I. Project Context

Country Context

The global economic crisis hit Moldova, Europe's poorest country, rather rapidly and particularly hard. It induced a contraction of the economy, impacted livelihoods in rural and urban areas and made a resolution of political uncertainties more difficult. Moldova entered a deep recession in 2009 (a drop in the GDP of 7.7%), when former main sources of earlier economic growth were undermined: remittance-led private consumption saw a 30% reduction, exports dropped by 24% and private investments, including FDI plummeted by 43%. Although the overall poverty rate remained flat in 2009 (at 26.3%), the poverty situation of rural population did get worse in 2009, increasing from 31.3% in 2007 to 34.6% in 2008 and 36.3% in 2009. The incidence of poverty among farmers is highest at 51% - and grew by as much as 14 percentage points in 2009 only.

Economic performance improved in 2010, with GDP growing at 6.9%. Growth sustained a positive trend in 2011, with GDP growing by 6.5% in 2011, based on . These positive developments are largely due to the swift implementation of corrective measures by a reform-minded coalition Government which was seated in September, 2009. But to date, political uncertainties leave questions on the sustainability of this partial recovery unanswered. Following general elections in November, 2010, political uncertainty persists because the existing Parliament coalition behind the Government lacks sufficient seats to elect a President.

II. Sectoral and Institutional Context

The agro-food sector remains critical to meeting Moldova economic growth and social cohesion targets. Its predominantly agriculture-based economy records among the highest shares of agricultural production and agro-processing among all European Union (EU) neighborhood countries: 33% of GDP, 37% of exports, and 40% of employment. It must be understood that these shares attest to the still limited importance of the country's secondary and tertiary sectors rather than the existence of a vibrant and efficient primary sector. For economic, social, and political reasons, stronger pursuit of agricultural sector growth is likely to remain a critical national policy priority for the foreseeable future.

The country has an undisputed agricultural potential. Numerous sector assessments explain the high agronomic potential based on favorable geographic characteristics: rich soils, mild climate, topography, and agricultural tradition. The market potential inherent as a result of the immediate proximity to the EU, one of the largest and best performing food market in the world (US$1,309 billion for the EU-27, 310,000 companies, and 4.8 million employees), as well as the traditional agro-food trade ties to markets in the Commonwealth of Independent States are a frequently quoted and, indeed, outstanding marketing opportunity. Analytical work carried out by the World Bank, the MCC and others, confirms comparative advantages for agricultural exports, with particular potential for high value-added products such as fresh or pre-processed fruits and vegetables.

Addressing the wide potential-performance discrepancy will require translation of comparative advantages into competitive ones. Concerned about lagging agro-food sector growth, tepid exports and a sustained reduction in the market share of sales of food on the domestic market, the Government realizes that proximity to the key export markets does not only present opportunities but substantial challenges, too. Domestic and international market penetration are lagging and progress is hindered by key structural constraints most of which were only unsatisfactorily addressed by agricultural support policies so far: lack of access to quality inputs and progressing degradation of agricultural land, limited post-harvest infrastructure, lack of scale for post-harvest processing and marketing, inefficiencies in value chains and consequently lack of compliance with food safety and quality requirements of today's consumer markets. An enhanced understanding of inter-dependencies between increasingly capital-intensive modern agricultural production technologies and increasingly demanding agro-food marketing chains led to a strong Government commitment to shift its policy focus from production to competitiveness.

Product quality and safety are inseparable key medium- and long-term determinants of sector competitiveness and are key to public health and consumer protection. By all accounts, the systems currently in place in Moldova are not functioning effectively. They suffer from overlapping responsibilities of numerous agencies and rely on outdated and incompatible communication and IT systems, leading to a lack of proper coordination among various bodies and increased compliance burden on producers. A fragmented and under-funded laboratory system further
exacerbates the system inefficiencies and the country ability to support sector competitiveness and consumer protection. All these factors contribute to a lack of credibility of Moldovan agricultural products on both local and international markets.

Lack of modern post-harvest infrastructure has been identified to be one the weakest links for fruits and vegetables vertically coordinated supply chains. The main elements of a robust cold chain system – including pre-cooling, cold storage, grading, sorting, packaging, cold transportation – are largely missing. While cold storage facilities are generally available across the country (though in insufficient numbers, and often inadequately equipped), other elements of the cold chain are amiss. Lack of capital and know-how are among the main culprits for a largely underwhelming progress in the emergence of properly integrated post-harvest infrastructure. Furthermore, lack of cooperation and organization of farmers in Moldova further constrains their capacity to integrate in supply chains and efficiently grasp potential market opportunities. Individually, producers have limited resources to enhance the value of their produce (through storage, packing, etc.), have low bargaining power with buyers due to small quantities and inconsistency of supply, lack proper transportation means, etc. On the demand side they do not represent an appealing source of produce for large processors and wholesalers due to small quantities and poor quality. This results in low producer prices and the perpetuation of a cycle of low-value agriculture. Association of small farmers into productive partnerships, whether cooperative or producer groups, is likely to stimulate bigger capital flows towards them, as well as longer-term seller-buyer partnerships that would allow smaller producers to achieve better market and value chain integration, and ultimately higher incomes. A closely associated issue is the lack of knowledge on market demand, quality and sanitary standards, and general business acumen that can facilitate the operation of farms and/or productive partnerships as true business entities.

Another set of limiting factors for the sector’s competitive potential relates to the lack of application of sustainable farming practices and in particular sustainable land management. This leads to losses of soil productivity and by extension to a direct negative impact on the price competitiveness of the agricultural produce. Lack of sustainable land management accentuates land degradation processes through over-exploitation of soils and failure to comply with crop rotation imperatives, resulting in ubiquitous anthropogenic soil erosion, intensified landslide processes, loss of organic matter and soil pollution. In the most extreme cases these processes cause land abandonment and heavily deteriorating rural livelihoods, especially for poor smallholder farmers. It is estimated that soil erosion results in financial losses of US$60-70 million per year. Current rates of progressing land degradation due to unsustainable land use are very high, with more than 2.0 million hectares prone to different degradation processes, of which 350,000 hectares are heavily eroded. Some forecasts suggest that, in the absence of mitigation measures, the area affected by landslides and soil erosion is likely to expand by about 2,000 hectares each year. All these phenomena are largely caused by existing farming patterns, poor national and local capacity to deal with sustainable land management issues, limited knowledge and awareness on mitigation measures for soil degradation, as well as lack of financial resources to pilot and subsequently mainstream sustainable land management practices into agriculture.

The thematic areas outlined above represent elements of a competitiveness framework that is part of the Government’s sector development strategy; are at the core of negotiations with bi- and multi-lateral trade partners; and have garnered substantial endorsement from development partners. Sustained progress towards enhanced competitiveness will require a strategically supported and regulated market environment, substantial financial resources, and an effective coordination of the wide-range of required interventions in these technically demanding and dynamic field. The proposed project would make a key contribution to ensuring the consistency and cohesion of Moldova’s efforts towards this end.

III. Project Development Objectives
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.

IV. Project Description
Component Name
Enhancing food safety and management system
Enhancing market access potential
Enhancing land productivity through sustainable land management
Project Management
Contingencies

V. Financing (in USD Million)

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<th>For Loans/Credits/Others</th>
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VI. Implementation
The project will be implemented over a period of five years. The project will have two implementation agencies: Ministry of Agriculture and Food Industry will implement Components 1 and 2, while Ministry of Environment will implement Component 3. An inter-ministerial Steering Committee will be established by the Government to perform overall supervisory, coordination and strategic guidance functions for the project. The Steering Committee will be co-chaired by the Minister of Agriculture and Food Industry and the Minister of Environment. In addition to members from these two agencies, the Steering Committee will include members from the Ministry of Finance, the State Chancellery, and other relevant stakeholders. The two implementation agencies will rely on Component Coordinators as local consultants to manage and implement project
activities within their respective components. For fiduciary aspects of Components 2 and 3 related to pre-screening, payments and monitoring of investment support provided to project beneficiaries, the project will rely on the expertise of the Agency for Interventions and Payments in Agriculture. For other activities, an existing project management unit will provide fiduciary backstopping to the implementing agencies.

VII. Safeguard Policies (including public consultation)

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<td>Environmental Assessment OP/BP 4.01</td>
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<td>Projects on International Waterways OP/BP 7.50</td>
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<td>Projects in Disputed Areas OP/BP 7.60</td>
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VIII. Contact point

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