Independent Office of Evaluation

IFAD
Investing in rural people

Republic of Moldova

Rural Financial Services and Agribusiness Development Project

PROJECT PERFORMANCE EVALUATION

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Project Performance Evaluation

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Photos of activities supported by Rural Financial Services and Agribusiness Development Project

Front cover: Labourer at a young entrepreneur's farm in Pohorniceni-Orhei. ©IFAD/Renate Roels

Back cover: Table grapes from the IFAD-supported table grape association. The association has benefitted from help to develop a market strategy and increased market linkages with Poland and Lithuania (right); Small business focusing on the production of apples in Ocinata/Corestauti. The farmer was a beneficiary of credit and infrastructure (left). ©IFAD/Catrina Perch

Preface

The Rural Financial Services and Agribusiness Development Project responded to important challenges in Moldova's agriculture sector, namely the need to modernize it and to facilitate the sector's access to international markets by providing rural financial services and supporting the development of value chains.

Specifically, the project aimed to provide credit to - and develop value chains for – small and medium-sized enterprises, thereby indirectly benefiting the poor through increased and decent employment opportunities.

The evaluation found improved access to credit for both small and medium-sized enterprises and new target groups such as young entrepreneurs and microentrepreneurs thereby addressing an existing financing gap. The project was less successful in improving pro-poor value chains, mainly due to the difficulties in establishing relationships between the partners in the value chains and volatile market prices.

This evaluation highlights the need for explicit targeting strategies as well as careful ex ante examination of the assumed "trickle down" effects. The project would also have benefitted from monitoring the linkages between investments in enterprises and the associated direct and indirect benefits. This would have helped to ensure that poor farmers benefitted directly or that employment opportunities were created for poor people. IFAD successfully provided loans through lines of credit to small and medium-sized enterprises. More attention, however, should have been paid to the large amounts of remittances flowing to the country, which are currently largely used for direct consumption rather than rural investment. There is also a need to strengthen the savings culture, which is currently not very strong in the Republic of Moldova. Finally, this evaluation recommends that future IFAD projects focus on smallholder agribusiness. This will allow projects to better respond to market instability that affects major value chains.

The evaluation was conducted by Catrina Perch, Evaluation Officer, in collaboration with IOE consultants Yiorgo Polenakis and Lasha Khonelidze. IOE Evaluation Assistant Laura Morgia provided valuable administrative support. IOE internal peer reviewers - Senior Evaluation Officer Chitra Deshpande, Lead Evaluation Officer Maximin Kouessi Kodjo, and Deputy Director Fabrizio Felloni - provided guidance and comments on the draft evaluation report.

IOE is grateful to the Government of Moldova and programme staff for their invaluable support during the mission and to IFAD's Near East, North Africa and Europe Division for the useful comments provided during the evaluation process.

I hope the results generated by this evaluation will help improve IFAD's operations and development activities in the Republic of Moldova.

Oscar A. Garcia
Director
Independent Office of Evaluation of IFAD

Entrepreneur showing the oven he bought for his greenhouses with support from the project credit line.

©IFAD/Renate Roels

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Currency equivalent, weights and measures

Currency equivalent (March 2018)

Monetary unit = Moldovan leu (MDL)
US$1.00 = MDL 16.5
MDL 100 = US$6.30

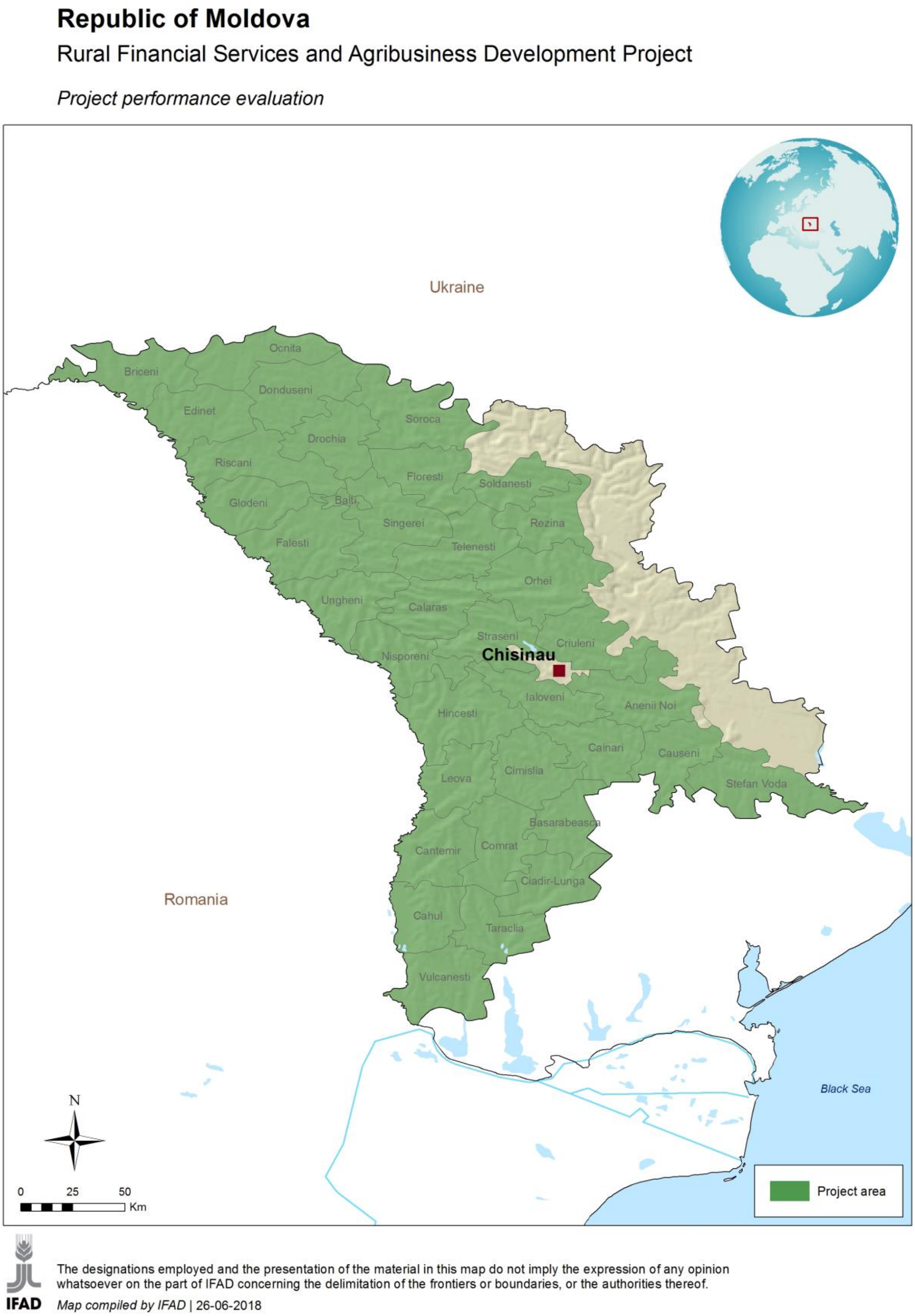
Weights and measures

1 kilogram (kg)	=	2.204 pounds
1 000 kg	=	1 metric ton (mt)
1 pound (lb)	=	450 grams (gr)
1 kilometre (km)	=	0.62 miles
1 metre (m)	=	1.09 yards
1 square metre (m2)	=	10.76 square feet
1 acre (ac)	=	0.405 hectares (ha)
1 decare (da)	=	0.1 hectare (ha)
1 hectare (ha)	=	2.47 acres
1 quintal (qq)	=	45.3 kilograms
1 gallon (gl)	=	3.785 litres (lt)

Abbreviations and acronyms

AEF	agribusiness equity fund
CLD	Credit Line Directorate
CPIU	consolidated programme implementation unit
DANIDA	Danish International Development Agency
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
ILO	International Labour Organization
ME	microentrepreneur
M&E	monitoring and evaluation
MFI	microfinance institution
MTR	midterm review
NCFM	National Commission for Financial Markets
PCR	project completion report
PDR	project design report
PFI	participating financial institutions
PPE	project performance evaluation
RFC	Rural Financial Corporation
RFSADP (also known as IFAD V)	Rural Financial Services and Agribusiness Development Project
SCA	savings and credit association
SME	small and medium-sized enterprise
USAID	United States Agency for International Development
YE	young entrepreneur

Map of the project area



Executive summary

Background

1. The Independent office of Evaluation of IFAD (IOE) undertook a project performance evaluation (PPE) of the Rural Financial Services and Agribusiness Development Project (RFSADP) in the republic of Moldova. The objectives of the evaluation were to: (i) assess the results and impacts of RFSADP and generate findings and recommendations for the design and implementation of ongoing and future operations in Moldova; and (ii) build IOE's project-level evaluation evidence for the evaluation synthesis report on inclusive finance for the rural poor.

2. RFSADP was the fifth in a series of consecutive IFAD projects that focused on mainstreaming rural finance. The overall goal of RFSADP was the reduction of rural poverty in Moldova. The project had three specific objectives: (i) to improve, in a pro-poor manner, the efficiency of agriculture-related value chains, particularly through support to the introduction and establishment of internationally recognized quality and food safety standards and to the development of contract farming; (ii) to increase the access of poor rural people to credit through the support of appropriate affordable, rural financial instruments; and (iii) to mitigate or remove infrastructural bottlenecks that obstruct the rural poor in improving their assets.[1]

3. RFSADP targeted 37,000 beneficiaries of which 1,450 would directly benefit from rural financial services and about 34,700 from small-scale infrastructure. The coverage of the project was nationwide and at design was supposed to focus on areas with the highest concentration of poor people, namely the centre and south.

4. Project costs at design were US$39.3 million, including an IFAD loan of US$19.3 million, an IFAD grant of US$4.5 million, a Government contribution of US$1.52 million, a contribution of US$1.77 million from participating financial institutions, and a beneficiary contribution of US$11.73 million.

Main evaluation findings

5. **Relevance**. The project was broadly in line with Government and IFAD strategies. It was designed along the tested lines of its predecessors but had three major shortcomings. Firstly, while the individual interventions were relevant, the design of certain components was disjointed and some activities were poorly resourced. The differing timelines required to implement activities or components had not been adequately considered at design and, as a result, activities such as rural finance and infrastructure were not integrated within a holistic value chain approach. Secondly, emphasis on reaching export markets and adopting food standards was not matched with adequate resources allocated to achieve this. Thirdly, the design underestimated the technical capacities required to manage the added complexity of the rural finance model adopted to respond to the changing context. Furthermore, the number of beneficiaries for the infrastructure component was overestimated and the project relied on self-targeting eventually leading to mixed results.

6. **Effectiveness**. The performance of the rural finance component was good, but the equity fund did not materialize and the project had to reallocate the funds to the small and medium-sized enterprises *(*SMEs) and infrastructure. The provision of loans to young entrepreneurs (YEs) and microentrepreneurs contributed to improving access to finance for a new target group, thereby addressing an important financing gap. The agribusiness support had some positive results particularly with table grapes but improved only to a limited extent the efficiency of pro-poor agriculture- related value chains through quality and food safety standards and contract farming. This was due to limited funds, difficulties in establishing relationships between buyers and producers and volatile market

[1] IFAD 2010, President's Report, page 2.

prices. Outreach was less than planned due to inflated number of beneficiaries identified in the project document for the infrastructure component. The targeting worked for MEs. For SMEs and YEs the self-targeting meant that the better off were supported with limited indirect benefits on employment.

7. **Efficiency.** The project's economic and financial performance was better than anticipated, indicating an efficient execution. The efficiency of the consolidated programme implementation unit (CPIU) was very high (project management cost was 2 per cent) and the economic internal rate of return was 18 per cent against the anticipated 16 per cent. The efficiency of the project management was largely due to the continued use of the CPIU with all IFAD projects under one umbrella which saved significantly on overhead costs and helped deepen the impact of the project by e.g. retaining trained staff. The cost per beneficiary was high (US$5,849) compared to other IFAD operations in the country. However, this figure does not adequately reflect the financial sector contribution that the project managed to leverage and the fact that the loans have multiple loan cycles.

8. **Impact.** Impact was positive on income and net assets and there were indirect benefits through increased seasonal labour with the target of 1,500 jobs reached. The project contributed to enhancing the human and social capital of Participating Financial Institutions, savings and credit associations (SCAs), MEs and YEs through various types of training, e.g. improving the financial literacy of borrowers. There was some positive impact on fruit productivity and conservation agriculture. The most important impact on the institutions was that the banks involved are now offering longer maturity loans at almost the same rate as IFAD's loans and that they have a better understanding of the risks of the products which enabled them to securely use their own funds to provide credits.

9. **Sustainability.** Most of the loan beneficiaries were still in business at the time of the PPE mission and the Credit Line Directorate under the Government continued to provide the proceeds of repaid loans from RFSADP and all other IFAD projects to the banks for on-lending. However, there were some issues with the long-term financing of SCAs in villages. Some of the formal or informal groups created within RFSADP to promote contract farming in specific value chains (honey and table grape production), were reportedly included in projects by the World Bank and the United States Agency for International Development (USAID) and were assisted to reach external or internal markets directly. However, the loose informal agreements between producers and aggregators were not secure and continuous relationships were based on mutual profit between the participants. The project's small-scale infrastructure investments remained well managed by either the municipal services (Primaria) or the user groups. IFAD continued to support conservation farming through subsequent projects but the four demo plots that were supported by the project to be used as training centres were no longer operating at the time of the PPE.

10. **Innovation and scaling up.** The project introduced several innovative features some of which were successful (e.g. conservation farming and YEs) and others which were less so (value chain development and the equity fund). While IFAD was not working on its own on these issues, it helped broaden and deepen the programmes and strengthen the institutional foundations in the country as evidenced by the continued subsidies provided by the Government to conservation agriculture.

11. **Gender equality and women's empowerment.** The main instrument for expanding women's access to and control over assets was through rural finance activities. These activities were extremely relevant considering that a very low number of holders had access to bank credits. Some encouraging results were achieved with the MEs and to some extent the YEs, although the age limit on YEs was found to be too restrictive and was raised in subsequent projects from 30 to 40 years. Only 21 per cent of the SMEs were female-headed, confirming that

access to credit in itself without a package of other types of support does not automatically lead to empowerment.

12. **Environment and natural resource management.** RFSADP's conservation agriculture approach was its main contribution towards a more efficient use of natural resources. Adoption rates were reportedly good but efforts to measure impacts on the environment were limited and did not measure the expected reduction of the negative impacts from pesticides, herbicides, fertilizers and chemicals.

13. **Adaptation to climate change.** The loans enabled smallholders to access technologies which helped them to enhance their resilience to local weather and environmental conditions such as high efficiency irrigation systems, greenhouses and heating equipment for commercial production of poultry. However, no systematic assessment of how these interventions would impact on adaptation to climate change was undertaken and the impacts were likely to have been quite limited given the scale of the activities.

14. **Performance of partners.** The PPE found that IFAD had some responsibility for the design issues, notably the inflated number of beneficiaries targeted and unrealistic resource allocation for the planned infrastructure. Also, more guidance should have been given to ensure that poor and women were benefiting, in particular from rural finance activities to SMEs and YEs either directly or through employment opportunities from the effects of "trickling down". The Government was highly engaged and supportive of RFSADP. It invested adequate time and resources in the project and fulfilled its fiduciary requirements. The Government also made considerable efforts to collect data and monitor the project's outcomes, but capacity for this and focus on impact could have been strengthened.

Conclusions

15. **As a rural finance project, RFSADP was effective in increasing access to credit**. The mainstay of IFAD's engagement in Moldova over 18 years was provision of credits, at subsidized interest rates, to farmers for the purchase of assets. In RFSADP this was supplemented with loans targeted to YEs and MEs. This contributed to improving access to finance for new target groups and clearly addressed a financing gap. RFSADP also increased healthy competition among banks (either cooperating with the project or not) enticing them to offer improved services for the rural entrepreneur (with the banks' own resources) even after the conclusion of the project.

16. **RFSADP aimed to improve pro-poor value chains but struggled to make a significant impact.** This was in part due to limited resources and a difficult context. The project faced mistrust between buyers and producers and high volatility of market prices, resulting in contracts that were not respected by either party. The project organized and strengthened 15 informal groups with loose agreements to improve the quality and quantity of production. However, a "chain" approach was never adopted and other links in the value chain were never addressed. As IFAD's country strategic opportunities programmes and country strategies give emphasis to exports, the project made efforts towards this end, with some success achieved only for table grapes.

17. **Impact was positive on income and assets for SMEs, but the effects of the "trickle down" approach on poverty need to be better understood.**
Most SMEs borrowed to invest in equipment and machinery. The credit issuing mechanism was very effective and had a positive effect on income.
While employment targets were reached and attempts were made to understand the nature of the employment created, it remained unclear what effects it had on poverty reduction.

18. **Outreach was below expectation and the project's reliance on self-targeting had mixed results on reaching the target groups.** Outreach was

lower than planned with the project having only 7,159 beneficiaries (against a target of 37,000). Loans and grants were offered to all target groups on a first-come-first-served basis, with the banks selecting the most profitable investments which meant that sometimes the poorest were not reached. However, for the MEs the targeting was correct with at least 20 per cent of the beneficiaries being subsistence farmers and the remaining 80 per cent being in the poor category.

19. **The project introduced a number of innovative features which achieved mixed results.** The expansion of lending to new clients such as YEs and SCAs was an improvement on previous projects and enhanced the outreach of the lending. The support to conservation agriculture was also innovative and reportedly had good adoption rates. The value chain development and contract farming proved challenging and the planned Equity Fund was not implemented due to funding issues.

20. **Design flaws burdened implementation.** The plan to introduce financing methods other than loans for agribusiness development was in principle justified. The Agribusiness Equity Fund failed however, as it was not well conceived at design. The project did not have the expertise to amend this, and therefore this activity had to be dropped as international financiers would not finance the fund. Also, the agribusiness activities designs were too ambitious for the resources assigned to them and the project's components and activities could have been better integrated with one another.

Recommendations

21. **Enhance the targeting approach.** IFAD cannot exclusively rely on self-targeting if it wants to reach its intended beneficiaries. For the "trickle down" effect to be effective it needs to be studied carefully ex ante to ensure that support will actually reach poor farmers, or result in the hiring of poor people, and that specific strategies to ensure this are put in place. Moreover, "trickle down" effects have to be monitored and demonstrated concretely with disaggregated data collection on amount and type of waged employment – who is benefiting and how - as well as data on whether the activities contribute to pulling people out of poverty and are attractive enough (e.g. to address youth migration).

22. **Deepen the strategies of the financial sector by diversifying IFAD support to credit lines**. The financial sector has been relying on IFAD loans to increase longer-term liabilities for too long. It would be advisable for IFAD to engage with the Government of Moldova and financial sector actors to design exit strategies with concrete time frames to phase out traditional IFAD support (loans to ensure lines of credit) in favour of new rural finance products. IFAD and financial sector stakeholders should be working towards developing deepening strategies.
There are large amounts of remittances flowing into the economy that are directed towards consumption rather than to rural investments. Analysis also indicates that a savings culture (especially longer-term) is not well developed in the country. Much of the agricultural production takes place at household level where financial literacy and management are not up to par. The possibilities of directing remittances towards rural investment and supporting savings are opportunities that need to be examined further in future IFAD projects.

23. **Apply an agro-business and agro-processing development approach.** IFAD has been struggling with articulating an operational approach to value chain development in Moldova. Future projects in Moldova should focus on agro-business and agro-processing development for smallholders enabling them to add value to their primary products, building their capacity to deal with different value chains and to shift swiftly from one value chain to another, as well as providing them with the necessary technical and organizational knowledge/knowhow to efficiently manage their businesses.

IFAD Management's response[2]

1. Management welcomes the project performance evaluation (PPE) of the Rural Financial Services and Agribusiness Development Project (RFSADP) in the Republic of Moldova, conducted by the Independent Office of Evaluation (IOE).

2. Overall, Management is pleased to mention that the PPE recognizes the positive impact of RFSADP on the income and the net assets of project beneficiaries, as well as the sustainability of these results. Also, Management concurs with the PPE assessment on the alignment with Government policy, on the contribution of RFSADP towards more efficient use of natural resources, and the initiation of several innovative features in this regard.

3. Management takes note of the IOE assessment for the overall project achievement and in general recognizes that the project performance has not been totally aligned with the performance targets mentioned in the project design report.
However, Management believes that the PPE, while assessing the performance of RFSADP, would have benefited from a more thorough analysis of the challenging and changing environment that accompanied the implementation of the project, such as: (a) the extreme drought in 2012; (b) the Russian embargo on imports from Moldova; (c) the massive financial crisis in Moldova, and; (d) the economic downturn and recession from 2012-2015.

4. Management appreciates the PPE recommendations, which are generally already being internalized and acted upon. A detailed Management view on the proposed recommendations is presented below:

   (a) Enhance the targeting approach. IFAD cannot exclusively rely on self-targeting if it wants to reach its intended beneficiaries.

   Agreed. Management notes the PPE suggestion to monitor the "trickle down" effects and demonstrate with disaggregated data collection the amount and type of waged employment, as well as the impact of this approach on poverty. Management would like to confirm that the new project design for Moldova, scheduled for 2019, will aim at directly targeting youth and women. This will be done as part of the new targeting strategy being developed under the new country strategic opportunities programme 2019-2024.
   Moreover, Management would like to mention that the ongoing projects in Moldova are in the process of adjusting their targeting strategy in line with the PPE assessment.

   (b) Deepen the strategies of the financial sector by diversifying IFAD support to credit lines. The financial sector has been relying on IFAD loans to increase longer-term liabilities for too long.

   Agreed. Management agrees on the recommendation that IFAD should engage with the Government of Moldova and financial sector actors to design exit strategies, with concrete time frames, to phase out traditional IFAD support (loans to ensure lines of credit) in favour of new rural finance products. Management is pleased to highlight that IOE has taken into consideration the suggestions provided by the Near East, North Africa and Europe Division of IFAD regarding this recommendation. A number of steps in this direction have been undertaken in recent years, mostly related to the development of special products for YEs and microfinance, as well as channelling migrant workers’ remittances to rural areas of Moldova through saving and credit associations. The upcoming IFAD project design for Moldova will build on these activities.

[2] The Programme Management Department sent the final Management response to the Independent Office of Evaluation of IFAD on 29 January 2019.

(c) Apply an agro-business and agro-processing development approach. Future projects in Moldova would focus on agro-business and agro-processing development for smallholders.

Agreed. Management would like to confirm that the new IFAD investment in Moldova will seek to deliver on the shared government and IFAD ambition of transforming agriculture into a dynamic engine of broader rural development through the promotion of small scale agro-business/processing. The focus will put on targeting YEs who have a long-term perspective and high potential for income and employment generation, utilizing a diversity of interventions, including the promotion of climate-resilient technologies, improved access to finance, value chain strengthening and integration. Management would like to thank IOE for revising this recommendation in line with points highlighted by Near East, North Africa and Europe Division.

5. Management thanks IOE for the productive process and is committed to internalize the relevant lessons learned and outcomes of this exercise to further improve the performance of IFAD-funded Programmes in Moldova and elsewhere.

Republic of Moldova
Rural Financial Services and Agribusiness Development Project
Project Performance Evaluation

I. Evaluation objectives, methodology and process

1. **Background.** The Independent Office of Evaluation of IFAD (IOE) has undertaken a project performance evaluation (PPE) of the Rural Financial Services and Agribusiness Development Project (RFSADP) to assess its results and impact and generate findings and recommendations for the design and implementation of ongoing and future operations in Moldova. It will provide inputs to the new project currently being conceptualised and will feed into the corporate-level evaluation on IFAD's engagement in pro-poor value chain development as well as the evaluation synthesis report on inclusive finance for the rural poor.

2. **Methodology.** The PPE follows the IFAD Evaluation policy and IFAD IOE Evaluation Manual (second edition). It adopts a set of internationally recognized evaluation criteria and a six-point rating scale (annex III). The PPE relied on an extensive range of available documents (see annex XI), that included the project completion report (PCR), impact assessments, the project design report (PDR), the midterm review (MTR) and supervision reports. These were reviewed during the desk review phase. As part of the PPE field work three structured surveys were conducted on small and medium-sized enterprises (SMEs), young entrepreneurs (YEs) and microfinance beneficiaries. The survey structure aimed to analyse beneficiaries' perceptions and focused on the linkages with value chains, use of loans and repayments. The survey interviews were conducted by telephone, by a professional consulting company and two independent interviewers.

3. For the SME and YE surveys, attempts were made to contact all beneficiaries but not all could be reached due to phone numbers being out of date or other reasons (e.g. seasonal migration). For the microenterprises survey a stratified sampling method was used and random samples were drawn from each stratum in proportion to their size (e.g. gender and geographic region). The total pooled sample was about one-third of the total population. By this method, sampling errors were reduced to a minimum through a high level of representation[3].

Table 1
Survey type and sample size

Survey type	*Population size*	*Sample size*
SMEs	81	44
YE - start-ups	322	189
YE - extension	123	90
Microenterprises	1 287	419

Source: PPE elaboration.

4. Other data collection methods included a case study on savings and credit associations (SCAs). The evaluation team also conducted individual and group discussions with stakeholders in programme sites. These involved project staff, banks, owners of SMEs, YEs, SCA staff and beneficiaries, and farmers who were implementing conservation farming techniques. Other key informants were interviewed in Chisinau and Rome. Data analysis tools included descriptive

[3] The exact confidence and margin error of samples are described in annex VIII.

statistics (i.e. percentage of answers to predefined questions see annex IX) of the survey results and review and analysis of qualitative data.

5. **Monitoring and evaluation data, impact evaluation and limitations.** The PPE team reviewed the impact assessment of the Youth Entrepreneurship Financing (2014), impact assessment report of RFSADP (2016), the PCR, supervision reports, and other relevant data and studies generated by the self-evaluation system. In assessing impact both the impact assessment reports and the PCR were important sources of evidence as were separate pieces of data provided by the consolidated programme implementation unit (CPIU). While useful, the impact assessment had some methodological issues in terms of sampling methodology and cross comparison between control and target groups which poses some limitations to the conclusions drawn. For example, the beneficiary SMEs in the impact assessment report of RFSADP appear to have been better off before the project than the control group making the analysis of attribution difficult.[4] There are also some inconsistencies in the analysis that lead to contradictory conclusions. Therefore, wherever possible this PPE has relied on the survey undertaken for the purpose of this PPE to triangulate project information.

6. **Process.** The PPE mission[5] was undertaken from 6 to16 March 2018. Field visits were made in the north, centre and south of the country covering approximately a third of the project districts.[6] The villages were selected based on a number of criteria, including geographical spread, type of activities carried out and whether they had been recently visited as part of the PCR process. The wrap-up meeting was held in Chisinau on 16 April 2018.

7. Following the mission, the team conducted further analysis of the data and findings. The resulting draft report was then peer reviewed by IOE staff, revised and shared with IFAD's Near East, North Africa and Europe Division and the Government of Moldova for their input and comments.

[4] For example, the analysis of profitability contains contradictory conclusions as the overall value of the gross profit is higher than the recorded changes in revenues and cost of sales (p 52.) the report states that "supported SMEs managed to have a similar increase rate in revenues and cost of sales which were 32 per cent and 31 per cent respectively." This contradicts the statement "Enterprise final profitability, meaning gross profit, has increased with 60 per cent compared to the baseline period. In conditions of 2015 this is quite an impressive result." If the first statement is right we should have a 1 per cent increase in the gross profit not 60 per cent. There are also some inconsistencies in the analysis of employment and wages. The analysis of the actual changes in the employment and the wages between control and treatment group does not lead to the conclusion of the positive impact. For example, both groups showed the same level of increase in the income level by 20 per cent (page 52-53).

[5] The mission included Catrina Perch (Evaluation Officer, IOE), Yiorgos Polenakis (rural finance consultant), and Lasha Khonelidze (regional consultant in charge of surveys and case studies). Renate Roels (Evaluation Research Analyst, joined the mission from 9 to16 March to undertake a working paper on value chains for the Corporate level Evaluation of on IFAD's engagement in pro-poor value chain development.

[6] The mission visited the following 11 (out of 32) districts in the north: Edinet, Briceni, Ocnita, Donduseni, Drocia, Falesti. Central: Orhei, Ciruleni. South: Comrat, Cahul, Stefan Voda.

II. The project

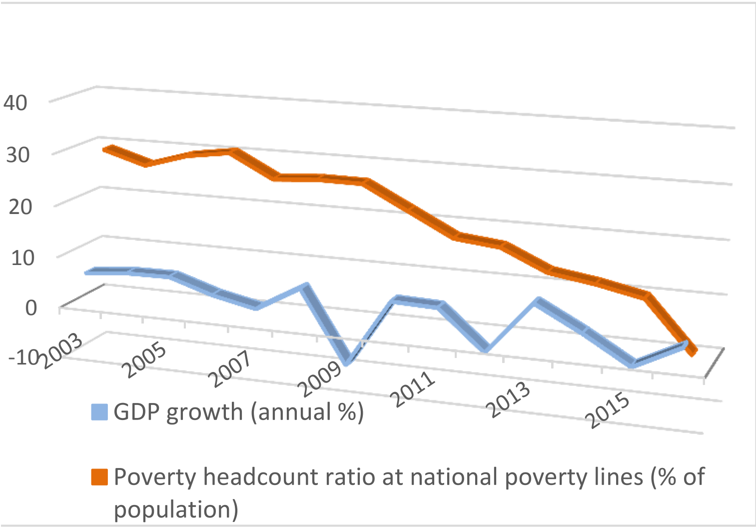
A. Background

8. RFSADP is the fifth in a series of consecutive IFAD projects[7] that focus on mainstreaming rural finance (80 per cent of IFAD investment). Other areas of support included support for small-scale rural infrastructure (11 per cent) and pro-poor agribusiness development (5 per cent). The project was implemented over a five-year period, between 2011 and 2016,[8] and had national coverage. The total project costs were US$39.5 million, with an IFAD investment of US$19.8 million (a highly concessional loan and US$0.5 million grant), a Danish International Development Agency (DANIDA) grant of US$4.7 million and domestic co-financing of US$15 million (participating financial institutions (PFIs) US$1.8 million, Government of Moldova US$1.5 million, beneficiaries US$11.7 million).

B. Project context

9. **Geography.** The Republic of Moldova is a small, landlocked country of 33,800 square kilometres and has a resident population of 3.5 million.[9] The largest part of Moldova lies between two rivers, the Dniester and the Prut. While most of the country is hilly, elevations never exceed 430m. Moldova has a moderately continental climate; with a mildly cold climate in the fall and winter and cool climate in the spring and summer. Annual rainfall ranges from around 600mm in the north to 400mm in the south. Long dry spells are not unusual. Three agro-climatic zones define its agricultural production and yield potential.[10] The north is more appropriate for sugar beet, corn, peas, soy, wheat and barley. The centre is best for perennial crops, including orchards and vineyards. The south, with higher temperatures and lower rainfall, favours mainly cereal, tobacco and grapes.

Figure 1
Growth and poverty headcount trends



Source: World Bank, World Development Indicators.

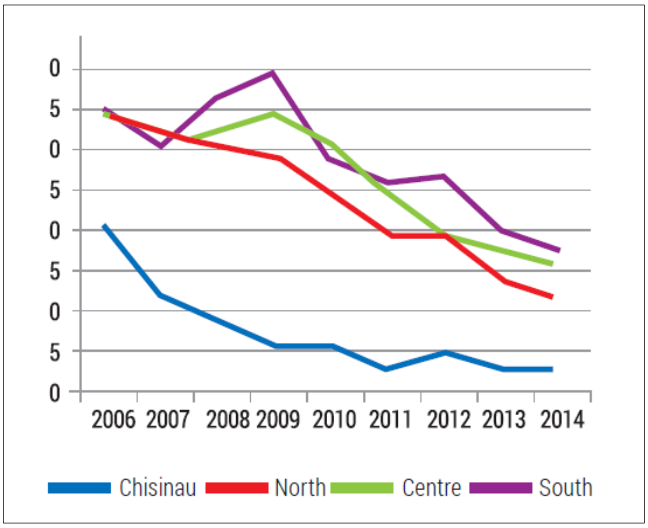
10. As of 2016 about 55 per cent of the population in Moldova lived in rural areas.[11] Moldova has experienced rapid economic growth in the past decade. This growth has been mainly driven by domestic consumption, fuelled by substantial remittance

[7] Also referred to as IFAD V.
[8] Approval 15 December 2010; effectiveness: 4 July 2011; completion: 30 September 2016.
[9] Population Density: 124/km2. National Bureau of Statistics. Moldova in figures, 2017.
[10] See annex VI for a description of the agro-climatic zones
[11] World Bank, https://data.worldbank.org/indicator/SP.RUR.TOTL.ZS?locations=MD consulted (June 2018).

inflows (remittances account for a quarter of GDP – among the highest share in the world) from Europe and Russia.

11. **Poverty, social, gender and youth issues.** The national poverty headcount decreased substantially, from 29 per cent in 2003 to 9.6 per cent in 2015 nationwide. Despite the fact that the poverty rate was decreasing (see figure 2) the number of persons below the poverty threshold in the rural areas was over 335 thousand or about 80 per cent of total poor in the Republic of Moldova.[12] With a GNI per capita of US$2.120,[13] Moldova remains a lower-middle income country, and one of the poorest countries in Europe. The highest poverty rates are registered among the agriculture-related population: 22 per cent of farmers and 31 per cent of agricultural workers were poor in 2013, with these two categories accounting for 31 per cent of the country's poor population.[14] The lowest poverty rate is in the capital city, Chisinau (2.6 per cent), with the highest poverty rate found in the centre and southern regions at 14.9 per cent and 16.7 per cent respectively.[15]

Figure 2
Absolute poverty rate by statistic zones (%)



Source: National Human Development Report 2015/2016 – Inequalities and Sustainable Human Development in Moldova.

12. The continuing high levels of poverty and unemployment and the growing urban-rural divide have had a negative effect on gender equality, with the socio-economic status of women deteriorating in rural areas. The exodus of the working age population outside the country in search of better paid jobs has had a direct impact on demographic security of the population.[16] Although unemployment is a challenge for both women and men, women face specific barriers in the labour market.[17] These include a significant payment gap.[18]

13. Women have unequal access to state-funded programmes on business and entrepreneurship development. The nationwide share of women entrepreneurs is only 27.5 per cent and is significantly lower in rural areas (14.9 per cent).

[12] UNDP 2015/2016 National Human Development Report – Inequalities and Sustainable Human Development in Moldova, page 41.
[13] World Bank, World Integrated Trade Solution , Atlas Method., 2016.
[14] Competitiveness in Moldova's Agricultural Sector. World Bank 2016.
[15] 2014 figures from national Human Development Report 2015/2016.
[16] The Republic of Moldova has a National Strategic Programme on Demographic Security 2011-2015. It is the Government's key strategic policy response to mounting demographic challenges. The programme entails policy interventions covering twelve policy areas. These are: (1) social protection of child and family; (2) health care; (3) labour market; (4) migration; (5) education; (6) housing; (7) regional development; (8) science and innovation; (9) statistics; (10) environment protection; (11) water and sanitation; and (12) partnership with civil society.
[17] Women earn 74 per cent of what men earn (2015).
[18] World Economic Forum 2015, Gender Gap Report.

The most vulnerable to poverty are women in rural areas, female-headed households and women from ethnic groups, particularly the Roma.[19]

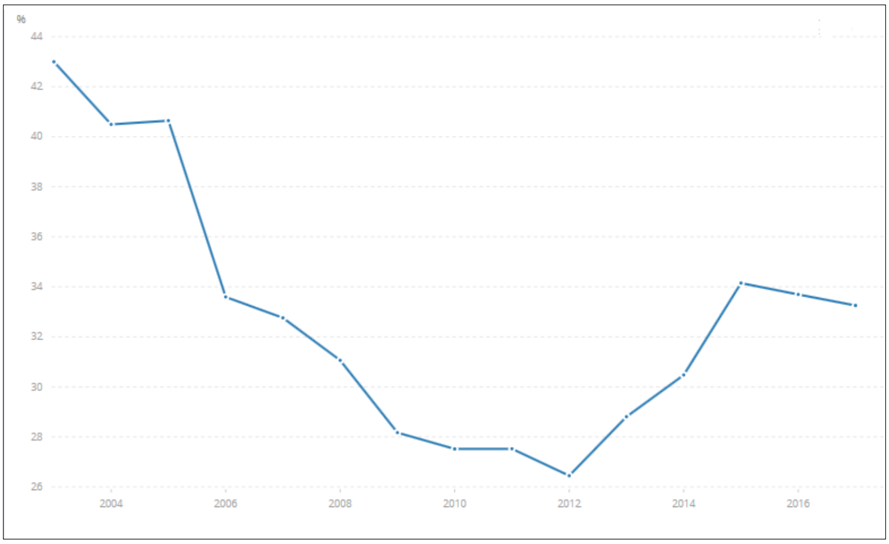
14. Youth represents a quarter of the country's population (2015). Recent research shows that young people are disproportionately vulnerable to poverty, inequity of educational and training opportunities, and limited access to information and economic opportunities. Young people face a clear labour market disadvantage. The risk of being unemployed is twice as high for young people as for adults. The lack of decent employment opportunities is also a major push-factor for migration. As a result, over 16 per cent of the country's youth are looking for a job abroad.[20]

Agricultural and rural development

15. Agriculture accounts for around 14 per cent of the GDP. Together with agro processing and extension services, it generates more than 20 per cent of the GDP. A year of good harvest is a year of increased growth for the country. However, the average growth rate of the sector has been rather low, at 3.6 per cent per annum, over the last 10 years, mainly due to recurring adverse weather conditions. The International Labour Organization estimates a downward sloping curve of employment in agriculture (as a percentage of total employment) dropping from 42 per cent in 2003 to 33 per cent in 2017 (figure 3 below) as many individuals and especially the young, migrate from rural areas for economic reasons. Twenty-five per cent of the agricultural workforce is employed in SMEs, while the other 75 per cent is classified as self-employed.

Figure 3

Employment in agriculture (percentage of total employment, International Labour Organization estimate)



Source: World Bank, World Development Indicators.

16. The Government of Moldova in its "Moldova 2020" National Development Strategy identified as a priority the need to increase competitiveness of agri-food products and promote sustainable rural development. Enhancing Moldova's agricultural competitiveness is a key driver for increasing exports and capitalizing on the potential benefits from the European Union (EU) Association Agreement.[21] Factors deterring agricultural competitiveness include: inability to swiftly detect

[19] The European Bank for Reconstruction and Development 2017, country diagnostic, page 17.
[20] http://www.oecd.org/countries/moldova/youth-issues-in-moldova.htm and http://moldova.unfpa.org/sites/default/files/pub-pdf/Demographic%20Barometer%203_Situation%20of%20Youth%20in%20RM_2015.pdf.
[21] The Association Agreement between the European Union and the Republic of Moldova was signed in June 2014 and has been effective since July 2016.

and respond to market requirements; administrative and political difficulties in trading across borders; land fragmentation (consequence of the land privatization in the 1990s); low agricultural productivity due to unsatisfactory production and post-harvest techniques; and, missing investments and lack of capital and credit for relevant private and public investments.

Project objectives

17. The overall goal of RFSADP (also known as IFAD V) was the reduction of rural poverty in Moldova. Its specific project objectives were: (1) to improve, in a pro-poor manner, the efficiency of agriculture-related value chains, particularly through support to the introduction and establishment of internationally recognized quality and food-safety standards and support to the development of contract farming; (2) to increase the access of poor rural people to credit through support of appropriate, affordable, rural financial instruments; and (3) to mitigate or remove infrastructural bottlenecks, that obstruct the rural poor in improving their assets.[22]

Project components

18. The project architecture was structured along four main components: (1) pro-poor agribusiness development; (2) rural financial services; (3) small-scale rural infrastructure; and (4) project management.

19. *Pro-poor agribusiness development* (five per cent of project design costs): included the development of *contract farming* to link poor producers with high-value agricultural commodity chains; the development of *conservation farming* to mitigate low yields and crop failures due to increased temperatures and decreased precipitation in the region, and: the development of an agribusiness equity fund (AEF) to address the outstanding and growing need for financial instruments other than debt financing.

20. *Rural financial services* (80 per cent of project design costs) comprised: *loan financing* for SME investments in prioritised value chain; *youth entrepreneurship financing* for YE investments in selected value chains; *pro-poor microfinance through SCAs* to provide micro-loans to poor economically active microentrepreneurs (MEs) for short-term investments and training to the SCAs and borrowers.

21. *Small-scale rural infrastructure* (11 per cent of project design costs): selectively co-financed commercially viable communal *infrastructure* investments that would promote the selected value chains.

22. *Project management:* At design, the project targeted 37,000 beneficiaries i.e. just over 14,000 households assuming an average household size of around 2.6 people. 1,450 would directly benefit from the rural financial services and about 34,700 from small-scale infrastructure.

Table 2
Total planned versus actual costs by component US$ ’000

Components	*Planned US$ million*	*% of base costs*	*Actual US$ million*	*Actual % of total costs*
Agribusiness Development	1 883	5	1 202	3
Rural Financial Services	31 839	80	34 547	82
Small-Scale Rural Infrastructure	4 533	11	5 096	12
Project Management	1 232	3	1 034	2
Total	39 487		41 879	

Source: CPIU data.

[22] IFAD 2010, President's Report, page 2.

Changes in the project context and targets

23. During its lifetime, the project navigated through external shocks that affected the Moldovan economy.[23] According to the PCR these were: (a) a weak external demand and a marked decline in agricultural production which led to a recession in 2012; (b) the drought in 2012 which reduced agricultural production especially in the South, (c) the Russian embargo on imports of wine in 2013, and fruits and meat in 2014, which affected Moldovan agricultural exports; (d) a massive fraud in the banking sector (revealed in November 2014), which affected the commercial bank where the IFAD accounts were kept; and (e) Russia's economic downturn which affected Moldova's remittances and Government revenues and led to a two per cent recession in 2015.

24. A number of changes were made at midterm of which the most important was the reduction of contract farming arrangements (from 50 to 5) and the infrastructure projects from (40 to 20). For the latter, the focus on roads and utilities changed to roads and irrigation. The US$2.2 million allocated to the AEF was diverted in 2015 to other activities, as there was limited traction in leveraging required funds. The target for loans to MEs was at some point increased from 120 to 480 but the change is not documented and appears for the first time in the PCR.

Project management

25. The CPIU was responsible for the financial control, work planning, monitoring and evaluation, procurement and administration of the project. The CPIU was established in 2000 and worked on previous IFAD projects and therefore ensured implementation continuity and a programmatic approach for the implementation of RFSADP. The CPIU relied on national and international expertise for the implementation of the first component (agribusiness), and on PFIs, the Credit Line Directorate (CLD) at the Ministry of Finance, the Rural Financial Corporation (RFC) and business service providers for the rural finance component.

26. The IFAD programme steering committee reviewed and approved annual work plans and budgets, and progress reports, and provided policy guidance.

Project logic

27. This was essentially a rural finance project, yet the language in the project design document emphasized links to markets and value chain development. The project design worked under the assumption that the components would be complementary and mutually reinforcing to achieve maximum impact and would adopt the value chain approach, meaning that all components would contribute directly to improvements in the operation of chosen value chains.[24]

28. In order to achieve this the project intended to tackle: price information asymmetries of agricultural produce creating market distortions; lack of affordable credit for agribusiness and; infrastructure bottlenecks that lead to slow delivery of produce to the markets and increased cost of production.

29. One of the key assumptions of the project was that through provision of credit and development of value chains to, in particular, SMEs the poor would indirectly benefit through increased decent employment opportunities.

C. Project implementation

30. Details of the physical progress of RFSADP against key targets are given in annex X of this report. The following paragraphs provide a brief description of the main activities and results.

[23] Although three out of five years of the project duration experienced growth and recovery (2013, 2014 and 2016).
[24] See annex VII for a reconstructed theory of change.

Component 1: Agribusiness development

31. **Contract farming.** The tripartite arrangement between farmers, processors and banks, originally envisaged at design, where farmers and processors would first agree on inputs and produce prices and quantities, and then jointly approach a bank seeking partial or complete financing for the required inputs, proved unrealistic. Instead, the project adapted towards a strategy encouraging farmers to get organized in groups that would include a potential leader. This value chain leader, who would be able to process and sell larger quantities, would purchase all the produce of the group, thus linking the group indirectly to the market. Originally, the project planned to establish 50 contract farming arrangements but this target was at midterm lowered to 5. The subsequent supervision missions refer to establishment/strengthening of groups, but no target was defined (see table annex X). The project organized and strengthened 15 informal groups in value chains including vegetables, table grapes, sugar beet, and honey and sheep cheese production. These groups were supported with expert advice on quality (producing/processing/storing/packaging) and training which reached around 300 participants (51 per cent achievement). International and national experts trained the various groups. Additionally, seminars and study tours to Germany, Ukraine, Poland, Israel and Argentina were organized to link the groups to foreign markets.

32. **Conservation farming.** The project offered subsidies of US$10,000 each for 23 investments in conservation farming technology. Four demonstration plots (demo plots) were established, each in a different agro-climatic zone. The four demo plots were used extensively as platforms for transferring technology to farmers, through training and field days on conservation farming. The PCR reports 40 (against a target of 20) satellite farmers adjacent to the 4 lead demonstration plots engaged in conservation farming. This resulted in the adoption of improved agronomic practices, moisture conservation techniques, ploughing practices and crop rotation patterns.

33. **Agribusiness equity fund.** The project dedicated substantial efforts to the establishment of an AEF and a feasibility study was conducted by an international expert. The study suggested an agribusiness fund of EUR 30 million, to invest in rural SMEs, with equity contributions between 25 per cent and 60 per cent, for 7 to 12 microfinance institutions (MFIs) to become agribusiness specialists extending loans to SMEs. Equity contributors would include the European Bank of Reconstruction and Development, the International Finance Cooperation banks and other investors; however, these did not respond positively. As a result, the AEF was dropped, based on recommendations of the June 2015 supervision mission and the PMD decision memo of August 2015.[25]

Component 2: Rural financial services

34. The activities under this component followed the previous rural finance approach adopted by IFAD in Moldova, with loans extended to project clients through six selected commercial banks (and SCAs financed through RFC[26]), which were re-evaluated and accredited on a yearly basis. The CLD monitored performance of the credit portfolio and recuperated funds to replenish the revolving fund. IFAD offered longer-term loans and corresponding grace periods, and an interest rate (for loans in MDL) that was 8 percentage points lower than the banks. Beneficiaries could choose between Euro, US$ or local currency for the loan and had to contribute between 20 per cent and 80 per cent (actual average 34.7 per cent) of their own capital. YEs could also benefit from an additional 40 per cent grant (offered by

[25] Several attempts were made to raise additional resources for the establishment of AEF, which did not yield any results. Discussions with the European Bank for Reconstruction and Development and the International Finance Cooperation indicate that equity financing in Moldova targeted banking, leasing, glass, beverage, food and logistics industries, but not agriculture.

[26] RFC is a non-bank, state supported, financial institution that has been functioning in the Republic of Moldova for 20 years, with members from the SCAs. Non-deposit taking SCAs borrow from the RFC for on lending.

DANIDA). Finally, technical assistance was provided to beneficiaries and PFIs (including SCAs in the form of training and assistance for the elaboration of business plans).

35. **SME financing.** Eighty-one SMEs (against a target of 82 SMEs of which 17 per cent were led by women[27]) received loans of between US$3,500 and US$150,000, for a total of US$7 million.[28] Moldova Agroindbank and Moldindconbank, which specialize in agriculture, provided about 40 per cent of the loans. By the end of the third year of implementation, the project had already disbursed all funds allocated to SME financing and in the next two years, it absorbed the reallocated AEF funds. As the AEF was revoked, the project did not manage to offer equity financing to SMEs. About 50 SMEs received support for business plan development (against a target of 82) and about 250 PFI staff (no target) received training.

36. **Young entrepreneurs financing.** The project made matching grants available to rural YEs, men and women between 18 and 30 years old, for investments of between US$3,600 and US$ 15,500, which were intended for investments in existing business activities and start-ups. The 40 per cent grant could be topped up with IFAD loans offered by the 6 partnering banks.[29] The banks requested collateral and offered a preferential interest rate of 7.5 percentage points lower than what they would offer for loans using their own funds. The project provided financing (grant and loan) to 445 YEs (against a target of 120 and a revised target of 480)[30] for a total amount of US$10.3 million. In addition to the financing scheme, IFAD provided pre-financing and post-financing trainings (325 against a target of 1000) and support for the drafting of loan applications (business plans) to 250 participants (target 480).

37. **Microentrepreneurs financing through SCAs.** RFSADP introduced financing for rural MEs[31] for short-term on- and off-farm, investments. MEs that were unable to access finance through commercial banks, mainly due to their inability to meet collateral requirements, were offered credit disbursed through SCAs. SCAs could borrow from the RFC[32] for on-lending. RFC would request an additional interest rate of 4 percentage points. Yet, the interest rate offered to MEs was 13 per cent lower than the SCA's nominal rate. The project financed 1,287 MEs (against a target of 540) for investments amounting to a maximum of US$10,000 (83 per cent IFAD loan, 17 per cent SCA loan) with an additional 10 per cent of their own participation.[33] The total amount of financing disbursed was US$2.2 million. Additionally, the project offered training to about 360 SCA staff (against a target of 337) and to 120 borrowers (63 per cent women) – including support for drafting 320 business plans (no target).

[27] There are some inconsistencies between the data received by the CPIU and the PCR. The PCR reports 21 per cent.
[28] Loan maturity up to 5 years with 2 years grace period, or 8 years for plantations with 4 years grace period for an interest rate of 8.5 per cent (IFAD 5 per cent and bank surcharge of 3.5 per cent).
[29] Loan maturity between 3 and 5 years with 2 years grace period, or 8 years and 4 years grace period for plantations. Interest rate 8.5 per cent.
[30] As can be seen from annex X the target was at some point increased from 120 to 480 but this change only formally appears in in the PCR.
[31] Rural poor who are living in extreme poverty and who are either landless, have leased out their land or are producing a bare subsistence minimum; and rural unemployed, underemployed and self-employed.
[32] Rural Finance Corporation is a wholesale non-bank microfinancing institution.
[33] Three years duration and 12 months grace period.

Table 3
Loan conditions summary by sub-components

Sub-component	*Max IFAD re-financing US$*	*Matching grant*	*Min PFI resources % of loan*	*Min borrower contribution % of loan*	*Int rate range***
Small and medium-enterprise financing	127 500	N/A	15	25	US$4.8%-5.4% MLD 8-11%
Young entrepreneurs*	11 673	7 199	N/A	11	MLD 7.5%-10.5%
Microentrepreneurs *	5 383	N/A	17	11	MLD 13%-16%

Source: CPIU data.
* Loans in MDL at 1 US$= 15.42 MDL average exchange rate prevailing between 2011 and 2016.
** Interest rate = reference rate + PFI(s) margin(s) (4% SMEs, 9% MEs). The range - min and max during the years 2011-2016.

Component 3: Small-scale infrastructure

38. The project awarded 21 competitive contributory grants (against an original target of 40 and a revised target at midterm of 20) for "last mile investments" in public infrastructure. Farmer groups had to develop proposals demonstrating the commercial value of the investments backed with their own participation.
The groups had to secure and prove municipal support to guarantee future maintenance of the investment and therefore its sustainability. As a result, 17 km of roads and 30 km of irrigation were built. The project design also included targets on reduction in post-harvest losses which were reduced at midterm from 20 to 15 per cent but not reported on in later supervision reports or the project completion report.

Key points

- RFSADP was one in a long series of projects in Moldova that focused on channelling rural finance through participating financial institutions with a particular focus on credit lines for lending in rural areas through commercial banks. An innovative feature of RFSADP was a component to develop demonstration plots for conservation agriculture. Another important feature of RFSADP was that IFAD was able to secure external grant co-financing from the Danish Government of US$4.5 million. This enabled IFAD to support the development of YEs.

- The total project costs at appraisal in 2010 were US$39.3 million, including an IFAD loan of US$19.3 million (49 per cent), an IFAD grant of US$4.5 million (11.3 per cent), a DANIDA grant of US$4.46 (11.3 per cent), a Government contribution of US$1.52 million (3.8 per cent), PFI contribution of US$1.77million (4.5 per cent) and beneficiary contribution of US$11.73 million (29.9 per cent). Actual project costs at completion were US$41,879.

- At design, the project targeted 37,000 beneficiaries of which 1,450 would directly benefit from rural financial services and about 34,700 from small-scale infrastructure.

- Targets were changed at midterm in particular for contract farming and rural infrastructure which were both reduced. Targets on rural finance outreach were met or exceeded with the number of loans to MEs and YEs substantially exceeding targets. Targets on conservation farming were also exceeded and revised infrastructure targets were met. Training targets were met for certain activities and not for others. Targets for contract farming were not met and changed to strengthening/establishing groups but no revised target was defined for this activity. The target on reduced post-harvest losses was never reported on.

III. Main evaluation findings

A. Project performance and rural poverty impact

Relevance

39. RFSADP's strategy, objectives and components aimed to improve incomes and livelihoods, food security and job creation. It was therefore fully in line with the Government's development priorities and IFAD's country strategy. Unlike its predecessors, it introduced initiatives for the poorer segments and the young and gave them opportunities to connect with the financial sector. It also pioneered weather-resilient agriculture. Its design however, included elements that were either inopportune or required greater resources or stronger capacity to become successful. The various activities and components were also not linked sufficiently. As further discussed below, selected project components paid limited attention to targeting.

Relevance of project objectives

40. RSFADP's objectives were relevant to national policies and priorities at design and remained so during the project life. Specifically, the Agriculture Strategy 2006-2015 refers to increased value-added production and quantity and quality of processed agricultural products in order to reach international markets. The National Strategy for Agriculture and Rural Development 2014-2020 also continued to prioritize competitiveness of the agri-food sector as well as synergies between agri-food and the natural environment. The Government's long-term strategy, the Moldova 2020 National Development Strategy (2012), included improved and rehabilitated infrastructure and reduced outflow of the young labour force as important objectives.

41. The main issues addressed in RFSADP (rural finance and agribusiness development) were aligned with IFAD's Strategic Framework 2007-2010 which prioritised establishing competitive value chains; improving quality standards in production; processing and packaging; and promoting access to a full range of appropriate and mainstreamed financial services. The country strategic opportunities programme was unspecific as to what IFAD would support within rural infrastructure though it did refer to constraints in the area.

Relevance of design

42. RFSADP was designed along the tested lines of its predecessors, made up of three components: a major one focusing on the supply of medium-term credit for agriculture; another offering support to small-scale infrastructure and a third, targeting agribusiness development. RFSADP's overall focus was on rural finance with some 80 per cent of its resources allocated to this component. The focus of the financial component was on-loan financing for SMEs (approximately 37 per cent of the rural finance component resources were allocated to this activity at design). However, micro-investments through SCAs were introduced thereby addressing past PPE IOE recommendations.[34] Financing for YEs (grant and loan financing) created a launch pad for unbanked youth to start or expand business activities and develop relationships with the financial sector. The expansion of the target group from SMEs to YEs and the poorer segment of the population was relevant.

43. The introduction of conservation farming responded directly to a number of climate-related events (droughts in 2003 and 2007) and floods in 2008 and is equally considered relevant.

44. There were three main issues with the design. Firstly, while individual interventions were relevant, the design of certain components was disjointed and some activities

[34] Rural Business Development Programme PPE (Microfinance should be incorporated in the revolving fund scheme in future IFAD operations. This will allow smallholders to access credit funds and also benefit from the positive effects of the value chain).

were poorly resourced. For example, the agribusiness component contained a number of very different interventions from the equity fund to conservation farming and business plan development and the linkages between this component and the infrastructure and rural finance component were not obvious.
Similar issues were raised in the country programme evaluation (2014) which highlighted that the linkage of the sub-component on conservation farming with the project objectives remained unclear. Furthermore, the support for rural finance and infrastructure was not integrated under a holistic value chain approach in such a way that the credit support and infrastructure investments were directed towards removing particular constraints in the selected value chains and in the supported contract farming arrangements. To some extent this was due to different timelines which had not been properly considered at design and made it difficult to create synergies.

45. Secondly, there was a disconnect between the ambitious project narrative in the project design document, which emphasized reaching export markets, improving quality standards and value chain development, and the actual allocation of resources to these activities (only five per cent of project funds). Apart from some capital investments, value chain work requires substantial soft services.
While RFSADP emphasised reaching export markets, no priority was given to developing operational partnerships with large exporters or buyers. In fact, the focus of RFSADP was on the upstream of the value chain. Moreover, the design envisaged a contract farming "template" that was not relevant to the Moldovan reality and had to be revised during implementation. Specifically, the originally envisaged tripartite arrangement between farmers, processors and banks, where farmers and processors would negotiate and agree on input and produce prices and quantities, proved unrealistic, as very often neither farmers nor processors felt bound by their contractual obligations if they could find a better offer later on.

46. Thirdly, the design did not ensure that the CPIU had the necessary technical capacity to develop the equity fund. Specifically, the CPIU was not able to attract external and local finance institutions that were approached to provide the necessary equity capital.[35]

47. A process of adaptive management responded to some design imperfections. For example, the target for infrastructure sub-projects was lowered from 40 to 20 at midterm in order to better respond to the budget available. Similarly, the contract farming "template" was adjusted and farmers were encouraged to sell their produce to a value chain leader at market prices. Other adaptations came rather late such as subsequent redirection of remaining proceeds to the SME financing and rural infrastructure components. Finally, some issues were not addressed e.g. the high number of beneficiaries, integration of project components and activities and better targeting.

Relevance of targeting

48. The relevance of the targeting strategy had different results according to the three target groups SMEs, YEs and MEs. The target of the President's Report was to reach 37,000 people, with 1,450 people benefiting directly from the rural financial services component and some 34,730 people benefiting from the small-scale infrastructure component. Considering the amount allocated to infrastructure the figure of beneficiaries was an overestimate.[36]

49. For the SMEs the project design emphasized the pro-poor mandate of the project but it was not clear whether "trickle down" would be the main focus or reaching smaller SMEs or both. At least 50 per cent of the support to SMEs was directed the higher end of the target group (loans of up to US$150,000) based on the

[35] This was not the sole factor for not achieving this output. Other factors included the overall enabling and legislative environment.
[36] This issue had also been raised in the midterm review.

assumption that this would result in "trickle down" and employment generation. While the project design described a number of principles to ensure poverty targeting (e.g. prioritization of enterprises and investment proposals based on their contribution to targeting objectives[37]) these principles were not reflected in the project implementation manual and there is little evidence that such considerations were taken into account in the selection of the SMEs (see para 77-82 for a discussion on the effectiveness of targeting).[38] The project design also included provision for technical assistance to establish the targeting and monitoring and evaluation (M&E) architecture of the project. Specifically, this was to include a targeting and M&E study based on IFAD and other donor's experience which would conclude with a workshop. This PPE did not find any evidence of this study and workshop taking place.

50. For the YEs the selection criteria[39] meant that they were essentially self-targeting with PFIs prioritising those with the highest capacity to pay back the loans. In addition, the lack of clear definition of what a start-up was led to an overestimation of the beneficiaries categorised as start-ups.

51. A self-targeting/demand driven approach was also applied for the MEs. In this case the strategy was relevant and managed to target the economically active poor and the very poor group as foreseen in the design document.

52. In terms of the geographic targeting which aimed to direct investments to the areas with the highest concentration of poor (centre and south) the use of self-selection had mixed results. As can be seen from the table below, which illustrates the level of investment (infrastructure and rural finance[40]) according to regions, the central region overall benefited the most followed by the north and then the south.[41]

Table 4
Value of productive assets created by region (US$)

Sub-component name	*North*	*%*	*Centre*	*%*	*South*	*%*
Small and medium-sized enterprises	2 993 520	42	2 504 094	35	1 589 099	22
Young entrepreneurs	3 490 232	34	3 962 471	38	2 875 714	28
Microentrepreneurs	1 181 086	53	896 609	40	152 696	7
Infrastructure	718 769	19	1 706 737	45	1 407 001	37
Totals	8 383 607	36	9 069 912	39	6 024 509	26

Source: CPIU data on infrastructure and rural finance.

53. In summary, the project was broadly in line with Government and IFAD strategies. However, there was a disconnect between the narrative in the design which emphasized reaching export markets and adopting food standards and the resources allocated to achieve this. The linkages between the different activities (e.g. conservation agriculture and value chains) were not always clear and could have been better integrated in order to achieve synergies. The number of beneficiaries for the infrastructure component was overestimated and the project relied on self-targeting with mixed results. The support to SMEs did not properly

[37] IFAD. Final project design report, page 41.
[38] One could argue in theory that higher end SMEs could: (i) generate jobs for the poor; and / or (ii) buy primary produce from the poor. Yet the project was not designed to secure the "trickle down" effect and consequently never succeeded (employment generation data in later chapter).
[39] Falling within the age group (between 18-30); having a business plan; and being able to provide cost sharing. In addition, 30-50 per cent would be start-ups.
[40] Which was the main investment categories.
[41] It should however be noted that there is not a great difference in poverty levels between north, central and southern region with absolute poverty rates (2014) of 11,6 per cent, 14,9 per cent and 16,7 per cent. The big difference is between the country side and the Chisinau with a rate of 2,6 per cent.

integrate strategies for ensuring the envisaged "trickle down" effect.[42] For YEs the self-targeting meant that the ones with the highest capacity to pay back loans were targeted and as there was no clear definition of start-ups this led to an overestimate. However, for the MEs the targeting was correct. The centre and the north of the country benefited from 10-13 per cent more of the investments as compared to the south which had the highest concentration of poor people. Based on the above assessment the rating for this criterion is **moderately unsatisfactory (3)**.

Effectiveness

54. RFSADP introduced conservation farming techniques and made them popular among beneficiaries. It fostered production (quantity and quality) of a few value chains and expanded export opportunities for table grapes. It also contributed to improving some rural infrastructure. The big achievement in rural finance was its expansion towards MEs and YEs and the support to the SCAs. However, the intended introduction of equity financing did not materialize and the contract farming initiative slightly derailed. Also, the number of intended beneficiaries reached was significantly below the target and the targeting strategy had mixed results.

55. The following paragraphs discuss the project's achievements in terms of the three specific objectives identified in the President's Report.

Objective 1: Improve, in a pro-poor manner, the efficiency of agriculture-related value chains, particularly by supporting the introduction and establishment of internationally recognized quality and food safety standards, and the development of contract farming.

56. There were two principal ways that development of value chains were supported under RFSADP: through investment loans and through technical assistance. The investment loans are covered under objective 2, the focus of this section is therefore on technical assistance.

57. Support to value chain development under RFSADP focused primarily on developing contract farming. A target of 50 contract farming arrangements was set in the PDR. But as achieving this became challenging, the project adapted towards a strategy of encouraging farmers to get organized in groups that would include a potential lead farmer. The lead farmer invested his own resources in post-harvest technology, improved the bargaining capacity of the participating farmers, and found better markets because of the increased volume and quality of produce.

58. Fifteen producer groups were established and/or strengthened. Organizing the farmers in loose groups that did not require them to be organized into cooperatives or any formal entity was suitable to the Moldovan context. In Moldova there is a general reluctance by farming households and rural entrepreneurs to undertake cooperative endeavours in which the asset ownership is not clearly defined, given past experience with the demise of collective farms.[43] This arrangement meant that the groups could retain individual ownership of assets and produce while, at the same time, reap the benefits of group action such as aggregating their produce for collective bargaining, transporting and marketing. However, the outreach to these groups was low according to project data (72 individuals).[44]

59. The PPE mission observed few actual linkages between contract farming activities and the SME beneficiaries from the rural finance component. About 49 per cent of the SMEs from the IOE survey did not engage in any formal written contracts with buyers, while 25 per cent did with some of their buyers. Approximately 61 per cent of the SME respondents did not increase the number of contracts with buyers after

[42] The project implementation manual does not specify eligibility criteria for SMEs.
[43] IFAD 2014. Midterm review.
[44] IFAD 2017. Appendix 5 - Results and Impact Management System data.

the investment loan. The PPE mission interviews revealed that farmers and buyers were mostly concerned with getting ad-hoc agreements made and implemented in a rudimentary manner. Quality support activities were supposed to help build trust and contractual relations, yet prices are still very often decided on the spot and are uncontrollable. Common issues raised were related to the difficulty in finding reliable markets and obtaining satisfactory prices.

60. The project supported some beneficiaries' participation in export fairs (e.g. a wholesale market in Poland). The need for production and quality enhancement was now better understood and some contribution was made to quality and food safety standards (e.g. table grapes). Nevertheless, overall there was a discrepancy between project objectives which emphasised quality standards and export markets and the reality of the project's results. According to the IOE survey, about 6 per cent of the buyers of products from the SMEs were exporters (4 per cent Commonwealth of Independent States/non-EU and 2 per cent EU). This was not due to poor efforts in implementation, but rather related to design and context. In fact, with only about US$0.5 million assigned for technical assistance in the project, assisting 17 value chains[45] and 50 contract farming arrangements was unrealistic. The project adopted only the value chains with proven potential and adapted its strategy accordingly.

61. RFSADP primarily focused on the upstream of the value chain with production-improving interventions for fairly developed product categories.[46] The project did not cover all steps in the value chain. Some technical assistance was provided for value adding activities, but this was not executed in a systematic manner and was done mostly for table grapes which were the main success story.

Box 1
The table grape value chain

> The expected results for quality and quantity were quickly visible and within three years, in 2016, they reached the EU quota. A representative of a table grape association explained that the exchange of experiences through conferences and meetings, the interactions with the CPIU on business plan preparation and marketing strategy, as well as meetings with potential buyers (mainly Poland and Lithuania), had all contributed to their success. This was not only achieved through IFAD support as other donors such as the EC were also involved. The various groups within the cooperation are linked to an expert that advises on quality (producing/processing/storing/packaging), management and monitoring. Since 2014 they have also paid attention to personalized labelling, which enhanced their sales. They have a website in three languages (English, Russian and Romanian) and do not have difficulty in finding buyers.

62. In conservation agriculture, the project established the four demo plots it had planned (100 per cent achievement) and offered relevant training to a number of beneficiaries that was much larger than originally planned (480 per cent achievement). The demo plots (as their designation implies) were used as testing platforms for conservation agriculture techniques in different agro-climatic zones. Farmers were invited and hosted, at regular intervals around the year, to see and learn the principles of conservation agriculture. The demo plots were still in operation after the end of the project, but only as production units, and not for demonstration. The project also offered 23 matching grants to farmers as an incentive to purchase conservation agriculture machinery (110 per cent achievement). Those who undertook the demonstrations were the lead farmers who could afford the investment in machines. In some instances, conservation farming complemented conventional farming activities.

[45] In interviews reference was made to 17 value chains although the project documents do not refer to a specific number of value chains.
[46] The rationale for this was that USAID and World Bank were covering downstream activities.

Objective 2: Increase poor rural people's access to credit by supporting appropriate and affordable rural financial instruments.

63. The financial component was overall successful. As the IOE survey reveals, the sector has developed effective information and communication channels to reach potential beneficiaries. Relevant information is obtained through banks (40 per cent) the media (30 per cent) or both (30 per cent). All beneficiaries (95 per cent) could reach information very easily and most of the SMEs (70 per cent) could apply without assistance. The remaining 30 per cent found IFAD's training and business plan support useful.

64. Rural SMEs borrowed mainly to invest in equipment and machinery (85 per cent)[47] or inputs (15 per cent[48]). The credit issuing mechanism was very effective (100 per cent of the beneficiaries reported timely disbursements) and had a positive effect on income. About 50 per cent of the beneficiaries reported a substantial turnover increase due to their investments of 25 per cent or more, while another 45 per cent reported a moderate increase of between 10 per cent and 25 per cent. Moreover 77 per cent of the investments, according to the IOE survey, yielded new jobs. All of the beneficiary SMEs (100 per cent) reported that the banks offered terms that did not put excessive stress on their cash flow and they could therefore successfully meet the repayment deadlines.

65. About 450 YEs received loans and grants (93 per cent of the revised target). About 250 received assistance for drafting business plans (53 per cent of the target) and about 900 beneficiaries participated in training courses (93 per cent of the target). One reason for not taking the business plan training may have been that it was only offered free to the start-ups whereas other YEs had to pay 50 per cent of the costs. The IOE survey revealed that only half of the YEs subscribed for pre-financing (30 per cent) and post-financing training (20 per cent), and only 10 per cent to both. Approximately 30 per cent stated that they were able to apply for a loan without writing a business plan with IFAD's assistance and most of the beneficiaries (76 per cent) had previously applied for a loan. The survey identified that only 30 per cent of those who had received a first loan through the project were rejected for repeat financing and 92 per cent intended to continue the business they started. The terms of credit were appropriate for their needs and 92 per cent of them reported that they were able to respond in a timely manner to loan repayment schedules. Most of the respondents (65 per cent) stated that starting a business with the help of IFAD was a positive experience and that they would strongly recommend it to others, while the rest (33 per cent) would still recommend it despite some hurdles they had to face in the process.

66. In addition to the direct benefits mentioned above, IFAD's YE financing model helped the PFIs to become familiarized with the specific risks and opportunities for youth agribusiness financing and was very effective in allowing them to develop and offer the same product for their rural clients. This was noted by the bank officers during the PPE field meetings.

67. ME financing and the support to SCAs was designed to assist the economically active rural poor and the extremely poor and generally achieved this objective. The IOE survey revealed that 20 per cent were subsistence farmers and the majority of the remaining farmers were in the poorer category. The project offered funds to the RFC for on-lending to SCAs, which in turn offered loans to their members on preferential terms. More than 1200 MEs received loans of US$1,700 on average (more than 200 per cent achievement). The IOE survey on MEs indicated that SCAs kept their members well informed on the funding options (80 per cent of the beneficiaries found out about IFAD loans from SCAs and 15 per cent by word of mouth, and 90 per cent reported that the information was

[47] IFAD resources.
[48] PFI resources.

very easy to obtain). Most of the beneficiaries (90 per cent) attributed their business success to the loans and declared no issues with repayment schedules. More than 70 per cent of the beneficiaries stated they would not have been able to finance any project without IFAD as other alternatives would have been prohibitively expensive considering loan size, duration, collateral requirements and interest rates from the SCAs own resources. The other 30 per cent would have reached out to informal lenders. MEs considered the high cost of inputs, low prices of produce and the difficulty to reach the market, as their main impediments.

68. Despite the impediments, the repayment rates were almost 100 per cent which indicates that the activities that were financed were sufficiently viable.

Box 2
SCA Cernoleuca – A story

In Moldova's village communities mutual help is a deeply rooted tradition. This culture has become a favourable ground for supporting the establishment of cooperative microfinance networks to provide private farmers and rural entrepreneurs with access to financial services since the collapse of the Soviet Union. Taking part in this countrywide movement, on 12 March 1999 the 75 residents of Cernoleuca village founded the Saving and Loan Association with initial technical and financial support from the RFC.

When Irina Munteanu, Executive Director and a lawyer, took this position in 2010 the association had been working in just one village with total assets of 760 thousand Leu. In 8 years the number of villages served increased to 14 and assets grew tenfold to 7.6 million Leu.

Cernoleuca (population 1,572) is the second largest village in Donduseni district (population 37,856) located in the upper north of the country. Many small farm businesses operate on very fertile land including arable land and orchards. Seventy-five members have benefited from the investment loans for crops, livestock and fruit production and non-agricultural activities from IFAD's RFSADP project during 2011-2015. Lilia Botnar, 50, who received a loan to purchase cattle, said: "Although the investment in cattle was very productive, we struggle to sell the raw milk for a price that is just enough to cover our costs." Aleksi Bokatch, 52, who purchased a tractor, continues: "We have to find ways to switch to higher value crops that would be easier to sell in the market and earn above the cost." Olga Botarin, 47, who also purchased a tractor, summarizes: "If only we had access to bigger loans and more favourable terms, we could handle the rest. However, we do need expertise in medicinal plant growing, which has a certain tradition in Moldova. We have every skill and motivation to accomplish this."

Despite the challenges, all members seemed to be optimistic about the SCA's ability to provide the financial services, vital to fulfilling their plans and aspirations for a better future.

69. Most of the investment loans supported the upstream of the value chains (approximately 93 per cent) as can be seen from the below table.

Table 5
Value of productive assets created by categories*

	Upstream value chain						*Downstream value chain*	
Beneficiary category	*Machinery and equipment US$*	*%*	*Structures and irrigation, US$*	*%*	*Animals and seedlings*	*%*	*Storing and packaging, other ****	*%*
Small and medium-sized enterprises	3 293 138	46	1 637 358	23	1 085 594	15	1 070 623	15
Young entrepreneurs**	7 782 765	75	919 157	9	1 390 936	13	235 558	2
Microentrepreneurs	1 293 627	58	N/A		780 637	35	156 127	7
Totals	12 369 530	63	2 556 515	13	3 257 168	17	1 462 308	7

Source: CPIU data.
* including value of the working capital financing.
** loans and grants.
*** for MEs includes trading and non-agricultural assets.

Objective 3: Mitigate or remove infrastructural bottlenecks that inhibit improvements in the assets and incomes of poor rural people[49]

70. For rural infrastructure 20 matching grants were provided to 20 informal community groups (100 per cent achievement). They rehabilitated 17 km of road and 30 km of irrigation. All projects were demand driven, e.g. farmers with fields with no connection to the main road would form an informal group and request IFAD support. The selection committee consistently verified and confirmed the reasoning for these investments. The project and the PCR offer no data on the reduction of wood combustion or transportation costs. The links with the other components was only secured to a minimal degree with 110 SME farmers out of a stated 7,015 beneficiaries receiving funds. The outcome is small in absolute terms (original target was 40 reduced to 20 infrastructure sub-projects at midterm) and compared to the needs of the country but in line with the revised MTR target.

71. **Effectiveness of targeting.** The target as stated in the President's Report was to reach 37,000 people, with 1,450 people benefiting directly from the rural financial services component and some 34,730 people benefiting from the small-scale infrastructure component. The PCR reports that 1,830 were direct beneficiaries and 5,329 indirect beneficiaries of the project’s activities. The direct beneficiaries were mainly the borrowers. This means that 5,329 beneficiaries were benefiting from other activities, mainly infrastructure and agribusiness, and the total number of beneficiaries was only 7,159, just 19 per cent of the original target.[50]

72. The midterm report observed that the total number of small-scale infrastructure schemes planned (40) was unrealistic due to the lack of adequate resources and an underestimation of costs in the PDR. The MTR recommended a review to be carried out and a correction of the actual number of beneficiaries under this component to around 25,000 beneficiaries. It is not known if this review was carried out, but the PCR refers to 5,329 indirect beneficiaries.

73. IFAD’s strategy of supporting the relatively affluent, operating and self-sustaining SMEs by providing them with the investment loans was based on the premise of a "trickle down" effect to the rural poor through the creation of increased employment and improved market linkages. The actual distribution of the loans of

[49] Originally stated in the logframe (President’s Report): Alleviation/removal of infrastructural bottlenecks to improving the assets and incomes of poor rural people; to be assessed against the reduction of at least 50 per cent in wood used for heating/cooking in areas where gasification introduced by project year 5 and at least a 5 per cent reduction in unit transportation costs.
[50] The PCR reports 7,159 beneficiaries and the impact assessment claims 37,000 in total.

different sizes for SMEs can be grouped into three categories: small loans (under 35,000), medium loans (between 35,000 and 100,000), and higher loans (over 100,000). One half of the SMEs borrowed 50 per cent of the eligible maximum size, and, according to the impact assessment data, the size of the loan was determined by the size of the SME. Therefore, the ability of the smaller SMEs to provide a "trickle down" effect in terms of employment was correspondingly lower. On the other hand, this meant that some of the smaller enterprises that perhaps needed the support most were also targeted. The Impact Study estimated that the SMEs created 581 jobs (no specific employment generation target for SMEs at design was set but a total target of 1,500 full time and seasonal jobs was defined for SMEs, YEs and SCAs).

74. According to the operational manual, the YE sub-component was established to address the lack of available financing for young people. They are hardest hit by unemployment and, as such, were those who were most likely to become migrant workers and, in the case of young women, vulnerable to human trafficking. In order to qualify for the grant, the YE had to fall within a specific age group (between 18 and 30), have a reasonable business plan and be able to provide the required cost sharing. In addition, it was planned that between 30 and 50 per cent would be start-ups. These criteria essentially meant that the YEs were selected on a self-targeting, first-come, first-served basis. PFIs were in charge of the selection and gave priority to the ones who had the highest capacity to pay. While the PCR states that 72 per cent were start-ups there was not a clear definition of what a start-up was. All the YE that the PPE team interviewed had senior direct family members (father or grandfather) who were already in business and who had significant ownership of productive assets. They were therefore, de facto, individuals already engaged in business activities in the household, but not formally registered for the loan, and so did not match the characteristics of the target group described above. About 40 per cent of the YEs were women (against a target of 50 per cent).

75. The MEs, members and clients of SCAs, were defined as the economically-active poor group who owned between 1.5 and 5 ha of land, and the very poor, who were either landless or not interested in cultivating the very small piece of land they had obtained through the universal land distribution. As with the other target groups, a self-targeting approach was applied. The IOE survey found that the targeting for this group was generally correct. The average size of the loan was US$1,736 indicating that the majority of the borrowers were poor[51] and 20 per cent of the IOE survey respondents were subsistence farmers.

76. The performance on the rural finance and infrastructure component was good. The equity fund did not materialize but the project adapted and reallocated the funds to SMEs and infrastructure. The agribusiness support had some positive results with the development of table grapes but did not achieve the 50 contract farming arrangements as originally foreseen. There was much less outreach than planned due to inflated number of beneficiaries identified in the project document for the infrastructure component. The targeting approach relied mainly on self-targeting and, as a result, the beneficiary SMEs were a mix of wealthier medium-sized and small enterprises. For the YEs the selection criteria resulted in support to the better off and many of the enterprises were not start-ups. For MEs, the target group was the poor and 20 per cent were subsistence farmers. The intervention provided important support to their livelihoods. While the employment generation target of 1,500 was reached, according to project data, the SMEs contributed little to this. Overall project performance is rated as **moderately satisfactory (4).**

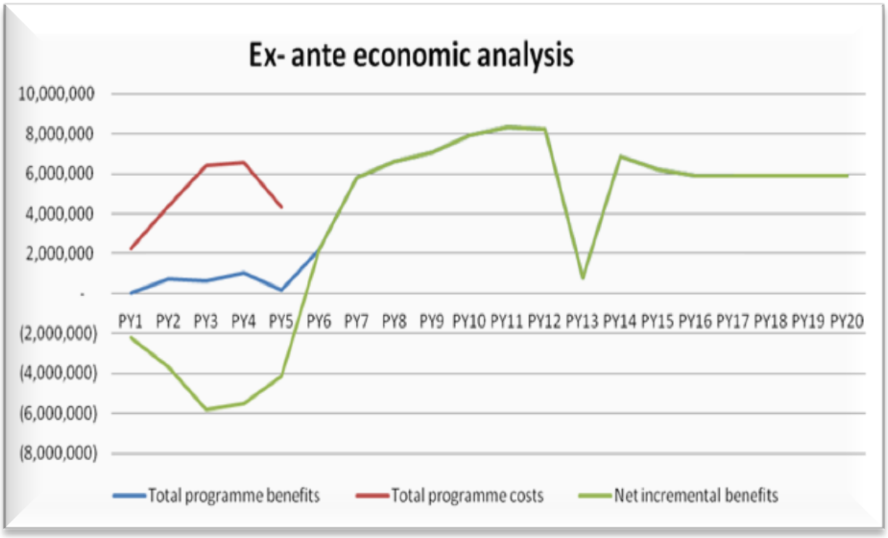
[51] Only 13 out of 1,285 loans had collateral and higher volumes.

Efficiency

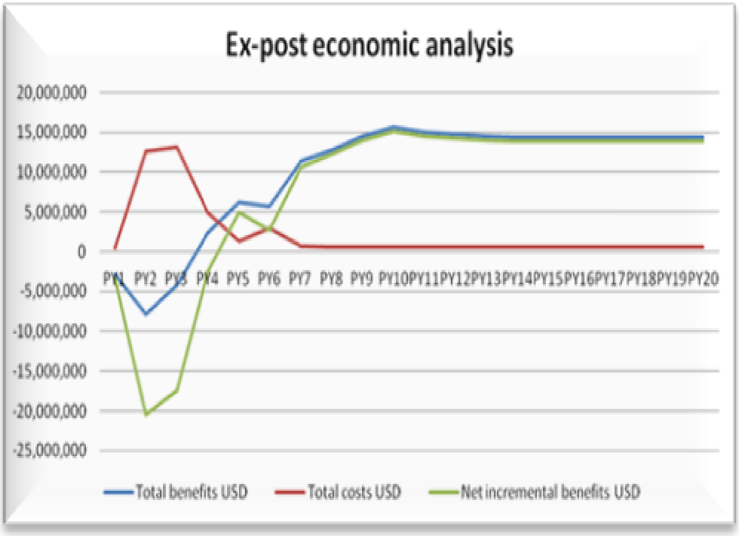
77. The project's economic and financial performance was better than anticipated, indicating an efficient execution. The project management cost was very low (2 per cent) compared to other IFAD projects, indicating the high efficiency of the CPIU.[52] The effectiveness of the financing agreement was 6.7 months from approval to effectiveness, so lower than the Near East, North Africa and Europe regional average of 7.8 months and the IFAD average of 7.7 months.[53] The cost per beneficiary based on actual project costs was high (US$5,849[54]) compared to other IFAD operations in the country. However, the cost per beneficiary accounts for direct and indirect beneficiaries without distinguishing between them and does not take into account the substantial private and financial sector contribution that the project successfully managed to leverage, and the fact that the loans have multiple loan cycles.

78. Ex post economic and financial analysis shows better results than ex ante expectations. The net present value of the net benefit stream, discounted at project was 18 per cent, compared to the anticipated 16 per cent. The graph (figure 4) indicates that the project yielded higher and quicker[55] results than expected, despite external unanticipated shocks.[56]

Figure 4
Graphical representation of ex ante and ex post economic analyses



[52] The CPIU is a consolidated unit managing all IFAD operations in Moldova. The low project management cost is therefore due to economies of scale.
[53] Computed based on averages in 2010.
[54] US$41,879,000/ 7,144 beneficiaries (1,815 direct and 5,329 indirect).
[55] The breakeven point of the ex post assessment is reached in year 4 while in the ex-ante it was projected for year 5.
[56] For example the fluctuation of the exchange rate and the embargo on Moldovan exports to Russia.



Source: PCR: economic and financial analyses .

79. A number of reasons for the low project management costs were highlighted in the country programme evaluation (2014) and still applied during the project implementation period and include: (i) the CPIU arrangements, with all IFAD projects under one umbrella; (ii) the small geographical area of the country; (iii) the contribution by borrowers and PFIs tended to be larger than that estimated at appraisal, leveraging IFAD's loan funds and hence lowering the share of project management cost in the total financing; and (v) efficient processing, as well as the Government's high interest in maximizing the project funds going to investments (i.e. credit fund) rather than recurrent costs or technical assistance.

80. In addition, the CPIU set-up saved significantly on overhead costs by avoiding the need to create similar positions for different projects. The CPIU approach also contributed to the retention of trained staff familiar with the procedures and systems required and with institutional memory, which saved time and resources for staff recruitment for each project, thus contributing to a smooth start-up process and timely implementation.

81. The cost per beneficiary ratio at the end of the project was US$5,849[57] at completion compared to US$1,839 for the Rural Financial Services and Marketing Programme and US$2,500 for the successor Inclusive Rural Economic and Climate Resilience Programme at design. This figure, however, does not take into account the high total project cost of US$41,879 million which includes substantial private and financial sector contributions that the project successfully managed to leverage. Specifically, the project leveraged more than 100 per cent from private (beneficiaries' own participation), financial sector (banks' own resources), and Government contributions, topped up with a DANIDA grant for the YEs.

82. The efficiency of the CPIU was very high and the economic internal rate of return was higher than expected. The total number of indirect beneficiaries[58] (in particular for the infrastructure component) was a lot less than anticipated and therefore the cost per beneficiaries was rather high. However, this does not adequately reflect the cost of the main investment. Therefore, the rating for efficiency is **satisfactory (5)**.

Rural poverty impact

83. In assessing impact both the impact assessment reports and the PCR were important sources of evidence. The limitations of the impact assessment have been highlighted in paragraph 5.

[57] Calculation done based on US$41.879 million/7,159 beneficiaries.
[58] The PCR states 5,329 indirect beneficiaries as compared to the 34,730 estimated in the project document.

84. **Household income and net assets.** The project's impact assessment report estimated that at least 20 per cent of the households involved in RFSADP activities increased their household assets by 9 per cent on average.[59] According to the report, these assets varied in nature, yet they resulted in improved income for the beneficiaries. According to the methodology used, the households were defined as the project beneficiary units themselves.

85. The SMEs and YEs increased their asset ownership as a direct consequence of the investment loans. For SMEs, 85 per cent of the investment loans went to machinery, equipment and other productive assets, and the remaining 15 per cent to seedlings and animals. The average useful life of the machinery and equipment is at least 50 per cent higher than the average duration of the loan (4.4 years). With an average grace period of 1.1 years, the principal amount was to be repaid over 3.3 years. Since none of the SMEs had any problems with repayments, and, based on the report, all SMEs were still functional, this indicated sufficiently high profitability.[60]

86. The project documentation data on employment creation is contradictory with the main source being the impact assessment, which extrapolates job creation from the number of total beneficiaries multiplied with the average job increase per beneficiary. Despite the weak attribution with this methodology, this is the most detailed data on which to base the project's assessment on job creation.

87. According to this assessment the project exceeded its target of 1,500 jobs. As seen in table 6 below, the YEs contributed the most to employment (1,112 new jobs created) due to the high absolute number of YEs reached, followed by SMEs (605) and MEs (257).[61]

Table 6
Employment creation

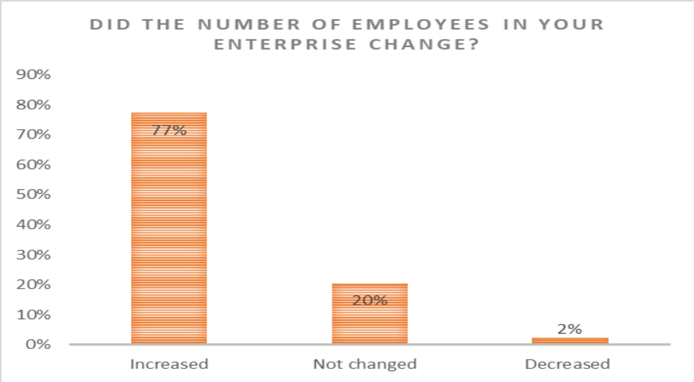
Employment creation	*Contract farming*	*SME*	*YE*	*ME*	*Total*
a) Number of direct beneficiaries	15	83	445	1 282	1 830
b) Number of jobs created per beneficiary (impact study data)	4	7.3	2.5	0.2	
Number of permanent jobs (a x b)	60	605	1 112	257	2 034
Original target					1 500

Source: Impact study[62] and PCR.[63]

88. According to the IOE survey carried out as part of the PPE, 77 per cent of investments had yielded new jobs (see figure 6 below) but it was mainly the temporary (seasonal) type of labour that had increased as 49 of the SMEs financed (or 60 per cent of the total) were in the primary agribusiness sector that required seasonal labour. For the YEs, only 17 per cent reported an increase in employment.

[59] IFAD 2016. Impact assessment report, page 17.
[60] Loan data for SMEs and YEs extracted from CPIU loan database (31 March 2018).
[61] In the impact assessment there is a typing error and the total number of jobs created is cited as 236.
[62] Figures are updated based on Impact study methodology.
[63] In the PCR updated figures for the total number of SMEs are used.

Figure 5
Changes in number of employees by SMEs



Source: IOE telephone survey of SMEs.

89. The PCR suggested a larger number of jobs were created by including the full-time equivalent of seasonal jobs.[64]

90. In conclusion, RFSADP did, according to project data, exceed its target of employment creation which was largely driven by YEs. IOE's survey confirmed that employment was created by both SMEs and YEs but, in the case of the IOE survey, SMEs were more important drivers for job creation than YEs. The characteristics of the employees still need to be better understood to draw firm conclusions.[65]

91. The YEs that received investment loans with a matching grant were a mixture of start-ups (72 per cent[66]) and existing businesses. The start-ups could be considered as direct beneficiaries before they gained maturity and strength to increase employment. According to the responses provided by the selected YE and SMEs, 84 per cent of them had invested in tractors, machinery and equipment, which potentially enabled them to cultivate more land area. According to the IOE survey the revenues increased less for YEs than SMEs, with only 2 per cent of the respondents having increased their revenues by more than 10 per cent. Only 21 per cent reported a reduction in costs.[67]

92. Loans for the MEs enabled them to expand their productive assets and increase incomes. About 50 per cent of the ME respondents stated that they were able to increase their sales by more than 50 per cent thereby increasing their incomes, which indicated significant positive impact on their livelihoods and productive capacity. For 92 per cent of the MEs, the investment loans helped them to fully realise their business goals as originally planned, which improved their situation.

93. The IOE survey, conducted as part of this PPE, showed that the impacts on incomes and assets were positive with some variances between the target groups. The SMEs were able to use the investment loans to increase sales and productivity and employ more people. The business performance was more modest for YEs and for the MEs the financing enabled them to expand their productive assets and increase incomes. According to data, the project did exceed its target of employment created but the characteristics of that employment still needs to be better understood to draw firm conclusions.

94. **Human and social capital empowerment.** The project empowered its beneficiaries, PFIs and SCAs directly and indirectly. It offered direct training to

[64] The impact study and PCR have a large discrepancy on the number of jobs created by MEs. The PCR is mistaken by a decimal point on MEs that results in 2,574 jobs instead of 257. The PCR has several less important calculation mistakes on job employment.
[65] The PCR mistakenly states 5,400 jobs.
[66] Although due to the lack of a definition of start-ups this may not reflect the reality. Most of the YEs that the mission met had family already engaged in agriculture.
[67] Only 17 per cent of the YEs reported an increase in the number of people employed. Yet, according to the impact data they generated most of the employment.

PFIs, SCAs, contract farmer groups, and user associations (infrastructure projects); training to MEs and YEs; and work experience with income-generating activities (some for the first time).

95. Beneficiaries and PFIs (banks and SCAs) received several training options. The most successful was the practical training on the demo plots that engaged rural operators in new farming techniques. The impacts of the business training (beneficiary and PFI) on the other hand were temporary. For SMEs, according to the IOE survey, 68 per cent of the beneficiaries did not use business trainings (which were 50 per cent subsidized) for the business plan preparation, i.e. they prepared their business plans themselves. This may be attributed to the cost[68] and that the training was perhaps not as needed as initially foreseen. As for the thematic trainings, according to CPIU, they were organized on a demand basis. A list of the training subjects was distributed and those who were interested could attend. The same procedure was applied to the YEs and MEs. For YEs (the same source) 28 per cent of start-ups and 48 per cent of the existing YEs did not participate in the trainings. For MEs - based on the PPE field visit meetings, at least half of the rural farmers responded that they could not attend the trainings because of timing issues which clashed with agricultural work.

96. The introduction of support to YEs empowered the economically-active youth and their start-ups. It had a spill-over effect on to organizational empowerment of the PFIs included in the programme. The YEs survey results showed that 65 per cent of YEs improved their capacity and were willing and able to provide advice and coaching to their peers.

97. The project made significant progress in empowering the rural poor members of the SCAs through targeted investment loan products and technical assistance. Due to limitations of the SCA's own capital resources, the loans to members were usually short-term in nature, whereas the project allowed the members more time, with grace periods conveniently structured to match the agricultural revenue cycle. The exposure to new products that better suited the needs of the rural poor and the accompanying trainings also improved the financial literacy of the borrowers.

98. All key institutions of the SCA system (the National Commission for Financial Markets [NCFM], Centrals, RFC and Microinvest) were engaged as service providers or facilitators to the rural poor of the specific agricultural-related or awareness-raising trainings in the knowledge transfer process. Specific targeted trainings, such as those on deposits and remittance management, and the advantages of transition from an A to a B licence,[69] equipped the SCA management with the tools to strengthen the collective capacity and social cohesion of the associations' members as is explained in detail in annex VIII.

99. Beneficiaries of the village-level roads and irrigation schemes improved their operational conditions as business units. They were given the opportunity to invest in communal infrastructure. They created formal or informal organizations and agreed on specific actions. They implemented small infrastructure projects (some for the first time) and developed an institutional mind-set as part of the process. The overall community socio-economic conditions of indirect beneficiaries also improved, as small-scale rural infrastructure improved living and working conditions in the extended area.

100. Finally, a number of informal groups were created and/or strengthened to operate through contract farming or for small-scale infrastructure investments. The documentation provides a mixed picture as to the strengths of the groups. While the MTR finds the approach sound and effective,[70] other supervision reports state that the outreach was limited. The PPE mission was informed that the groups

[68] Training on business plans was free for start-ups but other beneficiaries had to pay 50 per cent of the costs.
[69] There are 216 type A (cannot take deposits) SCAs and 63 type B (can take deposits) in Moldova.
[70] IFAD 2014. Midterm evaluation, page 3.

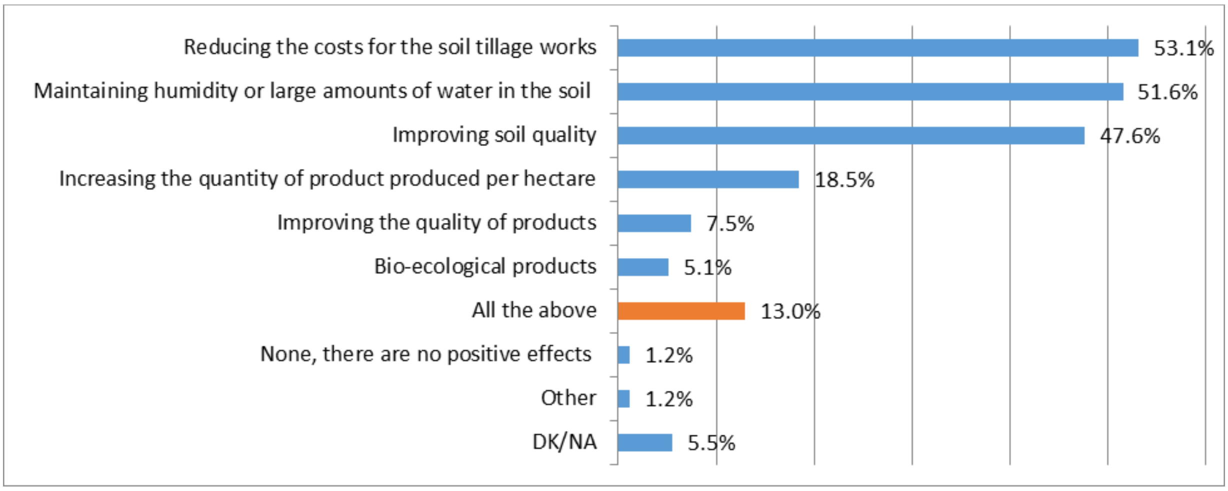
continue to be supported by other donors (e.g. World Bank), which indicates that some empowerment has taken place.

Food security and agricultural productivity

101. Food security was not a priority in this project. The PCR reports that increased yields of table grapes, fruits, vegetables, cereals and oil seed crops, improved the food supply. Furthermore, productivity increased through conservation farming.

102. Conservation farming adopters reported reduced costs of production (53 per cent), improved quality of products (8 per cent) and profitability, as quantity per ha had increased (19 per cent) (see figure below).

Figure 6
Positive effects of conservation agriculture



Source: CPIU impact report, survey on conservation agriculture adopters.

103. The PCR suggests that the project generated increases of 21 per cent in fruit production, 25 per cent in table grapes and 266 per cent in open-field vegetable production. It goes on to state that "the increase in exported agricultural products helped to improve the import/export food trade balance, thus enhancing food security"[71] but does not back this statement up with empirical evidence.
The impact assessment report paints a different picture showing very insignificant improvement in only 3 sectors (field crops, fruit crops and cold storage). For the field crops, the yield per ha had dropped, and the production volume decreased, despite the 5 per cent increase in the total land under operation.

104. There was some improvement in the fruit crops (10 per cent increase in the yield per ha) but the plantation area had actually decreased by 2 per cent. Cold storage volume of products went down in absolute number, but the data provided in the impact assessment showed an increase[72] of 2 per cent (see table 7 below).

[71] IFAD 2016. Project completion report, para 30.
[72] Likely an error in the impact assessment.

Table 7
Changes in activity specific indicators, compared to baseline data

	Indicators	*Nominal values (mean per enterprise)*			*Difference*
		Baseline	2015	Difference	%
Field crops	total area, ha	155.6	162.5	6.9	5
	production volume, tons	813.0	706.1	(106.9)	(13)
	yield per hectare, tons/ha	8.7	6.4	(2.3)	(26)
Fruit production	plantation area, ha	26.2	25.6	(0.6)	(2)
	production volume, tons	467.6	519.6	52.0	11
	yield per hectare, tons/ha	14.0	15.4	1.4	10
Cold storage	Total capacity, tons	934	934	-	
	Volume of products stored, tone	683.8	670.0	(13.3)	(2)
	Nb. of beneficiaries	1.5	2.5	1	67

Source: CPIU impact assessment 2016.[73]

105. The comparison between the baseline data and the actual results for the activity specific indicators is inconclusive. For the three activities of the financed SMEs: field crops, fruit production and cold storage, only one (fruit production) showed volume and productivity improvement. The other two indicators worsened. Based on the above data and the visits conducted, the overall impact on food security and agricultural productivity is therefore inconclusive.

Institutions and policies

106. This project did not contribute to the development of policies but did contribute to institutional capacity-building of, in particular, banks and non-banking institutions.

107. The most important impact of this support was that commercial banks were now prepared to offer credit for rural investments and working capital to rural enterprises and at almost the same interest rate as that offered by IFAD projects (as reported by several banks in stakeholder meetings). They were willing to extend longer maturity loans as well, but not long-term at this point. This was an improvement since the last country programme evaluation in Moldova in 2014,[74] and banks are now more capable of replicating the products that IFAD developed for on-lending and have a better understanding of the risks of these products which enables them to provide credits from their own funds. For example, the banks found the YEs' financing model to be innovative and it enabled them to improve outreach.

108. Although IFAD did not directly engage with the SCAs who received financing through RFC, this scheme had a positive impact on some SCAs who were motivated to be direct beneficiaries without RFC’s intermediation. RFSADP enabled this opportunity and some B-licence SCAs were able to qualify as direct fund recipients for the follow-on projects. In general, the project had positive, institutional strengthening impact on those A-licence SCAs who had a strategy to take a next step to get a B-licence. Nonetheless, although there has been significant improvement since the country programme evaluation, the SCA system, as the only grassroots rural finance provider, still needs more targeted institutional building assistance to be transformed into a sustainable and diversified service provider.

[73] Statistical comparison tests for significance of differences were not performed.
[74] IFAD 2014. Country programme evaluation.

109. By engaging apex organizations (Centrals), NCFM and RFC, in several capacity-building activities the project contributed to raising the awareness of SCAs' management to non-banking financial regulation, legislative requirements and regulatory compliance tools.

110. Impact was positive on income and net assets and there was evidence of indirect benefits through increased seasonal labour with the target of 1,500 jobs exceeded. There was also an increase in assets, as a direct consequence of the nature of the credits given. The project contributed to enhancing the human and social capital of PFIs, SCAs, MEs and YEs through various types of training, e.g. improving the financial literacy of borrowers. In terms of food security and agricultural productivity there is some evidence of improvements in fruit crops but overall the data is inconclusive. The most important impact on the institutions was that the banks involved are now offering longer maturity loans at almost the same rate as IFAD's loans and that they have a better understanding of the risks of the products which enable them to provide credits from their own funds. The impact on the 15 groups created/strengthened is less well documented and the overall outreach was limited. The overall impact on rural poverty is considered **moderately satisfactory (4).**

Sustainability of benefits

111. Most of the loan beneficiaries were still in business at the time of the PPE mission and the CLD continued to provide the proceeds of repaid loans from RFSADP and all other IFAD projects to the banks for on-lending, but there were some issues with the long-term financing of SCAs. Finally, the project's small-scale infrastructure investments remained well looked after by either the municipal services (Primaria) or the user groups.

112. Conservation agriculture is continued in the IFAD follow on project Inclusive Rural Economic and Climate Resilience Programme. The four demo plots had stopped operating as training centres after the project ended but they continued to operate as successful businesses.

113. Some of the formal or informal groups created within RFSADP to promote contract farming in specific value chains (honey and table grape production) were, according to the CPIU, being included in projects by the World Bank[75] and the United States Agency for International Development (USAID) and were assisted to reach external or internal markets directly. However, the loose informal agreements between producers and aggregators were not secure and continuous relationships were based on mutual profit between the participants. Hence, the sustainability of these groups was not guaranteed.

114. SMEs, YEs and MEs' businesses supported by RFSADP displayed increased profitability that led to their resilience over time. The CPIU reported that most of the beneficiary enterprises still operated successfully. This was confirmed by the evaluation.

115. The on-lending mechanism operated by the CLD is a commendable commitment of the Government of Moldova to supply longer-term rural financing even after the end of the project. Once the loans are repaid, they go to the CLD and are forwarded to banks for on-lending to rural entrepreneurs. Once the repaid loans reach the CLD, however, the targeting criteria are no longer imposed.
Moreover, available funds are clearly inadequate to satisfy the extensive demand for rural credit, despite the fact that banks complement this with their own funds. A bigger constraint facing the non-deposit-taking SCAs is that they have limited funds to spread among members and can only borrow from RFC.
While improvements have been achieved, the SCA system still needs more

[75] For example, the Moldova Agriculture Competitiveness Project (2012-2019).

targeted institutional capacity-building in order to be a sustainable and diversified service provider.

116. The SCAs have a wide geographic coverage, (with more density in the north and centre, and less in the south), but low penetration (only 10 per cent of the rural population have access to the service). Type B-licence SCAs are present in main towns, while type A-licence SCAs are more active in the villages. Lack of long-term financial resources creates a problem of viability for many type A-licence SCAs as they cannot raise financing by taking deposits and RFC is not capable of offering consistent financing resources either.

117. One of the eligibility criteria was that small-scale infrastructure investments had to have a secured maintenance schedule. Either Primaria[76] or user groups are responsible for keeping them up to par. Relevant reports and on-site visits confirmed that their sustainability was secured.

118. Based on the above assessment the overall sustainability is rated as **satisfactory (5)**.

B. Other performance criteria

Innovation

119. The project introduced several innovative features. IFAD was not alone in working on these innovations but helped introduce them to new areas.

120. The country programme evaluation(2014) stated that innovation did not require IFAD to originate every programme that it participates in. Hence some of IFAD's approach in Moldova was derived from programmes originated by the Government, the World Bank and other donors. IFAD helped to broaden and deepen these programmes and strengthen their institutional foundations.[77]

121. Conservation agriculture is an example of the above in RFSADP. Some farmers had already been practising conservation agriculture, but only on a very limited scale. In 2014 it was estimated that about 80,000 ha were under conservation practice, out of 2.5 million ha of total arable land.[78] IFAD was also not alone in promoting this technology which was being supported by a number of other donors (e.g. the Food and Agriculture Organization of the United Nations (FAO), the German Agency for International Cooperation, and the World Bank). In a small way IFAD contributed to introducing this technology to farmers who might not otherwise have taken it up.

122. Value chain development and contract farming (within private agriculture) are, in the Moldovan context, rather new concepts and are challenging for IFAD and other development partners (such as the EU, USAID, and the Millennium Challenge Corporation) trying to promote them. Specifically, contract farming in the traditional sense, where farmers make pre-cultivation agreements with buyers on price and quantity to be delivered at harvest time and sign contracts that would be accepted by the banks as collateral, did not work during implementation.
Both buyers and farmers were not willing to honour their contractual obligations if the market price was more favourable than agreed. The banks therefore never learned to trust such contracts and this “template” failed. Instead the project reverted to a different model, more appropriate for the specificities of the Moldovan market. In any follow-up projects the original model may need to be revisited with different terms and assumptions.

123. The project also tested the concept of equity financing, which at the time proved to be inopportune. Alternative methods of financing, especially uncollateralized financing, would have been more favourable for the development of rural

[76] Municipality.
[77] IFAD 2014. Country programme evaluation, page 41.
[78] IFAD 2014. Insights, the potential of conservation farming for adaptation to climate change.

enterprises. Public equity funds were not new. They have been used around the world for decades to spur SME financing, offering a demonstration platform and attracting additional private sector funding. The AEF was not designed with the aim to finance demonstration investments. It was rather intended as a financing instrument for agribusinesses and that is why it failed. Instead, other tools could have been used, e.g. a credit guarantee fund, which, in combination with remittances, could leverage private sector resources and reduce collateral requirements that are prohibitive for some beneficiaries in accessing finance.

124. The project's funding of YE businesses was new for Moldovan banks that were hesitant to lend to them as these clients represent increased risks. The support consisted of a grant and a loan, accompanied by technical assistance such as business plan development pre-finances and post financing training. Again, while this may not be the only financial product aimed at young people in Moldova, from the interviews conducted with the banks this was an innovation, especially in the rural context.

125. The project introduced several innovative features some of which were successful (e.g. conservation farming and YEs) others less so (value chain development and the equity fund). Even though not all of the innovations worked this is the nature of testing something new. The rating is **satisfactory (5).**

Scaling up

126. By project end, most of the producer groups established or strengthened through RFSADP were mainly developed in the upstream part of the value chain. According to the CPIU, both USAID and World Bank[79] made use of the groups established in RFSADP and incorporated them in their activities thus scaling up on RFSDAP's successes. For example, the table grape and bee-keeping groups applied for assistance and grants from both USAID and the World Bank. The USAID grants and technical assistance amounted to US$200,000 for the four table grape groups which focused on export promotion and participation in trainings and exhibitions abroad and trial shipments to new markets (e.g. Spain and UK). Matching grants from the World Bank Moldova Agriculture Competitiveness Project were also received for three cold storages, a sorting line, and two trucks with grape storage equipment (of a total value of US$1.4 million) that will be used for export. For the two bee-keeping groups, three members benefited from grants of a total value of US$5,000 and technical assistance of a value of US$30,000. While this points to complementarity in the way different donors were working in Moldova, it does not indicate that a specific scaling up strategy was in place.

127. Efforts dedicated to conservation farming were incorporated in other donor initiatives after the end of RFSDAP. According to the PCR, conservation farming had, since the project ended, been taken up by other projects and been adopted at a greater scale by FAO and the World Bank though no specific evidence was provided. Conservation agriculture activities are also continued in the follow-on Inclusive Rural Economic and Climate Resilience Project.

128. The rating for scaling up is **moderately satisfactory (4).**

Gender equality and women's empowerment

129. According to the PDR poor rural women were expected to be substantial beneficiaries under RFSADP, as on-and-off farm entrepreneurs and employees, both relative to its three investment components and to full participation in its management systems. The PDR stated that project-supported agribusiness development would focus on, among other things, small-scale horticulture and dairy production in which women were strongly represented and experienced. While RFSADP incorporated women and youth by establishing targets and M&E strategies, it did so without any direct targeting strategies. As a result, women had

[79] For example, The Moldova Agriculture Competitiveness Project (World Bank).

a relatively low share among owners of beneficiary companies, especially in the case of SMEs. Youth was less affected as there are specific and directly targeted interventions for this group.

130. The following paragraphs provide an assessment of RFSADP against IFAD's three corporate gender objectives as stated in the Plan of Action 2003-2006.[80]

Expand women's access to and control over fundamental assets – capital, land, knowledge and technologies.

131. The main instrument for expanding women's access to and control over assets was through rural finance activities. These activities were extremely relevant considering that a very low number of holders had access to bank credits. FAO estimated that in 2010 eight per cent of Moldovan male-headed holdings received financial support, compared to six per cent of the female-headed holdings.[81] The activities were also relevant for increasing women's access to agricultural machinery and equipment where the gender gap in Moldova is notable. With the exception of mini tractors (17 per cent), female-headed holdings owned less than 12 per cent of all types of agricultural machinery. This is low considering that one-third of the holdings are female headed.[82] The project set different targets for each service provided and there was a considerable variability in the achievements across the different rural finance products. For the SMEs, no specific target was established for those that were female headed, but at the end of the project SME financing represented 21 per cent of the beneficiaries (the impact study indicated that there were 17 per cent female beneficiaries of SME support against 23 per cent of women representing non-beneficiary SMEs). The mechanism of first-come, first-served was not conducive for reaching higher levels of women that could make use of this credit.

132. A target of 33 per cent was set for the YEs.[83] According to figures provided from the CPIU the actual number of women represented was 30 per cent but the PCR states 40 per cent.[84] It was found that restricting IFAD loans to on-farm activities and putting an age limit on YEs hindered women's interest in and access to such loans.[85]

133. Women were 40 per cent of beneficiaries against a target of 50 per cent of the ME beneficiaries.

134. In terms of employment, the impact study found that the number of women employed was 43 per cent in the control groups against 30 per cent in the IFAD groups. IFAD beneficiaries did not create as many jobs for young people as the control groups. Specifically, only 40 per cent of the jobs created by RFSADP were taken up by young people (under 35) while the control group employed more than 50 per cent young people.

Strengthen women's agency – their decision-making role in community affairs and representation in local institutions

135. Women benefited from training in relation to the ME and PFI activities. According to figures provided by the CPIU, 57 and 63 per cent respectively accounted for female SCA staff trained (against a target of 33 per cent) and female MEs participating in training (against a target of 33 per cent). For the PFI staff 53 per cent of the

[80] The Gender Plan of Action 2003-2006 was in place during the design of RFSADP and this was later replaced with a Gender Policy in 2011.
[81] FAO/National Bureau of Statistics 2014: Women and Men in Agriculture in the Republic of Moldova.
[82] Ibid.
[83] IFAD 2010. Final design report, page 17.
[84] There are a number of inconsistencies regarding the gender figures between the data provided by the CPIU and the PCR.
[85] This situation has now been addressed in the Inclusive Rural Economic and Climate Resilience Programme, where off-farm activities are included and the eligible age for women participants has been raised from 30-40 years. PCR 2016.

trainees were women (no target provided). According to CPIU data[86] 27 per cent of the trainees for YE were women (against a target of 33 per cent). While the targets were set quite low, the training reached many women. However, as the targets for reaching women with financial products were not achieved, it is not known what effect this training had on the decision-making role of women. However, on the positive side, many of the MEs visited were managed by women and according to CPIU figures women managed 58 per cent of the SCAs.

Improve women's well-being and ease their workloads by facilitating access to basic rural services and infrastructure

136. No specific activities were foreseen to ease women's workload but the project set a target of supporting at least four groups in small scale infrastructure. However, the project only managed to support one.

137. The project did not undertake any separate needs assessment on gender although provisions were made for this in year one. In order to assure appropriate and focused gender mainstreaming under the project, the role was assumed by the principal CPIU M&E Specialist who had his terms of reference modified.[87] Fifty per cent of CPIU staff were women at MTR. A targeting and gender specialist only joined the PCR mission to improve the follow-on project.

138. Overall the results on gender were modest. The main emphasis was on access to resources and services, and skills and knowledge. Some encouraging results were achieved with the MEs and to some extent the YEs, although the targets set were low considering that much of the responsibility for agriculture has fallen on women due to young men migrating in search of jobs. The impact assessment reported that the main causes for gender differences related to existing stereotypes on women in business and limited support to women in business by the Government. Nonetheless, some of the difficulties in reaching the targets may be linked to insufficient possibilities for women to liberate themselves from other activities such as having to look after their homes and children with limited resources for which the project did not foresee any activities. Moreover, little was done to empower women beyond their basic economic roles and so the rating is **moderately unsatisfactory (3)**.

Environment and natural resource management

139. The Conservation Agriculture approach of RFSADP was the main contribution of the project towards more efficient utilization of natural resources. The technology proposed was a combination of agronomic practices such as zero or minimum tillage, and techniques to preserve soil cover and input use in a manner which would help to retain soil moisture, control weeds and introduce appropriate deep seeding practices through access to improved equipment and technical knowledge. The key activities undertaken included: a situation analysis for Moldova; sponsoring international exposure for key resource persons and practitioners in the country; the selection of four farm operators in different agro-ecological zones; the provision of hands-on technical assistance to the demo plots; the selection of four experts (soil science, agro-technology, economics, mechanisation) to form a group to support the sub-component implementation; the organization of training seminar for students and teaching staff of the university; the organization of seminars at each demonstration plot, procurement of equipment and machinery for the demonstration plots (mainly seeding machines and tractors), which were subsidised 50 per cent by the project up to US$50,000 for each plot, and practical technical support for the demonstration plots provided under the USAID-supported Farmer-to-Farmer Programme. After an initial slow start, it appears there was good uptake of the technology with 1,198 adopters (against a target of 250)[88] activities.

[86] The PCR reports 47 per cent women YE trained.
[87] After IFAD V the CPIU appointed a gender focal point (who is also the knowledge management focal point).
[88] CPIU data.

While adoption of the technology was good, the MTR observed that due to the high costs of the technology, adoption was limited to larger more commercially-oriented farmers through the relatively large grant from the funds allocated for demonstration farms.

140. The supervision mission of 2015 reported that the area under conservation agriculture practices had more than tripled over the previous four years noting that it was a clear indicator that the project interventions were timely and meeting high demand. The impact assessment stated that at national level the area under conservation agriculture increased from 40,000 ha to 82,000 ha between 2011 and 2013 but the source of these figures was not stated. Anecdotal evidence from the PPE mission and evidence from the impact assessment suggests that farmers who had adopted the soil conservation and crop rotation patterns were able to reduce their costs of inputs as well as experience higher yields than their neighbours during the low rainfall years in the country (see paragraph 104). Furthermore, the impact assessment cites that 48 per cent of the conservation agriculture adopters experienced improved soil quality and 52 per cent reported that the water retention in the soil had improved. However, the expected reduction of the negative impact from pesticides, herbicides, fertilizers and other chemicals could not be demonstrated.

141. IFAD proactively supported activities aimed at achieving positive impacts on natural resources and the environment. Impacts of these efforts were only assessed to a limited degree so it was not possible to identify the extent to which an improvement had taken place in a systematic manner. The overall project performance with respect to these aspects is rated as **moderately satisfactory (4)**.

Adaptation to climate change

142. Historical data indicate that Moldova is exposed to a highly variable climate and has experienced an increase in mean temperature, moisture deficit and extreme events such as droughts, floods and frosts. Most recently, in 2012, Moldova suffered from the combined impacts of poor rainfall and extremely high temperatures leading to major losses in national crop production.[89] In general, climate adaptation issues in Moldova have been well characterized. The National Climate Change Adaptation Strategy identifies six sectors at particular risk of which agricultural productivity is one that will significantly decrease due to increasing water stress on crops, even without accounting for the increasing impact of extreme weather events (i.e. hailstorms and late frosts, major floods and droughts, or changes in patterns of disease and pests). In addition, total water availability will fall below total demand within a couple of decades.[90]

143. The conservation farming practices promoted by RFSADP were the project's contribution par excellence to climate change. Conservation farming practices foster soil conservation, and more efficient use of water resources. In many cases, conservation agriculture has been proven to reduce farming systems' greenhouse gas emissions and enhance their role as carbon sinks. The MTR reported that those who had adopted soil conservation and crop rotation patterns suggested by the technical experts engaged by the project had been able to reduce their costs of inputs as well as experience much better results during the low rainfall years in the country.

144. The access to loans enabled smallholders to avail themselves of technologies which helped them to enhance their resilience to local weather and environmental conditions such as high efficiency irrigation systems, green houses and heating equipment for commercial production of poultry. However, no systematic assessment of how these interventions would impact on adaptation to climate

[89] International Center for Tropical Agriculture, World Bank 2016. Climate-Smart Agriculture in Moldova.
[90] World Bank 2016. Moldova Climate Adaptation Investment Plan Technical Assistance.

change was undertaken and the impacts are likely to have been quite limited given the scale of the activities. The rating is considered as **moderately satisfactory (4)**.

C. Overall project achievement

145. RFSADP was relevant in terms of alignment to Government policy. The design was based on previous IFAD projects which had emphasised access to credit lines for SMEs. In RFSADP an attempt was made to link credit with value addition of specific products aimed for export markets. This was only achieved to a limited extent. The project, however, made an important contribution in terms of refining the credit lines initiated by previous IFAD operations and expanded the project to cover microfinance and YEs. The banks are continuing to extend loans from their own resources. However, poverty impacts were not measured and, by relying exclusively on self-targeting, the original target group, including women, was only met to some extent. The procedures were demand-driven and favoured those who were more responsive and better prepared without clear evidence of how this selection impacted the poor. Clear pro-poor strategies for employment creation were not in place although the project reached its employment target.[91] Equally, for the YEs many of these were not start-ups and the ones that needed support the most. However, for the MEs the targeting was correct but support was limited (only 5 per cent of the total project support). Moreover, the project did not reach the number of targeted beneficiaries and the central and north region benefited more than the south which was the poorest region.

146. The project was effectively executed and introduced innovative some features. In terms of environment and climate change the project has, on a limited scale, introduced good practices.

147. The sustainability of benefit streams varied but there are risks for the SCAs. Other activities have to some extent been taken up by other projects such as World Bank and USAID and a significant proportion of the assets, skills and credit systems supported under the programme remain good two years after programme closure. The PPE’s rating for the programme’s overall achievement is **moderately satisfactory (4).**

D. Performance of partners

IFAD

148. IFAD does not have country presence in Moldova but has worked with the CPIU embedded in the Ministry of Agriculture and Food Industry, which has been used for all IFAD projects and has been highly efficient. This arrangement can be considered good practice for small countries with a narrow focus of operations.

149. Supervision took place annually and focused on the largest investments namely rural finance and infrastructure. In addition, the MTR revised some of the activities and redirected the project towards a more realistic implementation plan. Procurement and fiduciary issues were also followed regularly. The PCR considered the supervision support as being of high quality and instrumental for the timely resolution of issues such as design, loan amendments, and disbursement, and generally the supervision recommendations were implemented where feasible. There were signs of adaptive management, albeit late, after the 2015 supervision mission where the Equity Fund was dropped and funds reallocated to the credit lines. The supervision would have benefited from having paid more attention to targeting and gender issues by identifying team members with specific expertise in this area who could, at key milestones, have helped guide the project towards its

[91] Interviews with PFIs revealed that their first target audience was already established YEs or descendants of already established clients. PFIs bear the responsibility for the risk assessment and the risk for a risk default.

targets.[92] The PDR stated that an international consultant with extensive practical experience of targeting and M&E would help establish the targeting and M&E architecture.[93] Such expertise only appeared by the time of the PCR.

150. IFAD must also take some responsibility for the design issues notably the inflated number of beneficiaries for the infrastructure and the discrepancy between resource allocation and ambitious language about reaching export markets (e.g. establishing 50 contract arrangements).

151. Based on the above the rating is **moderately satisfactory (4)**.

Government

152. The Government of Moldova stayed committed to this project throughout the period. Both involved ministries (the Ministry of Finance and the Ministry of Agriculture and Food Industry) provided support to the project implementation whenever necessary. The CLD under the Ministry of Finance was responsible for monitoring and revolving the funds earmarked for lending. The Ministry of Finance’s dedication to the project’s objectives still remained after the end of the project as it continued to allow the CLD to lend the relevant funds to PFIs for on lending.[94] The steering committee was responsive and reviewed all relevant documents e.g. AWPBs and progress reports. The work of the CPIU was overseen by a programme steering committee chaired by the Minister of Agriculture and Food Industry (later the Ministry of Agriculture, Regional Development and Environment) which was also responsible for all IFAD operations in Moldova. Its functions were to provide policy guidance, approve the Annual Work Plan and Budget (AWPB), approve participation of implementing partners, and facilitate in resolving operational issues. Review of the minutes of the PSC indicates that it was actively involved in undertaking this role.[95] The project was implemented by the CPIU with full technical and financial autonomy. The CPIU consisted of a director; a financial manager and an accountant; a credit manager; eight specialists covering financial products and services, credit, value chain, infrastructure, procurement, climate change resilience, monitoring and evaluation, and knowledge management and communication; and five support staff.

153. All supervision missions recognized the satisfactory performance of the CPIU, the leadership of the director, and the high commitment of staff. The supervision mission’s recommendations were implemented on time, and IFAD was kept regularly informed between supervision missions of constraints and progress made.

154. The CPIU made considerable efforts to collect data and monitor the project outcomes. In addition to Results and Impact Management System data a number of studies were undertaken including one on YEs and one on impacts assessment. However, some assistance in how to use the data optimally might have been beneficial as it remained focused on outputs and there was little information on e.g. the strengths of the groups created/strengthened. Formally it is also not known when the decision to scrap the contract farming target was made. As mentioned in paragraph five the project’s impact assessment report provides considerable evidence of the outputs and outcomes of the project but lacks in places conclusive information on the impact on household income and assets. There are, also, some issues with attribution to the project due to several inconsistencies in the comparison of the treatment (beneficiary) and the control groups. The rating is **satisfactory (5)**.

[92] This finding was also highlighted in the 2018 ARRI learning theme. It highlighted that: supervision provides an important opportunity to reflect on a project’s targeting issues – and make adjustments if necessary, while project implementation is supported through specific technical support, policy dialogue, innovations and/or design adjustments to improve effectiveness (Issues paper – 2018 Annual Report on Results and Impact of IFAD Operations, para. 66).
[93] IFAD 2010. Final project design report, page 41.
[71] IFAD 2013. Supervision report, page 33.
[95] IFAD 2014. MTR.

E. Assessment of the quality of the project completion report

155. **Scope.** The PCR broadly assesses the required elements of the project although it does not contain a specific section on gender. Another omission is that there is no table on project component costs. The analysis presented is comprehensive, yet the outcomes are enumerated only sporadically. The PCR could have addressed the coherence of design and the effectiveness of the targeting approach more critically.

156. The annexes of the PCR are very informative and rich. The economic and financial analysis is thorough and comprehensive and the samples of success stories informative. The rating is **moderately satisfactory (4).**

157. **Quality (methods, data, participatory process).** The PCR provides a clear analysis against each evaluation criterion, supported by some evidence and data. Some sections such as environment, government and IFAD performance are very descriptive. Data on gender is inconsistent with figures provided by the CPIU and the data on the outreach and target beneficiaries is not presented in a coherent manner interchangeably referring to households, beneficiaries and business units. The rating is **moderately satisfactory (4)**.

158. **Lessons.** The lessons generated from the PCR are largely adequate and useful. This is now IFAD's fifth project in a row in Moldova with a similar focus. The PCR missed the opportunity to build on the lessons from previous projects. The rating is **moderately satisfactory (4)**.

159. **Candour.** The PCR tried to maintain a balance between programme achievements and setbacks. It provided critical assessments of some of the key issues during project implementation. However, the PCR did not provide a sufficiently critical assessment of the outcomes and the relationship with the targeting. The rating is **moderately unsatisfactory (3).**

Key points

- The objectives of RFSADP were relevant to the Moldovan policy context and aligned with the IFAD country strategic opportunities programme. However, the narrative on export and food standards was not matched with sufficient resources and the project essentially continued a previous focus on provision of credits to SMEs. While new features were introduced (i.e. YEs, MEs, conservation farming and equity funds) the allocations were relatively limited. Many of these activities were carried out separately without fostering the foreseen synergies between the various components and activities.
- The project effectively executed the activities on rural finance with good results in particular for the SMEs and MEs. For the YEs the profitability is less certain. As regards the value chain development the project was mainly able to support upstream part of the value chain activities. Other activities reached or exceeded targets but were quite limited in terms of magnitude (e.g. infrastructure and conservation agriculture).
- The project's outreach was less than planned with a total number of beneficiaries of 7,159 (against a target of 37,000 beneficiaries). This was likely due to an inflated number of infrastructure beneficiaries foreseen at design.
- The targeting approach was supposed to rely on a mix of self-targeting and direct targeting but effectively relied on self-targeting and the results were mixed. For the SMEs about 50 per cent were small enterprises with the remaining 50 per cent medium to big enterprises. While some jobs were created (mainly through YEs) as a result of "trickle down" it appears to be seasonal and its overall impact on poverty reduction remains inconclusive. Many of the YEs were not start-ups as originally foreseen. However, for the MEs at least 20 per cent of the beneficiaries were subsistence farmers and the remaining 80 per cent were in the poor category.
- Impact was good on income and assets (the latter was to some extent a direct result of the credits which were often used to buy machinery). There were also positive results with human and social capital and institution building (e.g. banks understand the risks of their products which enabled them to provide credits from their own funds).
- Emphasis was given to women in the design but none of the targets were reached. The difficulties in reaching women may be linked to insufficient possibilities for women to liberate themselves from other activities such as having to look after their homes and children.
- Environment and Natural Resource Management was supported through conservation agriculture and adoption rates were good. Some questions remain regarding the targeting of this activity which requires quite heavy upfront investments.
- The project, while continuing a design from previous projects, was quite innovative by introducing YEs, conservation farming, and AEF.

IV. Conclusions and recommendations

A. Conclusions

160. **As a rural finance project RFSADP was effective in increasing access to credit**. The mainstay of IFAD's engagement in Moldova for the past 18 years has been the provision of credits at subsidized interest rates to farmers for the purchase of assets. In RFSADP this was supplemented with loans to YEs and MEs thereby effectively contributing to improving access to finance for new target groups and clearly addressing a financing gap.

161. **RFSADP increased healthy competition among banks** (cooperating with the project or not) enticing them to offer improved services for the rural entrepreneur even after the conclusion of the project (with the banks' own resources). Loans and grants to YEs enabled some 450 beneficiaries to connect with the financial sector. Another 1,300 MEs accessed loans through SCAs. This initiative allowed SCAs to expand their offerings to rural MEs. The process leveraged additional own resources from the banks and the SCAs and own participation from the beneficiaries.

162. **RFSADP aimed to improve pro-poor value chains but struggled to make a significant impact.** This was in part due to limited resources and a difficult context. The project faced mistrust between buyers and producers and high volatility of market prices, resulting in contracts that were not respected by either party. The project organized and strengthened 15 informal groups with loose agreements in vegetable, table grape, sugar beet, honey and sheep cheese production. RFSADP supported the groups in improving the quality and quantity of production. A "chain" approach was never adopted and other links in the value chain were never addressed. As IFAD's country strategic opportunities programmes and country strategies give emphasis to exports, the project made efforts towards this end, with some success only for table grapes.

163. **Impact was good on income and assets for SMEs but the effects of the "trickle down" approach on poverty needs to be better understood.** Most SMEs borrowed to invest in equipment and machinery. The credit issuing mechanism was very effective and had a positive effect on income. While employment targets were reached, and attempts were made to understand the nature of the employment created, it remains unclear what effects it had on poverty reduction.

164. **Outreach was below expectations and the project's reliance on self-targeting had mixed results on reaching the target groups.** Outreach was less than planned with the total number of 7,159 beneficiaries (against a target of 37,000.00). Loans and grants were offered on a first-come, first-served basis, with the banks selecting the most profitable investments. Natural selection favoured the more responsive and better prepared applicants, i.e. usually male famers and enterprises that were typically not poor. However, for the MEs the targeting was correct.

165. **The project introduced a number of innovative features which achieved mixed results.** The expansion of lending to new clients such as YEs and SCAs was an improvement on previous projects and enhanced the outreach of lending. The support to conservation agriculture was also innovative and achieved good results. The value chain development and contract farming proved challenging and the Equity Fund was not implemented.

166. **Design flaws burdened implementation.** The plan to introduce financing methods, other than loans, for agribusiness development was in principle solid. The Agricultural Equity Fund failed however as it was not well conceived at design and left too many parameters unattended. The project did not have the expertise to amend this, and therefore this activity had to be dropped as international

financiers did not respond positively to appeals to finance the fund. Also, the agribusiness design activities were too ambitious for the resources assigned to them. Finally, the various components and activities could have been better integrated with one another.

B. Recommendations

167. **Enhance the targeting approach.** IFAD cannot exclusively rely on self-targeting if it wants to reach its intended beneficiaries. For the "trickle down" effect to be effective it needs to be studied carefully ex ante to ensure that support will actually reach poor farmers or result in the hiring of poor people, and specific strategies must be put in place to ensure this. Moreover, "trickle down" effects have to be monitored and demonstrated concretely with disaggregated data collection on amount and type of waged employment - who is benefiting and how? - as well as data on whether the activities contributes to pulling people out of poverty and whether they are attractive enough (e.g. to combat youth migration).

168. **Deepen the strategies of the financial sector by diversifying IFAD support to credit lines**. The financial sector has been relying on IFAD loans to increase longer-term liabilities for too long. It would be advisable that IFAD engages with the Government of Moldova and financial sector actors to design exit strategies, with concrete time-frames, to phase out traditional IFAD support (loans to ensure lines of credit) in favour of new rural finance products. IFAD and Financial Sector stakeholders should be working towards developing deepening strategies. There are large amounts of remittances flowing into the economy that are directed towards consumption rather than to rural investments. Analysis also indicates that a savings culture (especially longer-term) is not well developed in the country. Much of the agricultural production takes place at household level where financial literacy and management are not up to par. The possibility of directing remittances towards rural investment and supporting savings are opportunities that need to be examined further in future IFAD projects.

169. **Apply an agro-business and agro-processing development approach.** IFAD has been struggling with articulating an operational approach to value chain development in Moldova. Future projects in Moldova should focus on agro-business and agro-processing development for smallholders enabling them to add value to their primary products, building their capacity to deal with different value chains and to shift swiftly from one value chain to another, as well as providing them with the necessary technical and organizational knowledge/knowhow to efficiently manage their businesses.

Basic project data

				Approval (US$ m)		*Actual (US$ m)*	
Region	Near East, North Africa and Europe		Total project costs	39,3		41 879	
Country	Republic of Moldova		IFAD loan and percentage of total	19.3	49.1%	18. 7	44.7
Loan number	L-I-832-MD G-I-C-832-MD		Borrower	1.52	3.8%	3.5	8.4
Type of project (subsector)	Credit and financial Services		Cofinancier 1: DANIDA	4.46	11.3%	4.5	11.5
Financing type	IFAD loan and grant		Cofinancier 2: Private financial institutions	1.77	4.5	2.5	6
Lending terms*	Highly concessional		Cofinancier 3				
Date of approval	15/12/2010		Cofinancier 4				
Date of loan signature	21/02/2011		Beneficiaries	11.73	29.9	12.7	30
Date of effectiveness	04/07/2011		Other sources:				
Loan amendments	1 (23/04/2013)		Number of beneficiaries: (if appropriate, specify if direct or indirect)	37 0000		7 159	
Loan closure extensions	N.A						
Country programme managers	Abdelkarim Sma Dina Salah Tarek Kotb (current)		Loan closing date	31/03/2017		31/03/2017	
Regional director(s)	Nadim Khouri Khalida Bouzar (current)		Midterm review			14/09/2014	
Lead evaluator for project performance evaluation	Catrina Perch		IFAD loan disbursement at project completion (%)			98 %	
Project performance evaluation quality control panel	Maximin Kouessi Kodjo Chitra Deshpande		Date of project completion report			31/03/2017	

Source: CPIU, Oracle Business Intelligence, PCR.
* 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 years, including a grace period of three years.

Definition and rating of the evaluation criteria used by IOE

Criteria	*Definition* *	*Mandatory*	*To be rated*
Rural poverty impact	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.	X	Yes
	Four impact domains		
	• Household income and net 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. The analysis must include an assessment of trends in equality over time.		No
	• 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 grass-roots organizations and institutions, the poor's individual and collective capacity and, in particular, the extent to which specific groups such as youth are included or excluded from the development process.		No
	• Food security and agricultural productivity: Changes in food security relate to availability, stability, affordability and access to food and stability of access, whereas changes in agricultural productivity are measured in terms of yields; nutrition relates to the nutritional value of food and child malnutrition.		No
	• 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.		No
Project performance	Project performance is an average of the ratings for relevance, effectiveness, efficiency and sustainability of benefits.	X	Yes
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 and coherence in achieving its objectives. An assessment should also be made of whether objectives and design address inequality, for example, by assessing the relevance of targeting strategies adopted.	X	Yes
Effectiveness	The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.	X	Yes
Efficiency	A measure of how economically resources/inputs (funds, expertise, time) are converted into results.	X	Yes
Sustainability of benefits	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.	X	Yes
Other performance criteria			
Gender equality and women's empowerment	The extent to which IFAD interventions have contributed to better gender equality and women's empowerment, for example, in terms of women's access to and ownership of assets, resources and services; participation in decision-making; work load balance and impact on women's incomes, nutrition and livelihoods.	X	Yes
Innovation	The extent to which IFAD development interventions have introduced innovative approaches to rural poverty reduction.	X	Yes
Scaling up	The extent to which IFAD development interventions have been (or are likely to be) scaled up by government authorities, donor organizations, the private sector and other agencies.	X	Yes
Environment and natural resources management	The extent to which IFAD development interventions contribute to resilient livelihoods and ecosystems. The focus is on the use and management of the natural environment, including natural resources defined as raw materials used for socio-economic and cultural purposes, and ecosystems and biodiversity, with the goods and services they provide.	X	Yes
Adaptation to climate	The contribution of the project to reducing the negative impacts of climate	X	Yes

Criteria	*Definition* *	*Mandatory*	*To be rated*
change	change through dedicated adaptation or risk reduction measures.		
Overall project achievement	This provides an overarching assessment of the intervention, drawing upon the analysis and ratings for rural poverty impact, relevance, effectiveness, efficiency, sustainability of benefits, gender equality and women's empowerment, innovation, and scaling up, as well as environment and natural resources management and adaptation to climate change.	X	Yes
Performance of partners			
• IFAD • Government	This criterion assesses the contribution of partners to project design, execution, monitoring and reporting, supervision and implementation support, and evaluation. The performance of each partner will be assessed on an individual basis with a view to the partner's expected role and responsibility in the project life cycle.	X X	Yes Yes

* These definitions build on the Organisation for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC) Glossary of Key Terms in Evaluation and Results-Based Management; the Methodological Framework for Project Evaluation agreed with the Evaluation Committee in September 2003; the first edition of the Evaluation Manual discussed with the Evaluation Committee in December 2008; and further discussions with the Evaluation Committee in November 2010 on IOE's evaluation criteria and key questions.

Rating comparison[a]

Criteria	*Programme Management Department rating*	*Project performance evaluation rating*	*Rating disconnect*
Rural poverty impact	5	4	-1
Project performance			
Relevance	5	3	-2
Effectiveness	5	4	-1
Efficiency	6	5	-1
Sustainability of benefits	4	5	+1
Project performance[b]		4	
Other performance criteria			
Gender equality and women's empowerment	4	3	-1
Innovation	5	5	
Scaling up	5	4	-1
Environment and natural resources management	5	4	-1
Adaptation to climate change	5	4	-1
Overall project achievement[c]	**5**	**4**	**-1**
Performance of partners[d]			
IFAD	5	4	-1
Government	5	5	
Average net disconnect			**-9/12=-0.75**

[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, efficiency and sustainability of benefits.
[c] 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, sustainability of benefits, rural poverty impact, gender, innovation, scaling up, environment and natural resources management, and adaptation to climate change.
d The rating for partners' performance is not a component of the overall project achievement rating.

Ratings of the project completion report quality

	PMD rating	*IOE rating*	*Net disconnect*
Scope		4	
Quality (methods, data, participatory process)		4	
Lessons		4	
Candour		3	
Overall rating of the Project Completion Report		4	

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

Approach paper (extract)

Evaluation objectives and scope

1. **The objectives of the PPE** are to: (i) assess the performance of the IFAD V; (ii) generate findings and recommendations for the design and implementation of ongoing and future operations in Moldova; and (iii) provide a deeper understanding of RFSADP as an input into the corporate-level evaluation on value chains and the evaluation synthesis on inclusive final services for the rural poor.

2. The **scope** of the PPE has been elaborated based on the following criteria: (i) areas identified through a desk review – the PPE will review additional evidence and propose a complete list of consolidated ratings; (ii) selected issues of strategic importance for IFAD; and (iii) limitations set by the available time and budget – the PPE will have to be selective in focusing on key issues where value can best be added, given the limited time and budget available.

3. The PPE will use the standard IOE criteria plus selected key issues developed for this particular exercise, as stipulated by the IOE Evaluation Manual (IFAD 2016, Evaluation Manual, chapter 3). The following paragraphs provide an overview of the key issues and questions that will be addressed by the PPE. A theory of change is included in annex 1 and the detailed evaluation questions can be found in annex 2.

4. **Relevance.** The PPE will analyse the extent to which the project approach (e.g. agribusiness complementary to the rural finance activities) was appropriate and in line with the needs of the country and the target groups and conducive to obtaining the project objectives. Furthermore, the PPE will assess the appropriateness of the choice of implementing partners and examine the extent to which the poor rural producers participated in the identification of value chain products and models.

5. **Effectiveness.** The PPE will assess the extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance. More particularly, the PPE will review the existing evidence base to establish the results achieved by RFSADP and conduct further analysis on which parts of the project have been more effective and how and why project activities have achieved the intended results.

6. **Efficiency.** In addition to the efficiency of the project management, the PPE will address efficiency in the assessment of the financial institutions.

7. **Impact.** The project has made efforts to document impact through an impact assessment, the Results and Impact Management System, various studies and the PCR. The PPE will review the conclusions drawn and assess the plausibility of the narrative of the various reports through the evidence provided and additional evidence from the field. It will examine the external validity of the results and investigate the context for the results achieved.

8. **Sustainability.** Sustainability is rated moderately satisfactory in the PCR. The PPE will provide an opportunity to revisit some of the project sites and assess in particular the sustainability of benefits streams of the rural financial institutions.

9. **Gender equality and women's empowerment.** The project's objectives were not explicitly gender sensitive, although two of them were pro-poor. However, the project did pay particular attention to youth. Both gender and youth will be assessed as part of the projects targeting strategy.

10. **Environment and climate change**. The PCR reports significant environmental impact through the use of conservation agriculture techniques. The PPE will analyse the extent to which the activities have helped farmers adapt to increasingly volatile weather patterns.

11. **Innovation and scaling up.** RFSADP has introduced a number of innovations (e.g. contract farming, YEs, conservation agriculture and the equity fund). The PPE will examine whether these approaches were innovative in the Moldovan context and investigate the extent and nature of the scaling up outside the IFAD portfolio by Government, the private sector and other development partners.

12. **Performance of partners.** The PPE will look at selected issues which have affected the performance of IFAD and Government partners. For IFAD, the key question will be whether the rating system has provided a reliable base for tracking RFSADP progress. For Government, the PPE will identify the key factors that led to low management costs.

Key issues for further analysis

13. IOE has conducted a preliminary review of the PCR and the available documentation to identify key RFSADP issues. This PPE will focus on three main issues: (a) the relevance and effectiveness of the project design in creating pro-poor and efficient value chains; (b) the appropriateness and effectiveness of the rural finance modalities in creating increased access and diversification of financial products; and (c) the appropriateness of the targeting strategy. Specifically, the PPE will assess the following:

   a) The relevance of the project design and the linkages between the three project components. The project narrative follows a value chain approach. The PCR states that the agribusiness component would be complementary to the rural finance component which made up 85 per cent of the investment. The PPE will explore the extent to which linkages between the different components were created in order to achieve the objective of pro-poor, efficient value chains as well as increased access to affordable rural finance instruments. As part of this assessment the PPE will examine whether the value chains selected corresponded to market demands. In addition, the relevance of the Equity Fund which was cancelled following a supervision mission in 2015 will be assessed.

   b) **Rural finance.** The PPE will pay particular attention to the outreach, relevance, effectiveness, efficiency and sustainability of loan financing of SMEs and YEs as well as the microfinancing of on and off farm rural entrepreneurs. It will do so by looking at the strengths and weakness of the different financial modalities. The PCR identified a number of challenges related to the sustainability of, in particular, the SCAs, but also SMEs. Apart from scattered mention of capacity-building of SCAs the design documents make few references to institution building. The PPE will investigate if institution building and policy issues were adequately considered and whether there have been any changes to the sustainability of these institutions two years after project closure.

   c) **Targeting.** The project built on the assumption that investing in leading enterprises would benefit the rural poor through e.g. job creation. Some efforts to translate this assumption into operational strategies were made in the project design namely use of contract farming, relevant economic activities for smallholders and rural labourers, enhancing product quality. The PPE will take a closer look at the effort to measure the rural poverty effects of enterprise development through the monitoring and evaluation (M&E) system, impact studies and PCR. Specifically, the PPE will assess the nature of the jobs created (e.g. extent to which the jobs were unskilled or low skilled posts) and the extent to which the project resulted in purchasing of raw goods from poor households. As part of the assessment of targeting the PPE will also look at the projects use of the multiple deprivation indexes as a tool for the project's geographic targeting. The PPE will furthermore assess the efforts to include gender and youth in the project.

Analytical framework and methodology

14. The methodological approach will focus on establishing plausible causal links between RFSADP interventions and the observed changes. The PPE will use a theory of change for a systematic examination of assumed causal linkages and whether there is sufficient evidence to support these linkages. The PPE will collect and analyse data from different sources, to cross-check, validate and supplement the findings presented in the PCR.

15. The IFAD V's intended **impact pathway** involves an explicit value chain approach building linkages between production, processing and marketing which complements the financial investment.

16. The provision of medium-term credits channelled through the banking system to support small and medium family agro-enterprises is the key link in the assumed impact pathway. The SMEs were provided with access to finance which in turn increase the level of agricultural production, enterprise development and job creation with indirect impact on poverty reduction. The draft theory of change is included in the annex I.

17. **Sampling approach.** IFAD V was a national project and was implemented in 32 of Moldova’s 35 districts. The mission will cover the north, central and south of the county. The sampling strategy for selecting the districts will be based on the following criteria: level of investment; number of beneficiaries; type of activities and number of previous visits through supervision. The PPE will also conduct an electronic structured survey of SMEs and YEs. This survey will be sent to all beneficiaries (approximately 528). In addition, a structured telephone interview will be conducted with clients of SCAs of which the PPE will aim to reach 1/3 of the beneficiaries (approximately 424 beneficiaries). Key areas of focus for the surveys will be the linkages with value chains, use of loans and repayment.

18. **Data collection methods.** Careful analysis and triangulation of reported programme achievements will be a key feature of this PPE. Validation of programme results will be done through bringing in and cross-checking multiple stakeholder perspectives and data sources as well as findings across the evaluation team.

19. Documentation of RFSADP is extensive. It includes annual project status reports (along with PSR ratings), midterm reviews, supervision reports, and a project completion report prepared at the end of a project, which also includes a set of ratings (PCR ratings). The Results and Impact Management System includes a menu of indicators used to measure and report on the performance of IFAD projects – at activity, output and impact level. In addition, an impact assessment was carried out in December 2016 by the project. The impact assessment included analysis of a treatment and comparison group of certain activities. Wherever possible the evaluation will also make use of Government statistics, external studies and reports where reliable data is available.

20. Additional data will also need to be collected to verify stated causal links between activities and outcomes. The following strategies for data collection, including the opportunity to undertake limited fieldwork are proposed.

21. First, an analysis of all relevant IFAD documentation will be carried out to verify the consistency of findings and availability of data at different levels in the results hierarchy. This will include analysis of the impact reports for RFSADP that provided the evidence for the PCR, design, and supervision reports, M&E reports, and other studies.

22. Second, secondary data at national, state and local government level, or from businesses or traders, will supplement the above and substantiate indirectly the achievements of the project.

23. Third, key informant interviews will be used to explore a number of issues, including: the existence of additional reports or surveys, exploring the justifications for ratings in PCR or supervisions, and to understand the evidence base for the ratings and judgements given in the various performance reports. Interviews will be conducted with IFAD, Government of Moldova representatives (regional and district level), Non-Governmental Organizations and MFIs, SCAs and other private sector actors involved, beneficiaries and other development partners. As part of the PPE preparation an inventory of such key informants will be prepared.

24. Fourth, in order to complement the above information, a number of structured surveys will be conducted with clients of MFIs (e.g. SMEs and YEs via email) and SCAs (telephone interviews). An asset verification form will also be used to collect evidence on the condition of visible assets.

25. Lastly, a case study on rural finance SCAs will be undertaken and specific questions on the value chain addressed which will feed into higher level evaluations.

26. **Limitations.** IFAD has supported similar types of interventions in Moldova since 1999 (IFAD I-IFAD VII). Since the completion of RFSADP, two projects have been designed and are currently being implemented namely the Rural Resilience Project and the Inclusive Rural Economic and Climate Resilience Programme. Given IFAD's long involvement with quite similar projects, isolating RFSADP interventions will inevitably be challenging.

Process and timeline

27. Lead Evaluator for this PPE will be Catrina Perch, Evaluation Specialist in IOE. She will focus on innovation, natural resource management, and targeting and gender issues. IOE has appointed George Polenakis as senior consultant. His main area of expertise is rural finance and value chains. He will be responsible for the drafting the report. Lasha Khonelidze, will be in charge of developing and analysing the results of the surveys and developing a working paper on the results. Additionally, he will undertake a case study of the SCAs. Evaluation analyst Renate Roels will prepare a working paper on value chains.

28. The PPE process has been designed in a way to enable crossover linkages with the ongoing corporate-level evaluation and evaluation synthesis and to maximise stakeholder participation and learning.

29. **Preparation.** The PPE approach paper, including the evaluation framework and the draft theory of change will be shared with Near East North Africa and Europe Division and Government in February 2018.

30. **Desk review.** The evaluation team will conduct a desk review of the available project documentation as well as relevant studies, surveys or other background information prior to the main country mission in March 2018. The team will prepare the detailed field methodology and start conducting phone interviews with former project staff and other relevant stakeholders during this phase.

31. **Country mission.** The PPE country visit by the evaluation team will take place in March 2018. A debriefing will be held with Government authorities and the country programme manager for Moldova who will also attend the discussions.

32. **Comments by the Near East and North Africa Division and Government.** The draft PPE report will be available for comments by the Near East and North Africa Division and Government in May 2018.

33. **Communication and dissemination.** The final report will be disseminated among key stakeholders and the evaluation report published by IOE, both online and in print. IFAD Management will prepare a written response on the final evaluation report, which will be included in the published version of the document. The recommendations addressed to IFAD will be followed up in the President's Report on the Implementation Status and Management Actions of Evaluation Recommendations.

34. The IOE team liaises with the Government and project authorities to prepare a mission schedule.

List of key persons met

Government

Viorel Botnaru, Programmes Director, National Agency for Rural Development

Petru Gurgurov**,** Interim Director General, Organisation for Small and Medium Enterprises Sector Development.

Olga Sainciuc, Deputy Director, Consolidated Agricultural Management Unit (World Bank MACP -project)

Elena Matveeva, Head of Department, Ministry of Finance

Iurie Usurelu, General Secretary of State, Ministry of Agriculture, Regional Development and Environment

RFSADP team

Alexandru Anton, Monitoring and Evaluation Assistant, CPIU

Svetlana Brumarel, Financial Manager, CPIU

Elena Bualacu, Credit Manager, CPIU

Inga Covalciuc, Credit Specialist, CPIU

Natalia Manea, Specialist in financial product development, CPIU

Constantin Ojog, Executive Director, National Agency for rural Development

Victor Rosca, Director, CPIU

Igor Spivacenco, Monitoring and Evaluation Officer, CPIU

International and donor institutions

Panagiotis Patras, Rural Development Expert, Technical Assistance for the Implementation of the Sector Reform Contract, European Neighbourhood Programme to Agriculture and Rural Development

Non-governmental organizations and associations

Iurie Hurmuzachi, National Federation of Agricultural Producers from Moldova - AGROinform

Aurelia Bondari, Executive Director, National Federation of Agricultural Producers from Moldova - AGROinform

Private sector

Anna Cantemir, Victoriabank

Felicia Ciaieaschie, Moldinconbank

Anatolie Fala, National Agency for Rural Development

Ghenadie Kitoroga, Energbank

Alexandra Lacusta, Mobias Bank

Viorel Morcow, Rural Finance Corporation,

Lilia Vrabie, Moldova Agroindbank

Sergei Zaboltnii, Table grape association

Victor Trocin, SCA Apex organization

Beneficiaries

Edinet, Independetei
Denis Ceban, MICB Branch Bank
Andrei Chifiriuc, Young Entreprenuer

Bricini, Corjeuti
Lilian Gutu, Branch Bank MAIB
Pertu Dan, Young Entrepreneur
Zosim Serghei, Servest agro contract farming
Nelea Lungu, Director SCA

Ocnita, Corestauti
Condracractchi Eugeniu, SME and infrastructure beneficiary

Donduseni, Cernoleuca
Irina Munteanu, Director SCA
Visarion Cristol – Chief Accountant SCA
Olga Rusanovski – Microentrepreneur
Olga Batrin-Microentrepreneur
Aleksei Bokachnya – Microentrepreneur
Lilia Bontar – Microentrepreneur

Stefan Voda, Caplani village (infrastructure)
Valeriu Tabunsic – Mayor
Galina Bulboaca – Representative of the client group

Stefan Voda, Popeasca Village (contract farming group)
Alexandru Arseni – Director of Cooperative

Stefan Voda, Caplani Village (infrastructure)
Vladislav Colciu – Mayor
Svetoslav Buza– Cadastral engineer

Cahul
AEI Giurgiulesti, SCA Director
Ivana Arabadjiu, Sca Beneficiary

Comrat, Pushkin 42
Ion Dimitrovici – SCA Director
Vera Fedorenco –Accountant
Marina Balan – SCA Clerk
Igor Cealenco – SCA member, beneficiary
Ghenadie Velesco – SCA member, beneficiary
Victor Balan - SCA member, beneficiary

Drochia, Miciurin
Cebotari Anatolie, Conservation farming

Falesti/Rediul de Sus
Kiktenco Nicolae, Conservation farming

Orhei, Pohorniceni
Bobirca Gheorghe, YE beneficiary

Orhei, Malaiesti
Ivanov Igor, Conservation farming demo plot

Orhei, Breanova
Baetrau Anatolii, YE beneficiary

List of participants at the wrap-up meeting

Vitalie Ababii, Specialist in Climate Resilience

Alexandru Anton, Monitoring and Evaluation Assistant

Svetlana Brumarel, Financial Manager

Elena Bualacu, Credit Manager

Raisa Cantemir, Credit Line Directorate, Ministry of Finance

Valentin Celotose, Ministry of Agriculture, Regional Development and Environment

Valentin Cibotaru, AO BIOS

Eugenia Cirlig, Ministry of Agriculture, Regional Development and Environment

Inga Covalciuc, Credit Specialist

Angela Dagotera, Ministry of Agriculture, Regional Development and Environment

Anatolie Fala, National Agency for Rural Development

Lasha Khonelidze, IFAD Regional Rural Finance and Agribusiness Consultant

Olesea Mahnovschi, Programme Assistant

Natalia Manea, Specialist in financial product development

Olere Mokcel, Ministry of Finance

Oxana Paierell, Ministry of Agriculture, Regional Development and Environment

Catrina Perch, Evaluation Officer, IFAD

George Polenakis, IFAD Rural Finance Consultant

Renate Roels, Evaluation Research Analyst, IFAD

Valentin Rosca, Ministry of Agriculture, Regional Development and Environment

Victor Rosca, Director

Magdalena Rusnae, Ministry of Agriculture, Regional Development and Environment

Nadejda Russu, Procurement Specialist

Vasile Saklan, Ministry of Agriculture, Regional Development and Environment

Olga Sorencor, Ministry of Agriculture, Regional Development and Environment

Igor Spivacenco, Monitoring and Evaluation Officer

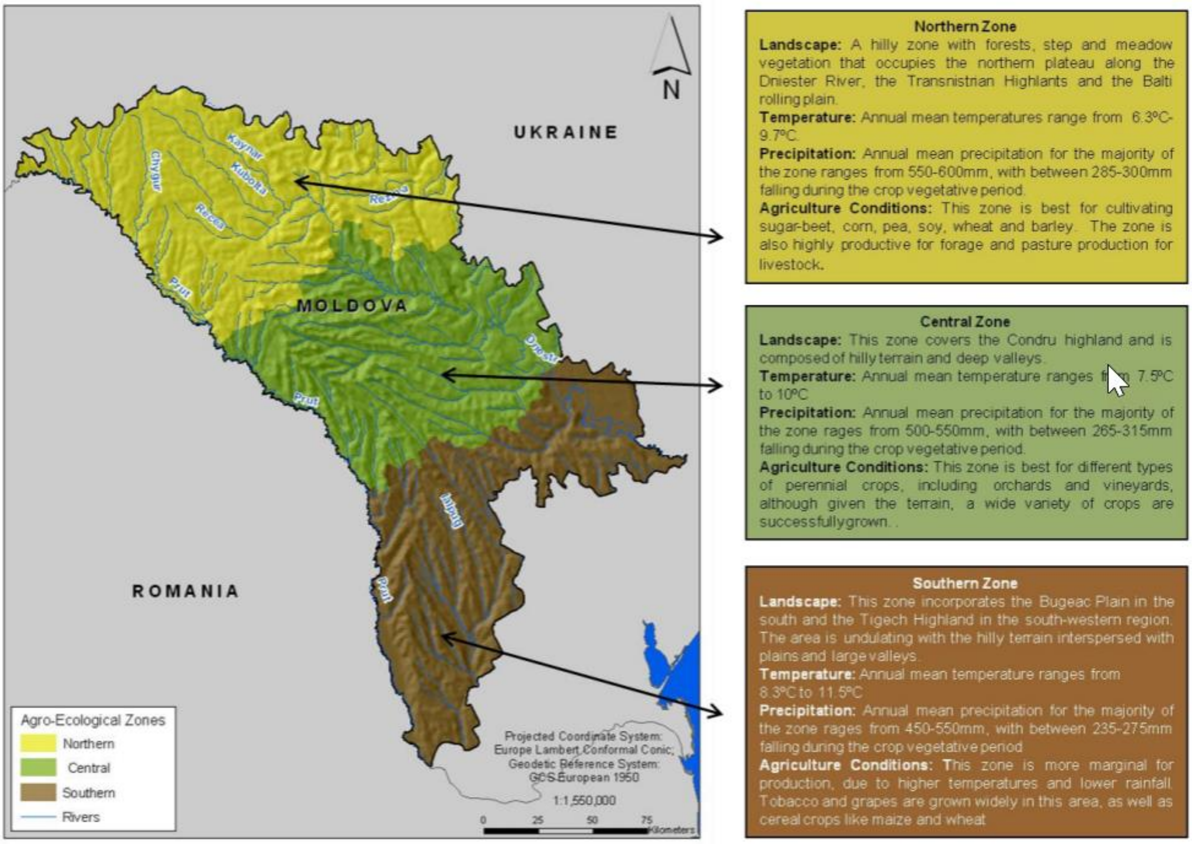
Marcela Staki, Ministry of Agriculture, Regional Development and Environment

Iurie Usurelu, General Secretary of State, Ministry of Agriculture, Regional Development and Environment

Marcela Vatamaniuc, Specialist in Climate Resilience

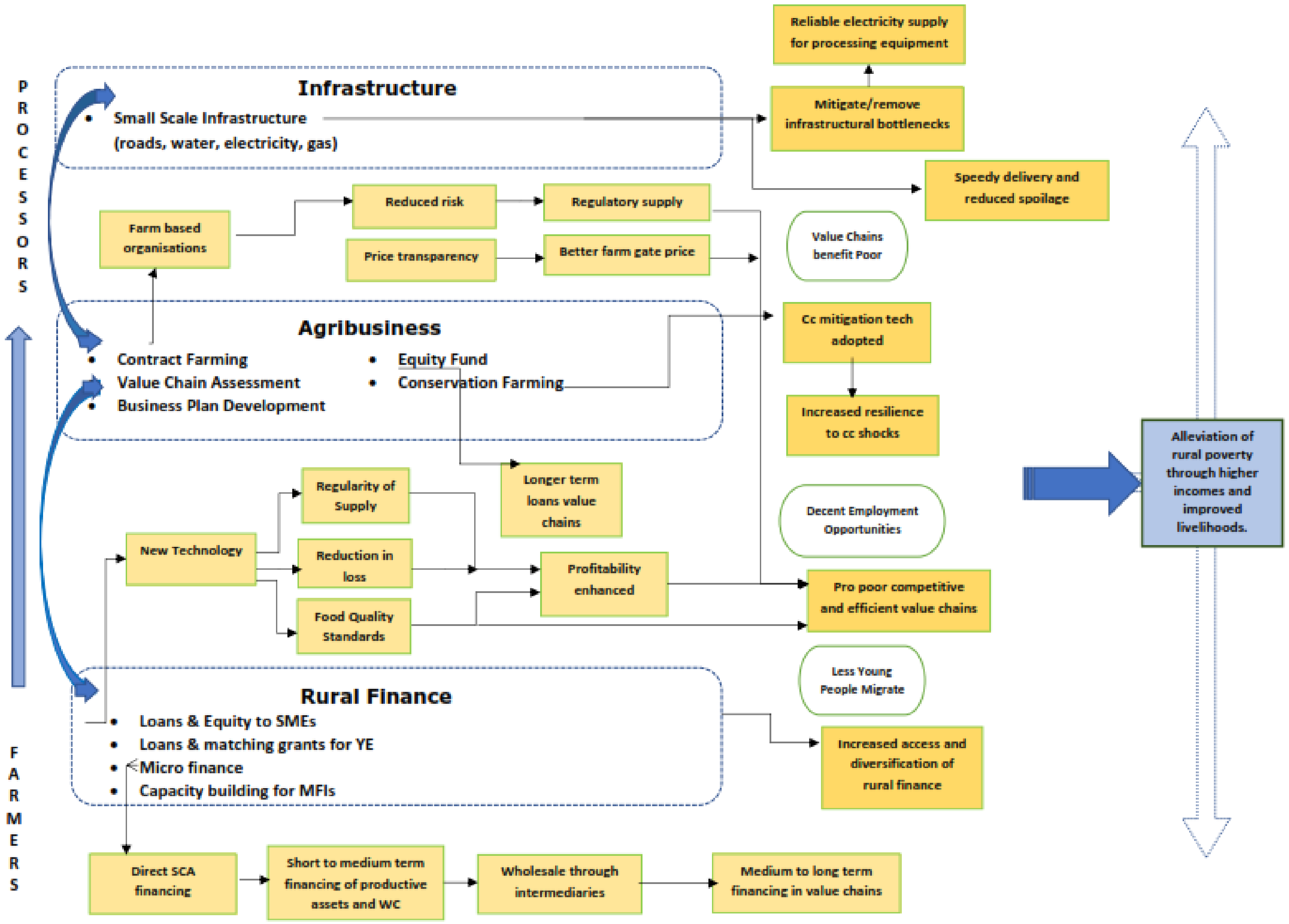
Tarek Kotb, Country Programme Manager (via Skype)

Agro-climatic zones of Moldova



Source: Climate Change and Agriculture Country Note for Moldova. World Bank 2010.

Theory of change (simplified)



Case study

Inclusive rural finance
Name: Rural Financial Services through the Savings and Credit Associations

Country: Moldova

I. Short description of the model

1. Saving and credit associations (SCAs) are not for profit, non-commercial, independent, specialized institutions that provide financial services exclusively to members. Their main principle is "one member – one vote" irrespective of member contribution to the owner's equity. The range of financial services is limited to savings mobilizations from members and lending exclusively to members, as well as consulting services related to the provision of financial services. Their activity is licensed and the State ensures regulations and supervision. The following services are provided by SCAs to their members:

   (i) Short-term loans for profit-generating activities – up to 1 year;

   (ii) Medium-term loans – up to 3 years;

   (iii) Term deposits of members' savings;

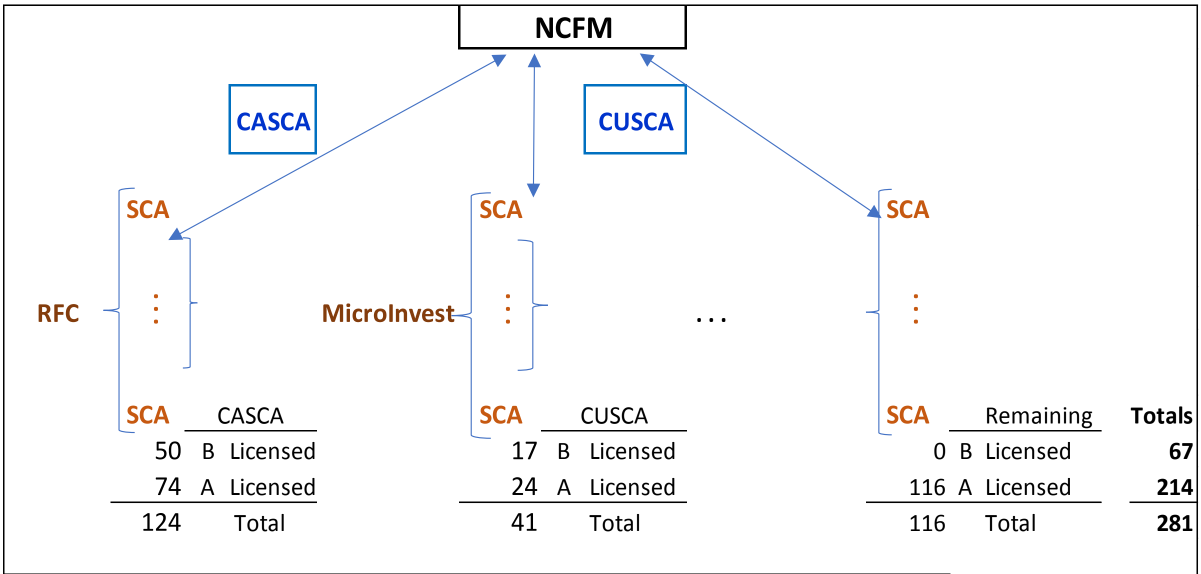
   (iv) Mortgage loans for purchasing lend plots;

   (v) Consulting services related to the provision of financial services.

2. SCAs provide loans to their members in conformity with the financial prudential rules set by the non-banking financial institutions regulator (NCFM). The collateral is substituted for the most part by the mutual responsibility of SCAs' members and by social pressure, from the traditional elements of a Moldovan village.

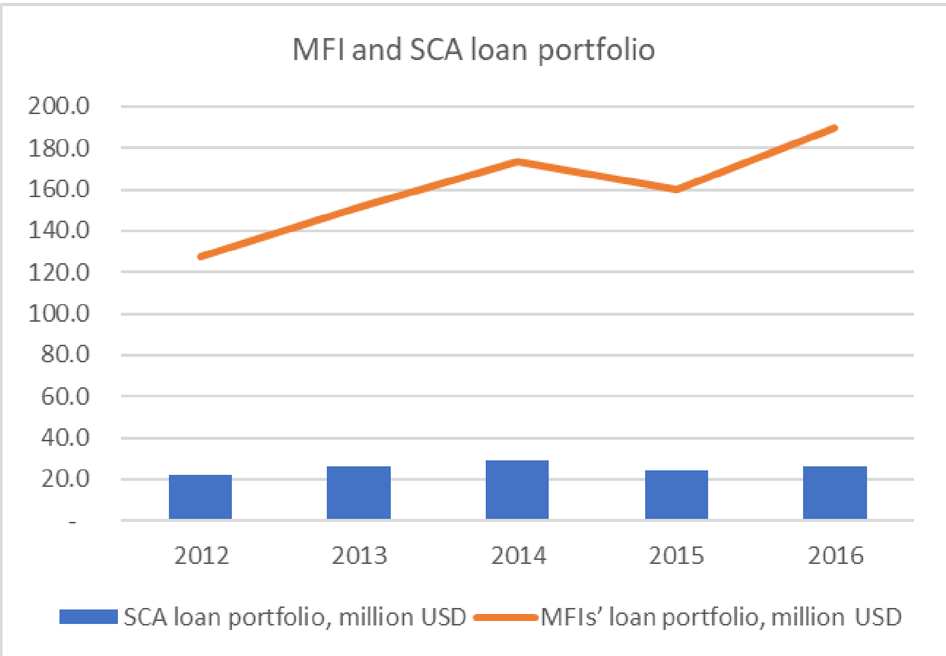
3. The SCA sector in Moldova began in the late 1990s as a donor-driven project. Within the first 10 years, over 400 small SCAs were established throughout most of Moldova and a sound legislative and regulatory framework was in place. The SCAs disbursed credit to a peak number of 56,000 rural members, mostly from credit lines which Moldovan MFIs accessed from international financial institutions (IFIs). Deposit collection began as a minor element of the system with a peak level of 6,700 depositors. In the past 5 years the SCA sector had: (i) 21 per cent growth in active membership from 37,000 to 45,000; and (ii) 117 per cent growth in assets from MDL 300 million (US$15m) to MDL 635 million (US$31.75m). The growth in assets comes from a small depositor base of just 7,000.

Overview of the SCA system and the microfinance sector in Moldova

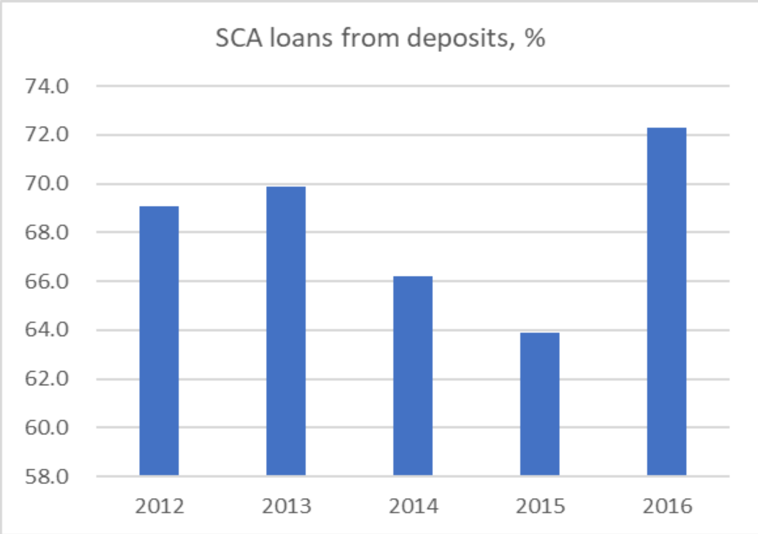


NCFM	National Commmission on Financial Markets, Non-bankig regulator
RFC	Fural Finance Corporation, MFI
SCA	Savings and Credit Association
CASCA, CUSCA	Central Association and Central Union (Apex organizations)

4. According to NCFM, the microfinance entities' loan portfolio comprised of 3.2 per cent share of GDP in 2016, out of which the SCA sector was 0.39 per cent and the MFI sector – 2.81 per cent. In general, the SCA sector is characterized by lending with application of effective and prudent risk management policies. The SCA portfolio dynamics compared to the whole MFI sector for the period of 2012-2016.



5. The dynamics of the rate of loans granted by SCAs financed from deposits has been well above 60 per cent and went above 72 per cent in 2016.



6. In general, the SCA sector (model) in Moldova has the following main characteristics:

(i) Wide geographic coverage, all regions have SCAs, with more density in the north and centre, and less in the south; Low penetration, only 10 per cent of the rural population have access to the services;

(ii) B-licence SCAs are more present in all main towns of the regions, A-licence remained more active in villages;

(iii) SCAs offer, or have a potential to offer, a limited number of agency type services: facilitation of payments of utilities and receipt of agricultural subsidies from state bodies;

(iv) SCA sector is not an integrated unit. Each SCA is autonomous and responsible for its own sustainability;

(v) It functions in a regulatory framework that has enabled the system to develop so far with high potential to grow in future;

(vi) Existence of the following key driving forces within the system:

- internal competition: between SCAs and Centrals, SCAs and RFC;
- motivation for A-licence holders to obtain a B-licence, and for B-licence holders- to obtain a C-licence;
- savings mobilisation ability (for a B-licence) and less susceptibility to liquidity shortage risks, constitutes a solid foundation towards achieving higher penetration and growth, diversification of rural finance services, introduction of innovation and adoption of best practices from more advanced SCA systems.

II. Country and sector context

7. The need for SCAs for the rural population in Moldova cannot be overestimated. Only about 20 per cent of Moldovan citizens have accounts in financial institutions. General lack of confidence in the banking sector was worsened by banking fraud events in 2014. Microfinance is largely unregulated and remains very expensive for citizens. Therefore, although the SCA sector is still small in national terms, it constitutes a network of respected providers which is for many the only reliable source of financial services.

8. The SCA financial structure is now favouring members' deposits, which form the major source of funds, while external borrowings decline. SCAs which collect deposits therefore show potential for further growth and expansion. SCAs which do not collect deposits are severely limited in their ability to maintain services and

have little capacity for growth as overall external resources are limited. According to a Moldovan SCA sector assessment document, 62 non-deposit collecting SCAs had negative growth in 2015, 110 have assets of under MDL 500,000 (US$25,000) and it is questionable whether they can survive.

9. A total of 124 SCAs are owners of the MFI Rural Finance Corporation (RFC) which has been the main lender to SCAs since their establishment and is now the only external lender for most SCAs.

10. Two Central Associations (Centrals) were established in 2009 and 2012. The Central Association of SCAs has 124 member SCAs and CUSCA has 41 member SCAs. Both have small staff of 4 people. Along with RFC, they are vital leaders of the movement; their key roles to date are **liquidity management** and **IT support**. Currently they do not have a formal role in regulation, but they maintain relations with NCFM and work to maintain standards within their member SCAs.

11. The regulator, NCFM, is committed to supporting the development of the sector while balancing the need to protect the savings and shareholdings of the members. The relationship between the sector and the regulator NCFM is healthy; SCAs and the Centrals communicate with NCFM frequently and both parties engage in capacity-building measures together. At the same time, NCFM is under resourced and needs more staff and some capacity-building. With the strong deposit growth process, this has become more of an issue. NCFM has not delegated any supervision role to the Centrals although it has the authority to do so; all SCAs report directly to NCFM which takes measures directly with SCAs without involving the Centrals. However, NCFM declared in its annual report (2016) that one of its priorities is the transition from **compliance-based oversight** to a **risk-based supervision system** of the non-banking financial market. The latter implies delegating more authority to Centrals.

12. Some areas of the legislative and regulatory framework need special attention and support, such as:

- SCAs’ ability to collect deposits is too unregulated with no restrictions on deposit size, interest rate or conditions offered to attract deposits;
- It is unclear whether SCAs can engage in payment services and enter the National Payments System;
- whether SCAs or Centrals can offer support products such as insurance;
- a need for NCFM’s own capacity upgrade to adequately supervise all the SCAs.

13. Moldova is a member of the World Council of Credit Unions; this membership could benefit the SCA system through knowledge-sharing.

III. Support strategy by IFAD: design and implementation

14. The strong overall performance of the SCA sector together with the SCA-owned RFC and the two Centrals reflects a potential ability of the system to provide for stable funding, while external borrowing is declining. The main shortcomings and challenges facing the future growth of the SCA sector could be consolidated in the following manner:

(i) SCAs that do not collect deposits are severely limited in their ability to maintain services and grow;

(ii) SCAs and their umbrella organizations need to develop and coordinate their respective strategic plans, containing clear growth targets for the next five years;

(iii) Deposit-guarantee schemes and stabilization mechanisms are needed to protect robust deposit growth;

(iv) Capacity-building is needed among SCAs, their umbrella organizations and the NCFM.

15. In the past seven years, with three projects, IFAD has played a pivotal role in developing the sector, and it has been the most important IFI supporting SCAs, their Centrals and RFC. IFAD supports the SCA sector in Moldova, firstly through lending to the sector for rural investments and secondly with capacity-building measures. Lending is channelled through the Credit Line Directorate of the Ministry of Finance which on lends to local partners. IFAD's main partner is RFC which channels IFAD funds to the SCAs. There is currently provision for establishment of a Credit Guarantee Fund which is planned to have a window for SCAs to use for business lending.

16. The intervention models have been designed with a self-targeting/demand-driven approach that prioritizes the most vulnerable rural population, bearing in mind that the equitable land distribution policy adopted early on by the Government resulted in holdings rarely exceeding 3.0 ha per eligible citizen. The MEs, the members and clients of SCAs, were defined as the economically active poor group; people with between 1.5 ha and 5 ha of land; and the very poor, who are either landless or else not interested in cultivating the very small piece of land obtained through universal land distribution. The landless poor and those not cultivating land are targeted to benefit from job creation programmes. Women were prioritized in this process across all three categories.

17. With respect to the SCA model, in all three projects (IFAD-4, 5 and 6), the same traditional model of intervention has been used - **loan activity and technical assistance.** The projects have not directly and explicitly addressed any of the 4 shortcomings and challenges outlined above. In some cases, the theories of change assumed that some of those objectives would be addressed indirectly, mainly through capacity-building activities on the micro and meso levels.

18. Below are the short outlines of the projects addressing the SCA model:

IFAD-4 (year 2010-14):

- Financing of SCAs through the RFC for microloans to poor on and off-farm rural entrepreneurs for income generating activities.
- Capacity-building for Participating Financial Institutions: commercial banks and SCAs received training on: rural credit risk management, rural financing related to value chain financing and financing of rural microenterprises, and deposits and remittances management.

IFAD-5 (2012-2016):

- Microfinancing of poor on- and off-farm rural entrepreneurs through SCAs. This sub-component is divided into two aspects: loan activity and training of SCAs and borrowers. The target group for the sub-component is poor, economically active MEs inclusive of: (i) rural poor who are living in extreme poverty and who are either landless, have leased out their land or are producing a bare subsistence minimum; and (ii) rural unemployed, underemployed and self-employed.

IFAD-6 (It began in August 2014 and runs to August 2020):

- Financing is through allocation of loans and supporting grants to the Government of Moldova. A component of the programme supports the rural sector through financing of rural-based SMEs and YEs (using banks and MFIs) and MEs (using SCAs). There is a provision for the loan portfolio guarantee scheme to SCAs for investment loans, to be facilitated by a credit guarantee fund.

19. The implementation arrangements have been the same: the daily management responsibility entrusted to the IFAD Consolidated Programme Management Unit (CPIU) set up in the Ministry of Agriculture and Food Industry; coordination and policy guidance responsibilities entrusted to the IFAD Programme Steering Committee, and field implementation through participating financial institution (RFC) to channel investment loans to SCAs.

20. IFAD's strategic emphasis of RF policy on strengthening the capacity of rural finance institutions to mobilize savings, cover their costs, collect loans and make a profit in order to increase their sustainability and outreach, has been met in most parts by other donor and development organizations in their efforts to setup and develop SCAs prior to the 2008-09 financial crisis. What remains to be addressed by IFAD is the further development of this model in line with IFAD's core RF policy that emphasizes a market orientation and business approach in supporting the expansion of rural financial services and focuses on meeting the demand of poor rural women and men with a diverse range of responsive and relevant financial services. Specifically, developing inclusive financial systems and fostering innovations to increase rural poor people's access to a wide variety of financial services, including savings, investment and working capital loans, insurance and remittances are all very relevant for the SCA model in Moldova.

IV. Achievements

A. Appropriateness of approach

Loan activity (only RFSADP/IFAD-V is considered here)

21. Under the SCA sub-component, the loan activity included loan financing of economically active poor (on- and off-farm) and rural MEs short-term investments were disbursed through SCAs which, in turn, get funding for on-lending via microfinance institutions (currently only one – RFC).

22. According to the conditions established under the project, the maximum loan size from IFAD resources is MDL 100,000 (US$6,000), representing 83 per cent of each loan and the balance of 17 per cent is provided by RFC/SCA. At the same time MEs had to provide 10 per cent of the total project cost in cash or in kind.

23. From those who passed the eligibility criteria, 66 SCAs with an A-licence received 70 per cent of the financing, and 20 SCAs with a B-licence received the remaining 30 per cent.

24. **A-Licence SCAs** are completely dependent on their own capital and on the RFC for their development since they cannot collect deposits. Other external lenders are very rare. IFAD's financing has been essential for them. These SCAs present their borrowing requests to RFC on a periodic basis, but do not discuss long-term borrowing potential with RFC or other potential lenders. Therefore, without a long-term solution directed towards proper planning for the transition to B-licence. IFAD's interventions, which are limited to **providing liquidity,** cannot guarantee sustainability. At the same time, IFAD's support in lending to the SCA sector by engaging with SCAs which need assistance to meet the criteria for gaining access to the line of credit, benefits the whole system.

25. There are currently a small number of A-Licence SCAs (below 10) which have set themselves the target of obtaining B-Licences and commencing savings services to members. These SCAs must achieve a minimum level of assets of MDL 1.5 million (US$75,000) and minimum standards for their personnel and office facilities. They must submit a business plan to NCFM for review.

26. **B-Licence SCAs**, as described above, have less dependence on external borrowings.

27. SCAs are charging commissions of 4-5 per cent on the original loan amount in addition to the nominal interest of 21-25 per cent (10-14 per cent on IFAD-funded

loans) without disclosing the full loan costs to the clients as an effective interest rate. They also require a mandatory credit life insurance at a cost of about 1-2 per cent of the loan amount (neither SCAs nor the six borrowers met were able to say the exact size or percentage of the insurance fees). With these additional commissions and fees, the effective interest rates for clients may be in the range of 35-39 per cent, compared to 24-28 per cent charged on IFAD-funded loans.

28. In fact, IFAD provides subsidized financing, which in the long run may create overdependence of the SCAs on this type of financing and market distortion. Although, final borrowers welcome the cheap loans, this is not a sustainable solution and is against IFAD's RF principles. Hence, joint solutions should be elaborated with the Government to overcome this problem in the future.

Technical assistance

29. The objective of this activity was to offer support through capacity-building of SCA staff and SCA loan applicants and to eligible loan applicants on business plan development.

30. The range of seminars and training covered the following subjects:

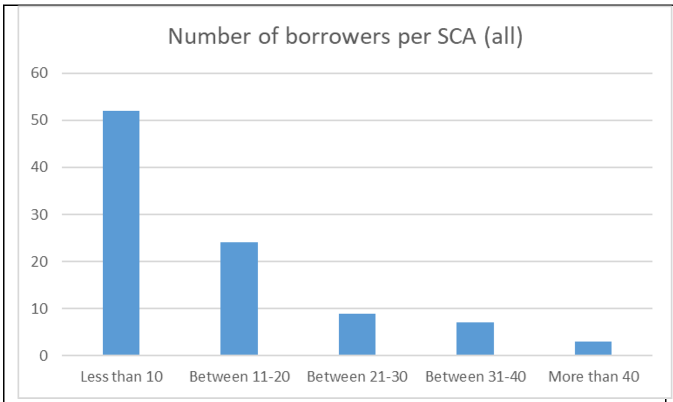
- The provisions of SCA legislation on money laundering;
- Effective management of SCA property;
- Creation and management of liquidity fund.
- The legal framework for the reorganization of the SCA;
- Issuing documents regarding the reorganization;
- Development of consolidated balance sheet.
- Advantages of A- and B-licence SCA consolidation;
- Benefits of SCA members.
- Training on client protection principles.

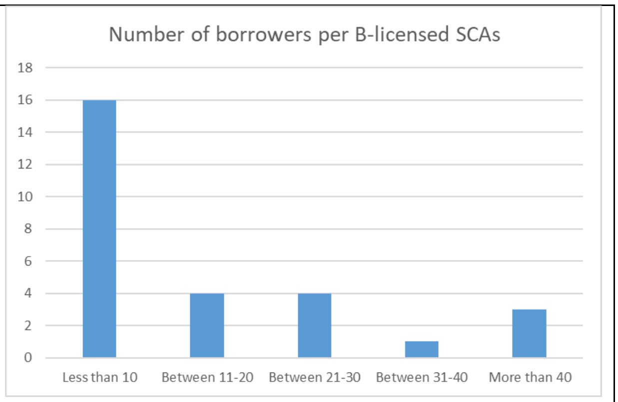
31. Trainings were organized and conducted by the Central Association of SCAs, Micro Invest. Some of the subjects were provided with NCFM support and included a study tour in Estonia.

B. Effectiveness of the strategy and models used

32. SCAs generally sustain the current level and variability of the financial and nonfinancial services. There is no data or evidence of the direct effect on creating new services. IFAD has only 6 per cent of the total SCA loan portfolio in Moldova. The Technical Assistance modality has been mainly focused on awareness-raising and providing necessary tools for technical compliance by SCA staff with new regulations. Outreach has improved, as cheaper loans were offered to the very poor. According to the IOE survey about 20 per cent of the SCA borrowers are subsistence farmers. The survey showed that for 70 per cent of borrowers who used IFAD investment loans, this was the only option available as other alternatives could have been prohibitively expensive (taking into consideration loan size, duration, collateral requirements and interest rate from SCA own resources).

33. IFAD's RFSADP project intervention resulted in financing, through RFC, of the 95 SCAs- 28 B-licence and 67 A-licence ones. The total number of borrowers (SCA members who benefited from the loans) was 1,285, out of which 41 per cent were women. The distribution of the number of borrowers among those 95 SCAs was very uneven as shown in the graphs below:



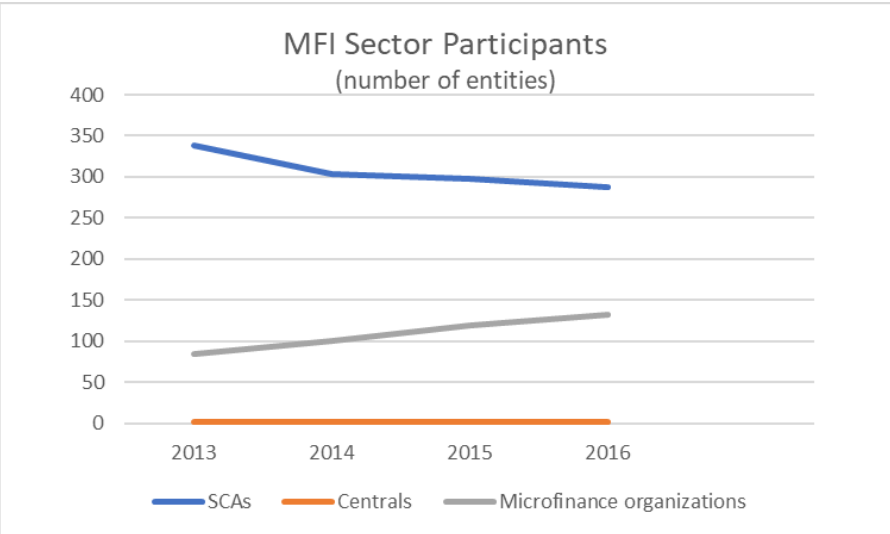


34. More than half of the SCAs disbursed only 10 or fewer loans, among which 21 SCAs disbursed 3 or fewer loans. The character of the outreach is the same when we consider only B-licence SCAs: 16 SCAs out of 28 disbursed 10 or fewer loans. Hence, it is difficult to judge the overall effectiveness of the project intervention which covered too many SCAs with too little and very uneven concentration.

35. On the institutional level, IFAD has very limited scope to make interventions in the current SCA setup. As was mentioned, the supply side activities are limited to some technical assistance to the NCFM, RFC and Centrals and the interventions are mainly demand-driven: awareness-raising and technical trainings of SCA staff and members. Policy dialogue activities were not observed.

C. Sustainability

36. For the five-year period (2012-2016) the number of registered SCAs decreased by 20 per cent, while the number of organizations registered as MFIs almost doubled. It needs to be noted that only a few registered MFIs can meet a technical definition in the sense of MIX market and IFAD’s Rural Finance definitions, among which RFC is the major player. It means the remaining MFIs operate in urban areas and factually are Lombard (or usury) type of financial organizations. There are two Central associations and this number is not expected to increase.



Micro level:

- SCAs offer borrowers access to technical support or training that is relevant to the activity supported. SCAs do not offer financial literacy or advisory services to their members, but they do take care to present their products and associated costs clearly to members.

- Since their establishment, SCAs' financial management has been focused on maintaining a sustainable margin on lending over funds with costs (external borrowings and deposits). This margin is typically 8 to 10 per cent.
- Most SCA standard interest rates are 18 to 25 per cent on reducing balance and most charge a fee or commission of 3 to 5 per cent. SCAs use guarantors and collateral whenever possible. The average SCA loan is MDL 12,000 (US$600), the standard maximum loan is MDL 30,000 (US$1,500) without collateral and MDL 100,000 (US$5,000) with collateral.
- IFAD financed loans **are capped by the Government** and the rates are 5-6 per cent lower. This directly benefits the poor borrowers with cheaper loans, but at the same time this may have negative effects of interfering with market rates.
- A-licence SCAs use their capital and external borrowings as funds for lending to members. The choice of external lenders to borrow from has always been limited, and for most SCAs there is now only RFC, Centrals and on rare occasions, banks. Intensive capacity-building efforts by IFAD directed towards raising awareness on the need for transformation seems not to be sufficient.
- B-licence SCAs collect deposits and are becoming much less reliant on external borrowings. In 2016, 34 of the 61 B-licence SCAs had higher savings than external borrowings. Thus, the risk of credit is reasonably well distributed across borrowers of the SCAs.
- SCAs agree that encouraging all members to save is beneficial, firstly, to help them provide for their future, and secondly to enable them to gain access to loans by building their relationship with the SCA. Universal savings also build the asset base of the SCA and reduce the reliance on external funds. SCAs know that eventually donors withdraw (as World Bank did) and then external funds either dry up completely or are replaced by more expensive funds from commercial sources. IFAD's efforts through providing technical assistance to SCA staff and members in awareness-raising in this direction is significant.
- This emphasizes the need for SCAs in Moldova, and the need for the SCA sector to provide transfers and payments services to citizens as well as traditional loans and savings. No significant effort in this direction has been implemented by IFAD so far.
- In overall terms the SCA sector appears financially robust and sustainable. At the end of 2015, the overall equity to assets ratio was 28 per cent, which is well above the prudential requirement of 10 per cent and far exceeds the equity levels of most SCA movements.
- Critically, the loan portfolio represents a healthy 82 per cent of assets and is performing well. Overdue loans (over 1 day) were 4.7 per cent, up from 4.4 per cent in 2014, but below the maximum level of 5 per cent recommended by WOCCU and the 10 per cent prudential norm of NCFM. B-licence SCAs have a rate of 5.1 per cent, which is slightly over the norm but still well within the prudential limit of 10 per cent. PAR over 30 days is a healthy 2.3 per cent. It must be noted that all the above data is self-reported by SCAs. External and internal audits are essential to reassure NCFM and the Centrals that the data is valid. Offsite and onsite supervision by Centrals and NCFM is also necessary.
- The short-term nature of lending is a concern, firstly in terms of services to members and secondly in terms of the sustainability and management of the SCAs themselves. In 2015, loans with a maturity of less than 1 year constituted 73 per cent of total loans. This high level is dictated by the fact that most savings are term deposits with a maturity of less than a year.

SCAs are obliged to match the maturities of their receivables with their payables. In the long term, SCAs will need to lend for longer terms, particularly, to support investments and housing. The sector needs to explore this area in detail with NCFM in order to develop safe and supervisable mechanisms to enable this.

- At this point, long-term lending is facilitated by the capital of the SCAs and some donor-supported lending from IFAD. This is important, but the need for mechanisms to lend the funds sourced from deposits will continue to increase.

Sustainability
Meso level:

- Both Centrals offer similar services to member SCAs, have the same level of staff and similar assets and capital levels. Accordingly, their sustainability levels at present appear quite similar. They currently have strong income as bond rates and market interest rates are high and they can apply large margins to the funds they receive from SCAs. If interest rates fall and margins are forced to contract then they may face difficulties. IFAD has provided capacity-building in this area.
- The bigger picture however is that both Centrals aim to provide a range of services far beyond their current offering and they must grow to several times their current scale in order to do this. It will be essential for Centrals to introduce services that they can charge for as they deliver them. It is remarkable that they do not already charge directly for IT support on a usage basis. It is normal for any provider to charge directly for services such as training and external audit; the Centrals should develop these services on a cost recovery basis at the very least. IFAD has provided capacity-building in this area.
- Although, in the IFAD 2007-2012 country strategy, the use of remittances for investment was identified as an opportunity for innovation, IFAD took no initiatives in this regard in its projects. 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.

Sustainability
Macro level:

- The key stakeholders that form the SCA, system Centrals and NCFM operate under a solid regulatory framework. However, they lack a common vision for the sector. IFAD's role in facilitating this process has not been clearly pronounced.
- A lack of long-term financing in the system has been addressed by IFAD, as it plays a pivotal role by providing structured financing for investment loans, which brings stability but mostly for the duration of the IFAD programmes
- More focused capacity-building in such technical as: stabilization fund, MIS, payments and transfers with specific tangible deliverables can contribute to the sustainability of the system.
- The Credit Guarantee Fund, considered one of the important elements insuring the sustainability of the whole SCA system, was actively supported by IFAD but has not yet resulted in concrete actions or commitments.

37. Many provisions in the regulatory framework have not materialized yet, such as NSFM's self-declared priority to move away from a **compliance-based oversight**

towards a **risk-based supervision system,** which is characterized by the mature regulatory systems. IFAD's role in this would be in line with its Rural Finance strategy.

D. Efficiency

38. The existence of the consolidated programme implementation unit (CPIU) ensures implementation continuity and efficiency of project activities. This also provides a programmatic approach for the project implemented by IFAD in Moldova. The IFAD Programme Steering Committee has played a vital role throughout the project by efficiently reviewing and approving annual work plans and budgets, progress reports and policy guidance.

E. Innovation and scaling up

39. In the rural finance and capacity-building domains, the support provided to SCAs has yielded positive results in terms of impact on sustainable income growth and poverty alleviation. IFAD needs to continually seek more effective ways of enhancing the access of rural poor people and smallholder farmers to a wide variety of financial services through providing more targeted assistance to the SCA system.

40. Encouraging SCAs to transition from A- to B-licences and providing relevant support is one of the key elements of the overall sustainability of the SCA system. Technical support provided so far by IFAD has been limited to awareness-raising. There is a potential to provide more pro-active policy dialogue and facilitate long-term strategy development by all major players. In practice, IFAD has been very effective and innovative in engaging qualified B-licence SCAs in direct financing (bypassing RFC). However, this needs to be carried out with caution in order not to compromise the cohesiveness of the overall system.

41. Initiating the credit guarantee fund mechanisms for SCA portfolio guarantee in the previous project (IFAD-4) is a very innovative and potentially highly effective instrument that will help redistribute the credit risk level in the system by allowing the economically active rural poor to have access to longer term and higher amounts of financing.

42. Initiating the agribusiness equity fund (AEF), which implies an acquisition of a Microfinance Institution and having access to the SCA system, is also a very innovative approach that has been in development since 2012. (please refer to AEF case study for details).

43. To deliver on these priorities, IFAD's operational practices must be geared towards supporting all concerned actors and institutions to achieve impact at scale. This requires a shift from a project-centric approach to one that spurs change in the institutional, policy and economic environment in which rural poverty exists and is perpetuated. That is, the objective of IFAD interventions should not only be to enable rural people to work their way out of poverty in the limited time and space of a given project, such as RFSADP, but also to use the positive results generated by it and previous projects, to inspire others and leverage policies, knowledge, social and political capital, and financial resources from other endogenous actors (private, public and the communities themselves) to bring those results to a larger scale in a sustainable manner.

F. Main reasons for achievements or non-achievements

44. One subcomponent of the Rural Financial Service component of RFSADP project, among its three other main components, was designed to provide support to the economically active rural poor and extremely poor (MEs). The SCA system was used as a channel to deliver the longer and less expensive financial resources mandated by the Government in combination with the trainings for the borrowers.

45. The limited scope of the interventions on the institutional level, the overall ambitious project objectives, a relatively small budget compared to the total size of the SCA system, and limited capacity of the CPIU handling multi-components and parallel projects have affected the overall performance of this subcomponent.

G. Summary of major lessons

46. The major conclusions form this case could be summarized as follows. The SCA system architecture consists of multiple players (stakeholders) with not only mutually corroborative interests that are dictated by tradition established over 20 years and the rules and regulations set by regulatory authorities, but also by competing market-driven interests between the RFC and the SCAs, Centrals and SCAs, and the RFC and Centrals. The inherent conflict of interest among the major stakeholders should be handled with caution when initiating institutional changes to strengthen the system, such as the independence of SCAs, merging and consolidation, and delegation of the supervision functions.

47. IFAD's credit lines designated to the rural poor also provide long-term financing opportunities and improve sustainability of the SCAs. However, there is high potential for IFAD's support in the following two strategic directions:

    (i) capital diversification through increasing SCA capacity in savings mobilization, and in the long run reducing the cost of funds without government intervention in loan pricing, and;

    (ii) strengthening regulation capacity of the NCFM and encouraging the transition to risk-based monitoring by empowering Centrals and delegating them more roles in SCA supervision.

48. The innovative initiatives such as the credit guarantee fund and AEF have not come to fruition yet but they can serve as powerful instruments for IFAD to reduce the overall risk in the SCA system, improve access to finance for rural poor and reduce costs.

Report on SME/YE/ME structured survey

IFAD RFSADP-Moldova

I. Survey objectives, methodology and sampling

1. Three surveys have been developed to study the rural finance clients of the project, namely: SMEs, YEs and ME beneficiaries. The objective of the study is to perform a comparative analysis of the strengths and weaknesses of the different models used in the project to provide financial services to the rural poor.

2. Key areas of focus for the surveys are the linkages with value chains, use of loans and repayment. The survey structure was aimed at analyzing beneficiaries' perceptions and included the following sections:

    1) Loan Processing
    2) Business Performance
    3) Sales and Customers
    4) Ability to Pay
    5) Future Outlook

3. The YEs survey included an additional section on start-up motivation, for those beneficiaries who were classified as start-ups. For MEs the survey was simplified and adapted accordingly.

4. Survey interviews were conducted by telephone by two contracted professional survey service providers. The sampling process is described below.

<table>
<tr><th>Survey type</th><th>Population size</th><th>Sample size</th><th>Selection method</th></tr>
<tr><td>SME</td><td>81</td><td>44</td><td>Direct calls were made to all SMEs. Data could not be collected from 100 per cent of the beneficiaries because of: (1) impossibility to reach mobile phone, home phone and other contacts after at least 3 attempts, (2) phones were switched off, cancelled or changed. The following explanation was provided by the M&E unit of the CPIU:
1. Most of the companies are still operational after loan closure.
2. The main reason is cellphone is off, then there is no answer. The cellphone issue is widespread here in Moldova. People change phone numbers very often and thus it is difficult to keep track. Another reason is seasonal migration with people going abroad temporarily to earn additional income to invest.
The sample characteristics are approximately the same as the population ones for the following: average loan size and proportion of females.

Geographic regions (defined as north, centre and south), however, are more skewed away from south (18 per cent as opposed to 27 per cent in the population).

The nonresponse rate is assumed to be random and the data is treated as survey (as opposed to census). At 95 per cent significance level the confidence intervals (i.e. 2 times the margin of error) are the following:
• for 50 per cent of the particular answer - 10 per cent or margin of error 5 per cent
• for 25 per cent or 75 per cent of the particular answer - 8.7 per cent or margin of error 4.3 per cent
• for 10 per cent or 90 per cent of the particular answers - 6 per cent or margin of error of 3 per cent</td></tr>
<tr><td>YE start-ups

YE extension</td><td>322

123</td><td>189

90</td><td>Direct calls were made to all 445 beneficiaries divided in two separate pools: start-ups and existing businesses. As with SMEs, the reasons for non-responding are the same.

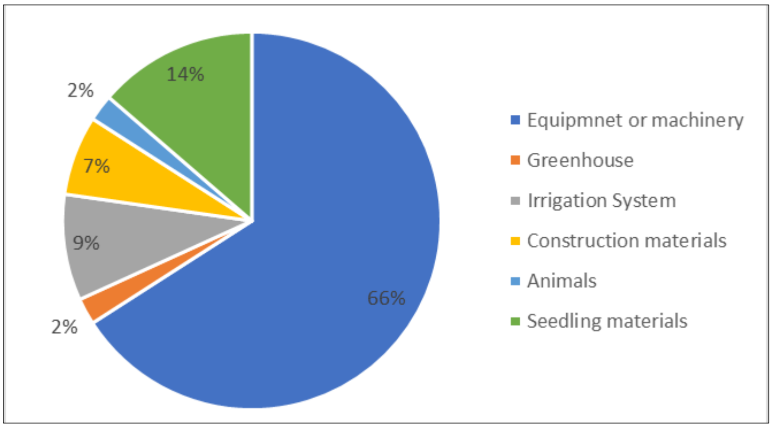
The sample characteristics for female proportion and the geographic regions are almost the same:
<table>
<tr><th></th><th>YE-startups</th><th></th><th>YE- exention</th><th></th></tr>
<tr><td></td><td>Population</td><td>Sample</td><td>Population</td><td>Sample</td></tr>
<tr><td>North</td><td>35%</td><td>38%</td><td>30%</td><td>31%</td></tr>
<tr><td>Center</td><td>40%</td><td>39%</td><td>34%</td><td>30%</td></tr>
<tr><td>South</td><td>25%</td><td>23%</td><td>36%</td><td>39%</td></tr>
<tr><td>Female</td><td>33%</td><td>35%</td><td>21%</td><td>26%</td></tr>
</table>
There was no significant variation in the sizes of loans and grants as all beneficiaries were considered for almost the same loan/grant conditions.
For YE start-ups, at 95 per cent significance level, the confidence intervals (i.e. 2 times the margin of error) are the following:
• for 50 per cent of the particular answer - 4.6 per cent or margin of error 2.3 per cent
• for 25 per cent or 75 per cent of the particular answer - 3.96 per cent or margin of error 1.98 per cent
• for 10 per cent or 90 per cent of the particular answers - 2.75 per cent or margin of error of 1.37 per cent
For YE extension, at 95 per cent significance level, the confidence intervals (i.e. 2 times the margin of error) are the following:
• for 50 per cent of the particular answer - 5.37 per cent or margin of error 2.18 per cent
• for 25 per cent or 75 per cent of the particular answer - 4.65 per cent or margin of error 2.32 per cent
• for 10 per cent or 90 per cent of the particular answers - 3.22 per cent or margin of error of 1.61 per cent</td></tr>
<tr><td>ME</td><td>1287</td><td>419</td><td>A stratified sampling method was used. The whole population data was divided by strata (mutually exclusive and collectively exhaustive):
Gender: female (49 per cent) and male (51 per cent);
Geographic region: north (40 per cent), centre (51 per cent) and south (9 per cent).
Simple random samples were drawn from each stratum in proportion to their size. The total pooled sample was made about one third of the total population. By this method, the sampling error was reduced to minim by achieving a high level of representation. At 95 per cent significance level, the confidence intervals (i.e. 2 times the margin of error) are the following:
• for 50 per cent of the particular answer - 3.93 per cent or margin of error 1.47 per cent
• for 25 per cent or 75 per cent of the particular answer - 3.41 per cent or margin of error 1.70 per cent
• for 10 per cent or 90 per cent of the particular answers- 2.36 per cent or margin of error of 1.18 per cent</td></tr>
</table>

II. Findings for SMEs

A. Loan processing

1. The vast majority of the SME clients had no major issues with the loan processing. Information about the programme was received from diverse sources. The majority of the respondents prepared their business plans without external assistance; however, those who used training programmes found them very useful. Most of the loans went to purchase machinery and equipment (figure 1). Overall, the loans directed to the downstream value chain activities (i.e. post-harvest activities such as cold storage, packaging, processing, marketing) was 23 per cent for the sample (compared to 21 per cent from the total population of 81 loans).

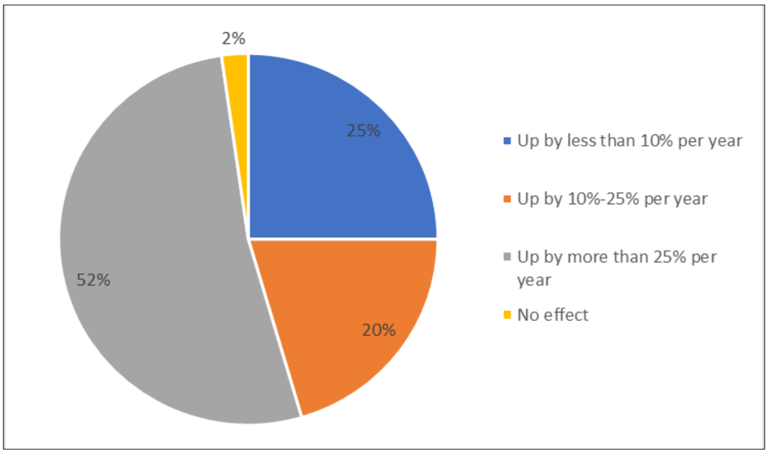
Figure 1
Purpose of bank loans taken by the respondents



B. Business performance

2. Investment loans had a significant positive effect on business performance for the majority of the SMEs. A total of 72 per cent reported an increase of revenues above 10 per cent, and 52 per cent of more than 25 per cent (figure 2) while 98 per cent of the respondents were satisfied with the business objectives that the IFAD loan had helped them to achieve. Cost reduction by at least 10 per cent was reported by 85 per cent of the respondents and 77 per cent of the SMEs hired more employees than before the loan while 5 per cent of the respondents reduced the number of people employed. One quarter of the respondents obtained new licences or permits as a result of the investment loans.

Figure 2
Average revenue performance



C. Sales and customers

3. The market composition for the SMEs' products consisted of 63 per cent local (from which 38 per cent was directed to intermediary wholesalers, 38 per cent agricultural markets and only 1 per cent grocery chains or similar). The remaining 37 per cent was for export from which 11 per cent was to EU countries. An increase in the number of clients was reported by 95 per cent of the respondents. Formal contracts with the buyers were used by 77 per cent of the surveyed SMEs and 75 per cent reported an increase in the number of new contracts.

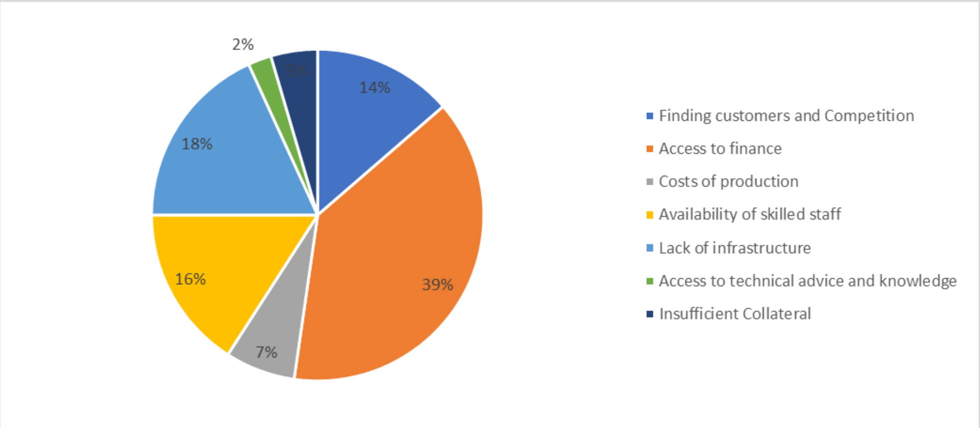
D. Ability to pay

4. The loan terms turned out to be fully satisfactory for almost all the SME respondents and no one had any problems with the loan service payments. To the question of what would have been an alternative to the IFAD loan, 80 per cent answered they would have approached a bank (despite a higher interest rate). Five per cent said that they would have used a private lender, and for only 11 per cent this loan would not have had an alternative.

E. Future outlook

5. Of the seven possible impediments for future business development 41 per cent of the answers was related to problems with access to finance. Competition and customers were mentioned in 13 per cent of the answers and insufficient collateral in only 4 per cent.

Figure 3
The most pressing problem faced by the respondents



F. General conclusions

The survey findings and total population data summarized

- Total value of the loans (including PFIs contribution) disbursed to the 81 SMEs was US$7.09 m. The average loan size was US$87,490. The distribution by loan size is given below:

Women made up 21 per cent (in the survey sample 20 per cent).

- An increase in asset ownership by the SMEs was a direct consequence of the investment loans. US$1.09 m of the loans (or 15 per cent) went on biological productive assets i.e. animals and seedlings. The remaining 85 per cent went on machinery, equipment and other tangible assets.
- Increases in the gross profit were also seen. Please refer to section 2.2 above.
- Formal contracts with the buyers were used by 77 per cent of the SMEs surveyed and 75 per cent reported an increase in the number of new contracts (section 2.3).

6. In conclusion, SMEs were able to utilize IFAD’s investment loan programme to reach more customers, increase sales and productivity, and employ more people. The access to information and the application process was easy and smooth. No SME experienced any difficulties for loan repayments or expressed any dissatisfaction with the loan terms. However, the main impediment to their future business development was still a perceived lack of access to finance.

List of questions used in telephone survey

	LOAN PROCESSING
1	How did you learn about the SME loan programme?
2	How easily were you able to obtain information about the loan programme?
3	Did you prepare the business plan for the loan yourself or use IFAD's training?
4	How would you rate the usefulness of the business plan preparation training?
5	What item was financed by the loan?
	BUSINESS PERFORMANCE
6	How on average did the sales of your enterprise change since the loan investment was made?
7	Did you achieve the objectives outlined in your business plan for loan application?
8	Have the production costs changed because of the investment made?
9	Did the number people of employed by your enterprise change since the investment loan?
10	Have you obtained any new licence or permit as a result of your investment loan?
11	Who are the immediate buyers of your products?
12	Did you gain new types of customers since you took out an investment loan?
	SALES AND CUSTOMERS
13	Do you engage in the formal written contract with your customers (buyers)?
14	Did the number of the contracts with your buyers change after the investment loan?
	ABILITY TO PAY
15	Was the loan grace period enough to make the repayments without major problems to your enterprise?
16	Have you been able to make scheduled loan payments on time and without problems?
17	If not this loan, what would be your alternative to finance your project and accomplish your goals?
	FUTURE OUTLOOK
18	What is currently the most pressing problem your firm is facing?

III. Findings for YE-start-ups and YE-extension

7. YEs are subdivided in to two groups, one classified as start-ups and another as regular SMEs that used the investment loan and matching grant for business extension. In both cases, the age category of the business owners was defined as being under 35 years. Start-up YEs accounted for 72 per cent of the total 445 investment loans issued under this project.

A. Loan processing

YE start-up

8. Information was received from different sources but with a significantly lower amount of direct solicitation from banks as compared to SMEs. However, about 1/3 of the respondents said that they had some issues during the loan/matching grant processing, such as: the processing time was very long, the application was verbally approved but there was no follow up, and there was a lot of paperwork. Also, about 35 per cent of the respondents did not attend specialized trainings (6 per cent were unaware of the possibility). From pre- and post- financing trainings on 9 subjects, the least attended were those on conservation farming, innovations, and equipment maintenance. Only 3 per cent of the investment loans/grants went into downstream value chain activities.

9. When asked if they had an influencer to start the business, 50 per cent of YEs mentioned a senior family member, and 11 per cent was influenced by a peer already in business. Thirty-eight per cent of the respondents said their decision

was not influenced by any individual in particular. Unemployment and job insecurity were the main motivating factors for 35 per cent and more than half saw a market opportunity. In total 24 per cent of the respondents tried to take a loan from a bank and got rejected.

YE extension

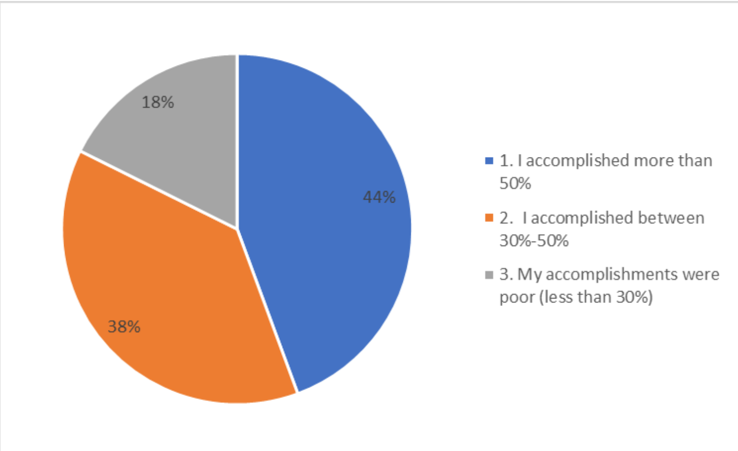
10. YEs who participated in the project as existing businesses learned about the loan/grant opportunity by direct solicitation (47 per cent) and from a bank advertisement (40 per cent). Eighteen per cent had some issues with the loan process and 46 per cent did not participate in the specialized trainings. Only 4 per cent of the investment loans/grants went into downstream value chain activities.

B. Business performance

YE start-up

11. The IFAD programme helped 44 per cent of the start-up respondents to accomplish most of their initial business objectives. A total of 38 per cent said that they accomplished between 30 per cent and 50 per cent of their plans and only 18 per cent had very minor accomplishments (figure 4) while 92 per cent intended to continue to run the start-up business. Only 6 per cent said that they are going to quit as the decision to enter the business was a mistake.

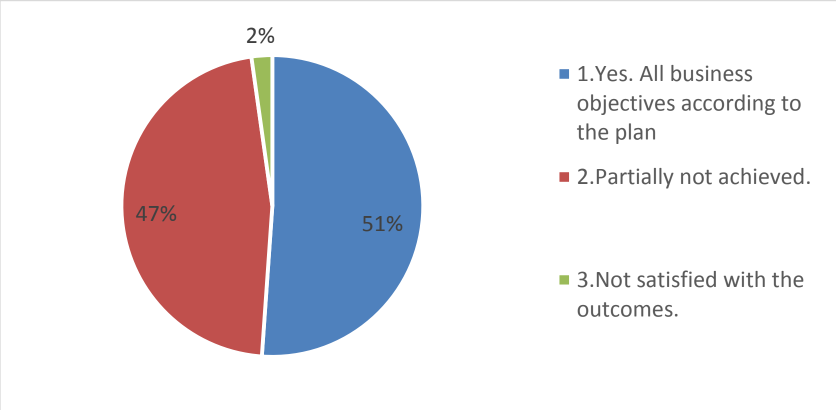
Figure 4
Accomplishment of planned targets by the start-up respondents



YE extension

12. Unlike SMEs, the effect of the investment loan on business performance was more moderate. Only 51 per cent of respondents were able to accomplish all the objectives that were planned (Figure 5). For 53 per cent the revenues increased by less than 10 per cent, only for 2 per cent did revenues go up by more than 10 per cent and for the remaining respondents there was no effect on sales. Reduction in costs was reported by 21 per cent, and for 18 per cent costs went up. Similarly, a poor effect was made on employment, with only 17 per cent reporting an increase in the number of people employed. For the remaining 77 per cent it did not change, and for 7 per cent it went down. Only 3 per cent had obtained a new quality certificate.

Figure 5
Accomplishment of planned targets by the respondents



C. Sales and customers

YE start-up

13. Only 26 per cent of the YEs stated that they did not yet have customers. The vast majority of the others who were generating sales were dealing with in local markets - 36 per cent through wholesalers, and 24 per cent agricultural markets. Grocery and supermarket chains were mentioned by 11 per cent. For 6 per cent the buyers were exporters and 60 per cent of the YEs had gained new customers as a result of the loan/grant with contracts being used by 25 per cent.

YE extension

14. Half of the YEs were selling their final products to intermediary traders and one third sold directly to final customers. Only 9 per cent had access to supermarket chains and only 7 per cent were exporting their products while 30 per cent had gained new customers as result of the loan. Half of the YEs in this category did not use sales contracts, 22 per cent used the contracts with all buyers and the remaining 27 per cent used contracts partially.

D. Ability to pay

YE start-up

15. A total of 92 per cent of YEs had no problem with loan repayment. For 69 per cent, if this finance had not been available then their only alternative would have been a bank loan, 17 per cent would not have had any other alternative and 14 per cent would have had to resort to private lenders.

YE extension

16. For almost all the respondents the loan repayment was not an issue. Without this loan, the alternative would have been a bank loan for 49 per cent of respondents. Only 2 per cent said that they would have used a private lender, and the remaining 49 per cent were not able to mention an alternative.

E. Future outlook

YE start-up

17. Among 6 constraint factors offered, the most frequently mentioned was access to finance (46 per cent). Competition and finding customers was at 18 per cent while 65 per cent advised they would be willing to share their experiences with peers and recommend starting businesses. Some 33 per cent would be very cautious to recommend but willing to share their negative experiences so they could be avoided by others. Only 2 per cent would not recommend starting a new business at all.

YE extension

18. Among six constraint factors offered, the three most frequently mentioned were access to finance (31 per cent), cost of production (27 per cent) and availability of skilled staff (29 per cent). While 59 per cent would be willing to share their experience and would recommend to a peer to start a business, 40 per cent would do this but with more caution, and only 1 per cent would not recommend it at all.

F. General conclusions

The survey findings and total population data summarized

- Total value of the loans and matching grants disbursed to 322 YEs classified as start-ups was US$7.47 m. Some 123 loans were issued to existing businesses for expansion: US$2.86 m. The average loan and grant size was almost the same for both categories: US$23,200. The loan and grant size ranged from US$14,000 to US$25,000 thousand.
- Unlike SMEs, the effect of the investment loan on business performance was more moderate. Only 51 per cent of respondents were able to accomplish all their planned objectives. Revenues increased for only 53 per cent and for the remaining respondents there were no effects on sales. Reduction in costs was reported by only by 21 per cent, and for 18 per cent costs went up. Similarly, a poor impact was had on employment with only 17 per cent reporting an increase in the number of people employed. For 77 per cent there was no change, and for 7 per cent employment went down.
- Some 30 per cent had gained new customers as result of the loan. Half of the YEs in this category did not use sales contracts, 22 per cent used contracts with all buyers and the remaining 27 per cent used contracts partially.

19. In conclusion, the YEs loan and matching grant programme were received with enthusiasm by both banks and the YEs. The first is evidenced from the PPE mission meetings where the branch representatives pointed out that this programme had helped them to better understand and manage risks associated with the youth start-ups and also to reach more clients. However, the business performance was viewed by YEs as modest. Despite that morale for the future was optimistic. It needs to be mentioned that a significant portion of the programme participants cannot be classified as start-ups, as the decision to start a business was mainly supported by a senior family member already in business.

Attachment 2: List of questions used in telephone survey

LOAN APPLICATION
1. How did you learn about the SME loan programme?
2. Please tell us how easily you were able to obtain information about the loan programme?
3. Did you participate in the Training Programme organized by IFAD?
4. If the answer to Q3 is Yes, which subjects did you find most useful?
MOTIVATIONAL FACTORS
5. Who influenced you (or inspired by example) to start a business?
6. What was the main reason why you decided to start your business?
7. Have you ever applied for a loan from a commercial bank?
BUSINESS PERFORMANCE
8. Was your business successful as a result of the loan/grant support you receive?
9. Did you achieve the targets that you planned in your business plan?
SALES AND CUSTOMERS
10. Who are your immediate buyers for your products?

11. Did you gain new types of customers?
12. Do you engage in the formal written contract with your buyers?
13. Did the number of the contracts with your buyers change after the investment loan?
ABILITY TO PAY
14. Have you encountered any problems with loan payments?
15. If not this loan, what would be the alternative to finance your project?
FUTURE OUTLOOK
16. What do you think is the greatest constraint to the growth of your business?
17. If you are asked for advice, would you recommend starting a business to your peer?

IV. Findings for MEs

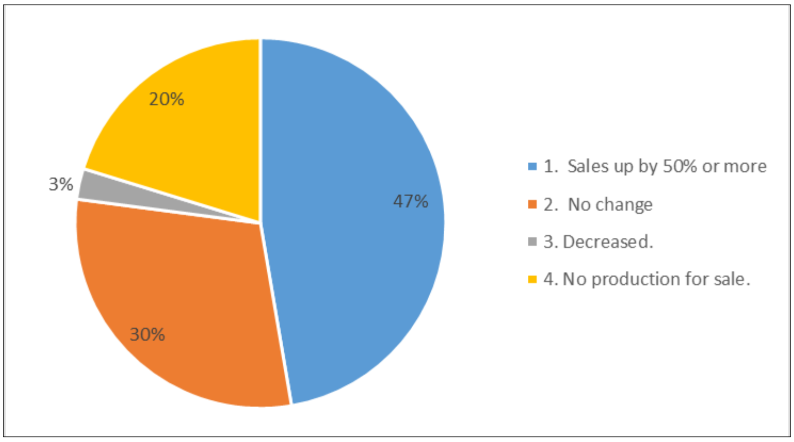
A. Loan processing

20. Access to information and the application process was easy for the vast majority of the rural MEs. As members of the SCA, they received the information from the Association's officer directly in 81 per cent of cases and from other applicants for the remaining.

B. Business performance

21. For 92 per cent, the loan helped to fully accomplish their business goals as originally planned which improved their situation. About half of the respondents were able to increase their sales by more than 50 per cent (figure 6).
About 20 per cent of the respondents were subsistence farmers. For those MEs that sell their products, 35 per cent sell it from the field to traders and 55 per cent directly to the final consumers at agricultural markets while 5 per cent reported they sold to stores.

Figure 6
Sales performance of the respondents



C. Ability to pay

22. Only 9 per cent of the respondents experienced problems with repayment while 73 per cent had no alternative access to finance, and 27 per cent would have resorted to a private person to borrow the money.

D. Future outlook

23. Three main impediments for business were identified: i) finding customers and competition (33 per cent of respondents), ii) the cost of production for (26 per cent of respondents) and iii) access to finance (25 per cent of respondents).

E. General conclusions

The survey findings and total population data summarized

- Total value of the 1,285 loans issued by all SCAs through this project was US$2.23 million. Average size of the loan was US$1,736. Females represented 41 per cent.
- About 20 per cent from the sample reported not having any sales, and thus could be considered as subsistence. The remaining MEs were able to increase their incomes as result of the IFAD loans.

24. In conclusion, the Micro-entrepreneurs Programme, remains important and the only formal rural finance mechanism to reach out to the rural poor. The loans enabled rural MEs to expand their productive assets and increase incomes. About one fifth of the rural population that was targeted by the programme was engaged in subsistence farming, and this mechanism remains vital for their livelihood.

Attachment 2: List of questions used in telephone survey

LOAN APPLICATION PROCESS
1. How did you learn about the loan programme?
2. How easily were you able to obtain information about the loan programme?
BUSINESS PERFORMANCE
3. Was this loan useful in meeting your business needs?
4. Did you sell more products after the loan financing?
5. Who are your immediate buyers?
6. Did you gain new types of customers since you received the loan?
ABILITY TO PAY
7. Have you experienced any problems with the loan repayment?
8. If not this loan, what would be your alternative to finance your project?
FUTURE OUTLOOK
9. What is the most pressing problem for your business?

Physical progress against key targets at design, midterm, project completion and CPIU annual report

	Outcomes and outputs	*Targets at design*	*Revised targets at MTR*	*Actual at PCR*	*% completion at PCR per revised targets*	*Actual per CPIU Annual Report 2016*	*Cumulative target per CPIU Annual Report 2016*	*% completion per CPIU report*
1	Pro-poor agri business development							
1.1	Agribusiness Equity Fund established by start of PY3	1	1	Dropped	**N/A**			
1.2	Contract farming arrangements by PY5	50	5	15 producer groups*	**300%**	No specific number (only financial data)	N/A	
1.3	Conservation farming arrangements by PY5	20	20	40 **	**200%**			
2	Rural Financial Services							
2.1	SMEs supported with loans by PY5	82	82	83	**101%**	83	82	**101%**
2.2	SMEs supported with equity financing by PY5	57	57	Dropped				
2.3	YEs supported with loans/grants by PY5	120	120	445 (the PCR App.5 reports target 480)	**371%**	445	480	**93%**
2.4	MEs supported with loans by PY5	540	540	1287	**238%**	1285	540	**238%**
2.5	SCA staff trained by PY5	360	360	337	**94%**	337	360	**94%**
	YEs trained					925	1000	**93%**
	SCA loan applicants trained					152	140	**109%**
	PFIs/partners institutions staff trained					243	N/A	
	Support to business plan development for SME ***	N/A	N/A	305	**54%**	50	82	**61%**
	Support to business plan development for YEs ***					250	480	**52%**
	Support to business plan development for SCA loan applicant ***	N/A	N/A	BP not required	**N/A**	0	320	**N/A**

	Training of YEs loan applicants in pre and post financing****	N/A	N/A	1422	**114%**			
	Training of SCA loan applicants and potential candidates****	N/A	N/A	459	**92%**			
3	Rural Infrastructure							
3.1	Small-scale rural infrastructure sub-projects competed by PY5	40 (50% roads, 50% utilities)	20 (60% roads, 40% irrigation)	21 (13 roads, 8 irrigation)	**105%**	20	16	**125%**
3.2	Reduction in post-harvest losses after road construction.	20%	15%	(no data in PCR) Impact rep. page 99- not clear	**N/A**			

* modified groups with contract farming arrangements.
** satellite farmers adjacent to the 4 lead demonstration plots engaged in conservation farming.
*** targets are absent in design and MTR and are mentioned only in PCR as 562 and 320 respectively.
**** targets are absent in design and MTR and are mentioned only in PCR as 1250 and 500 respectively.
PY = project year.

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Independent Office of Evaluation

Investing in rural people

Independent Office of Evaluation
International Fund for Agricultural Development
Via Paolo di Dono, 44 - 00142 Rome, Italy
Tel: +39 06 54591 - Fax: +39 06 5043463
E-mail: evaluation@ifad.org
www.ifad.org/evaluation
www.twitter.com/IFADeval
www.youtube.com/IFADevaluation

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