# REPUBLIC OF MOLDOVA

# RURAL BUSINESS DEVELOPMENT PROGRAMME

# (IFAD Loan 686-MD)

# PROJECT COMPLETION REPORT

Near East and North Africa Division
Project Management Department

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Currency Equivalents

| | | |
|---|---|---|
| Currency Unit | = | Moldovan Lei (MDL) |
| USD 1.00 | = | MDL 12.0 |

**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 ($m^2$) | = | 10.76 square feet ($ft^2$) |
| 1 acre (ac) | = | 0.405 ha |
| 1 hectare (ha) | = | 2.47 acres |

## ABBREVIATION AND ACRONYMS

| | |
|---|---|
| ACSA | Agency for Consulting and Training in Agriculture |
| AR | Appraisal Report |
| ARP | Agricultural Revitalization Project |
| CB | Commercial Bank |
| CNFA | Citizen Network for Foreign Affairs |
| CPIU | Consolidated Programme Implementation Unit |
| EGPRSP | Economic Growth and Poverty Reduction Strategy Paper |
| EIRR | Economic Internal Rate of Return |
| FIRR | Financial Internal Rate of Return |
| GDP | Gross Domestic Product |

| | |
|---|---|
| GGAP | Global Good Agriculture Practises |
| GoRM | Government of Republic of Moldova |
| Ha | Hectare |
| IFAD | International Fund for Agricultural Development |
| IPSC | IFAD Programme Steering Committee |
| ISO | International Standard Organisation |
| Km | Kilometre |
| LA | Loan Agreement |
| LIBOR | London Interbank Offered Rate |
| LTD | Limited Liability Company |
| M&E | Monitoring and Evaluation |
| MDI | Market-Derived Infrastructure Investment |
| MDL | Moldovan Leu |
| MICB | Moldindconbank SA |
| MoAFI | Ministry of Agriculture and Food Industry |
| MoE | Ministry of Economy |
| MoF | Ministry of Finance |
| MPCL | Marginal Propensity to Consume Locally |
| MPCLL | Marginal Propensity to Leak Locally |
| MPI | Marginal Propensity to Import |
| MPS | Marginal Propensity to Save |
| MRT | Marginal Rate of Taxation |
| NBM | National Bank of Moldova |
| NBS | National Bureau of Statistic |
| ORS | Objective Ranking System |
| p.a. | Per Annum |
| PCR | Programme Completion Report |
| PFI | Participating Financial Institutions |
| POM | Programme Operational Manual |
| RBDP | Rural Business Development Programme |
| REIS | Rural Enterprise Intermediation Service |
| RFS | Rural Financial Services |
| RFSEDP | Rural Finance and Small Enterprise Development Project |
| SCAs | Savings and Credit Associations |
| SDR | Special Drawing Rights |
| SIPs | Strategic Investment Plans |
| SMEs | Small and Medium-Sized Enterprises |
| USAID | United States Agency for International Development |
| USD | United States Dollar |
| VCM | Value Chain Multiplier |
| VCMI | Value Chain Multiplier Index |
| WB | World Bank |
| WNISEF | Western NIS Enterprise Fund |

# PROJECT AT A GLANCE

| | | | | | |
|---|---|---|---|---|---|
| **Country** | **Republic of Moldova** | | | | |
| **Project Name** | **RURAL BUSINESS DEVELOPMENT PROGRAMME** | | | | |
| **Key dates** | | | | | |
| **IFAD Approval** | **Signing** | **Effectiveness** | **Mid-Term Review** | **Original Completion** | **Actual Completion** |
| October 2005 | February 2006 | July 2006 | June 2008 | September 2011 | December 2010 |
| **Mid-term Review** | **Interim Evaluation** | **Original Loan Closing** | **Actual Loan Closing** | | |
| June 2008 | | March 2012 | December 2010 | | |
| **IFAD Financing** | | | | | |
| **Loan (AR)** | **SDR 9.1 million** | **USD 13.025 million** | **SDR 99 % disbursed** | | |

**Costs and Financing ( million USD)**

| **Component** | **IFAD** | | **PFIs** | | **Beneficiaries** | | **GoRM** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **AR** | **Actual** | **AR** | **Actual** | **AR** | **Actual** | **AR** | **Actual** | **AR** | **Actual** |
| Rural Enterprise Intermediation Services (REIS) | **0.650** | **0.002** | | | | | | | **0.650** | **0.002** |
| Rural Financial Services (RFS) | **7.744** | **10.645** | **2.810** | **2.209** | **3.630** | **14.292** | | | **14.184** | **27.146** |
| Market Derived Infrastructure Investment (MDII) | **3.383** | **3.300** | | | **0.554** | **0.742** | **0** | **0.006** | **3.937** | **3.288** |
| Programme Management (PM) | **1.248** | **0.153** | | | | | **0.288** | **0.661** | **1.536** | **0.806** |
| Total | **13.025** | **14.100**[1] | **2.810** | **2.209** | **4.184** | **15.034** | **0.288** | **0.667** | **20.307** | **31.242** |

**Number of beneficiaries**

| **Total** | **Direct** | **Indirect** | **Women** | **Men** | **Other** |
|---|---|---|---|---|---|
| **MDI 41178**<br>**REIS 129 enterprises**<br>**RFS 6 669** | **MDI 108 enterprises**<br>**REIS 129 enterprises**<br>**RFS 129 (354)**[2] | **MDI 41070**<br>**REIS 152 enterprises**<br>**RFS 6 635** | **MDI 20124 (49%)**<br>**REIS 50%**<br>**RFS 26%** | **MDI 20946 (51%)**<br>**REIS 50%**<br>**RFS 51%** | |

**Project Objective**

To produce sustainable income growth for poor people in rural areas and small towns in Moldova and stimulate the growth of strategic farming and rural business activities in which Moldova has a comparative advantage.

**Country Partners**

| | | | | | |
|---|---|---|---|---|---|
| **Executing Agency** | Ministry of Agriculture and Food Industry | Ministry of Finance | 7 Participating Financial Institutions | 7 Rural Business Service Providers | Credit Line Directorate, MoF |
| **NGOs/civil society** | 32 infrastructure management groups | 354 borrowers | | | |
| **Other** | | | | | |

[1] The amount according the exchange rate SDR – USD on issue date of each withdrawal application
[2] Owners

# EXECUTIVE SUMMARY

## PCR Data Sources

1. Information used for preparing this Programme Completion Report (PCR) for the Rural Business Development Programme (RBDP) has been obtained from: (i) M&E data from the CPIU-IFAD; (ii) financial information from the CPIU-IFAD Finance Section; (iii) refinancing information from CPIU-IFAD Credit Section; (iv) Impact Assessment Report for all IFAD's financed activities in Moldova, 2008/09; (v), Supervision Reports; (vi) RBDP Appraisal Report; (vii) Moldova's National Bureau of Statistic (NBS); and (viii)[3] survey of 41 enterprises financed by the programme, 7 infrastructure investments financed by the programme, the 2 most active business service provider were interviewed, 2 Participating Financial Institutions were visited. The mission also met Mr.Vasile Bumacov, the Deputy Minister of Agriculture and Food Industry. Data from these sources have been analysed and triangulated to confirm trends and results of the programme's achievements.

## Output

2. The programme achieved its objective of stimulating growth of strategic farming and rural business activities in which Moldova has a comparative advantage. This was accomplished through three components: Rural Enterprise Intermediation Services (REIS); Rural Financial Services (RFS) and Market Derived Infrastructure Investment (MDI)**.**

3. **REIS.** The programme trained and accredited 7 Business Service Providers (BDS) to assist programme clients prepare business plans, linking clients with 9 Participating Financial Institutions (PFIS) selected by the programme and providing clients with technical advisory service. Through this arrangement, a total of 152 clients received support in preparing Business Plans (BP) and 129 of these obtained investment loans from 7 PFIs which were refinanced by the programme (see Table 2). In addition the programme provided capacity support to 5 696 persons including technical advisory service, programme awareness, agricultural loan risk management and collateral development and strengthening of value chains (see Table 11). Out of total participates women accounted for 2 632 or 46%.

4. **RFS.** The 129 investment loans refinanced by the programme (see Table 4 for details) addressed key issues identified by the Appraisal Report including support to 24 new enterprises, diversification of business activities for 18 enterprises and upgrading of 87 existing enterprises to enhance competitiveness. Support to women was accomplished through 33 loans accounting for 26% of all loans. The refinanced investment loans also addressed the identified need to strengthening of value chains for horticulture through 56 investment loans value at 4.886 million, 43 investment for wheat and oil seed amounting to USD 2.739, 13 dairy farming investment loan totalling USD 1.232 million, 5 meat processing loans valued at USD 0.606, 3 investment loans for other agriculture enterprises amounting to USD 0.448 and 9 non agriculture enterprises amounting to USD 0.743. The total investment amounted to USD 27.17 million of which USD 14.292 million was equity contribution, PFIs own funds USD 2.209 million and refinanced investment loans from PFIs amounting to USD 10.645 million.

5. **MDI.** Programme support to market derived infrastructure (see Table 5) included rehabilitation/construction of 12 vital road sections totalling 12.4 km and assisting 56 enterprises and also benefiting 36 936 individuals from regular use of the roads; (ii) support was also provided to 3 locations for installation of water supply systems, totalling 10.092 km of laid pipes, assisting 12

[3] See Annex VII for details

enterprises and also benefiting 1 832 persons living in these locations; (iii) 2 locations were supported with a total of 4.643 km of gas line assisting 5 enterprises and also benefiting 460 persons from these locations; (iv) investments were also made to rehabilitate 15 dilapidated irrigation schemes covering 3 931 ha benefiting 35 enterprises and 1 842 farmers families. In addition to the 53 enterprises refinanced by the programme, 55 enterprises not refinance by the programme also benefited, out of other programme activities. For each of the 32 programmes supported infrastructure investments, a management group was established and out of these 8 were headed by women. The groups met twice a year and all were functioning at the time of the PCR.

## Outcome

6. **RFS.** This component contributed to the programme goal with the following outcomes: (i) the 129 investment loans refinanced by the programme created 1 348 jobs directly. The 1 348 direct jobs generated by the programme represents 3.62% of all new jobs (37 200[4]) created in the country during the programme implementation period. The average monthly wage for each job created is USD 208 which is very good compared to the country average for all (465 200[5]) waged employees amounting to USD 195/month[6] (2008) and considerably better than for the agriculture sector averaging USD 119/months[5] (2008). It is assumed that the 129 enterprises paid half of the mandatory health insurance (3.5% of gross salary) and social security contribution (23% of the gross salary) or 15% of total gross income amounting to USD 0.505 million annually. The total annual wage bill for managers/owners of the 129 enterprises amounted to USD 2.27 million and it is assumed that the enterprises paid the mandatory health insurance and social security contribution amounting to USD 0.613 million annually. The cost of creating 1 job measured against total loan amount is **USD 6 062**.

7. The 36 enterprises engaged in produce collection/marketing and in processing, acquired raw material worth USD 33.444[7] million annually estimated to have created incremental markets from around 4 593[8] small farmers.

8. The 35 commercial farmers supported under the programme rents 5 350 ha from 3 565 smallholders of which half are pensioners. The rise in land rent increased the income per average smallholder by USD 165 p.a[9]. This development is of particular importance for the pensioners having limited possibility to cultivate their land by themselves and in getting employment.

9. At maturity (year 14) the 129 refinanced investments supported by the programme generates a net return before tax and depreciation of USD 9.319 million[10] annually, resulting in a Financial Internal Rate of Return (FIRR) of 16% with a Financial Net Present Value (FNPV) at 12% of USD 4.811 million. The Economic Internal Rate of Return (EIRR) is 32% with an Economic Net Present Value (ENPV) at 12% of USD 24.786 million.

10. **MDI.** The 32 market derived infrastructure investments benefited 53 enterprises in receipt of refinance investment loans, 55 enterprises not benefiting from the RFS, 39 228 individual persons and 1 842 commercial small farmers. The incremental returns from road, gas and water investments were mainly in the form of savings from reduced repair cost as a result of better roads,

[4] Source: NBS
[5] Source: NBS
[6] Source: NBS
[7] Source: Annex VI: Economic Multiplier Analysis
[8] Including the 1 842 farmers benefiting from improve irrigation infrastructure
[9] Assuming that a landowner has 1.5 ha on average.
[10] Annex VII: Financial and Economic analysis

reduced cost of fuel by shifting to gas and reduced cost of using piped water compared to hoisting it from a well. The incremental return from rehabilitation of irrigation was from increase in yield and crop diversification resulting in incremental earnings of USD 650/ha or USD 1 365 per farmer (2.1 ha for each farmer). The estimated net returns for the infrastructure investments is USD 4.133 million producing a FIRR of 37% and a FNPV at 12% of USD 6.466 million. The EIRR is 60% with an ENPV at 12% of USD 9.875 million.

11. **Programme Financial and Economic Analysis.** Overall the programme generated a yearly estimated net profit of USD 13.206 million (before tax and depreciation for RFS) at maturity with a FIRR of 19% and a FNPV at 12% of USD 10.458 million. The EIRR is 35% with an ENPV at 12% of USD 33.482 million. The financial and economic analysis has been calculated over a period of 14 year allowing for all investment loans to be repaid.

12. **Wider Economic Impact[11].** The economic multiplier effect of the investment generated 408 indirectly and induced jobs with a yearly wage bill of USD 1.018 million or an average of 208 per months. It is assumed that the employers paid around half of the mandatory health and social services amounting to 9.5% of gross wage bill or USD 0.097 million. The economic multiplier impact for the entire economy is estimated to be USD 203 million yearly or for every USD 1 invested USD 2.36 is generated in the economy. The economic multiplier effect for the rural economy is USD 120.114 or for every USD 1 invested USD 1.39 is generated in the rural economy.

13. **Systemic Impact**. The programme had several systemic impacts including increased financial outreach, improved risk management of loans, acceptance of a wider range of collateral, upgrading of the horticulture value chain and improvement in competitiveness of field corps.

14. The above programme outcomes contributed to the national goal of reducing poverty. During the period between AR and programme completion the national[12] poor population (based on people with per capita income of less that USD 2.15 per day) has dropped from 27.6% (2005) to less than 10% (2009) and the number of extremely poor reduced by 2.4% during the same period.

## Lessons Learned

15. **Market Derived Infrastructure**. The market derived infrastructure supported by the programme was very successful, particularly the support to irrigation recorded several dimensions of successes: (i) provide a tangible reason for 35 enterprises and 1 842 farmers cultivating 3 931 ha of irrigated land to strengthen their collaboration leading to collective investments and marketing arrangements; (i) enable 35 enterprises and 1 842 farmers to diversify from low value field crops into high value vegetable crops resulting in net incremental return of USD 650/ha; and (iii) the improved economic opportunity created by the irrigation resulted in reduced migration and return of migrants. Considering these positive contributions and the large potential for expanding the land under irrigation at a reasonable cost this innovative programme feature should be used in new IFAD financed programmes for Moldova.

16. **Credit Guarantee Fund.** The programme support to risk management and expansion of types of collateral use for loan security enabled the programme's 12 first time borrowers and the 15 smallest borrowers to obtain investment loans indicating the positive impact from this

[11] Excluding the incremental earning form roads, gas and water as it is mainly based on savings
[12] Ministry of Economy Report on Poverty and Policy Impact, November 2009, page 11, Figure 5: Trends in the share of people with per capita income of less than USD 2.15 a day

intervention. This suggests that in future IFAD programmes this approach should be up-scaled and also include programme investment in existing credit guarantee funds.

17. **Venture Capital Fund**. Of the total investment loans Joint Stock Companies and Private Limited Liability Companies accounted for 83% of the value and 70% of the volume[13] of total investments undertaken with programme support. Many of the shareholders were non family members suggesting that private equity participation in investments is on the rise. This was also confirmed by PFIs met by the PCR mission who had matched SMEs with investors and also SMEs sourcing additional equity from new investors suggesting that the time is ripe for a venture capital fund. Therefore, new IFAD interventions in Moldova should include a venture capital fund targeted to further develop strategically important value chains.

18. **International Food Standards**. The negative economic impact from the 2005 Russian embargo of agricultural produce from Moldova has shown the importance of reducing trade barriers to other countries particularly EU. In this respect the first action is to facilitate exporters of agriculture produce and processed food to comply with international food standards including Global GAP, HACCP/ISO certification. The programme did encourage enterprises investing in food processing, on a voluntarily basis, to organise configuration of building and equipment in preparedness for food standard certification. This effort resulted in 7 enterprises using the correct configurations of buildings and equipment in readiness for certification and 2 obtained HACCP registration and 3 obtained the local certification but are also prepared for HACCP certification. Further IFAD programmes should provide appropriated support to enterprises enabling them to comply with international standards

19. **Contract Farming.** Through the value chain approach several contract farming arrangements has developed between processors and farmers of which most were small farmers. These contract arrangements stimulated diversification, investments, availability of inputs and raw materials. This effort should be further be support by new IFAD investments in Moldova, both in terms of developing contractual modalities, training and tripartite financing arrangement enabling PFIs to finance the contracted farmers' investment requirements based on their forward contracts with the processor. IFAD should also consider co-financing the cost of embedding value chain supply chain managers with the processors to engage in provision of technical advice and staggering of production and delivery of produce.

[13] Annex II: Portfolio Analysis of Refinanced Investment Loans, Table 4: Legal Form of Enterprises

## A. INTRODUCTION

1. The Rural Business Development Programme (RBDP) concept was developed based on the Government's Economic Growth and Poverty Reduction Strategy Paper (EGPRSP), as well as two previous IFAD-funded projects, the "Rural Finance and Small Enterprise Development Project" (RFSEDP) implemented during 2001 and 2005, and the "Agricultural Revitalisation Project" (ARP), which was implemented during 2005 - ongoing. RBDP has been succeeded by the "Rural Financial Services and Marketing Programme" (RFSDP), which has been approved by the IFAD Board in December 2009.

2. **These programmes were geared at the development** of rural areas in Moldova, with different methods and approaches adjusted to the prevailing challenges and demands, but also with some similarities, and each building on the lessons learned from its predecessor(s) and reflecting the changes that occurred in society and the economy. Common elements underlying all three programmes include, among others: (i) the advancement of rural finance; (ii) creating jobs; (iii) the support to new business opportunities; (iv) improved marketing: and (v) commercially derived infrastructure. The Agreement between the Government of Moldova (GoRM) and International Fund for Agricultural Development (IFAD) for financing RBDP was signed in February 2006.

3. At the time of AR 58.6% of the country's population lived in the rural areas - of these 52% (WB Poverty assessment, 2002) was poor and accordingly represents the target group of the programme. Of the population living in the rural area 28% relied entirely on wages and 79.2% relied on an average land holding of 3 ha fragmented into several plots and located apart. The small dispersed plot sizes forced most rural households to engage in subsistence farming, and 57% of the household were also letting part of their land to larger agricultural enterprises, resulting in a combined earning accounting for only 39.85% of their disposal income. Under these conditions agriculture by its own was not the solution to poverty reduction. To achieve poverty reduction would require creation of jobs through expansion of existing SMEs and support for establishing new ones. Job creation also matched the experience of the rural population as most had a professional background as specialised workers under the Soviet era with little or no experience in agriculture.

4. In accordance with Programme design the investment proposals received from rural clients were subjected to critical targeting analysis to ensure that the greatest possible impact was provided for the enhancement of rural incomes at all levels, particularly ensuring participation by a large number of unemployed rural people.

5. The client group for the Programme would be largely self-determined. The approach put in place investment response mechanisms, primarily through the commercial financial sector, which could in principle be accessed by all the rural population. Resources would not be directed to specific categories of clients. Targeting would be achieved through the nature of the supply response to client-determined investment plans, and the demonstrated income multiplier effects on the rural value chain.

6. In 2005, Russia enacted a ban on Moldovan agricultural products, and in 2006 it banned imports of Moldovan wines. The wine ban has been particularly painful because, prior to the ban, Moldovan wine sales approached 15% of GNP, and it exported approximately 80% of its wine to Russia valued at around USD 251 million[14] (USD 315 million) at the end of 2005. The ban on agriculture products did affect the programme's financed investment for fresh and processed fruits, vegetables. However, export arrangement to Russia via Ukraine and new markets for fresh,

[14] Source: NBS

processed fruits and vegetables were established relatively quickly minimising the negative effect. The programme did not refinance investment related to wine production therefore the embargo on wine did not directly affect the programme. However the embargo had an overall negative impact on the economy and after the ban was lifted at the end of 2008 the sector has only recovered to 51% (USD 159 million) of its 2005 level. The biggest barriers for establishing new export markets have been compliance with international standards and wine quality which is also the case for other agricultural products.

7. The programme was implemented throughout rural areas of Moldova, with no specific geographic focus. Activities were a response to articulated demand from rural people, especially with respect to the provision of financial services and infrastructure investments.

## B. PROGRAMME DESCRIPTION AND IMPLEMENTATION ARRANGEMENTS

### Goal and Objective

8. **Overall Programme**. The overall goal of the RBDP was ‘to produce sustainable income growth for poor people in rural areas and small towns in the Republic of Moldova’. The purpose subsumed under this goal was ‘to stimulate growth of strategic farming and rural business activities in which Moldova has a comparative advantage’. The programme objective would be achieved through the following components:

9. **Rural Enterprise Intermediation Services (REIS) Component**. The main objective of the component was ‘to strengthen the growth of strategic farming and rural business activities in Moldova’. This was achieved through two sub-components: (i) The Loan Intermediation Services Sub-component assisted a network of REIS Providers (REISP) with the preparation of business plans and other support services to secure finance for rural enterprises; and (ii) The Equity Intermediation Services Sub-component was meant to support the development of medium scale enterprises by offering, through REIS Providers, effective Strategic Investment Plans (SIPs) and other services to attract direct investment from the private sector.

10. **Rural Financial Services (RFS) Component**. The objective of this component was ‘to provide access to appropriate, sustainable financial services for Rural Business Entities. This objective was attained through activities implemented under the following sub-components: (i) The Loan Refinancing Sub-Component would refinance loans and lease contracts extended to programme clients by the Participating Financial Institutions (PFIs) Commercial Banks (CB) and Micro Finance Institutions (MFIs); and (ii) The Collateral Development and Training Sub-Component provide specialised TA and training to facilitate the development of new types of collateral.

11. **Market Derived Infrastructure Investment (MDI) Component.** The objective of this component was to “to develop rural infrastructure which has a critical role in profitable enterprise development and farm income growth”. The programme achieved this by supporting investments in infrastructure vital for enhancing private investments for expansion of existing enterprises and establishing new ones.

12. **Programme Management Component and Implementation Arrangement.** This component provided financial and operational support to a Consolidated Programme Implementation Unit-IFAD (CPIU-IFAD) which was established based on the existing RFSEDP PIU taking advantage of the existing familiarity with IFAD procedures and economise on programme administration costs. The

CPIU-IFAD was responsible for financial control, work planning and budgeting, project monitoring and evaluation, procurement, and administration.

13. The IFAD Programme Steering Committee (IPSC) was established by Government Decision under the ARP, and had the overall responsibility for overseeing the Programme. The Minister of AFI was the ex officio chairperson of the IPSC. Other members included, MoF, a representative from MoAFI, a representative of the Parliament's Agricultural Committee, the National Bank of Moldova, the Ministry of Economy, and representatives from other Programme stakeholders, including Government agencies, organisations (public and private) were invited to participate when deemed appropriate. The IPSC membership could be amended depending on Programme requirements, with the prior approval of the Fund. The Programme Director and a representative of the Credit Line Directorate, MoF (CLD) participated in the IPSC meetings, and the CPIU-IFAD was the secretariat for the IPSC. The IPSC was empowered with overall decision making with the following specific responsibilities: (i) provision of overall policy guidance; (ii) review and approval of Annual Work Plans and Budgets (AWPB); (iii) set interest rates in line with prevailing market interest rates and as approved by MoF; (iv) approve PFIs; (v) review and adjust the Value Chain Multiplier index threshold; (vi) approval of the Objective Ranking System (ORS) for infrastructure; (vii) ensured coordination between the Programme and all other IFAD-funded projects/programmes and other ongoing development projects/programmes.

14. **Credit Line Directorate (CLD)**. After the initial disbursement of refinancing was made by the CPIU-IFAD the existing CLD under the MoF managed and monitor repayments of interest and principal from PFIs. The operational cost of the CLD was recovered from part of the interest charged to the PFIs for borrowing the refinancing funds.

**Output**

15. **REIS**. A total of seven REIS Providers (REISP) were accredited and trained by the programme. The REISP received 251 applications from clients applying for business development assistance. Of these the REISP assisted 152 clients of which 6 declined loan offers from PFIs, 17 were rejected by the PFIs and 129 received investment loans from PFIs which were refinanced by the programme. Many of the clients declining before being support to develop a business plan did not have sufficient collateral. Some of the clients rejected by the bank did not meet the required VCM as established in the programme Value Chain Multiplier Index (see Para 44 and Table 6).

**Table 1: Number of Applications for Business Plan Development and Approval**

| **Applications** | **251** | **100%** |
|---|---|---|
| Clients Declining Before Developing Business Plan | 76 | 30% |
| Business Plans Developed and Submitted to PFIs for refinancing | 152 | 60% |
| Clients that Declined Loan offer | 6 | 3% |
| Clients rejected by banks | 17 | 7% |
| **Business plans Refinanced** | **129** | **51%** |

*Source:* CPIU-IFAD

16. **RFS** The programme selected 7 PFIs to participate in the refinancing operations and they issued a total of 129 investment loans refinanced by the programme. The total value of the loans amounted to USD 12.855 of which the programme refinanced USD 10.645 and the PFIs financed USD 2.209 million for working capital using at least 15% of PFIs own funds. The variation in PFIs contribution reflects use of equity contribution for working capital.

Table 2: Participation of Financial Institutions

| Banks | Number of Loans | Total Loan Value USD '000 | IFADFValue of Loan USD '000 | IFAD % of Total Loan Value | CBs Value of Loan USD '000 | CBs % of Total Loan Value |
|---|---|---|---|---|---|---|
| Moldova Agroindbank | 42 | 3 446 | 3 403 | 98.7% | 44 | 1.3% |
| Moldindconbank | 31 | 2 951 | 2 832 | 96.0% | 118 | 4.0% |
| FinComBank | 21 | 3 557 | 2 052 | 57.7% | 1 505 | 42.3% |
| Banca Socială | 15 | 1 130 | 1 090 | 96.5% | 40 | 3.5% |
| Energbank | 12 | 1 468 | 1 018 | 69.3% | 450 | 30.7% |
| Eximbank | 7 | 245 | 209 | 85.7% | 35 | 14.3% |
| Unibank | 1 | 58 | 41 | 71.4% | 17 | 28.6% |
| **Total** | **129** | **12 855** | **10 645** | **82.8%** | **2 209** | **17.2%** |

Source: CPIU-IFAD

17. Of the 129 refinanced loans 33 were for women or 26%. In terms of loan size 17 were small loans representing 2% of total loan value, 60 were medium loans representing 32% of the total loan value and 52 were large loans representing 66% of the total loan value.

**Table 3: Loan Size Category**

| Loan Size Category | Volume | | Value | |
|---|---|---|---|---|
| | No | % of total | USD '000 | % of total |
| < = to USD 20 000 | 17 | 13 | 234 | 2 |
| > USD 20 000 - USD 100 000 | 68 | 47 | 3 422 | 32 |
| > USD 100 000 - USD 150 000 | 44 | 40 | 6 989 | 66 |
| **Total** | **129** | 100 | **10 645** | **100** |

*Source:* CPIU-IFAD

18. Of the 129 refinanced loans 24 (19% of volume and 20% of Value) were for new businesses, 18 (14% of volume and 17% of value) were for diversification of existing enterprises and 87 (67% of volume and 63 of value) were for expansion of existing enterprise activities.

**Table 4: Refinanced Loans by Type of Investment and Scope**

| Type of Refinanced Investment | Launching of New Enterprises | | | | Diversification of Enterprise Activities | | | | Upgrading and expansion of Existing Enterprises | | | | Total Enterprises | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Volume | | Value | | Volume | | Value | | Volume | | Value | | Volume | | Value | |
| | No | % | USD | % | No | % | USD | % | No | % | USD | % | No | % | USD | % |
| ***Horticultural Value Chain Sub-total*** | ***13*** | ***54*** | ***1 368*** | ***65*** | ***14*** | ***78*** | ***1 336*** | ***74*** | ***29*** | ***33*** | ***2 182*** | ***32*** | ***56*** | ***43*** | ***4 886*** | ***46*** |
| Processing of Horticulture Produce | 3 | 23 | 230 | 17 | 2 | 14 | 252 | 19 | 4 | 14 | 347 | 16 | 9 | 16 | 829 | 17 |
| Cold Storage | 4 | 31 | 415 | 30 | 4 | 29 | 493 | 37 | 6 | 21 | 701 | 32 | 14 | 25 | 1 609 | 33 |
| Viticulture/pomiculture Orchards | 3 | 23 | 313 | 23 | 8 | 57 | 591 | 44 | 8 | 28 | 402 | 18 | 19 | 34 | 1 306 | 27 |
| Production of Vegetable | 3 | 23 | 410 | 30 | | | | | 11 | 38 | 732 | 34 | 14 | 25 | 1 142 | 23 |
| ***Wheat & Oil Seed Value Chain Sub-total*** | ***5*** | ***21*** | ***369*** | ***17*** | | | | | ***38*** | ***44*** | ***2 370*** | ***35*** | ***43*** | ***33*** | ***2 739*** | ***26*** |
| Processing of Wheat | 2 | 40 | 181 | 49 | | | | | 5 | 13 | 427 | 18 | 7 | 16 | 608 | 22 |
| Processing of Oil Seed | | | | | | | | | 1 | 3 | 16 | 1 | 1 | 2 | 16 | 1 |
| Commercial Farming, Wheat & Oil Seed | 3 | 60 | 188 | 51 | | | | | 32 | 84 | 1 927 | 81 | 35 | 81 | 2 115 | 77 |
| ***Dairy farming Value Chain sub-total*** | ***3*** | ***13*** | ***114*** | ***5*** | | ***0*** | | ***0*** | ***10*** | ***11*** | ***1 118*** | ***17*** | ***13*** | ***10*** | ***1 232*** | ***12*** |
| ***Meat Processing Vlaue Chain sub-total*** | | ***0*** | | ***0*** | | ***0*** | | ***0*** | ***5*** | ***5*** | ***606*** | ***9*** | ***5*** | ***4*** | ***606*** | ***6*** |
| ***Other Agriculture Enterprises sub-total*** | | ***0*** | | ***0*** | ***1*** | ***6*** | ***149*** | ***8*** | ***2*** | ***2*** | ***299*** | ***4*** | ***3*** | ***2*** | ***448*** | ***4*** |
| ***Non Agriculture Enterprises sub-total*** | ***3*** | ***13*** | ***266*** | ***13*** | ***3*** | ***17*** | ***319*** | ***18*** | ***3*** | ***3*** | ***149*** | ***2*** | ***9*** | ***7*** | ***734*** | ***7*** |
| **Total** | **24** | **100** | **2 117** | **100** | **18** | **100** | **1 804** | **100** | **87** | **99** | **6 724** | **100** | **129** | **100** | **10 645** | **100** |

*Source:* CPIU-IFAD

19. **MDI**. The MDI provided[15] support to rehabilitation/construction of 12 vital road sections totalling 12.4 km and assisting 12 enterprises refinanced under the programme, in addition 44 other enterprises within the localities and 36 936 individuals also benefited from regular use of

[15] Annex III: Programme Physical Results

the roads. The programme also supported 3 locations with water supply systems, totalling 10.092 km of laid pipes, assisting 12 enterprises and also benefiting 1 832 persons living in these locations. A total of 4.643 km of gas line was also installed within 3 locations in support of 5 enterprises and also benefiting 460 persons. Support was also provided to 15 dilapidated irrigation schemes covering 3 931 ha benefiting 1 842 farmers families.

**Table 5: Type and Output from Infrastructure Investments**

| Supported Infrastructure Investments | Output | | | | |
|---|---|---|---|---|---|
| | No of Investments | Quantity | Enterprises | Persons | Farmers |
| Rehabilitation/construction of Road Sections | 12 | 12.400 km | 56 | 36 936 | - |
| Water supply Systems | 3 | 10.092 km | 12 | 1 832 | - |
| Gas Supply Systems | 2 | 4.643 km | 5 | 460 | - |
| Rehabilitation of Irrigation Schemes | 15 | 3 .931 Ha | 35 | - | 1 842 |
| **Total** | **32** | **-** | **108** | **39 228** | **1 842** |

*Source:* CPIU-IFAD

## Assessment

20. With exception of intermediation of equity, the implementation arrangement has proved to be appropriate for delivering the programme output and achieving the programme purpose.

21. The implementation arrangement for delivering equity intermediation was not appropriated because the proposed type of service providers lacked the necessary knowledge and network for identifying interested parties particularly local and foreign investors. It was envisaged that REISP would undertake the intermediation under a cost recovery performance arrangement based of successful SME and equity matches and SIPs developed. The REISP deemed this method too risky as their work might not generate income. However, two SMEs did approach CPIU-IFAD for assistance to source equity participation for expansion of their business activities. To address this request the CPIU-IFAD established collaboration with the Ministry of Economic to use their webpage for advertising the two SME's interest in venture partners; unfortunately this effort did not yield any matches.

22. Despite several attempts from the CPIU-IFAD the participation of MFIs did not materialise because the sector was undergoing a legal reform and the government was not ready to allow MFIs to engage with the programme until the new legal framework was in place and this did not happen during the implementation of the programme.

23. The Appraisal Report foresaw that the REISP would voluntarily promote the programme activities in anticipation of generating additional income from preparation of business plans particularly for participation of women, first time borrowers and small borrowers. However, this did not happen and according to accredited business service providers[16] the cost of doing this voluntarily without assurance of being able to generate additional business was assessed to be too risky. At the commencement of the programme the government policy was not in favour of using additional borrowed funds for paying service providers directly for promotion of the programme activities. Instead, the CPIU-IFAD initiated an intensive awareness campaign using national/regional news papers, radio, TV and distribution of promotional materials through PFIs and Primaries' offices. These awareness campaigns projected real investments from SMEs owned by women, first time

[16] Source: PCR mission meeting with two business provider, Annex X

borrowers, family enterprises and joint stock companies to encourage all these client categories to make use of the programme services. The combination of these efforts was responsible for the good participation of women, first time borrowers and small borrowers. However this group would likely have been higher if MFIs had been involved in the programme.

## C. PROGRAMME STRATEGY AND APPROACHES

24. The programme strategy was designed to stimulate incremental private and public investments leading to rural income growth through existing and new value chains. No attempt was made to pre-determine the precise nature of the private investments. However, experience from existing investment opportunities was made available to potential investors through the programme's awareness outreach. The specific strategies and approaches are embedded in the respective components of the programme and discussed below.

**Rural Enterprise Intermediation Services**

25. **Approaches.** Under this component the programme would use two approaches to stimulate rural investments. The first approach was to accredit qualified REISP to assist programme clientele to prepare business plans, loan applications and link them to PFIs to obtain investment loans. For borrowers accessing loans up to USD 20 000 the programme was meant to grant the client USD 250 to cover the REISP cost. Cost in excess of the grant was to be covered by the client and programme clients in need of loans in excess of USD 20 000 pay for the entire cost of the REISP service.

26. **Assessment of REIS Approaches**. The CPIU-IFAD accredited and contracted 7 REIS Providers and the result of their involvement showed that the approach chosen by the AR was appropriate in assisting programme client's overcoming: (i) limited business knowledge particularly among first time investors; (i) inadequate technical knowledge related to diversification of existing business activities; (iii) lack of knowledge among investors on how to prepare a business plan, obtain the legal documentation necessary for the preparation of a loan application; and (iv) lack of skills when negotiating loan conditions with the chosen PFI. In most cases satisfactory technical advice was provided by the REIS providers to the client group. In the cases where the service was not satisfactory the CPIU-IFAD pointed out the shortcomings and remedial corrections were introduced.

27. The approach clearly shows that it contributed to achieving the programme goal and objective with the following output[17]: (i) REISP offered loan intermediations services to 152 rural businesses; and (i) REISP assistance led to 129 companies receiving loans from PFIs refinanced by the programme; of these 12 were first time investors, 33 women and 17 borrowers for small loan (<USD 20 000), these categories account for 48% of the total loan portfolio. In addition to the service envisaged by the AR the REISP also supported some clients with specific technical and marketing assistance.

28. Discussions with the REISP and rural SMEs revealed that the most important aspect of service provided was related to procedures in obtaining permits and registration of collateral, linkage to suppliers of machinery and loan application procedures.

29. A total of 96[18] investment loans refinanced by the programme had more than one investor contributing equity capital to the investments and not all of them were family members.

[17] Annex III: Programme Physical Results
[18] Annex II: Portfolio Analysis of Refinanced Investment Loans, Table 5 - Legal form of Refinanced Enterprises

This is a good indication that a demand and interest for obtaining equity financing exist among SMEs. It also indicated that local private investors exist, interested and willing to invest in SMEs. Discussions with some of the CB**s** supported these finding as they had intermediated linkages between some of the SMEs and equity investors. Although the REISP prepared the business plans for these investments they were not involved in the intermediation of the equity participation. Nonetheless the findings do suggests that the strategy of the equity participation was viable. However the programme approach proved not to work at all for the following reasons: (i) the accredited REISP did not have the network and expertise necessary for intermediation of equity participation, neither from institutional venture capital funds nor from private investors; (ii) neither did the REISP have the financial resources to cover the cost of canvassing interested parties, particularly considering the associated risk of not establishing a partnership and therefore no earnings from preparing the SIP; (iii) the expression of interest to participate from the two venture capital funds present in Moldova at the time of preparing the AR was no longer valid at programme commencement, when approached by the CPIU-IFAD; and (iv) considering the level of both private and institutional equity participation in business investments at the time of AR the programme approach is assessed to have been premature.

30. Two SME requested CPIU-IFAD to assist in sourcing venture capital partners and in collaboration with the MIEPO the profile of the SMEs and their interest in venture partners was posted on the webpage of the MoEP. However this did not result in any tangible venture partnership.

31. Discussions with SMEs indicate that intermediation of equity participation is better undertaken by a recognised institution like a bank and/or audit firm. However, the most appropriate approach would have been directly through a venture capital fund.

32. The AR's assessment that the value chain impact from investments would be considerable was correct and if the envisaged additional equity had been achieved the impact would have been powerful. However even under best case scenario it was not realistic to assume that additional funds of the suggested magnitude could have been sourced.

**Rural Financial Services**

33. **Approaches.** The key approach of this subcomponent was refinancing of loans and lease contracts extended by Participating Financial Institutions ((PFIs) (Commercial Banks (CBs) and Micro Finance Institutions (MFIs)) to rural business enterprises on the basis of support from REISP. PFIs was able to apply for refinancing of loans extended to rural business enterprises and lease contracts, financed by the PFIs, was also eligible for refinancing. The maximum amount of refinancing for CBs was USD 150 000 per loan and/or lease contract and for MFIs it was USD 20 000. The currency of the refinancing was either USD or MDL, depending on the PFI's judgement of the client's need/request and currency of earnings. The CB had to provide at least 15%[19] of its own funds for the portion of the loan used for working capital. It was mandatory for clients to contribute 20% of the total investment amount from their own funds.

34. To encourage PFIs to engage in lending to the programme client group the interest rate charge by the programme was attractive, but positive in real terms. The interest charge for refinancing denominated in USD was equal to the reference rate of 6-month LIBOR USD plus a margin of 1.0% paid to the MoF. Refinancing denominated in MDL was based on a floating interest

[19] Decided during Loan Negotiations between GoRM and IFAD

rate determined by a floating reference rate[20] plus a 1% margin charged by Ministry of Finance. However the margin charged by MoF was cancelled by the IPSC in 2008.

35. To encourage CBs to engage in longer term lending, the AR proposed that repayment terms of the principal being refinanced by the programme would be longer than for the financing terms of the borrower/holder of a lease contract.

36. To encourage PFIs to use a broadened variety of collateral, the component provided specialised Technical Assistance/ training to PFIs, to help in risk assessment/management and development of new types of collateral. This was meant to facilitate more equitable access by farmers and rural entrepreneurs to PFIs financial resources. The programme was meant to provide incentives to PFIs as a means of encouraging them to adopt such innovative collateral procedures. The incentives would allow the PFIs to reduce their contribution to refinanced loans by 5%.

37. **Assessment of the RFS Approaches**. At commencement of programme implementation it was judged that the availability of long term funds for lending was sufficient encouragement for PFIs and therefore no need to prolong PFIs repayment of refinance loans; this judgment proved to be correct. Otherwise, the approach proved to be very successful and contributed to attain the programme goal and objective with the following results: (i) a total of 7 PFIs was selected and appointed for loan refinancing[21]; (ii) the PFI offered loans to 129 rural businesses amounting to USD 10.645 million from programme recourses, USD 2.209 million from PFIs own resources and USD 14.292 million in equity contribution.

38. The programme's approach to rural financial services enabled PFIs to apply more flexible lending terms compared to their own funds and at the same time maintain similar spread as for the PFIs own resources. This in turn allowed rural businesses to access long term financing on advantageous terms, such as more attractive negotiable duration of grace period and repayment terms and attractive interest rate on average **5.23%**[22] lower that the PFIs charges on own funds. Overall all (41) interviewed beneficiaries expressed appreciation for the conditions of refinanced loans compared to other resources available from PFIs own resources. As a result of the attractive loan conditions and active REISPs the disbursement of allocated programme funds under this component was disbursed 22 months ahead of the planned schedule. Particularly first time borrowers expressed that the loan conditions and assistance form REISP were the most important factors influencing their decision to invest. It is also important to note that a constant demand for financing from rural SMEs was registered during implementation which continued after the incremental funds were exhausted.

39. The approach used in training the PFIs in risk management and subsequently increasing types of collateral which was used as security for loans is assessed to be a good attempt to make PFIs resources more equitably accessible to women, first time and small borrowers. This was correct in light of the prevailing situation at AR where the biggest problem in obtaining a loan was collateral and with a few exceptions most PFIs only accept urban based collateral or personal guaranty from a third person with a permanent job. The approach was also appreciated by the PFIs, although the incentive of reducing PFIs own contribution to the loan amount extended to clients did not materialise, as it was found too difficult to administer by the PCIU-IFAD, nevertheless the

[20] The reference rate (i) for review in the first half of the year is calculated as average between inflation rate of the last 12 months, set by the National Bureau of Statistic of RM and the projected inflation rate for the current year; (ii) for review in the second half of the year is calculated as actual inflation rate for the first 69 months of the year, set by the National Bureau of Statistic of RM plus the projected revised inflation rate fir the next 6 month of the calendar year.

[21] Table 2: Participation of Financial Institutions

[22] Annex IV: Interest Evolution Applied for Refinancing

mentioned approach changed the type of collateral used by the PFIs[23]. According to the PFIs without the inclusion of new types of acceptable collateral some clients would not have been able to provide the necessary loan security. The opinion among borrowers was mixed; some SMEs expressed that it had removed the inconveniency of asking family and friends to pledge their assets as security. Other SMEs expressed that the PFIs just added additional collateral as an added security rather than evaluating the business performance and matching it with the right level of collateral. It is assessed that the approach has resulted in improvements.

40. There is evidence from other projects[24] that if the programme approach would have included a credit guarantee fund the impact on first time borrowers and women would likely have increased the programme's portion of this client category. Therefore, new IFAD programmes should consider active collaboration with the existing guarantee funds to ensure a larger proportion of women and first time borrowers and borrowers of small loans.

**Market Derived Infrastructure Investment**

41. The component awarded competitive grants for investments in public infrastructure that enable and enhance private sector investments and activities in rural areas. The maximum grant from the programme was USD 150 000, but larger projects were possible if there were additional private or public sector contributions. Proposed investments demonstrate the commercial viability of the venture and that the infrastructure investment was a strategic enabling link.

42. **Assessment of MDI Approach.** The approach applied proved to be very effective in reaching a large number of beneficiaries with a high efficiency in leveraging additional funds from the programme client group as indicated by the following output[25]: (i) 32 infrastructure development projects have been financed amounting to USD 3.3 million funded by the programme and USD 0.749 million funded by the client group; and (ii) around 39 228 individual, 1 842 farmers families and 108 rural enterprises benefits from the MDII interventions.

43. It was evident from meeting with the client group that to strengthen competitiveness of rural enterprises, it is essential to have access to better infrastructure, including roads, water and gas supply, etc. Therefore, this intervention proved to be a key factor in improving the business environment and stimulating new investments. It should be note that neither the GoRM nor other donors are providing similar support making the programme interventions even more relevant.

**Programme Targeting**

44. **RFS**. The programme applied two targeting mechanisms. The first mechanism assumed that REISP would promote programme activities and canvas first time borrowers and women borrowers. This approach was strengthened by an intensive awareness campaign conducted by the CPIU-IFAD using public media which proved very efficient. The second approach was used for the RFS and was based on measuring the value of the multiplier effect of an investment and only accepting investments with a predetermined multiplier effect ensuring that a large number people benefited along the value chain. This approach proved to be effective in choosing appropriate investments with strong value chain impact. The approach also stimulated additional investment

[23] Annex V: Type of Collateral and Share of Use
[24] Ministry of Economy, ODIMM Credit Guarantee Fund and LTD "Garant Invest"
[25] Annex III: Programme Physical Results

along the respective value chains underpinning the efficiency of the approach. In Table 1 the value chain multiplier threshold calculated by the CPIU-IFAD and approved by the IPSC is compared with the value chain multiplier calculated at PCR and it will be noted that they are very similar indicating that the multiplier used by the programme was accurate. The AR envisaged that by reducing the value chain multiplier threshold for the poorest localities would favour increased investment is such location; however this proved not to be the case.

**Table 6: IPSC Approved Multiplier Coefficients Compared With Coefficients Calculated At PRC**

| Programme Refinanced Investment | Multiplier Coefficients Calculated at PCR | | | Multiplier Coefficients Approved by IPSC |
|---|---|---|---|---|
| | Rural | Urban | Overall Programme | Treshold |
| Horticultural Value Chain | 1.43 | 0.55 | 1.98 | 1.68 |
| Wheat and oil seed Value Chain | 1.44 | 0.12 | 1.56 | 1.45 |
| Livestock | 1.16 | 0.05 | 1.21 | 1.10 |
| Commercial Crop farming | 1.08 | 0.02 | 1.10 | 1.20 |
| Fruit and Vegetables | 1.31 | 0.05 | 1.36 | 1.53 |
| Meat Processing | 1.54 | 0.02 | 1.57 | 1.7 |
| Other Agriculture & Non Agriculture | 1.25 | 0.14 | 1.38 | 1.15 |
| **Total** | **1.39** | **0.96** | **2.36** | **2.28** |

*Source:* CPIU-IFAD

45. **MDI**. The targeting mechanism used for the MDI was a competitive process based on call for grant applications through the mass media followed by selecting the applicant according to the Objective Ranking System (ORS). This approach proved to be transparent, effective as well as efficient.

**Replicating the strategy and approach**

46. It is both possible and desirable to replicate the programme strategy and most of the approaches. However the approach to equity participation should have included a venture capital fund or made use of banks to intermediate equity participation. The support to risk management and collateral development would have benefited from the programme own credit guarantee fund or a linkage/collaboration with an existing guarantee fund.

## D. ASSESMENT OF PROGRAMME RELEVANCE

47. **Background**. Programme design was carried out during a period when 58.6% of the country's population lived in the rural areas of these 28% relied entirely on wages. Around 79.2% of rural families had been allocated land after privatisation of the state farms in the early 1990s. A typical family land holding averaged 3 ha fragmented into several plots and located apart. The small plot sizes coupled with weak produce and input markets forced most rural households to engage in subsistence farming, and 57% of the household were also letting part of their land to larger agricultural enterprises, resulting in a combined income only accounting for 39.85% of their disposal income. Under these conditions agriculture by its own was unlikely to be the solution to poverty reduction. This was underpinned by the fact that 38.6% of the employed national work force engaged in the agricultural sector only produces 18.2% of GDP, a very strong indicator of the low productivity, underemployment resulting in low incomes from the sector. To achieve poverty reduction would require creation of jobs through expansion of existing SMEs and support for

establishing new ones. Job creation also matched the experience of the rural population as most had a professional background as specialised workers under the Soviet era with little or no experience in agriculture.

48. At that time, there was a high level of distrust in the banking system in Moldova, related to the successive financial crises of the post independence period. This situation limited long term deposit reducing the financial sectors possibility to engage in long tern lending. This coupled with the banking sector perceiving agriculture as risky limited the willingness of the sector to lend to agricultural and particularly to small farmers. In 2005 the total lending to agriculture represented 8% of the CBs loan portfolio.

49. Financial services for small-scale cottage production, farming and trading were available from 529 SCAs with a national coverage. However these institutions had limited resources and the lending conditions and maximum loan size usually not exceeding USD 3 000 limiting the use of funds to working capital or very small short term investments. In addition there were three micro finance institutions covering most of the country. However the lending operation of these institutions was also depending on donor support limiting their outreach and the size of loans which in turn limited investment in sustainable commercial activities.

50. The main rural off family-farm employers were commercial agricultural enterprises operating large farms and agro based industries. Most of these operated at sub-optimal level because of difficulties in obtaining the necessary financing resources to replace obsolete inventory of agricultural and agro-industry machinery and equipment. Despite these difficulties this category of enterprise was and still is the driver of rural employment, export and the consumption of agriculture product from small agricultural farmers and agriculture enterprises.

51. During the same time, women and men in Moldova enjoyed equal access to education and other social services. Traditionally family based enterprises were mostly registered in the name of the husband. This did not mean that he had exclusive power over the assets - rather that he was the official representative of the family. In case of divorce, death etc, the assets are divided. Enterprises, in which only one member of the household works, were in most cases registered in the name of that person. The apparent low loan uptake by women (RFSEDP) was a result of this and did not reflect that women were not engaged in enterprise management and operations. Rather, it reflected that joint decision-making is made by both husband and wife in the majority of family businesses. However, there was a significant disparity in average national salaries between men and women, where women typically receive 65% of the salary compared to men.

52. Another setback for the agricultural sector development was the stage of infrastructure. After the collapse of the Soviet Union the area under irrigation dropped from 316 000 ha to only 20 000 ha. The reduction was caused by schemes too costly to operate and maintain, impractical to operate due to the new land ownership and overall dilapidation. The reduction significantly reduced the productivity of agricultural output. Most of the village roads under the administration of "*Primarias*" were in such a bad state of repair that they were barely usable for regular transportation, and were a major obstacle to economic activity. The natural gas supply is available mainly in Chisinau and regional towns, but not in most villages where coal and wood are still used for heating of greenhouses and drying of fruit and this practice is too expensive for development of economic activities. In many places public piped water was not available causing another inconvenience to do business within such locations.

53. **Overall Programme Relevance**. Under these circumstances, the AR's decision to assist the development and diversification of existing SMEs and support new SMEs with focus on high

value agriculture was certainly highly relevant. It was also very relevant in the context of the EGPRSP which emphasises that social and economic development is dependent on reducing poverty and inequality, which in turn necessitates increased participation of the poor in economic development and its benefits. The goal of EGPRSP was (and still is) therefore to improve the living conditions of the poor through assisting families and individuals to mitigate their poverty by creating additional jobs, developing new SMEs, and assisting socially vulnerable groups with employment.

54. **Relevance of REIS and RFS**. In view of the above mentioned limited availability of appropriate credit, the refinancing of PFIs lending to the SMEs located in the rural sector and to agricultural enterprises was very relevant. This is underlined by exhaustion of allocated programme funds 22 months ahead of planed programme completion. Furthermore, additional 32 loans amounting to USD 2.16 million were refinanced by CLD using revolving programme funds. The 41 enterprises/borrowers met in respect of data collection for this report expressed an overall satisfaction with the service provided. This satisfaction is similar to findings in the impact assessment undertaken by CPIU-IFAD in 2008/09 for all IFAD financed programmes in Moldova.

55. The following breakdown[26] of the loan portfolio is another indicator of programme relevance in addressing the programme objective. The scope of the refinanced loans comprised: (i) 24 loans for new enterprise of these 12 first time borrowers- both these two categories are relevant in continuous growth of the number of jobs being created; (ii) refinanced loans dealing with diversification accounted for 18 investment loans relevant for increasing export, increase in earnings per unit and creation of new jobs; and (iii) the remaining 87 loans were for expansion of existing enterprises relevant for improving competitiveness securing and creating new jobs. The relevance of REIS/RFS in terms of addressing small investors and women is apparent when above loan is divided according to loan size and gender: (i) 17 was small loans (< USD 20 000) taken by 1 woman and 16 men; (ii) 68 loans were medium (>USD 20 000 ≤USD 100 000) disbursed to 21 women and 47 men; and (iii) the remaining 44 loans were large (≥USD 100 000 up to 150 000) benefiting 11 women and 33 men.

56. Of the 129 refinanced loans 36 were for processing and 14 cold storage for collection/ storage & marketing of horticulture-products. The total procurement of produce by these entities amounted to USD 33.44[27] million annually at programme maturity estimated to have created new incremental markets for 4 593[28] small farmers.

57. The 129 enterprises generated 1 756[29] full time jobs equivalent of which 1 348 created directly and 408 indirectly and induced. The jobs were divided equally among women and men and mostly occupied by previously unemployed persons. Around 66% of the jobs were occupied by young people below 30 years of age[30]. Interviews with some of the persons occupying the new jobs revealed that they appreciated having a job and they also expressed that it had made them decide to stay in Moldova instead of migrating[31], a very good indicator of relevance.

58. The REISP were essential in intermediation of all the refinanced loans and also assisted in many of the value chain linkages developed among SME during programme implementation. It is therefore assessed that the REISP was relevant in delivering the above output to the client group enabling the stated purpose of the programme to be achieved.

[26] Annex II: Portfolio Analysis of Refinanced Investment Loans
[27] Annex VI: Economic Multiplier Analysis
[28] Including the 1 842 farmers benefiting from improve irrigation infrastructure. The remaining 2751 has been estimated based on total volume and value procured by processors/cold storage enterprises and visits to suppliers of these facilities.
[29] Annex VI: Economic Multiplier Analysis, Table 4.
[30] Source: Impact Assessment Report for all IFAD's financed activities in Moldova, 2008/09
[31] CPR mission's interviews with employees of visited enterprises, see Annex X

59. The REIS and RFS have also been very relevant in creating important systemic improvements within the commercial banking sector including: (i) a much better understanding of the agricultural sector and its related risks; (ii) shift from a purely collateral based lending to a more business oriented approach; and (iii) more flexible lending conditions. The RES also generated additional jobs within the commercial banking sector.

60. **Relevance of MDI.** The programme support to infrastructure investments reduced the cost of doing business for 108 rural enterprises of which 53 were refinanced by the programme. In addition a total of around 39 228 rural people benefited from the improved roads, gas and water connections. The investment in irrigation infrastructure benefited 1 842 small farmers reporting yield increase and crop diversification resulting in incremental earnings of USD 650/ha or USD 1 365 per farmer (2.1 ha). The younger farmers[32] expressed that the infrastructure had made them decide not to migrate and others had actually returned home because the infrastructure had offered them the possibility of making a living in Moldova.

61. It is the assessment that the programme was very relevant in contributing to the programme objective as well as the national goal. The programme activities have also served as important demonstrations.

## E. PROGRAMME COST AND FINANCING

62. **IFAD Loan Allocation and Reallocation in SDR.** The Loan Agreement between IFAD and the borrower provided the basis for a loan of SDR 9 100 million financing the programme loan categories mentioned in Table 7. At programme completion 100% of the loan had been expended. During the implementation period SDR 1.05 million of the loan proceed was reallocated represented by SDR 0.5 million from Unallocated funds, SDR 0.13 million from Operating cost, SDR 0.40 million from Technical Assistance and Training and 0.02 million from Equipment, Goods and Vehicles. Of the reallocated loan proceed SDR 350 was allocated to Civil Works for Market Derived Infrastructure Investments representing an increase of 16.67% and SDR 0.70 million was allocated for loan refinancing accounting for an increase of 12.5%.

**Table 7: Loan Allocation and Reallocation of Funds in SDR**

| Loan Category | Loan Agreement Allocation, SDR '000 | Revised allocation, SDR '000 | Reallocated amount, SDR '000 | % Reallocations per Loan Category and Total |
|---|---|---|---|---|
| Civil works | 2 100 | 2 450 | 350 | 16.67% |
| Equipment, Goods &Vehicles | 30 | 10 | -20 | -66.67% |
| Technical Assistance &Training | 650 | 250 | -400 | -61.54% |
| Loan Refinancing | 5 600 | 6 300 | 700 | 12.50% |
| Operating costs | 220 | 90 | -130 | -40.90% |
| Unallocated | 500 | 0 | -500 | -100.00% |
| **Total** | **9 100** | **9 100** | **1 050** | **11.54%** |

*Source*: CPIU-IFAD

63. **Total Programme Cost and Disbursement in USD.** The projected base costs at AR totalled USD 20.307 million and actual was USD 32 002 million an increase of USD 11 695 million, representing 58% increase compared to AR. This sizable difference is a result of borrower's equity contribution to rural investment from USD 3.63 million estimated at AR to 14.29 million an increase of 294%. Another increase was noted under the beneficiaries contribution to infrastructure from USD 0.554 million to USD 0.742 a rise of 34%. It will be noted that the PFIs contribution was USD

[32] CPR mission's interviews with employees of visited enterprises, see Annex X

0.601 or 21% lower than anticipated during AR this is a result of the loan negotiations where it was agreed that PFIs should only finance 15% of the loan portion used for working capital. Governments contribution amounted to USD 0.667 million representing an increase of USD 0.379 million translating into 132% compared to original allocation. The timeframe and adequacy of financing exceed the requirement of the programme LA.

**Table 8: Financiers, Cost Allocation, Disbursement and Reallocation (USD ’000)**

| Category | IFAD | | | GoM | | | Clients | | | PFIs | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Allo. | Disb. | Reallo. | Allo. | Disb. | Reallo. | Allo. | Disb. | Reallo. | Allo. | Disb. | Reallo. | Allo. | Disb. | Reallo. |
| **A. Rural Enterprise Intermediation Services** | 650 | 2 | -648 | 0 | 0 | | 0 | 0 | 0 | 0 | 0 | 0 | **650** | **2** | **-648** |
| **B. Rural Financial Services** | 7 744 | 10 645 | 2 901 | 0 | 0 | | 3 630 | 14 292 | 10 662 | 2 810 | 2 209 | -601 | **14 184** | **27 146** | **12 962** |
| **C. Market Derived Infrastructure Investment** | 3 383 | 3 300 | -83 | 0 | 6 | 6 | 554 | 742 | 188 | 0 | 0 | 0 | **3 937** | **4 048** | **111** |
| **D. Programme Management** | 1 248 | 153 | -1 095 | 288 | 661 | 373 | 0 | 0 | 0 | 0 | 0 | 0 | **1 536** | **806** | **-730** |
| **Total Financing, Allo, Disb. & Reallo.usment and** | **13 025** | **14 100** | **1 075** | **288** | **667** | **379** | **4 184** | **15 034** | **10 850** | **2 810** | **2 209** | **-601** | **20 307** | **32 002** | **11 695** |

*Source*: CPIU-IFAD

64. The CPIU-IFAD Procurement Committee selected the following audit firms, duly approved by IFAD, to undertake audit of the programme’s books and accounts: 2006 to 2007 KPMG, 2008 PriceWaterHouseCoopers and 2009 KPMG. The CPIU/IFAD ensured that the audit firms conducted the audit within the timeframe stipulated in the LA. Throughout the programme implementation the audit process was executed in accordance with IFAD’s audit guidelines, and the audit reports submitted to IFAD and UNOPS was on schedule. All 4 audit reports provided an unqualified opinion on the programme’s financial statements, statements of expenditure, summary of sources and uses of funds, and Special Account statement. A few minor observations were made regarding the accounting system and internal control system, all of which received immediate management response and noted as being corrected by subsequent audits.

65. A total of 33 **withdrawal applications** were submitted during the implementation of the programme. The authorised allocation of the Special Account was increased from USD 0.5 million to USD 1.5 million after the first withdrawal.

## F. ASSESSMENT OF PROGRAMME EFFICIENCY

66. The actual delivery cost related to programme management (CPIU-IFAD) was only **2.5%** of total disbursed funds and **1.03%** of disbursed funds under the IFAD loan (derived from Table 3). This indicates very high management efficiency, and as will be noted elsewhere in this report, without comprising quality of implementation and output and impact. The high management efficiency resulted in programme completion 22 months ahead of schedule yielding a disbursement factor of 1.35 indicating a very good financial disbursement performance.

67. The cost of delivering REISP services for refinancing of the 129 loans was only USD 16 per refinanced loan.

68. The average interest rate charged by the PFIs over the duration of programme implementation was 4.68% less for refinanced funds compared to the cost charged by the PFIs for own financial resources[33]. This amounts to a total saving for borrowers of USD 1.21 million during

[33] Details in Annex IV: Interest Evolution Applied for Refinancing

the programme implementation period and USD 4.424 million over the grace period (10 years) for IFAD's loan. These savings were achieved without compromising PFIs spread and creating unfair competition on the financial market and can be considered highly efficient in delivering funds for rural financing benefiting the investors.

69. The 129 investment refinanced under the programme produced a financial[34] net profit before tax and depreciation of USD 9.319 million with an Financial Internal Rate of Return of (FIRR) 16% and an Financial Net Present Value (FNPV) at 12% of USD 4.811 million. The economic net return is USD 12.588 million with an Economic Internal Rate of Return (EIRR) of 32% and an Economic Net Present Value (ENPV) at 12% of USD 24.786. These returns indicate an efficient use of capital exceeding the opportunity cost of capital which has been set at 12% as well as the annual GDP (4.6% average p.a. over 2006-2008) indicating a strong contribution to the economic growth. These indicators underpin the efficient use of funds. The GDP went into negative territory in 2009 due to the international crises but has recovered to 4.7% during the first half of 2010.

70. The investments in market derived infrastructure[35] included rehabilitation of 15 irrigation systems with a total area of 3 931 ha at a cost of only USD 414 per ha which is a very efficient use of funds. The cost of rehabilitating 12 road sections totalling 12.400 km of road amounted to USD 122 922 per km or a total average cost of USD 40.9 for each of the 36 936 persons benefiting from usage, again very efficient use of funds. The cost of the three water reticulation systems totalling 10.092 km amounted to USD 259 417 translating into USD 26 891 per km or USD 142 for each of the 1 832 persons benefiting from connection to piped water. The cost of establishing two gas supply systems consisting of laying 4.643 km of pipes amounting to USD 86 889 translating into USD 18 714 per km or USD 189 for each of 460 persons benefiting from the connection.

71. The investment in infrastructure generated a financial and economic net return[36] of USD 4.133 million. The incremental FIRR is 37% with a FNPV at 12% of USD 6.466 million. The EIRR is 60% with a ENPV at 12% of USD 9.875. These returns are efficient use of capital exceeding the opportunity cost of capital set at 12% and the annual GDP indicating a strong contribution to the economic growth.

72. Overall the programme generated a financial net return[33] of USD 13.206 million with an FIRR of 19% with a FNPV at 12% of USD 10.458 million. The programme's economic net return is USD 16.721 million with an EIRR of 35% and a FNPV of USD 33.482 million. All the above results underpin the efficient use of funds.

73. Borrowers' contributions to the 129 refinanced investments accounted for 53% or 163% higher than anticipated by the AR. The contribution of PFIs met the requirement agreed upon during loan negotiations amounting to 15% of the loan portion assigned for working capital. These indicators show a high efficiency of the programme to leverage additional funds.

[34] Annex VII: Financial and Economic Analysis
[35] Annex VII: Financial and Economic Analysis
[36] Annex VII: Financial and Economic Analysis

# G. REVIEW OF PROGRAMME OUTPUT

## Table 9: Result Chain

| ***Goal*** | ***Results*** |
|---|---|
| To produce sustainable income growth for poor people in rural areas and small towns in Moldova.<br><br>National Reduction of poverty<br>• Population with consumption below $2.15 a day<br>• Proportion of people under the absolute poverty line<br>• Proportion of people under the extreme poverty line | As noted throughout this report the programme contributed below national reduction of poverty<br><br>National reduction of poverty<br>• During 2005 and 2009 the national household assets increased by 8%[37];<br>• Reduction national unemployment by 1%[11];<br>• Decreased from 27.5% to less than 10% in 2009;<br>• Decreased by 3.9% between 2005 and 2009;<br>• Decreased by 2.4% between 2005 and 2009. |
| ***Objectives*** | |
| To stimulate the growth of strategic farming and rural business activities in which Moldova has a comparative advantage. | • **37% SMEs reporting** changes in cropping pattern;<br>• The assets of programme supported SMEs grew by 109% or 27.25% p.a. and net profit grew by 71.2% or 17.8% p.a. |
| ***Outputs*** | |
| Improved agricultural and livestock production | • 6 farmers out of 129 financed increased herds size as a result of programme refinancing.<br>• Yields for field crops (7 100 Ha) produced by commercial farmers supported by the programme increased by 9.5% and production cost decreased by 10%. |
| Producers benefiting from improved markets access | • **56 (52%)** of the 108 SMEs that benefited from the rehabilitation of roads have improved the access to old and new market places;<br>• **31 enterprises (24%)** out of 129 reported using purchased inputs in the market for their day by day activity;<br>• **85%** of respondents reported increase of amount of produce sold commercially;<br>• **85%** of the surveyed companies reported that they have increased the number of contracts signed with different buyers. |
| Likelihood of sustainability of enterprises | • **41 enterprises** were financed between 2006-2007; **100%** of them are still operating 3 years after IFAD-loan disbursement;<br>• Value of assets growth on average - **109%**<br>• Net profits growth on average **– 71,2%**<br>• An estimated **1 348 jobs** (full-time equivalent) were created from direct economic impact and 408 from indirect and induced economic impact. The jobs created were distributed **equally between women and men.** On average **10.45 jobs** per business were created, the indicator being higher for newly created businesses – **15.13 jobs**. |

**Activities by components**

| **REIS:** | **RFS:** | **MDI:** | **PM:** |
|---|---|---|---|
| 1.1. Seven REISs (Business Service Providers) were accredited by IFAD to assist entrepreneurs in loan intermediation services; REISs have offered loan intermediation services to 152 rural entrepreneurs, of which 36 were female, headed/owned.<br><br>1.2. REIS providers have developed 15 business plans for small rural enterprise financed 100% by IFAD. | 2.1. Total disbursement under the RFS was USD 10,645 million for 129 loans, of which 33 loans were for female headed/owned businesses (26%) and 96 for males (74%).<br><br>2.2. The 129 financed enterprises are owned by 354 persons of which 96 women (27%) and 258 men (73%).<br><br>2.3. 24 new rural businesses were established.<br><br>2.4. 22 loans disbursed to companies that benefited from loans in other on-going IFAD programmes.<br><br>2.5. The amount of co-financing investment equals to 16.501 million USD.<br><br>2.6. There are 122 outstanding loans at the time of PCR. | 3.1. **32** financed infrastructure projects amounting to USD **3.287 million**.<br><br>3.2. **15** financed irrigation systems. A total of 3 931 ha of land rehabilitated benefiting 1 842 farmers and 35 enterprises;<br><br>3.3. **12** financed road rehabilitations/constructed with a total length of 12 400 km<br><br>3.4. Construction of **3** drinking water systems (10 092 km);<br><br>3.5. Construction of **2 natural gas supply** systems of 4 643 km.<br><br>3.6. Number of persons benefiting from infrastructure 39 228 persons | **4.1. 2 500** beneficiaries (loan applicants) have been provided consultancy in the CPIU office;<br><br>4.2. On-site meetings with groups of beneficiaries in more than 90 localities (15-20) beneficiaries per each meeting), about **1 870** beneficiaries being consulted. |

[37] Annex VIII: Changes in Households Assets