IFAD

Enabling poor rural people
to overcome poverty

Independent Office of Evaluation

Republic of Armenia

Rural Areas Economic Development Programme

PROJECT PERFORMANCE ASSESSMENT

June 2012

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June 2012
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Photos of activities supported by the Rural Areas Economic Development Programme

Front cover: Cheese production, Shirak Marz

Back cover: Cattle farm, Aragatsotn Marz (left); Small winery, local women labelling wine for export, a village in Vayots Dzor Marz (right).

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Preface

The Rural Areas Economic Development Programme left a visible and positive impact on rural areas development in Armenia in many respects. Through establishment of the Rural Finance Facility the project improved access of rural small and medium entrepreneurs to short, medium and longer-term investment loans and facilitated employment in rural areas. Rural Finance Facility incentives stimulated financial institutions to embark in rural banking operations; integrated the borrowing rural producers and enterprises into the mainstream of the banking system; and made them more knowledgeable, so as to negotiate better loan terms. Investment in infrastructure contributed to improving rural livelihoods, as well as increasing income and food security, and, through crop diversification, increased farming produce and commercial activity.

At the same time, the project could have had better pro-poor targeting design for both loans and infrastructure investments, as its main beneficiaries were rural medium-size enterprises. The gender aspect was addressed in the project only nominally. Among key findings of this review are the need to step up to the next level of the support to institutional and policy reforms in Armenia, including for insurance and leasing schemes in rural areas; to diversify loan products, adjusted to local conditions; and to target specific, more vulnerable groups. IFAD operations in Armenia should further support the value chain approach and include additional awareness activities about the project.

This assessment was prepared by Konstantin Atanesyan, Senior Evaluation Officer (lead evaluator), George Polenakis, consultant and rural development specialist and Linda Danielsson, Evaluation Assistant. Ashwani Muthoo, Deputy Director, and Anne-Marie Lambert, Senior Evaluation Officer, provided comments on the draft report. This Office is grateful to IFAD's Near East, North Africa and Europe Division for inputs provided throughout the evaluation process, as well as to the Government of the Republic of Armenia and to all in-country stakeholders for their constructive collaboration and support.

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Director
Independent Office of Evaluation of IFAD

Fish farm in Shirak Marz - activity supported by the Rural Areas Economic Development Programme.
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Currency equivalents, weights and measures

Currency equivalents

Currency unit = Armenian Dram (AMD)
US$1 = 387.96 AMD
US$1 = 0.763 Euro
(1 February 2012)

Weights and measures

1 kilometre = 0.62 miles
1 metre (m) = 1.09 yards
1 hectare = 10,000 m^2 (0.01 km^2)
1 hectare = 2.47 acres

Abbreviations and acronyms

AMD	Armenian Dram
CDI	Commercially Derived Infrastructure
COSOP	country strategic opportunities paper (IFAD)
IFAD	International Fund for Agricultural Development
IOE	Independent Office of Evaluation of IFAD
MCC	Millennium Challenge Corporation
PAAU	Programme Analysis and Administration Unit
PCR	project completion report
PCRV	project completion report validation
PFI	participating financial institution
PPA	project performance assessment
PRSP	Poverty Reduction Strategy Paper
RAEDP	Rural Areas Economic Development Programme
RBIS	Rural Business Intermediation Service
RBISP	Rural Business Intermediation Service Providers
REF	Rural Enterprise Finance
RFF	Rural Finance Facility
USAID	United States Agency for International Development
UNOPS	United Nations Office for Project Services

Map of the project area

Republic of Armenia

Rural Areas Economic Development Programme

Project performance assessment

12-01-2012

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

IFAD *Map compiled by IFAD*

Executive summary

1. **Background and objective.** The Rural Areas Economic Development Programme (RAEDP) was the fifth IFAD-funded project in Armenia. It was approved by the Executive Board in December 2004 and completed by December 2009. It aimed at addressing the persistent rural poverty in Armenia, attributed to low productivity, antiquated technology, poor physical infrastructure, lack of knowhow for private enterprise development, and lack of access to medium and long-term loans for investment and working capital.

2. **Design.** RAEDP introduced a risk-sharing mechanism, new for Armenia, and hence rural investment incentives for both banks and clients with various innovative features: i) the establishment of the Rural Finance Facility (RFF), as a vehicle for leveraging private-sector capital in support of poverty reduction; ii) a mechanism that unlocks the door to long-term loans for agricultural and rural development enterprises; and iii) a package including finance, knowhow transfer and an awarding mechanism of grants for investments in public infrastructure based on commercially justifiable criteria.

3. **Components**. RAEDP investments were organized along four components: the Rural Enterprise Finance, through the RFF, the Rural Business Intermediation Service (RBIS), the Commercially Derived Infrastructure (CDI) and the Programme Analysis and Administration Unit (PAAU) component. The largest investments were planned for the loan refinancing facility (Rural Enterprise Finance) and the infrastructure (CDI) component. The business support facility (RBIS) was assigned scant resources, as it was expected to be supplemented by a contribution from the United States Agency for International Development that never materialized.

4. **Relevance.** The project's objectives were relevant to Armenia's strategic priorities, IFAD's country strategy, and the needs of the beneficiaries. At the same time, there were a few design issues within specific sub-components related to pro-poor targeting, poverty impact of infrastructure investments, and provision of technical assistance.

5. **Effectiveness.** The project was effective in producing results. Through establishment of the RFF access of rural small and medium entrepreneurs to short, medium and longer-term investment loans has clearly improved. RFF incentives stimulated financial institutions to embark in rural banking operations; integrated the borrowing rural producers and enterprises into the mainstream of the banking system; and made them more knowledgeable, so as to negotiate for better loan terms. The establishment of RFF introduced a platform on which other donors could (and did) invest in the rural sector. In parallel, CDI invested in a number of rural infrastructure facilities, improving irrigation, natural gas and water supply and road networks in the project areas. The technical (non-financial) support to rural entrepreneurs was not offered as planned due to withdrawal of a co-financing partner.

6. **Efficiency.** Overall, the project was implemented efficiently, some shortcomings notwithstanding. A closer collaboration between the components in promoting farm investment would likely have brought forward the benefits and increased the efficiency of project outcomes.

7. **Impact.** The project left a visible footprint in Armenia's rural areas in many respects. Most prominent is RFF's contribution to enhancing rural enterprise activity and employment. CDI contributed to increasing income and food security, through crop diversification, additional farming produce and commercial activity; while the whole project brought human and social capital improvements.

8. **Sustainability.** The project's sustainability is fairly secured. The RFF is operating self-sufficiently, and CDI maintenance was ceded to technically and financially adept entities.

9. **Innovation and scaling up.** RAEDP successfully accomplished its innovative agenda. RFF proved to be an excellent platform for attracting capital. Possible scaling up of this instrument could focus on developing a scheme to stimulate the insurance and leasing sectors that still remain undersized in Armenia. However, the package including finance, know-how and infrastructure did not develop as intended due mainly to lack of coordination between its components.

10. **Gender.** Principles of funding were expected to ensure preference to job creating investments with emphasis on rural women. The project implementation did not however include any gender focus. Effects, like 37 per cent of the jobs created occupied by women, can therefore be considered incidental.

11. **Recommendations**. RFF's successful operation could be promoted to the next level of operation that would involve assisting the financial sector in developing leasing and insurance related products; and stimulating participating financial institutions towards offering loans on business terms, in local currency; and at an interest rate more favourable to the rural entrepreneur. Refinance targeting should aim at specific focus groups and developmental outcomes. IFAD operations in Armenia should further support the value chain approach, as well as include more activities aimed at increasing public awareness about IFAD programme to improve public participation in infrastructure investment decisions.

Village winery, Vayots Dzor Marz - activity supported by the Rural Areas Economic Development Programme.
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I. Background, methodology and process

1. Under the 2011 Evaluation Policy[1] of the International Fund for Agricultural Development (IFAD) the Independent Office of Evaluation (IOE) undertakes project completion report validations (PCRVs) and project performance assessments (PPAs) for selected projects. The purpose of PCRVs and PPAs is to assess the results and impact of IFAD-funded projects and subsequently yield lessons that will improve the design, implementation and impact of future operations.[2] While a PCRV is mainly based on desk review of documents, a PPA entails a short field mission with the aim to gather further data and information and instigate an evaluative process through which deeper understanding of the evidence and its explanation will emerge.

2. The Rural Areas Economic Development Programme (RAEDP) was selected for a PPA, not only for geographic balance but also because of its broad focus on rural development going beyond agricultural enterprise development. RAEDP introduced private sector development as the main engine for poverty reduction while diversifying the non-farm rural economy, shifting focus to market-oriented rural production and food security.

3. The PPA process followed the standard IFAD/IOE methodology: IFAD Evaluation Manual[3] and Guidelines for PCRVs and PPAs. The PPA started with desk-based preparatory work involving extensive research of data included in relevant IFAD documents, IOE evaluations, and external sources.[4] Before undertaking the field mission, the evaluators took stock of the available evaluative information by examining the findings of the PCRV, and identified key areas and data gaps to be focused on during the country visit. Primary data was collected in the field in order to validate the findings and conclusions of the PCRV and to allow for an independent assessment of project performance. Because of time constraints, a qualitative approach was adopted for data collection. Data collection methods comprised individual interviews and focus group discussions, as well as processing data obtained from the Programme Analysis and Administration Unit (PAAU), Rural Finance Facility (RFF) and other partner institution databases.

4. The field mission[5] in Armenia was undertaken between October 23 and November 3, 2011. The evaluation team met representatives of the Government, donor partners, project managers, and beneficiaries in a representative sample area. An initial stay in Yerevan allowed the team to review RFF and PAAU data and meet with cooperating commercial banks (under the rural finance component) as well as with Ministers of Finance and Agriculture. Subsequent visits to the *marzes*[6] of Aragatsotn, Lori, Shirak, Tavush and Vayotz Dzor permitted to interview local authorities and final beneficiaries of the infrastructure component, as well as rural enterprises and farmers that used the rural finance facility.[7]

5. Based on data collected in the country and the findings of the PCRV, a draft PPA report was prepared by IOE. The CPM for Armenia was regularly consulted and informed during preparation of the PCRV and PPA.

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[1] Available at: http://www.ifad.org/gbdocs/eb/102/e/EB-2011-102-R-7-Rev-1.pdf.
[2] IOE validates a selected number of PCRs in a given year. A 20-30 per cent of projects validated with a PCRV, are being selected for a deeper analysis through PPA.
[3] Available at: http://www.ifad.org/evaluation/process_methodology/doc/manual.pdf.
[4] A list of documents reviewed appears in annex 6.
[5] The mission to the project areas was led by IOE Senior Evaluation Officer, Mr Konstantin Atanesyan, with support from Mr George Polenakis, evaluation specialist, who drafted this report.
[6] A “Marz” is an administrative district – region.
[7] A list of key persons met and interviewed appears in annex 5.

II. The project

A. Project context

6. RAEDP was the fifth IFAD-funded project in Armenia. It was approved by the IFAD Executive Board in December 2004, signed in January 2005 and was declared effective in July 2005. The project was completed in December 2009 and the loan was closed in March 2010 (earlier than planned, in March 2012).[8] There were two amendments on the loan: one for reallocation of funds in 2008, and a second related to change in management in 2009.

7. The project followed IFAD's strategy in Armenia and the region (as noted in the 2003 country strategic opportunities paper [COSOP]), and focused on strengthening the capacity of the rural poor and local organizations (water user associations, village credit associations, and social infrastructure maintenance groups); ensuring more equitable access to irrigation water; and increasing the access of the poor to financial services and markets. It was aimed at addressing the persistent rural poverty in Armenia, attributed to low productivity, antiquated technology, poor physical infrastructure, lack of knowhow for private enterprise development, and lack of access to medium and long-term loans for investment and working capital.

8. The rural sector in Armenia showed the typical deficiencies of an abrupt transition from planned to market economy. Land resources were privatized and distributed in small parcels to households which often were not proficient in farming (at project inception the average farm size was 1.37 ha). Only 60 per cent of all farmers had access to irrigation and, on average, only 0.7 ha per farm was irrigated. Moreover, many 'farmers' had little or no technical knowledge and skills, having entered agricultural production as a survival strategy to cope with the collapse of other sectors of the economy.

9. Rural poverty levels at project inception were severe (50.1 per cent poverty and 11.2 per cent extreme poverty) and directly correlated with altitude where harsh conditions restrict agricultural productivity.

10. Armenia's policy for poverty reduction was articulated comprehensively in the country's Poverty Reduction Strategy Paper (PRSP). A number of donors aligned their activities supporting specific components of the PRSP. RAEDP contribution was also aligned to PRSP and was therefore complementary to several other donors' inputs.

11. Project objectives: The goal of RAEDP was to increase sustainable employment and incomes among rural people in the mountain areas of seven disadvantaged *marzes*.[9] The objective subsumed under this goal was to stimulate growth of rural enterprise activity in the defined programme area. These would be achieved by directly addressing the causes of poverty by: a) providing medium and long-term financing to rural commercial entities, giving an outlet for investment and working capital; b) providing business intermediation services to Small and Medium Enterprises, so as to enhance their ability to access the financial markets and operate competitively in a market environment; and c) establishing commercially derived infrastructure to address the existing bottlenecks for private businesses (natural gas and water supply, irrigation networks and rural roads). The benefit was expected to stem from unemployed rural men and women, small and medium farmers, rural entrepreneurs, agro-processors and traders who would improve their economic position by borrowing for investment or by taking advantage of jobs created by other, more business oriented peers.[10]

12. Project Components: RAEDP investments were organized along four components: the Rural Enterprise Finance (REF), the Rural Business Intermediation

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[8] Project Status Report, July 2010.
[9] Aragatsotn, Gegharkunik, Lori, Shirak, Syunik, Tavush and Vayots Dzor.
[10] Annex 7: Simplified logical project scheme.

Service (RBIS), the Commercially Derived Infrastructure (CDI) and the PAAU component. Table 1 shows in summary the financial weight attributed to each component.

Table 1
Summary of project costs US$ '000

Component	*Allocated*	*%*	*Disbursed*	*%*
REF	14 428	50.2	21 769	58.7
RBIS	210	0.7	0	0
CDI	12 415	43.2	13 388	36.1
PAAU	1 519	5.2	1 525	4.1
Miscellaneous	148	0.5	384	1
Total	28 720		37 066	

13. The largest investments were planned for the loan refinancing (REF) and the infrastructure (CDI) component. The RBIS was assigned scant resources, as it was expected to be supplemented by a United States Agency for International Development (USAID) contribution that never materialized.

14. There were two amendments during implementation: a) one for the reallocation of unallocated funds (2008) to CDI and b) a change of the supervision from the United Nations Office for Project Services (UNOPS) to IFAD (2009).

B. Project implementation performance

Refinancing

15. REF's objectives were achieved through the establishment of an autonomous unit - the RFF - that operated under the Ministry of Finance. RFF was a refinancing facility until the end of the project, when it turned to a revolving fund. Prequalified participating financial institutions (PFIs) were borrowing at a 4 per cent interest rate (on US$ loans) to consecutively lend to eligible beneficiaries for qualifying investments. The facility was targeting two levels of clientele: a) the households based on and off-farm microenterprises (loans up to US$5,000); and b) the rural Small and Medium Enterprises (loans up to US$150,000). During implementation a third category has emerged, of household/family producers with longer economic reach, applying for loans between US$5,000 and US$10,000.

16. The banking sector in Armenia is relatively small. Before the establishment of RFF banks were reluctant to offer credit for agricultural activities, as they were considered to be highly volatile. Banks were disconnected from the rural economy and as a result there was a clear mismatch between demand for and supply of rural credit. A few banks were offering small loans of short duration with unfavourable terms (i.e. up to US$5,000; two year duration; and short grace period). Such loans were issued as working capital to address crop or price fluctuations, rather than for investments for business growth. Rural entrepreneurs needed larger loans that could allow for more substantial investments, and longer durations to permit investments to gestate and yield revenue before repayment.

17. The establishment and operation of RFF increased the competence and interest of commercial banks to serve rural clients. Credit volume increased with a multiplier effect (PFIs had to provide up to 30 per cent own capital, clients 20 per cent own contribution, RFF attracted additional funding from the Millennium Challenge Corporation (MCA), the World Bank and the Government of Armenia, tripling the original IFAD loan amount). The banks increased their portfolios in rural activities, while some opened several new branches in the targeted areas. The loans offered through the RFF scheme were longer in duration (up to 7 years) and larger in size (up to US$150,000). They were therefore more appealing to clients. The gap

between credit demand and credit supply became narrower. Rural lending of PFIs increased from US$22 million to US$82 million over the lifespan of the project.[11]

18. During the project's implementation period RFF refinanced 322 investment loans valued at US$13.3 million. The number kept increasing even after project completion, as RFF continues operation as a revolving fund. By the time of the PPA mission RFF had reached a number of 474 loans amounting to US$17.5 million. Out of these, 18 where small working capital loans (<US$3,000) and 111 large investment loans (>US$100,000). The largest number and amount was given for livestock production and the champion areas were Aragatsotn and Gegharkunik *marzes*. A detailed breakdown of loans per rural activity, size and marz can be found in annex 8.

19. RFF allowed financial institutions adequate discretion concerning collateral and interest rate decisions in loan provision so as not to distort the basic rules of the commercial lending market. PFIs borrowed and offered RFF loans in US$. As there was no hedging system against exchange rate risks, PFIs transferred risk to clients, offering loans only in US$. During the project's lifespan (in 2008-2009) AMD suffered a substantial depreciation (of about 25 per cent) which affected clients sharply. This caused relevant complaints and increased the demand for loans in AMD. The PPA mission witnessed a number of cases willing to pay higher premiums for AMD loans.

20. Other points of contention that arose during implementation included the collateral requirements and the length of the grace period. Banks offered loans only against collateral. As the insurance industry was not well developed, loans at business terms were not common. Smaller borrowers and start-ups often had difficulty in providing sufficient collateral (land, which is the only collateral small farmers normally could provide, was not highly valued by the financial sector). Borrowers also argued that grace periods should cover for the investment's gestation period, so that they can repay the loan with their investment's yield. As the financial sector grows and matures, these issues will have to be resolved.

21. In addition, several borrowers have complained that in the recent past loan disbursements were not timely and often came later than the season they were meant for. RFF addressed this issue and reportedly resolved it at the time of the PPA mission. RFF claims now to be able to process loans in three days' time.

22. Collateral was a controversial issue between PFIs and clients. The issue of collateral is linked to the fact that the insurance sector is still underdeveloped in the country. Emerging rural entrepreneurs with a sound business plan often lacked the ability to provide collateral. Collateral valuation has also been a point of contention hindering otherwise sound investments to go through.

Rural business intermediation service

23. The objective of this component was to create a network of RAEDP accredited Business Intermediation Service Providers (RBISPs) who would be trained to assess the commercial feasibility of an investment proposal, prepare relevant business plans, and ultimately seek financing for loan applicants at a discounted rate. The project would secure discounted services with a subsidy of US$100 for first-time borrowers.

24. The component was planned to be financed by an additional USAID contribution that never went through. USAID-financed Small and Medium Enterprise Market Development Project separately identified and trained 16 RBISPs. As per the Project Completion Report (PCR), they in turn provided services to some of the project clients, albeit with a bias towards larger borrowers.

25. The PPA mission found little, if any, presence of RBISPs in the project areas and concurs with PCR findings stating that *a more proactive and direct programme*

[11] Source: Armenia Central Bank.

support for technical advisory service including the development of key value chain aspects would likely have strengthened the outcome of the programme.

Commercially derived infrastructure

26. The objective of this component was to contribute to the upgrade of obsolete infrastructure in the mountain areas (natural gas, drinking water, irrigation and road networks) with the aim to improve operational efficiencies in the supply/value chain. Several other donors (World Bank, MCA, EBRD) were participating in the infrastructure upgrade scheme that was coordinated by the Ministry of Agriculture. Rural infrastructure development (and strengthening of rural development) was one of the PRSP pillars. IFAD was one of the contributors towards it.

27. This component was implemented by establishing a mechanism within PAAU responding to investment proposals that were consistent with RAEDP, financially viable and sustainable, and able to contribute at least 10 per cent of the cost (usually in-kind and often offered by the Government of Armenia). The Ministry of Agriculture together with PAAU supervised the coordination of the selection process.

28. CDI focused on irrigation infrastructure (50 per cent of the total investment). It also provided for improvement in the gas network in rural areas (25 per cent of the investment), improvement of the road network used for milk and grain transportation (20 per cent) and improvements of drinking water local hubs (5 per cent). Latest PAAU data (November 2011) report that CDI interventions resulted in 2,337 ha of land benefiting from the irrigation scheme, corresponding to 5741 potential users; 3377 new household connections to the gas network; 17.7 Km of roads serving 24,721 inhabitants; and 13 communities acquiring access to drinking water.

29. PCR data on the number of households and persons benefiting from CDI interventions seem to be overvalued. They do not reflect the number of users actually linked or benefiting from the developed infrastructural networks. Instead, data represent the number of households and users who can potentially have access to the networks. In some cases there may be a substantial discrepancy between the two numbers.

30. In some observed cases, the benefits of extended rural gas infrastructure did not reach poorer consumers. The project financed the creation of middle/low pressure pipelines, but not the final connection (from the main network to the house), which remained to be the financial responsibility of the final consumer. In several observed cases, the poorer consumers could not afford the expense. Furthermore, over the years the price of gas almost tripled and poorer users that bought the connection initially were reported to hardly use the natural gas, which was supposed to be a more environmentally-friendly substitute for other fuels, such as firewood, coal, etc.

31. This PPA (in agreement with the PCR) noted a strong desire of the beneficiaries to have access to better infrastructure (roads, water, gas and irrigation). At the same time, this PPA did not observe it to be the key factor in improving the business environment and stimulating new investments. The general impression from meetings with the beneficiary group was that the main benefit of water and gas networks was the improvement in the livelihood of the rural community. The effect on rural business was secondary (and addressing mainly livestock production), with the exception of irrigation investments, that contributed to supporting increased production.

III. Review of findings by criterion[12]

A. Project performance

Relevance

32. Armenia's rural poverty reduction strategy was defined by the country's 2003 PRSP (led by the Ministry of Finance) and the Strategy for Sustainable Development (led by the Ministry of Agriculture). IFAD's country strategy was reflected in the 2003 COSOP. PRSP and the Strategy for Sustainable Development declared growth of agricultural production to be the main factor for the reduction of rural poverty. The strategy envisaged development of financing mechanisms for agricultural production, and targeted substantial increases in productivity and farm incomes, by solving the problems of irrigation and water use. It also sees that the development of business services is a requirement for the desired growth. The COSOP in parallel proposed focus on irrigation management and rural financial services.

33. **Relevance of objectives**. The RAEDP objectives were relevant to Armenia's strategic priorities and IFAD's country strategy, and were in line with the rural development component of the PRSP. It aimed to address the most important reasons for underperformance of the agricultural sector in Armenia: (i) Limited availability of financial services; (ii) Poorly developed supply of agricultural input; (iii) Poor status of social productive infrastructure; and (iv) Lack of appropriate skill in the work force (former urban settlers). In this context, the project's inter-related package of business development training, loans for investment, and financing of commercially derived infrastructure was relevant and timely. The project was also relevant in addressing COSOP priorities by focusing its area-specific interventions on the disadvantaged mountainous parts of the country.[13]

34. **Relevance of design.** RAEDP tried ambitiously to accomplish the largest part of the country's rural poverty eradication strategy with fairly limited resources. It tried to address many important issues, that could have warranted to be covered by a separate project and therefore assimilated components that could have been separate projects.

35. RAEDPs objectives, although relevant, where overly ambitious. Some of the components where doomed to receive inadequate resources and attention. As such, the RBIS component failed to fulfil its contribution and CDI often financed residual needs that other donors did not include in their programmes.

36. The all-encompassing design proved however to be beneficial at the initial stage of implementation. While RFF, due to its innovative features, needed initial time to take off, the project could focus on other, more straight-forward interventions, like infrastructure rehabilitation.

37. RAEDP developed relevant arrangements for implementation that focused on results. At the same time, the project appears to have favoured the higher income rural entrepreneurs, rather than the rural poor. Notably, while business services were mostly needed by small/household-type farming entrepreneurs, they mainly favoured larger investments, as it did not make financial sense for providers to deal with small investments. In some cases, this was a clear case of mislabelling: many investments in CDI (e.g. drinking water) did not qualify to be called "commercially derived infrastructure", although they eventually benefited the rural population in terms of improving their quality of life, albeit at somewhat high cost in several observed cases.

38. In all RAEDP investments and RFF-refinanced loans in particular, gender criterion was not factored in. CDI investment' results indicating that male and female beneficiaries were similar in percentage were not trustworthy indicators, as they referred to potential and not actual users.

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[12] See annex 4 for a summary of definitions of evaluation criteria used by the Independent Office of Evaluation (IOE).
[13] PCRV.

39. Overall, RAEDP's relevance rating is moderately satisfactory (rating 4), which is lower than self-rating of highly satisfactory (6). Although RAEDP had relevant objectives geared to the needs of the beneficiaries, there were design deficiencies related to pro-poor targeting and poverty impact of infrastructure investments.

Effectiveness

40. PAAU data indicate that the RFF component quadrupled the availability of rural credit (from US$22 million to US$82 million). It provided additional incentives to nine PFIs to open fifteen new branches in the project area, thus improving access of the rural population to new financial services, including consumer loans. Five banks started their involvement in rural finance because of the RFF component. RFF was responsible for 2,090 accounted full time jobs (out of which 775 occupied by women), mainly in production/processing of dairy, wine, fruits and vegetables. The PCR reported a 27 per cent growth in value of gross agricultural output, attributing it to the shift from low value staple production to high value horticulture. Similar increases are reported for milk production and food processing output.

41. The establishment of the RFF has clearly improved the access of rural small and medium entrepreneurs to short, medium and longer-term investment loans. RFF incentives, stimulated appetite among financial institutions to embark in rural banking operations; integrated the borrowing rural producers and enterprises into the mainstream of the banking system and induced them to become more knowledgeable, as to negotiate for better loan terms. The establishment of RFF introduced a platform on which other donors can (and did) invest in the rural sector in Armenia.

42. Provision of technical assistance to rural entrepreneurs was not offered as planned. Despite the claims of the PCR that the RBIS component produced outputs (training of the 16 RBISPs), there was no evidence of actual results in this area that can be attributed to the project. The PPA mission found little, if any, presence of RBISPs in the project areas and concurs with PCR findings stating that a more proactive and direct programme support for technical advisory service including the development of key value chain aspects would likely have strengthened the outcome of the programme.

43. The CDI component produced visible outputs that upgraded the infrastructure facilities, and led to increased productivity. PAAU's Results and Impact Management System reported that irrigation schemes have increased crop production of irrigated lands especially in the poor rural areas, giving people more income-generating opportunities. One ha of non-irrigated land that produced 1-1.5tons of grain, when irrigated, produced 15-20 tons of vegetables or 5-8 tons of fruits or 3-5 tons grain (in the same crop period). This harvest can potentially quadruple the farmers' revenue. The project created irrigation canals benefiting more than 2,500 ha.

44. The project constructed or rehabilitated 13 water points for the livestock drinking systems. PAAU Results and Impact Management System reports that this resulted in an increase of 10 per cent in livestock breeding, which consecutively reflects increase in the milk production by 16 per cent in one year after operation.

45. Gas network development intended to reduce consumption of firewood for heating and contribute to forest management. It is reported that a household using gas can save 15 m^3 on average per year or 30 trees. However, there is no data as per whether this substitution actually happened and what the impact on forests was. Another combustible for heating, being saved with the introduction of the gas network was manure that now can be used as fertilizer (which is superior to chemical fertilizers). Unfortunately the price of gas has tripled within the project's lifetime, making it uneconomical and directing many of the gas connected households back to the use of firewood and manure as combustible for heating.

46. Table 2 indicates that on several fronts, RAEDP achieved higher results than originally planned, thus demonstrating the project's effectiveness.

Table 2
Summary of project costs US$ ‘000

		Appraisal	*Cumulative actual*	*Percentage of appraisal*
People receiving project services	Number	67 000	71 274	106
	Male	37 000	32 073	87
	Female	30 000	39 201	131
	Number	19 248	17 818	93
	Number	261	358	137
Commercially-derived infrastructure				
Livestock water points constructed/rehabilitated	Number	10	13	130
Roads constructed	Km	15	17.7	118
Land under irrigation schemes constructed/rehabilitated	Ha	2 458	2 625	107
Other infrastructure constructed/rehabilitated	m	60 100	60 367	100
Rural enterprise financing				
Active borrowers	Number	225	322	143
Active borrowers (disaggregated by gender)	Male	200	295	148
Active borrowers (disaggregated by gender)	Female	25	27	108
Value of gross loan portfolio	US$	8 945 000	13 314 176	149

Source: PAAU Results and Impact Management System.

47. At the same time, the project was not equally effective in disseminating information about available services and results to the general public and potential beneficiaries. Many beneficiaries learned about the RFF loans coincidentally, while the general public was often not aware of IFAD’s contribution to rural sector development in Armenia, if compared to other donors.

48. RAEDPs effectiveness is rated satisfactory (rating 5), slightly lower than the highly satisfactory (rating 6) self-rating by PMD. Although in many cases the project performed in excess of expectations, there were issues in achieving results in selected areas (reaching the poorest farmers, provision of technical assistance, environmental impact, and gender aspect) that justify a slightly lower rating. Nevertheless, this is a successful project that clearly achieved important results. Through the establishment of RFF, the access of rural small and medium entrepreneurs to short, medium and longer-term investment loans has clearly improved. RFF incentives stimulated appetite among financial institutions to embark in rural banking operations; integrated the borrowing rural producers and enterprises into the mainstream of the banking system and induced them to become more knowledgeable, as to negotiate for better loan terms. The establishment of RFF introduced a platform on which other donors could (and did) invest in the rural sector. In parallel, CDI invested in a number of rural infrastructure facilities, improving irrigation, natural gas and water supply and road networks in the project areas. Provision of technical, non-financial support to rural entrepreneurs was not offered as planned.

Efficiency

49. The Economic Impact Analysis included in the PCR calculated prominent financial internal rate of return and economic internal rate of return of 30 per cent and 39 per cent respectively. PCR acknowledges, however, that the computation did not

include sunk cost in the form of existing building, underutilised equipment, and existing orchards that were rehabilitated, and therefore is overvalued. PAAU could not provide accurate data to allow the PPA mission to confirm financial internal rate of return and economic internal rate of return. It was, however the mission's perception that the underlying assumptions of the impact analysis were somehow inflated.

50. The project's management (PAAU) cost accounted for 4.5 per cent of the disbursed funds or 10.6 per cent of IFAD's participation, a relatively high ratio compared to other IFAD investments in the region. On the upside, the project was completed 21 months ahead of schedule, yielding an efficient financial disbursement factor of 1.35.[14]

51. PAAU unit cost data for CDI investments[15] are in a format that does not compare well with other donors, thus making it difficult to conclude on the projects efficiency. The design to construction rate is 3 per cent, considered normal for such investments. The cost per ha for incremental irrigated land is US$1,990, but is substantially different from one marz to another (US$360 in Lori and US$2,727 in Tavoush). This difference is not necessarily an efficiency indicator, as it can be attributed to the fact that to reach distant land plots, longer canals have to be built/rehabilitated. A fairer comparator would be the cost per kilometre of rehabilitated canals that would allow comparing efficiency from one marz to another (and to investments of other donors i.e. average cost per 1 km of primary and secondary canal is US$300,000; and US$45,000-50,000 for tertiary network – World Bank). Similar challenge faced data for gas and water supply networks, where the unit cost is expressed in US$ per beneficiary instead of in US$ per km constructed. For road construction the unit cost is US$115,340 per km, which is lower than the World Bank (reportedly to be US$290,000).

52. The project created 2,090 jobs, of which 37 per cent were occupied by women. The cost of creating one job was US$5,901 of loan funds and US$ of 9,400 total invested funds. This number compares well with World Bank and MCA job creation unit rates.[16]

53. Overall, PPA concurs with PCR and PCRV assessment that the project was implemented efficiently, some shortcomings notwithstanding, and rates it satisfactory (rating 5, same as self-rating by PMD). As acknowledged in the PCR, a closer collaboration between the components in promoting farm investment would likely have brought forward the benefits and increased the efficiency of project outcomes. A more proactive approach in facilitating RBIS to smaller emerging entrepreneurs would have likely increased the efficient use of invested capital. Finally, a more proactive monitoring of refinanced loans would have resulted in earlier results which would have led to better economic returns on investment.[17]

B. Rural poverty impact

54. The measurable evidence on rural poverty impact is limited. The project's monitoring arrangement did not cater for relevant detailed data (household income, yields per household) and offered limited information on agricultural outputs, jobs, beneficiaries etc. which are at the result, rather than impact level. There is no trend information so as to assess the project's contribution to impacts and adjust for exogenous factors (economic crisis, exchange rate differentials, price fluctuations etc.). Finally there are no control group data. The project documents' analysis provides country level indicators only. It does not provide disaggregated evidence on beneficiary vs. non beneficiary *marzes* so as to analyse the extent to which positive effects should be attributed to the project. Finally, there is no evidence on environmental impacts.

[14] PCR.
[15] See annex 9.
[16] Programme Economic Impact Assessment.
[17] PCRV page 8.

55. The absence of measurable data does not imply that the project did not leave impact. The project's contribution to rural employment, enterprise activity, human capital improvement and rural income was evident. The PPA mission confirmed through many interviews the visibility and importance of the project's footprint. RFF contributed greatly to enhancing enterprise activity in the rural areas and eventually boosted employment. CDI contributed to income increase and food security through crop diversification, increased farming produce and commercial activity; while the whole project targeted human and social capital improvement. The overall rating for rural poverty impact, accorded by this PPA, is satisfactory (5), same as self-rating by PMD. Further disaggregated impact evidence (indication) is presented below along the headings of project's own objectives.[18]

Household income and net assets

(Increase in sustainable employment and income among rural people in the disadvantaged marzes. Sustained growth of rural enterprise activity)

56. One of the main contributions of RAEDP was the reinforcement of market for rural credit. This component contributed to the stated objective both directly and through the economic multiplier effect. RAEDP's injection of capital stimulated other donors' and PFIs appetite towards rural lending and convinced them in the viability of such ventures. According to the Ministry of Finance, RAEDP contributed to the change in rural Armenia's financial environment without instigating a systemic change. This change led to growth in rural enterprise activity and employment, and rural income growth.

57. By November 2011 RFF disbursed around 450 loans. The assets of the benefiting enterprises increased from US$20 million to US$70 million.[19] Furthermore, the income of the 450 households (and family owned enterprises) benefiting from the loans has directly increased. By 2015 the refinanced investments are expected to generate earnings before interest, taxes, depreciation and amortisation of US$11.9 million annually. The wider rural economic effects from investments supported through RFF comprised US$39.7 million direct revenue, US$23.0 million indirect and US$12.0 million in induced revenue.[20]

58. The 2,337 ha converted from rainfall to irrigation watering, corresponding to 3,721 household members, have an increased value of 100 per cent.[21] The market value of an average rural house connected to natural gas increased from US$15,000 to US$18,000.[22]About 2,000 persons occupying new jobs created by the project have directly increased their income.[23] 98,069 individuals corresponding to 27,317 households were expected to experience increases in disposable income as a result of the project's interventions.

59. PCR observed a decline in extreme poverty at the national level from 6.4 per cent in 2004 to 3.1 per cent in 2008. Although the project operated generally in the poorer areas, the decline cannot be directly attributed to the project. Proper metrics at programme area level would have been more convincing, especially if compared to control group data of non-benefiting areas.

60. The rating for household income and net assets is satisfactory (5), slightly lower than self-rating of highly satisfactory (6), given the incomplete evidence and attribution related to reported impact on poverty, as well as negative shocks of decrease in household incomes (RFF borrowers) caused by local currency depreciation.

[18] See annex 7.
[19] RFF report.
[20] Programme Economic Impact Assessment.
[21] PAAU report.
[22] PCR, PCRV.
[23] PCR, PCRV.

Agricultural productivity and food security

(Greater income security against external shocks (e.g. droughts, price shocks)

61. The project contributed both to stable food supply and availability of food through increased family revenue and production, as well as through improvements in market accessibility.[24]

62. Land irrigated through project investments now permits for more diversified farming, which is economically and ecologically more resilient, reduces the chance of crop failure and is less susceptible to price fluctuations.

63. The rating for food security and agricultural productivity is satisfactory (5), same as self-rating by PMD.

Human, social capital and empowerment

64. The project directly contributed to making financial products more accessible to rural areas. This in turn developed a relevant culture among the rural population and enhanced their capacity to negotiate better and cheaper financial services. Furthermore the project trained 16 RBISPs who are expected to also positively contribute to sustain this financially adept culture.

65. The project left significant impact in improving the livelihood conditions for the rural poor, making gas and drinking water more accessible to households and schools in the disadvantaged areas. The rating for this criterion is satisfactory (5), same as PMD self-rating.

Natural resources and environment and climate change

66. The most noticeable potential contribution of the project to the environment and climate change could have been the reduction of illegal firewood harvesting as a result of the availability of natural gas as an alternative fuel. It was reported in the PCR that a household using gas can save 15 m^3 firewood on average per year which is the equivalent of 30 trees. At the same time, the PCR did not report whether this had actually happened. Unfortunately the possible effect was only short lived. As the price of natural gas almost tripled over the lifespan of the project, gas users are reported to switch back to illegal firewood harvesting for heating. The rating is moderately satisfactory (4), which is slightly lower than the self-rating of satisfactory (5).

Institutions and policies

67. RAEDPs effect on institutional development is substantial. RFF contributed to better accessibility of investment capital in the rural areas. Local banks expanded their presence in the project areas not only by increasing their offerings and portfolio among rural areas, but also by increasing the number of branches in the project area. The project contributed directly to strengthening local organizations, such as water-user associations, etc. RFF, created under auspices of the program, is currently a high-profile and well-respected self-standing sustainable structure, effectively facilitating access of rural enterprises to financial resources. This PPA concurs with the rating of highly satisfactory (6) for impact on institutions and policies, accorded by the PMD.

Overall rating for rural poverty impact

68. The overall rating for rural poverty impact, accorded by this PPA, is satisfactory (5), same as self-rating by PMD.

C. Other performance criteria

Sustainability

69. The project’s effects seem to be fairly sustainable. The RFF is operating self-sufficiently and CDI maintenance was ceded to technically and financially capable entities.

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[24] PCR.

70. RFF operates since 2005 by Government Decree as a permanent, autonomous Unit in the MOF. It operates with US$8.945 million from IFAD, US$5.5 million from the World Bank and US$8.5 million from the MCA. The Ministry of Finance together with the Ministry of Agriculture offer interest rate subsidies of 4 per cent for rural loans, also managed by the RFF. RFFs operational cost reached US$340.000 in 2010 and is covered by 0.75 per cent service charge on World Bank and IFAD operations. This makes RFF financially self-sufficient; producing even a small operating profit that is reinvested annually to the revolving fund. In 2011 many loans matured and were repaid, resulting in increased liquidity for the RFF. Concerns for RFFs future may arise if its independence is endangered; or if the demand for RFF loans shrinks to the point that RFFs operation will not be self-sufficient. Both risks do not seem to be high at this point.

71. As for CDI investment, specific organizational arrangements were undertaken to secure the maintenance of the developed/rehabilitated networks. The gas network was sold to ArmRosGazprom; a well-known gas network operator, with an established successful record in the area and capable to secure maintenance. Irrigation and drinking water schemes were ultimately ceded to the regional municipalities which incorporate maintenance costs in their annual budget and collect relevant user fees from the local Water Users Associations. The rural road network remains under the ownership of the marz administration (which operates with government subsidies) and therefore makes its sustainability more vulnerable than this of other investments. The rating for sustainability is satisfactory, same as the self-rating (5).

Pro-poor innovation and scaling up

72. RAEDP introduced a risk-sharing mechanism, new for Armenia, and created incentives for financial cooperation between banks and rural clients. It initiated the RFF as vehicle for leveraging private-sector capital in support of poverty reduction; a mechanism that unlocks the door to long-term loans for agricultural and rural development enterprises; and a packaging that includes finance, knowhow transfer and an awarding mechanism of grants for investments in public infrastructure based on commercially justifiable criteria.[25]

73. The private sector contribution was not as extensive as intended. This is reportedly attributed to diffusion of focus at early stages thus failing to attract private financiers. RFFs sustainability and subsistence depend on its capacity to engage private sector funds in the future. The RFF proved to be a worthwhile instrument that can be utilised in IFAD's future interventions with fairly limited risks. Possible scaling up of the instrument could focus on insurance and leasing sectors that still remain underdeveloped.

74. As a mechanism that unlocks the door to long-term loans, RFF was again a successful instrument. Private Banks were convinced to look into the rural sector with longer term perspective and assuming risk that proved to be not as likely to occur as initially feared.

75. The package including finance, know-how and infrastructure did not develop as intended. Bigger impact could have been achieved, should the project have considered firmer focus on know-how transfer to emerging farmers (providing them with investment models) and deficient areas of the value chain in achieving compliance with international standards e.g. GGAP, Hazard Analysis and Critical Point Control. The "package" has potential for scaling-up if provided with support in management, administration and linkage to financial services.

76. The PPA rating for this criterion is moderately satisfactory (4), slightly lower than the self-rating of satisfactory (5). Despite the innovative character of the investment in PPF, the pro-poor focus of investments was limited. In addition, the two main components (RFF and CDI) seem to have reached limits in their capacity for scaling up as such.

[25] In reality most of the projects financed under CDI where residual infrastructure that has not been incorporated in programmes of other donors.

Gender equality and women's empowerment

77. Principles of funding were expected to ensure preference to job creating investments with focus on women. The project did not however express any gender focus in any of its stages (from inception till completion). PPA mission did not witness any focus towards favouring women in any of the investments and loans. As a result the project's specific effect on gender equality is minimal. Project documents claim that 27 women benefited from RFF and RBIS. This is by itself a very small number and also overvalued. The loans offered through RFF to women beneficiaries where not necessarily intended for women-led projects, but rather only carried the names of the women of the households. Banks reported that the actual loan bearer is in most of these cases the husband, and the wife appears on the loan only nominally for tax purposes.

78. Project documents report that 37 per cent of the jobs created by the project were occupied by women. This effect cannot be considered intentional, as the project did not make any expressed effort to achieve it.

79. The rating for this criterion is moderately unsatisfactory (3), lower than moderately satisfactory rating (4) accorded by PMD, given the low priority and lack of actual results in this area.

Key points

- **Relevance.** Project objectives were relevant to Armenia's strategic priorities, IFAD's country strategy, and the needs of the beneficiaries. At the same time, there were a few design deficiencies related to pro-poor targeting, provision of technical assistance and poverty impact of infrastructure investments.
- **Effectiveness.** The project was effective in producing results. Through establishment of the Rural Finance Facility (RFF) access of rural small and medium entrepreneurs to short, medium and longer-term investment loans has clearly improved. Commercially Driven Infrastructure (CDI) component invested in a number of rural infrastructure facilities, improving irrigation, natural gas and water supply and road networks in the project areas.
- **Efficiency.** The project was implemented efficiently, some shortcomings notwithstanding. A closer collaboration between the components in promoting farm investment would likely have brought forward the benefits and increased the efficiency of project outcomes.
- **Impact.** Most prominent is RFF's contribution to enhancing rural enterprise activity and employment. CDI contributed to the increase of income and food security, through crop diversification, increased farming produce and commercial activity; while the whole project targeted human and social capital improvements.
- **Sustainability.** The project's sustainability is fairly secured. The RFF is operating self-sufficiently, and CDI maintenance was ceded to technically and financially adept entities.
- **Innovation and scaling up.** RAEDP successfully accomplished its innovative agenda. RFF proved to be an excellent platform for attracting capital.
- **Gender equality and women's empowerment.** The project did not express any gender focus in any of its stages (from inception till completion). As a result the project's specific effect on gender equality was minimal.

D. Performance of partners

IFAD

80. IFAD is to be commended for designing a complex and innovative project and implementing it ahead of schedule. The project was well planned and fiduciary aspects were carefully arranged. IFAD staff responded to emerging issues in a timely and effective manner. Partnership with clients was strong and led to an instrumental result: additional funding was provided from the OPEC Fund for International Development and extra resources were offered by the Government of Armenia (US$10 million) indicating commitment and ownership. IFAD worked closely with UNOPS at supervision until 2009, when it took over the supervisory function. This PPA concurs with the rating of highly satisfactory for IFAD performance, accorded by PMD.

Government of the Republic of Armenia

81. Both cooperating Ministries (Agriculture and Finance) performed well their statutory obligations as per the LA. The Ministry of Finance provided the expected support to RFF. Furthermore Government of Armenia committed and extra US$10 million for the RFF thus confirming its commitment to the partnership with IFAD. The PAAU implemented and supervised successfully the project operations. The Programme Coordination Committee, chaired by the Minister of Agriculture, was responsible for overseeing project activities including direction and overall oversight of RFF operations; and provided policy advice to the Ministry of Agriculture. The Rural Finance Facility (RFF) executed its obligations promptly. A reported drawback was the monitoring and evaluation function that produced untimely and often insufficient reports, and refinancing targeting was insufficient. This was solved later by hiring a monitoring and evaluation specialist. This PPA rates government performance moderately satisfactory (4), same as PMD rating.

Implementing institutions

82. The nine participating financial institutions (PFIs) were selected through a competitive process and extended their services to the client group, as per the subsidiary loan agreement. The 16 Rural Business Intermediation Service Providers (RBISPs) were trained but their services did not seem to attract attention, probably because a more proactive approach should have been adopted.

E. Overall project achievement

83. RAEDP overall rating for project performance is satisfactory (5). Most of sub-ratings are positive and hover in the area of 5-6, with the only exception of rating for gender equality and women's empowerment (3),natural resources and environment (4) and relevance (4, with relevant objectives but several design deficiencies). In many cases the project performed in excess of expectations, although there were issues in selected areas (reaching the poorest farmers, provision of technical assistance, environmental impact, and gender aspect). Nevertheless, this was a successful project that achieved important results. Establishment of RFF facilitated the access of rural small and medium entrepreneurs to short, medium and longer-term investment loans and stimulated extension of financial services in the rural areas, including establishment of branches of financial institutions. RFF incentives integrated the borrowing rural producers and enterprises into the mainstream of the banking system and induced them to become more knowledgeable, as to negotiate for better loan terms. The establishment of RFF introduced a platform on which other donors could (and did) invest in the rural sector. In parallel, CDI component invested in a number of rural infrastructure facilities, improving irrigation, natural gas and water supply and road networks in the project areas.

IV. Conclusions and recommendations

A. Conclusions

84. RAEDP was a successful; and innovative project that achieved important results that can be built upon in the future. The project featured a challenging project approach: a vehicle for leveraging private-sector capital in support of poverty reduction; a mechanism that unlocks the door to long-term loans for rural development enterprises; and a packaging that includes finance, knowhow transfer and an awarding mechanism of grants for investments in public infrastructure based on commercially justifiable criteria.

85. RFF proved to be a worthwhile instrument for attracting capital acting as an agent between the Government and the financial sector. Bearing the first step of credit risk in rural financing induced banks to expand activities in a sector thought to be otherwise a no-go area. Greater focus should have been given in attracting more substantial private capital.

86. At the same time, the package incorporating there elements of finance, know-how and infrastructure did not develop as intended. The three components looked more

like three separate projects, hence more coordination between components would have yielded a better outcome. The know how/technical assistance (RBIS) component did not materialize as intended due to withdrawal of partner co-financing. Therefore, this review views it more as a design rather than effectiveness issue.

87. The infrastructure component improved irrigation, natural gas and water supply and road networks in the project areas. At the same time, it was intended to operate on commercially justifiable criteria, thus improving the overall environment of doing business in the rural areas. Instead it often served as part of the public investment programme of the Ministry of Agriculture. The immediate effect from investments would have been much higher if the local authorities and the rural residents would have been involved deeper into the decision process.

88. Despite its generally highly regarded reputation in the country, IFAD's activities in Armenia are not well-known to the general public, as well as potential beneficiaries and clients. In future, IFAD's operations in Armenian could benefit from a more pro-active publicity and communications and dissemination activities.

B. Recommendations

89. More efforts could be made towards developing the insurance system (agricultural insurance) and stimulating loans on business terms. RFF-supported loans were offered by the banks to rural entrepreneurs always against collateral, in US$, at around 11 per cent interest rate, and 7 years maturity. RFF's successful operation could be promoted to the next level by encouraging the banks to offer rural loans on business terms (or at least mixed ratio collateral and business).

90. PFIs should be encouraged to offer loans in AMD (possibly by creating a hedging mechanism).Loans issued in US$ should only be given to operations generating earnings in US$. The exchange rate risk was proven high for rural clients who have no means for hedging. PFIs instead can develop a hedging mechanism and assume the exchange rate risk (probably at a premium).

91. PFIs have to be induced into a more competitive process that will transfer part of the low cost RFF financing to rural clients. The offered interest rate has been considered high for loans on agriculture and in hard currency. PCR suggests that potential PFIs (during selection) should have been invited to bid on the spread they want added to RFFs 4 per cent charge and the average (discarding outliers) would then be the maximum any PFI can charge clients.

92. Refinance targeting should aim at specific focus groups with special developmental interest (job creation, gender issues, creation of incremental markets etc.), thus better addressing the poor targeting.

93. The package incorporating finance, know-how and infrastructure did not get a chance to prove the full extent of its potential. Advisory services are still in need among the rural entrepreneurs, and could be provided through private partnerships. Furthermore coordination of project activities should be underlined as imperative for similar projects.

94. New IFAD operations in Armenia should further support the value chain approach that proved to stimulate diversification, investments and availability of produce and market availability. This effort should be further supported and bring closer the rural entrepreneurs and the PFIs with the aim to develop a more efficient scheme that will incorporate financing, technical support, management and quality control.

95. IFAD should envisage a more extensive publicity and awareness of its activities in the country, both for ascertaining wider participation from the rural groups but also for developing a culture of trust of this group in IFAD's activities in the future.

Rating comparison

Criterion	*IFAD-PMD ratings*[A]	*PPA rating*	*Rating disconnect*
Project performance			
Relevance	6	4	-2
Effectiveness	6	5	-1
Efficiency	5	5	0
Project performance[B]	**5.7**	**4.7**	-1.0
Rural poverty impact			
(a) Household income and net assets	6	5	-1
(b) Human and social capital and empowerment	5	5	0
(c) Food security and agricultural productivity	5	5	0
(d) Natural resources and the environment and climate change	5	4	-1
(e) Institutions and policies	6	6	0
Overall rural poverty impact[C]	**5**	**5**	**0**
Other performance criteria			
Sustainability	5	5	0
Innovation and scaling up	5	4	-1
Gender equality and women's empowerment	4	3	-1
Overall assessment[D]	**6**	**5**	**-1**
Performance of partners			
(a) IFAD performance	6	6	0
(b) Government performance	4	4	0
Overall rating	5	5	0
Average net disconnect			**-0.5**

Ratings of the PCR document quality	*PMD rating*[E]	*IOE PCRV rating*	*Net disconnect*
Scope	-	5	N/A
Quality (method, data, participatory process)	-	4	N/A
Lessons	-	5	N/A
Candour	-	5	N/A
Overall rating PCR document	**-**	**5**	**N/A**

[A] Rating scale: 1 = highly unsatisfactory; 2 = unsatisfactory; 3 = moderately unsatisfactory; 4 = moderately satisfactory; 5 = satisfactory; 6 = highly satisfactory; N/A = not applicable.
[B] Arithmetic average of ratings for relevance, effectiveness and efficiency.
[C] This is not an average of ratings of individual impact domains.
[D] This is not an average of ratings of individual evaluation criteria. Moreover, the rating for partners' performance is not a component of the overall assessment.
[E] PMD did not rate PCR quality.

Basic project data

Country		Republic of Armenia				
Project name		**RURAL AREAS ECONOMIC DEVELOPMENT PROGRAMME**				
Key dates						
IFAD approval		Loan signature	Effectiveness	Mid-term review	Original completion	**Actual completion**
December 2004		January 2005	July 2005	December 2008	September 2011	**December 2009**
Mid-term review		Interim evaluation	Original loan closing	Actual loan closing		
June 2008 **December 2008**			March 2012	March 2010 (PPMS) December 2010 (PCR)		
Total project costs						
		Approval (US$ m)		**Actual (US$ m)**		
Total project costs		**28.7**		**37.1**		
IFAD loan and % of total		15.3	53.3%	15.8	42.6%	
Borrower		2.3	8.0%	2.4	6.5%	
OPEC Fund for International Dev.		5.0	17.4%	5.0	13.5%	
Cofinancier: USAID		0.5	1.7%	-	-	
Cofinancier: Participating financial institutions		1.8	6.3%	-	-	
Cofinancier: Rural Finance Facility (RFF)		0.1	0.3%	5.2	14.0%	
From beneficiaries		3.7	12.9%	8.6	23.2%	
From other sources						
Number of beneficiaries (if appropriate, specify if direct or indirect)		31 800 direct (PPMS)		73 457 (PCR)		
Cooperating institution		UNOPS		UNOPS until 2008 IFAD from 2009		
IFAD loan disbursement at project completion (%)		99% (LGS)				
Project cost by component (US$ '000)						
Rural Enterprise Finance	21 769			58.7		
RBIS	0			0		
Commercial Derived Investments	13 388			36.1		
Programme Management	1 525			4.1		
Total	37 066					
Country partners						
Executing Agency		**Ministry of Agriculture**	**Ministry of Finance and Economy**	**9 PFIs**	**Armenian Small and Medium Enterprise Market Development Project**	**The World Bank MCA**

Sources: PCR, PCRV and Project and Portfolio Management System (IFAD).

Terms of reference

I. Introduction

1. The Peer Review of the Independent Office of Evaluation of IFAD (IOE), conducted by the Evaluation Cooperation Group (ECG) in 2010, recommended IOE to transform its approach to project evaluations by undertaking Project Completion Report Validations (PCRV) and a limited number of Project Performance Assessments (PPA).

2. The PPA is a concise form of project-level evaluation. It is conducted as a next step after a PCRV. The PCRV consists of a desk review of the project completion report (PCR) and other available reports and documents. A PPA includes country visits in order to complement the PCRV findings and fill in selected knowledge and information gaps identified in the PCRV. The purpose of the PPA is in particular to shed light on selected features of project implementation and results that were not adequately analysed in the PCR. As the PCRV, the PPA applies the evaluation criteria[1] outlined in the IOE Evaluation Manual[2] and the added evaluation criteria.[3]

3. The IFAD-supported Rural Areas Economic Development Programme (RAEDP) in the Republic of Armenia has been selected to be covered by a PCRV and a subsequent PPA. This approach paper covers the methodology and the process for the PPA.

II. The programme

4. The Rural Areas Economic Development Programme (RAEDP) was approved by IFAD's Executive Board in December 2004 with a total IFAD loan of US$15.3 million, representing 53 per cent of the total programme costs. The balance was financed by the OPEC Fund for International Development (17 per cent), the Government of Armenia (8 per cent), participating financial institutions (7 per cent) and the beneficiaries (13 per cent). The programme became effective in July 2005. The loan was closed in March 2010, two years earlier than the original closing date of March 2012. However, the latter was extended with six months and the programmed closed in June 2010.

5. Programme objective. The goal of RAEDP was to increase sustainable employment and incomes among rural people in the mountain areas of seven disadvantaged *marzes* (provinces) of Armenia. The objective subsumed under this goal was to stimulate growth of rural enterprise activity in the defined programme area.

6. Programme target group. Project "target" population included unemployed rural men and women, small and medium-sized farmers, rural entrepreneurs, agro-processors and traders and non-agriculture SMEs. The approach used to reach the target group was an investment response mechanism, primarily through the commercial financial sector.

7. Programme rationale. The programme was supposed to address some of the most important reasons for underperformance of the agriculture sector in Armenia: (i) Limited availability of financial services; (ii) Poorly developed supply of agricultural input; (iii) Poor status of social and productive infrastructure; and (iv) Lack of appropriate skills in the work force (former urban settlers).

8. Programme approach. The programme strategy was designed to deliver an inter-related package of business development training and loans for investment and

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[1] The evaluation criteria are: project performance (relevance, effectiveness and efficiency), rural poverty impact (household income and net assets; human and social capital and empowerment; food security and agricultural productivity; natural resources, environment and climate change; institutions and policies), gender equality and women's empowerment; sustainability, innovation and scaling up; and performance of partners (IFAD and Government).

[2] IOE (2009). Evaluation Manual. Methodology and processes. Available on: http://www.ifad.org/evaluation/process_methodology/doc/manual.pdf

[3] IFAD (2010). Expanding the Office of Evaluation's Evaluation Manual to include questions for assessing gender, climate change and scaling up. Available on: http://www.ifad.org/gbdocs/eb/101/e/EB-2010-101-R-8.pdf

working capital for small and medium on- and off-farm private enterprises and grant financing of commercially justifiable small-scale infrastructure in the public domain and through public-private partnerships.

9. Project components: The project had four components:

(a) Rural Finance Facility (RFF); 59 per cent of total programme cost. The main objective of the component was 'to stimulate sustained growth of rural economic activity in the programme area through improved access to appropriate financial services for small and medium-scale rural producers and enterprises'. This was to be achieved through the establishment of the autonomous unit, the Rural Finance Facility (RFF), under the Ministry of Finance and Economy.

(b) Rural Business Intermediation Service (RBIS), no direct financing from the program. The objective of the component was 'to develop a network of RAEDP-accredited Rural Business Intermediation Service Providers (RBISP) in the programme area'. The objective was to be achieved by providing identified RBISP with training in (i) analysis of business development options; (ii) market research and development services; (iii) technology options; and (iv) general business services, accountancy, tax and food hygiene/safety and environmental regulations. This component was to be financed in collaboration with USAID-funded Armenian Small and Medium Enterprise Market Development Project (ASME). The RBISP were supposed to assist potential programme clients with: (i) assessment of the commercial feasibility of an investment idea; (ii) preparation of business plans; and (iii) linking clients with a RFF pre-qualified Participating Financial Institution.

(c) Commercially-Derived Infrastructure (CDI), 36 per cent of total programme cost. The objective of the component was 'to improve operational efficiencies in supply/value chains by alleviating constraints imposed by the condition of essential infrastructure'. The programme was supposed to provide contributory grants in support of investments for infrastructure vital for enhancing private investments for expansion of existing enterprises and establishing new ones.

(d) Programme Analysis and Administration Unit (PAAU) Component, 5 per cent of total programme cost. PAAU was formed to oversee operational aspects and day-to-day programme management and was also responsible for the planning, coordination and review of programme outputs and effectiveness. The PAAU had no direct implementation responsibility, instead, it had the administrative and financial autonomy to contract with third parties for programme implementation requirements. Programme Coordination Committee (PCC) was responsible for overseeing the programme activities including policy direction and overall oversight of the RFF operations. The PCC was chaired by the Minister of Agriculture and board members included representative from MOF, Chairman of the Chamber of Commerce, Chairman of the Bankers' Association, Ministry of Trade and Economic Development and *marz* governors. The RAEDP Programme Director was the secretary of the board.

III. PPA objectives

10. The overall objectives of the PPA are to: (i) provide an independent assessment of the overall results and impact of the project, for accountability and management purposes; and (ii) distil lessons learned, identifying key explanatory factors of project performance and poverty reduction results, for learning purposes. In this context, and given the time and resources available, the main purpose of the present PPA is to gather additional evidence on the major information gaps, inconsistencies or analytical weaknesses of the PCR. Consequently, the PPA will assess the project achievement covering all evaluation criteria of the IOE Evaluation Manual (as well as additional elements on gender, climate change and scaling up),

but the emphasis given to each criterion will depend on the PCRV assessment as well as on emerging findings during the PPA process.

11. At present, preliminary observations of the PCRV suggest that the PPA would provide additional in-depth analysis on specific issues and areas, such as the sustainability of enterprises in receipt of RFF-refinanced loans and jobs created through these investments; relevance and efficiency of infrastructure investments; effectiveness and future sustainability of the PFF; institutional impact of financial outreach to the rural areas and improvements in financial services to rural enterprises; and methodological issues in evaluating the longer-term impact of the programme such as the economic and financial rates of return. However, these areas can be revised or expanded during the PPA process when new findings may emerge.

IV. PPA methodology

12. Evaluation criteria. The PPA will follow the evaluation criteria outlined in the IFAD Evaluation Manual (2009), the addendum adding the criteria of gender, climate change and scaling-up (2010), and the IOE Guidelines for PCRV and PPA (2011). The performance in each of the areas will be rated on a scale of 1 to 6 (with 1 being the lowest score, and 6 the highest).

13. Data collection. The initial findings rely on the desk review of the available documents undertaken for the preparation of the PCRV (see section VII). During the PPA mission, additional primary and secondary data will be collected to reach an independent assessment of the performance and results. Data collection methods will mostly include qualitative participatory techniques. The methods deployed will be individual and group interviews, focus-group discussions with beneficiaries, and direct observation. Questionnaire-based surveys are not applicable, because short duration of the mission would not allow the generation of an adequate sample size. The PPA will also make use – where applicable – of the additional data available through the project monitoring and evaluation system. Triangulation will be applied to verity findings emerging from different information sources.

V. PPA process

14. The PPA mission is scheduled from 22 October until 3 November 2011 and will include a programme of field visits to RAEDP sites, interaction with government authorities, beneficiaries and other key informants. At the end of the PPA mission, a short wrap-up session will be held in Yerevan with government representatives and project implementation counterparts (RFF, PFIs). A power point presentation will summarise the preliminary findings of the mission and key strategic issues.

15. The below schedule presents roughly the proposed itinerary of the mission. Mission schedule had been preliminarily discussed with the Near East, North Africa and Europe Division (NEN) of IFAD, but is subject to further refinement if needed.

Proposed mission schedule

Date	*Activities*	*Location*
22-23 October 2011	Arrival in Yerevan, team meeting and preparation	Yerevan
24-25 October 2011	Meetings with stakeholders in Yerevan	Yerevan
26-31October 2011	Field visits	*Marzes* of Tavoush, Vayots Dzor, Aragatsotn, Syunik, Lori
1 November 2011	Team discussions	Yerevan
2 November 2011	Wrap-up session, discussion with stakeholders (Government, partner organizations)	Yerevan
2-3 November 2011	Departure mission	Yerevan

16. At the conclusion of the field visits, the draft PPA report will be prepared by IOE and submitted to NEN for review. Afterwards, the PPA report will be shared with the Government of Armenia for comments. Upon receipt of Government's comments, IOE will finalise the report. An audit trail will be prepared showing how the comments from NEN and the Government have been addressed in the final report.

17. In compliance with the Evaluation Policy, the main stakeholders of the RAEDP will be involved throughout the evaluation to ensure that the key concerns of the stakeholders are taken into account in the PPA process, and the evaluators fully understand the context in which the project was implemented, the opportunities and the constraints faced by the implementing organizations. Regular cooperation and communication will be established with NEN and the Government of Armenia. Formal and informal opportunities will be explored for discussing findings, recommendations and lessons during the process.

VI. Human resources

18. The PPA mission is composed of Mr Konstantin Atanesyan, IOE Senior Evaluation Officer and lead evaluator, and Mr George Polenakis (economic analysis), IOE consultant. Ms Linda Danielsson will provide research and administrative support.

VII. Background documents

IFAD policies and guidelines

IFAD (2009). Evaluation Manual. Methodology and processes.

IOE (2011). Guidelines for the Pilot Phase of the Project Completion Report Validation (PCRV) and Project Performance Assessment (PPA). (not public)

IFAD (2011). IFAD Evaluation Policy.

IFAD (2010). Report of the Chairperson on the Progress Report on the implementation of the recommendations of the Peer Review of IFAD's Office of Evaluation and Evaluation Function. Expanding the Office of Evaluation's Evaluation Manual to include questions for assessing gender, climate change and scaling up.

Project documents

IFAD. Appraisal Reports on the Rural Areas Economic Development Programme in the Republic of Armenia.

IFAD. Loans and Grants System. 2011.

IFAD. Project and Portfolio Management System. 2011.

IFAD. Project Loan Agreement. 2005.

IFAD. Project Loan Amendment. 2008.

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IFAD. Republic of Armenia Country Strategic Opportunities Paper. Rome, 17-18 December 2003.

IFAD. Republic of Armenia Rural Areas Economic Development Programme (IFAD Loan 653-AM) Completion Report, October 2010.

IFAD. Republic of Armenia Rural Areas Economic Development Programme Implementation Support Mission to RFF. April-May 2009.

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Definition of the evaluation criteria used by IOE

Criteria	*Definition*[a]
Project performance	
Relevance	The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, institutional priorities and partner and donor policies. It also entails an assessment of project design in achieving its objectives.
Effectiveness	The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.
Efficiency	A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results.
Rural poverty impact[b]	Impact is defined as the changes that have occurred or are expected to occur in the lives of the rural poor (whether positive or negative, direct or indirect, intended or unintended) as a result of development interventions.
• Household income and assets	Household income provides a means of assessing the flow of economic benefits accruing to an individual or group, whereas assets relate to a stock of accumulated items of economic value.
• Human and social capital and empowerment	Human and social capital and empowerment include an assessment of the changes that have occurred in the empowerment of individuals, the quality of grassroots organizations and institutions, and the poor's individual and collective capacity.
• Food security and agricultural productivity	Changes in food security relate to availability, access to food and stability of access, whereas changes in agricultural productivity are measured in terms of yields.
• Natural resources and the environment and climate change	The focus on natural resources and the environment involves assessing the extent to which a project contributes to changes in the protection, rehabilitation or depletion of natural resources and the environment as well as in mitigating the negative impact of climate change or promoting adaptation measures.
• Institutions and policies	The criterion relating to institutions and policies is designed to assess changes in the quality and performance of institutions, policies and the regulatory framework that influence the lives of the poor.
Other performance criteria	
• Sustainability	The likely continuation of net benefits from a development intervention beyond the phase of external funding support. It also includes an assessment of the likelihood that actual and anticipated results will be resilient to risks beyond the project's life.
• Innovation and scaling up	The extent to which IFAD development interventions have: (i) introduced innovative approaches to rural poverty reduction; and (ii) the extent to which these interventions have been (or are likely to be) replicated and scaled up by government authorities, donor organizations, the private sector and others agencies.
• Gender equality and women's empowerment	The criterion assesses the efforts made to promote gender equality and women's empowerment in the design, implementation, supervision and implementation support, and evaluation of IFAD-assisted projects.
Overall project achievement	This provides an overarching assessment of the project, drawing upon the analysis made under the various evaluation criteria cited above.
Performance of partners • IFAD • Government	This criterion assesses the contribution of partners to project design, execution, monitoring and reporting, supervision and implementation support, and evaluation. It also assesses the performance of individual partners against their expected role and responsibilities in the project life cycle.

[a] These definitions have been taken from the OECD/DAC *Glossary of Key Terms in Evaluation and Results-Based Management* and from the IFAD Evaluation Manual (2009).
[b] The IFAD Evaluation Manual also deals with the "lack of intervention", that is, no specific intervention may have been foreseen or intended with respect to one or more of the five impact domains. In spite of this, if positive or negative changes are detected and can be attributed in whole or in part to the project, a rating should be assigned to the particular impact domain. On the other hand, if no changes are detected and no intervention was foreseen or intended, then no rating (or the mention "not applicable") is assigned**.**

List of key persons met

NAME	POSITION	INSTITUTION
Alaverdyan Arusyak	Operation Officer, Sustainable Development Department	The World Bank
Andreasyan Hakob	Deputy Chief Executive Officer, Credit Manager	Agricultural Cooperative Bank of Armenia (ACBA)
Arakelian Davit	Head of Credit Department	Ardshininvestbank
Atayan Vardan	Chairman of Credit Department	UNIBank
Avagyan Ara	Head of Credit Department	UNIBank
Azizyan Artak	Head of International Cooperation Department	Ministry of Finance of the Republic of Armenia
Badalyan Mesrop	Village Mayor	Vayotz Dzor Marz
Baghdasaryan Aghasi	Loan borrower, winery "Getnatun"	Yeghagnadzor town, Vayotz Dzor Marz
Boyajyan Zakar	First Deputy Executive Director	UNIBank
Davtyan Khazhak	Village Mayor	Zaritap, Vayotz Dzor Marz
Gabrielyan Vache	Minister of Finance	Ministry of Finance of the Republic of Armenia
Gasparyan Armenak	Deputy Mayor	Tavush Marz
Gevorgyan	Village Mayor	Achajur, Tavush Marz
Gevorgyan Karapet	Deputy Chairman of the Management Board, Director of Retail Business	Ardshininvestbank
Grigoryan Mher	Chief Executive Officer	Ardshininvestbank
Hovsepyan Ara	Chief Executive Officer	Millennium Challenge Account - Armenia
Igityan Andranik	Loan borrower, "Igit" cheese factory	Village Azatan, Shirak Marz
Khachatryan Hamlet	Loan borrower, fish farm	Arevashogh, Lori Marz
Khachatryan Vaghinak	Head of Credit Department	INECO Bank
Khanikyan Tigran	Director	Fund for Rural Economic Development in Armenia (FREDA)
Kochinyan Petros	Village Mayor	Vahagni, Lori Marz
Lockyan David	Former Minister of Agriculture	Government of the Republic of Armenia
Matevosyan Gagik	Former Director	PAAU
Matevosyan Vahram	Loan borrower, winery "Mets Syunik"	Aghavnadzor Village, Vayotz Dzor Marz
Meloyan Sergey	Water to Market Project Officer	Millennium Challenge Account - Armenia
Mikael	Loan borrower, winery "ArpaAlco"	Areni Village, Vayotz Dzor Marz
Minasyan Loreta	Loan borrower, cattle breeding	Berkarat Village, Aragatsotn Marz
Mirzoyan Yura	Secretary of Village Council	Tavush Marz
Muradyan Alina	Loan borrower, cattle breeding	Berkarat Village, Aragatsotn Marz
Nersisyan Aghunik	School Director	Vahagni, Lori Marz

Annex 5

NAME	POSITION	INSTITUTION
Pavlova Alla	Head of Division	INECO Bank
Petrosyan Hrachya	Head of Credit Department	ABB - ArmBusinessBank
Saghatelyan Aragats	Head of Water Users' Association	Vayotz Dzor Marz
Sirak	Village Mayor	Azatek, Vayotz Dzor Marz
Tamazyan Mkhitar	Village Mayor	Kachachkut, Lori Marz
Tonoyan Khachatur	Deputy Head of Department	ABB - ArmBusinessBank
Totolian Ruzan	Loan borrower, dairy "Diet"	Vanadzor town, Lori Marz
Vanetzyan Sasun	Village Mayor	Aygabatz, Shirak Marz
Virabyan Sergey	Director	PAAU

Main bibliography

IFAD IOE*. Rural Areas Economic Development Programme. Republic of Armenia (IFAD Loan 653-AM)*. *Project Completion Report Validation.* October 2011

IFAD*. Republic of Armenia Rural Areas Economic Development Programme (IFAD Loan 653-AM) Completion Report,* October 2010.

IFAD. *Report and Recommendation of the President to The Executive Board on a Proposed Loan to the Republic of Armenia for the Rural Areas Economic Development Programme. Rome,* December 1-2, 2004.

IFAD. *Republic of Armenia Country Strategic Opportunities Paper.* Rome, 17-18 December 2003.

IFAD. *Appraisal Reports on the Rural Areas Economic Development Programme in the Republic of Armenia*.

IFAD. *Evaluation Manual – Methodology and Processes.* 2009.

IFAD. *Guidelines for Project Completion Report Validation and Project Performance Assessment.* January 2011.

IFAD. *Loans and Grants System.* 2011.

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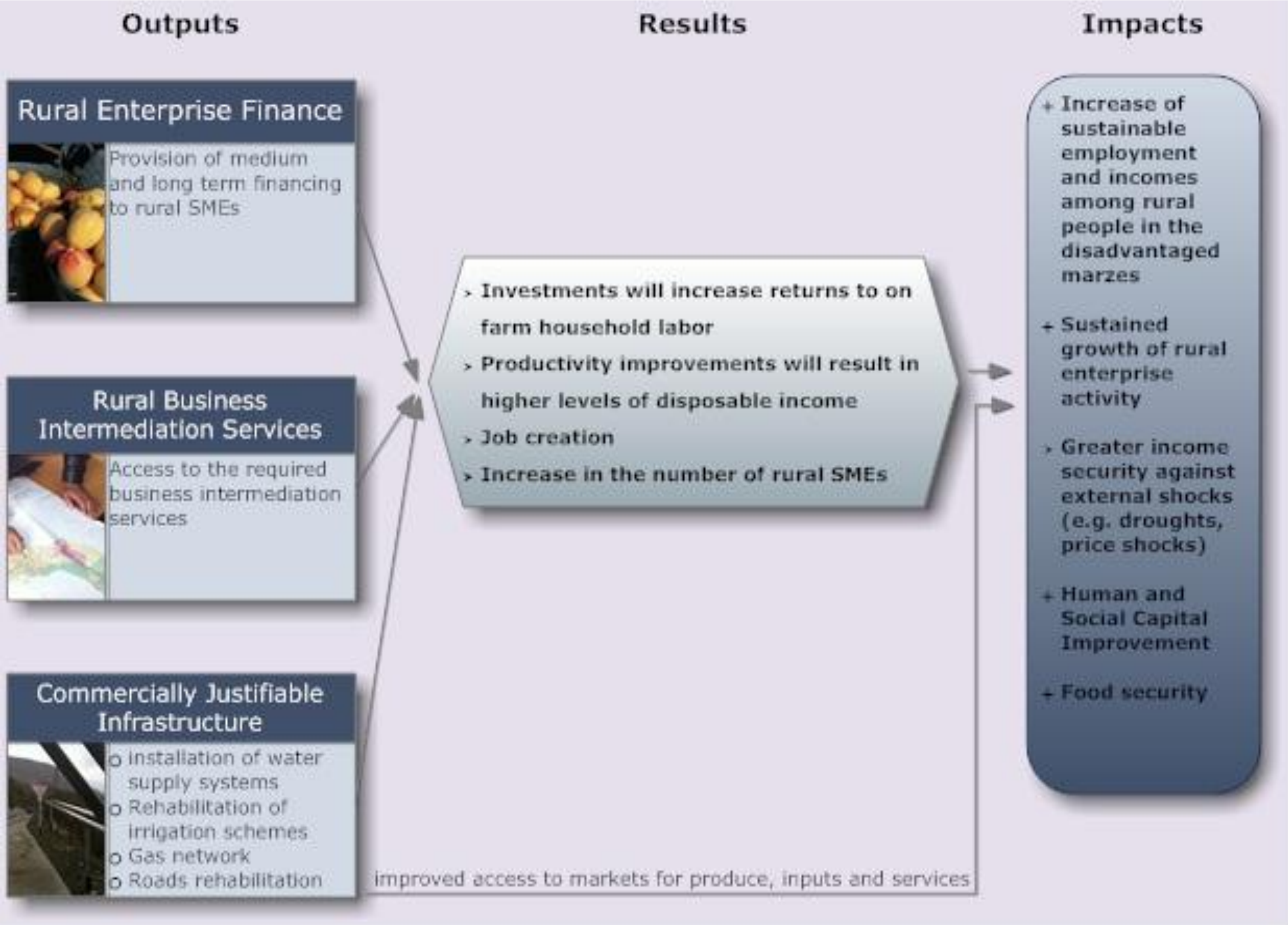
IFAD. *North West Agricultural Services Project, Completion Evaluation Report (Report No. 1226-AM)* December 2001.

IFAD. *Farmer Market Access Programme (IFAD Loan 730-AM IFAD Grant c971-AM, Grant Cofin DE 730-AM). Supervision Mission.* August-September 2011.

Simplified logical project scheme



Source: George Polenakis (IOE consultant)

Rural finance facility reports on loan activity

(amounts in US$)[1]

Loans by activity

REPORT

on refinancing requests submitted to RFF by PFIs

IFAD

01-04-2006 - 31-10-2011

Purpose	Size	Received by RFF		Approved by RFF		Disbursed by RFF	
		Num	Amount	Num	Amount	Num	Amount
other agricultural activity	Small	6	22600	6	22600	5	19600
	Large	54	2797800	52	2629800	51	2499250
	Total	60	2820400	58	2652400	56	2518850
livestock production	Small	59	224775	57	215775	53	207775
	Large	279	9427831	241	7409331	228	6719466
	Total	338	9652606	298	7625106	281	6927241
crop production	Small	4	14000	4	14000	4	14000
	Large	9	711900	5	311900	5	290900
	Total	13	725900	9	325900	9	304900
crop processing	Small	0	0	0	0	0	0
	Large	12	1163000	9	867000	9	867000
	Total	12	1163000	9	867000	9	867000
dairy processing	Small	1	5000	1	5000	1	5000
	Large	42	2939000	36	2599000	36	2599000
	Total	43	2944000	37	2604000	37	2604000
wine production	Small	0	0	0	0	0	0
	Large	8	796500	8	796500	8	795500
	Total	8	796500	8	796500	8	795500
fish breading	Small	2	8800	2	8800	2	8800
	Large	23	1267200	19	1081500	19	1076500
	Total	25	1276000	21	1090300	21	1085300
horticulture	Small	4	16600	4	16600	4	16600
	Large	28	1430200	26	1318200	26	1314700
	Total	32	1446800	30	1334800	30	1331300
beekeeping	Small	4	17900	4	17900	4	17900
	Large	7	114200	7	114200	7	114200
	Total	11	132100	11	132100	11	132100
agricultural services	Small	0	0	0	0	0	0
	Large	0	0	0	0	0	0
	Total	0	0	0	0	0	0
poultry	Small	0	0	0	0	0	0
	Large	15	1251000	15	1251000	12	986340
	Total	15	1251000	15	1251000	12	986340
Leasing	Small	0	0	0	0	0	0

Loans by size

REPORT

on refinancing requests submitted to RFF by PFIs

IFAD

01-04-2006 - 31-10-2011

Amount, USD	Received by RFF		Approved by RFF		Disbursed by RFF	
	Num	Amount	Num	Amount	Num	Amount
0-3000	22	45415	22	45415	18	39415
3001-10000	191	1413441	181	1336941	178	1312876
10001-50000	199	5451350	176	4848650	167	4583890
50001-100000	80	6345100	61	4790100	57	4353350
100001-150000	65	8952000	56	7657000	54	7263000
150001-	0	0	0	0	0	0
	557	22207306	496	18678106	474	17552531

[1] *Source: RFF.*

Loans by location

REPORT

on refinancing requests submitted to RFF by PFIs

IFAD

01-04-2006 - 31-10-2011

Location	Size	Received by RFF		Apporved by RFF		Disbursed by RFF	
		Num	Amount	Num	Amount	Num	Amount
Aragatsotn	Small	18	83000	17	79000	17	79000
	Large	117	4923600	110	4541600	107	4229600
	Total	135	5006600	127	4620600	124	4308600
Ararat	Small	3	11600	3	11600	3	11600
	Large	12	385500	12	385500	12	385500
	Total	15	397100	15	397100	15	397100
Armavir	Small	1	3000	1	3000	0	0
	Large	7	122000	7	122000	7	122000
	Total	8	125000	8	125000	7	122000
Gekharkunik	Small	18	74650	17	69650	17	69650
	Large	98	3452100	82	2746100	77	2524100
	Total	116	3526750	99	2815750	94	2593750
Lori	Small	8	31765	8	31765	7	26765
	Large	82	4759400	69	3596400	69	3535850
	Total	90	4791165	77	3628165	76	3562615
Kotayk	Small	3	13500	3	13500	3	13500
	Large	7	389000	7	389000	7	359000
	Total	10	402500	10	402500	10	372500
Shirak	Small	4	17000	4	17000	4	17000
	Large	37	2104900	27	1474900	22	1248440
	Total	41	2121900	31	1491900	26	1265440
Sunik	Small	3	14000	3	14000	3	14000
	Large	39	1602265	36	1491265	34	1441200
	Total	42	1616265	39	1505265	37	1455200
Vaiots Dzor	Small	20	51200	20	51200	17	48200
	Large	60	2946566	55	2666366	54	2517866
	Total	80	2997766	75	2717566	71	2566066
Tavush	Small	2	9960	2	9960	2	9960
	Large	18	1212300	13	964300	12	899300
	Total	20	1222260	15	974260	14	909260
Yerevan	Small	0	0	0	0	0	0
	Large	0	0	0	0	0	0
	Total	0	0	0	0	0	0

Commercially derived infrastructure civil works[1]

Communities #	Beneficiaries #	Household #	Unit (ha, km)	Community	Infrastructure	Total cost (US$)
				Shirak marz		
1	731	187		Ajgabats	Natural gas supply	184 133
2	4 423	1153	2.8	Panik-Meghrashen	Road (2.8 km)	291 437
1	663	156	3.2	Lusaghbjur	Road (3.2 km)	315 361
				Subtotal		*790 931*
				Aragatsotn marz		
6	2 168	557		Tsaghkahovit, Rja Taza, Sangyar, Vardablur, Alagyaz, Shenkani	Livestock drinking system	331 548
1	1 364	341		Ashnak	Livestock drinking system	358 059
5	4 335	1294	29.38	Shgharshik, Yeghnik, Katnaghbyur, Irind, Davtashen	Natural gas supply	332 286
6	9 689	2415	18.53	Hartavan, Shenavan, Yernjatap, Norashen, Aragats, Kuchak	Natural gas supply	219 683
5	2 677	778		Araji, Apnagugh, Vardenut, Rja Taza, Sangjar	Natural gas supply	248 773
7	10 082	2591		Hartavan, Shenavan, Yernjatap, Norashen, Aragats, Kuchak, Caxkashen	Natural gas supply	81 890
				Subtotal		*1 572 239*
				Vajots Dzor marz		
1	631	188	474	Azatek	Rehabilitation of on-farm irrigation network	493 717
1	1 173	414	123	Artabujk	Rehabilitation of on-farm irrigation network	141 349
2	1 704	567	341	Por, Zaritap	Rehabilitation of on-farm irrigation network	347 777
1	5 207	1604		Avshar Ararat Marz	Drinking water	14 896
0				Vajots Dzor	Rehabilitation of on-farm irrigation network	14 885
2	1 967	492		Hovtashen, Araksavan Ararat Marz	Natural gas supply	416 868
1	298	93		Horbategh	Water supply	10 363
				Subtotal		*1 439 855*
				Sjunik Marz		
1	1 207	267	70	Kornidzor	Rehabilitation of on-farm irrigation network (70 ha)	49 040
1	349	114	35	Khachen	Rehabilitation of on-farm irrigation network (35 ha)	75 167

[1] Source: PPAU.

Communities #	*Beneficiaries #*	*Household #*	*Unit (ha, km)*	*Community*	*Infrastructure*	*Total cost (US$)*
1	28	19		Kashuni	Livestock drinking system	12 629
1	110	38		Mutsk	Livestock drinking system	12 655
1	257	72		Ishkhanasar,	Natural gas supply	145 678
2	3 722	680		Kornidzor, Tegh	Natural gas supply	374 389
1	151	42		Njuvadi	Rehab. of irrigation network	13 435
				Subtotal		*682 993*
				Gegharqunig marz		
5	43 869	13 350	11.7	Gavar, Gandzak, Sarukhan, Landjaghbjur, Gegharkunik(2 contracts)	Road (10 km+ 1.7km variation order)	1 434 701
3	23 914	7 847		Martuni, Lichk, Vaghashen,	4 tubewells for irrigation	242 862
1	1 670	50		Tsapatagh	1 tubewell	72 138
1	5 109	1 670		V.Getashen	Rehab. of irrigation network	49 800
1	3 800	1 050		Mets Masrik	Rehab. of irrigation network	14 952
				Subtotal		*1 814 453*
				Tavoush marz		
						1 343 186
4	6 525	1 658	1 200	Koti, Voskevan, Baghanis, Voskepar	Conversion irrigation scheme (1200 ha)	958 310
						684 828
1	4 799	1 178		Achajur	Natural gas supply	64 734
				Subtotal		*3 051 058*
				Lori marz		
1	2 508	831	750	Dsegh	Rehabilitation of irrigation network (750 ha)	211 449
1	560	256		Pushkino	Livestock drinking system	128 451
1	2 011	582		Katnajur	Natural gas supply	83 811
2	1 628	547	12.46	Antaramut-Vahagni	Natural gas supply	398 368
1	510	120		Kachachkut	Water supply	49 921
				Subtotal		*872 000*
63				***TOTAL***		***10 223 529***

Comments by the Government of Armenia on the draft PPA report

Conclusions and recommendations by IOE from the PPA report	Government's response to the PPA report received on 7 March 2012
The infrastructure component improved irrigation, natural gas and water supply and road networks in the project areas. At the same time, it was intended to operate on commercially justifiable criteria, thus improving the overall environment of doing business in the rural areas. Instead it often served as part of the public investment programme of the Ministry of Agriculture. The immediate effect from investments would have been much higher if the local authorities and the rural residents would have been involved deeper into the decision process.	We fully accept this comment. That's why for RACP we have introduced a multistage infrastructure subprojects selection system. The initial applications come from village or community based enterprise level. They introduce a list of 5 most important public infrastructure schemes. Than the long list is discussed with related organizations (future maintaining and operating organizations. After that the list is discussed with Regional authorities. A feasibility study for projects is being conducted and based on the findings 2 list of priority projects is developed (First priority list and additional list) These lists are being submitted to the Steering committee and Loan administrator for approval.
A closer collaboration between the components in promoting farm investment would likely have brought forward the benefits and increased the efficiency of project outcomes. A more proactive monitoring of refinanced loans would have resulted in earlier results which would have led to better economic returns on investment.	This is not only acceptable but also obligatory for our future works. We have the pleasure to confirm that IFAD investments are usually ensure such cooperation. F. I, the RACP 3 components go hand to hand with each other and the new Danish grant will also supplement the global goal.
The measurable evidence on rural poverty impact is limited. The project's monitoring arrangement did not cater for relevant detailed data (household income, yields per household) and offered limited information on agricultural outputs, jobs, beneficiaries etc. which are at the result, rather than impact level. There is no trend information so as to assess the project's contribution to impacts and adjust for exogenous factors (economic crisis, exchange rate differentials, price fluctuations etc.). Finally there are no control group data. The project documents" analysis provides country level indicators only. It does not provide disaggregated evidence on beneficiary vs. non beneficiary *Marzes* so as to analyze the extent to which positive effects should be attributed to the project. Finally, there is no evidence on environmental impacts.	We fully agree with the point, a benchmark study with control groups is a proven method to assess the impact of any such investment. For RACP the ToR for such study is already developed and after the approval of the Steering committee and IFAD such study will be outsourced.
At the same time, the project was not equally effective in disseminating information about available services and results to the general public and potential beneficiaries. Many beneficiaries learned about the RFF loans coincidentally, while the general public was often not aware of IFAD"s contribution to rural sector development in Armenia, if compared to other donors.	This concerns not only RFF operations but all the implemented and ongoing programmes. Unfortunately the PAAU has no public relation specialist and even the web – site is in very poor condition. I think the next IFAD supervision mission has to look at the situation and propose actions.
More efforts could be made towards developing the insurance system (agricultural insurance) and stimulating loans on business terms. RFF-supported loans were offered by the banks to rural entrepreneurs always against collateral, in US$, at around 11 per cent interest rate, and 7 years maturity. RFF"s successful operation could be promoted to the next level by encouraging the banks to offer rural loans on business terms (or at least mixed ratio collateral and business).	Good point. Currently we are working with some insurance companies for developing agricultural insurance tools. It is hardy realistic that our banks would go into business term loans. But under IFAD financing a special foundation was established, the FREDA, which providing venture investments to enterprises is working in mentioned field.

Conclusions and recommendations by IOE from the PPA report	Government's response to the PPA report received on 7 March 2012
PFIs should be encouraged to offer loans in AMD (possibly by creating a hedging mechanism).Loans issued in US$ should only be given to operations generating earnings in US$. The exchange rate risk was proven high for rural clients who have no means for hedging. PFIs instead can develop a hedging mechanism and assume the exchange rate risk (probably at a premium).	This is good idea either; we have to develop some hedging mechanisms.
PFIs have to be induced into a more competitive process that will transfer part of the low cost RFF financing to rural clients. The offered interest rate has been considered high for loans on agriculture and in hard currency. PCR suggests that potential PFIs (during selection) should have been invited to bid on the spread they want added to RFFs 4 per cent charge and the average (discarding outliers) would then be the maximum any PFI can charge clients.	The idea is acceptable either. The RFF and PAAU management have to discuss this option with IFAD.
Proposed areas and fields of potential new investments	
Among key findings of this review are the need to step up to the next level of supporting institutional and policy reforms in Armenia, including support for insurance and leasing schemes in rural areas; diversifying loan products, adjusted local conditions; and targeting specific, more vulnerable groups.	We will discuss our plans on future with IFAD Country portfolio manager and missions. We either think reasonable to focus on; 1. Introducing agricultural insurance in rural areas. 2. Introducing new leasing schemes, particularly leasing of agricultural tools and equipment. 3. Diversification of loan products and targeting specific groups is our vision for agricultural credits under Danish financing. But the idea can be acceptable for RFF other products, as well. Our understanding is that RFF Director and PAAU Director should discuss the idea with IFAD missions.
Refinance targeting should aim at specific focus groups with special developmental interest (job creation, gender issues, creation of incremental markets etc.), thus better addressing the poor targeting.	4. See the comment above (paragraph 3).
New IFAD operations in Armenia should further support the value chain approach that proved to stimulate diversification, investments and availability of produce and market availability. This effort should be further supported and bring closer the rural entrepreneurs and the PFIs with the aim to develop a more efficient scheme that will incorporate financing, technical support, management and quality control.	5. This is a proper approach, RFF Director has to provide plan of actions to reach the objective.
IFAD should envisage a more extensive publicity and awareness of its activities in the country, both for ascertaining wider participation from the rural groups but also for developing a culture of trust of this group in IFAD"s activities in the future.	See the comment above in the text

IFAD

Enabling poor rural people
to overcome poverty

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