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Enabling poor rural people
to overcome poverty

President's report

Proposed loan and grant to the Republic of Moldova for the

Inclusive Rural Economic and Climate Resilience Programme

Note to Executive Board representatives

Focal points:

Technical questions:	Dispatch of documentation:
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For: **Approval**

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Abbreviations and acronyms

CIS	Commonwealth of Independent States
CPIU	consolidated programme implementation unit
PSC	programme steering committee

Map of the programme area

Republic of Moldova

Inclusive Rural Economic and Climate Resilience Programme

Financing summary

Initiating institution:	IFAD
Borrower/recipient:	Republic of Moldova
Executing agency:	Ministry of Agriculture and Food Industry
Total programme cost:	US$46.3 million
Amount of IFAD loan:	SDR 10.5 million (equivalent to approximately US$16.1 million)
Amount of IFAD grant:	SDR 325,000 (equivalent to approximately US$0.5 million).
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinanciers:	Danish International Development Agency (DANIDA) (expected) Global Environmental Facility (GEF) participating financial institutions (PFIs)
Amount of cofinancing:	DANIDA: US$5 million (expected) GEF: US$4.26 million PFIs: US$1.9 million
Terms of cofinancing:	Grant
Contribution of borrower/recipient:	US$11 million
Contribution of beneficiaries:	US$7.5 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Moldova for the Inclusive Rural Economic and Climate Resilience Programme, as contained in paragraph 35.

Proposed loan and grant to the Republic of Moldova for the Inclusive Rural Economic and Climate Resilience Programme

I. Strategic context and rationale

A. Country and rural development and poverty context

1. The Republic of Moldova is a landlocked country with a land area of 33,700 square kilometres and a registered resident population of 3.56 million (2012). Its population density (106 persons per square kilometre) is the highest in the Commonwealth of Independent States (CIS), of which the Republic of Moldova is a member. Sixty-one per cent of the population live in rural areas. Geopolitically, the country borders the European Union and Ukraine, and maintains strong trade, migration and political ties to both the CIS and the European Union. This position offers significant opportunities for diversifying markets and products, while also posing serious challenges in terms of constructively managing international relations and complying with different sets of standards and procedures. Currently the Republic of Moldova is negotiating a comprehensive free trade agreement with the European Union. This will be an integral part of a future association agreement, expected to be signed between the European Union and the Republic of Moldova by the end of 2013.

2. During the past decade, the Republic of Moldova has made significant progress in maintaining high economic growth and, partly as a consequence, also reducing poverty. This has been attributed to sound macroeconomic management with stable and generally low inflation, prudent debt management and an open trade regime. However, it has also been conditioned on an overreliance on strong remittance flows that has catalysed increased consumption of imported goods. This decade-long consumption-led growth has not been accompanied by an increase in employment, as total employment in the Republic of Moldova declined by 27 per cent over the period 2000-2010. Agriculture released most of the labour through internal and external outward migration. Another negative macroeconomic feature resulting from a consumption-led growth model was the build-up of an alarming trade deficit. With the value of imports more than triple that of exports, this deficit reached over 50 per cent of GDP in 2008, dropping to around 40 per cent in 2011. The fallout from the global crisis, which began in 2008, exposed the fragility of this growth model. As remittances declined, domestic demand fell by 10 per cent and the real economy contracted by 6 per cent in 2009. The country's quick recovery from the crises in 2010 and 2011 has again been largely based on the restored remittance supply, but also on increased agricultural prices.

3. Today the Republic of Moldova is facing an increasingly volatile and deteriorating environment. The economy is highly exposed to the deepening eurozone crisis because of its dependence on remittances, exports and capital inflows, whereas the slowdown in CIS countries in general and the Russian Federation in particular is also putting downward pressures on the economy. Climatically, the severe drought in the summer of 2012 contributed to a steep contraction in agricultural GDP, with the wider ramifications being that the country's overall GDP growth was negative at - 0.8 per cent in 2012, the first contraction since 2009. This has seriously

undermined the crucial poverty reduction objectives of the Moldovan Government and its international development partners, IFAD included. Equally important is the increased frequency and severity of climatic events, which most informed observers now see occurring once in three years, whereas the previous estimate was once in nine. Thus, severe droughts have occurred in 2004, 2007, 2009 and 2012, and flooding has occurred in 2008 and 2010.

4. Agriculture is still today one of the largest sectors of the Moldovan economy and the main source of employment and livelihood for the rural population. In 2012, agriculture accounted for 11 per cent of the country's GDP and employed 26 per cent of the active labour force (down respectively from 12 per cent and 28 per cent in 2010). The importance of agriculture is further validated by the prevailing share of agrifood exports at 45-50 per cent of total exports. The export-oriented agroprocessing industry produces most of the agrifood exports and adds approximately 8 per cent to the GDP. While poverty in urban areas is relatively low at 10.4 per cent, rural poverty stands much higher at 30.3 per cent. The poverty rate among farmers and agricultural workers is the highest – at 36 per cent and 45 per cent respectively. These two categories alone account for 40 per cent of the Moldovan poor population. Partly due to limited opportunities in the Republic of Moldova, more than 10 per cent of the population are working abroad, of whom two thirds come from rural areas and are prevalently young and entrepreneurial workers. The impact of rural emigration is reflected in the demographics of employment patterns, which are characterized by a significant missing youth element.

B. Rationale and alignment with government priorities and RB-COSOP

5. The programme rationale has been informed by: (i) the Government's overall policy objective of reducing reliance on the remittance-based consumption-led growth model that has been a key driver in the past decade, focusing instead on harnessing both domestic and foreign resources for investments in productivity and improvements in competitiveness; (ii) the need to improve climatic resilience of agriculture and agribusiness value chains, which suffered devastating crop losses during the drought in the summer of 2012; and (iii) the major constraints facing the drivers of rural inclusive growth, in particular the limited access to any kind of financial services in rural areas. This is well in line with the strategic objectives of IFAD's results-based country strategic opportunities programme (RB-COSOP), which support the development of market linkages for rural agricultural producers through access to rural financial services, market intermediation and technical backstopping skills to both participating financial institutions and businesses.

II. Programme description

A. Programme area and target group

6. The programme area comprises the most deprived areas of the Republic of Moldova. Given the size of the country and the relatively small regional differences in rural poverty rates, the programme will cover all rural areas of the country, with the exception of the climate change resilience interventions, which will focus on more vulnerable areas, predominantly in the central and southern districts of the country.

7. In accordance with the IFAD Policy on Targeting, the programme will target poor men and women who have the potential to take advantage of improved access to assets and opportunities for agricultural production and related rural income-generating activities. In particular, its primary target groups will comprise: (i) commercially active poor people; (ii) economically active poor people; and (iii) very poor people.

B. Programme development objective

8. The goal of the programme is to enable poor rural people to raise their incomes and strengthen their resilience. Its development objective is to increase investments in the rural economy and strengthen climate-adaptive capacity for the poorer sections of society, leveraging the experiences of past interventions and introducing innovations.

C. Components/outcomes

9. **Component 1: Climate change resilience and inclusive value chain development**. The overall purpose of this component is to enhance the adaptive capacity of farmers and agribusinesses through the introduction of climate-resilient agriculture practices and technologies, and through the strengthening of inclusive value chains. This will be supported through the introduction of climate-resilient agriculture practices and technologies, and the promotion of selected value chains. There will be two subcomponents, both having a direct focus on the rural economy: climate resilience through conservation agriculture; and inclusive value chain development. The outcome of this component will be enhanced resilience, inclusiveness and adaptive capacity of agribusiness value chains to climate change.

10. **Component 2: Inclusive rural finance and capacity development**. The component's objective is to enhance access to financial services for rural microenterprises, small and medium-sized businesses and young entrepreneurs. The component will include two subcomponents: financing of agricultural and rural investments; and capacity and service development within the savings and credit sector. The outcome of this component will be enhanced access to financial services for rural microenterprises, small and medium-sized businesses and young entrepreneurs.

11. **Component 3: Infrastructure for rural resilience and growth**. The component's objective is to increase rural economic growth through infrastructure development using a twofold approach. First, it will strengthen the rural sector's resilience to increasingly frequent climatic and economic shocks. This will make rural producers more able to reliably deliver products at agreed quantities and qualities. Second, on this platform, rural producers will be able to increase production, shorten farm-to-market transportation time, lower transaction costs, diversify production and engage in higher value chains that demand predictability of delivery. This in turn will increase economic growth, incomes and employment. The focus will be on improving water supply for productive purposes (e.g. irrigation), rural roads and rural market places. The outcome of this component will be infrastructure adapted to climate change and promoting the rural economy.

12. **Component 4: Programme management.** Responsibility for programme management will mainly rest with the existing consolidated programme implementation unit (CPIU) of the Ministry of Agriculture and Food Industry. The CPIU has established a robust and well-recognized track record of competent and diligent programme management.

III. Programme implementation

A. Approach

13. A key ambition of the implementation approach is to promote institutional development among the core partners. The programme will contribute to this outcome mainly by: (i) developing and establishing institutionalized systems for promotion of climate-resilient agricultural and value chain practices; (ii) developing the capacity of participating financial institutions, including savings and credit organizations and regulatory institutions; (iii) providing support to and expanding public-private partnerships in infrastructure and the financial sector.

B. Organizational framework

14. The Ministry of Agriculture and Food Industry will be the lead programme agency. A programme steering committee (PSC) will provide oversight and overall policy and other guidance for the programme. The CPIU will have the day-to-day responsibility for programme planning, management and coordination; monitoring and evaluation of programme results; and administrative and financial reporting. It will also have administrative and financial autonomy to enter into contracts with third parties for programme implementation requirements.

15. The CPIU is a ring-fenced entity and is not a unit of the Ministry of Agriculture and Food Industry. It functions according to IFAD rules in terms of recruitment, procurement and financial management. The CPIU was set up by a government decree and it reports to the PSC, which is composed of representatives of several ministries and chaired by the Ministry of Agriculture and Food Industry. The services of the Government's recently established Agency for Interventions and Payments in Agriculture may be used for managing implementation of some programme components, but this only after its capacity for fund management and its fiduciary capacity has been assessed. The Credit Line Directorate will co-manage the inclusive rural finance component, which it is cofinancing.

C. Planning, monitoring and evaluation, and learning and knowledge management

16. The monitoring and evaluation system built under ongoing IFAD-funded operations will allow the programme to gather and analyse data and evaluate impact. The programme will package information in the appropriate formats and disseminate it to the respective stakeholders using the central knowledge management and communication platform, again established by the ongoing operations. The programme's learning systems will involve annual review meetings to capture lessons and information on progress, and to find solutions for implementation constraints. Annual programme performance reports will feed into annual stakeholder review and planning workshops. Feedback from each workshop will be factored into the annual workplan and budget for the succeeding year, thus closing the circle of participatory, demand-driven planning and implementation.

D. Financial management, procurement and governance

17. The programme's financial management arrangements will build on the experience gained by the CPIU in fulfilling its responsibilities under the ongoing country programme. Its handling of programme accounts, audits, procurement and disbursement is considered to be satisfactory and fully consistent with the financial management rules and regulations of IFAD.

18. The most recent financial management assessments conducted for the CPIU with respect to an ongoing project found that overall project financial management performance was satisfactory. The inherent fiduciary risk in the Republic of Moldova is medium, and the programme-specific control risk has also been assessed as medium, considering established accounting systems and staffing, although some risks may arise from challenges in accounting for funds channelled to multiple financial intermediaries, and the absence of internal audit.

19. The Ministry of Finance will open and maintain, in a bank acceptable to IFAD, a loan-designated account for the IFAD loan and a grant-designated account for the grants from IFAD, the Danish International Development Agency (expected) and the Global Environmental Facility. The CPIU director will be authorized to operate these accounts under the overall oversight of the PSC.

20. In addition, the CPIU is expected to open and operate a number of other programme-specific accounts in one or more banks acceptable to IFAD. These are expected to include: (i) programme accounts for each designated account; (ii) a government contribution account; (iii) a beneficiary contribution account; and (iv) a euro account.

21. Measures to mitigate fiduciary risks will include: preparation of consolidated financial reports, for all cofinancing sources, at periodical intervals during the year; clear definition of procedures for administration and accounting of funds disbursed as sub-loans and grants to financial intermediaries; and the creation of a credit guarantee fund. Arrangements for programme audits will be consistent with the IFAD Guidelines on Project Audits. The Government will appoint independent auditors acceptable to IFAD, under terms of reference cleared by IFAD. The terms of reference will, in particular, include assurances that funds channelled through various financial intermediaries have been used for intended purposes. The programme will also finalize a programme implementation manual to help strengthen internal controls.

E. Supervision

22. The programme will be directly supervised by IFAD. A supervision plan for the first two years leading up to the midterm review will be developed in consultation with implementing partners at programme start-up.

IV. Programme costs, financing, benefits

A. Programme costs

23. The total investment and incremental recurrent programme costs, including physical and price contingencies, are estimated at US$46.3 million. The foreign exchange component is estimated at US$2.6 million, or about 6 per cent of the total programme cost. Exempted taxes and duties make up approximately US$3.4 million.

Table 1
Programme costs by component
(Thousands of United States dollars)

	US$	*% Total base costs*
1. Climate change resilience and inclusive value chain development	5,652.7	12
2. Inclusive rural finance and capacity development	31,557.5	68
3. Infrastructure for rural resilience and growth	6,349.2	14
4. Programme management	2,158.7	5
Total base costs	45,718.1	99
Contingencies	583.3	1
Total	**46,301.4**	**100**

Table 2
Financing plan by expenditure accounts
(Thousands of United States dollars)

	IFAD		*IFAD grant*		*GEF grant*		*Danida grant*		*CLD*	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
I. Investment costs										
A. Equipment and goods	197.6	5.6	—	—	2,633.3	74.4	—	—	—	—
B. Demonstrations	—	—	—	—	74.7	80.0	—	—	—	—
C. Vehicles	—	—	—	—	24.2	80.0	—	—	—	—
D. Technical assistance										
International technical assistance	223.9	37.7	80.6	13.6	179.5	30.3	—	—	—	—
National technical assistance	787.8	27.3	284.9	9.9	928.2	32.1	116.7	4.0	—	—
Subtotal technical Assistance	1,011.7	29.0	365.5	10.5	1,107.7	31.8	116.7	3.3	—	—
E. Training	473.5	27.1	134.6	7.7	326.4	18.7	465.4	26.6	—	—
F. Rural finance loans	9,305.2	31.3	—	—	—	—	4,417.9	14.9	7,520.0	25.3
G. Infrastructure grants	3,880.4	67.4	—	—	—	—	—	—	—	—
Total Investment costs	14,868.5	33.5	500.0	1.1	4,166.3	9.4	5,000.0	11.3	7,520.0	17.0
II. Recurrent costs										
A. Salaries	851.5	57.7	—	—	93.7	6.3	—	—	—	—
B. Operation and maintenance	380.0	80.0	—	—	—	—	—	—	—	—
Total recurrent costs	**1,231.5**	**63.1**	**—**	**—**	**93.7**	**4.8**	**—**	**—**	**—**	**—**
Total PROJECT COSTS	**16,100.0**	**34.8**	**500.0**	**1.1**	**4,260.0**	**9.2**	**5,000.0**	**10.8**	**7,520.0**	**16.2**

	*Small supplementary grant**		*GOM*		*Participating financial institutions*		*Beneficiaries*		*Total*	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
I. Investment costs										
A. Equipment and goods	—	—	707.7	20.0	—	—	—	—	3,538.6	7.6
B. Demonstrations	—	—	18.7	20.0	—	—	—	—	93.4	0.2
C. Vehicles	—	—	6.0	20.0	—	—	—	—	30.2	0.1
D. Technical assistance										
International technical assistance	50.0	8.4	59.3	10.0	—	—	—	—	593.4	1.3
National technical assistance	—	—	577.9	20.0	—	—	194.3	6.7	2,889.7	6.2
Subtotal technical assistance	50.0	1.4	637.3	18.3	—	—	194.3	5.6	3,483.1	7.5
E. Training	—	—	350.0	20.0	—	—	—	—	1,749.9	3.8
F. Rural finance loans	—	—	0.0	—	1,902.2	6.4	6,549.0	22.1	29,694.3	64.1
G. Infrastructure grants	—	—	1,152.0	20.0	—	—	727.6	12.6	5,760.0	12.4
Total Investment costs	50.0	0.1	2,871.7	6.5	1,902.2	4.3	7,470.8	16.8	44,349.5	95.8
II. Recurrent costs										
A. Salaries	—	—	531.7	36.0	—	—	—	—	1,476.9	3.2
B. Operation and maintenance	—	—	95.0	20.0	—	—	—	—	475.0	1.0
Total recurrent costs	**—**	**—**	**626.7**	**32.1**	**—**	**—**	**—**	**—**	**1,951.9**	**4.2**
Total PROJECT COSTS	**50.0**	**0.1**	**3,498.4**	**7.6**	**1,902.2**	**4.1**	**7,470.8**	**16.1**	**46,301.4**	**100.0**

* Financial Facility for Remittances (FFR) managed by the Policy and Technical Advisory Division.

B. Programme financing

24. IFAD will provide a loan of US$16.1 million and a grant of US$0.5 million (representing 34.8 per cent and 1.1 per cent of total programme costs respectively). The Government contribution will be in the form of exempted taxes and duties and will also include a contribution from the Credit Line Directorate (CLD), under the Ministry of Finance, of about US$11 million (31.6 per cent), and participating financial institutions will provide around US$1.9 million (2 per cent). Approximately US$7.5 million (16 per cent) will be provided by the beneficiaries and final loan borrowers as contributions to the financing and infrastructure.

C. Summary benefit and economic analysis

25. The main programme benefits will go to poor rural households in the most deprived areas of the Republic of Moldova. An estimated 24,000 households will benefit directly from the programme's interventions. Benefits will derive from: (i) increased crop and livestock productivity and production through introduction of climate resilience and conservation agriculture practices and technologies; (ii) increased value added of agricultural produce; (iii) reduced crop wastage and production costs through improved mechanization and availability of modern equipment due to provision of loans and reduced collateral constraints; (iv) more markets available for farmers' increased production; (v) increased access to improved rural infrastructure (roads, irrigation, etc.) for rural populations, rural microenterprises, and small and medium businesses; and (vi) incremental tax revenues as a result of increased volume of taxable production. The analysis results in an economic internal rate of return of 20 per cent.

D. Sustainability

26. A key principle of the programme is institutional strengthening, both private and public. Under the first component, long-term sustainability will be ensured through an extensive capacity development programme on conservation agriculture targeting all actors. Under the second component, sustainability will be promoted through capacity development, the revolving fund facility and the credit guarantee fund. Sustainability forms a core part of the third component from planning, implementation to establishing operation and maintenance arrangements.

E. Risk identification and mitigation

27. Most risks have been addressed in the programme design. There are, however, three main risks that could affect the programme's implementation: (i) the risk of low uptake of reform processes and innovations by savings and credit associations, which will be mitigated through a flexible approach that allows for adjustments over time in case of changes of underlying parameters; (ii) the risk of elite capture in the selection and location of investments, which will be mitigated through detailed selection criteria for financing eligibility, combined with procurement, no objection requirements and supervision arrangements; and the risk of limited capacity to adequately assess impact, and identify and implement adaptation measures at various points of the value chains, which will be mitigated through adequate attention to capacity development and training.

V. Corporate considerations

A. Compliance with IFAD policies

28. The design of the programme is fully consistent with IFAD's policies and strategies, in particular with IFAD's Strategic Framework 2011-15, its Environment and Natural Resource Management Policy, its Private-sector Strategy, its Climate Change Strategy, its Policy on Gender Equality and Women's Empowerment, its Targeting Strategy, and its Rural Finance Policy. The programme will have minimal negative environmental implications and, in line with IFAD's guidelines on environmental assessment, is therefore classified as Category B.

B. Alignment and harmonization

29. The programme is fully aligned with the Republic of Moldova's poverty reduction and agriculture strategies, which single out support to value chain development and rural enterprises as the most important tools for poverty reduction. Programme investments will pay significant attention to managing environmental risks in ways that both improve farmers' resilience and protect the environment.

C. Innovations and scaling up

30. The programme's main innovation is its strong focus on climate change resilience. The programme will scale up the successful interventions of the country programme through a variety of financial, partnership and institutional arrangements. In particular, it will seek to forge lasting partnerships with both national and international development partners, with a view to simultaneously increasing funding and allowing for sustainable scaling up. Nationally, the programme will strengthen industry partnerships among beneficiaries and their representatives. The programme will also accelerate efforts aimed at aligning to, and working with, permanent institutions that can take the interventions forward, and, in the process, ensuring institutional anchoring and sustainability, i.e. the Agency for Interventions and Payments in Agriculture will increasingly be handling financial transfers and related financial management, subject to technical and fiduciary feasibility. Similarly the term finance provided by IFAD will be revolving through the Government's credit line directorate, which is committed to recycling reflows using the same eligibility criteria. Internationally, the programme will leverage external partnerships with like-minded development partners that share the programme's goal of improving rural resilience, in particular by developing the capacity of young entrepreneurs.

D. Policy engagement

31. IFAD's policy dialogue in the Republic of Moldova will ensure a focus on opportunities for pro-poor growth. Within this framework, a main emphasis will be to address the constraints on agricultural productivity gains for commodities that can be profitably produced and for which there is strong demand. In particular, the programme is expected to produce evidence-based contributions to the policy dialogue on the binding constraints facing the rural economic agents in the country. The programme stakeholders will have a regular conversation about financial and regulatory aspects affecting the beneficiaries and their service providers, participate in the relevant government-donor dialogue forums and engage with the National Commission for Financial Markets in policy implementation dialogue.

VI. Legal instruments and authority

32. A programme financing agreement between the Republic of Moldova and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.

33. The Republic of Moldova is empowered under its laws to receive financing from IFAD.

34. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD financing.

VII. Recommendation

35. I recommend that the Executive Board approve the proposed financing in terms of the following resolutions:

> RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Republic of Moldova in an amount equivalent to ten million five hundred thousand special drawing rights (SDR 10,500,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of Moldova in an amount equivalent to three hundred and twenty-five thousand special drawing rights (SDR 325,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement:

"Inclusive Rural Economic and Climate Resilience Programme (IRECR)"

(Negotiations concluded on 24 October 2013)

IFAD Loan Number: _______

IFAD Grant Number: _______

GEF Grant Number: _______

Programme Title: Inclusive Rural Economic and Climate Resilience Programme (the "Programme")

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

and

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

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

WHEREAS

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

B. the Chief Executive Officer and Chairperson of the Global Environment Facility (the "GEF") has endorsed on 23 September 2013 the Fund's request for a grant (the "GEF Grant") to be made available to the Fund, acting in its capacity as the GEF Executing Agency, to finance the climate change resilience-related activities under the Programme; and

C. the Government of the Kingdom of Denmark (Denmark) has expressed its intention to make available to the Fund a financial contribution to assist in financing the Programme on terms and conditions to be set forth in a co-financing agreement between Denmark and the Fund,

NOW THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2) and the Special Covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For

the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a loan (the "IFAD Loan"), a grant (the "IFAD Grant") and the GEF Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1. A. The amount of the IFAD Loan is ten million five hundred thousand Special Drawing Rights (SDR 10 500 000).

   B. The amount of the IFAD Grant is three hundred and twenty five thousand Special Drawing Rights (SDR 325 000).

   C. The amount of the GEF Grant is four million two hundred and sixty thousand US dollars (USD 4 260 000).

2. The IFAD Loan is granted on highly concessional terms.

3. The IFAD Loan Service Payment Currency shall be USD.

4. The first day of the applicable Fiscal Year shall be 1 January.

5. Payments of principal and service charge shall be payable on each 1 April and 1 October. The payments of principal shall be made in sixty (60) equal semi-annual instalments of one hundred and seventy five thousand Special Drawing Rights (SDR 175 000).

6. Designated Accounts.

   (a) There shall be an IFAD Loan Designated Account, an IFAD Grant Designated Account and a GEF Grant Designated Account for the purposes of receiving the IFAD Loan, the IFAD Grant and the GEF Grant respectively and financing the Programme.

   (b) All Designated Accounts shall be opened through the State Treasury of the Borrower/Recipient in a bank acceptable to the Fund, and denominated in USD.

7. Programme Accounts.

   There shall be three (3) Programme Accounts for the benefit of the Programme, opened through the State Treasury of the Borrower/Recipient in a bank acceptable to the Fund, to receive resources from the Designated Accounts respectively.

8. The GEF Grant shall be provided subject to its availability to the Fund.

9. The Borrower/Recipient shall provide counterpart funds for the Programme to cover taxes levied on the implementation of the Programme in accordance with the Annual Work Plans and Budgets (the "AWPBs") referred to in paragraph 10 of Schedule 1 hereto.

Section C

1. The Lead Programme Agency shall be the Ministry of Agriculture and Food Industry (the "MAFI").

2. The Programme Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

The Financing will be administered and the Programme supervised by the Fund.

Section E

1. The following are designated as additional grounds for suspension of the right of the Borrower/Recipient to request withdrawals under this Agreement:

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

(b) Any competent authority has taken action without the prior consent of the Fund for institutional changes to the IFAD Programme Steering Committee (the "IPSC") and/or the Consolidated Programme Implementation Unit (the "CPIU") referred to in paragraphs 6 and 7 of Schedule 1 hereto respectively, including but not limited to modification of the membership composition, dissolution and merger, and the Fund has determined that any such event is likely to have a material adverse effect on the Programme.

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

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

(b) the Designated Accounts and Programme Accounts shall have been opened in accordance with this Agreement.

3. The following is designated as the additional specific condition precedent to withdrawal under Category V referred to in Schedule 2 hereto:

At least one participating financial institution (the "PFI"), selected and accredited under criteria acceptable to the Fund, has entered into a Subsidiary Loan Agreement satisfactory to the Fund with the Ministry of Finance of the Borrower/Recipient, for the implementation of Programme Component 2 referred to in Schedule 1 hereto.

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

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

For the Borrower/Recipient:

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

For the Fund:

President
International Fund for Agricultural
  Development
Via Paolo di Dono, 44
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This Agreement, dated ________, has been prepared in the English language in six (6) original copies, three (3) for the Borrower/Recipient and three (3) for the Fund.

REPUBLIC OF MOLDOVA

____

[_Title_]

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

____

President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population and Programme Areas*. The Programme has a national coverage, with the exception of the Climate Change Resilience Component which shall focus on vulnerable areas, predominantly in the central and southern rayons in the territory of the Borrower/Recipient. Three primary groups of the Target Population include (i) the commercially active poor; (ii) the economically active poor; and (iii) the very poor.

2. *Goal*. The overall goal of the Programme is to enable the Target Population to raise their incomes and strengthen their resilience to climate change.

3. *Objectives*. The objectives of the Programme are (i) to enhance the resilience and adaptive capacity of farmers to climate change to ensure higher and more stable incomes; (ii) to enhance access to enterprise capacity development, financial services and entrepreneurship support; (iii) to improve beneficiaries' productivity and competitiveness, increase investment and business opportunities, and improve market access and resilience against economic and climate shocks.

4. *Components*. The Programme shall be composed of four components: (i) Climate Change Resilience and Inclusive Value Chains; (ii) Inclusive Rural Finance and Capacity Development; (iii) Infrastructure for Rural Resilience and Growth; and (iv) Programme Management.

4.1. *Component 1: Climate Change Resilience and Inclusive Value Chains*

The overall purpose of Component 1 is to enhance the resilience, inclusiveness and adaptive capacity of agribusinesses in value chains to climate change through the introduction of climate-resilient agriculture practices and technologies, and the promotion of selected value chains that can demonstrate inclusiveness of the rural poor. This Component shall consist of two Sub-Components.

4.1.1. *Sub-Component 1.1: Climate Resilience through Conservation Agriculture.* This Sub-Component aims to address the adaptation priorities identified by the Moldovan government in the agriculture sector through two major areas of activities: (i) the creation of an enabling environment for climate-resilient agriculture, by increasing the capacity of all beneficiaries and partners concerned with agriculture and agro-forestry to address climate change impacts and implement adaptation measures; and (ii) the enhancement of agriculture production through climate-resilient investments and it will build on the capacity development effort of the early stages of the Programme to develop a set of protocols for the successful implementation of conservation agriculture, covering the main crops and agro-climatic zones of the Borrower/Recipient.

4.1.2. *Sub-Component 1.2: Inclusive Value Chain Development.* This Sub-Component comprises activities supporting the further development of selected value chains. This Sub-Component shall identify the key drivers of the value chains including inter alia processors, exporters, retailers and logistical businesses, and subsequently link the various parts of the value chains in a manner that supports the inclusion of the Target Population: the rural poor. It shall also strengthen cooperation with certification agencies in the Borrower/Recipient and abroad that are needed to penetrate new markets and niches, and allow for greater synergies with the other Components, utilising a demand driven and flexible approach that avoids rigid bundling of Programme activities.

4.2. *Component 2: Inclusive Rural Finance and Capacity Development*

This Component shall enhance access to financial services for the Target Population through banking and non-banking financial institutions to serve rural micro, small and medium enterprises and young entrepreneurs. The Component shall include two Sub-Components.

4.2.1. *Sub-Component 2.1: Financing of Agricultural and Rural Investments.* This Sub-Component shall provide resources to enhance the ability of the banking and non-banking financial institutions to provide investment financing facilities to rural entrepreneurs through four financing facilities: (i) financing of rural-based small and medium enterprises' agricultural investments which is necessitated by the continued lack of long-term finance of banks and which has proven highly demand-driven with demonstratively high impact; (ii) financing of rural-based young entrepreneurs; (iii) financing of rural-based micro entrepreneurs' investments; and (iv) financial provision of a loan portfolio guarantee scheme to Saving and Credit Associations (the "SCAs") for their investment loans, facilitated by a credit guarantee fund (the "CGF").

4.2.2. *Sub-Component 2.2: Capacity Development within the SCA Sector*. Under this Sub-Component, the Financing will support three key areas: (i) capacity development support for consolidation offered to B-licensed SCAs and A-licensed SCAs which intend to get a B-license, or which intend to merge with a B-licensed SCA; (ii) assistance to SCA apex organizations; and (iii) assistance to the National Commission for Financial Markets (the "NCFM").

4.3. *Component 3: Infrastructure for Rural Resilience and Growth*

The objective of this Component is to increase rural economic growth through infrastructure development by strengthening the rural sector's resilience against the increased frequency and depth of climatic and economic shocks, and enabling rural producers to increase production, shorten transportation time from farm to market, lower transaction costs, diversify production and engage in higher value chains that demands predictability of delivery. Public infrastructure investments shall be made in small-scale water supply systems; rural transport infrastructure and village level market places.

4.4. *Component 4: Programme Management*

This Component shall finance the management and implementation of the Programme as per this Agreement.

II. Implementation Arrangements

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

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

6.1. *Composition*. The Minister of MAFI will be the *ex officio* Chairperson of the IPSC. Other members include a representative of the Ministry of Finance (the "MOF"), a representative of the Aid Coordination Unit under the State Chancellery, a representative of the Parliament's Agricultural Commission, a representative of the National Bank of Moldova (NBM), a representative of the NCFM and representatives from other Programme stakeholders, including Government agencies, organizations (public and private) as may be deemed appropriate. The IPSC membership may be amended depending on Programme requirements, with the prior approval of the Fund. The Programme Director (see paragraph 8 below) and a representative of the Credit Line Directorate (the "CLD") shall participate in the meetings, and secretariat services shall be provided for the IPSC by the Consolidated Programme Implementation Unit (see paragraph 7 below).

7. *IFAD Consolidated Programme Implementation Unit (the "CPIU")*. The responsibility for the Programme's day-to-day management and implementation will rest with the CPIU, which has been in charge of the same responsibilities for all previous IFAD-financed projects and programmes in the Borrower/Recipient under the leadership of its Director. Positions, including inter alia a Climate Change Resilience Officer, a Climate Change Assistant, a Credit Assistant and a Knowledge Management Specialist, shall be created within the CPIU as needed and funded by the Programme in consultation with the MAFI and be subject to the concurrence of the Fund. The principal functions of the CPIU shall be to carry out the overall programming and budgeting of Programme activities, take the lead in Programme implementation in cooperation with business development and other services providers, infrastructure contractors, beneficiary institutions, such as farmer-based organizations and rural women's groups, PFIs, and monitor and document Programme progress.

8. *Programme Director*. The Director of the CPIU shall be the Programme Director, who shall take responsibilities including inter alia operational management, financial management, accounting, procurement, rural finance coordination, monitoring and evaluation, value chain facilitation and infrastructure coordination. Should the Programme Director be replaced, the successor shall be selected and appointed through a transparent competitive process and based on qualifications, experience and terms of reference approved by the Fund. The appointment of the Programme Director shall require the prior approval of the Fund. The Programme Director shall report to the IPSC.

9. *Additional Implementation Arrangements.*

9.1. Component 1 shall principally and directly be implemented by MAFI, and the CPIU shall be responsible for the timely delivery of inputs and outputs and for coordination with all other relevant agencies.

9.2. The implementation of the first three financing facilities under Component 2 shall be co-managed by the CPIU and the CLD. Financing facility (iv) shall be implemented by a mutually agreed CGF entity, whose daily responsibilities include adjustment of operational policies, annual business planning and related budgeting, marketing of CGF services, processing of guarantee applications, including appraisal of SCAs, evaluation and approval of guarantee claims, reporting to relevant stakeholder, including MOF, MAFI, the Fund, the NCFM, the CLD and the CPIU. For the capacity development to the SCA sector, overall coordination shall rest with the CPIU.

9.3. Lead responsibility for the implementation of Component 3 shall rest with the CPIU, in particular its Infrastructure Development Specialist.

10. *Annual Work Plans and Budgets (the "AWPBs").* The CPIU will prepare a draft AWPB for each Programme year, and will propose such a draft to the IPSC for review and approval and once approved, submit it to the Fund for concurrence at least sixty (60) days before the beginning of the concerned budget year.

11. *Programme Implementation Manual (the "PIM").* The IPSC shall cause the CPIU to prepare a draft PIM as soon as practicable, but in no event later than ninety (90) days after the entry into force of this Agreement. The IPSC shall approve the PIM only with prior agreement of the Fund, and provide a copy thereof to the Fund.

Schedule 2

Allocation Table

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

Category	IFAD Loan Amount Allocated (expressed in SDR)	IFAD Grant Amount Allocated (expressed in SDR)	GEF Grant Amount Allocated (expressed in USD)	% of eligible expenditure to be financed
I. Equipment and Materials	120 000		2 400 000	100% net of taxes
II. Vehicles			25 000	100% net of taxes
III. Technical Assistance and Training	880 000	325 000	1 400 000	100% net of taxes and beneficiaries' contribution
IV. Works	2 300 000			100% net of taxes and beneficiaries' contribution
V. Credit, Guarantee Funds	5 450 000			100% net of taxes, beneficiaries' contribution and PFIs' contribution
VI. Salaries and Allowances	500 000		90 000	100% net of taxes
VII. Operating Costs	200 000			100% net of taxes
VIII. Unallocated	1 050 000		345 000	
TOTAL	**10 500 000**	**325 000**	**4 260 000**	

(b) The terms used in the Table above are defined as follows:

i. "Technical Assistance and Training" means expenditures related to national and international technical assistance, training, seminars, workshop and demonstration field studies.

ii. "Works" means expenditures for infrastructure and civil works.

iii. "Credit, Guarantee Funds" includes costs for the CGF, refinancing facility for SCAs/MFI, and financing and refinancing facilities for SME and agricultural entrepreneurs.

iv. "Operating Costs" includes expenditures for audit and allowances for travel to the Programme.

Schedule 3

Special Covenants

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

Gender. At all relevant times during the Programme Implementation Period the Borrower/Recipient shall ensure that the CPIU and other Programme Parties, if applicable, shall strive to improve the gender balance in the operations of the Programme, develop targets and processes to achieve those targets as part of a gender strategy, and present reports by the end of each Programme year on the achievements towards this end.

Logical framework

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions / Risks
Goal:			
To enable the poor rural people to raise their incomes and strengthen their resilience.	▪ 62,000 people or 24,050 Households with improvements in asset ownership: (RIMS 3rd level mandatory impact indicator) ▪ 62,000 people or 24,050 Households with increased income and improved food security: (RIMS 2nd level indicator)	▪ National statistics (MEC/NBS Poverty Profiles) ▪ Household Surveys (e.g. HBS, MICS, RIMs) ▪ Impact assessment studies (e.g. PCR, thematic studies, control vs. treatment group evaluations, comparison with national average)	▪ Continued Government commitment to pro-poor macro-economic policies ▪ Increased uptake and adaptation of resilient production technologies ▪ Maintenance of conducive policy for development of private sector agriculture and agribusiness ▪ Conducive financial sector policy and macro-economic framework maintained
Programme Development Objective Inclusive rural economic development and employment creation	▪ Increase in turnover (40%) and profits (8%) of supported, entrepreneurs, enterprises and farmers ▪ 1500 increase in direct and indirect employment creation ▪ Up to 15,000 ha with improved integrity and degree of resilience of agriculture eco- and value chain systems. ▪ 100% increase of number of farmers using climate adaptive technologies ▪ 50% increase in private sector investments in targeted rural entities.	▪ Banks quarterly and annual reports ▪ Internal M&E system from PFIs, SCAs etc. ▪ Baseline survey (benchmark). ▪ Farmers and rural enterprises interviews ▪ Government agricultural statistics. ▪ Enterprise statistics, including farms ▪ Household interviews	
Outcome 1: **Climate Change Resilience and Inclusive Value Chain Development Component**: Enhanced resilience, inclusiveness and adaptive capacity of agribusiness value chains to climate change (COSOP SO 1)	▪ At least 2,000 beneficiaries report ability to improve agriculture soil conditions or crop production through CA; ▪ At least 15,000 ha with climate-resilient land restoration practices introduced to enhance food and commercial security in 2,000 farm plots; ▪ Innovative solutions for climate-resilient farm production promoted among 550 farmers.	▪ Programme M&E system ▪ Progress reports, mid-term and final evaluations ▪ Contracts and agreements ▪ Programme publications and other awareness and training tools ▪ Feedback from users and stakeholders ▪ Articles and media footage	▪ Relevant ministries, local institutions, and private landowners are committed to address negative impacts of climate change on agriculture and soil conservation ▪ Appropriate technology and means available in a timely fashion ▪ Local capacity can be developed adequately

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions / Risks
Outcome 2: **Inclusive Rural Finance and Capacity Development Component**: Enhanced access to financial services for rural MSMEs and youth entrepreneurs (COSOP SO 2)	▪ 1400 jobs created through investment loans to rural youth entrepreneurs and MSMEs ▪ 8% increase in income of borrowers of investment loans ▪ 7% increase in B-licensed SCAs saving to loan ratio ▪ 40% increase in B-licensed SCAs' outstanding investment loan portfolio ▪ 30% increase in PFIs' investment loans to agriculture ▪ 35% of IRECR borrowers taking a new working capital/investment loan up to 10 years ▪ At least 25% of women entrepreneurs having received youth entrepreneurs' loans.	▪ CPIU monitoring reports ▪ Quarterly and annual reports of financial service providers, PFIs (banks, MFIs, SCAs, leasing companies, etc.) and the CLD of the MOF	▪ No major disruption of Moldovan exports ▪ Continued macro-economic framework conditions and improved conditions for doing business
Outcome 3: **Infrastructure for rural resilience and growth**. Climate changed adapted and rural economy promoting infrastructure	▪ 50% of rural businesses reporting increased production after improved water supply ▪ 5% reduction in transportation time and costs after road rehabilitation ▪ 4% increased sales by beneficiaries at the market places	▪ CPIU monitoring reports ▪ Beneficiary interviews ▪ LPA interviews ▪ Impact assessments	▪ Current demand for resilient infrastructure is maintained ▪ LPA may not have resources for co-financing / O&M ▪ Collective governance arrangement (e.g. WUAs) may prove difficult to maintain