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Republic of Moldova

Country programme evaluation

Note: This country programme evaluation was conducted in 2013 and covers the period 1999-2012.

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For: Review

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## Acknowledgements

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## Executive summary

### I. The context

1. The Republic of 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 sovkhoses) 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, the Republic of Moldova's agricultural GDP was only 46 per cent<sup>1</sup> 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.<sup>2</sup> 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 the country 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 COSOPs were taking a somewhat different line emphasizing 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 the Republic of 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-based COSOP (RB-COSOP) and covered the period from 2007 to 2012. Following a midterm review of this COSOP in 2011, it was decided to extend it to 2015.

<sup>1</sup> See the country strategic opportunities programme (COSOP) for the Republic of Moldova 2002-2006.

<sup>2</sup> 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).

6. IFAD's programme. IFAD has provided funding for five projects (IFAD 1 through 5) since it started operations in the country in 1999.<sup>3</sup> The loans have ranged in amount from US\$8 million 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 forgone 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 million 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 International Development Agency (DANIDA). 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 channeled 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 channeled 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;
  - Small-scale rural infrastructure. Introduction of market-derived rural infrastructure from IFAD 3 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 IFAD 4 and IFAD 5 (see below) has been to target the horticulture (IFAD 4) and other agricultural commodity (IFAD 5) value chains. The main objective has been to encourage small-scale 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 Moldovan environment and the focus to date has been on the provision of technical assistance and raising awareness among smallholder farmers and potential marketing outlets; and
  - Natural resource management. To date this has consisted of only one programme initiated under IFAD 5 (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.

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<sup>3</sup> 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.

## II. 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-scale 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 facilities. The project was initially location-specific in the Ungheni subregion, covering about 15 per cent of the farming population. Smallholder 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, IFAD 2 represented something of an outlier in the IFAD programme. It reflected a concern that the credit lines that were the mainstay of IFAD 1 were reaching mainly medium-scale farmers and that IFAD's rural poverty mandate was not adequately covered. As a consequence, IFAD 2 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. Second, 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 midterm the project had reverted to the basic model established for IFAD 1, 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 fueling 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. IFAD 3 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 the Republic of Moldova. A farmer could go to one of the new commercial bank branches opening in rural areas, mention that he or she had heard about the IFAD loan and be provided with information about how to access funding. IFAD 4 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 programme 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 of the importance of climate change adaptation, and an innovative feature of IFAD 5 was a component to develop demonstration plots for conservation agriculture. This proved prescient when the country suffered another severe drought in 2012. Another important feature of IFAD 5 was that IFAD was able to secure major external cofinancing through a grant from the DANIDA 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, IFAD 5 sought to diversify the sources of financing available by establishing an equity fund. Otherwise the project 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 IFAD 5. IFAD 6 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. DANIDA is considering continuing to provide cofinancing. IFAD 6 has not been included in the evaluation ratings as it is still under preparation.

### III. 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 has been used for all IFAD projects and can be considered good practice for small countries with a narrow focus of operations. The Government also deserves recognition 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.

### IV. 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 the Republic of Moldova.

17. Almost every strategy, project or evaluation document for the country is met with the question of whether IFAD could or should have done more to target its assistance more directly at 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 the country, avoiding an overemphasis on direct support for the poor and most vulnerable.

## V. Sustainability and scaling up

18. The related issues of sustainability and scaling up were examined in a country case study undertaken by the Brookings Institution.<sup>4</sup> 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 hinder 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 IFAD 5. The evaluation team is less concerned with the CPIU issue. The Government 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 Ministry of Agriculture and Food Industry.

## VI. 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 Moldovan programme with other IFAD country programmes. There has been an expansion in commercial bank branches in rural areas and an increasing number of small- and medium-scale 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 IFAD 2 design, limited progress in value chain development and microfinance, and limited progress on putting in place a clear strategy for phasing out the heavy reliance on the credit line approach.

<sup>4</sup> Brookings, *Scaling Up the Fight Against Rural Poverty: An Institutional Review of IFAD's Approach*, Global Economy and Development, Working Paper 43 (October, 2010).



20. The achievements mentioned above resulted from the adoption and implementation of strategies and approaches that were not fully consistent with the COSOPs. In fact, the project documents were a better reflection of the country context and opportunities for IFAD to add value. This makes it problematic to <sup>5</sup> assess “COSOP performance”, for which the objectives and indicators laid out in the COSOP documents need to be taken into consideration.
21. Recommendations. 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.

#### A. Country 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 the Republic of 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 the Republic of 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. Rural finance, infrastructure and natural resource management programmes could also be geared more closely to the needs of these value chains.

#### B. 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 on rural credit for 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

<sup>5</sup> Scaling up IFAD interventions in Moldova, A. Hartmann, 2012.

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 the Republic of Moldova can move towards it.
- C. 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 Government 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 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 country programme for the Republic of Moldova with those in other small former Soviet Union and Eastern European borrowing countries.

## Extract of the Agreement at Completion Point

1. This section details the evaluation recommendations, based on the present report (see chapter VIII), that the Government of the Republic of Moldova and IFAD Management agree to adopt and implement within specific timeframes. It is extracted from the agreement at completion point (ACP) document,<sup>1</sup> signed between the parties.
2. The Independent Office of Evaluation does not sign the ACP but facilitates the process leading up to its conclusion. The recommendations agreed upon will be tracked through the President's Report on the Implementation Status of Evaluation Recommendations and Management Actions. In addition, the ACP will be submitted to the Executive Board of IFAD as an annex, along with the new country strategic opportunities programme (COSOP) for Moldova.
3. The CPE makes three key recommendations: (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 the approach of channeling a bulk of IFAD loans to lines of credit, after over a decade of generally effective implementation; and (iii) strengthening the non-lending activities through more strategic and effective use of grant resources and outreach.

### Recommendation 1: Strategy

- a) Ground the next COSOP in reality. The programme has supported the rural poor through 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 the past COSOP has not been clear about them. 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 need for better monitoring on the impact on and outreach to the rural poor through indirect and direct targeting.
- b) Design a better integrated programme. Each of the programme pillars is relatively 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.
- c) 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 the projects now need to move beyond awareness and capacity building. Value chain development should take over from rural finance as the 'flagship' of IFAD's programme. IFAD and the Government of Moldova need to select and pilot activities in key value chains such as horticulture and livestock development. At the same time rural finance, infrastructure and (NRM) programmes could be geared more closely to the needs of these value chains.
- d) Proposed follow-up: The above-mentioned recommendations will be duly taken into account in formulating the new results-based COSOP in Moldova,

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<sup>1</sup> The full Agreement at Completion Point is available online at: [www.ifad.org/evaluation/public\\_html/eksyst/doc/agreement/index.htm](http://www.ifad.org/evaluation/public_html/eksyst/doc/agreement/index.htm).

which is planned to be designed in 2014/2015 and submitted for the IFAD Executive Board approval in September 2015.

- e) Deadline date for implementation: September 2015
- f) Entities responsible for implementation: IFAD/PMD (NEN) and the Government.

#### Recommendation 2: Rural finance

- a) Diversify from the approach of channeling the bulk of loans to lines of credit. This is now a mature programme 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 on new and young borrowers.
- b) Seek greater leverage for IFAD funding of the young entrepreneurs programme. A key group of new entrepreneurs are the 18-30 age group that IFAD has supported thanks to grant funding from DANIDA. The programme has demonstrated success. For scaling-up of the programme, IFAD and the Government should systematically evaluate the demand and seek grant cofinancing from donors to meet this demand.
- c) Enhance the quality of the micro-finance programme. The micro-finance part of IFAD's programme is still 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 micro-finance and contribute to a dialogue with the Government, the regulatory body and the various MFIs on what the future institutional framework should look like and how Moldova can move towards it.
- d) Proposed follow-up: The above-mentioned recommendations are already being sizeably addressed by the country programme as follows.  
 Recommendation a): in the framework of the newly approved Inclusive Rural Economic and Climate Resilience Programme (IRECR) participating commercial banks have committed to raise their own resources to a minimum 20% attesting their increased commitment to agriculture lending and the rural sector, thus freeing up IFAD resources for further investments in new and young rural borrowers. Recommendation b): through the new and scaled-up IRECR programme, IFAD and the Government of Moldova have further engaged in extending their support to young entrepreneurs and obtained additional grant resources (US\$5 million) from DANIDA. Recommendation c): the revision of the micro-finance institutional framework is carried out on a continuous basis, within the on-going country programme through constant dialogue with all key stakeholders involved (microfinance institutions, Government, National Commission for Financial Market, etc.). Further consultations and actions will be duly undertaken in the process of the new result-based COSOP preparation with the strategies for rural finance reflected in the document.
- e) Deadline date for implementation: (a) and (b) December 2014; (c) September 2015.
- f) Entities responsible for implementation: IFAD/PMD (NEN) and Government.

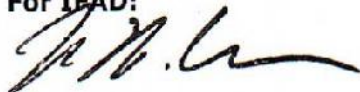
#### Recommendation 3: Non-lending

- a) 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 micro-finance above and the issue of ownership and maintenance of infrastructure. But a key to doing this is to understand what underlies these issues. For example, what are the benefits of the micro-finance programme? How effective is it in supporting smallholders to move out of poverty? What needs to be done to enhance its impact? IFAD should use its grant programme to carry out analysis of such questions.


- b) Expand outreach and strengthen non-lending activities. While programme implementation is extremely efficient, IFAD needs to expand its outreach and strengthen its non-lending activities in Moldova through selective policy dialogue, stronger partnerships and expanded knowledge sharing. In addition to the policy area already mentioned, IFAD needs to be more pro-active on partnerships and take its case to the donor community under the Government's active leadership; on knowledge sharing a more systematic approach is needed with a designated focal point in the CPIU and the preparation of an annual plan in this area. IFAD's regional management needs to consider how to exploit the obvious learning potential through comparing the Moldova programme with those in other small Eastern European and the Former Soviet Union borrowing countries.
- c) Proposed follow-up: The above-mentioned recommendations will be duly addressed through a number of activities: a) possible use of IFAD's loan and grant resources for conducting impact assessments of programme results and achievements in order to capture evidence-based knowledge generated from successful project experiences in a meaningful and targeted way. It is envisaged that this knowledge will also feed into ongoing and future policy dialogue taking place at the national level. Furthermore, it will serve as an input for the new COSOP design; b) through the preparation of learning events and/or tools for dissemination within IFAD, in-country team and other relevant national and international stakeholders; and c) a Knowledge Management Specialist will join the CPIU within the framework of the recently approved IRECR Programme. The Specialist will be tasked to follow up on knowledge production and dissemination.
- d) The CPIU will continue being proactive in sharing its knowledge through a number of means: digital media (web-site, video material) and printed media (numerous brochures and leaflets on the programme). In addition, CPIU has recently established a new partnership with the neighbouring country – The Republic of Belarus to share its knowledge and experience on agricultural development programme implementation. In early 2014, CPIU is planning to meet with a group of experts from Belarus to exchange experiences in programme implementation.
- e) Further actions will be undertaken in the framework of existing and new programmes and the results will be reflected in the newly designed COSOP.
- f) Deadline date for implementation: September 2015.
- g) Entities responsible for implementation: IFAD/PMD (NEN) and Government.

**For IFAD:**



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**For the Government of Moldova:**



**Honourable Vasile Bumakov**  
Minister of Agriculture and  
Food Industry

**Date** Feb. 13, 2014

**Date**

# Republic of Moldova

## Country Programme Evaluation

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## Currency equivalent, weights and measures

### Currency equivalent

Moldovan Lei (MDL)

January 2008: 1 US\$ = 11.22 MDL

May 2013: 1 US\$ = 12.25 MDL

### Weights and measures

1 km = 0.62 miles

1 ha = 10,000 m<sup>2</sup> (0.01 km<sup>2</sup>) (2.47 acres)

1 ton = 1,000 kg

## Abbreviations and acronyms


CDD	community-driven development
COSOP	country strategic opportunities paper/programme
CPE	country programme evaluation
CPIU	Consolidated Programme Implementation Unit
DANIDA	Danish International Development Agency
GDP	gross domestic product
GEF	Global Environment Facility
HVA	high-value agriculture
IDA	International Development Association (World Bank group)
IFAD	International Fund for Agricultural Development
MAFI	Ministry of Agriculture and Food Industry
MCA	Millennium Challenge Account
MDRI	market-driven rural infrastructure
MTR	mid-term review
NEN	Near East, North Africa and Europe Division (IFAD)
NGO	non-governmental organization
NRM	natural resource management
PCR	project completion report
PFI	participating financial institutions
RFC	Rural Finance Corporation
SCA	savings and credit association
SME	small and medium enterprise
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VCD	value chains development
VDC	Village Development Committee



# Map of IFAD-supported operations

Republic of Moldova  
Country programme evaluation



 The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

**IFAD** Map compiled by IFAD

# Republic of Moldova

## Country Programme Evaluation

### I. Background

#### A. Introduction

1. At the request of the Executive Board, the Independent Office of Evaluation of IFAD (IOE)<sup>1</sup> undertook a country programme evaluation (CPE) of the IFAD-supported programme in Moldova in 2012/13, with a view to assessing the cooperation between the Government of Moldova and IFAD during the period 1999-2012. The Moldova CPE has been prepared based on the overall provisions of the IFAD Evaluation Policy<sup>2</sup> and followed IOE's methodology and processes for CPEs as per the Evaluation Manual.<sup>3</sup>
2. This is the first CPE for Moldova. The purposes of the CPE are to assess the relevance, effectiveness and efficiency of IFAD-supported interventions in Moldova; and to provide recommendations that can help the IFAD/Government partnership in developing a new country strategic opportunities programme (COSOP) and designing future projects. IFAD prepared its first COSOP for Moldova in 2002 with the programme period until end 2006. A second COSOP covered the period 2007-2012. A mid-term review (MTR) of the COSOP issued in 2011 extended the COSOP period for a further three year cycle - up to end 2015. Preparation of the new COSOP will therefore start in 2015.
3. Overview of IFAD-supported programme. Moldova joined IFAD in 1996. Since 1999, IFAD has approved five highly concessional loans to the country. Two are now closed, and three are ongoing. A new loan is under preparation.<sup>4</sup> The total cost of IFAD-supported projects amounted to US\$116 million, with IFAD loans totalling US\$69 million. An overview of IFAD's operations in Moldova is provided in table 1. Until recently, IFAD and World Bank have provided almost all of the investment lending in rural areas.<sup>5</sup> In particular, IFAD plays a key role in the provision of medium- and long-term investment credits for rural enterprises. The three year performance-based allocation (PBA) for Moldova was US\$19.8 million for 2010-2012, and was reduced to US\$16.6 million for 2013-2015 (US\$16.1 million loans and US\$0.5 million grant).
4. Three technical assistance grants and a Special Operations Facility (SOF) grant for the total amount of US\$1.1 million supported capacity building associated with IFAD loan-supported projects. IFAD has also provided Moldova with two non-governmental organization (NGO) Extended Cooperation Programme (ECP)<sup>6</sup> grants to support activities that would encourage the channeling of remittances into productive rural investment.

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<sup>1</sup>Following IFAD's Evaluation Policy, IOE provides an independent assessment of IFAD's operations and policies and reports directly to the Executive Board.

<sup>2</sup> Available at: [http://www.ifad.org/evaluation/policy/new\\_policy.htm](http://www.ifad.org/evaluation/policy/new_policy.htm).

<sup>3</sup> [http://www.ifad.org/evaluation/process\\_methodology/doc/manual.pdf](http://www.ifad.org/evaluation/process_methodology/doc/manual.pdf).

<sup>4</sup>The Inclusive Rural Economic and Climate Resilience (IFAD 6).

<sup>5</sup>The Millenium Challenge Account (MCA) of the US government has recently begun support for a large programme of irrigation rehabilitation and the European Union is now providing increasing support for Moldova to upgrade its phyto-sanitary standards.

<sup>6</sup> ECP was created in 1987, with the purpose to enhance IFAD's direct collaboration with NGOs. The programme was terminated in 2004. Currently NGOs and Civil Society organizations are not limited to a specific facility, but can apply for support under the Fund's overall grant programme.

Table 1  
**Overview of IFAD-supported programme in Moldova (1999-2012)**

<i>First IFAD-funded project</i>	1999
Total loan-funded projects approved	5
Total amount of IFAD financing (Project Portfolio Management System [PPMS])	US\$68.9 million
Lending terms	Highly concessional
Counterpart funding (PPMS)	US\$32.8 million
(includes government, beneficiaries and domestic financial institutions)	
<i>Cofinancing amount</i> <sup>*</sup>	<i>US\$1.5 million</i>
Total portfolio cost	US\$106.2
Focus of operations	Rural Development, Credit and Financial Services
Cofinanciers (PPMS)	DANIDA
Number of ongoing projects	3
Total amount of grants (IFAD contribution)	US\$1.5 million ( 1 Regional Grant) US\$0.9 million ( 6 Country-Specific Grants)
Cooperating institution	UNOPS (until 2008)
Country office	None
Responsible division for IFAD operation	NEN
Former country programme manager/s (CPM)	H. Lauridsen (2000 – 2003) P. Turilli (2003 – 2008) K. Nielsen (April 2008 – August 2008)
Current CPM	Abdelkarim Sma (2008 – present)
Lead agencies	Ministry of Agriculture and Food Industry, Ministry of Finance

\* The IFAD Project Portfolio Management System still lists USAID as a cofinancier, and includes planned USAID support for IFAD 1 of US\$5.5 million which has been cancelled prior to any disbursement. This amount is therefore not included in the above table and elsewhere in the CPE.

5. During the period covered by the CPE, the portfolio focused on rural finance both through medium and long-term credits to medium-scale farmers and farm enterprises channelled through the banking system, and through microfinance provided through savings and credit associations (SCAs) to small farmers. In addition more recent loans also financed market-driven rural infrastructure and support for moving small farmers into and up the value chain. The most recent project included a natural resource management (NRM) component.
6. Programme management. IFAD does not have a country office in Moldova. The Consolidated Programme Implementation Unit (CPIU), which is located in the Ministry of Agriculture and Food Industry (MAFI), is responsible for the management of all on-going projects. The CPIU was established by Government decision with its staff, is attached to the MAFI, and operates on the basis of approved Government regulations. The staff and operating costs of the CPIU are paid from the loans provided by IFAD and over time the CPIU has evolved into a surrogate country office, performing many of the functions that such an office

would fulfil. For example the Director of the CPIU represents IFAD at the donor coordination sessions in Chisinau.

## B. Objectives, methodology and process

7. Objectives. Based on the analysis of cooperation during the period 1999-2012, the CPE aims at providing an overarching assessment of: (i) the performance and impact of programmes and projects supported by IFAD loans and grants; (ii) the performance and results of IFAD's non-lending activities in Moldova: policy dialogue, knowledge management and partnership building; (iii) the relevance and effectiveness of IFAD's COSOPs of 2002 and 2007, including strategic objectives, subsector focus, targeting approaches, and country programme mix; and (iv) overall management of the country programme.
8. Methodology. The CPE attempts to assess the relevance, effectiveness and efficiency of IFAD's strategy and the operations it has supported, as well as the performance of the IFAD/Government partnership. With regard to evaluation of the portfolio, rather than assessing each loan individually, given that most core components are present in all projects, the evaluation takes a programmatic approach. Consequently, the assessment of the relevance and effectiveness is largely built around the following four key "pillars" of the programme: (i) rural finance; (ii) market-driven rural infrastructure; (iii) value chains; and (iv) NRM. At the same time, the aggregated ratings for different evaluation criteria are also based on the ratings for the projects, where available, as well as other elements of the projects that may not have been captured in the four key programme "pillars" (for example, participatory planning and community development under IFAD2). The evaluation looks at the efficiency of the programme as a whole rather than associating this with individual projects or pillars.
9. In addition, the evaluation examines the overall contribution that IFAD support has provided through its non-lending activities: policy dialogue; knowledge management; and partnerships. The contribution of IFAD's grant programme was also looked at in this context. A particularly important aspect of the evaluation was to review the scaling up of IFAD's programme in Moldova. Moldova was one of the country cases studied by IFAD as part of a policy review (carried out by the Brookings Institution) on IFAD's role in scaling up programmes, and the evaluation was able to refer to and update the assessment of the country case study.<sup>7</sup>
10. The evaluation uses the standard Evaluation Cooperation Group (ECG)<sup>8</sup> rating on a 6 point scale from 1 (highly unsatisfactory) to 6 (highly satisfactory). The methodology and the interpretation of the ratings are elaborated in annex 1.
11. Process. A preparatory mission to Moldova was undertaken in October 2012 to seek the input of the CPIU and the Government into the design of the CPE. At the same time a desk study was carried out for each of the five projects supported by IFAD. The CPE also benefited from the completion of a project performance assessment (PPA) of IFAD3 (Rural Business Development Programme) which was completed in November 2012. The preliminary mission and the preparatory studies provided the basic analytic underpinnings for the Approach Paper which was finalized in January 2013.
12. The main mission visited Moldova in March 2013. The mission met with implementers, partners and stakeholders in Chisinau, and visited project participants and beneficiaries at numerous field sites. On 27 March 2013 the mission presented its preliminary findings at a wrap-up meeting, chaired by the Minister of Agriculture and Food Industry and attended by a wide range of stakeholders. Comments received during and after the meeting have been considered in preparing the present report.

<sup>7</sup> Scaling up IFAD interventions in Moldova, A. Hartmann, 2012

<sup>8</sup> Evaluation Cooperation Group of International Financial Institutions

#### Key points

- This is the first CPE for Moldova.
- COSOPs were prepared in 2002 and 2007 with a mid-term review of the latter undertaken in 2011.
- IFAD began operations in 1999 and there have been five loans to date.
- The evaluation uses standard IOE methodology and ratings. It largely takes a programmatic approach, by looking at the relevance and effectiveness of four pillars of the programme (rural finance; market-driven rural infrastructure; value chain development; and natural resource management), but it also takes into account project ratings and other programme elements.
- A desk review of the projects was carried out and a preparatory mission in October 2012 was followed by the main mission in March 2013.

## II. Country context

### A. Overview

13. The Republic of Moldova is a small landlocked country located in Eastern Europe and bordering Romania and Ukraine, occupying a territory of 33.8 thousand km<sup>2</sup>. It has a population of 3.6 million,<sup>9</sup> with life expectancy of 68.6 years and a literacy rate of 98.5 per cent. With GNI per capita of US\$1,980 in 2011,<sup>10</sup> Moldova is classified as a lower-middle income country.

#### Political developments

14. Moldova became an independent state after the break-up of the Soviet Union in 1991. The first years of the post-Soviet period were marked by the conflict with the breakaway region of Transnistria that escalated to a brief period of military conflict in 1992. In July 1992 Russian-brokered ceasefire ended the hostilities, but the final status of Transnistria remains unresolved. The initial post-Soviet governments of Moldova were dominated by a centrist Agrarian party. Years of economic decline took their toll however, and in the 2001 parliamentary elections, Moldova became one of the few of the newly independent states to return the Communist Party to power. The Communist Party won more than two-thirds of the seats in parliament and elected party chairman Vladimir Voronin as the new President. Mr. Voronin was re-elected in the subsequent (2005) parliamentary elections, albeit with a smaller share of the vote. The validity of the next elections, in 2009, was challenged and there were violent protests which ultimately led to new elections in November 2010 that brought to power the non-Communist "Alliance for European Integration".

#### Economic developments

15. After the break-up of the Soviet Union, a disruptive restructuring process triggered by the collapse of Soviet supply and marketing channels led to severe economic decline in the 1990s and a steep increase in poverty. In addition, Moldovan economy took a serious blow in 1991 when Transnistria, where most of the major industrial undertakings of the country were located, severed its economic ties with the rest of the country. Per capita income fell by roughly 40 per cent during the 1990s. Economic growth resumed at the end of the decade and was relatively stable, averaging 6.2 per cent per year until 2008 (see figure 1). The gross domestic product (GDP) contracted by 6 per cent in 2009 because of the global economic crisis and reduced inflows of remittances. The economy recovered quickly and grew at 6.9 and 5.5 per cent in 2010 and 2011, respectively, but the

<sup>9</sup> Estimated resident population of the Republic of Moldova as of 1 January 2012. National Bureau of Statistics of Moldova. February 8, 2012.

<sup>10</sup> Using the World Bank Atlas methodology. World Development Indicators 2011

combination of the Eurozone crisis and a severe drought resulted in a small decline in GDP in 2012.<sup>11</sup>

16. The economic growth of the period from 2001-07 lowered the poverty rate substantially, but some 25 per cent of the population were still classified as poor then.<sup>12</sup>

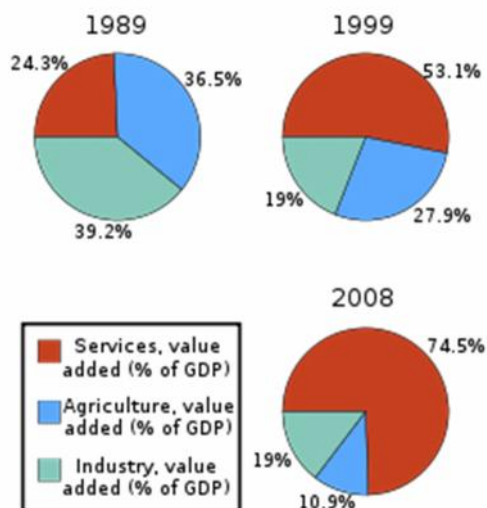
Figure 1  
Real GDP growth rate 2003-2011, per cent



Source: EIU country report 2012

17. The main driver of growth during this past decade has been household spending. This was supported mainly by strong remittance inflows. Private spending reached almost 95 per cent of GDP in 2011. This encouraged rapid growth of the services sector and particularly wholesale and retail trade activity. (See figure 2 below). The shares of agriculture and industry have declined steadily during the past twenty years.

Figure 2  
GDP of Moldova by sector



Source: National Bureau of Statistics

18. Remittances. The inflow of remittances plays a key role in Moldova's economy. Remittances transferred through formal channels were valued at US\$1.3 billion or 23.1 per cent of the GDP in 2011,<sup>13</sup> fifth largest in the world. The rapid increase in formal remittance inflows over the past decade can be seen in figure 3 below. However, it is estimated that an additional amount, equal to about 40 per cent of

<sup>11</sup> Country Report, EIU, 2011

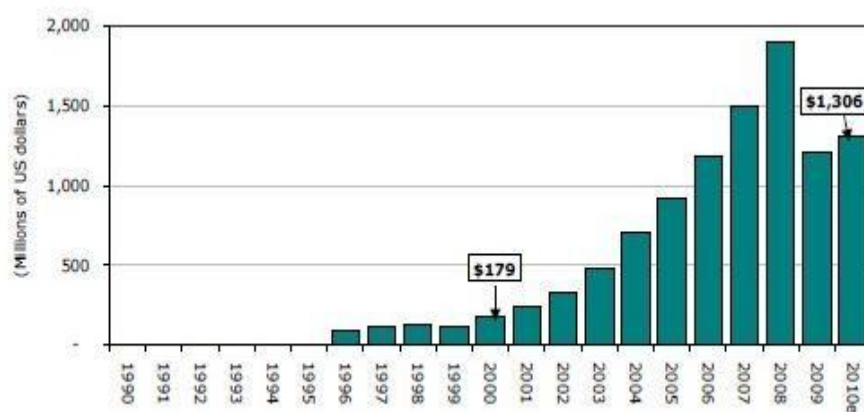
<sup>12</sup> World Bank. According to the same source, the latest figure for 2011 for the poverty headcount ration at national poverty line (% of population) is 17.5%.

<sup>13</sup> The World Bank, Migration And Remittances Factbook 2011, Second Edition, 2011.

total remittances comes through informal channels. Remittances to Moldova increased in 2010 and 2011, but still have not recovered to pre-2008 crisis levels, and were again hit by the Eurozone economies' decline in 2012.

19. According to the World Bank Remittance Factbook 2011, 21.5 per cent<sup>14</sup> of the economically active population left the country in 2010 in search of better economic opportunities abroad, mainly to Russia and the European Union. By and large remittances have not flowed into investment in industry or agriculture. For the most part they have gone into real estate, cars, taxis and mini-buses, shops, hotels and restaurants, and personal consumption.

Figure 3  
**Formal remittances inflows**



Source: Remittances data, Development Prospects Group, World Bank, 2011

## B. Agricultural and rural development

20. Agriculture has long been the country's economic foundation. Moldova has the world's highest ratio of arable land to total land area (56 per cent arable), coupled with high quality Chernozem soils, a favourable climate and low labour costs, which gives the country a comparative advantage with regard to farming and agro-food products. Before independence Moldova was the Soviet Union's market garden, supplying 30 per cent of its tobacco, 20 per cent of grapes and wine, 13 per cent of fruit and 10 per cent of vegetables.
21. The structure of land holdings. Following the collapse of the Soviet-era supply and trade links, the agricultural sector experienced a downturn in terms of yields and trade volume. The large collective and state farms (kolkhozy and sovkhozy, average size 2,000-3,300 ha) were forced to take on debt in order to provide for the needs of their members and were no longer seen as viable. Over the subsequent two decades these units were gradually broken up into more than one million small, private holdings. Land was distributed equally to all members of the collectives and state farms. Except for small kitchen gardens, land was transferred in the form of shares. Those who opted to convert their share to a physical holding often received small, fragmented non-contiguous plots. They were also required to repay their share of the total debt.
22. The past decade has seen a steady expansion of land held by individuals and corporate enterprises and a virtual disappearance of state and collective holdings. "Moldova's agricultural land is now mostly privatized (about 84 per cent). About half the land is controlled by large farms or Limited Liability Companies (LLCs), with the remaining half split between nearly 400,000 small holders (32 per cent)

<sup>14</sup> Out of this 21.5 per cent of migrants, emigration rate of tertiary-educated population is 3.4 per cent.

and a large number of household plots. The average small land holding is only 1.8ha and 25 per cent own less than 1ha.”<sup>15</sup>

23. Most of Moldova’s rural population aged 40 or above, worked on the kolkhozes or state farms as labourers, mechanics, or in social services, with little knowledge of how to run a farm. Some of the farm directors and agronomists have emerged as a new group of medium and large farmers putting together units ranging from 60 to as many as 1000 hectares. They usually own a parcel of about 20 to 30 hectares and lease the balance from smallholders who are then often employed as workers on the farm. A younger generation of university graduates in business or agriculture is also beginning to take up farming.
24. Agricultural production. “The share of agriculture in employment dropped from 41 per cent in 2005 to 33 per cent in 2007 and 28 per cent in 2009 with the losses going to migration (mostly) and the domestic services sector (urban areas). However, this tendency has stabilized since 2009, possibly due to more favourable agricultural prices and improved terms of trade for farmers, coupled with less favourable conditions for migrant workers in host countries due to the economic crisis. The share of agriculture in GDP has also declined steadily since 2000 (25 per cent) to a minimum in 2009 (8.4 per cent) and rebounding to 12 per cent in 2010 due to higher agricultural prices and returns.”<sup>16</sup>
25. According the World Bank data,<sup>17</sup> agriculture still dominates the exports, accounting for 45-50 per cent of the total exports. The main crops are cereals, sugar beet, sunflowers, potatoes, vegetables and fruits, particularly grapes. These agricultural exports are mainly sent to the countries of the former Soviet Union, particularly Russia and Belarus. This has resulted in a great deal of vulnerability. In 2006 when Russia and Moldova were embroiled in a dispute over the supply and pricing of natural gas and petroleum, Russia cut off the access of Moldovan wine producers to the Russian market. Though access was restored in November 2007, this dependence on a limited set of markets has led Moldova to seek increased access to the European Union market in particular. This is dependent however on meeting European Union quality and food safety standards.
26. Key issues for agricultural development. Moldova’s agriculture currently suffers from low productivity, contributing to high rates of rural poverty. Unlike the past collective farms where inputs were supplied by the state, the new small farm holders are obliged to seek inputs and finance from markets and to adapt their production to market demands. Greater production costs for high-value crops, insufficient access to finance, and poor marketing of rural products have led to the perverse results of declining land areas under the more profitable crops that require a higher initial outlay and better market linkages. While the size and sophistication of both the banking system and non-bank financial institutions has increased rapidly over the past decade, the supply of medium and long term credit remains limited (see discussion of Rural Finance in Chapter 4), and marketing is hampered by infrastructure constraints and insufficient competition.<sup>18</sup>
27. Climate change has also emerged as a significant issue in recent years. “Throughout late 2011 and 2012, Moldova suffered the effects of a combination of weather events which had severe impacts upon the country’s crop production: a drier and colder than average late 2011 and early 2012 impacted the winter wheat crop; this was followed by renewed dry and exceptionally hotter than average weather during the spring and summer of 2012. This drought was part of a series of natural hazards that have impacted the country in the past 10 years – other

<sup>15</sup> Rapid Food Security and Vulnerability Assessment. September 2012. United Nations Development Programme (UNDP).

<sup>16</sup> Rapid Food Security and Vulnerability Assessment. September 2012. UNDP.

<sup>17</sup> Moldova Partnership Country Programme Snapshot, World Bank Group, April 2013.

<sup>18</sup> Reportedly the Chisinau wholesale market for food, which is the largest domestic market by far, is dominated by a cartel of wholesalers who limit access from producers who do not operate through them.



major droughts were registered in 2003 and 2007, and large scale floods in 2008.”<sup>19</sup>

28. Growing demand for better quality and safety in food products also poses a challenge to the agriculture sector of Moldova as the country is still in process of putting in place the legislative and institutional infrastructure needed to manage food safety and agricultural health in accordance with the WTO Agreement on Sanitary and Phyto-sanitary (SPS) Measures.
- C. Public policies and programmes for rural poverty reduction and donor assistance
29. Government policy and strategy. Promoting the growth of agribusiness, combined with poverty reduction and sustainable development have been the cross-cutting priorities in a number of Moldova’s national development strategies. The strategic priorities for economic development and poverty reduction were laid out in a number of policy and strategy documents including: (i) the National Development Strategy (2008-2011); and (ii) The European Union-Moldova Action Plan (2007-2013) - that are broadly coherent in terms of sustainable and inclusive development objectives. The Government consistently accords high priority to improving the business environment, supporting small businesses and agricultural production, creating employment and improving the living conditions of the poor.
30. In 2011 the Ministry of Agriculture announced a comprehensive and ambitious set of 11 policy priorities for Moldova’s Agriculture and Food Sector. (See table 2 below). These cover the areas needed for Moldova to move to higher quality and value-added agricultural production.

Table 2

**Mid-term policy priorities in the agriculture and food sector of Moldova**

Policy priorities
1. Implementation of food safety reform
2. Restructuring and modernization of the wine sector
3. Development of modern market infrastructure
4. Reorganization of the education and research resources
5. Development of the irrigation system
6. Implementation of conservation agriculture (no-till)
7. Strategic sectors development: Fruits and vegetables, milk and meat and animal genetic resources
8. Development of the agricultural subsidy system
9. Promotion and support to the use of biomass potential
10. Implementation of basic information systems to support the functioning of the food chain
11. Formulation and promotion of the Rural Development Policy

Source: Ministry of Agriculture and Food Industry

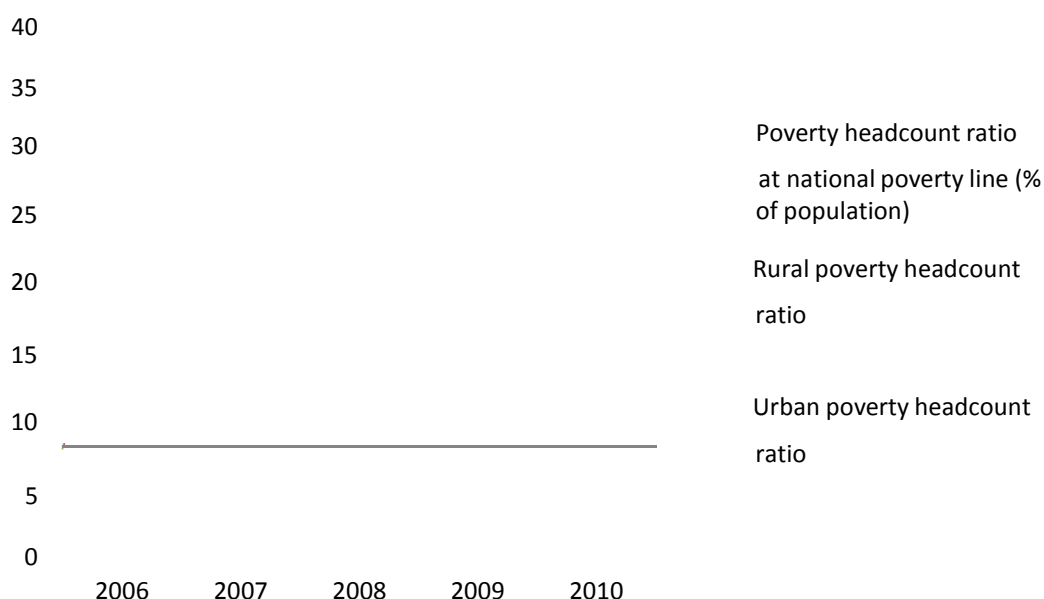
31. Poverty, social and gender issues. Between 1999 and 2004, Moldova’s economic recovery enabled 40 per cent of the population to move out of poverty. The poverty rate continued to decline up until 2007, albeit at a slower rate. The poverty level increased again in 2008, even before the full impact of the crisis was felt and levelled off in 2009 before falling sharply with resumed growth in 2010. (See figure 4 below). While the incidence of poverty is relatively shallow<sup>20</sup> and widely dispersed across the country, poverty is very much a rural phenomenon. In

<sup>19</sup> Rapid Food Security and Vulnerability Assessment. September 2012.

<sup>20</sup> The incomes of poor households were below but near to the poverty line.

2010 an estimated 30 per cent of the rural population was affected by poverty, as compared with 10 per cent in urban areas. Rural Moldovans - including small and medium-scale farmers, small-scale enterprise operators, the landless, those without stable employment and/or low wages - continue to face poverty due to limited on- and off-farm opportunities for income generation and employment, financial services and markets, limited access to new technologies, agricultural support services. The migration of Moldovans out of the country is high, mainly due to poverty and poor people of working age leaving in search of better economic opportunities abroad.

Figure 4

**National, rural and urban poverty in Moldova (per cent of population)**

Source: The World Bank, Databank

32. Despite Government efforts to foster equal rights through national legislation, many challenges remain in ensuring gender equality. Women are mostly employed in low-paying jobs and occupy lower positions in the job hierarchy. The average female salary represented only 74.4 per cent of the average male salary in 2011. The gap persists because women, most often, either work in lower-paid sectors such as education, healthcare or services, or occupy lower-paid positions.<sup>21</sup> The difficulty for women to find meaningful employment and their concentration in lower paid sectors is one of the root causes of both emigration and trafficking. Most vulnerable to poverty are women in rural areas, female headed households and women from ethnic groups, particularly the Roma. There have been positive developments in recent years with respect to gender equality, especially since the adoption in February 2006 of the "Law on Ensuring Equal opportunities for Women and Men". Indeed, it is worthwhile noting that Moldova was ranked 49<sup>th</sup> out of 148 countries in terms of the Gender Inequality Index in 2012 – more favourable compared to its ranking at 113 out of 187 countries for Human Development Index.
33. Governance. Moldova was ranked 94 out of 183 countries in Transparency International's Corruption Perceptions Index (CPI) in 2012. This represented deterioration in ranking from 63<sup>rd</sup> in 2001, but some improvement from 112<sup>th</sup> in 2010. According to Transparency International reports,<sup>22</sup> corruption continues to be seen as a significant impediment for the country's development and survey results show it as third on the list of problems that households face. As far as the business

<sup>21</sup> UNDP

<sup>22</sup> [www.transparency.org/country#MDA](http://www.transparency.org/country#MDA) (17/12/2013)

sector is concerned, the most recent “Doing Business” report<sup>23</sup> compiled by the World Bank showed Moldova’s ranking improving from 99 in 2011 to 86 in 2012 and to 83 in 2012. However, despite this progress, the country still lags behind its regional comparators such as Armenia (32) and Georgia (9), and the current ranking of 83 is still below the average score for Eastern Europe and Central Asia.

34. Official Development Assistance (ODA). The amount of net official development assistance (ODA) to Moldova in 2011 totaled US\$427 million. Total pledged commitments at the Joint Donor Consultative Group Meeting in Brussels in March 2010 reached Euro 1.94 billion, reflecting donor support for the Government’s commitment to economic reform and European Union integration. Since 2005, net ODA has averaged 5 per cent of GNI and 17 per cent of central government expenditures.
35. Moldova’s international assistance falls into three broad categories, each constituting around a third of total ODA: the European Union, the international financial institutions and UN agencies, and the bilateral donors. (See table 3).

Table 3  
Main donors in Moldova (gross disbursement)

Donors	2010 (US\$ millions)	2011 (US\$ millions)
European Union institutions	137.9	149.6
IMF (concessional trust fund)	122.1	94.7
IDA	66.7	57.0
United States	21.9	31.3
Sweden	12.5	18.6
IFAD	5.8	3.5
DAC countries (Total)	96.2	106.7
<b>All donors total</b>	<b>449.9</b>	<b>427.8</b>

Source: OECD Database/World Bank, World Development Indicators

#### Key donor programmes

36. International Monetary Fund (IMF). In January 2010, the executive board of the IMF approved three year arrangements for the country under the Extended Credit Facility and the Extended Fund Facility (ECF/EFF).<sup>24</sup> With each facility providing an equal amount, the combined financial assistance will be equivalent to about US\$574.4 million to support the country’s economic programme of which US\$93.2 million was made available immediately and the rest was subject to annual review.
37. The World Bank. The World Bank’s current portfolio in Moldova includes 27 active projects totaling US\$317.5 million of net commitments. Since 1993, the Bank has provided US\$961 million to finance over 70 operations, which have been intended at supporting economic policy reforms, industry infrastructure, rural and human development and the financial and private sector.
38. On the agricultural development side, the World Bank financed the Rural Investment & Services Project (RISP), which was approved in June 2002 and closed in August 2006. The total project cost was US\$19.7 million. The purpose of the project was to provide long-term support to accelerate agricultural recovery and

<sup>23</sup> [www.doingbusiness.org/rankings](http://www.doingbusiness.org/rankings) (17/12/2013)

<sup>24</sup> The Extended Credit Facility (ECF) has replaced the Poverty Reduction and Growth Facility (PRGF) as the Fund’s main tool for medium-term financial support to low-income countries by providing a higher level of access to financing, more concessional terms, enhanced flexibility in programme design features, and more focused streamlined conditionality.

growth so that Moldova's agricultural sector could play its full role in providing the foundations for future income growth and poverty reduction.<sup>25</sup> It promoted small and medium-scale commercial farms and agricultural enterprises, and supported institutional development, in particular the development of savings and credit associations in rural areas. A second Rural Investment & Services Project was approved in March 2006 and will be closed in June 2013, for a total cost of US\$25.98 million. The other relevant project of the Bank in the rural sector was the Moldova Agriculture Competitiveness Project which has been approved in May 2012 and will last until June 2017. The total project cost is US\$31 million. It aims to enhance the competitiveness of the agro-food sector by supporting the modernization of the food safety management system, facilitating market access for farmers, and mainstreaming agro-environmental and sustainable land management practices.

39. The European Union. Between 1991 and 2006, the European Union assistance to Moldova amounted to Euro 320.7 million. Under the National Indicative Programme (NIP) of 2007-2010, estimated Euro 209.7 million were allocated for Moldova in the following priority areas: (i) good governance, rule of law and fundamental freedoms; (ii) social and human development; and (iii) economic growth and poverty reduction. Under the NIP 2011–2013 Moldova is projected to receive assistance from the European Union in the amount of Euro 273.1 million.
40. United Nations Development Programme (UNDP). UNDP's Country Programme (2007-2012) is focused on two main areas - good governance and regional and local development. UNDP contributes also to efforts at reforming trade, debt relief and investment arrangements to better support national poverty reduction and make globalization work for the poor.
41. Millennium Challenge Account Moldova (MCA Moldova). The MCA Moldova is a public entity established by the Government to ensure efficient implementation of the Compact Agreement<sup>26</sup> with the Millennium Challenge Corporation (MCC). According to this agreement, the United States Government will provide grant assistance of US\$262 million dollars to the Republic of Moldova through the MCC. The programme has two projects – Transition to High-Value Agriculture (THVA) and Road Rehabilitation. The THVA aims at increasing incomes in the rural areas by encouraging high-value agriculture (HVA) and catalyzing investments into high value production.<sup>27</sup>
42. United States Agency for International Development (USAID). USAID assistance in Moldova focuses on the following areas: (i) economic growth; and (ii) governing justly and democratically. The Agricultural Competitiveness and Enterprise Development Project (ACED) works on improving the competitiveness of Moldovan high-value agriculture by addressing binding constraints in targeted fruit and vegetable value chains at the marketing, production and policy levels. The John Ogonowski Farmer-to-Farmer programme mobilizes skilled volunteers to assist individual farmers and farmer cooperatives in agribusiness development grassroots initiatives. Volunteers work side by side with Moldovan farmers in assignments that help local farming communities with strategic marketing, development of farmer cooperatives, developing budgets and work plans, and train local trainers in financial management and record-keeping. A Memorandum of

<sup>25</sup> The project consisted of four main components. The first provided the most essential information to emerging private farmers; the second created legally registered rural businesses with business plans; the third provided finance to bankable rural clients; and the fourth was dedicated to the project management.

<sup>26</sup> Entered into force in September 2010.

<sup>27</sup> The THVA includes four distinct activities: (i) Centralized Irrigation System Rehabilitation Activity (CISRA) that will rehabilitate up to 11 irrigation systems covering a command area of up to approximately 15,500 hectares; (ii) Irrigation System Reform Activity (ISRA) that will provide technical assistance and capacity building; (iii) Access to Agriculture Finance (AAF) to provide term financing and technical assistance to support high-value agriculture-related investments by farmers and rural entrepreneurs; Growing High-value agriculture Sales (GHS) that provides market development support and technical assistance and training to help producers and agribusinesses better access high-value agriculture markets.

Understanding has been signed in March 2013 between IFAD CPIU and Citizens Network for Foreign Affairs (CNFA)<sup>28</sup>-Farmer to Farmer programme in order to extend its cooperation for a mutual interests and benefits for the agricultural producers of Moldova.

#### Key points

- The break-up of the former Soviet Union and the Transnistria conflict had a devastating impact on the Moldovan economy.
- Moldovan agriculture suffered from the breakdown of supply and marketing channels and output was only 40 per cent of its 1990 level by the end of 1990s.
- The large kolkhozes and state farms were no longer viable, and with some reluctance Moldova eventually embarked on a major restructuring and privatization of agricultural holdings.
- Starting in 2000 the economy began a steady recovery, as Russian and European demand for agricultural products and for Moldovan workers picked up. Growth in the domestic economy was fuelled mainly by remittances.
- There was also however, the gradual development of a new group of medium-scale farmers able to produce commercial quantities of quality agricultural products.
- Poverty levels were steadily reduced between 2000 and 2007. Rural poverty at around 30 per cent remains substantial however and agricultural output is still well below its former levels.

### III. IFAD country strategy and operations

43. This chapter provides a brief description of IFAD's COSOPs (Section A) and IFAD-funded projects and programmes (Section B). The description of the COSOPs focuses on objectives, strategies and pipeline. COSOP performance is assessed in Chapter VII. The performance of the projects and programmes is assessed in Chapter IV. Non-lending activities (policy dialogue, knowledge management, partnership-building and grants) are described and assessed in Chapter VI.
  44. As indicated in the approach paper,<sup>29</sup> the CPE adopts a thematic approach rather than a project-by-project analysis, in particular for the relevance and effectiveness of the portfolio. The rationale for this is that IFAD's interventions in Moldova are viewed and administered as a programme and the interesting issues relate to the evolution of the different thematic components over time rather than to their integration in a particular project. At the same time, the assessment still takes into account project ratings and other programme elements.
- A. Country strategy**
45. IFAD has had 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 2002-2006. The second was a results-based (RB) COSOP and covered the period from 2007 to 2012. A MTR of this COSOP was carried out in 2011 and concluded that given that the core elements of the programme were unchanged, there was no need for a new COSOP for the period 2013-2015 and that the existing COSOP should be extended to cover that period. Work on a new COSOP will therefore only begin in 2015.
  46. COSOP 2002-2006. The COSOP proposed support for the rural poor to engage in higher productivity commercial agricultural activities through technical assistance

<sup>28</sup> CNFA (Citizens Network for Foreign Affairs) is implementing the Farmer to Farmer programme since 2008, focusing on the fruit & vegetable, dairy and livestock value chains in target countries.

<sup>29</sup> See Moldova CPE Approach Paper at [http://www.ifad.org/evaluation/public\\_html/eksyst/doc/approach/index.htm](http://www.ifad.org/evaluation/public_html/eksyst/doc/approach/index.htm) Paragraph. 34: "The usual approach taken in IOE CPEs is to evaluate and rate each project separately. While this is appropriate where the portfolio is diversified in both thematic and geographical terms, in Moldova IFAD has adopted a programmatic approach and it is therefore more logical to evaluate the performance and progress of the various sub-programmes over time."

and microfinance. It also sought to promote the development of small agro-enterprises that could provide employment. The COSOP strategy also included an important element of community development. The targeted beneficiaries were the two socio-economic categories where poverty was most prevalent: the smaller private farm families and the agricultural labour force. In overall terms, given the modest size of its contribution, IFAD sought to maximize its impact through:

- (i) policy dialogue with government and other development donors and agencies;
- (ii) institution-building for the provision of appropriate financial services;
- (iii) support to a few selected and critical farm-level activities; and (iv) support to remedy the lack of reliable markets.

Table 4  
**Moldova COSOPs' (2002 and 2007) goals and objectives**

	COSOP 2002	COSOP 2007	<i>Adjustments to 2007 COSOP Results Management Framework at MTR</i>
<b>Goals</b>	Support the transition process with sustainable agricultural programmes that contribute to rural poverty reduction.	Further development of a poverty reducing rural market economy based on family owned and managed on and off farm business.	
<b>Strategic objectives/principles</b>	<p>I. Realize linkage of rural poor to agricultural and related rural sector growth</p> <p>II Support measures to improve farmers' ability to co-operate and improve their chances to access productive technologies and markets.</p> <p>III Support small scale irrigation development appropriate to target group operations.</p>	<p>I. Establish market linkages to enable the rural poor to generate income through support for competitive commodity value chains, including business development services and producer association; and achieving international quality standards in production, processing and packaging.</p> <p>II. Promote access to a full range of appropriate and mainstreamed financial services, with a particular emphasis on products that support the most vulnerable and poorest groups in rural areas.</p>	<p>Pro-poor market linkages and opportunities for rural enterprises development are fostered</p> <p>Access to a full range of appropriate and mainstreamed financial services supporting the most vulnerable and poor groups in rural areas is enhanced</p> <p>Unemployed and under-employed rural men and women, including landless people; and subsistence-oriented and small-scale surplus farmers</p>
	Smaller private farm families and the agricultural wage labour force	Rural people at or below absolute poverty line.	

Source: IFAD

47. COSOP 2007-2012. The second COSOP came after a period of sustained growth and significant progress in restructuring land holdings and restoring output levels. It therefore focused on an ambitious agenda of deepening the progress that had been made and making it more pro-poor. This would be done through helping small farmers to market their outputs through participation in value chains and achieving international standards in production, processing and packaging. The strategy

proposed the continuation of support for rural finance, but with the prospect of broadening the range of financial products and particularly increasing the availability of products that supported “the most vulnerable and poorest groups in

rural areas" (2007 COSOP strategic objective 2). An interesting feature of the COSOP is the emphasis on the potential for harnessing remittances, to be supported through a grant-financed pilot initiative. The target group for IFAD's interventions is identified as those at or below the poverty line, and the COSOP makes a strong and clear statement that poverty 'targeting will be direct'. In discussing how best to achieve these objectives, the COSOP emphasizes the importance of building effective partnerships with 'like-minded' donors, and engaging in a policy dialogue.

48. In April 2011, the Near East, North Africa and Europe division of IFAD (NEN) conducted a MTR of IFAD's 2007 RB-COSOP. The review puts together a great deal of information about the impact of the IFAD-supported programme on the ground and relates it to the Government strategy. While some elements of the 2002 and 2007 COSOPs seem unrelated to what IFAD was actually doing on the ground (e.g., participatory village development in the 2002 COSOP), the 2011 document provides a thorough review of the programme and builds a results matrix more related to the actual projects. The MTR 'adjusts' the matrix defined in the 2007 COSOP. For example, the original COSOP document had defined as a key outcome indicator that "50 per cent of enterprise borrowers include convergence measures with international and especially European Union standards" and the associated milestone was the provision of training for 25 producer organizations. While programmes may generally have supported improved quality of production and processing, there was little in either the existing or prospective IFAD projects that was specifically designed to promote convergence with European Union standards and the needs in this area were being addressed by substantial European Union and World Bank funding. The MTR sensibly drops all reference to this issue and includes for example, an indicator for job creation, not included in the original COSOP results matrix under the market linkage strategic objective, yet clearly more in keeping with IFAD's strategy as evidenced by its operations in Moldova.
49. After the MTR, it was decided to extend the COSOP coverage by another IFAD cycle, i.e. an additional three years to end-2015, ostensibly because the 2007 COSOP was still valid in terms of the basic approach it enunciated. It is important to note that the MTR and the validation were done in close consultation with the in-country stakeholders including representatives of the Ministries of Finance and Agriculture, the Central Bank and Parliament representatives. Comparing the MTR adjustments with the original 2007 document, the key areas of the two strategic objectives remained more or less the same, i.e. market linkage and value chain development on the one hand, and rural finance for the poor on the other. However, a country strategy is about much more than the overall thematic areas of support – it is also about approaches and strategies that are adopted within those broad themes. For example, the second strategic objective continued to refer to financial services for the most vulnerable and the poor in rural areas while the actual programme focused on financial services mainly for medium-scale enterprises. The evaluation is of the view, therefore, that a new COSOP could have been prepared with a strategy that was based on a critical review of IFAD's comparative advantage in the donor context in Moldova and that was a clearer reflection of IFAD's actual programme than the 2007 COSOP.

## B. IFAD-supported operations

50. As indicated, IFAD has provided funding for five projects since it started operations in Moldova in 1999. Each of IFAD's loans has been for an amount between US\$8-20 million and all have been provided on highly concessional terms. They have generally supported 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 the cofinancing has come from beneficiaries (borrowers) in terms of mobilising own resources to finance investment activities financed by project-supported credits.



The participating financial institutions (PFIs) have accounted for about US\$1-2 million per project. There has only been one significant external cofinancing thus far, US\$4.5 million from the Danish International Development Agency (DANIDA).

51. These IFAD loans were each dominated by support for rural finance which averaged nearly 80 per cent of the amounts disbursed. Market-driven rural infrastructure was introduced in IFAD3 (about 10 per cent of total disbursements); value chain development in IFAD4 (about 6 per cent) and NRM in IFAD5 (about 2 per cent).<sup>30</sup> Although the loans each have long descriptive titles, their focus on rural finance has resulted in their being known in Moldova simply by the sequence in which they were provided, i.e. IFAD1 through 5. Indeed the longer titles seem more a reflection of IFAD's internal priorities than a description of what the loans actually financed. The loans are shown in table 5 below.

Table 5  
IFAD loans to Moldova

Project name	Loan terms	IFAD loan (US\$ mil)	Project cost (US\$ mil.)	Board approval	Loan effective-ness	Project completion date	Project status
Rural Finance and Small Enterprise Development Project (IFAD 1)	HC	8.0	19.5	09 Dec 99	01 Dec 00	31 Dec 05	Closed
Agricultural Revitalization Project (IFAD 2)	HC	14.9	18.2	18 Dec 03	24 Jan 06	31 Mar 13	Completed
Rural Business Development Programme (IFAD 3)	HC	13.0	20.3	13 Dec 05	10 Jul 06	30 Sep 11	Closed
Rural Financial Services And Marketing Programme (IFAD 4)	HC	13.2	18.9 (plus grant 0.5)	11 Sep 08	19 Feb 09	31 Mar 14	Ongoing
Rural Financial Services and Agribusiness Development Project (IFAD 5)	HC	19.8	39.3 (plus grant 0.5)	15 Dec 10	04 Jul 11	30 Sep 16	Ongoing

Source: Project Portfolio Management System (IFAD), President's Reports

52. Given the common focus of the projects, the evaluation has taken the step of looking at IFAD support for Moldova as a programme and assessing the key programme pillars rather than evaluating the project supported by each loan, which is the practice followed in countries with more diversified programmes. Despite this there is value in looking at the loans individually from a political economy perspective since they tell the story of IFAD's involvement in Moldova.
53. IFAD 1. In 1999 Moldovan agriculture was still reeling from a decade of stop-go farm restructuring and the collapse of the 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 farmers who had no credit history and very little collateral. IFAD1 had as its primary objective helping small- and medium-scale private farms and enterprises to undertake the investments needed to achieve viability. It took as a model an International Development Association (IDA) credit which had shown promise in enabling some of the more entrepreneurial farmers to invest through for example, buying tractors and constructing storages. The project was initially location-specific in the Ungheni subregion covering about 15 per cent of Moldova's farm population. Small farmers were assisted in obtaining short-term credits for inputs and simple agricultural tools through support for SCAs, channelled through the Rural Finance Corporation, which had also been promoted

<sup>30</sup> The remaining 2 per cent was used for the project management components of the projects.

through the IDA project. The project supported a considerable expansion in the number of SCAs and brought in NGOs to provide help to individuals and enterprises in preparing business plans.

54. IFAD 2. As designed, IFAD2 represented something of an outlier in the IFAD-supported programme. It reflected a concern that the credit lines which were the mainstay of IFAD1 were reaching mainly medium farmers and that IFAD's rural poverty mandate was not adequately covered. As a consequence IFAD2 was designed using the community-driven development (CDD) approach. Village Development Committees (VDCs) would be formed and using participatory approaches would produce Village Development Plans (VDPs) which would 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 these 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.
55. IFAD 3. By the time IFAD3 was approved in late-2005, the recovery was in full swing, with agricultural production held back by shortages of the investment needed to bring idle land back into production and to move into higher valued 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 a 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. The idea here was that, given how little funding was available for infrastructure, if borrowers under the programme were constrained because of lack of road access or small-scale infrastructure, the programme would provide 85 per cent of the funding if all the potential beneficiaries of the infrastructure got together and committed to fund the balance.
56. IFAD 4. IFAD was now 'on the map' in Moldova. A farmer could go to one of the new commercial bank branches which were opening in rural Moldova and 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. There was high priority for the development of new exports and IFAD chose to focus its new project on the horticulture value chain. Horticulture was chosen both because it appeared to be 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 through 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 terms of the knowledge and technical expertise required to participate more profitably in national and international markets.
57. IFAD 5. The 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 the introduction of 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 for the first time IFAD was able to secure major external cofinancing for its programme through grant cofinancing from DANIDA of US\$4.5 million.<sup>31</sup> This enabled IFAD to support the development of young entrepreneurs through providing grant cofinancing of 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. For the rest the programme remained as before with some 80 per cent of the funding going for term credits to farm enterprises and microfinance for members of SCAs.

58. IFAD 6. The drought of 2012 has given even more priority to climate change adaptation and this will play a much more prominent role in IFAD6, which is under development at the time of writing, than it did in IFAD5. IFAD6 is seeking cofinancing from the Global Environment Facility (GEF) for this purpose. In addition IFAD6 will give priority to value chain development and to scaling up on-going interventions under the country programme. This is no longer confined to the horticultural sector. It is still proposed to provide credits with PFIs and MFIs, but it is likely that these will be more selective and focused on young entrepreneurs. DANIDA is considering a continuation of its cofinancing. For purposes of the evaluation IFAD6 has not been included in the assessment.
59. By end 2012, IFAD had disbursed a total of US\$68.9 million in support of the Moldova programme. The disbursements have been dominated by funding for rural finance, which accounted for nearly 80 per cent of the total. This evaluation has organized the programme into four pillars:
  - Rural finance
  - Market-driven rural infrastructure (MDRI)
  - Value chains development (VCD)
  - Natural resource management (NRM)
60. IFAD's support, relevance and effectiveness are discussed for each of these pillars through all projects rather than for each project. The discussion of the pillars also encompasses the issues of innovation, sustainability and scaling up, since these relate to each pillar rather than to the specific projects.
61. Efficiency relates to the programme as a whole rather than to individual pillars and the discussion therefore treats the programme as a unity. There is no attempt to take a project by project approach given the uniform management structure of the CPIU which covers all IFAD projects in Moldova.
62. The list of pillars does not include the development and support of Village Development Committees (VDCs) proposed in IFAD2 based on the CDD approach. As described above, the original design of IFAD2 was an outlier. In practice the project reverted to the basic programme model of the other operations, but the fact that the original objectives and strategy/approach were different is a problematic issue for the evaluation. With hindsight it is clear that the design was an aberration, but, more than that, it is evident from discussions with IFAD staff, that there was awareness in IFAD at the time, that the approach was not appropriate for Moldova. While the CDD approach is not included in the programme pillars above, the evaluation also takes into account elements outside the key "pillars", as well as project-related issues such as those of IFAD2 design.

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<sup>31</sup> USAID cofinancing was tentatively agreed for IFAD I, but did not materialize.

#### Key points

- The COSOPs of 2002 and 2007 both emphasized IFAD's direct support for the rural poor and vulnerable. Both contained objectives and indicators that were not quite related to actual IFAD's lending programme.
- IFAD's first operation in Moldova in 1999 (IFAD1) set the tone of a programme built around support for medium scale farmers through commercial banks. Alongside the loan provided support for micro-credit to smallholders.
- IFAD2 approved in 2003 was an outlier in the programme, proposing support for the private sector aligned to programmes (VDPs) developed through VDCs. Take up was slow and the programme evolved towards the model established in IFAD1.
- IFAD3 approved in 2005 provided comprehensive support to farmers to prepare business plans and for follow up. It also introduced grant funding for market-driven rural infrastructure to support production and marketing.
- IFAD4 approved in 2007 provided a new focus on the development of horticulture value chains as a central feature of IFAD operations in Moldova, while continuing the support through loans to medium farmers. Microfinance support was resumed after a hiatus.
- IFAD5 approved in 2010 after some major weather events introduced support for conservation agriculture.

## IV. Portfolio performance

63. This chapter provides an assessment of the performance of the projects supported by IFAD loans and executed by the Government of Moldova.<sup>32</sup> It covers all five projects included in this CPE. As discussed earlier, the Moldova programme can be regarded as essentially a single programme with five funding tranches thus far. The discussion is therefore structured in terms of the four pillars of the programme. The chapter distinguishes between those elements of the evaluation that are specific to each pillar, such as relevance and effectiveness, and those which are common to all (e.g. efficiency, rural development impact, etc.).

### A. Core performance

#### Relevance and effectiveness

64. The assessment of relevance looks at the extent to which the objectives of IFAD interventions were consistent with beneficiaries' requirements, country needs, institutional priorities and partner and donor policies; it also includes an assessment of project design in achieving objectives. Effectiveness assesses the extent to which the IFAD portfolio objectives were achieved, taking into account their relative importance.

#### Pillar one: Rural finance

65. Relevance. IFAD's strategy over the years has been to inject long-term resources at lower than market rates into the financial system, which in turn was able to on-lend these resources to provide medium and long-term credit and affordable interest rates for rural investments. This strategy was relevant for most of the period and successful in providing access to financial services for a key group of small and medium-scale farmers and more recently for young entrepreneurs as well.
66. There are two key issues that constrain the supply and demand of credit for rural investments in Moldova. On the supply side, the issue is the lack of long-term liabilities on the balance sheets of the commercial banks and their reluctance therefore to provide long-term credits. Related to this, on the demand side is the inability of most farmers to meet the substantial collateral requirements of the commercial banks (often up to 250 per cent of the loan amount). IFAD support was

<sup>32</sup> Projects supported by IFAD grants but executed by NGOs are assessed in chapter VI.

able to address the first of these problems. In addition it attempted through business services and training to get good quality business plans produced and encourage the banks to focus on these. The banks have remained reluctant to relax their collateral requirements however. In IFAD5, DANIDA grant cofinancing enabled IFAD to provide support for young entrepreneurs through matching grants which effectively cut in half the collateral requirements for their loans.

Box 1

**The role of microfinance institutions (MFIs) in rural finance in Moldova**

Microfinance plays an important role for the rural poor, particularly those who do not have access to remittances. The main MFIs operating in rural finance are the Rural Finance Corporation (RFC) with almost 100 per cent of its portfolio in the rural areas, the network of Savings and Credit Associations (SCAs), and MicroInvest with 8 per cent of its portfolio. Most loans from MFIs are for 1 to 3 years, but some investment lending is provided with a maturity of up to 5 years. The interest rates for Microfinance loans are generally between 25 and 35 per cent.

The SCAs were supported in 1999 through the World Bank's Rural Investment and Services Project I (RISP) programme. The World Bank also established the Rural Finance Corporation under this programme to serve as a channel for providing funds to SCAs and through them to rural borrowers. IFAD1 also contributed to the development of 16 SCAs in the Ungheni Rayon. In addition, at the request of the World Bank, IFAD decided to use the RFC as the institution for channelling its funds to the SCAs. In the course of time RFC has begun to use some of the reflows from the on-lending to SCAs to provide direct funding to RFC members rather than always going through the SCAs.

The regulation of the Microfinance sector by the National Commission of Financial Markets only started in 2007. Before this date the number of SCAs exceeded 700 and all could collect deposits and extend credits. Today there are only about 400 SCAs of which 307 are classified as Type A (not allowed to take deposits and limited to one village) and 69 are type B (allowed to take deposits and grant loans to their member – they are limited to one province). There are no type C SCAs to date (type C are allowed to function nationally). In 2009 49 type B SCAs formed the Central Association of SCAs with the purpose of contributing to the development of the SCAs and to the improvement of the quality of services offered to their members. Their niche market is the rural people who are not yet familiar with the banking sector and/or do not have collateral.

In 2010 the total loans to agriculture provided to their members by the SCAs was MDL 170.5 million (70 per cent of loans granted by SCAs). Loans with maturities of up to 1 year accounted for 81.7 per cent of the loan portfolio at end-2010. The average size of loans offered by SCAs increased from MDL 4,000 in 2005 (about US\$330) to MDL 7,600 in 2010 (about US\$630). Loans are given for purposes such as health and education, purchase of inputs and small tools and implements, etc.

Source: CPE mission

67. The inclusion of the business services and the training components was a very relevant design feature. The two components aimed at improving capacity of both the demand and the supply side of financial services. They aimed at upgrading the business literacy of the potential rural investors and the proficiency of the formal financial institutions in novel (to them) approaches of mitigating risk and developing new products pertinent to needs of the rural entrepreneur.
68. A major incongruity with the objectives defined in the COSOPs, was that although the rural finance programme was intended to directly service the rural poor,<sup>33</sup> the poor were not amongst the majority of direct beneficiaries (i.e. borrowers from the banks). The main financial instrument for directly reaching the poor was to be

<sup>33</sup> One of the strategic objectives in the 2007 COSOP is "Promoting access to a full range of appropriate and mainstreamed financial services, with a particular emphasis on products that support the most vulnerable and poorest groups in rural areas". This was slightly rephrased at the COSOP MTR in 2011 as follows "Access to a full range of appropriate and mainstreamed financial services supporting the most vulnerable and poor groups in rural areas is enhanced".

microfinance, channelled through the Rural Finance Corporation (RFC) to the SCAs. There was a period when RFC, which is not a deposit-taking institution, was unable to meet the capital adequacy requirements established by the Ministry of Finance. Although this was solved later, this meant that RFC was not allowed to borrow from IFAD funds after IFAD 1 and was only able to resume borrowing with IFAD 4 when it had accumulated reserves through the interest payments on its on-lending of the earlier IFAD (and World Bank) loans. Thus from 2004 to 2009 microfinance was not part of the programme. This affected the direct outreach to smallholders and small enterprises, since the rural finance initiatives channelled through the commercial banks mainly targeted middle to higher income rural entrepreneurs. In IFAD3 for example, 66 per cent of the total loans financed under the project, in terms of value, went for loans above US\$100,000. Similarly, under IFAD4, 52 per cent of the total loans in value were disbursed for loans above US\$150,000.

69. Despite the incongruity with the COSOPs discussed above, the evaluation is of the view that the rural finance programme both in concept and design was a good reflection of both Moldova's needs and priorities on the one hand, and IFAD's capacity to meet those needs on the other. Overall, the relevance of IFAD-supported rural finance interventions is therefore considered satisfactory.
70. Effectiveness. The rural credit pillar has been effectively implemented throughout the Programme's duration. The PFIs developed capacity and managed their portfolios adequately with a very low number of non-performing loans. The Credit Line Directorate of the Ministry of Finance was also effective in monitoring loan repayments, and setting up and managing the revolving facility at the Ministry of Finance.<sup>34</sup> The expansion of the microfinance sector fell short of what was planned due to the regulatory issues mentioned above. Borrowers developed relevant capacity through experience and support by the business service providers (BSPs). The projects provided technical assistance for the PFIs as well. The training components expanded and became more concrete in the later operations.
71. The programme also assisted in the development of the relevant institutions: (i) it established a mechanism whereby PFIs are selected under specific criteria to extend loans on a first-come-first-served basis, which increased competition among the participants; (ii) it supported the establishment and development of SCAs and the RFC; (iii) it provided formal training (even if not extensive) to the partner institutions; and (iv) induced higher exposure of the banking sector to the rural business industry that was (and still is) considered risky.
72. The programme contributed to increasing competition within the banking sector and improved services for the rural entrepreneurs. PFIs were competing among each other to attract borrowers and increase their credit portfolio. Along with the increase in remittances, this contributed to an expansion of the commercial bank presence in the rural areas (bank branches increased in number over the years – see table 6) and in increased activity of credit officers to attract rural entrepreneurs. Moreover, this also stimulated non-participating institutions to improve their performance, so as to meet eligibility criteria for access to IFAD credits and/or to develop their own products to appeal to the rural entrepreneur.

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<sup>34</sup>IFAD loans to Moldova are on highly concessional terms (40 years) while the commercial banks on-lend the funds for three to seven years. The initial loan is repaid to the Ministry of Finance which then re-cycles the funds through new lending for the same purposes for which the original loan was given and is responsible for the eventual repayments of the loan to IFAD. The Credit Line Directorate in the Ministry of Finance handles these transactions. This system originated with World Bank IDA credits.

Table 6  
Evolution of bank participation in rural areas

	<i>FinCom Bank</i>	<i>Energ Bank</i>	<i>Victoria Bank</i>	<i>Exim Bank</i>	<i>Agrolnd Bank</i>	<i>Banka Sociala</i>
Current No of branches	17	22	32	20	70	21
Current No of rural branches	12	15	21	9	37	15
No of branches 5 years ago	14	19	21	15	n.a.	n.a.
No of rural branches 5 years ago	9	12	13	8	n.a.	n.a.
No of branches 10 years ago	7	1	11	4	45	21
No of rural branches 10 years ago	3	0	8	2	37	15

Source: CPE mission

73. The programme contributed to changing the perception that investments in agriculture are too risky to be profitable. Agricultural lending is indeed high risk by comparison with other sectors, given the direct dependence of harvests on uncontrolled factors (e.g. weather conditions such as drought or floods) and this leads to the fact that the agribusiness sector is the most problematic in terms of the quality of loan repayments overall, with non-performing loans (NPLs) at 12.8 per cent according to the National Bank of Moldova. Through prudent risk management however, the banks have maintained a Portfolio at Risk (PAR) for IFAD financed loans that ranges from 0 per cent (IFAD5) to 2 per cent (IFAD3). This is considerably lower than the average PAR that according to the National Bank of Moldova was estimated to be 17.66 per cent in 2009 (the global crisis year) and 6.13 per cent in 2008. This is a strong argument that the agri-business sector can be profitable territory for the financial institutions.
74. Rural entrepreneurs have become more knowledgeable over the years and more creditworthy. Rural financial activity has made rural entrepreneurs more interested in obtaining loans and has largely dissolved the prevailing bank-averse culture that existed in the early years. Borrowers know better how to approach banks, and how to deal with the logistics of a loan application and the drafting of a business plan. Some have also developed positive credit history that permits them to access banks with greater confidence.<sup>35</sup>
75. The programme's intention to provide a full range of financial products is not yet successful, however. As mentioned before the issue of high collateral requirements is a major factor hindering access to finance, especially for the poorer and younger entrepreneurs. The Programme identified this problem quite early on and has expressed interest in dealing with it since IFAD3. Its efforts did not produce any results not due to lack of tenacity but because of idiosyncrasies of the local credit market.<sup>36</sup> The possibility of setting up an equity fund was touched upon first by IFAD3, and was only recently taken up through IFAD5, and is at the inception stage. The Programme has been able to reach some of the poorer groups in rural areas through microfinance but on a small scale. As indicated this started with IFAD1 which supported the creation of new SCAs. The Programme's direct outreach

<sup>35</sup> One borrower told the mission of how she was able to persuade the bank she dealt with to lower her interest rate substantially given her good credit history and playing them off with offers from another bank.

<sup>36</sup> In more than 30 per cent of cases where agri-clients are being refused a loan, it is due to insufficient collateral. The legal system does not guarantee rapid enforcement of collateral agreements. Furthermore assessment of the collateral is very conservative. Most banks have reported that they use collateral as a gauge of commitment of the borrower towards the loan, rather than seeing it as security against non-payment.

to the poor was reduced by its inability to include in its activities SCAs and MFIs between 2004 and 2009. There was little pro-activity in the IFAD programme in addressing this issue until IFAD4, when a study was commissioned on a Credit Guarantee Fund for SCAs. This proposal has not yet been implemented. In this respect the Programme has only made a limited contribution towards offering financial products that directly support the most vulnerable and poorest groups in rural areas.

76. The support for young entrepreneurs has been a popular and successful programme. As indicated the DANIDA cofinancing made it possible for IFAD to provide matching grants for loans to young entrepreneurs aged 18 to 30. The evaluation mission met with a number of young entrepreneurs who had been attracted back to farming by the availability of funding under this programme. One example of this is provided in box 2 below.

**Box 2**

**The impact of the young entrepreneurs programme**

Vasile Nicolaescu is a young entrepreneur under 30 years old, who benefited from IFAD 5's young entrepreneurs' support and started a new business that changed his life. Vasile was an insurance underwriter and lived in a small apartment in Chisinau. He was born in a village not far from Chisinau where his parents lived and owned land and a village house. He heard from friends that raising quails might be a profitable hobby and started with 20 quails that he installed in the family house. He sold the quail meat and eggs to neighbours. He heard about the IFAD loan and the associated grant, and considered scaling-up his "hobby" and applied for a loan of MDL 300,000 in April 2012. He got a 5 year loan through Moldindconbank in June 2012 with 2 years grace period and 8.5 per cent interest rate. 40 per cent of the value of the investment was offered as grant from DANIDA cofinancing. He had to provide 10 per cent from his own resources and 200 per cent collateral on the borrowed amount.

A year later Vasile has already built three covered areas for quail farming. He breeds 48,000 quails, has a modern incubator and can produce 80 kg of quail meat a week and 1,800 quail eggs a day. The demand is rising and he thinks he will soon need to expand. He decided to abandon his previous employment and now lives comfortably from the profits of his newly established business.

Source: CPE mission

77. The donor presence in supporting the financial sector in general and the rural financial sector in particular, has contributed to economic restructuring and business reforms. IFADs presence in the sector was crucial because it focused on agri-business related credit and provided indirect benefits to the poor through employment. This is in spite of the fact that IFAD's contribution was not quite in line with the COSOP strategic objective of "supporting a full range of...financial services supporting the most vulnerable and poor groups in rural areas". Due in part to the impediments explained above, the Programme provided limited support for microfinance. Indeed, a significant portion of the lending has gone to medium-scale borrowers. After many years of the same operating modality of providing a large share of the funds to credit lines, a clear strategy for phasing out IFAD direct funding for this purpose and a scaling up strategy in the financial sector have not been thought through, and at the margin its lending may be crowding out commercial loans to medium-scale farmers. As such the effectiveness is considered moderately satisfactory.

**Pillar two: Market-driven rural infrastructure**

78. Relevance. The economic contraction in the 1990s had severely negative impacts on Moldova's infrastructure. Despite some modest improvements in the past decade, infrastructure remains a significant constraint to rural enterprise development. With respect to "quality of infrastructure", the 2011 Global Competitiveness Report (World Economic Forum) ranked Moldova 94th out of



139 countries but for the quality of road infrastructure it assigned Moldova the bottom position (139).

79. The 2002 and 2007 COSOPs neither discussed rural infrastructure in any detail, nor contained any specific indicators related to it. However, introduction of MDRI from IFAD3 on, contributed to alleviating some constraints for rural producers. The pillar covered rural access roads, small-scale irrigation, water supply and gas and electricity distribution. The idea was to ensure that rural entrepreneurs were not held back from good quality investments supported by commercial bank loans, as a consequence of infrastructure constraints. Given the substantial demand for rural infrastructure the programme made a selection among projects on the basis of a set of clearly defined criteria, shown in table 7 below. Most importantly the beneficiaries had to meet 15 per cent of the costs, with the IFAD loan funding the rest up to a maximum of US\$200,000 per project, and also arrangements for operation and maintenance of the infrastructure had to be in place. In the case of irrigation and village drinking water distribution schemes this usually required the setting up of water users associations, while for roads, the primaria (municipality) was responsible for the maintenance. Recently an audit ruling on the ownership and financing of maintenance costs of this infrastructure has created some uncertainties for the programme. Despite this, the evaluation team was impressed with the investments in small-scale irrigation, water and access roads, which greatly facilitated the associated rural businesses. It was clear in a number of cases of small scale irrigation in particular, that investments in greenhouses and orchards could not have taken place otherwise.

Table 7

**Market-derived rural infrastructure. Ranking criteria applied in selection process**

IFAD3		IFAD4		IFAD5	
Criterion	Weight	Criterion	Weight	Criterion	Weight
Internal rate of return	70%	Internal rate of return	30%	Internal rate of return	30%
No of individuals assisted per US\$1 000 spent	15%			Number new jobs created	20%
Clients' contribution to the investment	15%	Clients' contribution to the investment	20%	Clients' contribution to the investment	20%
		No of people below poverty line assisted per US\$10 000 investment	50%	No of people below poverty line assisted per US\$10 000 investment	30%

Source: Project documents/CPIU

80. As far as the 2007 COSOP's broad objectives of direct support for the rural poor are concerned, irrigation and drinking water were relevant items. Both have a mix of public and private good features and both offer opportunities to benefit poor while at the same time being critical to production. Access roads usually only have one or a few direct beneficiaries, large farms or agro-enterprises just outside the village, but in most cases there are many households along the road who also benefit. Gas distribution (and from IFAD5 also connections to the power grid) will typically have fewer direct beneficiaries, though indirectly such investments may increase employment in the beneficiary enterprises being connected. However, it should be in the commercial interest of the suppliers of gas and electricity to establish connections from the village network/grid to large consumers located within reasonable distance from the network/grid. There should be cases where the seller and the buyer both have financial gains from cofinancing the connection. Similar considerations seem to be factored into the design of IFAD6 where the draft design

document excludes gas and electricity distribution but maintains roads, irrigation and drinking water and includes village markets and cold storage.

81. In conclusion, while the relevance of a minor part of the support menu (gas and electricity) is questioned, overall the relevance of IFAD's support for rural infrastructure has been satisfactory.
82. Effectiveness. The objective of the MDRI pillar was to stimulate development of profitable rural enterprises and growth in farm income and employment by developing infrastructure that is critical for that purpose. The completed IFAD3 has achieved this objective while IFAD4 (scheduled completion 2014) is in the process of doing so. It is too early to assess effectiveness of IFAD5 which is scheduled for completion in 2016. The major part of the investment has been allocated for rehabilitation of irrigation systems and access roads. The irrigation schemes are typically small/medium sized, 100 – 200 hectares, while the support for access roads typically consists of rehabilitating and asphaltting 1 km road from an agro-enterprise or medium/large farms to the main village road. The support for village drinking schemes typically consists of a deep well and the distribution system. There have been a few support interventions connecting farms and enterprises to the gas supply system. In IFAD5 design, electricity was also included in the menu, i.e. a connection from the main grid in the village to the farm or agro-enterprise outside the village. However, so far no grid connections have been funded.
83. IFAD3 was completed ahead of schedule and achieved the output targets, rehabilitation of 15 irrigation schemes (3,931 ha), 12 access roads (12.4 km), three drinking water distribution systems (total length of 10.1 km) and two gas distribution systems (4.6 km). The beneficiaries' own contribution to the financing was more than expected at design. IFAD4, with completion in 2014, had by end 2012 utilized close to 80 per cent of the budget and is on track to achieving the targets. IFAD5 with completion in 2016 had by end 2012 used 14 per cent of the budget on three road projects. While eight projects had been approved under IFAD 5, in five of the projects the beneficiaries had problems of mobilising their contribution.
84. For irrigation schemes the income effects are direct and measurable in terms of increased yields and increased cultivation of high value crops, providing more employment. The incremental return for IFAD3 was estimated at US\$650 per hectare. For rehabilitation of access roads, the direct impact was reduction of transport time and vehicle repair costs of beneficiary enterprises, whereas improved access attracts more clients and stimulates sales. Village water distribution facilitates irrigation of household kitchen gardens, operation of small and medium enterprises (SMEs) in the village and finally it can have a significant positive impact on human health. An impact evaluation (IFAD3) undertaken in 2008<sup>37</sup> provided an in-depth analysis of three projects (one each for irrigation, drinking water, and a road) and found that the three projects had created 30 new jobs, facilitated the start of 18 new businesses, and helped to significantly increase turnover of the enterprises as well as household incomes.
85. Overall, considering IFAD3 and IFAD4 the effectiveness of the MDRI component is considered as highly satisfactory.

Pillar three: value chain development

86. Relevance. The first of two objectives of the 2007 COSOP is that of "Establishing pro-poor market linkages" (the second is: "promoting access to rural financial services"). Thus, value chain development has become a top priority, and it has to be pro-poor, viz. "establishing market linkages to enable the rural poor to generate income through support for competitive commodity value chains, including

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<sup>37</sup> Business Advisory Centre (CCA): 2008 Impact Assessment of IFAD Programmes in Moldova

- business development services and producer associations; and achieving international quality standards in production, processing and packaging”.
87. There is little doubt that VCD constitutes a key challenge for Moldova’s farmers and agriculture. Most farmers and agro-enterprises visited by the evaluation talked about problems of finding reliable markets and obtaining satisfactory prices. It is therefore highly relevant for IFAD to address this issue, but the question is how to do it in the Moldovan context where farmers and agro-enterprises do not have a long history of operating in an international competitive environment.
  88. The COSOP’s basic approach of direct targeting of the rural poor is a particular challenge for VCD. The main participants in agricultural value chains are those farmers and agro-enterprises who have surplus production of a quantity and a quality that attracts the buyers. Such farmers are typically not poor. Small producers may enter if they pool their small quantities of produce and improve the quality through marketing groups, cooperatives or companies, but in the Moldovan context, as discussed earlier, they have been hesitant to do so. IFAD’s main direct clients/beneficiaries in VCD are therefore commercial farming and family enterprises.
  89. With respect to support interventions and activities, IFAD4 mainly focused on initial capacity development activities for horticulture value chain development: (i) ad hoc studies and surveys on specific commodities; (ii) international study tours, testing of technologies and information campaigns; (iii) piloting of a value chain multi-stakeholders platform; (iv) training on business opportunities, marketing, and trade negotiations for farmers’ organizations; and (v) training on quality standards.
  90. The design report for IFAD5 applied a more operational approach, looking at the value chain in a holistic manner and recognising that enterprises/farms may be of any size, suggesting that employment creation (in capable farms and enterprises) is the most feasible approach to rural poverty reduction. IFAD5 removes the limitation to horticulture and opens up the possibility of supporting intensive livestock production, flour milling and oilseed processing as well as support and value adding services such as packaging, cold storage, and transportation. It applies a more demand-driven and market-oriented approach than IFAD4 but focuses exclusively on promotion of contract farming. While introduction of contract farming can be relevant, it is a challenge in the current environment of mistrust. Ambitions need to be realistic - which does not seem to be the case in the logical framework that defines an output indicator of 50 contract farming arrangements in five years of programme operation. This figure was further increased by the COSOP Mid-term Review to 200 supply contracts.
  91. IFAD5 also proposes to finance a feasibility study on introducing a commodity exchange as well as technical assistance services for its establishment and operations (business plan, good practice manual etc.). During implementation, this has provided for a pre-feasibility study of government’s current plan for establishing a wholesale market in Chisinau as well as regional wholesale markets.
  92. In both the IFAD4 and 5 design, there is no clear priority given to developing operational partnerships with large exporters and buyers (though the platform in IFAD5 is envisaged to include buyers). Whereas emphasis is on studying the markets (by consultants), the design did not explicitly discuss and encourage to explore opportunities to engage with buyers and exporters who know the markets. However, in IFAD5 under the contract farming sub-component, the CPIU has established a promising model of partnership between cucumber growers, processors and exporters, and is exploring the replication of this model to other locations.
  93. The relevance of strategy and approach for this pillar is therefore considered as moderately satisfactory, given the above considerations. The support for rural

finance and infrastructure has not yet been integrated into a holistic value chain approach in a way that the credit support and infrastructure investments are directed towards removing particular constraints in the selected value chains and in the supported contract farming arrangements. However, given the early stage of value chain development in Moldova, and the uncertainties relating to what approach are likely to be successful, the modest scope of the programme seems appropriate.

94. Effectiveness. The 2007 COSOP Results Management Framework (RMF) defines related outcome and milestone indicators, such as “50 per cent of enterprise borrowers include convergence measures with international and European Union standards”; “25 per cent of farmers participating in liberalization initiatives (that farm less than 10 ha of land”); “25 producer organizations participating in negotiation and training”; “15 value chains analysed and supported”; and “25 supply contracts established”. The MTR on the one hand reduced the references to international/European Union standards and negotiations, at the same time dramatically increased the milestone indicator for market linkages by proposing: “At least 200 supply contracts by supported SMEs established”.
95. Considering the ambitious objectives, effectiveness is assessed as moderately satisfactory. Many stakeholders have gained knowledge and skills and some medium and large scale farmers and agro-enterprises and some producer apex organizations have been assisted to participate in fairs and market access activities. Some contribution has also been made to quality and food safety standards. However, at the level of COSOP objectives and milestones, limited achievements have been made in terms of pro-poor value chain development, organising micro and small producers under some organizational form and linking them to buyers through contracts.
96. The VCD component of IFAD4, limited to horticultural value chains, has focused on table grapes, vegetable processing and quality standards. It has contributed to developing capacity among various stakeholders in the horticultural sector through training, technical assistance, study tours, practical guides etc. By end 2012 this component had financed: (i) 166 training sessions with 4,101 people trained, including 290 women; (ii) 14 international study tours including participation in international trade fairs<sup>38</sup> to promote Moldovan products and allow farmers and exporters to obtain knowledge about the competition and technologies; (iii) visits of seven international experts; (iv) 12 new crop varieties tested and registered; and (v) one platform of innovations.<sup>39</sup> A number of guidelines and instruments have been produced to assist farmers and exporters.<sup>40</sup> This substantial menu of activities has no doubt contributed to establishing an initial basis for “value chain development for rural poverty reduction”, and for improving production, quality and market shares, but it is doubtful if changes in outcomes and indicators can be fully attributed to the project’s activities. It is notable however that participants in the various activities supported by the programme have reported the following positive achievements:
  - Table grape producers have increased their export volume from 24,500 tons to 70,000 tons;
  - The number of countries, to which table grape producers export, has doubled; and
  - Beneficiary fruit producers have expanded their orchards from 650 ha to 10,000 ha.

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<sup>38</sup> Some of the events have been co-sponsored with other development partners, notably USAID/ACED

<sup>39</sup> CPIU, 2013: Draft Annual Report on RFSMP

<sup>40</sup> These include: a practical guide for apple producers on storage and marketing of fresh apples during the autumn and winter seasons; a practical guide for exporters of horticultural products; a guide on vine re-grafting technology; a guide on Moldovan table grape varieties; and a publication on new innovative technologies for storage and packaging of horticultural products.

97. With respect to promotion of contract farming under IFAD5, progress has so far been limited, because of the challenging context with mistrust at all levels. Moldova has a number of producer organizations, which however are not engaged in joint marketing but provide advocacy, general market promotion, and information on regulations, prices, markets and technologies. As mentioned, objectives and targets of design appear too ambitious for the context. Overall the evaluation regards the effectiveness of IFAD's VCD support, including contract farming, as moderately satisfactory. The primary achievement is the development of capacity, thus creating a foundation for future VCD.
98. The specific Moldovan context raises the issue if traditional pro-poor value chain approaches, based on collaborative participation of small/micro farmers, are relevant and feasible. There may be some limited options where some micro/small farmers decide to enter a modernization process related to high value crops, e.g. intensive modern orchards or vegetable production in greenhouses or plastic tunnels, but given the negative perceptions about collectives and cooperatives, they are more likely to prefer marketing their produce individually, either as a sub-supplier to large farmer with a cold store and market connections or if possible, directly to a large buyer. A recent World Bank project offers substantial incentives for the formation of producer groups to engage in production for export. IFAD would probably be wise to see what impact this programme has and whether there are elements that can be integrated into its own work in this area.

#### Pillar four: Natural resource management

99. Relevance. The importance of managing climate change risks has been increasingly recognized in Moldova. The experience of extreme climate conditions and serious droughts in recent years has instilled a sense of urgency. From interaction with farm enterprises during the evaluation, the devastating damage experienced in 2012 was evident. In response, adapting to and managing climate change risks has been taken up as a priority in Government policy and strategy. The Government is in the process of preparing a National Climate Change Adaptation Strategy.
100. Support for conservation farming is a relatively insignificant portion of IFAD5. Also, the linkage of this sub-component with other parts of the project relative to the objectives is not entirely clear. Financial and economic analysis of the project is built more around horticultural crops, dairy and other livestock enterprises; conservation farming demonstration, at least thus far, has focused on field crops.
101. However, adding an element of climate change adaptation has been timely. Conservation farming is increasingly regarded as one of the important climate change adaptation measures and is now one of the nine priorities in the forthcoming agricultural strategy of the Government. Some of the pioneer farmers (including those selected to host demonstration plots with support under IFAD5) had already been practicing conservation agriculture, but it is still done on a very limited scale. Only about 80,000 ha are now under conservation farming practice, out of 2.5 million ha of total arable land in Moldova.
102. Relevance of support to conservation farming is rated satisfactory. At the same time, further strategic consideration may be required to enhance the likelihood of relevance to the rural poor and to strengthen the linkages with other elements of the project or the IFAD programme.

## Box 3

**Support for promoting conservation farming**

Under IFAD5, four farm operators were competitively selected to host demonstration plots for conservation farming in mid-2012. One of these four operators selected was "Gospodarul Rediu SRL", operating in Falesti district in the north of the country. The company operates some 260 ha of land. In addition to field crops, the company is a leading producer of walnuts in Moldova. The plot of 52 ha supported by IFAD5 will demonstrate no-till technology and is planted with winter wheat at the moment. According to the company head, Mr Kiktenko, the no-till technology is less practiced than mini-till technology. IFAD5 subsidized the purchase of a seeding machine and a tractor. Even before IFAD5 support, Mr Kiktenko has been an enthusiastic advocate of conservation farming and has set up a website on which he has posted a number of videos on the topic, talking about his experience in this area (<http://www.gospodarulrediu.com> - only in Russian and Romanian)

The switch from conventional farming to conservation farming requires not only access to hardware but also access to support services, knowledge and information. Some pioneer farmers have learned about the potential benefits of conservation farming, and some have acquired the necessary equipment. Many farmers remain skeptical and others have never even heard of the concept. Some (farmers, researchers, extension service providers, etc.) tend to equate conservation farming mainly with "no-till" or "mini-till", with insufficient attention to other equally important principles of conservation farming (crop rotation and soil cover). It is also expected to take time to see visible impact on productivity. Initially there may be more challenges with weed and pest controls. It is the actual experience demonstrated and shared by a practitioner like Mr Kiktenko and other demonstration plots, complemented by action-learning type research and data, as well as support for in-country training capacity that could be effective in promoting the technology.

Source: CPE mission

103. Effectiveness. It is early to assess effectiveness of IFAD support in this area, as the implementation experience is still limited under IFAD5. The list of activities undertaken so far (all in 2012) shows good progress, however. It includes the following: a study for situation analysis in Moldova undertaken by international and national consultants; sponsoring international exposure for key resource persons and practitioners in the country, such as an international conference and a training course in Ukraine (attended by farm managers of the demo plots); selection of four farm operators in different agro-ecological zones through competitive process to serve as demonstration plots; hands-on technical assistance to the demo plots; selection of four local experts (soil science, agro-technology, economics, mechanization) to form a group to support the sub-component implementation; organization of a training seminar for students and teaching staff of the university (125 participants); organizations of seminars at each demonstration plot (attended by a total of 75 producers). The project also procured equipment and machinery for the demonstration plots (mainly seeding machines and tractors), which were subsidized 50 per cent by the project up to US\$50,000 for each plot. Practical technical support for the demonstration plots was provided under the USAID-supported "Farmer-to-Farmer Programme".

Overall assessment: relevance and effectiveness

104. The relevance and effectiveness of IFAD portfolio in Moldova are both rated moderately satisfactory (4) by the evaluation. While the relevance of the key programme pillars are considered satisfactory apart from the VCD pillar, the rating of moderately satisfactory (4) for relevance of the overall portfolio also reflects the assessment of IFAD2: this was an outlier project which was not designed well and its relevance by design is assessed moderately unsatisfactory. As stated earlier (Section I.B), the assessment of the relevance for the purpose of the CPE needs to take into account the relevance and coherence of all projects and other programme elements, in addition to that of the key pillars. Furthermore, the value chain

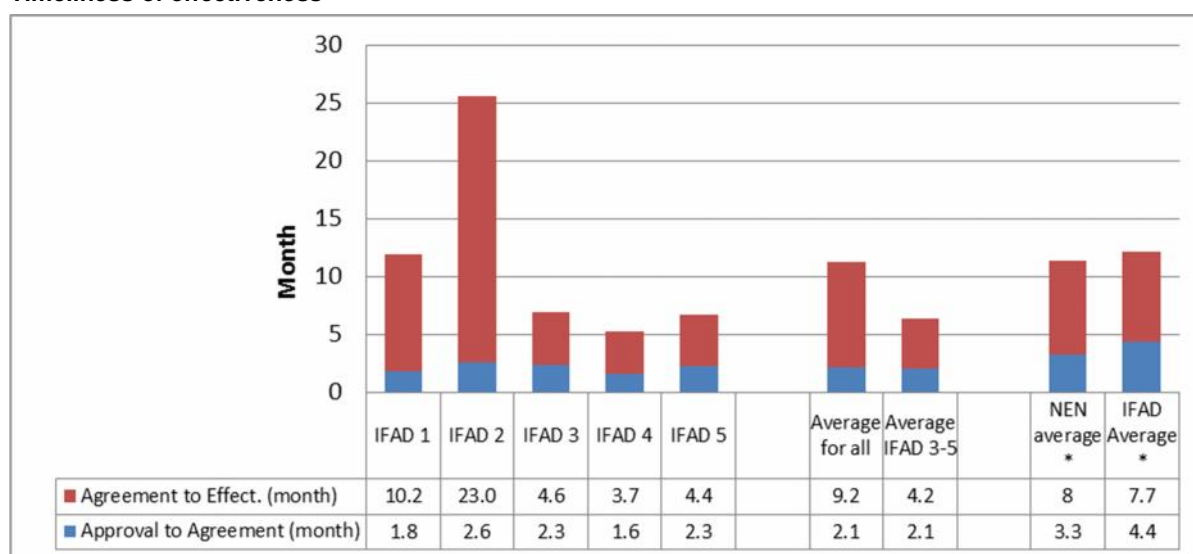
components have lagged behind the rest of the programme and both IFAD and the Government are struggling to find an operational model that can build on the training and technical assistance that is being provided. At the same time credit is due for the modest approach to implementation of the value chain component which reflects a serious effort to find solutions to the problems and not rushing to disburse funds.

105. The rating for the effectiveness (4) reflects not only the performance assessment of the two key pillars, i.e., rural finance and value chain development, but again, also taking into account the other programme elements and the project ratings. The IFAD programme contributed to enhanced lending by the commercial banks to viable agricultural and rural enterprises, increased economic activities and employment creation in rural areas. However, along with credit support through commercial banks for medium-scale and above enterprises under all the projects, more could have been done to induce the banks to increase the contribution from their own lending resources and to develop more diverse approaches. In addition, progress has been rather slow with regard to supporting the development of a full range of financial services, including those in direct support of the rural poor. It is noted, however, that in recent years there have been more efforts on supporting smaller borrowers and microfinance operations, as well as other types of support such as equity financing. As for the VCD programme, although there have been some achievements in terms of business development services, progress so far has been relatively slow in enhancing market linkages along selected value chains for farmers and their organizations (e.g. contract farming).

#### Efficiency

106. Efficiency is a measure of how economically resources and inputs (funds, expertise, time, etc.) are converted into results. In the case of IFAD-supported programme in Moldova, the overall picture is very positive in most aspects. The section looks first at the direct indicators of portfolio efficiency such as: time lags to effectiveness; disbursement rates; and the share of project management in total costs. It then discusses institutional and process issues, followed by a discussion of monitoring and evaluation and of the data on unit costs and rates of return. The section concludes with an assessment of the overall efficiency of IFAD's portfolio.

Figure 5  
Timeliness of effectiveness



Source: IFAD/IOE

107. Time for effectiveness. For IFAD3, 4 and 5, the effectiveness of the financing agreements was timely (7, 5.3 and 6.7 months from approval to effectiveness), notably lower compared to the NEN and IFAD average. It took a little longer for IFAD1 but close to the average figure, probably reflecting the fact that this was the first IFAD loan and the PIU was being newly established. IFAD2 was an exception in the portfolio, requiring 25 months from approval to effectiveness. Although the Loan Agreement was signed 3 months after the Board approval, it took a further 23 months before it was declared effective (see box 4).

## Box 4

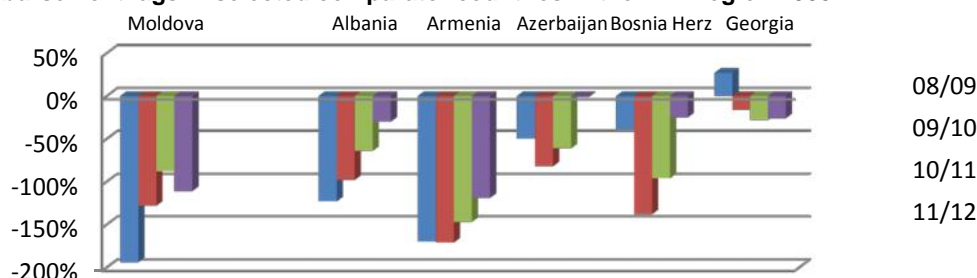
**IFAD 2: Delays in loan effectiveness**

IFAD2 has been an outlier in a number of respects in the portfolio. Although the Loan Agreement was signed in March 2004, 3 months after the Board approval, due to repeated elections, it took a further 23 months before it was declared effective. Parliament ratified the Loan Agreement only in mid-February 2005, 11 months after the loan signing. Presentation to Parliament was delayed to October 2004. When presented the first time, it was not ratified since some members of the ruling Communist Party wanted the interest rate to be set administratively at low levels (country programme manager BTO 29 October 2004). IFAD made clear to the government that this would not be accepted. Also, in 2004, the attention of the Government was focused on the March 2005 national elections. Not only did the ratification process take a long time, but also other effectiveness conditions remained unfulfilled. Amongst those conditions were: the preparation of a Project Implementation Manual (PIM), the establishment of a CPIU by Government decree, the establishment of a Programme Steering Committee. IFAD fielded a number of follow-up missions during 2004 and 2005, including sending out a consultant to assist in the preparation of the PIM (September 2004). There was a change of country programme managers (CPMs) around the time of project approval and the slow progress on effectiveness probably also served as an opportunity for the new CPM to reflect on the project design. Some adjustments in the design were agreed upon to streamline and simplify implementation modalities and the Loan Agreement was amended (dated 2 November 2005) even before it was declared effective.

Source: CPE team interviews

108. Disbursement performance. For all projects, completion and loan closing have been on time and disbursement performance highly satisfactory. IFAD3 was completed 9 months ahead of schedule. The disbursement rate has been consistently higher than expected over the life of each project and, hence, disbursement lags<sup>41</sup> are always negative figures. At the same time, as shown in figure 6 below, it should be noted that this is not specific to Moldova but is characteristic of IFAD's programmes in many countries in the NEN region.

Figure 6

**Disbursement lags in selected comparator countries in the NEN region 2008-12**

Source: Annual portfolio review reports (NEN division)

Note: Negative figures indicate faster disbursement pace than expected

<sup>41</sup> As part of annual portfolio exercise by the IFAD Programme Management Department, expected disbursement profiles are worked out for each type of project (such as credit, livestock, research, etc. as classified in the Project Portfolio Management System) based on the analysis of all historical loan disbursement performance. The disbursement lag is calculated as follows: [(expected disbursement amount) – (actual disbursement amount)]/expected disbursement amount.



109. Project management costs. The benchmark for the proportion of project management cost against total project costs used at IFAD is 10 per cent.<sup>42</sup> In Moldova, the proportion of loan funds and of total project costs spent on project management and operating/recurrent costs has been very low. There has been a consistent pattern for all projects as follows: as per design, the proportion of the cost of project management component is around 6-8 per cent of the total project cost (except for IFAD5, for which it was estimated at 3.4 per cent due to the relatively high contribution expected from other financiers). For most projects the actual proportion ended up being lower than initially budgeted. For example, in the case of IFAD3, the allocation of IFAD funds for the "Operating Costs" category was reduced from SDR220,000 to less than half after 2.5-3 years through amendment. The project management cost to date for all projects is about 1.8 per cent of the entire actual project costs/expenditures. The IFAD financing for project management so far for the entire Moldova portfolio since 2000 is a mere US\$1.53 million. These figures are low, not only compared to the common IFAD benchmark of 10 per cent but also compared to most other projects in the NEN region.
110. There are a number of factors that have contributed to relatively low project management cost: (i) the CPIU arrangements, with all projects under one umbrella; (ii) the fact that earlier, the majority of the programme funds were channelled to lines of credit and financed a small number of loans,<sup>43</sup> though this is changing with diversification of the programme support areas; (iii) small geographical area of the country; (iv) the contribution by borrowers and PFIs has tended to be larger than estimated at appraisal, leveraging of IFAD's loan funds and hence lowering the share of project management cost in total financing; and (v) efficient processing. What has also been clear is the Government's high interest in maximizing the project funds going to investments (i.e., credit funds) rather than recurrent costs or technical assistance.
111. Institutional arrangements. In Moldova, IFAD-financed projects have been implemented through the CPIU (see box 5). A centralized PMU/PIU approach is not unique to Moldova and has been used for IFAD-financed projects in other countries for some time especially in the NEN region,<sup>44</sup> but it remains the exception and its use is not widespread, since the common tendency is to have a project implementation or management unit for each project. In Moldova this approach has been adopted by the Government for various donor-funded projects. Comparable to CPIU and similarly through a Government decree, for example, a Consolidated Agricultural Projects Management Unit (CAPMU) was established in 1999 located in the Ministry of Finance, to manage all World Bank financed projects in the agriculture and rural development sectors.
112. Given the similar nature of all IFAD-financed projects, the CPIU approach was logical and this has been one of the major factors contributing to high efficiency. It has saved significantly on overhead costs by avoiding creating similar positions for different projects. The CPIU approach has also contributed to the retention of trained staff familiar with required procedures and systems and institutional memory, and saved time and resources for staff recruitment for each project, thus contributing to a smooth start-up process and timely implementation. The CPIU has been able to attract good quality leadership and staff, in spite of salary levels that remain very close to those of other staff in the MAFI.

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<sup>42</sup> Albeit not formally established, 10 per cent threshold is commonly used as a yardstick by IFAD's Policy and Technical Assistance division (PTA) when reviewing draft project design documents.

<sup>43</sup> For example, under IFAD 3, 66 per cent of the total lending financed under the project, in terms of the value, was for loans above US\$100,000.

<sup>44</sup> Annual Portfolio Review Report 2009/2010 – NEN Division.

## Box 5

**Consolidated Programme Implementation Unit (CPIU)**

The CPIU was established in 2005 before IFAD2 and 3 started, through the transformation of the Project Implementation Unit set up in 2000 for IFAD1. The idea of a consolidated unit came about during the project design process for IFAD2. It appears, however, that the focus at the time was on setting up a CPIU to manage IFAD 2 in addition to IFAD1 which was on-going at the time, rather than with a long-term perspective.

Since its establishment, the CPIU has been managing two or three IFAD-financed projects at any given time under one umbrella. The unit staffing level has increased as new projects approved and operations expanded or diversified. At present, including the Project Director, there are 11 staff in the CPIU: two working in credit operations (Credit Manager and Credit Officer), Business Advisor, Value Chain specialist, Monitoring and Evaluation (M&E) Specialist, M&E Assistant, Finance Manager, Accountant, Procurement Specialist and Programme Assistant.

The unit is embedded in the structure of and is located in the same building with the Ministry of Agriculture and Food Industry, facilitating communication with the host agency. The first Director of the CPIU was the current Minister of Agriculture.

Subsequently the position of CPIU Director was held by one person over a decade. The current Director was recruited in 2011. In recent years the projects in Moldova have consistently received the rating of 5 for quality of project management in Project Status Reports.

Source: CPE mission

113. Another factor that has contributed to high efficiency is the high level of delegation of responsibilities to the CPIU and its Director. For example, the entire procurement process is managed under the CPIU, even though representatives from the MAFI and the Ministry of Finance are involved at the evaluation stage. Contracts financed by the projects are signed by the CPIU Director. The CPIU Director is responsible for recruitment of CPIU staff members and their performance management.
114. The question has been raised as to whether the existence of a strong CPIU represents a possible weakness in terms of the “scaling-up pathway” in Moldova.<sup>45</sup> While the existence of strong PIUs is a risk factor for scaling up in many IFAD programmes, for various reasons, the evaluation is of the view that this is not the case in Moldova. First, the IFAD Programme Steering Committee with key Government officials as members meets regularly and is directly involved in setting operating rules for the projects and provides oversight and guidance. Second, the CPIU is well-integrated into the structure of the MAFI. It is co-located within the Ministry and has access as needed to key officials in the Government. Third, the CPIU also in a way serves as a surrogate Country Office for IFAD, performing many of the tasks that a country office would undertake such as knowledge management and partnership building. The Director of the CPIU represents IFAD at various donor coordination meetings in Chisinau.
115. Process issues. The evaluation found the various processes in project implementation to be very efficient. In addition to the high level of delegation of authority to the CPIU, efficiency is also owing to the fact that officers and institutions involved process documents and requests relatively quickly. The evaluation also observed a good practice of clearly documenting the number of days required for different steps in agreements. Discussions with borrowers suggested that delays in processing have not been an issue. On the contrary most borrowers mentioned the quick responses they had received. Furthermore, issuing of no-objections by IFAD and processing of withdrawal applications are in general considered to be timely by the CPIU.
116. An area where efficiency may be increasingly challenged is in the processing of applications for disbursing the credit funds. In accordance with the subsidiary loan

<sup>45</sup> Hartmann, Brookings Institution

agreements between the Government (Ministry of Finance) and PFIs, PFIs submit “applications to conclude individual loan agreements” to the CPIU, which reviews the applications and, if all is in order, requests payments to the banks where IFAD Project Accounts or Special (or Designated) Accounts are held. This is done for each and every loan financed with the IFAD funds. Of late, the number of applications has sharply increased mainly due to the increase of smaller loans to SCAs through the RFC,<sup>46</sup> overloading the two CPIU staff members (Credit Manager and Credit Officer) dealing with this. If the number of small loans keeps increasing, or even if it stays at the current level, having two CPIU staff members processing these applications would not be sustainable, but the CPE was informed of the recent efforts for automation and streamlining of application processing. At the same time, apart from the issue of workload, there is also a question about the direct role of CPIU in reviewing applications submitted by PFIs for each loan.<sup>47</sup> This contrasts with the approach taken under a World Bank financed project (Rural Investment and Services Project II) with similar credit lines, where such review and processing of applications by participating banks is being handled by the Credit Line Directorate of the Ministry of Finance and the CAPMU is not involved in the review process. On this point, the CPE was informed that the role of PFIs is increasing in terms of inputting data and risk assessment data related to applicants. This point also relates to the discussion on scaling-up as well.

117. Based on interaction with in-country stakeholders, another recent process issue is that of delays in disbursements of credit funds to PFIs. This has been an issue only for IFAD5, for which designated accounts were opened through the State Treasury at the “Banca de Economii”, unlike for earlier projects where project-specific accounts were held in commercial banks. Processing of payments from the IFAD5 accounts has been cumbersome and delayed. The CPIU has been in discussion with the Ministry of Finance to try to resolve this issue.
118. Procurement. According to the Project Status Reports prepared by the NEN division, procurement performance has been rated satisfactory for all projects - mostly rated 5, occasionally 4 in earlier years. The evaluation is largely in agreement with this positive assessment, with some observations (as described later in this sub-section). There are a couple of contributing factors. First, IFAD-financed procurements do not follow the national system but are based on the IFAD Procurement Guidelines and the IFAD Procurement Handbook, since the government system and procedures have been considered to be inadequate. Within this framework, the entire procurement process is managed by the CPIU and therefore bureaucratic delays that may be common in government systems can be avoided. Second, with a large amount of project costs going to credit funds, the projects have not had many large or complicated procurement cases: the main procurement activities have been for civil works, business development service providers (to assist borrowers), and lately some technical assistance and goods (equipment).
119. The CPIU considers that IFAD issuance of no-objections is timely. Some confusion occurred in the past<sup>48</sup> due to different thresholds under different projects for various procurement methods and for IFAD prior review. The thresholds tend to be relatively low, for example, requiring prior review for direct contracting of consulting services that can be applicable only to a contract under US\$500, or requiring national competitive bidding for goods and civil works over US\$20,000. A

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<sup>46</sup> For example, the number of loans disbursed under IFAD 4 in 2012 (361) was more than triple of the previous year 2011 (104) and the loans through SCAs accounted for 96 per cent of the total number of loans disbursed in the year.

<sup>47</sup> This issue was also raised by IFAD Quality Enhancement for IFAD 5, which recommended a review of the process and the role of CPIU at mid-term review.

<sup>48</sup> RFSMP February 2010 Supervision Mission Aide Memoire.

review of thresholds for possible upward movement and harmonization may be an area for consideration for IFAD6.

120. The types of project activities (and procurement) have somewhat diversified for IFAD4 and 5 and this trend is likely to continue for the proposed IFAD6. The posting of a procurement officer at the CPIU, and the provision of training and capacity building of the officer as is being done, are steps in the right direction.
121. Monitoring and evaluation. The CPIU has a management information system as part of the integrated software used for project management, including planning and budgeting, procurement, and monitoring and reporting. Due to the nature of the projects, a large part of monitoring and evaluation (M&E) has been related to keeping the record on loans disbursed, on profiles and performance of loan beneficiaries. A standard form is used to collect data from each loan beneficiary on various indicators at different stages. The data collected from each borrower at the onset serves as baseline for assessing impact at a later stage. The CPIU is able to run reports on various parameters, for example, by PFIs, type of investments financed, size of loans, etc. Furthermore, the Credit Line Directorate of the Ministry of Finance has an impressive database of every single loan through all credit lines financed by public funds (including those financed by revolving funds).
122. According to the PSRs, the performance of M&E under the projects has been rated moderately satisfactory to satisfactory: since 2011 it is rated satisfactory for all projects. The evaluation also positively noted the availability of data, its analysis and presentation in progress reports.
123. Unit costs. This is relevant mainly for infrastructure development. The comparisons of unit costs between investments are difficult since the actual costs are influenced by many factors. For example, costs of civil works vary considerably between the northern parts of the country, where there is easy access to building materials, and the southern parts to which building materials have to be transported. Similarly, the level of rehabilitation requirements, for irrigation scheme or other infrastructure differs from one scheme to another. While this variability is noted, the following provide some indications. Based on the project completion report (PCR) for IFAD3 which financed the road rehabilitation of a total of 12.4 km for 12 sub-projects, the project performance assessment conducted by IOE found the unit cost for road rehabilitation (calculated at US\$122,277 per kilometre) to compare favourably with the unit cost for World Bank-financed road rehabilitation projects. Some data are also available from still on-going IFAD 4, which also finances infrastructure development. While the cost of road rehabilitation is comparable between IFAD3 and 4, the unit cost of irrigation rehabilitation has doubled from US\$412/ha under IFAD3 to US\$899/ha to date under IFAD 4. On the other hand, the unit cost for drinking water schemes (US\$34,780/km to US\$21,691/km) and natural gas distribution (there has been only a few of the latter) has declined from IFAD3 to IFAD4. As noted above, the costs can vary widely and with a relatively small number of these projects financed so far, average costs can be easily influenced by higher or lower actual cost of each sub-project.
124. Investment cost per beneficiary for infrastructure development also varies significantly between sub-projects, from US\$33 of IFAD financing per beneficiary (direct and indirect) for road rehabilitation under IFAD3 to US\$13,700 per beneficiary for natural gas distribution under IFAD4. For example, even within the same category of sub-projects, one kilometre access road may connect one or three commercial farms or agro-enterprises, or it may connect an irrigation scheme with 100 members.
125. Rate of return. The PCRs for two completed projects (IFAD1 and 3) contained the following data on economic rate of return, both using the discount rate of 12 per cent. For IFAD1, at project completion point, the internal rate of return was

estimated at 18 per cent (PCR). The PCR for IFAD3 estimated the economic internal rate of return for the project at 33 per cent. Specifically for the investment in 30 infrastructure sub-projects (mostly for irrigation scheme rehabilitation and road rehabilitation), the economic internal rate of return was estimated at 60 per cent: this high figure was a result of the considerable sunk cost particularly for irrigation infrastructure.

126. Overall assessment of efficiency. IFAD's annual portfolio performance review for 2012 gave a 6 rating for efficiency within IFAD to a Moldova project – IFAD3. On balance the evaluation considers that the entire Moldova programme merits a satisfactory (5) rating in this area. The problems identified above are relatively minor and mostly relate to the learning curve or the inevitable need to adapt to changing realities as the programme evolves. Two main factors have contributed to the efficiency: (i) the large proportion of funds under each project that have been allocated to lines of credit and financing a small number of relatively large loans; and (ii) the CPIU arrangements (managing multiple projects gaining on operating costs, relatively independent operations) and the CPIU's good performance have made an important contribution. Furthermore, the Government of Moldova also deserves credit for the substantial support it provides.
127. This said, the country programme is at an important juncture where it would benefit from strategic rethinking and possible refocusing, building upon the experience so far. This may mean directing the support and financing more towards activities that may bear higher non-investment costs or higher transaction costs (e.g. technical assistance, training, monitoring and follow-up for increased number of direct and indirect beneficiaries, knowledge management and communication, etc.). The efforts to enhance scaling-up may also mean that CPIU may have less direct control in the process and other actors will take up more roles and responsibilities. This, again, could have implications on efficiency in the project operations and processes. However, it is important to keep in mind that what on the surface may seem to indicate weaker efficiency performance (say, increased share of project management or operating cost, or disbursement rates closer to those expected) could pay off from a longer-term viewpoint, leading to the scaling-up of the IFAD-supported programme.

## B. Rural poverty impact

128. Impact is often the most challenging criterion to assess because of limited data and methodological issues such as attribution. Most importantly, the steady increase in the volume of remittances over the period under review makes it extremely difficult to draw attribution lines from project interventions to household income and food security.

### Household income and assets

129. There are two questions relating to household income and assets. The first is whether the programme contributed to an increase of these, and the second, and perhaps more important, is what was the distribution of the benefits and the impact on rural poverty?
130. The COSOP MTR draws on project documents to provide considerable evidence of the outputs and outcomes of the programme, but there is no information on the impact on household income and assets. The field visits provided anecdotal evidence of the impact of the loans on household incomes through the rural finance components. Attribution to the projects is difficult in the context of the large amount of remittances.
131. The most useful aggregate indicators are the numbers of enterprises created and their sustainability and production trends, and the number of jobs created in these enterprises. Unfortunately these indicators are reported for each project rather than for the programme as a whole. This has the potential for some double

counting of benefits since a number of beneficiaries have been supported under more than one project. The 2009 impact assessment reported that, in relation to the rural finance component and enterprise development, employment growth stood at 5.02 jobs per company with a higher rate of 9 jobs for each start-up. The study also reported that 2/3 of the new jobs were carried out by people under 30 years old and also 64 per cent by unqualified/unskilled labour, who are more likely to be poor. For IFAD3, the PCR states that a total of 1,348 jobs (full time) were created from direct economic impact and 408 jobs created from indirect and induced economic impact. With regard to the direct benefits to borrowing enterprises, the same IFAD3 PCR reported that 100 per cent of supported SMEs that completed 3 years were operational; 85 per cent of beneficiary enterprises increased production and contracts signed with buyers; net profits grew by 71 per cent.

132. On the second question on the distribution of benefits and rural poverty impact, the evidence is more mixed and incomplete. As discussed a significant part of the programme support was not directly targeted to the rural poor. By and large beneficiaries of medium and long term loans were farming at least 20 hectares and some beneficiaries had very large holdings of near 1,000 hectares. A great deal of IFAD project financing went to middle and large farmers. A few of these large farmers have received two or three loans through the IFAD-supported programme and even though they may have been small farmers at the time of the first loan, by the latest they had large landholdings and were relatively well-off.
133. The argument that is made is the traditional 'trickle down' argument, i.e. that IFAD support for medium and large landowners results in job creation and supports growth in the economy which, given that poverty is relatively shallow, is likely to lift the rural poor out of poverty more effectively than programmes which target the rural poor directly. This argument is in principle valid in the Moldovan context. In addition IFAD struggled to find a practical model for direct targeting of the rural poor. IFAD's attempt to do this through the CDD approach in IFAD2 was not a success. As far as the microfinance programme is concerned there is unfortunately no data available as to whether recipients were able to move out of poverty as a consequence of the small investments financed by the programme. In any case, this has been a modest part of the programme overall. The value chain work was conceived in large part as an effort to try to get small farmers to come together to supply higher value outputs. This is still at a very early stage but thus far there is no evidence of success in this regard. The lines of credit through commercial banks were the only instrument available to disburse significant amounts of IFAD funding.
134. Was IFAD right to devote the lion's share (nearly 80 per cent) of its funding to support for agricultural investment on 'viable' farms? The evaluation has little doubt that in the context of Moldova this was the right thing to do. For many rural poor, their survival strategy consists of (i) working as labourers on medium and large farms; (ii) leasing (or selling) their 1-2 hectares received in the privatization to the medium and large farms; (iii) some kitchen garden production around the house; and not least (iv) migration and remittances. The main benefits for the rural poor from improved agricultural marketing are likely to be generated indirectly from employment in medium and large farms under efficient management and in the agro-processing industry. IFAD should have been more forthright about this in the context of the COSOPs and the project documents.
135. There are also some data regarding the impact of MDRI investments on the household incomes (table 8). The 2009 Impact Study as well as monitoring data of the CPIU indicated that the MDRI investments directly and indirectly increased the income of the rural poor. Irrigation schemes often have largest direct impact on the beneficiary farmers (water user association's members), raising yields (on average by some 40 per cent) and allowing farmers to move into high-value crops. The IFAD3 PCR estimated that high-value crops, compared with traditional field crops,

generated an incremental profit of US\$650 per ha. Village water distribution schemes may in addition to helping the expansion of SMEs also improve production and incomes from kitchen gardens.

136. The 2009 Impact Study estimated an average income increase of 40 per cent, based on an in-depth study of three MDRI projects (table 8). The data provided below, however, should be treated with caution as they are based on three case studies (out of 19 implemented at the time) and may not be representative of the overall picture.

Table 8  
**Income changes from MDRI investments**

<i>Infrastructure type</i>	<i>Average increase in monthly income of beneficiaries</i>
Water distribution	38%
Irrigation scheme rehabilitation	60%
Access road rehabilitation	20%
<b>Average per village</b>	<b>40%</b>

Source: CCA, 2009: Impact Assessment of IFAD Programme in Moldova

137. Roads, gas connections and also the water structures support the direct beneficiary farms and agro-enterprises allowing them to employ more people on-farm and off-farm, i.e. indirect impact. The economy in many villages depends (apart from remittances) on the success of a few medium/large farm- and agro-enterprises and when they expand, opportunities for micro enterprises increase as well, creating additional jobs. The Impact Study estimated that on average 13 new jobs were created per village/MDRI investment. Furthermore, an increase in salaries was observed. The Impact Study found: "Salaries in agriculture increased from MDL 1,000 to 1,500, with an average increase of 50 per cent per village. The greatest salary increase was registered in the field of services and trade, from MDL 1,200 to 2,000, with an average increase of 66 per cent per village.
138. The data on employment opportunities created has been relatively systematically collected by the CPIU. There are some data on what kind of people benefited from employment creation and impact of MDRI investment. However, the data and evidence on the impact on household income and assets of the rural poor and any possible negative effects on other small enterprises that were not supported are inconclusive. The impact of the programme on Household Income and Assets is rated moderately satisfactory (4).

#### Human and social capital and empowerment

139. In many ways the core of IFAD's support in Moldova is to help build a new generation of medium commercial farmers who can link up to the value chains that Moldova needs to build to improve the quantity, quality, and efficiency of its agricultural production. To achieve this goal, IFAD-supported programme combined financing with investments in human capital through training that has been provided to all the relevant actors: farmers, business service providers, commercial bankers, and SCA managers.
140. This has been done first through the use of business service providers who work with potential borrowers to help them develop business plans. IFAD followed in the steps of the World Bank in providing training and support for the consulting community (both NGOs and for profit service providers) to enable them to provide the necessary services to farmers. The farmers the evaluation met with were unanimous in their appreciation for the contribution made by these. Second, IFAD worked with the commercial banks and SCAs and provided training to their officers. Under IFAD4 for example, a total of 19 training sessions were organized for

capacity building that was attended by 59 commercial bank credit officers and 214 SCA employees.

141. Lastly, there have also been sustainable and significant positive impacts on health owing to infrastructure support for village drinking water systems, where there is a serious concern about the quality of ground water for the health of rural population due to the long term effects of the heavy use of agro-chemicals in the Soviet time. In the affected areas, more than 70 per cent of the villages rely on shallow tube wells (depth of 8–40 m) and they do not have an alternative.
142. The impact of the programme on Human and Social Capacity and Empowerment is rated satisfactory (5).

Food security and agricultural productivity

143. By and large food security is not a major issue for Moldova. Agricultural productivity is a much more serious issue. This is indeed an important outcome of IFAD's programme. There is however limited data on the direct impact of the programme on agricultural productivity.
144. In IFAD2 the distribution by type of investment was: viticulture and fruit production (34.2 per cent of total loan amount), agricultural machinery (18.2 per cent of total), cold stores/marketing of agro-products (14.9 per cent of total), processing plants for fruits, vegetables, and cereals (13.1 per cent of total amount), irrigation systems (11.4 per cent of total), and other (0.4 per cent of total loan amount).
145. In IFAD3 livestock yields increased by 9.5 per cent and production costs decreased by 10 per cent, and 5 per cent of farmer beneficiaries increased livestock herd size.
146. This scanty quantitative evidence can be supplemented by substantial anecdotal evidence from the evaluation. At least 10 farms were visited and there was ample evidence of rapid expansion of acreage under crops, and of increasing investment in higher valued products such as orchards and livestock.
147. The impact of the programme on food security and agricultural productivity is rated satisfactory (5).

Natural resources and the environment

148. The evaluation did not find an indication that investment activities financed by credit funds have had negative environmental impact or are not environmentally sustainable. Main investment activities included: agro-machinery, cold storage/collection points, vegetable production/green houses, irrigation schemes, establishment of orchards, agro-processing facilities, dairy farming, etc.
149. Conservation farming and irrigation and water supply rehabilitation have been IFAD's main involvement in supporting climate change adaptation. Conservation farming is expected to provide environmental benefits that will be sustained in the long run. Key benefits of conservation farming include improved soil fertility and moisture retention capacity, soil structure, thus making agriculture more resilient to climate change. Improved soil fertility and building up of organic matter in the soil should reduce the requirement of fertilizer. In the initial years of transition, weed and pest control could be challenging and attention is required to manage the problem in an environmentally friendly manner. Conservation farming has the potential to enhance adaptation to climate change. IFAD's support of irrigation rehabilitation brings obvious benefit in securing food supplies during drought years.
150. IFAD's support for value chain development is including training and technical assistance on the introduction of food safety standards and certified organic products.
151. Since the IFAD support which proactively aims at achieving positive impact on natural resources and the environment is rather recent, this impact domain is not rated.



### Institutions and policies

152. The IFAD supported programme in Moldova has impacted a wide range of institutions including: (i) government institutions (MAFI, Ministry of Finance); (ii) PFIs (commercial banks; RFC; and SCAs); (iii) business service providers (BSPs); (iv) producer associations; and (v) water user associations.
153. For all these institutions IFAD has provided an opportunity for knowledge sharing, technical assistance and participation in training activities. IFAD's contribution has been particularly important for the commercial banks - through support for increased knowledge about rural banking issues; the Rural Finance Corporation and SCAs - through exposure to good practices in other countries; and BSPs who have benefited from support in working with beneficiaries. However, continued availability of credit funds under all the IFAD-supported projects (as well as earlier World Bank projects) have not really led to increasing the banks' use of its own resources for medium to long-term lending, although it is recognized that this is also due to some systemic issues in the financial sector.
154. An important potential institutional contribution will be the equity fund which is currently under development. This will represent a significant diversification of the sources of funding for new and expanding farm enterprises.
155. In some areas there has been limited progress in IFAD's approach to institutional development. Two areas, microfinance and VCD are still at the stage where a great deal of more analysis and long-term planning are needed. The microfinance sector was inevitably left out of IFAD2 and 3, which was a period when remodelling of the sector was being sought, and it is still at an early stage of development. While IFAD would have been well placed to assist in the development of institutional and policy framework, a series of events prevented it from succeeding in this venture. As pointed out the groups on which VCD is based have not yet evolved into fully fledged production units – they are still loosely organized producer associations, more useful for information sharing than for promoting production for value chains.
156. With respect to policies IFAD has helped to deepen some of the strategic approaches developed by the MAFI in areas such as horticultural development, conservation farming, support for young entrepreneurs, and the rehabilitation of rural infrastructure. This is discussed further in the section on the Policy Dialogue.
157. The institutional and policy aspects of the IFAD supported programme are rated moderately satisfactory (4).

### C. Other evaluation criteria

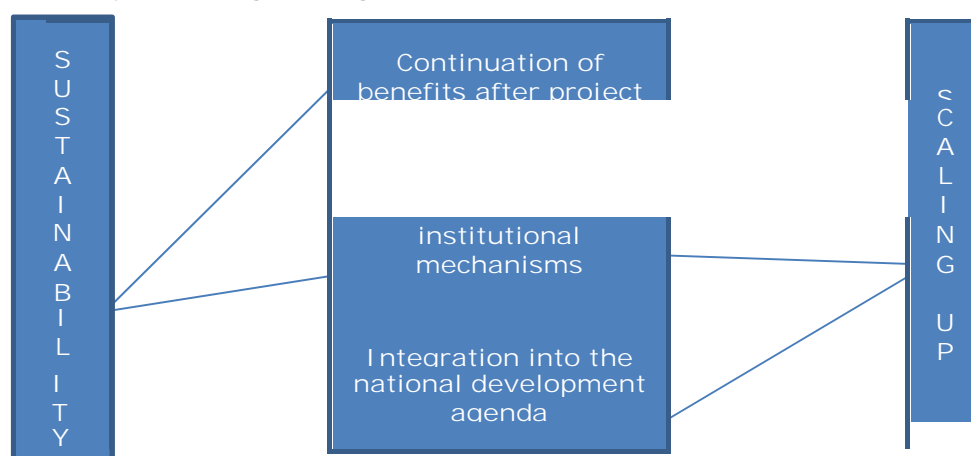
#### Sustainability

158. The concept of Sustainability overlaps with that of scaling up (discussed later) and it may be useful to define more precisely how they relate to each other. Figure 7 below defines more precisely how they relate to each other.
159. The first element of sustainability looks at the likely continuation of net benefits from IFAD interventions beyond the phase of external funding support. This also includes an assessment of the likelihood that actual and anticipated results will be resilient to risks beyond a project's life:
  - For the commercial bank and credit component of the programme the likelihood of continuation of benefits is high. Farmers have planted orchards, constructed greenhouses, procured equipment and processing facilities through the funds provided. These investments provide high rates of return and will continue to do so well beyond the life of the loan;
  - For the microfinance portion of this component sustainability of benefits is less certain with limited experience and information. So far, the funds tend to be used for small implements or repairs by smallholders, the viability of whose farm

enterprises in the longer term is still to be seen. This is an area where further investigation is needed;

- For the market-driven infrastructure component continuity of benefits is also rated high, given that the arrangements for maintenance of the infrastructure are robust and beneficiaries have strong motivation to ensure maintenance;
- Value chains are problematic in this regard. The investments so far are mainly in technical assistance for training and raising awareness. Viable contract farming arrangements have not yet been put in place under the projects; and
- Finally the environmental components seem to be the strongest in this regard, given the new openness to conservation agriculture and the commitment of the Government. The demonstration farms are likely to continue to play a useful role in the future.

Figure 7  
Sustainability and scaling up: a logical framework



167. The second element which is common to both sustainability and scaling up, is the sustainability of the institutional mechanisms that the projects have built up to deliver development services to beneficiaries.

- One of the key issues here relates to the impact of the credit component for commercial banks in stimulating a willingness on the part of the commercial banks to provide medium and long term credit to farmers and agro-processors from their own resources. The Brookings Institution study correctly points out that this has not happened to the extent that had been foreseen when IFAD began its support in this area. However, a number of positive trends need to be noted. First, there has been a substantial expansion in commercial bank branches in the rural areas. Second, the IFAD-supported programme has trained large numbers of commercial bankers in the special aspects of rural credit. Third, given the availability of funds from IFAD and other donors there is no evidence that there is a large unmet demand even with the substantial subsidies for agricultural investment provided by the Government. Fourth, it is worth noting the emergence of ProCredit<sup>49</sup> which is specifically oriented towards term lending to small rural enterprises. For these reasons some of the concerns about the failure of commercial banks to provide term lending to agriculture seem overblown. However, it is certainly the case that past IFAD-supported programmes have not been designed to stimulate this through, for example, progressively increasing the cofinancing requirements or limiting IFAD supported

<sup>49</sup> After operating as an MFI, ProCredit graduated to the banking sector by obtaining a provisional license in 2008. ProCredit has developed a significant branch network and a series of financial products analogous to IFAD offerings. While not yet eligible for IFAD loan funding due to a loss incurred during the financial crisis year, IFAD would like to have ProCredit as a PFI and it is likely that this will happen within the next year.

on-lending to new clients. IFAD has also not yet been able to contribute to the broadening of financial instruments available to the rural community. The proposed equity fund is at the inception stage;

- The institutional arrangements for the provision of microfinance are still fluid and evolving. IFAD 'inherited' the RFC from the World Bank, which no longer provides support in this area. The intention was that the RFC would evolve into an "apex" institution for the SCAs, but this has not been the case. Instead a parallel Association has been established linked to RFC, while RFC is functioning more and more as a bank and lending directly to SCA members, in competition with the SCAs themselves. In addition there are still many weak SCAs and a consensus is emerging of a need to merge some of these and consolidate the sub-sector into a smaller number of Credit Unions. The institutional structure of micro-credit in Moldova remains work in progress;
- With respect to rural infrastructure, in many areas the institutions are well established and working well, but an issue has emerged in the water sector with regard to small-scale irrigation and water supply schemes, where the respective ownership and maintenance responsibilities of the 'primaries' (village councils) and the water user associations need to be re-examined;
- As far as value chains are concerned, the projects have not yet helped to establish the institutional mechanisms that would be needed for full-fledged contract farming and value chain development, or even for producer associations that are more than simply advocacy bodies. This is probably the area in which sustainability and scaling up is weakest; and
- The conservation agriculture components are at an early stage of implementation and the question is what institutional structures are needed in order to move these up from individual demonstration plots to a full-fledged national programme.

168. On balance the sustainability criteria is rated as moderately satisfactory (4). While continuity is likely and programmes operate at the national level and impact the development agenda, IFAD has not thought through the exit strategy that is needed in the area of term credit. The model has remained basically unchanged through the sequence of 5 loans, with the exception of the support for young entrepreneurs in IFAD5 as a consequence of DANIDA cofinancing.

#### Innovation and scaling up

169. Innovation does not require that IFAD needs to originate every programme that it participates in. Some of IFAD's approach in Moldova derives from programmes originated by the Government, the World Bank and other donors. IFAD has helped to broaden and deepen these programmes and strengthen their institutional foundations. The particular approach to rural infrastructure that IFAD has used with groups of beneficiaries paying a contribution towards the costs and organising the maintenance is different from that of other donors, but is perhaps more important as a mechanism for prioritising particular investments in the short to the medium-term, than as a long-term mechanism for infrastructure financing and development. Other innovations in the Moldovan context are the guarantee scheme for microfinance and the equity fund that IFAD is promoting. These are still at a very early stage of development.

170. The issue of scaling up was examined in a country case study for Moldova undertaken by the Brookings Institution. The study raised two core issues. The first concerns whether the Rural Finance programme is leading the commercial banks to provide funding for medium and long term agricultural credit through their own resources. The second is whether the role and prominence of the CPIU hinders the integration of the programme into the Government's own administrative and management structures. On the first there is cause for concern in that IFAD (as well as other donors') funds offer support for over a decade to the asset-liability

mismatch of the banking system, thus crowding out a healthy reaction of the system itself towards controlling, mitigating or hedging 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 promoting banks to use own resources for longer-term credit, especially in cases of medium-scale borrowers with a good credit history. The rapid expansion of rural branches of the banks and the training that IFAD has supported in rural finance provides a good base for expanded efforts by the commercial banks. IFAD's support in rural finance should be focused to support new borrowers, particularly young entrepreneurs, along the line already started in IFAD5. As far as the CPIU is concerned the evaluation has less concern. The Government of Moldova undoubtedly has the capacity to manage the programme itself – 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 re-cycling prior to repayment to IFAD. It is more efficient at present, however, to keep in place a CPIU which is familiar with IFAD procedures, provides continuity, and at the same time maintains an effective liaison with the MAFI.

171. Another element of scaling up relates to the integration of IFAD supported programmes into the national development agenda. For Moldova this is the least problematic part of the assessment of scaling up. Moldova is a small country and IFAD programmes all operate at the national level with the exception of IFAD1 where lending was initially focused on a single district. In addition Moldova's Government is highly committed to agricultural development. One of the surprises for the evaluation team was the extent to which, for example, there is buy-in at the highest levels of Government for the climate change and conservation agriculture agenda. In many countries this commitment is lacking. Similarly there is strong support for the term credit programme, though perhaps still some ambivalence about microfinance. The rural infrastructure programme is in the process of being mainstreamed thanks to substantial support from the MCA and the World Bank. The weakest integration is in terms of supporting producer associations to participate in the value chain. A new World Bank project provides substantial incentives to producer groups and it will be interesting to see to what extent there is take-up. Regardless of attribution, few would deny that IFAD's support for these initiatives has added to the level and intensity with which these programmes are undertaken.
172. The evaluation rates the performance of IFAD's support in relation to innovation and scaling up as moderately satisfactory (4). On the one hand, IFAD has eschewed innovation for its own sake and has focused its efforts on using well-tested approaches designed to address the problems of the rural sector. On the other hand, for scaling up, there has been insufficient strategic thinking on the longer-term development of rural finance and IFAD's role in supporting it.

#### Gender equality and women's empowerment

173. As indicated in paragraph 32, despite a comprehensive legislative framework that provides a basis for equality in all sectors of the economy, women are still at a disadvantage through (i) lower employment rates; (ii) concentration of employment in low paying jobs in the services sector; and (iii) lower positions and pay than men in other sectors.
174. The data show that both women and men are almost at the same level of poverty of about 26 per cent, whilst there is a slightly higher level of poverty in households headed by men compared to those headed by women (26.5 per cent compared to 25.9 per cent<sup>50</sup>). Moreover, Moldova's legislative framework provides substantial protection of gender equality. As a consequence of these factors, gender issues

<sup>50</sup> IMF, Republic of Moldova: Poverty Reduction Strategy Paper—Progress Report, April 2011.

were not specifically included in design and implementation of IFAD's first three projects, and the elaboration of a specific gender strategy for IFAD's interventions in the country was not considered as priority:<sup>51</sup>

- IFAD1 did not include any specific gender approach. The PCR says that out of the total investment loans financed under the Small Enterprise Development Fund (SEDF), only 25 per cent were registered as being women;
  - In the Appraisal Report of IFAD2, a gender analysis has been included as annex I. In the "gender mainstreaming in the project implementation" section it is explicitly said that since IFAD2 is based on a demand-driven approach and its implementation is fully participatory, no gender mainstreaming policy is envisaged. It did however envisage a minimum quota of 25 per cent for women representation at the community meetings and at the Village Development Committees (VDCs); and
  - According to the project performance assessment (PPA), the gender approach of IFAD3 was neutral, as its interventions in financial and business services and employment were not customized for women clients. Women accounted for 26 per cent of the borrowers (33 of 129 loans), and 27 per cent of the 354 owners of the 129 enterprises financed by the project.
175. NEN prepared a gender profile of Moldova in 2004-2005 based on the analysis of gender differences in rural areas. Furthermore, in 2007 a gender sensitive Poverty Study was initiated and later used as a baseline document to enable IFAD to better understand the nature and dynamics of poverty in rural Moldova.
176. The IFAD4 Appraisal Report includes a section on gender mainstreaming within the project's activities. The programme focuses on the development of the horticultural value chain where traditionally women have an important role. Moreover, it was proposed that gender would be mainstreamed into programme management, monitoring and impact assessment. In addition, the programme proposed to conduct an analysis of gender-differentiated credit requirements, to investigate the reason that women were not more represented amongst larger loan applicants, and to understand the role of rural finance in supporting women's capacity to operate as economic and social agents. According to the Supervision Mission Report of March 2012, women were 29.7 per cent of the loan beneficiaries.
177. The project which seems to have integrated a gender strategy into the design is IFAD5. In the gender mainstreaming section of the Appraisal Report, poor rural women are expected to be substantial beneficiaries, as on-and-off farm entrepreneurs and employees. Project-supported agribusiness development is expected to focus on small-scale horticulture and dairy production in which women are strongly represented. The Project's rural finance component sets a 33.3 per cent minimum target for women borrowers under its Youth Entrepreneur sub-component and a minimum 50 per cent target for women borrowers under its microfinance/SCA loans sub-component. A gender focus was supposed to be systematically mainstreamed at individual and organizational levels into project management from the start-up workshop via quantitative and qualitative participatory monitoring and evaluation, ad hoc studies, and annual stakeholder review workshops. In order to assure appropriate gender mainstreaming under the project, the role of the principal monitoring and evaluation specialist in the CPIU would be modified to include acting as a Gender Focal Point/Coordinator with responsibility for assuring gender mainstreaming and achievement of gender targets in the ongoing IFAD-financed projects.

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<sup>51</sup> Lessons on gender have been drawn particularly from the 2005 Evaluation of the Economic Empowerment of Women Programme implemented in Moldova in cooperation with the Soros and Eurasia Foundations as part of IFAD'S Gender Programme for the Central and Eastern Europe and the Newly Independent States Region.

178. Overall the progress made in recent years in spite of the late start is viewed by the evaluation as justifying a rating of moderately satisfactory (4) on gender equality and women's empowerment.

Box 6

**A woman entrepreneur builds a successful enterprise through commercial bank borrowing**

Lucia Ceban and her husband live in Singerei village. In the kolkhoz days she was a teacher and her husband a mechanic. In 1998 when land was distributed they put together 120 hectares of land. Most of it was rented from others. In 2003 she took a loan of US\$30,000 under IFAD1 for buying a flour mill from Ukraine. An NGO funded by IFAD helped her prepare the plan and persuade the local branch of MoldEximbank to give her the loan even though she could not provide adequate collateral. In 2005 she asked for another loan for a bakery and in 2013 she took a further loan to finance additional land purchase. She now has 700 hectares of land, of which she owns 300 and leases the rest. In addition to her and her husband the enterprise has 10 employees. She now produces a range of products including flour and baked products, wheat, sunflower seeds, sunflower seed oil, and vegetables for export. She would next like to invest in a cold storage for the fruit and vegetables.

Source: CPE mission

#### D. Overall achievement

179. The ratings for the country portfolio take account of the assessment of key pillars and other programme elements, as well as all projects and the overall programme performance.

Table 9

**CPE ratings of the Moldova portfolio**

<i>Evaluation criteria</i>	<i>CPE portfolio assessment</i>
<b>Core performance criteria</b>	
Relevance	4
Effectiveness	4
Efficiency	5
<i>Project performance</i>	<b>4</b>
<b>Rural poverty impact</b>	<b>4</b>
Household income and assets	4
Human/social capital and empowerment	5
Food security and agricultural productivity	5
Natural resources and the environment	NA
Institutions and policies	4
<b>Other performance criteria</b>	
Sustainability	4
Innovation and scaling up	4
Gender equality and women's empowerment	4
<b>Overall project portfolio achievement</b>	<b>4</b>

### Key points

- The four pillars of the programme are considered to be overall relevant in terms of government priority and ownership. The evolution of the programme was appropriate in terms of giving more priority to value chain development and natural resource management over time. However, taking into consideration the comparably low relevance of IFAD2 design, the relevance of the overall portfolio is rated as moderately satisfactory.
- Effectiveness is moderately satisfactory with rural finance contributing to enhanced agricultural output and productivity and the emergence of a group of medium-scale commercial farmers, but without a clear phasing-out strategy and with limited support to microfinance so far. Value chain development remained at an early stage.
- The Moldova programme merits a satisfactory rating for its high efficiency.
- The programme has contributed to the growth of mostly medium-scale rural enterprises and employment creation in rural areas, with most support not directly targeted to the poor. The evaluation judges that the approach adopted – of supporting medium farmers who could produce efficiently and provide employment to smallholders - was in general appropriate. The rural development impact in specific areas is mixed however, with limited impact thus far from programmes such as microfinance and value chains. The rural development impact of the programme is rated as moderately satisfactory.
- There are some questions of the sustainability of the rural finance component of the programme. In some cases direct credit lines to commercial banks for on-lending to medium-scale borrowers may have crowded out finance from the banks themselves and not enough has been done to explore how to crowd in commercial bank finance.
- Overall the portfolio performance is rated moderately satisfactory in the view of the evaluation. It is a reasonable reflection of both Moldova's own needs and IFAD's comparative advantages.

## V. Performance of partners

180. This chapter examines the performance of IFAD and government institutions in their respective roles related to the delivery of the IFAD-supported and government-executed portfolio. IFAD's performance in non-lending activities and in the grant-supported projects is examined here in the following Chapter VII.

### A. IFAD

181. In Moldova, IFAD has shaped the programme on the ground to the Moldova situation by focussing on supporting viable medium-scale enterprises to invest in higher value crop production and agro-processing. There may have been cases of loans reaching some who don't need them (i.e., who could have accessed such loans from the banks anyway), although the vast majority of the support has gone to those that do. A particularly impressive programme has been the recent support for young entrepreneurs, which is a good practice model that could well be replicated elsewhere.

182. Despite the approach actually pursued on the ground as mentioned above, the project documents and the COSOP documents repeat the phrase 'pro-poor' and emphasize targeting the poor and supporting the most vulnerable.<sup>52</sup> They do not clearly explain and justify the approach that has been adopted by emphasising that there was limited scope at this stage of Moldova's development for economic programmes directly targeting the rural poor (as opposed to social programmes),

<sup>52</sup> For example, the following categories of the rural poor were identified as the target group under IFAD 5: (i) commercially-oriented poor (upper edges of the poverty line and may move in and out of poverty over the course of several years); (ii) economically-active poor (usually farming their land shares and productive a small surplus that is sold on an occasional basis in local markets); and (iii) very poor (landless who do not cultivate their land shares; household plots for some fruits, vegetables and keep some backyard animals).

and that the limited resources available for investment need to be directed at areas where they will have the maximum impact on growth over the medium-term. While poverty in Moldova is indeed shallow, this reflects the safety net of kitchen gardens for subsistence production, social expenditures, and remittance flows. It is unlikely that middle-aged and older former kolkhoz labourers with only basic education will be lifted out of poverty other than through social transfers. In this context, it is challenging, if not impossible, to design investment programmes that directly target this group.

183. The repeated emphasis on designing programmes that directly target the poor reflects IFAD's priorities. The decision to focus the value chains on horticulture in IFAD4 is an example of these pressures leading to a misstep in which promising opportunities in areas such as livestock and dairy farming were neglected as a consequence. (See box 7 below).

**Box 7**

**Considerations for value chain selection development by the IFAD 4 Appraisal Report**

"The IFAD TRC Panel Review of IFAD 4 Conception Report requested that appraisal reduce the number of value chains under consideration. During appraisal, options were prioritized on the criteria of: i) reduction of rural poverty; ii) smallholder based production; iii) possibilities for chain development; iv) enhanced group activities; v) high value added; vi) good marketing opportunities (local and export); vii) options for further innovations; viii) gender concerns; and ix) social acceptance. Subsequently, the IFAD 4 Appraisal Mission concluded that integrated development of the Moldovan horticulture value chain offered the best opportunities for substantial and sustainable increases in the assets and incomes of the Programme's primary target groups. Vegetables and some fruit crops, especially short-cycle labour-intensive products such as melons, watermelons and strawberries, are well positioned compared to either meat or milk to address unemployment issues and to improve small growers' incomes as they: i) can produce yields several times a year; ii) are more suitable to be produced at smallholder level since growers are more competitive when delivering fresh perishable products to nearby urban consumers; iii) are more labour intensive; iv) have a higher value; v) farmers can participate much more fully in the value chain than their counterparts producing meat or milk; and vi) the gap between farm gate and retail prices is closer than for meat and milk. Moreover, as noted earlier, fruits and vegetable crops also demonstrate a comparative advantage and international competitiveness".

Source: IFAD, September 2008, RFSMP Appraisal Report, para 106

184. The pressure for direct targeting also contributed to IFAD support for the CDD programme through IFAD2, in spite of indications that there was no grass roots support for this approach.
185. Institutional pressures can equally be positive and in the Moldova case, the project experience suggests that the increasing focus within IFAD on gender equality and environmental sustainability led to well-timed interventions in IFAD4 and IFAD5 which have had beneficial results on the ground.
186. The IFAD-Government joint decision to establish the CPIU to handle all projects has contributed to high efficiency. Since 2007, IFAD has assumed responsibility for supervising and supporting project implementation and the quality of its work in this area has been good, including fiduciary support and the timely turn-around on procurement and withdrawal applications.
187. Overall IFAD's performance is rated as moderately satisfactory (4). Without IFAD2 the evaluation would have rated IFAD's performance as satisfactory, but the programme included IFAD2 and some misjudgements then need to be taken into account.

## B. Government

188. The first question to ask about the Government of Moldova's role in the IFAD-supported programme is whether there is ownership of the programme. The



Government's active participation in the Steering Committee and its close monitoring of the programme and its impact represent a positive response to this question. It should be noted that since much of the programme is a public-private partnership, the Government has also avoided heavy-handed interventions.

189. The governance of the programme also appears to have been relatively free of political interference. In a country at Moldova's stage of development it is probably not realistic to assume there is never political push for example to steer loans to political supporters, but no instances of this were brought to the attention of the evaluation team. The CPIU in particular appears to operate with a great deal of independence.
190. The rapid processing of IFAD3, 4 and 5 in particular would not have been possible without strong Government commitment and support. The evaluation was struck by the openness of the current Government to dissenting views and alternative approaches. The relationship was somewhat more difficult with the previous government who did not always see eye to eye with IFAD on issues such as market-determination of prices and interest rates, but the mutual respect throughout the period allowed IFAD to design programmes as it felt most appropriate.
191. On technical grounds IFAD has had some issues in its relations with the Ministry of Finance over questions such as the eligibility of RFC during 2005-2009, and more recently on some instances of slow pass through of funds on the part of the Ministry, but these are not major issues, and are countered by the good relations with the extremely efficient Credit Line Directorate which is handling the recycling of IFAD funds prior to repayment, on behalf of the Ministry of Finance.
192. On balance the performance of the Government of Moldova is rated satisfactory (5).

#### Key points

- IFAD's COSOPs and project documents have continually emphasized that the programme is intended to directly address rural poverty. This has not been the case on the ground: the programme has sought to address rural poverty, in large part, indirectly through support for medium-scale commercial farmers who can contribute to growth and employment.
- IFAD2 was an outlier where the design was built around participatory village development approach in efforts to present the project as one that would target, empower and benefit directly the rural poor - a mechanism that was unsuited to the Moldovan context. This is one of the factors taken into account for the assessment of IFAD performance.
- The Government of Moldova's performance is rated satisfactory. In particular it has made important contributions through keeping the programme focussed on Government priorities and through its contribution to efficiency (admittedly in large part by delegating to the CPIU).

## VI. Assessment of non-lending activities

193. The main non-lending services that IFAD provides to its borrowers are: policy dialogue; knowledge management and partnerships. These are called 'non-lending' activities to distinguish them from lending, but in practice IFAD loans are a significant delivery mechanism for many of these services and the COSOP attempts to define an integrate programme in which there are synergies between lending and non-lending activities in support of the programme objectives.

### A. Policy dialogue

194. As indicated earlier IFAD is not a small player in the agriculture and rural development context in Moldova. It provides significant funding for investment. As

such the decisions made together with the Government about what to fund and how, are important inputs into policy in Moldova. With the notable exception of IFAD2, the Fund has allocated its resources skilfully. It has supplemented and strengthened useful initiatives undertaken by other donors, particularly the World Bank, and it has added some weight in areas such as the need for more investment in rural infrastructure and conservation agriculture. IFAD is now the main support for microfinance in Moldova and its continuing involvement helps to maintain the focus of the Government on this topic. Another issue IFAD has helped to bring to attention is the need for piloting producer groups of small farmers if they are to participate effectively in the value chain.

195. Policy dialogue was less effective on some of the issues that have emerged from its lending programme. For example, when the Ministry of Finance ruled that the RFC could not take on additional exposure, IFAD was not able to exercise much influence. This resulted in a failure to sustain its lending through the SCAs between 2005 and 2009. IFAD could have discussed alternative options with the Government for continuing its support, perhaps underpinned through conducting an analysis of microfinance in Moldova and how issues of this kind were being dealt with in other countries. It was after lending had resumed in 2010 did IFAD look at additional options through a study it funded on a possible guarantee mechanism for microfinance. Unfortunately there has been no follow up by the Government on this so far.
196. Microfinance has remained peripheral to the programme. While the microfinance programme could be an instrument to directly reach the poor and vulnerable, would it generate sustainable benefits for them? There is a question asked about the institutional model that has been supported by IFAD. The SCAs that the evaluation mission met with all questioned why IFAD needed to work through the RFC, which keeps a 4 per cent margin for essentially a pass through operation and uses the funds it generates through this to finance individual borrowers in competition with the SCAs. This issue needs to be put on the agenda for policy dialogue.
197. The evaluation also identified the area of ownership and responsibility for maintenance of small-scale irrigation as an area where IFAD needs to keep on top of developments and possibly take a position on. A recent audit ruling puts the arrangements that have proven successful in the programme at risk by requiring the primarias to charge the beneficiaries for use and maintenance of infrastructure that they had paid to put in place.
198. Overall the evaluation rates IFAD's support for the policy dialogue as moderately satisfactory (4). This evaluation report and the upcoming COSOP should provide significant opportunities for dialogue. At the same time IFAD needs to be careful not to get drawn too far off-course. The consultation process and policy discussion for the 2007 COSOP led to a document which proposed a programme that related neither to IFAD's ongoing programme nor to its comparative advantage in Moldova.

## B. Knowledge management

199. The projects promote a great deal of knowledge sharing through the training and technical assistance activities they support. The conservation farming demo plots are essentially a knowledge sharing mechanism which is providing a significant number of farmers with exposure to these techniques. Similarly the training that has been provided to commercial bankers, business service providers, SCA staff and members, and government officials has contributed to a generally better awareness concerning the approaches IFAD is supporting in Moldova.
200. IFAD could however do more than this. Knowledge sharing remains rather ad hoc and is not the result of a systematic assessment of what IFAD has to offer. For example, Moldova shares many problems with a number of other countries in the region – Macedonia, Albania, Georgia and Armenia, to name a few, where the

programmes follow fairly similar models. More active knowledge exchange of programmes and approaches with these countries could be mutually beneficial for all parties involved.

201. Knowledge management in Moldova is rated moderately satisfactory (4). Obviously IFAD has a small budget for Moldova, but it should consider designating one of the CPIU members as responsible for knowledge management and preparing an annual plan in this area. This should also encompass knowledge partnerships with other donors. There are some ad hoc studies being undertaken by UNDP and other donors, but limited in-depth analysis of some of the key issues such as: rural finance; constraints to exports of agricultural commodities; long-term water use and development; the role of the research institutions; domestic agricultural marketing, etc.

### C. Partnership-building

202. IFAD has done an excellent job of building effective partnerships with key government agencies, including the Ministry of Agriculture and Food Industry, Ministry of Finance and the National Bank. Evidence of this is the IFAD Programme Steering Committee (IPSC), established by government decree under IFAD2. IPSC is responsible for providing overall policy and oversight for all IFAD-financed projects and programmes in Moldova. It is composed of the country programme management team (CPMT), the Minister of Agriculture and Food Industry (Chairman), Ministry of Finance, Parliamentary Commission on Agriculture and Food Industry, National Bank of Moldova, and the CPIU Director as secretary. The CPMT is the resource group of stakeholders in Moldova, who participate in the entire cycle from the RB-COSOP through programme design, implementation and supervision, ensuring systematic implementation and achievement of programme objectives. The IFAD programme has also nurtured partnerships with other non-governmental in-country actors, including commercial banks, business development service providers, NGOs and most recently, the State Agrarian University of Moldova in relation to conservation agriculture.
203. IFAD's donor partnerships in Moldova began in IFAD1 with cofinancing from USAID/CNFA for the small enterprise development fund component of the project. The 2002 COSOP spoke confidently of strategic linkages with other donors such as the World Bank, USAID, the Department for International Development (DFID), Swedish International Development Cooperation Agency (SIDA) and Dutch bilateral assistance. In practice it is difficult to discern any of these strategic linkages though clearly there was close coordination with the World Bank in the development of IFAD's initial programmes in Moldova. The 2007 COSOP also discussed a number of options, but there were no specific plans. Perhaps as a consequence there has been surprisingly little donor cofinancing of IFAD's programme in Moldova.
204. There are two ongoing partnerships with international development agencies. The most significant one is the collaboration with the Danish International Development Agency (DANIDA) to provide supplementary financing to the Rural Youth Entrepreneurship scheme within the framework of the IFAD5, for a total amount of US\$4.6 million. Collaboration with DANIDA has its origin in the positive experience of working with IFAD in Armenia and continued in Moldova through the above mentioned grant in IFAD5. A Danish team participated in the supervision mission that took place in September 2012, and reviewed the DANIDA contribution to IFAD 5. The feedback provided on the partnership with IFAD from DANIDA is very positive concerning IFAD's collaborative approach and DANIDA is considering a further cofinancing contribution for IFAD6.
205. There has also been collaboration between IFAD and USAID. A Memorandum of Understanding was signed in March 2013 between CPIU IFAD and CNFA-Farmer to Famer programme, to provide a basis for continued co-operation between the two

organizations in the value chain and conservation farming components of the IFAD supported programme.

206. In addition another partnership has been established through the expected provision of a GEF grant in amount of US\$4 million to finance the investments and activities envisaged under the Climate Change Resilience component of IFAD6.
207. There is, however, considerable scope for attracting more cofinancing. IFAD's programme in Moldova should be attractive to a number of donors and it could be leveraged substantially through a more pro-active approach to partnerships. Most aid agencies are not represented in Chisinau. IFAD could be more pro-active in exploring potential cofinanciers. IFAD's divisional managers and its Moldova country programme manager (CPM) need to visit donor capitals and explain the programme to aid agencies and outline areas where support could be useful.<sup>53</sup>
208. Overall IFAD's partnerships in Moldova are rated moderately satisfactory (4).

#### D. Grants

209. Moldova has benefited from six country-specific grants in the amount of close to US\$1.1 million (IFAD contribution US\$0.9 million), a regional grant of US\$1.5 million (for 9 countries including Moldova), and a grant of US\$100,000 as part of the thematic supplementary financing covering the CEN subregion.<sup>54</sup> The main thematic areas covered by grants were:
- Innovative use of remittances in rural development;
  - Extension of SCA network;
  - Support to the supply chain management; and
  - Capacity-building for farmer's organizations (regional grant).
210. Interviews conducted during the evaluation suggest that the most effective part of the grant programme was the assistance provided to business service providers and PFIs. The grants aimed at extending client support beyond enterprise registration and business launch phases to on-site monitoring and follow-up services (financial, legal, marketing and human resources) for the newly created enterprises.
211. It can be concluded that grant funds have been well-directed and added some value to the programme. At the same time, the grants programme emerges as a peripheral component in the Moldova context. There is little knowledge of the grant-funded activities except among those that are directly involved. By and large the grant programme reflects a series of ad hoc decisions based on project-specific requirements. Although IFAD does not have much in the way of grant funds that it can use to support the Moldova programme, what it does have could be used more strategically. IFAD has a seat at the agriculture policy table in Moldova, and well planned analysis and pilot programmes can have an impact that goes well beyond the Fund's financial support.

#### E. Overall assessment

212. Overall, this evaluation rates IFAD's support through non-lending activities in Moldova as moderately satisfactory (4).

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<sup>53</sup> In the case of DANIDA, once the cofinancing possibility had been identified and IFAD's CPM had to carry out multiple meetings and a visit to Copenhagen in order to ensure the cofinancing was put in place

<sup>54</sup> Technical Assistance Programme on Gender Mainstreaming in the CEN countries, financed by the Government of Germany.

Table 10  
**Assessment of non-lending activities**

Type of non-lending activity	Rating
Policy dialogue	4
Knowledge management	4
Partnership-building	4
<b>Overall non-lending activities</b>	<b>4</b>

#### Key points

- IFAD has used its lending programme as an effective instrument to support the policy dialogue, adding weight on key issues such as value chain development, rural infrastructure and natural resource management.
- It could however, have been more pro-active in following up on some of the policy related issues which have emerged from its lending programme, such as the role of microfinance and the need to incentivize the commercial banks to increase the use of their own resources.
- The programme has promoted knowledge sharing within Moldova through funding technical assistance. Knowledge sharing has been ad hoc however. IFAD needs to adopt a systematic approach with knowledge-sharing plans and also exploit the potentials of sharing experiences of its work in other countries in the region.
- The partnerships that have evolved in practice have been effective, while IFAD could be more pro-active in identifying potential cofinancing opportunities as the Moldova programme does not have the level of cofinancing that it merits. Increased cofinancing could leverage important programmes such as the support for young entrepreneurs and value chain development.
- IFAD also needs to use its grants more strategically to support the policy dialogue and build on the achievements of its portfolio.
- Overall the non-lending services are rated moderately satisfactory.

## VII. COSOP performance and overall Government-IFAD partnership assessments

### A. COSOP performance assessment

213. The assessment of COSOP performance combines an assessment of the strategy as implemented, with an assessment of the strategy as reflected in the COSOP documents. In most countries there is broad consistency between the two. In Moldova however, the evaluation found some inconsistencies. The Moldova 2002 COSOP bears a limited relation to IFAD's programme in the period. As for the 2007 COSOP, the areas for support under the two strategic objectives (market development and rural finance) do indeed correspond to the projects, but it is the focus and strategies within the two areas that have not been fully consistent. In both cases (2002 and 2007 COSOPs), the actual programme on the ground was indeed a better reflection of those areas where the Fund could add value.
214. Relevance of the COSOP: One of the main conceptual weaknesses of IFAD COSOP documents in Moldova is the lack of "theory of change" embedded in the strategy they define. Both COSOPs aim at rural poverty reduction, but there are some ambiguities about how the proposed interventions will lead to the desired outcomes, especially in terms of how the rural poor would benefit, directly and/or indirectly. This results in some relevance of objectives but weak relevance of design. While the actual programme was a better reflection of the context in which IFAD operated, the lack of a theory of change that should have supported the

conceptualization and design of the interventions also makes it difficult if not impossible to evaluate impact attribution or contribution under the IFAD-supported programme. In order to be able to link rural poverty to specific actions there must be a clear hypothesis linking inputs to outputs, to results and impact.

215. The 2002 COSOP starts with an analysis of the priorities for Moldova's agricultural development. It then defines a set of non-quantified indicators ("improvements" or "increases") which are generic and probably applicable to any agricultural development programme anywhere in the world. A set of outputs is defined which does indeed include potentially verifiable indicators, but no baseline or target value for these was included in the COSOP. Many of these indicators apply to increased and more efficient crop and livestock production and would have required a close involvement by IFAD with agricultural production support which was not included in the programme at the time. For the rest, the indicators related to the village-based participatory approach which was intended under IFAD2. As indicated this approach got very little traction in Moldova. As a consequence, there was a disconnect between the 2002 COSOP and IFAD's programme.
216. The 2007 COSOP was produced at a time when Russia's ban on wine imports from Moldova had resulted in increased awareness of the need to diversify exports and in particular to access markets in the European Union. The COSOP therefore devotes considerable attention to the steps needed and defines a programme of support from IFAD for these steps, under the umbrella of the first strategic objective on pro-poor market linkages. Two questions emerge. First, whether IFAD's comparative advantage and the role of its support were adequately reflected upon, in particular in presence of the European Union and the World Bank which both had active programmes and more experience in this area. Second, whether those farmers to be assisted to meet the European Union standards were to be the direct target group or a 'means' to reach the rural poor - or both. In fact, the COSOP MTR conducted in 2011 'adjusts' the results matrix defined in the 2007 COSOP and took out the outcome indicators referring to European Union standards, although one indicator related to export-oriented production was retained ("at least 30 per cent of beneficiaries export their production outputs"). At the occasion of MTR, under the same strategic objective, a milestone indicator on small-scale infrastructure was then added, reflecting increasing investment made in this area after IFAD3. As for the second strategic objective of the 2007 COSOP, it broadly relates to the area of IFAD's support for rural financial services. Where there is lack of clarity, however, is that the COSOP clearly places an emphasis on financial services and products for the rural poor, whereas the actual programme has mainly focused financial services for medium-scale enterprises for broad rural economic growth and employment generation. Furthermore, the strategic objectives in the COSOP, either in their original forms or revised at MTR, do not explicitly reflect IFAD's growing presence in support for NRM and climate change. This is despite the fact that the intention to provide climate change related support is noted in the main text of the COSOP 2007 and its MTR report in terms of financial products to help lessen climate risk, enhancing the risk management capacities of value chain actors, and introduction of technologies to reduce the vulnerability of producers.
217. In September 2011, IFAD's NEN division conducted a MTR of IFAD's 2007 RB-COSOP, in close consultation with the in-country stakeholders. The review puts together information about the performance of the IFAD-supported programme on the ground and relates it to the Government strategy. It was then decided to extend the 2007 COSOP coverage till end-2015, ostensibly because the strategies in the document were still valid in terms of the basic approach it enunciated. At the same time, the MTR adjusted the matrix defined in the 2007 COSOP. Comparing the MTR adjustments with the original 2007 document, the key areas of the two strategic objectives remained more or less the same, i.e. market linkage and value chain development, and rural finance for the poor on the other. However, a country

strategy is about much more than the overall thematic areas of support – it is also about approaches and strategies that are adopted within those broad themes. The evaluation is of the view, therefore, that a new COSOP could have been prepared with a strategy that was based on a critical review of IFAD's comparative advantage in the donor context in Moldova and that was a clearer reflection of IFAD's actual programme than the 2007 COSOP.

218. The strategy on the ground was a better reflection of IFAD's actual programme and comparative advantage in Moldova. Basically it positioned the Fund to assist those with some agricultural background or entrepreneurial mindset to create viable commercial farms and to promote this on a sustainable basis by drawing the commercial banking system into support for these farmers. The concern whether or not the income generated through these farms would trickle down through increased employment and demand for the production of smallholders, also led IFAD to experiment with reaching the rural poor more directly through microfinance and community development. The evolution of the programme in recent years has also been a sensible reflection of Government priorities and IFAD's comparative advantages. The programme has moved increasingly into support for market-driven rural infrastructure, value chain development and NRM.
219. The evaluation rates the relevance of the COSOPs as moderately satisfactory (4). This reflects a moderately unsatisfactory rating for the relevance of the two COSOP documents and a moderately satisfactory rating for the relevance of the strategy and the programme as implemented.
220. Effectiveness of the COSOP: In practice as compared with the COSOP and programme documents, the Government preferred that IFAD maintain its support for investment by medium-scale farmers through loans channelled through the commercial banks. When judged against the indicators in the 2002 COSOP which was geared towards IFAD2 with a participatory village development approach, there is not a single indicator on which the effectiveness of the 2002 COSOP can be assessed satisfactory. As for the 2007 COSOP, there are a number of indicators related to rural finance (strategic objective 2) for which achievements can be considered satisfactory or modestly satisfactory. However, the implementation towards the other strategic objective (market linkage), when assessed against the original indicators, is less satisfactory.
221. By contrast the programme on the ground provides a much clearer indication of effectiveness, particularly in relation to the rural finance and MDRI pillars of the programme. However, as discussed earlier, the programme had much more limited effectiveness with regard to microfinance, value chains and the community development programmes initiated under IFAD2.
222. The evaluation rates the effectiveness of the COSOPs as moderately unsatisfactory (3). This reflects an unsatisfactory rating for the effectiveness of the 2002 COSOP and a moderately unsatisfactory rating for the 2007 COSOP, at the same time taking into account a moderately satisfactory rating for the effectiveness of the programme as implemented.
223. Given the views expressed above on the limited relevance and effectiveness of the two COSOP documents, the evaluation has taken the unusual step of providing a detailed evidence basis for these judgements. This is spelled out in the table below.

Table 11  
Evidence basis for COSOP performance ratings

2002 COSOP narrative summary	Verifiable indicators	Relevance	Effectiveness
<p><b>Goal:</b> 1. Sustainable poverty alleviation and improvement in the living conditions of the target populations of poorest family farms and agricultural wage labourers in terms of increased food security, increased income in cash and kind and institutionalized linkage to factors of agricultural growth.</p>	<ul style="list-style-type: none"> <li>Improvement in their composite poverty index score.</li> <li>Increase in per capita agricultural GDP by a percentage to be determined when the size of the programme and its areas are known.</li> </ul>	<p>MU: While obviously these are relevant, the programme design was not tailored to achieving these objectives.</p>	<p>U: No possibility of attribution to IFAD supported programmes during the programme period.</p>
<p><b>Purpose:</b> <b>Project: Agricultural Revitalization Project.</b> Village-based participatory development aimed at (i) the eradication of poverty through the creation of productive employment, and (ii) diversification of the rural economy through reorientation and training and linkages between primary producers and processors benefiting both through rational reallocation of rural labour, increased per capita production/productivity and synergies between producers and service providers.</p>	<ul style="list-style-type: none"> <li>Productive employment increases.</li> <li>Profitable production and productivity increases with respect to crops and possibly fodder as a result of increased water availability.</li> <li>Increases in household food security and incomes.</li> <li>Livestock production/productivity improvements</li> <li>Range and numbers of sustainable off-farm jobs created in the rural economy.</li> <li>Increases in beneficiary household incomes.</li> </ul>	<p>HU: No government ownership of a village-based participatory approach to increasing agricultural productivity.</p>	<p>HU: The concept was flawed. At that point in time there was little interest in community-based programmes, and private farmers were unenthusiastic about their peers in the village determining whether or not their projects received bank funding.</p>
<p><b>Village organizations</b></p> <ul style="list-style-type: none"> <li>Organizations established with capacity to design and implement Village Development Plans</li> </ul> <p><b>Small-scale Irrigation</b></p> <ul style="list-style-type: none"> <li>Reliable and increased water availability.</li> <li>Farmer groups managing and maintaining their schemes.</li> <li>Increased private sector design and contracting capacity.</li> <li>Increased crop intensities.</li> <li>Improved farmer and support staff management skills.</li> <li>Effective supervision capability.</li> </ul> <p><b>Livestock Development</b></p> <ul style="list-style-type: none"> <li>Increased and sustainable production and productivity of livestock and derivative products among target population.</li> </ul> <p><b>Output Market Access</b></p> <ul style="list-style-type: none"> <li>Increased access by village target group to local and export markets</li> </ul> <p><b>Non-Farm Rural Economic Development</b></p> <ul style="list-style-type: none"> <li>Human capital development.</li> <li>Diversified and synergistic micro-enterprises.</li> <li>Improved technical support to micro-enterprise initiation and operation.</li> <li>Off-farm production marketing development</li> <li>Improved rural small-scale infrastructure.</li> <li>Rationalization of the rural economy.</li> </ul>	<ul style="list-style-type: none"> <li>Number of villages with successful organizations</li> <li>No. of schemes rehabilitated/developed.</li> <li>Volume of water received.</li> <li>Operational water user associations</li> <li>Operational contractors, profits.</li> <li>No. of completed designs.</li> <li>Crop yields/intensities.</li> <li>Uptake of improved technical packages.</li> <li>Lower incidence of animal diseases.</li> <li>Uptake of artificial insemination.</li> <li>Importance of the incremental production being marketed.</li> <li>Improvements in range and competence levels of the targeted members of the rural labour force.</li> <li>Increase in diversity and numbers of jobs in the agricultural/rural sector.</li> <li>Incidence, range, business parameters of micro/small/medium enterprises.</li> </ul>	<p>HU: Very low priority in Moldova at that point in time. These were new bodies set up in parallel to the existing Village Councils.</p> <p>MU: Obviously important but at that stage the Government was reluctant to use loan funds for infrastructure.</p> <p>MU: Important, but not part of the design and livestock production in fact fell during the</p> <p>MU: The 'target group' was of limited relevance for market access which was mainly an issue for medium and large farmers. period.</p> <p>MU: Limited relevance. In a small country such as Moldova non-farm rural development is less significant. There was however some</p>	<p>HU: While the programme design covered this, the organizations were not 'successful'. For the most part they were put together without commitment and were not sustainable.</p> <p>HU: Not part of the IFAD programme during the COSOP period.</p> <p>HU: Not part of the IFAD programme during the COSOP period.</p> <p>HU: Not part of the IFAD programme during the COSOP period.</p> <p>MU: Not a direct part of the IFAD programme during the COSOP period, though some support was provided for processing (mainly on-farm) through BDS providers.</p>



<i>2002 COSOP narrative summary</i>	<i>Verifiable indicators</i>	<i>Relevance</i>	<i>Effectiveness</i>
		training and technical assistance delivered for and through Business Development Service Providers.	
<i>2007 COSOP (original) strategic objectives</i>	<i>Key results</i>	<i>Relevance</i>	<i>Effectiveness</i>
Establishing market linkages for the rural poor through support of competitive commodity value chains, including market research and development, business development services, producer associations and the achievement of international quality standards in production, processing and packaging.	<p><b>Outcome indicators</b></p> <p>50 per cent of enterprise borrowers include convergence measures with international and especially European Union standards</p> <p>25 per cent of volume of IFAD-supported SME products and services should be destined to the export market</p> <p>25 per cent of farmers participating in liberalization initiatives (that farm less than 10 ha of land)</p> <p>50 per cent of loans approved by PFIs include convergence criteria with European Union standards</p>	<p>MU: Relevant to country needs but other donors such as the European Union and the World Bank would have been better placed to provide support in this area</p> <p>MS: Relevant, but surprisingly modest given the focus on horticulture products during the period.</p> <p>U: Convergence criteria were not applied to loans. The proposed link with loan approvals is also open to question.</p>	<p>HU: Nothing in the programme to support this objective.</p> <p>MS: Limited focus in the programme on the export orientation of products.</p> <p>..</p> <p>HU: Programme was not revised to reflect this indicator.</p>
Promoting access to a full range of appropriate and mainstreamed financial services with a particular emphasis on products directed towards supporting the most vulnerable and poor groups in rural areas.	<p><b>Outcome indicators</b></p> <p>1800 rural households accessing credit, especially women and young farmers and off- farm entrepreneurs</p> <p>50 per cent of PFIs with provision for start-up loans.</p> <p>Revenue of enterprises increased by 10 per cent</p> <p>50 per cent of rural SMEs supported by the programme reporting improved profitability</p> <p>50 per cent of PFIs open new bank branches in rural areas</p> <p>75 per cent of RES borrowers</p>	<p>S: Focus on young farmers and women is a feature of the recent IFAD programme. This is the core of IFAD's programme.</p> <p>S: An important criterion.</p> <p>S: Although only indirectly related to PFI loans, it is a reasonable proxy for projects with a high rate of return.</p> <p>S: As above.</p> <p>S: An important criterion, but very modest relative to reality.</p>	<p>S: This is reflected in IFAD's programme and design, although there is no distinction here between micro-credit and larger loans.</p> <p>MU: While IFAD monitors start-ups ex post, there is no ex ante requirement to ensure that start-ups receive this percentage of loans.</p> <p>S: Design of programmes appropriately reflects this.</p> <p>S: As above</p> <p>MS: There is a general requirement on presence in the rural areas in the eligibility requirements for PFIs,</p> <p>MU: Unrelated to the programme.</p>

Ratings: HU = Highly Unsatisfactory; U = Unsatisfactory; MU = Moderately Unsatisfactory; MS = Moderately Satisfactory; S = Satisfactory.

224. In summary, as shown in the table above, there was some disconnect between the COSOP documents and the IFAD programme on the ground. This disconnect was more notable in the case of the 2002 COSOP. While the key areas of support identified in the 2007 COSOP do correspond to those of the actual programme, the strategy documents did not provide a clear basis for the elaboration of the

investment programmes, especially in terms of specific strategies and approaches and focus within these thematic areas. Reflecting the balance between strategy on the ground and the documents, the relevance of the COSOPs is rated moderately satisfactory (4) and the effectiveness as moderately unsatisfactory (3).

Table 12  
**Assessment of COSOP performance**

<i>Evaluation criterion</i>	<i>Rating</i>
Relevance	4
Effectiveness	3
<b>COSOP performance</b>	<b>3</b>

#### Key points

- There was some disconnect between the COSOP documents and the IFAD programme on the ground. Such disconnect was more notable in the case of the 2002 COSOP. While the key areas of support identified in the 2007 COSOP do correspond to those of the actual programme, the document did not provide a clear basis for the elaboration of specific approaches and strategies for investment programmes within those broad themes.
- At the same time, the actual programme, although not entirely consistent with the COSOP documents, was a better reflection of the context IFAD has operated.
- Reflecting the balance between strategy on the ground and the documents, the relevance of the COSOPs is rated moderately satisfactory (4) and the effectiveness as moderately unsatisfactory (3).

## B. Overall Government-IFAD partnership assessment

225. Conclusions. The country portfolio over a decade has made good achievements on the ground, with the solid ratings for individual projects and with any objective comparison of the Moldova programme with that of other IFAD country programmes. There has been an expansion of 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, rural enterprise development and job creation. The percentage of non-performing loans is minuscule, in spite of the impact of the severe drought of 2012. There has been a substantial provision of training and technical assistance which could provide the basis for developing selected value chains. Modest investment in small-scale infrastructure has provided some small and medium farmers with water and access roads, and helped put in place institutional mechanisms for maintenance. Finally the demonstration plots for conservation agriculture are adding momentum to the Government's push in this area. On the other hand, apart from misjudgement for the IFAD 2 design, there have been limited progress in value chain development and microfinance, as well as limited progress with putting in place a clear phasing-out strategy for the approach with heavy credit lines.
226. These achievements mentioned above are consequences of the adoption and implementation of strategies and approaches that were in fact not fully consistent with what was set out in the COSOPs or the project documents. While the evaluation is of the view that the approach adopted and the actual programme were a better reflection of the country context and the opportunities for IFAD to add value, it makes it difficult to rate "COSOP performance" higher than moderately unsatisfactory, for which the objectives and indicators laid out in the COSOP documents need to be taken into considerations.

227. All this has been achieved with a high level of efficiency. A small CPIU has managed all the projects and kept IFAD in the 'loop' of Government agricultural policy in Moldova. A CPM based in Rome, also covering four other countries provides most of the staff input for the Moldova programme. In recent years IFAD has forged strong partnerships with DANIDA and the GEF, and earned their commendation of its openness and professionalism.

Table 13

**Overall assessment of the Government-IFAD partnership**

	<i>Rating</i>
Portfolio performance	4
Non-lending activities	4
COSOP performance	3
<b>Overall Government-IFAD partnership</b>	<b>4</b>

## Key points

- While the programme strategy and approach on the ground has not fully corresponded to what was set out in the IFAD's COSOP and project documents, it has addressed the Government's priorities and has done so with a moderate degree of impact and effectiveness.
- The moderately satisfactory assessment of most part of the IFAD-supported portfolio in Moldova, the modest achievements of the non-lending activities and the moderately unsatisfactory performance of the COSOPs lead to an overall rating of moderately satisfactory for the IFAD/Government partnership.

## VIII. Conclusions and recommendations

### A. Conclusions

228. Moldova experienced a traumatic decade after the break-up of the Soviet Union. It was separated from Transnistria, the location of much of the heavy industry and power generation and the agricultural economy suffered from the sharp decline in income in most former Soviet Union states and the difficulty of earning the foreign exchange needed to buy agricultural inputs and equipment. The large kolkhozes which farmed the land and provided incomes and social services to the rural community were unable to meet their expenses and most fell into debt. The authorities at first resisted the required privatization of and restructuring of the agriculture sector, before launching a comprehensive privatization programme.
229. IFAD began its operations in Moldova in 1999. There was substantial rural poverty, and a general agreement that the small private plots of one or two fragmented hectares per person were unlikely to be the basis for a new commercial agriculture. Given the nature of the kolkhoz only a handful of members actually ran the farm and understood the requirements of agricultural production. This group, 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. In some cases families banded together to allow land to be bought for consolidation.
230. The challenge for IFAD was what the targeting of the poor implied in this context. It was not obvious that there would be any sustained economic impact from directing resources at smallholders. In the circumstances IFAD elected to direct its efforts at 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 the rural areas. (paragraphs 132-134, 215).
231. In 2013, after some 14 years of active involvement through 5 projects and disbursed loan support of about US\$60 million, it is fair to say that this approach has worked reasonably well. A group of medium-scale agriculture entrepreneurs has emerged who are able to produce for the local and former Soviet Union market, and increasingly for the European market, at acceptable quality standards. They have provided a moderate demand for employment and have contributed to the growth of GDP which took place from 2000 to 2011, substantially reducing the poverty rate. Obviously the growth of remittances and the recovery of the Russian, Belarusian and Ukrainian markets has been a much more significant factor in growth overall, but in this context IFAD has made a positive contribution to growth and rural poverty reduction in Moldova. (paragraphs 131-138)
232. How has IFAD done this? The mainstay of the programme has been credits of three to seven years at subsidized interest rates to farmers with 30 to as much as 1000 hectares for purchase of equipment. Over time this has been supplemented by programmes to provide market-driven small-scale infrastructure to build small stretches of road needed for produce to be marketed or on-farm irrigation facilities. Other programmes, such as technical assistance to support development of value chains particularly for horticultural production and the development of demonstration plots for conservation agriculture to allow 'medium' farmers to understand the potential benefits of no - or low-till agriculture, are more recent, and while promising, have not as yet yielded significant outcomes.
233. IFAD has also supported two programmes designed to provide more direct assistance to the poor. The first of these provided microfinance through Savings and Credit Associations (SCAs) allowing small local producers to buy some basic equipment or agricultural inputs. The second was an attempt in IFAD's second loan in Moldova to support the preparation of participatory plans at the village level and provide financing for groups of farmers whose projects would form part of the plan. There are some questions surrounding both these programmes (paragraphs 54, 68, 75-77, 133, 189). For the microfinance the benefits and sustainability remain unclear – interest rates are very high and the relevant institutional framework is still evolving and is in work in progress. Participatory development process centering the Village Development Committees was not an appropriate approach in the context and indeed IFAD moved quickly away from them.
234. Almost every Moldova strategy, project or evaluation document is met with the question as to whether IFAD could or should have done more to target its assistance to the poorest groups. The evaluation team concluded that this was not a viable option (paragraphs 134-135, 174-175). 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 seems well judged. On the other hand, in its strategies and project design documents, IFAD could have been more explicit and clearer about the way it intended to operate in Moldova, avoiding an over-emphasis on directly supporting the poor and the most vulnerable.
235. After 14 years the programme is now a mature one, and the time is ripe for re-thinking the various components of the strategy. The core of IFAD's programme under all projects has been the provision of medium and long term credit lines channelled through the banking system. Moldova's banking system has evolved. The commercial banks are highly liquid, reasonably competitive, and well-represented in the rural areas. The banks do not provide much medium and long-term credit from their own resources for agriculture – most of their resources come from short-term deposits - and they require excessively high collateral when they do so. But the IFAD-supported programme is reaching a point where IFAD and the

Government need to ask whether the availability of this money creates a disincentive for the banks to serve the needs of their more established clients with good credit history, from their own resources. IFAD may want to consider an exit strategy in this area that encourages the commercial banks to increase the use of their own resources and at the same time that also allows for more focus on new borrowers who do not have a credit history and on the support for young entrepreneurs, along the lines started under IFAD 5 (paragraphs 65-77, 160-161, 163).

236. The evaluation found that while each of the individual programmes had good results and, where quantifiable, good rates of return. At the same time, more could have been done to try to integrate the various components and derive synergies from, for example, the development of market-driven infrastructure and value chains. (paragraphs 93, 98, 102)
237. One of the most impressive elements of the programme is its efficiency (paragraphs 106-127). A very small share of loan funds is used in administering its programme – a fraction of what is spent in many other countries. The CPIU that has been used for all IFAD projects can be considered as good practice for small countries with a narrow focus of operations. The Government of Moldova also deserves credit for the substantial support it provides. Perhaps this reflects the fact that IFAD is not a peripheral player in Moldovan agriculture. It is a significant source of funding and technical support.
238. In some respects the programme management seems too lean. For example, a better planned and expanded programme of knowledge sharing and management could have substantial benefit. This would also require IFAD support at the regional level since much of the learning should be cross-country. Similarly although IFAD does not have much in the way of grant funds that it can use to support the Moldova programme, what it does have could be used more strategically than in the past. IFAD has a seat at the agriculture policy table in Moldova, and well planned analysis and pilot programmes can have an impact that goes well beyond the Fund's financial support. (paragraphs 192-194).

## B. Recommendations

239. 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 the approach of channelling a bulk of IFAD loans to lines of credit, after over a decade of generally effective implementation;
  - and (iii) strengthening the non-lending activities through more strategic and effective use of grant resources and outreach.

### Strategy

- Ground the next COSOP in reality (paragraphs 206-217). The programme has supported the rural poor through 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 the past COSOP has not been clear about them. 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 need for better monitoring on the impact on and outreach to the rural poor through indirect and direct targeting
- Design a better integrated programme (paragraphs 228-229). Each of the programme pillars is relatively 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 (paragraph 229). IFAD has been struggling with articulating an operational approach to VCD in Moldova. The value chain components of the projects now need to move beyond awareness and capacity building. VCD should 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. At the same time rural finance, infrastructure and NRM programmes could be geared more closely to the needs of these value chains.  
Rural finance
- Diversify from the approach of channeling the bulk of loans to lines of credit (paragraphs 227-228). This is now a mature programme 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 needs to consider ways to encourage the banks to increase the use of their own resources and focussing its future support for rural credit on new and young borrowers.
- Seek greater leverage for IFAD funding of the young entrepreneurs programme (paragraphs 237-238). A key group of new entrepreneurs are the 18-30 age group that IFAD has supported thanks to grant funding from DANIDA.  
The programme has demonstrated success. Instead of leaving the scale of the programme to chance, IFAD should systematically evaluate the demand and seek grant cofinancing from donors to meet this demand.
- Enhance the support for microfinance (paragraph 226-228). The microfinance part of IFAD's programme is still 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 MFIs on what the future institutional framework should look like and how Moldova can move towards it.  
Non-lending
- Use the grant programme to provide the analytic underpinnings for a dialogue on key policy issues (paragraph 231). 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 above and some of the new policy problems that are occurring with regard to ownership and maintenance of infrastructure. But a key to doing this is to understand what underlies these issues. For example, what are the benefits of the microfinance programme? How effective is it in supporting smallholders to move out of poverty? What needs to be done to enhance its impact? IFAD should use its grant programme to carry out analysis of such questions.
  - Expand outreach and strengthen non-lending activities (para. 231). While programme implementation is extremely efficient, IFAD needs 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 with the Government issues relating to the ownership and maintenance of rural irrigation; on partnerships IFAD needs to be more pro-active 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 in this area. IFAD's regional management needs to consider how to exploit the obvious learning potential through comparing the Moldova programme with those in other small Eastern European and former Soviet Union borrowing countries.

## Ratings of IFAD-funded project portfolio in Moldova<sup>a</sup>

<i>Portfolio assessment</i>	<i>IFAD 1</i>	<i>IFAD 2</i>	<i>IFAD 3</i>	<i>IFAD 4</i>	<i>IFAD 5</i>	<i>Overall CPE portfolio assessment</i>
<b>Core performance criteria</b>						
Relevance	5	3	4	5	5	4
Effectiveness	4	4	4	N/A	NA	4
Efficiency	5	5	5	5	5	5
<b>Project performance<sup>b</sup></b>	5	4	4	N/A	N/A	4
<b>Rural poverty impact</b>						
Household income and assets	5	4	4	N/A	N/A	4
Human/social capital and empowerment	5	4	5	N/A	N/A	5
Food security and agricultural productivity	5	4	5	N/A	N/A	5
Natural resources and the environment	NA	NA	N/A	N/A	N/A	NA
Institutions and policies	4	4	4	N/A	N/A	4
Rural poverty impact <sup>c</sup>	5	4	5	N/A	N/A	4
<b>Other performance criteria</b>						
Sustainability	4	4	4	N/A	N/A	4
Innovation and scaling up	4	3	4	N/A	N/A	4
Gender equality and women's empowerment	5	4	3	N/A	N/A	4
<b>Overall project portfolio achievement<sup>d</sup></b>	5	4	4	N/A	N/A	4
<b>Partners' performance</b>						
IFAD	5	3	5	N/A	N/A	4
Government	5	4	5	N/A	N/A	5

<sup>a</sup> Because IFAD's various monitoring systems are all project-based, it is necessary that the individual projects be rated as well as the pillars and programme. The individual project rating have been prepared as part of the desk review. For purposes of aggregation however, the analysis of the CPE has been used rather than the aggregates of the individual project.

<sup>b</sup> Arithmetic average of ratings for relevance, effectiveness and efficiency.

<sup>c</sup> This is not an average of ratings of individual impact domains.

<sup>d</sup> This is not an average of ratings of individual evaluation criteria but an overarching assessment of the project, drawing upon the rating for relevance, effectiveness, efficiency, rural poverty impact, sustainability, innovation and scaling up, and gender.

<sup>e</sup> The rating for partners' performance is not a component of the overall assessment ratings..

## IFAD-financed projects in Moldova

<i>Project</i>	<i>Project type</i>	<i>IFAD financing<sup>a</sup></i> <i>(US\$'000)</i>	<i>Cofinancier total<sup>b</sup></i> <i>(US\$'000)</i>	<i>Total cost</i> <i>(US\$'000)</i>	<i>Board approval</i>	<i>Loan signing</i>	<i>Loan effectiveness</i>	<i>Completion</i>	<i>Cooperating institution</i>	<i>Project status</i>
Rural Finance and Small Enterprise Development Project	Credit and financial services	8	Approved: 5 556 Current: 10 000 (USAID)	15.06	09/12/2009	31/01/2000	01/12/2000	31/12/2005	UNOPS	Closed
Agricultural Revitalization Project	Credit and financial services	14.9	None	18.2	18/12/2003	04/03/2004	24/01/2006	31/03/2013	IFAD	Completed
Rural Business Development Programme	Credit and financial services	13 Loan 0.53 Grant	None	32.26	13/12/2005	21/02/2006	10/07/2006	30/09/2011	IFAD	Closed
Rural Financial Services And Marketing Programme	Credit and financial services	12.7 Loan 0.53 Grant	1 538 (PFIs)	18.95	11/09/2008	29/10/2008	19/02/2009	31/03/2014	IFAD	Ongoing
Rural Financial Services And Agribusiness Development Project	Credit and financial services	19.7 Loan 0.5 Grant	4.5 (DANIDA)	39.3	15/12/2010	21/02/2011	04/07/2011	30/09/2016	IFAD	Ongoing

<sup>a</sup> Includes approved grants, loans, and supplementary loans.

<sup>b</sup> Proposed approved total.



## IFAD-funded grants in Moldova

Grant No.	Recipient	Programme name	Approval date	Closing date	Grant amount (US\$'000)	IFAD's contribution (US\$'000)
1243 (REGIONAL GRANT)	AariCord	Capacity-building for farmers' organizations involved in IFAD Country programmes	05/12/2010	30/09/2014	2 000	1 550
163	Moldovan Microfinance Alliance (MMA)	The extension of the SCAs network to poor and vulnerable groups of the population of Moldova	30/12/1999	31/05/2004	207	75
217	Consultancy and Credit in Agriculture (CCA)	Moldova: the rural finance and small enterprise development project	14/11/2001	30/06/2004	90	90
COFIN-EC-9	Moldova Microfinance Alliance (MMA)	Facilities of Orientation-Attraction of Remittances into Rural Economic Development	03/02/2009	30/09/2011 (closed on 03/10/2012)	189	189
COFIN SUPP-EC 940	Dienst Landbouwkundig Onderzoek (DLO) Foundation	Supply chain management support in Moldova	22/12/2006	28/04/2009	200	200
COFIN-SP 9	Business Consulting Institute (BCI)	Supporting the innovative use of remittance in rural investment	19/05/2010	10/10/2012	309	245
SOF-81	Project Implementation Unit (PIU)	IFAD Rural Finance and Small Enterprise Development Project	12/11/1999	31/12/2007	75	75

## Methodological note on country programme evaluations

1. A country programme evaluation (CPE) conducted by the Independent Office of Evaluation of IFAD (IOE) has two main objectives: assess the performance and impact of IFAD-financed operations in the country; and generate a series of findings and recommendations that will inform the next results-based country strategic opportunities programme (COSOP). It is conducted in accordance with the directives of IFAD's Evaluation Policy<sup>1</sup> and follows the core methodology and processes for CPEs outlined in IOE's Evaluation Manual.<sup>2</sup> This note describes the key elements of the methodology.
2. Focus. A CPE focuses on three mutually reinforcing pillars in the IFAD-government partnership: (i) project portfolio; (ii) non-lending activities; and (iii) the COSOP(s). Based on these building blocks, the CPE makes an overall assessment of the country programme achievements.
3. With regard to assessing the performance of the project portfolio (first pillar), the CPE applies standard evaluation methodology for each project using the internationally-recognized evaluation criteria of relevance, effectiveness, efficiency and rural poverty impact - including impact on household income and assets, human and social capital, food security and agricultural productivity, natural resources and the environment (including climate change<sup>3</sup>), and institutions and policies. The other performance criteria include sustainability, innovation and scaling up, and gender equality and women's empowerment. The performance of partners (IFAD and the government) is also assessed by examining their specific contribution to the design, execution, supervision, implementation-support, and monitoring and evaluation of the specific projects and programmes. The definition of all evaluation criteria is provided in annex 5.
4. The assessment of non-lending activities (second pillar) analyzes the relevance, effectiveness and efficiency of the combined efforts of IFAD and the government to promote policy dialogue, knowledge management, and partnership building. It also reviews global, regional, and country-specific grants as well as achievements and synergy with the lending portfolio.
5. The assessment of the performance of the COSOP (third pillar) is a further, more aggregated, level of analysis that covers the relevance and effectiveness of the COSOP. While in the portfolio assessment the analysis is project-based, in this latter section, the evaluation considers the overall objectives of the programme. The assessment of relevance covers the alignment and coherence of the strategic objectives - including the geographic and subsector focus, partners selected, targeting and synergies with other rural development interventions - , and the provisions for country programme management and COSOP management. The assessment of effectiveness determines the extent to which the overall strategic objectives contained in the COSOP were achieved. The CPE ultimately generates an assessment for the overall achievements of the programme.
6. Approach. In line with international evaluation practices, the CPE evaluation combines: (i) desk review of existing documentation - existing literature, previous IOE evaluations, information material generated by the projects, data and other materials made available by the government or IFAD, including self-evaluation data and reports -; (ii) interviews with relevant stakeholders in IFAD and in the country; and (iii) direct observation of activities in the field.

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<sup>1</sup> <http://www.ifad.org/gbdocs/eb/102/e/EB-2011-102-R-7-Rev-1.pdf>.

<sup>2</sup> [http://www.ifad.org/evaluation/process\\_methodology/doc/manual.pdf](http://www.ifad.org/evaluation/process_methodology/doc/manual.pdf)

<sup>3</sup> On climate change, scaling up and gender, see annex II of document EC 2010/65/W.P.6 approved by the IFAD Evaluation Committee in November 2010: <http://www.ifad.org/gbdocs/eb/ec/e/65/EC-2010-65-W-P-6.pdf>

7. For the field work, a combination of methods are generally used for data gathering: (i) focus group discussions with a set of questions for project user and comparison groups; (ii) Government stakeholders meetings – national, regional/local, including project staff; (iii) sample household visits using a pre-agreed set of questions to household members, to obtain indications of levels of project participation and impact; (iv) key non-government stakeholder meetings – e.g. civil society representatives and private sector.
8. Evaluation findings are based on triangulation of evidence collected from different sources.
9. Rating scale. The performance in each of the three pillars described above and the overall achievements are rated on a scale of 1 to 6 (with 1 being the lowest score, and 6 the highest), enabling to report along the two broad categories of satisfactory (4, 5, and 6) and unsatisfactory performance (1, 2 and 3). Ratings are provided for individual projects/programmes, and on that basis, for the performance of the overall project portfolio. Ratings are also provided for the performance of partners, non-lending activities, the COSOP's relevance and effectiveness as well as the overall achievements of the programme.
10. In line with practices of international financial institutions, the rating scale, in particular when assessing the expected results and impact of an operation, can be defined as follows - taking however due account of the approximation inherent to such definition:
 

Highly satisfactory (6)	The intervention (project, programme, non-lending, etc.) achieved - under a specific criteria or overall –strong progress towards all main objectives/impacts, and had best practice achievements on one or more of them.
Satisfactory (5)	The intervention achieved acceptable progress towards all main objectives/impacts and strong progress on some of them.
Moderately satisfactory (4)	The intervention achieved acceptable (although not strong) progress towards the majority of its main objectives/impacts.
Moderately unsatisfactory (3)	The intervention achieved acceptable progress only in a minority of its objectives/impacts.
Unsatisfactory (2)	The intervention's progress was weak in all objectives/ impacts.
Highly unsatisfactory (1)	The intervention did not make progress in any of its objectives/impacts.
11. It is recognized that differences may exist in the understanding and interpretation of ratings between evaluators (inter-evaluation variability). In order to minimize such variability IOE conducts systematic training of staff and consultants as well as thorough peer reviews.
12. Evaluation process. A CPE is conducted prior to the preparation of a new cooperation strategy in a given country. It entails three main phases: (i) design and desk review phase; (ii) country work phase; (iii) report writing, comments and communication phase.
13. The design and desk review phase entails developing the CPE approach paper. The paper specifies the evaluation objectives, methodology, process, timelines, and key questions. It is followed by a preparatory mission to the country to discuss the draft paper with key partners. During this stage, a desk review is conducted examining available documentation. Project review notes and a consolidated desk

review report are prepared and shared with IFAD's regional division and the government. The main objective of the desk review report is to identify preliminary hypotheses and issues to be analysed during the main CPE mission. During this stage both IFAD and the government conduct a self-assessment at the portfolio, non-lending, and COSOP levels.

14. The country work stage entails convening a multidisciplinary team of consultants to visit the country, holding meetings in the capital city with the government and other partners and traveling to different regions of the country to review activities of IFAD-funded projects on the ground and discuss with beneficiaries, public authorities, project management staff, NGOs, and other partners. A brief summary note is presented at the end of the mission to the government and other key partners.
15. During the report writing, comments and communication of results stage, IOE prepares the draft final CPE report, shared with IFAD's regional division, the government, and other partners for review and comments. The draft benefits from a peer review process within IOE including IOE staff as well as an external senior independent advisor. IOE then distributes the CPE report to partners to disseminate the results of the CPE. IOE and the government organize a national roundtable workshop that focuses on learning and allows multiple stakeholders to discuss the main findings, conclusions and recommendations of the evaluation. The report is publicly disclosed.
16. A core learning partnership (CLP), consisting of the main users of the evaluation, provides guidance to IOE at critical stages in the evaluation process; in particular, it reviews and comments on the draft approach paper, the desk review report and the draft CPE report, and participates in the CPE National Roundtable Workshop.
17. Each CPE evaluation is concluded with an agreement at completion point (ACP). The ACP is a short document which captures the main findings of the evaluation as well as the recommendations contained in the CPE report that IFAD and the government agree to adopt and implement within a specific timeline.

## Definition of the evaluation criteria used by IOE

<i>Criteria</i>	<i>Definition<sup>a</sup></i>
<b>Project performance</b>	
Relevance	The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, institutional priorities and partner and donor policies. It also entails an assessment of project design in achieving its objectives.
Effectiveness	The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.
Efficiency	A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results.
<b>Rural poverty impact<sup>b</sup></b>	Impact is defined as the changes that have occurred or are expected to occur in the lives of the rural poor (whether positive or negative, direct or indirect, intended or unintended) as a result of development interventions.
<ul style="list-style-type: none"> <li>Household income and assets</li> </ul>	Household income provides a means of assessing the flow of economic benefits accruing to an individual or group, whereas assets relate to a stock of accumulated items of economic value.
<ul style="list-style-type: none"> <li>Human and social capital and empowerment</li> </ul>	Human and social capital and empowerment include an assessment of the changes that have occurred in the empowerment of individuals, the quality of grassroots organizations and institutions, and the poor's individual and collective capacity.
<ul style="list-style-type: none"> <li>Food security and agricultural productivity</li> </ul>	Changes in food security relate to availability, access to food and stability of access, whereas changes in agricultural productivity are measured in terms of yields.
<ul style="list-style-type: none"> <li>Natural resources, the environment and climate change</li> </ul>	The focus on natural resources and the environment involves assessing the extent to which a project contributes to changes in the protection, rehabilitation or depletion of natural resources and the environment as well as in mitigating the negative impact of climate change or promoting adaptation measures.
<ul style="list-style-type: none"> <li>Institutions and policies</li> </ul>	The criterion relating to institutions and policies is designed to assess changes in the quality and performance of institutions, policies and the regulatory framework that influence the lives of the poor.
<b>Other performance criteria</b>	The likely continuation of net benefits from a development intervention beyond the phase of external funding support. It also includes an assessment of the likelihood that actual and anticipated results will be resilient to risks beyond the project's life.
<ul style="list-style-type: none"> <li>Innovation and scaling up</li> </ul>	The extent to which IFAD development interventions have: (i) introduced innovative approaches to rural poverty reduction; and (ii) the extent to which these interventions have been (or are likely to be) replicated and scaled up by government authorities, donor organizations, the private sector and others agencies.
<ul style="list-style-type: none"> <li>Gender equality and women's empowerment</li> </ul>	The criterion assesses the efforts made to promote gender equality and women's empowerment in the design, implementation, supervision and implementation support, and evaluation of IFAD-assisted projects. This provides an overarching assessment of the project, drawing upon the analysis made under the various evaluation criteria cited above.
<b>Overall project achievement</b>	This criterion assesses the contribution of partners to project design, execution, monitoring and reporting, supervision and implementation support, and evaluation. It also assesses the performance of individual partners against their

<sup>a</sup> These definitions have been taken from the Organization for Economic Co-operation and Development/Development Assistance Committee *Glossary of Key Terms in Evaluation and Results-Based Management* and from the IFAD Evaluation Manual (2009).

<sup>b</sup> The IFAD Evaluation Manual also deals with the "lack of intervention", that is, no specific intervention may have been foreseen or intended with respect to one or more of the five impact domains. In spite of this, if positive or negative changes are detected and can be attributed in whole or in part to the project, a rating should be assigned to the particular impact domain. On the other hand, if no changes are detected and no intervention was foreseen or intended, then no rating (or the mention "not applicable") is assigned.

## List of key persons met

Andriuta Liviu, Executive Director, Business Consulting Institute

Badrajan Valentina, Executive Director, MCA Moldova

Bilba Mihail, Director, International Relations Department, Chamber of Commerce and Industry of the Republic of Moldova

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Bozu Valentin, Deputy Executive Director, MCA Moldova

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Cebotariov Alina, Director, Collective Placements and Microfinance Genera Directorate, National Commission of Financial Market

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Cicanci Galina, Vice President, Rural Finance Corporation

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Ciurea Lucretia, State Chancellery

Cuculescu Andrei, Director, Department for Road Development, Ministry of Transport and Roads Infrastructure

Cuhal Veronica, Head of Foreign Relations and Development, National Commission of Financial Market

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Filip Iurie, Member of the Council of Administration, National Commission for Financial Market

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Gangura Ion, President, Rural Finance Corporation

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Levinta Iaroslav, Chief of Loan Department, Banca Sociala, Head Office

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Luchita Sergiu, Access to agriculture finance activity Officer, MCA Moldova

Lupanciuc Efim, Director General, Central Association of SCAs

Magdil Sergiu, Director, Consolidated Environmental Projects Implementation Unit, Ministry of Environment

Maleru Petru, Director, AIPA

Manic Dragos, Head of Corporate Loan Division, Victoria Bank, Head Office

Melcinenco Ecaterina, Project Manager, UNDP

Mihai Bilba, Chamber of Commerce

Mindru Tatiana, Monitoring & Evaluation Specialist, CPIU-IFAD

Miron Rodica, USAID

Mirzenco Vasile, Executive Director, National Farmers Federation Moldova

Mocanu Nadejda, Country Director, CNFCA-Farmer to Farmer Programme

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Oprunenco Alex, Policy Specialist, UNDP

Osmochescu Eugeniu, IFC

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Panciu

Paul, Executive Chairman, Micro Invest

Periu Ion, Deputy COP, ACED Programme

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Sobuleac Sergiu, CFO, MicroInvest

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Stratan Petru, Chief Executive Officer, Fruit Producers Association

Sula Ion, General Directorate of Sectorial Development Policies, Head of the Department,  
Ministry of Agriculture and Food Industry

Suvac Mihail, Head of Department, Dept. of Production Policies and Quality Regulations  
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Vettters Nadja, Assistant Resident Representative, Environment and Energy, UNDP

Vladicescu Veaceslav, Environment and Social Expert, Road Rehabilitation Project, MCA  
Zabolotni Sergiu, Director, Grapes and Exporters Association of Moldova

#### Field visits

Acba Maria, Owner, Cattle farm/dairy products (IFAD III), Tomai, Gagauzya

B e Alexandru, Representative of client-group, Water supply, Antonesti, Stefan Voda

Beiu Filip, Coordinator "Befighet-Agro" SRL (IFAD II)

Boldurat Ilie, Mayor, Susleni

#### Ceban

Lucia, Owner, Wheat mill; aggregates (IFAD I), Cotiujenii Mari, Soldanesti

Chiorescu, Alexandru, Owner, Tractor, Dumbravita, Singerei

Cires Vasile, Owner of large-scale dairy farm and eco cheese factory, Heuveland SRL  
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Diaconu Mihail, Tractor owner, Manoilesti, Ungheni

Dogocher Corina, Owner, Milk collection point

Dudca Veronica, Secretary of the Council, Singerei, Grigorauca, Village Council

Glodeanu Vladislav & Anatolie, Owner, Family farm (Tractor/Orchard plantation-IFAD II),  
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Gurau Mihail, SCA "Furnica-Razeni", Razeni, Ialoveni

Hincu Cristian, Director, Andridor Grup Ltd

Iabanji Andrei, Owner, Tractor (IFAD V), Bascalialia, Basarabeasca

Ivanov Alexe, Demo plot on conservation farming-Malalesti

Kiktenko Nicolae, Large-scale farmer, Gospodarul Rediu SRL (Demonstration plot)-Rediul  
de sus, Falesti

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Puhaceni, Anenii Noi

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Rovenco Victor, Technical Assistance Beneficiary, Farm-Prod SRL, Olanesti, Stefan Voda

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#### Strechii

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Tamazlicari Alexei, President, SCA Sculeni

Cristina, Owner, Micragrolux (Fertilizer dispenser-IFAD V), Taraclia



Viorel Minciuna, Director, SRL PALLER-GROUP  
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