



**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board – Sixty-Eighth Session**  
Rome, 8-9 December 1999

**REPORT AND RECOMMENDATION OF THE PRESIDENT**

TO THE EXECUTIVE BOARD ON A PROPOSED FINANCIAL ASSISTANCE TO THE

**REPUBLIC OF ALBANIA**

FOR THE

**MOUNTAIN AREAS DEVELOPMENT PROGRAMME**



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### CURRENCY EQUIVALENTS

Currency Unit	=	Leke (ALL)
USD 1.00	=	ALL 135
ALL 1.00	=	USD 0.0074074

### WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m <sup>2</sup> )	=	10.76 square feet (ft <sup>2</sup> )
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

### ABBREVIATIONS AND ACRONYMS

ADF	Albanian Development Fund
MADA	Mountain Areas Development Agency
MAFF	Mountain Areas Finance Fund
NDRDP	Northeastern Districts Rural Development Project
NGOs	Non-governmental organizations
PY	Programme year
SNV	Netherlands Development Organisation
SSIRP	Small-Scale Irrigation Rehabilitation Project
VCFs	Village credit funds
WUAs	Water users associations

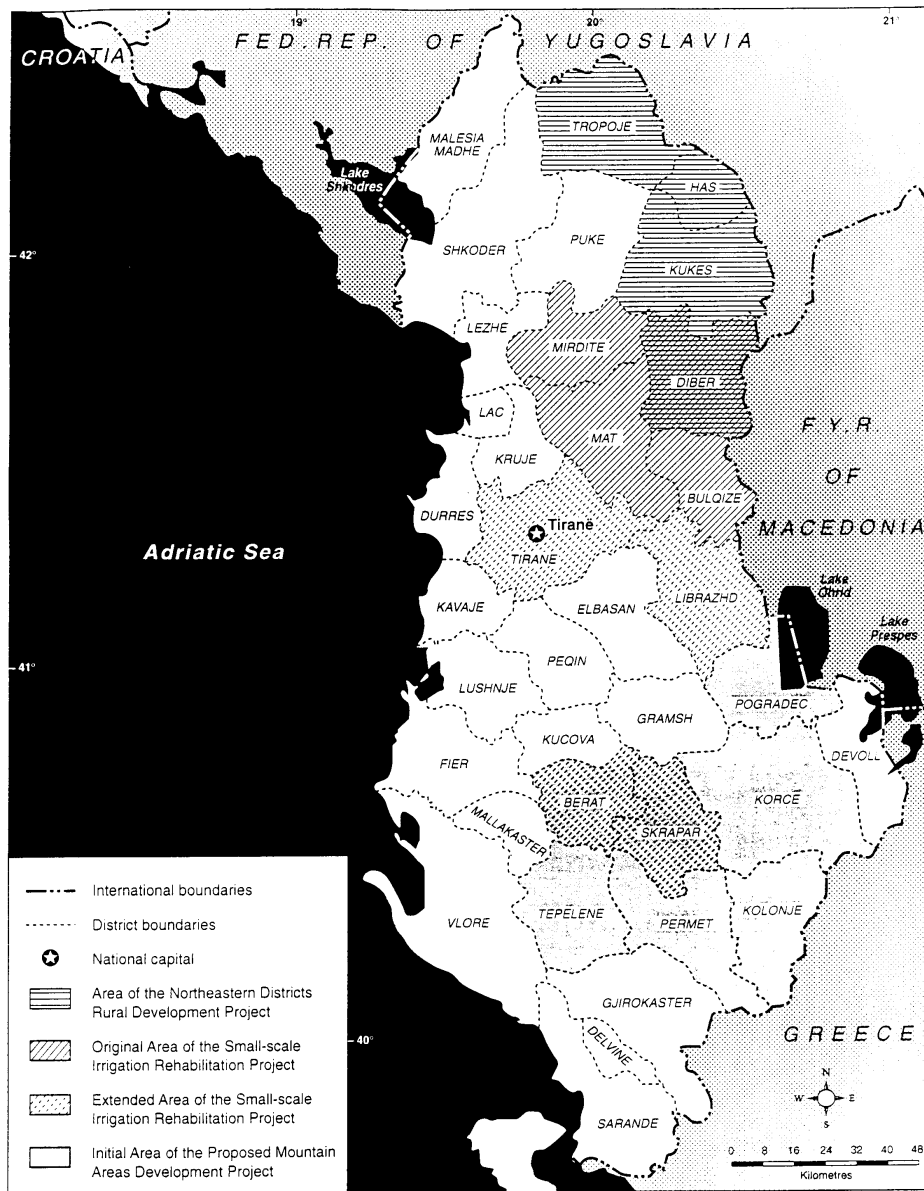
### GOVERNMENT OF THE REPUBLIC OF ALBANIA

#### Fiscal Year

1 January - 31 December



### MAP OF THE PROGRAMME AREA



Source: IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.



**REPUBLIC OF ALBANIA**  
**MOUNTAIN AREAS DEVELOPMENT PROGRAMME**  
**FINANCING SUMMARY**

<b>INITIATING INSTITUTION:</b>	IFAD
<b>RECIPIENT:</b>	Republic of Albania
<b>EXECUTING AGENCIES:</b>	Mountain Areas Development Agency (MADA) Mountain Areas Finance Fund (MAFF)
<b>TOTAL PROGRAMME COST:</b>	USD 23.15 million
<b>AMOUNT OF IFAD LOAN:</b>	SDR 9.60 million (equivalent to approximately USD 13.23 million)
<b>AMOUNT OF IFAD GRANT:</b>	SDR 0.32 million (equivalent to approximately USD 0.44 million)
<b>TERMS OF IFAD LOAN:</b>	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
<b>COFINANCIER:</b>	Netherlands Development Organisation (SNV) (tentative)
<b>AMOUNT OF COFINANCING:</b>	SNV: USD 0.39 million Other cofinanciers: USD 4.22 million
<b>TERMS OF COFINANCING:</b>	Grant
<b>CONTRIBUTION OF RECIPIENT:</b>	USD 2.91 million
<b>CONTRIBUTION OF BENEFICIARIES:</b>	USD 1.24 million
<b>CONTRIBUTION FROM PARTICIPATING FINANCIAL INSTITUTION:</b>	USD 0.72 million
<b>APPRAISING INSTITUTION:</b>	IFAD
<b>COOPERATING INSTITUTION:</b>	United Nations Office for Project Services (UNOPS)



## PROGRAMME BRIEF

Programme activities will initially be focused on fourteen mountain districts of Albania, comprising areas where IFAD already has supported some interventions, as well as seven new districts. Programme services will, in the first stage, be available to about 37 500 families (153 800 people) who are subject to considerable social and economic deprivation. The smallholder in the programme areas owns on average an area of less than two hectare of which 0.75 ha is irrigable. The estimated annual household income from farming in the mountains is about USD 1 150 (less than USD 290/capita). The typical farming family comprises about four persons, cultivates on sloping land, grows cereals, some tree crops like fruit, grapes, potatoes and fodder and owns one cow and about 10 small ruminants. Families often supplement their meagre income from sons working in cities or abroad.

The poverty of the mountain districts is related to farm size, quality of land, market access and lack of off-farm employment. The narrow resource base and limited sources of income should be seen in a context of deteriorating social services and sparse and dilapidated infrastructure. Lack of funding for good quality inputs like seeds and capital equipment are relegating smallholders to a low level of production; processing facilities still need to be further developed to ensure that the primary producer obtains a fair share of the marketed output. The recent crisis in Kosovo precipitated a tide of refugees into Albania. Nearly 300 000 of an estimated half a million people were housed in private homes, adding to the strain on the family economy and the infrastructure system in the programme area.

The goal of the programme is to raise the standard of living of people in the poor mountain areas through increased agricultural production and productivity, better household food security, increased incomes from agricultural and related rural enterprises, and improved infrastructure. Based on the experience gained from the two interventions previously financed by IFAD in Albania, and realizing that the establishment of an appropriate permanent coherent delivery mechanism is indispensable in transitional economies, the programme will establish a Mountain Areas Development Agency (MADA). The MADA will be in charge of programming, planning, fund management and the provision of informational, technical, financial and managerial support for mountain areas development. It will operate synergetically and contract existing agencies, non-governmental organizations (NGOs) and the private sector for works to be carried out according to priorities defined by the beneficiaries. The initial activities to be supported by MADA comprise: (a) provision of rural financial services, including social lending to group-based village credit funds (VCFs), agricultural input loans through small trader associations and loans for specialist production like seed processing and agro-processing; (b) support for rural infrastructure, most notably rehabilitation of small gravity-irrigation schemes, formation of water users associations (WUAs), rehabilitation of feeder roads and domestic water supply; and (c) support to primary agricultural production in terms of pasture management, veterinary care and assistance for crop and livestock production.

Beneficiaries will be involved in the final design and implementation of small irrigation schemes as members of WUAs, in the production of seeds as members of seed growers associations, and as members of VCFs or for the rural finance services component.



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TO THE EXECUTIVE BOARD ON A PROPOSED FINANCIAL ASSISTANCE TO THE  
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MOUNTAIN AREAS DEVELOPMENT PROGRAMME**

I submit the following Report and Recommendation on a proposed financial assistance to the Republic of Albania, comprising a loan for SDR 9.60 million (equivalent to approximately USD 13.23 million) on highly concessional terms and a grant of SDR 0.32 million (equivalent to approximately USD 0.44 million) to help finance the Mountain Areas Development Programme. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

**PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY<sup>1</sup>**

**A. The Economy and Agricultural Sector**

1. With about 3.3 million inhabitants, Albania is a small, predominantly rural economy. It covers a total land area of 27 400 km<sup>2</sup>. In 1997, 63% of the population lived in the countryside and agriculture provided half of the total employment and 60% of GDP. Rural population density is as high as 350 people per km<sup>2</sup>. The recent crisis in Kosovo precipitated a tide of some 500 000 refugees into Albania, most of whom have now returned to their homes. The influx of refugees, however, put great strains on Albanian households and the infrastructure system.

2. Following 50 years of almost complete isolation, reforms were initiated in 1991 after years of economic decline. The confused initial phase of the transition brought an even sharper downfall. By 1992, output was reduced to half of its 1989 level, inflation accelerated to 250% and the current account deficit equalled two thirds of GDP. The population was saved from famine during this period by an international emergency food programme financed mainly by Italy. In response to a rapid distribution of agricultural land and other liberalization efforts in agriculture, retail trade and small enterprises, growth resumed at double-digit rates during 1993-1995. During this period Albania embarked on comprehensive macroeconomic stabilization and structural adjustment programmes. Inflation and external imbalances were reduced; the latter strongly helped by remittances from large numbers of people who had left the country to work abroad. Continued growth in 1996 resulted from a fiscal expansion and the so-called 'pyramid schemes'. The collapse of the schemes in 1997 triggered a social crisis that brought the country to the brink of civil war and caused a significant worsening of macroeconomic performance, with GDP declining by 7%, inflation rising to 30% and the current account deficit climbing to 13% of GDP.

3. The international community and the Government initiated a recovery programme in 1997 to improve governance, strengthen institutions, introduce necessary social and economic policy measures, and restart the economy. Under the programme, Albania quickly restored macroeconomic stability. In 1998 a second International Monetary Fund (IMF)-supported Enhanced Structural

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<sup>1</sup> See Appendix I for additional information.





Adjustment Programme was successfully introduced, which aimed at fiscal consolidation and structural reform. GDP growth resumed at 8% in 1998 and is projected at 8-10% during 1999-2002. Inflation was reduced to 20% in 1998, with projected rates of 7% (1999), falling to 3% in 2002. GDP per capita was estimated at USD 760 in 1997.

4. The recovery of agricultural production was the result of early land reform, privatization and price liberalization for the sector. Beginning in 1993, land and other assets of 550 state and cooperative farms were transferred to the rural population. The land reform, largely completed by 1996, resulted in the establishment of about 470 000 small family farms with an average size of 1.3 ha and composed of four parcels of land. In 1991, the agricultural sector contracted by 17% relative to its 1989 level. However, the following year the decline was converted to an 18% growth rate. Agriculture has since continued to expand at an average annual rate of about 10% and growth was maintained in 1997 despite the national crisis. There are indications though that the sector is now stagnating. The expansion of the agricultural sector since the early phases of the transition has allowed it to act as an income and employment safety net for the overall economy, absorbing part of the large number of people released by the 75% contraction experienced in the industrial sector since 1989.

5. Albania's main agricultural exports are tobacco and fish products. The main agricultural import is wheat. Prior to transition, the country was self-sufficient in wheat, which was produced throughout the country without regard to costs. Albania now produces about half of the national requirement of wheat. The reduced production is largely a consequence of farmers in mountain areas having abandoned wheat production in favour of forage production for livestock. Other main agricultural imports are fruits, vegetable oils and meat. There are good prospects for increasing production of these three categories of products, initially as import substitutes, and possibly later for exports as market access and quality permit.

6. Until recently, farmers tended to adopt a subsistence approach to farming with the aim of producing enough wheat, for their own consumption and relying on livestock to generate limited cash income. Crop production takes place with very low application of improved seeds, fertilizers and other inputs and current yields are only about one half of their potential. The state of disrepair of the irrigation infrastructure limits the financial viability for farmers of increasing yields through increased application of purchased inputs. Re-establishment of orchards, vineyards and plantations is beginning, particularly in the mountain areas, but these activities are constrained by the lack of credit. The degree of rural poverty depends primarily on farm size, quality of land, market access and access to off-farm employment.

## **B. Lessons Learned from Previous IFAD Experience<sup>2</sup>**

7. IFAD's support to agricultural and rural development in Albania has been based upon a 'marginal areas development strategy' tailored to meet local requirements. Consequently, the first two projects financed by IFAD, the Northeastern Districts Rural Development Project (NDRDP) and the Small-Scale Irrigation Rehabilitation Project (SSIRP) focused upon eleven of the poorest mountain districts in the north-eastern and eastern part of the country. The projects provide support to local government, small-scale rural infrastructure rehabilitation, notably roads and village water supplies; access to small village-based rural financial services; veterinary prophylaxis; and small-scale irrigation rehabilitation with associated development of water users associations (WUAs).

8. The NDRDP was designed as an integrated development effort in which investments were intended as a series of complementary activities. The coordination of activities implemented by different government and autonomous agencies is the responsibility of a non-executive project coordination unit located in the project area. However, coordination has proved difficult to achieve

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<sup>2</sup> See Appendix II for additional information.



among agencies, which have been hierarchically disposed towards institutions at the central level. In contrast, a subsector approach for SSIRP has been adopted with activities guided by a project implementation unit with direct management authority. The project's focus on the single activity of irrigation scheme rehabilitation and formation of WUAs, however, has reduced the scope for synergistic developmental effects. Other principal lessons learned from existing IFAD interventions are: (a) public-sector agricultural and rural development institutions are severely limited by fiscal and manpower development constraints; (b) institution-building requires a longer time frame than that normally provided by a project approach; (c) socio-economic marginality of poor people in Albania requires financial, technical and managerial support to a bundle of complementary development activities if a significant impact is to be achieved; and (d) there is a continuing need to establish a sustainable institution for the delivery of financial services to clients in marginal, mountain areas. In spite of the difficult circumstances prevailing in Albania for the last six years, the projects have obtained some notable results in terms of rehabilitation of nearly 200 infrastructural schemes, the formation of 50 WUAs and establishment of 64 village credit funds (VCFs).

### C. IFAD's Strategy for Collaboration with Albania

9. **Albania's policy for rural poverty eradication.** Government strategy and policies for rural poverty eradication have been and will continue to be shaped by the goals of minimizing public expenditure and improving social and economic stability. Particular attention is being given to accelerating the transformation of the post-transition regression into subsistence farming into a more modern, diversified and market-oriented rural economy. Government strategy combines structural reform and social assistance. Reforms include: (a) privatization of agricultural input supply channels and other services, e.g. extension and veterinary support; (b) rehabilitation, development and support to scheme-users of irrigation systems; (c) continued restructuring of the financial sector and improved access for agricultural and rural enterprises to financial services; and (d) establishment of an effective marketing system. Social assistance consists of a targeted income transfer programme, the *Ndhima Ekonomika*, which makes cash payments to families whose income is insufficient to meet minimal subsistence requirements. Up to 35% of all households in poor mountain areas rely on such payments, which have been declining due to budget cuts.

10. **The poverty eradication activities of other major donors.** Apart from IFAD, the major donors engaged in poverty eradication in Albania's rural sector are the World Bank, the Islamic Development Bank (IsDB), the United Nations Development Programme (UNDP), The Netherlands, the United States Agency for International Development and Germany. The World Bank, IFAD and IsDB have supported the Albanian Development Fund (ADF) for the construction of small, labour-intensive rural infrastructure schemes in rural areas. In partnership with IFAD and the Government, UNDP has provided institutional development assistance for sustainable water management and The Netherlands through the Netherlands Development Organisation (SNV) has assisted in developing WUAs at the field level in conjunction with the IFAD-financed SSRIP. In addition, The Netherlands has provided initial support for the development of a national extension system. USAID is supporting the development of a private dealer network for agricultural inputs through the International Fertilizer Development Centre and assistance for dairy-for-rural-women processing through Land O'Lakes International. The United States Agency for International Development (USAID) has also supported land registration activities. The Government of Germany is financing projects for marketing support, training for rural enterprise and dairy development. It is foreseen that the proposed programme will draw upon and complement these initiatives.

11. **IFAD's strategy in Albania.** Loss of employment in the industrial and manufacturing sectors, and the collapse of state agricultural structures and land reform led to a plethora of very small fragmented farms which, although often non-viable as enterprises, were nevertheless essential sources of food. With recent and growing recovery in the non-agricultural sectors of the economy, there is now scope even under mountain conditions for establishing rational, resource-efficient and productive



farm enterprises that can be sustained under conditions of a mixed economy. The realization of its full potential to alleviate poverty and provide a tolerable standard of living to people in these areas will depend upon careful and skilful resource management, appropriate and coordinated support services, diversification and producer understanding of the parameters of an enterprise culture. IFAD seeks to make a contribution to the institutional, financial and technical means needed to meet these requirements. Simultaneously, IFAD aims at filling two institutional gaps in Albania's present efforts at mountain areas development, namely a regional planning and programming facility for efficient resources and secondly a sustainable financial entity for credit delivery.

12. It is intended that the Fund's accumulated support to essential national-level bodies and field-level development in no less than fourteen of the twenty-one mountain districts will lay a firm foundation for effective mountain areas development and attract the interest of other financiers and agents. In view of the limited institutional capacity in Albania and in line with IFAD's corporate strategy, the programme makes use of existing institutions and implementation arrangements of other donors, non-governmental organizations (NGOs) and IFAD's previous interventions. The sustainability of the initiatives undertaken will be ensured through a focus on institution-building, involvement of the private sector and active beneficiary participation. Given the high level of male migration for temporary employment, IFAD will actively promote women's access to proposed investment.

13. **Programme rationale.** The programme will move Albanian mountain areas development from a project to a programme approach. The design of the programme takes into account the following considerations: (a) the improvement of household food security and nutrition; (b) the replacement of the *ad hoc* spot application of area-based subsector projects with a medium to long-term programmatic view of mountain areas development that allows for development based upon a rational and synergistic portfolio of investments; and (c) the need for local empowerment through the promotion and establishment of small-scale private enterprises using a demand-driven approach to investment, strengthening of local technical and managerial capability and provision of facilitative finance.

## PART II - THE PROGRAMME

### A. Programme Area and Target Group

14. The programme will build upon, consolidate and extend the achievements of NDRDP and SSIRP, and in its first phase, also provides finance for the agricultural and rural development of five further poor mountain districts in the south of the country, namely Pogradec, Korce, Kolonje, Permet and Tepelene. Skrapar and the mountain areas of Berat, already included under the SSIRP extensions, will also be included in the programme's first phase. These fourteen districts include eight of the eleven, with more than 80% of their area classified as mountainous, namely Tropoje, Has, Kukes, Diber, Bulquize, Librazhd, Skrapar and Kolonje, and six of the ten districts with 50-80% of mountain areas. These are Pogradec, Korce, Permet, Mirdite, Tepelene and Mat. In addition, active consideration is being given to incorporating Puke into the areas covered by the proposed Mountain Areas Finance Fund (MAFF).

15. The average farm size of the target group is about one hectare, often not enough to support the average farm family of four persons. The typical cropping pattern of mountain farms in the proposed programme area comprises cereal crops, which are the most important, and cover 46% of the total cultivated area, followed by tree crops including vineyards (23%) and fodder (22%), being mainly alfalfa. Vegetables, including white beans and potatoes, play a minor role and together cover only 8% of the cropped area. The cropping intensity of mountainous districts ranges between 57 and 75%, and is an indication of the presence of abandoned infertile land and of the difficulties of farming the more heavily sloped land. Yields are far below the potential of the cultivated varieties as a result of the poor



quality of seed, climatic conditions, irregular and limited irrigation water supply and limited use of inputs, in particular fertilizer. Livestock is an important part of the farming system; a household typically owns one cow and some ten small ruminants. Livestock is fed with hay from cultivated fodder, maize and by-products of cereals and other crops during winter and is grazed on communal alpine pasture during summer.

16. The formal legal position of rural women in Albania is comparable with that of most European countries. They are entitled to vote, provided they are citizens over the age of 18, to free primary and secondary education, not to be discriminated against in employment, and to have maternity leave, child-care and sickness benefits and a state pension. However, the position of rural women in Albania is changing. During the socialist period women had equal status with men in working and earning in the cooperatives or state farms. That situation has now been transformed into a system of family-run farm business with an associated reversion, to a certain degree, to the old patriarchal customs being applied to women's position and status in the family.

17. In the first phase, the programme's priority target group include 37 500 farm families operating in the mountain areas and owning not more than 2.5 ha of arable land, of which not more than 0.75 ha is irrigable.

### **B. Objectives and Scope**

18. The overall goal of the proposed programme is to raise the standard of living of poor mountain areas people through increased agricultural production and productivity, better household food security and nutrition, increased incomes from agricultural and related rural enterprises, and improved infrastructure. Objectives subsumed under this goal include: (a) establishment of an agency for mountain areas development capable of elaborating a resource-efficient development programme for Albania's mountain areas, providing effective technical, financial and managerial support for its realization; (b) establishment, using experience gained under NDRDP and SSIRP, of a sustainable financial institution for the disbursement of credit to rural mountain areas clients, with the characteristics of a purely financial body, operating principally at the wholesale or secondary level as a provider of credit to producer groups and associations, and offering both the Government and other donors a channel for credit targeted to the mountain areas; (c) provision of sustainable and equitable use of irrigation water vital to the livelihoods of poor mountain areas farmers; (d) support to farmers in mountain areas in their major agricultural income-generating activity, i.e. livestock production, through the development of improved veterinary services and a sustainable pasture management system; (e) development of a demand-driven extension system that will support farmers and processors in the development of their livestock and crop enterprises; and (f) facilitation of market-oriented agriculture and improved standards of living by alleviating small infrastructure bottlenecks through the construction or rehabilitation of roads and village water supplies.

### **C. Components**

19. The proposed programme will have four components:

- (a) **Programme management.** In order to ensure a systematic impact, the programme will establish a Mountain Areas Development Agency (MADA), which will be a small facility for programming and planning and fund management. The MADA provide informational, technical, financial and managerial support for mountain areas development. It is envisaged that the MADA will develop into a pivotal organization for financial institutions, development agencies and businesses interested in mountain areas development. The MADA will act as a broker between development finance for mountain areas and sources of technical competence relevant to mountain areas development. Its main *modus operandi* will be to contract out and supervise work, promoting enterprise, efficiency and accountability. Four units, i.e. legal and financial, technical, group



development and information (including monitoring and evaluation), will be established under the auspices of the MADA. In addition, four small field offices will be established in the programme area. Provisions has been made for logistical support and local and international technical assistance for the four units and programme management.

- (b) **Rural credit.** In accordance with Albanian law, the programme will establish the MAFF established as a non-banking financial foundation. The MAFF will provide social and agricultural production credit on a sustainable basis to clients living and working in poor, marginal mountain areas. The operations of the MAFF will build upon and consolidate the rural financial service activities supported under the IFAD-financed NDRDP and complement interventions supported by the World Bank. The World Bank has recently withdrawn its support for rural financial services from the poor mountain areas and is focusing on higher potential low land areas. To service the needs of the target group and the programme area, the MAFF will develop a range of credit products including: social lending to existing and future group-based VCF; agricultural input loans through small traders associations; and loans for specialist producer associations and small-scale agro-processors. Provision has been made for technical assistance and logistical support for the MAFF under the programme.
- (c) **Rural infrastructure.** The MADA will finance the rehabilitation of up to 6 400 ha of small-scale, gravity-fed irrigation, including 4 760 ha served by reservoirs and 1 640 ha supplied by river intakes. Rehabilitation will include improvement of intake structures and/or reservoirs, main and secondary canals, repair and replacement of linings and construction of water-control structures. In addition, the programme will finance the rehabilitation of approximately 40 rural roads and village water supply subprojects in the mountain areas of the initial seven programme districts in response to the request from their respective communities. The rural roads will be financed where their absence is a serious constraint to better agricultural production and local economic development. Similarly, village water supplies will be undertaken where no alternative financing agencies can be found and where there is a demonstrably significant social benefit to be gained. Investments will be geographically distributed among districts according to ADF targeting methodology that includes population and poverty indicators and is complementary to irrigation rehabilitation works undertaken by the programme.
- (d) **Agricultural development.** In line with expressed needs of the farmers in the mountain areas, the initial phase of the agricultural development programme will include: (a) development and implementation of community management plans for pasture and forest land used for livestock production; (b) provision of funds for a comprehensive testing and vaccination programme for cattle and small ruminants against the major zoonotic diseases; (c) support for the development of private veterinary services; and (d) provision of extension services. The community pasture and forest management activities will involve the transfer of user rights to the communities, assisting in the formation of village pasture/forestry user associations, and preparing and implementing a management plan. Ten communes, i.e. 100 villages, will participate. The programme's veterinary activities will enhance and strengthen the Ministry of Agriculture and Food's ability to meet its statutory responsibility for the control and eradication of tuberculosis, brucellosis and anthrax. In addition, private veterinarians will be contracted using a methodology developed and proven under the NDRDP to provide animal health care to 300 villages under a contract with an NGO. For agricultural extension a demand-driven system will be developed in response to farmers' stated needs. Contrary to previous practice, extension support to district agricultural offices or any other participating partner in the programme will be based on articulated demands and a thorough needs assessment. The system will take into consideration elaboration of strategies and policies by MADA



and the provision of credit by MAFF with respect to vineyard production and dairy production and seed production in the mountain areas. In this regard, provision has been made for studies and pilot programmes. An agricultural extension fund in MADA will finance on-farm demonstrations, farmer-training programmes and studies. National technical assistance or NGOs will be contracted for this purpose.

#### **D. Costs and Financing<sup>3</sup>**

20. **Costs.** Total programme costs are estimated at USD 23.15 million (ALL 3.26 million), including price and physical contingencies of USD 1.91 million. The foreign exchange element is estimated at 24% (USD 5.62 million) of total costs. Costs include identifiable taxes estimated at USD 2.80 million. Total costs are summarized below in Table 1.

21. **Financing.** Together, the IFAD loan of USD 13.23 million and grant of USD 0.44 million will finance 59% of total costs. The loan will primarily finance MADA, MAFF, irrigation rehabilitation and community pasture and agricultural development in the programme's initial phase. The grant will be utilized for institutional development and support for MADA and MAFF. Beneficiaries will contribute approximately USD 1.24 million to the rural infrastructure component as well as to the private veterinary services and agricultural extension sub-components. The Government will contribute USD 2.91 million, including foregone duties and taxes (12%), and cofinanciers will contribute USD 4.61 million (19%) for irrigation rehabilitation, rural works, private veterinary services and extension services, as well as for technical assistance in other components. This amount will be needed beginning at the end of programme year (PY) 2. All programme activities are exempt from taxes and duties. The SNV has expressed its intention to cofinance USD 0.39 million for the proposed MADA field units at Korce in the south and Peshkopia in the north of the programme area. In addition, the German Agency for Technical Cooperation has offered to provide technical assistance to MAFF operations in the areas of staff training and development of the legal framework for rural financial services and support for marketing. It is envisaged that when the programme is fully operational, it will serve as an important mechanism to channel finance for the stabilization funds for the Balkans currently being established by various European Union (EU) countries.

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<sup>3</sup> See Appendix IV for additional information.

**TABLE 1: SUMMARY OF PROGRAMME COSTS<sup>a</sup>**  
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
<b>A. Programme management</b>	2 873.8	1 758.3	4 632.1	38	22
<b>B. Rural credit</b>	2 941.7	859.5	3 801.2	23	18
<b>C. Rural infrastructure</b>					
Small-scale irrigation rehabilitation	5 061.4	1 298.5	6 360.0	20	30
Rural works	2 261.6	603.6	2 865.2	21	13
<b>Subtotal</b>	<b>7 323.0</b>	<b>1 902.1</b>	<b>9 225.1</b>	<b>21</b>	<b>43</b>
<b>D. Agricultural development</b>					
Community pasture and forest management plan	1 050.0	-	1 050.0	-	5
Veterinary support	378.8	147.0	525.8	28	2
Private veterinary services	1 029.9	72.8	1 102.8	7	5
Agricultural extension	420.5	471.5	892.0	53	4
<b>Subtotal</b>	<b>2 879.2</b>	<b>691.3</b>	<b>3 570.5</b>	<b>19</b>	<b>17</b>
<b>Total base costs</b>	<b>16 017.7</b>	<b>5 211.2</b>	<b>21 228.9</b>	<b>25</b>	<b>100</b>
Physical Contingencies	566.6	187.5	754.1	25	4
Price Contingencies	935.1	227.9	1 163.0	20	5
<b>Total programme costs</b>	<b>17 519.4</b>	<b>5 626.6</b>	<b>23 146.0</b>	<b>24</b>	<b>109</b>

<sup>a</sup> Discrepancies in totals are due to rounding.

**TABLE 2: FINANCING PLAN<sup>a</sup>**  
(USD '000)

Components	IFAD Loan		IFAD Grant		SNV		Other Cofinanciers		MAFF		Government		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
<b>A. Programme management</b>	2 881.4	59.5	290.0	6.0	385.5	8.0	900.1	18.6	-	-	384.6	7.9	-	-	4 841.4	20.9	1 814.6	2 642.3	384.6
<b>B. Rural credit</b>	2 301.1	59.1	150.0	3.9	-	-	390.8	10.0	716.5	18.4	334.4	8.6	-	-	3 892.9	16.8	898.6	2 659.9	334.4
<b>C. Rural infrastructure</b>																			
Small-scale irrigation rehabilitation	5 411.5	75.0	-	-	-	-	219.2	3.0	-	-	1 299.1	18.0	287.2	4.0	7 217.1	31.2	1 447.8	4 555.7	1 213.5
Rural works	-	-	-	-	-	-	2 241.9	66.6	-	-	587.6	17.5	535.7	15.9	3 365.2	14.5	717.4	2 060.3	587.6
<b>Subtotal</b>	<b>5 411.5</b>	<b>51.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2 461.1</b>	<b>23.3</b>	<b>-</b>	<b>-</b>	<b>1 886.7</b>	<b>17.8</b>	<b>822.9</b>	<b>7.8</b>	<b>10 582.3</b>	<b>45.7</b>	<b>2 165.2</b>	<b>6 616.0</b>	<b>1 801.1</b>
<b>D. Agricultural development</b>																			
Community pasture and forest management plan	1 138.2	100.0	-	-	-	-	-	-	-	-	-	-	-	-	1 138.2	4.9	-	1 138.2	-
Veterinary support	454.7	80.0	-	-	-	-	-	-	-	-	113.7	20.0	-	-	568.4	2.5	158.9	295.8	113.7
Private veterinary services	404.3	35.0	-	-	-	-	277.7	24.0	-	-	55.9	4.8	418.6	36.2	1 156.5	5.0	79.7	1 020.9	55.9
Agricultural extension	636.0	65.8	-	-	-	-	194.3	20.1	-	-	136.1	14.1	-	-	966.3	4.2	509.7	320.6	136.1
<b>Subtotal</b>	<b>2 633.2</b>	<b>68.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>472.0</b>	<b>12.3</b>	<b>-</b>	<b>-</b>	<b>305.6</b>	<b>8.0</b>	<b>418.6</b>	<b>10.9</b>	<b>3 829.4</b>	<b>16.5</b>	<b>748.3</b>	<b>2 775.5</b>	<b>305.6</b>
<b>Total disbursement</b>	<b>13 227.2</b>	<b>57.1</b>	<b>440.0</b>	<b>1.9</b>	<b>385.5</b>	<b>1.7</b>	<b>4 224.0</b>	<b>18.2</b>	<b>716.5</b>	<b>3.1</b>	<b>2 911.3</b>	<b>12.6</b>	<b>1 241.5</b>	<b>5.4</b>	<b>23 146.0</b>	<b>100.0</b>	<b>5 626.6</b>	<b>14 693.7</b>	<b>2 825.7</b>

<sup>a</sup> Discrepancies in totals are due to rounding.





### **E. Procurement, Disbursement, Accounts and Audit**

22. **Procurement.** All goods and services to be financed from the proceeds of the loan and grant will be procured in accordance with IFAD's procurement guidelines, while cofinanciers will procure according to their own guidelines. Contracts above USD 25 000 for goods and equipment will be awarded through international shopping procedures based on comparing quotes from at least three suppliers from three eligible countries, or through national competitive bidding procedures. National competitive bidding will be used for irrigation rehabilitation and rural works in accordance with national guidelines as practised under SSIRP. Technical assistance and training services will be engaged in accordance with cooperating institution procedures. Contracts below USD 25 000 will be awarded on the basis of local shopping or direct contracting procedures. All contracts above USD 25 000 will be reviewed by the cooperating institution prior to signature.

23. **Disbursement.** The proposed IFAD loan of USD 13.23 million equivalent and IFAD grant of USD 0.44 million will be disbursed over a six-year period. Withdrawals from the loan and grant accounts will be effected in accordance with procedures acceptable to IFAD. The Ministry of Finance on behalf of the borrower will open three special accounts in United States dollars at a bank acceptable to IFAD to finance activities carried out by MADA and MAFF. The initial deposits from the IFAD loan account into two of the special accounts will be equivalent to six months of estimated disbursements for all components in PY1, or USD 1.00 million. An initial deposit of USD 200 000 from the IFAD grant account will be made into the third special account for the technical-assistance support for MADA and MAFF.

24. **Accounts and audit.** MADA and MAFF will establish and maintain separate programme accounts consistent with generally accepted accounting principles. Programme accounts and all separate accounts of implementing partners will be audited annually by a recognized audit firm acceptable to IFAD. The auditing firm will audit all the statements of expenditure and the activity of the special accounts. The auditing firm will issue a specific opinion on the programme's contracting procedures to implementing partners and the accountability of such partners and the management of programme resources by them. The annual audit report of the consolidated financial statements will be submitted to the Government and IFAD within four months of the close of the fiscal year.

### **F. Organization and Management<sup>4</sup>**

25. **Overall approach.** The responsibility of programme management will be entrusted to MADA who will contract with implementing partners. Potential implementing partners identified for carrying out the first phase of the programme include: the District Directorates of Agriculture of the Ministry of Agriculture and Food, SSIRP, ADF, SNV, Land O'Lakes International, the Albanian Fertilizer and Agricultural Inputs Development Association, the Albanian National Seed Potato Association and the Irish League of Credit Unions.

26. **Programme organization.** The programme will be implemented through annual work plans and budgets approved by the Board of Directors of MADA. The Board of Directors will be chaired by the Minister of Agriculture and Food and shall guide the overall operation of MADA and approve any amendment to MADA's operational manual to be developed in the course of the first year of programme implementation. The MAFF will be administered in accordance with its statutes that have already been approved by the Government and through a subsidiary financing agreement between the Ministry of Finance and MAFF, acceptable to the Government and IFAD. The MAFF will function purely as a financial wholesale mechanism for the provision of services to VCFs and producer organizations. Support for borrower group development and supervision as well technical services will be provided by MADA.

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<sup>4</sup> See Appendix V for additional information.





27. The SSIRP will implement the irrigation sub-component according to an implementation agreement with MADA. In order for SSIRP to carry out the work, provision will be made for incremental operating expenses and the establishment of six small field offices in the programme area. Beneficiary farmers will be obliged and assisted to form WUAs and have the management of schemes handed over to them before the execution of any work under programme auspices. They will subsequently participate fully in the design and rehabilitation of their irrigation schemes. The MADA will contract ADF to execute the small infrastructure projects according to ADF procedures. Hence, villages will select subprojects and submit them for approval to ADF through communes. Selection will be based on three main criteria: (a) technical feasibility; (b) socio-economic criteria, including the number of beneficiaries, investment cost per user, benefits and security of maintenance arrangements; and (c) investment budget per district. The communes will assist the users to form users' committees for each subproject. The committee will comprise a minimum of five persons (with at least one woman) elected by the users.

28. The community pasture and forest management sub-component will be contracted by MADA to the ongoing World Bank Forestry Project. The ten beneficiary communes will be selected on the basis of demonstration of interest and socio-economic criteria. These include agricultural land area per family, livestock numbers and structure, family income, and the degree of fuel wood and fodder shortage. The Veterinary Service of the Ministry of Agriculture and Food will be responsible for the implementation of the programme for control of zoonotic and epidemic diseases. Private veterinarians will be contracted to carry out the testing and vaccination programme. Responsibility for implementing programme support to private veterinary services will be contracted to an existing NGO with experience in the field of veterinary health care. Full cost recovery will gradually be introduced. Veterinary services will be offered in villages where VCFs have been formed and where the majority of the loan portfolio is for livestock. In response to the stated extension needs of potential beneficiaries, MADA will develop strategies for pasture management and development of vineyard production, dairy production and seed production in the mountain areas. Follow-up studies and pilot programmes will be contracted to independent specialists, NGOs or other qualified agencies. Eligible applicants of the MADA extension fund will be farmer/producer groups and associations, private traders and small agri-businesses such as seed producers. For each activity, it is expected that the participants will provide 50% of the costs, while the balance will be provided as a matching grant through MADA.

29. **Reporting, monitoring and evaluation.** All implementing agencies will provide semi-annual progress reports to MADA, which will compare physical and financial results with the approved programme of work. On the basis of these reports MADA will prepare a consolidated six-monthly report to be sent to MADA's Board of Directors and IFAD for information. At the end of the year, all implementing agencies and MADA will prepare an annual report on physical and financial progress and impact.

30. Monitoring will be the responsibility of MADA. Following presentation to IFAD's Executive Board, a sharply focused monitoring system will be developed. The main monitoring indicators, the means to verify them and the methods of data collection, will be defined on the basis of the logical framework for the programme<sup>5</sup>. The monitoring system will seek to involve beneficiaries in monitoring and reporting on the progress of individual components as well as to capture programme impact in a systematic manner. To this end, a series baseline studies will be carried out in the first year of programme implementation. Evaluation will be carried out continuously by MADA with support from technical assistance and based on results obtained from the monitoring system. A review by the Government and IFAD to assess programme progress and impact is scheduled at the end of PY2.

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<sup>5</sup> See Appendix III for additional information.



## G. Economic Justification<sup>6</sup>

31. The availability of reliable irrigation and credit to purchase inputs are expected to increase crop yields by about 50% at full development, while the improved veterinary care and feeding as well as credit for animals are expected to increase livestock yields by some 70%. At full development, the programme will lead to incremental production of about 15 500 t of vegetables, 730 t of potatoes, 18 000 t of alfalfa, 3 600 t of maize, 20 000 t of grapes and 18 000 t of apples. Incremental livestock output will include an additional 3 830 t of meat and 27.1 million litres of milk. Since Albania is a food-deficit country, there will be sufficient demand for increased production. In the first phase programme area, the direct beneficiaries will include some 37 500 farm families, i.e. about 153 800 people or 42% of the area's rural households benefiting from the irrigation rehabilitation and agricultural development components, and 400 producer groups, traders' associations or small specialist producers benefiting principally from the rural credit component. Additional beneficiaries from the rural credit component will include about 6 000 VCF members in the NDRDP and SSIRP project areas.

32. Incremental household incomes can be expected to increase by a low of USD 300 for farms participating only in the improved livestock activities, up to as much as USD 2 300 for farmers investing in orchards. Farm and enterprise models show a financial return of more than 30%.

33. An economic analysis of the programme has been undertaken for those benefits that are directly quantifiable, i.e. increased production, from the 37 500 smallholders benefiting under the first phase of the programme, giving an economic rate of return (ERR) of 37%. This rate of return reflects the considerable sunk costs in existing irrigation infrastructure and the fact that the existing use of agriculture inputs is very low. The ERR was tested for sensitivity to changes in the levels of costs and benefits, as well as the timing of the benefit flow. The ERR is resilient to changes in both the cost and the benefit levels.

34. The proposed programme offers a number of options for women's social and economic development. The programme's support to crop and livestock production will enhance women's skills and potential benefits with respect to their traditional activities of vegetable growing, cattle raising and dairy processing. Gender-specific data will be collected as part of the programme's base-line surveys. Thereafter, the annual work plan and budgets will reflect gender-related issues and priorities and MADA contracts will specify approximate targets with respect to gender, i.e. membership of VCFs and WUAs.

## H. Risks

35. The principal risk to the programme is the sustainability of MADA and MAFF. MADA's comparative advantage lies in its being the only body in Albania capable of delivering the coordinated, complementary and timely support necessary for mountain areas development. The agency's sustainability will depend ultimately upon the quality of development services it provides. Its programming, fund management and technical and financial appraisal capabilities are all core functions critical to the identification and realization of coherent, profitable and hence sustainable development investments. The Government recognizes the need and value of these services and has fully endorsed the programme proposal in general and the establishment of the agency in particular. If MADA performs well, it is reasonable to expect that the Government, IFAD, other development financiers and agricultural and rural entrepreneurs will avail themselves of the knowledge, skills and development opportunities it will provide and be prepared to pay for them. MAFF's sustainability in a financially high-risk environment will be enhanced by the careful business plan developed for it, by application of a strict default policy and by adherence to the technical principles of sound loan appraisal and supervised credit.

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<sup>6</sup> See Appendix VI for additional information.



### **I. Environmental Impact**

36. Three environmental/natural resource management issues pre-exist in the programme area: (a) an unknown number of water reservoirs built for irrigation purposes that have not been maintained over a number of years, which can present a future danger for the downstream areas; (b) the uncontrolled grazing of pastures and part of the forests, which could lead to soil erosion and degrading of forest resources; and (c) the existence of abandoned land that is prone to erosion as the land is not used, and terraces, built during reclamation that are not maintained and are rapidly deteriorating. The rehabilitation works on existing water reservoirs will have a positive effect as downstream areas will be protected. The improved crop productivity will result primarily from irrigation and improved seeds, but incremental fertilizer amounts are limited. Cropping intensity is not likely to increase, as most of the agriculturally productive land is already cultivated; only a small increase in the use of plant protection chemicals is expected. Beneficial effects will be derived from improved soil fertility through increased farmyard manure and crop residues. The community pasture and forest management component will have a long-term positive impact both through improved fodder and fuelwood availability, and through improved soil conservation and reduction of soil erosion. The programme will result in an increase in livestock productivity rather than livestock numbers. The environmental screening and scoping note classifies the programme in Category C.

### **J. Innovative Features**

37. The key innovation of the programme will be the setting up of MADA as a sustainable, market-oriented centre of excellence for mountain areas development. A properly established MADA will have a number of beneficial features, including: (a) its programmatic approach and its reduction of the physical and communications gap between poor rural mountain areas people and a continuing, coherent and coordinated source of timely responsiveness to clients and their full participation in determining its activities; (b) its decentralized structure, its system of contracting out and emphasis in conjunction with MAFF on sustainable individual and association-based private enterprise, local empowerment and capacity-building; and (c) the establishment of a model for the provision of services to disadvantaged areas in transitional economies.

## **PART III - LEGAL INSTRUMENTS AND AUTHORITY**

38. A financing agreement between the Republic of Albania and IFAD constitutes the legal instrument for extending the proposed financial assistance to the recipient. A summary of the important supplementary assurances included in the negotiated financing agreement is attached as an annex.

39. The Republic of Albania is empowered under its laws to borrow from IFAD.

40. I am satisfied that the proposed financial assistance will comply with the Agreement Establishing IFAD.



## **PART IV - RECOMMENDATION**

41. I recommend that the Executive Board approve the proposed financial assistance in terms of the following resolution:

**RESOLVED:** that the Fund shall make a loan to the Republic of Albania in various currencies in an amount equivalent to nine million six hundred thousand Special Drawing Rights (SDR 9 600 000) to mature on and prior to 1 December 2039 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

**RESOLVED FURTHER:** that the Fund shall provide a grant to the Republic of Albania in various currencies in an amount equivalent to three hundred and twenty thousand Special Drawing Rights (SDR 320 000) and upon such other terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan  
President

## **SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED FINANCING AGREEMENT**

(Negotiations concluded on 24 November 1999)

1. MADA will consolidate and prepare the draft annual work plan and budget (AWPB) for each programme year. It will submit the draft AWPB to IFAD for its comments and acceptance no later than ninety (90) days before the beginning of the relevant programme year. If IFAD does not comment on the draft AWPB within fifteen (15) days after receipt, the draft will be deemed acceptable. MADA will adopt the AWPB substantially in the form accepted by IFAD.
2. In addition to the proceeds of the loan and the grant, the Government of the Republic of Albania (the Government) will make available to the lead programme agencies (MADA and MAFF), promptly as needed in accordance with the AWPB, such funds, facilities, services and other resources as may be required from time to time to carry out the programme in accordance with the financing agreement. The Government will ensure that the financing it receives from other cofinanciers is made available to the lead programme agencies in accordance with the AWPBs.
3. IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan and grant accounts upon the occurrence of any of the following events:
  - (a) The statute of MAFF and/or the charter of MADA, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that this waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the programme.
  - (b) The MAFF credit by-laws, or any provision thereof, have been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that this waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the rural credit component.
  - (c) Any competent authority has taken any action for the dissolution of MADA and/or MAFF or the suspension of their operations, or any action or proceeding has been commenced for the distribution of any assets of MADA and/or MAFF among their creditors.
4. IFAD may terminate the right of the Government to request withdrawals from the loan and grant accounts upon the occurrence of any of the following events:
  - (a) The mid-term review has recommended that the programme be terminated.
  - (b) The events set forth in paragraph 3 above have occurred.
5. If MADA does not punctually furnish any audit report required and IFAD, after consultation with the Government, determines that MADA is unlikely to do so within a reasonable period thereafter, IFAD may engage independent auditors of its choice to audit the accounts relating to the programme. The Government and the programme parties will make their financial and other records available to such auditors promptly upon request and cooperate fully with the audit. IFAD will make the audit report available to the Government and MADA promptly upon its completion. IFAD will finance the cost of the audit by withdrawal from the loan account on behalf of the Government, and the Government hereby authorizes IFAD to make such withdrawals.



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6. MADA, in its capacity as one of the lead programme agencies, will have overall responsibility for the implementation of the programme. To this end, the Government will ensure that MADA is fully and properly established as a legal entity with the rights and powers necessary to execute its duties and responsibilities as specified in the charter of MADA and the financing agreement.

7. The Government and MADA will enter into an agreement (the MADA subsidiary agreement), which will provide, among other things, that: (a) the Government will transfer loan and grant proceeds and other resources to MADA as a grant upon terms and conditions acceptable to IFAD; and (b) MADA will declare its commitment to the goal and purposes of the programme and, in furtherance of these goals and purposes, MADA will undertake to carry out the programme in accordance with the financing agreement. The Government will submit a draft of the MADA subsidiary agreement to IFAD for its comments and approval before its signature.

8. The Government will ensure that MADA is able to contract government departments, NGOs, private-sector companies and individual service providers as implementing partners, as appropriate and necessary to the execution of its work.

9. The irrigation rehabilitation activities under the rural infrastructure component will be carried out by the SSIRP under an implementation agreement with MADA. For the irrigation rehabilitation activities, the following methodology will be applied: beneficiary farmers will be assisted in forming WUAs and have the management of schemes handed over to them *before* the execution of any work under programme auspices. They will subsequently participate fully in the design and rehabilitation of their irrigation schemes. Where appropriate, federations of WUAs (F/WUAs) will be established. Eligibility criteria for scheme rehabilitation will include gravity-water supply and the possibility of women being represented on the boards of water users associations. MADA will contract primarily ADF to execute the small-scale infrastructure projects. Communes will assist users in forming users' committees for each subproject. After approval, contracts will be signed by ADF or another agency, the commune and the users' committee defining the scope of work, timing, cost estimates, future maintenance and contribution by the users.

10. The community pasture and forest management sub-component will be contracted by MADA to the ongoing Forestry Project financed by the World Bank and other donors. The director of the Forestry Project Management Unit will have overall responsibility for implementation of this sub-component using the existing, proven project structure and methodology.

11. The Veterinary Service of the Ministry of Agriculture and Food (MAF) will be responsible for implementation of the programme for control of zoonotic and epidemic diseases. Under the responsibility of the District Veterinary Services, private veterinarians will be contracted to carry out the testing and vaccination programme. Responsibility for implementing programme support to private veterinary services will be contracted to an NGO with experience in the field of veterinary health care. Qualified NGOs will submit a proposal on an annual basis for review and selection by MADA. The contracted NGO will in turn contract private veterinarians to carry out the vaccination and treatment programme. The activity will be implemented on a sliding cost-recovery basis.

12. Implementation of programme-supported extension activities, including marketing initiatives, will flow initially from the findings of the programme's needs assessment/baseline survey, supplemented by further consultations by the District Directorates of Agriculture with potential beneficiaries. In response to the stated extension needs of potential beneficiaries, MADA will have responsibility for the development of strategies and policies in topics such as pasture management and development of vineyard, dairy and seed production in mountain areas. Where necessary, follow-up studies and pilot programmes will be contracted to independent specialists, NGOs or other qualified agencies. Use of MADA's extension fund will be shaped by the applications received. Eligible applicants will be

farmer/producer groups and associations, private traders and small agribusinesses (for example, seed producers), NGOs and district agricultural offices.

13. The rural credit component will be carried out by MAFF. The Government will ensure that MAFF is fully and legally established as a non-banking financial foundation for the purpose of administering rural credit in the programme area.

14. The Government will enter into an agreement with MAFF (the MAFF subsidiary financing agreement), which will provide, among other things, that: (a) the Government will transfer available funds for the rural credit component to MAFF as a loan in accordance with the AWPBs and upon terms and conditions acceptable to IFAD; and (b) MAFF will declare its commitment to the goals and purposes of the programme and, in furtherance of these goals and purposes, it will undertake to implement the rural credit component in accordance with the financing agreement and the MAFF credit by-laws, which will be annexed to the MAFF subsidiary financing agreement.

15. MAFF will be administered in accordance with its statute and regulations and operating procedures acceptable to the Government and IFAD. All MAFF lending operations and field services will be administered by its financial services department. Initially, field operations will be focused on NDRDP operations and on pilot expansion in SSIRP areas. For the expansion of the programme, group development services will be provided on a contractual basis through MADA for both existing and newly formed VCFs. MAFF will only provide supervised credit, with the exception of the VCF credit programme, which will focus principally on social lending for the most disadvantaged communities and which will be extended throughout the mountain areas. Because MAFF will operate purely as a financial institution, support for borrower group development, supervision and technical services to borrowers will be provided by MADA. These services will include, on the one hand, group formation, management, supervision, audit, and training in drawing up business plans for submission to MAFF as part of the sub-loan application process; and on the other hand, technical training (for example, for dairy processing or vegetable production).

16. MAFF will prepare draft credit by-laws, acceptable to IFAD, as soon as practicable, but in any event no later than thirty (30) days after the effective date of the financing agreement.

17. MAFF will adopt the MAFF credit by-laws, substantially in the form approved by IFAD, for application to all sub-loans extended to programme beneficiaries that are financed (directly or indirectly) by the loan and the grant.

18. MAFF will establish and maintain a revolving fund into which all net revenues from sub-loans extended to programme beneficiaries financed (directly or indirectly) by the loan and the grant will be deposited. MAFF will use the revolving fund to fund further sub-loans to programme beneficiaries in accordance with the financing agreement at least until such date as will be specified in the MAFF subsidiary financing agreement or, if no date is so specified, until all loan service payments have been made in full. For purposes of this paragraph, the term "net revenues" means all repayments of principal and all payments of interest, *less* reasonable operating and other costs.

19. MADA and MAFF will insure key programme personnel against health and accident risks to the extent consistent with sound commercial practice.

20. **Conditions precedent to withdrawals.** (a) No withdrawals will be made for expenditures under the rural credit component until:

- (i) MAFF shall have been duly established and become operational;



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- (ii) the MAFF subsidiary financing agreement shall have been approved by the Fund in draft; a copy of the agreement, as signed by the Government and MAFF, substantially in the form approved and certified as true and complete by a competent officer of MAFF, shall have been delivered to IFAD; the signature and performance thereof by the Government and MAFF shall have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and all conditions precedent to the effectiveness thereof shall have been fulfilled; and
- (iii) the director of MAFF, with qualifications and experience acceptable to IFAD, shall have been appointed by MAFF.

(b) No withdrawals from the loan or grant accounts shall be made for expenditures until the MADA subsidiary agreement shall have been approved by IFAD in draft; a copy of the signed agreement, substantially in the form approved and certified as true and complete by a competent officer of MADA, shall have been delivered to IFAD; the signature and performance thereof by the Government and MADA shall have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and all conditions precedent to the effectiveness thereof shall have been fulfilled.

21. **Conditions Precedent to Effectiveness.** The financing agreement shall become effective subject to the fulfilment of the following conditions precedent:

- (a) MADA has been duly established;
- (b) the Executive Director of MADA has been duly appointed by MADA and approved by IFAD;
- (c) the Financing Agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action; and
- (d) a favourable legal opinion, issued by the Minister for Justice or other legal counsel approved by IFAD in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.



## COUNTRY DATA

## ALBANIA

<b>Land area (km<sup>2</sup> thousand) 1996 1/</b>	<b>27</b>	<b>GNP per capita (USD) 1997 2/</b>	<b>760</b>
<b>Total population (million) 1997 1/</b>	<b>3.3</b>	<b>Average annual real rate of growth of GNP per capita, 1990-97 2/</b>	<b>2.2</b>
<b>Population density (people per km<sup>2</sup>) 1996 1/</b>	<b>120</b>	<b>Average annual rate of inflation, 1990-97 2/</b>	<b>58.1</b>
<b>Local currency</b>	<b>Lek (ALL)</b>	<b>Exchange rate: USD 1 =</b>	<b>ALL 135</b>
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population (average annual population growth rate) 1980-97 1/	1.3	GDP (USD million) 1997 1/	2 460
Crude birth rate (per thousand people) 1997 1/	19	Average annual rate of growth of GDP 1/ 1980-90	1.5
Crude death rate (per thousand people) 1997 1/	7	1990-97	1.8
Infant mortality rate (per thousand live births) 1997 1/	26	Sectoral distribution of GDP, 1997 1/	
Life expectancy at birth (years) 1997 1/	72	% agriculture	63
Number of rural poor (million) (approximate) 1/	0.6	% industry	18
Poor as % of total rural population 1/	28.9	% manufacturing	n.a.
Total labour force (million) 1997 1/	1.6	% services	19
Female labour force as % of total, 1997 1/	41	Consumption, 1997 1/	
<b>Education</b>		General government consumption (as % of GDP)	11
Primary school gross enrolment (% of relevant age group) 1996 1/	107	Private consumption (as % of GDP)	103
Adult literacy rate (% of total population) 1995 3/	85	Gross domestic savings (as % of GDP)	-13
<b>Nutrition</b>		<b>Balance of Payments (USD million)</b>	
Daily calorie supply per capita, 1995 3/	2 323	Merchandise exports, 1997 1/	210
Index of daily calorie supply per capita (industrial countries=100) 1995 3/	74	Merchandise imports, 1997 1/	950
Prevalence of child malnutrition (height for age % of children under 5) 1992-97 1/	18	Balance of merchandise trade	- 740
Prevalence of child malnutrition (weight for age % of children under 5) 1992-97 1/	n.a.	Current account balances (USD million)	
<b>Health</b>		before official transfers, 1997 1/	- 537
Health expenditure, total (as % of GDP) 1990-97 1/	n.a.	after official transfers, 1997 1/	- 272
Physicians (per thousand people) 1990-97 1/	1.4	Foreign direct investment, 1997 1/	48
Percentage population without access to safe water 1990-96 3/	n.a.	<b>Government Finance</b>	
Percentage population without access to health services 1990-95 3/	n.a.	Overall budget surplus/deficit (including grants) (as % of GDP) 1996 1/	-9.0
Percentage population without access to sanitation 1990-96 3/	n.a.	Total expenditure (% of GDP) 1996 1/	31.0
<b>Agriculture and Food</b>		Total external debt (USD million) 1997 1/	706
Food imports as percentage of total merchandise imports 1997 1/	27	Present value of debt (as % of GNP) 1997 1/	22
Fertilizer consumption (hundreds of grams per ha of arable land) 1995-97 1/	207	Total debt service (% of exports of goods and services) 1997 1/	7.1
Food production index (1989-91=100) 1995-97 1/	n.a.	Nominal lending rate of banks, 1997 1/	24.0
<b>Land Use</b>		Nominal deposit rate of banks, 1997 1/	16.8
Arable land as % of land area, 1996 1/	21.1		
Forest area (km <sup>2</sup> thousand) 1995 1/	10		
Forest area as % of total land area, 1995 1/	38.2		
Irrigated land as % of cropland, 1994-96 1/	48.4		

n.a. not available.

Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 1999.

2/ World Bank, *Atlas*, 1999.

3/ UNDP, *Human Development Report*, 1998.

## PREVIOUS IFAD LOANS TO ALBANIA

Region	Country	Project Id	Project Name	Lending Terms	Project Type	Financing Type	IFAD Approved Financing (USD '000)	IFAD Current Financing (USD '000)	Board Approval	Loan Signing	Loan Effectiveness	Original Closing	Current Closing	Cooperating Institution	Project Status
PN	AL	347	Northeastern Districts Rural Development Project	HC	RURAL	F	11 600	11600	02 Dec 93	16 Feb 94	19 Apr 94	31 Dec 00	31 Dec 01	UNOPS	Ongoing
PN	AL	372	Small-Scale Irrigation Rehabilitation Project	HC	IRRIG	F	9 023	9023	06 Dec 94	05 Apr 95	08 Aug 95	31 Dec 01	31 Dec 02	UNOPS	Ongoing



## LOGICAL FRAMEWORK

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions
<b>Programme Goal</b>			
Sustainable long-term economic growth and development achieved in the mountain areas.	Achievement of programme objectives <ul style="list-style-type: none"> <li>• NDRDP</li> <li>• SSIRP</li> <li>• Mountain Areas Development Programme</li> </ul>	Evaluation reports Country portfolio review	
<b>Programme Purpose</b>			
Standard of living of 37 500 poor mountain area households raised.	Nutrition improved <ul style="list-style-type: none"> <li>• Height for age</li> <li>• Weight for age</li> <li>• Increased incomes</li> <li>• Nature of expenditures</li> </ul>	Nutrition surveys (MADA) MADA reports Baseline and repeater surveys	The Government's continued commitment to market economy and reform. Good governance.
<b>Programme Outputs</b>			
<ul style="list-style-type: none"> <li>• MADA established and implements a resource-efficient programme that meets expressed needs of beneficiaries.</li> <li>• Sustainable financial institution (MAFF) established for the disbursement of credit to rural mountain area clients.</li> <li>• Sustainable on-farm irrigation provided.</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>• Quality and quantity of agricultural production improved.</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>• Increased commercialization of mountain area agriculture.</li> </ul>	<ul style="list-style-type: none"> <li>• Client (beneficiary) satisfaction evidenced by continued participation in MADA initiatives.</li> <li>• Rate of arrears below 5%.</li> <li>• Financial ratios remain within levels acceptable to the Bank of Albania and IFAD.</li> <li>• Annual water delivery per hectare improved.</li> <li>• No. of irrigations per crop increased.</li> <li>• Ratio of water charges collected to water charges due improved.</li> <li>• Crop yields/ha improved.</li> <li>• Cropping intensity increased.</li> <li>• Increased off-take.</li> <li>• Liveweight of animals increased.</li> <li>• Milk yields increased.</li> <li>• No. of private veterinarians operating in mountain areas.</li> <li>• No. of farmers that continue to vaccinate animals.</li> <li>• % of marketed output increased.</li> <li>• Sales of agricultural inputs increased.</li> <li>• No. of km of roads maintained by communities.</li> </ul>	Contract monitoring Client focus groups/key informants  MAFF reports Audit reports  SSIRP progress reports MOA reports MADA reports  MOA reports Government of Albania (GOA) statistics office reports    MADA surveys/reports GOA statistics office reports MOA reports	<ul style="list-style-type: none"> <li>• No disruptions from social unrest.</li> <li>• Macroeconomic environment remains stable.</li> </ul>



## APPENDIX III

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions
<ul style="list-style-type: none"> <li>Programme activities</li> <li>Development initiatives prepared, appraised, funded and monitored by MADA, with full participation of the beneficiaries.</li> <li>MIS systems for quality control, measurement of progress and impact assessment implemented.</li> <li>Programme for mountain areas drafted.</li> <li>MADA district/field offices established.</li> </ul>	<ul style="list-style-type: none"> <li>1.1. No. of contracts with implementing agencies disaggregated by type of agency and purpose of contract.</li> <li>1.2. MIS system established in PY1.</li> <li>1.2. Needs assessment/baseline survey carried out in PY1.</li> <li>1.3. Draft programme available in PY1.</li> <li>1.4. Two field offices established in PY1, two more by PY4.</li> </ul>	MADA reports Beneficiary monitoring	<ul style="list-style-type: none"> <li>Effective technical, financial and managerial support provided by MADA.</li> <li>MADA created by order of GOA.</li> <li>Subsidiary agreement concluded between MAFF and the Ministry of Finance (MOF).</li> </ul>
<ul style="list-style-type: none"> <li>MAFF established as non-banking financial foundation licensed by the Bank of Albania.</li> <li>Credit resources made available for productive purposes in mountain areas, including to: VCFs, traders, small specialist producers and processors.</li> </ul>	<ul style="list-style-type: none"> <li>2.1 License obtained for MAFF by 1 Dec 1999.</li> <li>2.2 Lending to 180 VCFs by PY6, amounting to ALL 725 million disaggregated by: number and type of loans made and gender.</li> <li>2.2 Lending to traders, small producers and entrepreneurs reaches ALL 500 million by PY6 disaggregated by: number and type of loans made and gender.</li> </ul>	Certificate submitted by the Government MAFF records and financial reports Audit reports	<ul style="list-style-type: none"> <li>Subsidiary financing agreement concluded between MAFF and MOF.</li> <li>Initial subscribed capital paid in accordance with regulations of Bank of Albania.</li> </ul>
<ul style="list-style-type: none"> <li>Small-scale irrigation schemes rehabilitated with full participation of farmers.</li> <li>Sustainable management structures put in place.</li> <li>Training provided for WUAs/FWUAs.</li> </ul>	<ul style="list-style-type: none"> <li>3.1 6 400 ha rehabilitated by PY6.</li> <li>3.2 140 WUAs formed by PY6.</li> <li>3.3 20 FWUAs formed by PY6.</li> <li>3.3 700 WUA/FWUA members trained as leaders.</li> <li>3.3 9 000 WUA members trained.</li> </ul>	SSIRP progress reports Beneficiary monitoring	<ul style="list-style-type: none"> <li>No disputes over land titles/ownership.</li> <li>Schemes turned over to WUAs prior to rehabilitation.</li> </ul>
<ul style="list-style-type: none"> <li>Community pasture and forest management plans implemented.</li> <li>Re-seeding, fencing, reforestation, planting and water source improvement completed.</li> <li>Private veterinary services established.</li> <li>Livestock vaccinated against endemic diseases.</li> <li>Demand-driven agricultural extension system put in place.</li> </ul>	<ul style="list-style-type: none"> <li>4.1 Ten commune management plans developed, covering 100 villages.</li> <li>4.1 300 000 ha rehabilitated/improved by PY6.</li> <li>4.2 300 villages covered and some 180 000 animals treated.</li> <li>4.2 No. of head vaccinated increased.</li> <li>4.2 No. of head tested for disease; positive destroyed (decreased)</li> <li>4.3 420 on-farm demonstrations by PY6.</li> <li>4.3 No. of farmers attending field days.</li> <li>4.3 No. of extension staff trained both in technical aspects as well as participatory methodologies.</li> <li>4.3 No. of requests for TA financed by MADA, by type of request.</li> </ul>	DoE Reports (MOA) MADA reports Beneficiary monitoring	<ul style="list-style-type: none"> <li>User rights transferred to communities.</li> <li>Farmers willing to pay for private services, veterinarian and technical.</li> </ul>
<ul style="list-style-type: none"> <li>Selected rural infrastructure rehabilitated.</li> </ul>	<ul style="list-style-type: none"> <li>5.1 120 km of roads upgraded.</li> <li>5.1 No. and type of community projects carried out.</li> </ul>	MADA reports ADF reports Beneficiary monitoring	<ul style="list-style-type: none"> <li>Conclusion of contract with ADF.</li> </ul>
<ul style="list-style-type: none"> <li><b>Inputs</b></li> <li>Civil works</li> <li>Contracted services</li> <li>Vehicles and equipment</li> <li>Technical assistance</li> <li>Training</li> <li>Incremental credit</li> <li>Recurrent expenditures</li> <li>Total</li> </ul>	<ul style="list-style-type: none"> <li><b>Financing</b></li> <li>IFAD Loan</li> <li>IFAD Grant</li> <li>MAFF</li> <li>SNV/Netherlands</li> <li>Cofinancers</li> <li>Beneficiaries</li> <li>GOA</li> <li>Total</li> </ul>	AWP/Bs Contracts and implementation Agreements Procurement records Statements of expenditure	<ul style="list-style-type: none"> <li>IFAD Board Approval in Dec 1999.</li> </ul>
<ul style="list-style-type: none"> <li>USD ('000)</li> <li>7 712</li> <li>2 701</li> <li>1 916</li> <li>1 773</li> <li>1 035</li> <li>1 000</li> <li>7 009</li> <li>23 146</li> </ul>	<ul style="list-style-type: none"> <li>(USD '000)</li> <li>13 227</li> <li>440</li> <li>717</li> <li>386</li> <li>4 224</li> <li>1 241</li> <li>2 911</li> <li>23 146</li> </ul>		

## SUMMARY COST AND FINANCING TABLES

**Table 1: Expenditure Accounts by Components - Base Costs  
(USD '000)**

	Agricultural Development										
	Rural Credit	Rural Infrastructure Small-scale irrigation rehabilitation	Rural Works	Community Pasture and Forest Management Plan	Veterinary Support	Private Veterinary Services	Agricultural Extension	Programme Management (MADA)	Total	Physical Contingencies %	Amount
<b>I. Investment Costs</b>											
A. Contracted services	-	-	-	1 050.0	-	660.0	-	770.0	2 480.0	1.6	38.5
B. Civil works	20.0	3 775.0	2 740.8	-	-	1.0	-	22.5	6 559.3	8.9	582.4
C. Vehicles	36.2	225.2	-	-	-	41.9	170.8	206.2	680.3	2.8	19.4
D. Equipment and materials	128.8	143.9	-	-	525.8	6.4	150.0	178.4	1 133.4	1.2	13.9
E. Technical assistance	450.0	217.5	-	-	-	-	63.7	1 040.0	1 771.2	-	-
F. Training and studies	91.1	227.5	-	-	-	6.0	249.7	391.0	965.2	1.4	13.7
G. Incremental credit funds	1 000.0	-	-	-	-	-	-	-	1 000.0	-	-
<b>Total Investment Costs</b>	1 726.1	4 589.2	2 740.8	1 050.0	525.8	715.3	634.2	2 608.1	14 589.4	4.6	667.9
<b>II. Recurrent Costs</b>											
A. Salaries	1 346.6	1 138.2	-	-	-	226.6	-	1 365.4	4 076.8	-	-
B. Allowances	196.8	162.2	-	-	-	78.0	-	169.2	606.2	-	-
C. Operation and maintenance	531.7	470.4	124.4	-	-	82.8	257.9	489.3	1 956.5	4.4	86.2
<b>Total Recurrent Costs</b>	2 075.1	1 770.8	124.4	-	-	387.4	257.9	2 023.9	6 639.5	1.3	86.2
<b>Total BASELINE COSTS</b>	3 801.2	6 360.0	2 865.2	1 050.0	525.8	1 102.8	892.0	4 632.1	21 228.9	3.6	754.1
Physical Contingencies	27.8	371.8	247.2	-	-	6.3	24.9	76.1	754.1	-	-
<b>Price Contingencies</b>											
<b>Inflation</b>											
Local	69.1	725.7	349.4	157.9	53.3	87.7	47.3	175.6	1 666.0	-	-
Foreign	24.6	77.2	53.4	-	11.9	3.4	21.4	35.9	227.9	-	-
<b>Subtotal</b>	93.7	802.8	402.8	157.9	65.2	91.2	68.7	211.5	1 893.8	-	-
Devaluation	-29.8	-317.5	-150.0	-69.7	-22.5	-43.7	-19.4	-78.2	-730.9	-	-
Subtotal	63.8	485.4	252.9	88.2	42.7	47.4	49.4	133.3	1 163.0	4.9	57.3
<b>Total PROGRAMME COSTS</b>	3 892.9	7 217.1	3 365.2	1 138.2	568.4	1 156.5	966.3	4 841.4	23 146.0	3.5	811.4
Taxes	334.4	1 213.5	587.6	-	113.7	55.9	136.1	384.6	2 825.7	5.3	150.6
Foreign Exchange	898.6	1 447.8	717.4	-	158.9	79.7	509.7	1 814.6	5 626.6	3.6	200.7



**Table 2: Components By Financiers  
(USD '000)**

Components	IFAD Loan		IFAD Grant		SNV		Other Cofinanciers		MAFF		Government		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
<b>A. Programme management</b>	2 881.4	59.5	290.0	6.0	385.5	8.0	900.1	18.6	-	-	384.6	7.9	-	-	4 841.4	20.9	1 814.6	2 642.3	384.6
<b>B. Rural credit</b>	2 301.1	59.1	150.0	3.9	-	-	390.8	10.0	716.5	18.4	334.4	8.6	-	-	3 892.9	16.8	898.6	2 659.9	334.4
<b>C. Rural infrastructure</b>																			
Small-scale irrigation rehabilitation	5 411.5	75.0	-	-	-	-	219.2	3.0	-	-	1 299.1	18.0	287.2	4.0	7 217.1	31.2	1 447.8	4 555.7	1 213.5
Rural works	-	-	-	-	-	-	2 241.9	66.6	-	-	587.6	17.5	535.7	15.9	3 365.2	14.5	717.4	2 060.3	587.6
<b>Subtotal</b>	<b>5 411.5</b>	<b>51.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2 461.1</b>	<b>23.3</b>	<b>-</b>	<b>-</b>	<b>1 886.7</b>	<b>17.8</b>	<b>822.9</b>	<b>7.8</b>	<b>10 582.3</b>	<b>45.7</b>	<b>2 165.2</b>	<b>6 616.0</b>	<b>1 801.1</b>
<b>D. Agricultural development</b>																			
Community pasture and forest management plan	1 138.2	100.0	-	-	-	-	-	-	-	-	-	-	-	-	1 138.2	4.9	-	1 138.2	-
Veterinary support	454.7	80.0	-	-	-	-	-	-	-	-	113.7	20.0	-	-	568.4	2.5	158.9	295.8	113.7
Private veterinary services	404.3	35.0	-	-	-	-	277.7	24.0	-	-	55.9	4.8	418.6	36.2	1 156.5	5.0	79.7	1 020.9	55.9
Agricultural extension	636.0	65.8	-	-	-	-	194.3	20.1	-	-	136.1	14.1	-	-	966.3	4.2	509.7	320.6	136.1
<b>Subtotal</b>	<b>2 633.2</b>	<b>68.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>472.0</b>	<b>12.3</b>	<b>-</b>	<b>-</b>	<b>305.6</b>	<b>8.0</b>	<b>418.6</b>	<b>10.9</b>	<b>3 829.4</b>	<b>16.5</b>	<b>748.3</b>	<b>2 775.5</b>	<b>305.6</b>
<b>Total disbursement</b>	<b>13 227.2</b>	<b>57.1</b>	<b>440.0</b>	<b>1.9</b>	<b>385.5</b>	<b>1.7</b>	<b>4 224.0</b>	<b>18.2</b>	<b>716.5</b>	<b>3.1</b>	<b>2 911.3</b>	<b>12.6</b>	<b>1 241.5</b>	<b>5.4</b>	<b>23 146.0</b>	<b>100.0</b>	<b>5 626.6</b>	<b>14 693.7</b>	<b>2 825.7</b>

## ORGANIZATION AND MANAGEMENT <sup>1</sup>

### Mountain Areas Development Agency (MADA)

1. The MADA will promote, catalyse, fund, coordinate and supervise the programme. It will work on the basis of AWP/Bs. The AWP/B for the programme's rural credit component will be prepared by MAFF in consultation with MADA. This component AWP/B will first be submitted for approval to MAFF's Board of Directors and then submitted to MADA for consolidation with MADA's AWP/B. The consolidated AWP/B for the entire programme will then be submitted for approval by MADA's Board of Directors, of which the Executive Director of MAFF will be a member. The Board of Directors will meet every six months. The Board shall guide and supervise the overall operation and administration of MADA. As part of this responsibility, the Board shall approve the AWP/B of MADA, including any amendment to MADA's operational manual; establish pay scales for MADA staff; approve the annual report and appoint the external auditors for MADA; decide on other policy matters concerning MADA; and review the agency's performance.

2. In its first year MADA will, *inter alia*, do the following:

- (a) establish its offices and staffing;
- (b) initiate implementation of the first phase of the programme formulated in this report;
- (c) draw up a draft mountain areas programme;
- (d) draw up a MADA operations manual;
- (e) develop a management information systems for quality control, measurement of progress and impact assessment, including reporting systems for MADA and its implementing partners;
- (f) promote its services;
- (g) identify potential implementing partners; and
- (h) begin to take up client demands for inclusion in its second year of operation.

### Rural Credit

3. The MAFF will be administered in accordance with its statutes; with the provisions of a subsidiary agreement acceptable to the Government and IFAD, under which it will be provided with its capital financing and operating costs; and with regulations and operating procedures acceptable to the Government and IFAD. All MAFF lending operations and field services will be administered by its financial services department. Initially, field operations will be focused on NDRDP operations and on pilot expansion in SSIRP areas. For the expansion of the programme, group development services will be provided on a contractual basis through MADA for both existing and newly formed VCF. The SNV has expressed firm interest in undertaking these services, including the placement of SNV technical assistance staff in Diber and Korce. As reflected in the regulations, MAFF will provide only supervised credit with the exception of the VCF credit programme, which focuses principally on social lending for the most disadvantaged communities, and which will be extended throughout the mountain areas. Because MAFF will operate purely as a financial institution, support for borrower group development and supervision, and technical services to borrowers will be provided by MADA. These services will include, on the one hand, group formation, management, supervision, audit and training in drawing up business plans for submission to MAFF as part of the loan application process; on the other hand, technical training, e.g. for dairy processing or vegetable production.

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<sup>1</sup> See Figures 1 and 2.



## Infrastructure

4. MADA will contract the PIU of the SSIRP to implement this sub-component. Beneficiary farmers will be obliged and assisted to form WUAs and have the management of schemes handed over to them *before* the execution of any work under programme auspices. They will subsequently participate fully in the design and rehabilitation of their irrigation schemes. Based on the experience of SSIRP, Federations of WUAs (F/WUAs) will be established on small-scale schemes within a village or multiple-area schemes managed by more than one WUA. Eligibility criteria for scheme rehabilitation include formation of WUAs, gravity-water supply and progress representation of women users. MADA will mainly contract ADF to execute the small-scale infrastructure projects. Communes will assist the users to form users' committees for each subproject. After approval, contracts will be signed between ADF, the commune and the users' committee defining the scope of work, timing, cost estimates, future maintenance and contribution by the users.

## Agricultural Development

5. The community pasture and forest management sub-component will be contracted by MADA to the ongoing forestry project. The director of the Forestry Project Management Unit will have the overall responsibility for the implementation of this sub-component using the existing proven project structure and methodology. The director will be responsible for submission of AWP/Bs and progress reports to MADA. The Veterinary Service of the Ministry of Agriculture and Food (MAF) will be responsible for the implementation of the programme for control of zoonotic and epidemic diseases. Under the responsibility of the District Veterinary Services, private veterinarians will be contracted to carry out the testing and vaccination programme. A fee will be paid to the veterinarian for each animal treated, while the cost of reagents and vaccines will be provided through the programme. The supply of small equipment such as syringes will be the responsibility of the veterinarian. Responsibility for implementing programme support to private veterinary services will be contracted to an NGO with experience in the field of veterinary health care. Qualified NGOs will submit a proposal on an annual basis for review and selection by the MADA. Proposals will include a detailed AWP/B. The contracted NGO will in turn contract private veterinarians to carry out the vaccination and treatment programme. 50% of the cost of the veterinary fees and materials (vaccines and antigens) will be financed by the programme, falling to 30% in the second year. The farmers will be responsible for payment of the remaining 50% and 70%, respectively, and thereafter 100% in subsequent years. Implementation of programme-supported extension activities will flow initially from the findings of the programme's needs assessment/baseline survey, supplemented by further consultations with potential beneficiaries by the District Directorates of Agriculture. In response to the stated extension needs of potential beneficiaries, MADA will then have the responsibility for the development of strategies and policies in topics such as pasture management and development of vineyard production, dairy production and seed production in the mountain areas. Where necessary, follow-up studies and pilot programmes will be contracted to independent specialists, NGOs or other qualified agencies. Use of MADA's extension fund will flow from applications made to the agency. Eligible applicants will be farmer/producer groups and associations, private traders and small agribusinesses such as seed producers, NGOs and district agricultural offices operating in the mountain districts within the programme area.





**Figure 1: Mountain Areas Development Agency (MADA)**

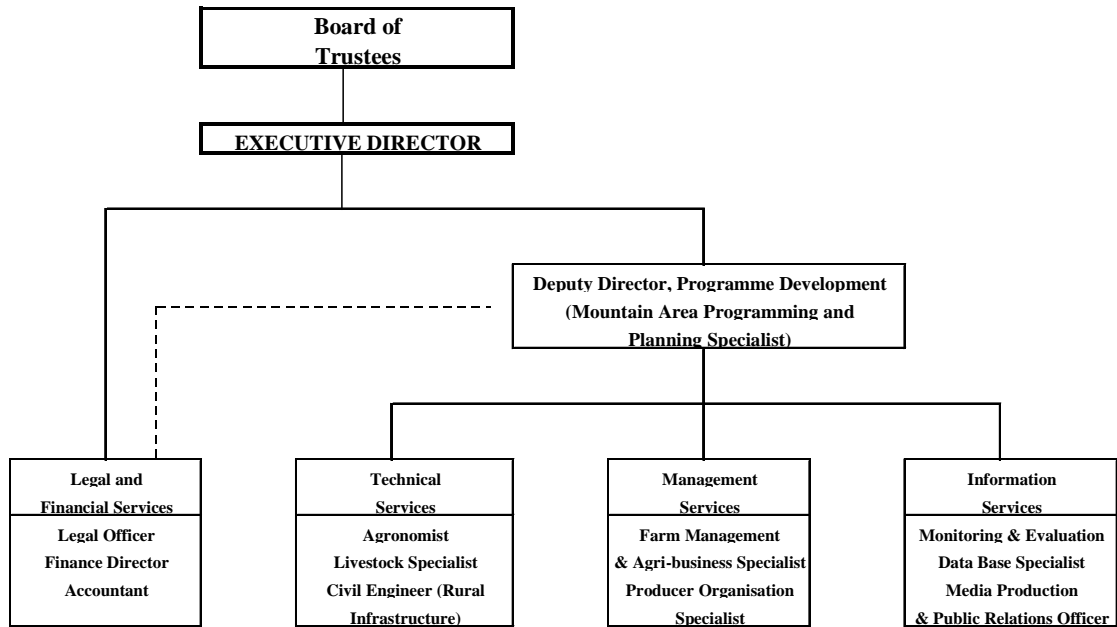
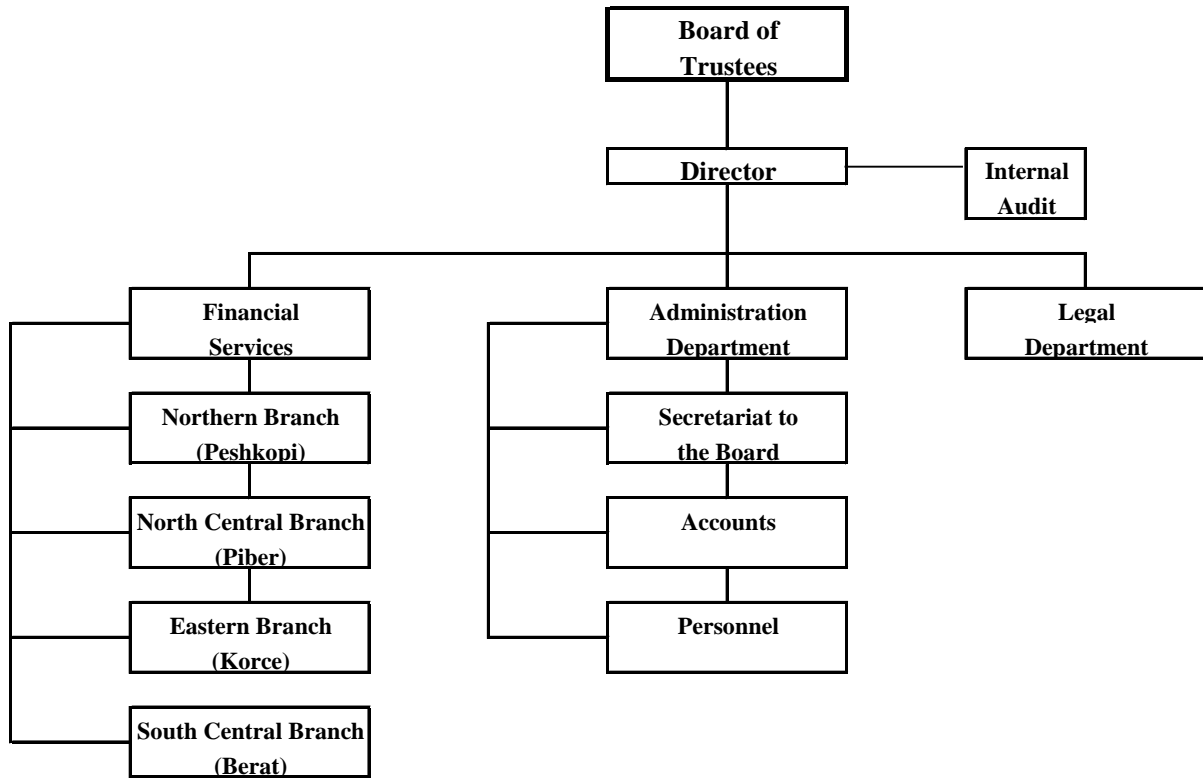




Figure 2: Mountain Areas Finance Fund (MAFF)



## ECONOMIC AND FINANCIAL ANALYSIS

1. The direct beneficiaries of the programme will be households farming on small-scale irrigation schemes eligible for rehabilitation and those in communes where support services and credit will be made available. In the first phase programme area, the direct beneficiaries will include some 37 500 farm families, i.e. about 153 800 people or 42% of the area's rural households benefiting from the irrigation rehabilitation and agricultural development components and 400 producer groups, traders' associations or small specialist producers benefiting principally from the rural credit component. Additional beneficiaries from the rural credit component will include about 6 000 VCF members in the NDRDP and SSIRP project areas. Table 1 below shows the phasing of beneficiaries by type of programme initiative.

**Table 1: Phasing of Beneficiaries by Type of Programme Initiative**

Programme intervention	PY 1	PY 2	PY 3	PY 4	PY 5	PY 6	Total
Improved irrigation only	158	608	868	1 405	1 610	402	5 051
Improved irrigation and increased cattle herd	128	493	705	1 140	1 307	327	4 100
Increased sheep flock size	683	1 367	1 367	683	-	-	4 100
Improved rainfed and improved livestock	-	833	1 667	1 667	833	-	5 000
Improved livestock only	-	1 867	3 733	3 733	1 867	-	11 200
Vineyards	125	480	688	1 113	1 275	319	4 000
Orchards	125	480	688	1 113	1 275	319	4 000

### Crops

2. Yields are expected to increase gradually over six years in the with programme scenarios due to the reliable availability of irrigation water and increased use of inputs, in particular certified seeds and fertilizer. Yields are not expected to increase under the without programme scenario, because of the prevailing conditions in Albanian agriculture, most particularly the lack of access to credit to purchase seasonal inputs and the poor state of irrigation infrastructure.

**Table 2: Yield Assumptions - Crop Models (kg/ha)**

Main Production	Without	Full Development	Incremental Increase
Rainfed wheat	1 700	2 000	300
Irrigated wheat	1 700	2 500	800
Maize	2 000	3 500	1 500
Alfalfa	10 000	18 000	8 000
Potatoes	10 000	18 000	8 000
Vegetables	15 000	25 000	10 000
Grapes	-	20 000	-
Apples	-	18 000	-

3. Table 3 compares the per hectare income in the without and with programme (at full development) scenarios for each crop model. Incremental increases are expected to range from ALL 6 685 for rainfed wheat to ALL 243 740 for vegetables. The largest gains will be achieved for those crops that are most affected by water supply. The crop models are attractive in terms of cost/benefit ratios, IRRs and returns-to-family labour.

**Table 3: Financial Returns: Crop Production Models (ALL/ha)**

Main Production	Revenue		Incremental		
	Without	With at Full Development	Revenue	Cost/Benefit Ratio <sup>a/</sup>	Returns to family labour (ALL)
Rainfed Wheat	27 040	33 725	6 685	3.5	115
Irrigated Wheat	27 040	41 105	14 065	2.3	255
Maize	47 950	74 230	26 280	2.1	101
Alfalfa	86 125	143 920	57 795	3.6	76
Potatoes	167 370	411 110	243 740	4.2	802
Vegetables	313 470	506 080	192 610	4.4	356
Grapes	-	1 048 000	-	39%	1 397
Apples	-	1 281 000	-	47%	2 135

## Livestock

4. Table 4 compares the livestock derived income from increased milk production and liveweight gains, for each of the four models under the without and with programme scenarios. Increases are expected to range from ALL 13 900 for cattle with improved feeding to ALL 125 450 for farmers increasing cattle herd size. A benefit/cost ratio and returns-to-family labour were also calculated for each model that further exhibits the attractiveness of the new technology.

**Table 4: Financial Returns: Livestock Models (ALL)**

Model	Without	With	Incremental	Returns-to-family labour	Benefit/Cost Ratio
Cattle with improved feeding	18 650	32 550	13 900	651	2.8
Cattle with increased herd	37 300	162 750	125 450	1 252	1.9
Sheep with improved feeding	12 866	39 628	26 762	1 101	1.2
Sheep with increased flock	12 866	97 256	64 300	2 114	2.3

## Processing Credits

5. Most of the borrowing from MAFF will be for directly productive agricultural purposes and to establish/support enterprises related to the handling and/or processing of agricultural produce, or to some form of servicing of farming operations, e.g. traders. In addition to agriculture, other opportunities for economic growth and business investment in the programme area in the short to medium-term are likely to relate to the sustainable management of forest resources.

**Table 5: Yields and Financial Returns: Enterprise Models**

Enterprise Model	YIELDS		REVENUE (ALL '000)			Internal Rate of Return
	Without	With	Without	With	Incremental	
Small milk processor						
Cheese and other products	20 000	60 000	8 000	24 000	16 000	44%
Other milk by-products	120 000	360 000	600	1 800	1 200	44%
Seed processing unit	47.5	95	2 612	5 225	2 613	36%

## Models

6. Farm models were generated from the base model by combining parameters relevant to the programme's interventions, i.e. phasing of irrigation scheme rehabilitation and delivery of livestock health services. Assumptions on household-labour availability and farm-level investments were also made, both in input and labour terms. Seven farm models and two enterprise models were created, representing farms taking up a combination of the programme's interventions as indicated in Table 6 below:

**Table 6: Financial Returns: Farm Models (ALL)**

Model	Without	With (at Full Development)	Incremental
Model 1: Improved irrigation only	84 104	138 927	54 823
Model 2: Improved irrig. & increased cattle herd	102 754	286 327	183 573
Model 3: Increased sheep flock size	84 104	168 494	84 390
Model 4: Improved rainfed & improved livestock	84 104	125 510	41 406
Model 5: Improved livestock only	84 104	124 66	40 662
Model 6: Vineyards	102 754	357 994	255 240
Model 7: Apples	102 754	416 244	313 490

## Incremental Production

7. Annual incremental production of the main programme outputs, at full development, is shown in Table 7.

**Table 7: Incremental Production of Selected Commodities**

Commodity	Unit	Existing	Full Development	Incremental	Percentage Increase
Calf (liveweight)	kg	2 130 693	3 613 793	1 483 100	69%
Lamb (liveweight)	kg	3 640 237.2	6 000 517.2	2 360 280	65%
Milk (cow)	Litre	42 118 350	65 418 350	3 875 000	55%
Barley	kg	12 733 340	16 347 985	3 614 645	28%
Alfalfa hay	kg	59 921 600	78 223 600	18 302 000	30%
Potatoes	kg	3 745 100	4 477 180	732 080	19%
Vegetables	kg	11 235 300	26 792 000	15 556 700	138%
Improved seed	tonne	950	1 900	950	100%

## Economic Rate of Return (ERR)

8. An ERR of 37% over a second, year period was calculated for the programme. This rate of return reflects the sunk costs in existing irrigation infrastructure and the fact that the existing use of agriculture inputs is very low. Substantial increases in yields are expected to be realized from the application of fertilizers and the use of better quality seeds.

9. The ERR was tested for sensitivity to changes in the levels of costs and benefits, as well as the timing of the benefit flow. The ERR is very resilient to change in both the cost and benefit level. Only in the case of costs rising by 50% and benefits down by 50% will there be a real impact on the ERR, and even that return (20%) is very robust.