Republic of Armenia
Rural Areas Economic Development Programme
Project Performance Assessment

Executive summary

1. **Background and objective.** The Rural Areas Economic Development Programme (RAEDP) was the fifth IFAD-funded project in Armenia. It was approved by the Executive Board in December 2004 and completed by December 2009. It aimed at addressing the persistent rural poverty in Armenia, attributed to low productivity, antiquated technology, poor physical infrastructure, lack of knowhow for private enterprise development, and lack of access to medium and long-term loans for investment and working capital.

2. **Design.** RAEDP introduced a risk-sharing mechanism, new for Armenia, and hence rural investment incentives for both banks and clients with various innovative features: i) the establishment of the Rural Finance Facility (RFF), as a vehicle for leveraging private-sector capital in support of poverty reduction; ii) a mechanism that unlocks the door to long-term loans for agricultural and rural development enterprises; and iii) a package including finance, knowhow transfer and an awarding mechanism of grants for investments in public infrastructure based on commercially justifiable criteria.

3. **Components**. RAEDP investments were organized along four components: the Rural Enterprise Finance, through the RFF, the Rural Business Intermediation Service (RBIS), the Commercially Derived Infrastructure (CDI) and the Programme Analysis and Administration Unit (PAAU) component. The largest investments were planned for the loan refinancing facility (Rural Enterprise Finance) and the infrastructure (CDI) component. The business support facility (RBIS) was assigned scant resources, as it was expected to be supplemented by a contribution from the United States Agency for International Development that never materialized.

4. **Relevance.** The project's objectives were relevant to Armenia's strategic priorities, IFAD's country strategy, and the needs of the beneficiaries. At the same time, there were a few design issues within specific sub-components related to pro-poor targeting, poverty impact of infrastructure investments, and provision of technical assistance.

5. **Effectiveness.** The project was effective in producing results. Through establishment of the RFF access of rural small and medium entrepreneurs to short, medium and longer-term investment loans has clearly improved. RFF incentives stimulated financial institutions to embark in rural banking operations; integrated the borrowing rural producers and enterprises into the mainstream of the banking system; and made them more knowledgeable, so as to negotiate for better loan terms. The establishment of RFF introduced a platform on which other donors could (and did) invest in the rural sector. In parallel, CDI invested in a number of rural infrastructure facilities, improving irrigation, natural gas and water supply and road networks in the project areas. The technical (non-financial) support to rural entrepreneurs was not offered as planned due to withdrawal of a co-financing partner.

6. **Efficiency.** Overall, the project was implemented efficiently, some shortcomings notwithstanding. A closer collaboration between the components in promoting farm investment would likely have brought forward the benefits and increased the efficiency of project outcomes.

7. **Impact.** The project left a visible footprint in Armenia's rural areas in many respects. Most prominent is RFF's contribution to enhancing rural enterprise activity and employment. CDI contributed to increasing income and food security, through crop diversification, additional farming produce and commercial activity; while the whole project brought human and social capital improvements.

8. **Sustainability.** The project's sustainability is fairly secured. The RFF is operating self-sufficiently, and CDI maintenance was ceded to technically and financially adept entities.

9. **Innovation and scaling up.** RAEDP successfully accomplished its innovative agenda. RFF proved to be an excellent platform for attracting capital. Possible scaling up of this instrument could focus on developing a scheme to stimulate the insurance and leasing sectors that still remain undersized in Armenia. However, the package including finance, know-how and infrastructure did not develop as intended due mainly to lack of coordination between its components.

10. **Gender.** Principles of funding were expected to ensure preference to job creating investments with emphasis on rural women. The project implementation did not however include any gender focus. Effects, like 37 per cent of the jobs created occupied by women, can therefore be considered incidental.

11. **Recommendations**. RFF's successful operation could be promoted to the next level of operation that would involve assisting the financial sector in developing leasing and insurance related products; and stimulating participating financial institutions towards offering loans on business terms, in local currency; and at an interest rate more favourable to the rural entrepreneur. Refinance targeting should aim at specific focus groups and developmental outcomes. IFAD operations in Armenia should further support the value chain approach, as well as include more activities aimed at increasing public awareness about IFAD programme to improve public participation in infrastructure investment decisions.