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COMPREHENSIVE ANALYSIS

Lessons from the "Livada Moldovei I" Project and Potential Weaknesses and Risks in the Implementation of "Livada Moldovei II"

1. Scope and purpose of the analysis

The "Livada Moldovei II" project, financed through a EUR 150 million loan granted to the Republic of Moldova by the European Investment Bank, must also be examined in light of the experience accumulated during the implementation of "Livada Moldovei I".

The purpose of this analysis is to identify institutional, legal, financial and integrity-related vulnerabilities that may affect equitable access to financing, competition, transparency, the efficient use of resources and the economic impact of the new project.

This analysis does not proceed from a presumption of fraud and does not make allegations in the absence of evidence. It distinguishes between documented findings from the first phase and risks that may arise during the second phase, with the aim of formulating preventive safeguards.

Since the loan constitutes a financial obligation of the state, the public interest is not limited to the absorption rate, but also encompasses the manner in which resources reach beneficiaries and the economic results they generate.

2. Legal and institutional architecture of "Livada Moldovei I"

Implementation of the first phase was based on a system of documents and institutional structures: the Republic of Moldova–EIB Finance Contract, the Side Letter, the Operational Manual and component-specific manuals, the framework governing the Project Implementation Unit, the on-lending mechanism through OGPAE and participating financial institutions, internal procedures, monitoring reports and subsequent amendments.

The Operational Manual played a substantive role in the functioning of the programme, as it regulated eligibility, financing, co-financing, institutional responsibilities, monitoring and implementation procedures.

This experience demonstrates the need, under "Livada Moldovei II", to clearly distinguish between conditions that constitute contractual requirements imposed by the EIB and rules of public policy established by the authorities of the Republic of Moldova.

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3. Eligibility criteria and the role of the Side Letter

A Side Letter may legitimately provide further detail on the contractual conditions imposed by the financing institution and on the manner in which obligations already undertaken under the Finance Contract are to be applied.

A legal concern arises, however, if such a document introduces or modifies substantive rules determining the range of eligible beneficiaries, financing ceilings, co-financing requirements, exclusions or other essential elements governing access to the resources of a public programme.

The documents analysed to date do not make it possible to fully distinguish between criteria imposed directly through the Finance Contract, those developed through the Side Letter and those introduced by the Operational Manual.

This distinction must be clarified before the new phase becomes operational.

The risk for "Livada Moldovei II" is that essential rules governing the distribution of state-guaranteed financing could be established or subsequently amended through an administrative process subject to a lower level of transparency and scrutiny than that applicable to normative acts.

Under the new project, substantive eligibility and exclusion criteria, financing ceilings, rules governing affiliated beneficiaries and co-financing principles should have a sufficiently clear basis in domestic law.

The Operational Manual should primarily specify how the rules are to be applied rather than serve as the sole source of essential conditions governing access to financing.

4. Co-financing and access for micro-enterprises, small enterprises and new businesses

Under "Livada Moldovei I", the financing mechanism generally required a significant contribution from the beneficiary.

From a leverage perspective, the mobilisation of private capital is positive. From an access perspective, however, the same requirement can become a barrier for enterprises that lack sufficient assets, liquidity, banking history or collateral.

The public reports analysed do not provide a consolidated and consistent classification of beneficiaries into micro-enterprises, small enterprises, medium-sized enterprises and newly established businesses.

Consequently, on the basis of publicly available information, it is not possible to demonstrate the extent to which the co-financing requirement affected access for each category.

The absence of such a breakdown is, nevertheless, a monitoring deficiency: a programme designed to support SME development should allow for precise measurement of the categories that actually benefited.

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For “Livada Moldovei II”, the number of beneficiaries and the value of financing should be reported separately for micro-enterprises, small and medium-sized enterprises, newly established businesses, family farms, young farmers and associative forms.

At the same time, guarantee instruments or differentiated co-financing arrangements should be considered for categories with viable projects but limited access to capital.

5. Repeat beneficiaries and the risk of financing concentration

Data from the first phase show that the number of sub-projects is not equivalent to the number of unique beneficiaries.

Some beneficiaries accessed the project repeatedly, including for a fifth or sixth project. Repeated access does not in itself constitute an irregularity and may reflect the successive development of an enterprise.

A public-policy risk arises, however, where there is no transparent overview of cumulative financing per beneficiary and per group of affiliated enterprises.

In the absence of cumulative ceilings or concentration-monitoring mechanisms, a programme intended to support a broad base of SMEs may end up repeatedly financing already bankable enterprises while new beneficiaries encounter greater barriers to entry.

The new project should therefore provide for annual reporting on the number of unique beneficiaries, repeat beneficiaries, cumulative financing per beneficiary and ultimate beneficial owner, as well as the concentration of resources among the leading categories of beneficiaries.

6. Financial intermediaries and effective competition

Several financial institutions participated in the first phase, which rules out the simplistic conclusion that the programme was formally reserved for a very small number of banks.

The data analysed nevertheless indicate a significant concentration of the portfolio among a limited number of financial intermediaries.

This experience demonstrates that the number of admitted institutions alone is insufficient to assess genuine competition.

The effective portfolio share of each intermediary, geographical accessibility, conditions applied to beneficiaries and the possibility for other eligible financial institutions to participate should also be monitored.

For “Livada Moldovei II”, the criteria for admitting financial intermediaries should be public, objective and non-discriminatory, while the actual distribution of financing among them should be reported periodically.

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7. Final cost of credit for the beneficiary

The experience of the first phase demonstrates that the benefit of access to EIB financing cannot be assessed solely at the level of the cost borne by the state or by the on-lending mechanism.

For the farmer, what matters is the final interest rate, the financial intermediary's margin, commissions, collateral requirements and the total cost of financing.

The differences observed in final lending conditions justify the introduction, under the new project, of transparent reporting on how the cost of credit is formed.

It should be possible to trace the flow from the cost of the EIB resource to the actual cost borne by the final beneficiary, without disclosing commercially protected information.

8. BDS companies and access to consultancy services

Under "Livada Moldovei I", Business Development Services companies played an important role in preparing investment files.

The fact that a very high proportion of applications were prepared with the assistance of consultants demonstrates both the usefulness of technical assistance and the complexity of the access procedure.

The creation of a platform of accredited companies and a cost-sharing scheme financed through technical assistance gives rise to the need to verify how these companies were selected, the criteria applied, the payments made and the mechanisms used to prevent conflicts of interest.

At this stage, there is no evidence that would justify alleging an improper relationship between the Project Implementation Unit and BDS companies. Publicly available documents are, however, insufficient either to exclude or confirm such risks.

If "Livada Moldovei II" uses a similar mechanism, the selection of service providers should be transparent and competitive, while the structures managing or financing consultancy services should be functionally separated from decisions concerning beneficiary eligibility.

Farmers must be able to access the programme without membership of a restricted circle of consultants becoming, in practice, a condition of access.

9. Monitoring, evaluation and Mid-Term Review

"Livada Moldovei I" had annual reporting and monitoring mechanisms, and therefore it cannot be argued that there was a complete absence of control prior to the Court of Accounts audit in 2024.

The question is whether monitoring was sufficiently focused on impact and performance rather than merely on absorption, compliance and implementation of sub-projects.

In 2020, an assessment of the absorption of the credit line was carried out, which also served as a basis for the need for an additional period in which to use the resources.

This is not, however, equivalent to a comprehensive Mid-Term Review examining efficiency, beneficiary distribution, concentration, economic impact and project sustainability.

For "Livada Moldovei II", an independent interim evaluation should be provided for from the outset and carried out before any significant extension, change to eligible sectors or substantial modification of the implementation architecture.

10. Governance of the Project Implementation Unit and internal control

The findings of the Court of Accounts concerning the first phase indicate major weaknesses in the institutional framework, planning, monitoring and certain internal procedures.

Experience shows that the mere existence of an Observers' or Supervisory Board does not in itself constitute a sufficient guarantee of legality, integrity and control.

Under the new project, documents establishing substantive criteria and mechanisms for allocating resources should not be approved exclusively within the internal decision-making structure of the implementation body.

The competent institutions should be involved from the legal, financial, competition and integrity perspectives, while rules directly affecting potential beneficiaries should be subject to an appropriate transparency and consultation process.

11. Procurement, administrative expenditure and integrity

The Court of Accounts audit of the first phase identified problems relating to certain expenditures, procedures and the use of resources.

These findings justify, under "Livada Moldovei II", a clear distinction between funds allocated to beneficiary financing, public investment, technical assistance and administrative costs.

Procurement plans, relevant procedures, significant consultancy contracts and their results should be subject to a high level of transparency.

Individuals involved in selecting suppliers, intermediaries or consultants, or in assessing beneficiary eligibility, should be subject to explicit rules on declaring and managing conflicts of interest.

12. Total public cost and transparency of the EUR 150 million

The assessment of a project financed through an external loan should not be reduced to the nominal value of the credit.

The public cost includes interest and commissions, implementation and administrative expenditure, potential budgetary contributions, tax facilities, complementary subsidies and other resources mobilised by the state.

For “Livada Moldovei II”, the structure of the EUR 150 million should be publicly explained: how much is allocated to enterprise financing, how much to public investment, how much to technical assistance and administration, and what other public contributions will be required.

Annual reporting should make it possible to compare the total public cost with the economic results achieved.

13. Main risks for “Livada Moldovei II”

The lessons of the first phase point to a number of risks that should be prevented: the establishment of essential criteria through insufficiently transparent documents; disproportionate access in favour of already capitalised enterprises; concentration among repeat beneficiaries or affiliated groups; concentration among a small number of financial intermediaries; insufficient transparency regarding the final cost of credit; dependency on consultants for access to the programme; inadequate mechanisms for appealing decisions and providing reasons for refusals; insufficient management of conflicts of interest; monitoring focused on absorption at the expense of impact; and delayed independent evaluation.

These risks do not prove the existence of fraud.

They represent systemic vulnerabilities which, if not prevented, **may create conditions for favouritism, potential fraud, unequal treatment, inefficient use of resources or formal achievement of indicators without the expected economic impact.**

14. Proposals for preventing risks under “Livada Moldovei II”

Before the project becomes operational, essential criteria concerning beneficiaries, eligibility, exclusions, ceilings, co-financing and affiliated groups should have a clear basis in domestic law and should not be capable of being modified exclusively through the Side Letter or Operational Manual.

The draft Operational Manual should be published before approval and subjected to consultation with farmers’ organisations, the business community and civil society.

The Finance Contract and the annexes relevant to implementation rules should be accessible to the public within the limits established by legislation on access to information of public interest.

Acts and documents containing substantive rules governing access to financing should be subject to appropriate legal, financial and institutional review, as well as anti-corruption mechanisms and, where appropriate, assessment of competition implications.

Ceilings should be introduced, or at the very least mechanisms for monitoring and justifying cumulative financing per beneficiary and affiliated group, together with public reporting on portfolio concentration.

The indicator system should distinguish between micro-enterprises, small and medium-sized enterprises, start-ups, family farms, young farmers and associative forms, as well as between new and repeat beneficiaries.

For small enterprises and newly established businesses, guarantee instruments, differentiated co-financing or other solutions should be considered in order to reduce entry barriers without compromising financial discipline.

The selection of financial intermediaries and, if applicable, accredited consultants should be transparent and based on public criteria.

The distribution of the portfolio among intermediaries and the final cost of financing borne by beneficiaries should be reported.

Administrative decisions concerning eligibility should be reasoned, and a clear procedure for review or appeal should be available.

Rejected and abandoned applications should be analysed statistically in order to identify systemic barriers.

The project should include periodic financial audits, public performance reporting and an independent Mid-Term Review before any major amendment or extension.

Before the full launch of the new phase, the Government and the Ministry of Agriculture and Food Industry should publicly present the status of implementation of the Court of Accounts recommendations relating to “Livada Moldovei I” and explain concretely how the lessons from the first phase have been incorporated into the new architecture.

15. Additional information required and the authorities from which it should be requested

From the Ministry of Agriculture and Food Industry and the PIU/UCIMPRSVV, the following should be requested:

all versions of the “Livada Moldovei I” Operational Manual and the documents approving or amending them; the Side Letter and its amendments; the list of unique beneficiaries and cumulative financing per beneficiary; information on repeat beneficiaries and affiliated groups; the register of rejected or abandoned applications and the reasons for them; the file concerning the selection/accreditation of BDS companies; the criteria and composition of the bodies responsible for selection; contracts or cost-sharing mechanisms and payments made to BDS companies; conflict-of-interest declarations; and monitoring reports and evaluations that are not publicly available.

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From the Ministry of Finance and OGPAE, the following should be requested:

on-lending agreements and rules; criteria for selecting financial intermediaries; annual and cumulative distribution of the portfolio by intermediary; the structure of margins and commissions; aggregated information on refusals, non-performing loans and the cost of debt; as well as the data required to determine the financial advantage passed on to the final beneficiary.

From the Court of Accounts, updated information should be obtained concerning implementation of all recommendations made following the performance audit of "Livada Moldovei I", including supporting documents submitted by the responsible authorities.

For "Livada Moldovei II", the Government, Ministry of Agriculture and Food Industry and Ministry of Finance should provide the full Finance Contract and relevant annexes, the draft Side Letter, the draft Operational Manual, the timetable and procedure for its approval, the institutions that will participate in the review process, the precise structure of the EUR 150 million and the proposed indicator system.

Depending on the legal form of the acts through which the implementation rules will be established, the role of the National Anti-Corruption Centre in anti-corruption review should be clarified, as should the role of other competent authorities in assessing competition, integrity and the legality of the mechanism.

16. Conclusions

"Livada Moldovei II" represents an important opportunity for the modernisation of the agri-food sector, but the value of the project cannot be measured simply by the absorption of EUR 150 million.

Because this is public debt, the outcome should be assessed in terms of the additional economic development generated: small enterprises that grow, new businesses that emerge, jobs created in rural areas, competitive investment, value-added processing and improved access to external markets.

The experience of "Livada Moldovei I" demonstrates the need to establish the essential rules before resources begin to be distributed, ensure transparency of implementation documents, prevent unjustified concentration and conflicts of interest, and put in place an impact-oriented monitoring system.

The fundamental principle for the new phase should be simple: financing must remain accessible to competitive enterprises while also creating a genuine pathway for growth for small farmers, new enterprises and rural businesses that, without such an instrument, would not be able to take the step towards investment and exports.

Before "Livada Moldovei II" becomes fully operational, the authorities should publicly demonstrate that the lessons of the first phase have been transformed into concrete safeguards for transparency, competition, integrity and impact measurement.

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Only under these conditions can the new loan be regarded not merely as a source of financing, but as a genuine public investment in the transformation of the Republic of Moldova's agricultural sector.