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Enabling poor rural people
to overcome poverty

The Republic of Moldova

Country strategic opportunities programme

Executive Board — Ninety-second Session
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For: **Review**

Note to Executive Board Directors

This document is submitted for review by the Executive Board.

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Abbreviations and acronyms


CPIU	consolidated programme implementation unit
COSOP	country strategic opportunities programme
CPMT	country programme management team
EBRD	European Bank for Reconstruction and Development
EGPRSP	Economic Growth and Poverty Reduction Strategy Paper
EU	European Union
GDI	gender development index
GNI	gross national income
HDI	human development index
MDL	Moldovan Leu/Lei
NDP	National Development Plan
NIP	National Indicative Programme
PBAS	performance-based allocation system
PFI	participating financial institution
RBDP	Rural Business Development Programme
RFS	rural financial services
RFSEDP	Rural Finance and Small Enterprise Development Programme
RIMS	results and impact management system
RISP	Rural Investment and Services Project
SCA	savings and credit association
SME	small and medium-sized enterprises
UNDAF	United Nations Development Framework
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development
VCMI	value chain multiplier index

Map 1: IFAD operations in the country

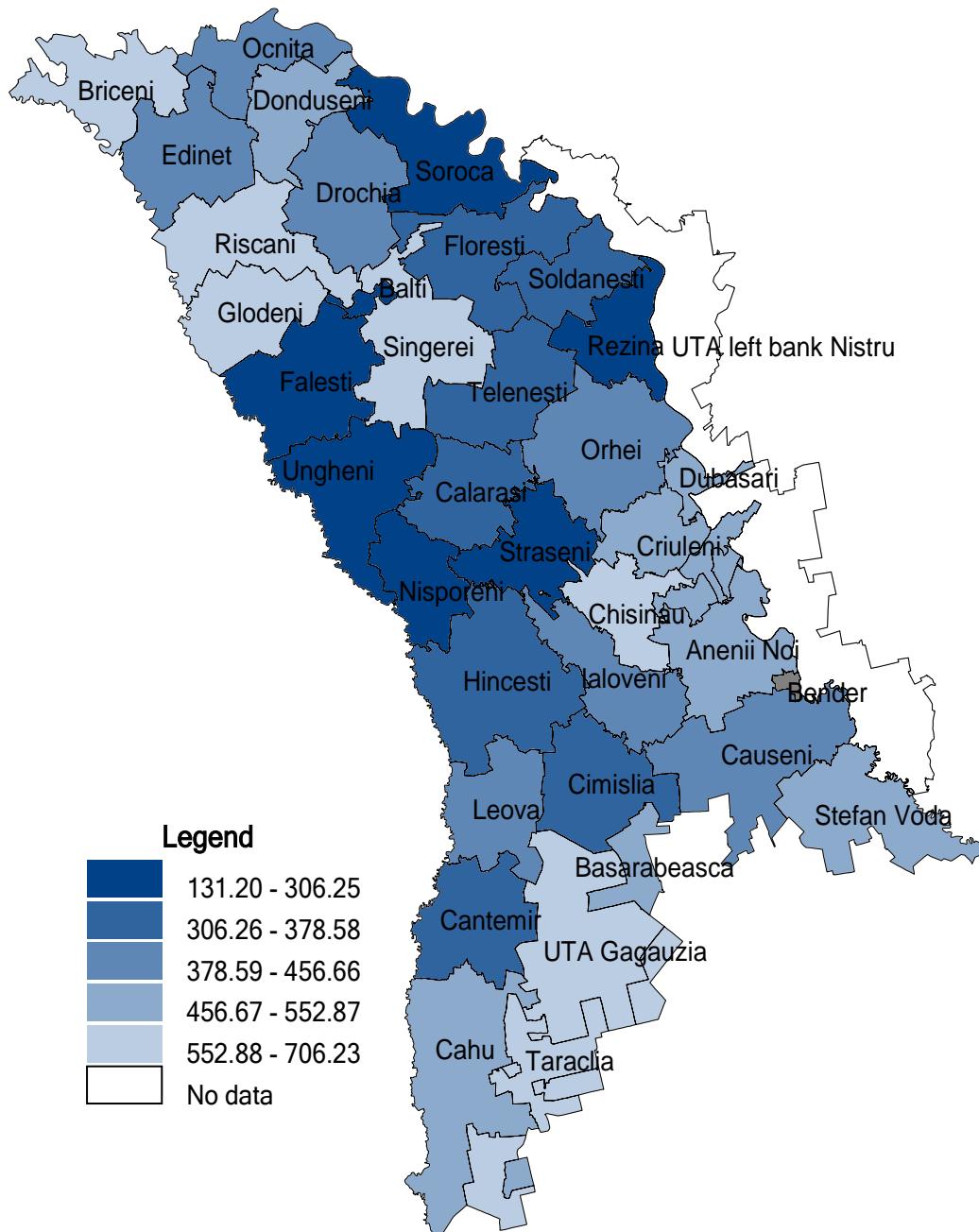
Moldova

IFAD Operations in the country



 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

Map 2: Multiple Deprivation Indicator 2005



Source: Report on Poverty and Policy Impact, Ministry of Economy and Commerce, Republic of Moldova, 2005.

The designations employed and the presentation of 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.

Summary of country strategy

1. This is the second country strategic opportunities programme (COSOP) for the Republic of Moldova, covering the period 2007-2012, and is intended to further integrate the IFAD programme with the country's own strategies and plans. It is the result of a consultative process involving the Government, donors and civil-society institutions. The COSOP's strategic objectives are aligned with the country's Economic Growth and Poverty Reduction Strategy Paper and National Development Plan, as well as being in line with IFAD's own strategic framework and performance-based allocation system.
2. Moldova is the poorest country in Europe, with gross national income per capita of US\$812. Poverty affects one third of the population, and some 16 per cent live in extreme poverty. Poverty is primarily a rural phenomenon, with approximately 21 per cent of the rural population classified as extremely poor. Moreover, despite economic growth, rural poverty is increasing steadily. At present the main coping strategy for the rural poor is migration: approximately 30 per cent of the country's population has emigrated, and the remittances they send home now account for about 25 per cent of GDP.
3. Moldova needs to create employment opportunities and nurture the development of the rural economy if it is to stem the flow of migrants and address the impact of remittances on the national economy, which include a rising current account deficit, a stronger national currency and inflation. The dependence on remittances also exposes the country to the risk that, should remittance levels fall, declining incomes could result in a sharp increase in poverty rates nationwide.
4. The overall strategic goal of this COSOP is the further development of a poverty-reducing rural market economy based on family-owned and managed on- and off-farm businesses. This will be achieved through two strategic objectives:
 - (i) **Strategic objective 1: establishing pro-poor market linkages.**
Establishing market linkages to enable the rural poor to generate income through support for competitive commodity value chains, including business development services and producer associations; and achieving international quality standards in production, processing and packaging.
 - (ii) **Strategic objective 2: promoting access to rural financial services.**
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.
5. IFAD will achieve these strategic objectives over the COSOP period through policy dialogue on selected issues relevant to the country programme, the financing of two investment programmes and complementary grant-financed activities. Given IFAD's mandate, the number of other institutional actors present in Moldova and the needs in combating rural poverty, the development of strategic partnerships with other like-minded donors will be an important element in the Fund's country strategy.

Republic of Moldova

Country strategic opportunities programme

I. Introduction

1. This is the second country strategic opportunities programme (COSOP) for Moldova. The first, covering the period 2002-2006, was approved by the Executive Board in 2002. This COSOP covers the period 2007-2012.

II. Country context

A. Economic, agricultural and rural poverty context

Country economic background

2. Moldova is the second smallest member of the Commonwealth of Independent States. A landlocked country, it has an area of 33,700 square kilometres and a resident population of 3.3 million, giving it a population density of 129 persons per square kilometre, the highest of the former Soviet Union countries. Twenty-one per cent of the population live in the two major cities of Chisinau, the capital, and Balti; 61.3 per cent live in rural areas.¹
3. For 2005, gross national income (GNI) per capita was estimated at US\$812, qualifying Moldova as a low income country. The figure represents a marked improvement, reflecting a cumulative real growth in GDP of 43 per cent in the period 2000-2005 after a GDP decline of nearly 60 per cent between 1993 and 1999. In 1995, GDP was shared evenly among services, industry and construction, and agriculture. By 2005, the sector shares had evolved as follows: services, 54.5 per cent including transport and communication; industry 17 per cent; processing industry 14.5 per cent; and agriculture 14.3 per cent.
4. The catastrophic economic decline of the 1990s gave a powerful impetus to emigration, making Moldova one of the most migrant- and remittance-dependent countries in the world. At least 27 per cent of Moldova's working-age population is currently employed abroad, often illegally. In 2006, migrant remittances to Moldova amounted to about US\$855 million, equivalent to a third of total GDP.
5. In conclusion, the key characteristic of the current Moldovan economy is its great vulnerability to external shocks, arising from its dependence upon limited and unstable export markets, dependence on remittances, and expenditure on consumption of often imported goods rather than investment in local production. In this last regard, the quality and sustainability of the growth achieved since 2000 raises concerns.

Agriculture and rural poverty

6. **Agriculture.** Agriculture and agroprocessing account for nearly 30 per cent of GDP, 59 per cent of the value of exports and 43 per cent of employment. However, growth since 2000 has averaged just two to three per cent per annum, and the sector's relative contribution to the economy continues to decrease although, as noted above, 61.3 per cent of the population still live in rural areas.
7. A number of constraints are hindering overall agricultural growth. Larger-scale farms tend to produce low-value staples although their mechanization and relatively secure markets may bring attractive returns to a small number of investors. Smaller-scale farms could produce higher-value crops such as fruit and vegetables

¹ Population data is drawn from the most recent census (2004) and does not cover Transnistria, a separatist territory between the Ukrainian border and the eastern bank of the River Dniester, which broke away from Moldova in 1992 following a military conflict.

but are limited by inadequate knowledge and technology, low prices for produce, high input prices, and lack of access to markets. Factors contributing to the latter include poor quality and safety standards of produce; inefficient commodity supply chains, including a lack of producer organizations; and poor physical infrastructure. In financial terms, government support for agriculture is low at two to four per cent of GDP, and subsidies have been directed more towards providing short-term income relief than stimulating long-term investment.

8. Moldova is also increasingly suffering from conditions brought about by climate change, which is expected to result in "... elevated aridity of Moldova's territory, especially during periods of crop growth."² In a recent report, the World Bank noted the trend towards higher temperatures and lower humidity (as illustrated by the serious drought that occurred in the summer of this year), and the potential for climate change to influence the frequency and severity of several key threats, including erosion, droughts and flooding.³
9. **Rural poverty.** Moldova has witnessed a significant reduction in poverty from 1999 to 2005: in 2005, about one third of Moldova's people were living in absolute poverty and 16 per cent in extreme poverty, compared to 73 per cent and 60 per cent respectively in 1999. Poverty is primarily a rural phenomenon: in 2005, the incidence of absolute and extreme poverty in rural areas was 36 per cent and 21 per cent, compared to 34 per cent and 18 per cent in small towns, and 6 per cent and 2 per cent in larger cities.
10. More recently, however, and despite real GDP growth of 7.1 per cent in 2004-2005, absolute poverty rose by 3 per cent in the same period, reversing for the first time the downward trend in poverty that had accompanied economic recovery since 1999. Similarly, inequality, as measured by the Gini coefficient for consumption expenditure, increased for the first time from 0.36 in 2004 to 0.38 in 2005. In fact, consumption by the majority of the population is concentrated near the absolute poverty line while a limited group has high consumption levels, indicating the virtual absence of a middle class in Moldova. Moreover, the recent rise in overall poverty rates is also primarily a rural trend, with absolute poverty in rural areas having risen 5 per cent from the lowest recorded incidence of 31 per cent in 2003.
11. Increasingly, the trend in rural poverty in Moldova is shaped by: (i) continuing migration by young people out of rural areas; (ii) the consequent reduction in the proportion of an economically active population; (iii) the lack of investment in rural areas, with the exception of larger-scale farming activities, which tend to be capital-intensive and generate few employment opportunities; and (iv) the rising cost of living. This situation is further exacerbated by the fact that social assistance and pensions are poorly targeted and have not kept pace with the rising needs of the rural poor.
12. Poverty in Moldova affects not only traditionally vulnerable categories, such as the less educated, unskilled and long-term unemployed, but also many who despite being able to work, qualified and in good health, are either underemployed or poorly paid. Thus, fully 68 per cent of all poor households have employed heads and yet cannot rise above poverty, due to low wage levels. Households headed by persons engaged in agriculture are particularly vulnerable. In 2005, 46 per cent of households headed by farmers were poor, as were 16 per cent of those headed by agricultural wage labourers.⁴ Agricultural incomes have historically trailed the

² R. Corobov, Estimations of climate change impacts on crop production in the Republic of Moldova, Institute of Geography, Moldovan Academy of Science, July 2006.

³ Rural Productivity in Moldova – Managing Natural Vulnerability, the World Bank, May 2007.

⁴ The other major category was rural households headed by pensioners, with a poverty rate of 27 per cent. By contrast, the poverty rates for non-agricultural rural employees and non-agricultural rural entrepreneurs were 9 per cent and 0 per cent respectively. Report on Poverty and Policy Impact, Ministry of Economy and Commerce, 2006.

estimated minimum monthly subsistence requirement, catching up only in 2005 when they stood at MDL 600. By comparison, monthly incomes for those employed in industry and commerce during the same period were MDL 1200. Clearly, creating opportunities for remunerative employment in the rural sector is a key entry point for poverty reduction.

13. The Ministry of Economy and Commerce has computed a multiple deprivation indicator that compares the economic development of rural communities on the basis of six deprivation factors: income, demography, medical assistance, education, living conditions and location. Overall, the most deprived regions are concentrated in the central-eastern and central-western parts of Moldova bordering with Transnistria. The least deprived are the upper north, the south and south-eastern regions.
14. **Human development and gender indicators.** According to the United Nations Development Programme (UNDP) Human Development Report 2006, Moldova is a country with average human development. Moldova is ranked 114th of 177 countries with a human development index (HDI) score of 0.694, lower than the regional average for Commonwealth of Independent States-Central and Eastern Europe. Moldova's gender development index (GDI) shows virtually no disparity in human development between men and women with a value of 0.692 compared to the HDI value of 0.694, i.e. 99.7 per cent of HDI. The GDI shows a slight disparity in terms of human development between women and men on life expectancy and education enrolment ratios, where women perform better. Of the 136 countries with GDI values, Moldova is ranked 85th.
15. Human development measures show rural areas lagging behind urban areas: enrolment in primary and secondary education is five per cent lower; life expectancy is four years less; and less is spent on education and health as a percentage of household consumption. However, there does not appear to be a gender dimension to rural poverty. Overall, 34.5 per cent of households are headed by women and 65.5 per cent by men. In rural areas, the 2005 incidence of absolute and extreme poverty among male-headed households was 38.8 per cent and 23.0 per cent respectively, while the corresponding figures for female-headed households were slightly lower at 36.8 per cent and 21.2 per cent. Although further research is needed, the slightly lower poverty rates among rural female-headed households would appear to be attributable to their being in receipt of remittances and having moved out of agriculture into the better-paid services sector.⁵
16. **Rural poverty and the modernization of the rural economy.** The persistence and indeed the recent slight upturn in rural poverty is attributable to a number of ongoing constraints on the profitable modernization of Moldova's rural economy. These include:
 - (i) **Access to land.** As noted, the land privatization/distribution programme has effectively stalled, with over 50 per cent of agricultural land still operated by large-scale enterprises offering limited employment opportunities. On the other hand, the 1.5 hectare average size of smaller private farms in many cases limits their ability to engage in commercially viable production. Achieving sustainable development of the agricultural sector combined with a broad distribution of its benefits will continue to require measures in support of increasing the number of farms large enough to produce for the market and break out of the subsistence trap.
 - (ii) **Technologies and services.** Available agricultural technologies and production services have not adapted fully to the requirements of smaller private farming systems. Indeed, there is little demand by smaller farmers to

⁵ In 2000, 22.4 per cent of employed women were engaged in agriculture, dropping to 13.6 per cent by 2005.

stimulate this adaptation because, under current conditions, appropriate technologies and services are unaffordable. This circularity aggravates the subsistence trap and needs to be broken by paying greater attention to the constraints itemized in the following paragraphs.

- (iii) **Financial services.** While the post-independence situation of scarce medium-term agricultural lending has eased, not least as a result of IFAD assistance, small farmers remain starved of working and investment capital. This situation discourages them from developing their enterprises for the long term. New instruments need to be developed to bridge this gap and accommodate the stringent collateral requirements of commercial banks.
- (iv) **Markets.** Sustainable development decisions need to be made with regard to technologies and agricultural support services, including financial services. As noted earlier, the identification and development of, and access to, post-Soviet markets remains unstable and further work is needed to remedy the situation, particularly with respect to quality control.
- (v) **Small farmer empowerment.** Small farmer organization is important as a medium for technical capacity-building; achieving efficiencies, including transparency, in input supply and marketing; and reducing the current risk that producers will be price takers making economic transfers to other actors in the value chain.
- (vi) **The non-farm rural economy.** The economic collapse that accompanied independence led to the “ruralization” of Moldova. The rural population as a proportion of the national population increased from 56.4 per cent in 1993 to 61.4 per cent in 2005, reflecting the loss of urban jobs. Encouraging the emergence of commercially viable small to medium farms will require that fewer people be engaged in agriculture. Consequently, sustainable poverty-reducing agricultural development in Moldova will entail the absorption of surplus labour, either in urban areas or through complementary support to the non-farm rural economy.
- (vii) **The socio-economic dimension.** The impoverishment of Moldova’s rural areas and subsequent internal and external migration have led to an increasingly distorted rural demographic, with the departure of a disproportionate number of young, potentially economically active people. Achieving sustainable poverty-reducing agricultural and rural development will mean not only taking into account purely economic considerations but also directing development support to those segments of the poor rural population which, based on that support, will be in a position to make a long-term commitment to remaining in the rural economy.
- (viii) **Migration and remittances.** Approximately one third of Moldova’s population has migrated abroad in search of employment.⁶ Remittances have increased steadily since 1993 and are now estimated to contribute 25 to 30 per cent of GDP. These massive financial inflows are used mainly for consumption, and have fueled the country’s strong macroeconomic growth over the past six to seven years. However, remittances have also become one of the main drivers of inflation and have caused the local currency to appreciate, making Moldovan products less competitive internationally. The dependence on remittances exposes the country to the risk that, should remittance levels fall, declining incomes could lead to a sharp increase in poverty rates nationwide.

⁶ Estimates of current levels of Moldovan migration abroad vary from 600,000 to over 1 million.

B. Policy, strategy and institutional context

National institutional context

17. **The Ministry of Agriculture and Food Industry** is the Government's designated implementation agency for IFAD-supported projects. The Ministry has departments relating to regulatory functions, administration, technical support and oversight of agriculture production and processing throughout the country. The Ministry focuses on policy-making and on the planning and design of development programmes. However, due to budget constraints, it has limited capacity to implement, oversee or coordinate development programmes and to assess their individual and aggregate impact.
18. **The Ministry of Finance** is the Borrower's official representative responsible for managing all international development assistance, coordinates preparation of the medium-term expenditure framework (MTEF), and works closely with the Ministries of Foreign Affairs and European Integration and Economy and Commerce on European Union (EU) collaboration and the Economic Growth and Poverty Reduction Strategy Paper (EGPRSP) implementation and monitoring. **The Ministry of Economy and Commerce**, which had been the lead agency in drafting the EGPRSP and setting the associated policy agenda, is now the institution responsible for coordinating implementation of the National Development Plan (NDP).
19. **Commercial banks and microfinance institutions.** There are currently 16 commercial banks operating in Moldova, with 15 operating in rural areas (mainly through lending to business entrepreneurs). The banking sector is dominated by the six largest banks, which hold 77 per cent of total assets, 80 per cent of total deposits and 63 per cent of total capital. Although the sector is considered to be healthy, the commercial banking sector has failed to mobilize longer-term resources, making it difficult and expensive for small and medium-sized enterprises (SMEs) to access medium- and long-term lending. At present, most loans with maturities of more than one year are financed by international donors. Microfinance is provided through a network of savings and credit associations (SCAs) and two microfinance institutions, Procredit and Microinvest.

National rural poverty reduction strategy

20. The Government of Moldova's development policy agenda is set out in three documents: (i) the EGPRSP; (ii) the EU-Moldova Action Plan; and (iii) the NDP.
21. **EGPRSP.** The Government's current strategy for poverty reduction for the period to 2015 is set out in the EGPRSP. Its central policies are: (i) sustainable socially-oriented development; (ii) the reintegration of Transnistria to the country; and (iii) European integration. The medium-term EGPRSP objectives are: (i) sustainable and inclusive economic growth; (ii) poverty and inequality reduction, and increased participation by the poor in economic development; and (iii) human resources development. The aim is to improve the living conditions of the poor, assisting families and individuals to mitigate their poverty by developing small businesses, creating additional jobs, and assisting socially vulnerable groups with employment.
22. **EU-Moldova Action Plan.** Based on the priorities identified in the EGPRSP, the EU and Moldova have developed a country strategy paper covering the period 2007-2013. EU assistance to Moldova over the period will be provided under the European Neighbourhood and Partnership Instrument, which has become the mechanism for EU support to partner countries covered by the European Neighbourhood Policy. The objectives of the EU-Moldova cooperation programme are to: (i) deepen political collaboration on foreign and security policy; (ii) assist in the resolution of the Transnistria issue; and (iii) promote economic growth and poverty reduction. A National Indicative Programme 2007-2010 translates these objectives into priority support for three strategic categories with an indicative financial programme of approximately EUR 210 million for: (i) democratic development and good governance; (ii) regulatory reform and administrative

capacity-building; and (iii) poverty reduction and economic growth. In terms of the poverty reduction and economic growth category, the National Indicative Programme is expected to focus on the improved provision and access to quality services, modernized infrastructure and improved border and customs regimes.

23. The Government has also recently issued its NDP 2008-2011 as the main domestic medium-term strategic planning document. The NDP does not present new strategic directions, but is rather intended to help Government unify and prioritize existing policy documents and priorities (primarily the EGPRSP, the Millennium Development Goals (MDGs) and the EU-Moldova Action Plan) and concentrate the financial resources (through the MTEF) required for their implementation.
24. As part of its development policy framework, the Government has also prepared a number of sector strategy documents, including one for agriculture. The new government agriculture strategy for the period 2006 to 2015 was approved on 17 October 2006 by Decision 1199. Its objectives are to: (i) increase value-added production; (ii) increase processed agricultural products; (iii) increase the quality and competitiveness of agricultural products; (iv) enable Moldovan agricultural products to reach international markets; and (v) endeavour to maintain agricultural incomes at or above 85 per cent of average national income. Tasks identified to attain these objectives include: annual increases of five to seven per cent in agricultural production; a focus on value-added commodities; an overall increase of 20 per cent in processed agricultural products; and an annual increase of 10 per cent in organic agricultural produce. The strategy specifies eight mechanisms for addressing objective-related tasks: harmonization with the relevant EU legal framework; agricultural modernization through research and development; use of private-sector initiative and competitiveness; cooperation and integration of production, processing and marketing; land consolidation; improved standards and certification; development of production-related infrastructure; and ecological agricultural development. The Government recently approved the Draft Concept of Moldova's Strategy for Sustainable Agricultural Development, which is a policy-oriented document that builds upon on the previous agriculture strategy and, once finalized and approved, will replace it.
25. The agricultural strategy document is highly compatible with ongoing and proposed IFAD-supported interventions given its focus on improving the quality of agricultural production and processing in an effort to make Moldovan agricultural production more competitive, thereby raising agricultural incomes through the production and marketing of value-added products. IFAD's future programme as outlined in this COSOP will focus on providing assistance in this regard.

Harmonization and alignment

26. Moldova has recently engaged in serious efforts to strengthen the national coordination of externally-financed programmes. These efforts are complemented by efforts at harmonization within the donor community. The Office of the First Deputy Prime Minister has overall supervisory responsibility for the harmonization and alignment of official development assistance to Moldova, and works in coordination with an external technical assistance attraction and coordination unit in the Ministry of Economy and Commerce. IFAD is a non-resident member of the United Nations Country Team and has been an active participant in inter-agency efforts including the United Nations Common Country Assessment and Development Assistance Framework (UNDAF). All major multilateral and bilateral donors, including IFAD, have signed a development partnership framework and there are regular donor meetings, chaired by the UNDP Resident Coordinator, to ensure inter-agency coordination. IFAD-financed country programmes are already fully integrated with the UNDAF.
27. Ongoing IFAD programmes (the Agricultural Revitalization Project and the Rural Business Development Programme [RBDP]) work in close coordination with those

financed by other donors, including the World Bank-financed Rural Investment and Services Project (RISP II), the Agribusiness Development Project financed by the United States Agency for International Development (USAID), and the Business Advisory Services (BAS) programme financed by the European Bank for Reconstruction and Development (EBRD). These operational level partnerships have strengthened IFAD's relationships with other donors. With EBRD collaborating with IFAD on issues related to the commercial banking sector, and USAID and the Citizens Network for Foreign Affairs providing valuable technical assistance to borrowers seeking IFAD-financed loans, this has avoided overlap and simplified arrangements for implementing agencies and potential programme beneficiaries.

III. Lessons from IFAD's experience in the country

A. Past results, impact and performance

28. Since 1999, IFAD has financed three projects in Moldova with a contribution totalling US\$35.5 million: the Rural Finance and Small Enterprise Development Programme (RFSEDP) in the amount of US\$8 million; the Agricultural Revitalization Project in the amount of US\$14.5 million; and the RBDP in the amount of US\$13 million. The RFSEDP is now closed, the Agricultural Revitalization Project ongoing and the RBDP, declared effective in July 2006, has just begun implementation. As in other countries in the region, the country programme has focused on the provision of rural financial services (RFS) products relevant to IFAD's target group, along with complementary technical assistance and support for rural enterprise development.
29. Although none of the initiatives financed by IFAD in Moldova has yet been evaluated, the Fund has actively pursued efforts to analyse implementation experience through regular review exercises, including the mid-term review and project completion report on RFSEDP, as well as working closely with the Government, other donors involved in the agricultural sector, implementing agencies and the United Nations Office for Project Services (UNOPS) as cooperating institution to distil implementation experience and identify lessons learned. These lessons and experience have then served to reorient ongoing projects and programmes and improve the design of subsequent IFAD loan operations.
30. The implementation of ongoing projects and programmes in Moldova has been judged to be on track relative to appraisal targets, and progress on meeting development objectives is considered to be mainly on target. RFSEDP, IFAD's first intervention in Moldova, was completed on schedule and fully disbursed. Disbursements for the two ongoing IFAD-financed programmes stand approximately 83 per cent higher than the IFAD-wide disbursement average for similar programmes.
31. RFSEDP, the only closed project in Moldova that has benefited from a project completion report, has established 16 SCAs and onlent funds to an additional 5, directly benefiting more than 3,000 families, creating 385 microenterprises and enabling the vast majority of SCA members to stabilize and improve their livelihoods. The Small Enterprise Development Fund has assisted in the expansion of some 411 rural enterprises, creating 6,000 additional jobs. Enterprises supported through the project have shown growth rates of up to an impressive 9 per cent annually, demonstrating sound implementation performance and sustainability. Additionally, the RFSEDP investments have improved agricultural services and market access for a large number of other rural people, who can now access the improved and expanded services provided by enterprises supported by RFSEDP.

B. Lessons learned

32. Key lessons derived from IFAD implementation experience so far include the following:
- (i) **Partnerships are important.** To maximize results and impact, poverty-reducing development assistance needs to be delivered in the context of systems building a competitive, market-oriented rural economy, and this requirement puts a premium on partnership within a shared strategic framework. Such an approach is complemented by developing synergies with several other major donors and financiers in the rural sector, which provides an opportunity for significant leverage in the delivery of financial and technical services to alleviate rural poverty. While the IFAD programme has thus far been predicated on operational partnerships, the Fund should now focus on establishing formal partnerships and cofinancing arrangements with other donors (including the World Bank, the Swedish International Development Agency and United Nations agencies) that work in rural and agricultural development.
 - (ii) **Rural financial services are effective if complemented by other supporting activities.** There is strong demand for rural finance products, and excellent loan recovery rates are compatible with sustainable financial services. Successful enterprise development also requires rural entrepreneurs to be enabled through information and organization to better access support services and markets. Nurturing viable rural enterprises then creates employment opportunities for the rural poor, and has a powerful multiplier effect on the rural economy. Approaches such as complementary technical assistance provided in tandem with rural financial services, value chain analysis and promoting the establishment of grass-roots associations are all potentially useful tools in this regard.
 - (iii) **Remittances play an important role in the rural economy.** Studies commissioned by IFAD and other donors have confirmed the enormous importance of remittances in supporting rural households. Some studies have estimated that remittances account for up to 65 per cent of migrant households' incomes. An opportunity now exists for the development of remittance-oriented rural financial services to leverage funds for investment and enterprise creation in rural areas.
 - (iv) **Targeting is challenging and needs to become more effective.** Poverty reduction has stalled and indeed been slightly reversed in rural areas, where the majority of Moldova's rural poor live. Despite the range of financial services products available in Moldova today, poorer and more vulnerable groups have not been able to access rural financial services in a sustainable manner. The COSOP and future investment programmes will have to devise strategies for reaching the target group directly with programme benefits to address this.
 - (v) **Gender.** Women are an economically active group in rural areas, and currently account for some 25 per cent of successful applicants for IFAD programme loans. Experience indicates that women find the significance of gender-based challenges more pronounced at business start-up, rather than during business development. Future IFAD investment programmes should take these constraints into consideration and provide targeted assistance for women entrepreneurs.

IV. IFAD country strategic framework

A. IFAD's comparative advantage at the country level

33. The Fund is recognized as one of the most important players in the provision of rural financial services as well as small and medium-scale enterprise development in Moldova. The Government and our partners value IFAD's mandate, and more importantly, the Fund's experience in support of poverty alleviation in the country.
34. This COSOP's strategic goal and objectives are consistent with IFAD's corporate strategy, build upon the Fund's comparative advantage in developing appropriate rural financial services in Moldova and reflect the need to address current constraints to reduce rural poverty. Reducing rural poverty over the long term calls for encouraging a diverse and competitive rural economy. Given the importance of the agricultural sector for the rural economy, further sector restructuring is crucial to this end.
35. Key elements in such a restructuring are likely to include: the identification and development of efficiently functioning agricultural markets; a focus on high-value agricultural production; measures to improve product quality; further emergence of private family farms as the basic production unit; further movement of people out of primary agriculture balanced by incentives to retain sufficient economically active people in the agricultural labour force; and complementary support for the development of SMEs in the non-farm rural economy. Contributory factors in terms of policy environment considerations are likely to include overall measures to improve the business environment; incentives to channel remittances into investment as well as consumption; and advocacy of social policies, for example welfare support and education, directed to restoring and maintaining an economically active and socially cohesive rural population.

B. Strategic objectives

36. The Government, as outlined in the EGPRSP, NDP and agriculture strategy, is committed to combating poverty by creating opportunities for employment and enterprise development. Accordingly, and in line with the IFAD Strategic Framework, the overall strategic goal of this COSOP is to further develop a poverty-reducing rural market economy based upon family-owned and managed on- and off-farm businesses through two strategic objectives.
37. **Strategic objective 1:** Establishing market linkages for the rural poor through support for competitive commodity value chains, including market research and development, business development services and producer associations; and achieving international quality standards in production, processing and packaging.
38. **Strategic objective 2:** 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.

C. Opportunities for innovation

39. In the context of attaining this COSOP's strategic objectives, a number of innovations will be pursued, including:
40. **Rural financial services.** The COSOP will support the piloting and development of new products and delivery mechanisms, including: (i) providing RFS and instruments directed specifically to the most vulnerable groups (who have been able to access microloans only through SCA membership); (ii) developing RFS instruments to harness the potential of remittances and mitigate increasing climate change risks (see paragraphs 41 and 43 below); and (iii) exploring alternative collateral requirements for commercial loans (a major stumbling block for beneficiaries seeking loans). IFAD will also explore, in partnership with other like-

minded donors, ways to influence RFS policies in an effort to support pro-poor lending.

41. **Harnessing remittances and the skills of migrants.** IFAD will support a grant-financed pilot initiative to attract remittances for use in investment activities in rural areas. The objective of this innovation will be to: (i) link remittances to financial services and products to encourage their use in enterprise development; (ii) establish partnerships with financial institutions both in Moldova and in migrant host countries to develop pro-migrant financial services; and (iii) encourage the transfer and reapplication of the skills and capacities developed by migrants in their employment outside Moldova.
42. **Market access and enterprise development.** Building upon innovations in RFS and grass-roots participation, the IFAD-financed programme in Moldova will explore opportunities to use a pro-poor value chain approach to link microproducers and small-scale entrepreneurs with other supply chain actors. This will help develop more sustainable mechanisms for the delivery of services and provide valuable market outlets for the rural poor.
43. **Assessing the impact of climate change.** Moldova is facing increasingly severe and more frequent climate phenomena that may be related to climate change. Erosion, droughts and floods affect the rural poor and the most vulnerable groups disproportionately. The Fund will carry out grant-financed interventions, in partnership with concerned institutions, to improve the adaptive capacity of its target groups by: (i) developing financial products to help lessen climate risk (including weather insurance); (ii) enhancing the risk management capacities of actors in the value chains; and (iii) exploring options for the introduction of technologies to reduce the vulnerability of producers to climate change. Successful elements in these grant-financed programmes will then be mainstreamed in future IFAD loans.

D. Targeting strategy

44. The point of departure for targeting under both strategic objectives will be geographic targeting and value chain analysis of those rural goods and services assessed as having substantial existing or potential markets and strong backward linkages to the rural poor. Commodity chains to be supported will be ranked on the basis of a value chain multiplier index (VCMI).⁷ The index will provide a numerical estimate of incremental annual revenue accruing to the average individual within the target group as a direct result of IFAD-assisted investments. This per capita VCMI will thus provide a comparative assessment of investment in different commodity chains in terms of the revenues generated by backward market linkages for small-scale rural producers and rural workers.
45. The target group for activities subsumed under the two strategic objectives above will be rural people at or below the absolute poverty line wishing to establish or expand a farm or off-farm SME. Priority will be given to: (i) areas with high concentrations of poor rural households as identified by the multiple deprivation indicator cited earlier; and (ii) young families or individuals. As always, gender is a cross-cutting issue to be taken into account in defining the target group.
46. Targeting will be direct. The Ministry of Economy and Commerce household survey format will be used to determine whether applicants for IFAD-financed assistance meet the criteria set out in the preceding paragraph with respect to poverty, gender, youth and size of enterprise. Households or individuals who meet the criteria will be supported in accordance with the strategic objectives above, by providing them with appropriate financial services and market linkages.

⁷ The VCMI methodology is currently being pioneered in the ongoing RBDP and will be further refined based on implementation experience in future investment programmes in Moldova.

E. Policy linkages

47. Key policy linkages between the realization of this COSOP's strategic objectives and the Government's poverty reduction objectives as set out in the EGPRSP will relate to: (i) broadening the access of COSOP target groups to rural financial services, especially with respect to developing acceptable alternatives to meet current collateral requirements (in support of the first strategic objective) and encouraging the use of remittances for investment purposes; (ii) promoting measures to link COSOP target groups to markets in an efficient, competitive and sustainable manner, including issues related to accreditation and quality standards (in support of the second strategic objective); (iii) introducing measures to improve the business and investment climate for on- and off-farm SMEs, including simplifying the regulatory environment and promoting a fiscal environment conducive to their establishment and growth (in support of the second strategic objective); and (iv) raising awareness of climate change and its impact on the livelihoods of the poor and their production systems.
48. The issue of accessibility to water for agriculture is a function of Moldova's topography and consequent dependence on pump irrigation. Such systems are expensive to install and maintain (the Ministry of Agriculture and Food Industry estimates indicate that US\$980 million will be required to irrigate an additional 150,000 hectares), and their longer-term sustainability requires further study. IFAD is therefore actively engaged in developing partnerships with other donors that may have the resources to engage in this subsector (although the World Bank has yet to develop any sizeable interventions, the Millennium Challenge Corporation is considering a focus on irrigation). As noted throughout this document, significant resources continue to be required to restructure the agricultural sector, and given government resource constraints it is difficult to foresee a significant increase in the allocation of funding to agriculture and rural development. IFAD will continue to focus on developing partnerships and work with the Government to ensure that the subsector continues to benefit from adequate development financing.

V. Programme management

A. COSOP management

49. The COSOP will be reviewed annually beginning in 2009 with a one-day workshop organized in the country and attended by staff from the consolidated programme implementation unit (CPIU) and country programme management team (CPMT), government officials, representatives of civil society including members of the COSOP target groups, and UNOPS and IFAD staff. The Near East and North Africa Division will prepare a COSOP progress report for consideration at the meeting containing information on the annual institutional and sector analysis under IFAD's performance-based allocation system (PBAS), progress in the context of the IFAD results and impact management system (RIMS), the country programme issues sheet and project status reports. Special attention will also be paid to IFAD's performance on partnership-building.
50. Monitoring of COSOP implementation will benefit from close cooperation with the Office of the First Deputy Prime Minister, as well as the United Nations Coordination Team in the context of the Coordination Architecture, whereby the Government and the donor community have subscribed to achieving results set out in the UNDAF document. The COSOP outcomes and milestone indicators set out in appendix III will apply to IFAD-financed projects designed and implemented during the COSOP period.

B. Country programme management

51. The COSOP will be managed by a country programme team comprising the country programme manager, programme assistant, legal counsel and loan officer based in Rome, the CI portfolio manager, the CPIU Director, and representatives of the Ministries of Finance and Agriculture, the Deputy Prime Minister's Office, and the United Nations Resident Coordinator's Office. As part of a corporate policy shift, it is expected that IFAD projects and programmes in Moldova will be supervised directly in the future. IFAD will further support and develop the CPIU, which is responsible for the implementation and management of the IFAD country programme. There are no projects at risk (PAR) as implementation performance has been more than satisfactory for the entire portfolio.

C. Partnerships

52. IFAD's preference is for: (i) options that are systems-building in the context of developing commercially viable family-based farm and non-farm rural SMEs that generate greater employment and incomes for poor rural men and women; and (ii) acting on those options in partnership with other financiers and agencies within the overall guidance of the EGPRSP and successor NDP and in conformity with IFAD's new corporate strategy and various partners' strategies. In other areas of relevance to IFAD's strategic objectives, such as land policy, the Fund will rely on partnership with donors (the World Bank and others) already addressing this policy question with the Government.
53. A number of partnership options have presented themselves, including:
- (i) continuing IFAD's role in developing rural financial services and instruments for farm and non-farm SME development directed to rural poverty reduction in a manner complementary to ongoing World Bank programmes, and developing cofinancing arrangements with other organizations including the Council of Europe Development Bank;
 - (ii) assisting the realization of UNDAF outcomes, specifically SME development, vocational training and youth; and
 - (iii) providing support for market development, farmer organization and financial services in the context of future initiatives to be financed by the World Bank and others, while ensuring coordination with European Commission food safety programmes.

D. Knowledge management and communication

54. This COSOP will contribute to meeting the objectives of the Near East and North Africa Division's knowledge management programme. The Division will develop instruments to report on lessons learned by IFAD and other donors' projects in fulfilling the EGPRSP and NDP. Support for knowledge management will also be provided through regional initiatives focused on the Division's Central, Eastern Europe and Newly Independent States subregion. Specific attention will be paid to systematizing knowledge gained in rural finance, commodity and services value chains and building the capacity of farmer groups to address trade liberalization issues and their impact on poor smallholders and off-farm rural entrepreneurs. The Moldova country programme will be included in a study, now at the planning stage, that is to analyse the impact of the approach supporting the rural financial sector, value chain development, SMEs and employment generation for sustainable rural poverty reduction. The lessons learned from this study will influence future programme design for Moldova. New interventions to be developed during this COSOP period will include a separate activity to report on problems faced and measures taken to correct possible performance failures, as part of the monitoring and evaluation system.

E. PBAS financing framework

55. The PBAS allocation for the first year of the COSOP is about US\$4.11 million, based on the rural sector performance score of 4.05 (see Table 1). In the initial PBAS cycle (2007-2009), the Fund anticipates having approximately US\$13.51 million available for lending to Moldova, with a similar amount available for the second three-year lending programme covered by this COSOP (2010-2012), for a total of approximately US\$26.5 million.⁸ This amount will be used to develop a single programme that is expected to span the two PBAS cycles covered by this COSOP, to be presented in 2008. IFAD will also pursue the development of at least two grant programmes to: (i) ascertain and develop the potential for innovative RFS instruments to leverage remittances; and (ii) better understand and reduce vulnerability to climate change.

Table 1
PBAS calculation for COSOP year 1

<i>Indicator</i>	<i>COSOP year 1 (2007)</i>
<i>Rural sector scores</i>	
Policy and legal framework for rural organizations	3.80
Dialogue between government and rural organizations	3.75
Access to land	4.40
Access to water for agriculture	3.00
Access to agricultural research and extension services	3.50
Enabling conditions for rural financial services development	4.75
Investment climate for rural businesses	4.00
Access to agricultural input and produce markets	3.75
Access to education in rural areas	6.00
Representation	4.75
Allocation and management of public resources for rural development	3.67
Accountability, transparency and corruption in rural areas	3.22
Sum of combined scores	48.59
Average of combined scores	4.05
Projects at risk rating (2006)	6
IRAI rating (2005)	3.50
Country score	3 950
Annual allocation (United States dollars)	4 108 319 (2007)

56. Table 2 provides indicative financing scenarios showing that the overall allocation for Moldova may decline by 20 per cent (to US\$3.3 million) or rise by 6 per cent (to US\$0.4 million), depending on performance.

Table 2
Relationship between performance indicators and country score

<i>Financing scenario</i>	<i>Project-at-risk rating (+/- 1)</i>	<i>Rural sector performance score (+/- 0.3)</i>	<i>Percentage change in the PBAS country score relative to the base scenario</i>
Hypothetical low case	5	3.75	-20
Base case	6	4.05	0
Hypothetical high case	6	4.35	6

⁸ PBAS allocations are subject to revision on an annual basis, therefore this should be considered an indicative amount only.

F. Risks and risk management

57. The main risk is the fundamental and ongoing vulnerability of the Moldovan economy to external shocks. This vulnerability derives from the country's dependence upon imports, particularly of energy and raw materials for industry and manufacturing, combined with instability or lack of access to export markets. Given IFAD's mandate and corporate strategy, there is little the Fund can do within the country to reduce the import-related risk. However, measures for managing the export-related risk for rural poverty-reducing production will include support for market research and development, business efficiency with respect to commodities in which rural Moldova has a comparative advantage, and assurance of product quality meeting international and, in particular, European standards. It should be noted that the EU has given Moldova greater trade access to the European market through the Generalized System of Preferences Plus scheme and has announced that it is working towards the possibility of granting autonomous trade preferences.
58. A second risk arises from the fact that mainstreaming the new financial instruments proposed by the strategy will require onlending to beneficiaries to be channelled through the Moldovan commercial banking system and other IFAD- and Government-approved participating financial institutions (PFIs). On the one hand, mainstreaming is essential to avoid unsustainable distortions in domestic financial markets arising from any approach involving parallel institutions and procedures, yet it requires conformity with Moldovan finance sector regulations, in particular reconciling proposed target group circumstances with the current collateral requirements for onlending institutions. The design of the IFAD-financed RBDP offers several alternatives to conventional collateral, including contracts for future harvest, livestock, first charge mortgage on land with a title deed, lease contract for equipment and irrevocable letters of credit. RBDP makes specific provision for technical assistance to develop collateral alternatives complementing initiatives financed by other donors. Programmes emerging during the period covered by this COSOP will take into account experience gained through RBDP and assess options such as refinancing incentives for participating financial institutions, venture capital funding and matching financial instruments to remittance investments.
59. As noted, there is no sizeable middle class in Moldova, and this is indicative of a dearth of middle-sized investment in the economy. A contributing factor may be the overhead costs currently applicable to Moldovan investments and the capacities of smaller investors. This has implications for the development of the economy as a whole, but the Government's efforts in public-sector reform and through targeted donor-financed programmes (such as the Millennium Challenge Corporation Threshold Programme, focusing on enhancing Government accountability and transparency) indicate an understanding of this problem and a clear commitment to tackle it.

COSOP consultation process

I. The Process

1. The COSOP consultative process included the following steps:
 - a. **Planning of the COSOP development process:** An initial COSOP formulation plan was prepared in December 2006 with a tentative timelines for the studies, activities, workshops and terms of reference and budget required.
 - b. **Establishment of a Country Programme Management Team (CPMT):**⁹ A CPMT was established in early 2007, with a group of key stakeholders both within IFAD and at country level to provide guidance and feedback when required during the entire cycle of COSOP design and implementation.
 - c. The in-country component of the CPMT consisted of representatives from the Ministries of Agriculture and Food Industry and Finance, as well as representation from the Office of the Deputy Prime Minister (responsible for donor coordination), key external development agencies, civil society organizations involved in rural development and resource persons.

	Organization/Unit	Name	Position
IFAD Headquarters & Project Unit			
1.	Near East & North Africa Division, Programme Management Department, IFAD	Pietro Turilli	Country Programme Manager
2.	Near East & North Africa Division, Programme Management Department, IFAD	Mylene Kherallah	Regional Economist
3.	Controller's Office, Loans and Grants Unit, IFAD	Stefania Cappai	Loans Officer
4.	Office of the General Counsel, IFAD.	Charles Forrest	Legal Counsel
5.	Near East & North Africa Division, Programme Management Department, IFAD	Nicole Hervieu	Programme Assistant
6.	Consolidated Programme Implementation Unit – IFAD Programmes, Chisinau, Moldova	Ion Russu	Director
Civil Society Organizations			
6.	Agroinform (NGO)	Aurelia Bondari	Director
7.	National Agency for Rural Development	Constantin Ojog	Executive Director
Government			
8.	Ministry of Agriculture and Food Industry	Ion Perju	Director Policy Department
9.	Ministry of Finance	Elena Matveeva	Head, External Financing & Debts Division
10.	Office of the Deputy Prime Minister	Felicia Precop/ Lucretia Ciurea/ Viorel Girbu	Specialist (Ms. Precop later replaced by Ms. Ciurea and Mr. Girbu)
Donor Community			
11.	The World Bank	William Sutton	Economist
12.	The World Bank	Pierre-Olivier Colleye	Task Manager
13.	United Nations Development Programme (UNDP)	Aliona Niculeta	Programme Officer
14.	European Commission	Speranta Olaru	Project Manager
Cooperating Institution			
15.	United Nations Office for Project Services (UNOPS)	Omer Zafar	Senior Portfolio Manager
Resource Persons			
16.		Doina Nistor	Consultant
17.	CPIU-IFAD	Alla Guban	Programme Analyst

- d. **Poverty Study:** In 2007, following an initial mission by the IFAD Country Programme Manager and lead consultant, a gender sensitive Poverty Study was initiated in-country in collaboration with the CPMT. This Poverty Study was used as a baseline document to enable IFAD to better understand the nature and dynamics of poverty in rural Moldova.
- e. **Issues and Options Document:** In January 2007, an Issues and Options Document was prepared and used as the basis for a consultative process with

⁹ CPMT membership is expected to evolve over time. Efforts are being made to include beneficiary group and private sector (enterprise) representation to participate in the COSOP implementation review efforts.

Government and the CPMT, presenting a 'way forward' which was validated in the course of an e-mail consultation process (*informal listserve*). In the Issues and Options paper, a series of options were presented describing IFAD's experience and lessons learned in the Moldovan portfolio, the proposed focus areas for the future programme, and the potential areas for collaboration with other donors. The proposed options included: (i) continuing IFAD's established role in developing new rural financial services; (ii) assisting the realization of UNDAF (specifically with regard providing opportunities for youth development); (iii) providing support to market development; and (iv) designing and financing regional development agencies. Comments were received from several Government and CPMT representatives approving the approach proposed, suggesting to limit the scope of the proposed IFAD approach and indicating the need to integrate the National Development Plan (which was beginning to be developed at national level). These recommendations were accepted and form the basis of the COSOP formulation exercise which was begun following the review of the Issues and Options document by the CPMT.

- f. **Preparation and Finalization of the Draft COSOP:** In December 2006, March, May and October 2007, the COSOP development team undertook in-country consultations with the focal points in Government, project staff, selected civil society organizations and donors to review: (i) lessons learned from past experience in the provision of rural financial services in Moldova; (ii) policy and institutional challenges facing IFAD and the other stakeholders concerned with rural development; and (iii) the future challenges facing the rural development agenda in Moldova, and the future focus of the IFAD-financed country programme. Several versions of the draft COSOP were shared with CPMT and senior Government representatives and revisions carried out based on comments in April and June 2007. The draft COSOP was finalized and submitted on 26 September 2007 for review by Government, the CPMT and the wider donor community active in Moldova. The comments received were again mainly related to the sharpening of the COSOP's focus, and the need to ensure alignment with the ongoing strategy development process which is bringing about the development of the NDP as well as an Agricultural Development Strategy.
- g. **COSOP Consultative Workshop:** A COSOP development team held a series of consultations from 1 October to 12 October 2007 on the draft COSOP with Government, CPMT, the UN Country Team, the wider donor community and civil society organizations. A COSOP Workshop was then held in Chisinau on 12 October 2007 in which all stakeholders were invited to participate in a consultative process to confirm in-country ownership of the COSOP and the proposed programme pipeline. Government representatives from the Ministries of Agriculture, Finance and the Deputy Prime Minister's Office attended the workshop and, while supporting the overall COSOP approach, provided comments on: (i) the proposed project pipeline, querying the availability of resources over the COSOP period; and (ii) clarifications concerning the phasing of the EGPRSP vis-à-vis the NDP.
- h. **In-house Reviews and Approval:** The draft COSOP was reviewed within IFAD by a Near East and North Africa Division peer review, a PDMT review and OSC review in September and October 2007.
- i. **Endorsement of the COSOP by Government:** Formal Government endorsement of the revised COSOP will be sought in October/November 2007.
- j. **Executive Board Review:** The COSOP will be submitted to the Executive Board for review in December 2007.

Country economic background

Moldova

Land area (km ² thousand) 2005 1/	33	GNI per capita (USD) 2005 1/	930
Total population (million) 2005 1/	4.21	GDP per capita growth (annual %) 2005 1/	7
Population density (people per km ²) 2005 1/	128	Inflation, consumer prices (annual %) 2005 1/	13
Local currency Moldovan Leu (MDL)		Exchange rate: USD 1 = MDL	11.2285
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1999-2005 1/	-0.3	GDP (USD million) 2005 1/	2 917
Crude birth rate (per thousand people) 2005 1/	11	GDP growth (annual %) 1/	
Crude death rate (per thousand people) 2005 1/	12	2000	2.1
Infant mortality rate (per thousand live births) 2005 1/	14	2005	7.1
Life expectancy at birth (years) 2005 1/	68	Sectoral distribution of GDP 2005 1/	
Number of rural poor (million) (estimate) 1/	n/a	% agriculture	17
Poor as % of total rural population 1/	n/a	% industry	24
Total labour force (million) 2005 1/	2.16	% manufacturing	17
Female labour force as % of total 2005 1/	48	% services	58
Education		Consumption 2005 1/	
School enrolment, primary (% gross) 2005 1/	92	General government final consumption expenditure (as % of GDP)	16
Adult illiteracy rate (% age 15 and above) 2005 1/	n/a	Household final consumption expenditure, etc. (as % of GDP)	93
Nutrition		Gross domestic savings (as % of GDP)	-8
Daily calorie supply per capita	n/a	Balance of Payments (USD million)	
Malnutrition prevalence, height for age (% of children under 5) 2004 2/	0	Merchandise exports 2005 1/	1 091
Malnutrition prevalence, weight for age (% of children under 5) 2004 2/	3	Merchandise imports 2005 1/	2 312
Health		Balance of merchandise trade	1 221
Health expenditure, total (as % of GDP) 2005 1/	7 a/	Current account balances (USD million)	
Physicians (per thousand people)	3 a/	before official transfers 2005 1/	-854
Population using improved water sources (%) 2004 2/	92	after official transfers 2005 1/	-242
Population with access to essential drugs (%) 2/	n/a	Foreign direct investment, net 2005 1/	199
Population using adequate sanitation facilities (%) 2004 2/	68	Government Finance	
Agriculture and Food		Cash surplus/deficit (as % of GDP) 2005 1/	2
Food imports (% of merchandise imports) 2005 1/	12	Total expenditure (% of GDP) 2005 1/	n/a
Fertilizer consumption (hundreds of grams per ha of arable land) 2005 1/	55 a/	Total external debt (USD million) 2005 1/	2 053
Food production index (1999-01=100) 2005 1/	116	Present value of debt (as % of GNI) 2005 1/	70
Cereal yield (kg per ha) 2005 1/	2 952	Total debt service (% of GNI) 2005 1/	8
Land Use		Lending interest rate (%) 2005 1/	19
Arable land as % of land area 2005 1/	56	Deposit interest rate (%) 2005 1/	13
Forest area as % of total land area 2005 1/	10		
	14		
Irrigated land as % of cropland 2005 1/	a/		

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

1/ World Bank, World Development Indicators database CD ROM 2007

2/ UNDP, Human Development Report, 2006

COSOP results management framework

Country strategy alignment	Key results			Institutional/Policy objectives
EGPRSP Objectives and Targets	Strategic objectives	Outcome indicators	Milestone indicators	Policy dialogue agenda
<p>To move from the current state of remittance based, consumption- led growth to investment and locally based import substituting and export led growth</p> <p>Development of farmer group strategies for more efficient access and use of information, markets, inputs and production opportunities</p> <p>To move towards European integration defined as the consistent implementation of common European values and standards, living standards and economic development models</p>	<p>SO 1 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>	<p>50% of enterprise borrowers include convergence measures with international and especially EU standards</p> <p>25% of volume of IFAD-supported SME products and services should be destined to the export market</p> <p>25% of farmers participating in liberalization initiatives (that farm less than 10 ha of land)</p> <p>50% of loans approved by PFIs include convergence criteria with EU standards</p>	<p>25 producer organizations participating in negotiations and training</p> <p>70% of new SMEs supported by the programme are registered outside Chisinau</p>	<p>Inclusion of small-scale farmer concerns in implementation of trade agreements</p> <p>Develop regulatory framework for producer associations</p>
<p>Targets Annual economic growth of between 5 -10% Reduce population with a daily income of less than US\$2.15 from 39.8% in 2002, to 28.0% in 2006, 23.0% in 2010 and 18.0% in 2015.</p>	<p>Baseline data Per capita rural adult annual income US\$576 in 2005.</p>			
<p>Poverty and inequality reduction, and increased participation of the poor in economic development</p> <p>Using remittances as a potential</p>	<p>SO 2 Promoting access to a full range of appropriate and mainstreamed financial services with a particular emphasis on</p>	<p>1800 rural households accessing credit, especially women and young farmers and off-farm entrepreneurs</p>	<p>600 on and off farm enterprises expanded or established</p> <p>1100 loans provided</p>	<p>Increasing access to rural financial services through alternatives to conventional collateral requirements</p> <p>Associated changes in the</p>

<p>source of development finance</p> <p>Emphasis on private sector development and an enabling, deregulated business environment</p> <p>To develop non-farm activities in rural areas</p> <p>To increase SME contribution to economic growth</p>	<p>products directed towards supporting the most vulnerable and poor groups in rural areas.</p>	<p>50% of PFIs with provision for start-up loans.</p> <p>Revenue of enterprises increased by 10%</p> <p>50% of rural SMEs supported by the programme reporting improved profitability</p>	<p>to family-owned rural businesses</p> <p>(of which) 300 loans provided to women headed rural businesses</p> <p>1200 new full time equivalent jobs created</p>	<p>regulatory framework for rural savings and loans</p> <p>Reducing bottlenecks for access to land sufficient for commercially viable family farm enterprises</p>
<p>Targets</p> <p>Annual economic growth of between 5 -10%</p> <p>Reduce population with a daily income of less than US\$2.15 from 39.8% in 2002, to 28.0% in 2006, 23.0% in 2010 and 18.0% in 2015.</p>	<p>Baseline data</p> <p>In rural areas in 2005 absolute poverty incidence of 36% and extreme poverty incidence of 21%</p> <p>GDI 0.692 in 2006</p> <p>Per capita rural adult annual income US\$576 in 2005.</p> <p>While over 60% of the population live in rural areas, rural lending represents some 40% of the commercial banks loan portfolio out of which 20% is for agriculture.</p> <p>40% of Moldovan children under 18 y.o. live either with 1 or no parents. 27% of rural children between 5 and 9 years live in extreme poverty.</p>	<p>50% of PFIs open new bank branches in rural areas</p> <p>75% of RFS borrowers open a bank account with a PFI</p>	<p>15 value chains analysed and supported</p> <p>25 supply contracts established</p> <p>2500 smallholders reporting incremental assets</p>	

Key file 1: Rural poverty and agricultural/rural sector issues

Priority Areas	Affected Group	Major Issues	Actions Needed
Agricultural productivity and profitability	All farmers, but especially smaller, fragmented farms	<p>High-risk production environment due to: (i) incomplete farm restructuring, (ii) limited access to market and to agro-industry, (iii) low quality production; (iv) limited numbers of processing enterprises; and (v) poorly organized marketing chains and marketing information.</p> <p>Weak backward and forward linkages between farming and rural economy</p> <p>Demographic imbalances due to emigration of younger rural people, depleting the ratio of the potentially economically active to the rural population as a whole, leading to a subsistence/consumption rather than medium/long term investment environment and social/poverty problems among under-18 age groups</p>	<p>Stimulate demand for and supply of high quality agricultural production at all points along the commodity chain</p> <p>Stimulate development of rural processing and value adding businesses</p> <p>Create effective linkages of small producers to private sector sources of technical support and market outlets/quality control,</p> <p>Assist farmers in developing a market approach to their production, derived from links with entities in produce supply chains</p> <p>Land consolidation, through sale or rental of farm land.</p> <p>Training for wholesalers, processors, input suppliers and farmers</p> <p>Incentives for family-based farming enterprises</p>
Employment opportunities	All poor rural people	<p>Little off-farm employment opportunities in rural areas</p> <p>Workforce under-skilled and severely underemployed</p> <p>Reduction in incomes from wage employment</p>	<p>Small and medium enterprise development/creation with resulting increase in jobs and family income.</p> <p>Diversification into off-farm/non-farm enterprises</p> <p>Develop skills for under-skilled workforce</p>
Rural finance	All poor rural people, and rural business entities	<p>Rigid and inappropriate collateral requirements</p> <p>Reluctance of commercial banks to extend mid to longer term credit to small farmers</p> <p>Failure to mobilize savings/remittances for investment and lack of medium term deposits</p> <p>Absence of a banking culture among farmers</p>	<p>Medium & long-term on-lending funds to be made available for production and investment credit to be made available to smallholders and SMEs;</p> <p>More innovative financial products to be offered by banks to overcome collateral difficulties.</p> <p>Reorientation of remittance use from consumption to investment</p> <p>New law on lease finance</p> <p>Improved physical and procedural capacity of financial institutions to engage in rural financial services</p>
Market Access and Support services for private business	Entrepreneurs (existing and potential formal and non-formal)	<p>Lack of clear signals for price, quality and quantity of rural produce</p> <p>Government supported/sponsored monopolies controlling marketing of key agricultural produce.</p> <p>Poor business conditions due to over-regulation.</p> <p>Lack of commercially viable technical, financial, managerial and informational support services appropriate to market-oriented agricultural growth</p> <p>Poorly developed private markets</p> <p>Limited ability for producers to respond to market opportunities</p> <p>Poorly developed supply chain services</p>	<p>Identify opportunities for expansion of markets, for local sale and for export</p> <p>Development of network of rural business service providers, capable of supplying range of services</p> <p>Assist farmers to organise and engage with supply chain entities</p> <p>Diversification into higher value crops whose market is not controlled by the monopolies.</p> <p>Guillotine Law to reduce outdated and unnecessary business regulations.</p>

Key file 2: Organizations matrix (strengths, weaknesses, opportunities and threats [SWOT] analysis)

Institution	Strengths	Weaknesses	Opportunities/ Threats	Remarks
Office of the Deputy Prime Minister	Ensures liaison with donor community. Responsible for overall coordination of all external assistance.	Lack of operational capacity to ensure adequate monitoring and evaluation of agreed upon indicators. Unclear lines of responsibility vis-à-vis line ministries involved in donor coordination & policy development.	Strong commitment by the Deputy Prime Minister's Office to manage external assistance and coordinate official development assistance inflows. Roles and responsibilities of other ministries.	Principal institution for overall aid coordination, although the roles and responsibilities vis-à-vis other Gov't institutions remains to be clarified.
Ministry of Finance	Familiarity with IFAD policies and procedures. Qualified technical staff.	Limited budget. Excessive focus over short term budgetary constraints.	Focus on provision of incremental rural finance. Weak appreciation for the need for investment in capacity building.	Principal institution for rural finance initiatives under the COSOP
Ministry of Agriculture and Food Industry	Field presence. Qualified technical staff. Excellent CPIU staff.	Limited budget. Unbalanced skill-mix. Limited understanding of requirements of market economy. Lack of staff to meet village level support requirements.	Scope for improvement with training and improved skills mix. Needs to move to commercial orientation.	Principal sponsor non-finance agricultural and rural development activities foreseen under the COSOP
Ministry of Economy and Commerce	Policy development capacities. Familiarity with donor requirements. Focus on remittances issues.	Limited budget. Coordination with other ministries. Lack of operational capacity to ensure adequate monitoring and evaluation of agreed upon indicators	Focus on policy development and donor coordination. Strong commitment by the donor community to align interventions with the EGPRSP.	Principal institution for EGPRSP development and implementation.
Private entrepreneurs	Good affinity with programme approach. Field presence. Link with Commonwealth of Independent States and other markets.	Old regulations may impede entry. Competition from protected public enterprises. Limited access to capital. Limited management skills.	Government policy in favor of privatization of public enterprises. Cumbersome licensing procedures impede entry.	Major actors in execution of civil works contracts and in agro-services and agro-industry.
NGOs and other service providers	Local presence. Familiarity with programme context.	Limited number with requisite skills and experience. Weak resource base.	Some capacity for beneficiary organization and training. Limited capacity and experience to	Potential contractors for business services, loan access, equity

	Previous involvement in development programmes. Social acceptability.	Narrow focus.	meet programme requirements.	leveraging, organization, training and information campaigns.
Farmer organizations	Local initiative.	Limited management capacity. Limited access to information and technical support. Dependent on donor funds.	Tendency for control by ex state farm manager/leader. The programme can create conditions to enable the emergence of new entrepreneurs. Can influence policy.	The programme needs to promote self-governance and sustainability of these organizations, along with opportunities for new entrepreneurs.
Participating Financial Institutions	Relatively well-developed financial sector with CBs and MFIs. High NBM supervision standards. Excellent loan recovery rates.	Still relatively fragmented sector with a large number of financial institutions. NBM pressure towards consolidation could lead to difficulties with smaller financial institutions. Overall relatively conservative attitude towards rural/agribusiness lending still prevalent.	Cautious but expanding interest in expanding lending and exploring business opportunities in rural/agribusiness sector. New law on leasing will allow expansion. Increasing PFI activity in small loans.	The programme will build upon successful track record of past IFAD interventions in working with PFIs in expanding rural lending.
Marketing: NGOs, MEPO, CAMIB	Focus on priority constraint.	Limited experience. Lack of management capability. Reliance on foreign funding.	Potential for making MEPO sustainable serving private entrepreneurs based on fee-for-service principle.	There is a potential for MEPO to become a service provider under the programme.

Key file 3: Complementary donor initiative/partnership potential

Funding Agency	Nature of Programme	Programme Coverage	Current Status	Complementarity/ Synergy Potential
World Bank	Rural Investments Support Project II (RISPII) Possibility of forthcoming country assistance strategy (end 2007) laying the basis for a new rural development project covering competitiveness and access to export markets and a new road network recovery programme	National	On-going	Strong potential for complementary finance in rural areas. Depending on final country assistance strategy (end 2007), potential for complementary finance and action with respect to export markets for rural products and synergy on rural infrastructure and agroprocessing and advocacy of necessary associated policy change.
EU	EU-Moldova Action Plan	National	On-going	Strong potential for collaboration in regulatory environment and private sector and economic development initiatives and advocacy of necessary associated policy change.
EBRD	Supporting private sector development in finance, infrastructure and SMEs.	National	On-going	Strong potential for leverage of financing for investment programmes with a particular focus on SMEs who would engage with IFAD's target group
EU/ European Neighbourhood and Partnership Instrument	Support to regulatory environment, poverty reduction and economic growth	National	€209.7 between 2007-2010	Medium potential for complementary finance for regional development and up-grading of Moldovan quality control to meet European standards
DFID	Regional Assistance Plan	National	2004 – 2007	Strong potential for

				cooperation on governance issues and creating enabling business environment
JICA	Leasing of agricultural Equipment	National	On-going	Complementary finance for rural investment.
SIDA	Co-financing RISP Support for governance, social inclusion and economic growth	National	Ending 2005 Ongoing	Complementary support
USAID	Private Farmers Assistance Program (PFAP) Private Farmers Commercialization Program (PFCP) Land Privatization Support Program (LPSP) Bizpro – Small and Medium Enterprise Development Agri-business Development Program (ADP) Millennium Challenge Corporation Threshold Programme	National	End 2005 On-going Ongoing Ongoing Ongoing	Potential for learning from experience Complementary support for SME growth in rural areas. Support for anti-corruption efforts, enhanced transparency and accountability in Government
UNDAF	• Governance and Participation, Regional and Local Development	National	Ongoing 2007-2011	Complementary potential in regional economic policy, microfinance and market-based vocational training,
UNICEF	• Demographic and Health Survey (MICS)	National	Ongoing	Survey to derive benchmarks for anchor indicators.

Key file 4: Target group identification, priority issues and potential response

Typology	Poverty Levels And Causes	Coping Actions	Priority Needs	COSOP Response
Subsistence-oriented and small-scale surplus farmers	<p>Moderate to severe Post privatization diminution and fragmentation of farms Erratic and insecure markets. Lack of market information and knowledge Little availability of medium or long-term capital for on-farm investment Poor state of commercial infrastructure (commercial and government services) raises production and transaction costs</p>	<p>Informal land lease and sale of land under duress for low prices Production, surplus sold or bartered immediately after harvest Migration to urban areas and abroad in search of wage employment Subsistence level farming only with little relationship to markets and most produce self consumed Formation of family based information and production groups</p>	<p>Accessible means for efficient land consolidation and development of efficient land market Access to technical and marketing information and opportunities Appropriate, production-oriented rural financial services and instruments. More business orientation of farmers</p>	<p>Finance for improved technology and business practises training for farmer groups Loan funds and TA to encourage commercial banks and MFIs to operate in rural areas, and to lend on medium-terms to rural producers Supply chain analysis and linkage to farm communities SME development to improve market off-take.</p>
Un and underemployed rural population, including landless people	<p>Moderate to severe Loss of employment opportunities after break up of Soviet Union Lack of diversification and differentiation in the rural economy Lack of entrepreneurial activity in rural areas</p>	<p>Forced rural people into farming in order to survive Migration to urban areas in search of wage employment Some nascent SMEs operating below capacity and under capitalized</p>	<p>Better part and full-time employment and income-earning opportunities. Greater diversification of rural economy. Enhanced opportunities for on and off-farm rural SMEs to be established and grow, offering more employment.</p>	<p>Development of new financial instruments and complementary finance to encourage commercial banks to operate in rural areas and to lend to farm and off-farm SMEs. On and off-farm employment opportunities increased as a result of increased SME capacity, following regulatory reforms, increased access to working, medium and long-term capital and supply chain initiatives linked to market access and development. Enhanced opportunities for micro and small enterprise establishment and operation</p>

Typology	Poverty Levels And Causes	Coping Actions	Priority Needs	COSOP Response
Poor Rural Women	Moderate to severe Often de-facto head of households with absent male family members employed in non rural occupations or abroad.	Subsistence level farming Seasonal employment when available Sometimes remittances from family and relatives in formal employment	Greater opportunities for wage employment off-farm. Better access to rural finance. Improved access to market information and supply chains	Mainstreaming with respect to the various activities and benefits listed above Specific involvement rural SME development
Poor Rural Youth and Young Families At Risk	Severe Loss of one or both parents due to migration or family breakdown Lack of access to education and training Relatively poor status Inexperience	Some subsistence farming Low-grade seasonal employment Social transfers	Education and training Better targeted social transfers Specific organizations for youth and young families at risk	Specific support to development of rural financial instruments, vocational training and associations to encourage sustainable emergence of young farmers and off-farm entrepreneurs and enhance employability

