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# PROJECT INFORMATION DOCUMENT (PID)
# ADDITIONAL FINANCING

Report No.: PIDA21011

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|---|---|
| **Project Name** | Moldova Agriculture Competitiveness Project Additional Financing (P154238) |
| **Parent Project Name** | Moldova Agriculture Competitiveness Project (P118518) |
| **Region** | EUROPE AND CENTRAL ASIA |
| **Country** | Moldova |
| **Sector(s)** | Agricultural extension and research (50%), Agro-industry, marketing, and trade (50%) |
| **Theme(s)** | Rural markets (100%) |
| **Lending Instrument** | Investment Project Financing |
| **Project ID** | P154238 |
| **Parent Project ID** | P118518 |
| **Borrower(s)** | Government of Moldova |
| **Implementing Agency** | Ministry of Agriculture and Food Industry |
| **Environmental Category** | B-Partial Assessment |
| **Date PID Prepared/Updated** | 04-Mar-2015 |
| **Date PID Approved/Disclosed** | 11-Mar-2015 |
| **Estimated Date of Appraisal Completion** | 04-Mar-2015 |
| **Estimated Date of Board Approval** | 30-Mar-2015 |
| **Appraisal Review Decision (from Decision Note)** | The review did authorize the team to appraise and negotiate |

## I. Project Context

### Country Context

Economic growth and poverty reduction gains achieved over the last decade in Moldova have been fueled by strong remittance flows that triggered increased, import-served consumption. The decade-long growth has not been accompanied by an increase in employment. On the contrary, total employment in Moldova declined by 27 percent over the period 2000-2010. Agriculture released most of the labor that found jobs through internal and external outward migration. Another macroeconomic negative resulting from a consumption-led growth model was the buildup of an alarming trade deficit. With the value of imports more than triple to that of exports, the trade gap has reached over 50 percent of GDP in 2008. The fallout from the global crisis of 2008, as well as the lingering crisis in Europe and the Russian Federation in 2014 (key migration labor destinations), exposed the fragility of this growth model. As remittances declined, domestic demand fell by 10 % and the real economy contracted by 6% in 2009. Moldova’s quick recovery from the crisis in 2010 and 2011 has been again largely based on the restored supply of remitances, but also on increased agricultural prices and growing exports. Remittance flows have not grown much in 2014, and are expected to stall in 2015 primarily due to the marked depreciation of the Russian Ruble, tighter labor migration controls and a slowing economy in the Russian Federation.

The lessons from Moldova’s development pattern over the past decade, have underlined the critical need for a second engine of growth – the revival of exports. As Moldova’s working population declines, export-led growth needs to come from investment and improvements in productivity and competitiveness. The Government of Moldova recognizes the need for an investment- and export-led engine of the growth based on on increased capital investments, innovation and competitiveness. The National Development Strategy “Moldova 2020”, reinforces the Government's commitment to a development paradigm based on a dynamic model driven by domestic and foreign investment and export-oriented sectors. In addition, the Government's reforms in 2011-2014 focused on achieving closer trade integration with the European Union, which culminated in the conclusion of an Association Agreement between the Republic of Moldova and the European Union, complemented by a Deep and Comprehensive Free Trade Agreement which came into effect on August 1, 2014. The latter, has brought about new and exciting opportunities for market diversification of the country's agro-food exports.

**Sectoral and institutional Context**

Recently, the country's shift to an export-led growth model has suffered a number of setbacks due to uncertainties with supply to the Russian market. Moldovan agricultural and food exports to the Russian Federation have been subject to various trade restrictions through 2013 and 2014 - starting with a ban on wines, followed by ban on meat and a nearly complete ban on fruits and vegetables, and canned goods. The most affected export items were wine, apples and plums. In 2013, prior to the bans, approximately thirty percent of the country's wine exports (valued at US$350 million), ninety three percent of apple exports (valued at US$43.7 million) and eighty percent of plum exports (valued at US$21.1) went to Russia. The loss of the Russian Federation market represented a significant blow to horticulture in Moldova as there are few alternative markets for the agro-food produce, especially for apples and plums. There is very limited potential for meaningful import substitution. Moldovan imports of apples were only about 1,500 tons in 2013 (valued at US$1.34 million) and imports of plums are negligible. Un-utilized processing capacity for apples and plums in the country is limited and has only absorbed additionally approximately 60,000 tons of apples and 40,000 tons of plums in 2014 (15% and 35% of output respectively). The resulting supply glut of apples and plums, compounded by an existing large stock of processed products has led to a 50% drop in the domestic market price for apples and plums. Similarly, as a result of the wine ban, and accumulating stocks in 2014, grapes are traded at 40% of the 2013 price.

In recent years there have been significant productivity gains in the Moldovan horticulture sector due to significant investments and, these gains could easily be lost because of the impact of the Russian embargoes. Productivity gains have contributed to a steady increase in output and are likely to have come from stricter application of growing technologies, and/or replacement of old orchard/vineyards, more intensive production and use of modern technologies. This is a result of increased investment in the sector, which is a very positive development given Moldova’s comparative advantage in high value agriculture. This transformation has been the result of a fairly long-drawn struggle, which is finally showing results. The embargos have the potential to have a major negative impact on fruit growers’ competitiveness by stalling, if not reversing, modernization, as a result of deteriorating financial standing and de-capitalization.

The majority of fruit growers is represented by small peasant farmers (66% for apples, 69% for plums, 70% for vineyards) and provides significant rural employment and incomes, for an estimated 350,000 people. A large share of these jobs now are either at risk or are yielding significantly lower pay due to the impact of the embargo. The resulting social consequences could be severe, as the highest poverty rates are already registered among the agriculture-related population: 21.7 percent of farmers and 31.3 percent of agricultural workers have been found poor in 2013, these two categories accounting for 31 percent of country's poor.

## II. Proposed Development Objectives

### A. Current Project Development Objectives – Parent

The Project Development Objective is to enhance the competitiveness of the agro-food sector by supporting the modernization of the food safety management system, facilitating market access for farmers, and mainstreaming agro-environmental and sustainable land management practices.

## III. Project Description

**Component Name**

Compensatory Sales Support Grants

**Comments (optional)**

The new component will finance targeted support to farmers with farms of less than or equal to 15 hectares, who sold apple, plums and grapes domestically for processing in 2014. The grants will compensate the difference between the potential non-embargo price and the domestic sales price, with an aim of avoiding possible de-capitalization and collapse of the horticulture sector, thus giving it a much needed respite for reorientation to new markets and/or amortization of the financial losses.

## IV. Financing *(in USD Million)*

| | | | |
|---|---|---|---|
| Total Project Cost: | 12.00 | Total Bank Financing: | 12.00 |
| Financing Gap: | 0.00 | | |

| For Loans/Credits/Others | Amount |
|---|---:|
| BORROWER/RECIPIENT | 0.00 |
| International Development Association (IDA) | 12.00 |
| Total | 12.00 |

## V. Implementation

The parent - Agriculture Competitiveness Project (ACP) was approved by the Board on May 1, 2012. It is financed by (i) an IDA credit in the amount of US$18.0 million; (ii) a fully-blended GEF grant of US$4.4 million; and (iii) a SIDA grant of US$3.0 million. The PDO is: to enhance the competitiveness of the country's agro-food sector by supporting the modernization of the food safety management system, facilitating market access for farmers, and mainstreaming agro-environmental and sustainable land management practices. The ACP has the following components: Component 1: Enhancing Food Safety Management; Component 2: Enhancing market access potential; Component 3: Enhancing land productivity through sustainable land management. The project became effective on September 24, 2012. The closing date for the ACP is June 30, 2017.

The project was designed to contribute to the realization of the economic growth model described in the 2011-2014 Government Program aimed at enhancing export competitiveness, attracting investment and achieving closer trade integration with the EU. More specifically, the ACP is supporting the Government's ambitious efforts in reforming the food safety management system, efforts to improve farmers' market opportunities through investment support (to bring about upgrades in post-harvesting infrastructure) and institutional development support (creation and strengthening of productive partnerships), and efforts to mainstream the use of good agricultural practices and sustainable land management.

Project performance is currently rated “moderately satisfactory” for Implementation Progress (IP), “satisfactory” for the PDO, and “satisfactory” for procurement and financial management . Current commitments for the IDA credit stand at 70% , and generally progress continues to be solid across the project's three components at this phase of implementation.  Currently, disbursement under the IDA Credit is at US$3.6 million (20%), under the GEF grant at US$2.1 million (48%), and the SIDA grant at US$0.25 (8%). Disbursement rates under the IDA Credit are expected to reach 45% by the end of FY15. Procurement of goods, works and consulting services has considerably picked up in pace in 2014; calls for proposals for matching investment grants supporting the emergence of productive partnerships have been carried out and awards were made; capacity building activities have been increasing in scope and complexity.

Component 1: Enhancing food safety management. There is solid progress in the implementation of this component. The country's Food Safety Agency, is a relatively new institution (established in 2012) which has largely become functional due to the support of the project. Two major civil works activities are under way - the rehabilitation of the Food Safety Agency (FSA) building and the construction of the Border Inspection Point in Tudora on the country's Southern-Eastern border with Ukraine. Procurement of civil works for another three border inspection points - Leuseni (West), Giurgiulesti (South) and Criva (North) has been completed and works are expected to commence in the spring of 2015. Procurement of works for the construction of the country's national reference laboratory for safety of products of vegetable origin (Balti) has been completed. Capacity strengthening activities at the national reference laboratory for safety of products of animal origin and animal health aimed at future international accreditation are in full swing. Additionally, the FSA continues to receive support for legislative and regulatory improvements, capacity building activities, training and knowledge sharing with various European food safety institutions.

Component 2: Enhancing market access potential. Progress in the implementation of this component has been very strong. One call for proposals for matching investment grants from emerging productive partnerships has been completed in the summer of 2014, and 8 producer groups received matching investment grant awards in an amount of US$2.1 million for a variety of investments in post-harvest processing of apples, table grapes and berries. A second call for proposals is currently under way until January 30, 2015. In parallel, outreach activities are under way to raise awareness about the project's opportunities for fruit and vegetable growers especially in light of on-going difficulties Moldovan agro-food exports have on the traditional Russian market, and a stringent need for reorientation of trade flows to different, more stable markets.

Component 3: Enhancing land productivity through sustainable land management.
Implementation of this component is progressing well. All activities related to the rehabilitation of

protective shelter-belts are on schedule, and the equipment which was procured for these purposes is being utilized efficiently by two mobile mechanized agro-forestry squads. The component's sustainable land managed grant scheme has been launched and a first call for proposals yielded more than 80 applications that are currently under review. It is expected that about 30 awards will be made in the next few weeks, for an amount of approximately US$0.6 million.

## VI. Safeguard Policies (including public consultation)

| Safeguard Policies Triggered by the Project | Yes | No |
|---|---|---|
| Environmental Assessment OP/BP 4.01 | x | |
| Natural Habitats OP/BP 4.04 | | x |
| Forests OP/BP 4.36 | | x |
| Pest Management OP 4.09 | x | |
| Physical Cultural Resources OP/BP 4.11 | x | |
| Indigenous Peoples OP/BP 4.10 | | x |
| Involuntary Resettlement OP/BP 4.12 | | x |
| Safety of Dams OP/BP 4.37 | | x |
| Projects on International Waterways OP/BP 7.50 | | x |
| Projects in Disputed Areas OP/BP 7.60 | | x |

**Comments (optional)**

## VII. Contact point

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