



<b>1. Project Data :</b>
<b>OEDID:</b> L3035
<b>Project ID:</b> P008677
<b>Project Name:</b> Tras-Os-Montes Regional Development Project
<b>Country:</b> Portugal
<b>Sector:</b> Other Agriculture
<b>L/C Number:</b> Loan 3035-PO
<b>Partners involved :</b> IBRD, Govt. of Portugal, European Union
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<b>Date Posted:</b> 02/10/1998

<b>2. Project Objectives, Financing, Costs and Components :</b>
<p>Objectives</p> <ul style="list-style-type: none"> <li>(a) Transform agriculture in the Tras os Montes region into a smaller, more efficient sector;</li> <li>(b) Expand agroindustry by improving processing, marketing and entrepreneurial skills;</li> <li>(c) Achieve steady economic growth in the region, and increase incomes and employment relative to other regions</li> </ul> <p>Components</p> <ul style="list-style-type: none"> <li>(a) Strengthening of basic agricultural services;</li> <li>(b) Credit for modernization of agroindustries and replanting of 5,000 ha of existing vineyards for port wine</li> <li>(c) Rehabilitation of 210 small traditional irrigation schemes and construction of about 16 new medium-size irrigation schemes; and</li> <li>(d) Construction and rehabilitation of rural infrastructure.</li> </ul> <p>Costs</p> <ul style="list-style-type: none"> <li>(a) Total project cost <ul style="list-style-type: none"> <li>—Appraisal US\$415.8 million</li> <li>—Actual US\$95.4 million</li> </ul> </li> <li>(b) Loan amount US\$90 million of which US\$59.3 million was cancelled</li> </ul>

<b>3. Achievement of Relevant Objectives :</b>
<p>(a) The objective of raising farming efficiency (via intensification) was compromised by the failure to meet the project's physical objectives: irrigation rehabilitation covered 4,549 ha, not the expected 10,500 ha; the new irrigation schemes covered only 2,155 ha, compared to the 6,360 ha forecast at appraisal; 297 km of rural roads were built, not the expected 690 km; 375 electricity connections were made, compared to the 600 anticipated. Some of the new irrigation investments were made in areas of lower farming potential, outside the zone defined at appraisal: the ERR for new schemes was only 1 percent (compared to 19 percent for irrigation rehabilitation). Also, with respect to the credit component, only US\$ 7.5 million was disbursed, compared to an appraisal forecast of US\$35 million. The project made a small contribution to strengthening agricultural extension and research . (b) The development of agroindustry was constrained by the same project shortfalls noted under (a).</p> <p>(c) Income and employment objectives were achieved, but primarily as a consequence of changes in the broader environment--entry of Portugal into the European Union led to an inflow of capital and a rise in exports; although precise attribution is impossible to establish, it is unlikely that the project contributed significantly to the improvement in the region's fortunes.</p>

<b>4. Significant Achievements :</b>
<p>Although much less was built than expected, the rural infrastructure installed by the project is likely to be sustainable because municipal governments and user groups are well organized and motivated to handle maintenance (as demonstrated in the</p>

previous area-based project for this region). The agricultural research component—particularly as applied to tree crops and irrigation rehabilitation—created some jobs and made a small contribution to improving the management of natural resources.

**5. Significant Shortcomings :**

Project design failed to take into account the evidence—fully available when the project was appraised in 1988—that Portugal’s entry into the European Union (and consequent access to substantial grant finance) was reducing both the demand for Bank funds and the relevance of Bank support. The Borrower perceived the Bank’s funds as too expensive and therefore failed to provide counterpart finance. Given Portugal’s access to EU regional development grants the Bank had very little leverage over project outcome. The Borrower focused on maximising the use of EU grant funds rather than exploiting the opportunities for complementarity (i.e. using Bank funds to finance the share of investments not covered under EU programs, with a view to strengthening pre-investment analysis and expanding overall investment in the region).

<b>6. Ratings:</b>	<b>ICR</b>	<b>OED Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome:</b>	Unsatisfactory	Unsatisfactory	
<b>Institutional Dev .:</b>	Negligible	Negligible	
<b>Sustainability:</b>	Likely	Likely	
<b>Bank Performance:</b>	Deficient	Unsatisfactory	This is a terminological difference not reflecting difference in judgement
<b>Borrower Perf .:</b>	Deficient	Unsatisfactory	The same as above
<b>Quality of ICR:</b>		Satisfactory	

**7. Lessons of Broad Applicability :**

- (a) When a project involves mixed funding from a Bank loan and grants special care should be taken to ensure that the recipient intends to utilize both sources of funding in a complementary, not competing, manner.
- (b) In countries nearing “graduation” from the Bank, pre-project analysis should include a review of the entire country portfolio in order to pick up any signs of weakening commitment.
- (c) With problem projects such as this, midterm reviews should result in cancellation of the loan rather than supervision (at reduced intensity) up to the expected closing date.

**8. Audit Recommended?**  Yes  No

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

The ICR gives a complete, clear and internally consistent account of the project.