Distribution: Restricted | EB 2005/86/R.28/Rev.1 | 13 December 2005
Original: English | Agenda Item 9(e)(iii) | English

a

IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eighty-Sixth Session

Rome, 12-13 December 2005

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

REPUBLIC OF MOLDOVA

FOR THE

RURAL BUSINESS DEVELOPMENT PROGRAMME

Due to resource constraints and environmental concerns, IFAD documents are produced in limited quantities.
Delegates are kindly requested to bring their documents to meetings and to limit requests for additional copies.

TABLE OF CONTENTS

APPENDIXES

CURRENCY EQUIVALENTS

Currency unit	=	Moldovan leu (MDL)
USD 1.00	=	MDL 12.5
MDL 10	=	USD 0.77

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m^2)	=	10.76 square feet (ft^2)
1 acre (ac)	=	0.405 hectare (ha)
1 ha	=	2.47 ac

ABBREVIATIONS AND ACRONYMS

AWP/B	annual work programme and budget
ARP	Agricultural Revitalization Project
CPIU	Consolidated Project Implementation Unit
REIS	rural enterprise intermediation service
RFS	rural financial services
RFSEDP	Rural Finance and Small Enterprise Development Project
SMEs	small and medium-sized enterprises
VCM	value chain multiplier

GOVERNMENT OF THE REPUBLIC OF MOLDOVA

Fiscal Year

1 January – 31 December

MAP OF THE PROGRAMME AREA

Map No. 3759 Rev. 2 UNITED NATIONS
January 2004

Department of Peacekeeping Operations
Cartographic Section

Source: United Nations

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

REPUBLIC OF MOLDOVA

RURAL BUSINESS DEVELOPMENT PROGRAMME

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Republic of Moldova
EXECUTING AGENCY:	Ministry of Agriculture and Food Industry
TOTAL PROGRAMME COST:	USD 20.31 million
AMOUNT OF IFAD LOAN:	SDR 9.1 million (equivalent to approximately USD 13.02 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	None
CONTRIBUTION OF BORROWER:	USD 290 000
CONTRIBUTION OF BENEFICIARIES:	USD 4.18 million (clients) USD 2.81 million (participating financial institutions)
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services

PROGRAMME BRIEF

The programme. The goal and objective of the Rural Business Development Programme are to: (i) produce sustainable income growth for poor people in rural areas and small towns in the Republic of Moldova; and (ii) stimulate growth of farming and rural business activities in which the country has a comparative advantage. The principal programme outputs comprise: (i) an effective network of rural enterprise business service providers; (ii) the introduction of appropriate short- medium- and long-term financing, as well as new financial products to be made available to rural communities; and (iii) the provision of commercial infrastructure in rural areas. The programme's orientation is consistent with IFAD's strategic framework, its regional strategy for Central and Eastern Europe and the Newly Independent States, its strategy for private sector development and partnership, and the current country strategic opportunities paper (COSOP).

Who are the beneficiaries? The target group will include unemployed rural men and women, small and medium-sized farmers, rural entrepreneurs, agro-processors, input suppliers, traders and community groups. The approach establishes a series of investment products and mechanisms, primarily through the formal financial sector that would be accessed by the rural population throughout the country. The programme will specifically enable small enterprises to access financial services by making available a wide spectrum of business support and development services. Rural poor households will thus have the opportunity to improve their livelihoods through borrowing, taking advantage of the new employment generated through the creation and/or expansion of rural enterprises supported by the programme.

Why are they poor? Poor economic performance in the Republic of Moldova since independence (output now stands at 40% of pre-independence levels), and the associated collapse of the production and marketing support systems, has led to an increase in poverty and a worsening of social welfare. Per capita income is currently estimated at USD 710, making the Republic of Moldova the poorest country in Europe. The persistence and severity of poverty, despite increasingly robust economic growth over the past several years, is the result of continuing low incomes, high unemployment, and growing inequality following the collapse of the former Soviet Union and the shock of the Russian financial crisis.

What will the programme do for them and how will clients participate? At the non-farm rural enterprise level, investments in agriculture-related business will further enhance opportunities for employment and assist small rural producers in their efforts to gain access to markets for agricultural production, inputs and services. At the farm enterprise level, investments will increase returns to labour, raising productivity and thereby increasing levels of disposable income. This would be complemented by improved technology and modernization of farming practices, thereby providing greater security against external shocks (droughts, floods, prices and fluctuating market demand). It is expected that a significant number of small and medium-sized enterprises will be either established or expanded thanks to access to programme-supported financial and business advisory products, with increasing engagement of formal financial institutions, both commercial banks and microfinance institutions. The focus on rural **economic** development (as opposed to a more targeted agricultural development approach) will ensure that opportunities are made available to the rural population, enabling poor farmers to move into more productive farm and non-farm activities.

REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE REPUBLIC OF MOLDOVA FOR THE RURAL BUSINESS DEVELOPMENT PROGRAMME

I submit the following report and recommendation on a proposed loan to the Republic of Moldova for SDR 9.1 million (equivalent to approximately USD 13.02 million) on highly concessional terms to help finance the Rural Business Development Programme. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one percent (0.75%) per annum. It will be administered by the United Nations Office for Project Services as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY[1]

A. The Economy and Agricultural Sector

1. The Republic of Moldova is a small landlocked country bordered by Romania to the west and Ukraine to the north, east and south. With an area of approximately 33 700 square kilometres and a population of 4.2 million, the country is the second smallest nation in the Commonwealth of Independent States. Its population density – at 129 persons per km^2 – is the highest of the former Soviet Union states.

2. The country was part of the Soviet Union until 1991, when it gained independence. Civil war broke out in 1992 and led to the creation of the breakaway entity of Transnistria;[2] the country remains divided at present. The political process has been volatile, with a succession of Governments since independence. However, during the past few years, the political scenario has stabilized. In March 2005, the Government was re-elected to a further four-year term, and it is anticipated that this greater stability will lead to the evolution of a more pragmatic, pro-business policy setting, with the adoption of much-needed regulatory and governance reforms.

3. The Republic of Moldova's economic decline in the 1990s was severe and spawned widespread impoverishment. Between 1990 and 1999 GDP contracted by two thirds; as a result, the country plummeted from "middle-income country" status to being the poorest country in Europe. The economy has since returned to grow, but the sharp increase in GDP since 2000 (averaging approximately 5% over the 2000-2003 period) has not translated into employment generation, and the total number of employed persons has remained substantially unchanged. In 2004, GDP grew by some 7.3%, while the population shrank by 0.3%. In 2002, the number of people living in poverty was estimated to be 40% of the population, with 25% living in extreme poverty.[3] The increase in poverty reflected the drop in incomes from hired employment and social transfers, which changed both in

[1] See Appendix I for additional information.
[2] Population estimated at 600 000.
[3] The measures of poverty in the Republic of Moldova are based on actual consumption costs of households. Currently, the extreme poverty line is set at consumption of 270 Moldovan lei per month and corresponds to the value of the minimum food basket. Data from the Economic Growth and Poverty Reduction Strategy Paper, based on household budget survey data, available at www.scers.md.

volume (drastic cuts in absolute wage rates, pensions and benefits) and structure (ever more in unequal structure of wages) compared with the former Moldavian Soviet Socialist Republic. The country presently has a nominal GNI per capita of USD 710. On the Human Development Index, it ranks 113th out of 177 countries, and 157th of 206 countries in terms of GNI per capita.[4] Despite the economic growth of the past five years, poverty is geographically widespread, persistent and severe.

4. Agriculture currently accounts for about 25% of the Republic of Moldova's GDP, with agro-processing accounting for another 20%. These sectors generate about 65% of export earnings (mainly exports of processed agricultural products, including wine and spirits, fruits and vegetables) and provide employment for about 40% of the labour force. Agricultural production is however currently less than half of what it was at the time of the break-up of the former Soviet Union, and the rate of growth of agriculture has been uneven – agricultural output decreased by 3.3% and 14.1% in 2000 and 2003 respectively, while increasing by 6.4% in 2001 and 3.4% in 2002. This decline is largely due to the collapse of the former Soviet "command system", which dictated production models, provided physical and technical inputs, and ensured processing and marketing outlets. After independence, the Republic of Moldova's traditional input supply, financing and marketing channels were seriously disrupted. The disintegration of the country's traditional market outlets, especially following the Russian Federation's financial crisis of August 1998, further exacerbated the collapse of the agricultural sector. The main constraints to the development of agriculture are centred around inadequate access to finance and equity, marketing services and the necessary rural infrastructure.

B. Lessons Learned from Previous IFAD Experience

5. At present IFAD is financing the Rural Finance and Small Enterprise Development Project (RFSEDP) and the Agricultural Revitalization Project (ARP) in the Republic of Moldova. The RFSEDP is an investment programme that aims to generate sustainable increases in the household incomes of the poorest farmers. This loan, for SDR 5.8 million (about USD 8.0 million), provides two financial products: (i) support for savings and credit associations, providing access to lending and savings for those who do not have access to financial services through formal financial institutions; and (ii) small enterprise development loans for well-established small and medium-sized enterprises (SMEs) attempting to expand their businesses and/or modernize equipment. Implementation is proceeding in a very satisfactory manner, and the project will be completed on schedule at year-end 2005.

6. The ARP, financed with an IFAD loan for SDR 10.3 million (about USD 14.5 million), is expected to become effective in late 2005 and will attempt to build on RFSEDP experience. Its purpose is to: (i) create further opportunities for the poor to participate in the commercialization of agriculture by helping participants to create the missing enabling conditions for revitalization of the agricultural economy; and (ii) expand institutional support beyond financial services to cover farmer organizations, marketing, agro-services, agro-industry, and small-scale enterprises. The ARP is based on a more innovative approach, providing for small enterprise loans to individual borrowers based on community-based prioritization of needs.

7. IFAD implementation experience indicates that the rural and agricultural sectors in the Republic of Moldova are dynamic and are gaining positive momentum that allows for effective engagement with its stakeholders. This is illustrated by the strong demand for rural financial services among entrepreneurs, with excellent loan recovery rates. Through the RFSEDP project, IFAD has provided a significant number of loans throughout the entire supply chain – from primary producers to processors to wholesalers – thereby developing markets and creating employment and income-generating opportunities for the rural poor. The existence of solid institutional capacity within

---

[4] GNI per capita and ranking data from World Bank 2004 World Development Indicators; HDI ranking from the 2004 Human Development Report of the United Nations Development Programme (UNDP).

line ministries and the financial sector enables efficient programme implementation, and a supportive Government policy in terms of IFAD's poverty reduction goals, with a clear focus on rural poverty reduction, provides a relatively positive overall policy environment for IFAD operations. There are, however, some difficulties with the general approach of the Administration that continue to exhibit management and intervention behaviour more typical of a command economy than of a modern market economy. Furthermore, many potential beneficiaries lack trust in formal financial institutions, as witnessed by the low deposit rates at formal savings institutions. This poses a challenge to the development of long-term engagement between the formal financial sector and the rural poor.

C. IFAD's Strategy for Collaboration with the Republic of Moldova

8. **The Republic of Moldova's policy for poverty reduction.** The Government's economic strategy places high priority on agricultural and rural development as a means to increase rural incomes and living standards. The Government, in collaboration with the World Bank and the broader donor community, drew up a Poverty Reduction Strategy Paper (PRSP) in 2004 as the first step in launching a national poverty reduction plan. The PRSP emphasizes: (i) sustainable and inclusive economic growth with a view to higher incomes and productive employment; (ii) human development policies that give prominence to improved access to basic social services; and (iii) social protection policies that target the neediest. Medium-term economic growth is envisaged as stemming primarily from the development of economic activities where the private sector is motivated to play a leading role and where the country has a comparative advantage. IFAD is now involved, along with other like-minded donors (the World Bank, the International Monetary Fund and the United States Agency for International Development [USAID]), in efforts to assist the Government in reforms associated with: (i) the development of an improved regulatory climate for business; (ii) the development of remittances programmes; and (iii) strengthened operation of financial markets to allow rural enterprises to gain access to required finance for expansion and employment creation.

9. **The poverty eradication activities of other major donors.** The European Union, through the Technical Assistance to Commonwealth of Independent States (TACIS) programme, supports institutional, legal and administrative reform and provides assistance in addressing the social impact of transition processes. The World Bank, in its Rural Investment and Services Project, is tackling rural poverty by providing credit, agricultural advisory services and assistance for farmer group formation. USAID, working mainly through its Private Farmers Assistance Programme and Agribusiness Development Programme, focuses on establishing a market environment that supports and fosters broad-based growth and on stimulating private-enterprise growth as a means of providing employment, income and services to the population. The Department for International Development of the United Kingdom of Great Britain and Northern Ireland and the Swedish International Development Cooperation Agency, in their assistance to the Republic of Moldova, focus on sustainable rural livelihoods, land rights, market access, social infrastructure, environmental degradation, savings and credit associations and support to civil society. The Japanese International Cooperation Agency continues to provide support for SME development and the Increase of Food Production (2KR) project for the purchase of new agricultural machinery and equipment. The European Bank for Reconstruction and Development supports private-sector development in finance, infrastructure and SMEs through the provision of credit lines, equity cofinancing and business advisory services.

10. **IFAD's strategy in the Republic of Moldova.** The central goal of IFAD's strategy in the Republic of Moldova, as described in the country strategic opportunities paper (COSOP) approved in 2002, is to support the transition to a modern market economy with a sustainable rural development programme that contributes to rural poverty reduction. The Fund is also guided by the need to contribute to the achievement of the Millennium Development Goals, which set targets for reductions in poverty, improvements in health and education, and protection of the environment. Long-term institutional development for the benefit of the poor, improved on-farm productivity and new market

linkages have been emphasized as offering the best opportunities for deployment of IFAD's limited country resources for maximum impact. The impact of IFAD-financed interventions is to be further enhanced through policy dialogue and partnerships with relevant pro-poor development stakeholders. It is recognized that the focus of development directed to rural poverty reduction must be the linkage of the rural poor to agricultural and rural economic growth. The Fund's strategic role and focus in the Republic of Moldova is therefore to realize this linkage as effectively and efficiently as possible.

11. **Programme rationale.** To attain the strategic and policy objectives of the PRSP and COSOP, the proposed programme will address a number of key constraints that contribute to the persistence of rural poverty, such as limited access to rural financial services, insufficient understanding of market relationships and agricultural supply chains, and inadequate or non-existent rural infrastructure, while taking advantage of currently existing prospects in the rural context of the Republic of Moldova. These prospects include tapping the numerous opportunities for rural product marketing, as well as the country's established reputation for selected agricultural products in the former Soviet Union. The programme aims to support the development of SMEs that can penetrate markets and provide wealth creation opportunities for the rural population by targeting the poorer segments of the rural population and the poorest, most marginalized areas of the country. The programme will seek to support pro-poor economic development in rural areas by providing a complementary package of services comprising: (i) access to medium- and long-term financing for investment and working capital loans through commercial banks and microfinance institutions; (ii) on- and off-farm business advisory services and training for SMEs; and (iii) grant financing for commercial small-scale infrastructure in the public domain and through public-private partnerships. The proposed interventions would help consolidate earlier investments in the expansion of rural financial services, enhance opportunities for market-oriented farmers to capitalize on new opportunities and provide a powerful stimulus for the creation of sustainable employment opportunities from the increased activity of rural SMEs.

PART II – THE PROGRAMME

A. Programme Area and Target Group

12. **Programme area and target group.** The programme will be national in scope.[5] The programme approach puts in place investment response mechanisms, primarily through the commercial financial sector, which can in principle be accessed by any SME operating in rural areas. **Targeting** would be fundamental to ensure that participating financial institutions and providers of rural enterprise intermediation services (described in paragraph 15 below) have the greatest possible impact on rural economic growth and poverty reduction. The programme would implement a series of complementary targeting mechanisms to achieve this: (i) the value chain multiplier (VCM) would be used as a tool for assessing eligibility of loans for refinancing; (ii) support for the development of new collateral products would be provided, especially adapted to the socio-economic conditions of rural poor households, and their use would be encouraged by allowing participating financial institutions to reduce their contribution to refinanced loans by 5% in cases where innovative products are used; (iii) for loan applicants whose businesses are located within the poorest 20% of *communas*[6] as assessed under the Moldovan Index of Small Area Deprivation (MISAD),[7] a special positive loading of 20% would be added to their VCM Index assessment; (iv) applicants for infrastructure grants located in poorer areas would receive a special positive weighting to their assessment under the objective ranking system (ORS); and (v) the employment-generation impact of loans and/or infrastructure grants provided under the programme would be evaluated as one of the important

5 Transnistria is not covered by the programme.
6 Administrative unit higher than a village and headed by a mayor.
7 The MISAD mechanism will be used on a trial basis for the initial year of programme implementation and will then be evaluated.

factors in determining VCM impact as well as ORS rankings, thereby ensuring that programme benefits indeed yield a significant poverty reduction impact through the creation of rural employment opportunities.[8]

B. Objectives and Scope

13. The programme's overall goal is to produce sustainable income growth for poor people in rural areas and small towns in the Republic of Moldova by stimulating the growth of strategic farming and rural business activities in which the country has a comparative advantage. The programme approach is designed to induce incremental private and public investment and, by extension, income growth through existing and new rural value chains.

C. Components

14. Programme investments are organized under four components:

15. **Rural enterprise intermediation services (REIS).** The REIS component will seek to strengthen the growth of farming and rural business activities by providing targeted support services to those activities that create or enhance the flow of private capital to viable and commercially oriented SMEs. The specialist support of REIS providers will be a key targeting mechanism of the programme, ensuring that the opportunities provided are open to a broad range of SMEs. The component will have two subcomponents: (i) **loan intermediation services**, assisting the network of REIS providers with the preparation of business plans and other services to secure finance for small-scale rural enterprises; and (ii) **equity intermediation services**, supporting the development of medium-scale enterprises by offering, through REIS providers, effective strategic investment plans and other services to attract direct investment from the private sector.

16. **Rural financial services (RFS).** The RFS component will provide access to appropriate and sustainable financial services for rural businesses. The most likely way for further rapid growth in the rural economy would be to develop and support rural-based supply chains, most of which would be associated with the high-value subsector exporting predominantly to the Commonwealth of Independent States and the European Union. For this to take place, it is necessary to raise the quality, quantity and reliability of fresh and processed agricultural produce and to improve the capacity of business entities to manage the attendant complex operations. These strategies imply substantial investment in productive capacity of rural SMEs. Although the financial sector has shown increased interest in lending to the rural sector, it is still cautious and the required financing is still not available. It is apparent that further interventions are required in order to encourage financial institutions to provide adequate financing on appropriate terms so as to foster the development of rural enterprises. The RFS component would have two subcomponents: (i) **loan refinancing**, providing access to loan funds for on-lending by participating financial institutions; and (ii) **collateral development and training**, providing training and technical assistance to participating financial institutions in the development and use of collateral instruments and improving risk analysis skills.

17. **RFS subcomponent 1: loan refinancing** would refinance the loans and lease contracts extended by participating financial institutions – both commercial banks and microfinance institutions – to rural business enterprises. Commercial banks would be able to apply for refinancing of loans and lease contracts extended to rural business enterprises. Participating financial institutions would have to contribute at least 15% of their own funds to each loan for it to be eligible for refinancing. To encourage commercial banks to engage in longer-term lending within the rural sector, repayment terms of the principal being refinanced by the Government through the programme would be longer than for the financing terms of the new loans or lease contracts being refinanced. Microfinance

[8] A detailed explanation of the VCM and ORS mechanisms is provided in Appendix VI.

institutions as well would be able to apply for refinancing of loans and leasing contracts extended to rural business enterprises. All types of rural loans that create income opportunities for rural residents would be eligible for refinancing, with a maximum refinancing ceiling set at USD 20 000 per loan.

18. **RFS subcomponent 2: collateral development and training** would be provided to assist participating financial institutions in developing and operationalizing improved collateral instruments and providing their staff with training in agricultural risk assessment. The development of these products is necessary, as many of these institutions continue to place a very strong emphasis on collateral (as opposed to analysing cash flows generated through the investments) therefore making it difficult for many farmers and rural entrepreneurs to access credit.

19. **Market-derived infrastructure investment.** There is an acknowledged need for considerable investment in rehabilitating the country's rural infrastructure. This component will rehabilitate rural infrastructure that is crucial to promoting profitable enterprise development and farm income growth and will help develop sustainable public-private partnerships for the development and maintenance of rural infrastructure. Available rural infrastructure is inadequate to support enterprise development for sustainable rural economic growth: most of the irrigation systems are not functioning; many rural roads are unusable for regular transportation; and the vast majority of the villages lack a natural gas supply network. These shortcomings keep rural entrepreneurs and farmers from starting up enterprises, and they have hindered SME development and contributed greatly to a drastic decrease in agricultural productivity. The infrastructure investments selected would be strategic in nature, i.e. investments with a higher potential impact on the rural economy would facilitate and induce more profitable farming and other business investments and thereby contribute to raising overall levels of economic activity in rural areas.

20. The programme would award competitive grants for investments in public infrastructure (i.e. for common use by a client group and not "state-owned") that would enable and enhance private sector investments and activities in rural areas. Proposed investments would have to demonstrate the commercial viability of the proposed venture, of which the infrastructure investment is a strategic or enabling link. The main types of public infrastructure expected to be financed would be: irrigation schemes, roads, and other public infrastructure such as natural gas supply or other commonly used infrastructure. An integral part of the selection process will be the careful evaluation of proposed operation and maintenance responsibilities and capacities on the part of the applicant group.

21. **Programme management.** The Consolidated Project Implementation Unit (CPIU-IFAD) established under the Ministry of Agriculture and Food Industry and managing the ARP project will have implementation responsibility for both the ARP and the proposed programme. National coordination will be ensured by the IFAD Programme Steering Committee with representatives from the Ministry of Agriculture and Food Industry, the Ministry of Finance and the Agricultural Committee of Parliament, as well as client representatives. The CPIU-IFAD has been established as an autonomous programme implementation unit, with the full complement of staff and resources from the existing IFAD programme (RFSEDP and ARP projects), together with the incremental staff and additional resources necessary to ensure smooth implementation of the proposed programme.

D. Costs and Financing

22. The total programme cost, including physical and price contingencies will amount to USD 20.31 million (based on September 2005 prices), as summarized in Table 1. The programme will be financed by an IFAD loan of USD 13.02 million, or 64.1% of total programme costs. Participating financial institutions will contribute approximately USD 2.81 million (13.8%), while programme clients will contribute approximately USD 4.18 million (20.6%). The Government's contribution of USD 0.29 million (1.4%) will cover all taxes and duties. The financing plan is presented in Table 2.

TABLE 1: SUMMARY OF PROGRAMME COSTS[a]
(USD ’000)

Components	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
A. Rural enterprise intermediation services					
1. Loan intermediation services	108	143	250	57	1
2. Equity intermediation services	400	-	400	-	2
Subtotal	**508**	**143**	**650**	**22**	**3**
B. Rural financial services					
1. Loan refinancing	14 088	-	14 088	-	71
2. Collateral development and training	47	48	94	51	-
Subtotal	**14 134**	**48**	**14 182**	**-**	**71**
C. Market-derived infrastructure investment					
1. Competitive grants for market-derived infrastructure	3 465	-	3 465	-	17
2. Development of operational modalities	193	24	217	11	1
Subtotal	**3 658**	**24**	**3 682**	**1**	**18**
D. Programme management					
Consolidated Programme Implementation Unit	1 247	170	1 417	12	7
Total base costs	**19 547**	**383**	**19 931**	**2**	**100**
Physical contingencies	27	17	44	39	-
Price contingencies	319	12	332	4	2
Total programme costs	**19 893**	**413**	**20 306**	**2**	**102**

[a] Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN [a]
(USD '000)

Components	Government of Moldova		IFAD		Client		Participating Financial Institutions		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. Rural enterprise intermediation services													
1. Loan intermediation services	-	-	250	100.0	-	-	-	-	250	1.2	143	108	-
2. Equity intermediation services	-	-	400	100.0	-	-	-	-	400	2.0	-	400	-
Subtotal	-	-	650	100.0	-	-	-	-	650	3.2	143	508	-
B. Rural financial services													
1. Loan refinancing	-	-	7 648	54.3	3 630	25.8	2 810	19.9	14 088	69.4	-	14 088	-
2. Collateral development and training	-	-	95	100.0	-	-	-	-	95	0.5	48	47	-
Subtotal	**-**	**-**	**7 744**	**54.6**	**3 630**	**25.6**	**2 810**	**19.8**	**14 184**	**69.8**	**48**	**14 136**	**-**
C. Market-derived infrastructure investment													
1. Competitive grants for market-derived infrastructure	-	-	3 142	85.0	554	15.0	-	-	3 696	18.2	-	3 696	-
2. Development of operational modalities	-	-	241	100.0	-	-	-	-	241	1.2	24	217	-
Subtotal	**-**	**-**	**3 383**	**85.9**	**554**	**14.1**	**-**	**-**	**3 937**	**19.4**	**24**	**3 913**	**-**
D. Programme management													
Consolidated Programme Implementation Unit	288	18.7	1 248	81.3	-	-	-	-	1 535	7.6	198	1 087	250
Total programme costs	**288**	**1.4**	**13 024**	**64.1**	**4 184**	**20.6**	**2 810**	**13.8**	**20 306**	**100.0**	**413**	**19 643**	**250**

[a] Discrepancies in totals are due to rounding

E. Procurement, Disbursement, Accounts and Audit

23. **Procurement.** Goods and physical works to be financed from the loan proceeds will be procured in accordance with IFAD procurement guidelines. All purchases of vehicles, office equipment and furniture will be grouped, whenever feasible, to enable cost savings. Based on approved annual procurement plans, the following thresholds and procedures will be applied. Packages costing USD 20 000 or more but less than USD 200 000 will be procured on the basis of national competitive bidding. Packages costing less than USD 20 000 will be procured on the basis of prudent local shopping. Packages of equipment, civil works, services and supplies costing less than USD 5 000 will be procured on the basis of direct contracting. Procurement of consulting services will follow consulting services procurement procedures acceptable to IFAD and the cooperating institution. Civil works under the market-derived infrastructure component will be subject to technical standards applied by the consulting engineers and will be based on acceptable minimum standards for public expenditure of the category being financed. The Ministry of Finance and CPIU will enter into subsidiary loan agreements (SLAs) with participating financial institutions that specify the modalities for procurement in line with the modalities set out in the programme loan agreement.

24. **Disbursement.** The proposed IFAD loan of USD 13.02 million will be disbursed over a five-year period. Withdrawals from the loan account will be made against statements of expenditures. Proceeds from the IFAD loan will flow to a special account maintained in United States dollars at a commercial bank acceptable to IFAD; the account will be operated by the CPIU, as authorized by the Ministry of Finance. Funds will flow from the special account to the programme account(s) managed by the CPIU, as authorized by the Ministry of Finance, in accordance with the programme's annual work programme and budget (AWP/B). Goods and services provided through the programme will be exempted from taxes and duties.

25. Programme investment funds intended for on-lending to programme clients through participating financial institutions would be made available by the Government to those institutions based on the aforementioned SLAs (subject to IFAD endorsement), negotiated with Ministry of Finance and the CPIU on mutually accepted terms and conditions.

26. **Accounts and audit.** Responsibility for the financial management of the programme will rest with the CPIU, which will provide quarterly financial management and progress reporting to IFAD, the cooperating institution and the Ministry of Finance throughout the programme's life. Implementing agencies and participating financial institutions will also maintain appropriate financial records and accounts, which will follow generally accepted accounting practices. The CPIU will ensure that consolidated financial statements are prepared on an annual basis and are audited by external auditors in accordance with International Standards on Auditing. In accordance with established practice a recognized auditing firm acceptable to IFAD will audit programme accounts annually and implementing agency accounts as necessary.

F. Organization and Management

27. **Overall approach.** The overall responsibility for programme oversight will be entrusted to the IFAD Programme Steering Committee, which will include senior representatives of the Ministry of Agriculture and Food Industry, the Ministry of Finance, the Agricultural Committee of Parliament, as well as programme client representatives. The steering committee will provide policy guidance and ensure coordination between the overall IFAD-financed programme (the ARP project and the proposed programme) and other ongoing development programmes. The CPIU will be responsible for programme management (both the ARP project and the proposed programme), and will be charged with overall programming and coordination of all IFAD-financed programme activities, financial management and programme monitoring and evaluation.

28. **Reporting.** The programme will be implemented on the basis of AWP/Bs that are in line with the programme's objectives and achievements. In collaboration with implementing agencies and participating financial institutions, the CPIU will produce quarterly progress reports, which will compare results with the approved AWP/B. The reports will show results achieved, highlight implementation issues, and outline any remedial actions required. Copies of the reports will be provided to steering committee members, the cooperating institution and IFAD. The CPIU will prepare, for submission to the steering committee, the cooperating institution and IFAD, an annual report on programme progress and impact, including consolidated financial statements.

29. **Programme monitoring and evaluation** will be the responsibility of the CPIU. The main indicators to be monitored have already been identified and the means for verification and methods for data collection will be adjusted on the basis of the logical framework. The system will focus on the effective delivery of inputs and services and on delivery timing, coordination and impact. The Government and IFAD will evaluate the programme's interim impact and progress in a joint mid-term review scheduled to take place in year 3.

G. Economic Justification

30. The programme is expected to have a substantial impact in terms of developing agricultural resources, increasing income for poor rural households, and creating jobs and agricultural production assets. Although no formal economic analysis could be undertaken, as loan uptake for the different income-generating activities cannot be known in advance, financial analysis of a typical cross section of investments in on- and off-farm enterprises shows high returns on investments in a number of activities. At the non-farm, rural enterprise level, investments in agriculture-related businesses would further enhance opportunities for farmers to gain access to markets for produce, inputs and services. The establishment or expansion of non-agricultural rural enterprises is expected to feature prominently in the participating financial institution lending portfolios, creating income and employment for proprietors of small-scale enterprises and their families, as well as further rural employment opportunities in the form of wage labour. This will have a potent multiplier effect on under- and unemployment rates, development of the rural economy, and poverty reduction in rural areas in the country.

H. Risks

31. The main potential risks for this programme are related to the existing commercial and financial constraints in the rural sector and underdeveloped business environment. Commercial experience in the Republic of Moldova is weak, considering that little more than a decade has passed since the transition from a command economy. However, the overall programme design framework, with enhanced access to REIS services among potential programme clients and the preparation of detailed business plans required to access programme benefits, is expected to mitigate the risk factor involved in working with young enterprises with limited experience and capacities.

32. Another possible risk is that only larger and more formally organized enterprises will be able to participate effectively, and that participating financial institutions will prefer to engage with well-established enterprises, to the detriment of smallholders. Several factors will mitigate this risk, including: (i) targeted assistance at the farm/SME level will be provided through subsidized access to REIS providers; (ii) the provision of credit lines to participating financial institutions will be complemented with considerable efforts to improve their capacities to engage with small farmers and rural entrepreneurs; and (iii) investments through microfinance institutions have been specifically designed to enable farmers and microentrepreneurs to gain equitable access to loan funds.

33. Another risk is that the Government may not enact the administrative reform legislation required, particularly with respect to outmoded commercial, business-policy and regulatory

frameworks. There appears, however, to be strong Government commitment to this process, and progress would be closely monitored during further programme processing and during implementation.

I. Environmental Impact

34. Given the small scale of programme-supported activities, their individual environmental impact is expected to be limited. Programme investments are expected to be basic infrastructure related to farming (including small-scale irrigation schemes, rural roads and public utility improvements), along with the introduction of modern agro-processing systems and non-farming light industries. No major shift in land use is envisaged. The eligibility criteria for all investment and infrastructure sub-projects financed through the loan will be subject to national environmental screening criteria already in place. Based on IFAD screening procedures, and given that any disturbances to the programme area's physical setting and resources are expected to be minor, the programme has received a Category B classification.

J. Innovative Features

35. The programme includes a series of highly innovative features, providing access to a refinancing facility that leverages participating financial institution funds, complementary business advisory services and capacity-building for both programme clients and participating financial institutions. This type of investment/business support package is new in the Republic of Moldova, and significantly lessens risks associated with enterprise development both for final programme clients as well as participating financial institutions. The public-private partnership – which provides medium-and longer-term financing for SMEs, along with access to private capital in support of national development objectives – creates a level of synergy that will lead to far greater poverty impact than that of a more traditional country programme. The programme is also pioneering the use of transparent decision-making mechanisms, including the value chain multiplier index and objective ranking system, which make it much simpler to ascertain eligibility for access to programme benefits and enhance transparency and effectiveness.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

36. A loan agreement between the Republic of Moldova and IFAD will constitute the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

37. The Republic of Moldova is empowered under its laws to borrow from IFAD.

38. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV – RECOMMENDATION

39. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

> RESOLVED: that the Fund shall make a loan to the Republic of Moldova in various currencies in an amount equivalent to nine million one hundred thousand special drawing rights (SDR 9 100 000) to mature on or prior to 1 December 2045 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

ANNEX

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT
(Negotiations concluded on 8 December 2005)

1. **Programme accounts**. As soon as practicable after the date hereof but in no event later than 30 days after the effective date, the Ministry of Agriculture and Food Industry of the Government of the Republic of Moldova (the "lead programme agency") will open and thereafter maintain accounts denominated in local currency for programme operations ("programme accounts") in a commercial bank acceptable to IFAD. The programme accounts will be protected against set-off, seizure or attachment on terms and conditions proposed by the Government of the Republic of Moldova (the "Government") and accepted by IFAD. The programme director will be fully authorized to operate the programme accounts.

2. **Additional events of suspension.** IFAD:

(a) may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account if:

(i) the programme implementation manual or any provision thereof has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the programme;

(ii) the component operations manual or any provision thereof has been waived, suspended terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the programme;

(iii) the subsidiary loan agreement or any provision thereof has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the programme.

(b) will suspend the right of the Government to request withdrawals from the loan account if the audit has not been satisfactorily completed within 12 months of the financial reporting date.

3. **Monitoring**. Programme monitoring will be the responsibility of the CPIU-IFAD and will be focused on the principal goal and development objectives of the programme. The major instruments for monitoring progress include: (a) the records of physical and quantitative progress to be prepared regularly by all concerned programme parties for submission to the CPIU-IFAD; (b) the regular financial reporting; and (c) the baseline and repeater surveys carried out before and in the course of programme implementation.

4. **Counterpart contribution**. The Government's contribution will cover all social contributions as required by national legislation and taxes and duties on all goods, civil works and services procured under the programme.

5. **Tax exemption**. The Government will exempt from taxes the importation, procurement and supply of all goods, civil works and services financed by the loan agreement.

6. **Programme focus**. Each programme party will ensure that the benefits of the programme are not withheld from any potential beneficiary in the target group on the basis of gender, ethnicity or religious affiliation. Furthermore, programme parties will, to the extent feasible, encourage the participation of women in programme activities, facilitating their participation in community-based organizations and their ability to access programme funds.

7. **Pest management**. As part of maintaining sound environmental practices as required by IFAD, the Government will ensure that all implementing agencies will maintain appropriate pest management practices under the programme; and to that end, the Government will ensure that pesticides under the programme do not include any pesticide proscribed either by the Food and Agriculture Organization of the United Nations or the World Health Organization.

8. **Conditions for withdrawals**. No withdrawals will be made for:

(a) loan refinancing until the subsidiary loan agreement has been approved by IFAD in draft, and a copy of such subsidiary financing agreement, as signed by the Government and participating financial institution, in a form and substance acceptable to IFAD, is delivered by the Government to IFAD, and all conditions precedent to the effectiveness of the subsidiary financing agreement have been fulfilled; and

(b) civil works until the draft component operations manual has been approved by IFAD.

9. **Conditions precedent to effectiveness**. The following are specified as conditions precedent to the effectiveness of the loan agreement:

(a) the Government has obtained the necessary Government decision whereby the IFAD-programme steering committee established under the IFAD-funded agricultural revitalization programme has been authorized to oversee the programme;

(b) the programme loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action; and

(c) a favourable legal opinion, issued by the Government’s Minister for Justice in the form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

COUNTRY DATA

REPUBLIC OF MOLDOVA

Land area (km^2 thousand) 2003 1/	33
Total population (million) 2003 1/	4.24
Population density (people per km^2) 2003 1/	129
Local currency	Moldovan Leu (MDL)
Social Indicators	
Population (average annual population growth rate) 1997-2003 1/	-0.3
Crude birth rate (per thousand people) 2003 1/	11
Crude death rate (per thousand people) 2003 1/	13
Infant mortality rate (per thousand live births) 2003 1/	26
Life expectancy at birth (years) 2003 1/	67
Number of rural poor (million) (approximate) 1/	n/a
Poor as % of total rural population 1/	n/a
Total labour force (million) 2003 1/	2.21
Female labour force as % of total 2003 1/	49
Education	
School enrolment, primary (% gross) 2003 1/	86 a/
Adult illiteracy rate (% age 15 and above) 2003 1/	1 a/
Nutrition	
Daily calorie supply per capita	n/a
Malnutrition prevalence, height for age (% of children under 5) 2003 2/	10 a/
Malnutrition prevalence, weight for age (% of children under 5) 2003 2/	3 a/
Health	
Health expenditure, total (as % of GDP) 2003 1/	7 a/
Physicians (per thousand people) 2003 1/	3 a/
Population using improved water sources (%) 2002 2/	92
Population with access to essential drugs (%)	n/a
Population using adequate sanitation facilities (%) 2002 2/	68
Agriculture and Food	
Food imports (% of merchandise imports) 2003 1/	14
Fertilizer consumption (hundreds of grams per ha of arable land) 2000 1/	55 a/
Food production index (1999-01=100) 2003 1/	107
Cereal yield (kg per ha) 2003 1/	1 848
Land Use	
Arable land as % of land area 2003 1/	56 a/
Forest area as % of total land area 2003 1/	10 a/
Irrigated land as % of cropland 2003 1/	14 a/

GNI per capita (USD) 2003 1/	590
GDP per capita growth (annual %) 2003 1/	6.7
Inflation, consumer prices (annual %) 2003 1/	12
Exchange rate: USD 1 =	MDL 12.5
Economic Indicators	
GDP (USD million) 2003 1/	1 964
Average annual rate of growth of GDP 1/	
1983-1993	-3.3
1993-2003	-1.8
Sectoral distribution of GDP 2003 1/	
% agriculture	22
% industry	25
% manufacturing	18
% services	53
Consumption 2003 1/	
General government final consumption expenditure (as % of GDP)	18
Household final consumption expenditure, etc. (as % of GDP)	94
Gross domestic savings (as % of GDP)	-12
Balance of Payments (USD million)	
Merchandise exports 2003 1/	791
Merchandise imports 2003 1/	1 399
Balance of merchandise trade	-608
Current account balances (USD million)	
before official transfers 2003 1/	-468
after official transfers 2003 1/	-142
Foreign direct investment, net 2003 1/	58
Government Finance	
Cash surplus/deficit (as % of GDP) 2003 1/	2
Total expenditure (% of GDP) 2003 1/	n/a
Total external debt (USD million) 2003 1/	1 901
Present value of debt (as % of GNI) 2003 1/	95
Total debt service (% of exports of goods and services) 2003 1/	10
Lending interest rate (%) 2003 1/	19
Deposit interest rate (%) 2003 1/	13

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2005
2/ UNDP, *Human Development Report*, 2005

PREVIOUS IFAD FINANCING IN THE REPUBLIC OF MOLDOVA

Project ID	Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
1110	Rural Finance and Small Enterprise Development Project	IFAD	UNOPS	HC	14 Nov 01	-	31 Dec 04	G - I - 217 - CCA	USD	90 000	100
1110	Rural Finance and Small Enterprise Development Project	IFAD	UNOPS	HC	12 Nov 99	-	31 Dec 01	G - I - 81 - MD	USD	75 000	100
1110	Rural Finance and Small Enterprise Development Project	IFAD	UNOPS	HC	09 Dec 99	01 Dec 00	30 Jun 06	L - I - 527 - MD	SDR	5 800 000	91.4
1265	Agricultural Revitalization Project	IFAD	UNOPS	HC	18 Dec 03	01 Sep 05	-	L - I - 629 - MD	SDR	10 300 000	

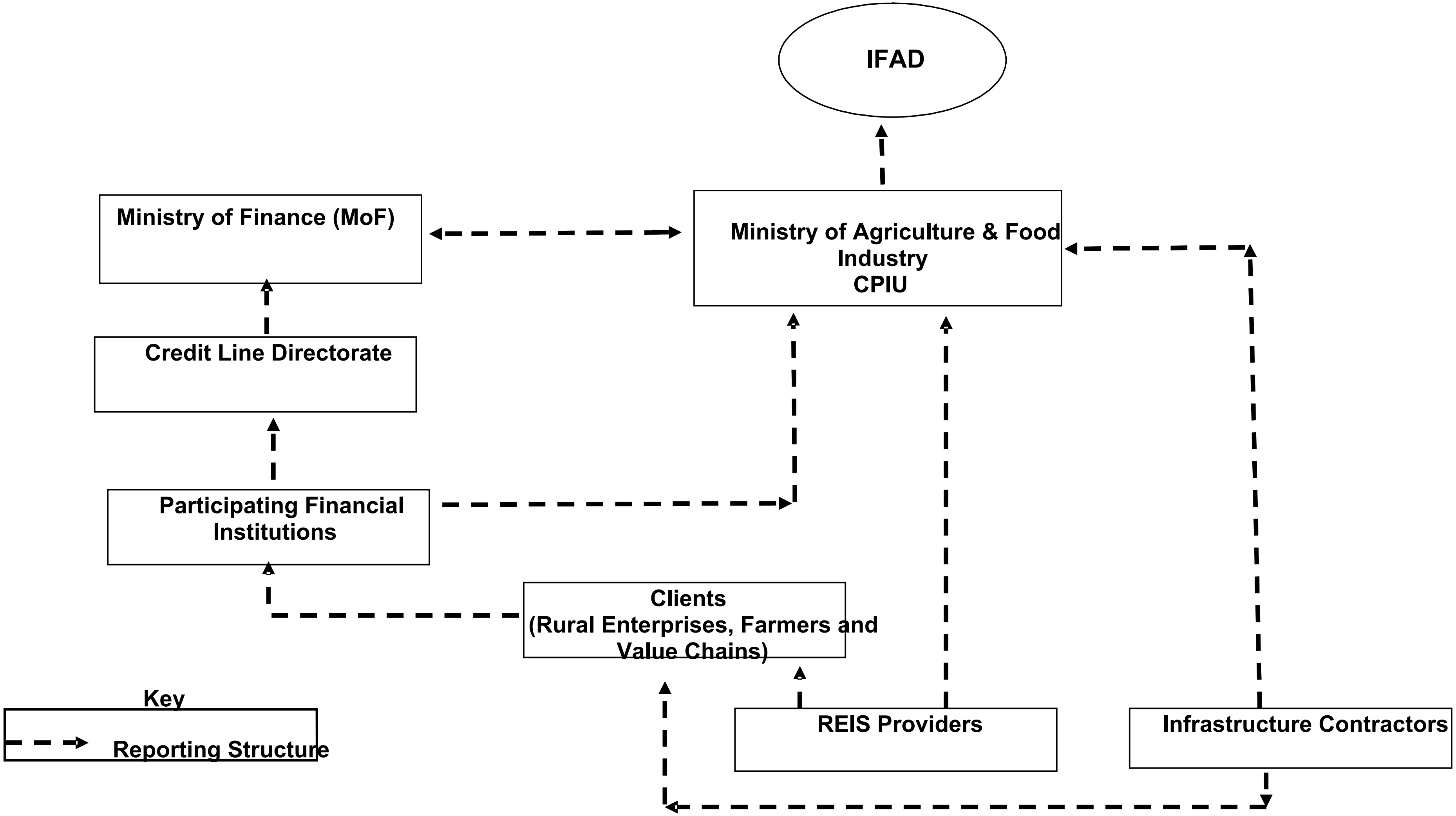
HC: Highly concessional
UNOPS: United Nations Office for Project Services

LOGICAL FRAMEWORK

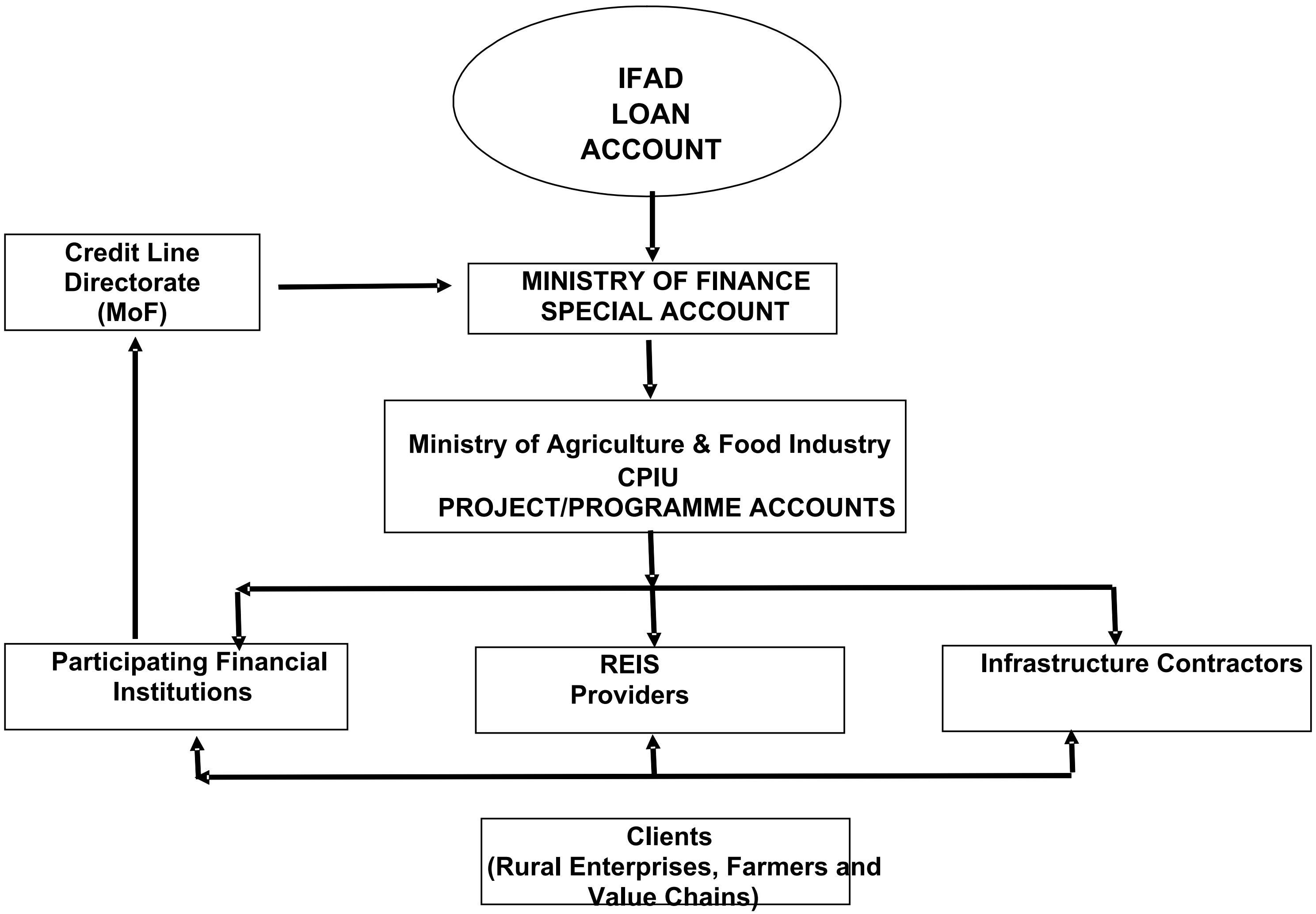
Narrative Summary	Impact/Result Indicators	Means of Verification	Assumptions/Risks
Goal			
Sustainable income growth achieved for poor people in rural areas and small towns in the Republic of Moldova	• Increase in rural household asset ownership (m/f headed) • Increase in income tax revenue from individuals and enterprises by district (*raion*) • Increase in VAT collections by district (*raion*) • Reduction in prevalence of under-weight children (under 5)	National and local statistical service Mid-term review and completion report UNICEF demographic and health surveys and analysis	
Purpose/Objective			
Stimulated growth of farming and rural business activities in which the country has a comparative advantage	• Revenue growth of rural enterprises • Number of jobs generated by small and medium enterprises (m/f)	National and local statistical service Enterprise tax returns Supervision reports Mid-term review and completion reports	Absence of large economic shocks No deterioration in overall terms of trade
Outputs			
Effective development of a network of rural enterprise business service (REIS) providers	• Number of rural service providers accredited • Proportion of business plans prepared which attract finance • Value of finance provided to rural businesses by participating financial institutions after assistance with business plan preparation (m/f ownership) • Value of equity resources attracted for rural enterprises	CPIU records Records Client survey Case studies National Bank of Moldova annual supervision reports of participating financial institutions Supervision reports	Complementary support provided by other development programmes to REISs, Ministry of Agriculture Pro-business policy settings maintained Cooperation with external and private financiers achieved
Appropriate short-, medium-, and long-term financing, as well as new financial products, made available to rural commercial entities in a competitive financing environment	• Number and value of loans made to enterprises/farmers by type of loan and gender of borrower • Repayment % for loans (m/f ownership) • Increase in value of loan portfolio provided by participating financial institutions in rural areas	CPIU records and transaction audits Credit Line Directorate records regarding commercial banks/microfinance institutions financed National Bank of Moldova annual supervision reports of participating financial institutions Case studies Records Supervision reports	Absence of political interference in operation of the facility

Narrative Summary	Impact/Result Indicators	Means of Verification	Assumptions/Risks
Outputs – Continued			
Profitable rural enterprise development/farmer income growth through investment in rural infrastructure	• Incremental annual value of revenue to farms/businesses served by aggregate infrastructure investment at establishment and after three years	CPIU records Case studies Supervision reports	Absence of political interference in operation of the facility Existing national environmental regulations are applied to ensure positive or neutral environmental impact
Programme effectively managed	• Disbursement percentage • Management information system set up by end of PY1 • Degree of achievements/results of AWP/B targets • Reports of professional standards prepared and received within specified time frame	Supervision reports IFAD follow-up missions/reports	
Inputs (USD millions)	**Financing USD**	**Timing**	
A. Refinancing/investment capital 14 450 B. Civil works 3 696 C. Equipment and supplies 57 E. Training and technical assistance 991 G. Operating costs 375 H. Salaries and benefits 737 Total 20 306	IFAD loan 13 024 Government 288 Clients 4 184 Participating financial institutions 2 810	• IFAD loan negotiations – Nov 2005 • IFAD Executive Board presentation – confirmed December 2005	

PROGRAMME ORGANIGRAMME



PROGRAMME FLOW OF FUNDS



INNOVATIVE FEATURES

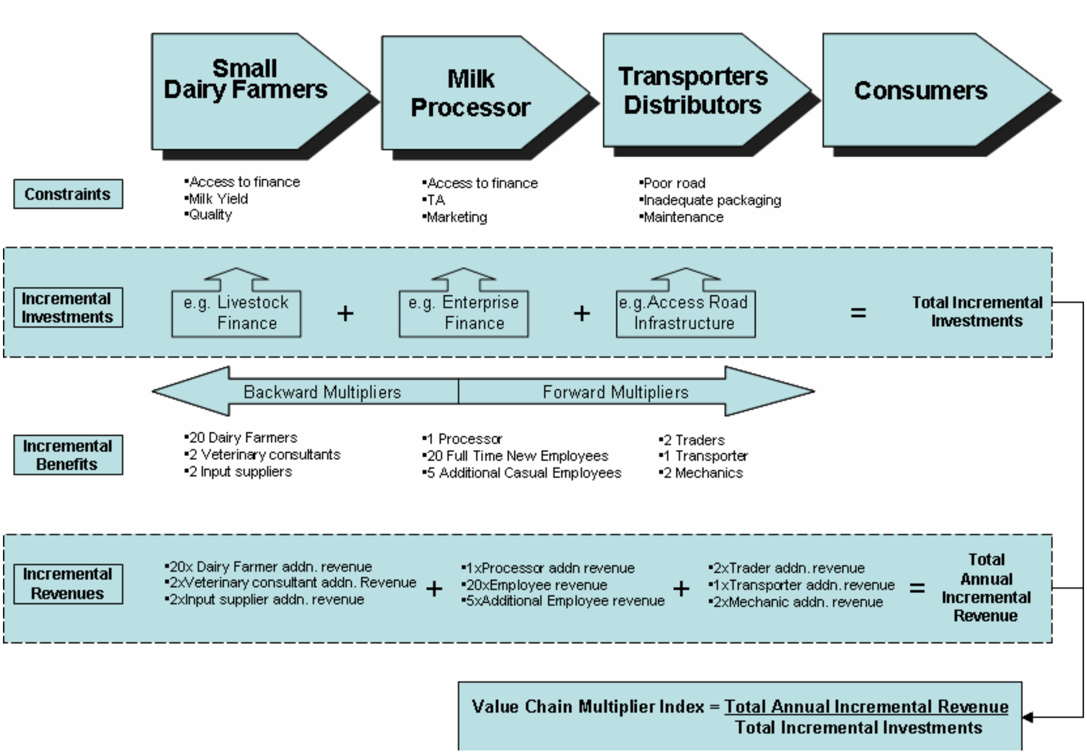
1. One of the innovative features of the programme is the introduction of two mechanisms to ascertain eligibility of proposed investments and to provide a means to rank them in a transparent manner. The value chain multiplier concept was developed as a means to allow REIS providers, the CPIU and participating financial institutions to compare the relative impact of proposed investments, making it possible for the implementation of an effective value chain programme approach. Conversely, the objective ranking system (ORS) will help ensure that proposed investments under the market-derived infrastructure investment component are appropriately targeted and ranked.

Rural Financial Services Component

The Value Chain Multiplier and Targeting

2. **Targeting** would be essential to ensure maximum feasible impact on incremental rural income generation and poverty alleviation. In order to target refinancing and equity intermediation to the investments with the greatest economic impact, it is necessary to consider the positive effect, which would be induced throughout the value chain rather than specifically within one business. In order to measure this impact, a value chain multiplier (VCM) will be calculated. This would consist of the value of all incremental profits, salaries, services and produce induced by the investment. When the VCM is divided by the value of the incremental loan or equity investment, a value chain multiplier index (VCMI) would be derived. This would allow easy comparison of the VCM of investments that are different in nature and size. The threshold VCMI would initially be established at a level expected to efficiently allocate the available funds for refinancing. This would be calculated at programme commencement using an analysis of the type of investments proposed. Applications for refinancing or equity intermediation conditional grants whose VCMI did not exceed the threshold would not be supported. Figure 1 below demonstrates the VCMI concept in a supply chain.

Figure 1. Dairy Supply Chain Investment – Example of the Value Chain Multiplier Index



3. **Targeting Poorest Localities.** For loan applicants whose businesses are located within the poorest 20% of *communas* as assessed under the MISAD, a special positive loading of 20% would be added to their assessment under the VCMI. This approach would give an advantage to businesses in the poorest areas, providing affirmative discrimination to stimulate investment in such areas. This approach would initially be piloted for the first year of the programme, after which it would be reviewed by the IFAD Programme Steering Committee (IPSC), IFAD and the cooperating institution. If the procedure is shown to be effective in providing additional opportunities for the poorest areas without jeopardizing the integrity of the programme, it would be continued thereafter.

Market-Derived Infrastructure Investment Component

The Objective Ranking System and Infrastructure Ranking

4. All applications for access to programme benefits under the market-derived infrastructure investment component would proceed through a two-step selection process of: (i) pre-qualification; and (ii) qualification. For pre-qualification, applications would be required to be compliant with three compulsory criteria: First, they would have to demonstrate an internal rate of return (IRR) greater than the opportunity cost of capital; second, they would have to show a commitment by the proponents to invest a minimum of 15% of the total cost of the investment from their own resources; and third, they would have to propose a feasible and sustainable procedure for operation and maintenance of the proposed facility. Any proposal which did not satisfy these criteria would be rejected.

5. Thereafter, an objective ranking system (ORS) would be employed to ensure that the proposed investments are appropriately targeted. The components of the ORS would have the following initial weightings:

(a)	Internal rate of return	70%
(b)	Number of individuals assisted per USD 1 000 spent	15%
(c)	Equity contribution by the sponsors	15%

6. All the pre-screened applications being considered for grant awards would be competitively ranked using this system. The highest score for each of the evaluation criteria would be given a score of 1.00. The scores for evaluation criteria of the other proposals would then be computed on a sliding scale as a proportion of the highest score. Proposals would therefore be ranked according to their combined scores using the following formula:

$$\textit{Ranking Value} = (0.7\times A) + (0.15\times B) + (0.15\times C)$$

7. The proposals would then be ranked in descending order until all the available funds for a given year are allocated, plus provision for sufficient reserve projects to cater for any withdrawals that did not pass scrutiny at the qualification stage (technical review and field visit by CPIU).