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DCA LOAN GUARANTEE MOLDOVA

IMPACT BRIEF

On the Cover: Horse-drawn wagon in the Orhei District, Moldova
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BACKGROUND

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 more than 40 percent of the population, 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. Improved competitiveness and export performance that will come from expansion are key to increasing rural employment and incomes. Where credit is available, short-term loans are the norm, discouraging needed investment in processing facilities 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.

ABOUT DCA

USAID's Development Credit Authority (DCA) was created in 1999 to mobilize local private capital through the establishment of real risk sharing relationships with private financial institutions in USAID countries. The tool is available to all USAID overseas missions and can be used as a vehicle for providing much-needed credit to an array of enterprises and underserved sectors. The evaluation in Moldova is part of a set of evaluations USAID is undertaking in different countries, to test a series of developmental hypotheses related to the DCA guarantees.

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 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 almost 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.

EVALUATION OBJECTIVES

This evaluation is the ninth in a series of DCA guarantee evaluations. The evaluation assesses the performance of the guarantee at three levels—output, outcome, and impact. At the output level, the evaluation explores additionality, i.e., how FinComBank used the guarantee for loans it would not have otherwise made. The outcome level asks 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. The scope of work for the evaluation focuses solely on the FinComBank guarantee. However, this DCA agreement was part of a Credit Enhancement Project (CEP) that provided a collective DCA facility of $27 million in 2004–2010 to six additional Moldovan financial institutions.

TABLE 1. DCA LOAN PORTFOLIO GUARANTEE 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)

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 team traveled to Moldova in April 2011 to meet with USAID/Chisinau, FinComBank, other DCA partner banks, donors and multilateral development banks (MDBs), and a wide range of key financial sector institutions and practitioners.

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. Even during the worst of the global financial crisis that hit Moldova in 2009, agriculture lending did not decrease as much as other, harder-hit sectors. Post financial crisis, lending to the agricultural sector has expanded due to better prospects for the sector given the global rise in agricultural prices, as well as an increase in donor/MDB credit lines for the agricultural sector. As a result, trends in financing the agricultural sector are moving in the right direction. Banks are increasingly providing short-term credits (two years or less) from their own resources. Longer-term bank lending to the sector, particularly for investment purposes, continues to rely on funding from external 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

Conclusions 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. By sharing risk, FinComBank gained 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 that the guarantee was consistently used by the bank to provide either larger, longer-term loans to these clients or require less collateral.

Findings in support of these conclusions include:

- Thirty-two of the 75 loans went to first-time FinComBank borrowers.
- FinComBank required less than its 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, and six saw their collateral requirements go down when borrowing under the guarantee. Ten of these loans did not fit into any of these categories.

OUTCOME

Conclusions 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 the 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 of more than two years, FinComBank continues to rely almost completely on donor/MDB credit lines as it does not have access to any other source of medium- to long-term funding. While the credit lines allow the bank to make longer-term loans, the bank assumes the full 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 three- to 10-year terms. Because of this, it stands to reason that the 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.

Findings in support of these conclusions include:

- FinComBank significantly expanded its network and staff in rural areas throughout Moldova, which helped increase 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 (two years or less) to the agricultural sector.

IMPACT

Conclusions 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. As a result, there is growing competition among Moldovan banks to find and lend to rural borrowers and there has been a shift in lending from larger agricultural enterprises to smaller agricultural producers.

The impact may have been bigger but 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.

Findings in support of these conclusions include:

- Overall credit to the agricultural sector increased approximately 33 percent from 2004 to 2010.
- There are now many new borrowers in the banking system who have a credit history as well as more valuable collateral that they obtained because of the initial DCA-guaranteed loan.
- 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.
- Two home-grown guarantee funds for borrowers lacking credit history and/or sufficient collateral were created in Moldova and were directly influenced by the DCA experience.

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