Programme Completion Report - Validation

Rural Development Programme for Mountainous and Highland Areas

The Republic of Azerbaijan

A. Basic Data

A. Basic Programme Data			**Approval** (US$ m)	**Actual** (US$ m)
Region	Near East and North Africa	**Total Costs**	USD 9. 997 m.	10. 919 m.
Country	Azerbaijan	IFAD Loan	USD 9.0m.	10.036 m.
Loan Number	542-AZ	Borrower	Government of Azerbaijan USD 0.4 m.	USD 0.31 m.
Programme Acronym	RDPMHA	Co-Financier 1	International Know-How Transfer and Trading (INGO) 0.11 m.	USD 0.09 m. (unclear; the PCR reports that INGO did not honour its co-financing)
Type of programme (sub-sector)	Integrated Rural Development (AGRIC)	Co-Financier 2		
Date of Approval	13 September 2000	Co-Financier 3		
Date of Loan Sign.	27 November 2000			
Date of Effect	01 July 2001	Beneficiaries	USD 0.48 m.	USD 0.48 m.
Country Program Managers	Mr. A. Rahman Mr A. Sma (current)			
Regional Directors	Mr A. Slama Ms M. Bishay Mr. N. Khouri (current)			
PCR Reviewer	Mark Keating			
PCR Quality Control Panel	Fabrizio Felloni Ashwani Muthoo	Number of beneficiaries	47,676 individuals / 8,200 households	62,519 individuals
		Cooperating Institution	UNOPS	UNOPS
		Mid-Term Review	Planned by the end of the fourth year of operations	The MTR was never undertaken. In certain cases, UNOPS did combine the MTR with the annual supervision mission, but it is unclear if this was the case for RDPMHA
		Closing Date	30 September 2008	30 Sept 2007
		Main components and % of costs	• Promotion of Participatory Development (13%) • Support to Income Generation (64%) • Pilot Community Environmental Improvement Activities (2%)	• Promotion of Participatory Development (16%) • Support to Income Generation (61%) • Pilot Community Environmental Improvement Activities (2%)

				• Programme Management (21%)	• Programme Management (21%)
			IFAD Loan Disbursement at closure (%)		99.16%

Sources: IFAD (2000) RDPMHA: Report and Recommendations of the President; IFAD (2000) RDPMHA: Appraisal Report; IFAD (2007) RDPMHA: Programme Completion Report

Comments

The RDPMHA was an IFAD-funded joint programme between the Governments of Azerbaijan and Georgia to assist populations in mountainous and highland areas. IFAD provided separate loans to each country. This PCRV refers to the implementation of the programme in Azerbaijan only. Notably, as per programme design, 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.

The original loan agreement was amended twice, on 14 April 2004 and 04 October 2006 respectively. The amendment of 14 April 2004 involved minor changes, mainly to allow the Programme Management Unit (PMU) to take over implementation responsibilities after the withdrawal of the INGO in 2003. The amendment of 4 October 2006 was broader and reflected: i) changes in Government structure which had implications for the Programme, most notably abolishment of the Agency for Support to the Development of the Agricultural Private Sector which had overall responsibility for programme implementation, and transfer of its functions to a new State Agency for Agricultural Credits (SAAC) under the Ministry of Agriculture; and ii) loan reallocations.

Programme activities were completed one year ahead of time, i.e. in September 2007. As of 30 September 2007, cumulative disbursement of the IFAD loan amounted to SDR 6.842 million, accounting for 99.16% disbursement of the loan amount of SDR 6.9 million. According to the PCR and to the UNOPS supervision report this was a remarkable achievement, considering that the programme was fully operational for only four years.

The Mid-term Review, originally foreseen in the loan agreement, was never undertaken. No explanation has been found for this non-compliance in the documentation reviewed.

It should also be noted that: i) the last UNOPS Supervision was undertaken from 27 March to 6 April 2007.; ii) an Impact Evaluation survey was conducted in August-September 2007, covering a sample of 1,500 households in all 62 programme villages; and iii) the Project Completion report was issued in November 2007.

B. Programme Outline

B.1 Programme Objectives

The aim of the RDPMHA was 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.

Programme's objectives were as follows: 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.

B.2 Programme Area

The programme area was identified taking into account two key characteristics of mountain terrain – altitude and slope. The programme was initially implemented in 54 villages located in 5 districts; mid-way through the programme was extended to a total of 62 villages in 7 districts.

B.3 Beneficiaries and main benefits expected

At design, the total number of rural households to be covered by the programme was 8,200, comprising a total of 47,676 individuals, representing 13% of the total rural households in the districts covered. Later on, when the programme was extended to cover 7 districts, the overall number of beneficiaries benefiting from the programme reached 62,519 people.

Targeting was directed towards identifying the most disadvantaged villages for inclusion in the programme with a poor resource base, quantitatively and qualitatively, and minimising socio-economic inequalities among villages. Within these villages, the programme adopted the approach of inclusiveness, placing the poor at the centre of the programme whilst not specifically excluding the not-so-poor.

The interventions were expected to more than double beneficiaries' income in addition to improving household food security. All households - except those engaged in transhumance – were to attain self-sufficiency in cereals and livestock products while transhumant households were to achieve the greatest increase in cash income, so to enable them to cover their cereal and other basic food requirements. The programme was to equip women to perform better in their new responsibilities by providing access to credit and technical support.

B.4 IOE Comments

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-driven nature of the investments, the Appraisal Report did not set quantitative targets for most of the programme activities. Thus, meaningful comparisons between appraisal targets and actual achievements cannot be made for those activities.

As noted in the PCR, the amendment of 4 October 2006 included also the revision of the financial projections of the original design, increasing amounts for civil works; vehicles, equipment, materials; technical assistance, contractual services, studies and training; and reducing drastically amounts on equity grant[1] and on incremental operating costs.

C. Main Assessment – Review of Findings by Criterion

Programme Performance

C.1 Relevance

PCR Assessment: key findings and data

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 Sub-regional Strategic Opportunities Paper (SUSOP) and 2003 Country Strategic Opportunities Paper (COSOP), which learned from and built on the then ongoing RDPMHA interventions.

IOE Observations

Overall, the project objectives were consistent with the SUSOP and with the COSOP of 1999 and 2003

[1] Equity and establishment grants were provided in tranches under the programme to newly established credit unions in mountainous areas. The maximum amount of such grants was determined by agreement between the Government and IFAD. No further tranches of the grant were to be provided until the credit union demonstrated to the satisfaction of IFAD a good rate of recovery on any loans received under the programme and its good governance.

respectively, as well as with the needs of the rural poor. It should also be noted that project design was conducted in a participatory manner, taking into account the needs of key stakeholders. At the same time, there were some weaknesses in the project design. The design did not fully identify the factors that negatively affected the implementation of the programme's participatory development and support for income generation components (77% of total costs) in the first two years. For example, the identification of the executing agency – providing also co-financing – was left open. The sub-sequent allocation of full responsibility to the International NGO *IKT AG International Know-How Transfer and Trading* (INGO) for programme execution was a sub-optimal arrangement at best; it proved to be financially inefficient and slowed down the implementation of the programme. Such a situation required an amendment to the original loan agreement to solve this serious issue by allowing the PMU to undertake full implementation responsibilities after the withdrawal of the INGO. Thus, in this case, the relevance of design assumptions is to be questioned. To solve the above impasse with INGO, in 2004 the Ministry of Finance contracted Mikromaliyye – a non-banking lending organization to execute the programme’s microfinance component, for an incremental credit amount of USD 2.7 million plus technical assistance and operating costs. The Government of Azerbaijan, seeking to improve the financial sustainability of Mikromaliyye, stopped providing it with operational support but transferred to it ownership of assets (vehicles, computers, office equipment etc) and allowed it to increase the interest charged to borrowers from 12 per cent to 20 per cent in order to cover its costs and ensure its future financial viability. As acknowledged by the PCR narrative, difficulties in establishing credit unions were not fully taken into account in the design. Also, neither the programme nor the Government have formulated an ‘exit strategy’ to sustain credit activities post-programme. An ‘exit strategy’ is essential for ensuring the institutional sustainability of the programme achievements, and ensure continued funding to the borrower groups and the newly-established credit unions that have no access to other sources, nor can they mobilise deposits from the general public as per Azerbaijan law.

C.2 Effectiveness
PCR Assessment: key findings and data According to the PCR, the RDPMHA met a significant part of its development objectives. The programme was 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 also effective in restoring economic livelihoods through improved access to financial, technical and commercial services. The programme built up an effective independent source of all-round analytic and management competence for mountain area development. The provision of financing to Micromaliyye and to SMEs constituted a significant increase in short and medium-term lending to rural areas, which did not exist at programme start-up. However, the programme fell short in achieving the foreseen number of credit unions, as eventually only 7 credit unions were established against a target of 54. 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. 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).
IOE Observations IOE concurs with the finding that RDPMHA has mostly met its development objectives as outlined in the Appraisal Report. At the same time, in addition to the issues identified in the self-assessment provided by NEN (falling short in achieving the foreseen number of credit unions; execution of the environmental component at a larger extent yet to start; area covered by rehabilitated irrigation schemes corresponding only to 26% of the area foreseen at appraisal), other shortcomings should also be noted. For example, the programme’s marketing interventions were circumscribed due to limited surplus production; also, the programme did not succeed in transforming the PMU into a Mountain Areas Development Agency (MADA) in violation of the loan agreement; and the sustainability of some of the interventions is at risk.

C.3 Efficiency
PCR Assessment: key findings and data In the initial stage of the programme, the allocation of full responsibility to the INGO for programme execution proved to be financially inefficient and counter productive 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 one year prior to programme completion.
IOE Observations With regards to INGO IKT AG, it is important to add that, due to its withdrawal, the programme lost a portion of its co-financing. It should be noted that the contract between the Government and INGO amounted to USD 2 million, out of which only USD 300,000 were spent before the contract was terminated. Thus the project saved some USD 1.7 million from its budget which were subsequently reallocated mainly to support investments in rural infrastructure and credit. This fact compensated for the loss of 20 per cent of INGO financing for rural infrastructure which the INGO was anyway unable to provide and which constituted one of the reasons for terminating its contract. Also, the fact that the financial projections of the original design in the loan categories were revised through the second loan amendment of 4 October 2006, that is, 11 months before the programme actually closed, may have created a bias towards the positive Concerning the efficiency of the micro-credit component, expenses paid by RDPMHA to the contracted micro-finance service provider Micromaliyye totalled USD 938,087, against USD 2.71 million disbursed by Micromaliyye to the borrower groups and credit unions. This leads to an operational cost ratio of 34.6% which would represent a costly and inefficient modality for disbursement of credit funds. The PCR acknowledges this figure but also argues that, when the full credit amount, direct and revolved, disbursed by Micromaliyye, totalling USD 8,163,732 is taken into account, plus costs for credit union establishment and training of credit union officials borne by Micromaliyye, the operational cost ratio drops to 11.49%, which is more favourable. The rationale for this argument considers that a revolving credit line is to use repayments of principal for on lending, and therefore the operating expenses of Mikromaliyye must be related to the overall lending volume.

C.4 Impact
PCR Assessment: key findings and data (a) Physical and Financial Assets The PCR reports that impact on physical asset has been strong. The vast majority of farmers own land, with a slight increase in ownership, from 98.3% households during the baseline to 98.9% in the 2007 impact survey. There has been a reduction in the percentage of families, from 53.2% to 49.2%, having arable land and an increase, from 34.5% to 38.7%, in the percentage of families cultivating orchards. There was also an increase in the percentage of households, from 78.5% to 80.1% owning cattle, an increase from 88.2% to 91.3% of households owning chicken and an increase from 56.7% to 58.1% in households using their animal production for own consumption. The average number of cows per household was 1.8 cows and the average number of ewes 13.2. All households surveyed have their own house, of average 3.8 rooms, TV sets and refrigerators. The percentage of households owning telephones increased from 23.3% to 27.6% and those owning cars increased slightly, from 11.1% to 11.4%.

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 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.

(b) Human and Social Capital and Empowerment

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. In agricultural extension, 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.

On 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.

(c) Food Security and Agricultural Productivity

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. A total of 12,370 households received programme credit trough borrower groups (23,954 loans) for enhancing income generation by improving production and productivity of crops, potatoes, vegetable, orchards and fruits, livestock, apiculture, agricultural marketing, handicrafts and trade. In addition, 370 households received 425 loans through credit unions and 45 households received credit through the Turan bank for livestock purchase, orchard development, beekeeping and trading. The productive purposes for which all these loans were used, e.g. agricultural and livestock production, beekeeping, trade and marketing provide strong evidence that all 12,840 credit beneficiary families have improved food security through improving their production and consumption and enhanced their income from selling agricultural surpluses. Indeed, 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. As a result, beneficiary families were able to enhance their income from selling agricultural surpluses and experienced better food security.

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, artificial insemination, 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.

(d) Natural Resources and 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.

(e) Institutions and Policies

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.

IOE Observations

(a) Physical and Financial Assets

The PCR reports that the data of the impact survey shows that the programme households increased their assets, both material and animals. At the same time, it should be noted that some of the increments in percentages are in the order of 1.5% average (households owing cattle and using their animal production for own consumption), which does not seem a very high increase and it is not clear whether this small increase is statistically significant. Moreover, the survey does not provide a comparison with a control group and the whole matter of attribution of results to the project, rather than exogenous factors is not well addressed. In addition, a decrease in the percentage of families having arable land, from 53.2% to 49.2%, is reported in the PCR. Moreover, the increases in annual income resulting from the impact assessment and as reported in the PCR are low. While delays in implementation need to be taken into consideration, income increases are fare below expectations at appraisal ("more than double"); in addition, it is not clear whether such increases are calculated net of inflation or not. For this reason a rating of "moderately unsatisfactory" for the impact on physical and financial aspect would seem more appropriate.

(b) Human and Social Capital and Empowerment

While the narrative description in the PCR is validated, the final rating should reflect the failure of the RDPMHA to establish the overall number of credit unions envisaged at appraisal (7 credit unions actually established against 54 envisaged at design stage). In addition, as reported by UNOPS in its last Supervision report of 2007, the three producers' associations ((Livestock Association, Honey Producers' Association and Potato Seed Producers' Association) require continuous guidance and support in order to become sustainable institutions and should receive intensive training in management and technical topics. UNOPS formulated recommendations to this regard. It is unclear from the PCR whether the programme managed to successfully implement such recommendations, especially in such a short period of time.

(c) Food Security and Agricultural Productivity

The narrative on Food Security in the PCR traces out to some extent the data and arguments presented in the Physical and Financial Assets section. Also, the PCR inference that “the productive purposes for which all….loans were used…..provide strong evidence that all 12,840 credit beneficiary families have improved food security” is a statement which does not base its hypothesis on actual findings corroborated by data. Concerning agricultural productivity, it should be noted that the PCR states that “Implementation of advanced technologies by farmers introduced by programme led to improved production and productivity with positive effects on beneficiary incomes”. This statement may not apply to fruit production in light of the recommendation provided by the UNOPS which calls for “the programme [to] take measures to introduce modern orchard management technologies which maximise economic returns”. Notably, as reported in the PCR, the percentage of families cultivating orchards registered an increment, from 34.5% to 38.7% which is not high.

On a similar note, the Supervision report states that the availability of animal feed is a major limiting factor in the development of the livestock sector in mountainous areas. As livestock numbers and quality increase, the demand for feed will increase also; meeting such demand will require improved management practices, adoption of suitable cropping patterns, and introduction of new technologies. Another aspect concerning livestock production pertains to pasture and rangelands productivity improvement, as performance in this area is reported as being below expectations due to insufficient emphasis on associations, difficulty to enforce improved management, lack of local expertise and so on.

(d) Natural Resources and Environment (including climate change issues)

IOE concurs with the assessment of the PCR.

(e) Institutions and Policies

IOE concurs to some extent with the assessment of the PCR. The project indeed contributed to install some initial rural finance capacity in the region by establishing credit unions, although significantly below the expected level (seven credit unions against an initial target of 54 at appraisal). The PCR also refers to institutional weaknesses identified in the risks in the financial viability of services organized by credit unions. In addition, the programme did not succeed in transforming the PMU into a Mountain Areas Development Agency (MADA) in violation of the loan agreement. The PCR does not report on any changes in national/sectoral policies affecting the rural poor which can be attributed to the project intervention. For these reasons, a rating of 4, (positive but lower than the PMD rating) would be justified.

C.5 Sustainability

PCR Assessment: key findings and data

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 centres to the livestock producers’ association, before programme closing. 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 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.
IOE Observations As reported by the PCR, the sustainability of social infrastructure works was secured by transferring the ownership to the communities /municipalities, inclusive of operation and maintenance. However, the sustainability of the water users' associations, as well as agricultural and business service provision remains at stake. Also, the sustainability of the three producers' associations remains an open question, as this can be secured if such associations develop business linkages with the private sector. Moreover, as indicated in the PCR, the financial sustainability of the micro-finance institution Micromaliyye and of the seven credit unions established is critical.
C.6 Innovation, Replication and Scaling Up
PCR Assessment: key findings and data 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, and walnut) were introduced. 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-grading, is ready for replication on a wider scale within the mountainous and highland areas of Azerbaijan, according to the PCR.
IOE Observations Overall, the programme managed to constitute a development model for the mountainous and highland areas in Azerbaijan. The programme was highly innovative in that it promoted activities, such as the establishment of rural financial services and a credit culture in an area where such services and culture did not exist. At the same time, while recognizing the value of such an approach, one should question whether this new development model can be replicated and scaled up prior to internalizing lessons emerging from the experience of RDPMHA. However, it should be noted that the most recent IFAD/IsDB co-financed Integrated Rural Development Project, covering 2 mountainous districts and 2 lowland districts, was designed taking into consideration the lessons learned from IFAD previous interventions, including RDPMHA.

C.7 Performance of Partners
PCR Assessment <u>(a) IFAD's Performance</u>. According to the PCR, there has been an intensive and persistent follow-up by the IFAD country programme managers (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 five other missions concerning different issues such as M&E, gender and participatory methodology. <u>(b) Government's Performance</u>. The GoA complied with loan agreement covenants and followed rather closely the recommendations of supervision and follow-up missions with regard to programme 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 with 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. The PMU, 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 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. (c) Cooperating Institution. UNOPS was the cooperating institution for the Programme and fielded six 2-member supervision missions, one every year. Most of loan administration and Programme guidance was done by correspondence, however UNOPS acted fast in responding to requests by the Borrower. Throughout programme implementation, UNOPS acted flexibly, pragmatically and responsively to meet the client's needs. It supervised closely and guided effectively the implementation process, submitted an abundance of constructive suggestions and recommendations, followed up the status of these recommendations, offered solutions to problems as they arose, liaised with Government and implementing partners and kept IFAD informed of developments. The UNOPS performance is regarded in the PCR as satisfactory in all areas. (d) 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, although initially with high operational costs. 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.
IOE Observations (a) IFAD's Performance. While acknowledging the assessment of the PCR, IOE notes that the problem of the non-performing INGO *IKT AG* is an issue of project design and the design was a joint work of the Government and IFAD. On another note, the fact that no MTR was conducted, especially in light of the problems experienced during the first phase of implementation, is a shortcoming on IFAD's side which should have been addressed, especially considering that this was not in line with the Loan Agreement. Moreover, the very weak sustainability of credit institutions should have been addressed by the Fund earlier. In sum, IOE's rating of 4, which is still in the positive zone, but lower than the PMD rating, is justified by the above considerations and more in line with the rating assigned to the performance of the Government. (b) Government's Performance. IOE concurs with the PCR assessment and the rating is validated. Although the overall performance of the government was broadly satisfactory, the non-compliance concerning cash contribution to the programme, which was below expectations, and the loan violation concerning MADA are points of concern. (c) Cooperating Institution. IOE concurs with the PCR assessment and the rating is validated. (e) NGO/Other. IOE concurs with the PCR assessment and the rating is validated.

C.8 Overall Assessment of programme performance
PCR Assessment: key findings and data The PCR does not include an overall assessment of project performance but, on the whole, the report

conveys a positive appreciation of project performance. The report highlights two key setbacks for the project, namely: i) the non-performance and subsequent withdrawal of INGO *IKT AG,* which led to slow implementation for the first two years; and ii) the weak prospects of sustainability.

IOE Observations

IOE views the performance of the RDPMHA in the "positive zone" but not without problems and an overall moderately satisfactory rating (4) is recommended. This is for various reasons. First, full implementation was carried out for four years, as during the first two years (from loan effectiveness to March 2003), implementation performance was below expectations and behind schedule. Serious delays were experienced in several of the key preparatory activities, particularly with respect to the procurement and mobilization of the 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.

Second, as highlighted both in the PCR and in supervision reports 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 the micro-finance institution Micromaliyye is highly unlikely, unless it takes drastic action to increase its portfolio and reduce operating costs. It should be noted that Micromaliyye performed exceptionally well in establishing rural financial services in an area where such services did not exist. Borrower groups, as reported in the PCR, are playing an important role in building a credit culture, especially with smaller rural borrowers, but were not designed to be financially sustainable institutions. In addition, the programme managed to establish only seven (7) credit unions out the 54 originally envisaged at programme design. Third, limited progress was attained in the institutional/social development of users groups and associations that would be required for the successful maintenance programme's investments.

C.9 Other PMD Criteria

PCR Assessment: key findings and data

(i) 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.

(ii) Implementation. During the first two years (from loan effectiveness to March 2003), implementation performance was below expectations and behind schedule. Serious delays were experienced in several of the key preparatory activities, particularly with respect to the procurement and mobilization of the 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. 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 made 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.

(iii) <u>Targeting</u>. At Appraisal, targeting mechanisms were set to identify the most disadvantaged villages, within which the programme would adopt the approach of inclusiveness – 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. (iv) <u>Gender</u>. Gender mainstreaming was 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.
IOE Observations (i) <u>Markets.</u> The PCR acknowledges the fact that the limited surplus production was by and large absorbed by local markets. Therefore there were limited marketing interventions by the programme. The rehabilitation of infrastructure and the establishment of Producers' Associations could eventually promote marketing activities in the area. (ii) <u>Implementation.</u> The available project documentation, including UNOPS Supervision reports, concurs with the assessment made by the PCR regarding the first two years of the programme. IFAD correctly supported the programme in reallocating implementation responsibilities to the PMU. At the same time, supervision reports identify several issues, such as the sustainability of interventions, the need to expedite the creation of the MADA agency (which never materialized, the low number of credit unions established (3 against a target of 54 in late 2006, which at project completion totalled 7) and so on which were not fully addressed. It seems that full disbursement of the loan was the main priority, to the expense of the quality of the interventions. (iii) <u>Targeting.</u> IOE concurs with the assessment provided. (iv) <u>Gender.</u> The documentation reviewed supports the assessment provided by the PCR as well as the self-assessment by PMD.

D. Overall Assessment of the PCR

D.1 Is the PCR addressing all key evaluation criteria (as per Evaluation Manual)? Yes. The PCR fully complies with the format and structure of the Completion Guidelines issued by PMD in 2006. As such, all performance criteria are reviewed except for the overall assessment of programme performance.
D.2 Please provide a brief assessment of the quality of the methodology of the PCR: <u>Scope</u>. The Programme completion report assesses all aspects of the programme, from programme design to implementation. Overall, the assessment is transparent, as the PCR reports negative aspects without

bias. The document does not provide recommendations but, rather, lessons learned. The latter are actually, in several cases, a mix of lessons learned and recommendations. RIMS indicators are usually used to support positive trends. Quality of data. The data presented in the PCR have been extrapolated mainly from the project M&E system and from the Impact Assessment survey undertaken in August-September 2007. At the same time, some minor errors and inconsistencies have been noted (e.g. millions instead of hundred thousands in reporting financial values, reporting overall number of households in the programme area without providing the exact number of programme beneficiaries and so on). Quality of the process. No information on the process is available from the concerned regional division (NEN) at this stage. Candour. The PCR is overall transparent. At the same time, as mentioned, the PCR does not provide extended information on the implementation of RDPMHA. It does not explain why the Mid-term Review was not undertaken; why the programme fell short in achieving the foreseen number of credit unions, as eventually only 7 credit unions were established against a target of 54; why the Government's cash contribution to the programme was below expectations as it met only 76.7% of its financial obligations; what actions were taken following the withdrawal of INGO IKT and the subsequent loss of 20% of co-financing; why / on what basis the scope of the programme was extended to 7 districts (out of the original 5). Ratings. In compliance with the IFAD Guidelines for Project Completion, the PCR does not include ratings. PMD provides ratings on Project Completion reports after these are received through a review process conducted by consultants. The ratings used for this validation exercise were provided by PMD as part of its self-assessment.

E. Learning Topics extracted from the PCRV and desk review

E.1 Outstanding Cross Cutting Issues
The PCR clearly states that, in the case of Azerbaijan, IFAD adopted a development strategy to address the complex web of interacting environmental, economic and social issues of the mountain areas in a sequential manner through a flexible, long-term (12-15 years) IFAD-supported Programme. The RDPMHA intervention represented the first tranche of IFAD funding for Phase I of the overall programme, extending over 7 years. The immediate thrust of the programme aimed to reverse the decline of target households into subsistence production and re-launch the household economy on an upward path. For each area of intervention there was a process of pilot testing of activities prior to implementation on a broad scale. With the completion of this phase of the programme, the major elements of a model for development of the mountain and highland areas, e.g. community participation and community driven development, credit delivery and technology up-grading, should be ready for replication on a wider scale within the mountainous and highland areas of Azerbaijan. Indeed, the delineation of a development model for the mountainous and highland areas was to constitute the chief innovation of the programme. The programme was successful to a certain extent, but it will require a careful review of its implementation experience should the Fund decide to proceed with this approach.
E.2 Key explanatory factors for strong or weak performance, including key hypothesis at the design phase that have been confirmed or disconfirmed at implementation stage.
E.3 Key Issues raised at TRC/OSC that have re-emerged during programme implementation
The TRC report could not be found in the IFAD archives.

The OSC recommended, among others, access of the rural poor to profitable markets and improvement of value chains. The main contribution of the programme in terms of markets was to be 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 was to be 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.

E.4 Other Main Lessons Learned or Outstanding Themes

The history of the RDPMHA confirms the importance of identifying implementation instruments, objectives and innovations that are commensurate with the institutional, social and economic capabilities characterising the country context.

E.5 Issues for IOE to follow-up (if any)

F. PCR Recommendations

F.1 Please provide a brief assessment of PCR Recommendations: connection to findings and conclusions, prioritisation, realism, identification of users.

- In line with the 2006 Project Completion Guidelines, the RDPMHA PCR does not include recommendations but presents key lessons learned.

F.2 Summarise key PCR Recommendations.

Partnership with INGOS: The allocation of full responsibility to an INGO for programme execution was a sub-optimal arrangement, and proved to be financially inefficient, extremely slow, and counter-productive with respect to the delivery of benefits and achievement of programme objectives. The institutional and implementation arrangements of future programmes in Azerbaijan should be considered more carefully, with a view to avoiding imported solutions inconsistent with local realities.

Credit Unions: The emergence of community-based cooperative institutions with the capacity to provide loans not only for productive investments but for emergencies or seasonal shortages is a source of hope for villagers. Greater focus should be placed on building the capacities of credit union management and setting of high performance standards, including financial ratios and efficiency measures, internal control and business planning practices, monitoring of financial performance, and close monitoring of all loans, particularly delinquent loans.

Investment Priorities: Rural development projects should consider adopting a dual strategy covering both social and economic development. Interventions identified and prioritised by communities, which provide direct and visible benefits and are relatively simple to execute would serve as effective starting points of the development process, thus demonstrating that development is participatory and customised to local conditions rather than being imposed, and foster confidence between communities and implementing agencies.

Cost Sharing, Fee Paying and Sustainability: In order to ensure the sustainability of services following project completion, it would be advisable to institute cost sharing principles and user fees from the outset of implementation, to the extent feasible. The strict application of full cost recovery for services could encourage beneficiaries to form groups or associations only to facilitate the provision of services that are free of charge or subsidised.

WUAs and Participatory Irrigation Management: While the legacy of the former Soviet Union may render farmers generally reluctant about group action and formation of associations, WUAs have become the standard practice for implementation of irrigation rehabilitation and operation and maintenance activities. The participatory approach gives a sense of ownership, increases prospects for system sustainability, and predicates efficient water use and propensity of water users to pay a realistic charge for water costs.

Producers' Organisations: Farmers and stock owners should be encouraged to form their own organisations in order to promote their economic interests, to collectively obtain services, and to negotiate prices for consolidated output. Specialised expertise may be needed to assist in organising producers, training members, formulating objectives and business plans, developing regulations, and legal registration. The development of such organisations would also enhance the prospects for sustainability.

Local Government: It is important for projects to foster partnerships with local Government, which serves as the official representative of local communities. Local officials should be informed about project objectives, consulted during execution, and encouraged to participate in training events and study tours. This is expected to facilitate project implementation at field level.

F.3 If important recommendations are missing, please add recommendations stemming from PCRV exercise.

G. Rating Comparisons

Programme ratings

Criterion	**PMD Rating[2]**		**IOE Rating**	**Difference (IOE-PMD)**
Relevance	Design 5	Relevance 4	4	-0.5
Effectiveness	4		4	--
Efficiency	4		4	--
Impact	5		4	-1
(a) Household Income and Net Assets	Physical Assets 5	Financial Assets 5	3	-2
(b) Human and Social Capital Empowerment	Human Assets 5	Social Capital 5	4	-1
(c) Food Security and Agricultural Productivity	Food Security 5	Agric. Prod. 5	5	--
(d) Natural Resources and Environment	4		4	--
(e) Institutions and Policies	Institutions and services 5		4	-1
Sustainability	4		4	--

[2] Rating scale: 1 = highly unsatisfactory; 2 = unsatisfactory; 3 = moderately unsatisfactory; 4 = moderately satisfactory; 5 = satisfactory; 6 = highly satisfactory; n.p. = not provided; n.a. = not applicable.

Innovation, Replication and Scaling Up	5	5	--
Performance of partners	4	4	--
(a) IFAD's Performance	5	4	-1
(b) Government's Performance	4	4	--
(c) Cooperating Institution (UNOPS)	5	5	--
(d) NGO/Other	3	3	--
Overall Assessment	5	4	-1
Total Disconnect			**-7.5**

* This is based on the difference between the PCRV rating and the arithmetic average between the two rating criteria in PMD methodology

ADDITIONAL PMD CRITERIA			
Criterion	**PMD Rating**	**IOE Rating**	**Difference (IOE-PMD)**
Implementation	4	4	--
Targeting	4	4	--
Gender	5	5	--
Markets	4	4	--
Performance of Co-Financer		Not Applicable	Not Applicable
Performance of the NGO/Service Provider		Not Applicable	Not Applicable

QUALITY OF THE PCR			
Ratings of the PCR quality	**PMD Rating**	**IOE Rating**	**Difference (IOE-PMD)**
Scope	4	4	--
Quality (Methods, Data, Process)	4	N/A	
Lessons	4	4	--
Candour	Not provided	4	

Overall Rating	4	4	

H. List of Sources Used for PCR Validation

- IFAD (2000) RDPMHA: Report and Recommendations of the President
- IFAD (2000) RDPMHA: Appraisal Report
- IFAD (1999). Azerbaijan Country Strategic Opportunities Programme
- IFAD (2007). RDPMHA: Programme Completion Report – Final Draft
- IFAD (2000) RDPMHA: Programme Loan Agreement
- IFAD (2010) RDPMHA: Self-assessment by the IFAD Near East and North Africa division
- UNOPS (2005). Supervision Report
- UNOPS (2006). Supervision Report
- UNOPS (2007). Supervision Report