



Enabling poor rural people
to overcome poverty

Independent Office of Evaluation

Republic of Moldova

Rural Business Development Programme

PROJECT PERFORMANCE ASSESSMENT



November 2012



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Photos of activities supported by the Rural Business Development Programme:

Front cover: Fruit and vegetable canning production. Remarcabila LLC, received a loan of US\$150,000 from the Programme in 2006 for purchasing modern equipment for canning production (fruits and vegetables). The new equipment has increased productivity and quality, and it created 6 new jobs.

Back cover: Tractor for crop production. Ardebal-Agro borrowed US\$16,000 for buying a new tractor Belarus 82.1, which increased efficiency of crops production and also created 2 jobs (left); Domultera LLC, a super-intensive apple orchards on an area of 35 ha. This enterprise borrowed US\$145,000 from IFAD resources, and the new investment created 20 seasonal jobs. (right).

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Preface

In the process of facilitating post-independence economic transition in Moldova, IFAD provided relevant and timely interventions in identified bottleneck areas of rural business development. The Rural Business Development Programme in Moldova increased the access of rural entrepreneurs to finance, facilitated business growth of enterprises along selected commodity chains and built small-scale infrastructure for rural businesses. This in turn stimulated local investments in businesses, generated employment and increased purchases of local produce. The grant-financed small-scale infrastructure for business development was appreciated by local enterprises as IFAD filled a low-key but imperative gap among a vast array of under-maintained rural infrastructure.

The most important lesson learned from the programme is related to the challenges in ensuring the poverty reduction effect of rural enterprise development. The justification for targeting leading local enterprises rests on the important linkage effects between rural business growth and benefits to the rural poor. The programme did not include poverty reduction goals, nor did it explicitly target poor households in economic activities or monitor the spill-over effect of rural enterprise development in benefitting – or possibly affecting – the rural poor. Income changes of households below the poverty line were not sufficiently monitored, which undermined the programme’s achievements.

The present project performance assessment was prepared by Jicheng Zhang, lead evaluator, with contributions from George Polenakis, rural finance consultant, and supervision support from Fabrizio Felloni, Senior Evaluation Officer. Mattia Prayer Galletti, Senior Evaluation Officer, and myself peer reviewed this assessment. Linda Danielsson and Lucy Ariano, Evaluation Assistants, provided administrative support.

The Independent Office of Evaluation is grateful to IFAD’s Near East, North Africa and Europe Division for the responsive inputs provided throughout the evaluation process. Thanks are also due to the Government of Moldova and the Consolidated Programme Implementation Unit of IFAD-supported projects in Moldova, and to other key stakeholders for their constructive collaboration and for the support provided to the evaluation mission.



Ashwani Muthoo
Acting Director
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Irrigation schemes in Domulgeni village, Floresti rayon.

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Currency equivalent, weights and measures

Currency equivalent

Monetary unit = Moldovan leu (MDL)

1US\$ = MDL 11.8 (March 2012)

Weights and measures

1 kilometre (km) = 0.62 miles

1 metre (m) = 1.09 yards

1 hectare (Ha) = 10.000 m² (0.01km²)

1 hectare (Ha) = 2.47 acres

1 acre (ac) = 0.405 hectares (ha)

1 kilogram (kg) = 2.204 pounds

Abbreviations and acronyms

CLD	Credit Line Directorate
COSOP	country strategic opportunities paper/programme
CPIU	Consolidated Programme Implementation Unit
EIRR	economic internal rate of return
GDP	gross domestic product
HACCP	hazard analysis and critical control points
IFAD	International Fund for Agricultural Development
IOE	Independent Office of Evaluation of IFAD
MDL	Moldovan leu
M&E	monitoring and evaluation
NGO	non-governmental organizations
PCR	project completion report
PCRV	project completion report validation
PPA	project performance assessment
PFI	participating financial institutions
RBDP	Rural Business Development Programme
SME	small and medium-sized enterprise
USAID	United States Agency for International Development
VCM	value chain multiplier

Map of the project area

Republic of Moldova

Rural Business Development Programme - RBDP

Project performance assessment



07-06-2012



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

Map compiled by IFAD

Executive summary

1. **Background.** With a population of 3.6 million, Moldova remains a predominantly agriculture-based country. In supporting the country's post-independence economic transition, IFAD provided relevant and timely interventions in identified weak points of the rural economy: lack of finance for rural enterprises; low value-added agriculture and processing; limited market channels; under-maintained rural infrastructure, etc. Since 1999, IFAD has approved five loans to Moldova for a total of US\$68.9 million and an overall cost of US\$116.3 million.
2. The Rural Business Development Programme (RBDP) was the third IFAD-funded intervention in Moldova, following the Agricultural Revitalization Project and the Rural Financial Services and Marketing Programme. The objectives of RBDP were to produce sustainable income growth for poor people in rural areas and small towns by stimulating the growth of farming and rural business. The programme was implemented in 2006-2010, a period when the country's economy was growing rapidly. Managed by the Consolidated Programme Implementation Unit responsible for implementing all IFAD-financed projects in the country, RBDP activities were completed approximately one year ahead of schedule.
3. **Project performance.** In line with increased attention to value chain development, the rationale of RBDP interventions was based on the assumption that supporting rural enterprises along selected commodity chains would stimulate economic growth and eventually benefit rural poor. In this vein, RBDP focused on addressing bottlenecks in rural enterprise development as pathways to rural poverty reduction.
4. With a total cost of US\$32 million, including an IFAD loan of US\$13 million, this ambitious programme introduced a spectrum of pro-business interventions, which included building a mechanism for providing medium- and long-term loans to rural enterprises, supporting enterprises along selected value chains, and financing business-oriented small infrastructure. RBDP also supported a network of business consulting experts to develop expertise in assisting rural enterprise development.
5. Implementation results showed that RBDP increased the access of rural entrepreneurs to finance, facilitated business growth of enterprises along selected commodity chains and built small-scale infrastructure for rural businesses. This in turn stimulated local investments in businesses, generated employment, increased purchases of local produce, and largely raised awareness among both the Government and farmers regarding the need to produce for market demands. Apart from achievements in rural business growth, the small-scale infrastructure was greatly appreciated by local enterprises and business associations alike, as RBDP filled a low-key but imperative gap in a vast array of under-maintained rural infrastructure at a time when there was no public budget but the demands of rural people were pressing. By and large, the programme achieved its main objectives.
6. **Sustainability.** On the other hand, even though IFAD interventions have proved that rural lending can be safe and profitable, commercial banks were still reluctant to use their own funds for long-term rural lending. The experience of RBDP should draw the attention of IFAD, the Government and the National Bank to the importance of creating pro-business and pro-poor financial policies and regulations to encourage private investments in agriculture and the rural areas.
7. **Innovation and scaling up.** Within the post-Soviet context, the programme was innovative in a broad sense as it promoted or introduced pro-business approaches, including a value chain-based targeting approach, private investment, collateral development, and business-oriented small infrastructure, all of which gave preference to highly profitable and labour-intensive enterprises for business growth. Although there was no systematic scaling up of RBDP activities, there is

potential for policy analysis and for the scaling up of rural finance and small-scale infrastructure interventions.

8. **Gender equality.** The programme design did not pay sufficient attention to supporting women's rights in terms of equal pay and developing small and medium businesses. Women accounted for 26 per cent of all RBDP borrowers for enterprise development, which shows that women's rights to equal participation in business development were not fully addressed. Besides, women's lower wage status was not considered in employment creation activities.
9. The most important lesson learned from RBDP had to do with challenges in ensuring the **poverty reduction effect** of investments in larger enterprises in value chain development. The justification for targeting larger enterprises rests on the linkage effect between rural business growth and benefits to rural poor. The programme could have set clear baselines and goals for reducing rural poverty, and monitored the changes in poor households. RBDP did not explicitly target poor households in economic activities. Moreover, the poverty impact of the programme was not monitored, which undermined its achievements in terms of rural poverty reduction.

Recommendations

10. **Connect the rural poor to enterprise development through relevant economic activities.** This issue should be accorded priority in future project design and country strategy formulation. The assumption that investing in leading enterprises will benefit the rural poor should be transformed into operational strategies, with relevant economic activities for the smallholders and rural labourers, thereby enabling these disadvantaged groups to move up economically with the development of rural enterprises.
11. **Adjust monitoring and evaluation system to measure the rural poverty effects of enterprise development.** In enterprise development and value chain development interventions, the expected poverty reduction impact on poor households should be closely assessed by the monitoring and evaluation system. In particular, the impact on poor households should be a key consideration in assessing the performance of the project.
12. **Support favourable rural financial regulations and markets.** On the one hand, in partnership with like-minded agencies (e.g. World Bank), IFAD could leverage project experience in undertaking policy analysis and policy dialogue, with the aim to bring about systemic changes in rural finance market. On the other hand, IFAD should continue supporting microfinance institutions as an important supplementary channel for providing microcredit to smallholders.
13. **Enhance export and marketing services.** To address difficulties in meeting the quality requirements of the European Union and other international markets, future operations will need to increase investments and technical assistance in upgrading quality standards, facilitating access to European Union markets and connecting with international value chains.
14. **Remittance use in rural investment.** Although, in the IFAD 2007-2012 country strategy, the use of remittances for investment was identified as an opportunity for innovation, RBDP took no initiatives in this regard. Given that IFAD has been focusing on rural finance services, remittances hold great potential as a source of complementary private funding for rural enterprises. In this regard, using remittances for investment could be included on a pilot basis in future projects.

Finetea LLC received a loan of USD 81 100 in 2007 for upgrading bakery production and optimizing production process.

©IFAD/ Tatiana Mindru, M&E Officer, CPIU, Moldova



Republic of Moldova

Rural Business Development Programme

Project Performance Assessment

I. Objectives, methodology and process

1. **Objectives.** The objectives of the project performance assessment (PPA) were to: (i) assess the results and impact of the Rural Business Development Programme (RBDP) of the Republic of Moldova; and (ii) generate findings and recommendations for the design and implementation of on-going and future operations in Moldova.
2. **Methodology.** RBDP was selected for a PPA based on the considerations of sharing learning of the novel approaches deployed in the programme and providing evaluation evidences to the forthcoming Moldova country programme evaluation. In line with the Independent Office of Evaluation of IFAD's (IOE's) evaluation methodology, a PPA is conducted as the next step of project completion report validation (PCRv). The validation verifies the analysis and conclusions given by the project completion report (PCR) and provides an independent review of performance and results through desk review work. The PPA applies the evaluation criteria outlined in IFAD's evaluation manual. In accordance with the time and resources available, a PPA undertakes a further data collection process, as well as a country visit and interviews at IFAD headquarters, in order to provide a more comprehensive assessment of project performance.
3. **Process.** As a general rule, a PPA is not expected to undertake quantitative surveys and, as such, it necessarily relies on data available from the project monitoring and evaluation (M&E) system. Before undertaking the field mission, the lead evaluator identifies key issues and information gaps to be focused on during the country visit and, accordingly, prepares a list of key evaluation questions.
4. The mission to Moldova was undertaken in March 2012. In Chisinau, meetings were held with the Ministries of Agriculture and Food Industry, and Finance, as well as with other government partners, the National Bank, multi- and bilaterals, private-sector partners, and staff of the consolidated programme implementation unit (CPIU).¹ Field visits were made to three rayons (districts): Briceni Rayon in the far north and Anenii Noi and Criuleni Rayons in the central part of the country. The PPA team interviewed rural entrepreneurs, farmers, local authorities, business service providers and commercial bank branches at project sites.²
5. At the end of the mission, the preliminary PPA findings were presented at a wrap-up meeting organized by the Government. Discussions focused on selected issues presented by the PPA team, and the mission received relevant feedback and constructive suggestions.
6. Based on data collected in the country, the PPA report was subsequently prepared by IOE. The draft was submitted to an internal peer review within IOE and subsequently shared with IFAD's Near East, North Africa and Europe Division and the Government of Moldova. Their comments were taken into account during finalization of the report.

¹ The mission was led by Jicheng Zhang, lead evaluator for the PPA, with the support of George Polenakis, consultant finance specialist, and Fabrizio Felloni, Senior Evaluation Officer, IOE.

² A list of persons met during the country visit is seen in annex VI.

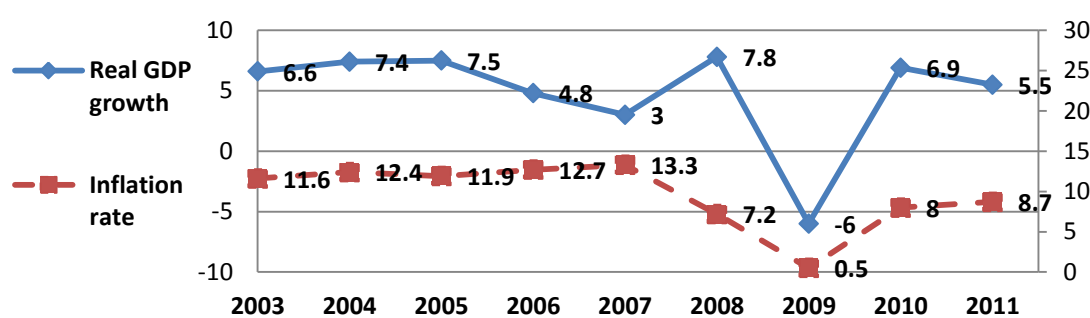
II. The project

A. The project context

7. **Country and the economy.** With a population of 3.6 million,³ the Republic of Moldova is a small landlocked country located just beyond the borders of the European Union but with no prospects for early accession thereto. In 2010, with a gross national income per capita of US\$1,810, the World Bank rated Moldova as a lower-middle income country. After the break-up of the Soviet Union, Moldova was beset by a disruptive restructuring process in the 1990s, and its severe economic decline led to a steep increase in poverty. The country was hit hard by the collapse of Soviet supply and marketing channels. While economic growth was relatively stable in the 2000s as a whole (see figure 1 below), gross domestic product (GDP) dropped dramatically in 2009 because of reduced remittance flows. However, the economy subsequently picked up and growth rates stood at 6.9 and 5.5 per cent in 2010 and 2011, respectively.⁴

Figure 1

Real GDP growth rate and inflation rate 2003-2011, percentage



Source: EIU country report 2012.

8. Despite the improvement in economic recovery and poverty reduction in the 2000s, 25-30 per cent of the population are still classified as poor. While the incidence of poverty is relatively shallow⁵ and widely dispersed across the country, poverty is very much a rural phenomenon inasmuch as 70 per cent of the poor live in rural areas.⁶
9. **Agriculture.** Moldova remains predominantly an agriculture-based country. At 56 per cent, Moldova has the world's highest ratio of arable land in terms of total land area, coupled with high-quality soils, favourable climate and relatively low labour costs (compared with other European countries), which gives the country a comparative advantage with regard to farming and agro-food products. Agriculture and related industries are still important components of the economy, accounting for about 30 per cent of GDP and 59 per cent of exports, and the livelihoods of almost half of the population depend on agriculture.
10. Following the collapse of the Soviet-era supply and trade links, agriculture experienced a downturn in terms of yields and trade volume. *Kolkhozy*, the large collective farms, were gradually broken up into more than 1 million small, private holdings.⁷ Small farm holders were obliged to seek inputs and finance from markets and to adapt their production to market demand. Greater production costs

³ Estimated resident population of the Republic of Moldova as of 1 January 2012. National Bureau of Statistics of Moldova. February 8, 2012. <http://www.statistica.md/newsview.php?l=en&idc=168&id=3670>. Retrieved 18 February 2012.

⁴ Country Report, EIU, 2011.

⁵ The incomes of poor households were below but near to the poverty line.

⁶ World Bank, Country Assistance Strategy 2009-2012.

⁷ World Bank, Integrating Environment into Agriculture and Forestry Progress and Prospects in Eastern Europe and Central Asia, Volume II, Moldova Country Review, p.5, 2007, and Problems of land consolidation in the Republic of Moldova, S. Calancea, Ministry of Agriculture and Food Industry and O. Horjan.

for high-value crops, insufficient access to finance, and poor marketing of rural products have led to the perverse results of declining land areas under highly profitable crops and increased areas under low-profit crops.⁸

11. **Rural finance.** Since 1993, credit in Moldova has been directed by a two-tier system consisting of: (i) the National Bank and (ii) 16 commercial banks, 13 microfinance organizations, 15 leasing companies and one interbank society. In 2008 the National Bank imposed restrictions on the banks, such as a high capital adequacy ratio of around 30 per cent.⁹ In turn, the banks take an oligopolistic position that allows them to enjoy a fairly high return on assets and equity and a high net interest margin, approaching 7 per cent, which is a deterrent to clients facing very heavy interest rates on loans. Banks can afford to hold this position because they rely on remittances (50 per cent of deposits are in foreign currency) and other highly profitable short-term transactions and lending, and have no incentive to invest in rural credit. This explains why collateral requirements for rural lending are very high, often exceeding 150 per cent of the nominal value of a loan. Besides, the financing of fixed investments through banks is relatively underdeveloped as the interest rates are high, due both to the restrictive monetary policy and the high risk premium.¹⁰
12. **Infrastructure and natural disasters.** Weak infrastructure to cope with extreme weather conditions has been a challenge to agricultural production and economic recovery. Given the importance of agriculture to the economy and the deterioration of irrigation, road and water systems, and other rural infrastructure, Moldova's economic performance is highly vulnerable to extreme weather. However, severe weather conditions have become an almost annual occurrence over the last decade, the country having experienced drought and floods in 2003, 2007, 2008, 2010 and 2011. In 2007 alone, agricultural production dropped by 35 per cent, pointing up the urgent need for coping and resilience strategies at both the national (policy and agriculture expenditure) and community levels (infrastructure and insurance).
13. **Government policy and strategy.** Agribusiness, poverty reduction and sustainable development have been the cross-cutting priorities in a number of Moldova's national development strategies. The Government set out its strategic priorities for economic development and poverty reduction in two policy and strategy documents - the National Development Plan (Poverty Reduction Strategy Paper) and the European Union-Moldova Action Plan - which are broadly coherent in terms of sustainable and inclusive development objectives. In collaboration with World Bank, European Union institutions and other partner organizations, the Government consistently accords high priority to improving business environment, supporting small businesses and agricultural production, creating employment and improving living conditions of the poor, for the purpose of achieving sustainable economic growth, which is also broadly in line with the country's long-term aspirations with regard to integrating with the European Union.
14. As part of the country's development policy framework, the agriculture strategy 2006-2015 elaborated focused areas in the agriculture sector. These include investment in increasing value-added production, improving the quality and competitiveness of agricultural products, and reaching international markets. Among others, World Bank has been assisting the Government to revise its agricultural policies in order to increase agricultural expenditure and capitalize on export opportunities, and IFAD and World Bank are the main advocates for and providers of rural finance.

⁸ Country Partnership Strategy Progress Report, IDA, 2011.

⁹ Private Sector and Financial Markets Development in the Republic of Moldova, Gábor Hunya, Jan Mládek and Josef Pöschl Vienna, December 2008.

¹⁰ Private Sector and Financial Markets Development in the Republic of Moldova, Gábor Hunya, Jan Mládek and Josef Pöschl Vienna, December 2008.

15. **IFAD operations.** Since 1999, IFAD has approved five highly concessional loans to Moldova, for a total of US\$69 million and total costs of US\$116 million (see annex 11. IFAD-financed projects in Moldova). IFAD is the eleventh largest donor to Moldova.¹¹ As IFAD directs all its resources to the rural sector, it is one of the leading donors for agriculture and rural development. IFAD and World Bank provide almost all the investment lending in rural areas. In particular, IFAD plays a key role in providing medium- and long-term investment credits for rural enterprises.¹²
16. IFAD's strategy in Moldova was articulated in the country strategic opportunities papers (COSOPs) of 2002 and 2007. That of 2002, covering the period 2002-2006, defined IFAD's niche in facilitating agricultural recovery and adjustments in the context of transition from a planned to market-driven economy. Accordingly, the areas of intervention were microcredit, technical support for agriculture, market access and non-farm business development for income diversification. Based on implementation experience and changing government priorities, the 2007 COSOP (covering the period 2007-2012)¹³ emphasized IFAD's support to medium- and long-term finance for rural enterprises, commodity value chains and investment use of remittances.
17. **The project.** The Rural Business Development Programme (RBDP) was developed within the framework of the 2007 COSOP. The aim of the programme was to reduce rural poverty by supporting rural enterprises, generating employment and establishing sustainable medium- and long-term credit supplies for rural entrepreneurs. In parallel with RBDP, an agriculture-focused intervention - the Agricultural Revitalization Project- was to be implemented in Moldova in 2006-2013. Hence, the synergy and division of interventions between RBDP and the other project were taken into consideration at the design stage.
18. RBDP was the third IFAD-funded intervention in the Republic of Moldova, approved by the Executive Board in 2005 for a loan amount of US\$13 million and total costs of US\$20.3 million. The main intervention areas were rural finance for enterprise development, business services, and small-scale infrastructure. RBDP became effective in July 2006; with a smooth implementation process, it was completed in December 2010 instead of September 2011 as originally foreseen. There were no loan amendments during the implementation period.
19. **Project objectives.** The overall objective of RBDP was to produce sustainable income growth for poor people in rural areas and small towns by stimulating the growth of strategic farming and rural business activities in which the country has a comparative advantage (i.e. horticulture, wheat and oil production, dairy farming, food-processing, etc.). The specific objectives included: (i) enhanced business and equity intermediation services for rural enterprises; (ii) sustainable financial services for rural business development; and (iii) improved small-scale infrastructure for rural enterprises.
20. **Rationale.** Riding on the trend of value chain development, RBDP based its rationale on an important assumption that support leading rural enterprises along selected commodity chains would stimulate economic growth and eventually benefit the rural poor. In accordance with government priorities for development and poverty reduction, RBDP focused on eliminating a number of major bottlenecks faced by rural enterprises, namely: lack of finance, low-value production and processing, limited market channels, under-maintained rural infrastructure, etc.
21. In line with the programme objectives, RBDP focused on addressing the challenges relating to access to credit, and supporting small-scale infrastructure, as pathways

¹¹ Based on OECD/DAC data, in 2006-2010 the top donors to Moldova were: European Union Institutions, IMF (Concessional Trust Funds) IDA, United States, Sweden, Germany, Global Fund, Switzerland, Turkey, France, and IFAD.

¹² Scaling up IFAD interventions in Moldova. A. Hartmann, 2012.

¹³ The mid-term review of the 2007 COSOP, undertaken in 2011, extended its coverage until 2015.

to rural enterprise development and poverty reduction. The programme endeavoured to set up a mechanism to provide medium- and long-term loans (3-15 years) to rural small and medium-sized enterprises (SMEs), so that they would be able to upgrade production, link up to commodity value chains and expand markets, and, in turn, generate revenues, create employment opportunities, increase purchases of local produce and eventually reduce rural poverty. The clients of the programme were rural on- and off-farm entrepreneurs, including growers, agro-processors, input suppliers, traders and community groups; indirect target groups included skilled and unskilled rural labourers, smallholder farmers, and small business owners (annex 12 provides a reconstructed theory of change of the programme).

22. **Components.** RBDP was structured around four components:
- (i) Rural enterprise intermediation services, which involved contracting a network of business service providers offering bankable business plans to viable rural enterprises for loan application and equity intermediation;
 - (ii) Rural financial services, aimed at establishing a sustainable lending mechanism for the rural sector. This involved providing onlending through participating financial institutions (commercial banks) and collateral development;
 - (iii) Market-derived infrastructure, to rehabilitate business-oriented small-scale infrastructure crucial to enterprise development; and
 - (iv) Programme management. The CPIU was responsible for the management and implementations of all IFAD-financed interventions in the country.
23. **Programme costs.** The actual total programme costs amounted to US\$32 million, significantly higher than the US\$20 million originally foreseen. IFAD loans, US\$13 million, amounted to 44 per cent of actual total costs. The increase in total investment was mainly due to the active equity-financing of rural entrepreneurs in their businesses, which totalled US\$15.03 million, 47 per cent of the total costs or about 260 per cent higher than the estimated US\$4.18 million. An extra US\$0.2 million was contributed by the beneficiaries to small-scale infrastructure. The Government contributed US\$0.7 million, 2 per cent of the total cost. The actual contribution of participating commercial banks, US\$2.2 million, was 20 per cent less than expected.
24. Within the programme, the largest investment fell under the rural financial services component, which accounted for 85 per cent of actual costs; the small infrastructure component followed, with 12.5 per cent. At programme completion 100 per cent of the IFAD loan had been disbursed. There was, however, an internal reallocation of funds as those remaining from rural enterprise intermediation services were channelled to the highly sought-after small-scale infrastructure and financial services. A summary of the planned and actual costs of RBDP is seen in table 1.

Table 1
Summary of programme costs (US\$'000)

<i>Components</i>	<i>Planned US\$'000</i>	<i>Percentage of total</i>	<i>Actual US\$'000</i>	<i>Percentage of total</i>
Rural enterprise intermediation services	650	3.2	2.0	0.01
Rural finance services	14 184	69.8	27 422	85.0
Market-derived infrastructure	3 937	19.4	4 035	12.5
Programme management	1 536	7.6	806	2.5
Total	20 307	100	32 265	100

Source: CPIU.

B. Project implementation

Rural enterprise intermediation services

25. This component was designed to develop bankable business plans for rural enterprises so that rural entrepreneurs, who were usually unable to obtain credit from commercial banks, could present business plans when applying for loans. While business plans could not replace the collateral requested by banks, they did increase the credibility of business owners.
26. The programme accredited seven business service providers to assist clients in preparing loan applications. The providers are re-accredited each year by the CPIU and the process is open to new participants that fulfil the prerequisite criteria. To date, no new providers have been accredited.
27. In coordination with CPIU, the business service providers received 251 applications from rural clients for business development assistance. Through a selection process, a total of 152 clients were assisted in preparing business plans for loan applications to commercial banks. Of these, 132 clients received loans that were financed by IFAD credit resources through commercial banks.
28. There were 17 cases where loan applications were rejected, mainly owing to lack of collateral or because they were not associated with one of the selected value chains: horticulture, cereals and oil production, dairy production, meat processing, and other activities. The value chain multiplier index was used to gauge investments in selected value chains. In calculating the multiplier effect of an investment, the programme took account of the value of all incremental profits, salaries, services and produce induced by the investment. The programme set up predetermined thresholds, using the value chain multiplier index (see annex 8), to ensure that the investment in an enterprise would generate broad economic benefits.
29. Of the selected value chains, 58 investments were for horticulture; 43 for cereals and oil production; 13 for dairy production; five for meat processing; and 12 for other agricultural and non-agricultural activities. The loans were used to invest in agriculture (machinery), processing plants, storage facilities, etc.

Rural financial services

30. This component was designed to provide medium- and long-term loans to rural businesses. The programme launched a competitive selection process through which seven commercial banks were contracted as participating financial institutions (PFIs) to channel loans to rural entrepreneurs assisted with business plans.¹⁴ Microfinance institutions were initially included in the scope but were later dropped owing to legal status issues. The programme refinanced commercial bank loans to rural entrepreneurs, and the repaid loans were channelled to the IFAD revolving fund managed by the Credit Line Directorate at the Ministry of Finance. Before the maturity of IFAD loan to the Government,¹⁵ it should be possible to lend these funds during several cycles.
31. The programme also endeavoured to develop new types of collateral suitable to rural dwellers, such as livestock and future harvest, with a view to lowering the barrier of collateral, as high collateral has been a challenge to rural people's access to finance. Table 2 provides a glimpse of the collateral composition in Moldova in recent years.

¹⁴ The selection process for participating financial institutions (PFIs) was opened once a year for potential new PFIs meeting the criteria, although as of programme completion no other PFIs had been added to the original list

¹⁵ IFAD loans to Moldova are on highly-concessional terms, involving a 40-year maturity for repayment and a ten-year grace period.

Table 2

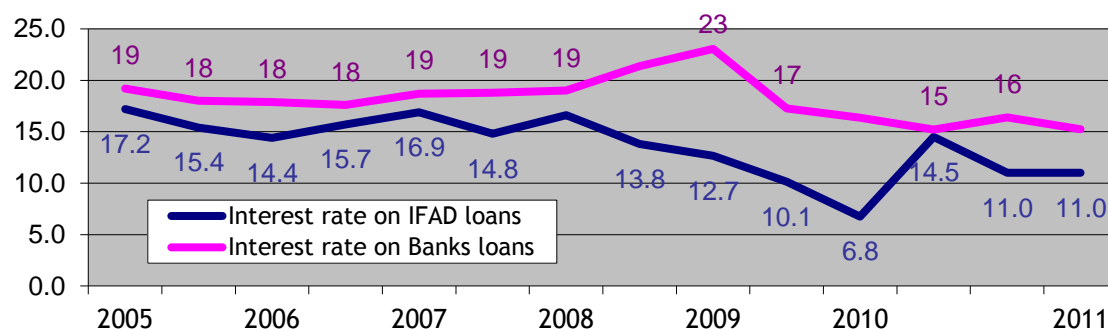
Types of collaterals in Moldova

Types of collateral	Share to total (%), 2007	Share to total (%), 2008	Average %, 2006- 2009
- Real estate (buildings)	45.1	34.5	37.9
- Mortgage (land /plantations)	1.5	8.3	6.1
- Livestock	1.5	0.04	0.5
- Stocks	4.8	6.5	6.1
- Equipment /machineries	14.7	15.9	16
- Garanty Third person	4.6	2.6	3.2
- Future harvest	2.9	2.9	2.8
- Goods from Loans	14.1	22.6	19.6
- Personal property	10.9	6.7	7.8
Total	100	100	100.0

Source: PCR.

32. The interest rate offered to PFIs was attractive in market terms and positive in real terms (see figure 2 below and the inflations rates are given in figure 1). The interest charge for programme refinancing, denominated in US\$ was equal to the reference rate of six-month London Interbank Offered Rate US\$ plus a margin of 1 per cent paid to the Ministry of Finance for covering the exchange rate risk.¹⁶ Refinancing denominated in Moldovan leu (MDL) was based on the annual inflation rates plus a market-based margin determined by inviting participating banks to bid for access to the IFAD refinancing facility. The margin currently stands at 4 per cent. The interest rates were formulated in such a way as to be constantly under market terms, thus making loans attractive to rural entrepreneurs. The figure below shows the evolution of interest rates over programme duration.

Figure 2

Dynamics of interest rates of loans issued under rural financial services in MDL, in percentage

Source: CPIU.

33. At programme completion, PFIs had provided loans to 132 enterprises owned by 359 rural entrepreneurs, of which 26 per cent were women. Loans were offered to applicants after assessing both financial viability (assessed by the banks) and linkages with selected value chains (assessed by CPIU).¹⁷ Of the 132 enterprises that received loans, 24 were for start-up businesses, 18 borrowed for business diversification of rural companies already active, and 90 were for expanding and/or improving existing business activities. The programme mainly financed larger rural enterprises rather than small businesses managed by poor entrepreneurs, as 66 per cent of total lending (in value) was for individual loans above US\$100,000, and only 2 per cent was in loans of less than US\$20,000.
34. After the initial disbursement of loans to rural enterprises, the Credit Line Directorate (CLD) at the Ministry of Finance took charge of repayments from the commercial banks. These were directed to replenish a revolving fund operated by

¹⁶ The London Interbank Offered Rate is used as a benchmark for finance all over the world. The London Interbank Offered Rate is the average interest rate that leading banks in London charge when lending to other banks.

¹⁷ Value chain multiplier index calculated as per annex 7.

CLD, which was to refinance commercial banks for lending to rural areas. To date, CLD has provided another 87 loans for a total of US\$7.1 million. Total RBDP lending volume reached US\$17.93 million, which was topped up by PFI participation with their own funds (of around 13 per cent) and equity contributions from rural entrepreneurs.

Market-derived infrastructure

35. Grant investment in small-scale infrastructure was strictly business-oriented; therefore it mainly targeted enterprises and agricultural production associations in urgent need of critical infrastructure such as irrigation, road connections, and water and gas supplies for either production or market access. RBDP provided grants to agricultural farm groups and formal producers associations, and the infrastructure beneficiaries were also requested to make a complementary financial contribution.
36. RBDP set up a selection process to identify pro-business small-scale infrastructure. Once yearly, the programme advertised the grants on a website and disseminated information through business service providers and rural clients of IFAD projects. All proposals submitted by enterprises' interest groups, farmer producers' associations, village authorities, and ad hoc business associations were subject to the Selection Committee's review at design and completion stages. The applicants were expected to back up their proposals with business and maintenance plans that, in most cases, were drafted by the business service providers.¹⁸
37. By programme completion, some 32 business-oriented small infrastructures had been financed, including the rehabilitation of 12 road sections for a total of 12.4 km, installation of three water supply systems for a total of 10.9 km of laid pipes; construction of two gas supply systems over 4.64 km; and rehabilitation of 15 dilapidated irrigation schemes covering 3,931 ha. A management group was established for most of these infrastructure investments. Eight were headed by women. The groups met twice yearly, and reportedly, are still functioning.¹⁹

Programme management arrangements

38. The Ministry of Agriculture and Food Industry is the Government's designated implementation agency for IFAD-supported projects. The CPIU was established under a Government decision, and since then it has been charged with responsibility for implementing all IFAD-financed operations in Moldova.²⁰ The responsibilities of CPIU generally encompass administration, planning, procurement, financial control, monitoring and evaluation, knowledge management, communications, etc.
39. On behalf of the Government, the Ministry of Finance is responsible for managing all international development assistance. The credit line directorate, set up within the Ministry, is responsible for monitoring loan repayments from commercial banks and for supervising the revolving fund. The operating costs of the credit line directorate are recovered from part of the interest charged to PFIs.
40. The IFAD Programme Steering Committee was established by government decree, and is composed of representatives of the Ministry of Agriculture and Food Industry (ex officio chairman), Ministry of Finance, Ministry of Economy and Trade, Parliamentary Agricultural Committee, the National Bank and other stakeholders. It has been responsible for national coordination, supervision of IFAD projects, provision of policy guidance, hiring CPIU management staff and auditors, and for approving annual budgets and work plans, beneficiary selection criteria and procedures, interest rates charged to PFIs, etc.

¹⁸ The selection process was based on the programme's "objective ranking system" that favoured investments with a high internal rate of return, relevant to a large number of people, and with a large equity contribution from applicants (see annex 8 on the methodology of the ranking system).

¹⁹ CPIU data.

²⁰ The CPIU was established under the Government Decision for modification No.1229, dated 29 November 2005, which was followed by the Government Decision No. 980, dated 25 September 2008.

41. Overall, in terms of implementation results (see annex 10), RBDP has met or exceeded most of its activity targets, and the direct beneficiaries were mainly rural entrepreneurs.

III. Review of findings

A. Project performance

Relevance

42. **Relevance of objectives.** Although Moldova has achieved an impressive degree of economic growth over the last decade, the stated objectives of RBDP were valid throughout the implementation period. The need for IFAD to assist in reducing the country's rural poverty was evident inasmuch as, by 2004, the incidence of poverty in rural areas and small towns was about 30 per cent. Moreover, the rural economy faced enormous challenges owing both to the collapse of the Soviet rural supply and distribution channels and to unprecedented barriers to Russian markets. And accordingly, rural households were in great need of support to adapt to a market economy and develop rural businesses. Therefore the RBDP objectives and related interventions were relevant to the needs of rural households including the rural poor.
43. RBDP's objectives (see paragraph 19) were in line with Moldova's National Development Plan (Poverty Reduction Strategy Paper), which aimed at developing agribusiness, increasing income, generating employment and providing social protection to the neediest. The Government accorded high priority to agricultural and rural development with the objective of increasing rural incomes and living standards. In this respect, RBDP's objectives were in line with the Government's agricultural and rural development strategy. Besides, a number of development organizations aligned their activities to support specific components of the national strategies. The alignment of RBDP to the national strategy was considered as complementary to the inputs of government and other donors.
44. RBDP's objectives were consistent with the goal of IFAD's country strategy (2002-2006) – "to support the transition to a modern market economy with a sustainable rural development programme that contributes to rural poverty reduction". IFAD's perseverance with regard to supporting rural finance and competitive commodity value chains was carried forward in the succeeding country strategy (2007-2012), which ensured continuity of strategic alignment of the programme. RBDP was implemented in parallel with an agriculture support intervention – the Agricultural Revitalisation Project (2006-2013) – which partly explains why there was no agriculture production component in RBDP. Inter-project complementarity was envisaged in programme design.
45. **Relevance of design.** RBDP adopted a pro-business strategy to fuel the growth of rural enterprises; hence the programme aimed at addressing the main difficulties of rural business development, i.e. low-value on- and off-farm production, limited channels of market access, downgraded rural infrastructure, and the absence of longer-term financing for upgrading production and switching to high-value products. By stimulating the growth of high value-added rural business activities, RBDP expected to upgrade local production, move enterprises up the value chains, generate employment, increase business purchases from smallholders, and eventually reduce rural poverty. In this context, the programme's interrelated composition of business services, longer-term loans and market-derived infrastructure was both relevant and timely.
46. RBDP investments focused on rural finance and enterprise development. The programme engaged in selecting quality business service providers who would act as business advisers to rural entrepreneurs and consequently assist them in accessing loans and equity; this service was clearly needed as local entrepreneurs

lacked the necessary know-how for switching to high-value products, moving up the value chains, and selling to regional and international markets.

47. The programme partnered with selected commercial banks to offer loans to SMEs with good potential for business growth and generating employment. It sought to address the overarching issue encountered in rural financing: lack of medium- and long-term loans. This approach was viable and practical for disbursing loans to rural enterprises. It also diversified the loan portfolios of commercial banks and enhanced their capacity to serve rural clients. Dialogue based on IFAD's experience in supporting rural finance was a facilitating factor in forming government strategies for rural finance.
48. RBDP grants to small-scale infrastructure addressed the urgent needs of SMEs and agriculture growers' associations with regard to production and market access. Given the deteriorated state of rural infrastructure and the evident lack of major funding for rural infrastructure, the modest experiments in financing small-scale infrastructure for rural businesses were both highly relevant and timely.
49. The programme's targeting approach was based on the assumption that the spill-over effect of rural enterprise development would benefit the rural poor through generating employment in labour-intensive economic activities and increasing purchases of local produce. The programme intended to target three sub groups (namely, the very poor, the economically active poor, and the commercially oriented poor). However owing to various constraints,²¹ RBDP loans and grants mainly serviced leading local entrepreneurs because they were more capable of generating profits and returning loans to commercial banks; therefore they were the direct clients of loans, business services and market-based infrastructure. Poor small business holders and unemployed men and women made up the majority of indirect beneficiaries because local enterprises were expected to generate more local employment opportunities and increase local purchases for production purposes. Besides, in certain cases the infrastructure grants were awarded to farmer's groups/associations, therefore small-holder farmers were better targeted.
50. Throughout implementation, RBDP applied three tools for targeting: value chain multiplier assessments for judging the eligibility of loans from commercial banks; adding a 20 per cent weight in assessing loan applicants from the poorest communes; and adding a special positive weight in assessing infrastructure grant applications from the poorest communes. The latter two approaches provided a slight pro-poor adjustment to the pro-business selection process. However, the project design did not consider monitoring the poverty reduction effects on households living below the poverty line; therefore the M&E system did not provide sufficient data regarding the poverty reduction impact on this aspect, which is considered to be a design flaw.
51. The relevance of three main components to Moldova's rural development was reaffirmed at completion, but in some cases the programme aimed slightly higher than its grasp. RBDP design in terms of introducing equity investment was forward-looking but over-ambitious. The actual supply and demand were not ready, as the equity participation was yet to be developed in Moldova, and it was too optimistic to expect agriculture to be the initiator in attracting equity investors. Even if the calibre of business service providers had been sufficient in linking rural SMEs with equity investors, the market realities were not ready for this linkage.
52. With the benefit of hindsight it may be said that programme design could have considered leveraging remittances in enterprise development. The massive inflow of migrant worker remittances accounted for about 31 per cent of GDP between 2004 and 2008, and remittance flows contributed strongly to reducing poverty in rural areas. In recent years, IFAD has shown significant interest in leveraging

²¹ For example, the Government's refusal to allow the delivery of microfinance and stringent bank requirements for creditworthiness.

remittances in rural investment, and the investment use of remittances had already been considered in the 2007 COSOP.

53. Overall, RBDP was designed and implemented at a time when Moldova was facing unprecedented challenges in reviving rural economy as the Soviet supply and distribution chains for Moldovan rural production broke away and rural poverty rate increased sharply. Along with previous interventions, RBDP responded to the priority demands of the Government, rural entrepreneurs and rural poor. The programme's objectives corresponded to the national strategic priorities for agribusiness and poverty reduction, and the intervention areas were in line with both IFAD's country strategy and institutional strength. However, the programme design overlooked how to monitor the poverty reduction effects of enterprise development on poor households, which led to insufficient M&E data regarding income changes in poor households. Besides, the design of equity investment was overambitious, which was not realized during implementation. Overall, RBDP relevance is rated as moderately satisfactory.

Effectiveness

54. RBDP broadly succeeded in producing the intended results and accordingly reached its objectives. To meet the goal of producing sustainable income growth for the poor in rural areas and small towns, the programme aimed to realise three specific objectives as pillars of rural business development and income generation: enhanced business services for enterprises (3 per cent of base costs), mainly business plans and equity intermediation services; provision of sustainable financial services to rural entrepreneurs (71 per cent); and improving small-scale infrastructure for rural business (18 per cent).

Overall objective: sustainable income growth for the poor in rural areas and small towns

55. The sustainable income growth was mainly reflected in the results of developing rural on- and off-farm enterprises: business growth, employment and salary increases. The business growth of rural enterprises in terms of profits, fixed assets, employment and trade volume was robust during the programme period. The programme provided business plans to 152 rural enterprises and financial services to 132. At programme completion, all enterprises supported by the programme were in operation, with an average annual growth of 27 per cent in fixed assets and 18 per cent in net profits. These enterprises were mainly involved in businesses of: agro-processing, cold storage, dairy farming and production, meat processing, commercial farming, etc. Of those that received financial services, 36 processing and marketing enterprises were engaged in buying produce from 4,500 local farmers, and the annual purchases amounted to US\$33 million, which increased the income of the local farmers.
56. With regard to employment, the newly-invested local businesses created 1,348 jobs in agriculture, collection, processing and transportation sectors, with the jobs distributed equally between women and men.²² The average monthly salary of the newly-created jobs was US\$208, which was better than the national average of US\$195 (2008) and the national average for the agriculture sector of US\$119 (2008).
57. The growth of rural business was also reflected in farming activities: average crop yields increased by 9.5 per cent and production costs were reduced by 10 per cent. The newly-built or rehabilitated irrigation systems directly benefited 1,700 households, and improved infrastructure such as irrigation, roads, gas supplies and drinking water led to average farmland value increases of US\$2,780 per farmer and average income increases of US\$1,365 per farmer.

²² No data available regarding the types of employment generated.

58. In acknowledging that RBDP stimulated rural business growth and created new jobs, there is no data regarding the linkage effect between enterprise business growth and reduced poverty of poor households, as the M&E system did not monitor the effects on poor households living below the poverty line, the indirect beneficiaries of the programme.

Specific objective 1: enhanced business and equity intermediation service for rural business

59. The rural enterprise intermediation services took two approaches to assisting rural enterprises: loan intermediation and equity intermediation. RBDP leveraged the capacity of business service providers trained and supported by World Bank projects and further supported them in serving rural enterprises. Seven service providers were contracted to assist rural entrepreneurs in preparing bankable business plans and applying for loans from partner commercial banks. Achievements in this respect were that 152 enterprises prepared business plans for loan applications, either for business expansion or for start-up.
60. Of the 132 enterprises that received loans, 12 were first-time borrowers, 33 were women and 17 were borrowers of small loans (less than US\$20,000). As only 2 per cent of the loans (in value) were disbursed to small businesses (with loan sizes smaller than US\$20,000), the main beneficiaries of the business and finance services were the existing and larger rural enterprises.
61. The service providers did not succeed in brokering equity investment, despite efforts such as publishing invitations of interest on the Ministry of Economy and Trade's website.

Specific objective 2: sustainable financial services for rural enterprises

62. Investment in rural finance services accounted for 85 per cent of programme costs. RBDP contracted seven commercial banks for onlending to rural enterprises. At programme completion, the banks had provided onlending to 132 enterprises for a total of US\$12.8 million, of which US\$2.2 million was from the banks' own resources. The beneficiaries' equity contribution totalled US\$14.3 million. It is worth noting that beneficiary contributions in enterprise development were much higher than anticipated, reflecting the strong demand in rural areas for business and financial services. The loans expanded the participating banks' loan portfolios and the repayment rate was close to 100 per cent. Through a revolving mechanism managed by the Ministry of Finance, the external refinancing resources for participating banks' onlending to rural areas are considered to be sustainable.
63. At programme inception, there was a clear mismatch between the demand for and supply of rural loans. Banks offered only short-term loans whereas rural entrepreneurs needed long-term ones for business development. In the 1990s, Moldova's economic environment was unstable and people's deposits suffered repeatedly; thus people were reluctant to deposit savings for the long term. Bank assets were therefore predominantly short-term and liabilities followed a similar path. On the other hand, rural entrepreneurs needed longer-term investments to shift to higher-value production (such as horticulture, viticulture, pomiculture which take 3-5 years until the first crop is harvested) and to upgrade agro-processing facilities and qualifications. RBDP encouraged banks to offer longer-term loans. The onlending term could be up to 15 years and loan sizes up to US\$150,000, at an interest rate of around 11 per cent on MDL-denominated loans and a two-year grace period (but with collateral requested exceeding the nominal loan value). This was a breakthrough in rural finance in the country, and demand for rural loans increased sharply.
64. To reduce the collateral barriers for small entrepreneurs, RBDP provided training for bank staff with regard to risk management and developing new types of

collateral suitable to the economic situation of farmers, such as livestock, future harvest and machinery, which would increase the chances of first-time borrowers and small borrowers to receive loans. Before the programme, commercial banks in Moldova accepted only urban-based collateral or a personal guarantee from a third person with a permanent job. Thanks to the efforts of RBDP, some flexibility appeared to have been introduced regarding what was accepted as collateral by banks. However, the programme was unable to offer a viable solution to reducing collateral requirements owing to stringent banking regulations.

65. On the downside, the commercial banks were still hesitant about using their own resources in rural lending.²³ This was partly because of the limits of short-term deposits mentioned earlier, but it also meant that there were more profitable and less risky ways for the banks to enjoy a comfortable oligopolistic status.
66. Apart from the above, RBDP did not succeed in involving microfinance institutions in its activities, thus ruling out opportunities for smallholders to access financial sources through microfinance institutions, mainly owing to legal restrictions on microfinance institution involvement in banking business. Furthermore, at that time, the Government was not in favour of developing savings and credit associations.

Specific objective 3: improved small-scale infrastructure for rural business

67. The business-oriented small infrastructure was greatly appreciated by the beneficiaries and the Government because it addressed the pressing needs of rural people and set up a mechanism to maintain public infrastructure. RBDP provided grants (of up to US\$150,000) to selected small-scale infrastructure that demonstrated high economic rates of return and/or which related to a large number of beneficiaries. The beneficiaries were requested to contribute at least 15 per cent of the costs. By completion, RBDP had provided 32 grants for irrigation, roads, drinking water and natural gas supplies for a total of US\$3.3 million, topped up by US\$0.75 of beneficiary contributions. The CPIU estimates that more than 100 enterprises benefited from the newly-built or rehabilitated infrastructure. The users' groups of infrastructure had been functioning, and the sustainability of infrastructure is seen in the sustainability section (annex 13 provides two case studies on small-scale infrastructure financed by RBDP).
68. Overall, RBDP achieved or exceeded the targeted delivery outputs in multiple cases. However, the rural poverty reduction effects on smallholders and poor households were not verified. There is limited information available on the poverty reduction effects of job creation and local purchases of enterprises. Moreover, it is to be noted that Specific Objective 2 (sustainable financial services – the major intervention area) was partly achieved as commercial banks are still dependent on donor funding for long-term rural lending. RBDP is rated as moderately satisfactory.

Efficiency

69. The programme completed its activities nine months ahead of schedule and within the planned budget. The actual costs of programme management were 2.4 per cent of the total investment, significantly lower than the 7.6 per cent originally foreseen, thereby indicating a high level of management efficiency. Beneficiary contributions to enterprises increased total programme investments: the actual beneficiary contribution was US\$15.03 million against a planned

²³ According to the Loan Agreement between IFAD and the Government, participating financial institutions would have to contribute at least 15 per cent of their own funds to each loan for it to be eligible for refinancing. The actual financial contribution of commercial banks added up to US\$2.2 million, about 17 per cent of the total investment in rural finance activities.

contribution US\$4.18 million, which significantly brought down the ratio of programme costs as the management costs did not increase.

70. The low cost of programme management is also a reflection of the quality of the programme management staff and economies of scale. The CPIU, established under the previous project, was charged with responsibility for implementing all IFAD-financed projects in the country. This arrangement allowed for continuous learning on the part of programme staff, for accumulating experience and achieving economies of scale. Moreover, the capacity-building and institutional memory of CPIU has also contributed to the efficiency of other IFAD-funded interventions and country portfolio management.
71. Owing to the high demand for longer-term loans and relevant arrangement of loan distribution channels, the programme moved fast. Almost all programme funds (99 per cent) had been disbursed 22 months before the expected closing date. The table below shows disbursement volumes during the programme period. Furthermore, as the mature credits had been repaid and remitted to the revolving fund, the Ministry of Finance has already refinanced 87 additional rural investments.²⁴

Table 3
Loan disbursements over programme years

		2006	2007	2008	2009	2010	2011	Total
RBDP loans disbursed	Number	3	39	85	2	0	3	132
	Amount, US\$m	0.3	2.8	7.3	0.3	0.0	0.2	10.8
Revolving fund managed by the Ministry of Finance	Number		2	10	23	23	29	87
	Amount, US\$m		0.16	0.6	1.45	2.0	2.9	7.1

Source: Ministry of Finance.

72. The unit costs indicate that infrastructure was constructed efficiently. The unit cost for rehabilitating roads is reported to be US\$122, 277 per kilometre (World Bank equivalent: US\$147,424 per km), water reticulation at US\$26,891 per kilometre and gas pipes US\$ at 18,714 per km (also reported to be slightly lower than average). The returns from infrastructure investments were especially positive; the estimated economic internal rate of return (EIRR) was 60 per cent, significantly higher than the opportunity cost. The borrower's active contribution to both enterprises and infrastructure created a favourable environment for the efficient use of resources.
73. The EIRR for the overall programme at completion was estimated at 35 per cent and the financial internal rate of return at 19 per cent,²⁵ which exceeded the opportunity cost set at 12 per cent, and the average GDP growth rate of 3.3 per cent for the period of 2006-2010.²⁶
74. However, it is to be noted that the EIRR may have been inflated due to the methods used to calculate it. The costs of the enterprises and infrastructure

²⁴ Source: Ministry of Finance.

²⁵ EIRR is 35 per cent with a net present value(NPV) of US\$33.48 million at 12 per cent. According to a financial analysis undertaken during the PCR exercise, investment loans generated a net profit at maturity (year 14) of US\$9.3 million with an financial internal rate of return of 16 per cent and NPV of US\$4.8 million; infrastructure investment generated a net return at maturity (year 14) of US\$4.1 million with an IRR of 37 per cent and NPV of 6.4million.

²⁶ The GDP growth is calculated based on data from the EIU country report 2011. The respective annual growth rates from 2006 to 2010 were 4.8, 3.0, 7.8, - 6.0, 6.9 per cent.

included the costs of finance, labour and sales, but did not take account of the land costs for existing enterprises or for new enterprises on own lands, however land costs would be a significant part of costs of these investments. Besides, the EIRR did not take account of the possible negative economic effects on smallholder businesses that may be affected by the expansion of local leading enterprises. Overall, efficiency is rated as satisfactory.

B. Rural poverty impact

Household income and assets

75. RBDP investments directly benefited rural enterprises in terms of profits and fixed assets as a result of business growth. Based on the 2009 impact survey conducted by CPIU, the average fixed assets of programme-refinanced enterprises increased annually by 27 per cent, and the average net profit by 18 per cent, which in turn created new jobs and offered better salaries to skilled and unskilled rural labourers. The highest profit increases were seen in non-agricultural activities, followed by vineyards/orchards and vegetable-growing. However, animal husbandry recorded a downward trend.
76. During the period of the programme, the invested enterprises created 1,348 new jobs with an average monthly salary of US\$208, which was better than the national average of US\$195 (2008) and the national average for the agriculture sector of US\$119 (2008). The overall local employment trend is positive, and employment has grown over the years. The incremental employment growth is calculated at 10 jobs per company; start-up enterprises championed in this regard, generating an average of 15 jobs per company.
77. Other farmers also received direct and indirect economic benefits. At completion, it was estimated that 36 programme-refinanced enterprises were engaged in buying produce from 4,500 farmers, and that annual purchases amounted to US\$33 million. The rehabilitated small irrigation systems benefited 1,700 households, resulting in an average increase in land values of US\$2,780 per farmer and an average increase in annual incomes of US\$1,365 per farmer. Rural land holders also benefited from increased rents and earnings, which were especially important sources of income for pensioners living on fixed pensions.²⁷ It is noteworthy that the observed changes should not be attributed exclusively to programme interventions, as there were other critical factors affecting household incomes during the programme period, such as remittance in-flows and adoption of new technologies.
78. However the programme design did not consider monitoring the income changes of poor households due to job creation or purchases of enterprises. Moreover, the programme did not take account of the possible negative effect on other small enterprises that were not supported by external funding and were at a disadvantage compared with those local leading enterprises receiving loans and business services. Nor did it look at the possible cancellation of jobs in the disadvantaged enterprises. Rating: moderately satisfactory.

Human and social capital and empowerment

79. The programme created and enhanced human and social capital in terms of providing credit access to rural entrepreneurs, organizing user groups of small-scale infrastructure, and promoting rural enterprise development as an effective approach to reducing poverty.
80. RBDP helped rural entrepreneurs to prepare bankable business plans and refinanced commercial banks' lending to rural enterprises, which effectively enabled rural entrepreneurs to obtain loans and create formal business connections with commercial banks. With a credit record, the rural enterprises were able to sustain the credit relationships with financial institutions. The value of financial

²⁷ Source: Impact Assessment of IFAD Programmes in Moldova, 2008.

access as social capital to rural people is also confirmed by the Independent Evaluation Group of the World Bank's assessment of the rural finance approach in Moldova.²⁸ Besides, the business service providers further developed expertise while working with rural enterprises supported by IFAD projects and through other rural finance interventions such as those of World Bank.

81. Another important RBDP contribution was to create formal and informal groups of infrastructure users. The groups worked with local authorities, "Primarias", addressed cooperation and coordination issues, and made community-based operation and maintenance arrangements. In some cases, these groups developed a substantial social thrust that led to additional communal improvement activities.
82. RBDP also promoted, among the rural communities, successful local enterprises and entrepreneurs as examples of business development, which is a sustainable alternative to emigrating to earn a living. With RBDP support, Moldova's good agricultural resources and skills were further adapted to market-oriented production; in turn, both the volume of local sales and cross-border trade increased during the RBDP period.
83. One drawback in this respect was that the business services provided by RBDP were limited to the preparation of bankable business plans, instead of enhancing entrepreneurial ability in marketing, packaging and storage, and obtaining the international qualifications that were in great demand among rural business clients. Rating: satisfactory.

Food security and agricultural productivity

84. RBDP investments directly benefited rural enterprises in terms of profits and fixed assets as a result of business growth. Based on the 2009 impact survey conducted by CPIU, the average fixed assets of programme-refinanced enterprises increased annually by 27 per cent, and the average net profit by 18 per cent, which in turn created new jobs and offered better salaries to rural labourers. The highest profit increases were seen in non-agricultural activities, followed by vineyards/orchards and vegetable-growing. However, animal husbandry recorded a downward trend.
85. In terms of agricultural productivity, the improved irrigation and other infrastructure made it possible to adopt high-value crops such as vegetables and fruits, and livestock. The project completion report estimated that, compared with traditional field crops, the high-value crops brought incremental profits of US\$650 per ha to farmers. In combination with the improved infrastructure, the 35 loans for agricultural machinery improved crop yields by 9.5 per cent on lands of 7,100 ha. This was higher than a proxy indicator, the average national agriculture output growth rate, which increased by 7.5 per cent in monetary terms during the period 2005–2008.
86. Likewise, the investments in agribusiness, such as food processing, storage and marketing of agri-products, stimulated the upgrading of production facilities, which in turn contributed to improving productivity. Rating: satisfactory.

Natural resources and the environment and climate change

87. European Union environmental rules and regulations on the types and use of agrochemicals were adopted before the programme became effective. RBDP's environmental footprint is relatively small and consists of the effect of the machinery and infrastructure installed. The PPA found no evidence running contrary to major environmental norms and concerns. With limited evidences and marginal relevance to the programme interventions, the PPA does not rate in this respect. Rating: n.a.

²⁸ Growth and Productivity in Agriculture and Agribusiness, Evaluative Lessons from World Bank Group Experience, Independent Evaluation Group, 2011.

Institutions and policies

88. RBDP contributed to creating a financing mechanism for rural enterprises. The programme set up a mechanism involving government ownership and participation of commercial banks to provide onlending to rural enterprises. The lending to rural on- and off-farm enterprises represented 22 per cent of total incremental lending to the agriculture sector in Moldova during the programme period. The establishment of a revolving fund managed by the Ministry of Finance for continually refinancing commercial bank's rural lending creates a sustained channel for long-term rural lending. The banks and the financial sector in general have benefited from the thrust generated by RBDP in the areas of rural credit, risk assessment, and valuation of collateral. It is also acknowledged that the commercial banks are still reluctant to commit their own funds in rural lending.
89. During the RBDP period, business service providers became a permanent feature of the Moldavian institutional network and acquired a significant level of expertise. The funding and cooperation provided by RBDP (and other IFAD interventions) made a significant contribution to building up a network of capable business services providers, which proved to be valuable institutions for facilitating business development. These service providers were created by the United States Agency for International Development (USAID) and other major donors to support value chain and enterprise development projects. They are private-sector-based and legally in the form of non-governmental organizations (NGOs). As value chain and business development interventions were prioritized by the Government, multiple donors, mainly World Bank, USAID, European Union and IFAD, use these service providers in various business development projects (see the case study on a business service provider in annex 14).
90. In continuation of other IFAD-funded projects and together with USAID, RBDP also contributed to the development of rural marketing and value chains in Moldova, which in turn provided evidence-based knowledge and experience for policy-making in stimulating the rural economy.
91. However, as assessed in the Sustainability section, the institutional impact on rural lending systems was undermined by the commercial banks' reluctance in committing their own resources to rural lending. Moreover, RBDP did not have a defined approach to leveraging programme experiences in policy analysis and dialogue. Very limited use was made of RBDP experience in financial sector analysis and policy dialogue and reform, which prevented the dissemination of IFAD's experience in supporting longer-term loans and stabilizing rural financial systems. This view is also noted by a Brookings study, *Scaling Up the Fight Against Rural Poverty* (2010).²⁹ Rating: moderately satisfactory.

C. Other performance criteria

Sustainability

92. The sustainability of programme benefits relates to sustaining achievements in rural enterprise development, rural finance operations and market-derived infrastructure.
93. **Rural enterprises.** The enterprises supported by the business and credit services show a trend of growth in terms of profit, fixed assets, staffing and productivity. Some of these enterprises are just beginning to extend sales to other domestic and international markets. This is also a good indicator of sustainability of local employment. However, it should be noted that most of the programme-supported enterprises were already in existence, relatively successful and ready for expansion, which indicated a high potential for sustainability. Therefore the quality of sustainability cannot be attributed solely to the programme interventions.

²⁹ *Scaling up the Fight Against Rural Poverty: An Institutional Review of IFAD's Approach*. Brookings, 2010, page 19.

94. The business service providers have developed expertise in serving rural enterprises, and the business development services were appreciated by both rural entrepreneurs and commercial banks. Some commercial banks also used business plans in assessing and monitoring individual loans to enterprises, and therefore the business services providers were ready to sustain and expand services. However, many rural entrepreneurs are still not willing to pay for such services as they expect continued donor-funded business services. But as rural business grows and local business competition takes place, the business services may be valuable enough to claim a price acceptable to both the demand and supply sides.
95. **Rural financial services.** The operational model of onlending through commercial banks proved to be practical for and accessible to rural entrepreneurs, and the loan repayment rate to commercial banks has been high. The outstanding portfolio of loans-at-risk is less than 2 per cent. Furthermore, the banks have expanded their lending portfolio in rural areas.
96. This lending mechanism has secured its continuity for the foreseeable future through the arrangements of a revolving fund managed by the Ministry of Finance. The commercial banks were to return the mature loans to the revolving fund for further refinancing rural lending. This reflow can be recycled until the maturity of the IFAD loan to the Government in 2046, which would ensure that funding resources are available to participating banks for long-term lending.
97. A big question mark has to do with the commitment of commercial banks to long-term rural lending. Although RBDP and other interventions have shown that rural lending in Moldova can be profitable and safe, the banks are still reluctant to put their own funds into long-term rural lending. As the local economy grows, larger loans would be needed and donor funding would gradually become marginal, thus local funding through banks would be necessary. In this regard, the revolving fund offered a good "remedy to the symptom" but cannot "heal the disease". The sustainability of long-term loans is therefore only induced and not really mainstreamed in the national financing system. As long as IFAD and other donor-funded credit lines remain the principal sources for rural lending, long-term financial services are not fundamentally sustainable.
98. The case of favourable interest rates is similar. Interest rates on loans offered by commercial banks have been lower than market rates. Without the IFAD and other external credit lines, the banks would not have offered such interest rates under current circumstances. Besides the interest rates offered by the commercial banks under RBDP are only marginally acceptable to farming enterprises and are high for smallholders. This is an indication that rural loans (at this stage of rural development) cannot be sustainable without donor funding.
99. **Pro-business small-scale infrastructure.** Benefits deriving from water and irrigation schemes (i.e. increased crops and value of irrigated land) seem to have a secure future, in that these activities are profitable and user associations are functioning. The maintenance of irrigation was undertaken regularly by the user groups/associations, as well as water connections and the collection of fees; gas supply was routinely managed by the utility company-Moldovagas, which ensures its long-term sustainability. The social and economic benefits generated by the community public infrastructure indicate that the users' groups have the financial health and motivation to sustain small-scale infrastructure in the near future.
100. Road maintenance, on the other hand, is in the hands of the local government, Primarias, which has assumed ownership. However, Primarias does not have sufficient funds to repair and upgrade rural roads. A forthcoming reform that will increase fiscal allocations to support road maintenance at the local level does not guarantee that these roads will be maintained, given the large number of rural roads in need of maintenance. RBDP encouraged local government to work closely with beneficiaries to share the costs, which could be feasible in future once local

governments are made responsible for the financial management of local infrastructure.

101. The sustainability of programme benefits is deemed moderately satisfactory, which takes account of the sustainability prospects of rural enterprises and small-scale infrastructure and the challenges involved in building up long-term sustainability of rural lending.

Innovation and scaling up

102. **Collateral development.** To reduce the collateral barrier for rural borrowers, RBDP attempted to develop new types of collateral relevant to the rural context, such as agricultural land, livestock, future harvest, equipment and machinery, and forecasted cash flows. To this effect, the programme offered training for bank staff on risk management, and communicated with the banks on the need to increase the flexibility of collateral requirements. Thanks to RBDP's efforts, some flexibility appeared to have been introduced about what was accepted as collateral by banks. However, progress has been modest owing to stringent banking regulations in this regard. Concrete progress could only be achieved with larger-scale interventions by introducing competition into the financial sector, together with the development of credit insurance and/or a guarantee fund.
103. **Equity investment.** RBDP endeavoured to mediate in equity investments in rural enterprises, as a tool for leveraging the strength of the private sector in supporting the strategic development of rural enterprises.³⁰ Equity participation was, however, still a limited practice in Moldova, and the business service providers were inexperienced in engaging with medium and large investment firms, which limited the prospects for attracting equity investments for rural enterprises. On the one hand, Moldavian rural enterprises are generally young and need to reach a stage of stability to boost the confidence of investors; on the other hand, the Government and financial regulation institutions need to create a business climate for equity investments.
104. **Scaling up** was not a clearly defined theme in the programme design, and thus no organized effort was made in this respect. However, the demands of government and the under-addressed challenges in rural development have pushed IFAD to continue some RBDP activities, such as value chain development, rural finance and small-scale infrastructure, in successive projects in Moldova. In other words, these innovative approaches proved relevant and hold good potential for supporting rural economy and poverty reduction in Moldova. This finding is also shared by the Brookings study on IFAD's scaling up (2010).³¹
105. Despite the lack of a clear strategy for scaling up, the CPIU's strong commitment to rural finance enhanced the continuity of rural finance operations through consecutive projects. However, as discussed in the Effectiveness section, meeting the demand for long- and medium-term loans through IFAD and other donor resources is not a sufficient scaling up strategy. Key factors in scaling up in rural finance would be to create a suitable policy space that would engage the Government and private sector, and partner with other major donors such as European Union or World Bank to build a platform for reform.
106. In short, the project introduced a series of innovations that fuelled rural economic development, although in certain cases the market was not ready for these innovative approaches. However the potential for scaling up was not well leveraged and the scaling up approach was not systematic. Rating: moderately satisfactory.

³⁰ Private equity investment is often used in financing start-up companies, and the experience of the International Finance Cooperation, Inter-American Development Bank and other financial institutions suggested that this approach could leverage the private sector's strength in marketing, innovation and financial management with a view to supporting rural enterprises.

³¹ Scaling up the Fight Against Rural Poverty: An Institutional Review of IFAD's Approach, Brookings, 2010, page 18.

Gender equality and women's empowerment

107. RBDP's gender approach was neutral as its interventions in financial and business services and employment were not customised for women clients. This gender neutral approach was based on IFAD's studies on women's development in Moldova. From 2003 to 2008, IFAD's analyses on gender development found that gender was not a significant determinant of poverty in Moldova, as the gender disparity in social and economic development was considered to be minimal.³² Rural women also make up the majority of landholders because men are often employed in technical services, thereby losing their right to obtain land from the former state farms. However, these analyses side-lined the fact that women were at a disadvantage in terms of salary levels and business development, the key services of RBDP. As acknowledged by the project design, women's incomes were often lower than those of men. In 2009, the average female salary stood at 76 per cent of the average male salary. And women are less active in business activities; women have business ownership in only 30 per cent of small and medium enterprises. These disadvantages of women were also referred in IFAD's country strategies. Therefore, the project design did not give sufficient attention to supporting women's rights in equal pay and in developing small and medium businesses.
108. Overall, in RBDP interventions, women accounted for 26 per cent of all RBDP borrowers for enterprise development, which is an indication that women's equal participation rights in business development were not fully addressed. Besides, although women and men were equally employed in newly-created jobs in terms of numbers of employment, women's lower wages were not considered in employment creation. The rating in this respect is therefore moderately unsatisfactory.

D. Performance of partners

IFAD

109. As one of the major donors to agricultural and rural development in Moldova, over the years IFAD has developed a consistent strategy that focuses on rural finance, rural enterprises and commodity value chains to address the country's rural poverty. This strategy has been forward-looking in terms of integrating Moldova's rural economy into national and international markets and has responded closely to priorities set by the Government. IFAD adapted the design of RBDP to Moldova's transitional economy, which was in the process of revitalizing the rural economy.
110. RBDP is the third IFAD-financed project in Moldova. IFAD positioned this intervention within the overall country strategy, with the intention to achieve synergy with previous and ongoing projects. Building on the experience of the two previous projects – the Rural Finance and Small Enterprise Development Project and the Agricultural Revitalisation Project, – RBDP introduced an enterprise development approach centred on financing rural enterprises along selected value chains, and hence to upgrade local production, stimulate backward and forward production along the value chains, increase local purchases, generate employment and improve rural household incomes. Value chain development was not new to Moldova, but IFAD's strategic intervention in promoting longer-term loans to rural areas has been a great incentive to the rural economy.
111. Through the consecutive efforts of IFAD-supported projects, IFAD has developed into a very substantial provider of medium- and long-term credit for rural enterprises in Moldova. IFAD's institutional flexibility in adjusting project design to existing challenges and government priorities has been appreciated by all partners in the country, and, although policy dialogue was marginally taken up in RBDP, its

³² The Gender Development Index 2006 indicated Moldova as 0.692, which was almost identical to Moldova's Human Development Index 0.694.

achievements also provided space for engaging major stakeholders in rural development and in policy dialogue.

112. IFAD's support in loan disbursement, supervision and other services were in line with the loan agreement, and the fiduciary aspects were carefully arranged. IFAD organized missions for implementation support and supervision in a timely and regular manner. The supervision teams verified the status of implementing previous supervision recommendations and identified key issues to be addressed, such as M&E and challenges to including microfinance institutions in the programme.³³ Partnerships with key government agencies, including the Ministry of Agriculture and Food Industry, Ministry of Finance and the National Bank, have been strong and have had an instrumental result: constant commitment, enhanced ownership, and high appreciation of the socio-economic value in investing in agriculture and rural development.
113. The country programme is managed by a CPM based at IFAD headquarters in Rome. The CPM has usually organized 2-3 supervision and other missions to the country every year and, during his visits, has interacted with the Government, supervised the CPIU staff and supervision team, made regular contact with other aid agencies and attended general coordination meetings organized by the United Nations country office.
114. RBDP design relied on the assumption that the spill-over effect of rural enterprise development would benefit rural poor households through generating employment and increasing purchases of local produce. This was a plausible assumption but would have required more precise monitoring during implementation. The M&E deficiency in capturing data regarding income changes of poor households was not sufficiently corrected by IFAD during implementation, which undermined IFAD's performance in terms of supervision and follow-up.
115. Overall, given the challenging context and the novelty of the interventions, IFAD is to be commended for designing this programme and supporting the successful implementation, which was consistent with IFAD's country strategy. IFAD's performance is rated satisfactory.

Government

116. The Government has assumed strong ownership and honoured its commitment to rural development and poverty reduction programmes. This ownership and commitment are reflected in national development policies and strategies, and in continuous cooperation with IFAD in operations. In RBDP, government partners performed well with statutory obligations and services set out in the loan agreement. As per a government decree, the overall responsibility for programme oversight was entrusted to the IFAD Programme Steering Committee, which met twice yearly and on an ad hoc basis as deemed necessary. The Minister for Agriculture and Food Industry was the ex officio chairperson, and other committee members included representatives of the Ministry of Agriculture and Food Industry, Parliamentary Agricultural Committee, National Bank, Ministry of Economy and Trade, and other stakeholders. The Steering Committee has been effective in guiding and supporting CPIU operations.
117. In particular, the Ministry of Agriculture and Food Industry demonstrated strong leadership and partnership in supporting CPIU operations during the implementation of RBDP, and facilitated IFAD in its duties and missions to the country. The Ministry of Finance has been leading and guiding the revolving fund for IFAD credit lines. The Credit Line Directorate within the Ministry manages the revolving fund for refinancing rural lending, and, so far, the cooperation with commercial banks for repayment and onlending has been well managed and

³³ IFAD worked closely with UNOPS on supervision until 2009, when it took over the supervisory function. UNOPS conducted three supervision missions and provided implementation support during the first three years of implementation.

monitored. However, during the programme period, the financial regulation authorities were not active in addressing financial regulatory barriers to facilitate the development of rural micro-finance institutions, while these barriers had been constraining the development of relevant financial tools for rural smallholder businesses.

118. The performance of the CPIU was exemplary. It managed all IFAD-financed projects in the country including three ongoing projects and completed RBDP activities nine months before the planned completion date. The CPIU is hosted in the Ministry of Agriculture and Food Industry but operates as an independent organization. Considering the size of the country portfolio it manages, the CPIU is a relatively small unit staffed with 12 employees and headed by a director. In RBDP, the staff of CPIU demonstrated a high level of competency and accumulated learning which were critical for efficiently implementing three ongoing interventions; as a consequence, project management costs were lower than anticipated. By and large, the programme activities were implemented in line with the loan agreement and implementation manual, and RBDP largely achieved the objective of stimulating the strategic growth of rural business and agricultural production.
119. The programme management also made a significant contribution to disseminating results and promoting IFAD's presence in the country. IFAD participates with a relatively small percentage of ODA compared with other donors, while its visibility is high in rural communities.
120. M&E activities were affected by inexperienced personnel and high staff turnover in the initial years, and, as a consequence, programme data were not collected and structured in a comprehensive manner. This issue was addressed during the last two years of the programme, and the knowledge-sharing function was also improved during the later stages of implementation.³⁴ However, as baseline data are not available, there are still not sufficient data regarding the rural poverty reduction impact of RBDP.
121. In combining the performance of the Government and CPIU, the Government's performance is considered satisfactory.

E. Overall project achievement

122. RBDP focused on providing business and financial services to rural entrepreneurs, in the expectation that rural businesses would upgrade production, move up the value chains, expand markets, generate employment, increase local purchases, and eventually benefit the rural poor with increased incomes. The programme also provided grants to selected small-scale infrastructure to address the urgent business development needs of enterprises. Overall, RBDP successfully created a rural lending mechanism that allowed rural enterprises to access medium- and long-term loans, and the pro-business small-scale infrastructure has been valuable for rural businesses, which contributed to the continuous growth of rural business and the expansion of higher-value agricultural production and processing.
123. The programme design did not, however, consider monitoring the spill-over effect of rural enterprise development in benefiting the rural poor. This design flaw affected the M&E system in collecting relevant data regarding income changes of poor households. Besides, the sustainability prospect of the rural lending mechanism was undermined as commercial banks were still reluctant to use their own resources in long term rural lending, and gender equality and women's empowerment was not mainstreamed in programme activities. The overall rating for RBDP performance is moderately satisfactory, taking account of ratings for all criteria (the table of ratings is seen in annex 1).

³⁴ A recent example is the participation of the project at an East European agribusiness knowledge fair held in Poland in May 2012.

Assessment of project completion report quality

Scope

124. The PCR provided a comprehensive account of the design, implementation and results of the programme in relation to rural finance services, business development services and market-oriented rural infrastructure. The PCR followed IFAD's Guidelines on Project Completion (2006) and covered all major aspects of the programme and key criteria of performance and impact evaluation. The country context was taken into consideration in analysing programme performance; and the financial and economic analyses were presented in a comprehensive and comparable manner. However, the PCR provided no analysis as to what extent poor households had benefited from this intervention; and the analysis was very thin on women's empowerment. Rating: moderately satisfactory

Quality (methods, data, participatory process)

125. In assessing programme's performance, the PCR's methods, were broadly in line with IFAD's evaluation methodology. The PCR relied on data collected from the programme's M&E system, an impact assessment of all IFAD-financed projects in Moldova 2008-2009, interviews with the Government and partners, and reviews of supervision reports and other programme documents. The data applied in the PCR were consistent with those in supervision reports and other programme documents and were largely well structured, particularly with regard to financial analysis.
126. The PCR did not, however, take account of attribution issues in describing some of the results, which led to an overestimation of achievements in certain areas, such as agricultural productivity to which the programme contributed only with regard to financing small-scale irrigation and farm investments among many critical factors for increased agricultural productivity. Rating: moderately satisfactory.

Lessons

127. The lessons provided in the PCR are mainly based on its findings and analyses, and the lessons and recommendations are forward-looking. In particular, the recommendations with regard to promoting international food standards to expand exports, setting up a credit guarantee fund for lowering collateral barriers, and investing in a venture capital fund to match SMEs with private investors, are innovative and relevant, and could be used for future operations in the country. However, it is to be noted that some of the lessons (e.g. setting up a venture capital fund) are not based on the implementation experience of RBDP, but are in line with the operations of other ongoing and upcoming projects. Rating: satisfactory.

Candour

128. The PCR's assessments and lessons are consistent with the findings of supervision reports and other programme documents, inasmuch as it presented both the results achieved and some gaps to be filled in future. Overall, the PCR is considered to have been candid in presenting its findings. Rating: satisfactory.

Key points

- RBDP aimed to provide pro-business support in rural finance, business services, and small infrastructure for rural enterprises as pathways for rural poverty reduction, which proved a timely and relevant intervention in addressing bottlenecks to rural business development.
- RBDP broadly succeeded in achieving its objectives with regard to business growth, loan access and employment increases. Particularly, RBDP addressed the overarching issue of medium- and long-term lending to rural areas, and the small-scale infrastructure facilitated production and market access. However, the effect on poor households was not captured by the M&E system, and is therefore unclear.
- The programme activities were completed nine months ahead of schedule, and management costs were lower than planned. This reflects both the strong motivation of rural entrepreneurs in business development and also the competency of CPIU.
- The overall impact of RBDP was significant in terms of creating new human and social capital (access to finance and collective activities of infrastructure user groups) and improving agricultural and process productivities. The impact on household income and assets was moderately satisfactory. The programme was weaker in policy and institutional impact and women's empowerment.
- RBDP set up an effective rural lending mechanism involving the Ministry of Finance and commercial banks, however rural lending has been relying on donor funding, as commercial banks are still not willing to put their own resources into long-term rural lending, which undermines the sustainability prospects.
- RBDP introduced a number of innovative concepts and approaches surrounding the pro-business theme, such as equity investment and collateral development. However, scaling-up was not systematic.

IV. Conclusions and recommendations

A. Conclusions

129. In the process of facilitating post-independence economic transition in Moldova, IFAD provided relevant and timely interventions in identified bottlenecks of the rural economy: lack of finance for rural enterprises; low-value agriculture and processing; limited market channels; under-maintained rural infrastructure, etc. In line with IFAD's country strategy and institutional strengths, RBDP focused on building up a rural credit mechanism and facilitating the growth of rural on- and off-farm enterprises, in the expectation that the business growth of rural enterprises would eventually benefit the rural poor and thereby reduce rural poverty (see paragraphs 45, 51, and 53).
130. To achieve the objective of producing sustainable income growth for the poor living in rural areas and small towns, RBDP successfully set up a lending mechanism for rural entrepreneurs, facilitated business growth of enterprises along selected commodity chains, and built small-scale infrastructure for rural enterprises, which in turn stimulated local investment in business, generated employment, increased purchases of local produce, and largely raised awareness of both the Government and farmers regarding the need to produce for market demands. Based on the implementation results and impact, the programme largely achieved its main objectives. However, the programme design did not consider monitoring the linkage effect between investments in larger enterprises and benefits to poor households, which undermined the programme's achievements (see paragraphs 55-58).
131. In particular, RBDP created a rural lending mechanism that involved commercial banks in providing onlending to rural enterprises, and the repaid loans would be diverted to a revolving fund managed by the Ministry of Finance for refinancing commercial banks' continuous onlending. With the implementation of RBDP, IFAD

developed into a major funding provider for rural lending in Moldova (see paragraphs 62 and 80).

132. The grant-financed small-scale infrastructure was greatly appreciated by local enterprises and business associations alike, as it addressed urgent needs for irrigation, water, gas and road connections. In this respect, IFAD filled a low-key but imperative gap in a vast array of under-maintained rural infrastructure at a time when there was no public budget while the needs of rural people were pressing. The active functioning of infrastructure-user groups ensured short- and medium-term sustainability before local government was charged with financial management of local infrastructure (see paragraphs 67-68).
133. On the other hand, even though IFAD projects have proved that rural lending can be safe and profitable, and market demand for long-term loans is high, the commercial banks were still reluctant to use their own funds in long-term rural lending; and stringent financial regulations constrained the development of alternative collateral and equity participation. In this regard, the experience of RBDP drew the attention of the Government and the National Bank to the importance of creating pro-business and pro-poor financial policies and regulations to encourage private investments in agriculture and the rural areas. Also, mainly owing to legal restrictions on microfinance institutions' involvement in banking business, RBDP did not succeed in keeping microfinance institutions within its activities thus ruling out the possibility for smallholders to access financial sources (see paragraphs 65-66).
134. Another drawback was that the business services provided by RBDP were limited to preparation of bankable business plans, which addressed only a small part of the demands of rural entrepreneurs in business development, such as: credit access, product quality and certification, exports to European Union and other markets, and moving up the value chains (see paragraph 83).
135. Besides, with the benefit of hindsight, programme design could have considered leveraging remittances in enterprise development. The massive inflow of migrant worker remittances accounted for about 31 per cent of GDP between 2004 and 2008, and remittance flows contributed strongly to reducing poverty in rural areas. Though RBDP did not involve in remittances use, the investment use of remittances has been considered in 2007 COSOP (see paragraph 52).
136. Within the post-Soviet context, the programme was innovative in a broad sense inasmuch as it promoted or introduced pro-business approaches, including a value chain-based targeting approach, private equity investment, collateral development, and business-oriented small infrastructure, all of which gave preference to highly profitable and labour-intensive enterprises for business growth. There was no systematic scaling up of RBDP activities, but there is potential for policy analysis and scaling up of rural finance and small-scale infrastructure interventions (see paragraphs 102-106).
137. Based on implementation results, the most important lesson learned from RBDP had to do with the challenges in ensuring the poverty reduction effect of investments in larger rural enterprises. RBDP did not explicitly target poor households in economic activities, and the M&E mechanism did not effectively measure the poverty reduction impact on poor households, which constrained the programme achievements. The M&E mechanism became functional only shortly before project completion and relevant data were collected ex post, with no baseline data available for comparison (see paragraphs 49, 50, 58 and 78).

B. Recommendations

138. Based on the foregoing analysis, the following recommendations are meant to provide forward-looking insights regarding ongoing and future operations in Moldova. General consideration has been given to the scope and intervention areas

of ongoing projects because some of the recommendations have been already reflected in recent operations. In this sense, the recommendations should either point up the extra miles to be fielded by IFAD or reaffirm recent reflections in operations at the strategic level.

139. **Connect the rural poor to enterprise development through relevant economic activities.** This issue should be accorded priority in future project design and country strategy formulation. As IFAD is enhancing investments in enterprise development, the major assumption that investing in leading enterprises will benefit the rural poor should be transformed into operational strategies, with relevant economic activities for smallholders and rural labourers, such as employment creation and improvement, contract farming, marketing, enhancing product quality of smallholders, thus enabling these disadvantaged groups to move up economically with the development of rural enterprises (see paragraph 130).
140. **Adjust M&E system to measure the rural poverty effects of enterprise development.** In enterprise development and value chain development interventions, the expected poverty reduction impact on poor households, through either employment generation or linking smallholder businesses to leading enterprises, should be precisely reflected in project's M&E systems, impact studies, and project completion report. In particular, baseline and progress data should be collected, and the impact on poor households should be a key consideration in assessing the performance of projects (see paragraph 137).
141. **Support favourable rural financial regulations and markets.** While RBDP proved that rural lending can be profitable and safe for commercial banks, they are still reluctant to put their own resources into rural lending, partly owing to stringent banking regulations. Only a deep transformation of financial sector operations could reduce the extra-high charges for rural enterprises and encourage investments in rural areas. Such changes could be achieved with large-scale interventions to stimulate competition within the financial sector. On the one hand, in partnership with like-minded agencies (e.g. World Bank), IFAD could leverage project experience in undertaking policy analysis and policy dialogue, with the aim to bring about systemic changes in the rural finance market. On the other hand, IFAD should continue supporting microfinance institutions as an important supplementary channel for providing microcredit to smallholders, something that was not realised under RBDP due to changed government priorities (see paragraph 133).
142. **Enhance export and marketing services.** Although Moldova is just at the border of the European Union, its market is relatively isolated from European Union markets. Apart from geopolitical reasons, Moldova's produce faces difficulties in meeting the quality requirements of European Union and other international markets. RBDP identified the marketing needs of enterprises, and encouraged food-processing enterprises to obtain international food quality certifications. It turned out that enterprises that obtained hazard analysis and critical control points (HACCP) and other certifications increased their exports to European Union markets. After two decades of gradual growth of rural enterprises in Moldova, the weaknesses in marketing and qualifications are increasingly becoming a major bottleneck to quality growth. To meet demand, future operations will need to increase investments in technical assistance and financial support to upgrade quality standards, facilitate access to European Union markets and connect with international value chains (see paragraph 134).
143. **Remittance use in rural investment.** Remittance inflows have accounted for about one third of GDP in Moldova. They are an important source of financing for rural people and are used mainly for consumption and housing. RBDP did not take account of the investment use of remittances, which represented a missed opportunity, partly due to the novelty for IFAD in dealing with remittances at that

time. With increased interest, IFAD commissioned a study on the importance of using remittances for rural households. Although using remittances in investment was identified in the 2007-2012 country strategy as an opportunity for innovation, no progress has been made to date. Given that IFAD has been focusing on rural finance services, remittances have great potential as a source of complementary private funding for rural enterprises. In this regard, using remittances for investment could be included on a pilot basis in future projects (see paragraph 135).

Rating comparison

<i>Criterion</i>	<i>IFAD-PMD ratings</i>	<i>PPA rating^a</i>	<i>Rating disconnect</i>
Project performance			
Relevance	5	4	-1
Effectiveness	5	4	-1
Efficiency	6	5	-1
Project performance^b	5	4.33	-0.67
Rural poverty impact			
Household income and net assets	5	4	-1
Human, social capital and empowerment	5	5	0
Food security and agricultural productivity	5	5	0
Natural resources and environment	4	n.a.	n.a.
Institutions and policies	5	4	-1
Rural poverty impact^c	5	5	0
Other performance criteria			
Sustainability	4	4	0
Innovation and scaling up	5	4	-1
Gender equality and women's empowerment	5	3	-2
Overall project achievement^d	5	4	-1
Performance of partners^e			
IFAD	5	5	0
Government	5	5	0
Average net disconnect			-0.64
Ratings of the PCR document quality			
	PMD rating	PPA rating	Net disconnect
Scope	5	4	-1
Quality (method, data, participatory process)	5	4	-1
Lessons	5	5	0
Candour	5	5	0
Overall rating PCR document	5	5	0

^a Rating scale: 1 = highly unsatisfactory; 2 = unsatisfactory; 3 = moderately unsatisfactory; 4 = moderately satisfactory; 5 = satisfactory; 6 = highly satisfactory; n.p. = not provided; n.a. = not applicable.

^b Arithmetic average of ratings for relevance, effectiveness and efficiency.

^c This is not an average of ratings of individual impact domains.

^d This is not an average of ratings of individual evaluation criteria but an overarching assessment of the project, drawing upon the rating for relevance, effectiveness, efficiency, rural poverty impact, sustainability, innovation and scaling up, and gender.

^e The rating for partners' performance is not a component of the overall assessment ratings.

Basic project data

			Approval (US\$m)		Actual (US\$m)	
Region	Near East, North Africa and Europe	Total project costs	20.306		32.265	
Country	Moldova	IFAD loan and percentage of total	13.024	64%	14.079	43.64%
Loan number	686	Borrower	0.288	1.4%	0.667	2.07%
Type of project (subsector)	Credit and financial services	Cofinancier 1 <i>Domestic financial institutions</i>	2.810	13.8%	2.237	6.93%
Financing type	IFAD initiated and financed	Cofinancier 2				
Lending terms ^a	Highly concessional	Cofinancier 3				
Date of approval	13 Oct 2005	Cofinancier 4				
Date of loan signature	21 Feb 2006	From beneficiaries	4.184	20.6%	15.282	47.36%
Date of effectiveness	10 Jul 2006	From other sources				
Loan amendments	24 Apr 2009	Number of beneficiaries (if appropriate, specify if direct or indirect)	Infrastructure: 37,044 Enterprises: 129 Rural finance: 6,669			
Loan closure extensions		Cooperating institution	UNOPS		UNOPS until the end of 2008 From 2009, IFAD direct supervision	
Country programme managers	A. Sma (current) K. Nielsen P. Turilli	Loan closing date	31 Mar 2012		31 Mar 2012	
Regional director(s)	M. Bishay N. Khouri	Mid-Term Review			Jun 2008	
Project completion report reviewer	J. Zhang	IFAD loan disbursement at project completion (%)			100%	
Project completion report quality control panel	F. Felloni A. Muthoo	Date of project completion report			Aug 2010	

Source: President's report, PCR, Mid-term review, supervision reports, PPMS, LGS.

^a There are four types of lending terms: (i) special loans on highly concessional terms, free of interest but bearing a service charge of three fourths of one per cent (0.75%) per annum and having a maturity period of 40 years, including a grace period of 10 years; (ii) loans on hardened terms, bearing a service charge of three fourths of one per cent (0.75%) per annum and having a maturity period of 20 years, including a grace period of 10 years; (iii) loans on intermediate terms, with a rate of interest per annum equivalent to 50% of the variable reference interest rate and a maturity period of 20 years, including a grace period of 5 years; (iv) loans on ordinary terms, with a rate of interest per annum equivalent to one hundred per cent (100%) of the variable reference interest rate, and a maturity period of 15-18 18 years, including a grace period of three years.

Terms of reference

I. Background

1. The Independent Office of Evaluation of IFAD (IOE) will undertake a project performance assessment (PPA) of the Rural Business Development Programme (RBDP) in Moldova. The PPA is a project-level evaluation aiming to: (i) provide an independent assessment of the overall results of projects; and (ii) generate findings and recommendations for the design and implementation of on-going and future operations within the country.
2. A PPA is conducted as a next step after a Project Completion Report Validation (PCRVR). PCRVR performs the following functions: (i) independent verification of the analytical quality of the project completion report; (ii) independent review of project performance and results through desk review; and (iii) extrapolation of key substantive findings and lessons learnt for further synthesis and systematisation exercises. The PCRVR consists of a desk review of the project completion report and other available reports and documents. A PPA includes country visit in order to complement the PCRVR findings and fill in information gaps identified by the PCRVR.
3. The PPA applies the evaluation criteria outlined in the IFAD Evaluation Manual. In view of the time and resources available, the PPA is generally not expected to undertake quantitative surveys. The PPA rather adds analysis based on interviews at IFAD headquarters, interactions with stakeholders in the country including project beneficiaries, and direct observations in the field. As such it relies necessarily on the data available from the project monitoring and evaluation system.
4. **Country context.** Moldova is still a predominantly rural economy inasmuch as agriculture and agro-processing account for roughly 30 per cent of GDP.¹ Moldova experienced a severe economic collapse after gaining independence in 1991, but that was followed by stable recovery in the 2000s and GDP per capita increased to US\$3,090 in 2011. Although this is still the lowest GDP per capita in Europe,² the country's economic recovery moved 40 per cent of the population out of poverty between 1999 and 2004. Poverty is very much a rural phenomenon in Moldova as 70 per cent of the poor live in rural areas.³ Because of massive out-migration since independence, emigrant remittances, which account for around one third of GDP, have made a significant contribution to economic growth. However, the population has shrunk by almost 10 per cent as a result of out-migration and now stands at around 3.6 million.
5. **Project description.** RBDP is the third IFAD-financed project in Moldova. The main areas of intervention were rural finance and enterprise development. The objectives of RBDP were to generate sustainable increases in income for poor people in rural areas and small towns by stimulating the growth of strategic farming and rural business activities, such as horticulture, wheat and oil production, and dairy farming. The target groups included unemployed rural men and women, small and medium-sized farmers, rural entrepreneurs, agro-processors, input suppliers, and trade and community groups. With an approved total cost of US\$20.3 million, the programme comprised the following components:
 - (i) Rural enterprise intermediation services (3.2 per cent of total programme costs);
 - (ii) Rural financial services (69.8 per cent);
 - (iii) Market-derived infrastructure investment (19.4 per cent); and

¹ Moldova country brief, World Bank, <http://go.worldbank.org/F2ZIPB18P0>.

² Country report, Moldova, December 2011, EIU.

³ World Bank Country Assistance Strategy 2009- 2012, page 8.

- (iv) programme management (7.6 per cent).
6. No major changes were made to RBDP design during implementation but the programme was completed sooner than planned, mainly thanks to strong demand for rural finance services. Programme activities were completed by 31 December 2010 against the planned date of 30 September 2011. The final total programme investment was US\$30.3 million, which was significantly higher than the US\$20.3 million foreseen, mainly owing to the active beneficiaries' contribution to enterprise development.

I. Methodology

7. **Objectives.** The main objectives of the PPA are to: (i) assess the results of the programme; and (ii) generate findings and recommendations for the design and implementation of on-going and future operations in Moldova.
8. **Scope.** The PPA will take account of the preliminary findings of the PCRV and further desk review, issues emerging from interviews at IFAD headquarters, and a focused mission to the country for the purpose of generating a comprehensive, evidence-based evaluation. However, the PPA will not need to examine or re-examine the full spectrum of programme activities, achievements and drawbacks, but will focus on selected key issues. Furthermore, subject to the availability of time and budgetary resources, due attention will be paid to filling in the major evaluative information gaps of the PCR and other programme documents.
9. **Evaluation criteria.** In line with the evaluation criteria outlined in IOE's Evaluation Manual (2009), added evaluation criteria (2010)⁴ and IOE Guidelines for PCRV and PPA (January 2012), the key evaluation criteria applied in this PPA will include:
- (i) *Relevance, which is assessed both in terms of alignment of project objectives with country and IFAD policies for agriculture and rural development and the needs of the rural poor, as well as project design features geared to the achievement of project objectives.*
 - (ii) *Effectiveness, which measures the extent to which the project's immediate objectives were achieved, or are expected to be achieved, taking into account their relative importance.*
 - (iii) *Efficiency, which indicates how economically resources/inputs are converted into results.*
 - (iv) *Rural poverty impact, which is defined as the changes that have occurred or are expected to occur in the lives of the rural poor (whether positive or negative, direct or indirect, intended or unintended) as a result of development interventions. Five impact domains are employed to generate a composite indication of rural poverty impact: household income and assets; human and social capital and empowerment; food security and agricultural productivity; natural resources, environment and climate change; and institutions and policies.*
 - (v) *Sustainability, indicating the likely continuation of net benefits from a development intervention beyond the phase of external funding support. It also includes an assessment of the likelihood that actual and anticipated results will be resilient to risks beyond the project's life.*
 - (vi) *Pro-poor innovation and scaling up, assessing the extent to which IFAD development interventions have introduced innovative approaches to rural poverty reduction and the extent to which these interventions have been (or are likely to be) replicated and scaled up by government, private sector and other agencies.*

⁴ Gender, climate change, and scaling up.

- (vii) Gender equality and women's empowerment. *This criterion is related to the relevance of design in terms of gender equality and women's empowerment, the level of resources committed, and changes promoted by the project.*
- (viii) Besides, the **performance of partners**, including the performance of IFAD and the Government, will be assessed on an individual basis, with a view to the partners' expected role and responsibility in the project life cycle.
10. **Data collection.** The PPA will be built on the initial findings of the PCRV. For further information, interviews will be conducted both at IFAD headquarters and in Moldova. During the mission to Moldova, additional primary and secondary data will be collected in order to reach an independent assessment of performance and results. Data collection methods will mostly include qualitative participatory techniques. The methods deployed will consist of individual and group interviews, focus group discussions with beneficiaries, and direct observations. The PPA will also make use – where applicable – of additional data available through the programme's monitoring and evaluation (M&E) system. Triangulation will be applied to verify findings emerging from different information sources.
11. **Stakeholders' participation.** In compliance with the Evaluation Policy of 2011, the main programme stakeholders will be involved throughout the PPA. This will ensure that the key concerns of the stakeholders are taken into account, that the evaluators fully understand the context in which the programme was implemented, and that opportunities and constraints faced by the implementing institutions are identified. Regular interaction and communication will be established with the Near East, North Africa and Europe Division (NEN) of IFAD and with the Government of Moldova. Formal and informal opportunities will be explored during the process for the purpose of discussing findings, lessons and recommendations.

II. Evaluation process

12. In all, the PPA will involve five phases: desk work; country work; report drafting and peer review; receipt of comments from NEN and the Government; and the final phase of communication and dissemination.
13. **Desk work phase.** The PCRV and further desk review provide initial findings and identify key issues to be investigated by the PPA. The draft PCRV will be peer-reviewed within IOE, and thereafter submitted to NEN for comment before the PPA mission leaves for Moldova.
14. **Country work phase.** The PPA mission is scheduled for 11–17 March 2012. It will interact with the Government, local authorities, private-sector partners, NGOs, programme staff and clients (beneficiaries), and collect information from the programme's M&E system and other sources. At the end of the mission, a brief will be provided to the IFAD partner ministry(ies), followed by a wrap-up meeting in Chisinau, the capital of Moldova, to summarize the preliminary findings and discuss key strategic and operational issues.
15. **Report drafting and peer review.** At the conclusion of the field visit, a draft PPA report will be prepared and submitted to IOE internal peer review for quality assurance. Fabrizio Felloni, Senior Evaluation Officer, and Mattia Prayer Galletti, Senior Evaluation Officer, will be the peer reviewers for the PPA.
16. **Comments by NEN and the Government.** The PPA report will be shared with NEN and thereafter with the Government for comment. IOE will finalize the report following receipt of the Government's comments.
17. **Communication and dissemination.** The final report will be disseminated among key stakeholders and the evaluation report published by IOE, both online and in print.

III. Key issues for investigation

18. According to the PCRV's findings, RBDP created added value to rural economic development in Moldova, which had been in the process of transition to a modern market economy. With programme support, the upgraded rural finance services and mechanisms, enhanced business development services, and improved rural infrastructure created a lasting enabling environment for rural people, particularly rural entrepreneurs, to develop new business ventures and extend to new markets. However, the value chain multiplier approach was found to mainly favour existing rural enterprises, while very limited support was given to start-up enterprises or micro businesses operated by poor households or unskilled labours. Moreover, the poverty reduction impact on poor households is not entirely explained in the documentation available.
19. In reaffirming the good overall quality of the PCR in presenting and analysing the programme results, IOE found there was insufficient evidence to make a conclusive assessment in terms of rural poverty reduction impact, relevance of targeting, and the effectiveness of value chain development in reaching to the rural poor, which are of high relevance to the overall goal of the programme. The PPA will therefore collect additional data in these respects.
20. For learning purposes, the PCRV identified key issues relevant to present challenges faced by IFAD, and which could be shared with other interventions or country operations. As such, these issues will be further investigated by the PPA.
21. **Value chain development and targeting of poor households.** The programme piloted new targeting approaches such as applying a value chain multiplier assessment in deciding whether or not to approve loans to rural enterprises, which helped to focus investments on selected value chains and stimulated investment in rural enterprises. However, it did not draw up a clear plan for targeting poor households, such as unskilled small farmers or micro business owners. Therefore, the PPA will investigate the effectiveness of the value chain development and its impact on rural poverty reduction.
22. **Equity financing for SME development.** While the programme was unable to introduce private venture investments to rural enterprises, it identified the strong demand of rural SMEs for equity investments to enhance marketing and ensure production quality. Based on the recommendations of the PCR, IFAD may consider ways of facilitating equity investment flows to rural enterprises, either by setting up venture capital or by introducing a special service targeted to equity financing selected value chains and enterprises. The PPA would examine the feasibility of this recommendation.
23. **Adapting collateral requirements to the rural context.** High collateral charges have been identified as a challenge to small farmers and entrepreneurs in accessing rural finance services in Moldova. RBDP successfully introduced new types of collateral to formal financial institutions, such as farmland, agricultural machinery and livestock, all of which were relevant to the economic situation of rural borrowers. In acknowledging the drawbacks at an early stage (such as unequal collateral requirements), the PPA would assess the results and sustainability of this approach and analyse the potential for replication and scaling up.
24. **Enhancing marketing with technical support on international food standards.** In its efforts to enhance agricultural marketing and expand agricultural export, the programme encouraged food-processing enterprises to obtain international food standard certification, such as HACCP. Once the enterprises obtained HACCP and other certification, and despite the fact that the programme provided no technical or financial assistance for the purpose, their exports to European Union markets increased. In this regard, the PPA would consolidate the

lessons and consider the feasibility of including a component relating to international food standards in future operations.

25. Besides, the PPA mission will also make effort to analyse the feasibility of the PCR's recommendations on the setting up of a credit guarantee fund; piloting venture capital funds in future projects; etc.

IV. Evaluation team

26. Under the guidance of Fabrizio Felloni, Senior Evaluation Officer, Jicheng Zhang, Evaluation Research Analyst, has been appointed as Lead Evaluator for this PPA and will be responsible for drafting parts of the PPA report and delivering the final overall report. He will be assisted by a senior consultant, George Polenakis, who will lead the mission and collaborate in drafting the report. Mr Zhang will be responsible for the full and final PPA report.

Methodological note on project performance assessments

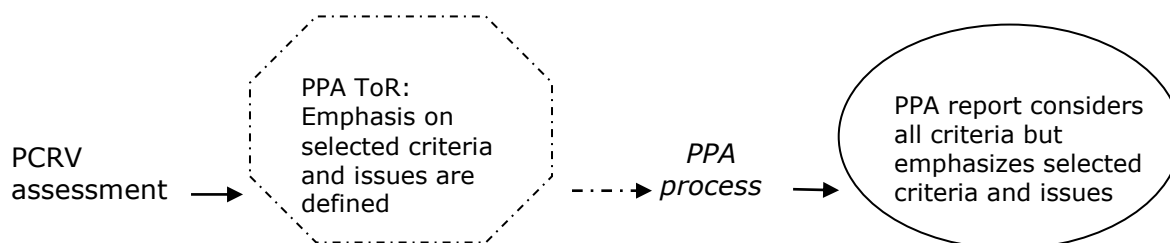
A. What is a project performance assessment¹

1. The project performance assessment (PPA) conducted by the Independent Office of Evaluation of IFAD (IOE) entails one mission of 7-10 days² and two mission members³. PPAs are conducted on a sample of projects for which project completion reports have been validated by IOE, and take account of the following criteria (not mutually exclusive): (i) synergies with forthcoming or ongoing IOE evaluations (e.g. country programme or corporate-level evaluations); (ii) major information gaps in project completion reports (PCRs); (iii) novel approaches; and (iv) geographic balance.
2. The objectives of the PPA are to: assess the results and impact of the project under consideration; and (ii) generate findings and recommendations for the design and implementation of ongoing and future operations in the country involved. When the PPA is to be used as an input for a country programme evaluation, this should be reflected at the beginning of the report. The PPA is based on the project completion report validation (PCR/V) results, further desk review, interviews at IFAD headquarters, and a dedicated mission to the country, to include meetings in the capital city and field visits. The scope of the PPA is set out in the respective terms of reference.

B. Preparing a PPA

3. Based on the results of the PCR/V, IOE prepares brief terms of reference (ToR) for the PPA in order to sharpen the focus of the exercise.⁴ As in the case of PCR/Vs, PPAs do not attempt to respond to each and every question contained in the Evaluation Manual. Instead, they concentrate on the most salient facets of the criteria calling for PPA analysis, especially those not adequately explained in the PCR/V.
4. When preparing a PPA, the emphasis placed on each evaluation criterion will depend both on the PCR/V assessment and on findings that emerge during the PPA process. When a criterion or issue is not identified as problematic or in need of further investigation, and no additional information or evidence emerges during the PPA process, the PPA report will re-elaborate the PCR/V findings.

Scope of the PPA



¹ Extract from the PCR/V and PPA Guidelines.

² PPAs are to be conducted within a budget ceiling of US\$25,000.

³ Typically, a PPA mission would be conducted by an IOE staff member with the support of a consultant (international or national). An additional (national) consultant may be recruited if required and feasible within the evaluation budget.

⁴ Rather than an approach paper, IOE prepares terms of reference for PPAs. These terms of reference ensure coverage of information gaps, areas of focus identified through PCR/Vs and comments by the country programme manager, and will concentrate the PPA on those areas. The terms of reference will be included as an annex to the PPA.

C. Evaluation criteria

5. The PPA is well suited to provide an informed summary assessment of project relevance. This includes assessing the relevance of project objectives and of design. While, at the design stage, project logical frameworks are sometimes succinct and sketchy, they do contain a number of (tacit) assumptions on mechanisms and processes expected to generate the final results. At the post-completion phase, and with the benefit of hindsight, it will be clearer to the evaluators which of these assumptions have proved to be realistic, and which did not hold up during implementation and why.
6. For example, the PPA of a project with a major agricultural marketing component may consider whether the project framework incorporated key information on the value chain. Did it investigate issues relating to input and output markets (distance, information, monopolistic power)? Did it make realistic assumptions on post-harvest conservation and losses? In such cases, staff responsible for the PPA will not be expected to conduct extensive market analyses, but might consider the different steps (e.g. production, processing, transportation, distribution, retail) involved and conduct interviews with selected actors along the value chain.
7. An assessment of effectiveness, the extent to which a project's overall objectives have been achieved, should be preferably made at project completion, when the components are expected to have been executed and all resources fully utilized. The PPA considers the overall objectives⁵ set out in the final project design document and as modified during implementation. At the same time, it should be flexible enough to capture good performance or under-performance in areas that were not defined as an objective in the initial design but emerged during the course of implementation.
8. The PPA mission may interview farmers regarding an extension component, the objective of which was to diffuse a certain agricultural practice (say, adoption of a soil nutrient conservation technique). The purpose here would be to understand whether the farmers found it useful, to what extent they applied it and their perception of the results obtained. The PPA may look into reasons for the farmers' interest in new techniques, and into adoption rates. For example, was the extension message delivered through lectures? Did extension agents use audio-visual tools? Did extension agents engage farmers in interactive and participatory modules? These type of questions help illustrate *why* certain initiatives have been conducive (or not conducive) to obtaining the desired results.
9. The Evaluation Manual suggests methods for assessing efficiency, such as calculating the EIRR,⁶ estimating unit costs and comparing them with standards (cost-effectiveness approach), or addressing managerial aspects of efficiency (timely delivery of activities, respect of budget provisions). The documentation used in preparing the PCRV should normally provide sufficient evidence of delays and cost overruns and make it possible to explain why they happened.
10. As far as rural poverty impact is concerned, the following domains are contemplated in the Evaluation Manual: (a) household income and assets; (b) human and social capital and empowerment; (c) food security and agricultural

⁵ Overall objectives will be considered as a reference for assessing effectiveness. However, these are not always stated clearly or consistent throughout the documentation. The assessment may be made by component if objectives are defined by components; however the evaluation will try to establish a correspondence between the overall objectives and outputs.

⁶ Calculating an EIRR may be challenging for a PPA as it is time consuming and the required high quality data are often not available. The PPA may help verify whether some of the crucial assumptions for EIRR calculation are consistent with field observations. The mission may also help shed light on the cost-effectiveness aspects of efficiency, for example whether, in an irrigation project, a simple upgrade of traditional seasonal flood water canalization systems might have been an option, rather than investing on a complex irrigation system, when access to markets is seriously constrained.

productivity; (d) natural resources, the environment and climate change;⁷ and (e) institutions and policies. As shown in past evaluations, IFAD-funded projects generally collect very little data on household or community-level impact indicators. Even when impact data are available, both their quality and the methodological rigour of impact assessments are still questionable. For example, although data report significant increases in household assets, these may be due to exogenous factors (e.g. falling prices of certain commodities; a general economic upturn; households receiving remittances), and not to the project.

11. PPAs may help address the "attribution issue" (i.e. establishing to what extent certain results are due to a development intervention rather than to exogenous factors) by:
 - (i) following the logical chain of the project, identifying key hypotheses and reassessing the plausibility chain; and
 - (ii) conducting interviews with non-beneficiaries sharing key characteristics (e.g. socio-economic status, livelihood, farming system), which would give the mission an idea of what would have happened without the project (counterfactual).⁸
12. When sufficient resources are available, simple data collection exercises (mini-surveys) may be conducted by a local consultant prior to the PPA mission.⁹ Another non-mutually exclusive option is to spot-check typical data ranges or patterns described in the PCR by means of case studies (e.g. do PCR claims regarding increases in average food-secure months fall within the typical ranges recorded in the field?). It is to be noted that, while data collected by a PPA mission may not be representative in a statistical sense, such data often provide useful reference points and insights. It is important to exercise care in selecting sites for interviews in order to avoid blatant cases of non-beneficiaries profiting from the project.). Sites for field visits are selected by IOE in consultation with the government concerned. Government staff may also accompany the PPA mission on these visits.
13. The typical timing of the PPA (1-2 years after project closure) may be useful for identifying factors that enhance or threaten the sustainability of benefits. By that stage, the project management unit may have been disbanded and some of the support activities (technical, financial, organizational) terminated, unless a second phase is going forward or other funding has become available. Typical factors of sustainability (political support, availability of budgetary resources for maintenance, technical capacity, commitment, ownership by the beneficiaries, environmental resilience) can be better understood at the ex post stage..
14. The PPA also concentrates on IFAD's role with regard to the promotion of innovations and scaling up. For example, it might be observed that some innovations are easily scaled up at low cost (e.g. simple but improved cattle-rearing practices that can be disseminated with limited funding). In other cases, scaling up may involve risks: consider the case of a high-yield crop variety for which market demand is static. Broad adoption of the variety may be beneficial in terms of ensuring food security, but may also depress market prices and thereby reduce sale revenues for many households unless there are other, complementary activities for the processing of raw products.
15. The PPA addresses gender equality and women's empowerment, a criterion recently introduced into IFAD's evaluation methodology. This relates to the emphasis placed on gender issues: whether it has been followed up during

⁷ Climate change criterion will be addressed if and when pertinent in the context of the project, as most completed projects evaluated did not integrate this issue into the project design.

⁸ See also the discussion of attribution issues in the section on PCRVs.

⁹ If the PPA is conducted in the context of a country programme evaluation, then the PPA can piggy-back on the CPE and dedicate more resources to primary data collection.

implementation, including the monitoring of gender-related indicators; and the results achieved.

16. Information from the PCRV may be often sufficient to assess the performance of partners, namely, IFAD and the government. The PPA mission may provide further insights, such as on IFAD's responsiveness, if relevant, to implementation issues or problems of coordination among the project implementation unit and local and central governments. The PPA does not assess the performance of cooperating institutions, which now has little or no learning value for IFAD.
17. Having completed the analysis, the PPA provides its own ratings in accordance with the evaluation criteria and compares them with PMD's ratings. PPA ratings are final for evaluation reporting purposes. The PPA also rates the quality of the PCR document.
18. The PPA formulates short conclusions: a storyline of the main findings. Thereafter, a few key recommendations are presented with a view to following up projects, or other interventions with a similar focus or components in different areas of the country.¹⁰

¹⁰ Practices differ among multilateral development banks, including recommendations in PPAs. At the World Bank, there are no recommendations but "lessons learned" are presented in a typical PPA. On the other hand, PPAs prepared by Asian Development Bank include "issues and lessons" as well as "follow-up actions" although the latter tend to take the form of either generic technical guidelines for a future (hypothetical) intervention in the same sector or for an ongoing follow-up project (at Asian Development Bank, PPAs are undertaken at least three years after project closure).

Definition of the evaluation criteria used by IOE

<i>Criteria</i>	<i>Definition^a</i>
Project performance	
Relevance	The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, institutional priorities and partner and donor policies. It also entails an assessment of project design in achieving its objectives.
Effectiveness	The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.
Efficiency	A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results.
Rural poverty impact^b	Impact is defined as the changes that have occurred or are expected to occur in the lives of the rural poor (whether positive or negative, direct or indirect, intended or unintended) as a result of development interventions.
<ul style="list-style-type: none"> Household income and assets 	Household income provides a means of assessing the flow of economic benefits accruing to an individual or group, whereas assets relate to a stock of accumulated items of economic value.
<ul style="list-style-type: none"> Human and social capital and empowerment 	Human and social capital and empowerment include an assessment of the changes that have occurred in the empowerment of individuals, the quality of grassroots organizations and institutions, and the poor's individual and collective capacity.
<ul style="list-style-type: none"> Food security and agricultural productivity 	Changes in food security relate to availability, access to food and stability of access, whereas changes in agricultural productivity are measured in terms of yields.
<ul style="list-style-type: none"> Natural resources, the environment and climate change 	The focus on natural resources and the environment involves assessing the extent to which a project contributes to changes in the protection, rehabilitation or depletion of natural resources and the environment as well as in mitigating the negative impact of climate change or promoting adaptation measures.
<ul style="list-style-type: none"> Institutions and policies 	The criterion relating to institutions and policies is designed to assess changes in the quality and performance of institutions, policies and the regulatory framework that influence the lives of the poor.
Other performance criteria	
<ul style="list-style-type: none"> Sustainability 	The likely continuation of net benefits from a development intervention beyond the phase of external funding support. It also includes an assessment of the likelihood that actual and anticipated results will be resilient to risks beyond the project's life.
<ul style="list-style-type: none"> Innovation and scaling up 	The extent to which IFAD development interventions have: (i) introduced innovative approaches to rural poverty reduction; and (ii) the extent to which these interventions have been (or are likely to be) replicated and scaled up by government authorities, donor organizations, the private sector and others agencies.
<ul style="list-style-type: none"> Gender equality and women's empowerment 	The criterion assesses the efforts made to promote gender equality and women's empowerment in the design, implementation, supervision and implementation support, and evaluation of IFAD-assisted projects.
Overall project achievement	This provides an overarching assessment of the project, drawing upon the analysis made under the various evaluation criteria cited above.
Performance of partners	This criterion assesses the contribution of partners to project design, execution, monitoring and reporting, supervision and implementation support, and evaluation. It also assesses the performance of individual partners against their expected role and responsibilities in the project life cycle.
<ul style="list-style-type: none"> IFAD Government 	

^a These definitions have been taken from the OECD/DAC *Glossary of Key Terms in Evaluation and Results-Based Management* and from the IFAD Evaluation Manual (2009).

^b The IFAD Evaluation Manual also deals with the "lack of intervention", that is, no specific intervention may have been foreseen or intended with respect to one or more of the five impact domains. In spite of this, if positive or negative changes are detected and can be attributed in whole or in part to the project, a rating should be assigned to the particular impact domain. On the other hand, if no changes are detected and no intervention was foreseen or intended, then no rating (or the mention "not applicable") is assigned.

List of key persons met

Government

Ministry of Agriculture and Food industry

H.E. Vasile Bumacov, Minister

Mr Stefan Chitoroaga, Deputy Minister

Ministry of Finance

Mrs Maria Caraus, Deputy Minister

Mrs Raisa Cantemir, Head of the Credit Line Directorate

Mrs Elena Matveeva, Head of the Public Debt Department

The State Chancellery

Mrs Licretia Ciurea, Head of Section for Coordination of External Assistance/Aid

Coordination Unit

Ministry of Economy

Mr Mihai Dolma, Head of Division for Gasification and Energy efficiency

Ministry of Transport and Roads Infrastructure

Mr Andrei Cuculescu, Head of Division for Roads Infrastructure Development

National Bank of Moldova

Mrs Lucia Hadarca, Director, Department for Hard currency operations and external relations

International and donor institutions

JICA Project 2KR

Mr Valeriu Bulgari, Executive Director, (former Minister of Agriculture)

UN Office in Moldova

Mr Jacob Schemel, UN Coordination Officer

UNDP Country Office

Mrs Aliona Niculita, Assistant Resident Representative, Portfolio manager

Non-governmental organizations and associations

Agency for irrigation infrastructure development Apele Moldovei

Mr Mihail Penicov

Private sector

Proconsulting SRL

Mr Dumitru Ostapenco

Moldindconbank

Ms Gonciariuc Elena, Director, Briceni Branch

Agroindbank

Mrs Ina Primov, Director, Cliuleni Branch

Beneficiaries

Infrastructure beneficiaries

Mr Vornices Dorin, Cotiujeni village, Briceni Rayon (asphalted road)

Mr Stefan Plamadeala, Puhaceni village, Anenii Noi Rayon (irrigation system)

Mr Alexandru Mirzac, Serpeni village, Anenii Noi Rayon (irrigation system)

Credit beneficiaries

Mr Vornices Dorin (cold storage for apple), SRL Agrodenidan

Ms Cojinetchii Djema (apple orchard), SRL Cojinetchii Ianos Anton

Mr Jeleznii Mihail (cold storage for potato), SRL Dimilita-Rex

Mr and Mrs Valentin & Ecaterina Medvețchi, SRL'Mevalex', Corjova village, Criuleni
Rayon (walnut orchard)

Other resource persons

CPIU

Mr Victor Rosca, Director

Other staff

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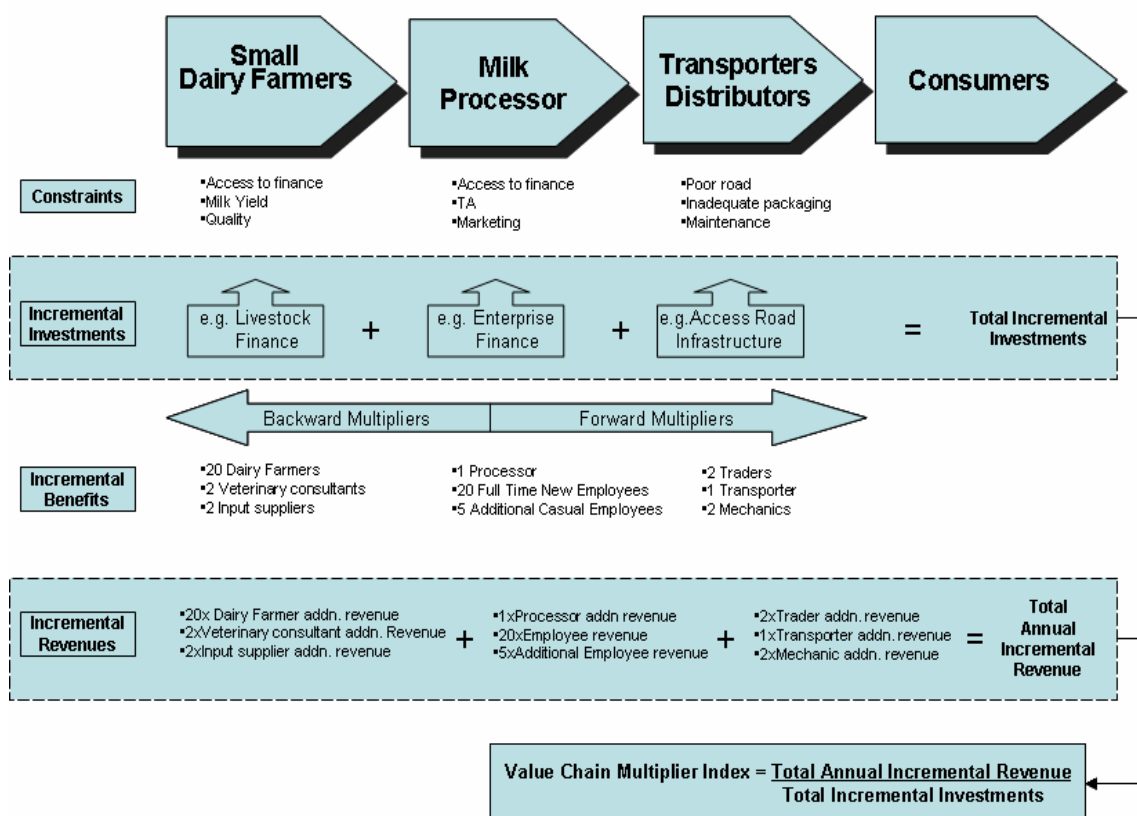
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The value chain multiplier and targeting¹

1. In order to target refinancing and equity intermediation to investments with the greatest economic impact, the selection process considered the positive effect that would be induced throughout the value chain apart from that specifically generated within one business. In order to measure this impact, a value chain multiplier (VCM) was calculated, consisting of the value of all incremental profits, salaries, services and produce induced by the investment. This VCM was divided by the value of the incremental loan, thus deriving the value chain multiplier index and allowing easy comparison of the VCM of investments different in nature and size. Applications whose value chain multiplier index did not exceed the threshold were not to be supported.

Annex VIII - Figure 1

Dairy supply chain investment – Example of value chain multiplier index



¹ Report and recommendation of the President to the Executive Board on a proposed loan to the Republic of Moldova for the Rural Business Development Programme.

The objective ranking system and infrastructure ranking¹

1. All applications for access to programme benefits under the market-derived infrastructure development component would proceed through a two-step selection process: (i) pre-qualification; and (ii) qualification. For pre-qualification, applications were required to be compliant with three compulsory criteria. First, they would have to demonstrate an internal rate of return (IRR) greater than the opportunity cost of capital; second, they would have to show a commitment by the proponents to invest a minimum of 15 per cent of the total cost of the investment from their own resources; and third, they would have to propose a feasible and sustainable procedure for operation and maintenance of the proposed facility. Any proposal that did not satisfy these criteria would be rejected.
2. Thereafter, an objective ranking system (ORS) would be employed to ensure that the proposed investments were appropriately targeted. The components of the ORS would have the following initial weightings:
 - a. internal rate of return 70 per cent;
 - b. number of individuals assisted per US\$1,000 spent 15 per cent; and
 - c. equity contribution by the sponsors 15 per cent.
3. All pre-screened applications being considered for grant awards would be competitively ranked using this system. The highest score for each of the evaluation criteria would be given a score of 1.00. The scores for evaluation criteria of the other proposals would then be computed on a sliding scale as a proportion of the highest score. Proposals would therefore be ranked according to their combined scores using the following formula:
$$\text{Ranking Value} = (0.7 \times A) + (0.15 \times B) + (0.15 \times C)$$
4. The proposals would then be ranked in descending order until all the available funds for a given year were allocated, plus provision for sufficient reserve projects to cater for any withdrawals that did not pass scrutiny at the qualification stage (technical review and field visit by CPIU).

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RBDP implementation results¹

Implementation results	Unit	Cumulative		
		Appraisal	Actual	% of Appraisal
Persons receiving project services	Number	NA	15,185	-%
Groups receiving project services	Number	180	141	78%
Communities receiving project services	Number	150	129	86%
Rural enterprise intermediation services				
Staff of service providers trained	Number	21	27	129%
Staff of financial institutions trained	Number	45	60	133%
Persons trained in business and entrepreneurship	Number	340	507	149%
Persons accessing programme advisory services	Number	380	812	214%
Enterprises accessing equity intermediation service	Number	3	5	167%
Rural financial services				
Active borrowers (disaggregated by gender)	Male	170	352	207%
Active borrowers (disaggregated by gender)	Female	34	96	282%
Value of gross loan portfolio	US\$	5,000,000	10,645,000	213%
Enterprises accessing financial services	Number	71	132	182%
Financial institutions participating	Number	7	8	114%
Market derived infrastructure				
Groups managing infrastructure formed/strengthened	Number	23	32	139%
Persons in groups managing infrastructure, formed/strengthened	Number	70	230	329%
Groups managing infrastructure with women in leadership, formed/strengthened	Number	5	8	160%
Persons trained in infrastructure management	Number	70	125	179%
Rainwater harvesting constructed/rehabilitated	Number	8	15	188%
Rainwater harvesting constructed/rehabilitated	Ha	5,000	3,931	79%
Roads constructed	Number	9	12	133%
Roads constructed	Km	20	12	62%
Drinking water systems constructed/rehabilitated	Number	5	3	60%
Other infrastructure constructed/rehabilitated	Number	2	2	100%

Source: PCR and CPIU- RIMS.

¹ Report and recommendation of the President to the Executive Board on a proposed loan to the Republic of Moldova for the Rural Business Development Programme.

IFAD-financed projects in Moldova

<i>Project name</i>	<i>Loan terms</i>	<i>IFAD loan (US\$mil)</i>	<i>Project cost (US\$mil)</i>	<i>Board approval</i>	<i>Loan effectiveness</i>	<i>Project completion date</i>	<i>Project status</i>
Rural Finance and Small Enterprise Development Project	HC	8.0	15.1	09 Dec 99	01 Dec 00	31 Dec 05	Closed
Agricultural Revitalization Project	HC	14.9	18.2	18 Dec 03	24 Jan 06	31 Mar 13	Ongoing
Rural Business Development Programme	HC	13.0	20.3	13 Dec 05	10 Jul 06	30 Sep 11	Completed
			19.0				
Rural Financial Services And Marketing Programme	HC	13.2	(plus grant 0.53)	11 Sep 08	19 Feb 09	31 Mar 14	Ongoing
			39.3				
Rural Financial Services and Agribusiness Development Project	HC	19.8	(plus grant 0.49)	15 Dec 10	04 Jul 11	30 Sep 16	Ongoing

Sources: PPMS, President's Report.

Reconstructed theory of change

Outputs of RBDP interventions	Expected Results	Expected Impacts
<ul style="list-style-type: none"> • Bankable business plans of rural enterprises, which also involved training for rural entrepreneurs in business development • Longer-term loans through commercial banks were invested in selected rural enterprises with a high value-chain multiplier effect • Business-oriented small infrastructure with immediate benefits to rural enterprises and producer groups 	<ul style="list-style-type: none"> • Sustainable lending mechanism to rural entrepreneurs • Growth of enterprises along selected value chains, in terms of number, size, profitability, and sustainability • Increased productivity of on- and off-farm production • Increased employment and wages • Increased purchases of local produce • Improved small infrastructure for production and market access 	<ul style="list-style-type: none"> • Sustainable growth of rural economy • Higher-value agriculture, processing and other rural businesses • Increased incomes for labourers • Increased income and food security of rural poor including small-holder farmers, business owners and other vulnerable groups • Enhanced human and social capital • Favourable business environment for private investment in rural areas

Case studies on small-scale infrastructure investments

Case study 1: Irrigation

Location: Pahaceni village, Anenii Noi Rayon

1. The village has rich water resources and is surrounded by the Nistru River, however it lacked a functional irrigation and sewage systems. The old irrigation system was damaged and could not work effectively. To solve the irrigation problem, with project advices, the farmers in the village formed a Water Users' Association with 191 members, and the Association made application for RBDP grant to upgrade the village irrigation system. RBDP provided grant of MDL 1. 8 million, which accounted for 85 per cent of the investment, and the land owners contributed with MDL 0.32 million.
2. The investment was used for procurement and installation of a mobile pumping station with diesel engine, with the pressure of 12 atmosphere, and pipes of 2, 502 metres for channelling water to lands. This installation could carry 200 m³ water/ hour, which increased the irrigated surface from 60 ha in 2007 to 150 ha in 2008, about 50 per cent of the total lands. The new irrigation system in combination with technical support in farming increased yields of crops by 30 per cent in the lands of potatoes, onions, carrots, tomatoes, wheat, cabbage, and watermelons, and the benefit was similar in the lands of each member of the Association. The members of the Association has been active in maintaining the irrigation system.

Case study 2: Road repair

Location: Siret Village, Straseni Rayon, with 6, 300 inhabitants

3. The majority of village inhabitants are involved in agriculture and agricultural processing, and garden nursery in their own land. The village had been facing a major problem concerning access to the main road, and villagers were troubled with footing the muddy pits along the village roads on rainy days.
4. To facilitate the business development in the village, IFAD granted MDL 1. 2 million (83 per cent of the total cost) to repair the village roads linking to main road. As part of the conditions for IFAD funding, the villagers contributed MDL 0.22 million (16 per cent of the cost), and village hall also provided MDL 29 thousand (2 per cent of the cost). With this investment, two road segments (300 metres and 870 metres) were repaired at the entrance to the village and at the part of crossing the village. The improved road enabled the 24 enterprises in the village easy transportation to markets, and also over 150 households benefited with easy road access.

Source: Impact Study of Market Derived Infrastructure, CPIU, 2008.

Case study on a rural enterprise intermediation service provider

1. Since 2007, Mr. Anatolie Palade was contracted by RBDP as a business service provider. He started working with rural enterprises in connection with the World Bank Rural Investment and Services Project in 2000. In order to operate as a service provider in the project, Palade formed an NGO, Consulting and Credit in Agriculture (CCA), and began formulating business plans to serve clients' loan applications to commercial banks.
2. Thanks to his work with World Bank, Palade acquired a thorough grounding and experience in formulating business plans, assisting rural entrepreneurs to develop business ideas and applying for loans. At that time, Palade hired four young professionals to travel throughout the rural areas informing farmers and smallholders of the benefits they could expect from the project, thus expanding his clientele.
3. Apart from the NGO, Palade has also established a consulting company to meet the different requirements of donor agencies. As a clever businessman and with a view to accommodating customers' needs, he offered clients the options of RBDP credits for rural areas and World Bank project loans for the rest of Moldova. He prefers IFAD loans because they are easier to process. However, he thought that the training he received from IFAD was not particularly conducive to a consulting business.
4. As far as his competitors are concerned, Palade's view is that most the business service providers operate more as retailers of credit programmes than as business consultants. It was for this reason that he founded ProConsulting: to brand it as a consulting company rather than one dealing with credit retailing. Today, ProConsulting is seen by commercial banks as one of the more credible business service providers.



Enabling poor rural people
to overcome poverty

**International Fund for
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