IFAD
Investing in rural people

Independent Office of Evaluation

Project Completion Report Validation

Rural Enterprise Enhancement Project (REEP)
Bosnia and Herzegovina
Date of validation by IOE: November 2015

I. Basic project data

			Approval (US$ m)		*Actual (US$ m)*	
Region	Near East, North Africa and Europe	Total project costs	24.49		29.15	
Country	Bosnia and Herzegovina	IFAD loan and percentage of total	12.6	51%	12.6	43%
Loan number	697-BA	Borrower	2.25	18%	3.3	11%
Type of project (subsector)	Credit and financial services	Co-financiers OPEC Fund for International Development	5.95	24%	5.95	20%
Lending Terms	Highly concessional*					
Date of approval	20 April 2006					
Date of loan signature	28 September 2006	Beneficiaries	2.02	8%	5.0	17%
Date of effectiveness	18 October 2007	Other sources Participating financial institutions	1.65	7%	2.3	8%
Loan amendments	One in March 2011 entailing reallocations of budget towards market access infrastructure	Number of beneficiaries	35,000 household in poverty (primary target) and 70,900 households without permanent employment (secondary target)		At least 31,600 households (incomplete data)	
Loan closure extensions	zero					
Country programme managers	Mr Mohamed Abdelgadir (current), Mr Patrick Herlant, Mr Abdelaziz A. Merzouk, Mr Abdalla Rahman	Loan closing date	30 June 2013		30 June 2013	
Regional director(s)	Ms Khalid Bouzar (current), Mr Nadeem Kouri, Ms Mona Bishay	Mid-term review			August 2010	
Project completion report reviewer	Mr Fabrizio Felloni	IFAD loan disbursement at project completion (%)			100%	
Project completion report quality control panel	Mr Miguel Torralba Mr Ashwani Muthoo	Date of the project completion report			Oct 2014	

Sources: Appraisal Report; Completion Report.
*There are four types of lending terms: (i) special loans on highly concessional terms, free of interest but bearing a service charge of three fourths of one per cent (0.75 per cent) per annum and having a maturity period of 40 years, including a grace period of 10 years; (ii) loans on hardened terms, bearing a service charge of three fourths of one per cent (0.75 per cent) per annum and having a maturity period of 20 years, including a grace period of 10 years; (iii) loans on intermediate terms, with a rate of interest per annum equivalent to 50 per cent of the variable reference interest rate and a maturity period of 20 years, including a grace period of five years; (iv) loans on ordinary terms, with a rate of interest per annum equivalent to one hundred per cent (100 per cent) of the variable reference interest rate, and a maturity period of 15-18 years, including a grace period of three years.

II. Project outline

1. The Rural Enterprise Enhancement Project has been the fourth funded by IFAD in the State of Bosnia and Herzegovina. It was implemented in the two territorial entities composing the state: the Federation of Bosnia Herzegovina and the Republika Srpksa. In each territorial entity, the project was under the responsibility of the relevant Ministry of Agriculture. In the case of the Ministry of Agriculture, Water Management and Forestry of the Federation of Bosnia Herzegovina, an *ad hoc* Project Coordination Unit was established. In the Republika Srpksa, management responsibility was vested in an Agricultural Projects Coordination Unit covering all externally donor-funded projects.

2. **Project area and target group.** In the Federation of Bosnia Herzegovina, the project covered fourteen municipalities in the three cantons of Una Sana, West Bosnia and West Herzegovina. Of the existing 98,500 households in these cantons 44,000 were considered at appraisal as not having a regularly employed member. Of these, 21,800 were estimated to be poor households.

3. In the Republika Srpksa, the project covered eleven municipalities in the South East of Banja Luka and to the north and North West of Srebrenica, with 46,100 households of which 26,900 without a regularly employed member and 13,200 in poverty.

4. It is not entirely clear from the appraisal report whether the project would target the households without regularly employed members or only those in poverty. The later documentation (supervision reports, mid-term review report, completion report) refer to both and with inconsistent figures. Given the way in which the socio-economic characteristics of the target households are defined (see next paragraphs), it can be surmised that the project was to primarily target 35,000 (those estimated to be in poverty), with additional (indirect) benefits accruing to 70,900 households (those without regularly employed members).

5. According to the project design, the majority of the target population was made of "small farmers" (below 2 ha) and without regular off-farm income sources. Many of them had been negatively affected by the collapse of the erstwhile Yugoslav Federation (loss of permanent jobs and of agricultural produce collecting facilities) as well as displaced by the ensuing armed conflicts.

6. The design document identified two primary targets: first those households with no or limited holdings of land and animal and capital goods. These would be helped to develop subsistence dairy farming, fruit growing, and engage in off-farm income generation (collection of wild berries, mushrooms, medicinal and aromatic herbs) and small enterprise development. Second, farmers connected to dairy value chains but relying on few animals (e.g., 2-7 cows) and small cropped areas, with little opportunities for off-farm development. These would be supported to become more "commercial", by selling their surplus production.

7. The design also contemplated secondary targets such as rural entrepreneurs involved in the processing of dairy products and berry, so as to stimulate the demand of raw products. In addition, the project would support cooperatives, producer associations and organizations to help link small farmers to value chains.

8. **Project goals and objectives.** The goal of the project was to increase incomes of the poorer rural inhabitants of the project area: farmers would be able to earn greater cash from their farms as well as greater off-farm incomes. The objective was to achieve sustained growth of rural enterprises and employment opportunities in the project area. Rural enterprises would be supported to improve linkages between various tiers of the value chains for commodities and services, thus contributing to dynamic local economies linked to regional and national economies.

9. The project approach was based on supporting private initiatives, consistent with the Government strategy, on strengthening the lower links of dairy and soft fruit value chains, using existing facilities and services to the extent possible and flexibility to respond to market demand.

10. **Project components.** The project design contemplated three main components: (i) rural enterprise framework support (41 per cent of baseline costs, Table 1); (ii) enterprise investment and rural finance (46 per cent); and (iii) project coordination (14 per cent).

11. The first component (rural enterprise framework support) was to focus on advisory services, infrastructure and policy needs for profitable enterprise development. It included four sub-components:

(i) Organizational capacity building to support producers' associations that would establish collection centres and make contractual arrangements with processors;

(ii) Technical and business services, including training in credit management, budgeting, marketing and book-keeping; as well as technical advice to improve animal and fruit production and productivity;

(iii) Market linking infrastructure (second largest sub-component), mainly consisting of roads to be maintained by the municipalities; and

(iv) Elaboration of related policy: studies on trade and subsidy policy and investment support reform; promotion of the establishment of a Dairy Industry Development Council representing producers and processors in the related value chain.

12. The second component (enterprise investment and rural finance) had two sub-components:

(i) Enterprise investments (first largest sub-component). Here the project would provide credit lines to participating financial institutions who would in turn lend to individual beneficiaries and cooperatives. These investments would flow to dairy farmers, soft fruit farmers, as well as on and off-farm micro enterprises (e.g., bee-keeping, wood product manufacturing, fish farming, cheese making, collection of mushroom, medicinal herbs and eco-tourism) and help improve production and productivity, as well as collection and transportation of produce;

(ii) Rural financial services, mainly consisting of training for financial institution in order to help them develop new products.

13. The third component (project coordination) would finance the two coordination units as well as two field facilitating units.

Table 1
Project Cost by Component at Appraisal

Project Components	*Total initial base cost allocation (US$ 000)*	*Percentage of total base costs*
A. Rural Enterprise Framework Support	*9,646.0*	*41%*
1. Organization Capacity Building	1,357.5	6%
2. Technical and Business Services	1,921.8	8%
3. Market Linking Infrastructure	6,201.0	26%
4. Policy Elaboration	165.8	1%
B. Enterprise Investment and Rural Finance	*10,837.5*	*46%*
1. Enterprise Investments	10,675.0	45%
2. Rural Finance Services	162.5	1%
C. Project Management and Coordination	*3,295.1*	*14%*

Source: Appraisal Report (2006)

14. **Disbursement level.** As shown in the basic project data Table (page 1 of this document), project actual costs were 19 per cent higher than initial estimates. Loans from IFAD and the OPEC Fund for International Development were fully disbursed. The contribution from the Government (Federation of Bosnia Herzegovina and Republika Srpksa) was higher than expected as were the contributions from the beneficiaries and the participating financial institutions. The reason for this increase in costs was that the project's investments in infrastructure were higher than initially estimated (e.g. more roads and bridges and water systems rehabilitated). Moreover, the volume of loans approved for small and medium enterprises was higher than initially foreseen.

15. The data and table compiled in the completion report do not allow for a clear comparison between the disbursement of the main components (and sub-components) and the initial allocations. A detailed breakdown of component and sub-component allocations and actual expenditures is only available for the Republika Srpksa portion of the project. It shows the project spent more than initially foreseen (204 per cent of the original allocation) on market linking infrastructure, i.e. roads, and enterprise loans, but far less on organizational capacity building, technical business services and policy elaboration (in a range of 0.25 to 18 per cent of the original allocation). While no detailed figures are available, the documentation suggests that a similar pattern was observed for the Federation of Bosnia Herzegovina.[1]

A. Project performance

Relevance

Relevance of project objectives

16. The project objectives were broadly in line with the 2003 Government's Medium-Term Development Strategy. The latter emphasized, inter alia, the establishment of a functioning market economy and the improvement of domestic competitiveness. At the time of the project approval, the 2005 COSOP for Bosnia and Herzegovina was setting as priorities: (a) the commercialization of smallholder production; (b) commercial rural businesses and off-farm income generating activities (including apiculture, fish farming and agro-tourism); and (c) supporting the creation of on- and off-farm jobs. The COSOP placed much importance on supporting value chains and commercial linkages between small-scale producers and private markets and foresaw IFAD's engagement in helping improve the policy and institutional framework for commercialization. These concerns are well reflected in the general design concept.

17. In addition, the project's intervention was justified by the collapse of public enterprises and the economy of former Yugoslav Federation, the emergence of the "new poor", the destruction of basic infrastructure during the armed conflict and the displacement of refugees.

Relevance of project design

18. The completion report convincingly acknowledges the importance of the five-pronged approach adopted by the project: (i) supporting rehabilitation of transportation and basic infrastructure; (ii) supporting productivity improvement at the farm level, (through training); (iii) fostering forward and backward linkages with the value chains; (iv) promoting income diversification opportunities (small and medium enterprise development); and (v) supporting the policy and regulatory environment.

19. Looking into the project's original design, it can be said that it included the key ingredients that could have contributed to reactivate the local economy, notably

[1] As far as IFAD loan (only one of the financing sources for the project), after the mid-term review there was a net reallocation of 10 per cent of the total loan amount for civil works for and revolving investment funds.

infrastructure rehabilitation and investment in small enterprises and generate jobs or help improve farmers' access to markets and value chains.

20. At the same time, there were two limitations. First, it would have been essential to devise an "integrating" strategy and have an agreement among the main partners on the same. As an example, the project would need to support the same small and medium enterprises that buy the produce from the farmers that receive extension services. And the farmers' associations supported by the project would have to be those to which the majority of trained farmers belong. In the case of this project, the strategy might have been clear to IFAD but there is no evidence (from the documentation prepared during implementation) that the Government and national stakeholders had the same degree of clarity.

21. Second, the resource allocation of the initial design was mainly in favour of enterprise investments (45 per cent of costs) and market linking infrastructure (26 per cent). Resources devoted to technical and business services (including training for farmers) and organizational capacity building (for producers' associations and cooperatives) were far lower. Similarly, there were limited resources for loans to individual small farmers. The credit line was limited: it was sufficient for 2,500 loans, compared to 35,000 poor households in the project area but the hope was that banks and specialised rural finance institutions would provide their own lending capital. Resources were also limited for technical assistance to micro finance institutions.

22. Here, however, it is fair to recognise that it was only through IFAD's contribution that training, capacity building, loans to farmers received attention. Even if resources were limited for these, without IFAD's financing, their allocation would have been negligible. In IFAD's intentions, training and organizational capacity building were to be crucial mechanism to support poor farmers' participation to investments and benefits.

23. Overall, the project supported interventions that could address income generation and job creation. However, the project's "theory of change", i.e., the mechanisms through which the project would generate linkages between its components and between enterprises, value chains and smallholder farmers was clear to some stakeholders and less to others. In consideration of the above gaps, the project relevance is rated as moderately satisfactory (4), same as for IFAD Project Management Department (PMD).

Effectiveness

24. The project's objective was to achieve sustained growth of rural enterprises and employment opportunities and thus to contribute to increased incomes of the poorer rural inhabitants of the project area.

25. A first question pertains to the project's general outreach and here estimates vary considerably between the documents. As an example, the latest supervision mission (2012, Table 9 of the supervision report) mentions that 31,600 households had been served by the rehabilitated infrastructure, moreover 2,915 persons had received training and additional 13,734 persons were involved in capacity building services provided to small and medium enterprises. The completion report (page xii) first mentions that project infrastructure development and livestock interventions benefited 26,497 households. However, immediately after, it quotes the estimate of 183,732 persons benefiting from the project in the two territorial entities combined. At an average of 4.1 household members, this would mean over 44,800 households (compared to a primary target of 35,000 households in poverty and a total figure of 70,900 households without a regular employment estimated at appraisal). There are reasons to doubt about these figures as they are way above those quoted in previous supervision missions. The 2012 supervision mission estimates seem more realistic and consistent with the rest of the documents.

26. The documentation suggests that infrastructure construction was the most successful part of the project. In the Federation of Bosnia Herzegovina, the number of civil work contracts awarded was 63, representing 191 per cent of the original target, and this included the rehabilitation of about 64 km of rural roads, 13 water supply and 2 sewage systems, construction or rehabilitation of 5 public facilities and 1 bridge. In the Republika Srpksa the project completed 56 civil work contracts (involving 71 micro projects), representing 225 per cent of the appraisal target. This consisted of the rehabilitation of 42km of rural roads, 16 water public systems, 5 public facilities and the construction or rehabilitation of 8 bridges.

27. Supervision and completion report agree that infrastructure was built up to high engineering standards and the processes for awarding and monitoring construction contracts were conducted at a satisfactory level in terms of transparency and expediency. Beyond physical infrastructure completion, the documentation insists on the benefits to the population of the area in terms of improving economic opportunities, mobility, reduction in transportation costs and health, although data are not always provided on the extent of the same (see also the *Impact* section). In relation to the objective of sustained growth of rural enterprises and employment opportunities, infrastructure can be considered as an important pre-requisite. Yet, for the objective to be accomplished, a few more steps would be required according to the original project design. They are discussed in the next paragraphs.

28. Regarding the services provided to households and association, in the Federation of Bosnia Herzegovina, a total number of 6,300 persons have been trained and 1,340 in Republika Srpksa (there was no clear target for this according to the documentation). Training topics ranged from dairy farming and milk hygiene, beekeeping, fruit and vegetable growing, to the use of pesticides and livestock breeding. Assuming that each trainee participated in a single training programme and that only one person per household was trained, in the two territorial entities combined; this would correspond to 22 per cent of the poor households and 11 per cent of the households without regular employment in the project area (per appraisal estimate).

29. The volume of loans distributed to farmers exceeded the appraisal target (126 per cent in the Federation of Bosnia Herzegovina and 121 per cent in Republika Srpksa). The number of loan disbursed to individual farmers (by banks and micro credit organizations) was 2,843 in the two territorial entities combined for a total amount of BAM (Bosnian Convertible Marka) 18.7 million (or approximately US$12.5 million) at the time of project completion. The completion report notes the limited coverage (8 per cent of the poor households and 4 per cent of households without permanent employment) of these loans, in spite of the value being higher than foreseen. Likewise, 80 loans were approved for small and medium enterprises in the project area for a total of BAM 3.6 million (US$2.4 million approximately). Yet, borrowing enterprises were scattered over 26 municipalities with around 3 enterprises per municipality: unlikely to generate a strong critical mass of processing activities. The completion report asserts that credit discipline was very high and states that it was close to 100 per cent. In the documentation, no data are presented on this and it is not explained how the repayment rate was computed.

30. As far as associations of producers are concerned, the project entered into cooperation agreement with 37 producers' association and cooperatives in the two territorial entities combined, for a total number of 7450 members (on average 201 members per association/cooperative). Assuming that only a member per household had joined an association or cooperative, this would correspond to 21 per cent of the households estimated to be poor at appraisal and 11 per cent of the households without regular employment in the project area. The completion report signals that the number of the members of these associations or

cooperatives had increased only by 7 per cent in the course of the project implementation.

31. According to the completion report, the negotiation capacity of producers' associations to obtain better prices for farmers (particularly for milk production) was not strong and, inter alia, the problem of members side-selling to other local dairies or private buyers had emerged.

32. Overall, the (limited) available evidence suggests that the project was effective at rehabilitating the area's infrastructure which is a fundamental condition to reactivate the local economy, including farm and off-farm enterprises. In other components, the achievements were generally higher than targets (although the latter were not always consistently defined throughout the documentation) but coverage was limited. While the project did contribute to generating forward and backward linkages to value chains, this was to a lesser extent than envisaged. Very little information is available on enterprise growth (not just in terms of numbers but also in terms of average net worth increase) and employment creation. To the reviewers' knowledge, no specific surveys were conducted on this topic. Effectiveness is rated as moderately satisfactory (4), same as PMD, balancing on the one hand the importance of infrastructure rehabilitation, the surpassing of targets for the volume of loans, and, on the other hand, the lower coverage of training and associations and cooperatives which dampened the effects on value chain linkages

Efficiency

33. The project was implemented within the foreseen time frame (less than six years). After implementation delays in the first two years, the project was able to complete the planned activities and, under many components, additional tasks (also thanks to a higher than initially foreseen infusion of resources from the government and the participating financial institutions) and fully disburse the IFAD loan, as detailed under *Effectiveness*.

34. Operational cost ratios were initially estimated at 14 per cent of the baseline costs. This is within typical reference values for IFAD projects. The documentation suggests that the actual project management cost ratio was in a range of 10 to 11 per cent of total project costs, lower than expected.

35. While the project design did not contain an estimate of financial and economic benefits from the project, this has been done *ex post* at the time of the completion report. The results indicate a financial internal rate of return of 45 per cent and an economic rate of return and an economic internal rate of return of 22 per cent.[2] These are high values. However, there is no clear explanation in the completion report as to the figures reported in Table 2 of Appendix 6, notably on the size of the expected project benefits (e.g. aggregates of household income increase from milk, meat and fruit production), as well as on future projected maintenance costs.

36. Equally important, the completion report notes that while the project's main investments in infrastructure furthered the objectives of improving the overall quality of rural livelihoods, they did little to improve value chain linkages which were the key ingredient for poverty reduction.

37. Based on the above information and *caveats* on the validity of the assumptions to estimate the internal rate of return and linkages to poverty reduction, the rating for this criterion is moderately satisfactory (4), same as PMD rating.

Rural poverty impact

38. Data on socio-economic changes are available through the documentation, although, little is known about employment creation and enterprise growth which were expected to be the engines for improving the welfare of the population in the

[2] Although Table 2, Appendix 6 of the project completion report shows a figure of 28 per cent.

project area. The salient characteristics of data collection (type of surveys, sample size and sampling strategy) are not explained well in the available documents and there are no data from comparator households. Moreover, it is not easy to establish a causal pathway between project implementation and the results claimed.

Household income and assets

39. According to the completion report (which quotes findings from a project survey), incomes for beneficiary households increased by 74 per cent between 2008 and 2012, while agricultural incomes increased by 40 per cent (these are nominal values, against an inflation of 13 per cent over the same period, indicating considerable increase in real terms).

40. While data are not available for the Federation of Bosnia Herzegovina, the last supervision mission (2012) reports that in the project area of the Republika Srpksa cattle ownership increased by 32 per cent, 40 per cent for milking cows, 32 per cent for pigs, 29 per cent in sheep and 19 per cent for poultry. It is not clear to what extent these data are representative of all the farmers assisted by the project and whether they can be attributed to the project's activities. As noted, the type of sample from which these data are drawn is not known and quality of the data cannot be confirmed. Another fundamental *caveat* to be considered while pondering these data is the absence of comparison observation for households that are not supported by the project. It is thus not clear whether the above large increases (or a portion of them) can be ascribed to the project or to other external factors.

41. The 2011 and 2012 supervisions and the completion report argue that the improved access to infrastructure helped household access market and reduce production costs (e.g. easier accessibility of inputs). This may be one of the factors at play. However, the same reports also illustrate the limited coverage of training activities, of loans to farmers and the membership of producers' associations and cooperatives. Similarly, while the volume and number of loans exceeded the targets, the completion report notes that the number of borrower served was a fraction of the population (see under Effectiveness). Thus the causality chain through training and credit to increased productive assets and incomes is not clear from the available documentation. Finally, there is no information on job creation: this is unfortunate as it might have been a mechanism for generating indirect benefits to the poorer strata.

42. While the above figures seem high *prima facie,* there are reasons to be cautious about the attribution to the project, considering the limited coverage of training and extension activities and scattered presence of small medium processing enterprises. For this reason, impact on income and assets is rated as moderately satisfactory (4), lower than PMD rating.

Human and social capital and empowerment

43. The documentation provides information on training activities (dairy farming, beekeeping, fruit and vegetable growing, livestock breeding) promoted by the project. Information on the outreach of the same has been synthesised in the *Effectiveness* section. The completion report and supporting documentation argue that technical training was found useful by the beneficiaries and contributed to increasing output while helping improve quality of the same, although more details and specific examples are missing. On the other hand, as previously observed, the completion report also mentions low coverage of the training activities when compared to the unemployed and poor's population size and needs.

44. While there are no information on uptake of training and adoption of new techniques, the completion report states that, in the case of dairy production, quality of milk improved and rejection from buyers reduced by 20 per cent, although it is not clear whether this relates to the quantity of milk sold or the

episodes of rejection. Moreover, the rejection rate at the project starting point is not known.

The documentation argues that the rehabilitation of water and sewage systems helped improve health conditions of the population. This is certainly plausible but not supported by additional information. Documents also insist that infrastructure rehabilitation improved mobility of people and goods and helped reactivate the local economy. Again, no specific information is provided but it is certainly plausible.

45. Even considering the documentation's statements at face value, it is important to consider that the training services covered only a part of the target population (22 per cent of the poor households and 11 per cent of the households without regular employment, according to the documentation, as explained under *Effectiveness*). This suggests that, even if extension and training packages were found useful, they reached a limited number of beneficiaries. Taking into account the outreach factor and the lack of firm data, it is prudent to rate this domain as moderately satisfactory (4), lower than PMD rating.

Food security and agricultural productivity

46. Throughout the document, there is no information on changes in household food security (e.g. availability and quality of food consumed). Only some data are available on agricultural production and productivity for households assisted by the project, without observations from comparison groups.

47. According to the completion report, the project made some steps to help diversify income sources: prevalence of poultry rearing increased from 1.8 per to 7.3 per cent and beekeeping from 1.7 to 6.0 per cent among project households. These are still low values but, in relative terms, mark an improvement from previously negligible frequencies. Also, thanks to the application of new machinery, land cultivation by beneficiaries reportedly increased by 57 per cent. Again, an important caveat is to be made on the difficulty to fully attribute these changes to project initiatives as no comparator data from areas and households without project are available.

48. In the case of Republika Srpksa territorial entity, the 2012 supervision provides more detailed data on annual milk and meat production which would have increased by 51 and 17 per cent, respectively, over the course of the project life. Milk and meat sales would have increased by 58 and 19 per cent while milk yields only by 2 per cent, implying that the increase in stocking rates of cows rather than their productivity had risen. Similar patterns are observed for fruit production with an increase of 57 per cent but only a modest raise of 3 per cent for yields.

49. Overall, there is some indication of production increase (spurred by higher availability of factors) but far less clear signs of agricultural yield increased. No information is available on initial and post project status of household food security which complicated attribution to the project. The rating for this criterion is moderately satisfactory (4), lower than PMD rating.

Natural resources, the environment and climate change

50. No information is available on this domain, either directly or directly and therefore it is not assessed.

Institutions and policies

51. By providing a credit line to financial institutions, the project managed to raise their interest and confidence in lending to small farmers. According to the documentation, specialised micro credit institutions were more responsive than banks and they familiarized with farmers and small rural entrepreneurs' business characteristics. Two limitations were: (i) the capping of interest rates to the final borrowers (which may create disincentive to continue serving small farmers after

the project closes); and (ii) the provisions of loans based on physical collateral (which hampered of the poorer segments).

52. Rural enterprises benefited from the project through certification (for example, "halal" certification for meat processing enterprises) and training in financial and human resource management, access to more modern and hygienic technology for agricultural produce processing.

53. Producers' associations and cooperatives received dedicated training from the project for their board members on topics such as negotiation skills, accounting, bulk purchase and input sales. Advice of technical nature (e.g., new technology for milk collection) was also available. This helped professionalise associations and cooperatives. As already noted, a limitation was the low coverage of beneficiaries and the limited growth of membership during the project period (7 per cent) which is not sufficient to generate the envisaged strong forward and backward linkages with value chains.

54. The completion report also argues that the project did not pay sufficient attention to the difference in legal status between producers' associations (legally not for profit) and cooperatives (these are for profit entities). During implementation, producers' associations were engaged in activities that would have required a "for-profit" juridical personality and vice versa.

55. While the project design explicitly foresaw engagement in policy dialogue, this did not happen. In the Republika Srpksa, apex organizations were established for raspberry producers as well as sheep and goat producers. While these have the potential to engage in a dialogue with local authorities on items such as subsidy policies and investment support reforms, there was no evidence that this had taken place at the time of the project completion.

56. Overall, achievements were weak and below expectations in this area as was utilization of the financial resources. The rating is moderately unsatisfactory (3), lower than PMD rating.

B. Other performance criteria

Sustainability

57. According to the available documentation, there are three main factors enhancing the prospect of sustainability of benefits:

(i) Transportation infrastructure built by the project was assessed as of good quality. Moreover, municipal and sub-municipal bodies participated in the cofinancing of infrastructure by a ratio that was more than double than initially envisaged (22 per cent an average, against 10 per cent at appraisal), suggesting strong commitment. The documentation asserts that maintenance of infrastructure is within the capacity of the relevant municipalities.

(ii) Private enterprises active in the processing of agricultural produce have now better managerial capacity and their technology has been upgraded to higher productivity and safety standards, leading to demand for raw products from farmers, including small farmers. This is likely to generate higher demand for primary products, albeit only in the areas where the (scattered) enterprises are operating.

(iii) Partner financial organization (notably specialised micro-credit organizations) have gained more experience in lending to smallholder farmers and experienced good credit discipline which might entice them to continue reaching out to rural areas.

58. At the same time there are also threats. First, so far, agricultural credit has been based on subsidised rates (both for end-clients and for refinancing of partner financial institutions) which will have to be discontinued after project closure.

Eventually, clients may decide to continue borrowing at higher market rates although the completion report indicates some reluctance from their side.

59. Second, one of the financial institutions active in Republika Srpksa and holding the lion's share of the credit portfolio within the project (80 per cent of the respective loan volume in that territorial entity) declare bankruptcy before project closure. Another financial institution was likely to acquire its assets but it is not clear if the same orientation to rural clients would be maintained.

60. Finally, the completion report argues that while cooperatives supported by the project have experienced an improvement in their managerial skills, they still have weak internal policies for the provision and pricing of services and products which are not adequate to cover costs and extend benefits to a larger group of people. They also receive weak oversight by the cooperatives regulatory authority.

61. In consideration of the above points of strength as well as threats a rating of moderately satisfactory (4) can be justified, lower than PMD rating.

Innovation and scaling up

62. The project did not introduce innovations in absolute terms (i.e. technologies and practices that did not existed before) but facilitated the adoption of more modern technology available elsewhere for handling and processing produce (e.g., milk) in a way that is more economical and more hygienic. It also helped adopt certified quality standards for products, helping expand their marketing.

63. The project set the stage for creating agricultural value chains by developing commercial partnerships between producers' organizations and private processing enterprises, particularly in the dairy and fruit (berries) sub-sectors. This is new in the country, not only with respect to the post-conflict situation where outlet markets to farmers' produce had been disrupted, but also in comparison with the collectivist era where processing enterprises were publicly owned.

64. An area where more innovativeness could have been expected was that of rural finance products. The project promoted conventional approaches to rural finance: credit based on below-the market interest rates (8 per cent to end-borrowers) made possible by subsidised refinancing to the participating financial institutions. Loans were also approved subject to collateral requirements. The application of collateral can create an obstacle to the participation of poorer clients and the capping of interest rates for final borrowers reduces incentives for financial institutions to expand in the area once the subsidised refinancing of the project ceases.

65. In terms of up-scaling, the main contribution of the project has been that of creating incentives for investments by private sector companies in selected value chains, although these were still at an initial stage. A rating of moderately satisfactory (4) can be justified, same as PMD's.

Gender equality and women's empowerment

66. While the issue of gender equality is mentioned in the design documentation, throughout the documentation there is no clear explanation as to how this was done in practice (e.g., concrete measures to foster women's access to income sources, rural institutions and drudgery reduction infrastructure, which were the main pillars of the 2003 Gender Action Plan).

67. There are gender-disaggregated data from the project's M&E system which show variable participation of women in project-related activities. For example, women represented 17 per cent of members of producers' associations and only 6 per cent of their board members. Participation of women in training activities was also low (18 per cent of trainees) although higher in lending activities (about 50 per cent of individual borrowers).

68. In general, gender equality is not just about women's status but also their relationship with men in the household, economic and political sphere. Little is analysed and known through the documentation. There is no evidence that this aspect has received particular attention by the project, hence the rating of moderately unsatisfactory (3), lower than PMD rating.

C. Performance of partners

IFAD

69. IFAD had a major input in the project design which drew from past experiences in the country. The project design was overall justified albeit optimistic regarding the coverage of farmers by producers' associations and their capacity to expand and establish forward and backward linkages to the benefit of smaller farmers. IFAD's "value added" to the project was the technical support to the design phase and the financing of "soft" activities (training and capacity building) which would have otherwise be neglected. At the same time, even with IFAD's funding, the allocation to these activities was no more than 15 per cent of baseline costs. The causal paths from project interventions to poverty reduction were insufficiently elaborated upon. There was also limited innovative value added (for example in the realm of rural finance products).

70. IFAD ensured regular supervision (reflected in the internal project status reports) and its intervention was instrumental in supporting the government during the initial years of implementation. The supervision and mid-term reports are very detailed and factual but, because of this, they tend to loose sight of key strategic aspect such as the actual strengthening of value chains and institution building. Some of the related critical aspects discussed in the completion report are not raised by supervision missions. Limitations in M&E and project survey data and methodology are not discussed.

71. The completion report was prepared with a major contribution by IFAD, led by a new country programme manager. The report made an important effort to open up key questions (such as the depth of poverty outreach). Findings are well justified, although ratings do not always resonate with findings. Overall IFAD performance is considered as moderately satisfactory (4), lower than PMD rating.

Government

72. The available documentation signals a number of positive aspects related to the Government performance:

    (i) Early appointment of the project coordination units in the two territorial entities and support to the same by senior government officials;

    (ii) Good performance in the fiduciary aspects (notably, orderly financial management, accounting, procurement in line with IFAD requirements and compliance with audit requirements and deadlines), as stated throughout supervision missions reporting and completion report;

    (iii) Higher financial contribution to the project than initially pledged;

    (iv) Timely follow-up on issues raised by the supervision missions.

73. The above are, without doubt, important elements of the borrower's performance. However, the documentation also suggests that the attention of the government was tilted towards the delivery of the infrastructure component and credit disbursement. The former was an impelling preoccupation, given the damages perpetrated during the armed conflict and the limited internal resources available for reconstruction due to the country's economic collapse. Infrastructure was considered as an engine of growth to create employment and add value to the primary production of small farmers in the area.

74. The documentation does not suggest that the same degree of attention and leadership was given to technical assistance to producers' associations, the strengthening of value chains and building inclusive economic opportunities for the poorer farmers and policy-level studies. These initiatives received a lower level of resources than initially allocated (which were already limited).

75. Monitoring and evaluation produced information on project's disbursement and physical realisations. The project also carried out an "impact survey". However, the methodology of the same is not well explained and no comparison data have been collected, thus hampering attribution of observed changes to project's activities. Given that the project objectives carried the important element of enterprise growth and job creation, it is disappointing that no data on these were produced.

76. While the government agencies were swift and accurate implementers, they missed out some of the important strategic aspects of the project. The overall rating for the Government's performance is thus moderately satisfactory (4), lower than PMD rating.

D. Overall project achievements

77. Overall the project was designed to improve the conditions of rural families in poverty and without regular employment, by way of employment creation and connecting farmers to value chain. Key "ingredients" for value chain development and for generating a "multiplier effect" towards job creation were present in the design concept. However, there was no strong and commonly agreed upon strategy to connect all the project components so that the expected "causal pathways" would lead to the desired results. Some components (e.g. training for farmers and technical assistance to rural financial institutions) were under-resourced and given little prominence.

78. The project over-achieved the initial targets for infrastructure delivery and for the volume of loans to small and medium enterprises. Also the number of cooperatives and producer association assisted was higher than expected. However, coverage of producers' associations with respect to the rural poor population was limited. Moreover, the small and medium enterprises were scattered over the territory and this did not allow creating "poles of development" to boost demand of primary produce as initially expected.

79. Data on farm-level benefits (income and production increase) exist although there are questions about their representativeness and attribution to the project. It is legitimate to assume that infrastructure rehabilitation may have played a role in access to input and output market and in reinvigorating the local economy. No data have been collected on employment generation and enterprise growth and this is disappointing because the same were available for projects in the same IFAD sub-region in the past.

80. Sustainability of benefits is overall in the "positive zone" and this is due to institutional factors (such as the capacity of municipalities to maintain infrastructure and rural finance institution's better familiarity with rural clients). A weaker area of the project was the limited innovativeness in rural financial products and attention to gender equality aspects. Taking into account the assessment and rating of the individual evaluation criteria, overall achievement is assessed as moderately satisfactory, same as PMD rating.

III. Assessment of PCR quality

81. *Scope*. The PCR followed the harmonized methodology IOE-PMD for project assessment and applied the main evaluation criteria. Only a specific section on gender equality is missing, although relevant information is available in the body of the report. Rating: satisfactory.

82. *Quality*. The completion report was prepared under the leadership of a new country programme manager and a validation workshop was organized with the project management team (which is considered a good practice for this type of exercise). The completion report deserves recognition for making an effort to go beyond factual information and conducting analysis at the operational as well as strategic level. Its efforts in dressing more balanced and nuanced assessment of the project (compared to the supervision missions) are to be acknowledged as well. At the same time, the completion report is constrained by limited data from the project's M&E and some of the information gaps concern crucial parts of the project objectives (for example on poverty stratification of beneficiaries' households; credit discipline and operation and financial self-sufficiency of partner financial institutions; enterprise growth; strengthening of value chains). Also, figures on project's outreach and achievements and basic financial data are not always presented consistently. Rating: moderately satisfactory.

83. *Lessons learned* are very detailed and generally well formulated, pertinent and useful for future project design, particularly on pro-poor value chain development strategies, convergence between different project activities, value chain financing and diversification of financial services. They could have presented in a more synthetic fashion but are overall well thought through. Rating: satisfactory.

84. *Candour*. The completion report makes an attempt to balance positive achievements as well as shortcomings of the project (e.g., poverty focus and limited progress in value chain strengthening). Some of the conclusions it reached are in stark contrast with statements of previous of supervision report and generally well argued. Rating: satisfactory.

IV. Final remarks

Lessons learned

85. Among the main lessons elaborated by the completion report, the following can be highlighted:

(i) In terms of general design strategy and approach, outreach focus of the value chains needs to be incorporated at design. The methodology for inclusion of the poorer household strata needs to be made explicit from the beginning, rather than left to the interpretation of the project implementers.

(ii) As for value chain development, the demand and supply situation, enabling policies, regulatory environment need to be analysed thoroughly at the design stage (and their evolution monitored). Project activities would have to focus on addressing the gaps in these areas. Moreover, as the potential for value chain development is concentrated within specific clusters rather than distributed across administrative blocks, value chain development should target such clusters, around a focused group of commodities, rather than scattering investments over a wide area.

(iii) Support to producers' associations and cooperatives needs to be based on a concrete business plan specifying future vision, range of activities to be undertaken, the revenue model, the financing plan and annual targets. Differences between the legal framework of producers' associations (not-for profit) and cooperatives (for profit) needs to be taken into account too, as this determines what type of activities they are able to conduct and helps manage expectations. Project would also need to select producers' associations and cooperatives, based on their business orientation and be ready to help establish new ones if the existing are not sufficiently responsive.

(iv) In terms of the provision of financial services, projects should consider an integrated value chain financing model, whereby the financial requirements of each of the link would need to be analysed. There is also need of innovative financial services, in particular loans without collateral, to serve the poorer segment of the rural population. It would also be preferable to avoid capping of interest rates to final borrowers as below-market interest rates do not provide long-term incentives to micro finance institutions to expand.

Issues for IOE follow-up (if any)

86. No special issue for immediate follow-up. It is to be noted that the project supervision reports tend to provide a positive assessment project implementation and results, while the completion report makes more nuanced assessment, highlighting areas of weakness as well, for the improvement of future project design. Compared to the findings of the project completion report, the PMD ratings appear to be on the high side.

Rating comparison

Criteria	*PMD rating*[a]	*IOE rating*[a]	*Net rating disconnect (IOE PCRV – PMD)*
Project performance			
Relevance	4	4	0
Effectiveness	4	4	0
Efficiency	4	4	0
Project performance[b]	**4**	**4**	**0**
Rural poverty impact			
Household income and assets	5	4	-1
Human and social capital and empowerment	5	4	-1
Food security and agricultural productivity	5	4	-1
Natural resources, environment and climate change	n.p.	n.p.	
Institutions and policies	4	3	-1
Rural poverty impact[c]	**4**	**4**	**0**
Other performance criteria			
Sustainability	5	4	-1
Innovation and scaling up	4	4	0
Gender equality and women's empowerment	4	3	-1
Overall project achievement[d]	**4**	**4**	0
Performance of partners[e]			
IFAD	5	4	-1
Government	5	4	-1
Average net disconnect			-0.53

Ratings of the PCR quality

	PMD rating	*IOE PCRV rating*	*Net disconnect*
Scope	5	5	0
Quality (methods, data, participatory process)	5	4	-1
Lessons	5	5	0
Candour	5	5	0
Overall rating of PCR	5	5	0

[a] 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.
[b] Arithmetic average of ratings for relevance, effectiveness and efficiency.
[c] This is not an average of ratings of individual impact domains.
[d] This is not an average of ratings of individual evaluation criteria but an overarching assessment of the project, drawing upon the rating for relevance, effectiveness, efficiency, rural poverty impact, sustainability, innovation and scaling up, and gender.
[e] The rating for partners' performance is not a component of the overall assessment ratings.

Definition of the evaluation criteria used by IOE

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

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

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