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**MINISTRY OF AGRICULTURE AND
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**UNITATEA CONSOLIDATĂ PENTRU IMPLEMENTAREA PROGRAMELOR IFAD
THE CONSOLIDATED UNIT FOR THE IMPLEMENTATION OF IFAD
PROGRAMMES**



**Enabling poor rural people
to overcome poverty**

AGRICULTURAL REVITALISATION PROJECT

2012 ANNUAL REPORT

Loan Agreement no.629-MD



**Elaborated by:
CONSOLIDATED UNIT FOR THE IMPLEMENTATION OF IFAD PROGRAMMES IN
MOLDOVA**

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ABBREVIATIONS AND ACRONYMS

ARP	Agricultural Revitalization Project
CLD	Credit Line Directorate
CPIU-IFAD	The Consolidated Unit for the Implementation of IFAD Programmes
GoM	Government of the Republic of Moldova
IFAD	International Fund for Agricultural Development
PFI	Participating Financial Institutions
VDP	Village Development Plan

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1. INTRODUCTION

1. This report has been developed by the CPIU-IFAD in accordance with the article IV, section 4.02 (*Progress Reports*) of the Loan Agreement no.629-MD, and reflect the evolution of the project's implementation performance achieved during 2012 compared with the planned project activities to be implemented during the given year.

2. Agricultural Revitalization Project (ARP), the second IFAD's intervention in the Republic of Moldova, became effective in January 2006 and is scheduled for completion in March 2013. USD 15.45 million has been allocated for the implementation of the project activities. The project has been operational for 83 months.

3. The ARP was designed to contribute to the alleviation of poverty in rural areas through the revitalization of village economies thereby creating employment opportunities and generating income for rural population. The project aims to benefit village agricultural workers, farmers, members of farmers' and other community-level organizations and local entrepreneurs in participating rural communities.

4. The project is being implemented through the following four components:

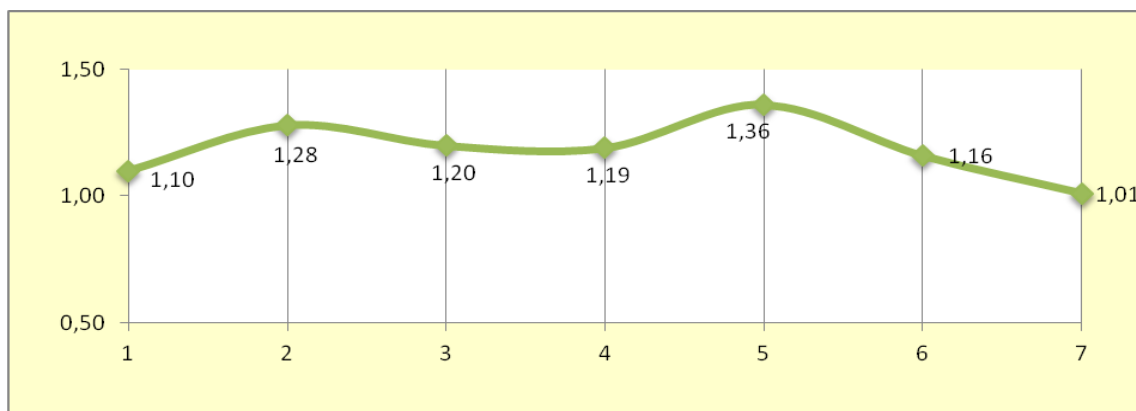
- (i) Participatory Community Development;
- (ii) Institutional Capacity Building;
- (iii) Community Economic Investments; and
- (iv) Project Management.

2. PROJECT PERFORMANCE EVOLUTION: PHYSICAL AND FINANCIAL PROGRESS

5. In 2012 has ended the 7th year of ARP operation; during that period the project has continued through its activities to contribute to poverty alleviation in the rural areas. According to 2012 AWPB it has been scheduled to disburse the available balance by mid of the year, 9 months ahead of initial schedule established as of March 2013 end.

6. While since the Project's start till the end of 2012, 96% of the implementation period has elapsed, 97% of the original disbursement has been achieved. This yields a disbursement factor of 1.01 indicating good performance of project's implementation (see diagram 1).

Diagram 1: Evolution of ARP disbursement factor



7. By the end of the period under review all performance indicators, both outputs and outcomes have registered satisfactory values comparing to its appraisal targets, especially indicators related to Economic Development component, where 85% from the total allocated amount has been disbursed by the end of PY4, due to that fact that CPIU has established good relation with groups of producers and LPAs, and high interest for financial services provided for rural entrepreneurs.

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2.1 Financial Progress Summary.

8. **IFAD Proceeds.** During 2012 for implementation of the project categories of expenditures have been disbursed 68% of IFAD budgeted resources allocated for the given year (see table 1). During the entire period of implementation, under the project has been disbursed 97% of IFAD allocated resources (see table 2).

Table 1: IFAD proceeds for 2012 by category of expenditures (USD '000)

Category of expenditures	Plan	% from total	Actual	% from total	Actual / Plan	Actual Cumulative
Equipment and Goods	0.0	0.0%	0.0	0%	0%	62.6
Technical Assistance Support	28.0	5.0%	14.8	4%	53%	218.6
Incremental Credit	536.7	93.5%	370.8	95%	69%	14 552.0
Operating Costs	9.0	1.5%	4.0	1%	44%	668.2
Total	573.7	100%	389.6	100%	68%	15 501.4

Table 2: IFAD proceeds by category of expenditures: Loan Allocation and Reallocation of Funds (SDR '000)

Loan Category	Loan Agreement Allocation, SDR '000	Reallocated Amount, SDR '000	Final Allocation	Disbursement of Funds (Actual Cumulative)	Share from Final Allocation
Equipment and Goods	230.0	(185.0)	45.0	40.9	91%
Technical Assistance Support	1 030.0	(780.0)	250.0	136.9	55%
Incremental Credit	8 290.0	1 310.0	9 600.0	9 401.2	98%
Operating Costs	520.0	(115.0)	405.0	431.9	107%
Unallocated	230.0	(230.0)	0.0	0.0	0%
Total	10 300.0	-	10 300.0	10 010.9	97%

9. The structure of IFAD disbursed resources is almost similar to the planned amount with reference to all categories of expenditures. The planned amount under the Incremental Credit category has been disbursed during 2012 at 69%. There are some limitation for disbursement in this project because of two main aspects: (i) the project specifics, i.e. financing rural entrepreneurs only from villages which have the VDP approved; and (ii) PFIs still have sever collateral requirements, fact that reduce the number of potential loan beneficiaries from available villages.

10. **The total cost** of implemented activities during 2012 has mounted up to USD 694.1 thousands that represented 89% from the total cost planned (see details in table 3).

11. By the end of 2012, during the 83 months of its operation the total cost of the project has reached USD 34 430.0 thousands, that compared to appraisal amount represented 189% due to high interest of loan beneficiaries to invest in agricultural activities that has leveraged 6.4 times higher than anticipated in the appraisal report.

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Table 3: ARP total cost by financiers

(USD '000)

Component		IFAD	GoM	Beneficiaries	PFIs	Total
I. Participatory community development	Plan	8.0	1.6	0.0	0.0	9.6
	Actual	0.0	0.0	0.0	0.0	0.0
	%	-	-	-	-	-
	Actual Cumulative	161.0	0.0	0.0	0.0	161.0
II. Institutional capacity building	Plan	0.0	0.0	0.0	0.0	0.0
	Actual	6.8	0.0	0.0	0.0	6.8
	%	-	-	-	-	-
	Actual Cumulative	49.4	0.0	0.0	0.0	49.4
III. Community economic investment	Plan	536.7	0.0	200.0	0.0	736.7
	Actual	370.8	0.0	304.5	8.7	684.0
	%	69%	0%	152%	-	92%
	Actual Cumulative	14 552.0	0.0	18 266.2	540.9	33 359.1
IV. Project Management	Plan	29.0	5.6	0.0	0.0	34.6
	Actual	12.0	0.0	0.0	0.0	12.0
	%	28%	0%	0%	0%	23%
	Actual Cumulative	739.0	121.5	0.0	0.0	860.5
Total	Plan	573.7	7.2	200.0	0.0	780.9
	Actual	389.6	0.0	304.5	8.7	702.8
	%	68%	-	152%	-	89%
	Actual Cumulative	15 501.4	121.5	18 266.2	540.9	34 430.0

2.2 Physical Progress Summary.

12. By the end of 2012, the following progress (Actual cumulative) has been achieved under each of the project's components:

1. Participatory Community Development

Of 847 villages in the country, 167 showed interest and applied for participation in the Project; 133 villages or 124% of appraisal target having completed VDPs were qualified for financing of which 105 or 184% of appraisal target have been financed for a total amount of USD 14 552 thousands. At the same time 291 business plans have been elaborated with IFAD support and 183 rural entrepreneurs have benefited from complete finalized assistance in submission of loan applications to the Participating Financial Institutions.

2. Institutional Capacity Building

Since the beginning of the project, 420 people (about 132% of appraisal target) have been trained, including 126 staff from commercial banks - PFIs, 32 from consulting companies, 253 entrepreneurs and 9 representatives from MAFI.

3: Community Economic

Since the project start, a total of 219 loans have been disbursed through 8 PFIs of an aggregated amount of USD 14 552 thousands to 561 beneficiaries, of whom 171 (30.5%)

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Investment are women. The average loan size by the end of 2012 reached USD 66.4 thousands.

3. DETAILED IMPLEMENTATION PROGRESS BY COMPONENTS

13. **Component 1: Participatory community development.** The participatory community development component aims to (i) provide rural communities through project participation the possibility to take charge of revitalization of the economies they administrate; and (ii) provide to the participating communities support in developing the capacities and creating viable organizations to design and implement participatory development programmes.

14. In 2012 the sub-component Community mobilization and empowerment the activities have been focused on mobilization of 58 communities with available balance with the purpose to complete the maximum amount available per village. Thus, during the year have been financed enterprises from 3 villages that have available amount for financing.

15. All over the project implementation period of 847 villages in the country, 167 have expressed interest and applied for participation, 133 villages (124% of appraisal target) having completed VDPs have been qualified for financing of which 105 villages (184% of appraisal target) have been financed, including 39 that have completed the maximum available amount per village. The average amount disbursed by village reached by the end of 2012 represented USD 137.3 thousands.

16. In 2012 under the Technical support and training sub-component no business plans have been financed from IFAD resources, while loan beneficiaries have covered the cost of business plan development from their own resources.

17. Throughout the Project activity (January 2006 – December 2012) under the given sub-component 291 business plans have been elaborated with IFAD support and 183 rural entrepreneurs have benefited from complete finalized assistance in submission of loan applications to the Participating Financial Institutions (PFIs).

18. **Component 2: Institutional capacity building.** Under the given component CPIU has continued implementation of capacity building activities necessary to introduce participatory revitalization process. In 2012, under the component has been partly covered the cost of the international study tour (Verona, Italy) organized with the purpose to strengthening commercial banks' understanding of the advantages of lending the value chains players. The study tour has been attended by 6 PFIs representatives, a representative from MoF/CLD, one entrepreneur and CPIU representative.

19. As a result of implementation of the afore-said activities planned for 2012 the following progress is expected to be achieved:

	Plan	Actual	Actual/Plan
International study tour	0	1*9 persons	-

20. Since the beginning of the project, within the training activities organized by CPIU with the purpose to develop the institutional capacities of project implementation partners, 419 persons have been trained, including 126 employees of the commercial banks, 32 representatives of the consulting companies, 253 entrepreneurs and 9 representatives of Ministry of Agriculture and Food Industry.

21. **Component 3: Community economic investment.** By means of this component the project has continued to finance investments aimed at the intensification and expansion of commercial agricultural production, agro-services and agro-processing activities to create productive employment, generate income and render agro-services.

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22. In 2012, 5 loans have been disbursed to 12 beneficiaries, totally mounting to USD 370.8 thousands. The average loan amount was of USD 74.2 thousands and represent 138% of the planned amount for 2012 (USD 53.7 thousands).

23. During six years of project implementation 219 loans have been disbursed to a total number of 561 loan beneficiaries. The total amount of the disbursed loans mounted to USD 14 552.0 thousands.

24. During examination of loan applications the CPIU-IFAD is paying special attention to micro and small enterprise development. Thus, out of funds foreseen for incremental credit provision to rural entrepreneurs 33.4% have been disbursed to micro enterprises and 49.6% to small enterprises (see details in table 4). Since the project has started 84.3% from the total loan amount have been disbursed to micro and small enterprises (see table 4).

Table 4: Investments by size of enterprises (USD '000)

Classification as per the legislation	Actual			Actual Cumulative		
	number	amount	%	number	amount	%
MICRO - no. of employees- ≤ 9 pers. annual sales - ≤ 3 mln lei	2	123.8	33.4%	121	7 067.1	48.6%
SMALL - no. of employees- ≤ 49 pers. annual sales - ≤ 25 mln lei	2	184.0	49.6%	69	5 190.0	35.7%
MEDIUM - no. of employees- ≤ 249 pers. annual sales - ≤ 50 mln lei	1	63.0	17.0%	24	1 858.4	12.8%
LARGE -no. of employees- >249 pers. annual sales - > 50 mln lei	0	0	0.0%	5	436.0	3.0%
Total	5	370.8	100%	219	14 552.0	100%

25. Financing of investments to support agricultural activities is determined based on applications and according to the activities prioritized in the VDPs developed and approved. In 2012 the biggest share (58%) from the total loan amount have been disbursed with the purpose of vineyards and orchards plantation (see table 5 from below), the same tendency is specific for the entire period of the project implementation – 34% from the total loan amount of the period have been disbursed for vineyards and orchards plantation.

Table 5: Financed investments by type of activities (USD '000)

Type of Activity	Actual			Actual cumulative		
	Number	Amount	%	Number	Amount	%
Collection /storage /marketing of agricultural products	1	100.0	27.0%	24	2 125.0	14.6%
Processing facilities	0	0	0	28	1993.0	13.7%
Viticulture and fruit growing	2	123.8	33.4%	79	4 992.0	34.3%
Vegetables growing/ greenhouses	1	63.0	17.0%	13	767.2	5.3%
Irrigation systems	0	0	0	16	913.0	6.3%
Agricultural machinery	1	84.0	22.7%	42	2 641.6	18.2%
Livestock production	0	0	0	16	1 067.4	7.3%
Other agricultural activities	0	0	0	1	52.3	0.4%
Total	5	370.8	100%	219	14 552.0	100%

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26. From the Project's start till the end of 2012, for new businesses development has been disbursed the amount of USD 4 260 thousands which represented 29.3% of the total amount of loans; the share of loans contracted for the expansion of the existing businesses represented 58% of the total amount of loans provided, while during 2012 the same indicator constituted 100% (see table 6).

Table 6: Finance plan by type of activities (USD '000)

	Actual			Actual cumulative		
	Number	Amount	%	Number	Amount	%
Launching of new business	-	-	-	66	4 260.0	29.3%
Diversification of activities	-	-	-	35	1 853.0	12.7%
Expanding of existing business	5	370.8	100%	118	8 438.5	58.0%
Total	5	370.8	100%	219	14 552.0	100%

27. It is worth to mention that in the period 2010 – 2012 the disbursement of funds allocated for SMEs financing registered a slow down due to: (i) project specific related to financing of rural enterprises only under VDPs qualified for financing and with available amount; (ii) still difficult economic environment; and (iii) severe drought that had place in Moldova in 2012.

28. **Beneficiaries Contribution.** From the Project's start-up till the end of 2012, the enterprises financed under the ARP have extensively contributed to the implementation of the investment projects amounting to USD 18 266.2 thousands, which represents 55% of the total cost of the financed investments (USD 33 358.1 thousands). During 2012 the beneficiaries' contribution represented USD 304.5 thousands or 44% of the total investments cost (USD 684.0 thousands).

29. **PFI's contribution.** The total value of the PFIs own proceeds extended to the enterprises financed under the ARP, throughout the entire period of the project's operation, represented USD 540.9 thousands or 1.6% of the total cost of the financed investments. In 2012 PFIs have contributed with own resources to financing of investment under the ARP with the amount of USD 8.7 thousands or 1.2% from the total cost of investments.

30. **Grant element.** The project foresees provision of a grant element, consisting in the cancellation of the remaining payments and namely up to a maximum 30% of the original debt in the case of long-term loans, and up to a maximum 20% of the original debt in case of medium-term loans.

31. According to the conditions established under the project framework, the grant element becomes effective provided that the beneficiary has used the credit according to its purpose and has reimbursed the overall debt according to the repayment schedule within the agreed terms. By the end of 2012, 37 enterprises that have been financed under ARP came to the stage for grant receiving, from which 32 have been accepted to benefit from the grant (the total grant amount being of USD 343.3 thousands) and 5 have been rejected because the enterprises have not meet the established conditions.

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32. **Component 4: Project Management** In accordance to the Loan Agreement no.629-MD, the full management, coordination and responsibility for the project lies within the following institutions:

- The Ministry of Agriculture and Food Industry;
- The IFAD Programs Steering Committee;
- The Consolidated Unit for the Implementation of IFAD Programs in Moldova (CPIU-IFAD);
- The Credit Line Directorate – for the administration of the revolving Village Agricultural Revitalization Fund

33. The Ministry of Agriculture and Food Industry has the overall responsibility for the project implementation.

34. The IFAD Programs Steering Committee, established by the Government Decree and chaired by the Minister of Agriculture and Food Industry, represents the body of approval of the overall IFAD-funded operations in the country. The main responsibilities thereof are as follows:

- approval of policies and strategies ;
- approval of the financial institutions participating (PFIs) under the project;
- review of methodology of calculation of the reference rate and approval of the PFIs margin;
- review and approval of the annual work plans and budgets, and
- review and approval of the progress reports.

35. In 2012, the IFAD Programs Steering Committee has met twice to review and approve the 2011 annual progress report of the project and to approve 2013 AWPB.

36. The overall management of the project lies within the responsibility of the CPIU-IFAD, established by the Government Decree, entrusted with responsibility for implementation activities coordination, including financial management. As of December 31, 2012 the CPIU-IFAD comprises 12 employees, including the CPIU director, 10 specialists in charge of the ARP implementation, as well as for other on-going IFAD-funded projects; and the driver.

37. In 2012 CPIU has contracted a national consulting company to conduct the Impact Assessment of the ARP by the end of the project implementation period. The draft report has been submitted in early 2013 to CPIU for comments.

4. PROJECT PERFORMANCE EVALUATION

38. In light of the information described above, the Project operations and implementation performance are satisfactory, in terms of both financial and technical aspects.

39. Financing of investments in agricultural activities have created conditions that stimulated economic infrastructure development initiatives which have been funded under RBDP (IFAD III) and RFSMP (IFAD IV). Thus, 19 (18%) from 105 villages that have developed VDPs and have been financed under ARP benefited from grants for construction/ rehabilitation of rural infrastructure.

40. By the end of 2012 the financed enterprises¹ have improved most of its financial indicators. These enterprises have reported the end of 2012 comparing to baseline the following:

- growth in total assets average per enterprise of 2.21;
- growth in equity average per enterprise of 6.80;
- ARP borrowers have reported an increase in sales of more than 2 times after accessing project loans, totaling circa USD 25.8 million or USD 1.78 per every disbursed dollar of IFAD loan (USD 14.5 million).

¹ Data provided by the Impact Assessment Report 2012.

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41. Through the project lifetime, 17 new jobs have been created in average per one financed enterprise, or 3 888 jobs. The number of jobs created during ARP activity has exceeded the appraisal target with 49% or 1288 jobs. The average income earned by one employee amounted to USD 208/months which is good compared to average waged employees from agriculture sector USD 178.73/months and covers at 1.82 the subsistence minimum established by the of Q3, 2012 for rural areas (USD113.96)².

42. The project has increased agricultural productivity both in terms of growth in physical output of food and in terms of increasing the purchasing power for rural people to buy food. It is estimated that the 37 investments in agricultural machinery cultivate around 3 700 ha of which 2 830 ha was rented from 1 886 smallholders. Same approach with 17 investments in combine procurement, which is estimated to cultivate around 3 400 ha of which 2 615 ha was rented from 1 732 smallholders. The productivity on this land has increased by 9.5% p.a. contributing to overall food security. Similarly the investment in multiannual plantations of 1 552 ha, 14 666 tons of cold storages transformed the simple agriculture productivity in the high value chain output, cumulated as well as with 42 630 sq. meters of greenhouses. Thus all these businesses avoided low value field crops to cultivation of high value crop to meet the incremental demand from cold stores and processing plants supported under the project³.

43. Reflow of repaying the refinanced loan to CLD will ensure that IFAD's original loan allocation for refinancing (including reallocation) can be revolved for similar loans until full repayment has been made to IFAD in 2043. Assuming that the present structure of the financed loan portfolio is repeated using revolving funds it would result in accumulative refinancing estimated at USD 14.299 million at the end of the grace period in 2014. Considering the repayment schedule of loan to IFAD, SMEs repayment schedule of principal as reflows, the IFAD loan of USD 14.551million (rural investment) could be used for 4.28 circles of 7 years each until the year of 2043 that would result in additional financing of SMEs equal to 55.1 million until the loan maturity in 2043. This would contribute to overall economic growth further contributing to rise in PFIs own resources and eventually to long term sustainability of access to CBs resources for debt financing of rural investments⁴.

44. Taking in account all indicators, both, provided in this report, ARP performance can be appreciated as efficient both on outputs and outcomes results.

² Data from National Bureau of Statistics

³ Data provided by the Impact Assessment Report 2012.

⁴ Data provided by the Impact Assessment Report 2012