CONCEPT NOTE

Improving Trade and Productive Capacities of Moldovan Fresh Fruit Producers

an extended concept note of national component of the regional project:

AID FOR TRADE FOR CENTRAL ASIA, SOUTH CAUCASUS AND WESTERN CIS:

Promoting Trade Development and Poverty Reduction in Partnership

with Finland’s Wider Europe Initiative

1. Background

Better integration into international trade plays an important role in global efforts to stimulate economic growth and reduce poverty. Increasing exports provides new opportunities for farmers and enterprises to expand their production and to create more and better jobs. Exports are also a vital source of income to finance the import of goods and services that a country does not produce itself. Trade is an essential source of economic growth, has important impact on job creation, peoples’ income and poverty reduction.

The Aid for Trade (AfT) agenda is one of key global initiatives aimed at strengthening the capacity of transition and developing countries to participate in and benefit from international trade. A large part of AfT is focused on strengthening domestic production, such as creating an enabling business environment for enterprises or building economic infrastructure. AfT focus areas can be classified in five categories: 1) Trade Policy and Regulations, 2) Trade Development, 3) Economic Infrastructure, 4) Productive Capacity, 5) Adjustment Costs.

The Wider Europe Initiative is a framework programme for Finland’s development cooperation with the New Independent States (former Soviet republics) in order to promote stability and well-being extensively both in partner countries and in the whole continent. The initiative comprises three sub regional cooperation programmes to be launched in Western CIS (Belarus, Moldova, Ukraine), South Caucasus (Armenia, Azerbaijan, Georgia) and Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan).

Taking into account the similar sectoral and geographical priorities of Finland’s development cooperation and of the UNDP Regional Bureau for Europe and the CIS (UNDP RBEC), the Aid for Trade project: Aid for Trade for Central Asia, South Caucasus and Western CIS: Promoting Trade Development and Poverty Reduction in Partnership with Finland’s Wider Europe Initiative (implemented in 2011-2013) builds on Phase I (2009 – 2011) and deepens the existing work in trade related development assistance to the countries of the Western CIS, South Caucasus and Central Asia.

The overall goal of the project is to foster inclusive growth in the region through the promotion of trade and the enhancement of each country’s competitiveness to support these countries’ efforts to reduce poverty and improve peoples’ lives. A particular purpose of the regional project is the implementation of trade and productive capacity development measures, the transfer of best practices and knowledge exchange with special reference to the challenges of farmers, small enterprises and micro businesses, and the execution of focused technical assistance interventions in selected countries.
The project intervention in the Republic of Moldova is based on AfT needs assessment conducted in years 2010-2011. In particular, it builds on the proposal to support development and strengthen capacities of existing associations of agricultural producers with special focus on the needs of fresh fruit growers/producers and exporters (see Aid for Trade (AfT) Needs Assessment for the Republic of Moldova, Annex I.I).

2. Justification

As indicated in Aid for Trade Needs Assessment for the Republic of Moldova today exports from Moldova consist of three main elements: (i) wine and agricultural commodities, (ii) garments, footwear and some other products, which are registered as re-exports in official statistics, and (iii) services. Imports consist mostly of energy products and consumer goods.

Geographically, the trade of Moldova is split into two roughly equal parts: EU and CIS. Other partners’ shares in exports and imports are much smaller. The share of products requiring higher labour skills and education is not large, but growing.

Key commodities exported by Moldova (see Table 1) include wine, vegetable oils and seeds, fresh fruits and fruit and vegetable juices, sugar, wheat and selected industrial goods (e.g., gypsum plasters).

Table 1. Republic of Moldova: Main exported commodities

<table>
<thead>
<tr>
<th>Commodity Description</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wine of fresh grapes (2204)</td>
<td>160.8</td>
<td>106.3</td>
<td>153.4</td>
<td>128.7</td>
</tr>
<tr>
<td>Safflower, sunflower and cotton-seed oil, fractions (1512)</td>
<td>32.0</td>
<td>49.3</td>
<td>47.0</td>
<td>41.3</td>
</tr>
<tr>
<td>Nuts except coconut, brazil &amp; cashew, fresh or dried (802)</td>
<td>30.1</td>
<td>38.7</td>
<td>35.1</td>
<td>39.6</td>
</tr>
<tr>
<td>Gypsum, anhydride, gypsum plaster (2520)</td>
<td>22.7</td>
<td>45.4</td>
<td>59.9</td>
<td>8.9</td>
</tr>
<tr>
<td>Glass bottles, flasks, jars, phials, stoppers, etc (7010)</td>
<td>27.5</td>
<td>39.4</td>
<td>41.7</td>
<td>22.5</td>
</tr>
<tr>
<td>Liqueur, spirits and undenatured ethyl alcohol &lt;80% (2208)</td>
<td>23.2</td>
<td>25.2</td>
<td>37.7</td>
<td>26.2</td>
</tr>
<tr>
<td>Apples, pears and quinces, fresh (808)</td>
<td>12.9</td>
<td>22.3</td>
<td>25.2</td>
<td>44.6</td>
</tr>
<tr>
<td>Sunflower seeds (1206)</td>
<td>14.6</td>
<td>29.7</td>
<td>21.6</td>
<td>37.8</td>
</tr>
<tr>
<td>Fruit and vegetable juices, not fermented or spirited (2009)</td>
<td>17.3</td>
<td>48.8</td>
<td>16.9</td>
<td>17.9</td>
</tr>
<tr>
<td>Hot rolled bar, rod of iron/steel, in irregular coils (7213)</td>
<td>24.9</td>
<td>26.8</td>
<td>44.8</td>
<td>0.0</td>
</tr>
</tbody>
</table>

1 See Aid for Trade Needs Assessment for the Republic of Moldova. Trade and Human Development. UNDP Moldova, March 2011.
2 Here and below in this table, four-digit HS 1996 commodity codes are provided in parentheses.
### Table

<table>
<thead>
<tr>
<th>Product Description</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solid cane or beet sugar and chemically pure sucrose (1701)</td>
<td>16.8</td>
<td>20.6</td>
<td>11.9</td>
<td>29.8</td>
</tr>
<tr>
<td>Wheat and meslin (1001)</td>
<td>21.6</td>
<td>6.1</td>
<td>9.2</td>
<td>36.5</td>
</tr>
</tbody>
</table>

Source: UN COMTRADE database

The exports of wine were falling in 2006-2007 reflecting problems with access to the Russian market; they recovered in 2008, when access to this largest market has been re-established, and fell again in 2009 – this time due to the losses on Ukrainian market. In the same period, exports of fresh fruits (apples, pears and quinces) were continuously and dynamically growing. In 2007 and 2009 annual growth rates of fresh fruit export amounted to 73 and 77 percent, respectively.

In the result of the global financial and economic crisis the share of agricultural goods in exports increased from about 60% in 2006-2008 to 75% in 2009 (Figure 1).

Figure 1. Export of industrial and agricultural goods from the Republic of Moldova

Moldova’s agricultural industry has several comparative advantages, which explain importance of agricultural products for the country export. First and foremost, Moldova is an agricultural country with an economy traditionally rooted in agriculture and enjoys a reputation as a producer of fine wines, fruits, and vegetables. The country has excellent soil and a temperate climate, which, when supplemented with irrigation, provides an excellent foundation for growing a wide range of high-value crops.

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Moldova's geographic location as a bridge between the EU and the CIS countries affords it an opportunity unlike any other country in Europe. Moldova's traditional market has been the CIS (primarily Russia, Ukraine, and Belarus), yet some "niche" sectors are starting to focus on the EU market. Agricultural products and fresh fruits and vegetables, in particular, are exported mainly to CIS and EU markets (Figure 2).

Figure 2. Fresh fruits and vegetables export by main export markets (2007)\(^4\)

Among different segments of the agricultural sector in the Republic of Moldova, fruit production and processing seem to have the largest production and export growth potential especially with regards to high value added products. A proof of the strong competitive position of Moldovan fresh fruits is the increasing positive trade balance with the EU for such products for the last several years.\(^5\) This is because exports of fresh fruits and vegetables are more competitive than processed fruits and vegetables (this could be partly explained by the difficulty in complying with EU standards).

However, although Moldova has significant opportunities to develop a vibrant agriculture sector, the country faces a significant set of barriers to becoming competitive. To utilize these advantages, the private sector in agriculture needs to be competitive. Its competitiveness critically depends on how well the market is organized and whether it maximizes productivity along the entire chain of activity from inputs of raw materials to marketing of final goods.

The lack of information about markets, international standards and new production and storage technologies is a major problem. The situation is particularly acute for farmers who reside in rural areas where information flows much slower and it is not always timely and reliable once it reaches the farmer. Most producers lack basic


information on which products to grow, which markets and distribution channels to choose, what procedures are to be taken and in what sequence in order to export agricultural products, and who their primary competitors might be in external and even domestic markets.

Although there are associations to support farmers, producers, processors, and others throughout the industry, these groups have yet to make a proper impact on the operations of the various players within the sector. The associations should strengthen the sector, and support dissemination of knowledge and best practices in such areas as planting new orchards using biological material of international standards, production, harvesting, storage, sorting, packing, processing and selling final products. Looking on the whole value chain the associations should support the whole production process and assist producers in achieving the highest standards in horticultural activities.

In order to modernize the horticulture business processes and ensure international competitiveness of produced goods the associations should not only monitor the production processes of its members, but also actively promote new technologies in the field, encouraging diversification of horticultural production, introducing new varieties and species, advanced technologies, forming a green production conveyor, developing plantations, which could become examples for dissemination and good practice for all Moldavian producers.

Associations of fruit growers/producers/exporters can have significant impact on the development of modern and vibrant fruit growing sector, better quality and competitiveness of Moldovan fresh fruits, compliance with international standards, etc. For this, however, their today’s capacities need to be upgraded and their activities and efforts need to be supported.

3. Goal, objectives and beneficiaries of AfT intervention

The development goal of the regional project is to foster inclusive economic growth through the promotion of trade and the enhancement of countries competitiveness in international markets. The goal of AfT intervention in Moldova is to strengthen trade and productive capacity of agricultural producers and exporters to improve international competitiveness and improve their market access externally, both in the CIS and in the EU markets.

Specific objective of AfT intervention in Moldova is to strengthen capacities of existing associations of agricultural producers with special focus on the needs of fresh fruit growers/producers and exporters, members and non members of the associations. Intention of the project is to work with all existing associations operating in the segment of fresh fruits (associations of producers and exporters). Such approach will encourage competition, ensure efficient use of the resources available within the project and support cooperation between associations operating in a single commodity segment (fresh fruits). It is expected that close cooperation of the associations operating in a single commodity segment (fresh fruits) would ultimately prepare background for creation of Fresh Fruit Commodity Council – sector representation council which in the future may come to regular dialogue with the government with the purpose of identifying actions to stimulate sector development – envisaged by existing national

\footnote{According to the information coming from the interviews conducted during the mission there exist at least two associations of fresh fruit producers and exporters in Moldova: Fruit Producers and Exporters Association “Moldova Fruct” and Moldovan Fruit Growers Association.}
legislation. In this conception the emphasis is on constructing an institutional framework that elicits the problems to be addressed and the remedies to be employed through dialog and deliberation with the private sector.

Beneficiaries of AfT project intervention in Moldova will include

- Associations of fresh fruits producers/growers/exporters (e.g., Fruit Producers and Exporters Association "Moldova Fruct", Moldovan Fruit Growers Association supported by National Federation of Agricultural Producers “AGROinform”);
- Members of the partner associations; and
- Non associated producers/growers/exporters of fresh fruits in Moldova.

4. Specific needs identified

The Project envisages a continuous monitoring of the existing and prospective needs of the members of identified association and potential members which might adhere in the future. Although the baseline study which will be conducted under Activity 1(see below) will provide a comprehensive and prioritized list of the needs, taking into consideration the limited available resources, this section provides a more detailed distribution of the current needs into three specific and directly linked groups.

<table>
<thead>
<tr>
<th>GROUP A</th>
<th>GROUP B</th>
<th>GROUP C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productive/Technological needs</td>
<td>Export promotion needs</td>
<td>Associative/Institutional needs</td>
</tr>
<tr>
<td>Trainings A</td>
<td>Equipment A</td>
<td>Trainings B</td>
</tr>
</tbody>
</table>

The project is able to contribute to the extent possible to the satisfaction of certain needs under all three groups. Trainings and equipment under Group A will contribute to the increased quality of the products and of the production scheme in general. Since the vast majority of producers are small-sized and different technological approaches are used, the quality of what is produced and may be collected for exporting is not uniform. Lack of modern equipment for harvesting and post-harvesting (needs in equipment under groups A and B) and lack of learning and technologically advanced spots for demonstrative purposes represent some important specific needs to be tackled immediately in order to increase productive capacities, generate uniform in term of quality products and ultimately promote exports. At present, in the Republic of Moldova, there are approximately 100-115 thousand hectares of plantations of fruits. Annually the named surface increases by 3-4 thousand hectares and used technologies are not always compatible with the quality standards which shall result in view of export promotion. Available storage facilities cover only about 10% of the existing needs, so that small-sized producers are unable to take full advantages generated by this specific HVA sector. The need in modern learning and demonstration spots is critical as this is believed to be a very quick mechanism to demonstrate that performance can be achieved by Moldovan producers if they apply modern technologies, ensure sill-over effects in both learning and equipment. Moreover, these spots will permit to switch from a quantity-focused model of export to a more equilibrated ‘quality + quantity’ model.

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7 The statement has been made based on the information received during an interview with Mr. Iurie Fala (Senior Agribusiness Expert at AGROinform).
8 See www.moldovafruct.md.
9 See http://www.agravista.md/about/agroinform/en.html for detail information on AGROinform.
10 The detailed needs have been identified during the targeted kick-off meeting of the members of two associations (as of May 20, 2011)
There is a direct link between Group A and B of the current needs. Members and non-members of the association, by applying uniform modern technologies, can ensure uniform products in terms of quality, as well as diversify the production by planting new sorts of fruits. Paradoxically, as mentioned by the representatives of both associations, two small and closely located producers can hardly ensure that they produce something which is of the same quality. As a result, these producers cannot collect and store and ultimately export. In view of promoting exports, both associations shall encourage the development of the marketing cooperatives. Unfortunately, in 2010, nothing has been sold through the existing marketing cooperatives on the domestic and foreign markets. Trainings in various aspects of marketing are highly needed to strengthen the capacities of the associations, of their marketing cooperatives. In tandem with the trade-linked needs in equipment (as for instance the modernization of the existing storage facilities), these trainings can consistently contribute in raising the attractiveness of the two associations for potential new members, as well as consolidate their export position.

The third group makes reference to the fact that there are limited chances to achieve the proposed objectives if the capacities of the two associations are not strengthened. This is valid in many ways – associations should grow and create sustainable brands to promote exports on EU and other markets; associations should be attractive for new members; associations should consolidate their positions to better negotiate with the public sector; associations should be able to ensure the administration of contracts for collection and exports in fresh fruits (of minimum mentioned scale of 2000 tones). Trainings and the development of learning and demonstration spots, using existing and functioning premises and locations carefully selected, have been mentioned as the most important needs which can generate important positive results in a very short period of time. At the same time, it is very important to contribute to the consolidation of the cooperation links between the two professional associations and the Ministry of Agriculture and Food Industry, Agrarian State University of Moldova, Institute for Fruit Trees, etc.

5. Project activities

The following activities will be implemented within the project:

Activity 1:

*Identification of capacity development needs of existing associations of fresh fruits growers/producers/exporters and their members.*

Under this activity, a baseline study will be undertaken to identify the target beneficiaries (associations of fresh fruits growers/producers/exporters). The study will include assessments of the current status and capacities (financial, technical and business skills) of identified associations, their members, and non-associated producers/exporters operating in the sector, including obstacles/impediments to exporting fruits, to CIS and the EU market; market information needs and training needs of the members of the associations; capacity development needs of identified associations, specifically in providing business advisory and other related support to their members (related, but not limited to, production, harvesting, storage, sorting, packing, processing and selling final products). Based on the results of the assessment detail action plan for project intervention will be elaborated. The action plan will include provisions of technical/financial support and workshops/trainings that could include, but
should not be limited to, the following topics: new technologies for fruits production (along the whole value chain), food safety standards, packaging, marketing, market access, supply and distribution chains, high value agriculture, etc.; development of market information tools and activities (demo fairs, guidelines, booklets, etc.); the list of (and justification for) the study tours proposed, as well as the list of fairs and exhibitions, participation in which could result in new export contracts.

Baseline assessment will be conducted in the first quarter of project implementation and will provide basis for actions planned for 2012-2013. Results of the assessment will be used to determine implementation details for Activities 2-5.

Activity 2:

*Strengthening capacities of partner associations and development of trade and productive potential of Moldovan producers/growers and exporters of fresh fruits.*

This activity will focus on the provision of tailor made thematic trainings/ workshops/seminars for the staff of the associations (training of trainers), their members and non members. Topics and curricula will be identified as the result of the baseline assessment conducted under Activity 1. They will include, but not be restricted to, such topics as, trade procedures, insurance, food safety standards, marketing techniques, storage, packaging and labelling, branding, supply chain, logistics, negotiation skills, new technologies for growing fruits, access to finance, etc.

Capacity building actions (trainings/workshops/seminars) supported by this activity will not be limited to partner associations and their members, but will respond to the needs of non-members as well. It is crucial to ensure that in all the events organized members and non-members are always represented. Such an approach will ensure broader coverage and greater impact of the project on trade and productive capacity in the country.

Activity 3:

*Promotion of new technologies for growing fruits, storage and marketing (i.e., along the whole value chain).*

This activity will promote the use of new technologies in fruit production, storage and marketing through support to the purchase of modern equipment for production/business and demonstration purposes. It would be a contest in which members of the associations bid for project resources by submitting potential investment proposals. Proposals would have to relate to substantially new technologies/equipment for fruit production, storage and marketing, have a potential to provide learning spillovers, and be subject to oversight and performance audit. In particular, the project will provide grants (co-financing) for the acquisition of modern technical equipment for selected members of partner associations.¹¹ Special attention will be devoted to the promotion of environmentally friendly technologies (e.g., solar/wind energy applications) in fruit growing sector. Beneficiaries will be selected on

¹¹ Number of grants/beneficiaries will depend on the budget for the implementation of this activity (to be discussed with beneficiary associations).
competitive basis, taking into account business and technology aspects; co-financing provided by the potential beneficiary, as well as knowledge/experience dissemination and demonstration plans. Promotion of new equipment and technologies in fruit growing/production, and effective fruit growing methods will be coordinated with capacity development activities undertaken within Activity 2. Special attention will be devoted to ensure effective dissemination of information about new technologies, not only to the members of the associations, but also to non-associated fruit producers. This activity will also support development of information tools for dissemination of information on sector-related technical regulations, standards, market quality requirements, companies providing trade related services, etc.).

**Activity 4:**

*Transfer of best practices in fruit growing sector with special reference to tools for effective production methods, a better market access and spread of knowledge and new technologies through networking and direct contacts with fruit producers in EU countries.*

This activity will focus on organization of a study tours for the members (and non-members) and staff of partner associations, to learn from the best practices in fruit growing sector with special reference to new technologies, methods and tools for fresh fruit production, storage and marketing. Study tours will be organized in cooperation with the associations of fresh fruit producers from new EU countries. Special attention will be devoted to practical aspects of fruit growing, standards, marketing approaches, as well as to learning from the experience of foreign associations in the negotiations related to the access to the EU market.

**Activity 5:**

*Facilitation of active participation of Moldovan fresh fruits producers/exporters in fairs and trade exhibitions abroad.*

This activity will support market promotion activities of Moldovan producers/exporters of fresh fruits. Financial support (co-financing) will be provided to selected and targeted Moldovan producers/exporters to actively participate (i.e., present their products) in international trade exhibitions in the EU and the CIS countries and other similar forums (this may involve cooperation with *UNDP Growing Inclusive Markets (GIM)* initiative,¹² UNDP Black Sea Trade and Investment Promotion Programme¹³ and also the Moldovan Export Promotion Organization - MEPO¹⁴). The project will cover part of the total cost of participation in the fairs, assuming that the rest should be covered by the beneficiaries. It is expected that participation in international fairs and exhibitions will not only promote Moldovan fruits but also facilitate establishing business contacts between Moldovan exporters and potential importers of Moldovan fruits. It will also stimulate effective spillovers of knowledge (standards) and new technologies.

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¹² See [http://www.growinginclusivemarkets.org/about/](http://www.growinginclusivemarkets.org/about/)

¹³ See [http://www.undpforblacksea.org/index.htm](http://www.undpforblacksea.org/index.htm)

6. Management arrangements

The project will be implemented by the UNDP county office in Moldova within the delegated Direct
Execution (DEX) authority, in line with UNDP Programme & Operations Policies and Procedures (POPP)\textsuperscript{15}. The Project team will include two project staff members:

- Project Manager: experience in technical assistance projects in agriculture, understanding of trade issues and contemporary trade and agriculture policy, experience in project management and UNDP procedures.

- Project Specialist/Assistant: understanding trade and agriculture and experience in technical assistance projects in Moldova (will support the Project Manager on substantive activities).

Project Manager will report to responsible person (Programme Coordinator) at UNDP country office in Moldova. UNDP Bratislava Regional Centre will provide advisory service to the project and will be responsible for consolidated reporting to the donor.

Implementation of particular tasks and activities will be subcontracted to local organizations and individual consultants on competitive basis and in accordance to UNDP rules and regulations.

Reporting on project activities will be organized according to the requirements of UNDP country office in Moldova. Project team will be responsible for the development of substantive reports (for UNDP Bratislava Regional Centre) on quarterly basis.

7. Project budget and time-framework

The AfT project in Moldova will be a part of the regional project “Aid for Trade for Central Asia, South Caucasus and Western CIS: Promoting Trade Development and Poverty Reduction in Partnership with Finland’s Wider Europe Initiative” implemented by UNDP Bratislava Regional Centre for Europe and the CIS in 2011-2013. The regional project is financed by the Ministry of Foreign Affairs of the Government of Finland. The overall budget of the regional project is 4,600,000 €.

AfT project intervention in Moldova (“Improving Trade and Productive Capacities of Moldovan Fresh Fruit Producers”) will be implemented in the period of 29 months as a part of the regional project, with the total budget of 330,000 €. Planned yearly allocations are presented in the Table 2 and are reflected in details in the Annual Work Plan of the Project (the used exchange rate is 1 EURO = 1.27 USD, in line with the provisions of the Project Document).

Table 2. Planned yearly budget allocations

<table>
<thead>
<tr>
<th>Budget (€)</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yearly allocation</td>
<td>40,724.41</td>
<td>181,000.00</td>
<td>108,275.60</td>
<td>330,000.00</td>
</tr>
</tbody>
</table>

\textsuperscript{15}\url{http://content.undp.org/go/userguide/results/}