

Azerbaijan: Rural Development Programme for Mountainous and Highland Areas (RDPMHA)

Item	Assessment Remarks	Rating
Country & Project Name	Azerbaijan: Rural Development Programme for Mountainous and Highland Areas (RDPMHA)	
Loan Number	542-AZ	
Project Id.	1148	
Board Date	Sept 2000	
Effectiveness Date	July 2001	
Original Closing Date	Sept 2008	
Final Closing Date	Sept 2007	
Total Project Cost USD(M)	USD 10.0 million	
IFAD loan USD (M)	USD 9.0 million	
Cofinanciers (if any)	USD 0.11 million; USD 0.4 from GoA; USD 0.4 million from beneficiaries	
Implementing Agency	Agency for Support to the Development of the Agricultural Private Sector, abolished in April 2005 and functions transferred to the State Agency for Agricultural Credits (SAAC)/ Ministry of Agriculture	
Principal Components	The Programme aims to assist populations in mountainous and highland areas to improve their quality of life in a sustainable manner by increasing incomes while protecting the natural resource base and the environment. <u>Project's objectives</u> were: i) strengthen the capacity of target households to organise themselves to enhance their participation in the market economy and to manage the natural resource base on which their livelihoods depend; ii) restore economic livelihoods through improved management of the resource base and improved access to financial, technical and commercial services; iii) protect and rehabilitate the environment by developing appropriate community based institutional mechanisms; iv) strengthen public capacity to identify and respond to the needs of mountain areas by establishing appropriate institutional mechanisms. The Programme consists of four major components: (i) Promotion of Participatory Development; (ii) Support for Income Generation (financial services, livestock production, crop production, marketing and processing); (iii) Pilot Community Environment Activities; and (iv) Programme Management.	
Project Performance		
Design	The immediate thrust of the Programme was to reverse the decline of target households into subsistence production and re-launch the household economy on an upward path. The development strategy adopted was to address the complex web of interacting environmental, economic and social issues of the mountain areas. Programme activities were demand driven , determined by the communities through a participatory planning process that identified interventions specific to the conditions of each village and developed appropriate institutional arrangements which suited community needs . Due to the demand nature of the investments, the Appraisal Report has not set quantitative targets for most of the programme activities . The beneficiary communities and beneficiaries themselves determined the type and number of investments financed by the programme.	5
Implementation	During the first two years (from loan effectiveness to March 2003), implementation performance was below expectations and behind schedule. Serious delays have been experienced in several of the key preparatory activities , particularly with respect to the procurement and mobilization of INGO service provider for the implementation of the programme's two major components, specifically participatory development and support for income generation , which together constituted about 77% of programme costs. The contracted (in March 2003) implementing NGO (INGO) IKT AG International Know-How Transfer and Trading implemented few activities at field level before requesting contract termination . In late 2003, implementation responsibility was provided to the PMU and the loan agreement was amended in April 2004 to formalise the change in implementation arrangements . A second loan amendment was conducted in October 2006 to reflect changes in the Government structure which had implications for the Programme, as well as to revise financial projections of the original design . Despite the initial delays, Programme implementation was accelerated from mid-2003 to mid-2007 at an unprecedented pace, which made it possible to disburse the loan fully and complete the Programme one year ahead of the original completion date, e.g. September 2007 instead of September 2008.	4
Relevance	The RDPMHA was relevant to the needs of the rural households as it addressed significant constraints to rural development, especially the lack of access to services, inputs and credit, and redirected the household economy from subsistence production to a more market oriented path. The design of the Programme was in line with IFAD's sub-regional and country strategies as expressed in the 1999	5

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	Sub-regional Strategic Opportunities Paper (SUSOP) and 2003 Country Strategic Opportunities Paper (COSOP), which learned from and built on the then ongoing RDPMHA interventions.	
Effectiveness	The programme has mostly met its development objectives. The Programme has been effective in strengthening the capacity of target households to prioritise their development needs in a participatory planning process, by training and actively engaging them in decision-making related to social and economic development of their communities. The Programme was effective in restoring economic livelihoods through improved access to financial, technical and commercial services. The programme also built up an effective independent source of all-round analytic and management competence for mountain area development. The provision of credit to microfinance and to SMEs constituted a significant increase in short and medium-term lending to rural areas, which did not exist at the start of the programme. However, programme fell short in achieving the foreseen number of credit unions, as eventually only 7 credit unions were established against a target of 54. No reasons are provided in the PCR to explain why this happened. The programme supported testing of participatory approaches to reforestation of degraded forest areas, soil erosion control and land improvement. However, it has not initiated measures for the execution of this component at a larger extent due to unresolved methodological issues. Finally, the programme did not achieve the planned targets of the area irrigated by rehabilitated irrigation schemes (e.g. 260 ha vs. 1,000 ha).	4
Efficiency	In the initial stage of the Programme, the allocation of full responsibility to the INGO for programme execution proved to be financially inefficient and counterproductive with respect to the achievement of programme objectives. However, it appears that after the initial period, the pace of expenditure over the last three programme's years was well above appraisal targets and the financial performance was ahead of schedule , which resulted in full loan disbursement before programme completion . The efficiency of implementing the microcredit component, if measured by the ratio of total expenses paid by the programme to Micromaliyye to the total amount of credit thus amounting to 11.49%, is found to be quite efficient , also considering that the credit amounts had to be taken and delivered by Micromaliyye in cash to the door of each beneficiary and credit union in the distant and mountainous villages of the programme area.	4
Partner Performance		
IFAD	There has been an intensive and persistent follow-up by the IFAD country portfolio manager (CPM), who liaised intensively with Government and other stakeholders , particularly during the first two difficult programme years, to find solutions and put the Programme in the right implementation track, and subsequently maintain the pace of implementation at high level until its successful completion. In addition to the CPM follow-up, IFAD provided implementation support to the Programme by fielding 5 other missions concerning different issues such as M&E, gender and participatory methodology.	5
Cooperating Institution	UN Office for Project Services (UNOPS) was the cooperating institution (CI) for the Programme and fielded six 2-member supervision missions, one every year. Although most of loan administration and Programme guidance was done by correspondence, UNOPS acted fast in responding to requests by the Borrower. Throughout programme implementation, UNOPS acted flexibly, pragmatically and responsively to meet the Programme needs . It supervised closely and guided effectively the implementation process , submitted an abundance of constructive suggestions and recommendations and followed up the status of these recommendations . UNOPS also offered solutions to problems as they arose, liaised with Government and implementing partners and kept IFAD informed of developments.	5
Government	The GoA complied with loan agreement covenants and followed rather closely the recommendations of supervision and follow-up missions with regard to project execution. Overall, the borrower's actions and its high degree of ownership facilitated the rapid completion of the Programme and contributed to its success. Strong GoA's commitment resulted in the early appointment of PMU staff of high calibre and which had sufficient autonomy to act . However, GoA's cash contribution to the programme was below expectations as it met only 76.7% of its financial obligations. No reason is provided in the PCR to explain why this happened. The project management unit (PMU), which was initially conceived as an organisational and facilitation body, with the termination of the INGO contract and the loan amendment, assumed full responsibility and accountability for programme execution . The financial management and audit were very good. PMU's management capacity has improved over time and it managed to complete	4

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	the Programme by a full year ahead of the original completion date . However, transformation of PMU into a Mountain Areas Development Agency (MADA), as stipulated in the loan agreement, has not been implemented .	
NGO/Other	Micromaliyye's performance as a microfinance service provider in local institutional development and lending operations has been impressive even considering the difficulty of providing financial services in remote mountain areas. However, its operations in 2007 have significantly slowed down, after the Programme stopped financing its costs. With regard to the INGO IKT AG International Know-How Transfer and Trading, it was contracted for the implementation of the programme's participatory development and support for income generation components. The allocation of full responsibility to this INGO for programme execution proved to be financially inefficient and extremely slow. The INGO after implementing few activities at field level, requested contract termination as it was unable to contribute its agreed 20% co-financing.	3
Cofinancier(s)		
Combined Partner Performance		4
Rural Poverty Impact		
Physical Assets	Impact on physical asset has been strong. As shown by the impact survey, there has been an increase in the percentage of families owning cattle and chicken . In addition, the number of households owning telephones, TV sets, refrigerators and cars also experienced an increase . Finally, there has been a slight increase in the number of families owning land (from 98.3% to 98.9%).	5
Financial Assets	More than 14,000 rural households gained access to retail financial services for the first time since independence. Those households that have received financial services either from participating in borrower groups and credit unions or directly from the commercial bank, have had benefits in terms of better opportunities for investments in farming, trading and marketing but also for activities that do not directly generate income but contribute to household welfare such as health and schooling. In addition, access to credit ensured uptake and the effective utilization of newly introduced technologies. As far as the level of income , the impact evaluation survey reports that there was a reduction, from 9.3% to 8.4%, in the households with an annual income AZN 1,000-2,000, and an increase, from 87.9% to 88.3%, in the households with an annual income of AZN 2,000-4,000 and an increase, from 2.6% to 3.3%, in households with an annual income over AZN 4,000.	5
Food Security	The Programme has had a positive impact on food security. Through the provision of credit, beneficiary families were able to improve agricultural production and productivity of crops , potatoes, orchards and fruits, livestock, apiculture, agricultural marketing, handicrafts and trade. As a result, beneficiary families were able to enhance their income from selling agricultural surpluses and experienced better food security .	5
Environment	The Programme has had a considerable positive impact both on direct increase of soil productivity in programme areas as well as on improving participant and neighbouring communities' awareness about soil conservation . This has been achieved through a series of demonstrations and group actions on the seeding and fertilization of pastures, fodder production and crop residue management. In addition, the Programme supported testing of participatory approaches to reforestation of degraded forest areas and supported the rehabilitation of 44 ha of forest land with nut and hazelnut trees. Although these demonstrations have themselves only very limited impact on restoring forest cover, their main contribution is that they oriented both communities and the Forestry Department to the benefits arising from the regeneration and protection of the forest.	4
Human Assets	Within this domain, the main impact of the Programme concerns the training and knowledge imparted to community committees and local authorities, farmers, credit unions' staff and staff of the Micromaliyye. At this regard, in areas like new high yielding fruit varieties, improved cattle, sheep and poultry management, pasture management and suitable fodder crops farmers have learnt new practices and put them into use . The predominant training approach was that of farmer field school, emphasizing practical problem solving and carrying out a demonstration in farmer's field, rather than in research stations. With regard to the sustainable access to improved source of drinking water , available data show a positive impact of the Programme. Finally, school sanitation facilities as well as health clinics had a positive impact on community health as well as they contributed to improving the local hygiene.	5

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Social Capital and Empowerment	The programme contributed to strengthening and improving the collective management capacity of community committees and local authorities and their active engagement in decision making related to social and economic development of their communities. A total of 62 village development plans have been prepared by community committees and 63 social infrastructure facilities determined by the communities; these facilities are properly managed, operated and maintained by the communities. Three producers' associations (Livestock Association, Honey Producers' Association and Potato Seed Producers' Association) have been established by the programme and they serve the interests of their members in a collective manner . With regard to the financial system, the credit unions as financial institutions are owned and managed by the communities . Villagers asked about the benefits of the credit unions declared that the credit unions supported them during difficult times and gave a sense of hope for the future.	5
Ag. Productivity	The Programme contributed to overall improvement in agricultural production and productivity and as a result, there has been a move towards more intensive agriculture and use of more productive and higher value plants and animals . The investments made by farmers who received credit included new high yielding fruit varieties which are appropriate for mountainous areas and demanded by local/export markets, suitable fodder crops (alfalfa, barley, maize, etc.), vegetables, potato seed production, seeding and fertilisation of pastures, AI, quality rams and veterinary care of livestock against most common diseases. Investments were also made in beekeeping and marketing . Implementation of advanced technologies by farmers introduced by Programme led to improved production and productivity with positive effects on beneficiary incomes .	5
Institutions and Services	Through the RDPMHA, the establishment of the credit unions has been strengthened . In addition, the Programme has financed capacity building of all the institutions involved in the implementation of the credit component, namely Micromaliyee, credit unions and borrower groups. In addition, the Programme has promoted the establishment of Producers' associations (Livestock Association, Honey Producers' Association and Potato Seed Producers' Association) to serve the interests of their members in a collective fashion.	5
Markets	The main contribution of the Programme in terms of markets is the rehabilitation of market linking infrastructure such as roads, bridges, electricity supply and domestic water supply which could contribute to easy transportation of perishable agricultural and livestock products and facilitate investments in processing and packaging plants. Another programme contribution is the establishment of Producers' Associations (Livestock Association, Honey Producers' Association and Potato Seed Producers' Association) which can link producers with processors and markets and promote other marketing issues such as the collection and dissemination of marketing information, investments in packaging, labelling and branding and organisation of quality control and certification in line with international standards.	4
Rural Poverty Impact		5
Overarching Factors		
Innovation	The delineation of a development model for the mountainous and highland areas constitutes the chief innovation of the Programme. In turn, this model is based on two further innovations, namely community driven development approach and development of a rural financial system . In relation to the former, the participatory community driven development concept was entirely new in the Azerbaijan context. With regard to the latter, through its approach of borrower groups lending and community-owned and community-managed credit unions, RDPMHA created a rural financial delivery system in the programme areas, where nothing of this nature existed before. Finally, thanks to the programme's support, new high yielding fruit varieties (apple, plum, cherry, almond, walnut) were introduced.	5
Replicability and Scaling-up	With the completion of this phase of the Programme, a model for development of the mountain and highland areas, with its main elements e.g. community participation and community driven development, credit delivery and technology up gradation, is ready for replication on a wider scale within the mountainous and highland areas of Azerbaijan.	4
Innovation, Replicability and Scaling-up		5
Sustainability and Ownership	The sustainability of social infrastructure works, to a great extent, has been secured as the ownership of social infrastructure works has been transferred to the communities /municipalities, including responsibility for operation and maintenance. For the sake of sustainability, PMU decided to transfer ownership of the livestock service centers to the livestock producers' association, before programme closing.	4

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	The sustainability of the widespread adoption of technological improvement in agricultural, horticultural and livestock production, necessitates the greater involvement of the private sector for input supply and output marketing as well as availability of appropriate financing mechanisms. The sustainability of the established Livestock, Potato Seed and Honey Producers' Associations will only be secured when these associations further develop business linkages with the private sector (processors, traders, etc.). With regard to the financial system, neither the Programme nor the Government have formulated an 'exit strategy' to sustain credit activities post Programme. The financial sustainability of Micromaliyye is at a critical point , and this financial institution runs the risk of not becoming sustainable, after programme completion, unless it takes drastic action to increase its portfolio and reduce operating costs. The credit unions (CUs) have the capacity to develop into strong self-help institutions . Borrower groups, although not designed to be financially sustainable institutions, are playing an important role in building a credit culture, especially with smaller rural borrowers as they are expected to recover full costs of their operation.	
Targeting	At Appraisal, targeting mechanisms were set to identify the most disadvantaged villages with a poor resource base, quantitatively and qualitatively, and minimal socio-economic stratification. Within these villages, the Programme would adopt the approach of inclusivity – ensuring that the poor are at the centre of the Programme whilst not specifically excluding the not-so-poor. At implementation, the stipulated village targeting criteria covered a broad and complex set of factors, which were difficult to quantify and assess, and the stipulated village selection process was similarly complex . As a result, the PMU proposed a list of villages in each district, out of which the village selection committee of the Programme Steering Committee selected/approved a total of 62 villages that were finally included in the Programme. Supervision missions reported that they were satisfied with the selection process applied and all indicators show that the targeting approach was both appropriate and effective for the geographic context of the country .	4
Gender	Gender mainstreaming has been integrated into programme planning, execution, monitoring and reporting. The Programme responded to women's concerns by making provision for the rehabilitation of social infrastructure through community level efforts, and by including them in programme training activities and providing access to programme's resources. Priority was given to restoring drinking water supplies, improving access to communities and rehabilitating kindergartens and health infrastructure. The Programme ensured that women had equal access to the knowledge and technology disseminated and to Programme resources, including credit. Women constitute 100% of beneficiaries of sheep improvement activities, 90% of targeted vegetable producers, 45% of participating honey producers, 38% of targeted crop producers, 16% of selected fruit producers, and 41% of Micromaliyye borrowers.	5
Overall Performance		5
Estimated number of beneficiaries	The Programme covered 7 districts, Gabala, Shadhbuz, Gadabay, Lerik, Guba, Ismayilli and Dashkesan and 62 poor and disadvantaged village units with a total of 26,634 households.	
PCR Quality		
Scope	Overall PCR in compliance with guidelines. Annex VI missing. No final PCR workshop mentioned.	4
Quality	This PCR should have benefitted from a more in-depth quantitative and qualitative analysis.	4
Lessons	Even if quite general, lessons are overall relevant for a future project intervention in the country.	4