



# Project Information Document (PID)

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Concept Stage | Date Prepared/Updated: 08-Jun-2022 | Report No: PIDC26986



**BASIC INFORMATION**

**A. Basic Project Data**

Country Moldova	Project ID P170035	Parent Project ID (if any)	Project Name Agriculture Governance, Growth and Resilience Investment Project (P170035)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date Nov 01, 2022	Estimated Board Date Jan 31, 2023	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Agriculture and Food Industry	

**Proposed Development Objective(s)**

Support inclusive development, market orientation and climate resilience of Moldova's agriculture sector.

**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Project Cost</b>	55.00
<b>Total Financing</b>	55.00
<b>of which IBRD/IDA</b>	55.00
<b>Financing Gap</b>	0.00

**DETAILS**

**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	55.00
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Environmental and Social Risk Classification  
Substantial

Concept Review Decision  
Track I-The review did authorize the preparation to continue



Other Decision (as needed)

## B. Introduction and Context

### Country Context

1. Moldova is an upper-middle income country in a state of economic transition. Decades of strong yet volatile economic growth have improved Moldova's average standard of living, but the country nonetheless remains one of the least wealthy in Europe. Between 2000 and 2019, per capita GDP expanded at an average annual pace of 4.9 percent—a cumulative increase of over 160 percent. Solid growth resulted in strong poverty reduction, from a staggering 90 percent in 2000 to a projected 10.9 percent in 2021. Non-monetary dimensions of welfare improved too, as demonstrated by substantial increases in life expectancy and educational attainment.

2. The growth model that yielded high growth and poverty reduction in the past had begun to show signs of waning in strength and low sustainability even before the COVID-19 pandemic. Moldova's growth performance since the country's 2014 banking crisis<sup>1</sup> has been strong, with average annual growth inching up to 4.3 percent. However, this was largely driven by temporary factors, including favorable financial and climate conditions. Moldova's growth model, driven mainly by remittance-financed consumption, is increasingly confronted by structural issues such as declining remittances and unfavorable demographic trends. Income growth among the poor has been primarily driven by pensions and social assistance, while the incomes of non-poor households have been boosted by increasing wages.

3. Despite growth and progress in poverty reduction, Moldova continues to face large urban-rural disparities in living standards and a high degree of inequality of opportunity, crystalized mainly across the spatial dimension. With some 57 percent of the population living in rural areas, poverty remains largely a rural phenomenon with 80 percent of the poor residing there. The rural economy is dominated by agriculture and the country's economy records one of the highest shares of agricultural production in the region at around 12 percent and employing 22 percent of the total labor force. Increasing agricultural productivity and competitiveness of the sector is critical for boosting the country's economic growth and poverty alleviation efforts.

4. The COVID-19 pandemic and a severe drought in 2020 have revealed further the intrinsic vulnerabilities of the country's economic growth model which suffers from limited resilience to shocks. With a decline in GDP of 7 percent in 2020, the impact of the COVID-19 pandemic, combined with the 2020 drought, has been one of the most severe in Europe. The shock has had a large and heterogenous impact across households, firms, sectors, and geographical areas in Moldova. However, the labor market has recovered from its COVID-19-induced lows, such that at 40 percent in the fourth quarter of 2021 the employment rate stands at the levels of 2019. Poverty, too, following a COVID-related increase, is projected to have decreased in 2021 on the back of strong growth in wages and pensions from 13.7 percent in 2020 to 10.9 percent in 2021.

5. While the pandemic was an unexpected event, the 2020 drought was just the latest in a long and increasingly frequent series of weather-related events exacerbated by climate change. Since 2000, Moldova has witnessed, on average, one major climate-related event occurring every three years. The total cost of inaction on climate adaptation is currently

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<sup>1</sup> In 2014, three Moldovan banks, Banca de Economii, Unibank, and Banca Socială were involved in a fraud with a total loss from the scheme equivalent to about 12 percent of Moldova's GDP.



estimated at US\$600 million, equivalent to 6.5 percent of GDP, and this is expected to more than double to US\$1.3 billion by 2050. Flooding also poses a high cost on Moldova's economy, estimated to be at least US\$62 million annually. Similarly, droughts have large impacts, as agriculture continues to rely mostly on rainfall.

6. Against this backdrop, the current juncture offers an opportunity for a new Government, elected in mid-2021, to continue efforts for laying the foundations for a more inclusive and resilient growth model. The economic recovery from the COVID-19 pandemic hinges not only on the containment of the pandemic aftermath and on navigating the impacts of the worsening regional security situation, but also on providing effective support to the private sector and households. At the same time, recovery measures should be complemented by structural reforms that can help steer the economy away from the current economic model, which shows signs of undermining Moldova's long-term economic prospects. The agri-food sector remains critical to meeting Moldova's economic and export growth and social cohesion targets. The country is endowed with fertile soils and has a relatively favorable climate, making agriculture an essential occupation in rural areas and one of the pillars of the economy, which records among the highest shares of agricultural production and agro-processing in the region. Economic and social considerations make the pursuit of agricultural sector growth and resilience salient development priorities. The country's undisputed agricultural potential translates into high comparative advantages; the immediate proximity to the European Union (EU) market and the traditional agro-food trade ties to markets in the Eurasian space represent outstanding marketing opportunities, especially for high value-added products. In the past 10 years, the country has made significant progress in harmonizing legislation and upgrading food and quality systems to take advantage of trade opportunities in its main markets.

#### Sectoral and Institutional Context

7. With more than 2 million people (57 percent) of the total population, living in rural areas, Moldova is a predominantly rural country. The comparatively high share of agriculture in the economy partly reflects this. The sector contributes 11 percent of Gross Value Added and provides employment for 21 percent of the labor force, reflecting a relatively low productivity equilibrium, which is attributable to low capital intensity, investment, and innovation. In fact, agricultural labor productivity is only 40 percent of average national productivity, resulting in modest incomes from agriculture activity.

8. There is a strong consensus among the country's leadership on the key role of agriculture in socio-economic development (growth, jobs, export, food security). Agricultural growth has been recently driven by exports, and this trend is expected to continue. Moldova is a net exporter of agricultural and food products and agricultural exports account for a large share of total exports (44 percent). Cereals, sunflower seeds, fruits, and wine are major export products. Agriculture's importance for international trade in terms of exports exceeds its share in the country's Gross Domestic Product by a factor of four. Nevertheless, its agri-food exports remain well below potential as the majority of the higher-value added agri-food exports from Moldova (specifically, vegetables, fruits, nuts, fruit juices and dairy) remain well below 50 percent of their potential.

9. The EU has become the most important trading partner for agri-food products, distantly followed by some countries of the Commonwealth of Independent States (CIS). The share of exports into the EU increased since 2013, while the share of exports to the CIS countries has declined. Exports to the EU are characterized by the preponderance of low value-added commodities sold in bulk, dominated by exports of oilseeds and oleaginous products, cereals and cereal products, fruits, vegetables, and beverages (wines and juice concentrates). The next challenge for Moldovan producers in becoming competitive in EU markets is to add more value to exports and/or increase exports of high value produce such as fresh fruits, and vegetables.



10. Agricultural production is characterized by a bifurcation in small family farms and larger farms which operate often as legal persons. From an organizational perspective, the sector is represented by three major categories of agricultural producers: agricultural enterprises, peasant farms, and rural households (FAO, 2020). Large corporate farms usually rely on land lease agreements of various types with individual owners. They also rely on employed labor. Large scale agricultural companies are mostly specialized in the production of commodities, such as cereals and sunflower, maize and (in the North of the country) sugar beet, are dominating the production of agricultural companies. A land market has been gradually developing in Moldova since 1999. The share of agricultural land under private ownership constitutes 74.2 percent (Statistical Yearbook, 2020).

11. High output volatility is a serious threat to Moldova's agriculture sector development, due to climate change and the low adaptive capacity of most farmers to climate change, augmented by public and private sectors' underinvestment in irrigation and drainage and tepid proliferation of climate smart and resilient agriculture practices. Crop production is particularly vulnerable to inclement weather. Droughts, floods, and soil erosion are among major climate-driven problems affecting the country. Severe weather events every two to three years since 2007 have had a devastating impact on most crops. The volatility is also partly caused by underdeveloped measures for mitigating weather-related risks, limited access to irrigation, low adoption of modern resilient agricultural technologies, and a lack of innovative financial and insurance products. Climate change is expected to exacerbate the impacts of extreme weather. A 2014 World Bank study found that climate change will lead to significant variations in temperature and rainfall patterns, and that over the next 40 years the effects of climate change on Moldova will become more severe. Without decisive adaptation strategies yields for most crops are likely to plunge.

12. There have been differences in sub-sectoral performance. Subsectors such as cereals, sunflower seeds, fruits, and vine grapes/wines performed relatively well. Others, such as dairy/beef and vegetables, underperformed, hurting rural jobs, food security, and even domestic energy security (biogas and manure to substitute some mineral fertilizers). Underperformance of dairy value chain has been especially visible. As incomes and wealth in Moldova have increased, so has the demand/consumption of high value agricultural products including meat and milk. However, domestic production only meets around 40 percent of demand for dairy and beef. And even if total agriculture growth has steadily increased in the past 15 years, it has largely been driven by crop production, in contrast to a precipitously shrinking livestock sector. The reasons for its decline are complex and are driven by a number of overlapping market failures including: the persistent legacy of post-soviet transition that fragmented dairy production into household units; economic constraints to establishing and growing commercial scale dairy operations, rigorous safety and quality requirements demanded in dairy processing; as well as, more recently, a worsening rural demography coupled with shifting cultural and behavioral preferences for animal husbandry. Despite these challenges, subsectors such as dairy represent a potential source of growth for Moldova, as a strong domestic market for dairy products is already available, and there is also untapped potential for niche exports of dairy.

13. The Government of Moldova is committed to an ambitious transformative agenda in agriculture. The "Moldova 2030" National Development Strategy calls for more investment in agriculture, expanded export opportunities, building up of human capital, and identifying actions to respond to climate change. The livestock sector generates 80 percent of the agriculture sector emissions, so sustainable modernization of the livestock subsector is also critical for agriculture's decarbonization. The strategy emphasizes enhancing the quality of people's lives through country modernization and integration with the European Union. It acknowledges the low productivity and competitiveness of Moldova's agriculture. The problems of inadequate human capital and the departure of young people from rural areas are recognized as major developmental challenges. Among other threats are global climate change, which calls for adopting such adaptation measures as introduction of cultivation of more resilient plant varieties, raising farmers awareness and training, the proliferation of conservation agriculture, and more generally, the expansion of water-efficient irrigation services.



Considering the sector's current situation, its revitalization could be a significant and sustainable contributor to the rural development agenda, not only through increases in productivity and rural incomes, but also through a wide range of other social and environmental improvements in nutrition, food security, creation of gender inclusive jobs, sustainable ecosystems, and climate mitigation.

#### Relationship to CPF

14. The proposed project is fully aligned with the current FY18-21 Country Partnership Framework (CPF)<sup>2</sup>, which supports the country's transition towards a new, more sustainable, and inclusive development and growth model, by focusing on the following priority areas: *economic governance, service governance, and skills development*, supplemented by *climate change adaptation and mitigation*—a World Bank Group corporate priority—as a cross-cutting theme.

15. The current CPF is built on the FY14-17 CPS which was organized around three pillars: *Increasing Competitiveness; Enhancing Human Capital and Minimizing Social Risks; and Promoting a Green, Clean, and Resilient Moldova, while Governance* in the public sector represented a cross-cutting, underlying theme. Both the CPS and the current CPF were anchored in the country's National Development Strategy *Moldova 2020<sup>3</sup> (extended to 2030)* and were aligned with the government's agenda for closer relations with the European Union. The two documents display a high degree of continuity, with a much more concerted focus on governance in the CPF.

16. The proposed project is not explicitly mentioned in the CPF, as its outer years were purposefully not programmed to allow for flexibility and more precise contextualization going forward. However, the CPF's scope and focus areas provide ample strategic space for the implementation of the activities of the project. The CPF posits that in Moldova, improving *economic governance, service delivery and skill development* is an essential pathway to de-risking private sector investment in Moldova through business-friendly investments and policies for job. The focus of the project would directly respond to these three imperatives through targeted capacity enhancements and investments in public institutions and service delivery essential for galvanizing private sector growth in the agriculture sector and food industry, as well as building of essential skills in the farming community. Finally, in relation to the CPF's *climate change* cross-cutting theme, the proposed project is likely to translate into significant climate adaptation and mitigation Co-Benefits through improved climate monitoring, strengthened knowledge about climate-smart production methods and altered incentives for more climate-friendly technologies.

### C. Proposed Development Objective(s)

Support inclusive development, market orientation and climate resilience of Moldova's agriculture sector.

#### Key Results (From PCN)

- Increase in the access of smallholders to public agricultural support programs and services (disaggregated by (i) type of beneficiary supported by the project and (ii) gender (inclusive development)
- Increase in total value of selected agricultural produce sold (disaggregated by (i) type of beneficiary supported by the project (small holder farmers, commercial farmers, agribusinesses) and (ii) gender (market orientation)

<sup>2</sup> Report #115716-MD.

<sup>3</sup> Adopted in 2012 and extended in 2017.



- Increase in average productivity of selected value chains (disaggregated by (i) type of beneficiary supported by the project (small holder farmers, commercial farmers, agribusinesses) and (ii) gender (market orientation).
- Beneficiaries adopting improved production technologies, including technologies that contribute to reduced GHG emission and enhance resilience to climate change (number) (disaggregated by: (i) type of beneficiary (small holder farmers, commercial farmers, agribusinesses, livestock/vegetable value chain actors); and (ii) gender (resilience)

#### D. Concept Description

17. Despite the issues and challenges outlined earlier, Moldova's agricultural potential remains, in principle, undisputed. The market potential inherent to Moldova's immediate proximity to the EU, one of the world's largest and most well performing food markets, as well as its traditional agro-food trade ties to the CIS markets, present outstanding opportunities for export-oriented growth. In order to expand on these opportunities, the sector must continue addressing existing potential-performance discrepancies to translate comparative advantages into *enhanced inclusive growth, market orientation and climate resilience*. A proposed framework for achieving these objectives is the resilient and resource-efficient production and supply of agri-food products, that meet quality standards in target markets at competitive prices. Such a framework presents a solid platform for reviewing Government of Moldova sector transformation and modernization plans and justifying the rationale for the mix of interventions proposed under the project. This framework, supported by extensive analytical work by the World Bank and other development partners, highlights three essential pathways towards more inclusive, market-oriented, and resilient agricultural growth. The first is related to agricultural knowledge management and governance of the sector. The second is related to competitive and inclusive value chain development, where extra support is needed for under-performing subsectors, such as dairy and vegetables, but which are important for the country's development. And the third is related to green growth aimed at increasing resilience and sustainability and thus reducing large volatility of agricultural production and its environmental footprint.

##### Quality of Governance

- Improving the knowledge management system - upgrading agricultural education, applied research, advisory services, digital agriculture approaches
- Public institutions - continuation of support for upgrading food safety systems for EU access and domestic consumption considerations
- Public service delivery – implementation of a state agrarian registry and associated farmer services

##### Growth-oriented value chain development

- Dairy farming – essential to rural jobs, integrity of agricultural system/soil health, GHG emission reduction, food security, food industry development
- Horticulture – vegetable production and various niche crops are essential to rural jobs, export growth, food industry development

##### Resilience and sustainability

- Improving access to irrigation services for value chain development
- Improving delivery of agro-meteorological services
- Expanding climate-smart agriculture and good agriculture practices
- Genetic improvement of national herd, animal health and welfare

18. **Component 1 – Agriculture Knowledge Management and Improved Governance (US\$4.0 million).** Generation and effective dissemination of essential knowledge on agricultural productive and marketing aspects are key pre-requisites for increased productivity, sales, and revenues for Moldovan farmers. The current system of knowledge



management, including innovation, is discombobulated and systemically inefficient in providing qualitative and timely knowledge products and services, affecting the ability of farmers to stay current on the latest technological advances, market trends, and climate resilience practices. Despite a history of successful operation of an extension service from 2002 through 2017, at present, there is no concerted approach to advisory and rural development services, resulting in piece-meal and narrowly themed programs, with questionable reach and impact. Veterinary services require a major overhaul and increased quality of service delivery and penetration. The broader issue of sector governance would be addressed through a major focus on the establishment of critically necessary systems for policy formulation and implementation in relation to public spending, monitoring and evaluation, acceleration of digitalization and innovation, and service delivery for food quality and safety.

19. **Component 2 – Market Oriented Value Chain Development (US\$25.0 million).** Development of market-oriented value chains continues to be an essential aspect of the country’s agriculture sector competitiveness, diversification, and resilience aspirations. The country has had spectacular successes in value-chain development in several sub-sectors (fruit, wine, cereals), but there are opportunities and untapped potential for further advancements in several others, where market failures, structural deficiencies, demographic challenges, and other negative factors have stunted progress. To this end, the project would focus on the development of resilient value chains in dairy and meat, as well as lagging horticultural production focused on vegetables and niche products.

20. **Component 3 – Access to Irrigation Services (US\$25.0 million).** Moldova’s agriculture sector is highly vulnerable to climate change risks. Expanding the availability of irrigation services to interested farmers is a growing necessity, not only in water intense cultivation of fruits and vegetables, but more frequently, in the cultivation of field and fodder crops. In the past decade, Moldova has had a positive dynamic in the establishment of a legal and regulatory framework for the functioning of Water User Associations (WUAs), with some 35 WUAs now registered, and 27 having taken in operation and management of irrigation infrastructure assets from the State Water Agency. While some of the assets/systems have benefited from recent rehabilitation (funded by the Moldova Millennium Challenge Account) , many still remain in disrepair and the WUAs would benefit from public support for rehabilitation to enable greater up-take, more efficient use of water and electricity, and introduction of more productive and profitable cropping patterns.

21. **Component 4 – Contingent Emergency Response Component (zero cost).** This is an unfunded contingency component that can be activated in case of an eligible emergency event. Following such an event, the Government of Moldova may request the World Bank to reallocate uncommitted project funds to support an emergency response. Eligible emergency and/or crisis is any natural or man-made event that has caused, or is likely to cause imminently, a major adverse economic and/or social impact to the country. This design of the activities to be carried out under this component will consider the impacts of the precarious regional geopolitical context.

22. **Component 5 – Project Management (US\$1.0 million).** This component will finance costs related to project implementation and coordination across various government agencies. The Ministry of Agriculture and Food Industry (MAFI) will play the leading role in implementing the proposed project, while relying on a dedicated project implementation unit (PIU), as well as its departments, sub-divisions, and subordinated agencies to provide technical support for implementation.



Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

23. The environmental risks associated with the proposed project are assessed as *Substantial*. Although the long-term impacts of the project are likely to be positive, its activities carry several risks that are potentially generated under Component 2 and mainly under Component 3. The matching grant activities to be supported under Component 2 include small-to medium-scale civil works will more than likely have a number of predictable and readily mitigated environmental impacts that will most likely be moderate in nature. Due to construction of the new facilities - (a) new or modernized commercial dairy farms and (b) small-scale milk & meat processing facilities - the following risks are expected: site-specific soil and air pollution, acoustic, aesthetics impacts small-scale water pollution from improper handling of waste and machinery, worker health and safety, animal welfare risks, and waste management, both resulted from the civil works as well as the one generated by the workers themselves. The agricultural activities included could lead to following risks: soil erosion, loss of soil productive capacity, soil compaction, soil pollution, surface, and underground water pollution, health and environmental risks associated with agro-chemicals use, whereas the agro-processing might bring a small contribution to surface water pollution, wastes generation and odor. Under component 3, taking into consideration the nature of the irrigation projects and their unknown yet location, as well as the international waterways as water sources, these activities may be considered as those with substantial risk. It is expected that will likely generate adverse civil works site-specific risks similar to those described above, as well as potential impact over protected areas if abstraction is done in vicinity of one of the 3 already mentioned Ramsar zones. This will be further analyzed if new abstraction points will be designed and their location. Risk of the new abstraction points or increase in abstracted volume of water over the fish population will need to be analyzed also. Potential negative risks could be associated with the replacement of the old water irrigation systems containing asbestos material, and therefore, the project will analyze all respective sites and decide about the best options to be applied. The Client has no experience with use of the Bank's Environment and Social Framework (ESF) in the previous projects and therefore, additional efforts will be required to build the capacity for the application of the new ESF.

The social risks associated with the proposed project are assessed as *Substantial*. Project activities under Component 3 associated with the rehabilitation of large-scale irrigation systems may cause some significant impacts on livelihoods. Construction activities may require temporary acquisition of productive land to replace piping and renovate pumping systems and restrictions on access to associated easements. Impacts on crop production are minor but widespread and able to be minimized and mitigated through local engagement in technical design and compensation processes. Social sustainability of the newly rehabilitated systems will require extension work with WUAs and business support through investments in cooperatives participating in agricultural, meat and dairy value chains. There is a risk that insufficient engagement and capacity building for WUAs to participate in assessment and selection of alternatives for irrigation rehabilitation could weaken achievement of the development objectives. Project activities under Component Two consisting of the provision of matching grants for purchase of equipment and for working capital and construction works for small-scale agricultural activities are unlikely to involve significant risk of adverse impacts on workers or communities. Site-specific community health and safety risks may be present depending on the nature of the grant activities such as risk of interaction with nearby communities during transport of equipment and machinery or during localized construction activities. Workforces participating in individual agricultural cooperatives are typically small groups of working age local community members (less than 100 workers including seasonal labor at harvest time). Irrigation rehabilitation works will involve small groups of specialized national contractors establishing camps in local community areas. Provision of grants



and implementation of civil works should be accompanied by enhanced labor inspection and prevention of health and safety incidents since a degree of labor informality is likely to remain especially in the context of the regional crisis and provision of employment to vulnerable refugees. Sexual exploitation and abuse and sexual harassment (SEA/SH) risks are estimated to be low and have not been reported during similar previous activities, but preventative measures should be put in place prior to the provision of grants, including screening of risks, appropriate codes of conduct and communications measures. All cooperatives and contractors that are involved in the project should have protection measures in place to avoid SEA/SH and prohibit use of forced labor and harmful child labor. Institutional strengthening activities under Component One will encourage legalization of informal farming and target benefits to youth, women and return migrants. Farmers from culturally or geographically remote communities, or female-led businesses may be less well informed and more reluctant to risk investing during the current emergency and should be provided with adequate information. The MAFI has a track record of working to extend grants for agricultural cooperatives nationwide and has experience in implementing World Bank-financed projects and similar irrigation projects financed by the Millennium Challenge Corporation. MAFI will require additional staffing and capacity-building in order to implement its activities under the project in accordance with ESF requirements. The PIU will have a social specialist providing overall coordination and support and will hire additional external consultants to undertake specialized assessment and planning tasks associated with land acquisition and community engagement for efficient use of water resources.

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### Borrower/Client/Recipient

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**APPROVAL**

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**Approved By**

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