying their economic influence and self-governance.
- The session facilitated networking opportunities with representatives from financial institutions, including banks and other financial entities mentioned earlier. This allowed for the development of long-lasting support networks, mentorship connections, and collaborative initiatives to encourage business growth.
- The program enhanced women's financial literacy, a crucial factor for achieving sustainable entrepreneurial success and optimizing the utilization of financial resources.
- Women entrepreneurs acquired information on Islamic financial products such as Salam, Istisna, and wakalah, specifically designed for small and medium enterprises (SMEs) and micro, small, and medium enterprises (MSMEs) led by women.
- The women entrepreneurs have gained a fresh outlook on various financing options to grow their enterprises and attain financial autonomy by participating in the session.

3.2 Principled Approach

The project strategically empowers women-led businesses by enhancing their integration into value chains and expanding trade opportunities. Through tailored export guidance and comprehensive capacity-building programs, women entrepreneurs gain the skills and knowledge needed to succeed domestically and internationally. Training modules on Good Handling Practices (GHP), climate resilience and financial literacy help female business owners in key sectors like almonds, grapes, and cashmere improve product quality, maintain supply chain standards, and increase market readiness.

The trade and market connectivity research surveyed 125 women-led businesses, as part of a 500 respondent MSME survey to addresses structural barriers by offering targeted assistance to women, helping them navigate complex export procedures, meet international certification requirements, and access financing. By fostering linkages with broader markets and promoting sustainable production practices, the project boosts women's economic empowerment and builds resilience in Afghan communities through diversified income sources, ultimately positioning Afghan women-led businesses as competitive players in regional and global markets.

3.3 Partnerships

In line with the project, various partnerships have been established. Firstly, we have partnered with AAOIFI, a distinguished non-governmental entity and international standard-setting body for Islamic financial institutions (IFIs).

The second partnership is with the Participation Banks Association of Turkey (TKBB). Through this collaboration, TKBB's expertise will be utilized to provide technical assistance and training to DAB. Additionally, a pre-feasibility study on establishing a Center of Excellence in Afghanistan will be conducted.

The third partnership is with Durham University's Islamic Economics and Finance Center. Through this partnership, the university's team of academics and practitioners will work on designing Islamic microfinance products for selected financial Institutions. Three products have already been developed (Istisna, Salam, and Qard al-Hasan), and now Ijarah and Wakalah products will be developed. Additionally, our partnership with the Afghanistan Microfinance Association continues.

The fourth partnership is Harakat - Afghanistan Investment Climate Facility Organization. In collaboration with project consultants and ICPSD staff, the organization plays a key role in agricultural value chain development and trade facilitation within the scope of the project. To date, Harakat has made significant progress. As part of the Agriculture Value Addition Roadmap Development, the organization has completed data collection across all targeted provinces, engaging with key stakeholders in grape, almond and cashmere value chains through Focus Group Discussions (FGDs) and Key Informant Interviews (KIIs). In the Dairy Value Chain Analysis, Harakat has trained enumerators and conducted a pilot study in Balkh and Faryab provinces. In the next phases of the project, dairy data collection and work on the Business Group Market Access Roadmap and MSME Export Guidance will continue to progress

South-South Cooperation / Private Sector / Academe/ Others *[Where applicable]*

List the types of partnerships that the project was involved in during the quarter. Name of partner (1st column), type of Partnerships/Cooperation (2nd column), Area of Collaboration.

Partner	Type of Partnership	Area of Collaboration
1. AAOIFI	Using existing products through Service taking	Providing technical assistance and organizing events
2. TKBB	RPA	Capacity development activities and developing studies
3. Harakat	RFP	Data collection and MSME trainings

3.4 Social and Environmental Safeguards (SES)

Another key focus of the project is promoting environmental sustainability. This includes capacity-building for DAB, MFIs, and banks in environmental sustainability screening and the integration of environmental considerations into the design of financial products and loan disbursement processes.

IV. ASSURANCE, MONITORING AND EVALUATION

Were there any financial/HACT assurance activities done by UNDP during the year as per HACT framework? If yes provide a summary of the assurance and outcomes of those measures.

Audit and HACT assurance activities (audit, spot check, etc)	**Period conducted** (month-year)	**Key outcomes/Actions taken**

Briefly describe the **KEY** M&E activities (field visits, assessments, third party monitoring, reviews, surveys, evaluations etc.) undertaken during the year and to the extent possible, the key outcomes of the M&E activity.

Evaluation - If the project was evaluated, it should be indicated in this section. Indicate main conclusions and recommendations and how these recommendations were or will be followed up.

KEY M&E activities (Monitoring visit, surveys, review exercise, evaluation, etc.)	**Period conducted** (month-year)	**Key Outcomes / Observation and Recommendations**	**Actions taken**
Bi-Weekly Meeting with ICPSD to track progress on the planned activities	July 2024 to Dec 2024	Delays in some of the activities has been identified	Follow up with relevant colleagues and units to expedite the processes to complete the activities on time
Site visits and meetings and interview with beneficiaries	Sept 2024 to Dec 2024	Some of the beneficiaries of the project was reached to know the nature and progress of their capacity building programs including AAOIFI certifications and other capacity building for the MFIs	
Coordination and monitoring through creation of Teams group		The Teams Group was created on one hand a better coordination for monitoring the progress of activities by the ICPSD and UNCDF, and on the other hand, a platform for follow up of the issues and their resolution.	

V. ISSUES AND CHALLENGES

Sanctions have created unique challenges for project coordination and implementation within the country, leading to potential delays and restrictions. These constraints can hinder access to essential resources and complicate partnerships with international stakeholders.

The project implementation team prepared a risk log to identify the risks involved in the project implementation, analyze their impact on the project delivery and take measures to mitigate them. The team addressed the following risks related to I) project staff's security ii) international staff's security due to the human rights violations iii) possible politicalization of the project, iv) UNDP's adherence to the 'do not harm' policy, v) responding to population's needs, vi) possible climate-induced natural disasters, vii) the possibility of UNDP interventions causing environmental degradation, viii) sanction-related bottlenecks due to the unclear recognition of de-facto authorities, ix) different forms of corruption and embezzlement, x) the possibility of insufficient monitoring of UNDP activities and xi) possible overlapping of activities between basic needs and humanitarian support.

Although the status of the above-mentioned risks did not change significantly during the project implementation. The team coordinates closely with UNDP security and UNDSS to ensure the security of UNDP staff and follows the Social and Environmental Screening guidelines to ensure the 'do no harm' approach. Additionally, the team established regular communication with local, regional, and central authorities to identify the population's needs and prioritize the interventions. The team also gradually builds confidence and discusses sensitive topics (e.g., women's participation in the economy) with AMA and bank regulators from DFA.

VI. LESSONS LEARNED

One of the notable achievements has been the successful engagement of diverse stakeholders within the financial sector. Clear communication of the project's vision, aligned with the principles of Islamic finance, has contributed to garnering support and enthusiasm from all involved parties. This alignment not only strengthened collaboration but also fostered a shared sense of ownership, enhancing the likelihood of sustainable implementation.

The deployment of a consultant to assess the sector's specific needs and gather on-the-ground data has proven to be a pivotal success factor. The insights collected have provided a comprehensive understanding of the sector's challenges, opportunities, and nuances. This data-driven approach has lent credibility to our subsequent program design, ensuring relevance and resonance with the actual requirements of stakeholders.

The emphasis on customizing training modules to cater to the unique demands of transitioning to Islamic microfinance has yielded positive outcomes. By tailoring content to address gaps identified through the needs assessment, participants have shown heightened engagement and applicability in their learning. This personalized approach has facilitated better absorption of knowledge and a deeper appreciation for the principles being advocated.

Areas of Improvement and Lessons Learned

Timely Execution

While the project's framework is robust, delays in the execution of various activities have been encountered. To mitigate this, future project planning should include more accurate timelines, accounting for potential bottlenecks.

Proactive Resource Allocation

The allocation of resources, both human and financial, requires careful consideration. Going forward, it's essential to ensure that on the ground colleagues' findings and subsequent recommendations are actively translated into actionable resource allocations. This alignment will optimize the utilization of available resources and prevent unnecessary divergence from the project's objectives.

Continuous Communication

Despite the success in stakeholder engagement, lapses in consistent communication have been observed. To strengthen this aspect, a strategy should be established, encompassing regular updates and feedback loops.

The lessons gleaned from our experience will be seamlessly woven into the fabric of the project's future trajectory. Building on the successes of stakeholder alignment and data-driven insights, we will adopt a more structured approach to execute activities in a timely manner. A robust communication will ensure that all stakeholders remain informed, engaged, and motivated, while proactive resource management will guarantee the efficient realization of objectives.

VII. WAY FORWARD

As part of the Afghanistan Access to Finance Project, the Islamic Finance Team will finalize the reports and pre-feasibility studies on the following: (1) Study on Conversion Assessment, (2) Conversion Guideline, (3) Conversion Toolkit, (4) Wakalah and Ijarah Product Toolkit and Guideline, (5) Translation of Wakalah and Ijarah Products, (6) Study on Liquidity Management, and (7) Pre-feasibility Study on Establishing a Center of Excellence in Islamic Finance.

B2B Meetings with Financial Sector for Implementation of Existing/Developed Products

Capacity Development Activities for DAB and Financial Sector

Validation Workshop and Policy Dialogue Events/Matchmaking Events

In addition to workplan of the project, the team will prepare action plan for the following points:

1. Innovative new Islamic finance products (Istisna, Salam, Ijarah, wakalah and Qard Al-Hasan developed in the line of project) will be developed and structured for the Afghan financial sector and women-led enterprises to enhance their access to basic financial needs. These products will offer improved support to their productive capacities for handcrafting SMEs and sustainable livelihoods, fostering increased financial inclusion.

2. In addition to the partnership with AAOIFI and IsDBI, UNDP will facilitate new networking opportunities and partnerships among international institutions and possible donors such as the General Council for Islamic Banks and Financial Institutions (CIBAFI), Islamic Financial Services Board (IFSB) to foster collaboration and knowledge exchange.
3. UNDP will introduce new and convenient best practices, standards, and certifications to encourage regulatory and supervisory bodies in strategic development to support sustainable growth in Islamic finance.
4. The Islamic finance strategies for women-led SME development and women's economic empowerment will be developed! Capacity development activities will be conducted in rural areas and provinces (outside of Kabul) for banks and MFIs, with tailored products and services to meet the needs of the sector and a customized series of training responding to industry needs

5. Promote financial inclusion initiatives in collaboration with relevant partners such as microfinance institutions, banks and non-governmental organizations (NGOs) to reach underserved and unbanked populations, especially financially excluded women and urban areas.
6. Develop programs to increase financial literacy and awareness, focusing on the financial literacy of women in business and to improve their access to finance.
7. Develop the Takaful (Islamic insurance) industry in Afghanistan in terms of regulatory framework, institutional development, capacity building, and product development.
8. Encourage the use of mobile banking and digital financial services to expand access. Foster innovation in financial technology (fintech) to improve efficiency and customer experience.
9. Encourage the adoption of digital payment systems and electronic transactions.

The Crisis Response and Resilience Portfolio will implement the "Value Chain and Trade Ecosystem Building" component through the following activities:

1. **Value Chain Strengthening**

- A comprehensive training programme to enhance agricultural value chains, integrating sustainable practices and facilitating access to specialized machinery and Sharia-compliant financial products. This framework will also include practical guidelines, case studies, and support tools for farmers, growers, and other stakeholders in the agricultural sector.
- Tailored financial products will be developed to enable local producers to access specialized machinery and tools, with the goal of increasing value addition and promoting efficient production practices.
- A strategic roadmap will be established to boost agricultural productivity by actively engaging the private sector through farmer training programs and targeted investment strategies. This roadmap will be developed in close consultation with all relevant stakeholders to ensure its relevance and effectiveness.
- Innovative and cost-effective technologies for crucial agricultural processes, such as oil extraction, will be identified. A comprehensive technological report will be produced, detailing equipment specifications, costs, potential suppliers, and identifying potential beneficiaries among small and medium-scale producers.
- Training programs will be launched to support 1,200 value chain actors in upgrading products and improving quality. These programs will equip participants with essential skills to enhance production standards and boost competitiveness in both domestic and international markets.

2. **Trade Support and Facilitation**

- Trade finance schemes will be developed to reduce costs, enhance market access, and streamline export processes for Afghan traders. These schemes will be designed in alignment with global best practices and will address specific local needs through consultations with stakeholders.
- A market access roadmap will be designed to strengthen the capacity of business groups to access both domestic and international markets. This roadmap will outline clear strategies, timelines, and responsibilities, incorporating insights gained from consultations with businesses, government agencies, and international partners.
- Export guidelines tailored to Micro, Small, and Medium Enterprises (MSMEs) will be developed. These guidelines will offer step-by-step procedures for regulatory compliance, proper documentation, and successful market entry, ensuring alignment with international trade standards.
- Business-to-business meetings and networking events will be organized to foster connections among traders, facilitating partnerships, engagement, and knowledge exchange. Comprehensive reports will document the progress, challenges, and outcomes of these events to support continuous improvement and inform future initiatives.
- A training session will be held for 600 businesses, focusing on export procedures and marketing strategies tailored to target destinations.

- A final report will detail identified trade routes, policy reforms and strategic recommendations will be proposed to optimize Afghanistan's trade environment by addressing regulatory barriers, infrastructure gaps, and enhancing global connectivity.

VIII. ANNEXES

Annex 1: Financial Status

	COMMITMENT/ PAST YEARS RECORD			CURRENT YEAR					FUTURE EXPENSES		TOTAL RECEIVABLE		
Donor-ID Description	**Commit ment (a)**	**Revenue Collected (b)**	**Expenses (c)**	**Opening Balance D=(b - c)**	**Contribution Revenue (e)**	**Other Reven ue (f)**	**Expenses (g)**	**Closing Balance H=(d+e+f - g)**	**Commitments (Unliquidated Obligations) (i)**	**Undepreciated of fixed Assets and Inventory (j)**	**(Future Due) K=(a-b-e)**	**(Past Due) (l)**	**Available Resources M=(h -i - j- l)**
TRAC 1 (04000)				-	20,531	-	20,531	-	-	-	-	-	-
TRAC 2 (04010)					1,612,669		1,275,237	337,432	261,328		-	-	
UNDP Programm Resource (30084)					501,758		486,181	15,577	-	-	-	-	15,577
Grand Total	-	-	-	-	**2,134,959**	-	**1,781,949**	**353,009**	**261,328**	-	-	- -	**15,577**

Note:
ii) Income received in currency other than USD is approximated to USD based on UNORE (UN Operational Rate of Exchange) applied.

Annex 2: Expenses by Output

Project Output	2024 Budget (AWP)	Total Expenses (January-December 2024)	Delivery Rate
Project ID: (01002477): Afghanistan Access to Finance Project(AAF)	2,112,758	1,781,949	84%
Total	2,112,758	1,781,949	84%

Annex 3: Expenses by Donor

Donor	Project Output	2023 Budget (AWP)	Total Expenses (January-December 2024)	Balance	Delivery Rate
UNDP TRAC 1 (04000)		21,000	20,531		98%
UNDP TRAC 2 (04000)		1,590,000	1,275,237		80%
UNDP Programme Resources (30084)		501,758	486,181		97%
		2,112,758	**1,781,949**		**84%**

Annex 4: Risk Register

#	Description	Date Identified	Risk Category	Impact & Likelihood = Risk Level	Risk Treatment / Mitigation Measures	Risk Owner	Submitted by	Status
1	**Event**: The security of the project staff may be compromised **Cause**: if the security situation deteriorates or project staff become target of the DFA or other armed groups. **Impact**: There will be limitations in implementing MFI PIP; project objectives may not be met; reputational damage of UNDP; Low delivery.		Safety and Security **Subcategory**: Manmade Hazards	Likelihood – Highly Likely Impact - Extensive Risk Level = Substantial	• Under UNCT, CO with de-facto administration will advocate about UNDP program, type of interventions, and protection of IPs and UNDP local/international staff, • Regular communication protocol and hotline with authorities at local, regional, and central level will be established. • The security and conflict situation will be continuously monitored, with (at least) a monthly review of operating modalities. This will be done in close collaboration with UNAMA and UNCT. • Close coordination with UNDP security and UNDSS.	CO CO CO		
2	**Event**: Due to the ratcheting restrictions and directives imposed by DFA violating basic human rights, the international staff's security may be compromised. **Cause**: UNDP portfolio implies strong presence in the regions and at central level bolstered by the international staff		Safety and Security **Subcategory**: Manmade Hazards	Risk Level = Substantial	• Through the collaborative efforts under UNCT, CO with de-facto administration will advocate for the UNDP program, type of interventions, and protection of IPs and UNDP local/international staff (including female colleagues). • Regular communication protocol and hotline with authorities at local, regional, and central relevel be established.	CO Programme Unit Project Management Team and Security Unit		

	Impact: Lack or poor project activities delivery Lack of regular monitoring of the project activities to ensure the desired quality of work and on-time delivery.							
3	**Event:** Possible project politicization. The nature of the project suggests coordination with Financial Regulation Authorities, to improve the capacity of Micro Financine Institutions **Cause:** Due to the pressure from the DFA program, interventions may be politicized and used to support DFA in promoting their interests in financial sector which will limit the access to finance for women and other marginalized groups. **Impact:** Lack or slow project activities delivery due to negotiations with DFAs; UNDP's reputation may be damaged, having an impact on resource mobilization.		Political **Subcategory**: Government Commitment	Risk Level = Moderate	• Regular communication with the DFAs to raise their awareness about the UNDP program of work and its criticality for maintaining the country's economic stability and meeting the needs of the people in need. • A crisis communication team will be put in place to address any potential politicization and use of program interventions by local and central political forces.	CO Programme Unit		
4	**Event:** UNDP may not be able to fully adhere to the "do not harm" approach. **Cause:** Due to the quick and unexpected transition, UNDP		Environmental **Subcategory**: Human Rights	Likelihood: Impact: M = Moderate	• Social and Environmental Screening guidelines/checklists and SOPs are fully adopted and strictly followed to ensure the "do no harm" approach. • The CO will gradually build confidence and discuss sensitive topics (e.g., training	Project Management Team		

	may not be able to guarantee the "do no harm" approach. **Impact:** Because of the no guarantee of the "do no harm" approach, UNDP program may trigger human rights violations and conflict.				offered to Taliban middle management that addresses HR considerations). • A continuous "dynamic impact, conflict & risk monitoring capacity" and adaptive management processes are being established. Activities that have the potential to capacitate or trigger human rights violations are excluded. Risk are jointly identified and endorsed, and the burden to be shared with key partners (AMA and MFIs).			
5	**Event:** It is possible that UNDP may not respond to the populations in need. **Cause:** Due to the restrictions put in place by the DFA, UNDP interventions may not be able to reach those most in need, especially women, girls, and youth. **Impact**: The project may fail to meet its objectives, causing reputational risk.		Environmental **Subcategory**: Gender equality and women's empowerment	I = Low L = Low Risk Level = Low	• A continuous "dynamic impact, conflict & risk monitoring capacity" and adaptive management processes are in place, helping to identify those who are most in need and prioritize related interventions. Regular communication protocol and hotline with local, regional, and central authorities will be established. • The CO will also gradually build confidence and discuss sensitive topics (e.g., women's participation in the economy) with AMA, and bank regulators from DFA.	CO, Project Management Team		
6	**Event:** Climate-induced natural disasters may happen. **Cause:** The project may not be able to allocate resources to respond to the affected people in a timely manner. **Impact:** UNDP may be unable to reach out to most needy people.		Environmental **Subcategory**: Climate change and disaster	Risk Level = Low	• The project is designed to help microfinance institutions at the central level with low risk of being impacted by disasters. • Contingency planning is allocated in project budgets. • Pro-active communication with the various actors, including MFIs.	Project Management Team		

7	**Event:** Project's intervention may lead to environmental degradation. **Cause:** If the social and environmental impact assessments are not conducted or if conducted but the recommendations are not considered. **Impact:** MFI PIP intervention may trigger environmental pollution and will breach the SDGs.		Environmental **Subcategory**: Pollution and Resource Efficiency	Risk Level = Low	• Although the project is technical assistance to MFIs with negligible impact to the environment, regular monitoring will be conducted by the CO to ensure the interventions comply with environmentally friendly approaches and the lowest possible carbon emission technologies are used.	Project Management Team		
8	**Event:** Due to the unclear recognition issue of the de-facto authorities, there is a risk that the sanction-related bottlenecks may remain in place. **Cause:** If sanctions restrictions continue to remain, international sanctions cause problems for the CO to receive funds and transfer them to the financial sector and banking system – the main beneficiaries of the project **Impact:** If the risk materializes, there will be delays in utilizing the funds due to international sanctions, and the project delivery may be slowed or not fully achieved.		Operational **Subcategory**: Flexibility and Opportunity Management	Risk Level = Moderate	• The establishment of the IRMU will ensure compliance with sanctions regimes applicable to Afghanistan; Strong partnerships and regular communications with the international community will be maintained. • UNDP's reputation as a key actor on the ground able to deliver effectively, sustainably, and transparently will be strengthened. • Alternative financing sources may be considered (e.g., private funding), provided they align with the UN values and UNDP's mission in the country.	IRMU, Project Management Team		
9	**Event:** The project may be subject to different forms of		Financial	Risk Level = Substantial	• A fiduciary risk management will be in place by connecting this project with	UNDP CO		

	corruption and embezzlement (procurement, programmatic and financial). **Cause:** Due to possible limited monitoring and the pressure to deliver basic services. **Impact:** Financial loss; reputational damage; project not being able to meet the objectives; Project not being able to meet the delivery targets.		**Subcategory**: Corruption and Fraud		UNCDF's on-going assessment of MFIs. At the same time, UNDP transactions, including engaged partners, will be continuously audited. • Other procurement rules, such as vendor prequalification and background checks on potential vendors, will be active. • The CO will carefully experiment with funds transfer modalities, including direct transaction management, reimbursements, and limited funds transfers. • Fiduciary capacities of MFIs will be developed as a part of the project activities.			
10	**Event:** There is a risk that enough monitoring of the project intervention may not be conducted by UNDP. **Cause:** If the security situation deteriorates in remote areas and the UN personnel are restricted from visiting remote areas. **Impact**: The quality of the work carried out by the partners may be compromised.		Organisational **Subcategory**: Monitoring	Risk Level = Low	• The project activities are planned at central level with no requirement for field visits. However, the option of hiring external M&E staff on a third-party contract is available. The external third-party monitoring team won't need to follow the UN protocol and SOP for field monitoring visits, • Where needed, independent monitoring and evaluation firms will be contracted to monitor and assess the progress of the work done. • Active follow-up by the UNDP CO M&E staff.	Project Management Team		
11	**Event:** Possible overlapping of activities between basic needs and humanitarian support.		Operational **Subcategory**: Occupational	Risk Level = Low	• The project is designed as a development intervention, which has to contribute to reducing future humanitarian assistance by contributing to the sustainable growth and resilience of the Afghan community	UNDP CO		

	Cause: Potential lack of proper coordination amongst the active partners and aid providers **Impact:** Lack or slow delivery of program and project activities and efficiency in using UN resources.		safety, health and well-being		• Project accommodates regular communication, coordination, and joint planning with international and local organizations from the humanitarian sector. • A continuous "dynamic impact, conflict & risk monitoring capacity" and adaptive management processes will be established to prevent and tackle any potential impact on humanitarian operations.			