PROJECT PAPER

ON A

PROPOSED ADDITIONAL FINANCING CREDIT

IN THE AMOUNT OF SDR 6.8 MILLION (US$10.0 MILLION EQUIVALENT)

TO

THE REPUBLIC OF MOLDOVA

FOR THE

RURAL INVESTMENT AND SERVICES PROJECT II

April 17, 2009

Sustainable Development Department
Ukraine, Belarus and Moldova Country Unit
Europe and Central Asia Region

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CURRENCY EQUIVALENTS
(Exchange Rate Effective February 28, 2009)

Currency Unit = Moldova Leu
MDL 10.84 = US$1
US$ 1.476090 = SDR 1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ACSA National Rural Development Agency
APL Adaptable Lending Program
CAPMU Consolidated Agriculture Project Management Unit
CLD Credit Line Directorate
CPS Country Partnership Strategy
DA Designated Account
DAAS Drought Adaptation Advisory Services
DAC Drought Adaptation Component
DO Development Objective
EIA Environmental Impact Assessment
EMP Environmental Management Plan
ERR Economic Rate of Return
FAO Food and Agriculture Organization
FM Financial Management
FMM Financial Management Manual
FMR Financial Management Report
FMS Financial Management Specialist
GoM Government of Moldova
IDA International Development Association
IFAD International Fund for Agricultural Development
IFRs Interim Financial Reports
IFS Irrigation Finance Services
IP Implementation Progress
MAFI Ministry of Agriculture and Food Industry
MoF Ministry of Finance
OP Operational Procedure
PDO Project Development Objective
PFI Participating Financial Institutions
PO Procurement Officer
POI Project Outcome Indicator
PRSC Poverty Reduction Strategy Credit
Vice President: Shigeo Katsu
Country Director: Martin Raiser
Sector Director: Peter Thomson
Sector Manager: Dina Umali-Deininger
Task Team Leader: Pierre-Olivier Colleye

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REPUBLIC OF MOLDOVA
Additional Financing for the Rural Investment and Services Project II

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**Additional Financing for the Rural Investment and Services Project**

**PROJECT PAPER DATA SHEET**

**Republic of Moldova**

**Country: Moldova**

**Project Name:** Rural Investment and Services

**Project II (APL2) – Additional Financing**

**Project ID:** P116321

**Recipient:** Republic of Moldova

**Responsible agency:** Ministry of Agriculture and Food Industry, Ministry of Finance

**Team Leader:** Pierre-Olivier Colleye

**Sector Manager:** Dina Umali-Deiningger

**Country Director:** Martin Raiser

**Environmental Category:** FI

---

<table>
<thead>
<tr>
<th>Revised estimated disbursements (Bank FY/US$m)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FY</td>
<td>2007</td>
</tr>
<tr>
<td>Annual</td>
<td>5.6</td>
</tr>
<tr>
<td>Cumulative</td>
<td>5.6</td>
</tr>
</tbody>
</table>

**Current closing date:** June 30, 2010

**Revised closing date:** June 30, 2012

---

**Does the restructured or scaled-up project require any exceptions from Bank policies?**

- Yes
- No

**Have these been approved by Bank management?**

- Yes
- No

**Is approval for any policy exception sought from the Board?**

- Yes
- No

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**Revised project development objectives/outcomes**

PDO remains unchanged

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This Paper also informs of two discrepancies in the formulation of the PDO in the original PAD and Financing Agreement:

- The original PAD (page 4) states that the PDO of the Second Phase of this APL is “to foster post privatization growth in the agricultural and rural sectors by improving access of farmers and rural businesses to what they need to succeed - knowledge, know-how and finance, while building the capacity of the private and public institutions to ensure the sustainability of the activities.”. The Financing Agreement states that it is to “foster post-privatization growth in the Borrower’s agricultural sector by improving the access of the private farmers and rural businesses to knowledge, know-how and finance”. The PAD version (page 4) is correct. The discrepancy, due to an editing error, is fairly immaterial as the project has indeed been building the capacity of the private and public institutions to ensure the sustainability of these activities.

- A second discrepancy was also found between the Results Framework and the PDO description of the PAD (page 4). The Results Framework includes the expression “access to legal ownership status”. While it is correct that components such as Rural Business Development or Land Re-parceling do help with proper registration of businesses or land transactions, it was decided that the legal meaning of the expression “access legal ownership status” was confusing and was taken out of the PAD PDO (page 4) but not in the Result Framework. Again, the PAD version (page 4) is correct.

For both discrepancies, it was agreed that the correction would be officially communicated to the Government.

**Does the scaled-up or restructured project trigger any new safeguard policies?**

- No

---

For Additional Financing

- [ ] Loan
- [X] Credit
- [ ] Grant

**For Loans/Credits/Grants:**

- Total Bank financing: SDR 6.8 million (US$10 million equivalent)
- Proposed terms: 10 years Grace with 40 years to maturity.
## Financing Plan (US$m.)

<table>
<thead>
<tr>
<th>Source</th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recipient</td>
<td>1.50</td>
<td></td>
<td>1.50</td>
</tr>
<tr>
<td>IDA</td>
<td>10.00</td>
<td></td>
<td>10.00</td>
</tr>
<tr>
<td>Others (Beneficiaries and participating banks)</td>
<td>2.50</td>
<td></td>
<td>2.50</td>
</tr>
<tr>
<td>Total</td>
<td>14.00</td>
<td></td>
<td>14.00</td>
</tr>
</tbody>
</table>
A. Introduction

1. This Project Paper (PP) seeks the approval of the Executive Directors to provide additional financing in the amount of SDR6.8 million (US$10.0 million equivalent) to the Republic of Moldova (RoM) for the scaling up of the Rural Investment and Services Project II (RISP II: P090673, IDA Credit 4157-MD, US$7.5 million; IDA Credit 4416-MD, US$6.0 million and IDA Grant H211 MD, US$7.5 million). The proposed additional financing will scale up the creation and financing of rural enterprises and farms, hence generating additional rural investments and jobs. It will also extend the financing of critical advisory services to promote good agricultural practices and enhance the competitiveness of the agricultural sector.

2. The additional financing will increase the amount of funding for investments made available to rural beneficiaries through the existing RISP II credit line mechanism, employing the same procedures and institutional set-up that exist under RISP II (approximately 80% of proposed additional financing proceeds). Four development agencies will continue their work, also under existing mechanisms, to help potential beneficiaries identify investment opportunities, prepare business plans and loan applications and provide support with the implementation stage of the investment (2.5% of additional financing proceeds). The Advisory Services, provided through the National Rural Development Agency (ACSA), which have shown to effectively impact the performance of the farming sector, will continue to be co-financed by the project through the new Closing Date, but with an increasing share of co-financing by the Government (16.5% of proposed additional financing proceeds). Project management will continue to be handled through the existing RISP II set-up, which uses the Ministry of Agriculture and Food Industry (MAFI) and the Ministry of Finance (MoF) as implementing agencies and the Consolidated Agriculture Project Management Unit (CAPMU) as a fiduciary support agency (approximately 1% of proposed additional financing proceeds).

The proposed activities are fully consistent with the Development Objective of the overall RISP APL ("to provide long-term support to accelerate agricultural recovery and growth, so that Moldova’s agricultural and rural sector can play their full role in providing the underpinnings for future income growth and poverty reduction") and the specific PDO of the second phase ("to continue to foster post privatization growth in the agricultural and rural sectors by improving access of farmers and rural businesses to what they need to succeed - knowledge, know-how and finance, while building the capacity of the private and public institutions to ensure the sustainability of the activities."). The PDOs will remain unchanged, although some of the intermediary output indicators will be increased in light of the enhanced impact of this additional financing.

B. Background and Rationale for additional financing

Sector Background

4. The Rural Investment and Services Program has been addressing performance constraints of the rural and agricultural sectors since 2002. Following independence in 1991, the country’s rural economy suffered substantial economic and social disruptions. The extreme terms of trade shock, loss of external markets, disintegration of production chains between agricultural producers and agro-processing enterprises, as well as several initially unsuccessful attempts to reform the sector and privatize land, led to a severe deterioration of production, productivity, rural incomes and livelihoods. By 2000, agricultural Gross Domestic Product (GDP) was less than half of the 1990 level, with the decline caused by a dramatic drop in productivity, while rural poverty accounted for 68% of total poverty.
5. The rural economy has stabilized since 2001, with agriculture registering modest, yet steady growth until 2007. In 2007, the country was hit by a devastating drought which led to a precipitous drop in agricultural output. However, the sector rebounded in 2008, with growth expected to be around 10%. Agricultural production and agro-processing account for around 30% of GDP. The share of exports generated by agriculture and agro-processing has reached 65%. More than half of the country’s labor force is concentrated in rural areas. Another driver of the rural economy has been the diversification into non-farm activities, fueled in large part by growing demand for rural-based services. The basis for this demand has been the growing flow of remittances from migrant laborers, who generally come from rural areas.

6. Despite these promising developments, there is a general recognition of the fact that the agriculture sector continues to underperform, stuck in a labor-intensive, low productivity mode, and that there is considerable latent capacity for further growth and increasing exports. Moldova has some of the richest soil in the region, which gives it a distinct agricultural comparative advantage. But in order to unleash this potential, a number of key issues must be addressed promptly: (i) addressing bottlenecks in output and input markets by improving the business environment for agriculture; (ii) encouraging further development of farmer processor linkages; (iii) developing efficient land markets; (iv) improving access to credit for rural entrepreneurs; (v) deeper diversification of the rural economy; and (vi) the need to direct scarce public agriculture spending towards investment in supporting infrastructure and services for farmers, including knowledge and know-how.

7. A few other challenges have emerged in the recent months in light of the global economic downturn and its potential impact on the Moldova economy. While evidence is still scant, it is plausible to assume that the country will face a large wave of returning migrant laborers, primarily to rural areas, and an ensuing rise in rural unemployment. A continuous reduction in remittance flows observed since the summer of 2008 is indicative of such a presumption. Furthermore, the country’s financial sector has been hit by problems in securing long-term financing, which has lead to shrinking credit in the economy, particularly for investment purposes. The reduction of credit is likely to impact disproportionately more the rural economy, as rural borrowers are generally not considered a prime group for lending by commercial banks.

8. All these developments are likely to influence negatively the economic and social dynamic in rural areas, unless urgent measures are taken to support farmers and rural entrepreneurs, and shore up the confidence of the banking sector to continue with a strong presence in rural areas. The situation is exacerbated by the fact that the RISP II credit line is almost out of resources, due to fast disbursements in 2007-2008, and that the Government of Moldova may not have the fiscal space to take over the full financing of the rural advisory services supported under RISP II. The initial plan was to start the financing of the rural advisory services out of the MAFI budget from 2010. In light of the above, there is ample justification for seeking additional financing for RISP II in order to foster its outcomes and prop up the rural economy at time of difficult economic conditions. The choice of activities to be scaled up is determined by their synergies and potential impact.

The Rural Investment and Services Project II (RISP II)

9. RISP II is making excellent progress towards achieving its development objective under all components. Approximately 89% of IDA resources, or US$13.7 million, had been disbursed by end February, 2009.
• **Rural Advisory Services (RAS).** ACSA, the nation-wide rural extension service has been successfully implementing extension activities across the country, meeting quantitative targets in a technically rigorous manner. At the end of 2008, ACSA has provided advice to over 300,000 farmers. Impact assessments carried out in 2008 indicate that services provided by ACSA are leading to improvements in agricultural productivity and farmer income growth.

• **Rural Business Development.** Development Agencies have contributed to the creation and operation of 423 business start-ups and some 1300 new jobs, with financing from a variety of sources, including remittances. The services provided by the are highly valued both by the beneficiaries, as well as the participating financial institutions. The mix of emerging businesses continues to be varied, including on-farm and off-farm activities, thus indicating that RISP II is contributing to the diversification of the rural economy.

• **Rural Finance.** Disbursement from the credit line continued at a brisk pace, accounting for over US$3.3 million in 2008 alone. At present, only US$50,000 remains in the credit line, and full disbursement is expected as early as April, 2009.

• **Land Re-Parceling Pilots.** Implementation of activities in the six pilot villages has been progressing successfully. A satisfactory average participation rate of 38% has been reached by end 2008, above the 30% target. The activities of the component will be scaled-up to another 40 villages, thanks to financing from SIDA.

• **Drought Adaptation.** The implementation of this component, financed through an additional financing signed in April 2008, was initiated in the fall of 2008, past the prime agricultural season, leading to a relatively slow start. The component is expected to pick up pace in 2009.

10. The ISR ratings from the Project’s start, including the most recent 12-month period, have always been “satisfactory” or better, for both Implementation Progress (IP) and Development Objective (DO).

11. The project has no unresolved fiduciary, environmental or any other safeguard problems. While procurement was temporarily downgraded to Moderately Satisfactory due to weaknesses of the selection committee under the MAFI, the Government has taken appropriate steps to reinforce this committee and the rating was upgraded back to Satisfactory by the next mission.

C. **Proposed Changes**

12. **PDO.** The project development objective will not change. Since the additional financing will solely scale up existing components, the Results Framework has been revised to reflect new targets. Similarly, the Key Performance Indicators have also been revised to reflect the increased scope and improved impact of project activities.

13. This Paper also informs of two discrepancies in the formulation of the PDO in the original PAD and Financing Agreement:

• The original PAD (page 4) states that the PDO of the Second Phase of this APL is “to foster post privatization growth in the agricultural and rural sectors by improving access of farmers and rural businesses to what they need to succeed - knowledge, know-how and finance, while building the capacity of the private and public institutions to ensure the sustainability of the activities.”. The Financing Agreement states that it is to “foster post-privatization growth in the Borrower’s agricultural sector by improving the access of the private farmers and rural businesses to knowledge, know-how and finance”. The PAD version (page 4) is correct. The discrepancy, due to an editing error, is fairly immaterial as the project has indeed been building the capacity of the
private and public institutions to ensure the sustainability of these activities.

- A second discrepancy was also found between the Results Framework and the PDO description of the PAD (page 4). The Results Framework includes the expression “access to legal ownership status”. While it is correct that components such as Rural Business Development or Land Reparceling do help with proper registration of businesses or land transactions, it was decided that the legal meaning of the expression “access legal ownership status” was confusing and was taken out of the PAD PDO (page 4) but not in the Result Framework. Again, the PAD version (page 4) is correct.

14. For both discrepancies, it was agreed that the correction would be officially communicated to the Government.

15. **Activities to be financed.** The proposed additional financing will provide supplementary resources to four of the RISP II components, including project management. The project will solely scale up these existing components using the same mechanisms, fiduciary systems and safeguard compliance. The four components that will receive additional financing are: (i) the Rural Advisory Services Component; (ii) the Rural Business Development Component; (iii) the Rural Finance Component; and (iv) Project Management Component.

16. **Component 1: Rural Advisory Services (US$1.65 million).** The Rural Advisory Services (RAS) component provides information, knowledge and know-how to small private farmers. Such advice is thematically diverse, ranging from agricultural technology to food safety and quality standards to marketing advice, as well as other areas of general and specialized interest on the part of the farmers. So far, under RISP II the RAS provided advisory and informational services to more than 300,000 farmers.

17. The additional financing will provide further support to maintain the operation of this important public service, while the Ministry of Agriculture and Food Industry (MAFI) continues its efforts to develop a vision for the future of the RAS in Moldova – its outreach, thematic coverage and financing. Over the course of RISP II, MAFI has gradually assumed more responsibility for the overall oversight, coordination and financing of RAS activities, and this trend is only expected to strengthen.

18. The National Agency for Rural Development (ACSA), established as an NGO under Phase I, will continue to coordinate field implementation of the RAS component through its network of Service Providers (SPs).

19. **Component 2: Rural Business Development (US$ 0.25 million).** The Rural Business Development Component finances technical assistance to rural entrepreneurs, and provides operational support for local development agencies (DAs), with the aim to create legally registered, self and co-owned sustainable rural businesses, which have the potential to become clients of financial institutions. So far, under RISP II, the component contributed to the creation of 423 businesses and 1300 new jobs, with financing from a variety of sources, including remittances. With the additional financing, the component will continue to provide, based on expressed demand, support for the formation of viable agribusinesses, including business cooperatives, processing and marketing entities, as well as non-farm rural businesses with proper legal and operational status which will contribute to employment creation and income augmentation in rural areas. The services to the up-and-coming businesses under the component will continue to include the identification of profitable products, services and potential markets, the conceptualization of business ideas, the development of business plans, and, ultimately, the preparation of loan packages. Per client demand, this component will also provide technical assistance to initiate the operations. Once established and in operation, the newly established business entities will also receive post-creation support on a cost-sharing basis. The businesses created under the component will
have access, subject to the discretionary decisions of the participating financial institutions (PFIs), to investment and working capital loans under the Rural Finance Component of the project.

20. The four DAs that are involved in the implementation of the activities of RISP II have substantive experience in grassroots mobilization, extensive awareness about agriculture and off-farm investments needs in rural areas, and a solid grip in business development assistance techniques. The same pool of DAs will be involved in the implementation of the additional financing.

21. **Component 3: Rural Finance (US$ 8.0 million).** The component contributes to the expansion of the outreach of the formal financial sector to rural areas to ensure broader access to investment financing for farmers and rural entrepreneurs. The proposed additional financing will continue lending activities through Sub-loans (and other forms of financing, including the financial lease), under the RISP II original credit line which is expected to be fully disbursed in the second quarter of 2009. The rationale for scaling-up lending activities stems from the fact that long-term funds are scarce in Moldova’s commercial banking sector, while the demand for investment loans and sub-leases continues to be high. To address the issue of lack of long-term resources, funding to the financial intermediaries will continue to be provided for up to 15 years. The PFIs will be responsible for identifying prospective sub-borrowers, will have full autonomy in sub-project approval and determination of lending terms, and will bear the lending risks. The component will be implemented through the same eligible PFIs that operate under RISP II. The intended beneficiaries will be those with a commercially viable and bankable business proposal, adequate collateral, satisfactory rates of return and demonstrated repayment capacity. The reference rate to the PFIs and its calculation shall be reviewed jointly by IDA and the Credit Line Directorate’s Steering Committee and revised semi-annually as necessary.

22. **Component 4: Project Management (US$0.1 million).** Additional funds will be allocated for additional Project Management costs incurred by CAPMU. This funding will cover expenses such as additional audits, PIU salaries, training and monitoring and evaluation.

D. **Consistency with Country Assistance Strategy**

23. The Country Partnership Strategy (CPS) for the Republic of Moldova was approved by the Board on January 29, 2009. It was designed in alignment with the priorities of the National Development Strategy, which is the main medium-term strategic planning document that defines the country’s development objectives, and is the programmatic successor of the 2007 Economic Growth and Poverty Reduction Strategy Paper. The objective of the CPS is to assist in laying the foundations for sustainable and inclusive economic growth in Moldova. The expected outcomes of this CPS fall within three pillars: (i) improving economic competitiveness to support sustainable economic growth; (ii) minimizing social and environmental risks, building human capital, and promoting social inclusion; and (iii) improving public sector governance. The proposed additional financing will contribute to the outcomes under the first two pillars of the CPS.

E. **Appraisal of New Activities**

**General**

24. The proposed additional financing will continue to meet normal appraisal criteria. The responsible implementation agencies for the various components will remain the same (MAFI for Advisory Services and Business Development, the Ministry of Finance for the Credit Line). CAPMU will continue to provide fiduciary support to the implementation agencies and will be responsible for the
same activities as the original project, including financial management, procurement, training or audit, which it has done satisfactorily throughout the project.

Allocation of Credit Proceeds

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, Works and Consultants’ Services, Incremental Operating Costs and Training other than for Advisory Component</td>
<td>US$350,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods and Services other than Consultants’ Services under Advisory Component</td>
<td>US$1.65 million</td>
<td>53%</td>
</tr>
<tr>
<td>(3) Sub-loans under sub-loan agreements under Rural Finance Component</td>
<td>US$8 million</td>
<td>80%</td>
</tr>
</tbody>
</table>

Implementation Arrangements

25. The Project Steering Committee (PSC) established by the Government at the beginning of RISP will continue to perform overall supervisory functions under the additional financing. The PSC is chaired by the Minister of Agriculture and Food Industry and includes representatives of the Ministries of Agriculture and Food Industry, Finance, Economy and the National Bank of Moldova. The PSC will continue its regular supervision of project implementation by the various institutions described below and coordinate relations with the various ministries and other stakeholders.

26. The implementation arrangements for the additional financing will stay the same as for RISP II, with the MAFI and MOF acting as implementing agencies. This choice for two implementing agencies is determined by the complexity of the proposed activities and the cross-sector character of the project. The MAFI will be responsible for and will manage Components 1 and 2. The MOF will be in charge of Component 3. The credit line will be implemented through the Credit Line Directorate (CLD) established under the MOF, which currently manages various donor and government funded credit lines, including the one under RISP II.

27. The fiduciary capacity in regards to procurement, financial management and disbursement will continue to be delegated to the Consolidated Agricultural Project Management Unit (CAPMU), which has so far demonstrated its capability and performed satisfactorily.

28. Implementation period. The implementation of the proposed activities is expected to be extended two years beyond the original closing date of RISP II (June 30, 2010); therefore, an extension to June 30, 2012 is being requested.

Economic Assessment

29. The original project appraisal document included a detailed economic and financial analysis which, among others, anticipated substantial returns on rural investments, job creation and a positive
impact of advisory services on the performance and profitability of the beneficiary farmers. This analysis remains and seems to be confirmed by early surveys and impact assessments.

Technical

30. As was the case in the original project, there are no major technical issues in the project. The technical aspects of the Credit Line, which remain unchanged from the original project, have been reviewed and cleared by the Financial Sector Board to ensure compliance with OP8.30. It is expected that farmers and rural entrepreneurs will continue to purchase well known brands of farm and other equipment. Private dealerships and parts and supplies systems are already fairly well developed. In cases when second-hand good will be procured and financed from the Credit Line, an independent technical expertise and valuation, acceptable to the PFIs, will continue to be required, to confirm the quality, suitability and prices of the goods. Support to advisory service development and rural business development have been designed taking into account the global experience in these fields and the results have been particularly encouraging.

Fiduciary

Procurement

31. Capacity assessment. The existing CAPMU procurement officer (PO) trained in ILO in 2004 shall work in the same capacity under the additional financing. The system for procurement monitoring by the Credit Line Department (CLD) of MOF for the sub-loans under RISP II has been assessed during the pre-appraisal and found to have required capacity for the additional financing. The following actions shall be taken to further strengthen the procurement capacity of the borrower in the project implementation: (a) CLD shall further conduct its post-review including procurement under credit lines, and (b) periodic ex-post review by the Bank of 1 in 5 contracts signed by CAPMU and random sampling post-review of the contracts under credit lines shall be conducted during the supervision missions.

32. Procurement. Procurement shall be carried out in accordance with the requirements set forth in the procurement and consultants guidelines published by the Bank in May 2004 and revised in October 2006. Furthermore, the Project shall be carried out in accordance with the provisions of the Anti-Corruption guidelines, dated October 15, 2006. The Procurement Plan as prepared by the borrower shall be updated from time to time in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines ("Procurement Plan"), based on the following agreed arrangement, which remain unchanged from the initial additional financing:

| I. Goods and Works and Services other than Consultants’ Services Procurement. Decisions subject to Prior Review by the Bank are as stated in Appendix 1 to the Guidelines for Procurement: |
|---|---|---|
| Procurement Method | Procurement Threshold | Prior/post Review |
| 1. | ICB | > $100,000 | subject to prior review |
| 2. | Shopping (Goods) | < $100,000 | subject to post review |
| 3. | Direct Contracting | Any amount | subject to prior review |
| 4. | Commercial Practices | < $100,000 | subject to post review |
II. Selection of Consultants. Decisions subject to Prior Review by the Bank are as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants. The shortlist of consultants for services, estimated to cost less than $100,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

<table>
<thead>
<tr>
<th>Selection Method</th>
<th>Procurement Threshold</th>
<th>Prior/post Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Competitive Methods (Firms) QCBS</td>
<td>&gt; $100,000</td>
<td>All subject to prior review</td>
</tr>
<tr>
<td>2. Competitive Methods (Firms) LCS,CQ</td>
<td>&lt; $100,000</td>
<td>All subject to post review</td>
</tr>
<tr>
<td>3. Individual Consultants (IC)</td>
<td>Any amount</td>
<td>All subject to post review</td>
</tr>
<tr>
<td>4. Single Source (Firms and Individuals)</td>
<td>Any amount-</td>
<td>All subject to prior review</td>
</tr>
</tbody>
</table>

III. Commercial Practice in Procurement under Credit Lines. Components for sub-loans to be carried out with PFIs shall be conducted in accordance with para 3.12 of the Procurement Guidelines with the procurement procedures defined in Rural Investment Guidelines.

Financial Management

33. Institutional and Implementation Arrangements. Financial Management (FM) functions will continue to be handled by CAPMU. The previous audit reports on the project financial statements included unqualified opinions and were acceptable to the World Bank. The existing audit Terms of Reference will be expanded to cover the additional activities. The financial management arrangements of RISP II have been reviewed periodically as part of regular project supervision. According to the latest financial management supervision carried out in March, 2009 the project FM arrangements have been found Satisfactory (S).

34. Credit proceeds will be disbursed using the same disbursement methods as were used for the original project, either using reimbursement, direct payments, issuance of Special Commitments or through advances to a designated account (DA). Treasury will open a Designated Account in a financial institution acceptable to the Association. The ceiling for the Designated Account is set at US$1,000,000. Withdrawal applications documenting eligible expenditures utilized from the Designated Account will be sent to the Bank quarterly. Eligible expenditures relating to contracts for goods, works and services under consulting firms above US$100,000 equivalent and against individual consultant's above US$50,000 will be fully documented. Expenditures against contracts below these limits and against training, operating costs and sub-loans would be made on Statement of Expenditures. Supporting documentation for all transactions, including completion reports, goods received notes and acceptance certificates, will be retained by the implementing entities and made available to the Bank during supervision. The Minimum Application size is US$200,000 as provided in the Disbursement Letter

35. Procedures. Currently, the procedures manuals developed for RISP II, including the FM manual are acceptable to the Bank. However these manuals will need to be updated/amended to properly reflect procedures for the additional financing before project effectiveness.

Environmental

36. The additional financing is rated as Category F1. The Sector Environmental Review (SER) and General Guidelines for Determining and Addressing Potential Environmental Impacts of Loan Activities
(Guidelines), prepared for the First Phase of the Rural Investment and Services Program, were reviewed and updated in 2005 for RISP II. Furthermore, these documents were revised again for the RISP II additional financing for supporting drought adaptation activities which was approved in May, 2008. These reviews provided an update on: (i) the adequacy of the legal framework for environmental assessment; (ii) the institutions that are responsible for sub-loan Environmental Impact Assessments (EIA); (iii) technical assistance and training needs for such institutions to adequately implement sub-loan EIA requirements; and (iv) proposed improvements in procedures for environmental screening, EIA preparation and implementation, possible mitigation measures for certain sub-loan types, and monitoring and evaluation requirements for the EIA. The revised documents included a framework for the assessment of the potential impact of proposed investments, recommended mitigation measures, an outline of a monitoring plan, and organizational responsibility for the implementation of mitigation measures. Public consultations and a disclosure process were undertaken in accordance with World Bank policies and guidelines. Furthermore, in order to ensure that the project Environmental Management Plan (EMP) is fully implemented, the borrower has hired an Environmental Specialist (ES) which is fully responsible for environmental management issues.

37. A review of the status of the SER implementation and environmental safeguards compliance for RISP II sub-loans was carried out in October, 2008 during a Bank implementation support visit. The overall conclusion of the review was that the project is successfully implementing the EMP requirements, providing a solid basis for ensuring the environmental sustainability of the implemented activities. All activities under the additional financing will be implemented under the RISP II environmental compliance framework described above.

Social

38. RISP II assists Moldovan farmers and rural entrepreneurs who are among the most socially vulnerable and disadvantaged groups in Moldova. The additional financing will attempt to protect their income and living standards at a time of likely economic hardship. The information campaign that will be implemented by MAFI with technical assistance from ACSA and Development Agencies will ensure fair and transparent access to information about the additional financing activities. There is no evidence that any of the proposed activities could lead to any kind of conflict or social tension, or could generate phenomena of social exclusion.

39. To further ensure due diligence, the Legal Agreement and Operational Manuals will clarify that private rural businesses will be eligible to become project beneficiaries under the condition that they have not acquired and/or would not acquire land for the needs of activities to be supported with the project proceeds through a process which involved and/or would involve officially supported expropriation. Additionally, project funds will not support any sub-loans used to invest in a business which would require the involuntary displacement of existing occupants or economic users of any plot of land, regardless of its current ownership, or loss of or damage to assets including standing crops, kiosks, fences and other. The project operational manual will be adjusted to define a screening procedure to be filled by PFIs, and the implementing agency will closely monitor the screening procedure, with the support of the Bank task team. With these restrictions in place, the project does not trigger OP/BP 4.12.

F. Expected Outcomes

40. The additional financing will foster the outcomes of RISP II by continuing efforts for creating income-earning opportunities and improving productivity through complementary technical assistance and investment support. This feeds into the RISP II PDO of “continuing to foster post-privatization growth in the agricultural and rural sectors by improving access of farmers and rural businesses to what
they need to succeed - knowledge, know-how and finance, while building the capacity of the private and public institutions to ensure the sustainability of the activities.

41. To this end, the Project Outcome Indicators (POIs) for RISP II remain unchanged.

42. While the indicators will remain unchanged, new targets have been set for the additional implementation years to the Project’s results framework and are highlighted in the attached table. The ISRs will be updated accordingly:
## RISP II – Updated Key Performance Indicators

<table>
<thead>
<tr>
<th>Outcome Indicators</th>
<th>Baseline</th>
<th>YR1</th>
<th>YR2</th>
<th>YR3</th>
<th>YR4</th>
<th>YR5</th>
<th>YR6</th>
<th>Data Collection and Reporting</th>
<th>Frequency and Reports</th>
<th>Data Collection Instruments</th>
<th>Responsibility for Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative increase in productivity in project beneficiaries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Growth in lending to agricultural and rural sectors in the portfolios of financial intermediaries</td>
<td>5%</td>
<td>5%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td></td>
<td>Quarterly progress reports</td>
<td></td>
<td>Portfolio reports by PFIs</td>
<td>Credit Line Directorate</td>
</tr>
<tr>
<td>- Percentage of beneficiaries whose income has increased</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Results Indicators for Each Component</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Component One:</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Number of beneficiaries of services (including repeat clients)</td>
<td>300,000</td>
<td>300,000</td>
<td>350,000</td>
<td>400,000</td>
<td>400,000</td>
<td>400,000</td>
<td></td>
<td>Quarterly progress reports</td>
<td></td>
<td>Reporting data from ACSA</td>
<td>MAFI</td>
</tr>
<tr>
<td>- Percentage of revenues of regional and local consultants derived from users fees or other sources outside central government’s budget</td>
<td>&lt;3%</td>
<td>3%</td>
<td>3%</td>
<td>15%</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
<td>Annual reports</td>
<td></td>
<td>Reporting data from ACSA, impact assessment report, special studies</td>
<td></td>
</tr>
<tr>
<td><strong>Component Two:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Number of businesses created and registered</td>
<td>0</td>
<td>30</td>
<td>120</td>
<td>240</td>
<td>350</td>
<td>500</td>
<td>600</td>
<td>Quarterly progress reports</td>
<td></td>
<td>Report from the Development Agencies</td>
<td>CAPMU</td>
</tr>
<tr>
<td><strong>Component Three:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Number of loans disbursed from the credit facility</td>
<td>0</td>
<td>40</td>
<td>120</td>
<td>250</td>
<td>350</td>
<td>400</td>
<td>450</td>
<td>Quarterly progress reports</td>
<td></td>
<td>PFI reports</td>
<td>Credit Line Directorate</td>
</tr>
<tr>
<td>- Good portfolio quality in the SCAs as measured by PAR 30</td>
<td>5%</td>
<td>&lt;5%</td>
<td>&lt;5%</td>
<td>&lt;5%</td>
<td>&lt;5%</td>
<td>&lt;5%</td>
<td>&lt;5%</td>
<td>SSB and RFC reports</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Component Four:

- Land re-parceling implemented with participation of at least 30% of the population in 40 villages
  - The average number of and distance to parcels per household is reduced
  - Total factor productivity of agriculture has increased
  - The number and size of land transactions are increased

<table>
<thead>
<tr>
<th></th>
<th>0</th>
<th>30%</th>
<th>n.a.</th>
<th>n.a.</th>
<th>n.a.</th>
<th>n.a.</th>
<th>Quarterly progress report</th>
<th>Assessment reports</th>
<th>MAFI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Component Five:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Baseline and evaluation reports</td>
<td>Households surveys in pilot and control villages</td>
<td>MAFI and CAPMU</td>
</tr>
<tr>
<td>Irrigation Finance Services Sub-component:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Baseline and evaluation reports</td>
<td>Households surveys in pilot and control villages</td>
<td>MAFI and CAPMU</td>
</tr>
<tr>
<td>1. Number of rehabilitated hectares irrigated (cumulative)</td>
<td>0</td>
<td>n.a.</td>
<td>n.a.</td>
<td>1,000</td>
<td>3,000</td>
<td>3,000</td>
<td>Semi-annually</td>
<td>Reports from Development Agencies and PFIs</td>
<td>CAPMU and CLD</td>
</tr>
<tr>
<td>Drought Adaptation Advisory Services Sub-Component:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Quarterly</td>
<td>Reports from ACSA</td>
<td>ACSA and CAPMU</td>
</tr>
<tr>
<td>3. Number of beneficiaries on topics related to irrigation</td>
<td>0</td>
<td>n.a.</td>
<td>n.a.</td>
<td>25,000</td>
<td>35,000</td>
<td>35,000</td>
<td>Quarterly</td>
<td>Reports from ACSA and Impact Assessment</td>
<td>CAPMU and ACSA</td>
</tr>
<tr>
<td>4. Adoption rates of drought adaptation agronomics (as % of number of beneficiaries)</td>
<td>0</td>
<td>n.a.</td>
<td>n.a.</td>
<td>15%</td>
<td>30%</td>
<td>30%</td>
<td>Annually</td>
<td>Reports from ACSA and Impact Assessment</td>
<td>CAPMU and ACSA</td>
</tr>
</tbody>
</table>

Shaded areas represent additional performance indicators from additional financing.
G. Benefits and Risks

43. Benefits from the availability of rural advisory services will arise from the continued adoption by farmers of improved knowledge and information on existing and new crop cultivation technologies. Services from qualified extension consultants are expected to lead to improvements in farm productivity and profitability.

44. Benefits from the availability of rural business development services will arise from increased business activity and job creation in rural areas, leading to decreasing rural poverty, an increasing tax base, and the diversification of the rural economy.

45. Benefits from the availability of credit resources for rural finance will stem from increased capital investments in the rural economy, leading to growth in the intensity of crop cultivation and level of operations of non-agricultural rural businesses, increased farm output, and reduction of poverty. As demonstrated by the experience of RISP I and II these activities have significant potential for economic development.

46. The risks resulting from topping up RISP II to scale-up some of its original activities are not substantial. RISP II has a satisfactory implementation history, with solid progress towards achieving its project development objective. There are no significant implementation risks that have evolved in the recent past. Risks identified during appraisal are being dealt with accordingly, and no problems related to procurement and financial management have been identified. The same rigorous approach to procurement and financial management implemented under RISP II will continue to be applied in the implementation of the additional financing.

47. There is a risk that the global financial turmoil might spill into the Moldovan banking system. However, this risk is deemed to be minor due to the relatively limited exposure of the local banks to the international financial markets. Furthermore, the team will continuously monitor the financial health of the PFIs to mitigate promptly potential problems.

H. Financial Terms and Conditions for the additional financing

48. The original financing from IDA under RISP II was provided on blend terms with a 50% Grant and a 50% Credit on standard IDA terms (40 years maturity, 10 years grace). The additional financing will be provided fully on standard IDA terms (40 years maturity, 10 years grace). The Credit will be denominated in SDR, and the foreign exchange risk and all repayment obligations would be retained by the Republic of Moldova.
### Annex 1: Procurement Plan

<table>
<thead>
<tr>
<th>Ref. No.</th>
<th>Description</th>
<th>Type</th>
<th>Est. Cost, USD '000</th>
<th>Method</th>
<th>Review by Bank</th>
<th>Expected Proposals Submission Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Rural Advisory Services (ACSA and Service Providers)</td>
<td>TS</td>
<td>1,650</td>
<td>Direct Contract*</td>
<td>Prior</td>
<td>2010</td>
</tr>
<tr>
<td>2.</td>
<td>Development Agency for RBD Component: Mobile Expert Group (MEGA)</td>
<td>CS</td>
<td>62.5</td>
<td>SSS</td>
<td>Prior</td>
<td>May 2010</td>
</tr>
<tr>
<td>3.</td>
<td>Development Agency for RBD Component: Rural Development Center (RDC)</td>
<td>CS</td>
<td>62.5</td>
<td>SSS</td>
<td>Prior</td>
<td>May 2010</td>
</tr>
<tr>
<td>4.</td>
<td>Development Agency for RBD Component: Business Consulting Center (BCC)</td>
<td>CS</td>
<td>62.5</td>
<td>SSS</td>
<td>Prior</td>
<td>May 2010</td>
</tr>
<tr>
<td>5.</td>
<td>Development Agency for RBD Component: Alliance for Cooperation in Agriculture (ACA)</td>
<td>CS</td>
<td>62.5</td>
<td>SSS</td>
<td>Prior</td>
<td>May 2010</td>
</tr>
<tr>
<td>6.</td>
<td>On-lending under Rural Financing Component</td>
<td></td>
<td>8,000</td>
<td>Commercial Practice</td>
<td>Post</td>
<td>October 2009</td>
</tr>
<tr>
<td>7.</td>
<td>Project Audit</td>
<td>CS</td>
<td>10</td>
<td>LCS</td>
<td>Post</td>
<td>January 2011</td>
</tr>
</tbody>
</table>

**TS** – Services other than Consultants’ Services  
**CS** – Consultants’ Services

*For the contract extension subject to satisfactory annual evaluation of the Service Provider’s performance by the Employer following the reports by independent auditors.