

profile

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MOLDOVA COUNTRY PROGRAMME EVALUATION

Providing finance for commercial farming

The Republic of Moldova is a small landlocked country in Eastern Europe and is classified as a lower-middle income country. After the break-up of the Soviet Union in 1991, a disruptive restructuring process triggered by the collapse of Soviet supply and marketing channels led to severe economic decline and a steep increase in poverty. Economic recovery and overall growth since the end of 1990s contributed to reducing poverty, but in 2010 an estimated 30 per cent of the rural population was still considered poor, as compared with 10 per cent in urban areas. An estimated 20-25 percent of the economically active population are outside Moldova. Remittances through formal channels were valued at US\$1.3 billion or 23.1 per cent of GDP in 2011, fifth largest in the world, playing a key role in Moldova's economy.

Since the start of the operations in 1999, IFAD has provided loans to Moldova totaling US\$69 million for five projects costing US\$116 million. A significant part of the IFAD funding has been for credit lines for onlending in rural areas through commercial banks. While this has been the main approach in all projects, in later projects additional elements were introduced: first, to support market-driven rural infrastructure to enhance the viability of on-farm investments financed by banks; second, to help farmers to participate in value chains; and third, to promote conservation farming to preserve soil fertility and help farmers adapt to increasingly volatile weather patterns. Moreover, in the fifth project, support targeted at young entrepreneurs was introduced through a subsidy scheme which reduces the amount of required collateral for them to obtain commercial bank loans.

IFAD has prepared two country strategic opportunities programmes (COSOPs) for Moldova, in 2002 and 2007 respectively. The strategic objectives of the 2007 COSOP, as revised in 2011, are: (a) to foster pro-poor market linkages and opportunities for rural enterprise development; and (b) to enhance access to a full range of financial services supporting the most vulnerable and poor groups in rural areas.



Workers pick and package table grapes in Tintareni, Anenii Noi district, Moldova. The grapes will be placed in cold-storage buildings and released on the national and export market off-season to increase their market value.

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MOLDOVA AT A GLANCE

Population: **3.56 million (2012)**

Rural population: 1.84 million (57% of total population) (2012)

Rate of GDP growth: **7% (2010); 6% (2011); -1% (2012)**

Poverty headcount ratio at national poverty line (% of population): **22% (2010); 17% (2012)**

Life expectancy at birth: **69 years (2011)**

Human development index: **0.660 (2012)**

Ranking = 113 out of 187 countries (medium human development category)

IFAD lending since 1978: **US\$69 million**

Source: IFAD Project and Programme Management System, United Nations Development Programme Human Development Reports, World Bank.

Main evaluation findings

Overall portfolio achievement is assessed as moderately satisfactory. IFAD support for rural lending through commercial banks, mainly to viable medium-scale farms and entrepreneurs, has contributed to increased levels of agricultural production, rural enterprise development and job creation. Modest investment in small-scale infrastructure has provided rural population with water and access roads with positive impact on rural economic activities and livelihoods. The recently introduced support targeted at young farmers, cofinanced by a grant from Denmark, is helping to build Moldova's agricultural future. One of the noteworthy features of the Moldova programme is efficiency. The Consolidated Programme Implementation Unit (CPIU) has been effective in implementing, managing and coordinating all ongoing IFAD-supported projects at low cost (with less than 2 per cent of the total project costs for the entire portfolio so far).

On the other hand, there has been limited progress in supporting organizations of small-scale producers and their linkages to markets. Support for microfinance to small and microenterprises that could directly target the poor, has remained a very small part of the IFAD programme due to regulatory and institutional issues, and there is insufficient evidence to show effectiveness and impact of microfinance programme for reducing rural poverty in Moldova. Another important issue is slow progress in putting in place a clear exit strategy for substantial allocations of credit lines after over a decade of generally effective implementation.

Many of Moldova's smallholders were previously workers in collective farms. With privatization they acquired small plots, but few had the know-how needed to turn these into viable farms. As a consequence, former farm managers or agriculture graduates have taken the lead in commercial production and leased land from the smallholders, often offering them employment. In such context, IFAD's approach of supporting the development through loans to medium-scale farmers, and through increasing support for rural infrastructure, value chain development and conservation farming, is considered to have been well-judged. The evidence on the grounds suggests that the projects are making a notable contribution to the development of Moldovan agriculture. At the same time, this in a way runs counter to IFAD's institutional emphasis on direct support for the rural poor. As a consequence, project documents and COSOPs have tended to portray IFAD's programme as directly targeting the poor, although in practice only the small microfinance components fell into this category. By and large, those who have had access to bank loans with IFAD-supported projects are unlikely to be the typical

rural poor. The impact on rural poverty reduction has therefore been largely indirect, e.g. through the creation of employment opportunities, and the available evidence for such impact is mixed and incomplete. After 14 years of cooperation with a continued focus on the provision of credit lines, there is scope for critically reflecting upon the role of IFAD within the evolving country and sectoral context, and its future strategy.

Key recommendations

- **Country strategy.** The next COSOP should provide a frank assessment of IFAD's role and contribution in Moldova, and propose a programme that reflects the country's needs and IFAD's comparative advantages. There is a need for a better integrated programme to exploit potential synergies between different interventions. Particular consideration should be given to how effectively mainstream value chain development and to how better align other elements (e.g. rural finance, infrastructure, natural resource management) towards promising value chains.
- **Rural and micro finance.** IFAD, together with the Government, needs to consider ways to encourage banks to increase the use of their own resources and focus future support for rural credit on new and young borrowers. As for microfinance, first, there should be an assessment of its effectiveness and impact on rural poverty in the Moldovan context. Second, IFAD should promote a dialogue with the Government and other stakeholders on appropriate regulatory and institutional framework.
- **Non-lending activities.** IFAD needs to expand its outreach and strengthen its non-lending activities. There are some emerging policy issues that should be taken up with the authorities such as the role of microfinance and the issue of ownership and maintenance of infrastructure. IFAD also needs to be more proactive on partnerships and take its case to the donor community under the Government's active leadership. On knowledge sharing a more systematic approach is needed with a designated focal point in the CPIU. IFAD's regional management should consider how to exploit the obvious learning potential with those other Eastern European and the Former Soviet Union borrowing countries.

Further information:

Republic of Moldova, Country Programme Evaluation, Report No. 3052-MD, May 2014, ISBN 978-92-9072-476-6, Independent Office of Evaluation of IFAD, Via Paolo di Dono, 44, 00142, Rome, Italy. The full report, Profile and Insights are available online at: www.ifad.org/evaluation; email: evaluation@ifad.org.