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**REPUBLIC OF MOLDOVA**

**PRESIDENT'S MEMORANDUM**

**EXPANSION OF THE PROJECT AREA OF THE RURAL FINANCE AND SMALL  
ENTERPRISE DEVELOPMENT PROJECT (LOAN NO. 527-MD)**





## REPUBLIC OF MOLDOVA

### PRESIDENT'S MEMORANDUM

#### EXPANSION OF THE PROJECT AREA OF THE RURAL FINANCE AND SMALL ENTERPRISE DEVELOPMENT PROJECT (LOAN NO. 527-MD)

##### I. BACKGROUND

###### A. Country and Agricultural Sector

1. The Republic of Moldova, with an estimated population of 4.3 million, an area of 33 000 square kilometres (km<sup>2</sup>) and a population density of 129 persons per km<sup>2</sup>, is the smallest country in the Commonwealth of Independent States. Some 54% of the total population is rural. Poverty is increasing, reflecting the decline of the economy in general and the agricultural economy, in particular. Per capita gross national income (GNI) is currently about USD 370, less than a quarter of what it was in 1990.

2. The economy of the Republic of Moldova has deteriorated dramatically since independence in 1991. In 2000, the gross domestic product (GDP) was USD 1 230 million. Its principal components were agriculture (28%), industry (20%) and services (52%, of which construction accounted for 3%). Agricultural products accounted for 60% of export revenue. By volume, however, exports of high-value vegetables, fruits, wine, canned fruits and beef fell by more than half over the 1990s, while grain and sunflower seed exports increased several-fold. The Republic of Moldova's general terms of trade are estimated to have declined by between 40 and 50%.

3. Agriculture production dropped by about 35% in the first half of the 1990s, and by a further 20% in the second half. The general trend has been a shift from higher-value crops such as grapes and fruit to field crops such as cereals. At the end of 2000, field crops occupied about 70% of total arable land, while vineyards and orchards occupied about 7% each. Most of the decline in agricultural production is the result of lower productivity, and can be attributed to various factors: loss of subsidized inputs, shrinking markets, the collapse of irrigation systems, outmoded machinery and equipment, lack of small-farm management skills, undeveloped agricultural financial and technical services, inadequate investment for growth, adverse weather, and a lengthy stop-go pattern of land privatization and farm restructuring.

###### B. The Rural Finance and Small Enterprise Development Project

4. The Rural Finance and Small Enterprise Development Project (RFSEDP), IFAD's first project in the Republic of Moldova, is being financed through a loan of 5.8 million Special Drawing Rights (SDR) (USD 8 million). The project, declared effective in December 2000, aims to generate sustainable increases in the household incomes of the poorest farmers. It will achieve this by establishing a responsive institutional framework for the delivery of grass-roots rural financial services, and ensuring that the rural poor actively participate in their management.

5. The project has two main components: (i) a small enterprise development fund (SEDF) to stimulate private small-scale business investment; and (ii) the formation of grass-roots saving and credit associations (SCAs) to provide short-term micro-loans to members through loans from the Rural Finance Corporation (RFC). The project started on a pilot basis in the *judete* (county) of



Ungheni with the understanding that it would expand to other areas where the rural poor expressed a demand for rural financial services.

### C. Implementation Progress as of June 2002

6. As of June 2002 a well-staffed project implementation unit (PIU) is in place. The PIU is being supported by a non-governmental organization (NGO), Consultancy and Credit in Agriculture (CCA), and is financed through an IFAD NGO/Extended Cooperation Programme (ECP) grant to assist in the establishment of SCAs. To date, 12 villages have applied, and six SCAs have been established and registered in Ungheni. SCAs in the county have on-lent a total of USD 260 000 (contracted from RFC) to 1 216 members in the form of seasonal agricultural loans.

7. The SEDF has provided 28 loans to small agriculture-related enterprises totalling USD 506 000 and supplemented by a beneficiary contribution of USD 171 000. The loans have directly helped to create 110 new jobs (51 permanent and 59 seasonal) and have indirectly had an impact on 1 800 landowners by increasing their income through land-lease arrangements. The small enterprises covered carry out a wide range of activities:

- **Agricultural machinery and equipment** – 11 enterprises (38% of loan amounts). These enterprises have provided quality machinery services to 523 small private farmers.
- **Agricultural processing equipment** – seven enterprises (30%). Two wheat mills and one maize mill, two sunflower-oil presses and two fruit-processing lines have been established. The wheat and maize mills are benefiting approximately 15 000 rural families in about 20 villages. The oil-processing activities are benefiting 1 000 rural families. In most cases, these are small private farmers and families in need of processing the in-kind (sunflower/seed) lease payment for their land share into oil for their own consumption and/or marketing.
- **Small livestock and fish development** – five enterprises (12%). Over 450 landowners are using the manure generated from these small livestock farms to increase the soil fertility, and hence the value, of their land. In addition, at least 30 small private farmers have found a market for their fodder crops. Fishing activities will increase the food security of at least 700 rural families from about five villages (fish replacing scarce and expensive meat).
- **Agricultural collection centres/marketing** – two enterprises (6%). These centres have collected over 70 tonnes of agricultural products (wild roses, walnuts and beans) from at least 300 small private farmers and rural families.
- **Establishment of vineyards and orchards** – two enterprises (8%). Some 27 hectares (ha) of vineyards and 10 ha of plum orchards have been planted. This is a crucial sphere of development given that most perennial plantations in the Republic of Moldova are old and/or diseased.
- **Farm service centre** – one enterprise (4%). Thirty private farmers have benefited from the centre's services.
- **Greenhouse establishment** – one enterprise (2%). Encouraging farmers to minimize risks by moving to more weather-controlled agriculture is an important aspect promoted by the SEDF. Thanks to greenhouse establishment, an estimated 500 low-income rural families will increase their access to off-season vegetables.



## II. RATIONALE FOR THE PROPOSED EXPANSION OF THE PROJECT AREA

### A. Introduction

8. In April 2002, the Government of the Republic of Moldova requested IFAD to expand the project area, which presently covers only the *judete* of Ungheni. The expansion will allow SEDF activities to be extended to the counties of Bălți, Cahul, Chisinău (excluding the city of Chisinău), Edinet, Lăpusna, Orhei, Soroca, Taraclia, and Tighina, and to the Autonomous Region of Gagauzia, where rural poverty is equally severe. A map of the existing and of the proposed project area is attached. With respect to the activities related to the SCA component, the project area will be maintained since the potential demand for credit is not a constraint. The above-mentioned amendment requires the approval of the Executive Board.

### B. Rationale

9. On the basis of the implementation progress described in paragraph 7, the demand for credit from existing and potential small and medium enterprises (SMEs) in the current project area would be insufficient to absorb the allocated funding. Indeed, a recent survey in the project area showed that 80 SMEs are registered and the need for additional SME registrations is low. Out of these 80 SMEs, only 40 are financially viable borrowers. Of these, 29 have already received project financing, and the remaining are being assessed for possible future financing.

10. It is important to note that estimates made during project design of credit uptake in Ungheni county for the SEDF could only be approximate, as this was a new and innovative initiative. Provision was therefore made in the loan agreement to allow for the extension of project activities to other *judets*. Indeed, the appraisal report states, "Should there be less than anticipated demand in the pilot area, the funds could be allocated to other areas."

11. The proposed expansion of the project area will: (i) allow the project to be fully implemented within the originally set project completion date (December 2005); (ii) demonstrate the project's innovative features on a national scale; and (iii) increase the universe of SMEs competing for the SEDF fund and for targeting. In addition, this expansion will enhance the partnership with other donors financing complementary programmes with national coverage, particularly the United States Agency for International Development (USAID)/Citizen's Network for Foreign Affairs (CNFA), the World Bank and the Japanese Aid for Increased Food Production (2KR) Programme.

12. It is not expected that the PIU will face human resources constraints in implementing the project in the expanded geographical area. There is also no need to reallocate staff among categories.

## III. RECOMMENDATION

13. I recommend that the Executive Board approve:

The expansion of project activities to the counties of Bălți, Cahul, Chisinău (excluding the city of Chisinău), Edinet, Lăpusna, Orhei, Soroca, Taraclia and Tighina, and to the Autonomous Region of Gagauzia.





## REPUBLIC OF MOLDOVA

### RURAL FINANCE AND SMALL ENTERPRISE DEVELOPMENT PROJECT



Source: IFAD

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.