

Republic of Albania

Programme for Sustainable Development in Rural Mountain Areas Project Performance Assessment

Executive Summary

1. **Background.** Albania is a middle-income country that has made enormous strides in establishing a credible, multi-party democracy and market economy over the last two decades, following a long period of totalitarian government and pervasive state control migration and urbanization brought a structural shift away from agriculture and towards industry and services. However, despite this shift, agriculture remains one of the largest and most important sectors in Albania; it is the main source of employment and income for half the population and represents around 20 per cent of gross domestic product. Albania's agricultural sector faces a number of fundamental challenges including small farm size and land fragmentation, poor infrastructure, market limitations, limited access to credit and grants, inadequate rural institutions and emigration of the workforce, particularly young people.
2. The Programme for Sustainable Development in Rural Mountain Areas (SDRMA) covered 21 mountainous districts with a population of about 1.7 million (about half the total national population), including a large majority of the rural poor. The goal of the programme was to increase household incomes in Albania's mountain areas with the target group which included underemployed and unemployed rural men and women, small- and medium-sized farm holders and rural entrepreneurs. Project objectives were to achieve: (a) additional resource mobilization in and for the mountain areas; (b) accelerated economic growth and poverty reduction; and (c) strengthened abilities of local institutions and organizations to influence and support private- and public-sector investment. These objectives were to be attained primarily through support in order to: (a) position the Mountain Areas Development Agency (MADA) – in terms of staffing, levels of competence, functions, institutional linkages and financial arrangements – to act as a European Union (EU)-style regional development agency; and b) support the conversion of the Mountain Areas Finance Fund (MAFF) into a rural commercial bank.
3. The programme comprised four components, three to be realized through MADA, regional development, private-sector development, field implementation and testing of investment approaches, and a fourth to be realized by supporting MAFF to transform itself and expand into a fully licensed rural commercial bank.
4. Actual project costs amounted to US\$23.35 million, 96.3 per cent of the original appraisal cost estimates. At completion, a loan from the International Fund for Agricultural Development (IFAD) funded 32.6 per cent, a loan from the OPEC Fund for International Development funded 16.9 per cent, a loan from the Council of Europe Development Bank funded 28.2 per cent, and the Government of Albania and its beneficiaries funded 22.3 per cent of total costs. Ninety-seven per cent of the US\$7.6 million IFAD loan was disbursed.
5. SDRMA was approved by IFAD's Executive Board in December 2005, and implemented over six years from February 2007 to March 2013. IFAD has provided support to mountainous areas since 1993, through a total of five projects with a total IFAD investment of US\$51.5 million.

6. While this project performance assessment (PPA) assessed overall project performance, special attention was given to issues of: poverty targeting; gender empowerment; effectiveness; and institutional sustainability.
7. **Assessment summary.** SDRMA was to improve household incomes through two main vehicles: (1) a MADA-administered grant programme; and (2) increased lending through MAFF which was renamed First Albanian Finance Development Company (FAF-DC). MADA was able to identify relevant value chains to enhance incomes, employment and entrepreneurship in the mountain areas and was also successful in identifying certain key constraints to the development of these value chains. As a result, 165 matching grants were provided, of which 124 were small and valued between US\$2,500 – US\$10,000 and 41 focused on small and medium enterprises (SMEs) valued up to US\$15,000 each. Poverty criteria were not applied in allocating grants, and most poor people and women were effectively excluded because of a mandatory financial contribution of between 30-40 per cent. The expectation that investments through these loans or grants would be widely emulated and trickle down, leading to significant adoption and replication by non-beneficiaries and increased investments in mountain areas, has not materialized.
8. MAFF, which transformed to FAF-DC in the course of implementation, provided 8,770 loans, 76 per cent of which were for less than US\$5,000. The majority were extended without using poverty criteria in selection. It has been estimated that significant incremental employment occurred through creation of some 28,000 full- and part-time jobs, although the poverty status of new employees was not assessed. Overall, the matching grant and lending sub-components have not been poverty-focused, and there has been little evidence of replication. The PPA concludes that SDRMA has not been effective in targeting the poor or in meeting poverty-reduction expectations.
9. SDRMA sought to promote women's empowerment through a comprehensive training and capacity-building programme with female participation reaching 40 per cent, while just 22 per cent of SDRMA grant beneficiaries and 19 per cent of FAF-DC borrowers were women. A key programme indicator of gender empowerment was achieving more equal women's representation in governance. However, this has not been met; only two of the eleven directors of the MADA executive board were women, and representation on commune councils and mountain area forum of major stakeholders from public and private sector (FORA) remained very limited, with gender issues and women's concerns rarely considered. In reality, women have remained underrepresented in the male- dominated environment typical of mountain areas. SDRMA was unable to make significant progress in overcoming local customs and gender prejudice.
10. Institutional reforms and strengthening at both national and community levels were fundamental objectives of SDRMA critical to achievement of the project goal. At the national level, MADA was expected to become the lead agency for mountain area development, positioned within government to influence policy and budgetary allocations. But after 14 years of IFAD and MADA involvement, it is of concern that an effective mountain area development agency has not emerged and that MADA essentially remains a Project Implementation Unit. On completion of IFAD funding by the end 2014 under a SDRMA sister project, and without an alternative external funding source, MADA'S future role is still under discussion and its existence is uncertain. This situation is exacerbated by current debt ceiling limits which constrain future government borrowing and put into question the future borrowing relationship with IFAD.
11. Furthermore, MAFF has not been transformed into a sustainable commercial bank providing credit to rural areas as was envisaged. MAFF is surviving as a non-banking financial institution, although its long-term sustainability is unsure and sources of growth are compromised by its inability to mobilize savings or deposits.

Critically, it has not evolved into the effective rural/agricultural lending institution serving the small rural household as expected, as it now focuses on rural SMEs.

12. At the community level, however, MADA has established well grounded strategies for improved participatory planning and governance at local government and commune levels. Experiences in community empowerment and institutional development showed promise through the establishment of FORA and especially participative commune Local Action Plans (LAPs), which, if retained, have the potential to be further strengthened and transformed into Local Action Groups under the EU accession process.
13. The sustainability of institutional developments at local levels is difficult to assess given the highly variable efficacy and organizational competencies at both FORA and commune levels. The long-term sustainability of FORA is uncertain, because without external support, they are becoming progressively moribund and less influential. Furthermore, how they would fit into the proposed territorial reforms to be introduced in 2015 is uncertain. Similarly, the sustainability of the LAP methodology and process facilitated by SDRMA is uncertain; however, given their obvious utility and similar endeavours by other agencies (e.g. the United Nations Development Programme), the more progressive communes and future larger municipalities will hopefully retain the LAP tool as part of their mainstream planning and management exercises.
14. Overall project achievements barely met expectations, and the PPA assesses overall achievement as being moderately satisfactory (4). Apart from being overly complex, the design failed to fully account for critical issues and recommendations raised during IFAD preparation reviews and a former project evaluation. As a result, the design was deficient in that delivery instruments did not prove to be appropriate tools with which to actually reach the intended target audience of poor people and women. This was exacerbated by a lack of appropriate monitoring and evaluation and the absence of a midterm review which prevented corrective measures from being identified in the course of implementation. Accordingly, critical issues were not remedied by MADA, the Programme Steering Committee or IFAD supervision throughout implementation.
15. **Recommendations.** Some of the key recommendations for IFAD and the Government to consider include the following:
 - In light of past failures to establish effective national institutions to formulate and manage mountain area programmes and to provide effective rural banking services, new options have to be researched and considered by the Government, in the context of institutional experiences in recent years and in view of the EU pre-accession preparations. Those SDRMA experiences which are positive should be capitalized upon. Mountain areas financing options are urgently needed to target poor farmers or operators with entrepreneurial potential.
 - The market orientation, value chain analyses and funding of critical constraints for producers and SMEs are approaches which should be scaled up in a simplified form, as there are further potential benefits for the mountain areas population. This, however, requires a differentiated approach in terms of targeting for gender equality and funding according to the poverty level of the direct beneficiaries, as the poorer population would require grants with minimal contribution requirements, whereas much better-off beneficiaries could assume loans. Implementation of such a differentiated approach needs to be carefully considered based on experiences elsewhere, as this is not straightforward. Also, this approach should be developed in the context of EU accession preparation, as there might be valuable instruments available for this purpose.

- The participatory planning process at local levels (LAPs), which SDRMA successfully implemented, should be further used in the context of the new territorial division of Albania which will be put in place in 2015. The participatory planning should be enhanced to specifically give women an equal voice in prioritizing needs and making decisions. The local economic infrastructure prioritized through LAPs should be further rehabilitated and enhanced through public funding, but with the need to: account for poverty and gender impact in selecting infrastructure to be funded; and address and ensure the issue of maintenance before funding is granted.