Republic of Moldova
Country Programme Evaluation
Executive Summary

Country context

1. Moldova experienced a traumatic decade after the break-up of the Soviet Union in 1991. Following a brief armed conflict, the country was separated from the breakaway region of Transnistria, where much of its heavy industry and power generation were located. The agriculture sector - the mainstay of the Moldovan economy - suffered the combined effects of a sharp decline in income in most former Soviet Union countries and a lack of foreign exchange to buy agricultural inputs and equipment. The large collective and state farms ("kolkhozes" and "sovkhozes") that had provided rural communities with income and social services were unable to meet their expenses and fell into debt. The authorities initially resisted privatizing and restructuring the agriculture sector, before launching a comprehensive programme that gave each member of the kolkhoz the right to work a small garden area and a share in the land of the kolkhoz. If a member wished to leave the kolkhoz, he or she had to obtain rights to a physical parcel of land consisting of small separate plots, an arrangement intended to allocate land of equal quality to each member.

2. By the end of the 1990s Moldova's agricultural gross domestic product (GDP) was only 46 per cent[1] of its level at the beginning of the decade. Within crop production there was a shift away from high-value wine and horticultural products towards more extensive production of cereals and oilseeds. Livestock numbers and production fell drastically.[2] Agricultural growth since 2000 has averaged just 2 to 3 per cent per annum, and the sector's relative contribution to the economy continues to decline, although more than 60 per cent of the population still live in rural areas.

3. **IFAD's strategy.** This was the context in which IFAD began its operations in Moldova in 1999. Rural poverty was widespread, and it was clear that small private plots of one or two fragmented hectares per person were unlikely to serve as building blocks for a new kind of commercial agriculture. The nature of the *kolkhoz* was such that only a handful of members actually ran the farm and understood the requirements of agricultural production. This group, often former farm directors and agronomists, set about trying to put together expanded landholdings by leasing the land of others who had no interest in farming.

4. One challenge for IFAD was how to target the rural poor in this context. It was not obvious that directing resources to smallholders would have any sustained economic impact. In the circumstances IFAD elected to direct its efforts to the somewhat better off farmers who had the skills and entrepreneurship to enter commercial farming, and to help them acquire equipment, irrigation facilities, planting material for orchards and agricultural inputs. The expectation was that support for this group would trickle down to the poor through increased employment and demand for services in rural areas.

5. While this was IFAD's strategy in practice, on paper country strategic opportunities programmes (COSOPs) were taking a somewhat different line emphasising direct support for the rural poor, while also referring to the need for supporting economic growth and employment creation. IFAD has prepared two COSOPs since it began operations in Moldova. The first was begun shortly after the first operation was put in place and covered the period from 2002 to 2006. The second was a results-

[1] IFAD COSOP 2002.
[2] Production fell to a third, livestock numbers were more than halved, and by 1999 the quantity of dairy products was only 5 per cent of its 1990 level, while for meat products the figure was 7 per cent (IFAD, 2002 COSOP).

based COSOP (RB-COSOP) and covered the period from 2007 to 2012. Following a mid-term review of this COSOP in 2011, it was decided to extend it to 2015.

6. **IFAD's programme.** IFAD has provided funding for five projects (IFAD1 through 5) since it started operations in Moldova in 1999.[3] The loans have ranged in amount from US$8 to US$20 million, all on highly concessional terms and generally in support of a programme about twice the size of the loan. The Government contribution has usually been in the form of tax revenues foregone or payment of taxes on staff salaries, experts and consultants. The bulk of cofinancing has come from beneficiaries (borrowers) in the form of own resources for investment activities financed by project-supported credits. Participating financial institutions have accounted for between US$1 and US$2 million per project. There has only been one case of significant external cofinancing thus far, in the amount of US$4.5 million from the Danish Government. IFAD has also provided US$1.07 million in country-specific grants, mainly financing technical assistance in support of loans, and technical assistance related to remittances.

7. In terms of sectoral breakdown, the IFAD-supported programme has been dominated by rural finance channelled through participating financial institutions. Nearly 80 per cent of the IFAD loans have been disbursed for this purpose. Of the rest, about 10 per cent has been used for small-scale rural infrastructure; 6 per cent for value chain development; 2 per cent for natural resource management (NRM); and 2 per cent for programme management.

- **Rural finance.** The mainstay of the programme has been credits channelled through commercial banks for terms of 3 to 7 years at subsidized interest rates to medium-scale farmers operating on 30 to 1,000 hectares, for purchases of equipment and other inputs. In addition, on a much smaller scale, the programme has supported microfinance by lending funds to the Rural Finance Corporation (RFC), which in turn engaged in onlending to savings and credit associations (SCAs) to allow smallholders to buy or repair equipment and obtain agricultural inputs;
- **Rural infrastructure.** Introduction of market-derived rural infrastructure from IFAD3 on has contributed to alleviating constraints for rural producers. Furthermore, rural people, including the poor, have benefited directly from irrigation and drinking water schemes, and indirectly from road rehabilitation and expansion of gas distribution networks. Beneficiaries provided 15 per cent of the resources for these investments, with the balance provided as grant assistance from the IFAD loan;
- **Value chain development.** A key thrust in IFAD4 and IFAD5 (see below) has been to target the horticulture (IFA 4) and other agricultural commodity (IFAD5) value chains. The main objective has been to encourage small producers to work together and enter into contracts with large wholesalers, processors and exporters, thus increasing their market power and helping to introduce better food safety and quality standards. In practice this has proved challenging in the Moldova environment and the focus to date has been on the provision of technical assistance and raising awareness among small farmers and potential marketing outlets; and
- **Natural resource management.** To date this has consisted of only one programme initiated under IFAD5 (see below), namely the development of demonstration plots for conservation agriculture to allow medium-scale farmers to understand the potential benefits of no-till or low-till agriculture.

[3] Although each of these loans has a title, they are seen in Moldova as five tranches of a programme and are referred to by their number. The project titles are rarely used by IFAD or the Government and other in-country partners, and the evaluation has therefore adopted this practice.

IFAD loans

8. **IFAD 1 (approved in December 1999).** In 1999 Moldovan agriculture was still reeling from a decade of stop-go farm restructuring and the collapse of marketing links with the former Soviet Union. The commercial banking sector was weak and reluctant to make even short-term loans to small and medium-scale farmers who had no credit history and very little collateral. The primary objective was to help small- and medium-scale private farms and enterprises to undertake the investments needed to achieve viability. It was modelled after a World Bank (International Development Association, IDA) credit which had shown promise in enabling more entrepreneurial farmers to invest by, for example, buying tractors and constructing storage. The project was initially location-specific in the Ungheni subregion, covering about 15 per cent of Moldova's farming population. Small farmers were assisted in obtaining short-term credits for inputs and simple agricultural tools through support for SCAs, as in the IDA project. The project supported a considerable expansion in the number of SCAs and brought in non-governmental organizations to help individuals and enterprises prepare business plans.

9. **IFAD 2 (approved in December 2003).** As designed, IFAD2 represented something of an outlier in the IFAD programme. It reflected a concern that the credit lines that were the mainstay of IFAD1 were reaching mainly medium-scale farmers and that IFAD's rural poverty mandate was not adequately covered. As a consequence, IFAD2 was designed using the community-driven development approach. Village development committees were to be set up to produce village development plans under a participatory approach, in order to determine which individual business plans would be supported. Two problems seem to have emerged with this approach. First, Moldovan villages had come out of an era of forced collectivization after World War II and there was concern that this was collectivization in another guise. Secondly, farmers were understandably reluctant to share their business plans in a communal forum and have their neighbours decide whether they should be funded. For these reasons the approach was slow to take off, and by mid-term the project had reverted to the basic model established for IFAD1, though with nationwide coverage rather than being limited to one region.

10. **IFAD 3 (approved in December 2005).** By this time the recovery was in full swing, with agricultural production held back by insufficient investment to bring idle land back into production and move into higher value crops such as orchards. Horticulture products were in increasing demand with the recovery of the Russian economy, yet farmers did not have the resources to obtain new planting materials, apply the needed inputs and build greenhouses and storage facilities. Remittances were fuelling growing domestic demand for grains and livestock products, but farmers did not have the equipment to move from production for the local village economy to supplying the growing urban market - especially in Chisinau. IFAD3 introduced an integrated package of financial and business development services. It also provided support for market-driven infrastructure: to address the lack of access to roads or small-scale infrastructure, the programme would provide 85 per cent of the funding if all the potential beneficiaries of the infrastructure undertook a joint commitment to fund the balance.

11. **IFAD 4 (approved in September 2008).** IFAD was now "on the map" in Moldova. A farmer could go to one of the new commercial bank branches opening in rural Moldova, mention that he or she had heard about the IFAD loan and be provided with information about how to access funding. IFAD4 was prepared shortly after the Russian ban on imports of Moldovan wine and also after the severe drought of 2007. Developing new exports was a high priority, and IFAD chose to focus its new project on the horticulture value chain. Horticulture was chosen as one of Moldova's comparative advantages and also because a farmer

with a relatively small holding could increase his or her income through intensive production and links with processors. The project aimed to do this by addressing gaps and weaknesses in the value chain – input supply, production, processing, marketing, regulations and legislation – through the provision of targeted rural financial services, the development of rural commercial infrastructure, and capacity-building for beneficiaries in the knowledge and technical expertise required to participate more profitably in national and international markets.

12. **IFAD 5 (approved in December 2010).** A series of climate-related events, droughts in 2003 and 2007, and floods in 2008, had led to a new sense in Moldova of the importance of climate change adaptation, and an innovative feature of IFAD5 was a component to develop demonstration plots for conservation agriculture. This proved prescient when Moldova suffered another severe drought in 2012. Another important feature of IFAD5 was that IFAD was able to secure major external cofinancing for its programme through grant cofinancing from the Danish Government of US$4.5 million. This enabled IFAD to support the development of young entrepreneurs with grant cofinancing for their loans. Effectively the grants reduced the collateral requirements of the commercial banks and this allowed young entrepreneurs with limited assets to borrow on the basis of a good business plan. In addition, IFAD5 sought to diversify the sources of financing available by establishing an equity fund. Otherwise the programme remained unchanged, with some 80 per cent of the funding going for rural finance.

13. **IFAD 6 (under preparation).** The drought of 2012 has given even more priority to climate change adaptation, which will play a much more prominent role in IFAD 6 than it did in IFAD5. IFAD6 is seeking cofinancing from the Global Environment Facility (GEF) for this purpose. In addition IFAD 6 will give priority to value chain development and to scaling up ongoing interventions under the country programme, not confined to the horticultural sector. It is still proposed that credits be provided with participating financial institutions, but it is likely that these will be more selective and targeted to young entrepreneurs. The Danish International Development Agency (DANIDA) is considering continuing to provide cofinancing. IFAD6 has not been included in the evaluation ratings as it is still in preparation.

Efficiency

14. One of the most impressive aspects of the programme is its efficiency. A very small share of the IFAD loan funds is used for administration – a fraction of what is spent in many other countries. The Consolidated Programme Implementation Unit (CPIU) embedded in the Ministry of Agriculture and Food Industry (MAFI), which has been used for all IFAD projects, can be considered good practice for small countries with a narrow focus of operations. The Government of Moldova also deserves credit for providing substantial support. This may reflect the fact that IFAD is not a peripheral player in the Moldovan agriculture sector, but a significant source of funding and technical support.

15. In some respects programme management may even be too lean. For example, a better planned and expanded knowledge sharing and management programme would have been of substantial benefit. This would also require IFAD support at the regional level since much of the learning should be across countries.

Rural poverty impact

16. In 2013, after some 14 years of active involvement through five projects and disbursements of about US$70 million, what has been the impact of IFAD's approach? A group of medium-scale agriculture entrepreneurs have emerged who are able to produce for the local and former Soviet Union markets, and increasingly for the European market, at acceptable quality standards. They have generated moderate demand for employment and contributed to the growth of GDP from 2000 to 2007. Obviously the increase in remittances and the recovery of the Russian, Belarussian and Ukrainian markets have been much more significant

factors in growth overall, but in this context IFAD has made a positive contribution to rural economic growth in Moldova.

17. Almost every Moldova strategy, project or evaluation document is met with the question of whether IFAD could or should have done more to target its assistance more directly to the poorest groups. The evaluation team concludes that this was not a viable option. IFAD could have done more at the margins to ensure that the wealthiest farmers who had no need for subsidized credit did not have access to the loans, but the basic thrust of the programme was sound, notably with the recent support for young farmers between 18 and 30 who wish to expand their operations. On the other hand, in its strategies and project design documents, IFAD might have clarified how it intended to operate in Moldova, avoiding an overemphasis on direct support for the poor and most vulnerable.

Sustainability and scaling up

18. The related issues of sustainability and scaling up were examined in a country case study for Moldova undertaken by the Brookings Institution.[4] The study raised two core issues. The first is whether the rural finance programme is encouraging commercial banks to provide funding for medium- and long-term agricultural credit using their own resources. The second is whether the role and prominence of the CPIU hinders integration of the programme into the Government's own administrative and management structures. On the first, there is cause for concern in that funds from IFAD (as well as other donors) have for over a decade added to the asset-liability mismatch of the banking system, thus crowding out a healthy systemic reaction to control, mitigate or hedge against the relevant risk. Now that the World Bank is shifting its strategy away from providing such funding, IFAD remains the only player offering longer-term liquidity to the banks. This approach should gradually be phased out while encouraging banks to use own resources for longer-term credit, especially in cases of medium-scale borrowers with a good credit history. Also, IFAD should focus its efforts in rural finance on support for new borrowers, particularly young entrepreneurs, along the lines of IFAD5. The evaluation team is less concerned with the CPIU issue. The Government of Moldova undoubtedly has the capacity to manage the programme – one only has to look at the extremely efficient operations of the Credit Line Directorate in the Ministry of Finance, which manages the repayment of IFAD funds by banks and their recycling prior to repayment to IFAD. However, it is more efficient for the moment to keep in place a CPIU that is familiar with IFAD procedures, provides continuity, and at the same time maintains effective liaison with the MAFI.

Conclusions

19. The country portfolio has made good achievements on the ground over the past decade, as demonstrated by solid ratings for individual projects and any objective comparison of the Moldova programme with other IFAD country programmes. There has been an expansion in commercial bank branches in the rural areas of Moldova and an increasing number of small and medium private farmers have deposit accounts and short-term loans. The loan programme has contributed to increased levels of agricultural production, development of viable rural enterprises and job creation in rural areas. Modest investment in small-scale infrastructure has provided small and medium-scale farmers with water and access roads, and helped put in place institutional mechanisms for maintenance. One of the most impressive elements of the portfolio performance is high efficiency. At the same time, the country programme evaluation (CPE) assessment also takes into account other factors such as misjudgement on the IFAD2 design, limited progress in value chain development and microfinance, as well as limited progress on putting in place a clear strategy for phasing out heavy reliance on the credit line approach.

[4] Scaling up IFAD interventions in Moldova, A. Hartmann, 2012

20. The achievements mentioned above resulted from the adoption and implementation of strategies and approaches that were not fully consistent with the COSOPs and project documents but were in fact a better reflection of the country context and opportunities for IFAD to add value. This makes it problematic to assess "COSOP performance", for which the objectives and indicators laid out in the COSOP documents need to be taken into consideration.

Recommendations

21. The evaluation offers a number of recommendations in three broad areas: (i) strengthening country strategy, and in particular properly reflecting the main priorities and overarching strategic issues in the next COSOP; (ii) embracing and enhancing the adjustments being made in the rural finance programme, shifting away from channeling the bulk of IFAD loans into lines of credit, after over a decade of generally effective implementation; and (iii) strengthening non-lending activities through more strategic and effective use of grant resources and outreach.

Strategy

- **Ground the next COSOP in reality.** The programme has supported the rural poor by helping increase agricultural growth and employment, although the evidence on its depth and extent is incomplete. The trade-offs that have been made are appropriate but were not clear in the most recent COSOP. The next COSOP needs to provide a frank assessment of IFAD's role and contribution in Moldova, and propose a programme that reflects the country's needs and IFAD's comparative advantages. The results framework needs to be more realistic and relevant to IFAD's programme than in the past. There is also a need for better monitoring and assessment of indirect impact on the rural poor.

- **Design a more integrated programme.** Each of the programme pillars is robust, but more could be done to plan these elements in an integrated fashion and exploit potential synergies. Both project design and country strategy need to look across components at how best to build this synergy.

- **Focus on how to mainstream value chain development within the programme.** It has been challenging to articulate and implement an operational approach to pro-poor value chain development in Moldova. Progress has been relatively slow in terms of supporting organizations of small-scale producers and their linkages to markets. The value chain components of projects now need to move beyond awareness and capacity-building. Value chain development should gradually take over from rural finance as the "flagship" of IFAD's programme. IFAD and the Government need to select and pilot activities in key value chains such as horticulture and livestock development. Rural finance, infrastructure and NRM programmes could also be geared more closely to the needs of these value chains.

Rural finance

- **Diversify from the approach of channeling the bulk of IFAD loans to lines of credit.** The programme is now mature and has reached the point at which IFAD needs to strategize more effectively concerning its role, develop exit strategies in some areas and expand its coverage in others. In particular, IFAD and the Government need to consider ways to encourage the banks to increase the use of their own resources and focus IFAD future support for rural credit to new and young borrowers.

- **Seek greater leverage for IFAD funding of the young entrepreneurs programme.** A key group of new entrepreneurs are the 18-30 year olds that IFAD has supported thanks to grant funding from DANIDA. The programme has demonstrated success. For scaling-up of the programme, IFAD should systematically evaluate demand and seek grant cofinancing from donors to meet this demand.

- **Enhance support for microfinance.** The microfinance part of IFAD's programme is still a work in progress. First, there is a need to evaluate the programme and identify what benefits are being derived by participants and how effective it has been in moving borrowers out of poverty. Second, IFAD needs to review the institutional framework for microfinance and contribute to a dialogue with the Government, the regulatory body and the various microfinance institutions on what the future institutional framework should look like and how Moldova can move towards it.

Non-lending activities

- **Use the grant programme to provide the analytic underpinnings for a dialogue on key policy issues.** IFAD needs to take up with the authorities some of the key policy issues that have emerged in recent years, such as the role of microfinance and the issue of ownership and maintenance of infrastructure. Key to doing this is understanding the underlying issues. IFAD should use its grant programme to carry out an analysis of such questions.
- **Expand outreach and strengthen non-lending activities.** While programme implementation is extremely efficient, IFAD could consider devoting additional resources to expand its outreach and strengthen its non-lending activities in Moldova through selective policy dialogue, stronger partnerships and expanded knowledge sharing. In the policy area, IFAD needs to take up issues with the Government relating to the ownership and maintenance of rural infrastructure; on partnerships IFAD needs to be more proactive and take its case to the donor community; on knowledge sharing a more systematic approach is needed with a designated focal point in the CPIU and the preparation of an annual plan. IFAD's regional management needs to consider how to exploit the obvious learning potential by comparing the Moldova programme with those in other small former Soviet Union and Eastern European borrowing countries.