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EVALUATION OF DCA GUARANTEE TO FINCOMBANK, MOLDOVA

REPORT

IUNE 2011

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On the Cover: Tractor in a field in Moldova. Photo Credit: USAID/S. Grosser

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ACRONYMS

CEP	Credit Enhancement Project
CMS	Credit Management System
DCA	Development Credit Authority
DFID	Department for International Development (United Kingdom)
EBRD	European Bank for Reconstruction and Development
EGAT/DC	Bureau of Economic Growth, Agriculture and Trade/ Office of Development Credit
EU	European Union
GDP	Gross Domestic Product
IFAD	International Fund for Agricultural Development
IFRS	International Financing Reporting Standards
LPG	Loan Portfolio Guarantee
MAIB	Moldova Agroindbank
MCC	Millennium Challenge Corporation
MDB	Multilateral Development Banks
MDL	Moldovan Lei
MSED	Micro and Small Enterprise Development
MSME	Micro, Small and Medium Enterprises
NBM	National Bank of Moldova
NBFI	Non Bank Financial Institution
NPL	Non Performing Loan
OPIC	Overseas Private Investment Corporation
RISP	Rural Investment and Services Project (World Bank)
SME	Small and Medium Enterprise
USAID	U.S. Agency for International Development
WNISEF	Western NIS Enterprise Fund

EXECUTIVE SUMMARY

Moldova is one of the poorest countries in Europe with a per capita Gross Domestic Product (GDP) around $1,600. Agriculture, including agri-business, remains one of the most important sectors in Moldova, employing over 40 percent of the population, accounting for 30-40 percent of GDP and more than 50 percent of exports. Lack of credit is considered an important constraint to expanding agricultural businesses, and improving competitiveness and export performance that are key to increasing rural employment and incomes. Where credit is available, short-term loans are the norm discouraging needed investment in plant and equipment. In addition, collateral requirements are high, sometimes two to three times the value of the loan. Farmers and small agro-processing firms have limited experience preparing financial statements to document creditworthiness.

The U.S. Agency for International Development (USAID) responded to the lack of finance in the agricultural sector by providing a five-year, $4-million Development Credit Authority (DCA) loan portfolio guarantee (LPG) to FinComBank in August 2005, then the eighth largest bank in Moldova. The purpose of the DCA guarantee was to support loans to micro, small and medium enterprises (MSMEs) in the agriculture, agribusiness, and related sectors such as transport and services in rural areas of Moldova.

FinComBank made 75 loans under the five-year loan guarantee, which was fully utilized (97.6 percent) within the first 18 months. The average loan size was $52,000, and 70 percent of loans were granted for working capital. FinComBank made one claim for $2,344. The facility expired in August 2010. This guarantee leveraged $18 of FinComBank loans to the agricultural sector in Moldova for every one dollar of USAID investment.

TABLE 1. DCA LPG TO FINCOMBANK

Starting Year	Ending Year	Ceiling Amount ($)	Number of Loans	Cumulative Utilization ($)	Utilization Rate	Average Loan Size ($)	Average Loan Tenor (months)	Subsidy Amount ($)
2005	2010	4 million	75	3,904,493	97.6 %	52,000	18	226,000

Source: USAID Credit Management System (CMS)

In February 2011, USAID's Office of Development Credit (EGAT/DC) contracted SEGURA/IP3 Partners LLC to conduct an evaluation of the DCA guarantee provided to FinComBank. This evaluation is the ninth in a series of 20 evaluations of DCA guarantees planned over four years.

The scope of work (included in Annex A) asks the evaluator to examine the results of the DCA guarantee to FinComBank at three levels: output, outcome, and impact. At the output level, the

evaluation explores how FinComBank used the guarantee for loans it would not have otherwise made. The outcome level explores whether the new lending practices were sustained by FinComBank after the guarantee or during the guarantee period without using the guarantee's protection. At the impact level, the evaluation analyzes the broader market impact of the guarantee and determines whether the guarantee influenced other banks to lend to the agricultural sector and whether that resulted in improved terms for the borrowers. In addition, EGAT/DC asked the evaluation team to analyze the effects of exogenous factors on the changes observed at the three levels.

This evaluation used a mixed methods approach, including statistical analysis of loan data, key informant and group interviews, and document review. The evaluation team traveled to Moldova from April 11–17, 2011 to meet with FinComBank, other DCA partner banks, donors and multilateral development banks (MDBs), and a wide range of other key financial sector institutions and practitioners. The evaluation team met with USAID/Chisinau prior to beginning the interviews and again at the end of the mission.

The scope of work for the evaluation focuses solely on the FinComBank DCA guarantee. However, this DCA agreement was part of a much larger Credit Enhancement Project (CEP) that provided a collective DCA facility of $27 million over the period 2004–2010[1] to six other Moldova financial institutions (five banks and one non-bank financial institution).[2] FinComBank was the smallest participating bank and accounted for roughly 15 percent of the total Moldova DCA guarantee facility. In addition, only the FinComBank DCA was targeted solely to the agricultural sector[3]; the target borrowers for the other DCA partner banks were SMEs as well as agricultural producers.

Moldova is a small country with only 15 banks. In 2005 when the FinComBank $4-million guarantee was signed, total loans in Moldova were about MDL 13 billion (roughly $1 billion). Of that, approximately MDL 3.1 billion (about $242 million) were loans to the agricultural sector.

In 2009, the six largest banks in the country accounted for more than 75 percent of system assets in Moldova.[4] FinComBank, the ninth largest bank, had a market share of less than five percent in 2009. The participation of four of the six biggest banks in the DCA guarantee makes it more difficult to ascertain or separate out the broader market impact of this one smaller bank's

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1 Loans made under the CEP totaled $21.5 million. Table x summarizes the use of the DCA guarantee by the seven CEP participating financial institutions.

2 Other than FinComBank, five banks -- Mobiasbanca, Moldinconbank, Banca Sociala, Moldova Agroindbank (MAIB) and Victoriabank and one non-bank financial institution – Rural Finance Corporation – participated in the Credit Enhancement Project and received LPGs.

3 For purposes of this report, the term "agricultural sector" is broadly defined to include: farms, agri-business, food processing and related transportation and services. The Central Bank and the banks use the term "agriculture and food industry."

4 2010 results are not yet available.

guarantee. This evaluation report therefore discusses the impact of the FinComBank guarantee at all three levels, but necessarily includes, particularly at the third level – the impact of the CEP guarantee overall.

Overall Findings

Trends in Lending to the Agricultural Sector are Generally Positive, even Post Crisis

The overall purpose of the DCA guarantee with FinComBank was to spur lending to MSMEs in Moldova's agricultural sector. During the period of the loan guarantee to FinComBank (2005-2010), lending to the agricultural sector increased. Post financial crisis, lending to the sector has expanded due to better prospects for the agricultural sector given the global rise in agricultural prices as well as an increase in donor/MDB credit lines for the agricultural sector.[5] Even during the worst of the financial crisis in 2009, agriculture lending did not decrease as much as other, harder hit sectors. As a result, trends in financing the agricultural sector are moving in the right direction. Banks are increasingly providing short-term credits (less than two year) from their own resources. As noted above, long-term bank lending to the sector, particularly for investment purposes, continues to rely on funding from donor/MDB credit lines. Slow progress on modernization and mechanization of the agricultural sector, weak land reform and inefficient foreclosure processes to recover collateral stymie stronger lending to the agricultural sector.

Output (*How did FinComBank use the guarantee? What is the additionality of the guarantee for the bank? How did the guarantee influence the bank's internal strategy?)*

The $4-million DCA guarantee accounted for about 25 percent of FinComBank's total agricultural loan portfolio when the guarantee began in 2005. FinComBank aggressively used the DCA guarantee to make loans to the agricultural sector, reaching the maximum guarantee authority in less than two years of the five-year guarantee. There was only one small claim. The DCA guarantee allowed the bank to implement and test its strategy to expand its presence in less served rural markets. It allowed them to share risk while gaining experience in a challenging sector. The guarantee helped FinComBank make loans to borrowers who would have been denied loans due to insufficient collateral and/or lack of credit history.

This positive picture is tempered to some extent by the fact that more than half of FinComBank's DCA guaranteed loans were extended to previous bank clients. The analysis of the loans to FinComBank borrowers who then subsequently received a DCA guaranteed loan did not show

[5] For example, the MCC has just joined a long list of other donor and MDBs providing credit to agricultural. It has extended a $12 million 5-year credit line for high-value agriculture as part of its Compact with Moldova which focuses on the agricultural sector.

that the guarantee allowed the bank to either provide either larger, longer term loans to these clients or require less collateral; in fact, no pattern emerges.

Findings in support of these conclusions include:

- Thirty-two of the 75 loans went to first-time FinComBank borrowers.
- FinComBank required less than their standard minimum 100 percent collateral on 11 of the 75 DCA guaranteed loans.
- Of the 41 borrowers who had received a previous loan(s) from FinComBank, 26 received larger loans, 20 received longer-term loans[6], and six saw their collateral requirements go down when borrowing under the guarantee.

Outcome *(Did the guarantee achieve its stated outcomes and were these outcomes sustained by the bank after the guarantee. Did the guarantee change FinComBank's behavior?)*

FinComBank significantly increased its agricultural loan portfolio during the guarantee period. Between 2004 and 2008, both the number and outstanding value of agricultural sector loans more than doubled. Agricultural lending continues to be a priority of the bank and has remained robust post-financial crisis, compared to other sectors. At end of 2009, FinComBank loans to the agricultural sector were just under 25 percent of its total loan portfolio. This ratio is significantly higher than the banking system as a whole in which agricultural loans account for about 15 percent of total lending. Almost half of the DCA borrowers remain clients and still receive loans from FinComBank without any guarantees. More than half of the new loans to previous DCA borrowers were short -term loans (24 months or less.)

For loans over two years, FinComBank continues to rely almost completely on donor/MDB credit lines as they do not have access to any other source of medium- to long-term funding. While the credit lines do allow the bank to lend longer term, there is no sharing of credit risk. Thus, FinComBank needs to be confident that the borrower will repay. Many of the bank's new loans to previous DCA borrowers were financed from donor credit lines for investment purposes on 3-10 year terms. Because of this, it stands to reason that FinComBank's positive experience with the borrowers increased its confidence to make the longer-term loans.

The guarantee did not appear to influence interest rates or collateral requirements on FinComBank's loans to the agricultural sector. Interest rates remain at market rates and significant collateral is still required on loans to agricultural sector borrowers.

Key findings in support of these conclusions include:

[6] The data does not provide information to determine whether the larger or longer-term loans were due to the guarantee or because of the purpose of the loan.

- FinComBank significantly expanded its network and staff in rural areas throughout Moldova which helped increase in the number and value of loans to the agricultural sector supported by the guarantee
- FinComBank stated that it now feels confident to use its own resources to provide short-term credit (less than two years) to the agricultural sector.

Impact *(Did the guarantee have a demonstration effect that resulted in broader market impact/ did other lenders improve access to credit for agricultural sector borrowers*?)

While the $4-million FinComBank guarantee was too small to have a broader market impact, the overall $27 million CEP probably did have a marked impact on lending to the agricultural sector since it included four of the six largest banks in Moldova, which account for more than 75 percent of system assets[7]. While credit to the agricultural sector increased about 33 percent from 2004 to 2010, the bigger impact may be more related to a shift in emphasis away from lending to larger agricultural enterprises to smaller agricultural producers. Lending to the agricultural sector fluctuated during the guarantee period given severe weather-related production problems, the Russian embargos on Moldova agricultural products and the financial crisis.

There were other broader impacts. There are now many new borrowers in the banking system that have a credit history as well as more valuable collateral (equipment/buildings) that they obtained because of the initial DCA guaranteed loan. In addition, the banks gained valuable experience in making loans to a risky sector, learning how to manage and mitigate risk in the process. There is growing competition among Moldovan banks to find and lend to rural borrowers. Many DCA partner banks have established new micro-lending programs with reduced documentation and no collateral; this may be a result of their positive experience and lessons learned about managing risk from the DCA guarantee.

It is difficult to determine what impact the CEP had on non-DCA partner bank lending to the agricultural sector given that most of the biggest banks in Moldova participated, including the biggest agricultural lender in Moldova. The one exception was the state-owned Banca De Economii, which is not a significant lender to the agricultural sector and has also been excluded from participation in a number of donor/MDB credit lines due to the fact that it is state-owned. This makes it difficult to compete with the other banks.

Another big impact of the DCA guarantee in Moldova was the establishment of two home-grown guarantee funds for borrowers lacking credit history and/or sufficient collateral that were directly influenced by the DCA experience: (1) Garantinvest set up by the larger Moldovan banks in 2005

[7] The target borrowing sector of the six other financial institutions in the CEP program was SMEs and agricultural producers, but since the agricultural sector dominates Moldova's economy, many of their DCA guaranteed loans would have been extended to the agricultural sector. DCA's biennial review and close-out reports document that a large portion of the CEP loans went to agricultural producers and agri-business.

(with help from DFID), and, (2) ODIMM, which is a new government guarantee. Both guarantee funds are small and not yet well-used. However, their establishment is recognition by the banks and government of the importance of guarantees to share risk in new markets.

Exogenous Factors

Many factors influenced the flow of credit to Moldova's agricultural sector and the performance of the DCA guarantee with FinComBank; the most important was the volatile macro-economic environment, weather conditions, and trade relations with Russia.

The early years of the CEP, including the period during which the guarantee at FinComBank was fully utilized (late 2005-mid-2007), coincided with a strong economic boom in Moldova. GDP grew at an average annual rate of six percent. Credit growth soared throughout the economy; expanding about 80 percent in 2007. The latter two years of the guarantee period 2008-2010 coincided with the global financial crisis that diluted the impact of the entire DCA portfolio in Moldova. Moldova suffered a deep recession in 2009. Exports, including agricultural products, dropped, and the banking sector was particularly hard hit. Credit declined almost 20 percent in 2009. Beginning in mid-2008, the risk environment completely changed with credit standards becoming more restrictive, oversight of the banking system tightening and banks becoming risk adverse. If the CEP had begun in 2007, the results might have been different.

Agricultural production during the guarantee period fluctuated significantly in Moldova. During the initial two years, Moldova suffered extreme weather conditions. In 2007, the worst drought since 1946 resulted in a 35 percent decline in agricultural production. This impacted lending to the sector and timely repayment, including some of FinComBank's DCA guaranteed loans.

Export demand for Moldova's agricultural products is volatile and thus impacts the willingness of banks to lend to the agricultural sector as it adds another layer of uncertainty and risk. Moldova continues to enjoy preferential trade arrangements with the EU, benefiting the agricultural sector as long as it meets phytosanitary standards. However, trade with Russia, Moldova's biggest export market for Moldovan agricultural goods, including wine, is prone to periodic disruptions.

Finally, the impact of the guarantee was also influenced by a number of other factors, including: (1) the continued weak legal/regulatory framework and judicial system in Moldova; (2) the slow progress in improving the recovery of collateral, (3) weak property rights; and, (4) the absence of a credit bureau.

INTRODUCTION

The Development Problem

Moldova is one of the poorest countries in Europe with a per capita GDP around $1,600. Agriculture, including agri-business, remains one of the most important sectors in Moldova, employing over 40 percent of the population and accounting for 30-40 percent of GDP and over 50 percent of exports. Lack of credit is considered an important constraint to expanding agricultural businesses, improving competitiveness and export performance, important elements to the increase in rural employment and incomes.

Development of Moldova's agricultural sector since its transition from state-owned collective farms to a large number of small and medium size farms has been slow, hampered by a lack of progress in land reform and weak property rights. This has resulted in under-investment in agricultural infrastructure and modern equipment. There is a significant need to replace outdated and worn out equipment, improve irrigation systems, and plant new orchards and vineyards, all of which require longer-term financing. The demand for working capital to buy seed and other inputs remains high. Compounding these issues, many small farms are comprised of non-contiguous land plots and farmland remains undervalued. The combination of these factors means that many farmers have difficulty providing the collateral required by banks to secure loans. Though most banks call for at least a 100-percent collateral requirement in Moldova, the actual collateral requirement may be two to three times the value of the loan, once the bank applies its discount for different types of collateral[8]. In addition, collateral is hard to collect due to a slow judicial system that favors borrowers. Farmers and small agro-processing firms also have limited experience in modern farming methods and in preparing business plans, financial statements and other documentation to demonstrate creditworthiness. Recent severe weather related problems and trade disruption with Russia have exacerbated the already perceived high risks in lending to the sector.

USAID's Response

The U.S. Agency for International Development (USAID) responded to the lack of finance in the agricultural sector by providing a $4-million Development Credit Authority (DCA) loan portfolio guarantee (LPG) to FinComBank in August 2005. The purpose was to support loans to micro, small and medium enterprises (MSMEs) in the agriculture, agribusiness and related sectors such as transport and services by sharing risk. The DCA agreement supported USAID/Chisinau's Strategic Objective 2, Private Enterprise Growth Creates Jobs and Generates Income.

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8 Once a bank receives the official appraisal for property to be used as collateral it applies discounts based on type of collateral, e.g., mortgage or machinery. The discount for mortgages is also based on the geographic location of property; the discount is lower for urban properties than rural properties, particularly farmland. See Annex B for a fuller discussion of collateral issues in Moldova.

TABLE 2. SUMMARY OF FINCOMBANK DCA GUARANTEE AGREEMENT (AUGUST 2005)

Authority	USAID Development Credit Authority
Type	Loan Portfolio Guarantee (LPG)
Guaranteed party	FinComBank, SA Chisinau, Moldova
Guarantee Purpose	Encourage lending to commercially viable MSMEs in rural areas for agricultural, agri-business purposes and other related sector such as transportation and services.
Maximum Portfolio Amount	$4,000,000 (not revolving)
USAID Cost Subsidy	$226,000
USAID guarantee percentage	50 percent of net losses of principal for Qualifying Loans
Guarantee ceiling	$2,000,000
Term of guarantee	August 26, 2005-August 26, 2010
Origination Fee	0.5 percent of the Guarantee Ceiling ($20,000)
Utilization Fee	1.0 percent per annum of average outstanding principal amount that is guaranteed, payable semi-annually
Maximum Loan Amount	$500,000 to any one borrower on a cumulative basis, including parent or subsidiary
Terms/Tenor/Interest Rate/Currency	• Maximum tenor is 36 months from date of first disbursement; • Consistent with those prevailing in the market • Loan Currency: Moldovan Lei, Euros or US$
Qualifying Borrowers	Non-sovereign Moldovan micro-, small-, and medium sized enterprises established under Moldovan law that are private enterprises in agriculture, agri-business or related sectors such as transport or services
Qualifying Projects	Investments designed to encourage growth of Qualifying Borrowers in agriculture, agri-business, or related sectors such as transport or service

USAID's relationship with FinComBank began in 2000 with support from DCA's predecessor guarantee product, Micro and Small Enterprise Development (MSED). USAID's $1-million MSED guarantee with FinComBank ran from 2000-2005 with an 81.4 percent utilization rate. In contrast to the 2005 DCA, the MSED in Moldova focused primarily on lending to SMEs in Chisinau. Assessments of FinComBank's performance under the MSED guarantee were favorable and noted FinComBank's "fresh thinking about the use of the guarantees" and willingness to use the guarantees to reach a "wider base of clients." [9] FinComBank submitted one claim under MSED in the amount of $9,303.

[9] From USAID's Action Package requesting approval of the guarantee.

Purpose of the Evaluation

In February 2011, USAID's Office of Development Credit, which manages the USAID DCA guarantees, contracted SEGURA/IP3 Partners LLC (now SEGURA Partners LLC) to conduct an evaluation of the DCA guarantee provided to FinComBank. This evaluation is the ninth in a series of 20 evaluations of DCA guarantees planned for over four years to assess the outputs, outcomes, and impacts of these guarantees. Individually and together, these evaluations are meant to provide EGAT/DC with information to:

1. Demonstrate and communicate to DCA stakeholders the contributions of DCA loan guarantees to the achievement of development results;
2. Contribute to the dialogue about how to engage financial sector institutions as partners in development;
3. Strengthen USAID's application of DCA as a tool for achieving development results; and
4. Influence the design of new guarantees.

Evaluation Questions in Brief

Output level—Did FinComBank use the guarantee to make loans it otherwise would not have made?

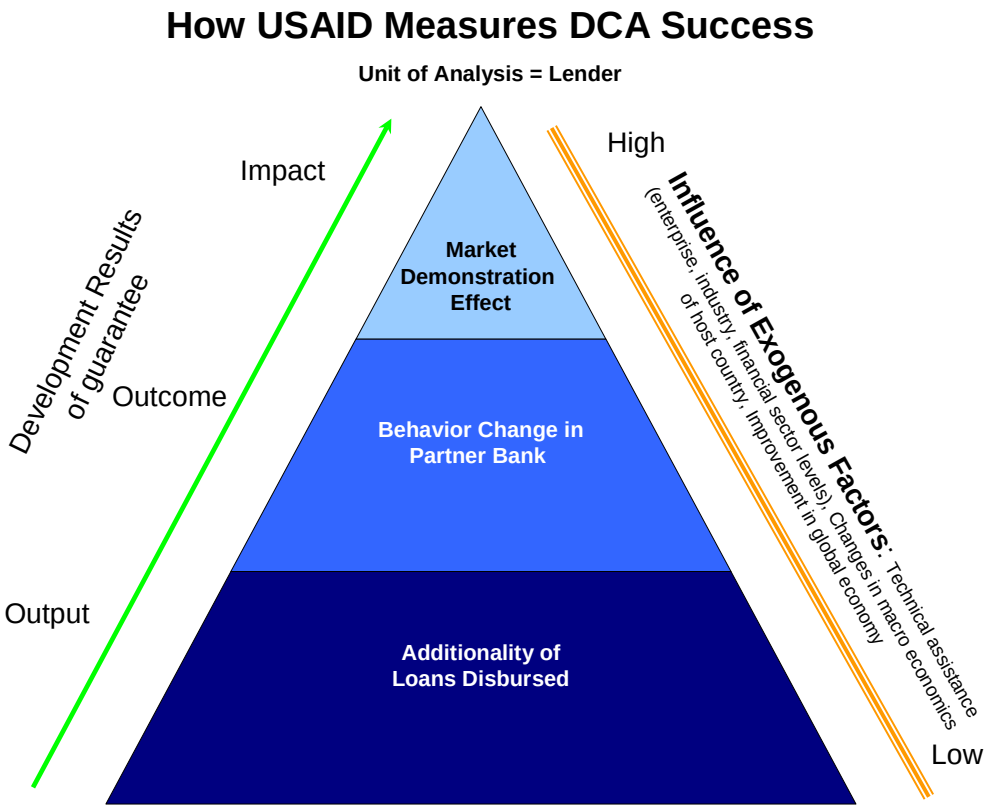
Outcome level—Did FinComBank's experience with the guarantee help improve access to credit for the agricultural sector through its lending outside the guarantee coverage?

Impact level—Did the guarantee have a demonstration effect that resulted in broader market impact?

Exogenous factors—What exogenous factors affected the performance of the DCA guarantee at the output, outcome, and impact levels?

The scope of work asks the evaluators to examine the results of the DCA guarantee with FinComBank at three levels: output, outcome, and impact. At the output level, USAID asked the evaluators to examine the additionality of the guaranteed loans; that is, what differentiates these loans and the way the bank uses them from business as usual at the partner bank. Outcome-level questions focus on determining the extent to which use of the guarantee has produced changes in FinComBank's non-guaranteed lending. Impact-level assessment seeks to determine whether changes in FinComBank's behavior have encouraged other, non-partner banks to increase lending to the target sector. In addition, EGAT/DC asked the evaluation team to analyze the effects of exogenous factors on changes observed at the three levels.

FIGURE 1. MEASURING DCA SUCCESS



Evaluation Methodology

This evaluation used a mixed methods approach, including statistical analysis of loan data, key informant and group interviews, and document review. The evaluation began in February 2011 with initial discussions with EGAT/DC to obtain a better understanding of the guarantee, its objectives and context, and key players with whom the team should meet while in Moldova. After reviewing background documents on the guarantee from EGAT/DC, the evaluator revised the generic DCA evaluation framework to fit the FinComBank guarantee objectives and context.

The evaluation continued in Moldova for a site visit on April 11-17, 2011. The team conducted interviews with senior management at FinComBank headquarters in Chisinau, the director of the FinComBank branch most active in providing DCA guaranteed loans in Riscani, and four borrowers who received guaranteed loans. The evaluation team met with and interviewed senior management at three of the biggest banks in Moldova, two of which had participated in the DCA guarantee (Moldova Agroindbank and Mobiasbanca). In addition, meetings were held with: (1)

the USAID funded West NIS Enterprise Fund (WNISEF), which has owned a 25 percent stake in FinComBank since 2007, the Moldovan Banker's Association, (2) Garantinvest, a local provider of credit guarantees started by several banks, (3) the European Bank for Reconstruction and Development (EBRD), the International Food and Development Agency (IFAD), and the Millennium Challenge Corporation (MCC), all of which provides significant amount of credit lines to the banks for long-term agricultural lending, (4) the National Bank of Moldova (NBM), and (5) a former USAID technical assistance provider for the DCA known as BIZPRO (now expired) which, among other things, provided training to DCA and MSED partner banks. The evaluation team met with USAID/Chisinau prior to and after these interviews (the complete schedule of meetings is provided in Annex C).

Data Limitations

Prior to meeting with FinComBank and the two other DCA partner banks, the evaluation team requested that they provide more detailed data related to their DCA borrowers, specifically, (1) whether the borrowers who received the guaranteed loans were first-time clients of the bank, and (2) whether the DCA borrowers continued to be clients after the guaranteed loan was provided and if so, to provide details on the size, terms and purpose of these follow-on loans as well as collateral requirements. In addition, all four banks interviewed were asked to provide data on the sectoral composition of their loan portfolios from 2004-2010 as well as information on non-performing loans by sector for the same time period.

FinComBank provided the data requested on the last day in Moldova, which did not allow future in-person meetings to clarify the data. However, the team did <u>not</u> receive either data sets requested from the other banks (Mobiasbanca, MAIB, and Banca De Economii). Since the evaluation focused on FinComBank, this does not present a problem, except in providing a greater understanding of the overall impact of the CEP, since the ability of the FinComBank guarantee alone to have broader market impact is probably limited.

The evaluation team met with four borrowers of FinComBank's Riscani Branch. Another limitation was that the borrowers were chosen by the bank branch and were held with the Director of the Branch present. FinComBank had not informed borrowers that their loans were guaranteed by USAID "in order not to reduce repayment incentives." All four borrowers were very positive about the impact of the guaranteed loan and articulated with detail what they achieved with the loan, particularly improving their orchards and storage facilities. All said that over the last few years they had expanded their operations and their number of workers (though most are seasonal). There is no reason to doubt that the borrowers were sincere in their remarks about the benefits of the DCA-guaranteed loan they received, since they had been previously turned down by other banks. However, to gain an accurate picture of the impact of the guaranteed loans on the borrowers, a more comprehensive and independent study of a much larger set of borrowers without the involvement of the bank would be required.

FINCOMBANK: BACKGROUND AND RECENT DEVELOPMENTS

In 2009,[10] FinComBank was the ninth largest bank in Moldova out of a total of 15 banks; in the Moldovan context it is considered to be a mid-size bank. Its market share in 2009 in terms of assets was about 4.7 percent. Moldova's banking sector is concentrated, with the top six banks accounting for over 75 percent of the total financial system's assets. FinComBank grew rapidly over the period of the guarantee similar to most other Moldova banks. FinComBank's branch network expanded from 12 in 2004 to 15 in 2008, and representative offices increased from 11 in 2004 to 57 in 2009, greatly expanding FinComBank's reach throughout Moldova[11]. Total assets in 2004 were roughly $50 million. By 2009, assets had almost tripled to $156 million and capital almost doubled, primarily as a result of the 2007 WNISEF acquisition of a 25 percent equity stake. FinComBank needed this capital injection to continue the rapid expansion of its loan portfolio. In addition, WISNEF provided a long-term credit line. FinComBank's credit portfolio jumped from about $50 million in 2006 to $90 million in 2008 before declining to $76 million in 2009.

10 FinComBank's 2010 Annual Report is not yet available.

11 Branches of banks are required to have their own balance sheets and can conduct banking operations and transactions. Representative offices have limited powers and generally play a role in information gathering regarding clients; they do not have authority to undertake operations.

TABLE 3. KEY FINCOMBANK INDICATORS

	2004	2005	2006	2007	2008	2009	2010
Number of Branches	12	13	13	14	15	15	15
Number of Representation Offices	11	15	17	22	52	63	29
Staff Numbers	270	357	409	502	610	619	602
Number of clients (thousands)	42	52.3	62.4	74.2	90.2	93.5	71.5
Normative Capital (MDL million)	114.6	138.8	182.4	306.3	327.1	331.5	242.1
Total Assets (MDL million)	629	901	1182	1699	1785	1866	1634
Total Loans (MDL million)	381	528	655	996	1130	906	907
Loans to Agricultural and Food Industry as % of Total Loans	24%	26%	24%	20%	21%	24%	24%
Total Deposits (MDL mil)	429	664	862	1116	1077	1085	959

Data sources: FinComBank annual reports (for 2004-09) and website for 2010

FinComBank's rapid growth in the mid-2000's was aided by its relations with international funders and partners (see Table 3). Moreover, FinComBank was helped by its strong political connections given that largest shareholder (up to the WNISEF investment) is the son of the former President of Moldova (from 2001-2009)[12]. This rapid pace of expansion was not sustainable. The bank was forced to retrench in the wake of the financial crisis and the number of representation offices was almost halved to 29. Staff, which had grown steadily since 2004, was also cut.

The negative impact of the financial crisis and the economic downturn on FinComBank's financial results can be easily seen. 2009 and 2010 were particularly tough years for FinComBank. Not only did outstanding credit decline almost 16 percent, but deposits fell, loan quality suffered and non-performing loans rapidly increased. Profits tumbled leading to losses in both 2009 and 2010.

[12] The EBRD has never worked with FinComBank for that reason.

TABLE 4. SELECT INDICATORS OF FINCOMBANK FINANCIAL PERFORMANCE (MDL MILLIONS) (IN IFRS)

	2004	2005	2006	2007	2008	2009	2010
Interest Income	68.5	91.3	115.9	153.7	215.8	181.1	
Interest Expense	(25.7)	(42.2)	(61.2)	(87.9)	(141.2)	(134.8)	
Net Interest	42.8	49.0	54.8	65.9	74.6	46.3	
Net Fee and Commission Income	9.9	10.3	27.4	34.5	42.9	37.7	
Loans in Arrears	6.0	13.3	25.9	46.9	138.8	162.3	206.8
Total Operating Expenses	39.9	47.8		73.2	98.1	104.3	
Net (Loss)/Profit	25.4	24.6	34.6	48.4	73.1	(5.8)	(83.7)

Data sources: FinComBank annual reports (for 2004-09) and website for 2010

The WNISEF official who sits on the FinComBank Board said that the bank had been slow to take measures to resolve the growing number and value of problem loans in 2009. As a result, the bank's financial indicators deteriorated further in 2010 and look bad compared to other Moldovan banks. This led to decisions to cut costs and adopt more restrictive credit policies. The number of representative offices was reduced from 52 to 29 in 2010. The Board wants FinComBank to focus on the immediate problem of stopping additional losses by restructuring, cleaning its balance sheet, and promoting greater transparency before renewing its growth strategy. This might also mean a decision in the future to close additional branches to reduce the cost of keeping separate balance sheets. In addition, FinComBank has recently set up a special Bureau to deal with problem loans. But the Board member stressed it is important to FinComBank's future that it continue its good geographic coverage throughout Moldova. In sum, at the current time, bank management is focused on shoring up the bank's financial position targeting risk management, capital and liquidity and increasing profitability.

According to the Board member and bank officials, FinComBank's non-performing loans are due primarily to eight large loans to big companies[13]. SME loans, including those in the agricultural sector have generally performed better than the bank's large exposures.[14] Post-crisis, this is reinforcing FinComBank's commitment to both SME and the agricultural sector lending, particularly at the smaller end. Many banks are now focusing on SME lending in the urban areas of Moldova (Chisinau and Balti) making it an increasingly competitive market. While these other banks have an urban focus, FinComBank officials see their comparative advantage in the rural areas that were the targets under the DCA guarantee and where they now have experience. Post-guarantee, FinComBank has been successful expanding its client base in these areas. In

[13] FinComBank has always been considered to be politically connected as the Chairman of the Board and second largest owner (20 percent share) after WNISEF biggest owner is President Voronin's (2001-09) son. It has been suggested that the large companies with repayment problems lost much of their business after Voronin left political office and the opposition won.

[14] The team heard the same story from other banks – that it was the larger borrowers who have turned out to present the higher lending risks.

addition, according to this Board Member, FinComBank will continue to focus on the agricultural sector stating that "Moldova will be an agricultural country for some time. Even if it wants to move quickly to become a high tech country, this will take time." As part of its agricultural strategy, FinComBank has set up a microfinance program that is strongly focused on agricultural clients.

TABLE 5. FINCOMBANK EXTERNAL CREDIT LINES (MDL MIL.)

	2005	2006	2007	2008	2009
IFAD	7.4	40.3	67.1	80.5	86.7
RISP/World Bank	11.6	45.3	71.3	101.1	111.9
EFSE/European Fund for Southeast Europe			57	52	61.5
IFC		17.4	5.1		
WNISEF				52	49.2
OPIC					24.6[15]
BNM					55.4
Other (e.g., KFW, CNFA, IBRD)		9.5	4.3	6	4.5
TOTAL	19	112.6	204.8	219.6	393.8
Total FinComBank Outstanding Loans	546	655	996	1130	908
External Credit Lines As % of Total Loans	3%	17%	21%	19%	43%
Total FinComBank Agricultural Loans	140	160	202	229	220
IFAD/RISP as % of Agricultural Loans	14%	53%	69%	79%	90%

Credit Lines Targeted Specifically for Agricultural Sector
Data from FinComBank Annual Reports

Similar to other Moldova banks, FinComBank relies heavily on donor/MDB credit lines to finance its agricultural and SME loans beyond two-year maturity. Credit lines have become more important since the crisis as can be seen from Table 5. Neither FinComBank nor other Moldovan banks have access to internal medium- and long-term resources and must rely on external credit lines to fund investment credits that require longer maturities. FinComBank is not a member of the private Garantinvest, but has used the government's guarantee– ODIMM.

GUARANTEE PERFORMANCE

The DCA guarantee was signed at end-August 2005. By mid 2007, FinComBank had placed 75 loans under guarantee coverage amounting to $3,904,493. The guarantee was essentially fully utilized within the first 18 months of the 5-year facility. The average loan size was $52,000, the average maturity was 18 months and the purpose of 70 percent of loans was for working capital.

[15] First $2 million installment of $6 million 10-year loan for SMEs

This guarantee leveraged $18 of FinComBank loans to the agricultural sector in Moldova for every one dollar of USAID investment. When the guarantee expired in August 2010, FinComBank had made one claim for $2,344.[16] The borrower, whose business was to lease land to use for crops, was unable to repay following the severe drought in 2006 that affected the harvest.

TABLE 6. FINCOMBANK ANNUAL UTILIZATION RATE

Year	2005	2006	2007
Utilization Rate	13.28%	66.02%	97.61%

TABLE 7. FINCOMBANK QUARTERLY UTILIZATION RATE

Quarter	Oct- Dec 2005	Jan-Mar 2006	Apr-Jun 2006	July-Sept 2006	Oct- Dec 2006	Jan-Mar 2007	Apr-Jun 2007
Utilization Rate	13.28%	42.06%	48.87%	58.70%	66.02%	93.28%	97.61%

TABLE 8. FINCOMBANK PURPOSE OF LOANS

Year	**2005**	**2006**	**2007**	**Total**
Number of loans for working capital	10	33	14	57
Number of loans for mix purpose (working capital and equipment)	1	9	2	12
Number of loans for equipment/fixed investment	2	4	0	6
Total	13	46	16	75

16 The June 2008, DCA Bank Visit Report noted that eight loans were past due as of the end of the reporting period of 3/31/08. These loans had been extended to commercial farmers who have been unable to repay their debts due to the severe drought. Bank management stated that they expected repayment due to the return of favorable weather conditions in 2008 and high prices for commodities. Therefore, they did not expect to file claims. One claim was subsequently made.

CONCLUSIONS AND FINDINGS

Output-level Conclusions and Findings

Evaluation Question 1: Why did FinComBank enter into the DCA/LPG agreement? How did the DCA guarantee fit into FinComBank's ongoing strategy? What market potential did the DCA guarantee help open for FinComBank? How did FinComBank implement the guarantee?

Conclusions:

FinComBank had had a very positive experience with MSED from 2000-2005, using the guarantees to expand its lending to micro and small enterprises primarily in Chisinau, Moldova's largest city and capital. Based on this experience, FinComBank fully understood the value that guarantees provide in expanding lending services to risky borrowers who lack either a credit history, sufficient collateral, or both. As a result, FinComBank was eager to participate in the DCA guarantee. Moreover, the purpose of the new guarantee to expand lending to the agricultural sector fit perfectly with FinComBank's aggressive strategy beginning in the mid-2000s to expand the geographic reach of its operations throughout Moldova by opening new branches and representation offices outside of Chisinau. As agriculture dominates the economy outside Chisinau, this meant a commitment by the bank to serve rural markets, which are considered to present high lending risks. FinComBank believed that it could compete with other banks, particularly the largest bank in Moldova, MAIB, which was part of the old Soviet Agricultural Bank, and one of the few banks (and a DCA partner) that had a presence throughout Moldova. The guarantee was key to FinComBank's success in implementing its new strategy to expand its presence in less served rural markets.

FinComBank aggressively used the DCA guarantee to make loans to the agricultural sector, reaching the maximum guarantee authority ($4 million) in less than two years of the five year guarantee. Despite the rapid use of the guarantee facility, loan quality remained high and there was only one small claim.

FinComBank had initially experienced problems in making loans using the MSED guarantee and as a result learned the value of well-trained loan officers to take full advantage of USAID's guarantees.. From the beginning of the DCA guarantee, FinComBank conducted extensive training of all of its loans officers at headquarters and the branches on the new guarantee based on the technical assistance it received by USAID's BIZPRO project. As a result, FinComBank no longer has to rely on external donor funded trainings. Instead it provides the lion's share of in-house training through 14 training specialists. The bank also increased its staff at its branches and representation offices while providing incentives to loan officers to actively seek out potential borrowers during the loan origination process. This contributed to the ability of FinComBank to

rapidly use the DCA guarantee in contrast to its experience with MSED. He also stressed that USAID worked closely with the bank in helping to develop a special training program for FinComBank loan officers.[17]

Findings:

The Purpose of the signed Guarantee Agreement between USAID and FinComBank was "to support loans to micro, small and medium enterprises (MSMEs) in the agriculture, agribusiness and related sectors such as transport and services in rural areas of Moldova." This purpose was fully consistent with FinComBank's strategy – expanding its operations throughout Moldova and strengthening its lending operations in the rural markets. The Chief of the Credit Department explained further that FinComBank's strategy was to develop small businesses into bigger businesses as "the bank and its clients will expand together."

To support this strategy, during the period of the guarantee, FinComBank added two new branches and more than 40 new representation offices in rural towns significantly expanding its network and reach[18]. Staff also increased by 50 percent. FinComBank senior officials said that there was a direct connection between the network expansion and the increase in the number and value of loans to the agricultural sector supported by the guarantee.

FinComBank principals consistently emphasized that the DCA guarantee supported the bank's strategy to gain market share in the agricultural sector by allowing it to lend to farmers and small agri-processors without credit history or sufficient collateral. Even with the guarantee, FinComBank did not changes it standard collateral practices and still required collateral of at least 100 percent of the value of the loan on 64 of the 75 DCA guaranteed loans. In some cases, the collateral requirement was higher than 100 percent. Eleven of the 75 loans used the guarantee as a substitute for collateral requirements, resulting in required collateral that was less than the value of the loan.

There are a number of reasons why FinComBank and other Moldovan banks continued to require high levels of collateral, even on DCA guaranteed loans. First, the NBM applies strict asset classification policies for loans without adequate collateral. Second, it was not until 2005 that the NBM accepted DCA guarantees as a substitute for collateral. Third, collateral provides security given the risky nature of lending to the agricultural sector -- unpredictable weather-problems, uncertainties related to Moldova's main export markets, and poor financial documentation and business plans, making it difficult to assess cash flow. (See Annex D for a

[17] FinComBank specifically mentioned Eugenia Stanko who worked with USAID's BizPro activity as particularly important in establishing this valuable training program during the MSED program. BizPro had been tasked by USAID as part of their work program to support the DCA banks and borrowers.

[18] As noted in the Executive Summary, the expansion of representation offices was reversed in 2010 as part of its strategy to respond to serious financial problems following the economic/financial crisis.

fuller discussion of collateral issues in Moldova and the different perspective of lenders and borrowers on the size of collateral requirements).

It does not appear that the presence of the guarantee had a significant impact on the maturity or interest rates on loans. FinComBank sets the actual tenor on short-term loans (less than two-years maturity) based on the purpose of the loan. As stated previously, FinComBank rarely makes a medium or long term loans from its own resources and instead relies on donor/MDB credit lines. Interest rates were not impacted by the presence of the DCA guarantee. In setting interest rates, FinComBank uses the same assessment criteria for all borrowers whether guaranteed or not. The base interest rate is determined by market conditions. Larger borrowers generally get the lowest rates as they are deemed lower risks[19].

Evaluation Question 2: What was the additionality of the guarantee?

Conclusions: The statements of FinComBank senior management that DCA borrowers would not have received the loans without the guarantee because they lacked credit history or sufficient collateral support the conclusion that there was a high degree of additionality from the DCA guarantee. However, the analysis of additional data shows that more than half of the total 62 DCA borrowers[20] were not first time borrowers of the bank. Therefore these borrowers had a credit history with the bank, even if their collateral remained insufficient. The picture that emerges is thus slightly more nuanced than the statements of the FinComBank officials would suggest.

In discussions with FinComBank officials, they reiterated that lending to the agricultural sector is always risky even for repeat borrowers and collateral is limited as land is undervalued. Therefore, loans would have been smaller without the guarantee. Furthermore, for ten borrowers, the collateral on the DCA loans was less than the value of the loan, the standard minimum required collateral level.

Findings:

A review of the data showed that lack of sufficient collateral was a more important reason to use the DCA guarantee than lack of credit history given that 43 of 75 DCA borrowers were not first time clients of FinComBank when they received the guaranteed loan. The team compared these 43 pre-DCA guaranteed loans to the subsequent DCA guaranteed loans granted to the same borrowers to see if they could be differentiated in some way from, for example, smaller size, higher collateral, shorter tenor or lower interest rate. The review showed no distinguishing pattern.

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19 As it turned out, during the financial crisis, it was the larger companies which posed the greater credit risk.

20 Eleven borrowers received two and one borrower received three DCA guaranteed loans, i.e., there were 75 loans made to 62 borrowers.

Mobiasbanca and MAIB both stated that loans made under their DCA guarantees were to new borrowers who lacked sufficient collateral and stressed that the loans would not have been granted loans with the guarantee.[21]

Outcome-level Conclusions and Findings

Evaluation Question 3: To what extent were the desired outcomes achieved so far as intended in the Action Package outside the protection of the DCA guarantees? What factors at FinComBank can be associated with the achievement of the desired outcomes? What indicators are present that the guarantee was sustainable in changing the bank's behavior?

Conclusions: Over the period of the loan guarantee, FinComBank increased its lending to the agricultural sector, achieving the desired outcome. FinComBank expanded its lending to the agriculture portfolio both in terms of numbers of borrowers and value of the loans until the financial crisis hit. Many of the DCA guaranteed borrowers remain clients of FinComBank and many of those have received two or three subsequent loans following their DCA guaranteed loan. Given the credit history that the clients have developed and the more valuable collateral they now possess due to the guaranteed loan, FinComBank feels comfortable lending without a guarantee to these borrowers. Non-guaranteed agricultural sector borrowers have benefited from the bank's DCA experience, as the bank is now more experienced in making loans to the sector and managing the risks. The Chief of the Credit Department stated that the DCA guarantee played a key role in accelerating FinComBank's lending in rural areas and finding new clients.

In terms of sustainability, the most important impact is at the short end of the market. FinComBank officials emphasized that the bank now makes short-term loans (less than two years) to the agricultural sector from its own resources. The largest percentage of FinComBank loans to the agricultural sector particularly in terms of volume, continue to come from World Bank (RISP), KFW, OPIC and IFAD medium-to-long term credit lines which allow banks to lend at 3-10 years terms (depending on the program) and support investment credit.[22] These credit lines were ramped up in response to the crisis. Post-crisis, the interest rates charged on these credit lines declined along with inflation, making them more cost-effective.[23] While these credit lines allow the banks to issue longer loans, the full credit risk is on the bank's books. Since there is no sharing of credit risk, the banks still need to be confident that the borrower will repay. Many DCA guaranteed borrowers now have FinComBank loans financed by the donors/MDBs. The repaid guaranteed loan may have increased FinComBank's confidence to make these longer-term loans and take the full repayment risk.

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21 We did not receive the detailed data requested from the two banks to confirm these statements.

22 USAID/DCA prohibits its guarantees from being used with donor/MDB credit lines, including, for example other USG credit programs such as OPIC.

23 MAIB and Mobiasbanca made the same statements.

FinComBank's focus on lending to the agricultural sector was maintained during and post crisis. Though the value of FinComBank's total agricultural loan portfolio decreased in 2009 and stabilized at this lower level in 2010, the number of loans to the agricultural sector increased in both years (see charts on next page). This means more emphasis on smaller loans and reflects FinComBank's continued interest in going down market and lending to smaller farmers and agri-businesses, which are generally the more under-served parts of the rural sector. Moreover, FinComBank's lending to the agricultural sector remained more robust than to other sectors over the last two difficult years.

Over the last five years, FinComBank has improved its ability to judge creditworthiness based on projected cash flow and the ability of the borrower to repay the loan. Likewise, farmers and agricultural producers have improved their ability to provide better and more reliable business plans, financial statements and other documentation and they gain experience in working with banks. Both of these positive developments were facilitated by the DCA guarantee. While this has not led overall to a reduction in collateral requirements of at least 100 percent of the value of the loan, it has improved FinComBank's ability to manage risk to the agricultural sector.

FIGURE 2. FINCOMBANK LENDING BY SECTOR (VALUE in MDL) 2004-2010

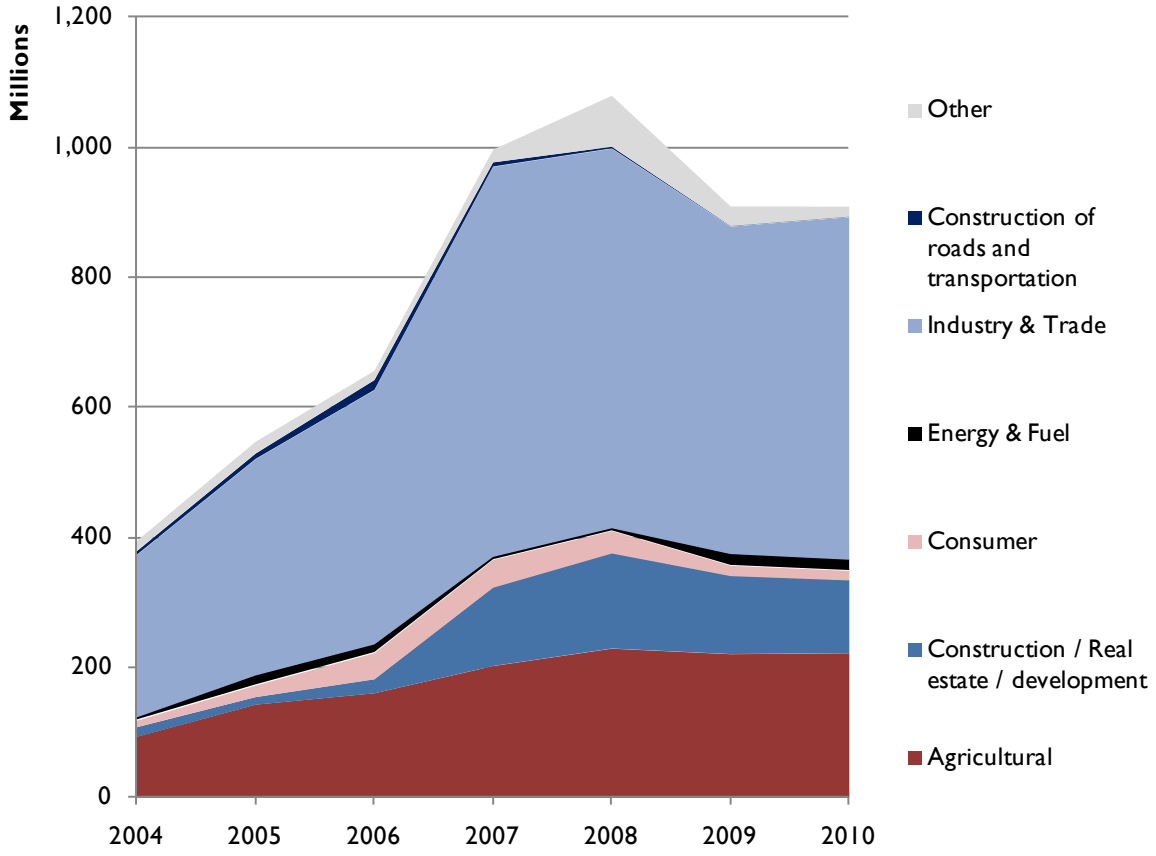
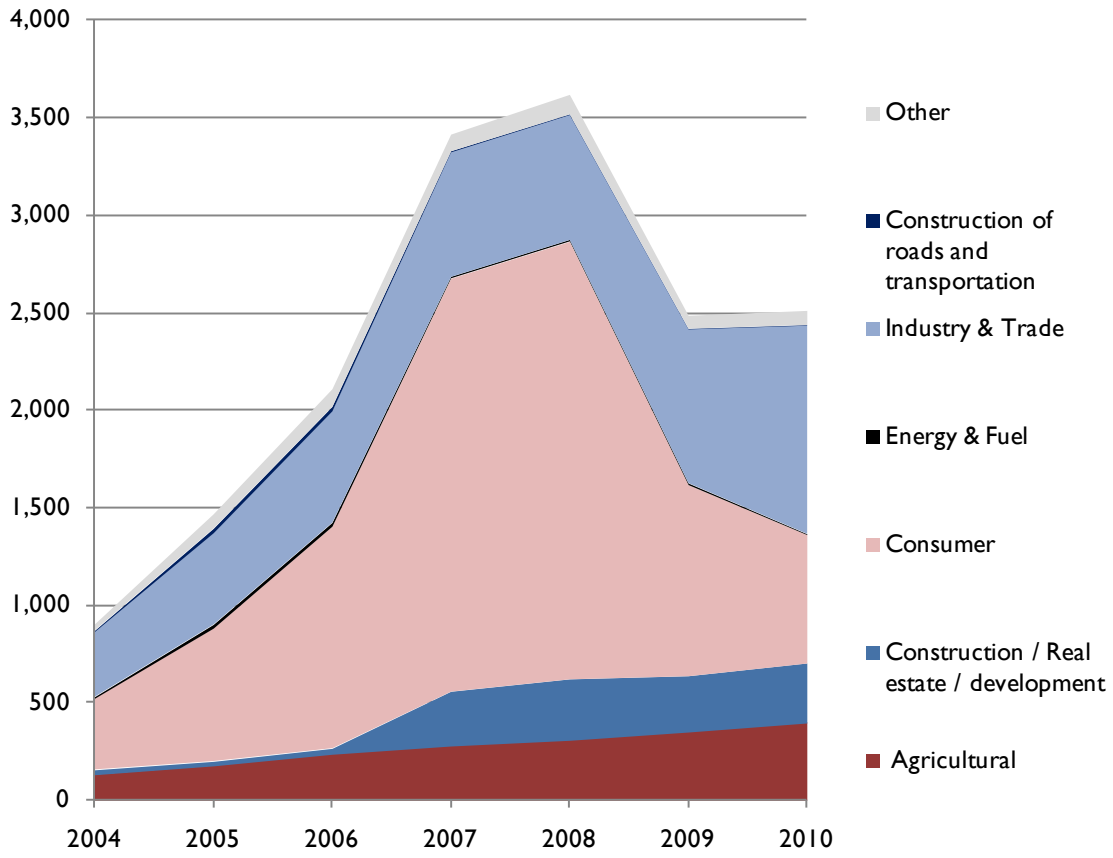


FIGURE 3. FINCOMBANK LENDING BY SECTOR (NUMBER OF LOANS) 2004-2010



Findings:

The $4-million DCA guarantee accounted for about 25 percent of FinComBank's total agricultural loan portfolio when the guarantee began in 2005. This percentage then declined as the bank rapidly expanded its lending to the agricultural sector during the first three years of the guarantee. The value of FinComBank's agricultural portfolio steadily increased from MDL 143 million (about $12 million) in 2005 (pre-crisis) to MDL 228 million (about $19 million) in 2008, a 59 percent increase. FinComBank's average loan size in the agricultural sector peaked in 2005 at about MDL 807,000 (about $67,000) and then bumped up and down until reaching a 5 year low in 2010 of MDL 561,000 (about $47,000), but the number of loans to the sector tripled between 2004 and 2010 (from 132 to 395).[24]

As the data in the chart and tables show, while agricultural loans were increasing, loans to other sectors were going up even faster, so the share of agriculture lending declined. When the DCA guarantee started, loans to the agricultural sector represented about 26 percent of FinComBank's total loan portfolio. Despite the sizeable increase in loans to the agricultural sector, its share in

[24] The average loan size on FinComBank's DCA portfolio is $52,000

FinComBank's total portfolio declined steadily to about 21 percent in 2008. This was due to the large increase in the bank's construction/real estate portfolio lending and, to a lesser extent, the consumer lending in the boom years prior to the crisis. At the end of 2009, FinComBank loans to the agricultural sector were just under 25 percent of its total loan portfolio. This is much higher than the banking system as a whole in which agricultural loans accounted for about 15 percent of total lending during the same time period.

Post-crisis, FinComBank's agriculture portfolio has fared better than other sectors particularly construction/real estate and consumer lending. The share of lending to the agricultural sector rose post-crisis as the number of loans to that sector grew about 14 percent respectively in 2009 and 2010. The value of agricultural loans dropped only four percent in 2009 compared to declines on the order of 18 percent for construction/real estate, 14 percent for industry and trade and 54 percent for consumer loans. On the negative side, in 2009 the agricultural sector had the highest share of non-performing loans in FinComBank's total loan portfolio – 62 loans worth MDL 86 million[25]. (In 2010, it fell to second place after industry and trade).

The average tenor of FinComBank's loans to the agricultural sector increased from about slightly less than three years to above four years from 2004 to 2010, but this relatively long tenor reflects FinComBank's reliance on donor/MDB credit lines throughout the period. It would not have been due to the DCA guarantee, whose average tenor on DCA portfolio was 18 months.

Overall, 36 borrowers which received DCA guaranteed loans are still borrowing from FinComBank. At the Riscani Branch (visited by the evaluation team), which made 20 of the 75 loans, 19 borrowers are still active clients.[26] In reviewing the loan terms to the 36 DCA borrowers who remain FinComBank clients, there is no consistent pattern regarding size or tenor. Those with longer tenor loans are associated with IFAD, OPIC, KFW and RISP credit lines and are generally for investment purposes. All but a few have a minimum of 100 percent collateral and many carry substantially more than 100 percent. This further confirms that the DCA guarantee minimally impacted collateral requirements during and after the guarantee period. The reliance of FinComBank (and other Moldovan banks) on external credit lines for longer-term loans within the agricultural sector muddies the analysis regarding sustainability. But it is safe to say that there appears to be strong sustainability at the short-end of the market, as 30 of the 56 subsequent loans provided to DCA borrowers were less than 24-month maturity.

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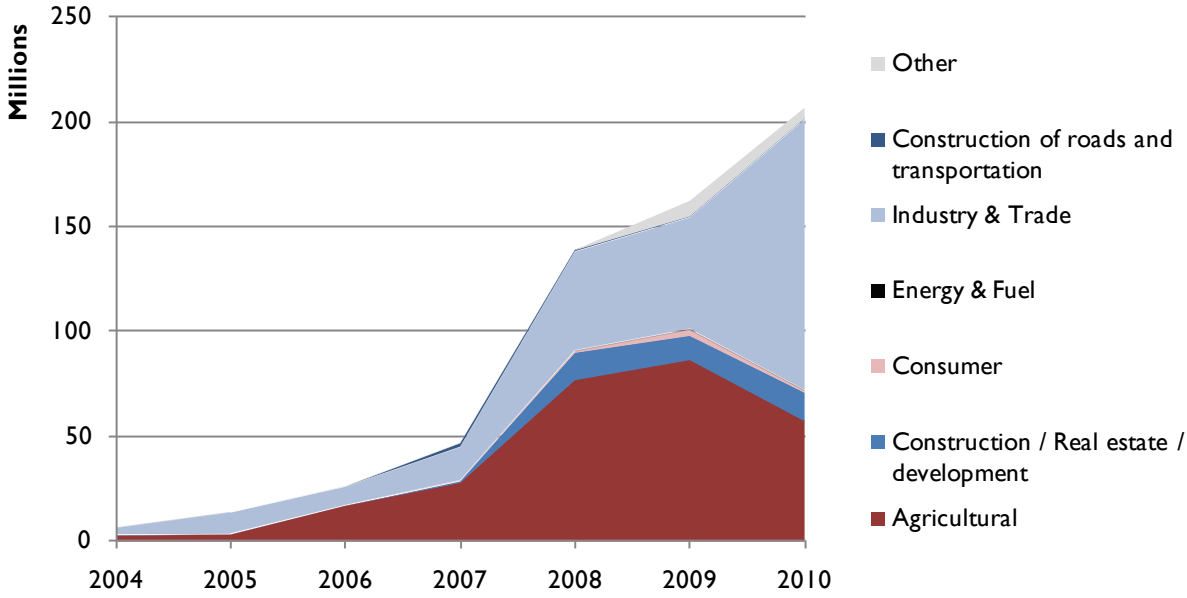
25 We discussed this issue with FinComBank senior officials, who had said that the steep rise in NPLs was due in large part to loans made to big companies. We were not able to pin down whether the large amount of NPLs in the agricultural loan book was from large agribusiness enterprises. They could represent loans to the wine industry which has not recovered from Russia's import ban on Moldovan wine.

26 One of the co-owners of the 20th borrower remains an active client but started his own business.

FIGURE 4. SHARE OF AGRICULTURE IN LOANS IN ARREARS FOR FINCOMBANK (VALUE) 2004-2010

Based on discussions with FinComBank officials, it does not appear that the DCA guarantee influenced interest rates on loans to the agricultural sector. The most important determinant of the banks interest rate is market and macroeconomic conditions. The second most important factor is the size of company (small, medium or large). Larger companies get lower interest rates. Interest rates thus would differ between guaranteed and non-guaranteed loans to the agricultural



sector only if the size of the borrower were larger, i.e., a big agricultural processing firm would get a lower rate than the rate on a guaranteed loan to a small borrower. The DCA guarantee targeted MSMEs in the agricultural sector and set a loan limit of $500,000. That being said, the interest rates of the DCA guaranteed loans were on par with market interest rates throughout the country, about 19-21 percent, during the period 2005-2007 when all of FinComBank's guaranteed loans were made. (The DCA agreement only required that interest rates be market rates.) Since the crisis, in response to Central Bank actions and lower inflation, nominal interest rates have dropped 6-8 percentage points, and interest rates on FinComBank's loans to the agricultural sector mirror this decline falling to about 12 percent in 2010. However, real interest rates in Moldova remain some of the highest in the region. This probably reflects the uncertain economic and lending environment, and also the need for banks to recoup losses from their non-performing loans and restore their balance sheets to health.

FinComBank said that it mainly competes on service and its ability to expedite the loan approval process. They do not generally compete on loan size, interest rate and/or collateral requirements, as according to FinComBank, similar borrowers would be offered the same terms by other banks.

Impact-level Conclusions and Findings

Evaluation Questions: Have lending terms to the target sector changed since the guarantee. What role did the DCA guarantee play as a demonstration model? Were there broader market impacts? Did other banks increase lending to the sector?

Conclusions: Given FinComBank's small market share in Moldova (under 5 percent) and the $4-million size of the guarantee, it would be hard to argue that its guarantee alone had a broader market impact. The entire CEP ($27 million) probably played a sizeable role in improving access of smaller farmers and agri-business to credit given the numbers of rural borrowers it reached. These borrowers now have a positive credit history and more valuable collateral on which to obtain bigger loans or demonstrate higher creditworthiness to (1) warrant short-term loans from the banks; and/or (2) receive longer-term donor/MDB credit lines where there is no risk-sharing. Now that Moldova's credit bureau is finally about to become operational, the impact of the DCA guarantee is multiplied as all banks will benefit from having access to all borrowers' credit history during the loan evaluation process.

The guarantee also appears to have had a positive impact on promoting more competition in the agricultural sector. Many banks now give greater emphasis to lending in rural areas competing for the creditworthy borrowers. The NBM explained anecdotally that 10 years ago rural borrowers had to plead with the few banks operating outside Chisinau for a loan; now there are many lenders chasing the good borrowers in the agricultural sector. Moreover, several of the DCA partner banks have set up new micro-lending programs that require no collateral and reduced documentation; this may be a result of their positive experience and lessons learned about managing risks from the DCA guarantee.

It is difficult to determine what impact the CEP had on non-DCA partner bank lending to the agricultural sector given the participation of most of the biggest banks in Moldova, including the biggest agricultural lender. The one exception among the large banks was the state-owned Banca De Economii, which is not a large lender to the agricultural sector. Loans to the agricultural sector account for 15 percent of its loan portfolio, the average percentage for banks. It has also been excluded from participation in most donor/MDB credit lines given that it is state-owned, making it difficult to compete with the other banks. Banca Di Economii senior management hopes to expand their agricultural lending and would like a USAID guarantees to achieve this goal.

Another important market impact is the establishment of two home-grown guarantee funds for MSME borrowers which lack credit history or sufficient collateral: (1) Garantinvest set up by the larger Moldovan banks in 2005 (with help from DFID), and, (2) ODIMM, a new government guarantee program since 2007. Both were influenced by the USAID's guarantees; Garantinvest's brochure credits USAID's efficient and easy-to-use MSED and DCA guarantees with inspiring its

creation. However, both programs are small, inefficient and not yet well-used. Unlike USAID's guarantees, they require the borrower to pay for the guarantee and each guaranteed loan must be individually approved, though Garantinvest is exploring setting up a product more similar to DCA's loan portfolio guarantee model. Their establishment is recognition by the banks and government of the importance of guarantees to share risk in order to create new lending opportunities. (See Annex E for a fuller description of Garantinvest). According to the NBM, unlike DCA guarantees, guarantees issued by Garantinvest and ODIMM cannot be used to substitute for collateral for asset classification and provisioning purposes.

Findings:

Lending to the agricultural sector in Moldova increased about 33 percent from 2004 to 2010. The bigger impact may be more related to a shift away from lending to the larger agricultural enterprises to smaller agricultural producers and total lending to the agricultural sector swung up and down during the period given severe weather-related production problems, the Russian embargos on Moldova agricultural products and the financial crisis. Overall CEP can take some credit for improving the agricultural sector's access to finance since it included four of the six largest banks in Moldova, including the largest bank, Moldova Agroindbank, which has almost 20 percent market share and used 99 percent of its guarantee ceiling of $9 million. (The six largest banks in Moldova account for more than 75 percent share of system assets).

Moreover, because of the size of the total DCA guarantee portfolio, there are now many new borrowers in the banking system. (Moldova Agroindbank made DCA guaranteed loans to over 1300 SMEs and agricultural producers). These borrowers now have a credit history and have more valuable collateral (equipment/buildings) to provide which they obtained because of the initial DCA guaranteed loan.

Beyond improving access to credit at the short-end of the market, increasing the number of borrowers with credit history and more valuable collateral, there is no evidence to support that the CEP improved lending terms and conditions. Interest rates reflect market conditions, at least 100 percent collateral is still required on all loans, and banks rely on external credit loans to makes loans beyond two years.

Exogenous Factors

Many factors influenced the flow of credit to Moldova's agricultural sector during the guarantee period. The most important factors in descending order of importance were the legal/regulatory environment and weak commercial courts, the extreme weather, trade problems, and the volatile macro-economic environment.

The impact of the DCA guarantee was negatively influenced by the continued weak legal/regulatory framework. The EBRD stated that one of the biggest issues in Moldova was the justice system, including the commercial courts, which are an integral part of all foreclosure and contract issues. Recovering collateral is a very long and expensive process. Furthermore, slow progress on land reform and strengthening property rights, and the absence of a functioning credit bureau until 2011 has hampered strong growth of credit to the agricultural sector.

During the initial two years of the guarantee period, Moldova suffered severe weather related problems. In 2007, it experienced its worst drought since 1946 resulting in a 35 percent decline in agricultural production. This impacted lending to the sector and the share of loans to the agriculture and food industry fell from 24 percent in 2005 to only about 14 percent at end-2007.

Export demand for Moldova's agricultural products is volatile. Moldova continues to enjoy preferential trade arrangements with the EU, benefiting the agricultural sector as long as it meets phytosanitary standards. However, trade with Russia, Moldova's biggest export market for Moldovan agricultural goods, not just wine, experiences periodic disruptions.

The period over which the guarantee at FinComBank was fully utilized (late 2005-mid-2007) coincided with boom economic years for Moldova. GDP growth averaged around six percent per annum. Credit growth soared in those years throughout the economy; expanding about 80 percent in 2007. The Chief of the Credit Department at FinComBank attributed some of the bank's ability to quickly use the full $4-million guarantee facility within 18 months of the start of the guarantee to the flourishing economic environment, implying that if the guarantee had begun in 2007, the results might have been different.

The latter two years of the guarantee period 2008-2010 coincided with the global financial crisis, which negatively impacted Moldova's entire economy and its banking sector, including FinComBank. Moldova suffered a deep recession in 2009 with GDP falling 6.5 percent. The sharply reduced growth in Moldova's neighbors and major trading partners led to a sharp decline in exports, including agricultural products.

The banking sector was particularly hard hit. Credit growth to the private sector, after rising over 82 percent in 2007, grew at a much slower 27 percent pace in 2008, and declined almost 20 percent in 2009. Steady deposit growth reversed course as bank client withdrew deposits, increasing the banks' cost of funding leading to higher interest rates. Credit quality deteriorated problems and non-performing loans jumped from 3.7 percent in 2007 to 15.5 percent in 2009. FinComBank was not spared and, in fact, suffered more serious problems than other Moldovan banks. In 2009, outstanding credit declined almost 16 percent, and deposits fell. Non-performing loans jumped steeply in both 2009 and 2010 and FinComBank experienced losses in both years.

In essence, the impact of the crisis was similar to a break in the data series, as the entire risk environment changed. Credit standards became more restrictive, oversight of the banking system tightened and banks pulled back and became more risk adverse. In response to the crisis, the NBM took restrictive actions reducing maximum exposures to a single person or group. However, in 2009 NBM also took several actions to improve liquidity in the sector in 2009, including reducing mandatory bank reserve requirements from 17.5 percent to 8 percent, and cutting overnight and long-term interest rates. In response to more robust growth beginning in 2010, the NBM has begun to raise reserve requirements again, in part to counter renewed inflationary pressures. In such an environment, lending remains tepid, reflecting not only lower demand, but also conservative bank credit standards and more focus on risk management and higher NBM reserve requirements. In sum, the effects of the DCA guarantee on FinComBank and all Moldovan banks were diluted by the financial crisis. Going forward, Moldova's banking system remains relatively liquid and well capitalized. Assuming a continuation of positive global and European economic conditions, banks will have room to increase lending.

SUMMARY OF CONCLUSIONS

The overall purpose of the DCA guarantee with FinComBank was to spur lending to farmers and agribusiness in Moldova. During the period of the loan guarantee to FinComBank (2005-2010), which timeframe included the global financial crisis, total bank lending to the agricultural sector in Moldova increased about 33 percent. Post financial crisis, lending to the sector has continued to expand given the global rise in agricultural prices as well as an increase in donor/MDB credit lines for the agricultural sector. Even during the worst of the financial crisis in 2009, agriculture lending did not decrease as much as other, harder-hit sectors. However, slow progress on modernization and mechanization of the agricultural sector, weak land reform, and inefficient foreclosure processes to recover collateral continue to stymie stronger lending to Moldova's agricultural sector.

The overall $27-million DCA guarantee portfolio with FinComBank and six additional Moldovan banks contributed towards this positive credit growth. The guarantees improved access of small farmers and agribusiness to credit given the large number of rural borrowers it reached who otherwise would not have received loans. These borrowers now have a positive credit history and more valuable collateral on which to obtain bigger loans or demonstrate creditworthiness. Now that Moldova's credit bureau is about to become operational, the impact of the DCA guarantee is multiplied as all banks will benefit from having access to all borrowers' credit history during the loan evaluation process.

The DCA guarantee helped spawn more interest in lending to the agricultural sector, leading to growing competition as more banks have increased their presence in rural areas. Banks confirm that they are increasingly providing short-term financing (two years and less) to farmers and agri-business from their own resources.

Specific to FinComBank, the DCA guarantee allowed the bank to more aggressively implement its strategy to gain market share in the agricultural sector by providing loans to farmers and small agri-processors without credit history and/or sufficient collateral. During the period of the guarantee, FinComBank's significant network expansion helped FinComBank increase its pre-crisis lending to the agricultural sector by almost 60 percent. Despite the rapid use of the guarantee facility, loan quality remained high and there was only one small claim.

The DCA guarantee also helped FinComBank gain valuable experience in making loans and managing the risk of lending to the agricultural sector. This allowed the bank to maintain its focus on lending in the rural areas during and post crisis. At the end of 2009, FinComBank's agricultural loans represented 25 percent of its total loan portfolio, compared to 15 percent for the Moldovan banking sector as a whole.

The DCA guarantee had limited impact on loan terms and collateral requirements. Moldovan banks still do not have access to longer-term resources, and thus longer-term lending to the sector, particularly for investment purposes, continues to depend on funding from donor/MDB credit lines channeled through the banks. Interest rates for loans under the guarantee and post-guarantee are based on market conditions and other factors specific to the borrower, purpose of loans, and sector. USAID's DCA did allow banks to reduce collateral requirements on the guaranteed loans. However, banks still require at least 100 percent, if not significantly more, collateral for loans to all sectors, including agriculture (except for some new microfinance programs). This is due to a variety of factors including normal risk management practices and NBM policies regarding loan classification.

Finally, the DCA guarantee inspired the establishment of two Moldovan guarantee funds for SMEs. The two funds remain small and are not yet well-used. Their establishment, however, is recognition by Moldova's banks and government of the importance of guarantees to share risk in order to create new lending opportunities.

ANNEXES

Annex A: Evaluation Scope of Work

Background:

USAID/Moldova signed a $4-million loan portfolio guarantee in 2005 with FinComBank in support of loans to micro, small and medium enterprises (MSMEs) in the agriculture, agribusiness and related sectors such as transport and services in Moldova. The DCA was to encourage lending in rural areas, outside of Chisinau and Balti. The 50 percent guarantee, ended in 2010 and reached 97.61 percent utilization with one claim in the amount of $2,344. Seventy-five loans were made, at an average loan size of $53,672.

In 2000, FinComBank had received previous support through DCA's predecessor, the Micro and Small Enterprise Development or MSED for loans to micro and small enterprises. This guarantee expired in 2005 and reached 81.37% utilization.

As described in the action package, the DCA guarantee was designed to support the mission's strategic objective of encouraging private enterprise growth to create jobs and generate income. The DCA would allow FinComBank, a commercial bank, to continue to expand their lending to rural areas and finance MSMEs in the agriculture, agribusiness, and related sectors. These enterprises had typically lacked access to credit from the formal financial sector for their working capital and fixed investment needs as they have been perceived as high risk and carry disproportionate transaction costs.

It should be noted that this DCA agreement is part of a larger Credit Enhancement Project (CEP) which have included several bank partners to use credit enhancement tools such as the DCA credit guarantees to encourage lending to smaller clients in more rural areas particularly to agricultural producers and processors. The inclusion of several banks in the CEP has had the effect of increasing the competition and interest in SME lending, leading to both acceptance of MSME lending and expansion to smaller and rural clients, including farmers.

In June 2008, a biennial review was done on the guarantee describing FinComBank's strong growth and SME lending at the core of their business. The review also mentions their DCA borrowers without the guarantee would not have received a loan at all or a smaller loan amount than requested.

Scope of Work:

EGAT/DC is requesting an evaluation of the 2005 DCA guarantee with FinComBank. The evaluation will determine the results of the guarantee on FinComBank's lending practices in Moldova. It will analyze results at three levels: outputs, outcomes, and impact. It is important

that the evaluation not repeat the information already available through biennial reviews, CMS reports, and other relevant documents. Rather, the evaluation will analyze the data and explore further through interviews to learn about results of the guarantee at the output, outcome, and impact levels. The questions to be answered will be derived from the questions agreed to between USAID and the SEGURA/MSI team in November 2008 through the first work order, referred to as the "Evaluation Framework."

At the output level, the evaluation will explore the additionality of the guarantee, and how FinComBank used the guarantee and how the guaranteed loans influenced the lender's internal strategy and vice versa. At the outcome level, FinComBank's use of the guarantees will be explored to address whether the guarantees achieved its stated outcomes, and whether those outcomes were sustained after the guarantee. At the impact level, the broader market will be examined to see whether other banks entered the market to compete FinComBank in the agricultural, agribusiness and related sectors, and whether that resulted in improved terms for the borrowers. Exogenous factors will have to be explored to determine how much of the changes at the output, outcome, and impact levels are a result of the credit guarantee.

Annex B: Evaluation Framework and Indicators

Evaluation of DCA LPG in Moldova -- FinComBank: Evaluation Framework

EVALUATION QUESTIONS	DATA SOURCES (1) pre-field activities (2) field activities	DATA COLLECTION METHODS (1) pre-field activities (2) field activities	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
OUTPUT LEVEL (Loans Disbursed, Additionality…):			
1a. Why did FinComBank enter into the guarantee? 1b. How did FinComBank implement its loan guarantee programs that was different from implementation of its existing portfolio (e.g., marketing campaigns, changed terms, training, revised staff structure and responsibilities, improved communications with branch offices, etc.)? And why?	(1) DCA documents: Action Packages, Legal Agreements, Biennial Reviews, Bank Visit Reports (1) CMS data (1) and (2) FinComBank Annual Reports (2) FinComBank strategy documents 2003-2010 (if available) (2) Credit manual from FinComBank (2) Relevant Bank marketing materials and staff training documents (2) USAID/Chisinau staff (2) Bank staff	(1) Review of data and documents in Washington/DCA; interviews with DCA staff (1) & (2) Interviews of cognizant USAID staff (2) Review of bank documents (2) Interviews with bank staff at both headquarters and several branches – questions will be provided in advance	DCA use: Purposes 2 & 4 above on page 1 of this document and to enhance discussions with potential guarantee partners; to strengthen the training that DCA provides to guarantee partners, missions, et al.
2a. What was the additionality of the guarantee? (i.e., comparing indicators for loans under the guarantee with the rest of the bank's portfolio and with other non-LPG participating banks' loan terms for the agriculture sector, if possible)? Indicators include: • Value of loans to target sectors and regions in total bank portfolio	(1) CMS (1) DCA biennial reviews and bank visits of FinComBank and other Moldova DCA Partner Banks (1) DCA portfolio managers (2) FinComBank managers/staff (2) FinComBank loan data—baseline and non-guaranteed lending to same sectors/regions	(1) Analysis of CMS data (1) Documents review (1) Interviews of cognizant DCA staff (2) Interviews of FinComBank staff (2) Analysis of bank electronic files on borrowers covered by	DCA use: To report on loans to stakeholders and Purposes 3 &4 above on Page 1 of this document. Other Comments: Question 2a is *descriptive* and will provide data to compare FinComBank with other DCA partner banks and the banking sector lending to the targeted sector in general in order to address the issue of additionality, i.e., what happened with loans under guarantees vs. what would likely have happened without the guarantees. Question 2b is *explanatory*, i.e., the extent to which the DCA guarantees influenced

EVALUATION QUESTIONS	DATA SOURCES (1) pre-field activities (2) field activities	DATA COLLECTION METHODS (1) pre-field activities (2) field activities	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
• Number of loans to target sectors and regions in total bank portfolio • Average (or representative) loan size and frequency distribution • Average (or representative) loan tenor • Rules for collateral requirements (including types of collateral, % relative to loan size) • % of covered borrowers who were new clients • Average interest rate • Number and value of loans per borrower 2b. What was the extent to which the DCA guarantee influenced changes in FinComBank and other Moldova LPG partner bank portfolio characteristics?	(1) and (2) FinComBank and other Moldova LPG bank partner annual reports (2) Interview with other Moldova LPG bank partners (1) and (2) Industry/Central bank studies / interviews (2) USAID/Chisinau technical officers, CTOs and other relevant TA providers/ implementers	guarantee (either sample of or full DCA loan portfolio)	behavior change. What we learn can affect what DCA does when talking to potential and actual guarantee partners, e.g., asking them what they would change with a guarantee; encouraging banks to do x, y, or z; and so on in discussions; DCA TA and training to banks; and DCA encouragement of missions to provide TA and training aimed at increasing positive bank policies and behavior.
OUTCOME LEVEL (Partner Bank Behavior Change):			
3a. To what extent were desired outcomes achieved so far, as intended in Action Package and/or Legal Agreement, outside the protection of the DCA guarantees (e.g., provide credit to agriculture/agribusiness sector without less than normally required collateral, to new farmer or agribusiness borrowers, in new geographic areas)? What is the potential for sustainability of these outcomes?	(1) CMS data review (1) DCA documents: Risk assessments, Action Packages, Legal Agreements, biennial reviews (2) USAID/Chisinau documents (2) FinComBank data on non-guaranteed lending to same sectors/regions (1&2) FinComBank annual reports	(1) Analysis of CMS data (1) Document review (2) Interviews of cognizant Mission / contractor staff and other stakeholders (2) Guided Interviews of FinComBank staff (2) Analysis of bank electronic files on borrowers covered by	DCA use: Purposes 2, 3 & 4 above of page 1; to identify ways to achieve desired outcomes when dealing with potential guarantee recipients; to enhance the training that DCA provides to guarantee partners, missions, et al. Other comments: Question 3a. is both *descriptive* and *comparative* (actual outcomes achieved through guarantees vs. intended outcomes). Question 3b is *explanatory* in nature (to identify factors associated with why desired outcomes were achieved or not).

EVALUATION QUESTIONS	DATA SOURCES (1) pre-field activities (2) field activities	DATA COLLECTION METHODS (1) pre-field activities (2) field activities	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
• Did the bank continue lending to guaranteed borrowers without a guarantee? • Did the bank start lending to similar borrowers without a guarantee? • Does FinComBank have guarantees from other donors/sources? If so, what are the terms? Are the same borrowers covered? • Over the life of the guarantees and afterward, how much did the agriculture sector portfolio grow from start of the guarantees, as a percentage of the overall portfolio? 3b. What factors at FinComBank can be associated with achievement of desired outcomes (e.g., TA; bank staff training; revised bank strategy, procedures and structure; new management; loans or guarantees from other sources, etc.)?	(2) Borrower Surveys (2) Mission/ contractor/ staff (2) FinComBank staff	guarantee (either sample of or full DCA loan portfolio) (2) Interviews of Sample of Borrowers (2) Analysis of Borrower Surveys	Question 3c would be *descriptive*, and cross-cutting.
IMPACT LEVEL (Market Demonstration Effect):			
4a. Did other, non-partner banks initiate or increase lending to the sectors / regions (agricultural, agribusiness, related transportation and other	(1) and (2) Sector/banking reports from the National Bank of Moldova, Ministry of Agriculture, IMF, other	(1) and (2) Documents review (2) Interviews of cognizant USAID / other donor staff	DCA use: Purposes 1 & 2. Other comments: These questions will be answered qualitatively, for the most part, citing available banking and sectoral data as available and relevant.

EVALUATION QUESTIONS	DATA SOURCES (1) pre-field activities (2) field activities	DATA COLLECTION METHODS (1) pre-field activities (2) field activities	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
services, outside of Chisinau/Balti) targeted by the guarantees?[27] 4b. If so, what role did the DCA guarantees play as a demonstration model?	international financial institutions and other secondary data sources (e.g., from Internet) (2) FinComBank managers/staff (2) Moldovan Bankers Association (2) USAID staff and TA providers (2) Competitor non LPG partner banks (e.g. Banca de Economii, BCR Chisinau and Procredit) (2) FinComBank borrowers, both current and former	/other stakeholders (2) Interviews of partner bank staff (2) Interviews / survey of FinComBank borrowers (2) Interviews of competitor bank staff	
5a. Did loan access and/or terms change for borrowers within the targeted sectors/regions overall? • What happened to FinComBank borrowers under the guarantee after their loans ended? Are they receiving credit? From other banks? Other donor/IFI programs? 5b. If so, how and why? 5c. What role did the DCA guarantee play as a demonstration model?	(1) Same as for Question 4 (2) FinComBank borrowers—both current and former (borrower surveys) (2) National Bank of Moldova (2) Moldovan Bankers Association (2) IMF, EBRD, World Bank other donor staff	Same as for Question 4.	Same as for Question 4.

[27] The Moldova Credit Enhancement Project signed LPG agreements with 6 of the 16 Moldovan banks of which FinComBank was one as well as one finance company. The 6 banks included the largest bank in Moldova – Moldova Agroindbank which has a presence throughout the country. It also included 4 of the 6 largest banks in Moldova. FinComBank was the smallest bank participating. This may make it more difficult to ascertain whether FinComBank's guarantee impacted and to what extent other banks' behavior.

EVALUATION QUESTIONS	DATA SOURCES (1) pre-field activities (2) field activities	DATA COLLECTION METHODS (1) pre-field activities (2) field activities	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
QUESTIONS THAT APPLY TO ALL THREE LEVELS—OUTPUT, OUTCOME AND IMPACT:			
6a. What are the exogenous factors (e.g., financial sector reform, government intervention, lender industry competition, financial shocks, other donor behavior, others?) that have affected the agricultural finance sector? How have they done so? 6b. Have the exogenous factors affected the performance of the DCA guarantee(s) (i.e., at output, outcome and impact levels)? If so, how?	(1) and (2) Review of IMF, EBRD, World Bank, EIU, other donor reports and research documents / web sites (2) Cognizant USAID / contractor staff / WNISEF staff/other donor representatives (2) FinComBank managers/staff (2) Non LPG bank staff (2) Moldovan Bankers Association (2) National Bank of Moldova	(1) Documents review (2) Interviews of cognizant USAID / contractor staff (2) Interviews of FinComBank and other partner bank staff (2) Other IFI/donor / key stakeholder interviews (2) Interviews of National Bank of Moldova	DCA use: To set in context the Evaluation findings for Questions 1 – 6.

Evaluation of DCA LPG Operations in Moldova (FinComBank): *Indicators*

The following table presents qualitative and quantitative indicators for assessing the performance of the DCA and MSED guarantees at the output, outcome, and impact levels. Indicators correspond to evaluation questions presented in Table 1. Note that some of those evaluation questions are more descriptive than directly related to performance of the guarantees, and thus have no associated indicators.

EVALUATION QUESTIONS	INDICATORS	ANALYSIS METHODS
OUTPUT LEVEL		
1a. How did the DCA guarantees fit into FinComBank's ongoing strategy? What market potential did the DCA guarantee help open for the partner bank? 1b. How did FinComBank implement its loan guarantee programs (e.g., marketing campaigns, changed terms, training, revised staff structure and responsibilities, improved communications with branch offices, etc.)? And why?	1 a. Qualitative difference between FinComBank's articulated business strategy and the guarantee objectives ➢ Number and percent of guaranteed/non-guaranteed loans to the target sectors, by year ➢ Value of lending to target sector within overall bank portfolio, by year 1.b Qualitative description of differences between program implementation procedures and "business as usual" implementation procedures ➢ Qualitative description of differences between assessment criteria used for DCA guaranteed and non-guaranteed loans ➢ Qualitative description of loan approval and administration procedures between DCA guaranteed and non-guaranteed loans, e.g., collateral requirements, interest rate, term ➢ Qualitative description of marketing campaigns, staff structure, communications structure, etc.	Comparative analysis (pre / post, with / without DCA guarantee) Statistical calculation (number, percent) Content pattern analysis of documents, interview notes
2a. What was the additionality of the guarantee? (i.e., comparing indicators for loans under the guarantee with loans to the bank's customary/non-guaranteed sectors and with other banks' loan terms for the agriculture sector, if possible)? 2b. What was the extent to which the DCA guarantee influenced changes in FinComBank bank portfolio characteristics?	FINCOMBANK loan portfolio pre, during, post first DCA guarantees, by sector and year if possible • Value of loans to target sectors and regions in total bank portfolio • Number of loans to target sectors and regions in total bank portfolio • Average (or representative) loan size and frequency distribution • Average (or representative) loan tenor • Rules for collateral requirements (including types of collateral, % relative to loan size) • % of covered borrowers who were new clients • % of new clients who became repeat client without a guarantee • Average interest rate • % arrears / NPLs in target sector compared to overall portfolio, by year if possible	Comparative analysis—pre vs. post agreements Statistical analysis (value, mean, median, minimum and maximum)

EVALUATION QUESTIONS	INDICATORS	ANALYSIS METHODS
OUTCOME LEVEL		
3a. To what extent were desired outcomes achieved so far, as intended in Action Package and/or Legal Agreement, outside the protection of the DCA guarantees? What is the potential for sustainability of these outcomes? • Did the bank continue lending to guaranteed borrowers without a guarantee? • Did the bank start lending to similar borrowers without a guarantee? • Does FinComBank have guarantees from other donors/sources? If so, what are the terms? Are the same borrowers covered? • Over the life of the guarantees and afterward, how much did the agriculture sector portfolio grow from start of the guarantees, as a percentage of the overall portfolio? 3b. What factors at the partner bank level can be associated with achievement of desired outcomes (e.g., TA; bank staff training; revised bank strategy, procedures and structure; new management; guarantees from other sources, etc.)?	FinComBank portfolio performance outside of DCA guarantee coverage, • Value of loans to target sectors and regions in total bank portfolio • Number of loans to target sectors and regions in total bank portfolio • Average (or representative) loan size and frequency distribution • Average (or representative) loan tenor • Rules for collateral requirements (including types of collateral, % relative to loan size) • % of covered borrowers who were new clients • Average interest rate • Number and value of loans per borrower • % arrears / NPLs in target sector compared to overall portfolio, by year if possible Qualitative description of differences between agricultural loan implementation procedures, pre- and post- DCA agreements Percent of FinComBank loans to each type of agricultural borrower (i.e., sector, region)	Comparative analysis—pre vs. post DCA agreement, between CIB locations Statistical analysis (value, mean, median, minimum and maximum) Content pattern analysis of documents, interview notes
IMPACT LEVEL		
4a. Did other, non-partner banks initiate or increase lending to the sectors / regions (agr./cooperative lending) targeted by the guarantees?[28] 4b. If so, what role did the DCA guarantees play as a demonstration model?	Number of other, non-partner banks that initiated lending to the sectors/regions targeted by the guarantees Number of other, non-partner banks that increased lending to the sectors/regions targeted by the guarantees Percent of other, non-partner banks and industry experts that name FinComBank's activities as an important reason for increasing lending to	Comparative analysis by region, pre and post the DCA agreement Content pattern analysis of

[28] The Credit Enhancement Project consisted of USAID loan portfolio guarantees with 6 of the 16 Moldovan banks of which FinComBank was one as well as one finance company. The 6 banks included the largest bank in Moldova – Moldova Agroindbank which has a presence throughout the country. It also included 4 of the 6 largest banks in Moldova. FinComBank was the smallest bank participating. This may make it more difficult to ascertain whether FinComBank's guarantee impacted and to what extent other banks' behavior.

EVALUATION QUESTIONS	INDICATORS	ANALYSIS METHODS
	these sectors/regions Percent of borrowers under the guarantees who have received financing from other banks Percent of competitor banks' portfolios in the agriculture sector Degree of similarity/difference between (non-USAID guaranteed) agricultural loan terms within other banks and those within FinComBank	interview notes
5a. Did loan access and/or terms change for borrowers within the targeted sectors/regions? • What happened to FinComBank borrowers under the guarantee after their loans ended? Are they receiving credit? From where? 5b. If so, how and why? 5c. What role did the DCA guarantee play as a demonstration model?	Same as above Percent of covered borrowers under the guarantees who say they have continued to receive credit Percent of covered borrowers who say loan terms have improved, disaggregated by existing and former FinComBank clients Changes in loan terms for target borrowers within other, partner and non-partner banks Qualitative description of factors named as important in increased access to credit (sources: non-partner financial institutions, borrowers, industry experts)	Statistical analysis (value, mean, median, minimum and maximum) Content pattern analysis of interview notes Comparison analysis
EXOGENOUS FACTORS		
6a. What are the exogenous factors (e.g., financial sector reform, government intervention, lender industry competition, financial shocks, other donor behavior, others?) that have affected the agricultural finance sector? How have they done so? 6b. Have the exogenous factors affected the performance of the DCA guarantee(s) (i.e., at output, outcome and impact levels)? If so, how?	Interest rate spread between average cost of FinComBank funding (deposit rates, central bank rate, on-lending from donors/IFIs) and what it charges its customers. Impact of global financial crisis on Moldova' economy and on banking sector stability indicators, e.g., capital, liquidity, deposits, non-performing loans	Statistical analysis

Annex C: List of Meetings

COMPANY	NAME	POSITION
Banca de Economii	Botnaru, Olga	Deputy Head Loans Department
Banca de Economii	Gacikevici, Grigore	President
Banca de Economii	Misov, Alexandru	Head of the Lending Department
Banks Association of Moldova	Ursu, Dumitru	President
DAI	Stancu, Eugenia	Private Sector Development Specialist
European Bank for Reconstruction and Development	Krkoska, Libor	Head of Office, Senior Banker
FinComBank	Golovatiuc, Vladimir	Credit Department Manager
FinComBank	Naconecinaia, Olga	Director Support Department
FinComBank	Nicolaevschi, Eugenia	Director
FinComBank	Rudenco, Larisa	Vice President
Garantinvest Interbank Guarantee Society	Gherciu, Viorel	General Director
Millennium Challenge Account Moldova	Luchita, Sergiu	Access to Agriculture Finance Activity Officer
Ministry of Agriculture and Food Industry	Burlacu, Elena	Credit Manager
National Bank of Moldova	Turcanu, Vladimir	Head of Banking and Regulation Supervision
Mobias Banca	Gutu, Alexandru	Head of Corporate Market Section
Mobias Banca	Gaidău, Dorin	Economist Coordinator
Mobias Banca	Perju, Segiu	Head of Strategy and Marketing Department
Moldova Agroinbank	Polustanova, Ala	Head of Department Development and Management Products, Retail Activity
USAID | MOLDOVA	Botezatu, Dr. Sergiu	Higher Project Manager Leading Development Policies and Strategies
USAID | MOLDOVA	Bryan, Jeff	Deputy Country Director
USAID | MOLDOVA	Reiter, Nancy	Program Economist
US Department of the Treasury	Hawkins, David M.	Banking Advisor

Annex D: Collateral Issues in Moldova

The lack of sufficient collateral is an acknowledged constraint to lending to SMEs and the agricultural sector in Moldova. It is not a straightforward issue to resolve for a number of reasons.

Banks require borrowers to provide collateral – real estate, equipment (machinery, tractors, combines), crops or personal property not related to the production process. For borrowers with a good credit history, they generally require that the collateral provided be a minimum 100 percent of the value of the loan. First time borrowers generally face significantly higher requirements.
The 100 percent collateral requirement may actually translate into a higher requirement for borrowers in real terms. This is because when a bank in Moldova receives the official valuation from an independent appraiser of a property or asset used as collateral, it applies a discount to that value based on type of property/asset and location. The credit committees of banks set these discounts and they can differ between banks. For example, FinComBank officials said that property in Chisinau would be valued for collateral purposes at 70 percent of the official appraisal, while machinery outside Chisinau would be valued at 50 percent. Machinery would only be valued at 40 percent of its official appraisal. In addition, in 2010, in the wake of the financial crisis, collateral requirements tightened further. The discounts applied to official valuations increased steeply as the bank found it difficult to sell foreclosed assets at even the reduced price. Therefore, what the banks view as 100 percent collateral on a loan, the borrower might view as 200-300 percent or even higher.

The policies of the Central Bank also have a significant impact on banks' collateral requirements. While the National Bank of Moldova (NBM) neither sets a collateral requirement nor requires that loans be collateralized, they have adopted a strict asset classification policy for loans without sufficient collateral. NBM classifies a loan without sufficient collateral in a lower category requiring the bank to set aside higher loan loss reserves. If a loan without sufficient collateral goes into non-payment status, the loan is immediately classified at the lowest classification, requiring the bank to set aside significant provisions. Specific to the DCA guarantee, it was only in 2006 that the NBM agreed to consider the DCA guarantee as a substitute for collateral.

Even without the strict NBM policies, the banks are focusing on improving their risk management skills, which remain weak. The credit analysis skills of their loans officers, while improving every year, are far from meeting standards and need to be strengthened. Even highly trained staff at most banks in Moldova lack experience. As a result, while a bank's decision to approve a loan may initially rest on the analysis of the borrower's financial statements, creditworthiness (cash flow and ability to pay) as well as its business plan, they want the added comfort and security of collateral. In their view, this provides an additional incentive for

borrowers to keep current on loans. Specific to the agricultural sector, lending is risky given the unpredictability of weather related problems and other trade-related issues. Moldova's under-developed financial sector lacks the tools, e.g., various insurance products, to hedge these risks, though the use of crop insurance is increasing.

It is, however, ironic that the banking system (banks and the Central Bank) places so much emphasis on collateral in Moldova (and other developing economies). First, the appraisal industry is in the rudimentary stages of development. There are few skilled and experienced appraisers in this relatively new market economy. The slow progress in land reform and weak property rights exacerbates the situation and makes official appraisals generally inaccurate. Second, and perhaps even more important, the weak and immature legal/judicial system is biased in favor of borrowers (a legacy of the socialist past) and extremely slow to approve foreclosures. Perfecting a lien is an uncertain, timely and costly process in Moldova, which diminishes even further the value of collateral.

Recently, there have been some improvements to the legislation governing foreclosure, particularly regarding reducing fees that must be paid by the lender to the court to foreclose. However, efforts to amend legislation to reduce the need to go to court to foreclose and thus accelerate the process are not moving quickly.

For the above reasons, it is unlikely that collateral requirements will change much over the near term even as banks feel more comfortable in evaluating creditworthiness based on business plans and cash flow projections.

Annex E: Brief Overview of Garantinvest

Garantinvest is a private guarantee fund established in 2005 by the seven of the larger Moldovan banks and one NBFI: Moldova Agroindbank, Victoriabank, Banca Sociala, Mobiasbanca, Banca de Economii, Eximbank, Energbank, and Rural Finance Corporation. The first four banks and Rural Finance Corporation were also DCA partner banks. FinComBank is not a member of Garantinvest.

Garantinvest's brochure credits USAID's efficient, easy-to-use and low cost MSED and DCA with inspiring its creation. It adds that "these initiatives have proved that financial guarantees contribute to development of financial markets and encourage establishment of specialized segments of the financial markets."

The member financial institutions contributed initial capital to the establishment of the funds, but each bank's contribution was re-invested as a deposit in the member bank. Total capital of Garantinvest is $600,000.

DFID supported the establishment of Garantinvest and provided the technical assistance to make it operational.

Over the last four years, Garantinvest has extended a total of 120 guarantees valued at MDL 24 million (about $2 million). The current portfolio of active guarantees is MDL 10 million. The average size of all guaranteed loans to date is MDL 240,000 (about $20,000). There have been several defaults on guaranteed loans but no claims as the collateral covered the amount the amount in default. (Different than USAID guarantees, the banks must go to court and try to collect collateral before making a claim.) About 30 percent of loans guaranteed were for the agricultural sector.

Garantinvest is still a small program, with a staff of only four, and not yet well-used. The member banks, who serve on the Board, all said that the fund was inefficient and not effective. One of their biggest complaints is that each guarantee request by a borrower must be individually approved. To improve efficiency, Garantinvest just received approval from the shareholders to explore establishing a product to a DCA loan portfolio guarantee[29].

According to the NBM, guarantees issued by Garantinvest cannot be used to substitute for collateral for asset classification and provisioning purposes.

[29] How this would be done without totally changing the model where the borrower requests and pays for the guarantee is not clear.

Operations:

Garantinvest provides guarantees for loans provided by the partner financial institutions to SMEs legally registered in Moldova as well as consulting services for borrowers. The fund targets the rural areas and supports: farm agriculture and livestock; processing, developing, storing, packing and selling agricultural produce; non-farming activity in rural areas such as agro-processing, tourism, trade, handicrafts. Unlike MSED and DCA, it is the borrower who requests and pays for the guarantee.

Eligible borrowers include private legal entities or individuals having authorization to engage in a business activity who meet the following criteria: have a good credit record (no unpaid loans), a sustainable business plan, keep accounting records and documents and conform to environmental norms. Borrowers must also contribute their own resources to cover a minimum 10 percent of the investment. Guarantees are offered on loans for, among other things, the purchase of equipment, purchase or enlargement of productive facilities, purchase of transportation means and for working capital.

The maximum amount of a guarantee is the MDL 1.1 million (about $100,000). Like MSED and DCA, the guarantee does not exceed 50 percent of the loan amount. The cost to the borrower for short-term loans is 3 percent per annum of the insured value due on signing. For investment credits (terms up to 5 years) the cost is 2.5 percent per annum the first year and then computed for each additional year based on the principal balance outstanding.

The Garantinvest approval process is based on the concept of additionality. Most guarantees requested are due to lack of collateral.

Annex F: Overall FinComBank Loan Portfolio

TABLE 9. NUMBER AND VALUE OF LOANS PER SECTOR

Sectors	2004		2005		2006		2007		2008		2009		2010	
	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value
1. Agricultural	132	93,777,409	177	142,882,603	236	160,293,537	278	201,996,629	307	228,634,706	349	220,177,048	395	221,668,557
2. Construction / Real estate / development	25	14,917,152	23	11,707,124	30	21,540,685	278	120,328,761	312	146,138,330	286	119,977,504	305	111,830,261
3. Consumer	364	9,835,442	680	17,756,173	1136	40,211,042	2118	42,464,398	2244	34,433,393	980	15,879,669	659	14,610,784
4. Energy & Fuel	8	4,740,519	19	15,326,147	19	13,286,295	7	5,238,302	7	4,877,069	8	18,349,053	4	17,558,865
5. Industry & Trade	334	249,768,633	470	332,570,510	573	390,954,465	641	599,863,012	643	583,789,818	791	503,691,002	1070	526,745,714
6. Construction of roads and transportation	5	5,243,001	22	8,022,705	22	14,919,422	5	6,277,530	3	2,368,428	2	548,668	2	548,668
7. Other Agricultural lending as a % of total lending	30 15%	15,152,004 24%	72 12%	17,783,363 26%	89 11%	13,976,502 24%	85 8%	19,567,132 20%	100 8%	78,439,029 21%	66 14%	29,755,821 24%	72 16%	15,054,135 24%
Total	**898**	**393,434,160**	**1,463**	**546,048,625**	**2,105**	**655,181,948**	**3,412**	**995,735,764**	**3,616**	**1,078,680,773**	**2,482**	**908,378,765**	**2,507**	**908,016,984**

TABLE 10. PERFORMANCE OF LOAN PORTFOLIO - LOANS IN ARREARS

Sectors	2004		2005		2006		2007		2008		2009		2010	
	Num-ber	Value	Num-ber	Value	Num-ber	Value	Num-ber	Value	Num-ber	Value	Num-ber	Value	Num-ber	Value
1. Agricultural	7	2,871,890	4	3,319,313	16	16,942,146	30	27,932,354	28	76,834,307	62	86,382,609	53	57,337,361
2. Construction/ Real estate / development	4	263,526	2	80,700	1	24,295	0	720,250	4	13,198,074	22	11,770,672	18	13,600,822
3. Consumer	5	119,918	6	128,509	10	104,738	13	325,061	37	910,582	194	3,079,032	54	1,046,172
4. Energy & Fuel	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5. Industry & Trade	9	2,634,291	8	9,764,237	19	8,550,449	18	15,615,193	21	46,866,353	64	52,924,887	101	129,028,481
6. Construction of roads and transportation	0	0	0	0	0	0	3	1,673,871	2	768,428	2	548,668	2	548,668
7. Other	1	102,599	0	0	1	253,970	1	222,762	2	223,291	4	7,553,251	4	5,202,536
Agricultural lending as a % of total lending	*27%*	*48%*	*20%*	*25%*	*34%*	*65%*	*46%*	*60%*	*30%*	*55%*	*18%*	*53%*	*23%*	*28%*
Total	**26**	**5,992,224**	**20**	**13,292,759**	**47**	**25,875,598**	**65**	**46,489,491**	**94**	**138,801,035**	**348**	**162,259,119**	**232**	**206,764,040**

TABLE 11. LOAN TERMS PER SECTOR

Sectors	2004				2005				2006			
	Number of Loans	Average Loan Size	Average Tenor (Months)	Average Interest Rate	Number of Loans	Average Loan Size	Average Tenor (Months)	Average Interest Rate	Number of Loans	Average Loan Size	Average Tenor (Months)	Average Interest
1. Agricultural	132	710,435	34	20	177	807,246	39	18	236	679,210	48	18
2. Construction / Real estate / development	25	596,686	46	17	23	509,005	46	17	30	718,023	48	19
3. Consumer	364	27,020	25	20	680	26,112	25	18	1,136	35,397	31	17
4. Energy & Fuel	8	592,565	30	16	19	806,639	34	15	19	699,279	35	16
5. Industry & Trade	334	747,810	26	16	470	707,597	32	16	573	682,294	37	16
6. Construction of roads and transportation	5	1,048,600	44	17	22	364,668	43	15	22	678,156	52	17
7. Other	30	505,067	25	18	72	246,991	18	16	89	157,039	17	13
Total	**898**	**4,228,184**			**1,463**	**3,468,259**			**2,105**	**3,649,397**		

Sec-tors	2007				2008				2009				2010			
	Num-ber of Loans	Average Loan Size	Average Tenor (months)	Average Interest Rate	Num-ber of Loans	Average Loan Size	Average Tenor (Months)	Average Interest Rate	Num-ber of Loans	Average Loan Size	Average Tenor (Months)	Average Interest Rate	Num-ber of Loans	Average Loan Size	Average Tenor (Months)	Average Interest
1.	278	726,607	54	17	307	744,738	54	19	349	630,880	54	13	395	561,186	48	12
2.	278	432,837	103	17	312	468,392	100	20	286	419,502	104	15	305	366,657	98	15
3.	2,118	20,049	24	21	2,244	15,345	25	23	980	16,204	29	21	659	22,171	27	19
4.	7	748,329	31	18	7	696,724	27	21	8	2,293,632	26	9	4	4,389,716	21	12
5.	641	935,824	40	16	643	907,916	44	18	791	636,777	39	15	1,070	492,286	31	12
6.	5	1,255,506	64	16	3	789,476	67	23	2	274,334	84	x	2	274,334	84	x
7.	85	230,202	18	16	100	784,390	18	14	66	450,846	21	18	72	209,085	22	14
Total	**3,412**	**4,349,353**			**3,616**	**4,406,981**			**2,482**	**4,722,174**			**2,507**	**6,315,435**		

Annex G: Moldova DCA Partner Banks Overview

TABLE 12. MOLDOVA DCA PARTNER BANKS

Banks	Rank based on total assets; market share based on total assets	Maximum Portfolio Guaranteed	Dates	Maximum Utilization Rate	Total Value of Loans under Guarantee	Total Number of DCA Loans	Target Clients	Claims
Moldova Agroindbank	1 ; 19.5%	$9 million	9/04-9/09	99%	$9 million	1396	SMEs + agri. Producers	1 ; $1,195.00
Victoriabank	2 ; 17.0%	$6 million	9/04-9/09	27%	$1.6 million		SMEs + agri. Producers	0
Moldincombank	4 ; 11.4%	$2 million	9/03-9/08	64%	$1.3 million	43	SMEs + agri. Producers	0
Mobiasbanca	6 ; 8.0%	$4 million	9/03-9/08	100%	$4 million		SMEs + agri. Producers	3 ; $48,660
Banca Sociala	7 ; 6.2%	$1 million	9/03-9/08	99.47%	$1 million		SMEs + agri. Producers	0
FinComBank	9 ; 4.7%	$4 million	8/05-8/10	97.6%	$3.9 million	75	Agriculture sector	1 ; $2349
Rural Finance Corp	N/A	$1 million	9/03-9/08	82.71%	$0.7 million		SMEs + agri. Producers	$13,549
Total		$27 million			$21.5 million	1767		