

Document: EB 2016/LOT/P.13/Rev.1  
Date: 26 November 2016  
Distribution: Public  
Original: English

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Investing in rural people

## President's report

### Proposed loan and grant to the Republic of Moldova for the Rural Resilience Project

#### Note to Executive Board representatives

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For: Approval

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## Abbreviations and acronyms

ASAP	Adaptation for Smallholder Agriculture Programme
AWPB	annual work plan and budget
COSOP	country strategic opportunities programme
CPIU	consolidated programme implementation unit
EIRR	economic internal rate of return
MCGF	Moldova Credit Guarantee Fund
MOF	Ministry of Finance
MSME	micro, small and medium-sized enterprises
PFI	participant finance institutions
RRP	Rural Resilience Project

# Map of the project area

## Republic of Moldova Rural Resilience Project



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.  
Map compiled by IFAD | 25-05-2016

Republic of Moldova  
 Rural Resilience Project  
 Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower:</b>	Republic of Moldova
<b>Executing agency:</b>	Ministry of Agriculture and Food Industry
<b>Total project cost:</b>	US\$38,735,000
<b>Amount of IFAD loan:</b>	US\$18.2 million
<b>Amount of IFAD grant:</b>	US\$0.5 million
<b>Terms of IFAD loan:</b>	Blend: Maturity period of 25 years, including a grace period of 5 years, with interest at a fixed rate of 1.25 per cent plus a service charge of 0.75 per cent per annum.
<b>Other grants:</b>	Adaptation for Smallholder Agriculture Programme (ASAP)
<b>Amount of ASAP grant:</b>	US\$5 million
<b>Contribution of borrower:</b>	US\$2,946,000
<b>Contribution of beneficiaries:</b>	US\$9,519,000
<b>Contribution of participant finance institutions:</b>	US\$2,570,000
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	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 Rural Resilience Project, as contained in paragraph 41.

## Proposed loan and grant to the Republic of Moldova for the Rural Resilience Project

### I. Strategic context and rationale

#### A. Country and rural development and poverty context

1. The Republic of Moldova is a small country (33,700 km<sup>2</sup>) with a population of 3.56 million, of whom 61 per cent live in rural areas. The country was hit hard by the collapse of the Soviet Union, and its GDP shrank by more than 50 per cent between 1990 and 1994. Only at the turn of the century did the economy start reversing the decline; and, while economic growth averaged around 5 per cent in 2000-2014, it has been subject to political and climate-induced uncertainties in recent years. Further aggravating the situation is its continued reliance on remittances from the European Union (EU), Russia and other countries, which have experienced volatile growth recently. Personal remittances have made an important contribution to poverty reduction, accounting for around 25 per cent of GDP in 2014, but dropping by 32 per cent in the second half of 2015.
2. Poverty was lowered from 68 per cent in 2000 to 34.5 per cent in 2006, and then to 15.8 per cent in 2013, and 11.4 per cent a year later. This achievement was the result of the country's economic growth, increased remittances and social assistance programmes targeting poor and extremely poor households, together with measures adopted in the area of agriculture modernization and small and medium enterprise development that have created rural job opportunities. Poverty still remains a concern however, and the Republic of Moldova is still one of the poorest countries in the region.
3. Agriculture accounts for 14 per cent of GDP (over 20 per cent when agroprocessing is included), and it employs 25 per cent of the labour force. The sector is also a major foreign-exchange earner, with agrifood products making up about 60 per cent of the country's merchandise exports. The sector continues to be both a driver of growth and a vehicle of poverty reduction. Structurally, Moldovan agriculture and agribusiness face two major constraints – access to financial services and access to climate-resilient infrastructure. Moldovan banks display high levels of risk aversion to rural lending, and the country's financial sector has one of the highest risk premiums in the region, indicating a lack of confidence in the real economy. On the climate front, the Republic of Moldova has historically been affected by droughts, rain, hailstorms, frosts, and flooding, with annual losses from natural disasters estimated at US\$61 million in the period 1984 to 2006: between 3.5 per cent and 7 per cent of GDP annually.

#### B. Rationale and alignment with government priorities and the country strategic opportunities programme (COSOP)

4. The main theory of change underlying the project is that IFAD can help drive the transformation of the rural economy by providing support for more resilient and competitive rural farmers and agribusiness that will generate employment for poor rural people and also increase the tax base for the Government. Complementing this main strategy will be a specific focus on low-income rural people with the potential to graduate into fully fledged commercial farmers.

5. The project rationale is informed by the factors constraining inclusive rural growth. The first is limited access to financial services in rural areas, which has been identified as the main constraint to farm and agribusiness development. Entrepreneurs face three major obstacles in borrowing for agricultural investments: (a) the availability of term finance from commercial banks, (b) the amount of collateral required; and (c) the level of interest rates. Another factor is accelerating climate change. Extreme weather events are likely to become more frequent, and the resulting heat and water stress will reduce the yields of all crops in the country unless adaptation measures are implemented. The project will demonstrate the adaptation potential of climate-resilient crop production systems and technologies in terms of soil conservation, water storage and efficient water use. Inadequate infrastructure is also a factor. The project will seek to remove infrastructure bottlenecks that hamper rural entrepreneurship, in order to create sufficient incentives for small farmers who are ready to graduate from semi-subsistence to commercial agriculture, and attract additional resources from family members (remittances, savings) and channel these into income-generating activities with higher rates of return.
6. The project design has been informed by the experiences of previous interventions, the 2007 COSOP and its 2011 and 2015 reviews, as well as conclusions and recommendations from the country programme evaluation conducted in 2013. As expressed in the COSOP strategic objectives, IFAD's country programme supports the development of market linkages for rural agricultural producers through access to rural financial services, market intermediation and technical backstopping skills for both participating financial institutions and businesses.
7. At the macro level, the Moldova 2020 National Development Strategy: 7 solutions for economic growth and poverty reduction, aims to reduce reliance on the remittance-based and 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 that improve productivity and competitiveness. This is also reflected in the National Strategy on Agriculture and Rural Development for the period 2014-2020, in which the key objective is to create a competitive, restructured and modernized agrifood business sector that can raise living standards and improve working conditions in rural areas.

## II. Project description

### A. Project area and target group

8. The proposed project area. In principle, the project area will cover the country's rural areas, and within these areas climate-vulnerable farmers and agribusinesses will be prioritized, along with the poorer segments of rural society. These groups will be identified by the Small Area Deprivation Index, supplemented by poverty data. Climate vulnerability will be based on the Livelihood Vulnerability Index and other measures of climate change impact.
9. Target group. The project will have about 44,145 direct beneficiaries (17,658 households). The key target groups are as follows:
  - (a) Agribusiness, mainly small and medium-sized enterprises. Past IFAD experience in the country shows that this group drives rural transformation towards more productive and profitable business practices, while generating rural employment, exports and taxable income in the process.
  - (b) Smallholder farmers, especially semi-subsistence and commercially-oriented smallholder farmers. The self-targeting strategy for such farmers is oriented towards gaining ground in commercial agriculture and/or consolidating existing investments.

- (c) Young entrepreneurs are a cross-cutting target group facing unique challenges and opportunities that also require tailor-made targeting strategies. They are most likely to originate from the families of commercially oriented smallholder farmers and small enterprises.
- (d) Smallholder women farmers belonging to households that are vulnerable to poverty and climate change are another cross-cutting target group. Gender mainstreaming will be strengthened by setting an overall target for at least 30 per cent of project beneficiaries to be women.

## B. Project development objective

- 10. The project will seek to improve the well-being of the rural population and contribute to poverty reduction. The development objective will be to strengthen resilience and improve economic opportunities for rural poor people. This will be achieved directly by upgrading the skills of the target group, integrating them more profitably into value-chains, climate-proofing their practices and providing them with access to climate-resilient infrastructure and microfinance services.

## C. Components/outcomes

- 11. The project will have two core components involving several complementarities between initiatives and subcomponents.
- 12. Component 1: Improve smallholder and agribusiness adaptive capacity. This component will seek to enhance resilience through investments in productive rural infrastructure and agri-systems. It will address the climate-change adaptation priorities identified by the Government and will operate under two subcomponents: subcomponent 1.1: climate-resilient water management and infrastructure development will support investments in productive rural infrastructure to remove the bottlenecks hampering the consolidation and expansion of competitive farms and village-based agribusiness, and foster the adoption of climate-smart technologies; and subcomponent 1.2: farmers' adaptation through climate-resilient investments will: (a) support smallholder farmers in adopting climate-resilient cropping systems and technologies through investment grants and capacity development support; (b) support food/nutrition security and business diversification among groups of women in areas of high climate and poverty vulnerability; and (c) support public and private investments in ecological restoration measures to reduce climate-related risks and improve ecosystem services for agriculture.
- 13. Component 2: Agribusiness development support. The expected outcome of this component will be enhanced access to financial services and markets for rural transformation. The component is structured in three subcomponents: subcomponent 2.1: term finance for micro, small and medium-sized enterprises (MSMEs) to support their investments (including working capital up to 20 per cent of the total loan); subcomponent 2.2: credit guarantees for MSMEs – the Government will be given assistance to create the Moldova Credit Guarantee Fund (MCGF) to provide inter-bank guarantees for loans granted to MSMEs by licensed financial institutions; and subcomponent 2.3: technical support to MSMEs – involves a number of measures to broaden and deepen the impacts of other components and supply agribusiness, youth entrepreneurs, and savings and credit associations with technical support.

## III. Project implementation

### A. Approach

- 14. A key ambition of the implementation approach is to promote institutional development among the core partners. The project will achieve this by: (a) developing and establishing institutionalized systems for promoting climate-resilient agricultural and agribusiness practices; (b) building capacity in



participant finance institutions (PFIs) including savings and credit associations, the MCGF and regulatory institutions; and  
 (c) supporting and expanding public-private partnerships in infrastructure and the financial sector.

## B. Organizational framework

15. Overall responsibility for project management will rest with the Ministry of Agriculture and Food Industry. Day-to-day management and implementation will rest with the existing consolidated programme implementation unit (CPIU), which has a robust and well-recognized track record of competent and diligent project management. The CPIU's main functions will be to: carry out the overall programming and budgeting of the Rural Resilience Project (RRP) activities; take the lead in implementation in cooperation with business development partners and other service providers, infrastructure contractors and beneficiary institutions such as farmers' organizations and PFIs; and monitor and document project progress. With the CPIU already stretched in terms of its capacity to take on additional tasks, non-core tasks will increasingly need to be outsourced to capable service providers.

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

16. Planning. A key planning instrument will be the annual work plan and budget (AWPB), which will provide an implementation schedule for a set of activities, together with their respective budgets and inputs. The first AWPB, together with the procurement plan for the first 18 months of the project, will be prepared and presented for discussion during the start-up workshop, prior to its submission to IFAD for no objection. Subsequent AWPBs should be prepared, discussed and approved no later than sixty days before the end of the financial year.
17. Monitoring and evaluation. The project's achievements will be monitored and evaluated by the CPIU. The monitoring and evaluation team will collect relevant data on the activities, outputs and outcomes for beneficiary groups. It will also review the performance of components and subcomponents on the basis of field data. A results-based approach will be adopted by measuring progress against the targets of the AWPB, supported by routine, periodic assessments of movement towards beneficiary impact.
18. Learning and knowledge management. The learning and knowledge management activities will include regular monitoring mechanisms, progress reports, a midterm evaluation and an impact assessment at the end of the project. Learning and knowledge management are likely to centre on innovations in appropriate climate-smart technologies for smallholders, pond-based irrigation schemes, buyer-driven value chain development and implications for smallholders. In terms of finance, key lessons will be generated by the MCGF, particularly on how to ensure professional integrity, financial modelling and the impact on collateral requirements. Annual joint learning events will be a key activity for sharing knowledge and lessons learned with different stakeholders.

## D. Financial management, procurement and governance

19. Financial management. The Republic of Moldova's country financial risk is rated as low. The CPIU is considered to have adequate capacity to deal with the financial management of the country portfolio. The State Treasury under the Ministry of Finance (MOF) maintains the general budget accounts of public institutions and executes payments. For that purpose, the MOF has developed a web-based public expenditures and accounting information system. CPIU payments from the IFAD loan, the IFAD grant, the ASAP grant and the Government's counterpart contribution will be conducted through the MOF system in local currency.
20. Procurement. The procurement of works, goods and services financed by the IFAD loan and grants will be implemented pursuant to IFAD's procurement

guidelines. It is feasible to apply this arrangement in the current country context, as contracts awarded under international agreements concluded by the Republic of Moldova are exempt from the provisions of the national procurement law. The CPIU procurement unit has the capacity needed to manage the project's procurement process in accordance with IFAD's guidelines and it can therefore be assigned the management of day-to-day procurement tasks, including issuing all tenders and awarding contracts.

21. Audit. The project's consolidated financial statements will be audited annually by private independent auditors in accordance with IFAD's Guidelines on Project Audits. All project accounts will be audited, including all funding sources. The scope of the audit will include contributions in kind made by beneficiaries and the operations of the MCGF, if implemented. Annual audit reports will be submitted to IFAD within six months following each fiscal year-end.

#### E. Supervision

22. IFAD will directly supervise the RRP through annual supervision missions supported by follow-up and/or specific thematic missions, as may be required. Supervision will ensure continuous assessment of: (a) implementation performance and progress towards results; (b) delivery of inputs in terms of timeliness, location, quality and quantity; (c) implementation of activities and achievement of outputs and outcomes; (d) legal requirements; (e) coordination, management and physical implementation, and monitoring and evaluation; (f) targeting and gender mainstreaming; and (g) environmental impact.

### IV. Project costs, financing, and benefits

#### A. Project costs

23. Total project costs, including physical and price contingencies, duties and taxes are estimated at US\$38.73 million over a six-year implementation period. The recurrent costs – which comprise salaries and operating costs included under the project management component – amount to US\$1.57 million and represent 4.1 per cent of the total costs. Project investments are organized by component, as follows: (i) improved smallholder adaptive capacity (35.1 per cent of costs); (ii) support for agribusiness development (59.5 per cent); and (iii) project management (5.4 per cent).

#### B. Project financing

24. The project will be financed by an IFAD loan of US\$18.2 million (47 per cent of total costs), an IFAD grant of US\$500,000 (1.3 per cent) and an ASAP-financed grant of US\$5.0 million (12.9 per cent). The Government will contribute US\$2.94 million (7.6 per cent) and beneficiaries US\$9.51 million (24.6 per cent); and the PFIs will provide about US\$2.57 million (6.6 per cent).
25. The IFAD loan will finance the following: (i) subcomponent 1.1: climate-resilient water management and infrastructure development (US\$4.46 million); (ii) component 2: support for agribusiness development (US\$12.75 million); and (iii) project management (US\$0.97 million). The IFAD grant will be used to finance technical assistance, capacity-building, workshops, training and studies under the support for agribusiness development component (US\$0.34 million) and the project management component (US\$0.16 million). The ASAP grant will finance activities under component 1 (improve smallholder and agribusiness adaptive capacity) (US\$4.7 million). The ASAP will also cover a small portion of component 2 (US\$50,000) for outreach and inclusion activities. The total of the ASAP contribution to project management activities is estimated at US\$250,000.

Table 1  
**Project costs by component and financier**  
(Thousands of United States dollars)

Component	IFAD loan		IFAD grant		ASAP		PFIs		Beneficiaries		Borrower/ counterpart		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
1. Improve smallholder and agribusiness adaptive capacity													
1.1. Climate-resilient water management and infrastructure development	4 468	50.7	-	-	909	10.3	-	-	1 673	19.0	1 763	20.0	8 813
1.2. Farmers' adaptation through climate-resilient investments	-	-	-	-	3 792	79.3	-	-	823	17.2	168	3.5	4 783
<b>Subtotal</b>	<b>4 468</b>	<b>32.9</b>	<b>-</b>	<b>-</b>	<b>4 702</b>	<b>34.6</b>	<b>-</b>	<b>-</b>	<b>2 495</b>	<b>18.4</b>	<b>1 931</b>	<b>14.2</b>	<b>13 596</b>
2. Agribusiness Development Support	12 746	55.3	343	1.5	50	0.2	2 570	11.1	7 024	30.5	327	1.4	23 060
3. Project management	986	47.4	157	7.6	248	11.9	-	-	-	-	688	33.1	2 079
<b>Total</b>	<b>18 200</b>	<b>47.0</b>	<b>500</b>	<b>1.3</b>	<b>5 000</b>	<b>12.9</b>	<b>2 570</b>	<b>6.6</b>	<b>9 519</b>	<b>24.6</b>	<b>2 946</b>	<b>7.6</b>	<b>38 735</b>

Table 2  
**Project costs by expenditure category and financier**  
(Thousands of United States dollars)

Expenditure category	IFAD loan		IFAD grant		ASAP		PFIs		Beneficiaries		Borrower/ counterpart		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
1. Consulting services	772	28.0	275	9.9	1 150	41.6	-	-	34	1.2	531	19.2	2 762
2. Credit and Guarantee Fund	11 603	59.8	-	-	-	-	1 322	6.8	6 467	33.3	17	0.1	19 409
3. Materials and equipment	38	73.9	-	-	3	6.1	-	-	-	-	10	20.0	52
4. Goods and services	10	24.0	-	-	23	56.0	-	-	-	-	8	20.0	41
5. Grant	250	4.2	-	-	3 120	52.5	1 248	21.0	1 322	22.3	-	-	5 940
6. Workshops and training	380	45.2	200	23.8	69	8.2	-	-	24	2.9	168	20.0	841
7. Works	4 308	53.1	-	-	515	6.3	-	-	1 673	20.6	1 624	20.0	8 120
8. Salaries and allowances	631	52.0	-	-	68	5.6	-	-	-	-	515	42.4	1 214
9. Operating costs	207	58.2	26	7.2	52	14.6	-	-	-	-	71	20.0	356
<b>Total</b>	<b>18 200</b>	<b>47.0</b>	<b>500</b>	<b>1.3</b>	<b>5 000</b>	<b>12.9</b>	<b>2 570</b>	<b>6.6</b>	<b>9 519</b>	<b>24.6</b>	<b>2 946</b>	<b>7.6</b>	<b>38 735</b>

### C. Summary benefit and economic analysis

26. Benefits. The project is expected to boost incomes for the rural poor population and increase the profits of supported farms and enterprises. Benefits are expected to derive from: (i) higher productivity and production at farm level, thanks to the adoption of climate-resilient and conservation agriculture activities; (ii) increased carbon sequestration through climate-resilient activities; (iii) reduction of crop wastage and production costs through improved mechanization and access to financial services for micro and small enterprises and the businesses of young entrepreneurs; (iv) increased access for both enterprises and the rural population to improved infrastructure, such as roads and irrigation; and (v) incremental tax revenue as a result of a larger volume of taxable production in the Republic of Moldova.
27. Financial models. Thirteen illustrative financial models were prepared to demonstrate the financial viability of the main project investments. Five crop models were developed to assess the per-hectare impact of irrigation and climate-resilient investments on production activities. Seven enterprise/agribusiness models were prepared to assess the benefits of improved access to financial services for micro, small and youth-headed enterprises. All models generate attractive rates of return. The net earnings of all models subjected to a credit analysis are also positive from the first year after financing.
28. Economic internal rate of return (EIRR). The project's EIRR is estimated at 22 per cent for the base case. The net present value of the net benefit stream, discounted at 12 per cent, is US\$36.0 million.
29. Sensitivity analysis. The sensitivity analysis shows the economic impact of a reduction of up to 50 per cent in project benefits on the project's viability. It also shows how the project's economic viability would be affected by an increase of up to 50 per cent in project costs; and by a delay of one to three years in project implementation. The analysis confirms that the project's economic viability remains attractive, since a positive net present value and an EIRR above 12 per cent are preserved in each case analysed.

### D. Sustainability

30. For the smallholder and agribusiness adaptive capacity component, sustainability will be sought through a consistent effort to create a critical mass of capacity for climate-resilient agriculture nationwide, and among all actors from the institutional to the grass-roots level. The empowerment of service providers and the creation of a community of pioneer farmers will help create and consolidate a nationwide network of practitioners in the field of climate-resilient agriculture, which will help spread relevant practices and techniques in the long term. For the agribusiness development support component, there is a firm commitment from the MOF to ensure that the donor credit lines are managed by the Credit Line Directorate, a competent, well-managed and ring-fenced government unit. The MCGF will continue to operate as long as it remains sustainable and is able to offer services that are in demand. Assuming that the economic framework conditions will improve, the MCGF is designed so as to be able to adjust its products and fee rates in accordance with market developments, costs and risks.

### E. Risk identification and mitigation

31. At the macro level, there are risks associated with the heightened political uncertainty that has characterized parts of the Republic of Moldova's history, which in turn could affect macroeconomic stability and the RRP. This could also delay the start of the project. However, IFAD has a long and impressive track record in managing political relations with a wide variety of governments in the Republic of Moldova, regardless of their political affinity. Its operations also enjoy unanimous support across the political spectrum and can survive government changes, as has

been amply demonstrated in the past. IFAD will be monitoring the situation and maintaining continuous dialogue with key government stakeholders in the process.

32. Another cross-cutting risk relates to leakages of project resources to non-intended beneficiaries (e.g. through elite capture) unless adequate safeguards are put in place. Several factors in the project design will ensure that activities are well targeted and inclusive of the more vulnerable segments of the target population. For example, the CPIU will contract a service provider to run a beneficiary outreach campaign. This will begin by providing information to the population through messaging and social networks, mass media, brochures and leaflets, followed by more detailed informational workshops at the regional level. Second, proposals will be evaluated and selected by a selection committee, which will include government officials, CPIU staff and representatives of civil society organizations. Information on awarded grants and contracts will be posted on the project's website and on social networks. Proposals for public infrastructure, such as access roads, will need to be approved by the elected rural municipality councils.

## V. Corporate considerations

### A. Compliance with IFAD policies

33. The RRP is fully aligned with IFAD's Climate Change Strategy, which aims to maximize the impact on rural poverty in a changing climate. The project will also follow the IFAD Policy on Gender Equality and Women's Empowerment to increase its impact on gender issues. It will be fully harmonized with IFAD's country programme in terms of targeting and will follow strict targeting criteria. The design abides by the primary principle of Reaching the Rural Poor: IFAD Policy on Targeting, namely that resources must target rural and agricultural development with a focus on poor smallholder farmers. Developing inclusive rural financial systems and innovations to increase the access of poor and marginalized women and men to a wide range of financial services is central to IFAD's mandate. It is also a key feature of IFAD's Rural Finance Policy, which is reflected in RRP activities at different levels of the financial sector. In collaboration with public and private partners, the RRP will focus on improving and effectively managing basic infrastructure linked to rural production systems, in line with IFAD's Strategic Framework 2016-2025.

### B. Alignment and harmonization

34. The RRP is fully aligned with the Government's core strategies on agricultural and rural development as well as with its broader ambitions for a closer relationship with the EU. This is evident in the project's focus on job creation – one of the twin pillars of the Government's core strategy for reducing rural poverty (the other being social transfers) – with rural transformation driving the process, while promoting commercialization, competitiveness and orientation towards the EU. This is clearly the most sustainable way to reduce rural poverty in a middle-income country such as the Republic of Moldova, which has EU accession prospects and is undergoing a transformation towards a welfare state.

### C. Innovations and scaling up

35. The RRP will combine the scaling up of existing successful initiatives with innovations and new pilot schemes in areas where needed. Therefore initiatives related to term finance and microfinance, and climate-resilient infrastructure will be expanded with a stronger focus on inclusion and targeting. Innovations and pilot schemes will focus on reaching the poorer and more climate-vulnerable sections of the rural population, along with efforts to reduce collateral requirements for farmers and agribusinesses through the establishment of the MCGF.
36. The RRP will facilitate a scaling-up process that builds on what has worked thus far from IFAD's systematic investments in six projects and programmes in the country. The scaling-up aims to increase the number of people benefiting directly and

indirectly from improved climate-smart productive infrastructure and the provision of term finance for MSMEs. Having the RRP as the main pathway for scaling up these interventions will ensure that a robust targeting strategy is in place, in which a broad outreach campaign will be conducted to inform the rural population about the opportunities provided by the project. Key drivers of the proposed scaling-up process will include: growing private-sector (including savings and credit associations[SCA]) demand for credit; a clear government vision and strategy, and government support; and the potential to access the EU market (the "pull" factor).

#### D. Policy engagement

37. Learning and knowledge management will be instrumental in identifying and appropriating policy engagement mechanisms at the local and national levels. At national level, the CPIU is already strongly engaged in policy dialogue with the Ministry of Agriculture and Food Industry and other key actors, informed by the evidence that IFAD-supported projects have generated on the ground, especially in terms of improving the SCA regulatory framework. This bottom-up policy dialogue has already delivered on the scaling-up of conservation agriculture approaches, and will be taken further in the RRP.

### VI. Legal instruments and authority

38. A project financing agreement between the Republic of Moldova and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as appendix I.
39. The Republic of Moldova is empowered under its laws to receive financing from IFAD and from the IFAD ASAP Trust Fund acting through IFAD in its capacity of Trustee of the ASAP Trust Fund.
40. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

### VII. Recommendation

41. 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 blend terms to the Republic of Moldova in an amount of eighteen million two hundred thousand United States dollars (US\$18,200,000) 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 five hundred thousand United States dollars (US\$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 an ASAP grant to the Republic of Moldova in an amount equivalent to five million United States dollars (US\$5,000,000) 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

## Rural Resilience Project

(Negotiations concluded on 15 November 2016)

IFAD Loan Number: \_\_\_\_\_

IFAD Grant Number: \_\_\_\_\_

ASAP Trust Grant Number: \_\_\_\_\_

Project Title: Rural Resilience Project (RRP) ("the Project")

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

and

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

and

The Adaptation for Smallholder Agriculture Programme Trust Fund ("the ASAP Trust")

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

HEREBY agree as follows:

### Section A

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

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of April 2014, and as may be amended hereafter 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, an IFAD Grant and an ASAP Trust Grant (together the "Financing") to the Borrower/Recipient, which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

## Section B

1.
  - A. The amount of the Loan is eighteen million two hundred thousand US dollars (USD 18 200 000).
  - B. The amount of the IFAD Grant is five hundred thousand US dollars (USD 500 000).
  - C. The amount of the ASAP Trust Grant is five million US dollars (USD 5 000 000).
2. The Loan shall be subject to interest at a fixed rate of 1.25 per cent and a service charge of 0.75 per cent on the principal amount outstanding, and shall have a maturity period of twenty five (25) years including a grace period of five (5) years starting from the date of approval by the Executive Board.
3. The Loan Service Payment Currency shall be the 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.
6.
  - (a) There shall be a Loan Designated Account, an IFAD Grant Designated Account and an ASAP Trust Grant Designated Account for the purposes of receiving the proceeds of the Loan, the IFAD Grant and the ASAP Trust Grant respectively and financing the project, all of which shall be denominated in USD and opened by the Borrower/Recipient in the National Bank of Moldova.
  - (b) Project operating accounts for the loan, IFAD grant, ASAP grant and Beneficiaries contributions shall be opened by the State treasury at the National Bank to receive resources from the respective designated accounts and from Beneficiaries
7. The Borrower/Recipient shall provide counterpart financing for the Project estimated in the amount of two million nine hundred and forty thousand US dollars (USD 2 940 000) by covering all duties and taxes on goods and services procured under the project. The Borrower/Recipient will finance the cost of all taxes on goods procured under the project, or will waive the duties and taxes.

## Section C

1. The Ministry of Agriculture and Food Industry is the Lead Project Agency and shall have overall responsibility for the implementation of the project.
2. The following are designated as additional Project Parties: CLD, PFIs, SCAs, NCFM, Local Public Authorities (Primarias), State Association for Soil Protection, State Inspection on Civil Works, State Agency "Apele Moldovei", Water Users Associations (WUA), Research Institute in Forestry, Research Institute in Soil Science, Academy of Science, State Agrarian University of Moldova, consulting and extension service provides NGOs, producer associations UAP, Moldova Fruct, APESM, and the Association of Honey Producers.
3. The Project Completion Date shall be the sixth (6<sup>th</sup>) anniversary of the date of entry into force of this Agreement.

## Section D

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



## Section E

1. The following is designated as an additional ground for suspension of this Agreement:
  - (a) The Project Implementation Manual (PIM) referred to in paragraph 8 of Schedule 1 hereto, or any provision thereof, has been waived, suspended, terminated, amended or otherwise modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.
2. The following is designated as an additional general conditions precedent to withdrawal of the part of the Category II "Credit, Guarantee Funds" related to the Credit Guarantee Mechanisms:
  - (a) The specific study to assess the feasibility for and potential of a Credit Guarantee Company (CGC) is completed and shows a clear and appropriate pathway for the credit guarantee scheme.
3. This Agreement is subject to ratification by the Borrower/Recipient The Financing Agreement shall enter into force on the date upon which the International Fund for Agricultural Development dispatches to the Recipient notice of its acceptance of the evidence that the execution and delivery of the Agreement by the Republic of Moldova has been duly authorized by all necessary governmental actions and the Agreement can become effective.
4. 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  
Chisinau, Republic of Moldova

For the Fund:

President  
International Fund for Agricultural Development  
Via Paolo di Dono 44  
00142 Rome, Italy

For the Adaptation for Smallholder Agriculture Programme Trust Fund

President of the International Fund  
for Agricultural Development  
in its capacity as Trustee  
of the Adaptation for Smallholder  
Agriculture Programme Trust Fund  
Via Paolo di Dono 44  
00142 Rome, Italy

This Agreement, dated \_\_\_\_\_, has been prepared in the English language in two (2) original copies, one (1) for the Fund and the ASAP Trust and one (1) for the Borrower/Recipient.

REPUBLIC OF MOLDOVA

\_\_\_\_\_  
Authorized Representative  
(Name and title)

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

\_\_\_\_\_  
Kanayo F. Nwanze  
President

ADAPTATION FOR SMALLHOLDER AGRICULTURE  
PROGRAMME TRUST FUND

\_\_\_\_\_  
Kanayo F. Nwanze  
President of the International Fund  
for Agricultural Development in its capacity as Trustee  
of the Adaptation for Smallholder Agriculture Programme  
Trust Fund

## Schedule 1

### Project Description and Implementation Arrangements

#### I. Project Description

1. **Project Area.** The Project shall be implemented throughout the Borrower/Recipient's territory. Special prioritisation will be given to climate vulnerable farmers and agribusinesses as well as poorer segments of the rural society. This will be determined by the Small Area Deprivation Index, supplemented by poverty data. Climate vulnerability will be based on the Livelihood Vulnerability Index and other measures of the impact of climate change.
2. **Target Population.** In terms of categorisation the major target groups are as following:
  - Agribusiness, mainly small and medium size enterprises.
  - Smallholder farmers, especially semi-subsistence and commercially oriented smallholder farmers.
  - Young entrepreneurs are a crosscutting target group facing unique challenges and opportunities that also require tailor-made targeting strategies.
  - Smallholder women farmers belonging to vulnerable households, sensitive to poverty and climate change, also comprise a crosscutting target group.
3. **Goal.** The overall goal of the Project is to improve the wellbeing of Moldova's rural population and contribute to poverty reduction.
4. **Objective.** The development objective of the Project is to strengthen the resilience and improve economic opportunities for the rural poor.
5. **Components.** The Project will have two core components that envisage a number of complementarities between initiatives and subcomponents.
  - 5.1. **Component 1: Improve smallholders and agribusinesses' adaptive capacity.** This component will aim at enhancing the resilience through investments in productive rural infrastructure and agri-systems. This component will address the Climate Change adaptation priorities identified by the Moldovan government and will operate under two subcomponents:
    - 5.1.1. Climate-resilient water management and infrastructure development will support investments in productive rural infrastructure to remove the bottlenecks hampering the consolidation and expansion of competitive farms and village based agri-business and to foster the adoption of climate smart technologies.
    - 5.1.2. Farmers' adaptation through climate resilient investments will include: (a) support smallholder farmers in the adoption of climate-resilient crop production systems and technologies, through investment grants and capacity development support; (b) support food/nutrition security and business diversification of women groups in high climate- and poverty-vulnerable areas, and (c) support public and private investments in ecological restoration measures aiming to reduce climate-related risks and improve ecosystem services for agriculture.

5.2. Component 2: Agribusiness development support. The expected outcome of the component will be to enhanced access to financial services and markets for rural transformation. The component is set up with three subcomponents:

- 5.2.1. Term finance for Micro, small and medium enterprises (MSMEs) will support the investments (including some working capital up to 20 per cent of the total loan) of MSMEs in Moldova.
- 5.2.2. Credit Guarantees for MSMEs, under which the Government of Moldova will be assisted to create the Moldova Credit Guarantee Fund to provide inter-bank guarantees for loans granted to MSMEs by licensed financial institutions.
- 5.2.3. Technical support to MSMEs, which includes a number of smaller, but important measures to widen and deepen the impacts of other components, comprising technical support to agribusiness, youth entrepreneurs and Saving and Credit Associations.

## II. Implementation Arrangements

### 6. The Lead Project Agency:

6.1. Overall responsibility for the Project management and implementation will rest with the IFAD Programme Steering Committee (IPSC) already established by Government decree and responsible for providing overall policy guidance and oversight for all IFAD-supported projects and programmes in Moldova.

6.2. The Minister of Agriculture and Food Industry will be the Chairperson of the IPSC. Other members include one representative each of the Ministry of Finance, the Aid Coordination Unit under the State Chancellery, the Parliament's Agricultural Committee, the National Bank of Moldova, and representatives from other Project stakeholders, including government agencies and public and private organisations as appropriate. The IPSC membership can be amended depending on programme requirements, with a view to reflect the increased emphasis on climatic adaptation and resilience.

6.3. Day-to-day management and implementation of the Project will rest with the existing Consolidated Programme Implementation Unit (CPIU), which has established a robust and well-recognised track record of competent and diligent programme management of IFAD's previous and ongoing projects.

6.4. The principal functions of the CPIU will be to carry out the overall programming and budgeting of Project activities, take the lead in implementation - in cooperation with business development partners and other services providers, infrastructure contractors, beneficiary institutions, such as farmer-based organisations, participating financial institutions - and to monitor and document Project progress.

6.5. Specifically, the CPIU will assume the responsibility for generating the annual work plans and budgets (AWPBs) to be submitted to the IPSC for review and approval and subsequently to IFAD for final approval. Likewise, the CPIU will take the lead in the procurement of civil works and goods and services.

7. Mid-Term Review. The Fund shall carry out a review of Project implementation no later than the end of the Project's third year. The review shall cover, among other things: (i) physical and financial progress as measured against AWPBs; (ii) performance and financial management of contracted implementing partners; (iii) an assessment of the efficacy of the institutional development and capacity building activities; (iv) progress in infrastructure investments; (v) establishing and

delivering of extension services; (vi) delivering of financial services; and (vii) access to markets. Fund will present a report on mid-term review with conclusions and recommendations for Ministry of Agriculture and Food Industry.

8. Project Implementation Manual (PIM). The CPIU shall prepare a draft PIM acceptable to the Fund and submit it for approval to the IPSC. When so approved, a copy of the PIM shall be provided by the CPIU to the Fund. The PIM may be amended when necessary to introduce clarification in procedures, eliminating constraints for project implementation and for facilitating access of producers to the project services.

## Schedule 2

## Allocation Table

1. Allocation of Loan, Grant and ASAP Trust Grant Proceeds. (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan, the Grant and the ASAP Trust Grant, 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 USD)	IFAD Grant Amount Allocated (expressed in USD)	ASAP Trust Grant Amount Allocated (expressed in USD)	Percentage
I. Consultancies	695 000	250 000	1 035 000	100% net of taxes
II. Credit, Guarantee Funds	10 445 000			100% net of taxes
III. Equipment, Material, Goods and Services	45 000		25 000	100% net of taxes
IV. Grant	225 000		2 810 000	100% net of taxes
V. Workshops and Trainings	340 000	180 000	60 000	100% net of taxes
VI. Works	3 875 000		465 000	100% net of taxes
VII. Salaries and Allowances	570 000		60 000	100% net of taxes
VIII. Operating costs	185 000	20 000	45 000	100% net of taxes
Unallocated	1 820 000	50 000	500 000	
<b>TOTAL</b>	<b>18 200 000</b>	<b>500 000</b>	<b>5 000 000</b>	

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

- (i) Category I: "Consultancies" include studies and technical assistance.
- (ii) Category II: "Credit, Guarantee Funds" includes term finance and credit guarantees for micro, small and medium enterprises (MSMEs) and expenditure related to the establishment of the credit guarantee scheme.

# Logical framework

Results	Indicators				Means of Verification			Assumptions	
	Hierarchy	Name	Baseline	Mid-Term	End Target	Source	Frequency		Responsibility
Goal: Improve the well-being of the Republic of Moldova's rural population and reduce poverty		• 17,658 HH have increased their asset ownership by at least 30% (RIMS 3rd level mandatory impact indicator)	TBD at baseline	10%	30%	Mid-term and Completion Survey	MTR and completion	CPIU M&E unit	<ul style="list-style-type: none"> <li>Political stability</li> <li>Macro-economic conditions remain stable or improve</li> </ul>
Development Objective: Strengthen the resilience and improve economic opportunities for the rural poor.		• 17,658 HH have increased their net farm income by at least 20%	TBD at baseline	10%	20%	Mid-term and Completion survey	MTR and completion	M&E officer	
		• 120 enterprises report a net increase in revenue by at least 15%	TBD at baseline	5%	15%	Mid-term and Completion survey	MTR and completion	M&E officer	
		• Percentage of females receiving project interventions	TBD at baseline	10%	30%	Mid-term and Completion survey	MTR and completion	M&E officer	
Component 1: Improve smallholders' and agribusinesses' adaptive capacity Outcome 1 Enhanced resilience through investments in productive rural infrastructure and agri-systems		• 1940 ha showing increase in net return by at least 30%	TBD at baseline	15%	30%	M&E system Component reports	Annually	M&E officer Component officer	<ul style="list-style-type: none"> <li>Climatic changes are in line with current predictions</li> </ul>
		• \$ Value of new or existing rural infrastructure made climate resilient (ASAP)	0	\$1.2 m	\$2.5 m	M&E system Component reports	Annually	M&E officer Component officer	
Outputs 1.1 Enhanced resilience of farmers to climate change 1.2 Productive rural infrastructure constructed/rehabilitated		• 1080 smallholder households supported to cope with effects of climate change	1 198	1838	2278	M&E system Component reports	Semi-annually	M&E officer Component officer	<ul style="list-style-type: none"> <li>Beneficiaries willingness to participate and contribute</li> </ul>
		• 1440 ha under micro and small scale irrigation schemes constructed/rehabilitated	4 780.5 ha	5 620.5 ha	6 220.5 ha	M&E system Component reports	Semi-annually	M&E officer Component officer	
		• 24 Kilometres of roads constructed/rehabilitated	38.8 km	50.8 km	62.8 km	M&E system Component reports	Semi-annually	M&E officer Component officer	
		• 720 households in vulnerable areas with increased water availability for agricultural production and processing	992	1412	1712	M&E system Component reports	Semi-annually	M&E officer Component officer	
Component 2: Agribusiness Development Support Outcome 2: Enhanced access to financial services and markets for rural transformation		• Collateral coverage requested by PFIs decreased from 360% to 180%	360%		180%	Statistics of the NBM	Annually	M&E officer Component officer, NBM	<ul style="list-style-type: none"> <li>macro-economic conditions are supportive for doing business</li> <li>Banks use MCGC to obtain partial collateral</li> </ul>
		• 160 value guarantees extended have been repaid	TBD at baseline	70	160	MSMEs audited reports	Annually	M&E officer Component officer	
		• 585 youth entrepreneurs, SMEs and micro entrepreneurs trained in business related activities (disaggregated by type and gender) are operating profitably	3,615	3,974	4,200	M&E system Component reports	Semi-annually	M&E officer Component officer	

Results	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Hierarchy								
	<ul style="list-style-type: none"> <li>80 recipients of grants totaling \$1.9 million for diversification activities are operating profitably</li> </ul>	TBD at baseline	80	80	M&E system Component reports	Semi-annually	M&E officer Component officer	
Outputs	<ul style="list-style-type: none"> <li>585 loans valued at \$11.5 million disbursed (disaggregated by type and gender)</li> </ul>	3,615 \$60.0 m	3,974 \$66.7m	4,200 \$71.5m	M&E system Component reports	Semi-annually	M&E officer Component officer	
2.1 Loans to youth entrepreneurs, SMEs and micro entrepreneurs provided	<ul style="list-style-type: none"> <li>920 guarantees valued at \$29.9 million extended</li> </ul>	TBD at baseline	920 \$29.9m	920 \$29.9m	M&E system Component reports	Semi-annually	M&E officer Component officer	
2.2 Guarantee fund established sustainably	<ul style="list-style-type: none"> <li>585 youth entrepreneurs, SMEs and micro entrepreneurs trained in business related activities (of which at least 20% are youth and 30% women)</li> </ul>	3,615	3,974	4,200	M&E system Component reports	Semi-annually	M&E officer Component officer	
2.3 Agri-business supported	<ul style="list-style-type: none"> <li>80 grants valued at \$1.9 million provided for diversification activities</li> </ul>	TBD at baseline	80 \$1997000	80 \$1997000	M&E system Component reports	Semi-annually	M&E officer Component officer	