

Macedonia: Southern and Eastern Regions Rural Rehabilitation Project

Item	Assessment Remarks	Rating
Country & Project Name	Macedonia - Southern and Eastern Regions Rural Rehabilitation (SERRRP)	
Loan Number	428-MK	
ID Number	522	
Board Date	September 1996	
Effectiveness Date	September 1997	
Original Closing Date	December 2001	
Final Closing Date	June 2006	
Total Project Cost USD(M)	USD 11.2M	
IFAD loan USD (M)	USD 8.15M	
Cofinanciers (if any)	Government: USD 2.3 M - Cofinancing USD 0.65M	
Implementing Agency	Ministry of Agriculture, Forestry and Water Economy (MAFWE)	
Principal Components	The project was designed as a contribution to the rehabilitation and stabilisation of poor mountain area communities and to the increase of farm incomes and diversification of the rural economic base. The two principal objectives were to: (i) provide targeted credit and establish a credit delivery mechanism responsive to the needs of the rural sector and (ii) strengthen national institutional capacity in rural development for the country's more disadvantaged areas. The project was organised under two components. The Rural Credit component provided for the (i) establishment of a Revolving Credit Fund (RCF) for targeted and supervised credit to be managed by Investbanka as the designated Participating Financial Institution (PFI) operating under the terms of a Subsidiary Loan Agreement with the MOF, and (ii) strengthening the capacity of Investbanka to perform its mandated functions. The Institutional Support component provided for (i) strengthening MAFWE services to underdeveloped regions through the establishment of a Department for Rural Rehabilitation (DRR), (ii) strengthening the Agency for Development of Underdeveloped Regions (ADUR) planning and advisory services and (iii) incremental capital and operating cost for SERRRP operations, training and the establishment of the Project Coordination Unit (PCU) in the MAFWE.	
Project Performance		
Design	Project design proved unrealistic in several aspects. It underestimated the time required for institutional aspects of economic transition to be resolved and perhaps over-simplified the processes involved in adjusting Government policies to reflect requirements of a liberalised economy. Project objectives did not reflect outcomes that could be reasonably achieved. Indeed, the design was over-ambitious in terms of the number of borrowers expected to benefit from RCF loans, especially given the restricted geographic area initially targeted by the project and the understandable conservatism in lending of the PFI under prevailing circumstances in Macedonia. With 88% of base costs associated with credit delivery, it was unrealistic to expect a balanced approach to project implementation across three major implementing agencies. It was also unrealistic to expect that a sustainable credit delivery mechanism could be built on remoter areas without considering adequately the critical forward linkages needed for viable commercial agriculture which can be located elsewhere.	2
Implementation	The PCC seldom met and the PCU comprised a single person, acting on a part-time basis, having responsibilities for other development projects. The financial support for institutional development in the MAFWE and operational support to ADUR was too low to stimulate effective interest in project affairs. The DRR was not established. SERRRP de-facto became a rural credit project managed by the RCF Unit. The Project was extended three times and, after 2002, was integrated into the AFSP, the new IFAD project in Macedonia. Anticipated grant co-financing of USD 0.65 million to support technical assistance and training did not materialise. Beneficiaries were expected to contribute the equivalent of USD 1.7 million in kind to establish investment activities supported through the sub-loans. Actual contributions were not specifically recorded or monetised. Technical assistance for institutional support to the DRR and the PCU proved unnecessary given the lack of personnel to be trained. Before April 2002, no M&E Specialist was assigned to the PCU. With the implementation of the AFSP and the establishment of the new PCU, M&E functions were taken seriously and good efforts made in assessing project impact. The adjustments are indicative of the importance of maintaining a flexible approach to implementation that allows project activities to be adapted to changing circumstances. This approach proved successful in the second half of the project.	3
Relevance	The significance and urgency of IFAD support under SERRRP lay in the fact that in the post-federalist era, smallholder agriculture became a crucial means of livelihood and rural development a more prominent priority for government. The Project rationale derived also from the Government policy objectives on rural development to contrast the socio-economic effects of the break-up of the former Yugoslavia. Targeting proved to be unrealistic due to the light operational experience and institutional capacities.	4

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Effectiveness	SERRRP made a substantial contribution on several levels towards the achievement of the first of the project's two objectives, namely the provision of targeted credit and establishment of a credit delivery mechanism responsive to the need of the rural sector. Indeed, the SERRRP provided a financial platform on which beneficiaries can build in taking advantage of emerging production and marketing opportunities, which was one of the project objectives. The Project had a negligible effect with respect to its second objective of strengthening national institutional capacity in rural development for the country's more disadvantaged areas. However, to the extent that skills developed among the personnel engaged in the PCU, AIC, FFAM and ACDF remain available to the public sector, the institution(s) with which they become associated would certainly benefit from their substantial skills and experience. Project effectiveness certainly suffered from unrealistic project design.	4
Efficiency	With credit funds underlying the vast majority of project benefits and credit considered as a transfer of funds within the economy, the calculation of an economic return for the project was not considered justified at the time of appraisal and was not attempted by the PCR. Project closure was extended three times for a total of five years. There were delays in IFAD responding to Government requests for loan amendment in the first part of the project. Moreover, resolution of the difficulties in project co-ordination was slow to emerge. Overall, given project outcomes and overall costs, the project can be considered partly efficient.	4
Partner Performance		
IFAD	As main financier IFAD holds responsibility for design weaknesses. There were three successive changes in Country Programme Manager (CPM) for Macedonia in IFAD. Project correspondence and the evolving pattern of project implementation suggest that IFAD was willing to adjust legal documents governing the project in the light of implementation experience. However, there were delays in responding to Government requests for loan amendment in the first half of the project, partly as a result of a hiatus during the second change of CPM. IFAD and the CI made constant substantial efforts throughout to support project implementers and were successful in guiding improvements in the performance of the Rural Credit component. IFAD was regarded as a flexible partner which was willing to respond to the Government requests to: (i) amend the Loan Agreement to extend the project completion date, (ii) adjust the eligible target area, (iii) adjust allocations from the loan in the light of implementation requirements. IFAD also agreed to proceed with a new investment project which provided the opportunity to revisit approaches to the commercial financing of small-scale rural investments and enhancement of access to technical agricultural and marketing services among borrowers.	3
Cooperating Institution	There was one change of Senior Portfolio Manager in UNOPS during the course of project implementation. UNOPS made constant substantial efforts throughout to support project implementers and was successful in guiding improvements in the performance of the Rural Credit component. UNOPS satisfactorily supported loan administrations. The sustained attention to detail during UNOPS mission helped to establish and maintain an effective flow of funds for implementation and to develop familiarity with procedures for overall project financial management and record keeping, financial application, etc. Project correspondence and documentation associated with project supervision and reporting confirm the slow pace at which decisions were sometimes taken in response to requests and recommendations. UNOPS actively contributed to improve quality of RCF reports. The report of UNOPS banking specialists remained the principal source of analysis of RCF performance available to the PCU.	4
Government	Timeliness of Government contribution was satisfactory. MAFWE performance was unsatisfactory in the first half of the project. It failed to staff the PCU as originally intended until 15/4/2002, when the AFSP became operational. The lack of the DRR hindered the availability of instruments for facilitating borrowers' access to technical services. The Ministry satisfactorily performed in supporting implementation of the credit component of SERRRP and in supporting institutions operating under the AFSP. The PCC remained largely inactive throughout the project period and was unable to exercise its potential role in policy guidance. ADUR's role was limited. It did not make use of the funds available for technical assistance. Rural infrastructure investments continued during the project period in SERRRP areas and assumed the role of subsidising interest rates for eligible borrowers in disadvantaged areas. In terms of mutual operational influence, the involvement of ADUR was unsatisfactory. The expected co-financing of USD 0.65 million did not materialise. AIC performed satisfactorily in providing support to default borrowers, develop technical information and promotional materials, arranged demonstrations and established a cadre of private agricultural and business advisors.	3
NGO/Other	The Revolving Credit Fund (RCF) Unit has overseen an injection of USD 6.4 million in a clientele that previously had little or no access to a formal source of investment capital. The unit contributed to a growing recognition within Investbanka of the business opportunities in private agricultural sector. Despite the substantial operational difficulties	5

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	during 1999-2002, the RCF managed to continue its lending and followed-up on clients' investment activities to minimise loan and interest rate difficulties; close relationships were established with virtually all borrowers.	
Cofinancier(s)	See government.	NR
Combined Partner Performance	<i>Good dialogue and collaboration existed among partners throughout project implementation. IFAD's performance was hampered by very weak project design, which it partly compensated with flexibility to change throughout implementation. The GOM faced a harsh social and economic situation in the midst of an important transformation process. Given this context and the actual capabilities of each partner, overall performance can be considered moderate.</i>	4
Rural Poverty Impact		
Physical Assets	SERRRP borrowers benefited from an increased land ownership or land utilisation and increased livestock ownership. The value of owned assets among sample borrowers increased by about 18%. However, high incidence of livestock mortality was experienced during early implementation periods. Through project loans, improved agricultural production and processing equipment were purchased.	4
Financial Assets	The successful introduction of a credit delivery mechanism through Investbanka demonstrated for the first time in Macedonia the feasibility of commercial lending for smallholder production and small-scale enterprise establishment/expansion. This was a major achievement that responded to the project first objective. Access to the SERRRP credit line enabled Investbanka/RCF and (from March 2005 five other PFIs) to extend 1,133 loans to rural borrowers (equivalent to about 5,600 direct beneficiaries). In terms of farm financial results, investments generated an average increase in gross margins of EUR 3,300. For those borrowing for investment in sheep margins increased by 94% and an additional EUR 8,200 was generated. Borrowing for modern, high technology equipment and inputs substantially enhanced turnover and income. The growing number of repeated loans is indicative of the seriousness of borrowers' application to business and of the improvement in the financial circumstances. Enduring effects on access to financial markets have been generated thanks to improved outreach and operations of Investbanka. The rural credit component therefore contributed to improving project beneficiaries' productivity and physical assets.	5
Food Security	Positive effects on household food security resulted from the increased farm business income associated with the investment financed with the project loan as well as from the employment increase.	4
Environment	No information at all is provided in the PCR on project environmental impact.	NR
Human Assets	Positive effects on human assets were generated through AIC sponsored training and capacity building programmes.	3
Soc. Cap. & Emp.	A key stated objective of RCF design was to build-up group lending. Given the widespread aversion towards cooperatives, expectations for group lending were inappropriate and were not pursued. The small producers wishing to join forces with others did so through commercial, corporate arrangements.	2
Ag. Productivity	About 96% of project loans related to primary production: arable crop production, rising of livestock, horticulture (viticulture, fruit tree and vegetable production and floriculture), farm facilities (improved machinery and equipment) and seasonal inputs. Remaining loans were for agro-processing businesses and rural retail trading. The project allowed for beneficiaries' wider access to quality animals with higher productive potential.	5
Inst. & Serv.	The achievement of institutional objectives was severely curtailed by MAFWE's failure to establish a new DRR and the anticipated complementarity between the Rural Credit and Institutional Support components. This had a negligible effect on the strengthening of national institutional capacity in rural development for the country's more disadvantaged areas. After 2002, the funds initially intended for the DRR were reallocated to support the development of private sector training and advisory services by the AIC. AIC performed satisfactorily on this regard. The project had a positive effect on Investbanka outreach and capabilities of serving the rural population. Investbanka is also extending its branch network to smaller towns in areas with economic potential for agricultural sector. Overall, involvement with project implementation has developed substantial skills in rural development planning and implementation among PCU, AIC and FFAM personnel. They now represent a valuable national resource.	4
Markets	There are several cases of larger market operators (traders, agro-processing enterprises) benefiting from SERRRP loans. Through backward linkages to rural households and small-scale producers, such borrowers facilitate access to markets that would otherwise be inaccessible to small, individual producers. Improvement in product quality contributed to ease constraints to market access.	4
Project Impact	<i>SERRRP provided a financial platform on which beneficiaries can build in taking advantage of emerging production and marketing opportunities. There is little doubt that for the majority of RCF and SERRRP/ACDF clients, loans led to improvements in livelihoods and in a growing number of cases are enabling clients progressively to consolidate or expand their operations to a point where</i>	4

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	<i>business survival is increasingly assured in the short- to medium-term. Impact was undermined by the lack of implementation of one of project components, which the project did much to compensate throughout implementation. Still, overall project impact was moderate.</i>	
Overarching Factors		
Innovation	The entire concept of targeting credit to poorer people in relatively disadvantaged areas represents a major innovation in the country. The operations of RCF have, for the first time in Macedonia, illustrated the financial viability of lending to small-scale agricultural producers and entrepreneurs in rural areas. The project was a learning experience on an institutional level in the Government and Investbanka as well as at the level of prospective borrowers. The approach to developing agricultural advisory services adopted by AIC is a major innovation. AIC attention focuses on (i) expansion of information base (through publication of promotion materials, demonstrations, interaction with associations, etc.) and (ii) developing the skills of contracted advisors operating as private agricultural consultants to prospective borrowers and other clients.	6
Replicability and Scaling-up	Thanks to the positive outcomes of RCF operations, these are being built upon actively, not only by Investbanka but also increasingly by other banks and financing institutions. The design of AFSP built upon this experience and took further advantage of the growing stability and maturity of the financial sector, enabling an innovative loan refinancing mechanism to be introduced. Scaling up therefore has already happened.	5
Innovation, Replicability and Scaling-up	<i>The project strategy represents an innovation completely new for Macedonia and for IFAD in its first experience in the country. Such innovations have been built upon and replicated in current IFAD activities in the country, as well as being replicated by the national financial sector.</i>	5
Sustainability and Ownership	The operations of RCF have, for the first time in Macedonia, illustrated the financial viability of lending to small-scale agricultural producers and entrepreneurs in rural areas. Funds derived from the SERRRP incremental credit line are revolving satisfactorily with the RCF unit functioning on a self-sufficient basis and at profit. Investbanka demonstrated the intention to continue agricultural lending also relying on the expertise acquired in the RCF Unit and is further developing its branch network, policies and procedures with agricultural lending as a key element of its business. The sustainability of the newly established ACDF has not yet been secured.	5
Targeting	Targeting proved to be unrealistic due to the light operational experience and institutional capacities. The choice of target areas followed residential criteria and was based on the Law for the Development of Economically Underdeveloped Regions. The target population comprised rural households previously identified by ADUR as in need of urgent development assistance. 26 000 households (89 000 people) living in these areas were eligible for sub-loans from RCF. In 2000, the residency criterion was eased and village eligibility was expanded also to other areas. Village eligibility for inclusion was expanded to include all villages in Southern and Eastern Macedonia.	3
Gender	No gender strategy included at project design. Women represented some 19% of the Investbanka/RCF borrowers and 14% of the SERRRP related loans refinanced through ACDF. These figures may underestimate benefit since there is no formal restriction on women access to credit in Macedonia and financial obligations are viewed as family matter, regardless the name under which the loan has been taken.	3
Overall Performance	Project performance was undermined by an unrealistic project design which underestimated the difficulties faced at various levels by the borrower. Still, the flexible approach of the partners allowed the project to adapt to the actual circumstances and enabled the implementation of an innovative approach to rural financing which has in the end proved effective and sustainable. Such flexibility also allowed to partly compensate for the fact that the institutional support component. Overall, and taking into consideration the first phase when implementation was very slow, project performance is moderate.	4
PCR Quality		
Scope	The PCR is complete and most of needed information was found in spite of the fact that it was drafted before the issuing of the standardised PCR guidelines. A major omission of content is the fact that no reference to project environmental impact is made.	4
Quality	The quality of the PCR is satisfactory. The analysis is good and the conclusions clear and well presented.	5
Lessons	Lessons are clearly driven, and are of particular importance because of the very innovative aspects of this project, not only for Macedonia but also for IFAD activities in other countries in transition.	5