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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



## **AGRICULTURAL REVITALISATION PROJECT**

### **2011 ANNUAL REPORT**

#### **Loan Agreement no.629-MD**



**Elaborated by:**

**CONSOLIDATED UNIT FOR THE IMPLEMENTATION OF IFAD PROGRAMMES IN MOLDOVA**

**CHISINAU, 2012**

## **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
PFIs	Participating Financial Institutions
VDP	Village Development Plan

## 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 2011 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 71 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 2011 has ended the sixth 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 2011 AWPB it has been scheduled to disburse the available balance by mid of the year, two years ahead of initial schedule.

### 2.1 Financial Progress Summary.

6. During 2011 for implementation of the project components have been disbursed 69% of IFAD budgeted resources allocated for the current year.

**Table 1: IFAD proceeds by category of expenditures** (USD ‘000)

Category of expenditures	Plan	% from total	Actual	% from total	Actual / Plan	Actual Cumulative
Goods and equipment	0	0%	1.7	0.3%	-	62.6
Technical assistance and support	26.8	3.8%	5.8	1.2%	18%	203.6
Credit	596.6	85.5%	395.0	82.2%	66%	14 181.3
Operational costs	74.6	10.7%	78.4	16.3%	112%	664.8
<b>Total</b>	<b>698.0</b>	<b>100%</b>	<b>480.9</b>	<b>100%</b>	<b>69%</b>	<b>15 112.3</b>

7. The structure of IFAD disbursed resources is similar to the planned amount with reference to the category of expenditures “Credit” that has a share of 82%. The planned amount under the given category has been disbursed during 2011 at 66%. 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.

8. The total cost of implemented activities during 2011 has mounted up to USD 1 117.3 thousands that represented 116% from the total cost planned due high amount of beneficiaries' contribution. More details are presented in table 2.

**Table 2: ARP total cost by financiers** **(USD '000)**

Component		IFAD	GoM	Beneficiaries	Total
<b>I. Participatory community development</b>	Plan	2.9	0	0	2.9
	<b>Actual</b>	<b>0.9</b>	<b>0</b>	<b>0</b>	<b>0.9</b>
	%	31%	0%	0%	31%
	<b>Actual Cumulative</b>	<b>161.1</b>	<b>0</b>	<b>0</b>	<b>161.1</b>
<b>II. Institutional capacity building</b>	Plan	20.0	0	0	20.0
	<b>Actual</b>	<b>4.8</b>	<b>0</b>	<b>0</b>	<b>4.8</b>
	%	24%	0%	0%	24%
	<b>Actual Cumulative</b>	<b>42.8</b>	<b>0</b>	<b>0</b>	<b>42.8</b>
<b>III. Community economic investment</b>	Plan	596.6	0	250.0	986.9
	<b>Actual</b>	<b>395.0</b>	<b>0</b>	<b>621.9</b>	<b>1 016.9</b>
	%	66%	0%	248%	103%
	<b>Actual Cumulative</b>	<b>14 181.3</b>	<b>0</b>	<b>17 961.7</b>	<b>32 143.0</b>
<b>IV. Project Management</b>	Plan	78.5	12.8	0	98.5
	<b>Actual</b>	<b>80.1</b>	<b>14.5</b>	<b>0</b>	<b>94.6</b>
	%	102%	113%	0%	96%
	<b>Actual Cumulative</b>	<b>727.1</b>	<b>121.5</b>	<b>0</b>	<b>848.6</b>
<b>Total</b>	<b>Plan</b>	<b>698.0</b>	<b>12.8</b>	<b>250.0</b>	<b>960.8</b>
	<b>Actual</b>	<b>480.9</b>	<b>14.5</b>	<b>621.9</b>	<b>1 117.3</b>
	<b>%</b>	<b>69%</b>	<b>113%</b>	<b>248%</b>	<b>116%</b>
	<b>Actual Cumulative</b>	<b>15 112.0</b>	<b>121.5</b>	<b>17 961.7</b>	<b>33 195.5</b>

## 2.2 Physical Progress Summary.

9. During 2011, the following progress has been achieved under each of the project's components:

10. **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.

11. As in the previous years, in 2011 the inputs under this component have been provided through implementation of the two sub-components: (a) Community mobilization and empowerment; and (b) Technical assistance and training.

12. **(a) Community mobilization and empowerment.** Thus, with reference to community mobilization and empowerment, CPIU has financed one from those tree villages which have elaborated the VDP during the previous year. Under the financed VDP, 2 economic entities have been financed. At the same time, in other 27 villages being financed already CPIU have organized meetings with potential beneficiaries, making presentation and explaining them about offered products within the ARP, which would help to complete the maximum amount available per village. As result, five villages have been financed, including tree villages that have completed the maximum available amount per village (USD 200 thousands).

13. By the end of 2011, 103 villages have received financing under the developed VDPs, including 39 that have completed the maximum available amount per village (100% of appraisal target).

**Table 3: Community mobilization and development**

		2011 (PY6)	Actual Cumulative, 2006-2011	Appraisal Target	Actual Cumulative/ Appraisal Target (%)	Average amount per village, USD '000
1	Qualified Villages / Development Plans approved for financing	-	133	107	124%	
	<i>including not financed qualified villages</i>	-	30	-	-	
2	Financed villages - total	5	103	-	-	137.7
(a)	<i>Number of VDPs completed with max amount=USD 200 ths.</i>	3	39	39	100%	196.6
(b)	<i>Number of VDPs with at least 2 beneficiaries and the amount not less than USD 150 ths</i>	-	6	-	-	163.6
(c)	<i>Number of VDPs with 1 or 2 beneficiaries and the amount up to USD 150 ths</i>	2	50	-	-	104.8
(d)	<i>Number of VDPs with 1 or 2 beneficiaries and the amount less than USD 50 ths</i>	-	8	-	-	36.6

14. **(b) Technical support and training.** Under this sub-component the necessary technical assistance and training was provided to eligible beneficiaries, under the VDPs approved in the Project for financing, on business development and credit processing.

15. Throughout the reporting period, to provide technical assistance and support to eligible applicants the following 10 business service providers have been selected and accredited: NGO „Moldova Microfinance Aliance”, NGO „Business Advisory Center”, “ProConsulting” LLC, National Federation of Agricultural Producers from Moldova „AGROinform”, „ Avensa Consulting” LLC, “Bis Group” LLC,

„DumitGrup” LLC, „Moldauditing” LLC, „IFC Grup” LLC and National Agency for Rural Development “ACSA”.

16. During 2011, the technical support in business plan developing was provided to four eligible economic entities and all of them were assisted in completion of loan application and loan negotiation with participating financial institution.

17. With reference to technical support and training, CPIU has financed 4 business plans development and 4 rural enterprises have benefited from support at submission and negotiation of the loan with PFIs.

18. Throughout the Project activity (January 2006 – December 2011) 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).

19. As a result of implemented activities during the first half of 2011 the following progress has been achieved:

	Plan	Actual	Actual/Plan
Business plans developed	14	4	28%
Meetings organized to mobilize economic entities	15	27	180%
Villages with the maximum amount available completed	3	3	100%

20. **Component 2: Institutional capacity building.** Under the given component CPIU has continued implementation of capacity building activities necessary to introduce participatory revitalization process. In the first semester of 2011 the CPIU has supported activities related to farmers’ improved access to marketing services. In this context, CPIU has financed the participation of 4 rural entrepreneurs, members of the Grape Producers and Exporters Association, at the Green Week exhibition (Germany).

21. As a result of implementation of the afore-said activities planned for 2011 the following progress is expected to be achieved:

	Plan	Actual	Actual/Plan
SMEs beneficiaries of assistance on international standards implementation	2	0	-
International study tour	1*8 persons	1*4 persons	50%

22. 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, 413 persons have been trained, including 120 employees of the commercial banks, 32 representatives of the consulting companies, 252 entrepreneurs and 9 representatives of Ministry of Agriculture and Food Industry

23. **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.

24. In 2011, 6 loans have been disbursed to 11 beneficiaries, totally mounting to USD 395.0 thousands. The average loan amount was of USD 65.7 thousands and represent 98% of the planned amount for 2011 (USD 67.0 thousands).

25. During six years of project implementation 214 loans have been disbursed to a total number of 549 loan beneficiaries. The total amount of the disbursed loans mounted to USD 14 180.3 thousands.

26. 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 56% were disbursed to micro enterprises, while 19% to small enterprises (see details in table 4 from below). Since the project has started 84% from the total loan amount have been disbursed to micro and small enterprises (see annex 1).

**Table 4: Finance plan by size of enterprises**

(USD '000)

Classification as per the legislation	Plan			Actual		
	number	amount	%	number	amount	%
<b>MICRO</b> - no. of employees- ≤ 9 pers. annual sales - ≤ 3 mln lei	5	369	50	4	220,0	56
<b>SMALL</b> - no. of employees- ≤ 49 pers. annual sales - ≤ 25 mln lei	4	332	45	1	75.0	19
<b>MEDIUM</b> - no. of employees- ≤ 249 pers. annual sales - ≤ 50 mln lei	2	37	5	1	100.00	25
<b>LARGE</b> -no. of employees- >249 pers. annual sales - > 50 mln lei	0	0	0	0	0	0
<b>Total</b>	<b>11</b>	<b>737.0</b>	<b>100</b>	<b>6</b>	<b>395.0</b>	<b>100</b>

27. 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 2011 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: Finance plan by type of activities**

(thousand USD)

Type of activity	Plan			Actual		
	number	amount	%	number	amount	%
Collecting/ processing/ cold storage/ packing of agricultural products	3	206,0	28	1	7.2	2
Vineyards and orchards plantation	3	214,0	29	3	228.1	58
Irrigation systems, vegetable production	3	200,0	27	1	74.3	19
Agricultural machinery	2	117,0	16	1	84.4	21
<b>Total</b>	<b>11</b>	<b>737,0</b>	<b>100</b>	<b>6</b>	<b>394.0</b>	<b>100</b>

28. **Beneficiaries Contribution.** From the Project's start-up till the end of 2010, the enterprises financed under the ARP have extensively contributed to the implementation of the investment projects amounting to USD 17 339.8 thousand, which represents 55% of the total cost of the financed investments. During 2010 the beneficiaries' contribution constituted USD 1 200.1 thousand or 39% of the total investments cost (see table 5).

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, constitute USD 532 thousand which represents 1% of the total cost of the financed investments (see table 7).

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. In 2011 another 16 granted under the project SMEs benefited from the grant element and 3 SMEs were refused due to non-payment of amounts due on time.

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 2011, the IFAD Programs Steering Committee has met twice to review and approve the 2010 annual progress report of the project and to approve 2012 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 1<sup>st</sup> November, 2010 the CPIU-IFAD comprises 11 employees, including the CPIU director, 9 specialists in charge of the ARP implementation, as well as for other on-going IFAD-funded projects; and the driver.

37. In 2011, the CPIU will continue to exercise its responsibilities in terms of:

- project implementation in technical and financial terms, as well as supervision of the overall activities thereof;

- procurement under the project's components as per the 2011 AWP/B (annex 4);
- selection of the international auditors and preparation of the relevant statements;
- monitoring and evaluation of the project's impact in compliance with the RIMS indicators and other additional indicators ;
- preparation of progress reports, with continuous improvement thereof ; and
- backstopping to the annual IFAD supervision missions, elaboration of the required information and organization of field trips and meetings with other donors, operating in Moldova.

### 3. PROJECT PERFORMANCE EVALUATION

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

39. At the end of 2011 the financed enterprises<sup>1</sup> have improved most of its financial indicators. These enterprises have reported results: annual average growth in total assets of 32%; annual average growth in equity of 33%; annual average growth in net profit of 38%; annual average in sales volume of 5% decrease comparing to previous period.

40. Thus, in the context of significant grow in assets, equity and net profit values the main financial indicators had registered the following level comparing to previous period:

- i. Return on Assets (ROA) figure has increased with 5% average per enterprise;
- ii. Return on Equity (ROE) figure has registered a 24% decrease average per enterprise;
- iii. Financial Autonomy Ratio figure has increased with 40% average per enterprise.

41. These figures show an improvement of financial situation comparing to 2010, in term of increasing the assets efficiency and profitability, but indicate that there are some gaps in increasing efficiency of invested capital.

42. Through the investments financed during 2006-2010, 3 888 jobs have been created. The number of jobs created during ARP activity has exceeded the appraisal target with 49% or 1288 jobs. During 2011, 611 new jobs<sup>2</sup> have been created mainly as result of business development process; the created jobs have diminished the number of registered unemployed people<sup>3</sup> with 1.6% at national level. At the same time, the financed enterprises have reported an annual average growth of monthly average salary with 23%.

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

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<sup>1</sup> Data obtained based on a sample of 23 enterprises (11%) from 208 financed during 2006-2010.

<sup>2</sup> Data obtained based on a sample of 23 enterprises (11%) from 208 financed during 2006-2010.

<sup>3</sup> 38 700 registered unemployed people as of 1<sup>st</sup> January 2010 according the National Bureau of Statistic of Republic of Moldova

**ANNEX 1: Classification of financed enterprises, actual & actual cumulative:**

(USD '000)

	<i>Classification according the law</i>	Actual			Actual cumulative		
		Number	Amount	%	Number	Amount	%
<b>Micro</b>	<i>Number of employees - ≤ 9 pers. Net annual sales - ≤ 240,0 ths.USD</i>	4	220,0	56	119	6 943.4	49
<b>Small</b>	<i>Number of employees - ≤ 49 pers. Net annual sales - ≤ 2000,0 ths.USD</i>	1	75.0	19	67	5 006.0	35
<b>medium</b>	<i>Number of employees - ≤ 249 pers. Net annual sales - ≤ 4000,0 ths.USD</i>	1	100.00	25	23	1 795.3	13
<b>Large</b>	<i>Number of employees - &gt;250 pers. Net annual sales - &gt; 4000,0 ths.USD</i>	0	0	0	5	436.0	3
<b>Total</b>		<b>6</b>	<b>395.0</b>	<b>100</b>	<b>214</b>	<b>14 181.0</b>	<b>100%</b>

**ANNEX 2: Classification of disbursed loans by type of activity actual & actual cumulative:**

(USD '000)

Profile of Activity	Actual			Actual cumulative		
	Number	Amount	%	Number	Amount	%
Collection /storage /marketing of agricultural products	0	0	0	23	2 025.0	14
Processing facilities	1	7.2	2	28	1 993.0	14
Viticulture and fruit growing	3	228.5	58	77	4 868.2	34
Vegetables growing/ greenhouses	0	0	0	12	704.2	5
Irrigation systems	1	74.3	19	16	913.0	6
Agricultural machinery	1	85.0	21	41	2 558.0	18
Livestock production	0	0	0	16	1 067.4	8
Other agricultural activities	0	0	0	1	52.3	1
<b>Total</b>	<b>6</b>	<b>395.0</b>	<b>100</b>	<b>214</b>	<b>14 181.0</b>	<b>100</b>