Report Number : ICRR13619

IEG ICR Review
Independent Evaluation Group

1. Project Data:		**Date Posted :**	04/29/2013	
PROJ ID :	P052256		**Appraisal**	**Actual**
Project Name :	Rural Poverty Reduction Project - Minas Gerais	**Project Costs (US$M):**	46.45	50.86
Country:	Brazil	**Loan/Credit (US$M):**	35.00	35.00
Sector Board :		**Cofinancing (US$M):**		
Sector(s):	District heating and energy efficiency services (25%) Roads and highways (25%) Sewerage (20%) General public administration sector (15%) General agriculture fishing and forestry sector (15%)			
Theme(s):	Rural services and infrastructure (33% - P) Municipal governance and institution building (33% - P) Rural markets (17% - S) Participation and civic engagement (17% - S)			
L/C Number:	L7329			
		Board Approval Date :		09/06/2005
Partners involved :		**Closing Date :**	07/31/2010	07/31/2010

Evaluator :	**Panel Reviewer :**	**Group Manager :**	**Group :**
Ridley Nelson	John R. Heath	IEG ICR Review 1	IEGPS1

2. Project Objectives and Components:

a. Objectives:

The statements of development objectives in the Project Appraisal Document and the Loan Agreement are identical.

According to the PAD, "The project aims to assist the state of Minas Gerais to reduce high levels of rural poverty by: (a) improving well-being and incomes of the rural poor through better access to basic social economic infrastructure and services and support for productive activities, using proven community driven development (CDD) techniques; (b) increasing the social capital of rural communities to organize collectively to meet own needs; (c) enhancing local governance by greater citizen participation and transparency in decision-making, through creation and strengthening of community associations and Municipal Councils; and (d) fostering closer integration of development policies, programs and projects at the local level, by assisting Municipal Councils to extend their role in seeking funding, priority setting and decision-making over resource allocation, and by assisting the government to measure the efficiency and impact of its own programs to reduce rural poverty in rural space" (p. 6)

Both the PAD and the LA indicate that the project's overarching objective was to reduce poverty; IEG treats sub-objectives (a)-(d) as intermediate outcomes and assesses the achievement of all five outcomes.

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

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

1. Community Subprojects.
(Expected cost at appraisal, US$41.2 million; Actual cost at closing, US$47.9 million).

This component provided matching grants to rural community associations to identify infrastructure, social and productive investments (subprojects) that would improve community well-being, each subproject costing a maximum of US$50,000.

There were three separate channels for financing subprojects:
- *State Community Schemes (PAC).* Rural communities submitted their investment proposals directly to the State Technical Unit (the project implementing agency), which screened and approved them and released funds to the beneficiary associations.
- *Municipal Community Schemes (FUMAC).* Decision-making on investment proposals was delegated by the State Technical Unit to project Municipal Councils, composed of community members and representatives of civil society and municipal authorities. At least 80 percent of Council voting members were potential project beneficiaries and civil society representatives. The Municipal Councils discussed, and sought to build consensus on priorities and approve community proposals, in the context of an indicative annual budget amount determined by the state.
- *Pilot Municipal Community Funds (FUMAC-P).* The State Technical Unit established an annual budget envelope, according to a distribution formula based on clear and measurable criteria (rural population, poverty levels and previous year's performance). Based on this budget, Municipal Councils submitted an Annual Operating Plan *(Plano Operativo Anual)* for review by the State Technical Unit. Upon approval, funds were transferred to the Municipal Council, which was then responsible for managing their distribution to community associations and assisting them with implementation of subprojects.

2. Institutional Development.
(Expected cost at appraisal, US$3.1 million; Actual cost at closing, US$2.5 million).

This component financed technical assistance and training to build the capacity of the Community Associations, the Municipal Councils and the implementing agency. It also included modest funding to support state institutional modernization and reform related to poverty reduction programs and policies.

3. Administration, Supervision, Monitoring and Evaluation
(Expected cost at appraisal, US$1.2 million; Actual cost at closing, US$0.5 million).

This component financed the costs (excluding salaries) of project administration and coordination including supervision, monitoring and impact evaluation.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

Project Costs
There were no changes in total project costs other than those associated with exchange-rate changes.

Financing
In October 2008 there was some reallocation of funding between categories, the main effect of which was to shift US$11.4 million of funds from the State Community Schemes (PAC) and Pilot Municipal Community Funds (FUMAC-P) Subprograms to Municipal Community Schemes (FUMAC).

Borrower Contribution

The ICR shows borrower contribution increasing from US$11.8 million at appraisal to US$16.0 million by closing. This was the result of increased funding by Community Associations.

Dates

The project closed on the date originally planned.

3. Relevance of Objectives & Design:

Relevance of Objectives ***(Rating: Substantial)***

Throughout the implementation period the relevance of this project's objectives was consistently endorsed in the Borrower and Bank's strategy. The overarching objective of rural poverty reduction was relevant because, when the project was appraised in 2001, 631,000 rural households in the state of Minas Gerais lived in poverty, and most of these households were in the project area. Government data showed that 50 percent of poor rural households in Minas Gerais lacked piped water supply, 35 percent were without sanitation, and 25 percent had no electricity. In the project area, infant mortality was 29 percent above the average level for the state. The Borrower attached particular importance to the aim of using the subproject process to leverage financing from sources outside the project (sub-objective (d) in the Project Appraisal Document)—a new departure for this series of community-driven development projects, one that was relevant because it increased prospects for sustaining the drive to reduce poverty.

The Bank's FY2001-03 Country Assistance Strategy (dated May 24, 2001) identified poverty and inequality reduction as the core of Bank assistance efforts and stressed well-targeted, decentralized programs, social capital formation and local integration of programs. The Additional Financing accorded with the FY2004-07 CAS (dated November 10, 2003), which called for successive projects under the Northeast community-driven development program to finance basic infrastructure for the rural poor, support income generation, and promote closer integration of state and federal rural initiatives in participating municipalities.

The Country Assistance Strategy that was current when the loan closed (covering the period 2008 to 2011) acknowledges the validity and the success of the series of Northeast community development operations of which this project is a part, "both in building social capital and in enabling poor communities to get access to water and electricity" (p. 10).

However, the FY08-11 CAS did signal a change of emphasis, indicating that in response to demands from state governments in the Northeast, the Bank would henceforth address the development needs of rural municipalities by prioritizing the promotion of productive subprojects connected to high-value supply chains (e.g. contracts with supermarkets). This signaled a shift of emphasis away from the rural community infrastructure investments, promotion of which was central to the project.

Relevance of Design ***(Rating: Substantial)***

Design relevance was enhanced by the incorporation of lessons learned from the two earlier community-driven development projects in this series of operations for Minas Gerais. The project components were sufficiently few in number, clear in conception, and flexible in implementation to make it more likely that the objective and intermediate outcomes would be achieved. Attainment of project objectives was facilitated by a process that promoted community commitment to the investments by involving would-be beneficiaries in identifying subprojects, choosing between investment alternatives, and cofinancing of the subprojects that were selected. The components included the training and technical assistance to Community Associations and Municipal Councils that was needed to make them more effective and more sustainable agencies for local planning. Equally important was the "leaning by doing" that implementation entailed. The availability of a pre-existing menu of tried and tested subproject options helped to make these small-scale investments more feasible. The existence of three distinct windows for sub-project financing made it possible to tailor the project process to the institutional capacity of the various communities, with greater delegation of decision-making to communities with greater capacity (using the FUMAC and FUMAC-P windows, explained in Section 2c above). The transparent and participatory process of subproject selection helped to ensure that decisions reflected the will of the majority of would-be beneficiaries, reducing the scope for elite capture (although possibly limiting the opportunity for targeting investments to the poorest members of each community).Project design ensured that around 90 percent of project funds flowed directly to beneficiaries, increasing the scope for attaining the overall objective of poverty reduction. Arrangements for geographic targeting were sound: the project areas comprised 188 of the poorer municipalities out of a total of 853.

4. Achievement of Objectives (Efficacy):

(a): Improve well-being and incomes of the rural poor through better access to basic social economic infrastructure and services and support for productive activities, using proven community driven development (CDD) techniques. ***(Rating: Substantial)***

Outputs
Subproject investments benefited 93,910 families (101 percent of the target); 1,730 subprojects were implemented (93 percent of the target). Subprojects were distributed among the following categories: productive (54 percent), infrastructure (30 percent), and social (16 percent). Water supply accounted for the largest number of subprojects (25 percent), followed by farm mechanization (14 percent) and social centers (11 percent). Subprojects were selected from a menu of tried and tested options, helping to ensure they were technically sound. (The ICR does not report what proportion of subproject proposals were turned down for financing following appraisal or the share of the approved subprojects that were successful and maintained.) A physical performance study in 2010 confirmed that, in most cases, subprojects were being soundly operated (ICR, p. 20).

Outcomes
On targeting, the ICR reports that 95 percent of the funds for subprojects were invested in a subset of municipalities (accounting for 94 percent of municipalities in the project area) where the score on the Human Development Index was below the average for the project area.

Fifty-seven percent of beneficiaries reported an increase in incomes and 43 percent an increase in employment, (ICR, p. vi). A 2010 study found that "59 percent [of beneficiaries] acknowledged that subprojects brought opportunities for additional income and employment" (ICR, p. 20). Neither source quantifies the magnitude of the increases, nor is it clear how much of it is attributable to the project A relatively large share of subprojects were devoted to productive activities (54 percent); no evidence was provided on the number of jobs and incremental income generated. The project team subsequently provided evidence that over the project period access to adequate water in rural areas rose from roughly 73% to 82% (2005-2007), access to electricity rose from roughly 89 to 97 percent (2005-2009), and real rural incomes per capita rose from R$364 to R$334 (2005-2009). These results pertain to all of rural Minas Gerais, which would include but not be limited to the project areas.

According to focus groups of beneficiaries from 16 out of 1,730 subprojects, 30 percent of beneficiaries reported a meaningful reduction in waterborne diseases and 61 percent reported that hygiene improved. There is no independent measurement to confirm the magnitude of these health impacts or the extent to which they would be attributable to the project..

(b): Increase the social capital of rural communities to organize collectively to meet their own needs.
(Rating: Modest)

Outputs
The number of Community Associations and Municipal Councils formed under the project, and the training they received, may be construed as evidence of increased collective organization. 1,553 Community Associations were created (there was no target). 188 Municipal Councils were created, matching the target. 3,245 people received training; the target is not given in the ICR.

Outcomes
A Social Capital Index was part of the project design but the necessary data were not collected to assess change between the start and finish of project implementation. The project team reported that the process of preparation, selection, completion and operation of the sub-projects necessarily boosted collective organization. There is little in the way of direct evidence that social capital was built.

(c): Enhance local governance by greater citizen participation and transparency in decision-making, through creation and strengthening of community associations and Municipal Councils.
(Rating: Modest)

Outputs
Women's groups were adequately represented in the Municipal Councils. In Minas Gerais, the project restructured the existing Sustainable Rural Development Municipal Councils, turning them into agencies with representatives from other programs and projects, and making them responsible for allocating funds from these different sources. All of the Municipal Councils operated on these lines, making them similar to the FUMAC-P model of decentralized decision-making envisaged in the original project design. The project trained 1,827 people nearly all of whom were members of the participating councils.

Outcomes
There is some overlap with the previous objective related to social capital through the citizen participation element. The ICR reports that "while Municipal Councils' level of sophistication and maturity varied, an increasing number were routinely discussing a range of public programs and issues affecting rural life", including employment youth migration and natural resource use.

(d): Foster closer integration of development policies, programs and projects at the local level, by assisting Municipal Councils to extend their role in seeking funding, priority setting and decision-making over resource allocation, and by assisting the government to measure the efficiency and impact of its own programs to reduce rural poverty in rural space. *(Rating: Substantial)*

Outputs
The project developed and supported the restructured Sustainable Rural Development Municipal Councils instead of "an isolated municipal council" most of which addressed only one sector investment area.

Outcomes
In all 188 municipalities in the project, the Sustainable Rural Development Municipal Councils combined decision-making on project funds with decision-making on resources from other projects and programs, including a rural electrification program (US$ 618,400) and a federal program that supported "family agriculture" (US$143,300) (ICR, p. vii and p. 17). On the other hand, only a few Community Associations established the links with credit institutions that had been envisaged at appraisal.

(e) Assist the state of Minas Gerais to reduce high levels of rural poverty.
(Rating: Substantial)

The project team provided new evidence based on credible surveys that the percent of the rural population of Minas Gerais living in extreme poverty dropped from 12.2% in 2005 to 5.6% in 2010. There are no doubt many factors affecting this reduction – including the expansion of social safety net and rural water supply programs and a general economic improvement in Brazil. However, the extent of targeting, the evidence of improved access and incomes, and greater integration of development programs due to the Sustainable Rural Development Municipal Councils suggest that the project activities likely contributed to poverty reduction in the project area.

5. Efficiency (not applicable to DPLs):

Benefit-cost analysis: Given the demand-driven nature of the projects in this series the distribution of funds between the various categories of subproject could not be known in advance, explaining why a project-wide economic rate of return was not estimated at appraisal. At completion, a financial and economic analysis of subprojects was made, but this was done using data from only 22 subprojects representing the dominant types of infrastructure and productive subprojects (water supply, farm mechanization and milk cooling units). However, these were not randomly sampled. The subprojects selected were those "considered by knowledgeable people to be moderately successful, that is, the sampled units were not limited exclusively to very successful subprojects" (ICR p. 32)—implying that unsuccessful projects were not included in the sample. Further, the share of successful and unsuccessful projects is not known. Annex III notes that it would not be statistically valid to extrapolate the results to the universe of subprojects.

The ICR gives little detail about how benefits from the three types of investment were calculated. It did not aggregate these results into an overall economic rate of return, with project management costs deducted, so no overall project ERR can be deduced. In its comments, the region confirmed that the efficiency analysis took account of operations and maintenance (O&M) costs. It is unclear the extent to which the selection of the 22 subprojects was biased by the fact that those with poor quality O&M would presumably be less likely to succeed.

Fiscal savings. There is some evidence that the project led to fiscal savings. Foregone expenditures for water distribution via tanker trucks are significant in those communities where water supply subprojects were executed. Some 30,000 families benefited from water supply subprojects at a combined investment cost of US$13.3 million. For virtually all of these families, the only viable alternative for water supply would have been tanker trucks at an overall monthly recurrent cost of US$1.5 million.

Cost-effectiveness: Subsequent to the ICR, some comparative cost figures were provided by the project team suggesting that public investments of a similar type were more costly. Project costs were reported to be between

47% and 77% of the non-project cases, matched according to the type of infrastructure. However, it has been difficult to assess the comparability of these estimates to this particular project.

Other factors have an equally important bearing on efficiency. The actual cost of project management (Component 3) was low (1 percent of total project cost), consistent with claims in the PAD about the limited overheads involved in this approach to community-driven development. Actual spending on subprojects (US$47.9 million) was 116 percent of the expected amount, while 101 percent of the expected number of families benefited from the project. Area targeting ensured a predominant focus on the poorer households.

Efficiency is rated **modest.**

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

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	No		
ICR estimate	No		

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

6. Outcome:

The objective of reducing rural poverty was substantially relevant in terms of conditions in Minas Gerais, and in relation to Bank and Borrower strategy. The relevance of design was also substantial, because the project components were tried and tested, and they were appropriate for improving access and incomes, increasing social capital and local governance, and reducing poverty. Although questions about attribution to the project remain in light of the ramping up of social programs and economic improvements, new evidence shows that real per capita rural incomes increased and the share in extreme poverty declined. It is likely that the project’s outputs contributed to these outcomes. However, two of the five objectives were modestly achieved and there were weaknesses in the efficiency analysis.

a. Outcome Rating : Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:

Many of the subprojects were based on tried and tested designs, increasing the prospect that they would be sustainable. The progress made in developing a unified system of municipal planning may ultimately strengthen the process of prioritizing investments and obtaining funds from the available state and federal programs. Environmental screening processes were apparently adequate. Provisions for operation and maintenance were included in the contract between the Community Association and the State Technical Unit. But the ICR presents no evidence on the adequacy of these provisions, not saying, for example, if user fees were collected. Nor does the ICR report what proportion of subprojects continued to operate some years after they had been funded. The project team told IEG that O&M expectations were only about 50 percent realized. There are particular doubts about the sustainability of the productive subprojects, given the drought-prone nature of this region, and the limited availability of credit. (Productive subprojects accounted for 54 percent of all subprojects.)

a. Risk to Development Outcome Rating : Significant

8. Assessment of Bank Performance:

Quality at Entry

The project's objectives were relevant to Borrower and Bank strategy at the time of appraisal and afterwards; and its design was relevant to the attainment of those objectives. The design evolved from an earlier project cycle, improving on the original design. As examples of improvement, the ICR (p. 21) refers to the restructuring of Municipal Councils—there were given increased responsibility for local planning—and the strengthening of the eight Regional Offices responsible for project implementation. The closeness of these units to the beneficiaries increased the speed and flexibility of project procedures and facilitated subproject supervision, helping to ensure that the expected outcomes were realized.

The menu of eligible subprojects was broad, possibly reducing the focus on poverty reduction. Two of the three main types of productive investments, farm mechanization and dairy processing, are likely to have had more indirect than direct poverty impacts and, in fact, might be expected to be taken up by the less poor. On the other hand, the provision of water probably benefited the poor.

The ICR argues that there were too many impact indicators. With 7 for the project development objective and 10 for the intermediate outcome indicators, this might be valid *a priori* but a problem was that, for many, no *ex ante* target was set and, in some cases, no baseline values were established.

Quality of Supervision

The ICR (p. 22) argues that supervision was timely and well documented. Field visits were based on a random selection of communities, Municipal Councils and subprojects. Supervision was flexible enough for the Bank to support an expansion in the number of productive subprojects, in response to a proposal from the State Technical Unit that was in overall charge of implementation. The mid-term review was timely and the ICR reports satisfactory follow-up. It also reports a generally strong focus on financial management and procurement.

a. Ensuring Quality -at-Entry: Moderately Satisfactory

b. Quality of Supervision : Satisfactory

c. Overall Bank Performance : Moderately Satisfactory

9. Assessment of Borrower Performance:

Government Performance

The ICR notes (p. 22) that the successive state governments were committed to the project and, despite the turnover, the quality and pace of implementation did not falter. The various administrations supported an increased focus on vulnerable groups and on productive sub-projects. Counterpart funding was timely and adequate. The objectives of the project were treated as an integral element of the state governments' regional and rural strategies.

Implementing Agency Performance

The State Technical Unit, which was in overall charge of implementation, supported the restructuring of the Municipal Councils and strengthened the regional offices. It generated the demand for productive sub-projects and extended this to indigenous and ethnic communities. It maintained a cooperative relationship with the Bank.

The State Technical Unit coped less well with M&E. The Physical Performance Review was needed at mid-term review but was not completed until near closing. Also, owing to delays in competitive bidding, the State Technical Unit did not carry out the planned impact evaluation.

a. Government Performance : Satisfactory

b. Implementing Agency Performance : Moderately Satisfactory

c. Overall Borrower Performance : Moderately Satisfactory

10. M&E Design, Implementation, & Utilization:

Design

The project results framework could have been stronger: some indicators (such as, social capital) were hard to measure and appropriate baselines or targets were not set. A Management Information System (MIS) template was borrowed and adapted from an earlier Bahia state project. However, early on it became apparent that adjustments were needed. This proved difficult due to the proprietary nature of the MIS software. The Project Appraisal Document made it clear that a comprehensive impact evaluation would be conducted.

Implementation

A new system was contracted during implementation that proved satisfactory overall but had weaknesses including inability to generate interim financial reports. The planned impact study was not implemented due to delays in contracting. This was partly due to lack of experience of with the Bank's guidelines and apparently partly due to a low level of interest by firms. The studies that were carried out as a partial substitute included the Physical Performance Review and the Qualitative Study of Perceptions. This lack of an impact assessment after such a series of projects was a significant shortcoming.

Utilization

The ICR says little about the use to which M&E results were put. There appears to have been some modest utilization of the monitoring data and the ICR made use of the two studies mentioned. Unfortunately, these studies did not provide much evidence on outcomes.

a. M&E Quality Rating : Modest

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

Safeguards

The project was Category B, with an Environmental Management Plan. The project did not have an Indigenous Peoples Plan because it was not required at the time of appraisal. However, in 2008, a proposal for indigenous people's participation was prepared. There were 59 indigenous communities in the project area from five ethnic groups. By project closing one community had implemented eight subprojects benefiting 698 families. For another group, 25 communities benefited from subprojects for some 1,300 families.

Fiduciary

Financial management was consistently rated satisfactory (ICR, p. 12) Audit performance was generally adequate and the project's internal controls were rated satisfactory. Auditor's recommendations were implemented. Procurement was generally rated satisfactory. The ICR reports that the Bank praised the implementing agency's efforts to guide the Community Associations towards the formalization of their procurement files and contract records.

Unintended Impacts

No unintended impacts are reported by the ICR.

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	Objectives and design were both substantially relevant. Although questions about attribution to the project remain, new evidence shows that rural poverty in the state did fall and a plausible case can be made that the various elements in the results chain were consistent with poverty reduction. Two of the five objectives were modestly achieved. There were

			weaknesses in the efficiency analysis, particularly concerning the representativeness of the subproject sample.
Risk to Development Outcome:	Negligible to Low	Significant	The Municipal Councils appear to have assumed a more active role in local planning, possibly helping to ensure that the commitment to poverty reduction is sustained. However, many subprojects may not be sustained owing to limited provision for O&M, and productive subprojects (54 percent of the total) may be at risk in this drought-prone, credit-scarce region.
Bank Performance :	Satisfactory	Moderately Satisfactory	There were weaknesses in quality at entry related to poverty targeting.
Borrower Performance :	Satisfactory	Moderately Satisfactory	Due mainly to weaknesses in M&E and impact assessment, leaving limited evidence on outcomes that could be attributed to the project.
Quality of ICR :		Satisfactory	

NOTES:
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate .

13. Lessons:

Lessons suggested by the ICR include the following:

- Decentralized project management can improve responsiveness to beneficiaries. In this case, the delegation of responsibilities to regional technical offices increased the accountability to beneficiaries, reduced processing times and helped to strengthen the Community Associations' management capacity.
- Community-driven development can help to empower women, because community associations provide opportunities for learning and for assuming leadership.
- Small-scale grants financing productive ventures, in contrast to community infrastructure, require a business plan, up front marketing arrangements and formal training for the operational phase.

IEG adds:

- A complete assessment of the efficiency of CDD projects involves reviewing the evidence for cost-effectiveness, showing how this varies between subproject categories, and the extent of variation between the average for the project and the average obtained under other public programs.
- Intermediate outcomes need to be properly quantified with well-designed indicators, baselines and targets. In particular, social capital is hard to measure and the evidence adduced in this case was not strong enough to conclude that it had been substantially achieved.

14. Assessment Recommended? ○ Yes ● No

15. Comments on Quality of ICR:

The ICR contains a thorough assessment of project design and a number of specific and informative lessons are proposed. However, given the project objective of reducing high levels of rural poverty in the state, there is limited evidence presented on poverty outcome (perhaps reflecting the weak M&E). The assumptions of productivity and income increases used in the efficiency analysis could have been more thoroughly spelled out, and the analysis should not have excluded sub projects that were unsuccessful.

a.Quality of ICR Rating : Satisfactory