

Moldova: Rural Finance and Small Enterprise Development Project

Item	Assessment Remarks	Rating
Country & Project Name	Moldova - Rural Finance and Small Enterprise Development (RFSEDP)	
Loan Number	527-MD	
ID Number	1110	
Board Date	December 1999	
Effectiveness Date	December 2000	
Original Closing Date	June 2005	
Final Closing Date	June 2005	
Total Project Cost USD(M)	USD 15.066 M	
IFAD loan USD (M)	USD 8 M	
Cofinanciers (if any)	GOM USD 0.54 M - USAID USD 5.55 M - Beneficiaries USD 0.97 M	
Implementing Agency	Ministry of Agriculture & Food Industry	
Principal Components	The principal goal of (RFSEDP) was to assist the GoM to accelerate the agricultural recovery, realising the sector's full potential in providing the foundation for future income growth and poverty reduction in rural Moldova. This would be achieved through project supported investments in: (i) facilitating the participation of the rural poor in the commercialisation of agricultural and rural development; and (ii) the establishment of a responsive institutional framework for rural financial services delivery. The activities were financed under two major components: (i) Institutional support to rural financial services and project management and coordination; and (ii) revolving credit funds for Savings and Credit Associations (SCAs) and small enterprise development (SEDF).	
Project Performance		
Design	The project is IFAD's first investment in Moldova. The components of the project were not coherent and did not support each other. A well prepared LFA matrix would have provided a clearer and easier understood foundation for management and implementation of the project. Still, the phased approach of the project, allowed for a preliminary/preparatory phase of 6 months dealing with pre-implementation issues. This design feature allowed the creation of management tools which proved of fundamental importance for PIU ability to accommodate to the numerous changes that occurred as a result of the project environment, strongly contributing towards project performance. The loan agreement was to the point without including too many details, making the four subsequent amendments relatively easy, thereby providing a good management tool for implementation. The assumption that the project could be implemented over a five year period was correct.	4
Implementation	Project implementation was affected by changing GOM policies, change in donor financing and changed needs among the target group. The implementation of the institutional support component was undermined by the 2001 GOM law forbidding to fund TA with loan funds. This caused the cancellation of support to state institutions and the non-implementation of one subcomponent (Deposit Insurance Scheme and Agency). The number of SCA foreseen at appraisal (40) was reduced to 16; it was impossible for the project to support the State Supervisory Body (SSB) and the Rural Finance Corporation (RFC). For the Revolving Credit Funds component, the expected co-funding from USAID (the US Agency for International Development) did not materialise. At mid-term review/ MTR funds were reallocated to adapt the project to the new circumstances, reallocating the funds for TA to the SEDF activities. Moreover, one of the major differences between the allocations and disbursements of funds can be attributed to a much larger equity contribution from borrowers than initially anticipated, amounting to 41% of total financed investments under the SEDF. The project implementation unit/ PIU performance throughout project implementation was outstanding.	3
Relevance	The relevance of the project to the national poverty reduction policy and to the aspiration of the target group is very high. The relevance of the targeting strategy was confirmed when the number of investment loans taken by enterprises located in rural areas is considered.	5
Effectiveness	The project has been very successful in developing a responsive services sector (411 enterprises) providing services to an estimated 56,220 rural poor people, both regarding production, markets and employment. The institutional support component could not be implemented as planned at design and had a reduced impact. The project therefore partially achieved its development objective. Under the SEDF, the appropriateness of business plan development was first questioned. Later, their value was demonstrated as many borrowers began to use them as management tool. Technical support provided under the SCAs was relevant but insufficient.	4
Efficiency	As of 31 December 2005, IFAD's Loan Fund had been 100% utilised for the purpose stipulated in the appraisal including the reallocation of IFAD loan funds after the MTR. The actual delivery cost of the project's output (project management/PIU) was very	6

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	efficient, amounting to 3.5% of total IFAD loan proceed or 22% less than after the MTR's re-allocation. The project efficiency becomes even more evident when comparing actual cost to the original cost at the time of appraisal amounting to 11%, which is very reasonable if held against similar IFAD financed projects. The borrowers contributed with USD 7.056 million which is USD 6.356 million more than foreseen at appraisal, bringing the total project financed investment cost to an impressive USD 18.809 million compared to the original investment allocation of USD 15.066 million. The economic analysis produced an estimated rate of return of 18%.	
Partner Performance		
IFAD	Throughout the implementation period IFAD provided timely support to the PIU's requests for loan amendments and administrative revisions. Timely support was also provided in replenishment of funds, replies regarding AWP&B approvals, and to procurement requests. However, IFAD's support could have been higher with respect to policy dialogue with the GOM and donor community due to lack of in-country representation; unfortunately, this was not mitigated by making use of the PIU to undertake this important task. With respect to encouraging the adoption of international standards (as a prerequisite for exports of agricultural products, a big issue for Moldova), the appraisal, MTR, IFAD and the supervision missions failed to identify and address the problem.	3
Cooperating Institution	Throughout the implementation period UNOPS provided timely support to the PIU's requests for loan amendments and administrative revisions. Timely support was also provided in replenishment of funds, replies regarding AWP&B approvals, and to procurement requests. Supervision missions were supportive of the PIU's suggestions and reactive to problems identified by the PIU and often solved by the PIU prior to the supervision mission. However, the reports by the supervision missions were loaded with too many details for any busy manager to read and any third party to understand. With respect to encouraging the adoption of international standards (as a prerequisite for exports of agricultural products, a big issue for Moldova), the appraisal, MTR, IFAD and the supervision missions failed to identify and address the problem. It appears that the supervision missions were very reactive rather than proactive and strategic in their recommendations and it is not clear to the completion report mission if the supervision missions have actually contributed to the impressive results of the project.	3
Government	The Ministry of Finance was the signing party to the loan agreement and the Ministry of Agriculture the implementing party. Both ministries conducted their statutory function very well and in a timely manner. The covenants of the loan agreement were complied with throughout project implementation. The GOM ongoing reform programme, although slow, steadily improved the business environment, reducing numbers of taxes and levies and the red tape in forming and dissolving enterprises. A new GOM (2001) policy did not allow the use of loan funds for financing TA. The PIU performance throughout project implementation was outstanding.	4
NGO/Other	Seven financial institutions participated in the project implementation: six commercial banks (Moldova-Agroindbank, Banca Sociala, Victoriabank, Moldindconbank, Eximbank, Banca de Economii, Fincombank) and the Rural Finance Corporation. The lending risks were carried 100% by the PFIs. The service provider engaged to provide business planning assistance to borrowers under SDEF was Consulting and Credit in Agriculture (CCA) which performed to the satisfaction of 92% of the investors. The PFIs all expressed their satisfaction with the majority of business plans presented. The Rural Development Agency provided technical training and start-up support for the 16 SCAs created under the project. The support was reported to be good but training in the post registration phase was insufficient.	4
Cofinancier(s)	Originally it was planned that USAID/CNFA would finance matching grants and TA for business planning to the end borrower; unfortunately this did not materialise.	1
Combined Partner Performance	<i>All partners performed well at an administrative and financial level. While local partners performed fairly well also at the operational level, IFAD and UNOPS were less satisfactory. The GOM performance is mixed since some of its policies favoured project implementation while other limited it.</i>	3
Rural Poverty Impact		
Physical Assets	Physical assets are estimated to have increased by around 12% per annum for 84% of the enterprises financed under the project whereas 16% reported that no change had taken place. Although no empirical evidence is available it can also be assumed that the 386 micro enterprises financed under the SCAs have also generated additional assets.	4
Financial Assets	The project has increased and secured household income for some 7 000 households through local employment (monthly salary just below the national salary level but significantly higher than the national average for agriculture) and has further secured income from land leases for some 26,500 poor households which have been able to lease their land to larger commercial farmers financed under the project. Another 14 000 farming households have benefited from mechanisation services enabling them to	5

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	commercialise their agricultural production. The revolving credit funds for SCAs have directly benefited more than 3,000 families, creating 386 micro-enterprises and enabled the vast majority of the members to stabilise and improve their livelihoods. 90% of individual members who took a loan stated that it had increased their annual income by 10-15% each year since 2003. The repayment performance throughout the project implementation was 100%. The Small Enterprise Development Fund has assisted expansion of some 411 private enterprises, creating some 6,000 jobs. The organic growth of enterprises financed by the project has been an impressive 9% annually. Generally, it must be concluded that the project has fulfilled its main objective excellently. Although impressive and very relevant, the major weakness of these results is the lack of long term prospects for sustainability, due to the almost complete absence of savings mobilisation (partly attributed to the poor physical security of the SCAs).	
Food Security	Food security has been increased through better income among the poor thanks to improved agricultural production and financial assets. Better access to loan capital through the SCAs reached a total of 4,695 persons by the end of 2005, and it is assumed that part of the loan capital taken up by poor small scale farmers has been used for consumption purposes.	5
Environment	During the appraisal the overall environmental impact of project activities was assessed to range from neutral to indirectly positive. Neither the project's own impact assessment report nor external reviews and monitoring have paid special attention to the environmental impact and empirical data to confirm the original assumptions are not valid. There are however a number of indications that the main assumptions hold true at least in relation to primary agricultural production.	4
Human Assets	NA	NA
Soc. Cap. & Emp.	Creation of the SCAs in the original project area has, in addition to the direct economic benefits for its members, also contributed to linking the members together towards a common goal. The SCAs have demonstrated that benefits for the individual can be achieved through common action (something traditionally viewed with great suspicion given peoples' experiences under the former economic system). The creation of business plans for all loan applicants has undoubtedly had a major impact on the general knowledge of business planning and operations among the applicants, knowledge that may prove important in their future business aspirations.	4
Ag. Productivity	Although there is no quantitative data available to verify an increase in agricultural production, the qualitative data shows that most investments were for agriculture, indicating that the annual rise in income came from increased agricultural production.	4
Inst. & Serv.	The implementation of the institutional support component was undermined by the 2001 GOM law forbidding to fund TA with loan funds. This caused the cancellation of support to state institutions and the non-implementation of one subcomponent. The SCAs have demonstrated to the private financial market that even poor farmers may in the future constitute an interesting clientele. The TA provided was relevant, but insufficient, particularly more attention should have been given to undertake tougher financial feasibility studies in the establishment of SCAs. The project has vastly improved agricultural services for an estimated 56,220 rural poor people. The six participating commercial banks and the RFC also generated significant economic benefits from on lending, incremental IFAD credit funds, revolving credit funds and their own funds. The project also increased the competition among the Participating Financial Institutions (PFIs), which reflected in new products and services.	4
Markets	An estimated 8 500 small farmers and 220 large farming enterprises have gained improved market access for farm produce through private enterprises supported by the project.	4
Project Impact	<i>Comparing the economic indicators at appraisal with those at project completion the overall result is very positive, particularly considering the changing policy and economic environment in which the project was implemented. This has been confirmed by the Impact Assessment (PIA) carried out in 2005. The availability of financial services has enabled project beneficiaries to increase and improve production, to commercialise it and increase their physical assets, with an overall livelihoods improvement. This can be attributed first and foremost to the professional PIU and to the initial project period dealing with developing the human resources of the PIU and formulating the project's management tools.</i>	5
Overarching Factors		
Innovation	The project had four innovative built-in features: i) development of synergies between funding sources, which was implemented with mixed results; ii) establishment of a deposit insurance scheme, which should have promoted savings mobilisation. This did not materialise. iii) Brokerage role at the local level on behalf of project-area clients; this innovation was well executed by the PIU, PFIs, and the various enterprises providing forward and backward linkages within the value chain. iv) Technical assistance service; this innovative feature took place with regards to business planning, a statutory	4

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	requirement (Bank of Moldova, BOM) for enterprises borrowing from commercial banks. This was appreciated by 62% of SCAs members, especially since there was a lack of TA.	
Replicability and Scaling-up	The strategy and approach used for the SEDF are replicable within the countrywide respective sector contexts. However, in continued financial services provision special attention should be given to vertical integration of financial services, which was only partly introduced after the MTR in RFSEDP. The strategy and approach used in developing SCAs is replicable, however, it should not be attempted without sufficient technical assistance to examine the financial feasibility of creating a SCA particularly with respect to mobilising savings and to plan for the necessary long term training of SCA management.	3
Innovation, Replicability and Scaling-up	<i>The project faced difficulties in applying the innovations built into the design, and although the strategy and approach are replicable changes need to be made to ensure sustainability.</i>	3
Sustainability and Ownership	The sustainability of the SCAs, without serious mobilisation of savings or additional outside injection of capital, is not likely beyond the revolving period of IFAD's incremental loan. Still, in medium terms, the IFAD revolving fund is managed by professionals with appropriate skills and will be sustainable until the full repayment of the IFAD loan (scheduled for 2039). A very important aspect of project achievements is the sustainability and enhancement of the enterprises through their average 9% annual organic growth, ensuring continued contribution to rural economic growth. In more general terms, project results are compromised by the current ban on Moldova agricultural exports to Russia, on which great part of its economy depends. This is an issue on which the project does not have direct control but that could have been addressed by the project but was not.	4
Targeting	Initially the project area only included the judete of Ungheni, but from October 2002 the whole country was covered by the project (although SCA related activities continued to be limited to Ungheni). The project's target group for investment lending under the Small Enterprise Development Fund would be those small land owners who had withdrawn their land from the cooperative and were not part of associations created to preserve the previous form of management and control. For the SCAs, targeting would be less restrictive and membership open to all small private landowners. The project's strategic targeting approach for supporting the rural areas and at the same time build a responsive service sector effecting thousands of poor people was a success: 74% of investment loans were for enterprises operating in rural areas.	4
Gender	Moldova has a long and well established tradition for gender equality, also included in the legislative framework; therefore gender was not specifically dealt with during project implementation. Out of the total investment loans financed under SEDF only 25% were registered as being women, however, most loans were for enterprises involving the entire family. An estimated 52% of all members and borrowers from the supported SCAs were women and 61% of the SCAs' employees were women.	5
Overall Performance	Overall project performance was good, especially when taking into consideration the delicate political situation of Moldova and of Transnistria (part of the original project area) in particular. The project flexibly adapted according to the changing needs, delivering a positive impact on the beneficiaries and achieving its main targets as regards financial assets.	5
PCR Quality		
Scope	The PCR present no major omission of necessary elements. It has also been enriched by the outcomes of the PIA carried out in 2005	5
Quality	Qualitative and quantitative data are well provided and analysed. It presents an ERR. The document is well organised. All of this contributed to finding all the relevant information needed.	5
Lessons	Lessons are brief but can be useful for other IFAD projects. In particular, the lesson deriving from the implementation of a preparatory project phase can be applied to other IFAD projects.	4