

Document: EB 2010/101/R.33
Agenda: 15(e)(ii)
Date: 9 November 2010
Distribution: Public
Original: English

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تمكين السكان الريفيين الفقراء
من التغلب على الفقر

مشروع تنمية الخدمات المالية الريفية والأعمال الزراعية

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Negotiated financing agreement: "Rural Financial Services and Agribusiness Development Project (RFSADP)"

(Negotiations concluded on 21 October 2010)

Loan Number: _____

Grant Number: _____

Project Title: Rural Financial Services and Agribusiness Development Project (the "Project")

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

The Republic of Moldova (the "Borrower/Recipient")

(each a "Party" and both of them collectively the "Parties")

WHEREAS

A. the Borrower/Recipient has requested financing in the form of loan and grant from the Fund to assist in financing the Project described in schedule 1 to this Financing Agreement; and

B. the Government of the Kingdom of Denmark (Denmark) intends to make available to the Fund a financial contribution (the "Danish Contribution") to assist in financing the Youth Entrepreneurship Financing Sub-Component of the Project on terms and conditions to be set forth in a co-financing agreement between Denmark and the Fund (the "Co-Financing Agreement");

NOW THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Financing Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan (the "Loan") and a Grant (the "Grant") to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is twelve million four hundred thousand Special Drawing Rights (SDR 12 400 000). The amount of the Grant is three hundred and twenty thousand Special Drawing Rights (SDR 320 000).
2. The Loan is granted on highly concessional terms.
3. The Loan Service Payment Currency shall be USD.
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of principal and service charge shall be payable on each 1 June and 1 December with payments of principal made in 59 equal semi-annual instalments of SDR 206 667 commencing on 1 June 2021 and ending on 1 June 2050 and one final semi-annual instalment of SDR 206 647 payable on 1 December 2050.
6. Designated accounts.
 - (a) There shall be a loan designated account (the "Loan Designated Account") and a grant designated account (the "Grant Designated Account") for the purposes of receiving the Loan and the Grant respectively and financing the Project.
 - (b) Both Designated Accounts shall be opened through the State Treasury of the Borrower/Recipient in a bank acceptable to the Fund, denominated in USD and on terms and conditions satisfactory to the Fund, including but not limited to appropriate protection against set off, seizure or attachment. The Project Director referred to in paragraph 8 of Schedule 1 hereto, the Chief Accountant of the IFAD Consolidated Programme Implementation Unit (the "CPIU-IFAD") referred to in paragraphs 6 and 7 of Schedule 1 hereto, and one duly appointed representative from the Borrower/Recipient, or their respective delegates, shall be fully authorized to operate the Designated Accounts. All signatories shall be required for all transactions on the Designated Accounts.
7. Project accounts.
 - (a) There shall be two (2) Project Accounts for the benefit of the Project, opened through the State Treasury of the Borrower/Recipient in a bank acceptable to the Fund, to receive resources from the Loan Designated Account and the Grant Designated Account respectively.
 - (b) Other Project Accounts, including but not limited Project-Specific Accounts, shall be opened and maintained by the Borrower/Recipient upon the request of the Fund.
8. The Borrower/Recipient shall provide counterpart financing for the Project to cover duties and taxes of the Project in accordance with Annual Work Plans and Budgets (AWPBs) referred to in paragraph 10 of Schedule 1 hereto.

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture and Food Industry.
2. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

The Loan and the Grant will be administered and the Project supervised by the Fund.

Section E

1. The following are designated as additional grounds for suspension of this Agreement:

(a) The Project Implementation Manual (the "PIM") referred to in paragraph 11 of Schedule 1 hereto, or any provision thereof, has been abrogated, waived, suspended, or amended without the prior consent of the Fund and the Fund has determined that any such waiver, suspension, termination, amendment or modification has, or is likely to have, a material adverse effect on the Project. In the event of any conflict between the provisions of the PIM and those of this Agreement, the provisions of this Agreement shall prevail.

(b) Any competent authority has taken action without the prior consent of the Fund for institutional changes to the IFAD Programme Steering Committee (the "IPSC") referred to in paragraph 6 of Schedule 1 hereto and/or the CPIU-IFAD, including but not limited to modification of the membership composition, dissolution and merger and the Fund has determined that any such event listed above is likely to have a material adverse effect on the Project.

2. The following are designated as additional general conditions precedent to withdrawal:

(a) the IFAD no-objection to the final version of the PIM shall have been obtained; and

(b) the Designated Accounts and Project Accounts shall have been opened on terms and conditions in accordance with this Agreement.

3. The following are designated as additional specific conditions precedent to withdrawal under categories I.a, I.b and I.c referred to in Schedule 2: at least one participating financial institution, selected and accredited under criteria acceptable to the Fund, has entered into a Subsidiary Loan Agreement satisfactory to the Fund with the Ministry of Finance, for the relevant Sub-components.

4. The following are designated as additional specific conditions precedent to withdrawal under category I.d referred to in Schedule 2: the Agribusiness Equity Fund (the "AEF") has been formally established with a legal personality under the domestic law of Moldova.

5. This Agreement is subject to ratification by the Borrower/Recipient.

6. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

The President of IFAD
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

For the Borrower/Recipient:

Ministry of Finance
Cosmonautilor, 7 str.
2005 Chişinău
Republic of Moldova

This agreement, dated _____, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower/Recipient.

For the Fund

For the Borrower/Recipient

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population and Project Areas.* The Project has national coverage, while priority is given to areas of the highest concentrations of poor rural women and men. The number of direct beneficiaries is estimated to be 37 000.
2. *Goal.* The overall goal of the Project is to contribute to reducing rural income poverty in Moldova.
3. *Objectives.* The objectives of the Project are: (i) to improve in a pro-poor manner the efficiency of agriculture-related value chains, particularly through support to the introduction and establishment of internationally-recognised quality and food-safety standards and support to the development of contract farming; (ii) to increase the access of poor rural people to credit through support to appropriate, affordable, rural financial instruments; and (iii) to alleviate or remove infrastructure bottlenecks to improving the assets and incomes of poor rural people.
4. *Components.* The Project will have four components: (i) Pro-Poor Agribusiness Development; (ii) Rural Financial Services; (iii) Small-scale Rural Infrastructure; and (iv) Project Management.

4.1. *Pro-Poor Agribusiness Development.* The Component will support and target rural people through linking them more profitably, either as producers, small or medium entrepreneurs or employees to agricultural high-value commodity chains. This linkage is to be achieved through three sub-components, namely (i) Contract Farming Development to provide a stable, sustainable and incrementally profitable link to high-value agricultural commodity chains; (ii) Conservation Farming Development to enhance soil fertility and thus mitigate the risk of crop failures within the dominant system of rainfed agriculture; and (iii) Agribusiness Equity Fund (AEF) Development to support the establishment of the AEF with a legal personality under the domestic legal system of Moldova, with the aim of addressing current constraints to long-term financing of agribusinesses.

4.2. *Rural Financial Services.* This Component comprises three sub-components: (i) Loan and equity financing of SME investments in Project-prioritised agricultural value chains, through the provision of loans via commercial banks in the case of loan and through the AEF (see Component 1) in the case of equity; (ii) Loan financing of young entrepreneurs' investments in Project-prioritised agricultural value chains, through refinancing of loans provided by commercial banks which shall be selected under identical criteria adopted in other IFAD on-going operations in Moldova; and (iii) Micro financing of poor on- and off-farm rural entrepreneurs' short- and medium-term investments and working capital by Savings and Credit Associations (SCAs), with the Rural Finance Corporation (RFC) and Microinvest acting as financing intermediaries under terms and conditions satisfactory to the Fund. Revolving funds will be administered by the Ministry of Finance (MoF) in accordance with the arrangements described in paragraph 9 of this Schedule.

4.3. *Small-Scale Rural Infrastructure.* This Component will contribute to removing infrastructure bottlenecks which inhibit the participation of poor commercially/market-oriented small farmers and economically active rural poor in Project-prioritised value chains and consequently their access to the corresponding benefits. The component shall award competitive contributory grants for investments in public infrastructure that will enable and enhance private sector investments and activities in rural areas. Requests for

funding from this component may come from different stakeholders. Applicants may be farmers' interest groups, formal producers' associations, other associations, and local small and medium size entrepreneurs/processors.

4.4. *Project Management.* The Project will finance the operations of the IFAD Consolidated Programme Implementation Unit (CPIU-IFAD) of the Borrower/Recipient in performing its implementation responsibilities concerning the Project.

II. Implementation Arrangements

5. *Lead Project Agency.* The Ministry of Agriculture and Food Industry, in its capacity as Lead Project Agency, shall have overall responsibility for the implementation of the Project.

6. *The IFAD Programme Steering Committee (the IPSC).* The IPSC has been established by Government decree and responsible for providing overall policy, other guidance and oversight for all IFAD-financed projects and programmes in Moldova. The IPSC will have the same responsibility and function with respect to the Project.

6.1. *Composition.* The Minister of Agriculture and Food Industry will be the *ex officio* Chairperson of the IPSC. Other members include a representative of the Ministry of Finance (MOF), a representative of the Aid Coordination Unit under the State Chancellery, a representative of the Parliament's Agricultural Commission, the National Bank of Moldova (NBM), and representatives from other Project stakeholders, including Government agencies, organisations (public and private) as may be deemed appropriate. The IPSC membership may be amended depending on Project requirements, with the prior approval of IFAD. The Project Director (see below) and a representative of the Credit Line Directorate, MOF (CLD) will participate in the meetings, and secretariat services will be provided for the IPSC by the Consolidated Programme Implementation Unit (see below).

7. *IFAD Consolidated Programme Implementation Unit (the CPIU-IFAD).* The responsibility for Project's day-to-day management and implementation will rest with the CPIU-IFAD, which have been in charge of same responsibilities for all previous IFAD-financed projects and programmes in Moldova under the leadership of the Director. Additional positions within the CPIU-IFAD will be created as needed and funded by the Project in consultation with the IPSC and be subject to the concurrence of IFAD. The principal functions of the CPIU-IFAD will be to carry out the overall programming and budgeting of Project activities, take the lead in Project implementation in cooperation with business development and other services providers, infrastructure contractors, beneficiary institutions, such as farmer-based organisations and rural women's groups, participating financial institutions (PFIs), and monitor and document Project progress.

8. *Project Director.* The Director of the CPIU-IFAD shall be the Project Director, who shall take responsibilities including but not limited to project management, financial management, accounting, procurement, rural finance coordination, monitoring and evaluation, value chain facilitation and infrastructure coordination. Shall the Project Director be replaced, the successor will be selected and appointed through a transparent competitive process and based on qualifications, experience and Terms of Reference approved by the Fund. The appointment of the Project Director shall require the prior approval of the Fund. The Project Director shall report to the IPSC.

9. *Additional Implementation Arrangements.* In addition to the implementation arrangements described above, the Credit Line Directorate (CLD) at the MoF shall take over the management and monitoring of the refinancing loan portfolio following disbursement by the CPIU-IFAD and shall manage the revolving refinancing for similar investment for at least ten (10) years beyond the Project Completion Date.
10. *Annual Work Plans and Budgets (AWPBs).* The CPIU-IFAD will prepare a draft AWPBs for each Project year, and will propose such a draft to the IPSC for review and approval and once approved, submit to the Fund for concurrence at least sixty (60) days before the beginning of the concerned budget year.
11. *Project Implementation Manual (PIM).* The IPSC shall cause the CPIU-IFAD to prepare a draft PIM as soon as practicable, but in no event later than ninety (90) days after the entry into force of this Agreement. The IPSC shall approve the PIM only with prior agreement of the Fund, and provide a copy thereof to the Fund.

Schedule 2*Allocation Table*

1. *Allocation of the Loan and the Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the Grant and the allocation of the amounts of the Loan and the Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	% of eligible expenditure to be financed
I. Rural Finance			
I.a SME investment loan financing	3 700 000		100% excluding PFI contribution
I.b Youth Entrepreneurship financing	1 390 000		100%
I.c Microfinance through SCAs	1 445 000		100% excluding PFI contribution
I.d Equity financing	1 445 000		100%
II. Civil Works	1 605 000		100% net of taxes and beneficiaries contribution
III. Goods	320 000		100% net of taxes
IV. Technical Assistance, Training and studies	775 000	320 000	100% net of taxes and beneficiaries contribution
V. Recurrent costs	480 000		100% net of taxes
VI. Unallocated	1 240 000		
TOTAL	12 400 000	320 000	

- (b) The terms used in the Table above are defined as follows:
- (i) "Equity financing" means expenditures related to the provision of equity for SME investments in agricultural value chains prioritised by the project. Equity will be either straight equity (shareholding) and, as needed, preference shares and subordinated loans (equity loans).
 - (ii) "Recurrent costs" means expenditures related to operating costs, salaries and allowances.

Schedule 3

Special Covenants

In accordance with Section 12.01 (a) (xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower/Recipient to request withdrawals from the Project Accounts if the Borrower/Recipient has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has, or is likely to have, a material adverse effect on the Project:

1. *Gender.* At all relevant times during the Project Implementation Period the Borrower/Recipient shall ensure that the CPIU-IFAD and other Project Parties, if applicable, shall strive to improve the gender balance in the operations of the Project, develop targets and processes to achieve those targets as part of a gender strategy, and present reports by the end of each Project year on the achievements towards this end;
2. *Procurement.* The IFAD Procurement Guidelines, dated 17 September 2010, as may be amended from time to time, will apply to the Project.

Key reference documents

IFAD reference documents

Project design document (PDD) and key files

COSOP for Moldova, IFAD 2007

Administrative Procedures on Environmental Assessment

IFAD Strategic Framework 2007 – 2010

Logical framework

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
Goal			
Rural poverty in Moldova reduced.	<ul style="list-style-type: none"> 10% reduction in the number of rural people living on < USD 2.50/day. At least 20% of households involved in RFSADP activities increase household asset ownership. 	National Statistics (MEC/NBS Poverty Profiles). Household surveys (e.g., HBS, MICS, RIMS). Impact assessment studies.	Macro-economic environment and related policies remain conducive to investment, private sector development and trade. No deterioration in existing markets. Sustainable mechanism put in place for operation and maintenance of infrastructure.
Objective			
Profitable linkage of commercially-oriented, economically active and very poor rural people to high-value agricultural commodity chains.	<ul style="list-style-type: none"> At least 10% increase in export-quality agro-production in the original project area by PY5. At least 10% of commercially oriented poor farmers in the original project area have established contractual arrangements by PY5. At least 1500 full-time and seasonal jobs created by PY5. A minimum of 1 500 additional rural poor smallholder farmers take up at least one of improved technologies by PY5. 	Baseline Survey (benchmark) Government export statistics. Farmer interviews. Government agricultural statistics. Enterprise statistics, including farms. Government employment records. Household interviews.	
Outcomes			
1. Human and financial assets of participating households sustainably improved	1.1 Increase in the value of land among participating farmers and businesses 1.2 Volume/value of sales in Project-supported activities	Cadastral values Market studies. Business records (set against business plans) Government forestry/agricultural statistics. PFI records Household interviews.	
2. The efficiency of agriculture-related value chains improved in a pro-poor manner	2.1 Take-up of internationally-recognised quality and food-safety standards 2.2 Take-up of contract farming		
3. Increased access of poor rural people to credit through support to appropriate, affordable, rural financial instruments	3.1 Number and value of loans 3.2 Number of rural households (number of women, young farmers and off-farm entrepreneurs) accessing credit 3.3 Number of approved loans include convergence criteria with EU standards		
4. Alleviation/removal of infrastructural bottlenecks to improving the assets and incomes of poor rural people.	4.1 A reduction of at least 50% in wood used for heating/cooking in areas where gasification introduced by PY5. 4.2 At least a 5% reduction in unit transportation costs		
Outputs			
1. Pro-poor Agribusiness Development	1.1. Agribusiness Equity Fund established by start of PY3 1.2. At least 50 contract farming arrangements by PY5 1.3. At least 20 conservation farming arrangements by PY5	CPIU records Service provider records Government agricultural statistics and beneficiary interviews.	
2. Rural Financial Services	2.1. 82 SMEs supported with loans by PY5 2.2. 57 SMEs supported with equity financing by PY5 2.3. 120 young entrepreneurs supported with loans/grants by PY5 2.4. 540 micro-entrepreneurs supported with loans by PY5 2.5. 360 SCA staff trained by PY5	PFI records. Service provider records Beneficiary interviews	
3. Rural infrastructure that facilitates commercial farming and related businesses put in place.	3.1. At least 40 small-scale rural infrastructure sub-projects competed by PY5 (50% roads, 50% electricity, gas and water supply) 3.2. At least 20% reduction in post-harvest losses after road construction.	CPIU records (contracts). Farmer interviews.	