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**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board – Eightieth Session**  
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**REPORT AND RECOMMENDATION OF THE PRESIDENT**

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

**REPUBLIC OF MOLDOVA**

FOR THE

**AGRICULTURAL REVITALIZATION PROJECT**



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**CURRENCY EQUIVALENTS**

Currency Unit	=	Moldovan leu (lei) (MDL)
USD 1.00	=	MDL 13.0
MDL 10	=	USD 0.77

**WEIGHTS AND MEASURES**

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m <sup>2</sup> )	=	10.76 square feet (ft <sup>2</sup> )
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

**ABBREVIATIONS AND ACRONYMS**

ARAC	Agricultural Revitalization Advisory Committee
AWP/B	Annual Work Programme and Budget
CPIU-IFAD	Consolidated Project Implementation Unit-IFAD
M&E	Monitoring and Evaluation
MAFI	Ministry of Agriculture and Food Industry
MOF	Ministry of Finance
PFI	Participating Financing Institution
RFSEDP	Rural Finance and Small Enterprise Development Project
ROO	Regional Operations Officer
SCA	Savings and Credit Association

**GOVERNMENT OF THE REPUBLIC OF MOLDOVA**  
**Fiscal Year**

1 January-31 December

## MAP OF THE PROJECT AREA



**Source:** United Nations Department of Public Information – Cartographic Section.

*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.*

**REPUBLIC OF MOLDOVA**  
**AGRICULTURAL REVITALIZATION PROJECT**

**LOAN SUMMARY**

<b>INITIATING INSTITUTION:</b>	IFAD
<b>BORROWER:</b>	Republic of Moldova
<b>EXECUTING AGENCY:</b>	Ministry of Agriculture and Food Industry
<b>TOTAL PROJECT COST:</b>	USD 18.2 million
<b>AMOUNT OF IFAD LOAN:</b>	SDR 10.3 million (equivalent to approximately USD 14.9 million)
<b>TERMS OF IFAD LOAN:</b>	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
<b>COFINANCIERS:</b>	None
<b>CONTRIBUTION OF BORROWER:</b>	USD 274 500
<b>CONTRIBUTION OF BENEFICIARIES:</b>	USD 3.0 million
<b>APPRAISING INSTITUTION:</b>	IFAD
<b>COOPERATING INSTITUTION:</b>	United Nations Office for Project Services

**PROJECT BRIEF**

**Who are the beneficiaries?** The project will target rural communities in about 60 villages with an estimated population of 180 000 people (45 000 households). These rural people have experienced steep declines in their welfare and livelihoods as a result of the break-up of economic infrastructure and rural support services after independence, and the slow and painful transition from a command to a market-based economy. The project's direct participants and primary beneficiaries will be village agricultural workers and their families; members of farmers' organizations; entrepreneurs involved in agro-services, agro-processing and marketing; and other local people benefiting from increased employment and income-generating opportunities. The project will pay particular attention to two groups where poverty is most prevalent and severe: families owning small farms and agricultural wage labourers, both men and women.

**Why are they poor?** Poor economic performance in the Republic of Moldova since independence, and the associated collapse of the production and marketing support systems, has led to growing poverty and worsening social welfare. Per capita gross national income is estimated at USD 460, and average annual per capita cash income is about USD 180, the lowest in Europe. Almost half of the population falls below the absolute poverty line of USD 220 per capita. Poverty among potential beneficiary households is attributable to: (i) a drastic decline in agricultural production in the country; (ii) the disintegration of the country's traditional market outlets, especially following the Russian Federation's financial crisis; (iii) the resulting shift, as a coping mechanism, from higher-value production and processing to low-value subsistence crops; and (iv) the erosion of the social welfare system, which has left many without pensions and basic social services.

**What will the project do for them?** The project will enable communities to create a sustainable basis for poverty reduction through employment and income-generation by (i) converting about 10 000 hectares of land from extensive cultivation of low-yield, lower-value crops to intensive cultivation of higher-value crops; (ii) establishing operational linkages between farming, on the one hand, and agro-services, agroprocessing and marketing channels, on the other, and providing opportunities for the development of other off-farm employment and income-generating activities; and (iii) improving village economic infrastructure and enhancing the quality and value of land and villagers' other agricultural assets.

**How will the beneficiaries participate in the project?** The beneficiaries will participate in this community-based development project through their representative organizations, which will be developed with institutional and financial support from the project. As they are enabled, beneficiaries will take the lead in identifying and prioritizing the constraints they face, and in planning and implementing appropriate interventions to address those constraints. Project beneficiaries will thus participate in the entire project cycle – from identification of community needs to sub-project implementation – thereby ensuring that project-financed activities are responsive to community needs and, consequently, sustainable.



**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD  
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE  
REPUBLIC OF MOLDOVA  
FOR THE  
AGRICULTURAL REVITALIZATION PROJECT**

I submit the following Report and Recommendation on a proposed loan to the Republic of Moldova for SDR 10.3 million (equivalent to approximately USD 14.9 million) on highly concessional terms to help finance the Agricultural Revitalization Project. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one percent (0.75%) per annum. It will be administered by the United Nations Office for Project Services as IFAD's cooperating institution.

**PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY<sup>1</sup>**

**A. The Economy and Agricultural Sector**

1. The Republic of Moldova is a small landlocked country bordered by Romania in the west, and Ukraine to the north, east and south. Covering an area of approximately 33 700 square kilometres, it has a population of 4.3 million. A civil war, which erupted in 1992, a year after independence, led to the creation of Transnistria, leaving the country de facto divided. The political situation remains volatile, reflecting the fine balance between the left and the right, with a succession of governments since independence. Political uncertainty has resulted in a fragmented and often stalled programme of political and economic reforms.

2. In February 2001, following early elections necessitated by the Parliament's inability to elect a president, a disaffected electorate, which had endured years of declining incomes and political instability, gave the populist Communist Party of the Republic of Moldova an absolute majority in Parliament. This has resulted in a more stable government, although the Government's initial populist programme has evolved gradually into a programme based on market-oriented principles underpinned by anti-corruption measures.

3. The Republic of Moldova's economic performance over the last decade has been poor. The economy contracted by 14.1% overall in the 1989-99 period, with a 16% fall in both agriculture and industry, which was not offset by the extremely modest positive 1.8% growth in services. Recorded output declined in cumulative terms by almost 60%. Since 2000, macroeconomic results have gradually improved, with real gross domestic product (GDP) growth increasing from approximately 2% in 2000 to 7.2% in 2002.

4. Poor economic performance has led to growing poverty and worsening social welfare. While at independence the Republic of Moldova was classified as a middle-income country, it is now the poorest nation in Europe. Per capita gross national income is estimated at USD 460, and average annual per capita cash income is about USD 180. Almost half of the population fall below the absolute poverty line of USD 220 per capita. An indicator of this harsh reality is food consumption – the average daily caloric intake of 1 980 calories is well below the 2 500 calories conventionally

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<sup>1</sup> See Appendix I for additional information.

regarded as the male adult minimum for good health. About 10% of the population actually consume fewer than 1 500 calories per capita per day, and are at risk of malnutrition.

5. Agriculture currently accounts for about 25% of the Republic of Moldova's GDP, with agroprocessing accounting for another 20%. These sectors generate about 65% of export earnings, and provide employment for about 40% of the labour force. Agricultural production is, however, currently less than half of what it was at the time of the break-up of the former Soviet Union. This decline is largely due to the collapse of the former Soviet 'command system', which dictated production models, provided physical and technical inputs, and ensured processing and marketing outlets. After independence, the Republic of Moldova's traditional input supply, financing and marketing channels were seriously disrupted.

6. The disintegration of the country's traditional market outlets, especially following the Russian Federation's financial crisis of August 1998, further exacerbated the collapse of the agricultural sector. To ensure a minimum level of subsistence, many villages had to shift from higher-value, market-oriented production systems (vegetables, fruit trees) to less irrigation-dependent and less market-oriented production systems (wheat, barley, maize and potatoes). Owing to a slow and strictly equity-based land privatization process, disintegration of village organization and management structures, and major changes in production and farming systems, crop yields have declined sharply (between 20 and 60%, depending on the crop concerned).

7. Given the changes in land use and cropping patterns, the migration from villages of the more able workers, the break-up of the intensive livestock production units, and the shift to rainfed crops, labour productivity has been halved. This has further eroded the profitability of agriculture and the welfare of rural communities. The consequent sharp decline in household incomes, the growing burden of older residents no longer able to rely on the pension system, and increasingly limited social services have exacerbated poverty in rural areas.

### **B. Lessons Learned from Previous IFAD Experience**

8. IFAD has financed one project in the Republic of Moldova, the ongoing Rural Finance and Small Enterprise Development Project (RFSEDP) effective since December 2000 through a loan of 5.8 million Special Drawing Rights (about USD 8 million). The project's overall goal is to generate sustainable increases in rural household incomes during the transition to a market economy. To this end, the project facilitates the rural poor's access to financial services by forming savings and credit associations (SCAs) and providing credit to small and medium-scale rural enterprises through a small enterprise development fund. Implementation has thus far been positive and is on schedule, with disbursements currently standing at 55%.

9. The project's mid-term review, conducted in May 2003, and an analysis of the development programmes of other institutions involved in the Republic of Moldova have provided IFAD with a number of lessons that will help sharpen the focus of its future projects. Most external funding agencies have so far tended to support specific sector needs in geographically delimited areas of the country. Their experience indicates that, despite the severely deteriorating production environment, the potential and development opportunities in agriculture justify interventions to revitalize the sector. Efforts in that direction should promote active stakeholder participation, and should be sufficiently flexible to allow for timely adjustments during implementation, if needed. Experience in the Republic of Moldova also indicates that, to be sustainable, interventions supporting agriculture need to address a broader range of constraints, as jointly perceived by landowners, producers, service providers, marketing agents and processors. Interventions should also be carefully coordinated, mutually supportive and interlocked to sustain community interest. Communities need to recognize that they have a role in managing local agricultural assets and in revitalizing the village agricultural economy.

10. To some extent, the approach to poverty reduction in the Republic of Moldova can be guided by lessons learned in the structurally similar economies of the region. The collapse of Soviet central planning caused an institutional vacuum, depriving agriculture of critical services. Access to capital has also been limited, making it difficult to develop new or rehabilitate/maintain existing production infrastructure. Experience has shown that under such circumstances, long-term economic growth and poverty reduction require sustained commitment to building new institutions, creating conditions for the effective exploitation of production assets, and strengthening village infrastructure. A long-term institutional focus is also needed to create and sustain rural financial services, particularly at the local level where potential borrowers are likely to have limited collateral and little experience in the use of credit, and where the current financial system lacks the capacity to serve rural clients cost-effectively.

11. Similarly, poor access to cost-effective irrigation systems and reliable domestic and export markets are significant barriers to agricultural development and profitability. Past experience shows that to correct such shortcomings, opportunities need to be created to motivate private entrepreneurs, traders, input suppliers, service providers and private investors to participate in programmes facilitating the transition process. It has also been demonstrated that support for agricultural services, agro-processing and companion areas of the non-farm rural economy, as part of efforts to increase economic rationalization and efficiency, is critical for employment creation and sustainable rural poverty reduction.

### **C. IFAD's Strategy for Collaboration with the Republic of Moldova**

#### **Republic of Moldova's Policy for Poverty Reduction**

12. The Government's economic strategy places high priority on agricultural and rural development as a means to increase rural incomes and living standards. The last Government, in collaboration with the International Monetary Fund and the World Bank, drew up an Interim Poverty Reduction Strategy Paper (I-PRSP) as the initial step in launching a national poverty reduction plan. The present Government has reaffirmed the basic precepts of the I-PRSP, and has begun preparation of a full PRSP. The I-PRSP emphasizes: (i) sustainable and inclusive economic growth that will generate increased incomes and provide productive employment; (ii) human development policies giving prominence to improved access to basic social services; and (iii) social protection policies targeting the neediest. Medium-term economic growth is envisaged as stemming primarily from the development of economic activities where the private sector is motivated to play a leading role and where the country has a comparative advantage.

#### **Poverty Eradication Activities of Other Major Donors**

13. The European Union supports the government food security programme and provides technical assistance to the Ministry of Agriculture and Food Industry (MAFI) through the Tacis programme. The World Bank, in its ongoing Rural Investment and Services Project, is tackling rural poverty by providing credit, agricultural advisory services and assistance for farmer group formation. The United States Agency for International Development, working mainly through its Private Farmers Assistance Programme and the Private Enterprise Development Programme, focuses on establishing a market environment that supports and fosters broad-based growth, and on stimulating private enterprise growth as a means of providing employment, income and services to the population. The Department for International Development (DFID) (United Kingdom) and the Swedish International Development Cooperation Agency, in their assistance to the Republic of Moldova, focus on sustainable rural livelihoods, rights to land, access to markets, social infrastructure, environmental degradation, SCAs and support to civil society. The principal DFID initiative to date has been the Sustainable Rural Livelihoods Pilot Project, now in its second phase, which aims to improve access to legal services, credit and markets; provide technical assistance for farmers and local support to rural infrastructure; and create SCAs.

## IFAD Strategy in the Republic of Moldova

14. In the context of the Fund's regional strategy and the prevailing economic circumstances in the Republic of Moldova, future poverty reduction efforts must link the rural poor to agricultural and related rural sector growth. IFAD's strategic niche in the country is to realize this linkage as effectively and efficiently as possible in terms of policy, institution-building and production, regulating the type, level and flow of benefits accordingly. Agricultural growth remains central to the Fund's country strategy, since it has a direct and immediate bearing on rural poverty.

15. **Community participation.** In its country approach, IFAD assigns high importance to developing representative, self-governed community organizations capable of acting as community advocates, and to empowering these organizations to take the lead in the design and implementation of community-specific agricultural development activities. This ensures that development programmes are sustainable and targeted to the needs of beneficiaries.

16. **Institution-building.** To identify and address community needs, especially those of disadvantaged groups, various institutional mechanisms must be put in place. This will make it possible for community organizations to determine basic constraints, reach a consensus on a development vision and intervention priorities, and implement development activities.

### Project Rationale

17. Both the Government and IFAD support the concept that agricultural and rural sector growth forms the basis for the sustainable development of the poor, who are overwhelmingly located in rural areas. They also agree on the need to develop community-based organizations capable not only of representing rural communities but also of identifying and supervising the implementation of necessary development interventions. The lessons learned from ongoing development efforts in the Republic of Moldova demonstrate that a more holistic approach, offering a range of services to interested communities, would be significantly more responsive to the needs of the country's rural poor.

18. Based on these considerations, the Agricultural Revitalization Project will seek to reduce poverty at the community level by promoting transparency in governance, creating an enabling environment for the emergence of local entrepreneurs, and fostering the growth of off-farm, small-scale enterprises and business ventures.

19. The project will support development through self-help. By mobilizing communities and building their capacities, it will help initiate and sustain grass-roots development. While focusing on the long-term interests of the community, it will also seek to motivate individuals and groups in the community to participate in the project by investing in sustainable programmes that meet their own business requirements and enhance the community's economic base. Through sustained institutional support, the project will help develop a basis for cooperation and trust, and will promote transparency, self-governance and participatory self-help in development.

20. Communities in all Moldovan villages are poor by international standards. Opportunities for productive employment are scarce. Living conditions are difficult and access to basic services is limited. Many of the youths and heads of household are leaving the countryside to find employment in the cities and in other parts of Europe or the former Soviet Union. Since there are few jobs paying a living wage in rural areas and socio-economic conditions are deteriorating, the rural way of life has acquired a negative image.

21. The project aims to help change that image by stimulating communities to take an active interest in transforming their economies, and in realizing their own vision of the future. It will encourage business leaders and entrepreneurs to act as catalysts in the revitalization of agriculture in a

way that will benefit both themselves and the local communities. To help redirect the collective mindset away from dependence on government, the project will provide incentives for operationalizing local initiatives to achieve self-reliance and enhance community welfare. A strong programme of community capacity-building will underpin a participatory process that will foster an environment for consensus-building, along with operational procedures for constructive partnerships among various groups in village communities. This will also help establish linkages between farmers, on the one hand, and service providers, agro-processors, and marketing agents, on the other.

## PART II – THE PROJECT

### A. Project Area and Target Group

22. **Project area.** The project will be national in scope, but will be limited to those areas of the Government's territory under its control. All villages where rural poverty is significant and a potential exists for employment creation and income-generation through commercially viable agriculture will be given the opportunity to compete for project resources.

23. **Target group.** The incidence of poverty is significantly higher in rural areas, with the rural population comprising over two thirds of the country's poor. The target group will therefore consist of rural communities in about 60 villages with an estimated total population of 180 000 (about 45 000 households). The project's direct participants and primary beneficiaries will be village agricultural workers and their families; members of farmers' organizations; entrepreneurs involved in agro-services, agro-processing and marketing; and other local people benefiting from increased employment and income-generating opportunities.

24. This target group will comprise rural people affected by the break-up of economic infrastructure and rural support services following independence, and by the slow and painful transition from a command to a market-based economy. Beneficiaries will fall primarily into two categories where poverty is most prevalent and severe, namely families owning small farms and agricultural wage labourers, both men and women.

25. The transition process has impacted negatively on the roles and responsibilities of women. Their appointment to positions of importance in public administration, for instance, has declined markedly: women occupy only 13% of seats in Parliament and 10% of positions in regional government. At present, women represent 51% of the total workforce, and are concentrated in agriculture (50%) and services (40%). Although women educated in the Soviet system are finding it increasingly difficult to find employment, the number of small private businesses owned and operated by women has increased steadily.

### B. Objectives and Scope

26. The project's overall goal is to contribute to sustainable poverty reduction in rural areas of the Republic of Moldova, and to improve rural livelihoods through higher qualitative and quantitative levels of agricultural production, increased incomes, and a transparent, replicable governance process. Specifically, the project will:

- create productive employment and improve rural assets through a farmer-entrepreneur partnership, which will lead to the: (i) conversion of approximately 10 000 hectares of land in about 60 villages to intensive cultivation of high-value crops; and (ii) establishment of linkages between farming, and agro-services, agro-processing and marketing channels, and creation of off-farm income-generating opportunities.
- create a replicable revitalization process, by: (i) establishing a proven process for community-based planning and implementation of development interventions; and

(ii) developing, with government support, an approach for the revitalization of rural communities that focuses on operationalizing backward and forward market linkages.

### C. Components

27. **Participatory community development.** This component will build capacities for decentralized and participatory community development with the support of local government and private-sector service providers. It will motivate beneficiaries and empower them to identify, design and implement community-driven investment programmes. Two sub-components are envisaged:

- **community mobilization and empowerment.** The project will disseminate information on community-focused capacity-building activities through: (i) a country-wide promotional campaign and regional sensitization meetings; and (ii) a parallel community empowerment programme, which will provide training and technical assistance for communities interested in developing community development plans; and
- **technical support and training.** The project will provide beneficiary organizations in partner villages with necessary technical assistance and specialized training, as required, to stimulate their effective participation in the project.

28. **Institutional capacity-building.** Through this component, the project will seek to develop the capacity needed to introduce a participatory revitalization process. It will provide opportunities to service providers and local government institutions to participate in orientation programmes that will familiarize them with the project's concept and its participatory approach.

29. **Community economic investments.** Through this component, participating village communities will be able to access capital complementing their own resources to intensify and expand commercial agricultural production, agro-services and agro-processing activities. Access to resources will be strictly demand-driven and will support investments that conform to the project's objectives. Resources will, for instance, be allocated to rehabilitate small-scale irrigation, replant or plant orchards and vineyards; renovate livestock infrastructure; and establish productive infrastructure such as greenhouses and small-scale agro-processing facilities. Project funds intended for lending to private village participants will be channelled through qualified financial institutions, which will manage on-lending (from loan appraisal to recovery) on the basis of village development plans cleared by the consolidated project implementation unit (CPIU-IFAD). Participating financing institutions (PFIs) will assume the credit risk.

30. **Project management.** The CPIU-IFAD will be established as part of the MAFI. It will have implementation responsibility for both this project and the ongoing RFSEDP. National coordination will be ensured by an agricultural revitalization advisory committee (ARAC) with representatives from the MAFI, Ministry of Finance (MOF) and the Agricultural Committee of Parliament, as well as beneficiary representatives. The ARAC will also be responsible for the appointment of the project director. The CPIU-IFAD will be constituted as an autonomous project implementation unit, with the full complement of staff and resources from the current RFSEDP project implementation unit, together with the incremental staff and additional resources necessary to ensure smooth implementation of the Agricultural Revitalization Project.

### D. Costs and Financing

31. Total project costs, including physical and price contingencies, will amount to USD 18.2 million, as summarized in Table 1. The project will be financed by an IFAD loan of USD 14.9 million, or 82.0% of total project costs. Project beneficiaries will contribute approximately USD 3.0 million (16.5%). The Government's contribution of USD 274 500 (1.5%) will cover all taxes and duties. The financing plan is presented in Table 2.

**TABLE 1: SUMMARY OF PROJECT COSTS<sup>a</sup>**  
(USD '000)

Components	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
<b>Participatory community development</b>					
Community mobilization and empowerment	738.3	42.1	780.5	5	4
Technical support and training	297.0	159.4	456.4	35	3
<b>Subtotal</b>	<b>1 035.3</b>	<b>201.6</b>	<b>1 236.9</b>	<b>16</b>	<b>7</b>
<b>Institutional capacity-building</b>	40.0	263.0	303.0	87	2
<b>Community economic investments</b>	6 600.0	8 400.0	15 000.0	56	84
<b>Project management</b>					
Project implementation planning and M&E	760.2	65.9	142.1	46	1
CPIU-IFAD	859.1	252.1	1 111.1	23	6
<b>Subtotal</b>	<b>935.3</b>	<b>317.9</b>	<b>1 253.2</b>	<b>25</b>	<b>7</b>
<b>Total Baseline Costs</b>	<b>8 610.6</b>	<b>9 182.5</b>	<b>17 793.1</b>	<b>52</b>	<b>100</b>
Physical contingencies	70.3	19.7	90.0	22	1
Price contingencies	219.7	63.2	282.9	22	2
<b>Total Project Costs</b>	<b>8 900.6</b>	<b>9 265.4</b>	<b>18 166.1</b>	<b>51</b>	<b>103</b>

<sup>a</sup> Discrepancies in totals are due to rounding.

**TABLE 2: FINANCING PLAN<sup>a</sup>**  
(USD '000)

	Government		IFAD		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%			
<b>Participatory community development</b>											
Community mobilization and empowerment	17.5	1.9	885.3	98.1	-	-	902.8	5.0	49.0	836.3	17.5
Technical support and training	29.4	5.6	495.1	94.4	-	-	524.5	2.9	180.1	315.0	29.4
<b>Subtotal</b>	<b>46.9</b>	<b>3.3</b>	<b>1 380.4</b>	<b>96.7</b>	<b>-</b>	<b>-</b>	<b>1 427.3</b>	<b>7.9</b>	<b>229.1</b>	<b>1 151.3</b>	<b>46.9</b>
<b>Institutional capacity-building</b>	1.9	0.6	318.8	99.4	-	-	320.7	1.8	277.3	41.5	1.9
<b>Community economic investments</b>	0.0	-	12 000.0	80.0	3 000.0	20.0	15 000.0	82.6	8 400.0	6 600.0	-
<b>Project management</b>											
1. Project implementation planning and M&E	-	-	161.8	100.0	-	-	161.8	0.9	75.9	85.9	-
2. CPIU-IFAD	225.7	18.0	1 030.6	82.0	-	-	1 256.3	6.9	283.1	747.5	225.7
<b>Subtotal</b>	<b>225.7</b>	<b>15.9</b>	<b>1 192.4</b>	<b>84.1</b>	<b>-</b>	<b>-</b>	<b>1 418.1</b>	<b>7.8</b>	<b>359.0</b>	<b>833.4</b>	<b>225.7</b>
<b>Total Project Costs</b>	<b>274.5</b>	<b>1.5</b>	<b>14 891.6</b>	<b>82.0</b>	<b>3 000.0</b>	<b>16.5</b>	<b>18 166.1</b>	<b>100.0</b>	<b>9 265.4</b>	<b>8 626.1</b>	<b>274.5</b>

<sup>a</sup> Discrepancies in totals are due to rounding.

### E. Procurement, Disbursement, Accounts and Audit

32. **Procurement.** Goods and physical works to be financed from the proceeds of the loan will be procured in accordance with IFAD procurement guidelines. All purchases for vehicles, office equipment and furniture will be grouped, whenever feasible, to enable cost savings. Packages costing USD 100 000 equivalent or more will be procured on the basis of international shopping. Packages costing USD 20 000 equivalent or more, but less than USD 100 000 will be procured on the basis of local competitive bidding. Packages costing less than USD 20 000 will be procured on the basis of prudent local shopping. Procurement of consultants will follow consulting services procurement procedures acceptable to IFAD and the cooperating institution.

33. The CPIU-IFAD will enter into implementation agreements with participating financing institutions (PFIs), under which the modalities for procurement will be specified, in line with the modalities set out in the project loan agreement.

34. **Disbursement.** The proposed IFAD loan will be disbursed over a seven-year period. Withdrawals from the loan account will include use of statements of expenditures (SOEs). Proceeds from the IFAD loan will flow to a special account maintained in United States dollars in a commercial bank or financial institution acceptable to IFAD and operated by the CPIU-IFAD, as authorized by the MOF, in accordance with the project's annual work programme and budget (AWP/B). The initial deposit to the special account will be USD 500 000. Goods and services provided through the project will be exempted from taxes and duties.

35. **Accounts and audit.** Responsibility for the project's financial management will rest with the CPIU-IFAD. The loan proceeds will provide resources to strengthen CPIU-IFAD capability to maintain project accounts and financial records in accordance with IFAD requirements. Throughout the project life, the CPIU-IFAD finance officer will provide IFAD, the cooperating institution and the MOF with quarterly financial management and progress reports certified by the project manager. PFIs will also maintain appropriate financial records and accounts, which will follow generally accepted accounting practices. Both CPIU-IFAD and PFI accounts will reflect progress in the use of project resources and will identify all financial transactions during the project period by project component and expenditure categories. In accordance with established practice, a recognized auditing firm, acceptable to IFAD, will audit project accounts annually and implementing agency accounts as necessary. It will also audit the SOEs and transactions under the special account. The auditors will give a separate opinion on each project account with respect to the funding mechanism, use of project resources, adherence to procurement rules, and accountability of project participants. The report will be submitted to the Government, IFAD and the cooperating institution within six months of the close of the financial year.

### F. Organization and Management

36. **Overall approach.** The overall responsibility for project implementation will be entrusted to the ARAC, which will be chaired by the Minister for Agriculture and Food Industry, and will include senior MAFI and MOF staff, and leading agribusiness, development, parliamentary and beneficiary representatives. The ARAC will provide policy guidance and ensure coordination between the project and other ongoing development programmes. The CPIU-IFAD will be responsible for project management, and will be charged with overall programming and coordination of project activities, financial management and project M&E.

37. **Beneficiary participation.** Project implementation will aim to be fully participatory. The medium for beneficiary participation will be the village development plan, which will include the village development vision/strategy along with economic investment proposals and/or business plans. The latter will include a detailed description/design of the proposed interventions, implementation



arrangements, organizational and institutional support needed, and a financing plan consistent with project rules for cost sharing. The strategy for project implementation will be to adhere to the participatory process and to the project vision of reducing poverty in the participating villages. The following are some of the specific steps each village/applicant will have to take:<sup>2</sup>

- **pre-qualification of village**, which will entitle eligible communities to receive institutional support to organize a village development committee and community-based organizations and associations;
- **qualification of a village**, which will entitle pre-qualified communities to additional institutional support and training to prepare a village development strategy;
- **qualification of sub-projects for technical assistance**, which will entitle potential loan applicants to receive continued technical assistance for the preparation of village development plans consisting of the village development strategy and a portfolio of investment proposals;
- **qualification of sub-projects for loans**, which will entitle a sub-set of applicants to apply and possibly receive loans under the project; and
- **qualification of sub-projects to receive matching grants**, which will entitle applicants who have qualified for loans to qualify for grants.

38. **Reporting, monitoring and evaluation.** The project will be implemented on the basis of AWP/Bs in line with the project's objectives and achievements. In collaboration with PFIs, the CPIU-IFAD will produce quarterly progress reports, which will compare results with the approved AWP/B. The reports will show results achieved, highlight implementation issues, and outline any remedial actions required. Copies of such reports will be provided to ARAC members, the cooperating institution and IFAD. The CPIU-IFAD will prepare, for submission to the ARAC, the cooperating institution and IFAD, an annual report on project progress and impact, including consolidated financial statements.

39. Project M&E will be the responsibility of the CPIU-IFAD. The main indicators to be monitored have already been identified and means for verification and methods for data collection will be adjusted on the basis of the logical framework. The system will focus on the effective delivery of individual inputs and services, and on delivery timing, coordination and impact. The Government and IFAD will evaluate the project's interim impact and progress in a joint mid-term review scheduled to take place in the third project year.

### **G. Economic Justification**

40. The project is expected to have a substantial impact in terms of developing agricultural resources and creating jobs and agricultural production assets. Although no formal economic analysis has been undertaken, as loan uptake for the different income-generating activities cannot be known in advance, financial analysis of a typical cross section of investments in on- and off-farm enterprises shows high returns on investments in a number of activities.

41. At full development, the project is expected to have reached about 60 villages, or some 45 000 households. It will help achieve higher agricultural production and increases in beneficiary household incomes. It will also contribute to the organization of community and farmers' groups, bringing about financial gains in terms of improved terms of trade, access to credit and technical assistance, and economies of scale in the purchase of inputs.

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<sup>2</sup> A detailed explanation of all required steps is provided in Appendix V.

42. The project's main achievements are expected to be:

- empowerment of communities to take the lead in designing and implementing development programmes that make effective use of their resources and thus help them improve collective socio-economic well-being;
- improved productivity and production at the farm level resulting in increasing household incomes and allowing a secondary positive impact on cropping methods and investments in productive and value-adding village assets;
- fair prices and better access to markets thanks to improved market linkages, higher produce quality, and the quantity and timing of supply; and
- increased employment opportunities as a result of improved integration of the rural economy through organization of land plots, agricultural intensification, and productive linkages among farming, agro-services and agro-industries.

43. **Impact on women.** No legal barriers exist to women's access to project services. Project activities will suit the types of economic activities undertaken by women in rural areas. The CPIU-IFAD will be required to ensure that the project's sensitization activities and extension programmes take a gender-sensitive approach, and that women can take part in project-financed activities on an equal footing with men. The design criteria for village development plans will also provide for the mandatory participation of women.

#### H. Risks

44. The project faces no significant technical risks. It does, however, face some potential institutional and political risks in addition to risks relating to the implementation of a truly participatory approach.

45. **Institutional and political risks.** At present, there is strong political will within government to proceed with a community-based development project approach with stated development objectives, selecting participating villages on clearly specified eligibility criteria, and following a participatory implementation process. Given the regular changeover of staff in both local and central government, however, political commitment could wane. To manage this risk, the project will work closely with government representatives, and ensure that policy-makers and government staff are fully aware of the project's nature and implementation strategy.

46. **Implementation of participatory approach.** The project foresees a fully participatory approach in the design and implementation of its activities. Since this is a time-consuming process, the project may be pressured to limit participatory processes in order to accelerate the flow of funds to participating villages and/or to serve special interests. To manage this risk, a specific project technical committee will be established to screen village development plans. It will certify that all necessary development steps have been taken, and that applicants have, or are acquiring, the requisite implementation capacity, and are committed to implementing the development plan in conformity with the project concept. IFAD and the cooperating institution will also be required to review each village development plan before any subsequent loan applications are processed.

#### I. Environmental Impact

47. Given the small scale of project-supported activities, their individual environmental impact is expected to be limited. To ascertain the cumulative environmental impact of village development plans (which can only be determined during implementation, given the participatory and demand-driven implementation approach), an environmental review in support of each environmental proposal has been included as a necessary step in processing. Based on IFAD screening procedures, and given

that any disturbances to the project area's physical setting and resources are expected to be minor, the project has received a Category B classification.

#### **J. Innovative Features**

48. The project design includes a number of innovative features that are in line with both IFAD strategy and government objectives. Generally, IFAD and the Government have tried to develop a holistic approach to meeting the demands of poor rural communities in the Republic of Moldova, *as they are perceived by the rural population* in the hope that successful implementation will encourage project replication and scaling up by other donors. The fundamental innovations involve: (i) demand-driven allocation of project resources, through beneficiary initiative, on a nationwide scale; (ii) focus on strengthening the linkages between farming and agro-services, agro-industry and markets; (iii) cost-sharing on the part of benefiting communities; (iv) grants (ranging from 20-30% of original debt) for beneficiaries who have repaid all loan instalments on time and in full for a predefined period; and (v) the participatory identification, design and implementation of local development interventions financed under the project.

#### **PART III – LEGAL INSTRUMENTS AND AUTHORITY**

49. A loan agreement between the Republic of Moldova and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

50. The Republic of Moldova is empowered under its laws to borrow from IFAD.

51. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

#### **PART IV – RECOMMENDATION**

52. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Moldova in various currencies in an amount equivalent to ten million three hundred thousand Special Drawing Rights (SDR 10 300 000) to mature on and prior to 15 December 2043 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge  
President



**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES  
INCLUDED IN THE NEGOTIATED LOAN AGREEMENT**

(Loan negotiations concluded on 9 December 2003)

1. **Grant cofinancing.** The Government of the Republic of Moldova (the Government) and IFAD will make their best efforts to obtain grant funds to finance technical assistance and capacity-building activities. Should grant cofinancing be secured, the equivalent amount of loan funds will be reallocated to the community economic investments component.
2. **Counterpart contribution.** The Government will make budgetary allocations for each fiscal year equal to all social contributions, required under national legislation, as included in the AWP/B for the relevant project year, and make such allocations available in a timely manner to the project parties annually in advance. The Government's contribution will also cover taxes and duties on all goods, civil works and services procured under the project (including loan funds and other external resources associated with loan funds), except for the community economic investments component.
3. **Availability of loan proceeds.** The Government will make loan proceeds available to the project parties in accordance with the AWP/Bs and its customary national procedures for development assistance.
4. **Channelling of project resources.** The Government, through the consolidated project implementation unit (CPIU-IFAD) will make available funds and other resources called for in the AWP/Bs to each participating financing institution (PFI), in accordance with each subsidiary loan agreement to carry out the community economic investments component.
5. **Project implementation manual.** The CPIU-IFAD will prepare a draft project implementation manual which will include: implementation guidelines and necessary criteria for the participation, selection and eligibility of participating villages; technical review criteria for village development strategies (VDSs) and village development plans (VDPs); a draft subsidiary loan agreement for use in negotiations with the PFIs; criteria for the selection of support organizations for capacity-building activities; and elements for the introduction of the participatory planning approach for use by project staff and potential beneficiaries. The project implementation manual will be adopted substantially in the form approved by IFAD.
6. **Project area.** The project will be national in scope, but will be limited to those areas of the Government's territory under its control.
7. **Subsidiary loan agreements.** The MOF will enter into a subsidiary loan agreement with each PFI selected for participation in the community economic investments component, for the on-lending of loan resources to credit beneficiaries.
8. **Participating financing institutions.** The PFIs will on-lend funds through subloans to credit beneficiaries for the development of investments as proposed in approved VDPs.
9. **Village agricultural revitalization fund (VARF).** The MOF will establish a VARF, which is a revolving fund that will be used to continue financing the process of village agricultural revitalization in the project area for similar investments, and on similar lending terms and conditions, for at least ten years beyond the project completion date.

10. **Suspension.** IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account if the project implementation manual, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the project.

11. **Conditions precedent to disbursements.** No disbursements will be made from the loan with respect to the incremental credit until at least two subsidiary loan agreements have been signed in a form acceptable to IFAD, and a copy has been delivered to IFAD.

12. **Conditions precedent to effectiveness.** The following are the additional conditions precedent to the effectiveness of the project loan agreement:

- (a) The loan agreement will have been duly signed, and the signature and all legal procedures necessary for the entry into force of the loan agreement will have been fulfilled by the Government in accordance with national legislation;
- (b) the CPIU-IFAD will have been duly established;
- (c) the ARAC will have been established;
- (d) the project director and deputy director will have been appointed;
- (e) the special account will have been opened;
- (f) the project implementation manual will have been approved by IFAD in draft; and
- (g) a favourable legal opinion, issued by the Ministry of Justice or other legal counsel acceptable to IFAD and by the MOF will have been delivered to IFAD.

APPENDIX I

COUNTRY DATA

MOLDOVA

<b>Land area (km<sup>2</sup> thousand) 2001 1/</b>	33.7	<b>GNI per capita (USD) 2001 1/</b>	380
<b>Total population (million) 2001 1/</b>	4.27	<b>GDP per capita growth (annual %) 2001 1/</b>	-0.9
<b>Population density (people per km<sup>2</sup>) 2001 1/</b>	130	<b>Inflation, consumer prices (annual %) 2001 1/</b>	10
<b>Local currency</b>	Moldovan Leu (MDL)	<b>Exchange rate: USD 1 =</b>	MDL 13.0
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population (average annual population growth rate) 1995-2001 1/	-0.3	GDP (USD million) 2001 1/	1 479
Crude birth rate (per thousand people) 2001 1/	8	Average annual rate of growth of GDP 1/ 1981-1991	-1.6
Crude death rate (per thousand people) 2001 1/	9	1991-2001	-7.0
Infant mortality rate (per thousand live births) 2001 1/	27	Sectoral distribution of GDP 2001 1/	
Life expectancy at birth (years) 2001 1/	67	% agriculture	26
Number of rural poor (million) (approximate) 1/	n/a	% industry	24
Poor as % of total rural population 1/	n/a	% manufacturing	18
Total labour force (million) 2001 1/	2.16	% services	50
Female labour force as % of total 2001 1/	48	Consumption 2001 1/	
<b>Education</b>		General government final consumption expenditure (as % of GDP)	12
School enrolment, primary (% gross) 2001 1/	84/	Household final consumption expenditure, etc. (as % of GDP)	92
Adult illiteracy rate (% age 15 and above) 2001 1/	1	Gross domestic savings (as % of GDP)	-4
<b>Nutrition</b>		<b>Balance of Payments (USD million)</b>	
Daily calorie supply per capita, 1997 2/	3 078	Merchandise exports 2001 1/	570
Malnutrition prevalence, height for age (% of children under 5) 2001 3/	10	Merchandise imports 2001 1/	895
Malnutrition prevalence, weight for age (% of children under 5) 2001 3//	3	Balance of merchandise trade	-325
<b>Health</b>		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2001 1/	3	before official transfers 2001 1/	-270
Physicians (per thousand people) 2001 1/	4 a/	after official transfers 2001 1/	-99
Population using improved water sources (%) 2000 3/	92	Foreign direct investment, net 2001 1/	149
Population with access to essential drugs (%) 1999 3/	50-79	<b>Government Finance</b>	
Population using adequate sanitation facilities (%) 2000 3/	99	Overall budget deficit (including grants) (as % of GDP) 2001 1/	-1
<b>Agriculture and Food</b>		Total expenditure (% of GDP) 2001 1/	23
Food imports (% of merchandise imports) 2001 1/	14	Total external debt (USD million) 2001 1/	1 214
Fertilizer consumption (hundreds of grams per ha of arable land) 2000 1/	28	Present value of debt (as % of GNI) 2001 1/	71
Food production index (1989-91=100) 2001 1/	46	Total debt service (% of exports of goods and services) 2001 1/	19
Cereal yield (kg per ha) 2001 1/	2 518	Lending interest rate (%) 2001 1/	29
<b>Land Use</b>		Deposit interest rate (%) 2001 1/	21
Arable land as % of land area 2000 1/	55		
Forest area as % of total land area 2000 1/	10		
Irrigated land as % of cropland 2000 1/	14		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2003

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2003

## PREVIOUS IFAD FINANCING IN THE REPUBLIC OF MOLDOVA

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denomin. Currency	Approved Loan/Grant Amount	Disbursement (as % of Approved Amount)
Rural Finance and Small Enterprise Development Project	IFAD	UNOPS	HC	3 Dec 1999	1 Dec 2000	31 Dec 2005	527-MD	SDR	5 800 000	46%

Note: HC = Highly concessional

UNOPS = United Nations Office for Project Services



## APPENDIX III

## LOGICAL FRAMEWORK

Hierarchy of Objectives	Key Performance Indicators	Means of Verification	Critical Assumptions and Risks
<p><b>Development Goal</b></p> <p>Contribute to poverty reduction and to improving the standard of living and quality of life in rural areas.</p>	<p><b>End-of-project indicator</b></p> <p>Increased self-reliance in rural communities and decreased incidence of poverty in participating villages.</p>	<ul style="list-style-type: none"> <li>• Baseline survey</li> <li>• Mid-term evaluation</li> <li>• End-of-project evaluation</li> </ul>	<ul style="list-style-type: none"> <li>• Continued government commitment to poverty reduction in rural areas, and to supporting private-sector initiatives.</li> </ul>
<p><b>Project Purpose and Development Objectives</b></p> <ul style="list-style-type: none"> <li>• Revitalize village economies to provide underpinning for poverty reduction.</li> <li>• Create productive employment and generate income.</li> <li>• Create a replicable revitalization model.</li> </ul>	<p><b>End-of-project indicators</b></p> <ul style="list-style-type: none"> <li>• Number of VDPs under implementation after three years as a % of those approved.</li> <li>• Number of community organizations established, functional and performing well after three years.</li> <li>• Decline in the rate of unemployment three years after project start in the village.</li> <li>• Increase in average wage rate three years after project start in the village.</li> <li>• Increase in farm output.</li> <li>• Increase in the proportion of village agricultural produce marketed after three years.</li> <li>• Increase in the proportion of agricultural produce processed due to project after three years.</li> <li>• Increase in area under consolidated farms.</li> </ul>	<ul style="list-style-type: none"> <li>• Project M&amp;E data.</li> <li>• Quarterly and annual progress reports</li> <li>• Mid-term and end-of-project evaluation</li> </ul>	<ul style="list-style-type: none"> <li>• Commitment of the central government to decentralization of decision-making in rural development.</li> <li>• Commitment of local administration to project purpose and objectives.</li> <li>• Project implemented in timely and effective manner.</li> </ul>

## APPENDIX III

## LOGICAL FRAMEWORK – CONTINUED

Hierarchy of Objectives	Key Performance Indicators	Means of Verification	Critical Assumptions and Risks
<p><b>Project Components</b></p> <p><b>1. Participatory Community Development:</b></p> <p>Support participating villages to develop the capability and establish viable organizations to design and implement community-focused development programmes in a participatory manner.</p> <p><b>2. Institutional Capacity-Building:</b></p> <p>Provide guidance and independent oversight to the revitalization process</p>	<p><b>Output indicators</b></p> <ul style="list-style-type: none"> <li>• Improved capability for participatory development planning and implementation in about 57 villages</li> <li>• Administration capacity strengthened in about 57 mayor's offices (<i>primariats</i>)</li> <li>• Village organizations operating effectively on behalf of their members in about 57 participating villages.</li> <li>• Operational linkages established between farming, agro-services and agro-industry in about 57 participating villages.</li> <li>• Number of participants trained.</li> <li>• Number of CBOs created.</li> </ul> <ul style="list-style-type: none"> <li>• ARAC operational and functioning on the basis of its terms of reference.</li> <li>• Number of service providers trained.</li> <li>• Number of CPIU-IFAD and MAFI staff trained</li> </ul>	<ul style="list-style-type: none"> <li>• Project M&amp;E data.</li> </ul> <ul style="list-style-type: none"> <li>• Project M&amp;E data.</li> </ul>	<ul style="list-style-type: none"> <li>• Local administration committed to project goals, and supports the participatory concept of the project.</li> <li>• No objection by Government to the use of project funds for technical assistance.</li> </ul> <ul style="list-style-type: none"> <li>• Qualified staff appointed to ARAC.</li> <li>• Trainable staff employed by service providers.</li> </ul>

## APPENDIX III

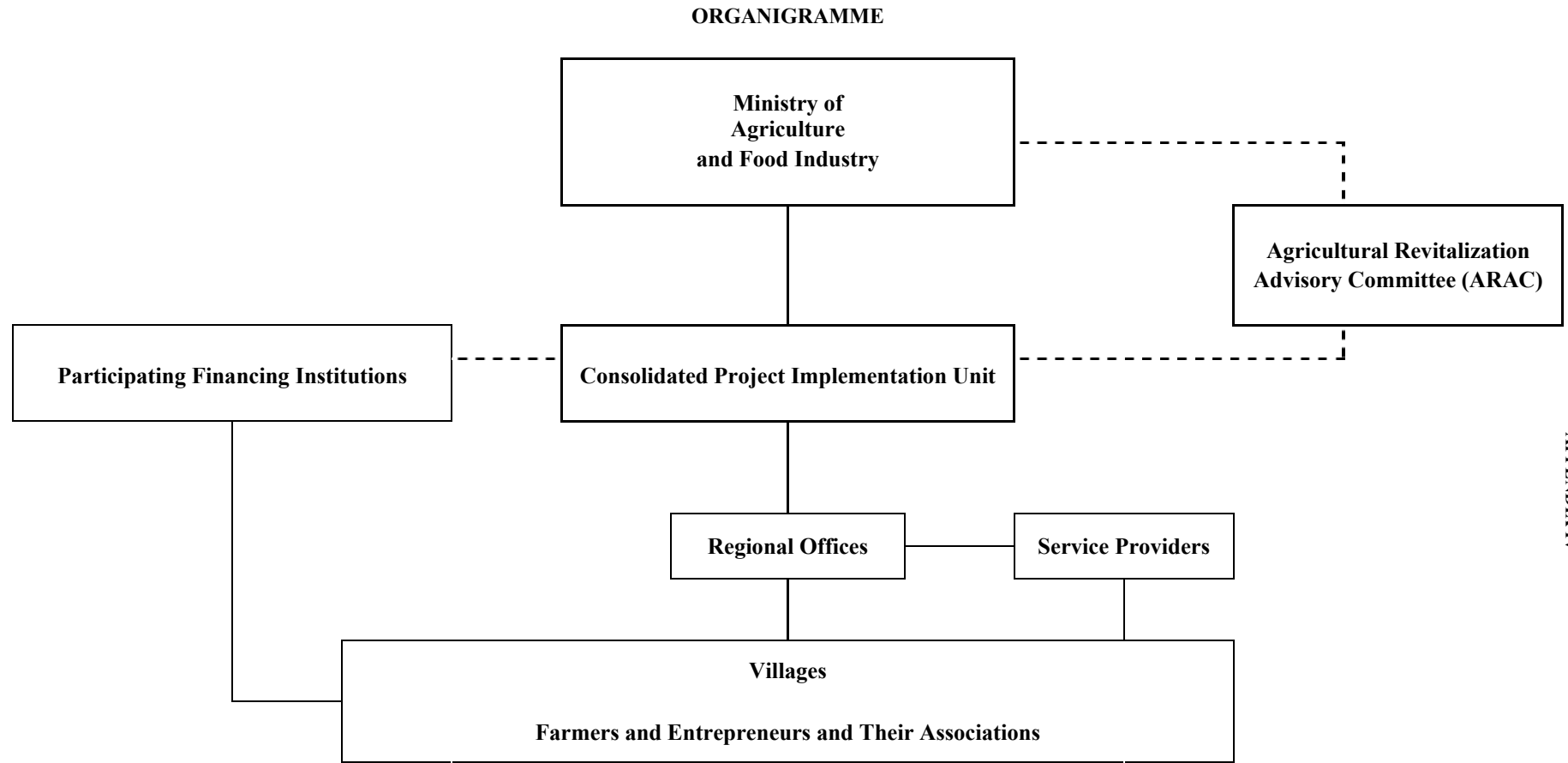
## LOGICAL FRAMEWORK – CONTINUED

Hierarchy of Objectives	Key Performance Indicators	Means of Verification	Critical Assumptions and Risks
<p><b>Project Components</b></p> <p><b>3. Community Economic Investments:</b> Enable participating village communities to access capital to complement their own resources and invest in upgrading their economic infrastructure.</p> <p><b>4. Project Management</b> Assemble a team of qualified professional and provide them with the necessary training and technical assistance to enable them to manage the project and ensure its timely and effective implementation.</p>	<p><b>Output Indicators</b></p> <ul style="list-style-type: none"> <li>• 1 400 ha of old vineyards and orchards replanted and 1 600 ha of new ones planted.</li> <li>• 10 000 ha served by new farmer-owned and -managed irrigation systems.</li> <li>• Sheds/stables/silos built for livestock in 20 villages.</li> <li>• 38 agro-service and agro-processing facilities developed.</li> <li>• 40 village produce grading, collection, and cold storage facilities developed.</li> <li>• Off-farm enterprises built in 20 villages.</li> </ul> <ul style="list-style-type: none"> <li>• CPIU-IFAD established and fully operational.</li> <li>• M&amp;E system established and fully operational.</li> <li>• Qualified staff appointed to project technical committee (PTC).</li> <li>• Technical assistance in place to support CPIU-IFAD.</li> </ul>	<ul style="list-style-type: none"> <li>• Project M&amp;E data.</li> </ul> <ul style="list-style-type: none"> <li>• Conditions of disbursement for component 2 of the project.</li> </ul>	<ul style="list-style-type: none"> <li>• Participants demonstrate their capacity to finance their share of investment costs.</li> </ul> <ul style="list-style-type: none"> <li>• Qualified staff motivated to join the CPIU-IFAD and the PTC.</li> </ul>

## APPENDIX III

## LOGICAL FRAMEWORK – CONTINUED

Hierarchy of Objectives	Key Performance Indicators	Means of Verification	Critical Assumptions and Risks
<b>Project Activities</b>  Participatory Community Development <ul style="list-style-type: none"> <li>• Community mobilization and empowerment</li> <li>• Technical support and training</li> </ul> Institutional Capacity-Building  Community Economic Investments  Project management	<b>Inputs</b>  <ul style="list-style-type: none"> <li>• USD 900 000</li> <li>• USD 600 000</li> <li>• USD 300 000</li> <li>• USD 14.2 million</li> <li>• USD 2.2 million</li> </ul>	<ul style="list-style-type: none"> <li>• Project progress reports: procurement, expenditures, delivery of goods and services, physical progress, disbursements.</li> </ul>	<ul style="list-style-type: none"> <li>• CPIU-IFAD and ARAC established in a timely manner with qualified and motivated staff, and empowered to implement the project on the basis of the participatory approach.</li> <li>• Project participants prove able to contribute their share of the cost of investments in economic infrastructure.</li> <li>• Qualified service providers available to support project implementation.</li> </ul>



## ORGANIZATION AND MANAGEMENT

### A. Introduction

1. The principal agencies involved in project management, oversight and coordination at the central level are the Ministry of Agriculture and Food Industries (MAFI), the Ministry of Finance (MOF) and participating financing institutions. These institutions will assume this responsibility through: (i) the consolidated project implementation unit (CPIU-IFAD), which will be responsible for the technical, financial and developmental integrity of the project; and (ii) the Agricultural Revitalization Advisory Committee (ARAC), which will provide overall project coordination and guidance on policy and strategic development matters.

### B. Roles and Responsibilities

#### **Agricultural Revitalization Advisory Committee**

2. The MAFI will have overall responsibility for project implementation. Within this overall institutional context, the ARAC will guide project coordination, and be chaired by the Minister for Agriculture and Food Industry, or his representative, who will, *ex officio*, have overriding authority on matters of project policy. Membership in the ARAC will include representatives of the MAFI, other concerned line ministries, government agencies and leading agri-business, development, parliamentary and project beneficiary representatives.

3. The ARAC will meet at least twice yearly and have the right to co-opt other members and to form executive subcommittees when necessary. It will ensure that project activities are not at variance with government policies and that implementing agencies are fulfilling the terms and conditions of the project loan agreement. The ARAC will appoint the project director, review reports, approve the project's consolidated annual work programme and budget (AWP/B), ensure compliance with MOF requirements for the submission and reimbursement of claims accounts, financial reports, and ensure cooperation with concerned government agencies and other donors in matters affecting project implementation. It will also be the forum for the resolution of any interagency, bureaucratic or financial impasses and generally oversee project implementation.

#### **Consolidated Project Implementation Unit**

4. An independent CPIU-IFAD (and a unified project management unit – see paragraph 5 below) will be established as an administrative entity of the MAFI, responsible to the Minister and reporting to the ARAC. It will have legal status and financial and administrative autonomy within the structure of the Ministry. The CPIU-IFAD will be responsible for overall planning and coordination of project activities, financial management, procurement oversight, accounting, and monitoring and evaluation (M&E) of project implementation and impact. The CPIU-IFAD will be led by a project director appointed by the Minister, and acceptable to IFAD, and staffed by financial management, an M&E specialist, a procurement specialist, a community development specialist, an irrigation/agronomy specialist, an agricultural economist and the necessary support staff. In addition, three regional operations officers (ROOs) will be outposted to the project area.

5. The CPIU-IFAD will be built on the basis of the existing project implementation unit established for the management of the IFAD-supported RFSEDP, as a consolidated project implementation unit, overseeing all IFAD-supported projects in the country, to take advantage of the existing familiarity with IFAD procedures and economize on project administration costs. The CPIU-IFAD will comprise the necessary staff and resources for the management of both IFAD projects. It will be headed by a project director, who will be responsible for the overall management of the two IFAD-financed projects, and will report to the Minister for Agriculture and Food Industry.

APPENDIX V

6. **Regional operations officers.** The CPIU-IFAD will have a ROO in charge of project activities in each of the country's three regions (North, Centre and South) who will be programme facilitators and points of contact between the Chisinau office and partner villages in the three regions. ROOs will take the lead in promoting the project within their areas and in arranging the necessary institutional support for project applicants and participants through mobile support teams (MSTs) fielded by service providers contracted by CPIU-IFAD.

7. **Project technical committee.** A project technical committee (PTC) consisting of the six CPIU-IFAD specialists (see paragraph 4) will evaluate village development plans from the point of view of their completeness, responsiveness to project objectives and eligibility criteria, technical and financial feasibility, economic viability, environmental impact, gender neutrality and the capacity for potential beneficiaries to implement the proposed activities.

8. **Annual work programmes and budgets.** On the basis of the modalities and planned budgets in the appraisal report, the loan agreement, and subsidiary/implementation agreements in force, the CPIU-IFAD, based on the results from the previous year, will propose, in October of each year, an AWP/B for the following implementation year. The AWP/B will be sent to the cooperating institution and IFAD for comment, after which it will be reviewed and approved by the ARAC in December of each year.

### **Project Start-Up**

9. IFAD will provide resources to facilitate the start-up of project implementation, including a project start-up workshop to be held in the Republic of Moldova once the project becomes effective. The workshop will clarify procedures related to project implementation, management and coordination, disbursement and procurement, planning, budgeting, monitoring and reporting.

### **C. Participatory Process**

10. **Approach.** Project implementation is intended to be fully participatory. The medium for participation by beneficiaries will be the village development plan (VDP), which will include the village development strategy (VDS) along with economic investment proposals and/or business plans. The latter will include a detailed description/design of the proposed interventions, the implementation arrangements, the organizational and institutional support needed, and a financing plan consistent with project rules for cost sharing.

11. The key to farmers' effective participation will be in assisting their organization and helping them to design and implement development programmes advantageous to them both individually and as a community. This makes the institutional component, along with an enduring information and promotion campaign, the most critical component of the project. Its timely implementation is a prerequisite for the successful implementation of the investment component of the project.

12. Extensive institutional support will be needed to enable qualifying villages to participate effectively in the project. Through such support, participants will acquire the capability and the motivation to: (i) organize community self-help organizations; (ii) develop a consensus on a community-oriented strategy for poverty reduction and development; (iii) identify investment opportunities and prepare associated business plans; (iv) begin to organize and/or structure agricultural production assets more effectively; and (v) develop the capacity to implement, monitor and evaluate those programmes and manage the resulting economic infrastructure in a sustainable manner.

13. **Implementation process.** The strategy for project implementation will be to adhere to the participatory process and to the project vision of reducing poverty in the participating villages. This

will require the careful sequencing of project activities. Thus project implementation will involve a series of steps, to be implemented simultaneously or in sequence aimed at promoting effective participation and informed decision-making:

- (i) **Project promotion.** A campaign to promote the project will be initiated on radio and television and in the printed media to sensitize rural communities about the project, its objectives, the eligibility criteria for participation, and the location for public meetings to be scheduled in various regions. This campaign will be repeated each quarter during the first year of the project implementation period.
- (ii) **Public meetings.** These meetings will be organized in convenient locations to attract representatives from a maximum number of villages. They will be organized in three regions (North, Centre and South) and will be used to provide more detailed information about the project, and to answer questions from potential partner villages.
- (iii) **Expressions of interest.** Following the public meetings, interested villagers will prepare an expression of interest explaining the development objectives of their community and justifying their qualification under the eligibility criteria of the project. The CPIU-IFAD will appraise the expression of interest and then schedule consultation meetings with qualifying applicants to agree on further steps to be taken.
- (iv) **Initial screening of villages.** During field appraisals, the project will organize public meetings in individual villages, repeatedly if necessary, to ensure that the community appreciates the potential benefits, obligations and risks associated with participation as project partners. This will allow villagers to decide whether the project can serve their interests as a community, and whether the terms of participation are acceptable to potential partners. As a result, an initial list will be prepared of poor villages eligible to participate in the next step of project implementation.
- (v) **Community mobilization.** Villages will be provided with the necessary technical assistance to organize themselves in order to refine their village development strategies (VDSs) and identify potential investors to participate in realizing the VDS.
- (vi) **Community empowerment.** Villages that make effective use of the organizational support under (v) become eligible for technical assistance and training to help them develop the capability and acquire the tools needed to prepare business plans, manage community-based organizations (CBOs), and implement development programmes. Support will be provided by service providers organized in mobile support teams (MSTs) under the supervision of ROOs. These mobile teams will consist of consultant specialists who will maintain close contact with participating communities to provide them with necessary guidance and on-demand support.
- (vii) **Preparation of VDPs.** Once established, the village development committees (VDCs) will prepare development strategies and identify potential investment opportunities and investors to realize those strategies. The role of the MSTs in this process will be to ensure that village development plans (VDPs) are prepared in a participatory manner, and to provide technical assistance when needed. Participating investors will be provided guidelines for the preparation of investment proposals and business plans. These guidelines will ensure that VDPs are economically, socially and environmentally sustainable; that proposed investments are cost-effective; that the villages have or are building the institutional capacity to implement VDPs; and that the proposed financing plans are sound.
- (viii) **Signing of the VDP.** Once the VDP is prepared and investors identified, the VDC will arrange for participating organizations and private entrepreneurs to sign the VDP and will seek its endorsement by local government. The VDP will include the VDS and the



## APPENDIX V

investment proposals/business plans for the list of activities proposed for implementation under the project by organizations and/or private entrepreneurs. The investment proposals/business plans will specify the steps to be taken for opening a bank account to deposit the upfront contribution of beneficiaries prior to starting sub-project implementation, and the schedule of such deposits. It will also specify the procedures participants intend to follow in acquiring water rights and right of way for construction of irrigation facilities or for any other activity requiring the validation of water or land rights. The VDP will also specify the need for any other prerequisites to implementation, such as business licenses or other government permits.

- (ix) **Approval of VDPs.** Once submitted to the CPIU-IFAD, each VDP will be transmitted to the CPIU-IFAD-based project technical committee (PTC) for evaluation. The PTC will verify that VDPs meet all the criteria stipulated in the guidelines. If a VDP is found to be deficient, it can be sent back to the applicant for clarification or amendment. Prior to endorsement of the VDP by the CPIU-IFAD, the VDP must be shared for prior review with IFAD and the cooperating institution. Once endorsed, the VDP becomes part of a legal agreement between the participants in the concerned village and the CPIU-IFAD, as the representative of the MAFI. At this stage, individual investors will be authorized to submit their loan applications to participating financing institutions.
- (x) **Processing of loan applications by participating financing institutions.** In conformity with prevailing commercial practices, participating financing institutions will appraise investment proposals to ensure the creditworthiness of investors and the financial viability of proposed sub-projects.
- (xi) **Implementation of VDPs.** VDP participants (farmers' organizations and entrepreneurs) will be responsible for implementation of their respective sub-projects. CPIU-IFAD will oversee and monitor implementation to ensure that provisions in the legal agreement are adhered to, that procurement rules agreed with IFAD are respected, and that project funds are used for the purposes intended. Participating financing institutions will supervise loan disbursement and use, and will arrange for loan recovery.
- (xii) **Internal monitoring and evaluation of VDPs.** A VDC will ensure that the VDP is implemented as planned. The VDC will be entrusted with the task of data collection on milestones, performance and impact indicators of sub-projects. The CPIU-IFAD M&E specialist will provide the necessary guidance for the VDC to perform that task, including the data collection procedures and required formats.

## SUMMARY COST AND FINANCING TABLES

**Table 1: Disbursement Accounts by Financiers**  
(USD '000)

	Government		IFAD		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%			
Civil works <sup>a</sup>	0.4	17.0	1.8	83.0	-	-	2.2	-	0.9	0.9	0.4
Vehicles	14.9	17.0	72.6	83.0	-	-	87.4	0.5	63.8	8.7	14.9
Equipment and goods	61.2	17.5	288.2	82.5	-	-	349.4	1.9	217.4	70.7	61.2
Technical assistance and studies	-	-	550.4	100.0	-	-	550.4	3.0	330.4	220.0	-
Contractual services	10.3	1.2	814.8	98.8	-	-	825.0	4.5	49.0	765.8	10.3
Training	0.0	-	328.7	100.0	-	-	328.7	1.8	87.5	241.2	-
Credit	0.0	-	12 000.0	100.0	-	-	12 000.0	66.1	8 400.0	3 600.0	-
Beneficiaries' contribution	-	-	-	-	3 000.0	100.0	3 000.0	16.5	-	3 000.0	-
Salaries and allowances (contracted staff)	104.9	19.6	430.9	80.4	-	-	535.8	2.9	-	430.9	104.9
Operational costs	82.8	17.0	404.3	83.0	-	-	487.1	2.7	116.4	287.8	82.8
<b>Total Project Costs</b>	<b>274.5</b>	<b>1.5</b>	<b>14 891.6</b>	<b>82.0</b>	<b>3 000.0</b>	<b>16.5</b>	<b>18 166.1</b>	<b>100.0</b>	<b>9 265.4</b>	<b>8 626.1</b>	<b>274.5</b>

<sup>a</sup> For office refurbishment.

**Table 2: Expenditure Accounts by Components – Base Costs**  
(USD '000)

	Participatory Community Development				Project Management		Physical Contingencies		
	Community Mobilization and Empowerment	Technical Support and Training	Institutional Capacity-Building	Community Economic Investments	Project Implementation Planning and M&E	Consolidated Project Implementation Unit	Total	%	Amount
<b>I. Investment Costs</b>									
<b>A. Civil Works<sup>a</sup></b>	-	-	-	-	-	2.0	2.0	5.0	0.1
<b>B. Vehicles, Equipment and Goods</b>									
Vehicles	-	-	-	-	-	81.1	81.1	5.0	4.1
Office equipment	39.5	152.0	10.1	-	-	91.7	293.4	5.0	14.7
Office furniture	-	-	-	-	-	18.3	18.3	5.0	0.9
<b>Subtotal</b>	39.5	152.0	10.1	-	-	191.1	392.8	5.0	19.6
<b>C. Technical Assistance, Contractual Services and Studies</b>									
International technical assistance	-	-	222.0	-	50.7	18.2	290.9	-	-
National technical assistance	-	121.6	-	-	-	2.0	123.6	-	-
Contractual services	711.4	-	-	-	-	-	711.4	5.0	35.6
Studies	-	15.2	-	-	76.0	-	91.2	-	-
<b>Subtotal</b>	711.4	136.8	222.0	-	126.7	20.3	1 217.1	2.9	35.6
<b>D. Training</b>									
Beneficiary training	28.6	167.6	-	-	-	-	196.1	6.8	13.4
Staff training	1.0	-	70.9	-	15.4	-	87.4	-	-
<b>Subtotal</b>	29.6	167.6	70.9	-	15.4	-	283.5	4.7	13.4
<b>E. Credit<sup>b</sup></b>	-	-	-	12 000.0	-	-	12 000.0	-	-
<b>F. Beneficiaries' Contribution</b>	-	-	-	3 000.0	-	-	3 000.0	-	-
<b>Total</b>	780.5	456.4	303.0	15 000.0	142.1	213.4	16 895.5	0.4	68.7
<b>II. Recurrent Costs</b>									
<b>A. Salaries and Allowances (contracted staff)</b>									
Contracted staff salaries <sup>c</sup>	-	-	-	-	-	471.9	471.9	-	-
Contracted staff allowances	-	-	-	-	-	9.5	9.5	5.0	0.5
<b>Subtotal</b>	-	-	-	-	-	481.4	481.4	0.1	0.5
<b>B. Operation and Maintenance (O&amp;M)</b>									
Vehicles O&M	-	-	-	-	-	173.7	173.7	5.0	8.7
Stationery and Equipment O&M	-	-	-	-	-	55.3	55.3	5.0	2.8
<b>Subtotal</b>	-	-	-	-	-	229.0	229.0	5.0	11.5
<b>C. Office Running Costs</b>									
	-	-	-	-	-	187.3	187.3	5.0	9.4
<b>Total</b>	-	-	-	-	-	897.7	897.7	2.4	21.3
<b>Total BASELINE COSTS</b>	780.5	456.4	303.0	15 000.0	142.1	1 111.1	17 793.1	0.5	90.0
Physical Contingencies	40.4	18.1	0.5	-	-	30.9	90.0	-	-
<b>Price Contingencies</b>									
<b>Inflation</b>									
Local	174.0	75.4	7.5	-	21.1	204.5	482.5	-	-
Foreign	4.8	15.2	14.0	-	10.0	19.4	63.2	-	-
<b>Subtotal Inflation</b>	178.8	90.6	21.5	-	31.1	223.9	545.8	-	-
Devaluation	-96.8	-40.6	-4.4	-	-11.4	-109.6	-262.8	-	-
Subtotal Price Contingencies	81.9	50.0	17.1	-	19.7	114.2	282.9	3.1	8.8
<b>Total PROJECT COSTS</b>	902.8	524.5	320.7	15 000.0	161.8	1 256.3	18 166.1	0.5	98.8
Taxes	17.5	29.4	1.9	-	-	225.7	274.5	2.9	8.1
Foreign Exchange	49.0	180.1	277.3	8 400.0	75.9	283.1	9 265.4	0.2	21.3

<sup>a</sup> For office refurbishment.

<sup>b</sup> 70% of the estimate is based on an assumption that although a part of the sub-loans would be used for establishment of vineyards and orchards (local expenditures), the majority of sub-loans (considering their long-term nature) would be used for purchase of important equipment.

<sup>c</sup> IFAD will cover social costs at a rate of 31%, while the government will pay for income tax at a rate of 25%.