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Investing in rural people

Republic of Moldova

Country Strategic Opportunities Programme  
2019-2024

Note to Executive Board representatives

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For: Review

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## Abbreviations and acronyms

CA	conservation agriculture
CIS	Commonwealth of Independent States
COSOP	Country Strategic Opportunities Programme
CPE	Country Program Evaluation
CRR	COSOP Results Review
DANIDA	Danish International Development Agency
EU	European Union
IRECR	Inclusive Rural Economic and Climate Resilience Programme
M&E	monitoring and evaluation
MSME	Micro, small and medium enterprises
PBAS	performance-based allocation system
RFSADP	Rural Financial Services and Agribusiness Development Project
RRP	Rural Resilience Project
TARUT	Talent Retention for Rural Transformation Project



## Executive summary

1. In the Republic of Moldova's rural areas, agriculture is becoming a polarizing activity. A small number of large-scale farmers are increasingly able to exploit the expanded trading opportunities conferred by the free trade agreement with the European Union (EU), which has become the country's main agricultural export destination. However, smallholders struggle to comply with the strict requirements for entering the EU markets. For them, the markets of the Commonwealth of Independent States (CIS), including the Russian Federation, are critical as they are more easily accessible. As a consequence, smallholders are becoming less engaged in markets, subsistence farming is on the increase and productivity has decreased: a trend that is unparalleled in most of the world. Driving this trend has been the emigration of a quarter of the young rural population, and the move to cities by many more. Subsistence farming is becoming more prevalent than commercial farming. Finally, as a category of farmers, smallholders are particularly vulnerable to accelerating climate change as they are the least equipped to adapt to its effects.
2. In the context of these unique and intractable challenges, IFAD is well-positioned to assist its Moldovan partners in devising inclusive development pathways for smallholders and the entrepreneurial rural poor. However, delivering on IFAD's global commitments to reduce poverty through productive investments while maintaining relevance in the Moldovan context requires a carefully calibrated strategy.
3. IFAD will consequently promote more resilient livelihoods in marginal rural areas by supporting climate-smart agriculture, economic diversification, talent retention and access to rural finance. On that basis, IFAD's overall goal will be to assist the productive poor in taking advantage of the opportunities emerging from the ongoing rural transformation in the country. To deliver on these commitments, IFAD will have two strategic objectives:
  - (a) SO1. IFAD will improve the adaptive capacity of smallholders and agribusinesses through market-driven investments. This will be done by enhancing their resilience through investments in productive rural infrastructure and agri-systems.
  - (b) SO2. IFAD will promote inclusive market linkages through enhanced access to financial services and markets in order to foster rural transformation.
4. These strategic objectives are aligned with the National Strategy of Agriculture and Rural Development, in which the Government outlines concretely how it will translate the ambitions of the 2020 national development strategy into reality.

## Republic of Moldova

### Country strategic opportunities programme

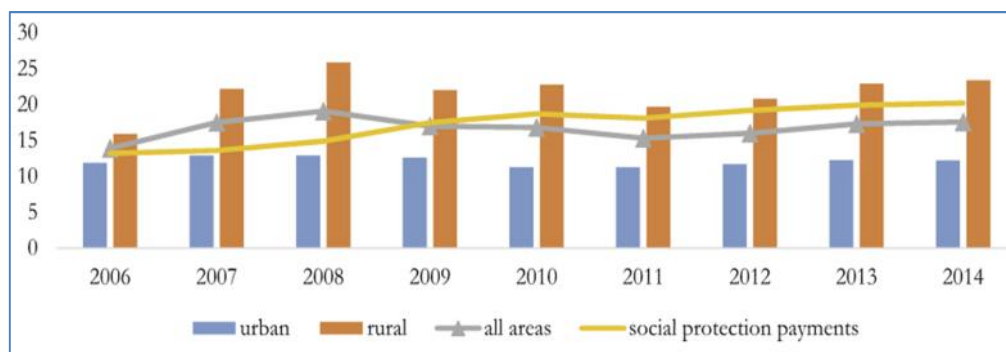
#### I. Country diagnosis

##### A. Socio-economic context

1. The Republic of Moldova is among the poorest countries in Europe. Geopolitically, the country has historical ties to the CIS, in particular the Russian Federation, in terms of trade and migration. However, EU accession and strengthening relations with Romania is the country's key foreign policy goal, with far-reaching ramifications for domestic policies and practices in terms of alignment with EU requirements. A milestone has been the entry into a Deep and Comprehensive Free Trade Area agreement with the EU. This offers better access to the world's largest market but will progressively expose Moldovan producers to greater domestic competition.
2. However, strong trade relations and historical ties continue with Russia and other CIS countries. Small-scale producers tend to still see CIS as their key market; this is especially true for many rural producers whose products are not of the required quality and cannot produce in sufficient quantity to enter EU markets.
3. Weak governance and associated low growth have also led to the emigration of almost one third of the working age population, depriving rural areas of a key productive group. Despite volatile economic growth, fragile governance and frequent extreme climate events, The Republic of Moldova has made significant gains in reducing poverty. A key driver has been economic growth driven by private consumption, which is being fueled by remittances and pensions. However, the rural areas continue to be significantly poorer than their urban counterparts, with poverty almost six times higher than in big cities.

Figure 1

**Remittances and social transfers as share of household income**



Source: World Bank: Poverty and Shared Prosperity in Moldova, 2016.

4. The drivers of these impressive poverty reduction outcomes are unlikely to continue working effectively in the future. This was already pointed out by the IFAD country programme evaluation (CPE) in 2014. There is a huge demographic challenge facing the country in the form of an exceptionally high dependency ratio and declining fertility; ageing and emigration will only worsen this problem.
5. In terms of nutrition, the country is in transition; undernutrition is decreasing but over-nutrition is on the increase. The majority of the population's food energy requirements are largely met, yet the shrinking proportion (21 per cent) of people consuming insufficient quantities of food remains a concern. The average level of per capita daily food energy consumption has consistently been above the values recommended by the World Health Organization, and this trend continues: the

average daily consumption of around 2,400 Kcal in 2013 compared favourably with the recommended benchmark of 2,050 Kcal. Similarly the Republic of Moldova has recently registered improvements across all categories of malnutrition and exhibits low overall malnutrition levels.<sup>1</sup>

6. Gender issues also manifest themselves in nutrition: women have a higher calorie intake than men and a higher food security level than men during times of crisis.<sup>2</sup> The World Economic Forum's most recent Global Gender Gap Index (2017) ranks the Republic of Moldova thirtieth out of 144 countries, higher than Netherlands (32) and Italy (82). However, women face challenges in terms of lower pay. They are also less likely to start a business, and when they do, are less likely to expand and employ others.

## B. The agricultural sector and rural economy

7. The role of agriculture has also changed. Its value-added share of GDP dropped from 30 per cent in 2000 to only 10 percent in 2009, after which it increased by 5 percentage points (see figure 3 below). The penetration of EU markets has been key in driving higher added value in agriculture.

Figure 2  
Distribution of farms and area 2011

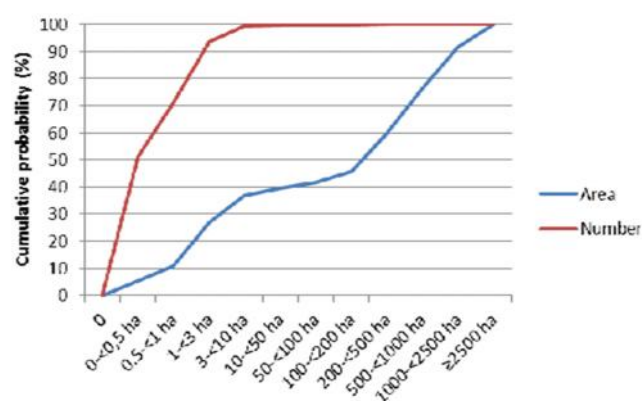
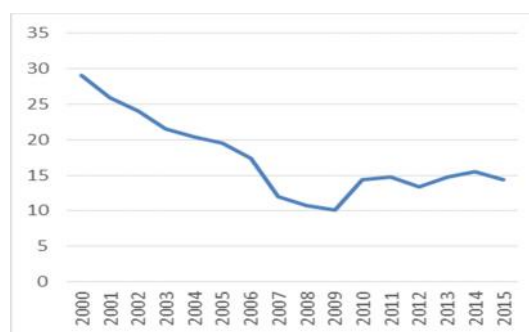


Figure 3  
Percentage of agricultural value add of GDP



Source: National Bureau of Statistics, various years.

8. There is a small but growing segment of farmers that comply and successfully export to the EU, but these tend to be larger farmers. Indeed, the dualistic nature of agriculture in the country has probably been further segmented over the last decade. With a generation of older farmers likely to exit agriculture in the near future, there will be an opportunity to support the emergence of a new generation of younger farmers that can consolidate, commercialize and revitalize agriculture.
9. In many other country contexts, the smallest farmers would have constituted the core target group for IFAD as they are typically also the poorest. However, the increasing level of subsistence farming in the Republic of Moldova is arguably unique in Europe, where the historical trend has been towards commercialization and consolidation. This has made it difficult to target the poorest farmers. Most of those working in small-scale agriculture are elderly and are farming at low intensity. Farm income as a share of total income has declined from 25 to 13 per cent between 2007 and 2014 (see table 1) and poor smallholders have largely become unbankable.

<sup>1</sup> According to the Global Nutrition Report 2017 almost half of the population is overweight.

<sup>2</sup> World Bank: *Moldova- Food Security Assessment*, Washington 2016. This may also be due to men prioritizing other consumption categories (e.g. maintaining a car) above food. However, women's dietary choices also tend to be healthier than men with the latter favouring red meat, pork, high sucrose foods and alcohol.

Figure 4  
Age and gender of subsistence farmers

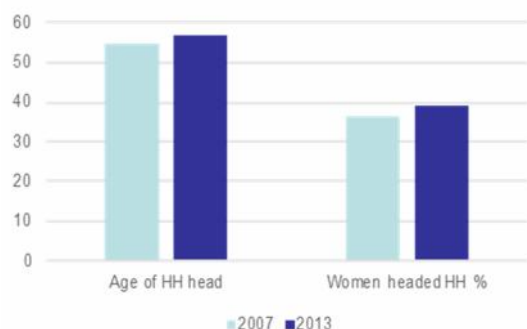
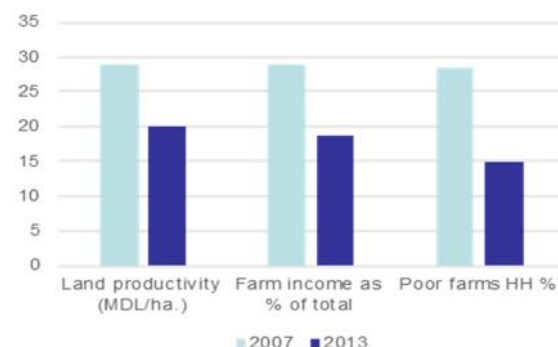


Figure 5  
Land productivity and poverty (all farms)



Source: World Bank: Structural transformation of Moldovan smallholder agriculture, 2016.

10. Land consolidation is not happening on a large scale. Between 2007 and 2008 23 per cent of farmers traded land, while only 7 per cent did so between 2012 and 2013. The area of land changing ownership also dropped from 11 to 4 per cent in the same period (see table 1 below).

Table 1  
Changes in the characteristics of market-oriented and subsistence farmers since 2007 COSOP

	2007			2013		
	Total	Subsistence	Other	Total	Subsistence	Other
Number of farm households	4 679	72.36	27.64	4 089	73.65	26.35
Average HH size	2.77	2.74	2.86	2.47	2.42	2.61
Average age of HH head	54.69	55.29	53.14	56.48	57.31	54.16
Woman household head (%)	36.64	38.37	32.11	38.95	42.12	30.07
Bad health status HH head (%)	24.33	26.66	18.24	21.25	22.48	17.83
Education of HH head is low (%)	14.55	15.91	11.00	8.83	10.05	5.44
Education of HH head is high (%)	19.57	18.83	21.49	19.57	19.41	19.93
Max education in HH is low (%)	10.62	11.72	7.73	6.25	7.25	3.44
Max education in HH is high (%)	29.77	28.97	31.84	30.10	29.35	32.22
HH with job seeker (%)	11.69	11.60	11.92	10.18	9.39	12.40
HH with underemployment (%)	27.33	26.98	28.17	22.29	20.92	26.17
Average HH income (MDL)	35 912	33 683	41 748	36 648	34 800	41 811
Average per capita inc. (equ.)(MDL)	17 055	16 005	19 804	18 896	18 145	20 995
Farm income (% of total income)	28.90	25.05	42.60	18.63	12.80	34.93
Earned non-farm income (%)	27.54	28.33	24.77	28.48	28.90	27.45
Income from remittances (%)	13.07	13.80	11.17	13.79	14.79	11.01
Difficulty to pay for food (%)	37.32	38.42	34.44	35.10	36.00	32.59
Poor farm households (%)	28.53	30.31	23.86	15.03	15.72	13.11
Average total land area (ha)	1.64	1.566	1.823	1.39	1.265	1.720
- Thereof owned (%)	99.38	99.40	99.31	99.32	99.38	99.18
- Thereof rented out (%)	31.57	31.69	31.25	28.34	27.80	29.87
- Thereof available (%)	68.43	69.31	68.75	71.65	72.20	70.13
- Thereof abandoned (%)	15.37	14.90	16.60	17.66	18.02	16.65
- Thereof used (%)	53.06	53.40	52.15	54.00	54.18	53.47
Mechanization (own tractor) (%)	2.12	1.31	4.24	2.37	1.26	5.46
Share of in-kind farm income	86.58	99.55	52.63	85.34	99.79	44.96
Land productivity (MDL/ha/year)	28 836	26 373	35 541	19 617	16 509	28 57

Source: World Bank: Structural Transformation of Moldovan Smallholder Agriculture, 2016.

11. Vulnerability to climate change and associated shocks is substantial, with significant and frequent adverse impacts on the economy. The Republic of Moldova ranks as one of the most climate-vulnerable countries in Europe (see Social, Environmental and Climate Assessment Procedures [SECAP] note in appendix VI). Smallholders are particularly vulnerable to climate change as they have limited access to information and few resources to invest in adaptation measures.

### C. Policy and institutional context

12. The National Development Strategy "Moldova 2020" presents the country's overall development policy. This country strategic opportunities programme (COSOP) fully supports the Moldova 2020 strategy of EU approximation, including in agriculture, to ensure food security and safety. At the sector level, IFAD will support the key government priorities set forth in the National Strategy on Agriculture and Rural Development. The restructuring of the Ministry of Agriculture, Rural Development and Environment (within which the IFAD project unit is located) and the forthcoming elections are expected to lead to a new rural development strategy. IFAD will ensure alignment of its future engagements accordingly.
13. The private sector in rural areas has a dual structure that comprises a modern competitive sector that is thriving and a stagnant subsistence sector that is becoming increasingly marginalized. The key challenge is to connect the two segments and also to re-establish a middle category of farmers and agribusinesses that can offer attractive non-emigration-related opportunities, especially to young talent. NGOs and service providers are capable of catering to a variety of needs, such as mentoring, extension and business advisory services. The microfinance sector has an extensive network, but microfinance institutions tend to incur high overhead costs as they are often too small to achieve economies of scale.

## II. Previous lessons and results

### A. Experiences and results from the past

14. The COSOP has been developed based on the findings and results of numerous studies, particularly: the COSOP results review (CRR) of 2017 and the country programme evaluation of 2014. At the operational level, both report superior performance by IFAD, which is ranked consistently among the top 10 of IFAD's 113 benchmarked countries.

### B. Lessons to inform the future strategy

15. A key lesson is that IFAD cannot target the poorest rural people and simultaneously deliver on its mandate to invest in the productive assets of the rural poor. This is corroborated by both the CPE and the CRR. Many of the poorest rural people are pensioners or are close to retirement and therefore unlikely to be interested in making substantial investments in agriculture.
16. However, there is clearly scope for improving targeting, despite the fact the poorest groups are unlikely to be the main beneficiaries, or interested in participating in IFAD supported projects. Land consolidation and off-farm opportunities are emerging in rural areas as agro-industry and tourism grow. IFAD will thus concentrate on engaging in poorer areas and on targeting poor people with economic potential. IFAD has already supported more than 4,300 rural enterprises through business advisory services, which have helped them increase resilience and expand their businesses. Credit has been extended to more than 2,500 rural households (including 1,000 headed by women), and over 600 family-owned rural businesses (200 headed by women) have been established or expanded.<sup>3</sup>

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<sup>3</sup> See IFAD: CRR, Rome, 2017.

17. Financial services. The project completion report for the Rural Business Development Programme concluded that the 129 investment loans refinanced by the programme created 1,348 jobs, representing 4 per cent of all new jobs created in the country during the programme implementation period. The average monthly wage for each job was US\$208, which was impressive especially when compared to the country average of US\$195/month (2008). In structural terms, IFAD has supported savings and credit associations by enhancing the regulatory framework, engaging with the National Commission on Financial Markets and supporting efforts aimed at consolidation, solidity and transparency of the sector.
18. IFAD's engagement in climate-smart agriculture also informs the COSOP and the future target mechanisms to be used. For example, in one pilot initiative in support of conservation agriculture (CA), transformation drivers (e.g. rural small and medium-sized enterprises and medium- to larger-scale farmers) were identified to serve as model farmers. The initiative demonstrated the benefits of such support in a real world setting and also offered hands-on experience and lessons to poorer farmers. As can be seen from table 2, 10 farmer field schools on CA have been established, and these are expected to have a significant multiplier effect. This initiative is also driving significant conversion to CA and general climate resilience practices. The CA activities should be scaled up going forward.

Table 2

<b>Conservation Agriculture (2017)</b>	<b>Unit</b>	<b>Land (ha)</b>	<b>Land w. CA</b>	<b>(%) w. CA</b>
<b>Farmer field schools</b>	10	8 857	460	5
<b>Small grants</b>	25	8 873	7 020	79
<b>Total</b>	<b>35</b>	<b>17 730</b>	<b>7 480</b>	<b>42</b>

19. A grant from the Danish International Development Agency (DANIDA) in support of rural youth has also catalysed important learning about the design of transformational packages that combine grants, credits, entrepreneurial training, mentoring and market linking. The DANIDA support started with the youth flagship projects; the RFSADP and IRECR.
20. As young farmers invested in production assets and improved their agricultural practices, production increased by an average of 25 percent, which led to higher incomes. For example for table grape production which increased six-fold compared to farmers without project support, and beekeeping production which resulted in nine-fold higher incomes.
21. The youth-specific lessons generated by these projects are relevant to the proposed TARUT project. For instance, the RFSADP helped overcome the banking sector's hesitation to lend to young entrepreneurs by building their credit history, using matching grants as a catalyst for financial inclusion. These lessons will be carried forward in the TARUT.
22. Finally, both the CRR and the CPE highlighted the strong performance of the management set up of the project implementation unit. The key lesson that emerges is the importance of safeguarding the robust fiduciary standards and competencies achieved to date, especially in the context of institutional reform.

### III. Strategic objectives and alignment

#### A. Strategic objectives

23. IFAD's comparative advantage lies in its competencies in agricultural development and rural poverty reduction through sustainable investments in the productive capacities of farmers, agribusinesses and rural financial service providers. IFAD's clear value proposition throughout its operations in the Republic of Moldova is that of offering pathways out of poverty for the rural poor, in the context of depopulation, increasing regulatory (EU) requirements and growing competition.

To this end, IFAD will leverage its regional expertise in rural emigration, EU approximation and the increasingly dualistic structure of agriculture.

24. The main theory of change underlying the COSOP is that IFAD can help drive the transformation of the rural economy by supporting rural farmers and agribusinesses in becoming more resilient and competitive, thereby generating employment for the poor rural labour force and also increasing the tax base for the government, enabling it to finance its inclusiveness ambitions (e.g. social transfers). This strategy will be complemented by a specific focus on rural poor people with the potential to become fully commercial farmers that can attain the level of competitiveness required in the context of EU approximation.<sup>4</sup>
25. On that basis, the overall goal will be to assist the rural productive poor to graduate out of poverty by taking advantage of the opportunities emerging in the country's ongoing rural transformation. IFAD will create opportunities for the rural poor with economic prospects and the desire to remain in rural areas and serve as role models. To deliver on these commitments, IFAD has two strategic objectives:
  - (a) Strategic objective 1 (SO1): IFAD will improve the adaptive capacity of smallholders and agribusinesses through market-driven investments. Specifically, their resilience will be enhanced through investments in productive rural infrastructure and agri-systems. To address climate change, natural resource management is critical, therefore this objective is designed to be catalytic for scaling up adaptation to climate change which, in turn, will be driven by growing knowledge and access to climate adaptive practices and technologies. IFAD will also support the scaling up of more sustainable water and land management practices, which will generate higher yields and diversify production.
26. For this strategic objective, IFAD will invest in subsectors such as irrigation for drought mitigation and CA in climate-vulnerable areas, which will generate positive returns and new commercial opportunities. Clearly, the approach will be market-driven as adaptation is a commercial priority for farmers, especially smallholders. Infrastructure must therefore be supportive of market integration and economically sustainable. The SO1 will create a core adaptability platform for smallholder that will enable them to enter into the graduation pathways that will be outlined in the SO2. Transformation drivers will pilot new adaptability approaches and technologies, but with clearly laid out entry points and pathways that can be replicated and adapted by the rural productive poor. These champions/drivers of transformation will thus demonstrate the business case for the new concepts and innovations and provide examples for scaling up and mainstreaming. The drivers will be private sector entities as they play a crucial role in spurring market-led enterprise growth by providing commercial outlets and market opportunities for smallholders and generating both on- and off-farm employment opportunities. IFAD's role will be to ensure that the models/innovations promoted can be adapted to suit the needs of smallholders and assist them in adaptation and utilization. This will include support to both primary agricultural production and other segments such as processing, service provision and marketing.
  - (b) Strategic objective 2 (SO2): IFAD will promote inclusive market linkages through enhanced access to financial services and markets in order to foster rural transformation. This will include supporting better access to rural financial services, better access to markets and smallholders' integration therein. Agribusiness support will also constitute a core component.
27. Investments under SO2 will focus on the following subsectors: high value crops including fruits and vegetables. Various models for smallholder inclusion will be

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<sup>4</sup> However not all of the rural poor will be able to benefit from IFAD support and in aggregate agriculture will continue to shed labour.

applied, e.g. contract farming, bottom-up farmers' organizations, land consolidation for smallholders aspiring to expand, and linkages to other projects in the country, such as the World Bank's Agricultural Competitiveness Project. Concerted efforts will be directed at making financial services more accessible to rural productive poor people with economic potential.

28. The current portfolio provides a strong underpinning for the strategic objectives. The Rural Resilience Project (RRP) is delivering on the first objective by leveraging substantial investments in irrigation and CA. For the second, the RRP will promote: (a) term finance for micro, small and medium-sized enterprises (MSMEs); (b) credit guarantees for MSMEs; and (c) technical support to MSMEs and savings and credit associations.
29. The planned TARUT operation will also support the first objective: young entrepreneurs will be provided with access to climate-resilient technologies to increase their adaptive capacity. For the second, TARUT will provide a package of credit and matching grants to promote youth entrepreneurship, income and employment generation that will integrate them into high value markets.
30. IFAD will support the Government in modernizing the rural sector with a view to increasing competitiveness and improving resilience. The benefits of increasing the tax base, export revenue and employment opportunities have been demonstrated. However, IFAD will also complement this strategy with more direct targeting of climate-change-vulnerable and productive poor rural households, with a special emphasis on youth and gender issues.
31. The two strategic objectives also derive their rationale from Sustainable Development Goal 1 (SDG 1) (end poverty in all its forms everywhere) and SDG 2 (end hunger, achieve food security and improved nutrition and promote sustainable agriculture). It will also contribute to the achievement of SDG 5 (achieve gender equality and empower all women and girls), SDG 6 (ensure availability and sustainable management of water and sanitation for all) and SDG 13 (take urgent action to combat climate change and its impacts). The COSOP is also aligned with all three strategic objectives of the IFAD Strategic Framework 2016-2025.

## B. Main country, sector and programme risks

32. The matrix below highlights the risks facing IFAD's portfolio at various levels:

Table 3  
Risk matrix

<i>Risks</i>	<i>Mitigation strategy</i>
<b>Macro level:</b> Aging population and high dependency ratio, cause budget cuts	Use policy dialogue to advance the case that protecting agricultural spending is necessary
Poor quality governance compromising IFAD's partnering ability	Institute appropriate integrity safeguards at the concrete engagement level, including the Consolidated Programme Implementation Unit
<b>Sector level:</b> Land consolidation may not materialize	IFAD will assist the productive and high-potential farmers in seizing consolidation opportunities
Poor financial governance and conservatism limit rural investments	IFAD is engaging in the sector and working to mitigate this risk by engaging with the targeted financial institutions.
<b>Project level:</b> Poor cannot attract the private sector transformational investments needed	Selection criteria for both areas and beneficiaries will ensure that there is a commercial potential.
Youth cannot attract project financing or establish market linkages	Support talented rural entrepreneurs through inclusion, technology transfers and mentoring
Climate change undermining viability of agriculture	IFAD will aggressively aim to mitigate these risks through CA, irrigation and crop selection.

## IV. Sustainable results

### A. Targeting and gender

33. IFAD will not target the majority of the poorest rural inhabitants as its main beneficiaries. Instead, the focus will be on reaching "investment-grade" rural poor who can ensure continuity and vibrancy in the rural areas. These will be smallholder farmers, small-scale enterprises and poor households who have land and livestock, are active and thriving, and willing to expand production, and increase and diversify incomes.
34. Targeting strategies aim to reach vulnerable groups with an upside potential. Targeting will be improved through the active engagement of local communities, dissemination of information by formal and informal champions and increased transparency in the selection of beneficiaries. To avoid elite capture, targeting measures will apply realistic limiting criteria based on land size, livestock number, etc. Special attention will be paid to young people and women.

### B. Scaling up

35. The main priority of the Republic of Moldova-IFAD partnership for the 2018-2024 period will be to promote scaling up of innovations. At the project level, scaling up will be systematically included in the underlying principles and expected results of each new project, and a clear scaling up strategy/mechanism will be defined during design. A good example of this approach is the planned scaling up of climate-resilient land and water management practices, in which transformation drivers first demonstrate the business case and IFAD then assists in adapting the technologies to fit smallholders' capacities.

### C. Policy engagement for rural prosperity

36. IFAD policy engagement will support the achievement of the strategic objectives. Concrete experiences will provide a robust evidence platform upon which IFAD and the core partners will base their discussions. Key issues will be to tackle the growing urban/rural inequalities and intra-rural inequalities. Left unaddressed, these disparities may be exacerbated by increasingly strict regulatory requirements and heightened competitive pressure, both of which are likely outcomes of the implementation of the Deep and Comprehensive Free Trade Area. At a more general level, IFAD will seek to discuss pathways for identifying young rural entrepreneurs capable of meeting the increasingly stringent criteria for market access and to shape a conducive environment that will encourage them to remain in rural areas.
37. IFAD will also step up efforts to engage in policy dialogue on wider financial sector issues, including interest rate setting, credit guarantees, collateral requirements and risk assessments.

### D. Addressing natural resources management and climate change challenges

38. As a key element of both its strategic objectives, IFAD will assist the Government in adapting to climate change in the new COSOP period. Both the Inclusive Rural Economic and Climate Resilience Programme and the recent RRP are currently developing innovative approaches to helping smallholder producers build their resilience to climate change. Again, while the end-beneficiaries will be smallholders, IFAD will engage with transformation drivers that can pilot new, more adaptive approaches and ensure inclusiveness by defining clear pathways for replication among smallholders and smaller enterprises. The inclusion of young people and women will be prioritized. The RRP is also supporting climate-resilient water management and infrastructure development.

## E. Nutrition-sensitive agriculture and rural development

39. Food security and energy requirements are largely met for the majority of the population. The average level of per capita daily food energy consumption is above the level recommended by the World Health Organization.<sup>5</sup> In 2013, 8 per cent of Moldovan households could be classified as having high food expenses, and thus vulnerable to food insecurity. Clearly the Republic of Moldova does not experience the structural nutrition deficit issues marring many other developing countries. Hence many of the nutrition issues (such as obesity and diabetes) are dealt with by the Ministry of Health, where efforts are focused on promoting healthier dietary choices.<sup>6</sup> IFAD has a mandate to address malnutrition in all its forms, and will therefore address food security and the nutritional value of food by improving the shelf life of locally produced food. This will help ensure that the crucial food and nutritional requirements for children are met.<sup>7</sup>

## V. Successful delivery

### A. Financing framework

40. IFAD will seek to leverage finance from all development partners and beneficiaries. As it spans the period 2019-2024, the COSOP will provide the necessary strategic framework underpinning rural investments related to the Eleventh and Twelfth Replenishments of IFAD's Resources (IFAD11 and IFAD12).
41. Based on the current scores of the performance-based allocation system (PBAS), IFAD core resources over the two financing cycles will amount to about US\$40million. Grant resources will be mobilized and used to capitalize on non-lending activities.
42. The COSOP pipeline will consist of one project – TARUT (see appendix VI) – to be financed from the IFAD11 PBAS allocation. The cofinancing to be mobilized may come from the EU. Other possible cofinanciers are the Global Environment Facility and the Green Climate Fund.

Table 4  
PBAS calculation for COSOP year 1

<i>Indicators</i>	<i>COSOP year 1</i>
<b>Rural sector scores</b>	
Policy and legal framework for rural organizations	4.50
Dialogue between government and rural organizations	4.25
Access to land	4.50
Access to water for agriculture	4.00
Access to agricultural research and extension services	4.00
Enabling conditions for rural financial services	3.63
Investment climate for rural business	4.50
Access to agricultural input and produce markets	4.17
Access to education in rural areas	5.50
Women representatives	5.00
Allocation and management of public resources for rural development	4.38
Accountability, transparency and corruption in rural areas	4.25
<b>Combined score average</b>	<b>4.39</b>

<sup>5</sup> Food security and nutrition security are interlinked but not the same. While a food focus on kcal/energy supply, nutrition security considers also nutrient content/healthy diets.

<sup>6</sup> According to the Global Nutrition Report almost half of the population is overweight.

<sup>7</sup> Ministry of Health: "School and kindergarten meal policy" Order from 1 June 2016.

Table 5  
**Relationship between performance indicators and country score**

<i>Financing scenario</i>	<i>Portfolio at risk rating (+/- 1)</i>	<i>Rural sector performance score (+/- 0.3)</i>	<i>Percentage change in PBAS country score from base scenario</i>
Hypothetical low case	5	4.1	(19)
Base case	6	4.4	-
Hypothetical high case	6	4.7	6

## B. Monitoring and evaluation

43. The current monitoring and evaluation (M&E) system for projects will fully incorporate the new Operational Results Management System. Progress towards the COSOP strategic objectives will be tracked using the COSOP results framework. The country programme M&E system will draw on the success of the current M&E system for the Inclusive Rural Economic and Climate Resilience Programme and RRP. The M&E system for projects will rely on evidence-based data and as such, all surveys will be implemented in a timely fashion to allow for results-based analysis. Furthermore, additional studies will be conducted when deemed necessary.

## C. Learning and knowledge management

44. The learning process will be part of regular M&E activities. Lessons will be drawn from each activity. The learning and knowledge management activities will be implemented using IFAD's regular monitoring mechanisms. Innovations and best practices at the local level will be documented for replication and scaling up. Knowledge management activities will include sharing project results and lessons with the Government and other development partners in the country.
45. Areas for learning and knowledge management will likely centre around innovations in appropriate climate-smart technologies for smallholders; small-scale, pond-based irrigation schemes; buyer-driven value chain development and the implications for smallholders; and the provision of extension services. Concerning finance, key lessons learned will be drawn from the activities supporting credit guarantees, especially in terms of how to ensure professional integrity, financial modelling and impact on collateral requirements.

## D. Partnerships

46. Strategic partnerships will be built or consolidated at all levels based on the comparative advantage of individual institutions. The aim will be to obtain greater financial leverage through cofinancing at the project level and support during implementation (e.g. from the private sector and civil society organizations), and achieve greater influence on national policy issues through policy dialogue.
47. The main partners driving the process will come from the private sector. These will include both small-scale, semi-commercial farmers and agribusinesses. These private sector transformation drivers can catalyse the much needed structural change in Moldovan agriculture and ensure sustainability.
48. Accordingly, partnerships will be developed mainly: (a) with the private sector; (b) all levels of government; and (c) with other development partners, most notably the EU, European Bank for Reconstruction and Development, World Bank, European Investment Bank, Food and Agriculture Organization of the United Nations (FAO), Swiss Agency for Development Cooperation and Austrian Development Agency.

## E. Innovations

49. IFAD has been a pioneer in driving rural innovations, most notably in CA, since 2010. The relevance of the innovations supported by IFAD was demonstrated during subsequent droughts (in 2012 and 2015). Going forward, innovation will be at the heart of the Republic of Moldova - IFAD partnership, focusing on three core interrelated challenges. First, efforts will be made to retain rural capacity and talent by innovating around upgrading rural areas by improving conditions and by making rural areas more attractive to farmers and agribusinesses. Second, innovations introducing different agricultural practices and infrastructural solutions will be used to strengthen rural climate resilience. Finally, in the context of financial services, innovations will focus on ways to reduce collateral requirements and extend the reach of financial services to include underserved groups.

## F. South-South and Triangular Cooperation

50. IFAD will encourage regional partnerships with countries facing similar challenges to those in the Republic of Moldova, including on climate change, collective action and depopulation of rural areas. Partner countries include Armenia, Georgia, Montenegro and Turkey, which have comparable GDP per capita levels and share some aspects of socio-economic history. The ongoing IFAD regional grant, led by a Moldovan NGO, brings together partners from Armenia, Georgia and Kazakhstan with the aim of informing other countries about the cooperative experience. Institutionally this will be implemented in cooperation with Ministry of Agriculture, Regional Development and Environment and farmers' organizations and will focus on peer-to-peer learning. South-South and Triangular Cooperation activities will be financed by donors or through the grant component of IFAD's loans.

## Appendix 1: COSOP results management framework

Country strategy alignment	Key Results for IFAD's RB-COSOP			Indicative Lending and Non-Lending Activities for the next 6 years
National strategy on agriculture & rural development, 2014-2020	Strategic objectives	Outcome indicators	Milestone indicators <sup>8</sup>	
Overall objective: raise the competitiveness of the agrifood sector by restructuring and modernization and to improve living conditions in rural areas whilst protecting the natural environment.	Overall goal: Assist the rural productive poor to graduate out of poverty by taking advantage of the opportunities emerging in the ongoing transformation of the rural areas of Moldova.	Reduced rural poverty in targeted areas  % of targeted households with improvements in asset ownership	30% reduction in rural poverty (project data, LSMS and NBS)  75% (project M&E)	Scaling up the Inclusive Rural Economic and Climate Rolling out the Rural Resilience Project  Policy dialogue on protecting agricultural spending. SSTC on rural poverty reduction in transitional MIC countries
<p>The ministry focuses on the following three objectives:</p> <ol style="list-style-type: none"> <li>1. Increased competitiveness of the agrifood sector through modernization and market integration.</li> </ol> <p>Institutional Development</p> <ol style="list-style-type: none"> <li>2. Ensure sustainable management of natural resources in agriculture.</li> <li>3. Improved standards of living in rural areas.</li> </ol> <p>IFAD's strategic objectives are aligned with the government strategy and will contribute to the different strategic directions.</p>	SO1: IFAD will improve smallholders and agribusinesses' adaptive capacity using market-driven engagements. by This will be done by enhancing their resilience through investments in productive rural infrastructure and agri-systems	<ul style="list-style-type: none"> <li>• At least 15,000 ha under improvement management practices</li> <li>• Value of infrastructure made climate-resilient</li> <li>• Number of smallholder HH supported to adapt to CC</li> <li>• Number of water vulnerable farm-enterprises / HH with increased availability of technical water</li> </ul>	<p>3,000 ha of land brought under climate-resilient management</p> <p>At least US\$7 million</p> <p>3000</p> <p>330</p>	<p>Lending activities: through IFAD financing (Loan and Grant) and additional financial leverage</p> <ul style="list-style-type: none"> <li>• Trainings and capacity development for beneficiaries and government staff</li> <li>• Engagement of youth and vulnerable groups in diversified income generating activities</li> <li>• Infrastructure to support the value chains</li> <li>• Support to improve natural resources management (including irrigation schemes, connectivity)</li> <li>• Climate change adaptation through environmental plans, demonstration activities, exchange visits</li> </ul>

<sup>8</sup> All indicators will be disaggregated by gender and age where possible and relevant.

	<p>SO2: IFAD will provide promote inclusive market linkages agribusiness development support through enhanced access to financial services and markets for promoting rural transformation.</p>	<ul style="list-style-type: none"> <li>• At least 20% increase in income for targeted households</li> <li>• At least 30% of targeted households reporting an increase in production</li> <li>• 30% of supported households reporting improved access to markets, processing and storage facilities</li> <li>• At least 2,500 FTE job created</li> <li>• At least 1,000 persons reporting using rural financial services (30% women)</li> </ul>	<ul style="list-style-type: none"> <li>• At least 35 productive infrastructures constructed/rehabilitated.</li> <li>• At least 2,500 people trained in production practices and/or technologies (30% women)</li> <li>• 30% increase in volume of agriculture and dairy produce in supported hh/agribusinesses</li> <li>• At least 50% of beneficiaries reporting adoption of new/improved inputs, technologies or practices</li> <li>• At least 1,000 persons trained in income-generating activities or business management (30% women)</li> </ul>	<p>Non-lending activities</p> <ul style="list-style-type: none"> <li>• Evidence-based data and knowledge products on productivity and income to inform policy discussions with the government and other partners</li> <li>• Undertaking different studies and formulation of environmental plans</li> <li>• Annual implementation review workshops with stakeholders and potential partners</li> </ul>

## Agreement at completion point of last country programme evaluation [from 2014]

### Introduction

1. This is the first CPE for Moldova by the Independent Office of Evaluation (IOE) of IFAD. The purposes of the CPE was to assess the overall partnership between IFAD and Moldova in reducing rural poverty; and to provide recommendations that can inform the preparation of the new Moldova country strategic opportunities programme (COSOP) as well as assist in the implementation of ongoing and design of future IFAD-funded projects in the country. IFAD prepared its first COSOP for Moldova in 2002 with the programme period until end-2006. A second COSOP covered the period 2007-2012. A midterm review of the COSOP issued in 2011 extended the COSOP period for a further three year cycle - up to end-2015. Preparation of the new COSOP will therefore start in 2014.
2. Objectives. Based on the analysis of cooperation during the period 1999-2012, the CPE aims at providing an overarching assessment of: (i) the performance and impact of programmes and projects supported by IFAD operations; (ii) the performance and results of IFAD's non-lending activities in Moldova: policy dialogue, knowledge management and partnership building; (iii) the relevance and effectiveness of IFAD's COSOPs of 2002 and 2007, including strategic objectives, subsector focus, targeting approaches, and country programme mix; and (iv) overall management of the country programme.
3. The Agreement at Completion Point (ACP), facilitated by IOE, reflects the understanding between the Government of Moldova (represented by the Ministries of Finance and Agriculture) and IFAD Management (represented by the Programme Management Department). It comprises the summary of the main evaluation findings (Section B below), as well as the commitment by IFAD and the Government to adopt and implement the CPE recommendations within specific time frames (Section C below). It is noted that IOE does not sign the ACP, although it facilitated the process leading up to its conclusion.
4. The implementation of the recommendations agreed upon will be tracked through the President's Report on the Implementation Status of Evaluation Recommendations and Management Actions, which is presented to the IFAD Executive Board on an annual basis by the Fund's Management. In addition, this ACP will be submitted to the Executive Board of IFAD as an annex of the new COSOP for Moldova.
5. In line with the decision in 2013, the Moldova CPE will be discussed in the IFAD Executive Board at the same time when the new Moldova COSOP will be considered by the Board. Moreover, IOE will prepare written comments on the new COSOP for consideration at the same Board session. The written comments will focus on the extent to which the main findings and recommendations from the Moldova CPE have been internalized in the new COSOP.

### Main evaluation findings

6. The country portfolio over a decade has made good achievements on the ground. The ratings for individual projects are solid and the achievements compare well with those of other IFAD country programmes. There has been an expansion of commercial bank branches in the rural areas of Moldova and an increasing number of small and medium private farmers have deposit accounts and short-term loans. The rural lending supported by IFAD has contributed to increased levels of

agricultural production, development of viable rural enterprises and job creation in rural areas. Modest investment in small-scale infrastructure has provided some small and medium farmers with water and access roads, and helped put in place institutional mechanisms for maintenance.

7. One of the most impressive elements of the portfolio performance is high efficiency. A very small share of the IFAD loan funds is used in administering the programme – a fraction of what is normally spent in many other countries. The Consolidated Project Implementation Unit (CPIU), embedded in the MARDE) (formerly called Ministry of Agriculture and Food Industry) that has been used for all IFAD projects can be considered as good practice for small countries with a narrow focus of operations. The Government of Moldova also deserves credit for the substantial support it provides. Perhaps this reflects the fact that IFAD is not a peripheral player in Moldovan agriculture sector, but a significant source of funding and technical support.
8. The achievements of the portfolio mentioned above were not fully consistent with what was set out in the COSOPs or the project documents. These achievements are consequences of the adoption and implementation of strategies and approaches that were a better reflection of the country context and the opportunities for IFAD to add value. On the other hand, this makes it problematic to assess the “COSOP performance”, for which the objectives and indicators laid out in the COSOP documents need to be taken into consideration. Both the COSOPs and the project documents make frequent reference to „direct poverty targeting“ whereas in practice only the small microfinance components really fell into this category. Most of the programme was devoted to support for growth through supporting medium-scale commercial farmers to raise productivity and move up the value chain. In the Moldovan context this was, in the view of the evaluation, the efficient way to achieve longer-term poverty reduction.
9. Over 14 years, the core of IFAD’s programme has continued to be the provision of medium and long term credit lines channelled through the banking system. Moldova’s banking system has evolved. The commercial banks are highly liquid, reasonably competitive, and well-represented in the rural areas. The banks do not provide much medium and long-term credit from their own resources for agriculture – most of their resources come from short-term deposits - and they require excessively high collateral when they do so. It would be necessary to ask whether the availability of this money creates a disincentive for the banks to serve the needs of their more established clients with good credit history, from their own resources. IFAD and the Government need to consider an exit strategy in this area that encourages the commercial banks to increase the use of their own resources and at the same time that also allows for more focus on the support for new borrowers and young entrepreneurs.
10. Value chain development, market-driven rural infrastructure, and natural resource management are seen as the keys to Moldova’s agricultural growth and rural poverty reduction. The Government’s draft new Agricultural Strategy, produced after completion of the CPE, reflects the priority of these areas of IFAD’s programme. The programme offers some very good lessons on both the problems and the potentials in each of these areas and IFAD needs to work closely with the
11. Government to draw on these lessons for the design of its own programme in the future and, more importantly for the design of Government programmes.

12. IFAD's non-lending services have not as yet achieved their full potential. While partnerships with the Government, agencies, banks and service providers have been excellent, more needs to be done to strengthen partnerships with external donors and increase the leverage of the programme. As for the policy dialogue, there are opportunities to identify and study key policy issues emerging from the operations, possibly using grant resources, and contribute to a national dialogue led by the Government. Knowledge management has not been systematically planned and has not drawn on broader regional experience, although there have been good in-country efforts to share knowledge.

#### Agreement at completion point

13. The CPE makes three key recommendations: (i) strengthening country strategy, and in particular properly reflecting the main priorities and overarching strategic issues in the next COSOP; (ii) embracing and enhancing the adjustments being made in the rural finance programme, shifting away from the approach of channelling a bulk of IFAD loans to lines of credit, after over a decade of generally effective implementation; and (iii) strengthening the non-lending activities through a more strategic and effective use of grant resources and outreach.

#### Recommendation 1: Strategy

- (a) Ground the next COSOP in reality. The programme has supported the rural poor through helping increase agricultural growth and employment, although the evidence on its depth and extent is incomplete. The trade-offs that have been made are appropriate but the past COSOP has not been clear about them. The next COSOP needs to 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. The results framework needs to be more realistic and relevant to IFAD's programme than in the past. There is also need for better monitoring on the impact on and outreach to the rural poor through indirect and direct targeting.
- (b) Design a better integrated programme. Each of the programme pillars is relatively robust, but more could be done to plan these elements in an integrated fashion and exploit potential synergies. Both project design and country strategy need to look across components at how best to build this synergy.
- (c) Focus on how to mainstream value chain development within the programme. It has been challenging to articulate and implement an operational approach to pro-poor value chain development in Moldova. Progress has been relatively slow in terms of supporting organisations of small-scale producers and their linkages to markets. The value chain components of the projects now need to move beyond awareness and capacity-building. Value chain development should takeover from rural finance as the „flagship“ of IFAD's programme. IFAD and the Government of Moldova need to select and pilot activities in key value chains such as horticulture and livestock development. At the same time rural finance, infrastructure and natural resource management programmes could be geared more closely to the needs of these value chains.
- (d) Proposed follow-up. The above-mentioned recommendations will be duly taken into account in formulating the new results-based COSOP in Moldova, which is planned to be designed in 2014/2015 and submitted for the IFAD Executive Board approval in September 2015.
- (e) Deadline date for implementation. September 2015

- (f) Entities responsible for implementation. IFAD/PMD (NEN) and the Government.

#### Recommendation 2: Rural Finance

- (a) Diversify from the approach of channeling the bulk of loans to lines of credit. This is now a mature programme and has reached the point at which IFAD needs to strategize more effectively concerning its role; develop exit strategies in some areas and expand its coverage in others. In particular IFAD and the Government need to consider ways to encourage the banks to increase the use of their own resources and focus IFAD future support for rural credit on new and young borrowers.
- (b) Seek greater leverage for IFAD funding of the young entrepreneurs programme. A key group of new entrepreneurs are the 18-30 age group that IFAD has supported thanks to grant funding from DANIDA. The programme has demonstrated success. For scaling up of the programme, IFAD and the Government should systematically evaluate the demand and seek grant cofinancing from donors to meet this demand.
- (c) Enhance the quality of the micro-finance programme. The micro-finance part of IFAD's programme is still work in progress. First, there is a need to evaluate the programme and identify what benefits are being derived by participants and how effective it has been in moving borrowers out of poverty. Second, IFAD needs to review the institutional framework for micro-finance and contribute to a dialogue with the Government, the regulatory body and the various MFIs on what the future institutional framework should look like and how Moldova can move towards it.
- (d) Proposed follow-up. The above-mentioned recommendations are already being sizeably addressed by the country programme as follows.  
 Recommendation (a): in the framework of the newly approved IRECRP participating commercial banks have committed to raise their own resources to a minimum 20% attesting their increased commitment to agriculture lending and the rural sector, thus freeing up IFAD resources for further investments in new and young rural borrowers. Recommendation (b): through the new and scaled-up IRECR programme, IFAD and the Government of Moldova have further engaged in extending their support to young entrepreneurs and obtained additional grant resources (US\$5 million) from DANIDA.  
 Recommendation c): the revision of the micro-finance institutional framework is carried out on a continuous basis, within the ongoing country programme through constant dialogue with all key stakeholders involved (microfinance institutions, Government, National Commission for Financial Market, etc.). Further consultations and actions will be duly undertaken in the process of the new result-based COSOP preparation with the strategies for rural finance reflected in the document.
- (e) Deadline date for implementation. (a) and (b) December 2014; (c) September 2015.
- (f) Entities responsible for implementation. IFAD/PMD (NEN) and Government.

#### Recommendation 3: Non-lending

- (a) Use the grant programme to provide the analytic underpinnings for a dialogue on key policy issues. IFAD needs to take up with the authorities some of the key policy issues that have emerged in recent years, such as the role of micro-finance above and the issue of ownership and maintenance of infrastructure. But a key to doing this is to understand what underlies these issues. For example, what are the benefits of the micro-finance programme?

How effective is it in supporting smallholders to move out of poverty? What needs to be done to enhance its impact? IFAD should use its grant programme to carry out analysis of such questions.

- (b) Expand outreach and strengthen non-lending activities. While programme implementation is extremely efficient, IFAD needs to expand its outreach and strengthen its non-lending activities in Moldova through selective policy dialogue, stronger partnerships and expanded knowledge-sharing. In addition to the policy area already mentioned, IFAD 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 and the preparation of an annual plan in this area. IFAD's regional management needs to consider how to exploit the obvious learning potential through comparing the Moldova programme with those in other small Eastern European and the Former Soviet Union borrowing countries.
- (c) Proposed follow-up. The above-mentioned recommendations will be duly addressed through a number of activities: (a) possible use of IFAD's loan and grant resources for conducting impact assessments of programme results and achievements in order to capture evidence-based knowledge generated from successful project experiences in a meaningful and targeted way. It is envisaged that this knowledge will also feed into ongoing and future policy dialogue taking place at the national level. Furthermore, it will serve as an input for the new COSOP design; (b) through the preparation of learning events and/or tools for dissemination within IFAD, in-country team and other relevant national and international stakeholders; and (c) a Knowledge Management Specialist will join the CPIU within the framework of the recently approved IRECR Programme. The Specialist will be tasked to follow up on knowledge production and dissemination.
- (d) The CPIU will continue being proactive in sharing its knowledge through a number of means: digital media (website, video material) and printed media (numerous brochures and leaflets on the programme). In addition, CPIU has recently established a new partnership with the neighbouring country – The Republic of Belarus to share its knowledge and experience on agricultural development programme implementation. In early 2014, CPIU is planning to meet with a group of experts from Belarus to exchange experiences in programme implementation.
- (e) Further actions will be undertaken in the framework of existing and new programmes and the results will be reflected in the newly designed COSOP.
- (f) Deadline date for implementation. September 2015.
- (g) Entities responsible for implementation. IFAD/PMD (NEN) and Government.

Signed by:

Honourable Vasile Bumakov  
Minister of Agriculture &  
Food Industry  
Government of Moldova

Kevin Cleaver  
Associate Vice President  
Programme Management Department  
IFAD

Date: 13 February 2014

## COSOP preparation process including preparatory studies, stakeholder consultation and events

1. The preparatory process was initiated in early 2017 with the commencement of the COSOP results review (CRR), which started the evidencing process of detailing the performance of IFAD in Moldova and developing a robust theory of change that included the core contextual drivers. The CRR also documented the polarizing trends permeating the Moldovan rural space, with the vast majority of smallholders becoming older, more subsistence oriented and having increasingly smaller plots, whereas trade in land was declining. On the other hand the CRR also documented the increasing (but comparatively small) number of successful farmers and agribusiness that were able to commercialize and some also to penetrate new markets, most notably in EU, but also in the Middle East.
2. The CRR entailed extensive consultations with all core stakeholders, including farmers, government partners, private sector, financial institutions and other external development partners engaged in the rural space. At the end of the CRR mission, a joint validation and learning event was organized for all these partners, during which the findings and recommendations were subject to intensive debate, refinement and finally also agreement. The joint validation and learning event has been core in informing this COSOP.
3. Consequently, the CRR process served as an input to preparing the first draft of the COSOP in early 2018, a version of which was presented to Moldovan stakeholder in March 2018, during which more detailed conversations were hold, not least on the proposed new development engagement, the TARUT project.
4. The COSOP design mission in March 2018 also included a joint validation and learning event, but with a more focused scope, involving only the Ministry of Agriculture, Regional Development and Environment (including the minister) and the EU (including the European Neighborhood Programme for Agriculture and Rural Development, ENPARD).

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

Priority Areas	Affected Groups	Major Issues	Action Needed
<p>Poverty and vulnerability to poverty</p> <p>Rural poverty has been declining, but not on a sustainable basis and importantly vulnerability growing driven by, ageing population and reduced government support;</p>	<ul style="list-style-type: none"> <li>Isolated retired people,</li> <li>People with disabilities and extreme poor and minorities</li> <li>Rural HHs especially in remote and deserted areas</li> </ul>	<ul style="list-style-type: none"> <li>Climate change poses risks to all rural households, but affects more vulnerable HHs, and remote communities;</li> <li>Limited employment and labour opportunities in rural areas;</li> <li>Lack of property ownership among women and youth restricts access to finances;</li> <li>Migration from rural areas to urban settlements and abroad;</li> <li>Remittances used for consumption;</li> <li>The social targeted assistance may promoted 'inactive' behaviour</li> </ul>	<ul style="list-style-type: none"> <li>State policies and strategies supported by IFAD are to be inclusive;</li> <li>Support to sub sectors dominated by the productive poor, vulnerable and smallholders;</li> <li>Wide outreach and information dissemination on IFAD programme's benefits for inclusion;</li> <li>Promote diversification of income streams;</li> <li>Target rural areas with potential in policies and investments with higher poverty incidents and climate change vulnerability;</li> <li>Direct targeting of vulnerable groups to improve nutrition and incomes (women headed HHs and youth)</li> </ul>
<p>Vulnerability to climate change and natural disasters</p> <p>Resilience of small scale famers to climate change</p>	<ul style="list-style-type: none"> <li>Rural HHs,</li> <li>HHs in southern areas</li> </ul>	<ul style="list-style-type: none"> <li>Growing incidents of drought, hail, frost and other natural disasters;</li> <li>Increase of temperatures and dry spells;</li> <li>Variability of precipitations;</li> <li>Increase of eroded areas due to water and wind erosion;</li> <li>Unauthorized deforestation on agricultural lands;</li> <li>Lack of appropriate forest buffer zones;</li> <li>Depletion of aquifers;</li> <li>Inexistence of irrigation infrastructures among small-scale farmers;</li> <li>Use of inappropriate soil cultivation technologies; degradation of natural resources because of lack of policies and legislation in water management;</li> <li>Lack of technological investment</li> <li>Limited access to information about the efficient use of soils;</li> <li>Limited knowledge on climate-smart technologies;</li> </ul>	<ul style="list-style-type: none"> <li>Support policies, legislation, strategies on sustainable management of natural resources;</li> <li>Support adaptation of sustainable agricultural technologies and ecosystem-based practices by smallholder farmers in agriculture to enhance climate change resilience;</li> <li>Build capacities for diversification and off-farm incomes;</li> <li>Promote use of greenhouse climate control systems</li> <li>Develop CA techniques:</li> <li>No till, mini-till, use of organic mulching, free movement shelter (on improved pastures), free movement shelter without grazing, using forage blend...;</li> </ul>

Priority Areas	Affected Groups	Major Issues	Action Needed
		<ul style="list-style-type: none"> <li>Limited knowledge on climate resilience and adaptation strategies;</li> <li>Lack of off-farm opportunities;</li> </ul>	
Low agricultural productivity	<ul style="list-style-type: none"> <li>Subsistence oriented and small scale farmers;</li> <li>Farmers in deserted areas;</li> <li>Smallholder farmers</li> </ul>	<ul style="list-style-type: none"> <li>Very small land plots suitable for cropping;</li> <li>Animal and crop diseases;</li> <li>Rural infrastructure in state of disrepair;</li> <li>Poor governance of infrastructure and natural resources;</li> <li>Quality standards underdeveloped, squeezing smallholders</li> <li>Insufficient 'quality infrastructure'</li> <li>Weak value chains esp. for smallholders</li> <li>Limited access to irrigation water;</li> <li>Low yield, limited production, limited returns</li> <li>Lack of knowledge of adequate agricultural practices and limited access to extension</li> <li>Limited use of inputs (seeds, breeds, fertilizers)</li> </ul>	<ul style="list-style-type: none"> <li>Investments focus on improvements in horticulture productivity</li> <li>Support access of smallholders to improved inputs and technologies</li> <li>Enhance capacity of smallholders</li> <li>Encourage and incentivize links between farmers to form groups</li> <li>Provide support to improve resilient production and management</li> <li>Promote "green jobs" together with the development of Climate-Smart Agriculture techniques;</li> </ul>
<ul style="list-style-type: none"> <li>Weak Value Chains</li> </ul>	<ul style="list-style-type: none"> <li>Smallholder farmers, inputs suppliers, small and medium size enterprises</li> </ul>	<ul style="list-style-type: none"> <li>EU requirements for food safety to be fully introduced in 2020, would mostly affect smallholders and squeeze many from small scale production</li> <li>Small producers have difficulties to meet market requirements in quantity, quality and food safety</li> <li>Poor level of organization along the value chain</li> <li>Limited processing and short value chains</li> <li>Limited access to finances</li> </ul>	<ul style="list-style-type: none"> <li>Provide support to viable smallholders with meeting food safety requirements;</li> <li>Support efficient linkages and partnerships among producers and processors;</li> <li>Support improved access to modern technology;</li> <li>Investments in supportive infrastructure and services;</li> <li>Improving access to finances</li> </ul>

## Key file 2: Organizations matrix (strengths, weaknesses, opportunities and threats analysis)

Organization	Strengths	Weaknesses	Opportunities	Threats
Ministry of Finance	<ul style="list-style-type: none"> <li>Well developed and generally efficient financial management system in place</li> <li>Efficient use of IFAD revolving funds under CLD.</li> <li>Strong role in enforcing state policies on financial issues, budgeting and taxes.</li> <li>Robust expertise in loan negotiations, concluded by GoM, controls their realization and loan's return.</li> <li>Capacity to provide and manage state budget funds and control their transfer within Moldova.</li> </ul>	<ul style="list-style-type: none"> <li>Does not always have technical capacity to analyses the benefits of IFAD projects</li> <li>Limited donor coordination capacity.</li> </ul>	<ul style="list-style-type: none"> <li>Recent government reforms create space for improved donor coordination</li> <li>Key driver in EU legislative alignment.</li> </ul>	<ul style="list-style-type: none"> <li>Limited staff in reformed ministry may prove to undermine its effectiveness</li> <li>May translate IMF requirements into blanket refusal to take IFAD loans</li> <li>Limited cooperation from line ministry may undermine coordination</li> </ul>
Ministry of Agriculture, Regional Development and Environment	<ul style="list-style-type: none"> <li>Strategic planning capacity and translate them into concrete planning</li> <li>Good cooperation with external development partners, IFAD included</li> <li>Key agency in development and implementation of unified government policy on the development of the rural sector of Moldova and protection of the environment.</li> <li>Has a range of technical and administrative capabilities.</li> <li>Supports the development of rural cooperation and regional development</li> <li>Protects the environment</li> <li>Strong human resources on environment and climate change</li> </ul>	<ul style="list-style-type: none"> <li>Significant recent staff reductions undermine capacity to fulfill mandate esp. within agriculture;</li> <li>Limited synergy between agriculture, regional development and environment;</li> <li>Too high workload for EU alignment of policies and strategies;</li> <li>Agricultural agencies are scatter geographically, limiting coordination and coherence.</li> </ul>	<ul style="list-style-type: none"> <li>More coherent policies and synergies between agriculture, regional development and the environment;</li> <li>New civil servant code may allow key ministry staff to stay in their positions after elections, reducing turnover and promoting institutional stability;</li> <li>EU Association Agreement provides alignment and clarity of legal and regulatory framework.</li> </ul>	<ul style="list-style-type: none"> <li>Merging the ministries will continue to undermine capacity;</li> <li>Merging of agriculture and environment may reduce the regulatory and protective clout of environment leading to unsustainable practices (e.g. depletion of aquifers and increased pollution);</li> <li>Started reforms may only be partially implemented due to the organizational turbulence;</li> <li>Reduced capacity to implement EU conditions may jeopardize funding from budget support.</li> </ul>

Organization	Strengths	Weaknesses	Opportunities	Threats
	<ul style="list-style-type: none"> <li>• Robust structure for implementation of regional development projects through the three regional agencies (north, center &amp; south)</li> <li>• Promotes processing of primary agricultural and food products.</li> <li>• Important Legal Entities under the Ministry: Moldsilva (ICAS), Agricultural Intervention Agency and Payments Agency (AIPA). State Commission of the Republic of Moldova for Plant Variety Testing and Consolidated Program Implementation Unit (CPIU).</li> </ul>			
Financial institutions	<ul style="list-style-type: none"> <li>• Improved supervision of financial institutions following the banking fraud.</li> <li>• New foreign investors in the banking sector, bringing in innovation, stability and credibility.</li> <li>• National Commission for Financial Market robust capacity to supervise non-bank financial institutions.</li> </ul>	<ul style="list-style-type: none"> <li>• Conservative lending policies in wake of banking fraud</li> <li>• Limited trust in financial sector</li> <li>• High collateral requirements</li> <li>• Lack of effective credit guarantee mechanism</li> <li>• Limited innovation in rural finance</li> <li>• Too many unsustainable / unprofessional SCAs.</li> </ul>	<ul style="list-style-type: none"> <li>• Potential exists for developing financial products suitable for rural areas.</li> <li>• Willing to increase their activities in rural areas.</li> <li>• Potential for launching a credit guarantee fund with EU support.</li> </ul>	<ul style="list-style-type: none"> <li>• Continued weak governance may lead to renewed crises in the sector</li> <li>• Repeat of high inflation would reduce lending and increase interest rate</li> <li>• National bank may tighten regulatory requirements so much that on-lending will be reduced.</li> </ul>
The rural private sector	<ul style="list-style-type: none"> <li>• Increased market orientation to EU stimulate better quality management system and improved food safety</li> <li>• Active and competent food safety agency.</li> <li>• Moldovan wine is increasingly recognized for its quality outside CIS</li> </ul>	<ul style="list-style-type: none"> <li>• Growing number of semi-subsistence farmers becoming fully subsistence.</li> <li>• Slow process of cooperation and organization of smallholders.</li> <li>• Too many labour</li> </ul>	<ul style="list-style-type: none"> <li>• Land consolidation could be accelerated.</li> <li>• EU markets are opening and quotas increasing.</li> <li>• Potential markets are being developed outside EU and CIS</li> <li>• Diversification of business e.g. agro-tourism growing.</li> </ul>	<ul style="list-style-type: none"> <li>• Climate change reducing yields</li> <li>• New EU supermarket chains may increase competitive pressures in Moldova by importing produce and marginalize smallholders</li> <li>• Worsening quality of</li> </ul>

Organization	Strengths	Weaknesses	Opportunities	Threats
	<ul style="list-style-type: none"> <li>Some land consolidation has allowed the emergence of efficient large-scaling farming, competitive on international markets.</li> </ul>	<p>intensive production systems.</p> <ul style="list-style-type: none"> <li>Ageing structure agriculture.</li> </ul>		<p>governance may deter rural investments</p> <ul style="list-style-type: none"> <li>Continued massive migration may depopulate entire areas and reduce access to labour</li> <li>Geopolitically dependent on what events can occur in the neighboring countries.</li> <li>Uncertainty of government policy.</li> </ul>
Local NGOs, CSOs, service providers	<ul style="list-style-type: none"> <li>Several organizations active, with different expertise, degree of community outreach and knowledge.</li> <li>Some have well qualified and experienced personnel, strong advocacy/lobbying skills and the cultural knowledge that is essential for successful grass roots development.</li> <li>Strong technical and networking capacity and also ability to engage with international organizations.</li> <li>Service providers for training have strong capacity and teaching abilities.</li> </ul>	<ul style="list-style-type: none"> <li>Most only based in center (often Chisinau) and have limited outreach.</li> <li>High dependence on donor funding</li> </ul>	<ul style="list-style-type: none"> <li>Potential for providing rural business services (incl. extension) on a commercial basis.</li> <li>Reforms in agricultural research &amp; education may bring new market opportunities for rural services.</li> </ul>	<ul style="list-style-type: none"> <li>Smallholders refusing to pay for rural services (after having been subsidized)</li> <li>Donors may withdraw funding</li> </ul>

### Key file 3: Complementary donor initiatives/partnership potential

Title	Beneficiary Agency	Donor Agency	Start Date	Completion	Budget (EUR)	Partnership potential
Financing Agreement between the Republic of Moldova and International Development Association on Project "Emergency Agriculture Support"	Ministry of Agriculture and Food Industry	World Bank (IDA)	2013	29/05/2028	3,888,665.89	Stand-by short term assistance facility for emergencies. Complementary to IFAD long-term perspective
The 2KR installment sales program in the irrigated agriculture performance of the Millennium Challenge Account Moldova	Ministry of Agriculture and Food Industry	USA MCA	2015	31/03/2025	2,045,560.2	Strong cooperation and coordination with many farmers accessing irrigation. MCA not interested in cofinancing partnership.
ENPARD Moldova Program - Support to Agriculture and Rural Development	Government of The Republic of Moldova	European Commission	2015	01/07/2022	64,075,000	Strong partnership potential by the most important external development agency. IFAD will accelerate efforts to partner
Agricultural Registry for Wine and Vine (ARWV)	Ministry of Agriculture and Food Industry	USAID	2017	30/09/2021	473,171.19	Complementary activity. USAID not interested in cofinancing partnership.
The Project "Fruit garden of Moldova"	Ministry of Agriculture and Food Industry	European Investment Bank	2014	02/11/2020	120,000,000	Partnership potential, which is being perused through the credit guarantee fund.
Moldovan Vine and Wine Register (MVWR) Project	Ministry of Agriculture and Food Industry	USAid	2015	13/06/2018	168,180.7	Addendum to above.
Research and specialists fund	Nongovernmental Organizations from Moldova, State Institutions	German Development Cooperation	2010	31/12/2017	675,000	Research may be of relevance to e.g. SLM. Will stay informed of outcomes.
Elaboration and implementation of the Vine and Wine Register in the Republic of Moldova	Ministry of Agriculture and Food Industry, National Office of Wine and Vineyard of Moldova	Czech Development Agency	2014	31/12/2017	794,774.48	Limited engagement and narrow project. Coordinates with lead in sector, USAID
FAO Project „Increasing small scale farmers' resilience to drought by adopting best irrigation practices and modern irrigation technologies"	Ministry of Agriculture and Food Industry	Hungary	2014	31/12/2017	314,543.8	Have incorporated key learnings from FAO in irrigation models promoted
Inclusive Rural Economic and Climate Resilience Programme (IRECR) (Danish Grant No. 2000000703)	Ministry of Agriculture and Food Industry	Denmark	2015	31/12/2017	4,699,063.75	Non in Moldova as Denmark phasing out. Strong partnership potential in Georgia.
Additional Financing Agreement for	Ministry of Agriculture and	World Bank (IDA)	2015	01/07/2017	10,810,810.81	Mostly working with larger rural

Title	Beneficiary Agency	Donor Agency	Start Date	Completion	Budget (EUR)	Partnership potential
Agriculture Competitiveness Project between Republic of Moldova and International Development Association, Credit Nr. 5639-MD	Food Industry					SMEs but IFAD engaged in linking farmers to the value chains. Strong cooperation with the WB.
Agriculture competitiveness	Ministry of Agriculture and Food Industry	Global Environment Facility, International Development Agency, Kingdom of Sweden	2012	28/05/2017	19,547,586	Same project as above, but the GEF component.

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

Typology	Poverty Levels and Causes	Coping Actions	Priority Needs	COSOP Response
<p>Semi-commercially based farming HHs (at least 40% of ag production is for commercial purposes)*</p> <p>Can be fully engaged in agriculture, or have agriculture as a second important source of income. This is a target group of IFAD programme.</p> <ul style="list-style-type: none"> <li>• Smallholder HHs,</li> <li>• Women headed HHs,</li> <li>• Young people led HHs.</li> </ul> <p><u>Characteristics:</u></p> <ul style="list-style-type: none"> <li>• Have upper school education, sometime higher education</li> <li>• Mostly self-employed in own farms for own consumption and surplus sales;</li> <li>• Income is at the level and slightly higher than established living standards' minimum;</li> <li>• No livestock, or 1-2 cattle, fragmented small land plots in average 1.2ha and not larger than 2 ha, small household plot;</li> <li>• Rely significantly on natural resources;</li> <li>• Very vulnerable to changing weather patterns;</li> <li>• Very vulnerable to external shocks.</li> </ul>	<p>Poverty moderate but very vulnerable sink into subsistence farming</p> <ul style="list-style-type: none"> <li>• Lack of farm or off-farm jobs;</li> <li>• Have limited assets: no arable land or very small plot; very small household plots, have poultry, no or very few if any livestock (1-3 cattle), no machinery;</li> <li>• Skills mismatch with demand on a market;</li> <li>• Low productivity of production with no investment;</li> <li>• Difficulty to sell any agricultural products' surplus due to low quality and quantity.</li> </ul>	<ul style="list-style-type: none"> <li>• Partly rely on remittances and some on state transfers;</li> <li>• Part of land may be leased out for in kind payment;</li> <li>• Agricultural production is basic;</li> <li>• Rely mainly on HH labour;</li> <li>• Income usually as low paid seasonal labour;</li> <li>• Seeks new knowledge;</li> <li>• Seeks to improve productivity and yields;</li> <li>• Rely on family labour;</li> <li>• Avoid or limit taking risks.</li> </ul>	<ul style="list-style-type: none"> <li>• Improve access to infrastructure and services;</li> <li>• Improved nutrition;</li> <li>• Minimize risks to ag production;</li> <li>• Employment opportunities;</li> <li>• Higher incomes;</li> <li>• Improved access to natural resources, collection of fuelwood, plants</li> </ul>	<ul style="list-style-type: none"> <li>• Generate employment in ag production, processing and services;</li> <li>• Support VCs with considerations of nutritional value of products;</li> <li>• Support capacities for diversification of livelihoods;</li> <li>• Ensure fair access to pastures;</li> <li>• Ensure inclusion and consider interests of poor in capacity-building activities and other projects' benefits;</li> <li>• Improved productive and social infrastructure</li> <li>• Improved ecological environment</li> </ul>
<p>Rural youth (between 18 and 40 years) IFAD target group</p> <p><u>Characteristics:</u></p> <ul style="list-style-type: none"> <li>• High propensity to emigrate</li> <li>• Better education than parents</li> <li>• Eager to test new methods and practices</li> <li>• Aware of climate change</li> </ul>	<ul style="list-style-type: none"> <li>• Varying degrees of poverty, but generally few physical and productive assets;</li> <li>• Extremely limited access to financial services caused by no assets and no credit history;</li> <li>• Limited access to land and to consolidate land;</li> </ul>	<ul style="list-style-type: none"> <li>• Those not emigrating are depending on parents and wider family</li> <li>• Credits from informal markets, at times leading over-indebtedness</li> <li>• Subsistence agricultural or simple wage work</li> </ul>	<ul style="list-style-type: none"> <li>• Access to credits and productive assets</li> <li>• Better facilitation of the transfer of land titles across generations and between absent owners</li> <li>• Knowledge about market and practise</li> </ul>	<ul style="list-style-type: none"> <li>• Provide carefully calibrated package of access to finance, grants, capacity development and value chain integration</li> <li>• Promotion of rural diversification into off-farm employment and business opportunities</li> </ul>

<ul style="list-style-type: none"> <li>• Feeling isolated</li> <li>• Challenges finding partner and raising family</li> </ul>	<ul style="list-style-type: none"> <li>• Limited network and VC integration due to inexperience;</li> <li>• Unwilling to accept low governance standards and the uncertainty caused.</li> </ul>			<ul style="list-style-type: none"> <li>• Encourage young entrepreneurs to assume of breaking new pathways to rural climate adaptation.</li> </ul>
<p>Commercial farmers and enterprises (Agriculture and agribusinesses are the major sources of income and livelihood)</p> <p>IFAD target groups</p> <p><u>Characteristics:</u></p> <ul style="list-style-type: none"> <li>• Have higher and often technical education;</li> <li>• Have arable land plot and rent additional land to grow cereals, fruits and vegetables, have household plot, livestock (from 5 and more cows), some types of machinery (truck, mini tractor);</li> <li>• Hires permanent and seasonal labour;</li> <li>• engaged also in other employment/business</li> <li>• Income is higher than established living standards' minimum;</li> <li>• Has from 3 to 20 heads of cattle</li> <li>• Has 5+ ha of land (also leased)</li> <li>• Vulnerable to changing weather patterns;</li> <li>• Vulnerable to external shocks</li> </ul>	<ul style="list-style-type: none"> <li>• Access to finances is limited (affordability);</li> <li>• Access to irrigation is limited;</li> <li>• Issues with access to markets (seeks selling links to middlemen or to the processors);</li> <li>• Moderate to high levels of land degradation;</li> <li>• Rely somewhat on diversified income streams.</li> </ul>	<ul style="list-style-type: none"> <li>• Takes loans for ag production from formal financial sources;</li> <li>• Seeks new knowledge and technologies;</li> <li>• Access to resources to expand production and profit from value chain;</li> <li>• Increase product quantity or consolidate with other farmers;</li> <li>• Improve product quality to meet market requirements and to increase premium;</li> <li>• Improve food safety requirements to meet EU requirements;</li> <li>• Improve production facilities;</li> <li>• Searches for various credit/grant resources.</li> </ul>	<ul style="list-style-type: none"> <li>• Improved nutrition and health;</li> <li>• Improve access to natural resources;</li> <li>• Improved rural infrastructure (access roads, irrigation);</li> <li>• Access to improved inputs, knowledge, technology and finance;</li> <li>• Ability to consolidate production with other farmers for higher profit margin and lower cost;</li> <li>• Improved knowledge on climate-smart agriculture;</li> <li>• Access to better inputs;</li> <li>• Access to markets with better links with processors, further integration in VCs;</li> <li>• Access to marketing infrastructure;</li> <li>• Predictability and stability of markets;</li> <li>• Expand production scale and upgrade facilities;</li> <li>• Enhance resilience to climate change.</li> </ul>	<ul style="list-style-type: none"> <li>• Support inclusive land consolidation</li> <li>• Support VCs with considerations of nutritional value of products for own consumption as well;</li> <li>• Support better farming practices programme (awareness, capacity-building, demonstration);</li> <li>• Ensure access to natural resources, knowledge and new technologies;</li> <li>• Improve access to inputs and services;</li> <li>• Facilitate formation of demand driven groups, cooperatives, associations;</li> <li>• Improve opportunities for post-harvest storage, processing, branding and marketing and exports;</li> <li>• Assist in establishing links with the private sector;</li> <li>• Improve product quantity, quality to meet market requirements;</li> <li>• Access to technical and business development skills</li> <li>• Adopt climate-resilient production practices</li> <li>• Support diversification of farming systems.</li> </ul>

<p>Women which inhibit women' economic participation relate to working women</p> <p><u>Characteristics:</u></p> <ul style="list-style-type: none"> <li>• Engaged in own farm</li> <li>• No or few livestock (usually not more than 3 cows), very small land plot, mostly rely household plot;</li> <li>• Very vulnerable to changing weather patterns;</li> <li>• Vulnerable to external shocks</li> </ul>	<ul style="list-style-type: none"> <li>• High domestic workload, lack of childcare support services, especially in rural areas,</li> <li>• unequal access to assets and resources,</li> <li>• low participation in decision-making due to prevailing traditional patriarchal attitude especially in rural areas</li> <li>• On average, women engage in agricultural work 80 days more than men but mostly as unpaid labour</li> <li>• female's remuneration about 44% lower than men's;</li> <li>• Limited access to finances due to lack of collateral;</li> <li>• Limited access to inputs, irrigation, machinery;</li> <li>• Limited access to finances;</li> <li>• Limited access to information on opportunities;</li> <li>• Lack of confidence in dealing with banks and state institutions.</li> </ul>	<ul style="list-style-type: none"> <li>• Cultivating household plot to grow produces for market;</li> <li>• Small-scale home based processing;</li> <li>• Taking loan from informal sources or expensive non-collateralized loans for short terms;</li> <li>• Reduction in consumption.</li> </ul>	<ul style="list-style-type: none"> <li>• Improved nutrition;</li> <li>• Improved health;</li> <li>• Improved social and physical rural infrastructure;</li> <li>• Access to finances;</li> <li>• Access to improved inputs, technology and extension;</li> <li>• Access to business development skills and information;</li> </ul>	<p>The same as above</p>
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# Natural resources management and climate change adaptation: Background, national policies and IFAD intervention strategies

## I. Background

1. In the last 10 years, even though the economy of the Republic of Moldova registered certain progress, the economic growth was impacted by the 2009 global economic and financial crisis, as well as by the 2012 and 2015 crises. In 2015 the Gross Domestic Product accounted for MDL 121,85 billion or Euros 5.83 billion, decreasing (in real terms) by 0.5% compared to the previous year (UNDP, 2016).

## II. Major landscape characteristics and issues (social, natural resources and climate)

### A. Sociocultural context

2. Population, poverty and social protection. As of January 2016, the population of the Republic of Moldova 4.03 million people. The density is approximately 119.1 persons per square kilometer. Females predominate with 52.2% in the total population. 60% of Moldova lives in rural areas and a quarter is employed in agriculture with low levels of productivity.
3. Gender and youth. Moldova suffers considerable gender disparities with only 37% of women employed compared to 42% of men, women earning only 87% of the male wage on average and allocating 4.9 hours per day to unpaid work compared to 2.8 hours for men (UNDP 2014). The employment rate of women in Moldova is lower than that of men (7% of women employed compared to 42% of men). In the rural areas, women make 36% of the total agricultural holders in the country, but they manage only 19% of the land covered by agricultural holdings.
4. Migration. Low pay and lack of employment opportunities, wage discrepancies between rural and urban areas, as well as relatively easy access to European and Russian labour markets, indicate that Moldova is seriously affected by emigration, with an estimated 600,000 people (at least 25% of the workforce) working abroad.
5. Employment. End of 2015, the economically active population in Moldova was made up of 1.35 million<sup>9</sup>, with an employed population in 2015 of 1.31 million. Out of this, 55.2% live in rural and 44.8% in urban areas. The male employment rate (46.4%) is higher than that of females (41.3%).

### B. Natural Resources and NRM

#### Land and Land Use

6. Agricultural land constitutes approximately 74% (2.5 million ha) of the country's total land area, of which 54% is arable land for annual crop production (maize, wheat, sunflower, barley, oilseed, soybean, sugar beet). Most farmers (97.7%) are small-scale, with farm sizes ranging between 0.85 and 10 ha. Many of them lease the land to private or corporate entities or leave it as fallow.

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<sup>9</sup> National Bureau of Statistics.

Table 1  
Available Land by Category in Moldova between 1992-2016, thousand ha<sup>10</sup>

	1992	1995	2000	2005	2010	2011	2012	2013	2014	2015	2016
<b>Land – total, including:</b>	<b>3376.0</b>	<b>3385.1</b>	<b>3384.4</b>	<b>3384.6</b>	<b>3384.4</b>	<b>3384.4</b>	<b>3384.6</b>	<b>3384.6</b>	<b>3384.6</b>	<b>3384.6</b>	<b>3384.6</b>
<b>Agricultural land, of which:</b>	<b>2565.9</b>	<b>2556.7</b>	<b>2550.3</b>	<b>2521.6</b>	<b>2501.1</b>	<b>2498.3</b>	<b>2498.0</b>	<b>2497.8</b>	<b>2500.1</b>	<b>2499.7</b>	<b>2499.6</b>
Arable land	1736.3	1758.7	1813.8	1840.2	1816.7	1812.7	1810.5	1814.1	1816.1	1817.4	1822.9
Perennial plantations, of which:	474.8	430.7	352.3	297.8	301.0	298.8	298.7	295.3	295.3	291.7	288.9
Orchards	224.5	208.3	170.8	131.9	132.5	133.3	134.5	135.1	135.8	134.5	132.5
Vineyards	215.8	202.6	168.9	155.5	153.5	149.6	147.3	142.6	141.2	137.5	132.5
Pastures	350.5	365.2	373.9	370.8	352.1	350.4	350.3	348.9	348.0	346.4	345.0
Hayfields	4.3	2.1	2.5	2.7	2.2	2.2	2.0	2.1	2.0	2.2	2.1
Fallow land	0.0	0.0	7.8	10.1	29.1	34.2	36.5	37.4	38.7	42.0	40.6
Forest land and areas covered with woody vegetation	421.7	425.3	422.7	439.5	462.8	463.1	462.7	464.2	465.2	464.5	465.2
Rivers, lakes, water basins and ponds	88.7	92.6	95.5	96.8	96.4	99.6	99.5	99.2	96.9	96.8	96.7
Other lands	299.7	310.5	315.9	326.7	324.3	323.6	324.4	323.4	322.4	323.6	323.1

Source: Statistical Yearbooks of the RM for 2016, 2014, 2012, 2008, 2003, 1999 and 1994.

7. Land degradation. For the last decades Moldova is experiencing an increasingly of soil degradation, mainly caused by: (1) use of inappropriate soil cultivation technologies; (2) allocation of land without taking into account the soil conservation and fertility maintaining needs; (3) failure in crop rotation; (4) lack of funding at all levels; and (5) unauthorized deforestation on agricultural lands. As a result, soil degradation is estimated at MDL 3.1 billion annual losses<sup>11</sup>.
8. Precipitations, rivers and lakes. The annual volume of precipitation is evaluated at 15.3 km<sup>3</sup> per year. About 91% of Moldova's surface water is in the Dniester and Prut rivers. The average annual total of groundwater is of 1.3 km<sup>3</sup> per year<sup>12</sup>. There are 3,621 rivers and water-springs in the Republic of Moldova. The largest rivers include the Dniester (1,352 km long, including 657 km in the RM, with the annual water debit of approximately 2.4 km<sup>3</sup>), Raut (286 km), Cogalnic (243 km, including 125 km in the Republic of Moldova), Bac (155 km), and Botna (152 km). There are approximately 60 natural lakes located mainly in the high-water beds of the rivers Prut and Dniester, as well as 3,500 water storage ponds created and maintained for diverse economic purposes.
9. Biological Resources. Natural and semi-natural ecosystems cover approximately 15% of Moldova. The main natural ecosystems of Moldova are: forest (9.6 - 10.7%), steppe (1.9%), rocky habitats or petrophyte (0.68%), and aquatic (2.8%). The forest steppe zone is located in the northern and central parts of the country, the steppe zone is situated in the south and south-eastern part of the republic.

## C. Climate

10. Moldova has a temperate continental climate with short winters (-2.8°C to -5.3°C and extremes of -30°C) and long warm summers (averaging 20°C, and extremes in the high 30s °C). Moldova has limited precipitation, ranging from around 600 mm in the northwest to 480 mm in the southeast.

<sup>10</sup> Fourth National Communication of the Republic of Moldova under the United Nations Framework Convention on Climate Change, 2018. Ministry of Agriculture, Regional Development and Environment of the Republic of Moldova.

<sup>11</sup> Idem

<sup>12</sup> <http://www.fao.org/nr/water/aquastat/main/index.stm>

11. Agro-climatic zones. The country is divided into three major agroecological zones (AEZ): (i) the Northern zone, along the Dniester, also known as the forest-steppe, with high productivity rates for forages, pastures, livestock and crops (ii) the Central zone, a hilly and forested area best suited for perennial crops such as vineyards or orchards); and (iii) the Southern zone, which is a mix of hilly terrain, has annual mean temperatures of 8.3-11.5°C and annual precipitation of 450-550 mm. In all cases, about half of precipitation falls during the crop vegetative period.
12. Historical analysis. Climate data has been measured via the hydro-meteorological monitoring network since 1886. Recordings show a clear increase in both mean annual temperature and precipitation (Table 2). During the period 1886 to 2007, average annual temperatures have increased by approximately 10C and precipitation by 60 mm, or circa 11%.

Table 2: Dynamics of Average Annual Temperature and Amount of Precipitations at the Chisinau Meteorological Station<sup>13</sup>

Times series	Air temperature	Times series	Amount of precipitations
1886-1960	+0.5 °C	1891-1960	+40 mm (+8%)
1960-2007	+0.5 °C	1960-2007	+20 mm (+3%)
1886-2007	+1.0 °C	1891-2007	+60 mm (+11%)

13. Predictions based on Scenarios. According to the different scenarios the warming would be higher during winter, up to +4.6°C in the Northern AEZ, while in Central and Southern AEZ's the temperature rise will be lower, up to +4.2°C. Regarding the impact of climate change on water resources, projections of climate models ensemble assessed for Representative Concentration Pathway (RCP) 8.5 scenario envisage a dramatic reduction in mean annual flow layer of about 45.0% in Northern AEZ, 54.8% in Central AEZ, respectively 64.5% in Southern AEZ. Forecasts suggest that the 2 major basins of the country will experience declines in available surface water resources of 16% in the 2020s, 36% in the 2050s and 58% in the 2080s. Regarding the Agroecological Zones an overall - 9.9% annual rainfall decline is predicted in the north while - 13.4% decline in the south. Winters are predicted to become wetter with a rainfall increase of - 11.8% in the north, and - 7.4% in the south.

#### Possible future impacts on agriculture

14. Climate Change and Major Annual Crop Production. The impact assessment performed on national level allows concluding that the negative effect of global warming will not be offset by increase of precipitations. If no adaptation measures are taken, it can be expected by 2100: a significant drop in the productivity for grain corn and winter wheat; a medium drop in the productivity for sunflower, sugar beet, and tobacco. By the end of the XXI century, the cultivation of grain corn and winter wheat could be impossible according to the RCP 8.5 high emission scenario.
15. Climate Change and Livestock Production. The assessment of climate impact on the Republic of Moldova's Agriculture Sector<sup>14</sup> revealed that, due to the impact of the main climate and crop predictors variables, the milk production by 2035 could decrease from 24% (RCP 2.6) to 29% (RCP 8.5). By 2035, a decrease is expected in livestock productivity: from 62% to 77% for beef production, from 32% to 38% for pork production and from 13% to 17% for mutton production.

<sup>13</sup> National Inventory Report: 1990-2005. Greenhouse Gas Sources and Sinks in the Republic of Moldova. Ministry of Environment and Natural Resources, UNEP.

<sup>14</sup> L. aranu, 2014, An Assessment of Climate Impact on the Republic of Moldova's Agriculture Sector.

### III. Institutional and legal environment

#### A. Institutions

16. The current Government, invested on January 20, 2016 is comprised of 16 ministries. But, as of 26 July 26 2017, due to the transfer of competences, out of 16 only 9 ministries remained.
17. The Ministry of Agriculture, Regional Development and Environment (MARDE) of the Republic of Moldova, resulting of the result of the merging of the former Ministries in charge of Agriculture and Food Industry, Environment and Regional Development, aims at strengthening the coordination and the synergies between three key and complementary sectors.
18. The Ministerial Agency for Intervention and Payments in Agriculture (AIPA) was created in 2010 to financially support the restructuring and modernization of agriculture, through granting subsidies to critical needs of the agricultural sector.
19. The Forestry Agency "Moldsilva" is the central public administration responsible for forestry policy development and the management of state forestry resources.
20. ICAS (Forestry Research and Development Institute) is under the jurisdiction of Moldsilva. ICAS's mission is to scientifically base the management and development of the forest sector.
21. The National Commission for Implementing Provisions of the United Nations Framework Convention on Climate Change and Provisions and Mechanisms of Kyoto Protocol is the supreme authority in the Republic of Moldova responsible for implementation of the UNFCCC provisions. The activity of the National Commission is coordinated and monitored by the National Commission's Secretary, who is also the Manager of the Climate Change Office under the MARDE.
22. Other institutions are working in the field of environment, such as: The State Hydro-Meteorological Service (SMSS), responsible for weather forecasting and climate projections; "Apele Moldovei", notably responsible for the development of irrigation and water management policy.
23. The Local Public Authorities (LPA) acquired decentralized functions related to local development, natural resources management and environmental protection. Rayonal councils have sections for agriculture that are responsible for issues related to use of land and agricultural products.

#### B. Existing national strategies, policies and regulations related to agriculture, environmental protection and climate change

24. The overall framework guiding the action of the Government is the National Development Strategy "Moldova 2020", the main objective of which is the acceleration of the economic growth and reduction of poverty in the Republic of Moldova. Under this framework the agriculture and rural sector is governed by several policy documents, among them: a) National Strategy on Agriculture and Rural Development for the period 2014-2020; b) Strategy for the Development of Rural Extension services for the period 2012-2022; c) Small and Medium Enterprises' Sector Development Strategy for the years 2012-2020; d) Strategy for Domestic Trade Development in the Republic of Moldova for the years 2014-2020.
25. The Intended National Determined Contribution to the Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC) on

25 September 2015 is a commitment to an unconditional target of 67 per cent reduction of its GHG emissions by 2030 compared to the 1990 level. To reach this target the INDC relies mainly on 2 operational Strategies: the National Environment Strategy and the Climate Change Adaptation Strategy, both strategies detailing the measures identified to reach the INCD target. The National Environment Strategy 2014–2023 aims at reducing GHG emissions by no less than 20 per cent as compared to the base-year (1990) by 2020; ensuring rational use, protection and conservation of natural resources; and integrating climate change adaptation principles into all sectors of the national economy. The Climate Change Adaptation Strategy until 2020 and its corresponding Action Plan aim the reduction by at least 50 per cent of the climate change vulnerability and facilitation of climate change adaptation in six priority sectors (agriculture, water resources, forestry, human health, energy and transport) by 2020. For the Agriculture sector the Strategy intends to promote specific adaptation measures: a) developing good practice guides for agriculture, especially for non-irrigated agriculture; b) developing and implementing local action plans for climate change adaptation; c) developing and implementing plans for land improvement that would increase the precipitation likelihood; d) use research to combat current vulnerabilities and change cropping/farms structure for an agriculture less exposed to climate change; e) encourage crop/farm insurance. Regarding the funding of the adaptation measures the Strategy, as the INCD, relies on the traditional funding sources (national, bilateral and international), but also on the capacity of RM to accessing Climate funds, namely: Global Environment Facility, Green Climate Fund and Adaptation Fund.

## IV. IFAD interventions strategies

### Lessons learned from IFAD interventions

26. Based on 15 years of cooperation the key lessons from IFAD experience are:

- (a) An empowerment strategy based on capacity-building and training in value chain production and post-harvest technology, combined with effective access to business and market enabling-infrastructure, investment loans and support services, micro and small rural entrepreneurs in Moldova are able to invest successfully in the creation of competitive production assets;
- (b) Contract farming in the upstream value chain is considered a success story, having proven an efficient logical mechanism to tap synergies with active downstream value chain partners that need supplies of primary commodities;
- (c) In the rural finance and capacity-building domains, the support provided to young entrepreneurs is one of the project's success stories, having yielded the best result in terms of impact on sustainable income growth and job creation;
- (d) One notable omission of the old COSOP is the risk posed by climate change, and the portfolio has responded pragmatically with progressively more emphasis on increasing farmers' climatic resilience. The IRECR project's impact on the environment has so far been assessed to be positive from the environmental perspective because of its training and investments in shelterbelts, grass cover and CA;
- (e) The experience with IFAD-V shows that enterprises were able to more than double the land they were renting in under conservation farming with a 44%

increase in employment generation from baseline.<sup>15</sup> The farmers who have invested in shelterbelt protection and rehabilitation of grasslands report a positive impact on their productivity as well;

- (f) The most valuable lesson from the Moldovan experience is that of promoting a 'going with the grain' incremental innovation approach that focus on having a long-term perspective in the development engagements. The strength of having substantial project experience informing the policy dialogue is evident and has enabled IFAD to assist in mainstreaming e.g. CA, sustainable small-scale infrastructure and cost-effective rural financial intermediation.

#### Potential access to GEF and GCF

27. Based on the priority given by the Republic of Moldova to promoting a transition to a Green Economy, the IFAD COSOP Strategic objectives will be translated into actions and interventions supporting the new country priorities in terms of climate-smart agriculture. IFAD will use this national political framework to systematically and explicitly promote and translate the Green Economy principles into concrete measures. In this context IFAD will envisage how to mobilize financial resources from the Global Environment Facility as well as the Green Climate Fund.
28. The ongoing GEF6 fosters on sustainability and resilience of agro-ecosystems for food security. IFAD is the lead agency, working closely with FAO, UNPD, UNIDO, World Bank. For 2018 there are still some funds remaining for Moldova and, according to the National GEF Focal Point, there no project proposal in the pipeline for 2018. For the next GEF financial cycle 2018-2022 (GEF7) two relevant dedicated Impact Programmes have been proposed to GEF donors<sup>16</sup>: (i) food systems, land use and restoration; and (ii) Drylands Initiative of the SFM IP.
29. GEF 7 will foster integrating approaches, which generate multiple environmental benefits, create jobs and secure livelihoods through SLM. It will give priority to projects and interventions aiming at achieving the target 15.3 on land degradation neutrality. Since land degradation has both poverty and global environment dimensions, integrated solutions are required to support interventions that address both dimensions.
30. In this context IFAD should identify interventions, particularly under COSOP SO1, that fit with GEF priorities, by addressing particularly the following issues: (i) restoration and enhancement of carbon stocks in forests and non-forest lands; (ii) improved agricultural management; (iii) sustained flow of services in agro-ecosystems; and (iv) increased investments in SLM.
31. Under COSOP SO2 IFAD should systematically include "green economy principles" into the different components of the value chains. This would require from IFAD to systematically include components on SLM management and climate change adaptation in the different training modules. IFAD should also undertake a study on how to "green" the rural financial services by introducing some criteria related to sustainable land and water management and climate change adaptation.
32. In addition, the COSOP activities fit with most of the GCF results areas such as Reduced emission from: (i) energy access and power generation (e.g. on-grid, micro-grid or off-grid solar, wind, geothermal, etc.); and (ii) forestry and land use (e.g. agroforestry, agricultural irrigation, water treatment and management, etc.);

<sup>15</sup> Impact Assessment: RFSADP adoption of conservation farming subsidies for procurement of agriculture machinery.

<sup>16</sup> GEF/R.7/19 April 2, 2018, GEF-7 Replenishment Programming directions.

(iii) Increase resilience of health and well-being, and food and water security (e.g. climate-resilient crops, efficient irrigation systems, etc.).

33. In addition, IFAD should support the Ministry of Agriculture to strengthen its scientific and technical capacities on early warning system and improve its weather station network in the country since these activities are also eligible to GCF.

## Country at a glance

Land area (km <sup>2</sup> thousand) /1	33.8	GNI per capita (USD) 2016/2	2120
Total population (million) 2016 /1	3.6	GNI per capita growth (annual %) 2016 /1	3.4
Population density (people per km <sup>2</sup> ) 2016	107	Inflation, consumer prices (annual %) 2015 /1	6.9
Local currency	Moldovan Leu (MDL)	Exchange rate (13/2/2018): USD 1 =	16.7
Social Indicators		Economic Indicators	
Population (annual population growth rate) 2016/2	0.1	GDP (USD million) 2015 /2	6750
Crude birth rate (per thousand people) 2015/2	10.5	Annual rate of growth of GDP 2016/2	4.1
Crude death rate (per thousand people) 2015/2	12.6	Sectoral distribution of GDP 2016 /5	
Infant mortality rate (per thousand live births) 2016 /2	14	% agriculture	16.1
Life expectancy at birth (years) 2015 /1	72	% industry	20.7
Number of rural poor (million) (approximate) 2014/1	0.6	% services	63.2
Poverty headcount ratio at \$4,3 a day (2011 PPP) (% of population) 2014/2	9.6%	General government final consumption expenditure (as % of GDP) 2016/2	19.0
Total labour force (million) 2016 /2	1.3	Household final consumption expenditure, etc. (as % of GDP) 2016/2	86.7
Female labour force as % of total 2016 /2	49.0	Gross domestic savings (as % of GDP) 2016/2	-5.7
Education		Balance of Payments (USD million)	
School enrolment, primary (% gross) 2015 /2	92.4	Merchandise exports 2016 /2	2104
Adult literacy rate (% age 15 and above) 2014 /2	99.1	Merchandise imports 2016 /2	5007
Nutrition		Balance of merchandise trade	
Daily calorie supply per capita 2014/4	2850	Current account balances (USD million)/2	-283
Malnutrition prevalence, height for age (% of children Under 5) 2012/4	4.3	Foreign direct investment, net 2016 /2 (USD million)	90.97
Malnutrition prevalence, weight for age (% of children under 5) 2012/4	3.2	Government Finance	
Malnutrition prevalence, weight for height (% of children under	n.a	Total expense (% of GDP) 2016 /2	31.5
Health		Total external debt (USD million) 2016/2	6594
Health expenditure, total (as % of GDP) 2014 /2	10.3	Present value of debt (as % of GNI) 2016 /2	15
Physicians (per thousand people) 2014 /2	4.776	Total debt service (% of exports of goods and services) 2015 /2	13
Per cent of population with sustainable access to an improved water source/2 (%)	100	Lending interest rate (%) 2016 /2	14.3
Population without access to improved sanitation, 2015 /2 (%)	76.4	Deposit interest rate (%) 2016 /2	10.7
Agriculture and Food		Land Use	
Food imports (% of merchandise imports) 2016 /2	14.5	Arable land as % of land area 2014 /2	55.5
Fertilizer consumption (hundreds of grams per ha of Arable land) 2014 /2	39.4	Forest area (km <sup>2</sup> thousand) 2015 /2	4090
Food production index (2004-2006=100) 2014/2	93.0	Forest area as % of total land area 2015 /2	12.4
Cereal yield (ton per ha) 2014/2	3.2	Agriculture irrigated land (% of total agriculture land) 2010/2	9.2
1/NBS, various years 2/ World Bank World Development Indicators, 2018 3/ National bank of Moldova, various years		4/WHO, various years 5/CIA World Factbook 2017	

## Concept note

### Talent Retention for Rural Transformation (TARUT)

#### A. Strategic context and rationale for IFAD involvement, commitment and partnership

1. Agriculture in Moldova is dominated by private businesses but the sector is the least productive in the economy, yet employs the largest proportion of the workforce.<sup>17</sup> The agriculture sector accounted for 12.2% of GDP in 2016. The dependence of Moldova's economy on agriculture means that annual GDP growth is disproportionately affected by the agricultural harvest in any given year. About 90% of agricultural production is rainfed. Bumper harvests are often followed by droughts. The negative output growth in agriculture in 2009, 2012 and 2015 dragged the economy each time into recession. Almost 30% of female employment is in the agriculture sector, with shocks in the sector having significant implications for women's economic opportunities. Agricultural value chains are weak and most unable to comply with the EU standards in terms of safety, quality, traceability, labelling and certification.
2. There are many reasons for the underdevelopment of agriculture, but a key driver has been that rural areas are increasingly becoming starved of its most precious resources; that of young talented entrepreneurs who are willing to make much needed long-term investments. The key factor has been emigration, with one third of working age population having left the rural areas, most for work outside Moldova. Increasingly rural areas are becoming devoid of core social amenities such as schools, health centres and social meeting places as economic opportunities diminish with the de-population process. Moldovan agriculture is rapidly becoming dominated by backyard farming with old people cultivating only a few square metres mostly for home consumption and barter-style trading with neighbours and family.
3. Counterintuitively, rural poverty has fallen during the last decade but that is primarily due to increasing social transfers (particularly pension and disability benefits) and increased remittances from younger relatives abroad.
4. Climate change is affecting the agricultural sector disproportionately hard. In the future, Moldova will have a more marginal and risky agricultural production, as increases in temperatures and reduced precipitation during critical crop and pasture growth periods will cause a large moisture deficit. This will also cause an increased exposure to new pests and diseases for agricultural crops, forests and livestock due to temperature increases.
5. IFAD Country Programme: IFAD has been engaged in Moldova since 1999, supporting a total of seven projects. At operational level, IFAD in Moldova has proven its effectiveness, scoring consistently among the top ten of IFAD's 113 benchmarked countries, across a range of impact and efficiency indicators.<sup>18</sup>
6. The TARUT project will be developed building on lessons learned from IFAD's experience in Moldova, and in conjunction partnership developed with the government of Moldova and other development partners. It will be the eighth

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<sup>17</sup> This even though the number of workers in agriculture has declined by more than half between 2000-2015. See EBRD: Moldova Diagnostic, 2017.

<sup>18</sup> See e.g. COSOP Results Review, 2017.

project in Moldova and probably coincide with the closure of the Inclusive Rural Economic and Climate Resilience project.

## B. Possible geographic area of intervention and target groups

7. The core target group will be, young rural entrepreneurs, which faces unique challenges that require tailor-made targeting strategies. Young entrepreneurs are most likely to originate from families of commercially oriented smallholder farmers and small enterprises. They are often limited by access to even short-term finance due to their limited credit history, limited business skills, and lack of any form of "hard" collateral. Moreover, while young entrepreneurs often have innovative ideas, drive and high ambitions, they often lack the experiences needed to translate these into viable, realistic and implementable business plans. This group will receive funding for business plans and some technical assistance in the start-up phases. This group will also include young migrants so they can integrate TARUT support in their returning plan. Often, migrants are eager to adopt innovations and acquire new qualifications during their international migration. However young entrepreneurs will also rely on other actors in the value chain if they are to realise their talents and unfold their business potential. Hence TARUT will also support agribusinesses. From past IFAD experience in Moldova, this group has driven rural transformation towards more productive and profitable business practices, in the process creating rural employment, exports and taxable revenue. Processors and service sector entrepreneurs will serve as investors, aggregators and models to demonstrate the viability of new approaches to increase rural resilience and provide potential development pathways for the poor, including generating employment opportunities, especially for youth and women.<sup>19</sup>
8. These transformation drivers will be from the private sector and they play a crucial role in driving market-led enterprise growth by providing commercial outlets and market opportunities for smallholders as well as offering both on- and off-farm employment opportunities.
9. Many of the transformation drivers will be agribusinesses and also form core part of the MSPs. The detailed design phase will identify more precisely the engagement modalities between agribusinesses, rural poor with commercial potential, young entrepreneurs can partner, noting the strengths and challenges faced by each of them and highlighting how they can engage in win-win partnerships.
10. The TARUT recognize that the best entrepreneurial opportunities will be found in the wealthier communities or regions and among their wealthier households. The design process will consider eligibility and assessment criteria that strike an appropriate balance between commercial viability and inclusiveness of the target beneficiaries.
11. While the TARUT is in principle covering all rural Moldova, special prioritization will be given to climate-vulnerable farmers and agribusinesses as well as poorer areas of the rural society.

## C. Justification and rationale

12. A key challenge is to provide alternative and attractive options for one of the most valuable resources of Moldova: its rural youth. The government issued its National Strategy for Youth Sector Development 2020 in 2014, which recognizes the importance of developing its young population as well as regulating the profession of youth workers with particular emphasis on promoting economic development of

<sup>19</sup> A gender and social inclusion strategy will be developed during the detailed design of TARUT.

rural regions in ways that can retain youth. However, with decreasing government revenues, funding the youth policy is becoming challenging. It is against this background that the IFAD is seeking to further augment its support for rural youth entrepreneurs through the TARUT project.

#### D. Key TARUT objectives and underlying theory of change

13. The proposed engagement 'talent retention for rural transformation' (TARUT) will seek to deliver on the shared government and IFAD ambition of transforming agriculture into a dynamic engine of broader rural development which can generate employment (mainly off-farm) and prove that farming and agribusiness can be an attractive and lucrative career options. The underlying theory of change is consequently to catalyse increased economic activity in the rural areas by targeting young entrepreneurs who have a long-term perspective and high potential for income and employment generation, utilizing a diversity of interventions, including the promotion of climate-resilient technologies, improved access to finance, mentoring, value chain strengthening and integration, as well as support to multi-stakeholder platforms (MSPs) that will allow for grouping of beneficiaries and economies of scale. Transformation drivers will play a key role in demonstrating new disruptive pathways for rural inclusion.
14. The main objective of the TARUT is to promote rural economic growth and reduce poverty by improving access to new job opportunities both on- and off-farm. TARUT will utilize a diversity of inputs and development engagements that will deliver catalytic outputs leveraging the latent potential of the rural areas, through e.g. branding, finance, advisory services and accurate targeting. Special attention will be paid to develop off-farm employment opportunities for the youth in areas such as food processing (e.g. regional specialties that command premium pricing), artisanal products, hospitality development, including agro- and gastro-tourism, and other services. This will also entail a focus on instilling a more entrepreneurial spirit among the rural youth, using roles moles, mentoring and entrepreneurship development.

#### E. Scaling up

15. The new Moldova COSOP seeks to promote systematic scaling up of innovations as a main priority of the IFAD-Moldova partnership, and a key dimension of the value added that IFAD can bring to the country. At the overall portfolio level a programmatic approach will be adopted, i.e. an institutional mechanism/process that facilitates identification, documentation, assessment and dissemination/replication of scalable innovations generated by activities on the ground. The proposed project is seeking to tackle a set of economic and social challenges of enormous importance to the government, and successes achieved are thus likely to be enthusiastically taken up at the national level. During project design it will be critical therefore to ensure that scaling up is systematically included in underlying principles and expected results, and that a clear scaling up strategy/mechanism is defined. Progress towards scaling up will be monitored and reported during implementation and resources will be allocated to facilitate scaling up.

#### F. Ownership, Harmonization and Alignment

16. The government is realising that there is an untapped potential that could also reduce the rural urban migration and retain youth talent in those areas: Core to the long-term sustainability of rural Moldova. This is also reflected in the country's National Development Strategy, Moldova 2030, in which the government commits

to promote partnership and foster entrepreneurship, investment, innovation and employment. The proposed project concept note is fully aligned with the current development strategies and policies of Moldova.

## G. Components and activities

17. The project is expected to have two core complementary outcomes: The first outcome aims at grouping of producers, processors, traders, retailers and service providers to achieve critical mass for economies of scale and for improving investment attractiveness. The second outcome aims at improving entrepreneurs' access to financial services, leveraging private financial resources in the process. Operationally, each of the two outcomes has been translated into two concrete components that are synergistically reinforcing.
18. Component 1 is aimed at enhancing resilient economic transformation in the rural areas and is the entry point for the engagement aimed at addressing localised challenges which constrain production and marketing of the key commodities and services in the areas. This component will increase economic activity both on and off-farm within the selected economic development areas primarily through group investments and support to key economic infrastructure co-managed by the stakeholders (rayons included). This is expected to lead to increased profitability of farming, agribusinesses and the services sector and hence attract young entrepreneurs to remain in these areas. Particular attention will be devoted to the promotion of climate-resilient technologies.
19. MSPs will be established with representatives from all main actors of the selected value chains (including the hospitality value chains), including: producers, brokers, traders, processors, marketers, input suppliers, transporters, tour organisers and retailers. These platforms will identify binding constraints which hinder partnership and value addition as well as potential opportunities, both at individual agent level as well as at group level and encourage economic actors to develop sound business plans accordingly. The platforms will also be the main mechanism to engage with local authorities and business partners. Youth and women will be strongly represented on the MSPs.
20. The MSP represent a unique and innovative way to strengthen the presence, visibility and the agency of social actors that otherwise will remain marginal to the process of rural development but are key to drive the expected transformation. Traditional models, roles and practises confine those actors in stereotypes that limit their full inclusion within development interventions. This is visible in the low participation of women and youth in traditional forms of organisation where the head of the household (usually adult man) is supposed to participate (i.e. rayon committees, cooperatives). Their active participation through the platform is expected to generate ideas and increase their motivation as well as opportunities for employment and self-employment which are suitable for them.
21. The local socio-economic actors, that may be already organised in producer organisations (cooperatives, breeders' associations and producers' unions), constitute a potential multi-stakeholders platform once they are brought together. The MSP's aim will be to regularly exchange information concerning their practices and skills and eventually to express a common stand to influence decision-making instances within the economic development areas. The MSP will not be an institution per se but a flexible set up among stakeholders aiming at upgrading their capacities (to do better), upstreaming<sup>20</sup> their understanding (to do in

<sup>20</sup> To reflect on the reasons behind a given context from a broader perspective

synergy) and upscaling their impact (to do bigger)<sup>21</sup>. In this capacity the MSP will also represent a space of influence and decisions for those actors that are usually excluded or not represented. This is particularly relevant for women and youth.

22. Component 2 on inclusive entrepreneurship finance will address the core challenge of prohibitively high collateral requirements from banks and other financial institutions.
23. The high collateral demands and consequent inability to obtain loans, reduce the availability of investment capital needed to finance the rural transformation that rural investors and entrepreneurs in the rural areas so desperately need. This lack of wider financial inclusion of these communities, place them at a significant disadvantage given the increasing commercial and competitive environment. The youth is particularly disadvantaged as collateral is often the single most important challenge young entrepreneur's face, and they have limited assets and a short credit history. This component will hence provide credit and matching grants to promote youth entrepreneurship, income and employment generation. Of the total financing package, the grant element constitutes 40% whereas the credit element is 60%. Banks are still solely responsible for the financing decision (and hence also if the borrower will get a matching grant) which ensures that the programme is based on sound investment criteria. The programme thus assists in overcoming the difficulties in accessing financial services, which have only been exacerbated by the economic crisis. The financing package is complemented with synergistic support in the form of tailor-made mentoring and business development services which may include business plan development, marketing, technology utilisation and tax compliance. This will also help in instilling a more entrepreneurial, yet realistic, spirit among the rural youth by exposing them to role models (e.g. transformation drivers), entrepreneurship training and start-up management. As land consolidation is only progressing slowly, emphasis will also be on supporting off-farm employment and career opportunities for the youth.

#### H. Preliminary Environmental and Social category

24. Based on the criteria for categorisation, the project is preliminary classified as a category B project. Overall, the project is not expected to have any significant adverse environmental or social implications. There might be some environmental risks related to the project activities, which will need to be addressed in accordance with the more thorough Environmental and Social category assessment to be conducted during the detailed design.

#### I. Preliminary Climate Risk classification

25. The project's preliminary climate risk classification is moderate. Based on assessment done during preparation of the concept note, the project is expected to be moderately sensitive to climate risks, mainly due to the exposure of Moldova's agriculture sector to expected changes in temperature and rainfall. A more detailed assessment of the project climate risk classification will be undertaken during detailed design.

#### J. Costs and financing

26. The estimated PBAS allocation for Moldova during the period 2019-2021 is US\$20 million. The implementation period will be six (6) years. Cofinancing will be sought.

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<sup>21</sup> Adapted from Cees Leeuwis, Reconceptualizing Participation for Sustainable Rural Development: Towards a Negotiation Approach, *Development and Change* Vol. 31 (2000), 931±959. # Institute of Social Studies 2000. Published by Blackwell Publishers, 108 Cowley Road, Oxford OX4 1JF, UK

27. A tentative allocation of funding by component and sources of funds is presented below.

**Table 1: Indicative allocation of funds by Financiers**

Name of component	IFAD (US\$ m)	Co-financer (US\$ m)	Private sector (US\$ m)	GoM (US\$ m)	Beneficiaries (US\$ m)	Total (US\$ m)	%
1. Resilient economic transformation in the rural areas	10	2.5	1.8	3	3	20.3	55%
2. Inclusive entrepreneurship finance	8.5	1.3	2.5		2	14.3	40%
3. Project coordination, monitoring and evaluation	1.5			0.5		2.0	5%
<b>Total</b>	<b>20.0</b>	<b>3.8</b>	<b>4.3</b>	<b>3.5</b>	<b>5</b>	<b>36.6</b>	<b>100%</b>

28. Contribution of the Government. GOM will finance taxes and duties, salaries for government seconded staff, office space and utilities.
29. Contribution of private sector. The private sectors are expected to contribute in cash and in kind.
30. Contribution of beneficiaries. Beneficiaries will contribute in cash and in kind in the form of labour, right of way or building material.
31. The budget and concrete lending terms will be detailed during the design process.

## K. Organization and management

32. The TARUT project will be implemented by the Ministry of Agriculture, Regional Development and Environment, through the CPIU. The CPIU, which is currently managing IFAD projects, will recruit additional specialists as needed, who will be responsible for the day-to-day management and implementation project activities, covering overall management/supervision, fiduciary management, monitoring and evaluation. Detailed implementation arrangements, including the involvement of local authorities, will be made during the design phase.<sup>22</sup>

## L. Monitoring and Evaluation indicators, KM and Learning

33. The M&E system will fully incorporate the new IFAD Operational Results Management System (ORMS). The project's M&E system will rely on evidence-based data and as such, all baseline/completion surveys will be implemented promptly to allow for results-based analysis. Additional surveys/studies will be conducted when deemed necessary. IFAD will provide support for capacity-building for the M&E officer through IFAD programmes including the "Training and Global Certification for M&E in Rural Development" under the Program in Rural M&E. Knowledge management will be critical in making sure relevant learnings from the projects inform policy dialogue as well as feedback into project design and implementation.

## M. Risks

Risks	Measures of Mitigation
Large current account deficit, high level of dollarization and high external debt.	GoM committed to IMF programme.
Insufficient capacities in the ministry.	IFAD will pro-actively take measures to counter these, in particular by further building the capacity of the key

<sup>22</sup> IFAD will continue applying the financial safeguard introduced after 2014.

	implementing unit in MARDE; the CPIU.
At project level there is the risk that IFAD, by targeting the poor in remote areas, will not be able to attract the quality and quantity of private sector investments and that the beneficiaries will not be sufficiently entrepreneurial.	The selection criteria for both areas and beneficiaries will ensure that there is a commercial potential even if not fully realised at project start. On geographical targeting, efforts will be made to ensure that there are commercially viable ventures that can be supported and that the infrastructural requirements are in place or will be put in place by relevant authorities.

## N. Timing

34. The government is currently revising its strategy for lending to rural engagements and elections are scheduled for late 2018, hence a realistic assessment of when a request can be obtained is spring 2019. Should the government prove faster, the below timeline will also be forwarded.

OSC for COSOP and Concept Note	May 2018
Government Request	April 2019
Detailed Design	June 2019
QE	September 2019
Final Design	November 2019
QA	December 2019
EB presentation	April 2020

## Annex 1: Logical Framework

Results	Indicators					Means of Verification			Assumptions
	Name	Baseline	YR1	Mid-Term	End Target	Source	Frequency	Responsibility	
<b>Goal:</b> To stimulate broad-based rural economic growth and reduce poverty, based on expanded income-generating and job opportunities both on- and off-farm.	<ul style="list-style-type: none"> <li>75% of targeted households with improvements in asset ownership.</li> </ul>	0%	10%	40%	75%	Completion Survey	Midterm and completion	PIU M&E unit	<ul style="list-style-type: none"> <li>Political stability</li> <li>Macro-economic conditions remain stable or improve</li> </ul>
<b>Development Objective:</b> Enable productive poor to improve their on and off-farm competitiveness, commercialisation.	<ul style="list-style-type: none"> <li>70% of farm owners benefiting from the project increase in net annual income by at least 30% (disaggregated by gender and age).</li> </ul>	0%	5%	35%	70%	Midterm and Completion survey	Midterm and completion	M&E officer	
<p><b>Component 1: Enhancing resilient economic transformation</b></p> <p>Outcome 1.1: Grouping of producers, processors, traders, retailers and service providers to achieve critical mass for economies of scale and for improving investment attractiveness.</p>	<ul style="list-style-type: none"> <li>No. of multi-stakeholder platforms (MSPs) established with representatives from all main actors of the selected value chains (including the hospitality value chains), including: producers, brokers, traders, processors, input suppliers, transporters, tour organisers and retailers.</li> <li>At least 70% of the targeted beneficiaries have improved their capacity in business development.</li> </ul>	0	5	30	60	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>
		0	5%	35%	70%				
<p>Outputs</p> <p>1.1 Capacity development of producers, processors, traders, retailers and service providers</p> <p>1.2 Rural enterprises and productions supply chains supported.</p> <p>1.3 Multi-stakeholder platforms established.</p>	<ul style="list-style-type: none"> <li>No of trainings/platforms established</li> <li>No of value chain infrastructure/processing facilities established and operational.</li> <li>No. of people (government officials, private sector, smallholders) trained/oriented in technical production, marketing and quality standards.</li> <li>New policies and regulations approved and policy studies/briefs prepared.</li> </ul>	0	15	90	180	M&E system Component reports	Semi-annually	M&E officer Component officer	<ul style="list-style-type: none"> <li>Beneficiaries willingness to participate</li> </ul>
		0	10	60	120				
		0	100	300	900				
		0	1	4	10				

Results	Indicators					Means of Verification			Assumptions
	Name	Baseline	YR1	Mid-Term	End Target	Source	Frequency	Responsibility	
<p><b>Component 2: Inclusive entrepreneurship finance</b></p> <p>Outcome 2.1: Improving entrepreneurs' access to financial services, leveraging private financial resources in the process.</p>	<ul style="list-style-type: none"> <li>At least 60% of the beneficiaries have improved access to financial services.</li> </ul>	0%	5%	30%	60%	M&E system Component reports Statistics of the Geostat	Annually Semi-annually Annually	M&E officer Component officer Geostat	<ul style="list-style-type: none"> <li>Micro-economic conditions are supportive for doing business</li> <li>Beneficiaries willingness to participate</li> </ul>
<p>Outputs 2.1: Access of smallholder farmers to services (including financial services) inputs and markets strengthened.</p>	<ul style="list-style-type: none"> <li>No. of credit and matching grants to develop youth entrepreneur, income and employment generation.</li> <li>No of tailor-made mentoring and business development services which may include business plan development, marketing, technology utilisation and tax compliance.</li> </ul>	0	15	90	200	M&E system Component reports	Semi-annually	M&E officer Component officer	<ul style="list-style-type: none"> <li>Market for dairy product</li> </ul>
<p><b>Component 3: Project coordination, management and M&amp;E</b></p>	<ul style="list-style-type: none"> <li>Successful project implementation in place</li> </ul>					M&E system Component reports	Annually	M&E officer Component officer	<ul style="list-style-type: none"> <li>Current PMU is efficient and show results</li> </ul>

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Investing in rural people

## Comments of the Independent Office of Evaluation of IFAD on the Country Strategic Opportunities Programme for the Republic of Moldova

### Note to Executive Board representatives

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For: Review

# Comments of the Independent Office of Evaluation of IFAD on the Country Strategic Opportunities Programme for the Republic of Moldova

## General comments

1. The Independent Office of Evaluation of IFAD (IOE) undertook a country programme evaluation (CPE) for the Republic of Moldova in 2013 covering the period from 1999 to 2012. The agreement at completion point (ACP) was signed in February 2014. In line with established practice, the ACP is attached as an appendix to the new country strategic opportunities programme (COSOP) for 2019 to 2024. It should be noted that there was a gap of several years between the period covered by the CPE (up to 2012) and preparation and presentation of the new COSOP.
2. The CPE provided eight recommendations, in three broad areas: (a) strategy; (b) rural finance; and (c) non-lending activities. Under the heading of strategy, the evaluation pointed out the need for the new COSOP to be better aligned with the actual programme on the ground. This recommendation was based on the finding that the achievements of the portfolio were not consistent with the previous COSOPs or the project documents, which frequently referred to direct poverty targeting. The CPE also recommended on the strategic level that the country programme improve linkages between different elements, and better mainstream value chain development. On rural finance, the recommendations were for: diversifying from the approach of channelling large credit lines; increased leverage for IFAD funding for the young entrepreneurs programme; and improving the quality of the microfinance programme. Lastly, the CPE recommended the use of grants to provide the analytic underpinning for policy dialogue and strengthening of non-lending activities in general.
3. IOE welcomes the new Republic of Moldova COSOP and the concept note on Talent Retention for Rural Transformation (TARUT). The COSOP presents key issues and challenges facing the Republic of Moldova's agriculture and rural transformation, including depopulation in rural areas and access to European Union markets (offering opportunities but also increasing competition). IOE finds that the COSOP is more straightforward about targeting compared to previous COSOPs, with indication of the difficulties in targeting the poorest and stating that its focus will be on the "investment grade" rural poor. The TARUT is envisaged as specifically targeting young entrepreneurs, who were highlighted by the CPE as those needing future support. However the document still contains ambiguous language regarding the main target group and how to reach its members (see specific comments below).
4. IOE also notes that the COSOP could have better articulated past experience, results and lessons with a more compelling storyline and justifications for the strategic directions. More careful consideration on key issues and a clearer presentation of lessons – positive and negative – would have been warranted.

## Specific comments

5. This section provides IOE comments on the COSOP in relation to selected CPE recommendations.
6. Target group and targeting. The description of the target group appears to reflect the intention: "investment grade" rural poor. However, targeting is discussed in various sections of the COSOP, and the descriptions are not always consistent or clear. For example, the document also refers to direct targeting of "climate-change-vulnerable and productive poor rural households, with special emphasis on youth and gender issues". Target group typologies are also presented

in key file 4 as follows: semi-commercially based farming households; rural youth; commercial farmers and enterprises; and women. In sum, the definition of the “investment grade” poor is vague. It is also not clear whether and to what extent subsistence farmers (74 per cent of all farm households; see COSOP table 1) would be considered “investment grade” poor.

7. Furthermore, the COSOP (and the TARUT concept note therein) do not provide a clear indication on the overall targeted outreach. In other words, what proportion of farmers in the categories of non-subsistence (estimated to be about 1,000 farm households) and subsistence (about 3,000 farm households) are estimated to be “investment grade” poor and will be reached, directly or indirectly?
8. Mainstreaming of value chain development. The CPE found that it had been challenging to articulate and implement an operational approach to pro-poor value chain development, and that there was a need to move beyond awareness and capacity-building. The CPE recommended that IFAD and the government select and pilot activities in key value chains such as horticulture and livestock development, and that they gear other programme elements (e.g. rural finance and infrastructure) to the specific value chains. The COSOP refers to high-value crops, including fruits and vegetables, while the TARUT concept note refers to “selected value chains (including the hospitality value chains)” and the intention to establish multi-stakeholder platforms with value chain actors. The country strategy and new project concept could have benefited from an initial market demand analysis of potential value chains.
9. Rural finance. IOE notes that the CPE recommendation for greater leverage for IFAD funding of the young entrepreneurs programme is taken up by the COSOP and in the proposed TARUT. The CPE recommendation to diversify from the approach of channelling large lines of credit has been implemented under the ongoing Rural Resilience Project – for example, by also supporting credit guarantee schemes. On the other hand, there is little explicit reference to a microfinance programme, which was seen in the CPE as a potential area for support, but also in need of a strategic review on the experience to reflect on the way forward. It may be that microfinance support is subsumed under the heading of access to financial services. The COSOP mentions IFAD’s support for the savings and credit associations only in passing, but it does not offer lessons as such.
10. Non-lending activities. The COSOP presents a number of potential areas and topics, in two related sections: “learning and knowledge management” and “policy engagement for rural prosperity”. One of the risk mitigation strategies (table 3) also indicates the intention of engaging in policy dialogue with the aim of protecting against agricultural budget cuts. These topics seem to be broadly relevant to rural transformation, but the list is rather long and perhaps ambitious. How these will be supported – through investment projects and/or non-lending activities – is also not certain, with the only mention being that “grant resources will be mobilized and used to capitalize on non-lending activities” (paragraph 41).
11. While key file 3 provides a long list of “complementary donor initiatives/partnership potential”, the section on “partnership” could have provided more details on concrete opportunities, with specification of potential partners, for what and how.

#### Final remarks

12. With the above qualifications, IOE wishes to express its appreciation for the efforts made to reflect on the county context and to follow up on the Republic of Moldova CPE recommendations and ACP.