United Nations Development Programme

PROJECT DOCUMENT
Afghanistan

Project Title: Afghanistan Access to Finance Project (AAF Project)

Project Number: ________________
Implementing Partner: UNDP
Start Date: 1 May 2024 **End** Date: 30 April 2027 **LPAC Meeting date:** 04 April 2024

Brief Description
To revitalize Afghanistan's commercial banking and microfinance, support their conversion to Islamic banking, and facilitate private sector access, particularly women entrepreneurs, to modern Islamic finance products, UNDP Afghanistan introduces a comprehensive and coordinated project with the engagement of the Afghan Credit Guarantee Foundation (ACGF) and UNCDF. 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.

Contributing TCPS (2024-25) Outcome: Outcome 2. By the end of 2025, more people in Afghanistan will benefit from an increasingly stable, inclusive, and employment-rich economy, with greater equality of economic opportunities and more resilient livelihoods, increased food production, and improved natural resources management. [Economic Opportunities and Resilient Livelihoods] Indicative Output(s) with gender marker: Output 1, Output 2, Output 3 – Marker 2 (significant contribution)

Total resources required (USD):	**USD 6,000,000**	
Total resources allocated (USD):	UNDP TRAC 2 2024 – USD 1,500,000 30084 – USD 2,000,000	
	UNDP:	3,500,000
	Donor:	
	In-Kind:	
Unfunded (USD):	2,500,000	

Agreed by (signatures): DocuSigned by: Stephen Rodrigues 76B1BC67FD4C43B...

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Designation: Resident Representative, UNDP Afghanistan

Date: 29-Apr-2024

I. Development Challenge

Afghanistan Banking Sector Developments

Afghanistan remains a challenging environment for accessing reliable, transparent, and low-cost financial services. An estimated 10 percent of the population in Afghanistan (5 percent of adult women and 15 percent of adult men) own a banking account at a financial institution or through a mobile money operator[1]. In comparison, the average access rate in South Asia, excluding high-income countries such as South Korea, Japan, and Singapore, is 68 percent or almost 7 times higher than in Afghanistan[2]. Lending represented only 3.4 percent of GDP on average for the last few years, and only 2/3 of formal businesses possess a banking account[3]. Bank lending focuses on short-term credits, which hinders investment in productive sectors that typically require at least two to five years of repayment.

The financial sector is still constrained and vulnerable. The banking system remains under stress; there are signs that the sharp decline in deposits has been halted. Publicly available data shows that deposits increased by five percent in the first quarter of 2023 after a nine percent decrease in the previous year[4]. The banks are strategically shifting their asset base towards more liquid assets, a move prompted by diminishing prospects in interest income. Banks have intensified their focus on fee and commission-based revenues. Without the prevailing forbearance measures, many banks would face undercapitalization. In addition, the international payment system is still not restored, as international banks are reluctant to re-establish correspondent relations.

The MFI sector in Afghanistan has faced significant challenges in the past few years due to the dual impact of the COVID-19 pandemic and the regime change, which have severely restricted operations in the country and resulted in significant financial losses for MFIs. As a result, the number of MFIs decreased from ten to three[5] in 2023, and their loan portfolio contracted from AFN 9.5 billion to AFN 4.4 billion. Moreover, the directive from authorities to only collect the principal amount and waive the interest on outstanding loans, coupled with the new mandate to transition all services into Sharia-compliant offerings, has placed an immense financial burden on MFIs. The lack of diversity in Islamic finance remains one of the main challenges for the microfinance sector. In September 2022, Murabaha, the Islamic product, was approved for use by MFIs (by DAB and the Islamic Banking & Contemporary Research Center). The Murabaha instrument is currently the only source of lending. Since September 2022, over 14,000 loans (36 percent female borrowers) have been disbursed under the Murabaha structure. As a result, formal lending channels, such as banks and microfinance institutions, remain low, with majority of the loans being provided through informal channels, such as hawaladars.

The cost of financial services is becoming unaffordable for the population, and the informal Hawala system processes most payments. As a result, access to finance for households is growing slim, with heavy reliance on informal lending. The average monthly household debt in Afghanistan was a staggering $650 in 2022 and $622 in 2023. Meanwhile, the average monthly household income was only $75, with expenses of $95 in 2022 and $86, with expenses of $145 in 2023. This resulted in a staggering debt-to-income ratio of approximately 867 percent in 2022 and 723 percent in 2023. Such a high ratio suggests that many Afghan households are heavily indebted relative to their income, which can lead to financial stress and difficulties in repaying the money borrowed.

Inadequate credit access deters entrepreneurs, dissuades domestic and foreign investment, and drives SMEs to informal sources like hawaladars.[6] The payment system is dysfunctional, with most transactions using the informal Hawala channel. The challenges have forced private sector companies to either cease operations or significantly reduce

[1] Global Findex data 2021.

[2] Ibid

[3] Source – Afghan Central Bank (DAB).

[4] UNDP, 2024, Two Years in Review

[5] Three microfinance providers are OXUS, Mutahid, and First Microfinance Bank.

[6] United Nations Development Program (UNDP), *Afghanistan: Socio-Economic Outlook 2021-2022*, 2021, https://www.undp.org/sites/g/files/zskgke326/files/migration/af/UNDP-AFG-Afghanistan-Socio-Economic-Outlook-2021-2022.pdf, Accessed 5 October 2023

their workforce due to insufficient revenue generation. Many businesses have been forced to close due to the increasing pressures on businesses, including the struggle to access international banking services, long waiting times for compliance checks, lack of capacity to step up due diligence/verifications, and inability to open new international accounts.[7]

Cash Transfers and digital payments in the context of the Afghanistan crisis

With the financial system remaining dormant and with so many people in humanitarian need, cash transfers have become essential gear for livelihood and delivery of basic services such as education and healthcare. However, the effectiveness of cash transfers is hampered by the speed, cost, and transparency of informal distribution systems, such as Hawala. At present, 70 percent of humanitarian organizations use Hawalas, a 200-year-old honour-based network of money transfers. As Afghanistan faces obstacles in using international money transfers, Hawalas are being used not only to bring money into Afghanistan (remittances) but also to distribute it across the country. To ensure the ongoing operations of UN Agencies and the work of approved NGOs, the UN transports cash to Afghanistan. $1.8BN was brought in during 2023, and a total of more than $3.8BN has been brought in since the launch of the facility[8]. This is necessary because of a lack of domestic liquidity in Afghanistan and the ongoing inability of DAB to play its normal role in balancing the domestic and overseas liquidity of Afghan Banks, limiting the effectiveness of traditional wire transfers with an estimated amount of USD 2.6 billion between December 2021 and January 2023[9]. These channels are significantly more expensive and riskier than formal banking systems for both the beneficiaries and development actors.

Digital payment systems are more resilient than cash-based systems during crises as they can continue to function in situations where physical infrastructure is disrupted and, therefore, better support emergency response efforts. In Afghanistan, digital payment solutions are currently used by less than one percent of the population through a network of only about 9,828 registered agents concentrated mostly across major cities (as reported by Da Afghanistan Bank (DAB) Non-Banking Financial Institution Supervision Department). Their services include mainly airtime top-ups, bill payments, and store-of-value accounts driven by Unstructured Supplementary Service Data (USSD.) Competing services are not interoperable. Prior to the political events that took place in August 2021, common use cases of mobile money included payment of utility bills and airtime top-ups, and in addition to the services listed above, salary payments were not uncommon. Mobile apps and QR payments were available but with extremely limited use cases. In 2017, only 9 percent of Afghans received a digital payment, including a mere 2.7 percent of women. According to the 2021 Findex data, the situation deteriorated even further for women as those receiving digital payments accounted only for 1.6 percent[10].

Payment institutions (PIs) regulated by DAB currently operate across 34 provinces and have an agent network of over 24,500 agents, of which 12 percent are women, using both point-of-sale (POS) and mobile applications. Some of the banks have established partnerships with mobile money operators (MMOs).

Women face higher barriers to the use of Digital Financial Services (DFS). Gender dynamics in Afghanistan contribute to many common barriers, including Some barriers, like poor financial and digital literacy, low ownership/availability of mobile phones, and lack of ID, which are tied to social norms and gender dynamics, which exacerbate the exclusion of women from DFS. For example, women's freedom of movement, as well as other human rights, have been restricted by a series of edicts issued by the de facto authorities. These human rights violating measures make it difficult for rural women to travel to government offices or other locations where they can apply for an e-Tazkira, which in turn keeps them away from opening an account to receive digital payments. If they can overcome the barrier to comply with simple KYC requirements, they still need to face cultural and economic barriers that prevent them from owning or accessing a mobile phone that will allow them to receive/make digital payments.

[7] Norwegian Refugee Council, Barriers to Afghanistan's critical private sector recovery, March 2023, https://reliefweb.int/report/afghanistan/barriers-afghanistans-critical-private-sector-recovery-march-2023?gclid=Cj0KCQjw06-oBhC6ARIsAGuzdw1ULhb8VzS7yPaRQdhHA1EcAP0Qzj7KxWY-mmAo98_Onrbe2aWxr8QaAsPBEALw_wcB, Accessed 21 September 2023
[8] United Nations Mission in Afghanistan, January 2023
[9] Ibid
[10] Worldbank Findex data.

On-going development interventions and achievements in shoring up banking and MFI sectors

To mitigate the negative repercussions of the financial crisis and ensure a smooth transition to Sharia complained financing without discriminating against women's rights to access lending, UNDP Afghanistan in partnership with UNCDF and IICPSD initiated two interventions to aid the banking sector's adaptation and adjustment to the new reality:

- "Support to Afghanistan Banking and Financial Sector for Delivery of Essential Humanitarian Aid, Socio-Economic Recovery and Development" Project acted as the PIP to ignite further discussion and support to the banking.
- "Sharia Compliant Microfinancing for Economic Recovery and Women Empowerment in Afghanistan" PIP is currently building the capacity of MFIs to develop Sharia-compliant financial products suitable for women entrepreneurs.

As a part of the "Support to Afghanistan Banking and Financial Sector for Delivery of Essential Humanitarian Aid, Socio-Economic Recovery and Development" pilot project, UNDP Afghanistan and UNCDF during 2022 and 2023 have been interacting with numerous agencies in Afghanistan alongside the World Bank, and IMF to assess how to address the financial challenges. Through initial engagement with the local financial industry and assisted by the IICPSD and TEPAV in Istanbul a series of multi-stakeholder events, workshops, and working groups have assisted in providing the basis for what kind of financial instruments and technical assistance should be designed.

UNDP, in partnership with UNCDF, devised a portfolio guarantee structure. The structure is a broader revolving portfolio guarantee to support eligible SME lending aligned with SDG goals via local financial institutions. the structure also entails a specific tranche that will support women-owned SMEs in aligned with SDG goals via local financial institutions. In this regard, due diligence of ACGF as the issuer of guarantees and financial institutions as clients of guarantees were conducted to shed the light on financial situation in the sector and suggest the recommendation to ensure successful implementation of the program.

A portfolio guarantee was recommended as one of the most viable options to support the MSME sector.

Financial additionality for the guarantee beneficiaries: The deployment of the guarantee is expected to additional due to:

- The SMEs are in a parlous state and have limited access to Bank funding.
- Banks, given the potential risk of non-provisioned losses, cannot take on more high-risk lending.
- The amount of SME lending required outstrips ACGF capacity.
- Given the perceived risk and ACGF's limited capacity due to substantial losses due to the regime change in 2021, the banks need incentives to start lending, such as credit guarantees.
- All by UNCDF reviewed financial institutions in Afghanistan have requested a new guarantee scheme for fresh lending that cold cover more than 70-90 percent of the risk.
- The SME sector needs monetary support to re-run their business operations, a new guarantee and re-guarantee facility would be able to contribute to the urgent need of unlocking SME finance.
- The guarantee will reduce the collateral requirement for the guarantee beneficiaries.
- The guarantee will prolong the tenor for the guarantee beneficiaries.

The economic turmoil in Afghanistan has also raised questions on the institutional capability of the financial sector in Afghanistan. Under these circumstances UNDP and UNCDF has taken the initiative to explore the feasibility of the bank and microfinance sector. The assessment was based on detailed evaluation of two microfinance institutions and two Banks selected by UNCDF and UNDP. The main objective was to identify the key governance and operational threats affecting the sustainability of financial service delivery in Afghanistan and to assess the financial position and key obstacles and recommend solutions for their removal.

On-going intervention is digital and mobile payments

As a part of the "Support to Afghanistan Banking and Financial Sector for Delivery of Essential Humanitarian Aid, Socio-Economic Recovery and Development" pilot project, UNDP Afghanistan and UNCDF piloted digital payments through the UNDP responsible parties (INGOs) to beneficiaries of ABADEI program. The pilot used 6 different digital payment solutions, including mobile wallets, debit cards, e-vouchers, virtual accounts/tokens, QR codes, and AfPay cards, engaging 6 different financial service providers (FSPs), including 2 banks (Islamic Bank of Afghanistan and Ghazanfar Bank), 2 payment institution (Refah Payment Services and HesabPay) and three MMOs (M-Paisa, MyMoney, and MoMo).

Across the pilot, the FSPs have digitally disbursed over $1,100,000 to more than 15,000 beneficiaries, including almost 3,000 women, reduced transaction processing times from 7 days to 48 hours, and saved almost 30 percent in costs of cash transfers, compared to the delivery channels the INGOs were using previously. These gains have increased International NGOs' confidence in digital payments and improved their adoption.

More recently, the program convened players like Circle, Stellar Foundation, Money Gram, and HesabPay to make transfers using USDC. The value of the USDC remains pegged to the value of the US dollar, as opposed to fluctuating with supply/demand like other digital assets (i.e., Bitcoin, Ether, etc.). The pilot with USDC has the potential to enable direct cash-based interventions from aboard, reduce these costs further, increase the traceability of payments inside and outside Afghanistan, reduce the need for fiat currency, and cut the time to bring the money to the hands of the final beneficiaries by more than half.

Gender mainstreaming

Women and girls of Afghanistan bear the brunt of the humanitarian and human rights crisis and have had their basic rights and freedoms curtailed. The Project will contribute to restoring women's economic rights by applying two approaches: (i) supporting Afghan women entrepreneurs who continue to adapt to the restrictive environment and (ii) supporting access to finance for the sustainability of Afghan women-MSMEs.

Afghan women entrepreneurs continue working under the current circumstances, showing great entrepreneurship skills and resilience to adapt to the external environment. In 2022, UNDP Afghanistan has overall supported over 35,000 women entrepreneurs with support from UNDP core resources and donors. UNDP and EU rolled out digital entrepreneurship training covering 14,663 women on key topics, including business management, marketing, and finance. The application of digital/online entrepreneurship skills building is further scaled up in 2023 to overcome the restrictions imposed on women's capacity building and the edicts on women's employment in the NGO sector. UNDP ABADEI Program continuously working on rehabilitating women's markets through a combination of labour-intensive cash-for-work modality, creating immediate income for day laborers and longer-term revenues for women businesses, utilizing the market for trade, and contributing to revitalizing the local economy. For the local economy to function and recover, support to women MSMEs is crucial. Without a functioning economy and private sector to create jobs, we will not be able to prevent increased humanitarian needs in the country and dependency on aid.

During the pilot digitizing payments of the ABADEI program, UNDP and UNCDF identified some solutions that are suited to address some of the challenges women faced in accessing and using their funds via digital channels. For example, some providers accepted minimum KYC requirements done by the MNOs which in turn facilitated women accessing the digital payment solution. It also took into consideration innovative delivery channels like the QR code which waives the need for a beneficiary to own a phone (smart or feature) to receive the payment. This solution addresses the barriers of lack of phone ownership, but also lower digital and financial capabilities. Finally, as per feedback from the INGOs, one of the most valued activities of the pilot was the delivery of digital and financial capabilities to the beneficiaries at the moment of the delivery of the cash assistance.

Summary of lessons learned from the previous and ongoing interventions.

The UNDP project in Afghanistan has shown several key lessons learned in the context of access to finance and digital payment solutions, which informed the proposed activities and solutions of the AAF Project:

- **Inclusive Financial Services:** Interventions demonstrated the importance of creating financial products and services that are inclusive and accessible to all, including women. This includes Sharia-compliant microfinancing and portfolio guarantees that support women-owned SMEs.

- **Innovative financial products:** there is a high demand for innovative financial solutions such as credit guarantees and subsidized loans, which are significantly reduce the cost of the loans, make it more affordable while reducing the risk for banks and MFIs.
- **Digital and Mobile Payments:** Digital and mobile payments have shown significant benefits in terms of reduced transaction processing times, cost savings, and increased traceability of payments. This can help improve the delivery of aid and support the development of digital financial services in Afghanistan.
- **Gender Mainstreaming:** Lessons learned have highlighted the importance of supporting women entrepreneurs and access to finance for women-owned businesses. This includes digital entrepreneurship training, rehabilitating women's markets, and addressing the challenges women face in accessing and using digital payment solutions.
- Partnerships and Private Sector Engagement: UNDP success has relied on partnerships with various organizations, including business associations and financial service providers. These partnerships have allowed for the sharing of expertise and resources to address the challenges faced by all actors of the financial market in Afghanistan.
- **Innovation:** This includes exploring new digital payment solutions, like USDC, and adjusting interventions based on the financial sector's changing needs.
- **Sustainability and Capacity Building:** The assessment of the financial sector's institutional capability has highlighted the importance of addressing governance and operational threats to ensure the sustainability of financial service delivery in Afghanistan. This includes capacity building and technical assistance to improve the sector's financial position and remove key obstacles.

II. STRATEGY

Afghanistan made a drastic switch to Islamic Finance after regime change. However, comprehensive and coherent regulations with internationally endorsed recommendations and policy frameworks are absent. In line with these transformations, Afghan banks and microfinance institutions (MFIs) are facing numerous problems due to the non-existence of a comprehensive framework. The industry also faces unique risks related to the business model and the nascent nature of the industry in Afghanistan. For instance, managing liquidity risk is more difficult for Afghan banks and MFIs when there are limited or no Sharia-compliant financial markets, products, and rules. Transition to Islamic Finance raises specific policy issues regarding regulation and supervision, consumer protection, monetary policy, and liquidity management. To deal with some of these issues, DFAs must cooperate with specialized institutions to develop regulation standards, governance, auditing and accounting standards, financial markets instruments, and short-term liquidity infrastructure.

Islamic Finance is booming globally, and its popularity is gaining momentum. According to the Islamic Finance Development Report 2023, the global Islamic finance industry increased its assets size by 11% to US$4.5 trillion in 2022, with Islamic banking holding 72 % of the total industry's assets. The industry also grew by 163% since 2012 and is expected to grow by US$6.7 trillion by 2027. The Afghanistan financial sector can be interlaced into global Islamic Finance if the structural and transitional reforms are conducted in the way it responds to international standards and respects human rights.

<u>Therefore, the ultimate 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.</u>

Strategy

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. 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.

Because the banking and digital payment systems are underdeveloped, narrow, and fragile, further exacerbated by the recent events majority of Afghan firms have constraints in access to finance, with a limited portion of Afghan SMEs having access to formal finance and loans. In the current context, UNDP supports the most viable form of financing based on Islamic principles and caters to the needs of the private sector in its operational context. The following interventions under the broad action are proposed for matching by the donor.

The project contributes to the higher objectives defined by the Transition County Program Strategy (TCPS) of 2024-2025 and will be a factor in Outcome 2 (TCPS): *"By the end of 2025, more people in Afghanistan will benefit from an increasingly stable, inclusive, and employment-rich economy, with greater equality of economic opportunities and more resilient livelihoods, increased food production, and improved natural resources management."*

Technical assistance to MFIs (Output 1)

Building confidence in the lending sector is critical to restoring a sufficient fabric of financial services in Afghanistan, particularly for households and micro businesses. This intervention implies technical assistance to the DAB, banks, and MFIs to transition their on-lending and deposit base on Islamic financing principles while adhering to women's access to finance. The Project will contribute to further developing Islamic Finance mechanisms and products to address the needs of a broader population, especially women.

Linkage with previous and ongoing activities:
Throughout 2023, UNDP provided rigorous support to the MFI sector on Islamic finance product development and Sharia governance and produced a unique assessment of the Institutional Framework of Sharia Governance in the country and the study of Islamic finance products. The proposed project will harness the results of 2023 and enhance the scope of activities that impact the institutionalization of the Islamic finance framework, which is inclusive and takes into account women's access to finance.

Supporting Operationalization of Credit Guarantee Facility (Output 2)

This component will focus on the operationalization of the CGF established by UNCDF and ACGF[11] in the amount of USD 700,000 with the aim of supporting financing for the private sector. The guarantee component has the following purposes:

1. Guarantees towards loans to MSMEs, assumably, will help banks and MFIs to increase lending to MSMEs. The financing mobilized under this component will demonstrate the viability of the proposition to invest in the Credit Guarantee scheme for institutional donors.
2. Easing the liquidity constraints and reducing risks for the financial institutions to finance the private sector with a focus on sustaining activities of women led MSMEs, greater financial inclusion, preventing people from sliding further into poverty, and restoring essential services.

UNDP, within the current Project, will support the guarantee facility by fostering the lending ecosystem and providing necessary technical support to the participating MFIs and banks. The project will also cover the costs associated with monitoring, oversight, operational integrity, and transparency of the claim management process[12].
The participating financial institutions have in the scoping missions and Due diligence session performed by UNCDF and Grand Thornton indicated that there is potential for lending towards the MSME sector since the banks have stopped investing due to the perceived but still holds liquidity. Also, the liquidity situation has further improved due to collection efforts. However, given the perceived risk the banks need support to start lending and credit guarantees could initiate the lending. According to the participating financial institutions there is an opportunity in MSME sector of Afghanistan because due to change in regime many of the MSME entrepreneurs have lost their business and they are in bankruptcy stage[13]. The MSME sector need monetary support to re-run their business operations; and a new guarantee and re-guarantee facility would be able to serve this need by unlocking MSME finance. The sectors selected to be given extra

[11] Afghan Credit Guarantee Fund ('ACGF') is a charitable Foundation (Stichting under German law) that received initial capital from its founders (donors) and further donor contributions to be used in whole or in part to achieve its charitable goals. ACGF is the institutional successor of the CGF-A Credit Guarantee Facility for Afghanistan, which was implemented until 2014 by DEG with trust funds from BMZ and USAID.
[12] UNCDF will act as RP as determined by the Annex 1 to the Operational Manual on UNDP-supported guarantees (UNDP-UNCDF Collaboration Framework on Loans, Guarantees and Low-Value Grants).
[13] In the meetings, the banks (Azizi bank, GB and FMFB specifically indicated potential in livelihood sectors such as agriculture.

priority in the intervention include agriculture and agro-business, also rural energy, manufacturing, information technology, healthcare, and services. This aligns well with **UNDPs strategic goals** since women are mostly active in the services and health care sectors, and the agricultural sector activities are most prevalent among the poorer and vulnerable groups in Afghan rural areas. Inclusive and sustainable economic development forms a basis for poverty reduction in terms of material resources, but it also links to other dimensions of poverty including (i) resources, (ii) opportunities and choice, (iii) power and voice, and (iv) human security[14]. The intervention ex-ante suggests a theory of change based on assumptions that the intervention's structure and activities incentivize and catalyze desired behavioral changes in the financial sector and the MSME sector.

The guarantee contribution would in a strong manner complement contributions issued by other donors: ACGF have issued a collaboration with **EU** to support the SME sector in Afghanistan and a collaboration agreement was signed at the end of 2022. Entailing funding of EUR 11.8m for 3 years until 31.12.2025. The agreement includes following main activities to be implemented by ACGF:

- Support to ACGF structural costs
- Grants for MSMEs
- Outreach fees to subsidize lending costs to marginalized groups.
- Guarantee fee subsidies
- TA for banks and MSMEs.

As an addition ACGF is currently in discussions with the **World Bank** to implement a Microfinance sector support program to provide Grants to Microfinance Institutions. The purpose is to:

- Strengthen their Equity.
- Provide Technical Assistance to Microfinance Institutions for internal capacity building considering the sharia-compliant conversion of the Afghan financial sector and support for digitalization.
- The total project volume to be implemented by ACGF is USD 10 m and start of implementation is planned for Q2 2024.

Since none of the other donors have the possibility to provide support for capital deployment which is one of the components ACGF is currently lacking, but instead TA and grant support towards the MSME sector, UNCDFs counter guarantee could be argued to complement the initiatives provided by EU and World Bank.

Linkage with previous and ongoing activities:
Throughout 2022-2023, UNDP and UNCDF conducted a comprehensive study of the lending markets and feasibility of the guarantee program in Afghanistan. The feasibility study included due diligence of 3 MFIs, 2 banks, and ACGF as an apex institution. The activity also covered work related to the development of the guarantee model for the credit guarantee program. This activity was a steppingstone to the current project.

Digital Payment Ecosystem (Output 3)

Through this output, the project will focus on (i) increasing the supply in the last mile of client centric digital payment solutions, (ii) strengthening the digital and financial capabilities of people to access and use those solutions; and (iii) supporting new partnerships across key stakeholders to build a more inclusive and sustainable digital payment ecosystem in Afghanistan. The output will be achieved through the implementation of 2 major activities. Firstly, The project will work with MNOs, PIs, MSPs and banks to enhance access and availability of digital payment solutions, in particular offline solutions, expanding networks of agents and merchants and supporting the development of new solutions that address the main challenges Afghan people have to use digital services (i.e. low levels of digital and financial capabilities, low ownership of smart phones, lack of ID etc) . It will also seek to support the development of APIs that increase interoperability of providers. As we work to strengthen the supply of digital services, the project will also carefully integrate the provision of digital and financial capabilities of the final beneficiaries, equipping providers with the right business models to deliver behavioural change education in a sustainable manner. The project will continue building the payment capabilities of different stakeholders (i.e., INGOs) to increase the adoption of digital

[14] Sida's conceptual framework for multidimensional poverty

payment solutions. It will further support the Digital Payment Working Group in driving relative consensus and solutions across the private sector, development partners, and civil society.

Linkage with previous and ongoing activities:
Throughout 2022-2023, the UNDP digital payment initiative utilized six different digital payment solutions and engaged six distinct financial service providers, comprising two banks (Islamic Bank of Afghanistan and Ghazanfar Bank), two payment institutions (Refah Payment System and HesabPay), and three mobile money operators (M-Paisa, MyMoney, and MoMo). Throughout the pilot, these providers digitally disbursed over $1,100,000 to over 15,000 beneficiaries, including nearly 3,000 women. Transaction processing times were reduced from 7 days to 48 hours, resulting in nearly 30 percent cost savings compared to previous delivery channels used by INGOs. These improvements have bolstered INGOs' confidence in digital payments and increased their adoption.

Gender-specific results

FSPs will have financial services and products specifically designed for women to ensure better access to finance and increased opportunities for women to participate actively in economic and social livelihoods and income generation activities. The gender-specific results will be measured with both qualitative and quantitative analysis. Sex-disaggregated data of the resulting framework will provide a basis to assess the gender results with regard to the changes at the level of women’s agency and voices, changed relational dynamics, and changes in the structures, especially norms and social institutions.

The following actions are envisaged throughout the implementation of the project:

Gender-Disaggregated Data Collection: Conduct gender-disaggregated data collection to identify women-led MSMEs and understand their specific needs and challenges.

Barrier Identification: Identify barriers faced by women entrepreneurs in accessing finance, such as lack of collateral, limited financial literacy, and gender biases.

Tailored Financial Products: Develop and offer tailored financial products and services that meet the needs of women-led MSMEs, such as collateral-free loans, flexible repayment terms, and capacity-building programs.

Capacity Building: Provide capacity-building programs to enhance financial literacy, managerial skills, and access to networks for women entrepreneurs.

Policy Advocacy: Advocate for policies and regulations that support women's access to finance, such as gender-sensitive lending practices, non-discriminatory loan approval processes, and incentives for financial institutions to prioritize women entrepreneurs.

Theory of Change

The overarching Theory of Change (ToC) of the project is as follows:

***If** financial institutions are equipped to comply with Islamic Finance requirements and incentivized to increase their lending to sharia-compliant access to finance, making it available to local entrepreneurs -particularly women-, and DAB is equipped to provide the transparent, coherent and efficient regulatory framework,*

***If** Guaranteed loans towards MSMEs as beneficiaries without sufficient track record and/or collateral are at focus financial institutions will provide such lending at better terms, particularly concerning collateral than without a guarantee, reflecting the core financial contribution of the guarantee. As result of such behavioural change, the assumption is that access to finance on reasonable terms for the eligible borrowers increases while default rates are manageable. Another effect might be an enhanced financial inclusion in the sense that persons and entrepreneurs without wealth get better access to finance.*

***If** digital finance providers forge the right partnerships to deploy services in the last mile and acquired the adequate knowledge and tools to provide client centric digital payment and finance solutions,*

***If** cash transfer to beneficiaries and local entrepreneurs are provided with financial and digital capabilities to access and use financial services, including digital payments,*
THEN:

Local entrepreneurs will be able to grow their businesses and contribute to employment creation.

***And** financial services providers will be able to tap into an unexplored market segment and expand the supply of digital finance services and sharia-compliant loans to serve MSMEs.*

***And** beneficiaries of cash assistance will be able to receive their payments in a more efficient and affordable manner and in compliance with donor's requirements in terms of transparency; they will be able to use the payments as a gateway to financial inclusion and start their own businesses to support their livelihoods.*

Assumptions

- Political arrangements are intact (DFAs are open for cooperation on improving regulation on Islamic Finance), and legal contracts are adhered to, allowing contractors and partners access and freedom of economic action.
- Sufficient engagement with banks, MFIs, MMOs, PIs, MSPs, and other local-level stakeholders are established to foster ownership of activities and identification of demand-based interventions in terms of supporting Islamic financial products, digital payment systems, CGS, fintech solutions, etc.
- Dedicated support to women and girls is not opposed and curtailed by DFAs, applying new ways to provide assistance in a sensible and realistic way that will create no unintended negative consequences for the women involved, their families, or their communities.
- The CGS is established within ACGF, which remains an independent legal entity on the basis of a sound and clearly defined legal and regulatory framework to support the effective implementation of the CGS's operations and the achievement of its policy objectives.
- The CGS has adequate funding from UNCDF and ACGF to achieve the Project's policy objectives, and the sources of funding, including any reliance on explicit and implicit subsidies, are transparent and disclosed according to the UNDP, UNCDF, and donors' rules.

Investment Rationale

Loans and guarantees for MSMEs will enable the banking sector to increase financial services to MSMEs. Enterprises without sufficient track records and/or collateral are at focus. Furthermore, banks will provide such lending at better terms, particularly concerning collateral, than without a guarantee, reflecting those risks as shared. As a result of such behavioural change, the assumption is that access to finance on reasonable terms for these categories of commercial operators increases while default rates are manageable. Another expected effect will be enhanced financial inclusion in the sense that persons and entrepreneurs without wealth get better access to finance. The project is expected to support over 300 MSME: with current funding and 30% of disbursed loans are predicted to support women owned or managed MSMEs.

Guaranteed loans towards MSMEs as beneficiaries are generally built on the assumption that they will influence **bank behavior** to increase financial services to MSMEs. Especially enterprises without sufficient track record and/or collateral are at focus. Furthermore, that financial institutions will provide such lending at better terms, particularly concerning collateral than without a guarantee, reflecting the core financial contribution of the guarantee.15 As result of such behavioral change, the assumption is that access to finance on reasonable terms for these categories of commercial operators increases while default rates are manageable. Another effect might be an enhanced financial inclusion in the sense that persons and entrepreneurs without wealth get **better access to finance**.

Stronger access to finance among targeted enterprises could contribute to increased economic activities and development if they invest in a growth-oriented manner through innovation and skills development. Such sectors are targeted as eligible sectors in the guarantee agreement issued to ACGF. This could help the beneficiaries to become more productive and profitable which could lead to expansion in terms of employment and exports, where investing and growing enterprises would contribute to the development of the value chains while demanding more input goods and services from local suppliers and enhance entrepreneurship and local growth. The agricultural sector in Afghanistan, which is an eligible sector in the prosed guarantee structure, is in particular believed to benefit from increased access to finance which could catalyze an increased and higher local production with a higher processing

[15] It is likely that the main benefit for the borrower would be less onerous collateral requirements, rather than lower interest rate.

value and higher margins in the supply chain which also could contribute to a decreased need for import. This kind if desired domestic value chain developments have the potential to also trickle down to poor and vulnerable groups in rural areas through increased access to more productive employment opportunities.

On a macro-level, the driving assumption is that availability of capital is necessary for the transformation of low productive economies with a large share of subsistence agriculture to modern, higher productive, more competitive economies, increasing exports and shifting from informal-to-informal activities. The intervention hope to contribute to such multiplier effect in the economy contributing to regional and national economic growth (due to possible exports).

There is also an assumption of a **demonstration effect** that loans enabled by a guarantee will prove to the participating financial institutions that risks and default costs are less than assumed for such lending, hence that participating banks post-project will continue to lend to the target group without a loan or guarantee or a concessional loan. Another form of demonstration effect is that other banks will engage in the same type of services by seeing new lucrative market opportunities. As a result, the guaranteed loan would create a developmental impact in the form of a deepening of the financial market in the targeted country beyond the specific intervention. The financing mobilized by the activities provided by UNCDF, which without UNCDF support by concessional loans or guarantees would not have been financed, will show that it is a viable proposition to invest and thereby demonstrate to more commercial investor the viability and such investments to contribute **to economic development, demonstration effect, possible change in bank behavior** and **financial inclusion**.

The results chain and intervention logic suggest that the intervention will directly and indirectly impact poor and ***contribute to reduction of poverty*** from ***a multidimensional poverty perspective***. Increased employment along the value chains could contribute to sustain and increase jobs, enabling people to improve livelihoods and gain a productive income which would allow more access to and power over resources to sustain a decent living standard and improve one's life. Based on that people become more fortified as economic actors, opportunities and choice among people will improve as to develop and use resources to move out of poverty (access to e.g., social services, to infrastructure, to capital, to land or to natural resources). Poor and particularly women in Afghanistan lack power and voice to articulate their concerns, needs and rights in an informed way, and to take part in decision making that relate to these concerns. Prevailing socio-cultural hierarchies aside, the intervention hope to somewhat strengthen women's opportunities and choice, and power and voice, by focusing on sectors where women are more active.

UNCDF contribution would in a strong manner complement contributions issued by other donors: ACGF have issued a collaboration with **EU** to support the SME sector in Afghanistan and a collaboration agreement was signed at the end of 2022. Entailing funding of EUR 11.8m for 3 years until 31.12.2025. The agreement includes following main activities to be implemented by ACGF:

- Support to ACGF structural costs
- Grants for MSMEs
- Outreach fees to subsidize lending costs to marginalized groups.
- Guarantee fee subsidies
- TA for banks and MSMEs.

Since none of the other active donors so far have the possibility to provide support for capital deployment which is one of the components ACGF is currently lacking, but instead TA and grant support towards the MSME sector, the counter guarantee could be argued to complement the initiatives provided by EU and World Bank.

III. RESULTS AND PARTNERSHIPS

EXPECTED RESULTS

The proposed project will contribute to higher development and humanitarian outcomes, such as UNSFA Outcome 2 on "Economic Opportunities and Resilient Livelihoods": By the end of 2025, more people in Afghanistan, notably women and vulnerable groups, will benefit from an increasingly inclusive economy, with greater equality of economic opportunities, jobs, more resilient livelihoods, strengthened food value chains, and improved natural resources management.

Following regime change in August 2021, Afghanistan's financial system faced significant challenges, with the near collapse of the formal banking sector and rapid transition to Islamic Finance. The first pillar will contribute to the continued development and stability of the banking and microfinance system through technical support to the financial institutions and DAB to ensure a successful transition to Islamic Finance with greater accountability and transparency. The second pillar is essential for direct support of the private sector by reducing the lending risks for the financial institutions through credit guarantees for participating MFIs and banks. The third component will enhance access to finance through digital payment solutions and better interoperability between the banks, MFI, and mobile money operators.

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.

The output will facilitate better access to financial services for the private sector, particularly for women entrepreneurs. The following activities are planned to achieve the results:

Activity 1.1. Capacity building of national stakeholders in Islamic banking regulations.

TA to the Central Bank will be provided to improve regulations of Islamic financial activities to ensure transparency and sustainability of the lending market and inclusiveness of banking services for all, including women, while complying with the international community's requirements, including the sanctions regime.

Activity 1.2. Promoting Sharia-compliant value chain financing through financial institutions

TA to the MFIs and banks on (i) Development of Islamic financial products for financial institutions (ii) Technical support for product implementation (iii) Access to finance matchmaking for value chain actors in selected value chains.

Activity 1.3. Institutionalizing Islamic finance expertise for the financial sector

This activity is designed to support the institutionalize the expertise and foster cooperation with specialized institutions to achieve the smooth conversion to Sharia-compliant financing and transparency of the Islamic Finance practice in Afghanistan. It includes: (i) development of a unified conversion guideline (ii) Assessment study and stakeholder engagement for establishing the Center of Excellence for Islamic Finance (iii) Exam Centre for Islamic Finance and banking certification in partnership with international industry bodies.

Activity 1.4. Value chain and trade ecosystem building

This activity is designed to support private sector through interventions bolstering the value chains and increased access to markets. It contains three components: (i) Value Chain Strengthening through Supply Chain Reliability and Production Support and Value Addition Finance Design Support, (ii) Market Connectivity Assessment through research on global demand for Afghan products and infrastructure satellite imagery, (iii) Trade facilitation through trade finance design support, export documentation guidance and business group access to market strengthening.

Activity 1.5. Community-based livelihood and value chain transformation[16]
The activity will improve the lives of approximately 1,000 people, of which at least 70 percent would be mainly women, returnees, and some members of the host communities, and at least 30 percent of the beneficiaries would include vulnerable and underserved groups such as persons living with disabilities (PwDs) and youths. The activity will focus on micro-small and medium enterprises engaged in the sesame, raisin, and carpenter industries, which will be supported

[16] The activity will be implemented through ILO under the the Road to Sustainable Livelihoods, Employment and Decent work (R2SLED)

technically and financially to implement interventions that will create employment for the target group. Partner businesses are also expected to open supply chains for the target group.

Output 2. A Credit Guarantee Fund (CGF) 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.

The current output is aimed to undergird the operationalization of the guarantee program initiated by UNCDF in partnership with ACGF[17] to ingate MSMEs' access to finance and lower operational and financial risks for the lending institutions. The project will monitor the operational integrity and transparency of the guarantee process, which includes the second screening of the claims management process, oversight of financial reporting requirements, establishment of external audit financial statements, etc. The output will pave the road to broader UNDP injection into the guarantee scheme in the second phase of the project to be scheduled in 2026.

The deployment of financial support to Afghan MSMEs will happen through the existing vehicle of the Afghanistan Credit Guarantee Fund (ACGF), propped up by UNCDF investments in the amount of USD 1,000k[18]. UNCDF is also continuously fundraising to increase the guaranteed amount. ACGF has been operating in Afghanistan for 18 years and has existing banking guarantee agreements with key banks in the country and a well-functioning and robust operation. UNCDF will provide a re-guarantee to ACGF's existing structure from its own resources.

Activity 2.1. Operationalization, monitoring and oversight of the portfolio guarantee and in-house consulting/coaching services to eligible partner financial institutions.

The implementation of the portfolio guarantee will be made through the UNCDF/ACGF agreement, where ACGF will act as an intermediary, and the local PFIs will make the on-lending to beneficiaries[19].

The lending activities will accompany in-house consulting and/or coaching services to banks and MFIs, which is covered by this Project and will be the responsibility of the UNDP. The support will improve the banks' skills to evaluate credit applications and monitor clients' performance. The capacity of lenders to prepare reports on the portions of their Islamic loan portfolios covered by credit guarantees will be further improved. The coaching services will also enhance the claim process for defaulted loans to increase the transparency of the process and Sharia Governance. As part of the activity, the work related to the monitoring of utilization of funds, credit risk assessment, and review of claims and payments will be initiated. The activity also implies follow-up lending towards eligible borrowers, computation and preparation of reports on KPIs (stated in the guarantee agreement), and assessment of development impact.

It is expected that approximately 1130 loans in the total amount of USD 3.4 mil will be guaranteed throughout the project life out of which, at least 30 percent of loans to be distributed to women led MSMEs. The detailed approach to guarantee scheme work is provided in Annex 4 and 5.

Activity 2.2 Putting in place the revolving credit facility tracnhe for women-led SMEs

The proposed activity will provide pre sourced and also non pre sourced women-owned SMEs with loans on a rotational basis through the Revolving Credit Fund (RCF), which will be established under this activity and implemented by ACGF. If possible, low interest rate will also be facilitated through the design of the guarantee structure. The RCF tranche specifically design for women owned MSMEs will be available for small and medium enterprises through membership (IFC MSME definition), with the loan size is expected to varying from $3,000 to $50,000 per business, payable in three years with the ambition to serve 105 small and medium entities will be served during the project lifeline.

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[17] ACGF - The Afghan Credit Guarantee Foundation is apex institution, which improving access to finance for MSMEs. The ACGF's key services are credit guarantees and technical assistance to partner financial institutions. ACGF was established by the Federal German Ministry for Economic Cooperation and Development (BMZ) and Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) in 2014

[18] UNCDF to ACGF agreement on guarantees and a guarantee fund of 1,000k is not a part of this project. UNDP role limits the operationalization of the guarantee scheme and creating an enabling lending environment to foster the guarantee mechanism. This project is the part of parallel fund management agreement with UNCDF.

[19] Partnering Financial Intuitions are lenders; ACGF doesn't provide loans to beneficiaries but rather insures the loans by guarantees. The risk of loan default is shared between UNCDF (80%) and ACGF (20%).

Access to finance through the Revolving Credit Fund will be accompanied by rigorous business advisory services. The activity implies consultative services on business planning, marketing, value chain and promotion to new markets for women-led SMEs. The activities will be provided by UNDP a specialized business advisory firm. It is expected that the primary target is to improve the integration and position of local enterprises into a particular value chain and ensure the loan repayment by successful operation/expansion of the business. The initiative aims to improve the competitiveness and market integration of a local sector for small and medium businesses. An additional target is to prop up medium size businesses and well-organized groups of entrepreneurs in developing and restoring the value chain levels which go beyond the local economy (e.g. national-level retailers and exporters).

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

The Component will work directly with financial service providers, including MMOs, PIs, and Fintechs, and will support them in designing, piloting, and scaling up different digital finance solutions while expanding their agent and merchant networks. A robust digital payment ecosystem with innovative products will be created, overcoming barriers in Afghanistan such as deficient network coverage, lack of interoperability across FSPs, and low digital and financial capabilities. Leveraging the best practices and lessons learned from the pilot conducted with UNDP, UNCDF in 2022/2023 will provide technical assistance so that financial service providers can refine their offerings and make sure they meet the needs of the beneficiaries supported by the various UNDP and UN programs, in particular women and those in the last mile. The Project will consider favouring financial service providers who use advanced digital tools such as tokens, e-vouchers, QR codes, and AfPay cards.

Activity 3.1. Deploy client-centric digital payment solutions in the last mile.

Through this activity, the project will work directly with MMOs, PIs, MSPs and Fintechs to design offline payment solutions, expand their agent and merchant networks, and increase partnerships with Banks, MFIs and informal financial services providers such as village savings and loan associations (VSLAs).

Since one of the main challenges of FSPs when reaching the last mile beneficiaries is their limited network of agents, the project will work to develop new feasible approaches and a strong business case for the FSPs to expand their agents' and merchants' networks while ensuring liquidity in the last mile. Therefore, the project will provide technical assistance to MMOs around agent's and liquidity management. At the same time, it supports providers to better understand the business case of developing a white-label network of agents to expand their outreach. This will require organizing peer exchanges with MMOs from other countries and expose them to global best practices, technical support to develop financial projections of this network and support to monitor the implementation of the network. Furthermore, under this activity the project will procure the services of technology providers that can support the development of offline digital payment solutions and solutions that allow FSPs to act as payment aggregators that consolidate multiple payment channels and systems into a single platform, addressing the interoperability challenge. Finally, leveraging on other interventions of UNDP, this activity will support informal financial services providers to digitize their lending and savings processes while partnering with MMOs for digital payments of the savings collected and loans disbursed.

Activity 3.2. Build financial and digital capabilities of clients of digital payment providers.

From the demand side, low financial and digital capabilities among individuals can be attributed to factors such as limited awareness, low numeracy and literacy levels, and trust on the Hawala system. On the supply side, providers often times do not recognize the value of capability-building efforts and lack the technical capacity to design effective training programs. Commercial disinterest often leads to a lack of supply of sustainable behaviour change education delivered by providers, resulting in marketing campaigns rather than education, raising concerns about transparency and client protection issues.

Against this background, this activity will adopt an integrated technical assistance that will equip providers (from Output 1) with the right training tools and business models to build the financial and digital capabilities of the clients that are benefiting from their services (some of them developed under activity 3.1). This will ensure an increase on the demand side as we increase the supply side of digital services. The development of the education will start with market research to identify key gaps in knowledge skills and attitudes of the clients that are preventing them to access the services. Then, it will design a package of training modules addressing the gaps. The training package will also contemplate a range of delivery channels to deliver the education, including group training (ideal for VSLAs), campaigns (ideal for areas with a high density of population), individual coaching, and peer-to-peer learning opportunities. The providers will receive training from trainers to equip them with facilitation skills and adult learning principles and practices. Finally, they will receive advisory services and technical support to design appropriate training systems and business models to deliver the education at scale in a sustainable manner.

Activity 3.3. Increase uptake and usage of digital payment solutions by key development partners for their interventions to enable solid demand for services.

INGOs facilitating cash transfers and other development partners must be convinced about the feasibility, affordability, and practicality of shifting the payments from cash to digital. This activity will then convene stakeholder meetings among providers and INGOs to ensure their support to FSPs in addressing specific barriers to DFS uptake related to the lack of ID and low financial and digital capabilities of the beneficiaries. Technical assistance will also be provided so that development partners are more comfortable using the digital platforms from the FSPs for monitoring purposes of the cash transfers.

At the same time, providers need a space to share best practices and lessons learned from their interventions so that, as a group, they can influence policy (i.e., tier KYC requirements). Data-driven publications from the implementation of Activity 3.1 and 3.2 will also be produced to support these efforts. Therefore, this activity will leverage the recently launched Digital Payment Working Group as a platform to disseminate this data and establish partnerships between FSPs, INGOs, and other relevant stakeholders to facilitate the adoption of DFS across different cash-based Intervention activities. Such support would equip leaders with adequate information and options to make informed decisions, learn collectively, build a shared understanding of the challenges and opportunities in using DFS, and foster a community of practice.

RESOURCES REQUIRED TO ACHIEVE THE EXPECTED RESULTS

The anticipated budget for the Project is USD 6.6 mln in the first phase, including USD 1.1 mln to run the guarantee scheme and revolving fund for the first phase for the period of 2024-2025, 1.2 mln for digital payment solutions, and 1.28 mln for comprehensive capacity building for the lending market and introduction of new policies and regulations, with the rest of resourced allocated for management and monitoring costs. It is expected that the project will raise funds for the second phase up to USD 12.5 mln to enhance the loan guarantee and digitalization components.

The Project is not connected to any particular region and will cover the entire country, focusing on a targeted population, such as women entrepreneurs. The Project will utilize the eight UNDP regional offices for localized activities, such as training sessions for entrepreneurs, monitoring, and validation activities. The project will cooperate with ABADEI 2.0, CBARD, SESEHA and other UNDP projects to promote digital payments. The international and national staff of UNDP (program and operations) will be engaged in implementation.

UNDP Afghanistan Country Office will establish a Project Board (PB) to meet periodically to provide oversight, review evidence of performance and the Project Annual Work Plans (AWP), track progress, and endorse the overall direction the Project adopts. The makeup of the Project Board will be decided by the UNDP Resident Representative (RR) and Senior Deputy Resident Representative-Programme (SDRR-P), who will co-chair the PB meetings and will include the UNCDF, key donors to the Project, Beneficiary Representatives (Banks, MFIs, MMOs, MSPs), and other partners.

The Project will be managed and overseen by the existing in-house personnel in UNDP Afghanistan. Thus, day-to-day project management will be provided by a Private Sector Specialist (P4), who will act as the Project Manager. Technical oversight will be administered by the Chief Technical Adviser on Banking and Private Sector (P5), ensuring focused and expert guidance. The Policy and Knowledge Unit personnel will provide administrative and operational support.

The project will also cooperate with other UNDP projects to decrease the operational, procurement and administrative costs when it is possible. The Responsible Parties will have the threshold for administrative and operational expenses aligned with the rates of other UNDP projects in Afghanistan.

PARTNERSHIPS

Financial Institutions, Micro Finance Institutions Mobile Money Operators, Payment Institutions, Managed Service Providers, International NGOs, and Afghan women's empowerment advocacy organizations and groups will be important partners of the Project to identify priority needs through consultations to firmly establish the national ownership of the Project. The Project will seek to address this gender imbalance at every opportunity by developing new financial instruments to support women entrepreneurs to ensure access to finance and digital payments to women and vulnerable groups.

In supporting women's economic empowerment, the Project will seek partnerships with UN Women, UNCTAD, and experienced national women-led NGOs to implement the activities. The Project will contribute to the existing partnership with UNHCR, ILO, and others to ensure the principle of "deliver as ONE UN". The Project will continue partnerships with local Chambers of Commerce and business organizations, as well as the Afghan Women's Chamber of Commerce and Industry (AWCCI) and the Afghan Women's Union in Agriculture (AWUA), using these organizations to design and deliver activities that address the priority needs identified in the Project on promoting women entrepreneurs and value chains.

RISKS AND ASSUMPTIONS

The Project and UNDP face several potential threats and associated risks. Broadly speaking, the threats and risks can be characterized as those related to the following three aspects: 1) political, 2) economic, and 3) reputational.

Political Threats and Risks

As this Project document is written, in January 2024, the UN and international donor community have not recognized the current de facto authorities (DfA), and the traditional agreements between the UN and a member state host government, in Afghanistan, are indistinct and tenuous.

Although the potential for unforeseen political threats to the UN presence in Afghanistan remains, there is a high likelihood that the DfA will not allow a complete break with the UN and its agencies and programs for fear of putting at great risk the DfA's own position and its continued ability to rule. Discussions continue regularly between the UNAMA, O/SRSG, O/DSRSG/RC/HC, and the DfA, on reversing the recent edicts adversely impacting the status of Afghan women, which represents a key stumbling block to normalizing the relationship with the UN and international community and the DfA.

Political threats and risks directly linked to the credit guarantee operations:

- Creeping expropriation - a series of events by Taliban authorities that results in a deprivation of the ACGF rights to operate in Afghanistan or rights of participating financial institutions.
- Expropriation – potential risk of Taliban authorities seizing the property or assets of the ACGF or participating financial institutions without full compensation. This is also referred to as 'ownership risk' or nationalization.
- High regulatory risk due to arbitrary DfA actions, such as sudden decisions to tighten control over the financial sector.

Inconvertibility (or transfer risk) – since the backed loans are issued in local currencies, there is a risk that DfAs take action to prevent the conversion of local currency to some form of foreign exchange (USD and Euro) in case of currency crisis.

Mitigation of Political Risks

UNDP staff will follow the directives of the UN Secretary-General and his Special Representative, as communicated to by the UNDP Resident Representative, and work with the assurance that the privileges and immunities of the United Nations.

Political risks are minimized by the design of the project and credit guarantee structure.

UNDP is not a guarantee issuer, rendering its relationship with ACGF as a grant provider and receiver. ACGF reports to UNDP according to the established POPP rules and regulations. ACGF issues guarantees directly to the lender, while

UNDP engages UNCDF through the UN-to-UN Agreement with the purpose of technical oversight of the guarantee scheme.

ACGF is solely liable for claims arising from the credit guarantee activities, including political risks or omissions in the course of implementing the Project. (UNDP shall assume no responsibility for the actions of grant recipients and shall in no way be held liable for third-party claims arising therefrom).

ACGF's credit guarantees are provided to Partner Financial Institutions (PFIs) under mutually agreed framework agreements. ACGF is carrying out independent appraisals at guarantee origination, claim issuance, and refund of loan stages. ACGF's guarantees are partial, with a standard coverage of approximately 72 percent, which is adjusted depending on the loan amount or type of borrower (for example, higher coverage for start-ups).

For the purpose of the funded guarantee scheme, the total cost of the liability is set aside by ACGF in a bank account (escrow account) outside Afghanistan for the purpose of funding any claim that may be called upon according to established rules/agreements between ACGF and PFIs. In the event of default by the borrower and subject to pre-agreed conditions set by ACGF with technical assistance of UNCDF, funds held in the ACGF escrow account outside of Afghanistan will be called upon, on the demand of the lender (selected Afghan commercial banks and MFIs) to pay out approved claims. Any non-eligible claim not compliant with ACGF's internal processes and the guarantee agreement will be rejected.

Any regulatory risks related to the Taliban ruling (including expropriation, inconvertibility, deprivation of property rights, etc.) are minimized since ACGF, financially, operates from Germany.

Macro-Economic Risk (Macroeconomic Stability and Currency Exchange)

With the political change, the cutoff in budget support and development aid, the freeze on DAB foreign reserves by the international community, capital flight, and the paralysis of the Afghan financial system, the Afghani (AFN) has depreciated sharply in the last two years. The current relative stability of the exchange rate, after sharp appreciation, has been due to crisis management measures, such as restrictions on withdrawals from bank deposits, a ban on capital outflows, low import volumes, UN cash delivery for humanitarian programs, and a recovery in exports. The high risk of further and sudden currency depreciation remains in case of a sharp reduction in UN and international aid (related to deteriorating human rights).

A sudden and substantial plunging of the Afghan currency would impose pressure on the financial positions of the borrowers. This will increase the chances of defaulting on their debts, which in turn weakens the financial position of participating financial institutions (liquidity risk). At the same time, substantial local currency depreciation will negatively affect the value of the assets denominated in Afghan currency that banks hold on their balance sheets (solvency risk). The guarantee portfolio will shrink as the number of claims from participating financial institutions increases, and new borrowing and guarantee issuing will be paused, halting the Project component.

Mitigation of Macro Economic Risks

The country's credit rating is "Ca", which implies a high risk and non-investment grade for operations in Afghanistan. The ACGF operation was built around a high-risk environment, considering several macroeconomic, financial, social, political, and security variables, including the country's vulnerability to external and climate shocks. Therefore, the ACGF credit guarantee scheme is prudent for this type of risk and includes the loss-given default[20] rate of approximately 14.874 percent per year after collateral and recoveries. UNCDF provides an additional layer of risk mitigation with an investment of 500k to top-up ACGF resources. UNDP doesn't invest in the guarantees directly but rather creates an enabling environment to ensure that participating lending institutions are well-equipped to mitigate the economic risks.

Risks of Non-Transparent Debt and Banks' Insolvency

[20] Loss given default is the estimated amount of money a bank or other financial institution loses when a borrower defaults on a loan.

Afghanistan faces growing risks from financial fragility over the current economic and humanitarian crisis and non-transparent debt. Risks may be hidden because the balance sheets of banks, DAB, and the government are tightly interrelated. In the meantime, DAB is exercising very significant forbearance, allowing banks to carry bad assets on their books. Many of these banks could be insolvent now. The lack of transparency in reporting non-performing loans and delayed management of distressed assets have further exacerbated the insolvency challenges, potentially leading to long-term debt distress, hindering economic recovery, and affecting the successful implementation of the Project.

Mitigation of Banks' Insolvency Risks

To mitigate these risks, the UNDP Project will prioritize proactive management and will provide TA to DAB and banks (through component 1) to operate effective insolvency mechanisms. This includes promoting greater transparency in reporting non-performing loans, timely managing distressed assets, and facilitating access to credit for vulnerable households and businesses. By addressing these insolvency challenges and implementing risk mitigation measures, the Project will contribute to creating a healthier financial sector in Afghanistan, supporting economic growth, private sector development, and resilient livelihoods**.**

Reputational Risks and Fraud

Should ACGF not deliver adequately on the funds entrusted to them or participating financial institutions be engaged in fraudulent activities, and any misuse of the funding be discovered, or AML/CFT measures are not adhered by the national partners, then this could generate questions by stakeholders on the capacity of UNDP as custodian of the funding.

Financial institutions participating in guaranteed loans may be subject to increased fraud risk. If, in some cases, staff of the lending institutions do not act in good faith on behalf of the financial institution, such as fraudulent loan approvals, the financial institution may realize increased losses, causing reputational harm and legal impacts to the Project and UNDP as whole. Furthermore, weak AML/CFT monitoring in and around Afghanistan and a lack of AML/CFT cooperation in order to manage the grave risks posed by terrorism financing may impose additional reputational risks.

Mitigation of AML/CFT, Reputational and Fraud Risks

To prevent the above risks to the reputation of the Project and to that of UNDP, the Country Office and UNCDF undertook the due diligence of ACGF operations concerning guarantees and beneficiary banks/microfinance institutions. The Country Office will employ UNCDF expertise to monitor and oversee the ACGF and PFI continuously, including the AML/CFT measures.

Reputational risks will be mitigated by the engagement of the UNDP Country Office staff with robust support from all relevant units.

Compliance with UNDP's Rules and Procedures, together with continual oversight by the Country Office and a proactive risk management approach, will be key in eliminating potential threats associated with internal or external misconduct/malfeasance, waste, and misuse of funds by RPs, which pose reputational risks to UNDP.

Social and Environmental Risks

In compliance with UNDP corporate Social Environmental Safeguards (SES) policy applicable for a development project, the project will regularly screen social and environmental risks from the design stage based on lessons learned from the PIP "Banking" with additional assessments and mitigation of any significant social and environmental, and occupational health and safety (OHS) risks and impacts. Potentially adverse gender and social impacts related to project activities will be identified, and measures introduced to reduce gender-based violence, gender-based discrimination, disability, sexual exploitation, and the abuse of men, women, girls, and boys. Potential risks to full participation and stakeholder engagement will be addressed by UNDP's Stakeholder Engagement (SE) plans with formal and confidential Complaints Handling Mechanism (CHM).

SE Risk Mitigation:
In order to mitigate the risk, active monitoring will be conducted both on the policy level and social and environmental hazards, and the Project staff will carefully implement gender equality and women empowerment approaches and tools for accessing women's technical and financial support by adhering to Islamic principles such as the Maharam policy, segregation policy etc.

The Project, with partners, including ACGF and (M)FIs, will develop steps for implementing activities on women's empowerment in line with Islamic values. In order to mitigate the risk, active monitoring will be conducted both on the policy level and social risks, and the results of the risk assessment will be recorded. The female entrepreneurs covered within several capacity-building activities and previously supported by the UNDP project will provide training and other advisory services for women entrepreneurs. The project will explore opportunities for conducting mobile-based/community-based and home-based business training for women. All segregation soft infrastructure facilities will be provided for the capacity building training, i.e., curtains and separate venues for women provided by the implementing partner. Women trainers will deliver the training to the women entrepreneurs and community-based vocational training. Contingency planning will be considered for women empowerment-related activities. i.e., online training modality would be considered. For this measure, facilities such as the Internet will be provided to the beneficiaries to continue home-based training.

STAKEHOLDER ENGAGEMENT

National Stakeholders:
Key national stakeholders that are the direct target beneficiaries of the Project's interventions encompass the banks, MFIs, MMO, AMA, ABA as well as business community of Afghanistan in all 34 provinces, particularly women MSMEs, who will be capacitated during the four-year duration of the Project. Adequate attention will be given to women MSMEs and start-ups, considering the current discriminatory environments where women and girls are disproportionately lagging in access to finance, public space, and education. Priority groups will also include persons with disabilities, IDP and returnees, individuals from ethnic minorities, youth with startups, etc. To ensure women's inclusion and safety, their Mahram will also be part of the program.

With the great engagement of ABADEI-2, the Project will work with NGOs and CSOs to identify persons with disabilities ethnic minorities and other vulnerable groups to ensure the most marginalized have been included. In addition, the Afghan business community, AWCCI, farmers, women's business and farming organizations, NGOs, CSOs, CBOs, and other women's empowerment advocacy groups, women-owned businesses and producers of agriculture products, Hawala agents, MMOs, PIs, and others will take an active role in achieving results.

International Stakeholders
The United Nations entities working in Afghanistan, Office of the Special Representative of the Secretary-General (O/SRSG), Deputy Special Representative of the Secretary-General (O/DSRSG), Resident Coordinator (RC), Humanitarian Coordinator (HC), UNAMA, UNAs), IFI (international financial institutions) and donors (such as EU, Government of Japan) are key international stakeholders of the Project, as are the international donor community, the World Bank Group and other international financial institutions (IFIs) and development banks. These international stakeholders will be made aware of the progress of the Project interventions and may be invited by the Project Manager, through the Office of the UNDP Resident Representative, to send observers to participate at Project Board members or to attend Project Board meetings when selected by the UNDP Resident Representative.

SOUTH-SOUTH AND TRIANGULAR COOPERATION (SSC/TRC)

The Project will support Afghan businesses and women-owned enterprises to expand their marketing opportunities for Afghan-produced goods and agricultural products in neighbouring countries and beyond. The Project will help women led MSMEs to facilitate the demand for Afghan products in neighbouring countries (Iran, Turkmenistan, Uzbekistan, Tajikistan, China, Pakistan, and India).

The Project will cooperate with other country offices in the South, leveraging the UNDP's IICPSD in building transformative partnerships and harness trilateral development cooperation and south-south partnership, promoting skill-building, access to enterprise-related finance, entrepreneurship, and assistance to enabling actors.

Digital Solutions

The Project will work directly with financial service providers, including MMOs, PIs, and Fintechs, and will support them in designing, piloting, and scaling up different digital finance solutions while expanding their agent and merchant networks. Leveraging the best practices and lessons learned from the pilot conducted with UNDP, UNCDF will provide technical assistance so that financial service providers can refine their offerings and make sure they meet the needs of the beneficiaries supported by the various UNDP and UN programs, in particular women and those in the last mile. The Project will consider favouring financial service providers who use advanced digital tools such as tokens, e-vouchers, QR codes, and AfPay cards.

Finally, the project will favour working with technology providers that can support the development of fintech solutions that can act as payment aggregators to act as intermediaries that consolidate multiple payment channels and systems into a single platform (such as HesabPay).

Knowledge

The project will produce a series of publications/briefing notes and guidance notes drawing on lessons learned for each of the five outputs of the project. These publications/guidance notes will capture how the Project has strengthened the banking and microfinance sector and digital/mobile payment providers and enable the business environment to sustain private sector growth. The Project will also work with the Country Office's Communications Unit, as well as with IICPSD and UNCDF, to enhance the visibility of all knowledge products and lessons learned generated by the project to share globally on SDG financing instruments.

The Project's knowledge, good practices, and lessons will be captured and assessed regularly by the project team in thematic orientations. The project will develop and disseminate knowledge products for use by the project's beneficiaries (banks, MFI, private sector organizations, MSMEs, women's business groups, etc.)

This knowledge will be shared through UNDP publications issued by the project or by the Country Office in cooperation with IICPSD and UNCDF. The lessons learned and success stories will be shared among the duty-bearers and communities in Afghanistan, including development partners.

Sustainability and Scaling Up

The Project delivers an array of valuable instruments for mobilizing private resources, including credit guarantees and Islamic microfinance products. For a fraction of the potential cost of the risk exposure undertaken, considerable liquid resources will be deployed for investments to improve economic and social conditions in Afghanistan. The Project results will be utilized in a myriad of ways, such as i) backstopping financing for value chain business projects, ii) loans to small enterprises, iii) enabling local MFIs and banks to introduce new financial products on microenterprise lending with a focus on women as well as v) deepening capital markets by facilitating capacity building of the financial service providers.

In a general sense, Project' driven guarantees will be uniquely suited to facilitate investment flows to the economy and will regain confidence in the banking sector – and thus mobilize additional resources beyond what financial institutes would be able to provide in the current Afghanistan context.

Supported women-led/owned MSMEs will contribute to inclusive growth and create economic opportunities for all. This is closely linked with reducing inequality, raising living standards, and gender equality, as well as fostering social inclusion through poverty alleviation. Women-led/owned businesses with access to finance will integrate low-income individuals into value chains in various capacities, either as consumers, producers, or employees, and provide them with access to opportunities to generate income for basic goods and services.

IV. Project Management

The project will employ Direct Implementation (DIM) modality with UNDP taking on the role of Implementing Partner. UNDP will assume the responsibility for mobilizing and applying effectively the required inputs in order to reach the expected outputs and will assume overall management responsibility and accountability for project implementation.

Accordingly, UNDP must follow all policies and procedures established for its own operations. UNCDF will act as a responsible party for operationalization of loan guarantees with ACGF and for digital payment solutions.

The dedicated **project management team** is responsible for day-to-day management and decision-making for the project and for delivering the expected outputs. The project management team will ensure that the Project will produce the expected outputs specified in the workplan to the required standard of quality and within the specific constraints of time and cost.

Project manager – to ensure effective project management of the assigned projects by maintaining the delivery of appropriate technical, operational, financial, and administrative outputs while tracking the project progress through monitoring, evaluation, and reporting; as well as to maintaining collaborative working relationships among key project partners (UNCDF, ACGF, banks, MFIs, MMOs) and national stakeholders such as DAB, through effective communication, consultation and collaboration. An in-house Private Sector Development Specialist will act as a Project Manager, dedicating 50 percent of the time to the Project. Corresponding cost sharing modality will be applied and charged accordingly.

Chief Technical Adviser – to provide strategic guidance and technical oversight for the project and interventions in the areas of access to finance, banking, and digital payment solutions**,** as well as to ensure that outputs are high quality and consistent with the project's document. She/he will foster knowledge generation across access to finance initiatives and will support the project team as well the CO in expanding understanding and potential linkages with broader stakeholders toward the successful implementation of the UNDP strategic outcomes in this area. In-house Banking and Private Sector CTA will take on this role, with 50 percent of time dedicated to the project and corresponding cost sharing.

Digital Payment Specialist (NSPA-11) – Under the supervision and direction of the Project Manager, in collaboration with the UNCDF team, the incumbent will ensure the technical and coordination support to the overall implementation of the digital payments' component. She/he will assist with planning and execution of the digital payments' ecosystem, convening events and other public engagements related to the project or to other CO initiatives. To be hired.

Administrative Associate (NPSA-6) – under the overall guidance and supervision of the Project Manager, the Administrative Associate will provide the overall administration and execution of varied and inter-related operational and logistical activities in the Project. She/he will work in close collaboration with the Operations, Programme and projects staff in the CO, and other UN agencies ensure consistent service delivery.

Additional technical guidance and support will be provided through the UNDP Istanbul International Center for Private Sector Development (IICPSD).
The project will be implemented in accordance with the UNDP Enterprise Risk Management framework and the risk management and mitigation measures put in place by UNDP for Afghanistan, including risk assessment, vetting and due diligence mechanisms. A detailed Risk Log is included as Annex 1.

The **UNDP Afghanistan Programme Management Unit** will render oversight, quality assurance and technical support to project implementation. To that extent, each thematic pillar will be assigned technical leads who will be responsible for advising the project manager on critical technical matters and ensuring adequate progress in their assigned area. They will report on progress to CO senior management and support the development of solutions to emerging operational/contextual risks. Their contributions to progress monitoring will also inform program adaptations. The CO Development Effectiveness Unit will ensure outcome, output monitoring, and adaptive management.

The **UNDP Afghanistan Operations Team** will provide continuous integrated implementation support, including financial, procurement, and recruitment services, in view of project-specific needs. The **UNDP Afghanistan Integrated Risk Management Unit,** that combines CO and HQ colleagues capacities under the leadership of a Risk Management Advisor, will perform risk management and the implementation of mitigation measures.

V. Results Framework[21]

Intended Outcome as stated in the UNSFA and Country Programme Results and Resource Framework: ***Strategic Framework for Afghanistan 2023-25 and UNDP Transitional Country Programme Strategy (TCPS) for Afghanistan (2024-25) Outcome:*** UNSFA Outcome 2. By the end of 2025, more people in Afghanistan, notably women and vulnerable groups, will benefit from an increasingly inclusive economy, with greater equality of economic opportunities, jobs, more resilient livelihoods, strengthened food value chains, and improved natural resources management. [Economic Opportunities and Resilient Livelihoods] **TCPS Output:** 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.
Applicable Output(s) from the UNDP Strategic Plan: SP Output 1.3 Access to basic services and financial and non-financial assets and services improved to support productive capacities for sustainable livelihoods and jobs to achieve prosperity
Project title and Quantum Project Number: Afghanistan Access to Finance Project

EXPECTED OUTPUTS	**OUTPUT INDICATORS[22]**	**DATA SOURCE**	**BASELINE**		**TARGETS (by frequency of data collection)**						**DATA COLLECTION METHODS & RISKS**
			Value	**Year**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year5**	**FINAL**	
Afghanistan's banking and microfinance sectors are strengthened through	1.1. At least two regulations or policies are approved by DAB and/or other authorities with		0[23]		1	1					DAB or other government regulatory rulings, adopted policies, degrees, laws;

[21] UNDP publishes its project information (indicators, baselines, targets and results) to meet the International Aid Transparency Initiative (IATI) standards. Make sure that indicators are S.M.A.R.T. (Specific, Measurable, Attainable, Relevant, and Time-bound), provide accurate baselines and targets underpinned by reliable evidence and data, and avoid acronyms so that the external audience clearly understands the results of the project.

[22] It is recommended that projects use output indicators from the Strategic Plan IRRF, as relevant, in addition to project-specific results indicators. Indicators should be disaggregated by sex or for other targeted groups where relevant.

[23] Regulations on MFIs are not updated. DAB took over the MFI sector and UNDP agreed to provide TA to DAB.

EXPECTED OUTPUTS	OUTPUT INDICATORS[22]	DATA SOURCE	BASELINE		TARGETS (by frequency of data collection)						DATA COLLECTION METHODS & RISKS
			Value	Year	Year 1	Year 2	Year 3	Year 4	Year5	FINAL	
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.	regard to Islamic Finance										
	1.2 Number of new Islamic banking products and services developed and implemented, which ensures access to finance for women	*UNDP*	3[24]		3	2	1			8	Project reports and TOT materials
	1.3. number of MFI personnel capacitated on Islamic finance	*UNDP/ IICPSD*	43[25]		100	100	100			300	*Project reports*
	1.4a. Market Connectivity Assessment through research on global demand for Afghan products and infrastructure satellite imagery,		1[26]		1	1					*Knowledge product*
	1.4b. Number of export oriented SMEs (> 30% women owned) are supported thru		0		20	50	50			120	*Project report*

[24] Microfinance PIP (country office and ICPSD)

[25] Baseline data displays the current initiative of UNDP CO and IICPSD on Islamic Finance.

[26] Agriculture Value Chain of nuts and dry fruits and export potential was conducted in 2023.

EXPECTED OUTPUTS	OUTPUT INDICATORS[22]	DATA SOURCE	BASELINE		TARGETS (by frequency of data collection)						DATA COLLECTION METHODS & RISKS
			Value	Year	Year 1	Year 2	Year 3	Year 4	Year5	FINAL	
	trade finance, export documentation and business guidance.										
	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)						*Project reports, monitoring reports*
Output 2: CGF in line with Islamic Finance is established and operational eliminating bottlenecks and enabling the mobilization of Afghanistan's domestic resources to	2.1 Guarantee Structure established [A portfolio guarantee structure including funding need, duration, and coverage in regard to the guarantee beneficiaries, fee structure, and underwriting, etc]	*UNDP UNCDF ACGF*	The full implementation of the designed portfolio guarantee structure and the implementation of the Counter guarantee agreement[27]	2022/3	100%	-	-	-		1	*Relevant SOPs and founding agreements*

[27] The portfolio is designed by the PIP in 2022/2023. Under the current Project, the Guarantee fund will be established by UNCDF using its own resources. UNDP is responsible for the costs related to the operationalization of CGF. 30% of the issued loans are expected to finance women owned or managed MSMEs.

EXPECTED OUTPUTS	OUTPUT INDICATORS[22]	DATA SOURCE	BASELINE		TARGETS (by frequency of data collection)						DATA COLLECTION METHODS & RISKS
			Value	Year	Year 1	Year 2	Year 3	Year 4	Year5	FINAL	
reach the most vulnerable and essential sectors of the economy.		*UNCDF / ACGF*		2022/3	1	-	-			1	*Founding documents and quarterly reports on ACGF performance*
		UNCDF / ACGF	*n/a*	2024/5	1	1	1			3	*Workshop and training materials and reports*
	2.2. Number of loans issued to SMEs under the credit guarantee program	*UNDP/ ACGF*	n/a	2024/5	155	155	50			360	ACGF, banks and MFIs quarterly and annual reports
Output 3. *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 # of digital payment solutions deployed	*UNCDF*	0	2022/3	0	5	0			5	*UNCDF periodical reports, partners report*
	3.2. # of clients (sex, age disaggregated) registered to the digital solutions with partnering PIs supported by the project	*UNCDF*	0	2022/3		4,000 (30% women)	2,000 (30% women)			6,000 (30% women)	*UNCDF periodical reports, partners report*
	3.3. # of clients (sex, age disaggregated) actively using the digital solutions supported by the project	*UNCDF*	0	2022/3		2,000 (30% women)	1,000 (30% women)			3,000 (30% women)	*UNCDF periodical reports, partners report*
	3.4 Number of digital payment	*UNCDF*	0	*2022/3*	5[28]	5	5			5	*UNCDF periodical reports, reports from the FSPs*

[28] The project will work with all 5 since the beginning and throughout the project period

EXPECTED OUTPUTS	OUTPUT INDICATORS[22]	DATA SOURCE	BASELINE		TARGETS (by frequency of data collection)						DATA COLLECTION METHODS & RISKS
			Value	Year	Year 1	Year 2	Year 3	Year 4	Year5	FINAL	
	providers receiving TA										

VI. Monitoring And Evaluation

In accordance with UNDP's programming policies and procedures, the project will be monitored through the following monitoring and evaluation plans:

Monitoring Plan

Monitoring Activity	Purpose	Frequency	Expected Action	Partners (If joint)	Cost (If any)
Track results progress	Progress data against the results indicators in the RRF will be collected and analysed by UNDP and UNCDF to assess the progress of the Project in achieving the agreed outputs.	Quarterly, and in the frequency required for each indicator.	Slower-than-expected progress will be addressed by project management	UNCDF, UNDP country office and IICPSD	TBC
Monitor and Manage Risk	Identify specific risks that may threaten the achievement of intended results. Identify and monitor risk management actions using a risk log. This includes monitoring measures and plans that may have been required as per UNDP's Social and Environmental Standards. Audits will be conducted in accordance with UNDP's audit policy to manage financial risk.	Quarterly	Risks are identified by project management and actions are taken to manage risk. The risk log is actively maintained to keep track of identified risks and actions taken.	UNCDF, UNDP country office and IICPSD	TBC
Learn	Knowledge, good practices and lessons will be captured regularly, as well as actively sourced from other projects and partners and integrated back into the project.	Semi-annually	Relevant lessons are captured by the project team and used to inform management decisions; learning and knowledge materials are regularly published	UNCDF, UNDP country office and IICPSD	TBC
Annual Project Quality Assurance	The quality of the project will be assessed against UNDP's quality standards to identify project strengths and weaknesses and to inform management decision-making to improve the project.	Annually	Areas of strength and weakness will be reviewed by project management and Project Board Meeting platform is used to inform decisions to improve project performance.	UNCDF, UNDP country office and IICPSD	TBC
Review and Make Course Corrections	Internal review of data and evidence from all monitoring actions to inform decision making.	At least annually	Performance data, risks, lessons and quality will be discussed by the project board and used to make course corrections.	UNCDF, UNDP country office and IICPSD	TBC
Project Report	A progress report will be presented to the Project Board and key stakeholders, consisting of progress data showing the results achieved against pre-defined annual targets at the output level, the annual project quality rating summary, an updated risk long with mitigation measures,	Annually, and at the end of the project (final report)		UNCDF, UNDP country office and IICPSD	TBC

Monitoring Activity	Purpose	Frequency	Expected Action	Partners (If joint)	Cost (If any)
	and any evaluation or review reports prepared over the period.				
Project Review (Project Board)	The project's governance mechanism (i.e., project board) will hold regular project reviews to assess the performance of the project and review the Multi-Year Work Plan to ensure realistic budgeting over the life of the project. In the project's final year, the Project Board shall hold an end-of project review to capture lessons learned and discuss opportunities for scaling up and to socialize project results and lessons learned with relevant audiences.	Annually	Any quality concerns or slower than expected progress is discussed by the project board and management actions agreed to address the issues identified.	UNDP	

Evaluation Plan[29]

Evaluation Title	Partners (if joint)	Related Strategic Plan Output	UNSFA / UNDP TCPS	Planned Completion Date	Key Evaluation Stakeholders	Cost and Source of Funding
Final Project Evaluation	UNDP and UNCDF	SP 1.3	UNSFA and UNDP TCPS Outcome 2	October 2026	UNDP, UNCDF, donor, beneficiaries, MFIs	USD 37,798

[29] Optional, if needed

VII. MULTI-YEAR WORK PLAN [30][31]

EXPECTED OUTPUTS	PLANNED ACTIVITIES	Planned Budget by Year					RESPONSIBLE PARTY	PLANNED BUDGET		
		Y1	Y2	Y3	Y4	Y5		Funding Source	Budget Description	Amount
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. *Gender marker: GEN 2*	Activity 1.1. Capacity building of DAB in Islamic banking regulations.	30,000	30,000	30,000			UNDP	First year TRAC 2	71200 Int IC 71300 N. IC 71600 Travel	90,000
	Activity 1.2. Promoting Shariah-compliant Value Chain Financing through Financial Institutions	125,000	100,000	50,000			UNDP[32]	First year TRAC 2	71200 Int IC 71300 N. IC 71400 Contr Service – ind 72100 Contr Service Company 71600 Travel 75700 Training, Workshops and Confer	275,000

[30] Cost definitions and classifications for program and development effectiveness costs to be charged to the project are defined in the Executive Board decision DP/2010/32

[31] Changes to a project budget affecting the scope (outputs), completion date, or total estimated project costs require a formal budget revision that must be signed by the project board. In other cases, the UNDP program manager alone may sign the revision provided the other signatories have no objection. This procedure may be applied for example when the purpose of the revision is only to re-phase activities among years.

[32] Sustainable Finance Hub (SFH) and the International Istanbul Center for Private Sector Development (IICPSD) will be engaged in provision for technical assistance to the engaged financial service providers.

EXPECTED OUTPUTS	PLANNED ACTIVITIES	Planned Budget by Year					RESPONSIBLE PARTY	PLANNED BUDGET		
		Y1	Y2	Y3	Y4	Y5		Funding Source	Budget Description	Amount
	Activity 1.3. Institutionalizing Islamic Finance expertise for the Financial Sector	50,000	50,000	50,000			UNDP	First year TRAC 2	71200 Int IC 71300 N. IC 71400 Contr Service – ind 72100 Contr Service Company 75700 Training, Workshops and Confer	150,000
	Activity 1.4. Value chain and trade ecosystem building	125,000	100,000	50,000				First year TRAC 2	71200 Int IC 71300 N. IC 71400 Contr Service – ind 72100 Contr Service Company	275,000

EXPECTED OUTPUTS	PLANNED ACTIVITIES	Planned Budget by Year					RESPONSIBLE PARTY	PLANNED BUDGET		
		Y1	Y2	Y3	Y4	Y5		Funding Source	Budget Description	Amount
	1.5. Supporting Sharia' Compliant Microfinancing for Ec	500,000	0	0				TRAC 2	71200 Int IC 71300 N. IC 71400 Contr Service – ind 72100 Contr Service Company	500,000
		Sub-Total for Output 1								**1,290,000**

EXPECTED OUTPUTS	PLANNED ACTIVITIES	Planned Budget by Year					RESPONSIBLE PARTY	PLANNED BUDGET		
		Y1	Y2	Y3	Y4	Y5		Funding Source	Budget Description	Amount
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. *Gender marker: GEN 2*	2.1 Activity: TA on setting and running a sound corporate governance structure, a sound internal control framework to safeguard operational integrity, and a comprehensive enterprise risk management framework. (Review claims and perform payout of claims and monitor recovery processes at ACFG level will be initiated. Follow up lending towards eligible borrowers, compute and compile on reported KPIs: to assess development impact.)	150,000 70,000	225,000 70,000	225,000 60,000			UNCDF UNDP	First Year TRAC 2	71200 Int IC 71300 N. IC 71400 Contr Service – individual 72100 Contr Service Company 71600 Travel 61300 IP Staff	600,000 200,000
	2.2. Launching Revolving Credit Fund (including selection of the non-governmental apex institution and ongoing technical assistance to the apex institution and engaged WMEs)	20,000	10,000	10,000			UNDP	First year TRAC 2	72100 Contr Service Company 72600 Micro Capital Grant 61300 IP Staff	40,000

EXPECTED OUTPUTS	PLANNED ACTIVITIES	Planned Budget by Year					RESPONSIBLE PARTY	PLANNED BUDGET		
		Y1	Y2	Y3	Y4	Y5		Funding Source	Budget Description	Amount
	Sub-Total for Output 2									**840,000**
Output 3. The Afghan digital payments ecosystem is strengthened by leveraging UNDP's interventions to support the resilience of Afghan people and private sector to crises and facilitate financial inclusion and sustainable development in the longer run.	Activity 3.1. Deploy client centric digital payment solutions in the last mile	150,000	200,000	190,000			UNCDF	TRAC 2	71200 Int IC 71300 N. IC 71400 Contr Service – individual 72100 Contr Service Company 71600 Travel	540,000
Gender marker: GEN 2	Activity 3.2. Build financial and digital capabilities of clients of digital payment providers	150,000	175,000	175,000			UNCDF	TRAC 2	71200 Int IC 71300 N. IC 71400 Contr Service – individual 72100 Contr Service Company 71600 Travel 75700 Training, Wkshp, Confr	500,000

EXPECTED OUTPUTS	PLANNED ACTIVITIES	Planned Budget by Year					RESPONSIBLE PARTY	PLANNED BUDGET		
		Y1	Y2	Y3	Y4	Y5		Funding Source	Budget Description	Amount
	Activity 3.3. Increase uptake and usage of digital payment solutions by key development partners for their interventions to enable solid demand for services	130,000	20,000	20,000			UNCDF UNDP	TRAC 2	75700 Training, Wkshp, Confr 61300 IP Staff	170,000
		Sub-Total for Output 3								**1,210,000**
Output 4. Project Management	Activity 4.1. Project Administration	640,000	640,000	640,000			UNDP	30084	61300, 62300, 63300 Salary & Post Adj Cst IP Staff	1,920,000
	Activity 4.2. Social and Environmental Screening expert is hired to conduct risk assessments (within 3 months after commencing the project).	30,000					UNDP			30,000
	Activity 4.3. Project Monitoring	10,000	10,000	10,000			UNDP	TRAC 2	Travel costs Contractual Services	30,000
	Sub-Total for Output 4									**1,980,000**
Project Evaluation	Terminal Evaluation			36,840			UNDP	UNDP	Contractual servi es	39,266
Direct Project Costs	9% of direct project costs									482,334

EXPECTED OUTPUTS	PLANNED ACTIVITIES	Planned Budget by Year					RESPONSIBLE PARTY	PLANNED BUDGET		
		Y1	Y2	Y3	Y4	Y5		Funding Source	Budget Description	Amount
General Management Support	8% of project costs									158,400[33]
TOTAL										**6,000,000**

[33] GMS cannot be charged over TRAC funds. Current GMS is calculated based on the assumption that Output 1 through Output 3 will be financed through the UNDP core funding.

VIII. GOVERNANCE AND MANAGEMENT ARRANGEMENTS

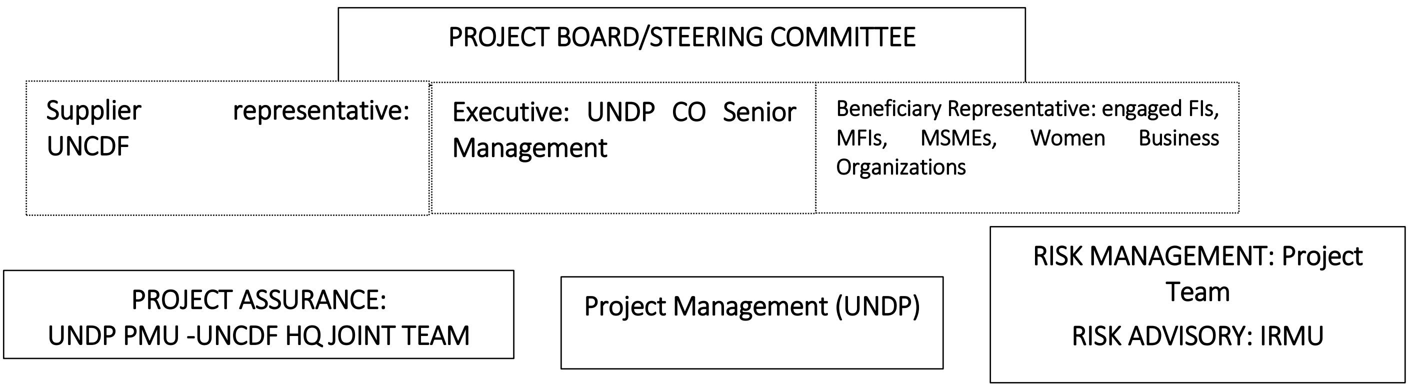
The Project will utilize the Project Board meetings to provide an oversight and governance mechanism that approves the development interventions.

AAF Project Board has three categories of formal members (e.g. voting members) – development partners/suppliers, Project executives and Project Beneficiaries:

1) An Executive: UNDP Senior Deputy Resident Representative, Program (SDRR-P) of the Afghanistan Country Office – representing the project ownership and chairs the group.
2) Development Partners/Senior Suppliers: The Senior Supplier's primary function within the Board is to provide guidance regarding the technical feasibility and the necessary approvals of the proposed interventions. The composition of the Senior Suppliers is kept at a different level considering the context. This plan will have to be implemented, and there is a need to bring in quick and efficient response: non-standard or non-traditional methods of operation warranted in the context of Afghanistan.
3) Senior Beneficiary: individual or group of individuals representing the interests of those who will ultimately benefit from the project. The Senior Beneficiary's primary function within the Board is to ensure the realization of project results from the perspective of project beneficiaries. Senior beneficiary category includes ABA (Afghanistan Banks' Association), MFIs, partners banks (Ghazanfar Bank, FMFB), digital payment providers, etc.

The composition below represents the board of the AAF project that operates imdependently and oversees the AAF project implementation in Afghanistan.

Project Board Organization Structure for AAFP



The Project Board will be set up to serve as an oversight mechanism and implementing mechanisms as below.

Project Assurance function: The Project Board will be supported by the Project Assurance function (independent of the Project Manager) to carry out objective and independent oversight. **UNDP Programme Management Unit** will perform quality assurance and supports the Project Board (and Project Management Unit) by carrying out the project oversight and monitoring functions, including applying UNDP's social and environmental management system to ensure compliance with the Social and Environmental Standards (SES) throughout the project cycle. Project assurance is independent of project implementation. The Project Assurance team will also ensure that the documentation produced by the project team complies with the necessary quality assurance standards and carry out any other assurance functions entrusted to them by the Project Board.

Risk Management Advisory: UNDP Afghanistan's Integrated Risk Management Unit (IRMU) performs an advisory role and provides guidance on risk management and the implementation of mitigation measures.

The dedicated **project management team** is responsible for day-to-day management and decision-making for the project and for delivering the expected outputs. The project management team will ensure that the Project will produce the expected outputs specified in the workplan to the required standard of quality and within the specific constraints of time and cost.

Project manager – to ensure effective project management of the assigned projects by maintaining the delivery of appropriate technical, operational, financial, and administrative outputs while tracking the project progress through monitoring, evaluation, and reporting; as well as to maintaining collaborative working relationships among key project partners (UNCDF, ACGF, banks, MFIs, MMOs) and national stakeholders such as DAB, through effective communication, consultation and collaboration. An in-house Private Sector Development Specialist will act as a Project Manager.
Chief Technical Adviser – to provide strategic guidance and technical oversight for the project and interventions in the areas of access to finance, banking, and digital payment solutions**,** as well as to ensure that outputs are high quality and consistent with the project's document. She/he will foster knowledge generation across access to finance initiatives and will support the project team as well the CO in expanding understanding and potential linkages with broader stakeholders toward the successful implementation of the UNDP strategic outcomes in this area. In-house Banking and Private Sector CTA will take on this role.
Digital Payment Specialist (NSPA-11) – Under the supervision and direction of the Project Manager, in collaboration with the UNCDF team, the incumbent will ensure the technical and coordination support to the overall implementation of the digital payment's component. She/he will assist with planning and execution of the digital payment's ecosystem, convening events and other public engagements related to the project or to other CO initiatives. To be hired.
Administrative Associate (NPSA-6) – under the overall guidance and supervision of the Project Manager, the Administrative Associate will provide the overall administration and execution of varied and inter-related operational and logistical activities in the Project. She/he will work in close collaboration with the Operations, Programme and projects staff in the CO, and other UN agencies ensure consistent service delivery.

Additional technical guidance and support will be provided through the UNDP Istanbul International Center for Private Sector Development (IICPSD).

Continuous integrated implementation support will be provided by the strengthened CO operations team, including financial, procurement, and recruitment services, in view of project-specific needs. Risk management and the implementation of mitigation measures will be performed by a dedicated risk management capacity that combines CO and HQ colleagues under the leadership of a Risk Manager. Outcome and output monitoring and the adaptive management process will be ensured by the CO Development Effectiveness Unit.

IX. Legal Context

As UNDP Afghanistan currently does not have a Standard Basic Assistance Agreement (SBAA) with the current DfA, the project document shall be the instrument envisaged and defined in the Supplemental Provisions to the Project Document, attached hereto and forming an integral part hereof, as "the Project Document".

This project will be implemented by UNDP in accordance with its financial regulations, rules, practices and procedures only to the extent that they do not contravene the principles of the Financial Regulations and Rules of UNDP. Where the financial governance of UNDP applies and will provide the required guidance to ensure the best value for money, fairness, integrity, transparency, and effective international competition.

X. Risk Management

Option b. UNDP (DIM)

1. UNDP as the Implementing Partner will comply with the policies, procedures and practices of the United Nations Security Management System (UNSMS.)
2. UNDP as the Implementing Partner will undertake all reasonable efforts to ensure that none of the [project funds][34] [UNDP funds received pursuant to the Project Document][35] are used to provide support to individuals or entities associated with terrorism , that the recipients of any amounts provided by UNDP hereunder do not appear on the United Nations Security Council Consolidated Sanctions List, and that no UNDP funds received pursuant to the Project Document are used for money laundering activities. The United Nations Security Council Consolidated Sanctions List can be accessed via https://www.un.org/securitycouncil/content/un-sc-consolidated-list. This provision must be included in all sub-contracts or sub-agreements entered into under this Project Document.
3. Social and environmental sustainability will be enhanced through application of the UNDP Social and Environmental Standards (http://www.undp.org/ses) and related Accountability Mechanism (http://www.undp.org/secu-srm).
4. UNDP as the Implementing Partner will: (a) conduct project and programme-related activities in a manner consistent with the UNDP Social and Environmental Standards, (b) implement any management or mitigation plan prepared for the project or programme to comply with such standards, and (c) engage in a constructive and timely manner to address any concerns and complaints raised through the Accountability Mechanism. UNDP will seek to ensure that communities and other project stakeholders are informed of and have access to the Accountability Mechanism.
5. In the implementation of the activities under this Project Document, UNDP as the Implementing Partner will handle any sexual exploitation and abuse ("SEA") and sexual harassment ("SH") allegations in accordance with its regulations, rules, policies and procedures.
6. All signatories to the Project Document shall cooperate in good faith with any exercise to evaluate any programme or project-related commitments or compliance with the UNDP Social and Environmental Standards. This includes providing access to project sites, relevant personnel, information, and documentation.
7. UNDP as the Implementing Partner will ensure that the following obligations are binding on each responsible party, subcontractor, and sub-recipient:
    a. Consistent with the Article III of the SBAA *[or the Supplemental Provisions to the Project Document]*, the responsibility for the safety and security of each responsible party, subcontractor and sub-recipient and its personnel and property, and of UNDP's property in such responsible parties, subcontractor's and sub-recipient's custody, rests with such responsible party, subcontractor and sub-recipient. To this end, each responsible party, subcontractor and sub-recipient shall:
        i. put in place an appropriate security plan and maintain the security plan, taking into account the security situation in the country where the project is being carried.
        ii. assume all risks and liabilities related to such responsible parties, subcontractor's and sub-recipient's security, and the full implementation of the security plan.
    b. UNDP reserves the right to verify whether such a plan is in place, and to suggest modifications to the plan when necessary. Failure to maintain and implement an appropriate security plan as required hereunder shall be deemed a breach of the responsible parties, subcontractor's and sub-recipient's obligations under this Project Document.

    c. Each responsible party, subcontractor and sub-recipient (each a "sub-party" and together "sub-parties") acknowledges and agrees that UNDP will not tolerate sexual harassment and sexual exploitation and abuse of

[34] To be used where UNDP is the Implementing Partner

[35] To be used where the UN, a UN fund/programme or a specialized agency is the Implementing Partner

anyone by the sub-parties, and other entities involved in Project implementation, either as contractors or subcontractors and their personnel, and any individuals performing services for them under the Project Document.

(a) In the implementation of the activities under this Project Document, each sub-party shall comply with the standards of conduct set forth in the Secretary General's Bulletin ST/SGB/2003/13 of 9 October 2003, concerning "Special measures for protection from sexual exploitation and sexual abuse" ("SEA").

(b) Moreover, and without limitation to the application of other regulations, rules, policies and procedures bearing upon the performance of the activities under this Project Document, in the implementation of activities, each sub-party, shall not engage in any form of sexual harassment ("SH"). SH is defined as any unwelcome conduct of a sexual nature that might reasonably be expected or be perceived to cause offense or humiliation, when such conduct interferes with work, is made a condition of employment or creates an intimidating, hostile or offensive work environment. SH may occur in the workplace or in connection with work. While typically involving a pattern of conduct, SH may take the form of a single incident. In assessing the reasonableness of expectations or perceptions, the perspective of the person who is the target of the conduct shall be considered.

d. In the performance of the activities under this Project Document, each sub-party shall (with respect to its own activities), and shall require from its sub-parties (with respect to their activities) that they, have minimum standards and procedures in place, or a plan to develop and/or improve such standards and procedures in order to be able to take effective preventive and investigative action. These should include policies on sexual harassment and sexual exploitation and abuse; policies on whistleblowing/protection against retaliation; and complaints, disciplinary and investigative mechanisms. In line with this, sub-parties will and will require that their respective sub-parties will take all appropriate measures to:

(i) Prevent its employees, agents or any other persons engaged to perform any services under this Project Document, from engaging in SH or SEA.

(ii) Offer employees and associated personnel training on prevention and response to SH and SEA, where sub-parties have not put in place its own training regarding the prevention of SH and SEA, sub-parties may use the training material available at UNDP.

(iii) Report and monitor allegations of SH and SEA of which any of the sub-parties have been informed or have otherwise become aware, and status thereof.

(iv) Refer victims/survivors of SH and SEA to safe and confidential victim assistance; and

(v) Promptly and confidentially record and investigate any allegations credible enough to warrant an investigation of SH or SEA. Each sub-party shall advise UNDP of any such allegations received and investigations being conducted by itself or any of its sub-parties with respect to their activities under the Project Document, and shall keep UNDP informed during the investigation by it or any of such sub-parties, to the extent that such notification (i) does not jeopardize the conduct of the investigation, including but not limited to the safety or security of persons, and/or (ii) is not in contravention of any laws applicable to it. Following the investigation, the relevant sub-party shall advise UNDP of any actions taken by it or any of the other entities further to the investigation.

e. Each sub-party shall establish that it has complied with the foregoing, to the satisfaction of UNDP, when requested by UNDP or any party acting on its behalf to provide such confirmation. Failure of the relevant sub-party to comply of the foregoing, as determined by UNDP, shall be considered grounds for suspension or termination of the Project.

f. Each responsible party, subcontractor and sub-recipient will ensure that any project activities undertaken by them will be implemented in a manner consistent with the UNDP Social and Environmental Standards and shall ensure that any incidents or issues of non-compliance shall be reported to UNDP in accordance with UNDP Social and Environmental Standards.

g. Each responsible party, subcontractor and sub-recipient will take appropriate steps to prevent misuse of funds, fraud, corruption or other financial irregularities, by its officials, consultants, subcontractors and sub-recipients in implementing the project or programme or using the UNDP funds. It will ensure that its financial management, anti-corruption, anti-fraud and anti-money laundering and countering the financing of terrorism policies are in place and enforced for all funding received from or through UNDP.

h. The requirements of the following documents, then in force at the time of signature of the Project Document, apply to each responsible party, subcontractor and sub-recipient: (a) UNDP Policy on Fraud and other Corrupt Practices (b) UNDP Anti-Money Laundering and Countering the Financing of Terrorism Policy; and (c) UNDP Office of Audit and Investigations Investigation Guidelines. Each responsible party, subcontractor and sub-recipient agrees to the requirements of the above documents, which are an integral part of this Project Document and are available online at www.undp.org.

i. In the event that an investigation is required, UNDP will conduct investigations relating to any aspect of UNDP programmes and projects. Each responsible party, subcontractor and sub-recipient will provide its full cooperation, including making available personnel, relevant documentation, and granting access to its (and its consultants', subcontractors' and sub-recipients') premises, for such purposes at reasonable times and on reasonable conditions as may be required for the purpose of an investigation. Should there be a limitation in meeting this obligation, UNDP shall consult with it to find a solution.

j. Each responsible party, subcontractor and sub-recipient will promptly inform UNDP as the Implementing Partner in case of any incidence of inappropriate use of funds, or credible allegation of fraud, corruption other financial irregularities with due confidentiality.
Where it becomes aware that a UNDP project or activity, in whole or in part, is the focus of investigation for alleged fraud/corruption, each responsible party, subcontractor and sub-recipient will inform the UNDP Resident Representative/Head of Office, who will promptly inform UNDP's Office of Audit and Investigations (OAI). It will provide regular updates to the head of UNDP in the country and OAI of the status of, and actions relating to, such investigation.

k. *Option 2:* Each responsible party, subcontractor or sub-recipient agrees that, where applicable, donors to UNDP (including the Government) whose funding is the source, in whole or in part, of the funds for the activities which are the subject of the Project Document, may seek recourse to such responsible party, subcontractor or sub-recipient for the recovery of any funds determined by UNDP to have been used inappropriately, including through fraud corruption or other financial irregularities or otherwise paid other than in accordance with the terms and conditions of the Project Document.

XI. ANNEXES

1. **Project Quality Assurance at Design Report -** Annex 1 AAFin Quality Assurance Rating Project Design and Appraisal Clean.docx

2. **Social and Environmental Screening -** Annex 2 AAFin SESP.docx

3. **Risk Analysis** - Annex 3 AAFin Risk Register.docx

4. **UNDP-UNCDF Parallel Fund Management -** Annex 4 AAFin Parallel Fund Mgt CGF UNDP UNCDF.docx

5. **Project Board Terms of Reference -** Annex 5 AAFin Terms of Reference Project Board.docx

6. **UNCDF Re Guarantee -** Annex 6 AAAFin UNCDF Re Guarantee.docx