



<b>1. Project Data:</b>		<b>Date Posted :</b> 09/30/2003	
<b>PROJ ID:</b> P008513		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name :</b> Kyrgyz Sheep And Wool Improvement Project	<b>Project Costs (US\$M)</b>	16.8	8.4
<b>Country:</b> Kyrgyz Republic	<b>Loan/Credit (US\$M)</b>	11.6	5.8
<b>Sector(s):</b> Board: RDV - Agricultural extension and research (36%), Animal production (28%), Agricultural marketing and trade (28%), Central government administration (8%)	<b>Cofinancing (US\$M)</b>	3.5	2.1
<b>L/C Number:</b> C2859			
	<b>Board Approval (FY)</b>		96
<b>Partners involved :</b> IFAD	<b>Closing Date</b>	06/30/2001	12/31/2002
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
Christopher D. Gerrard	John R. Heath	Alain A. Barbu	OEDST

## 2. Project Objectives and Components

### a. Objectives

The objectives were (1) to increase the profitability and efficiency of sheep and wool farming, (2) to privatize the provision of several services to farmers, including wool marketing and veterinary services, and (3) to improve the management and conservation of natural resource grazing by farmers .

### b. Components

The project had three components (actual expenditures vs. appraisal estimates in parentheses) which include, among other things:

- (a) Sheep private enterprise development (US\$ 1.76 million vs. 5.01 million) -- creating local, regional, and national sheep producers associations and supporting wool and lamb marketing .
- (b) Development of livestock support services (US\$ 3.35 million vs. 6.49 million) -- improving both public and private animal health services and extension services, supporting pasture and fodder research, and supporting pasture monitoring, evaluation, and protection .
- (c) Sheep breeding research support (US\$ 3.32 million vs. 3.99 million) -- improving sheep breeding by introducing new genetics, skills improvement, and upgrading infrastructure at two breeding farms and an artificial insemination center.

### c. Comments on Project Cost, Financing and Dates

Following an agricultural privatization and enterprise adjustment credit (FY95), the project was the first of several agricultural investment operations in the Kyrgyz Republic . Rural Finance I was approved in FY97, Agricultural Support Services (ASSP) in FY98, and Rural Finance II in FY99.

The project was restructured in 1999 without a significant change in the objectives, because the original approach to achieving the objectives was viewed as too complex and fragmented in the light of limited implementation capacity . (QAG rated quality at entry as unsatisfactory .) The restructured focus was on process development (pilots in marketing, forage production, and grazing management), capacity building (strengthening farmers' associations and selected government agencies), and community development (developing community procedures on leasing, quality control, and monitoring).

The original components were also largely retained, but scaled down to focus on gaining experience before mainstreaming. Some sub-components (such as technical assistance and vaccines ) were financed with bilateral grants, the livestock extension sub-component was transferred to the ASSP (actually anticipated at appraisal), and other sub-components were canceled as less relevant in the changed economic environment (declining international wool and meat prices). US\$ 2.4 million was canceled from the IDA credit at restructuring and project closing was extended by 18 months.

OED has rated the project against the original objectives, in accordance with the OPCS guidelines for preparing ICRs, since the project was restructured "without significant changes in objectives" and "because of faulty project

design and poor implementation."

### 3. Achievement of Relevant Objectives:

Each of the three objectives were partially achieved .

The project suffered from being the first IDA-supported agricultural investment project in the Kyrgyz Republic, and in particular, from the lack of understanding at the higher levels of government of the fundamental development objectives of the project and the concept of rural development in general . For example, the Ministry of Agriculture initially regarded the project as a vehicle for improving (wool) sheep farming by sustaining the state research farms and institutions. Only later did the Ministry fully understand that the project was to contribute to the development of the more numerous medium-scale private sheep producers and of the entire sub-sector.

The 1999 restructuring down-scaled many sub-components from mainstreaming to piloting and demonstrating . Nonetheless, many of the physical targets set at appraisal, and down-scaled during the restructuring, were at least partially achieved, and the project has piloted a number of interventions that can now be mainstreamed . The intended institutional development targets have only been partially achieved .

The economic rate of return declined from 57.0 percent at appraisal to 14.6 percent at completion due to (1) the reduced project scope from mainstreaming to piloting and demonstrating, (2) the decline in wool prices from US\$ 4,880/ton in 1995 to US\$ 3,050/ton in 1999 before rising slowly again to US\$ 3,590/ton in 2002, and (3) the decline in the sheep flock from an expected 5.0 million to 1.5 million in 2002.

### 4. Significant Outcomes/Impacts:

(a) The project helped establish the Kyrgyz Sheep Breeders Association (KSBA), a national cooperative which has become an important player in the sheep industry, and 117 local-level Sheep Breeders Groups (SBGs). This cooperative structure is also supported by a workable Law on Cooperatives resulting from the project . The KSBA has introduced a number of innovations, including a system of dual payments for wool and a system of wool grading and quality assessment that provides incentives for better quality and higher prices .

(b) With its focus on sustainable pasture and on developing mechanisms for sustainable tenure at the community level, the project has created capacity for pasture monitoring and mapping, and provided national, oblast, raion, and farm maps of Kyrgyz pastures . The project was also instrumental in the formulation and adoption of the Rangeland Management Law.

(c) The improvement in sheep genetics, through the introduction 290 pure-bred Australian Merino rams and 400 ewes, has led to higher production volume and improved wool quality from the crossbreeds, and has increased the income of sheep producers . The project also helped in formulating an updated national breeding policy .

### 5. Significant Shortcomings (including non-compliance with safeguard policies):

(a) The overall institutional development impact has been modest . Compared to the original project objectives, the project contributed less to institution and capacity building and more to provoking a nonetheless important national dialogue on the direction of the agricultural economy, in which sheep have historically played a major role .

(b) The sustainability of the KSBA and other cooperative structures that have been created has been jeopardized by a lack of working capital, by recent (post-project) decisions by the Ministry of Finance to force the KSBA to retroactively refund certain parts of project investments made in it, and by the apparent unwillingness of the government to support financially the public good functions performed by the KSBA .

(c) The transfer of the extension component to the ASSP was poorly managed, and the extension effort for livestock producers came to a halt when the ASSP start-up was delayed, causing considerable dismay and distrust among farmers. The Ministry of Agriculture regards the decision to go ahead with this transfer as a mistake .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Satisfactory	Moderately Unsatisfactory	The ICR rates outcome as marginally satisfactory (pp. 2 and 5) against the restructured objectives, Measured against the original objectives, as it should according to the ICR guidelines, the project experienced major shortcomings.
<b>Institutional Dev .:</b>	Modest	Modest	
<b>Sustainability :</b>	Unlikely	Unlikely	
<b>Bank Performance :</b>	Satisfactory	Satisfactory	Recognizes the Bank's decision to restructure the project in the face of deficient quality at entry and poor initial implementation
<b>Borrower Perf .:</b>	Unsatisfactory	Unsatisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

**7. Lessons of Broad Applicability:**

- (1) Sectoral investments during a time of major farm restructuring and institutional reform, the outcome of which is not yet clear, are a risky proposition .
- (2) Given that this was the first agricultural investment project in a transition economy, there should have been greater effort to consult with all stakeholders and to instill local ownership of the project's objectives at the outset .
- (3) It is not enough to say that flexibility in implementation can help overcome weaknesses in design . One should try to build flexibility into the implementation and supervision processes, for example, by recruiting technical assistance with consensus-building skills as well as technical skills .

**8. Assessment Recommended?** ☒ Yes ☐ No

**Why?** Both outcome and sustainability ratings are borderline . This should also be assessed as part of a cluster assessment involving the ASSP and Rural Finance projects once the latter have closed . In terms of dollar per head of the rural population, Bank lending exceeded that of any other ECA country . Was this justified?

**9. Comments on Quality of ICR:**

The ICR is complete and candid . There is some confusion as to whether the project had three or four components . Is pasture research and pasture monitoring (discussed on page 11) a fourth component or part of the second component? The apparent acronym for the project -- SDP -- is not in the list of acronyms and first appears out of the blue on page 9. While it corresponds to the project name on the SAR, it does not correspond to the project name on the ICR. The financial data in Annex 2 were incomplete. The absence of data by procurement arrangements and expenditure category made it difficult to get a complete picture of the discussions in the ICR relating to the large initial TA component in the project.