Ex Post-Evaluation Brief
Moldova: ProCredit Bank Moldova

Programme/Client	BMZ no.: 2006 66 180 (investment)*, 2006 70 398 (accompanying measure)	
Programme executing agency	ProCredit Bank Moldova	
Year of sample/ex post evaluation report: 2012/2012		
	Appraisal (planned)	**Ex post-evaluation (actual)**
Investment costs (total)	EUR 1.7 million EUR 0.8 million	EUR 1.7 million EUR 0.8 million
Counterpart contribution (company)	-	-
Funding, of which budget funds (BMZ)	EUR 2.5 million EUR 2.5 million	EUR 2.5 million EUR 2.5 million

* random sample

Project description: The programme includes an FC fiduciary investment of up to EUR 1.7 million, and an accompanying measure for consultancy and training measures worth EUR 0.8, both for the ProCredit Bank Moldova (PCBM) The FC fiduciary investment took place in the form of an investment in the equity capital (acquisition of ordinary shares) of PCBM. The PCBM is a private commercial bank that was established in December 2007, and emerged from an earlier institution that did not have a banking licence and only provided microcredits. PCBM now also offers financial services such as overdraft facilities and savings products, payroll services, online banking, and the handling of national and international transactions.

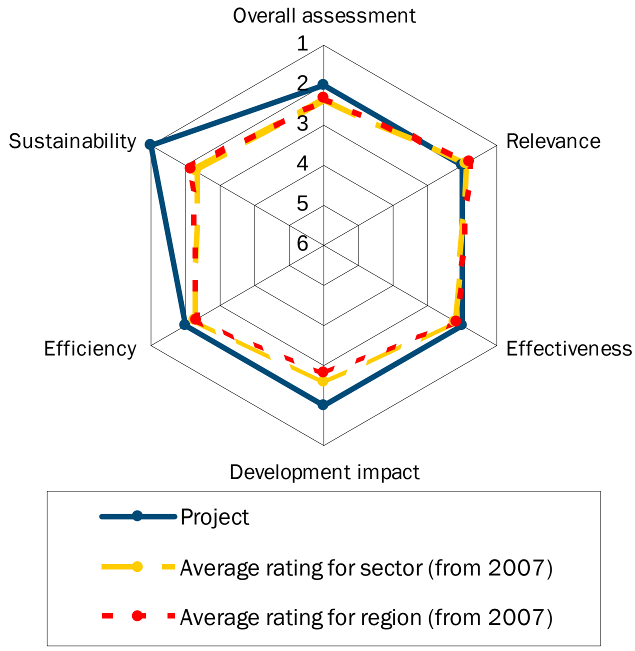
Objective: The overall objectives were: (1) help create employment and income among the target group, and (2) help develop the Moldovan financial system by integrating the target group into the formal financial sector. The project objective was to transfer the business of a non-bank institution into a bank offering private micro and small enterprises (MSEs) and agricultural enterprises not only (micro-)loans, but also savings products and other financial services. **Target group:** MSEs, especially agricultural businesses.

Overall rating: 2

Based on the high degree to which objectives were achieved (effectiveness, impact), the high efficiency and the excellent sustainability, we rate the overall success of the programme as good.

Of Note: Given PCBM's above-average achievement in creating access to financial services in rural areas, assume a major contribution to promoting business activities in rural areas.

Rating by DAC criteria



EVALUATION SUMMARY

Overall rating: 2

Relevance: One core problem faced by micro and small enterprises (MSEs), agricultural businesses and poor sections of the population in Moldova, particularly in rural regions, is the inadequate supply of financial services. This means that relatively few new income-generating opportunities and jobs are created. In this setting, the banking sector is still performing its function as a catalyst of broad-based economic development only to a limited extent. Most commercial banks focus predominantly on extending short-term loans to large industrial and commercial enterprises, and not to MSEs.

The design of the supported programme, which aimed to support the establishment of PCBM, was therefore appropriate to the problems faced in the financial sector, and the approach selected was correct. The results aimed for in the real sector and in the financial sector were correctly captured in the chain of effects, and plausible. The programme was designed and implemented in accordance with the directives of the BMZ policy paper on financial systems development. By establishing PCBM it was possible to broaden significantly the range of services offered by its predecessor organisation, a non-bank institution. Without a banking licence, it would not have been possible for instance to accept savings deposits and perform typical banking services (including money transfers, overdrafts).

The programme also took appropriate account of the financing requirement of MSEs (see "Effectiveness" below).

Coordination with other donors and IFIs in the finance sector was managed inter alia through the Management Board of PCBM, in which alongside KfW (acting as the German Government's trustee), the Dutch Stichting DOEN-Postcode Loterij is also directly involved, while IFC, FMO, BIO and Proparco are indirectly involved through a holding company. Moreover USAID, SIDA and the World Bank are also trying to promote enabling legal frameworks for MSEs and the private sector in general (e.g. by providing advisory services for legislation and for developing a cadastral system.). These interventions complemented this programme. To foster the access of MSEs and SMEs to credits, EBRD, IFC, World Bank and USAID are supporting various commercial banks in Moldova. Furthermore, a sector dialogue is being conducted with the National Bank of Moldova and the National Commission of Financial Market.

Given the continued strong demand for (formalised) financial services, which was addressed both by the programme and in the donor and sector dialogue, we rate the relevance of the programme as high. Sub-Rating: 2.

Effectiveness: A total of seven indicators for achievement of the project objective were formulated (portfolio growth, portfolio quality, size of sub-loans, credit growth outside the capital, number of savings and term deposit accounts, return on equity, liabilities to customers in relation to total liabilities). These were selected appropriately in relation to the project objective. PCBM provides MSEs, agricultural businesses and broad sections of the population with financial services in order to strengthen their economic capability. Of the seven indicators for achievement of the project objective, PCBM satisfies all but one, namely: "liabilities to clients as a percentage of total liabilities". More than 50% of the funds used by PCBM for refinancing were supposed to have been obtained from customer deposits, however the bank has not yet achieved this (the current figure is 32%). By comparison within the sector, PCBM thus lies below the current average of around 52% (2011). However, we should remember that PCBM has only been able to accept savings deposits since the end of 2007, and some 78% of the total liabilities of the banking sector are accounted for by established, large banks that are often international. PCBM remains heavily dependent on financing by international financial institutions.

As well as lines of credit and overdraft facilities, the range of products offered by PCBM also includes a new form of investment: term deposits, with the option of increasing the balance. The maximum maturity for fixed-term deposits was also extended. Most customer deposits with PCBM are term deposits (57.7%) averaging USD 4,198. The average maturity of deposits has risen to 12.5 months as a result, which indicates that customer confidence is growing. It is to be assumed that PCBM will be able to make greater use of customer deposits for refinancing in the future.

Unlike many of its competitors, PCBM invests in the training of its staff, and through this extensive knowledge transfer also makes an indirect contribution toward strengthening the country's financial sector. In this connection the accompanying measure for the programme also made an important contribution through the training activities it provided for staff of PCBM. The conversion of a non-bank institution into PCBM was supported through the transfer of banking expertise.

Without the fiduciary investment, PCBM would not have been able to rise at this rate to become Moldova's seventh-largest bank, with a current balance sheet total of USD 152.1 million (as at April 2012). Since its establishment the bank has extended some 87 thousand loans. Over the last five years PCBM's credit portfolio has almost quadrupled (+382%).

Since the majority of the project objective indicators were achieved, and some of them surpassed, and since achievement of these objectives was promoted by the accompanying measure, we believe the project objectives were achieved overall. We therefore rate the effectiveness of the project as good. Sub-Rating: 2

Efficiency: As 2001 drew to a close, the operating revenues of PCBM were USD 12.4 million, as compared with operating expenditure of USD 11.2 million. USD 4.4 million of that was accounted for by personnel costs, and 6.8 million by administrative costs, incurred inter alia for staff training measures. Pre-tax profit was thus USD 1.2 million. With a workforce of 532 and a balance sheet total of USD 152.1 million, there would appear to room for further improvement in PCBM's efficiency. However, we should remember that the large number of small loans extended to informal MSEs by PCBM entail a relatively large amount of work. The accompanying measure, which we regard as a success, made a substantial contribution toward establishing the credit technology needed for this. We therefore rate the productive efficiency as good.

Some 85% of the loans outstanding as at June 2011 were worth up to USD 10,000. Without a doubt these orders of magnitude meet the demand of the MSEs and medium-sized enterprises (e.g. for acquiring simple technical plant, a van or a tractor). The NPL 30 rate (loans for which amortisation or interest payments are more than 30 days in arrears) for PCBM is 3.1% (as at April 2012). This healthy figure suggests that loans are well appraised, and processed and extended appropriately.

The responsible and risk-appropriate lending policy of PCBM ensures that this growth does not lead to over-indebtedness among the target group (especially with loans denominated in EUR), but generates and protects employment, and therefore income. We therefore rate the allocative efficiency as good.

Based on the good efficiency of production and allocation, we rate the efficiency overall as good. Rating: 2

Overarching developmental impact: The overall objectives of the programme were contributing to employment and income generation (overall objective 1) and financial system development (overall objective 2). Since appraisal, per capita GDP (overall objective indicator 1a) has grown considerably (USD 1,230 [2007], USD 1,967 [2011]). However, as economic growth has declined in the wake of the financial crisis (2004-2008: 5.8% p.a.; 2009: -6.0%; 2010: 7.1%; 2011: 6.4%) the unemployment rate (overall objective indicator 1b) in Moldova has risen significantly (2007: 5.1%, 2011: 6.9%). The degree of financial intermediation as measured by the ratio of bank loans to the private sector has also fallen, from 36.85% (2007) to 33.28 % (2010). Four years after PCBM was established (in 2007), its share of overall objective indicator 2 – "loans to the private sector relative to GDP" – has, however, risen from 0.78% to 2.03%, i.e. has grown by some 260% in relative terms. Given the continuous, albeit low economic growth seen in Moldova over the last few years, PCBM has been able to make a significant contribution to financial intermediation. We may assume that had it not been for the engagement of PCBM, the degree of financial intermediation would have declined further, and the target group of MSEs would have been less well integrated.

One positive aspect here is the strong growth of PCBM in rural areas, which was above average (actual figure: 321%, target: 50%). We may assume that PCBM thus also made a contribution toward reducing the proportion of the rural population living below the national poverty line. This fell from 36.3% in 2009 to 30.3% in 2010.

The first overall objective (generating employment, increasing income) was thus achieved partially, the second overall objective (contribution toward financial system development) fully.

The programme did not have any discernible unintended negative effects. No investors were crowded out, because so far the target group has not been attractive enough for commercial competitors.

Although the first overall objective indicator was achieved only partially, this took place in conjunction with the substantial contribution made by PCBM to financial system development in Moldova. We therefore rate the achievement of the overall objectives as good. Sub-Rating: 2

Sustainability: Moldova increased its balance sheet total from USD 108.8 million at the end of 2010 to USD 152.1 million one year later, an increase of 39.8%. The high administrative costs continue to mean a low return on total assets (0.11%); however, the current return on equity of 8.8% is significantly higher than the Moldovan inflation rate (7.8%). Until mid-2010 PCBM made (planned) losses, but by the end of 2011 recorded a pre-tax profit of USD 1.2 million. After the initial loss-making phase, it is to be expected that the bank will continue to make profits in the future.

The global economic crisis also affected PCBM, though the bank came out of this largely unscathed. It was not able on all levels to achieve the growth path originally planned. This is evident particularly with respect to credit growth, which stagnated from the end of 2008 until June 2009. Only thereafter did credit growth pick up again, growing by 41.5% between 2010 and 2011. This consolidation strategy helped ensure that the NPL 30 rate (currently 3.1%) never went above the ceiling of 5% even during the financial crisis, reaching its peak to date of 4.5% in 2009.

PCBM also has strong shareholders, the largest of which itself has a diversified range of strong public and private shareholders. Therefore, even if the bank were to experience any unexpected negative developments, liquidity bottlenecks need not be anticipated. On 15 March 2011, the equity capital of PCBM was replenished with a 10.85% share using FC trust funds of EUR 1 million; replenishment of a further share using FC trust funds of EUR 1 million is planned. Furthermore all shareholders of PCBM (both public and private) pursue not only commercial, but also ethical goals. This is reflected inter alia by a responsible financing practice that proscribes a too high level of consumer lending and prevents over-indebtedness among end borrowers, and by long-term engagement without expectation of short-term (and high) profits.

The recruitment of suitable personnel, one prerequisite for the sustainable development of PCBM, is also in place. The bank for instance has no difficulty in recruiting professionally well-versed personnel. Between year-end 2010 and year-end 2011 the number of staff grew from 454 to 532. At the same time, training measures are also held at PCBM.

Given the low NPL 30 rate, it is to be assumed that operation of investments at the level of MSEs is cost-recovering. Only few of the MSEs and medium-sized enterprises are unable to service their obligations toward the bank on time.

The project executing agency is currently self-financing, and in the future will continue to exist and very probably further expand its activities. Moreover, 96.9% of all investments financed through sub-lending are generating sufficient returns to enable the necessary principal payments to be made without delay. We therefore rate the sustainability of the project as very good. Sub-Rating: 1

Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being relevance, effectiveness, efficiency and overarching developmental impact. The ratings are also used to arrive at a final assessment of a project's overall developmental efficacy. The scale is as follows:

1	Very good result that clearly exceeds expectations
2	Good result, fully in line with expectations and without any significant shortcomings
3	Satisfactory result – project falls short of expectations but the positive results dominate
4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
6	The project has no impact or the situation has actually deteriorated

Ratings 1-3 denote a positive or successful assessment while ratings 4-6 denote a not positive or unsuccessful assessment

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability) The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The overall rating on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Ratings 1-3 of the overall rating denote a "successful" project while ratings 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (rating 3).