

### Armenia: Rural Areas Economic Development Programme

Item	Assessment Remarks	Rating
<b>Country &amp; Project Name</b>	<b>Armenia: Rural Areas Economic Development Programme</b>	
Loan No.	653-AM	
Project Id.	1307	
Board Date	2 Dec 2004	
Effectiveness Date	19 July 2005	
Original Closing Date	31 March 2010	
Final Closing Date	31 March 2010	
Total Project Cost USD(M)	USD 28.72 million	
IFAD loan USD (M)	USD 15.30 million	
Cofinanciers (if any)	USD 3.73 from beneficiaries; USD 2.26 from GoA; USD 1.1 from Domestic Financial Institutions; USD 5.0 million from OFID; USD 0.52 million from USAID	
Implementing Agency	Ministry of Agriculture	
Principal Components	The programme's goal is to increase the sustainable incomes among rural people in the mountain areas of seven disadvantaged marzes. The programme's objective is to stimulate sustained growth of rural enterprise activity in the defined programme area. Programme's components are: i) Rural enterprise finance; ii) Rural business intermediation services; iii) commercially derived infrastructure (CDI); iv) programme analysis and administration.	
<b>Project Performance</b>		
Relevance	RAEDP was found to be very relevant. The programme's emphasis was on rural development, as opposed to a more narrow focus on agricultural enterprise development. It addressed the main constraints contributing to the persistence of rural poverty and impeding the real sustainable development of the rural areas of Armenia. Its aim of delivering an inter-related package of business development training and loans for investment and working capital for small and medium on and off farm enterprises and grant contributory financing of commercially derived infrastructure was also very relevant. RAEDP was also consistent with the GoA's Poverty Reduction Strategy Paper (PRSP), as well as with IFAD's country strategy by focusing its area specific interventions on the most disadvantaged mountainous part of the country where severe rural poverty was most persistent. Moreover, it drew on the four IFAD's projects previously implemented in the country and was also in line with the draft IFAD strategy for private-sector development and partnership.	6
Effectiveness	Despite being implemented in a complex environment (evolving governance framework and a period of serious macro-economic volatility), the project has been effective. RAEDP was effective in delivering sustainable work places for both men and women. Thanks to the RFF support, a total of 2090 jobs was generated of which 1000 were permanent jobs with an average yearly earning of USD 3095; 605 of these jobs were off-farm employment. The remaining 1090 jobs created were temporary full time equivalent each earning a yearly average of USD 2105. The average wage for each of the jobs created compares well with the national average of USD 2592 for agriculture workers and USD 3216 for workers in the manufacturing industry. The most developed value chains were wine, horticulture and dairy; these were also the most effective in creating cost effective jobs. Of total people employed in the country, the share engaged in agriculture rose from 46% at appraisal to 49% at programme completion, with an increase of around 36 000. The programme contributed to this increase by 2090 or by 5.8%. In addition, the rural finance facility (RFF) improved the availability of investment loans in rural areas for off- and on-farm enterprises amounting to USD 24.19 million. Providing large loans to enterprises driving value chains was very effective in developing demand for increased raw material benefitting the backwards linkage to smallholders and emerging commercial farmers. The approach resulted in a number of contract farming arrangements between processors and farmers.	6
Efficiency	RAEDP became operational in 2005 and was completed in 2009. It thus followed an execution period of just 4 years, being completed 21 months ahead of schedule with a 100% disbursement, yielding a disbursement factor of 1.35 indicating a very good financial disbursement performance. At appraisal, the total programme financing was USD 28.720 million. At programme completion, the total financing was USD 37.066 million, with a notable increase in financing from: i) beneficiaries, ii) RFF, and iii) Borrower's equity contribution to refinanced loans. The actual cost related to overall programme management (PAAU) was USD 1.681 or 4.5% of total disbursed funds and 10.6% of disbursed funds under IFAD loan. This indicates a management cost on the high side compared with other IFAD investment in the region. On the other hand, the programme cost of creating each of the incremental job compares well with other similar IFAD interventions in the region (Moldova, Macedonia and Romania). The economic internal rate of return/ EIRR for the rural financial services/ RFS component is 39%, while the EIRR for the infrastructure investments is 21%. This indicates an	5

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	efficient use of capital equal to the opportunity cost of money which has been set at 12% and it exceeded the annual GDP and inflation indicating a strong contribution to the economic growth. The total loan portfolio at risk at PCR was 2.48% which was very good compared to 14% for the financial sector as a whole. Over the programme period, non-eligible loans identified by RFF's monitoring amounted to 5.6% of all loans.	
Project Performance		<b>6</b>
<b>Partner Performance</b>		
IFAD	IFAD has played its role according to the Loan Agreement throughout programme implementation in a timely manner. IFAD was also instrumental in sourcing additional funding from OFID. IFAD participated in supervision missions and tirelessly followed up on recommendations made by the supervision missions.	6
Cooperating Institution	The UN Office for Project Services (UNOPS) provided programme supervision and implementation support during the implementation of the programme. The supervision missions provided the PAAU with useful recommendations in relation to M&E, international standards, training of participating financial institutions (PFIs), simplification of bidding procedures, tightening the targeting of RFF's financing activities.	6
Government	All the major statutory aspects of implementation were being implemented according to the Loan Agreement. However, the quality of READP financial management was not entirely satisfactory and the M&E activities under the PAAU suffered from too little support from management, this at times resulting in late submission of reports and insufficient collection of data and related analysis. With regards to the audit process, the audit reports were generally submitted late. The Programme Coordination Committee (PCC), met twice a year to review programme operations and the draft annual work plan and budget (AWPB). The PCC also provided advice to the Minister of Agriculture regarding programme implementation. The Rural Finance Facility (RFF) executed its responsibility according to the Subsidiary Loan Agreement (SLA) with MOF. However, RFF refinancing targeting was initially insufficient, although it improved after hiring a monitoring specialist.	4
NGO/Other	Through a competitive process, 9 Commercial Banks (CBs) were selected to participate in the programme implementation. All the CBs extended their financial services to the programme client group according to the respective Subsidiary Loan Agreement (SLA).	5
Cofinancier(s)	OFID loan disbursement amounted to 100% at the supervision mission of 2009. USAID operations have provided a limited amount of support for rural business intermediation, which has not been costed.	
<b>Combined Partner Performance</b>	<b><i>The PCR does not provide information to assess partner performance. It seems to have been good. In the 2009 supervision mission report, it was noted the lack of consistent information between the PAAU and RFF in terms of the RFF loan portfolio, the individual loans refinanced, and the sources of financing thereof. This illustrates insufficient PAAU-RFF coordination.</i></b>	
<b>Rural Poverty Impact</b>		
Household Income and Net Assets	Project's impact on this domain is considered strong. According to the PCR, the assets of the enterprises in receipt of the 306 performing loans was estimated to have increased from USD 20 million to USD 60 million. RFF refinanced loans have improved the employment situation in rural communities, for both men and women, by generating seasonal and permanent jobs. The 2090 people occupying the new jobs have increased their income. In addition, the 4355 farm-households benefitting from the investment in irrigation infrastructure have experienced an increase in the value of land from USD 3500 per ha before irrigation to USD 8500 per ha. The market value of a rural house connected to natural gas increased from USD 15000 to USD 18000. These hhs also experienced savings in hh energy consumption in 28 communities receiving natural gas. Another 15 715 hhs with 55708 members increased their disposable income as a result of savings from the infrastructure development. The programme's approach contributed to increased lending of PFIs own resources to the rural areas from USD 22 million at appraisal to USD 82 million at programme completion or 277% representing some 80% of total crediting to the rural sector at the time of programme completion. The overall increase of PFIs lending to the rural areas has implicitly led to a more equitable availability of loan financing for rural SMEs.	6
Food Security	Availability of sufficient quantities of food was not an issue during the appraisal. However, access to food was an issue for the extremely poor people. RAED contributed to increase the purchasing power for rural people to buy food. The project has contributed to the availability of increase in food supply and availability of food through increased family revenue for the 2090 persons occupying a new job, owners of the 306 enterprises, 538 farmers benefitting from new markets and 4355 farmers benefitting from irrigation.	5

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Ag. Productivity	RAEDP has increased agricultural productivity. The programme provided grant investment support to rehabilitation/development of irrigation schemes for the rehabilitation of 648 ha of previously irrigated land and bringing irrigation water to the field edge for 1977 ha of incremental land. RAEDP contributed to an improved crop production on over 3700 has of irrigated land. In addition, the milk producers supported under the programme increased their productivity of 44% and orchard farmers saw an increase in productivity of more than 50%. It is estimated that around 6200 farmers have shifted from low value field crops to cultivation of high value crops to meet the incremental demand from cold stores and processing plants.	5
<b>Food Security and Agriculture Productivity</b>		<b>5</b>
Natural Resources and Environment	Overall, the project has generally had a neutral to positive environmental impact. The most noticeable positive impact was the reduction of illegal wood harvesting in connection with availability of natural gas as alternative fuel having a long term important environmental impact.	5
Human and Social Capital and Empowerment	The programme contributed to improving the human assets through capacity building activities, contributing to enhancing entrepreneurial capability among individuals and SMEs. Provision of water and gas supply to rural hhs, schools and hospitals contributed to improvement of health aspects of occupants, and reduced the manual work in collecting water and fuel. Infrastructure investments in roads, represented a considerable improvement in accessibility and communications for local social services (schools, medical offices, postal offices, train stations, etc.). Living standards of individual borrowers have also improved, with better education opportunities for their children. Programme support to commercially derived infrastructure, fostered collaboration between initiative citizen groups, the respective marz offices and business communities resulting in 70 308 individuals benefitting directly because of collective action.	5
Institutions & Policies	The programme contributed to the expansion of financial services to the rural areas. In addition, RFF managed to attract financial resources from the WB and MCA amounting to USD 14.9 million. Out of the nine participating commercial banks, five were not involved in lending to the agriculture sector prior to the commencement of RFF. The project supported-PFIs have been stimulated to significantly expand their rural branch networks, their lending operations in rural areas, and their financing for agriculture. As a result, there is an increased availability of financial services in the rural areas. This resulted in overall growth of crediting to the agriculture sector from around USD 37 million at appraisal to 122 million at programme completion or an increase of 230%.	6
Markets	Through the value chain approach, the programme contributed directly to the improvements of input and output markets. The former improved as a result of value chain processors organising input for their supplier/contracted farmers. The latter was improved through expansion of demand for high value agricultural produce benefitting 6200 farmers. The development of road infrastructure facilitated collection of produce and improved access to markets, as well as it strengthened business relations between processors and suppliers. Market access was also enhanced through improved communication and reduced transport costs through the rehabilitation of 19.4 km of rural roads.	5
<b>Other Performance Criteria</b>		<b>5</b>
Innovation	RAEDP entailed three innovative approaches including: i) RFF; ii) large loans for enterprises driving value chains; iii) Community Derived Infrastructure. The PCR takes these innovations for granted and does not really analyze them from an innovation perspective. However, they are in line with what envisaged at appraisal within the Armenian development context. In addition, RAEDP has introduced village natural gas networks in IFAD supported portfolio of rural infrastructure investments in Armenia. Natural gas has proven a cheaper and cleaner alternative to firewood, resulting in savings for the rural poor and protection of the environment.	5
Replicability and Scaling-up	The PCR is very brief in dealing with this theme. According to the PCR, the three main innovative features of RAEDP can be scaled up, as long as appropriate measures are taken in order to deal with some of their weak points. With regard to targeting, the PCR states that it is both possible and desirable to replicate the programme strategy and most of the approaches, with some small changes to be made.	5
<b>Innovation, Replicability and Scaling-up</b>		<b>5</b>

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Sustainability and Ownership	The challenge for RFF is to identify other sources of funding in order to reach long-term financial stability at high level of refinancing. IFAD is assisting in developing a long-term strategy for this. The sustainability of the enterprises supported by refinanced investment loans appears to be high. The biggest threat to their sustainability is competitiveness and access to markets. With concerns to infrastructure investments, organisational arrangements are in place to undertake both maintenance, replacement of equipment and fixed structures, albeit with continued reliance on state subsidies. The maintenance of gas networks is the responsibility of a Closed Joint Stock Company that has proven successful in covering its costs through the collection of consumption fees since 2003, thus sustainable operation of the completed gas networks is not an issue. The rural road networks is mainly under the ownership of the marz administration but it is not likely that these offices are able to finance the cost related to maintenance without participation of the central government. With regard to the provision of business development service, their increased use as a management tool by the enterprises has led to higher demand for this service enabling several business service providers to include it as part of their permanent products ensuring sustainability of this service.	5
Targeting	The client group for RAEDP included unemployed rural men and women, small and medium-sized farmers, rural entrepreneurs, agro-processors and traders and non-agriculture SMEs. Notwithstanding its demand driven nature, RAEDP used a number of instruments to assure targeting. First, the programme area included the seven mountain area marzes, which were among the poorest in the country with an overall poverty level of 34.6% and extreme poverty of 6.4%. Secondly, criteria with respect to loan size, purpose, and duration was tailored to direct programme support to micro, small and medium on and off-farm enterprises where IFAD's primary target populations was concentrated. Similarly, loan criteria assured support to enterprises with strong backward linkages to poor rural communities and high potential for generating employment.	5
Gender Equality and Women's empowerment	The PCR provides few information at this regard. Women have been estimated to occupy 35% of the RAEDP-generated jobs. The PCR mentions that 26 loans have been disbursed to women borrowers under RFF refinancing. This represents 8% of portfolio volume and 11% of value. The gender distribution of the loan portfolio indicates low women's participation; however, gradual improvements in women accessing RFF refinancing are noted.	4
<b>Overall Performance</b>		<b>6</b>
Estimated number of beneficiaries		
<b>PCR Quality</b>		
Scope	The PCR is in line with guidelines. All the requested annexes have been included.	5
Quality	The overall quality is good. There is a good analysis of programme's main achievements as well as shortcomings. In addition, the PCR provides substantial quantitative information to back up its findings.	5
Lessons	The section on lessons learned should have been systematized better, as some lessons were scattered in the report. In addition, the emphasis of these lessons is only on the less positive issues of the project.	4
Candour	Overall, the report is objective and self-critical.	5