



©IFAD/Susan Beccio

Apples are sorted and stored for cold storage and eventual sale to exporters.

Scaling up the IFAD programme in the Republic of Moldova

Country background

The Republic of Moldova is a small landlocked country with a population of approximately 3.9 million people. It is the poorest country in Europe, with a gross national income of US\$1,980 per capita.¹ About 25 per cent of the people live below the poverty line. The population is evenly distributed between rural and urban areas, with an estimated 30 per cent poverty rate in rural areas compared with 10 per cent in urban areas.² People engaged in agriculture are particularly vulnerable as their incomes are less than half those of industrial wages.

Poverty in the country is shallow, which means that most poor people do not live significantly below the poverty line. However, a large number of people live just above the poverty line and are potentially vulnerable to fall back into poverty. Many of the country's poor women and men are employed, but at wages too low to lift them above poverty. Labour productivity continues to be low. The economy depends crucially on remittances, as approximately one third of its population works abroad. Remittances accounted for 21 per cent of gross domestic product (GDP) in 2011.³

Prior to transition, the Republic of Moldova was the vineyard and horticulture garden of the former Soviet Union. Following the break-up of the Soviet Union and the Republic of



Enabling poor rural people to overcome poverty

¹ World Bank World Development Indicators, 2011. For more information, see: <http://www.data.worldbank.org/data-catalog/world-development-indicators>.

² WFP Moldova Rapid Food Security and Vulnerability Assessment 2012, p.11.

³ IMF Country Report No. 12/289, October 2012.

Table 1

The IFAD portfolio in the Republic of Moldova

Name	Total cost (millions of US dollars)	IFAD loan (millions of US dollars)	IFAD grant (US dollars)	Duration	Direct beneficiary households	Status
Rural Financial Services and Agribusiness Development Project (IFAD V)	39.3	19.3	486 000	2011-2016	37 000	Ongoing
Rural Financial Services and Marketing Programme (IFAD IV)	19.0	12.7	532 000	2009-2014	7 200	Ongoing
Rural Business Development Programme (IFAD III)	20.3	13.0		2006-2011	12 500	Closed
Agricultural Revitalization Project (IFAD II)	18.2	14.9		2006-2013	42 000	Completed
Rural Finance and Small Enterprise Development Project (IFAD I)	19.5	8.0		2000-2005	41 500	Closed

Source: IFAD's Project Portfolio Management System.

Table 2

IFAD credit lines through commercial banks, 2001-2011

Bank	Number of loans	Amount disbursed (thousands of US dollars)	Average loan amount (thousands of US dollars)	Percentage of total
Moldova Agroindbank	496	30 940	62 400	38.0
Moldindconbank	218	13 535	62 100	17.0
FinComBank	201	11 601	57 700	14.0
Eximbank	62	2 768	44 600	3.0
Banca Sociala	135	8 001	59 200	10.0
Victoriabank	55	4 005	72 800	5.0
Energbank	71	5 579	78 600	7.0
Mobias Banca	7	379	54 100	0.5
Unibank	1	42	42 000	0.1
Banca de Economii	37	2 826	76 400	3.5
Rural Finance Corporation	230	1 261	5 500	1.5
Total	1 513	80 937	55 945	100.0

Source: Consolidated Programme Implementation Unit Moldova.

Moldova's independence in 1991, agriculture collapsed and has never fully recovered. The drastic reduction in agricultural production and exports partly explains why the country has never regained its pre-transitional standard of living. Agroprocessing facilities deteriorated. During transition, collectivized land was distributed in small plots to former agricultural workers. This resulted in farm sizes typically too small to produce for the market, which has led to an agricultural sector dominated by subsistence farming.

Since transition over 20 years ago, poverty in the country has been tied to economic growth and, therefore, poverty alleviation requires continued GDP growth. Given Moldova's fertile soil and good climate for agricultural production, export of high-value-added agricultural products could once again give the country a comparative advantage. But adding value to these products requires investments in agricultural production techniques, equipment and, most important, processing facilities, as well as investments to build and maintain rural infrastructure.

The IFAD programme in the Republic of Moldova

IFAD has recognized the potential for the revitalization of crop production and processing for the export market and domestic consumption. It has systematically invested in agroprocessing and, to a lesser extent, in infrastructure development in the country. Its portfolio consists of two programmes and three projects; of these, three are ongoing and two are now closed (Table 1), with a total IFAD loan financing of US\$67.9 million and US\$1.02 million in grants. The programmes and projects have mainly focused on the provision of medium-term financing, primarily in support of agroprocessing.

The objectives of the medium-term investments are twofold: (i) facilitate access of new rural borrowers to the Moldovan banking system; and (ii) provide support to agroprocessing facilities to strengthen value chain developments. A more proactive approach to value chain development is being taken under the Rural Financial Services and

Agribusiness Development Project (RFSADP), known as IFAD V, and the Rural Financial Services and Marketing Programme (RFSMP), known as IFAD IV. Both initiatives foster linkages between different actors in the value chain, establish permanent stakeholder groups for selected value chains, and provide training and study visits to support access to new technologies and export markets.

Complementary to this core set of activities is the support to infrastructure development to link rural commercial activities and microfinance systems.

Medium-term investment credit: The backbone of IFAD operations in the Republic of Moldova

The mainstay of the IFAD programme in the country is the funding of credit lines for medium-term investment credit for small rural enterprises, provided through participating commercial banks. IFAD, together with the World Bank, is the largest funder of medium-term investment credit for agroprocessing in the country. IFAD credit lines funded 1,513 loans between 2001 and 2011, totaling US\$80.9 million (Table 2). On average, credits of US\$55,945 are directed towards small rural entrepreneurs who cannot access the commercial banking system for themselves. First-time borrowers obtain support through service providers that help rural entrepreneurs prepare bankable business plans.

A high volume of medium-term investment lending has been achieved through IFAD's policy of relending for agro-industrial investments under the same terms and conditions, until the loan is due for repayment. As the loans from IFAD to the Republic of Moldova involve a 40-year maturity for repayment, while the average maturity of supported investments is 3 to 5 years, the revolving credit line supports multiple investments. Relending takes place through the Credit Line Directorate of the Ministry of Finance, while the first round of lending is administered through the Consolidated Programmes Implementation Unit (CPIU), which implements IFAD-supported programmes and projects in the country.



©IFAD/Paolo Marchetti

18-year-old Victor Gangan slices dough at the Fenitia Company.

IFAD investments (i.e. credit lines) are being channelled through a wide network of financial intermediaries. To date, a total of 11 financial institutions – including all major domestic banks – have been involved in lending through a competitive selection process. The varied membership of banks involved in IFAD projects has meant that IFAD credit lines are now key features of the Moldovan financial landscape, and medium-term investment lending in rural areas has been introduced by many banks. Table 2 provides an overview of the lending volume by participating banks.

Over the years, IFAD projects in the country have established a sound record of investment lending and have demonstrated to financial institutions that credit provision to small rural agroenterprises is financially

profitable, without being a particularly costly undertaking or carrying undue risks. The approach of supporting sound proposals from businesses able to repay loans has resulted in a repayment rate of 98 per cent in IFAD-financed projects. An impact assessment undertaken in 2008-2009 points to significant positive employment and linkage effects created through the investment loans.⁴ The assessment also shows significant wage increases of labourers employed in companies supported by investment loans. This is further validated by recent impact data emerging under IFAD II (Agricultural Revitalization Project [ARP]), showing that investments financed during the 2006-2010 period created 3,888 jobs – a result that exceeds the appraisal target by 49 per cent. Furthermore, in each enterprise the average monthly salary

⁴ Business Advisory Center (CCA), Financing Rural Enterprises Component (Moldova), Programme Impact Assessment 2008, Final Report, January 2009.



Workers making biscuits and bread at the Acadivi bakery.

grew by MDL 555 (equivalent to US\$47), or 50 per cent, over the same period.

Bringing medium-term investment credit to scale

Two factors have been driving IFAD's consistent and incremental engagement in the provision of medium-term credit through the commercial banking sector: private-sector demand and government vision and support. Private-sector demand emerged as the main catalyst.

A key constraint for the development of the agro-industry was the lack of financing from the country's banking system, which was largely devoid of long- and medium-term deposits and access to international capital markets. Consequently, this restricted the development potential in agricultural production and opportunities for transformation into high-value-added products. But well-administered and targeted

credit lines have addressed this constraint effectively and funds are now being absorbed by many bankable business proposals. At the interest rates offered, which are largely comparable with rates provided by other donors, there has been sufficient demand for credit throughout the four IFAD projects. This private-sector demand led the government to request more funds from IFAD. The programme has been underpinned by excellent repayment rates and the fact that it has been ongoing since 2001 is a tribute to its success. A gradual maturing of the Moldovan banking system over the past ten years and the engagement of banks in numerous credit lines by a diverse set of donors, including IFAD, has now led to improved banking performance.

Another reason for the success of the IFAD programme, which will be scaled up in the future, is the government's willingness to relend repaid loans for the same scheme until

the maturity of the IFAD loan is reached. The leveraging of funds through relending is an important stimulus for small agro-industrial investments and demonstrates strong government commitment to encourage capital formation. Government support stems from the belief that microfinance systems have only a limited role to play in facilitating access to capital, and that a regulatory framework needs to be put in place first.

Further to private-sector demand and government vision as the key driving forces, a number of enabling factors have created the space for the initiative to grow. The approach to channel investment funds through diverse banks in the formal banking system helped institutionalize the process and familiarize numerous established banks with rural investment lending. These banks, albeit endowed with sufficient liquid funds, formerly were not engaged in rural investment lending as there was ample opportunity for profit-making from other activities such as transfer services or lending for real estate development in urban areas, which were regarded as both less costly and less risky. Targeted credit lines provided by IFAD created the right incentives for banks to engage in activities related to lending in rural areas.

Another vital institutional component is the direct collaboration with service providers assisting enterprises in the preparation of bankable business plans. Under the IFAD projects, fees for service providers are either fully or partially subsidized. Feedback from both banks and borrowers point to high satisfaction with the support received. In view of the quality of business plans, coupled with acceptable costs for processing loans, banks financed more than 90 per cent of the investments presented to them over the years. Service providers had already been established in the country under previous donor-funded initiatives, most notably earlier USAID programmes. IFAD investments, however, have further strengthened them by offering financial support and capacity-building.

The efficiency of the CPIU has equally contributed to the scaling-up process. IFAD operations have continuously and extensively

relied on this unit, with the immediate benefit of well-performing programmes and projects achieving their objectives. A weaning from CPIU structures will ultimately be required to ensure that programmes are sustainable and effectively mainstreamed at national level.

Finally, building on partnerships is an important opportunity for further scaling up in Moldova, where both the World Bank and IFAD operate comparable programmes on a significant scale. Although no direct cofinancing or parallel financing arrangements were made under the first four IFAD projects, there are potential synergies between the World Bank and IFAD programmes because investments are often channelled through the same participating banks and the project designs are largely akin.

More potential for scaling up

Under successful IFAD operations, the original focus on the provision of access to finance has broadened over time. The IFAD V (RFSADP) and IFAD IV (RFSMP) projects adopted an explicit value-chain approach complementing the financial investment support by building linkages between production, processing and marketing. The operations provide institutional support to selected value chains, especially through the establishment of product-specific working groups bringing together different value-chain actors, and training and study tours. Although the medium-term investment lending is not linked to these value-chain activities by design, it is envisaged that, through the various support activities extended to the different components, the investment lending will directly support several of the identified value chains over time. The introduction of contract farming, which IFAD V (RFSADP) and IFAD IV (RFSMP) are supporting, is expected to become a key driver of the value chain development approach.

The IFAD V (RFSADP), IV (RFSMP) and III (Rural Business Development Programme [RBDP]) projects also include infrastructure financing provided as grants in support of specific private-sector activities in rural areas. Instead of supplying funding for general



Workers package table grapes for storage and later release when market prices are higher.

communal infrastructure, investment is made in crucial infrastructure such as roads, water supply and gas or electricity, without which small enterprises cannot function in a rural community, and which could be seen as a 'missing link' in a value chain. Currently, this component is exclusively funded through the IFAD programme, with a beneficiary contribution, and administered by the IFAD-supported CPIU. To sustain the programme and eventually position it for further scaling up, the CPIU should be transferred into an existing government structure with some, even if small, financial support through the government.

IFAD V (RFSADP) features additional innovative components. In addition to the continuation of medium-term investment lending for agro-industries, a key focus of this operation is the planned establishment of an equity fund in support of designated value chains. Given the very high collateral requirements of Moldovan banks, small rural

enterprises find it very difficult to qualify for loans. Through the establishment of an equity fund, collateral requirements can be reduced and financing made available to small rural enterprises.

IFAD V (RFSADP) also intends to broaden its medium-term investment lending by targeting a substantial share of investment funds to young rural entrepreneurs. This 'youth focus' is a priority, as much of Moldova's rural areas are becoming depopulated as young people either move abroad or into urban areas, given the limited employment opportunities and low wages in rural areas. The outmigration of young people is a serious constraint to increasing agricultural productivity and introducing new processing activities.

The design of a new IFAD programme, IFAD VI (Inclusive Rural Economic and Climate Resilience Programme [IRECR]) is under way.

Ways forward on the scaling up agenda

A key requirement to drive the scaling up of medium-term investment lending further is that Moldovan banks increase agro-industry lending. In spite of the excellent performances under both the World Bank and the IFAD credit lines, banks still continue to be relatively timid in expanding their own exposure to rural lending, keeping unmet private-sector demand high. While IFAD requires that participating banks commit 15 per cent of their own funds to the investment proposals, banks typically opt to finance working capital at shorter maturities and higher interest rates than those of IFAD. The comfortable profit-making opportunities in other banking sectors likely explain why a banking system in very good financial health and with high liquidity does not utilize some of these available funds for investment lending. Here, the policy environment needs to create incentives for banks, possibly through an increase in competition among banks and a reduction of barriers to entry.

In this regard, closer and more direct collaboration on financial sector policy issues among the main donors, including the European Union and the International Monetary Fund, would help address the continued hesitation of Moldovan banks to embrace medium-term investment lending in rural areas. An alignment of approaches and shared expertise among different donors could help address some of these issues with the government, and also provide the needed analytical support. Strengthening partnerships and creating room for synergies in policy engagement are, therefore, critical factors to advance the scaling-up agenda in the Republic of Moldova.



International Fund for
Agricultural Development

Via Paolo di Dono, 44

00142 Rome, Italy

Tel: +39 06 54591

Fax: +39 06 5043463

E-mail: ifad@ifad.org

www.ifad.org

www.ruralpovertyportal.org

 ifad-un.blogspot.com

 www.facebook.com/ifad

 www.twitter.com/ifadnews

 www.youtube.com/user/ifadTV