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Investing in the future

Agricultural development and rural poverty reduction in Europe and Central Asia

An enabling environment

The International Fund for Agricultural Development works with small-scale farmers in 98 countries and territories around the world to help them overcome rural poverty and increase food security. Since 1978, IFAD has invested over US\$16 billion in grants and low-interest loans to projects that have reached more than 430 million people.

Agricultural development can be a major driver of poverty reduction. IFAD acts as an advocate for poor rural people, helping to create an enabling environment – with appropriate policies, know-how, finance, infrastructure and market access – for them to improve their lives and livelihoods.

As part of this global effort, IFAD supports agricultural and rural development projects in ten countries across Europe and Central Asia. They include Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Tajikistan and Uzbekistan. All of them have been in a state of economic transition for the past two decades.

IFAD has invested more than US\$500 million in financing for 40 projects and programmes in the ten countries. This financing has come mainly in the form of



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loans but includes some grants for agricultural research and innovation. With cofinancing by development partners and funds from governments and other domestic sources, the projects – which include both completed and ongoing operations – represent a total investment exceeding US\$1 billion.

Ongoing projects supported by IFAD in Europe and Central Asia focus on:

- Promoting rural financial services, including credit, savings and insurance.
- Establishing links to markets so that smallholders can sell their products at good prices.
- Developing small and medium-sized enterprises, as well as roads and other infrastructure, to bolster the rural economy.
- Enhancing the productivity of the livestock sector and introducing community-based management of pasture resources.
- Harnessing the potential of remittances in advancing agricultural capacity, creating jobs and reducing unemployment in rural areas, especially among young people.

Following are highlights of IFAD's strategic investments in these priority areas – investments that are made possible by the continuing participation and commitment of IFAD Member States.

IFAD operations in Europe and Central Asia



IFAD in Armenia

IFAD has worked in Armenia since 1995, investing US\$78.2 million in six projects and programmes with a total value of US\$205.9 million. These efforts have benefited some 394,000 households. IFAD's strategy in the country is to reduce rural poverty by fostering market-oriented agricultural growth and strengthening local institutions and farmers' organizations.

One of the ongoing operations in Armenia, the Farmer Market Access Programme, has pioneered an innovative equity fund that invests in private-sector companies strategically placed within the country's agricultural value chains (see box on page 4). When they are adequately capitalized and productive, these firms contribute to the well-being of poor households and reduce poverty in rural communities, both directly and indirectly.

IFAD also supports the Rural Asset Creation Programme, which recently financed the start-up of a joint stock company known as Fruit Armenia. The company will establish modern orchards on small farms to promote fruit production in the mountain zones of Armenia, and will train small farmers in managing and maintaining these enterprises. In return, Fruit Armenia will be able to purchase the produce from each orchard at favourable prices for 12 years.

Through such investments, IFAD enables poor rural households in Armenia to earn additional income by enhancing their productivity and gaining a competitive edge in the marketplace.

In the field

Equity investment in rural Armenia

Equity investment funds are usually associated with generating short-term profits, but a unique IFAD-supported project in Armenia takes a different approach. Launched in 2009, the Fund for Rural Economic Development in Armenia (FREDA) combines elements of both banking and development assistance. In effect, it uses the financial instrument of equity funding to build sustainable agricultural livelihoods.

To that end, FREDA invests in activities that can drive rural development and growth – including dairy, canning, wine-making, and fish and poultry processing companies.

These investments in the country's food-processing sector are designed to expand markets and improve the economic prospects of smallholder farmers.

IFAD and the Government of Armenia established FREDA, with additional funding from the Government of Denmark, when credit for smaller rural enterprises dried up after the global financial crisis of 2008. Operations commenced in September 2009.

Today, FREDA has a portfolio comprising nearly US\$5.2 million invested in ten agro-producers, which purchase produce from over 800 rural households.

Having successfully invested most of its initial capital, the fund will soon be seeking new investors – and it has become a blueprint for similar initiatives in other countries.

IFAD in Kyrgyzstan

IFAD has invested US\$72.4 million in loans for five agricultural development projects worth a total of US\$133 million in Kyrgyzstan since it began operations there in 1995. The projects have reached more than 500,000 households.

The ongoing IFAD-financed Agricultural Investments and Services Project builds institutional capacity and rural infrastructure that benefits the country's smallholder farmers and herders – with a strong emphasis on the livestock sector. Besides improving agricultural productivity, the project works to reduce animal diseases that have an impact on public health and can even force border closures to prevent their spread. A follow-on project to scale up the most successful interventions started in 2013.

Another IFAD-financed effort, the now completed Agricultural Support Services Project, reached out to smallholders in Kyrgyzstan – especially women – with guidance on sustainable farming techniques. The project developed a successful, replicable model for providing such assistance in poor rural areas.

In collaboration with the Kyrgyz Agricultural Finance Corporation (KAFC) and other partners, IFAD has also gained valuable experience in the provision of rural financial services in the country. KAFC maintains an extensive branch network that has been used to offer appropriate services, including microsavings, to poor rural households. The ultimate goal of this initiative, like all of IFAD's Kyrgyz operations, is to help poor rural people improve their livelihoods and living standards.

IFAD in the Republic of Moldova

Since 1999, IFAD has invested US\$85.5 million in six projects and programmes benefiting 117,150 households in the Republic of Moldova. The total value of these projects amounts to US\$162.5 million.

IFAD's overall strategy in the country is to reduce poverty by supporting the development of a rural market economy based on family-owned and managed businesses. In an environment where rural credit remains scarce, the strategy aims to achieve this goal through the delivery of carefully tailored financial services.



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IFAD's ongoing efforts – including the Rural Financial Services and Marketing Programme and the Rural Financial Services and Agribusiness Development Project – provide loans to small and medium-sized businesses through commercial banks and microfinance institutions (see box on page 7).

At the same time, the IFAD-supported Agricultural Revitalization Project creates new opportunities for poor rural people by helping them overcome constraints such as lack of credit and infrastructure. The project works to expand institutional support for farmers' organizations, marketing operations and other key elements of the agricultural sector.

IFAD also supports grants to develop cost-effective, accessible remittance services for poor rural people in the Republic of Moldova. These services increase their access to funds from family members working abroad, which can be a vital resource for the most disadvantaged rural households to participate in agricultural development and economic growth.

IFAD in Tajikistan

Since approving an initial grant in Tajikistan in 2008, IFAD has invested US\$26.9 million in funding for two projects in the country. Valued at a total of US\$30.7 million, the ongoing projects benefit more than 41,150 households.

IFAD's overarching objective in Tajikistan is to improve the livelihoods of poor rural people by strengthening their local institutions and grassroots organizations, and expanding their access to productive technologies and resources.



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The IFAD-financed Khatlon Livelihoods Support Project promotes community development to reduce poverty, increase incomes and improve the lives of farmers in its target zone. Development priorities are determined by project participants at the village level, and the project has been carefully designed to build upon lessons learned from previous community-led projects in Tajikistan.

The country's Livestock and Pasture Development Project, also supported by IFAD, seeks to boost the nutritional and economic status of poor rural households by sustainably enhancing the productivity of their livestock enterprises. Livestock is a crucial sector because it is the primary source of income for people in poor, mountainous areas with little arable land. This sector is likely to play a central role in IFAD's future investments to scale up its work in Tajikistan – notably in the field of animal health and disease control, which can require substantial initial investments.

IFAD in Uzbekistan

Since 2011, IFAD has provided a US\$9.6 million loan and US\$1 million in grant funding for the Horticultural Support Project, its first-ever investment in Uzbekistan. The project benefits nearly 12,000 households in districts of the Surkhandarya region by promoting modern horticulture.

The objective of the project is to increase the incomes and assets of smallholder farmers, processors and service providers in the horticultural subsector. The project supports modern, efficient farming techniques, improved access to domestic and international markets, and investments in productive assets. Among other interventions, it works to upgrade local cultivation through a central nursery that



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In the field **Growing rural businesses in the Republic of Moldova**

The dissolution of the Soviet Union brought independence, but it also dealt a devastating blow to living standards across the region as countries struggled to adapt to a market-oriented economy. The Republic of Moldova, the poorest country in Europe, managed to slash poverty rates from 73 per cent in 1999 to 30 per cent in 2010. Yet it still faces deep poverty, particularly in rural areas, where about 60 per cent of the population lives.

Because credit in rural areas is hard to come by and businesses cannot grow without finance, IFAD has

issued over 1,000 loans to small and medium-sized rural businesses through commercial banks and microfinance institutions in the Republic of Moldova. And IFAD makes credit available for up to eight years, so farmers and entrepreneurs can draw up long-term business development plans.

One recipient, Andrei Iuri-Apostol, 63, is joint owner of a successful small business in the autonomous region of Gagauzia. The company makes egg noodles – a key ingredient in traditional Moldovan chicken broth. It also operates a flour mill and produces forage for rabbits.

“We started with 4 employees, and we now have 20,” says Iuri-Apostol. “We have a good standard of living thanks to this business.”

imports, tests and propagates modern seed varieties and root stock for sale in the horticultural value chain.

The project is also helping to modernize private firms engaged in horticultural production and processing, and is providing small-scale farmers with affordable financing, technical assistance and training. In addition, it seeks to improve rural infrastructure, notably with a more advanced irrigation network.

With investments like these, IFAD is setting the stage for long-term agricultural and rural development not only in Uzbekistan, but in the surrounding regions as a whole. Subject to performance, this intervention may be scaled up to reach similar districts in other parts of Uzbekistan, particularly in the adjacent region of Kashkadarya.

What is IFAD?

IFAD is an international financial institution and a specialized United Nations agency dedicated to eradicating poverty and hunger in rural areas of developing countries. IFAD provides low-interest loans and grants to developing countries to finance innovative agricultural and rural development programmes and projects. It is among the top four multilateral institutions working in agriculture in Africa. In 2011, the largest share of new IFAD financing went to sub-Saharan Africa. The decision to create IFAD was made in 1974 in the wake of the great droughts and famines that struck Africa and Asia in the preceding years. At the 1974 World Food Conference, world leaders agreed that “an international fund ... should be established immediately to finance agricultural development projects.”

IFAD has a total membership of 173 countries from around the world. It is a unique partnership of members from the Organization of the Petroleum Exporting Countries (OPEC), other developing countries and the Organisation for Economic Co-operation and Development (OECD).

Despite the serious financial constraints faced by donors and governments, in its Ninth Replenishment IFAD received strong and renewed commitments from traditional donors, emerging economies and countries that are more often aid recipients.

IFAD brings the point of view of smallholder farmers and rural entrepreneurs to bear on international policy deliberations, and builds their capacity so that they themselves can engage in and influence relevant policy processes.

IFAD has its headquarters in Rome, Italy.

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