



<b>1. Project Data :</b>		<b>Date Posted :</b> 06/28/2000	
<b>PROJ ID:</b> P008273 <b>OEDID:</b> C2680		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name :</b> Albania Rural Development Project	<b>Project Costs (US\$M)</b>	12.00	12.10
<b>Country:</b> Albania	<b>Loan/Credit (US\$M)</b>	6.00	5.86
<b>Sector, Major Sect .:</b> Other Agriculture, Agriculture	<b>Cofinancing (US\$M)</b>	4.80	5.20
<b>L/C Number:</b> C2680			
	<b>Board Approval (FY)</b>		95
<b>Partners involved :</b> Italy, Switzerland, EU, France	<b>Closing Date</b>	06/30/1999	12/31/1999
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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**2. Project Objectives and Components**

**a. Objectives**

The overarching objective of the project was to scale up a successful, highly participatory pilot (the Rural Poverty Alleviation Pilot Project) into a larger, more widespread operation with formal institutions for longer-term sustainability. The three specific objectives of the project were (1) to promote small farm and off-farm activities and help create a rural market economy, (2) to repair basic rural infrastructure, and (3) to create employment for the rural population and inject cash resources into rural households .

**b. Components**

The project had five components: (a) rural infrastructure works, (b) small-scale rural credit, (c) business and technical advice to promote rural enterprise and support to establish village animal health associations, (d) beneficiary assessments and training and study tours for local government staff, and (e) implementation support to the autonomous implementing agency -- the Albanian Development Fund (ADF), formerly the Rural Development Fund (RDF). The first two components were the two major components, representing 83% of project expenditures at appraisal and 79% at completion.

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

IDA supported 50% of project costs at appraisal and 48.4% at completion. Italy provided 19.0% of project costs at completion, Switzerland 14.9%, the European Union 6.6%, and France 2.5%. The project became effective on schedule (May 1995), and closed only six months late (December 1999), in spite of the civil crisis in 1997 resulting from the collapse of the pyramid schemes, the forced resignation of the old government, and the subsequent election of a new government.

**3. Achievement of Relevant Objectives :**

The project largely succeeded in scaling up the previous pilot, in establishing formal institutions, and in building up institutional capacity for sustained operation . The ADF now has a secure legal basis as an autonomous government foundation, and has succeeded in establishing a solid reputation with the central and local governments, other donors, and beneficiary communities . The ADF substantially met the output targets for both of the two major components (rural infrastructure works and microcredit), although over a somewhat longer time frame than originally envisaged. Having demonstrated its effectiveness, the ADF is now attracting funds from many donors, particularly the EU. The large scale of EU funding and the pressure for fast disbursement may actually be straining the ADF's institutional capacity to the limit.

**4. Significant Outcomes /Impacts:**

- (1) Under the project, the ADF financed 173 sub-projects for rehabilitation of rural infrastructure (compared to the original target of 190), including repairs to roads and bridges, irrigation, water supply, schools, and health centers . The ADF has been particularly effective in technical supervision and in controlling costs, whether the projects were implemented by the local Communes or by the growing number of private contractors .
- (2) The network of village credit funds (VCFs), which was started under the previous pilot, was extended to 116 more

villages (compared to the target of 135), and the number of loans reached the target of 12,000. Most remarkably, this steady expansion survived the 1997 crisis associated with the collapse of the pyramid schemes, with no significant adverse impact on the near-perfect loan repayment performance. The necessary legal and institutional framework for the conversion of the VCFs into sustainable, non-subsidized village savings and credit associations (SCAs) was also completed, including the separation of the ADF credit department and its establishment as a quasi-government foundation, the Rural Finance Fund (RFF).

(3) In collaboration with the Ministry of Agriculture's veterinary service and the village credit committees, the project supplied prophylactic services through 77 veterinarians in 129 villages.

(4) The project carried out two beneficiary assessments to assess the impact of the infrastructure and credit components. These indicate a high level of overall satisfaction and cite benefits of increased trade, economic activity, agricultural production, and employment.

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

(1) While the project succeeded in establishing sustainable institutional arrangements for the program as a whole at the national level, it was less successful in establishing sustainable institutional arrangements for operation and maintenance of individual rural works at the local level. As a result of the time lost due to the 1997 civil unrest and the time pressure to complete the project, the rural works component emphasized the achievement of physical targets for immediate and visible results to the relative neglect of building community ownership and establishing workable plans for long-term operation and maintenance. As many as half of the rural works that were constructed are already experiencing difficulties with operations and maintenance.

(2) There was no formal training or study tours provided to local government staff, only informal training provided by ADF officers under the rural works component.

(3) The small component to promote rural enterprise was not implemented due to lack of demand by villagers and lack of ADF capacity to supply relevant business and technical advice.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Satisfactory	Satisfactory	
<b>Institutional Dev.:</b>	Substantial	Substantial	
<b>Sustainability:</b>	Likely	Likely	
<b>Bank Performance:</b>	Satisfactory	Satisfactory	
<b>Borrower Perf.:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR:</b>		Exemplary	

#### 7. Lessons of Broad Applicability:

(1) It is important to think about establishing long-term institutional and administrative frameworks at the very beginning of a pilot project. It is important to introduce efficient and transparent systems and practices for managing information and accounting very early on in order to facilitate scaling up.

(2) Long-term sustainable operation depends both upon workable institutional frameworks and upon capacity building. For the ADF, competitive selection of staff and highly effective relations with local government bodies have been two critical success factors.

(3) With good institutional design that results in genuine ownership at the village level, it is possible to sustain extraordinary repayment performance in small-scale rural credit schemes, even in very poor and remote villages.

(4) It is important to define key performance indicators and to monitor them closely. Otherwise, there is a tendency for the objectives of the project to shift inadvertently, without an explicit analysis of the implicit trade-offs that are taking place.

#### 8. Audit Recommended? Yes No

**Why?** This project has done a lot of things well, particularly in relation to institutional development, capacity building, and sustainability in the delivery of rural infrastructure and rural finance. There is potential to learn positive lessons of broad applicability for local-level institutional development in rural areas.

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

This was an intensive trade-learning ICR. It is exemplary in many respects, but particularly with regard to the discussion of the various trade-offs that occurred during the process of implementation. However, it is puzzling that there is no reference in the ICR to the 1999 Kosovo crisis, even though the project was not completed until December 1999. Did the Kosovo crisis have no impact whatsoever on the project?

