Report Number : ICRR0020843

1. Project Data

Project ID	Project Name	
P109126	RURAL ENTERPRISE SUPPORT PROJECT II	
Country	**Practice Area(Lead)**	**Additional Financing**
Uzbekistan	Agriculture	P126962

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IDA-44330,IDA-51520	31-Mar-2015	75,027,000.00
Bank Approval Date	**Closing Date (Actual)**	
12-Jun-2008	31-Dec-2016	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	67,960,000.00	0.00
Revised Commitment	104,751,790.51	0.00
Actual	96,848,008.58	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

The project development objective (PDO) of the Second Rural Enterprise Support Project in the Republic of Uzbekistan (RESP II), as stated in the Financing Agreement dated October 8, 2008, was "to increase the productivity and financial and environmental sustainability of agriculture and the profitability of agribusiness in the Project Area." It is the same as the PDO stated in the Project Appraisal Document dated May 8, 2008 (PAD).

The project's achievements will be assessed against the PDO stated in the Financing Agreement, which was not changed during implementation.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

The project has the following four components (PAD, Chapter B, Section 3):

Component 1: Rural Enterprise Finance (Appraisal Cost: US$ 36.7 million; Actual cost: US$72.13 million). Scale up the positive results of the first Rural Enterprise Support Project in the Republic of Uzbekistan (RESP I) by engaging additional commercial banks and the microfinance sector to provide agricultural finance to newly independent farmers originated from the recent Shirkat reform, as a result of which land was passed from cooperative usage (shirkat) to private one, and to provide finance to small and medium size agribusinesses in seven regions, covering around 88 rural districts. Train the participating financial institutions to improve their skills in providing agriculture investment loans and provide assistance to loan recipients on business planning, aiming to reduce the lending risks and improve the banking sector's capacity to provide financing in agriculture. The significant increase in actual cost of this component was mainly due to additional activities funded by the additional financing.

Component 2: Irrigation and Drainage (Appraisal Cost: US$ 33.2 million; Actual cost: US$26.38 million). In seven specific districts, invest in (i) rehabilitation of critical sections and bottlenecks of on-farm and inter-farm irrigation and drainage infrastructure systems, to be selected by the main stakeholders in the districts, including the Basin Administration of Irrigation Systems (BAIS) and its branch organizations (the Administration of Irrigation Systems (AIS)), the district authorities, and Water User Associations, with technical assistance from a consulting firm; (ii) Strengthening 84 Water User Associations and the capacity of relevant institutions to train and support WUAs to effectively rehabilitate, operate, and maintain on-farm irrigation and drainage systems; (iii) Piloting and demonstrating applied modern irrigation techniques in the districts.

Component 3: Rural Training and Advisory Services (Appraisal Cost: US$ 2.6 million; Actual cost: US$1.60 million). Provide training and advisory services in various skills required by farmers in their capacity as independent business concerns, such as legal, business, accounting, agronomy, water management, and pest management aspects; Increase the publicity of technical information and advisory services via mass media campaigns, to not only generate demand for training but also publicize the project services and information, targeting primarily the large number of household farmers who will not likely participate in the training.

Component 4. Project Implementation (Appraisal Cost: US$ 2.5 million; Actual cost: US$4.45 million), including overall project implementation management, studies on relevant sector or sub-sector specific issues to inform policy debate, and monitoring and evaluation activities. The significant increase in actual cost of this component was mainly due to the additional financing.

Implications of Additional Financing for Components. The additional financing, approved in September 2012, expanded scope of Component 1 by providing an additional credit of US$40.0 million for financing horticulture-related investments in both the original seven regions and a newly added Jizzakh region (ICR, para 14).

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

1. Project cost. The project's total cost was estimated at US$75.03 million (PAD, Annex 5) at appraisal. Actual total project cost increased to US$104.56 (ICR, Annex 1) at completion, mainly due to the additional financing which expanded the scope of the project.
2. Financing. The project was financed by an original IDA credit of SDR 41.30 million (US$67.96 million equivalent), an additional financing IDA credit of SDR 26.40 million (US$40.00 million equivalent), and a grant of $7.7 million from the Swiss Agency for Development and Cooperation (SDC). The two IDA credits were 96.57% disbursed (ICR, Data Sheet).
3. Borrower contribution. The original and actual counterpart financing from the government and beneficiaries were US$7.07 million and US$5.09 million, respectively (ICR, Annex 1, Table (b)).
4. Key dates. The project was approved on June 12, 2008. Mid-term review was on December 02, 2011, on schedule set at appraisal (December 5, 2011). The project was originally planned to close on March 31, 2015. Actual closing date was extended once for twenty one months to December 31, 2016. The reasons for this extension were mainly related to the Government's lengthy internal review and approval processes and the time needed to implement the additional financing (ICR, paras 14 and 22).
5. Restructurings.
There were one level I restructuring and three level II restructurings.
(1) Level I restructuring:
09/11/2012: An additional financing of SDR 26.40 million (US$40.00 million equivalent) in IDA credit was approved, to provide financing for horticulture-related investments in both the original seven regions and a newly added Jizzakh region (ICR, para 14). The Additional Financing also amended the Results Framework accordingly and established a new closing date of the project as December 31, 2016.
(2) Level II restructurings:
01/19/2011: Reallocation of US$227,549 from Unallocated category to Consultants' services, training and audit to reflect higher than estimated contract value for detailed engineering design for rehabilitation of irrigation and drainage.
03/19/2012: Reallocation of US$5.0 million from micro sub-loans to investment and working capital sub-loans and leasing financing, and dropping indicators in the Results Framework measuring micro sub-loan related achievements.
07/25/2014: Reallocation of the original credit across expenditure categories. Revision of component costs based on exchange rate fluctuations and additional costs on project management.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The PDO "to increase the productivity and financial and environmental sustainability of agriculture and the profitability of agribusiness in the Project Area" was consistent with the Government's first Poverty Reduction

Strategy Paper (PRSP)--the Welfare Improvement Strategy (WIS) for 2008-10, approved in September 2007, which had a strong emphasis on agricultural growth, importance of cost recovery, and environmental sustainability such as sustainable irrigation and water management systems, soil improvement and drainage, and more efficient use of water resources. The PDO was also consistent with Pillar II of the Bank Group's CAS FY08-11: Increasing economic opportunities in rural areas, which centered on achieving three country development goals, namely, (1) Increase productivity of agriculture; (2) Increase farmers' incomes; and (3) Increase efficiency, effectiveness and environmental sustainability of irrigation and soil improvement. However, the PDO was weak because for neither productivity increase nor the increases in financial and environmental sustainability was there any definition of the scope of the increases expected as a result of the project's investments.

The PDO was also consistent with Bank and government strategies at completion. The Bank's CPF for FY16-20 for Uzbekistan emphasized that the agriculture sector in the country had a large potential for improvement in productivity, profitability, and environmental sustainability. Focus Area 1 of the CPF had a strong emphasis on increasing private investment and promoting job creation in agribusiness, while Focus Area 2 was agriculture competitiveness and productivity improvement. The Welfare Improvement Strategy of the Republic of Uzbekistan for 2013-15 had a strong focus on implementing measures for enhancing productivity, profitability, and financial and environmental sustainability in agriculture and rural development. Again, though these objectives were in the right direction, they were unspecific in terms of the scope of the expected achievements.

Rating

Modest

b. Relevance of Design

The project design combined three major components: (1) provision of finance to rural enterprises (including farmer households), (2) rehabilitation and strengthening of irrigation and drainage, and (3) provision of training and advisory services to farmers. These components were well aligned with the project's objectives.

Component (1) on Rural Enterprise Finance was very consistent with the sub-objective of improved agribusiness profitability. It would enable rural businesses to make investments to increase sales and decrease costs by providing financing to farmers and agribusinesses in seven regions, covering about 88 rural districts and 65 percent (about 18 million) of the population, while at the same time enhancing the capacity of intermediate financial institutions to assess lending risks and the capacity of potential credit recipients to prepare business plans. The additional financing further expanded the scope of this component to cover horticulture-related investments and a newly added Jizzakh region

The combination of component (2) with component (3) would contribute to the achievement of improved environmental sustainability of agriculture. Component (2) focused on providing support for rehabilitation and strengthening of the outdated inter-farm and on-farm irrigation and drainage infrastructure and strengthening of the institutional capacity of Water Users Association to manage the operation and maintenance of on-farm irrigation and drainage systems. It would contribute to improved water supply and drainage and increased yields, and was thus directly relevant to the achievement of improved productivity of agriculture. Component (2) would also contribute to lowering of groundwater levels and decrease of salinity from water logging. This, combined with Component (3)'s assistance to improve farmer's knowledge of water saving technologies and

other environmentally friendly good practices and to enhance participating financial institutions' capacity to conduct environmental impact assessment, would enhance environmental sustainability of agriculture. Improvement of I&D infrastructure under Component (2) and training and advisory services for farmers under component (3) can be expected to increase yields, lower cost, and improve agricultural production, and therefore contribute to the achievement of improved productivity and financial sustainability of agriculture. To achieve sound financial sustainability, however, attention could have been given to tackling some relevant policy areas, such as input subsidies and alternatives to state procurement, as mentioned in IEG's review of the completion report for RESP I. Indeed, the project's financial net present value was highly sensitive to input prices, according to the PAD.
As the ICR noted, the project's results framework had several weaknesses. A number of intermediate and final outcomes were either not stated in measurable terms, or were stated in output terms. Despite the valid conceptual logic of the project's design, there was a lack of a clear and convincing causal chain between project activities and project outcomes.

Rating
Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective
The project objectives were to "to increase the productivity and financial and environmental sustainability of agriculture and the profitability of agribusiness in the Project Area." They contained 4 elements or sub-objectives: (1) To increase the productivity of agriculture in the Project Area; (2) To increase financial sustainability of agriculture in the Project Area; (3) To increase the environmental sustainability of agriculture in the Project Area; and (4) To increase the profitability of agribusiness in the Project Area.

(1) To increase the productivity of agriculture in the Project Area

Rationale
Output:
The following is a summary of the project's most important outputs for the first sub-objective:

- All works on rehabilitation of irrigation and drainage infrastructure, selected through a participatory and transparent process for inter-farm systems and through a farmer/WUA driven process for on-farm systems, were completed successfully, and were handed over to responsible institutions for their operation and maintenance (ICR, para 46).
- All WUAs in seven project districts were reorganized into Water Consumers Associations based on hydrographic boundaries and re-registered as non-governmental and non-commercial entities, in accordance with international best practice (ICR, para 49).

- Provision of training on WUA operations, including institutional, legal, financial and technical dimensions (ICR, para 49).
- Provision of small equipment and tools to WUAs for maintenance of I&D infrastructure (ICR, para 50).
- All WUAs operating based on approved plans, manuals, procedures, and schedules with improved institutional capacity (ICR, para 49).
- Provision of training to 61,426 farmers and agro-processors on a variety of topics related to farm productivity improvement, including, inter alia, soil fertility improvement, pest management, organic farming, and water management (ICR, para 47).

Intermediate outcome:

- Total command area benefiting from improved I&D infrastructure is estimated at about 139,500 ha (Target was 91,000 ha) (ICR, para 46).
- Irrigated areas with adequate water supply and drainage in project districts increased by 214 percent, exceeding target by 229 percent (Target was 65 percent) (ICR, para 46).
- Total command area benefiting from strengthened WUAs is estimated at approximate 245,000 ha (No target) (ICR, para 49).
- WUAs were able to undertake 87 percent of the maintenance work for their I&D infrastructure, compared to a baseline of 34 percent (ICR, para 50).
- Eighty-two percent of water users expressed satisfaction with WUA performance, according to the end-of-project impact assessment (ICR, para 50).
- Share of water lost during transportation decreased by about 36 percent, from 23.7 percent in 2010 to 15 percent in 2016, based on the end-of-project impact assessment (No target) (ICR, para 46).

Outcome:

- M&E data shows about 33 percent increase in yields per hectare, based on average across the seven project districts with I&D interventions and across nine major crops (ICR, para 48). The project team later clarified to IEG that the 33 percent increase reflected the increase in yields on irrigated lands of primary and secondary crops in all project regions.
- The end-of-project impact assessment shows about 12 percent increase in yields per hectare, based on a weighted average across the seven project districts (no target) (ICR, para 48). The Bank's project team later advised IEG that the 12 percent increase reflected the increase in yields only on irrigated primary crops in the seven districts.
- There were no data on the change of yields in the specific intervention areas as opposed to the entire project districts or regions, and no data on change of yields per hectare in comparable non-intervention areas (ICR, Annex 3, para 9). The lack of data on results of the specific intervention areas and the absence of a counterfactual constitute major shortcomings and undermine any conclusion on the project's contribution to the per hectare yield increases.

Rating
Modest

Objective 2

Objective
(2) To increase financial sustainability of agriculture in the Project Area

Rationale
Output:
The project's outputs for the second sub-objective are the same as for the first sub-objective above.
Intermediate outcome:

- Increased reclamation of land as well as area under cultivation due to improved I&D and the resulting decreased level of saline lands (ICR, para 54).
- Water productivity at the 62 Farmer Field Schools (FFS) plots, measured by the yields per cubic meter of water used, went up from 0.68 kg to 1.15 kg for wheat and from 0.51 kg to 0.86 kg for cotton between 2010 and 2014 (no target) (ICR, para 55).
- Loss reduction, especially for fruits, vegetables, milk, and dairy products, as a result of credit support for investment in postharvest infrastructure and innovative technologies (ICR, para 61).
- Increased ability of farmers to extend their growing season and reach markets earlier in the season due to credit support for investments in greenhouses (ICR, para 62).
- About 33 percent increase in yields per hectare on irrigated lands of primary and secondary crops in all project regions, based on additional information provided by the Bank's project team.

Outcome:

- Financial net present value of incremental net benefits of US$9.9 million for the irrigated land rehabilitated under the project, taking into account the cost of rehabilitation and the cost of training and advisory services, over a 25-years period (ICR, Annex 3, para 11).
- Project WUAs continue to face some financial difficulties due to relatively low Irrigation Service Fee collection rates and high operating costs. However, about 50 out of the 65 WUAs are implementing about 75 percent of their O&M plan, a much higher percentage than among WUAs not supported by the project (ICR, para 52 and para 53).

Rating
Substantial

Objective 3

Objective

(3) To increase the environmental sustainability of agriculture in the Project Area

Rationale

Output:

The following is a summary of the project's most important outputs for the third sub-objective:

- The rehabilitation of the drainage system was completed successfully, and was handed over to responsible institutions for their operation and maintenance (ICR, para 46). Over 62 Farmer Field Schools (FFS) were established by the Swiss Agency for Development Cooperation (SDC), including related equipment procurement and training, for demonstration of simple and affordable water saving technologies (ICR, para 55 and para 57).
- Demonstration of water saving irrigation methods, such as drip irrigation, furrow irrigation based on use of black perforated film, and flexible hoses, in a total area of over 751 ha (ICR, para 55).
- Installation and training on the use of water measurement and control structures to improve irrigation water use efficiency (ICR, para 55).
- About 20,593 farmers were trained on using the demonstrated water-saving technologies (ICR, para 56).
- Participating financial institutions were trained in environmental impact assessment and mitigation for their lending activities.

Intermediate outcome:

- Almost 96 percent of farmers noted the training was of high quality. Seventy-seven percent noted that the training content could be applied successfully in practice, according to SDC final progress report (ICR, para 56).
- High farmer adoption of four of the water saving technologies demonstrated by FFS, with adoption rates ranging from over 60 percent to 97 percent (ICR, para 56).
- Thirty percent of neighboring farmers were implementing the water saving technologies after learning of the benefits and subsequently receiving training from WUAs, according to SDC final progress report (ICR, para 56).

Outcome:

- The level of saline lands decreased from 18 percent in 2010 to 13 percent in 2016 due to reduced water logging, according to the end-of-project impact assessment (no target) (ICR, para 54).
- Water productivity at the 62 FFS plots, measured by the yields per cubic meter of water used, went up from 0.68 kg to 1.15 kg for wheat and from 0.51 kg to 0.86 kg for cotton between 2010 and 2014 (no target) (ICR, para 55).

Rating

Substantial

Objective 4

Objective

(4) To increase the profitability of agribusiness in the Project Area

Rationale

Output:

The following is a summary of the project’s most important outputs for the fourth sub-objective:

- Provision of training to potential loan applicants on preparation of high quality business plans to increase profitability and financial sustainability of investments.
- Training of 573 staff in participating financial institutions on project appraisal, risk assessment, and monitoring (Target was 200) (ICR, Data Sheet, Page vi).
- 570 sub-loans in total amount of US$72.9 million were made for a variety of investments, ranging from agricultural machinery, storage, and greenhouse construction, to poultry and fish farming, lower than both the original target 800 sub-loans and the revised target 600 sub-loans due to increased loan sizes (ICR, Data Sheet; ICR Annex 2, para 2).

Intermediate outcome:

- By project end 57 percent of the PFIs had increased their agricultural portfolio by at least 10 percent per year during the project period, exceeding the target by 42.5 percent, thanks to improved loan and project appraisal capacity and timely repayment of sub-loans by recipients (ICR, Data Sheet, and para 58).
- Increased ability of farmers to extend their growing season and reach markets in earlier season due to credit support for investments in greenhouses (ICR, para 62).

Outcome:

- A 151 percent increase in the average household income among 70 sub-loans recipients, according to the impact assessment conducted during the preparation of the additional financing in 2011 (ICR, Data Sheet). These 70 sub-loans were selected using a stratified random sampling approach, according to information provided to IEG by the Bank's project team.
- Financial net present value of incremental net benefits of US$389 million for a sample 14 enterprises that received credits from the project, over a 25-years period (ICR, para 14 and para 15 of Annex 3). The 14 sub-projects represented only about 2 percent of the 650 sub-projects that the PFIs supported with the credit funds under the project, and it was unknown whether these 14 sub-projects were selected randomly, according to the Bank's project team.
- A reduction of losses, especially for fruits, vegetables, milk, and dairy products, was observed, as a result of credit support for investment in postharvest infrastructure and innovative technologies (ICR, para

61). However, the ICR provided no data.

Rating
Substantial

5. Efficiency

Economic analysis at project completion indicated that the project investment is economically and financially viable. The economic NPV (ENPV) and economic IRR (EIRR) were US$343 million and 47 percent respectively for the original Component 1 on rural enterprise finance and were US$18 million and 19 percent respectively for the additional financing part of Component 1 (ICR, Annex 3, para 17). The ENPV and EIRR for rehabilitation of I&D infrastructure, including relevant training and advisory services under Component 3, were US$11 million and 32 percent respectively, based on irrigated land rehabilitated. Sensitivity analyses showed that these results were robust in the face of various assumptions about lower than expected adoption rates (percentages of irrigated project area or sub-loan recipients achieving incremental benefits) and net profits, further confirming the project investments were economically justified.
The project's implementation process was in general smooth and without much delay, despite the Government's somewhat lengthy internal review and approval processes (ICR, para 22). According to the ICR, the project implementing agency was experienced and managed the procurement, financial management, and social and environmental safeguards issues in a diligent and efficient manner.

Efficiency Rating
Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐Not Applicable
ICR Estimate		0	0 ☐Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The project's objectives were modestly relevant and design was substantially relevant. Three of the four project sub-objectives were substantially achieved. And the project efficiency is rated substantial. Overall there were moderate shortcomings in the project’s achievement of its objectives and in the relevance of the objectives. The project development outcome is therefore rated Moderately Satisfactory.

a. Outcome Rating

Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating

In line with the objectives and design of the RESP II, the country's Development Strategy for 2017-2021 identifies modernization and diversification of agriculture as a priority and has a strong focus on increasing agricultural productivity and financial sustainability. The RESP II improved the overall credit culture in the rural areas. The participating financial institutions are now willing to and have the capacity to lend to farmers and agribusinesses, while potential loan recipients have been trained for preparing better quality business plans (ICR, para 73). There are two on-going Bank projects which include interventions similar to the RESP II and thus can further consolidate the outcomes achieved under RESP II and reduce relevant risks. WUAs currently face some financial difficulties and hence cannot meet all the budgetary needs for maintaining I&D infrastructure (ICR, para 52 and para 53). However, it is reasonable to expect that the rate of collection of irrigation fees by WUAs could improve because the rehabilitation of the I&D systems increased agricultural financial sustainability, and farmers were highly satisfied with WUAs’ performance. In addition, the government was very supportive of WUAs and the O&M of I&D infrastructure, and had provided institutional and budgetary support to sustain them, as described in Section 4 of the ICR.

a. Risk to Development Outcome Rating

Modest

8. Assessment of Bank Performance

a. Quality-at-Entry

The project design was built on the experience and lessons learned from a previous Rural Enterprise Support Project supported by the Bank in Uzbekistan. The project components focused on the key activities necessary for addressing the challenges in the agricultural sector and for achieving the project objectives, which were clear, focused, and relevant to Bank and country priorities. A consultative process and a WUA/beneficiary driven process were followed in the identification of the inter-farm and on-farm I&D subcomponents.

The results framework had some weaknesses as described in the Relevance of Design section above. In addition, the M&E indicators were weak. Especially, there were a lack of appropriate indicators for several important PDO-level outcomes, such as increased profitability of agribusinesses and improved financial and environmental sustainability of agriculture. Lastly, the original project design underestimated the existence of child and forced labor issues and initially did not include sufficient safeguard measures and provisions to prevent such issues from arising under this project. However, these shortcomings were addressed proactively and effectively and did not affect the overall smooth implementation of the project (ICR, para 26).

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

According to the ICR, the Bank's project team conducted regular and close supervisions, responded to key implementation issues proactively, and provided solutions on a timely basis. This support was instrumental in ensuring that the implementation process was on a good track. Although there were some delays at the beginning of the original project and the additional financing, the overall implementation process was smooth. For example, the team responded promptly and effectively to the Inspection Panel case on alleged child and forced labor issues by incorporating additional mitigation measures and provisions into the project and conducted intensive supervisions to prevent such issues from happening again under the project. The Bank team should have taken actions to improve the design of the results framework and the M&E system. Despite the weakness of this design such as lack of sound indicators measuring the PDO-level outcomes and absence of counterfactuals for some results, however, the team was able to proactively collect relevant evidences necessary to show that the project development outcome was moderately satisfactory.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. Assessment of Borrower Performance

a. Government Performance

According to Section 5.2 of the ICR, the Government of Uzbekistan was highly committed to the project, both during the preparation and the implementation processes. It provided timely counterpart financing, and allocated state funds to support the operation and maintenance of the I&D systems in the project area. The GoU's performance on safeguards and fiduciary arrangements and compliance was satisfactory in general (ICR, Section 2.4). However, the GoU could have done more to prevent and address the delays of the approvals of the project’s legal documents that affected the timely effectiveness of the project and the additional financing, and to ensure necessary institutional setup was in place for providing training and guidance to WUAs on a regular basis (ICR, para 82).

Government Performance Rating

Moderately Satisfactory

b. Implementing Agency Performance

The Rural Restructuring Agency under the Ministry of Agriculture and Water Resources (RRA) was the implementing agency of the project. It brought to RESP II its experience with implementing the previously Bank-financed RESP, and managed the implementation of RESP II with a high degree of professionalism. RRA made many efforts to ensure the project's compliance with all safeguard and fiduciary policies required of the project, and was effective in working together with the Bank team to prepare and process the additional financing. Both the RRA in Tashkent, the capital city, and its regional offices made frequent visits to project fields to supervise implementation. For example, they visited all 570 sub-loan recipients under the rural enterprise finance component of the project. Implementation progress reports prepared by RRA were detailed and provided to the Bank in a timely manner.

Implementing Agency Performance Rating

Satisfactory

Overall Borrower Performance Rating

Moderately Satisfactory

10. M&E Design, Implementation, & Utilization

a. M&E Design

Appropriate arrangements were designed in the PAD for baseline surveys, data collection instruments, and responsible agencies for data collection (PAD, Annex 3). For example, the implementing agency (RRA) was designated as the main agency responsible for M&E. However, several outcome indicators were not specific or stated in measurable terms. Some did not measure final outcomes. There was a lack of appropriate indicators for several key PDO-level outcomes, such as increased profitability of agribusinesses and improved financial and environmental sustainability of agriculture.

b. M&E Implementation

The key data planned for collection according to the project results framework were collected systematically. Especially, RRA established strong institutional arraignments for monitoring project outputs and intermediate outcomes. These data were collected and analyzed thoroughly. The RRA also went beyond the collection of data specified in the project performance indicators, to mitigate the weakness in indicator specification in the design. However, the impact assessment at the completion, which should have provided substantial evidence on the project development outcome, was based on the profitability data of 14 enterprises provided by PFIs. This sample represented only 2 percent of the total number of enterprises benefiting from the project's credit funds. In addition, they might not have been sampled on a random basis, as noted in Section 4 above. Lastly, no information on counterfactuals was collected.

c. M&E Utilization

The M&E process, especially the impact assessment conducted by the implementing agency RRA at the preparation of the additional financing, helped inform the preparation of the additional financing.

M&E Quality Rating

Modest

11. Other Issues

a. Safeguards

Environment:

The project was classified as an environmental category B, and triggered the safeguard policies on Environmental Assessment (OP 4.01) and on Projects on International Waterways (OP 7.50).

An Environmental Management Framework was prepared for the project. The ICR reports that the project's compliance with environmental safeguards was ensured through strong institutional arrangements and thorough implementation by RRA, the implementing agency. At the sub-project level for the rural enterprise component, for example, environmental due diligence was conducted by participating financial institutions and closely supervised by RRA. On OP 7.50, the project received an exception to the requirement of "Notification to Riparians", as per approval by the Regional Vice President on the basis that the project activities were limited to rehabilitation of existing I&D systems and would not adversely affect the quality or quantity of the water flows to other riparians. The project was implemented in compliance with OP 4.01 and OP 7.50 (ICR, para 33 and para 35).

Social:

Legal provisions were stipulated in the project documents, and relevant training and information awareness campaigns were carried out, to prevent the use of child and forced labor by beneficiaries during the cotton harvest (ICR, para 34). During the implementation process the Inspection Panel at the Bank received a complaint from three local residents and an international NGO alleging the project contributed to the use of child and forced labor by project beneficiaries. The Bank Management made a swift and satisfactory response, clarifying that the project did not cause or aggravate any possible related harm and outlining relevant additional mitigation measures that the project team effectively adopted and closely followed during the subsequent implementation (ICR, para 26). The Inspection Panel decided not to conduct a full inspection based on the Bank Management's satisfactory response. And no clear incidences of child and forced labor linked to the project were ever identified by the Bank after the response (ICR, Annex 10, page 60).

b. Fiduciary Compliance

The ICR assessed that the financial management arrangements of the project, in such areas as planning and budgeting, accounting and reporting, and flow of counterpart funds, were satisfactory (ICR, para 36). The risk to procurement implementation was rated high as the country did not have an institutional environment conducive to transparent and efficient procurement. However, the project implementing agency (RRA) had implemented the previous RESP I and was knowledgeable about Bank procurement procedures. The procurement under the project was carried out in line of applicable Bank guidelines in an effective and timely manner (ICR, para 37).

c. Unintended impacts (Positive or Negative)

N/A

d. Other

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12. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development Outcome	Modest	Modest	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Substantial	---

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons

The ICR provided three lessons, based on which, and with some adaptation, this Review identified the following

main lesson:
1. A combination of training of financial institutions on lending appraisal and risk management with training of farmers and rural enterprises on business planning and use of technology is key to increasing lending to the agricultural sector. The project provided training to staff in participating financial institutions on project appraisal, risk assessment, and monitoring to reduce risk aversion of the commercial banks. At the same time, the project trained farmers and agro-processors on preparation of high quality business plans and on adoption of good/ sustainable agricultural practices to increase profitability of investments. These were key to increasing the lending portfolio of the participating financial institutions (PFIs) in the agricultural sector (ICR, paras 73, 85 and 87). By project completion, 57 percent of the PFIs had increased their agricultural portfolio by at least 10 percent per year during the project implementation period, exceeding the target stipulated in the project appraisal document by 42.5 percent (ICR, Data Sheet).
In addition, this Review suggests that the following lesson was also learned:
2. Rural enterprise finance projects should ensure that data on profitability of sub-projects are collected adequately at project completion. Under the project, credit funds were provided to the PFIs for a period of 20 years. All data on sub-projects were kept at these PFIs. The project implementing agency (RRA) for the ICR received data on the profitability of only 14 sub-projects, representing only 2 percent of the total number of enterprises the project's credit funds supported. PFIs refused to give profitability data for more sub-projects on the ground that it was too soon to see the profitability results at the project completion. In addition, it was unknown whether the 14 sub-projects were selected on a random basis. This resulted in a significant gap in evidence on the project efficacy.

14. Assessment Recommended?

No

15. Comments on Quality of ICR

The ICR was concise and presented a substantial body of evidence on the project's achievements. It is generally well written. The discussions on evidence could have been improved by providing more detailed descriptions of relevant definitions and methodologies to allow for an assessment of the credibility of the evidence. Finally the sections on the relevance of the PDOs and relevance of design should have followed the OPCS Guidelines for the preparation of ICRs more closely.

a. **Quality of ICR Rating**
Substantial